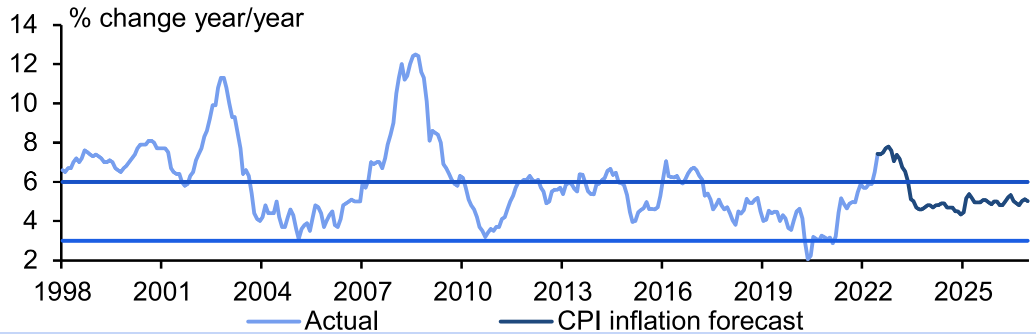
Investec

CPI update: above 7.0% y/y as fuel and food price inflation soars

Wednesday 20 July 2022

Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- CPI inflation came out at 7.4 y/y (1.1% m/m) in June, slightly above the consensus estimate of 7.3% y/y (Bloomberg), and well above May's 6.5% y/y. Base effects stemming from low inflation pressures a year ago aided the large jump in inflation, along with substantially higher fuel prices.
- The petrol price rose by R2.33/litre in June, to R24.17/litre, and the diesel price by R1.10/litre, to R23.09/litre, contributing 0.6% m/m to the overall 0.9% m/m lift in the CPI, along with higher taxi and train fares surveyed for the month. Rising food prices accounted for another 0.2% m/m.
- Higher agricultural commodity price pressures saw the food price inflation rate rise to 9.0% y/y in June, from 7.8% y/y in May, with the Economist commodity price index up 20.0% y/y for the prices of global food agricultural commodities. SA is a price taker for most of its agricultural food produced, either through import or export parity pricing, which means international food prices are a key driver of local food costs. July has seen a 19.3% y/y rise in agricultural commodity prices so far (Economist index).
- Residual price pressures were also recorded in June (0.1% m/m, 0.2% m/m in May), a catchall category for price increases too small to move their individual categories on their own, showing building price pressures, and some further upside (if slowing somewhat) risks to inflation.
- July also saw further price pressure from fuel, as petrol and diesel prices rose by R2.57/litre and R2.31/litre (to R26.74/litre and R25.40/litre) respectively.
- July is the survey month for electricity prices and will see upwards inflation pressure from this source as well, although key is that the statistical base effects of low inflation a year ago erode in July, meaning CPI inflation has the potential to stay around 7.4% y/y in July.
- The second half of this year is likely to see CPI inflation remain above 7.0% y/y, and a persistence of high inflationary conditions globally and locally is expected. SA is experiencing high price pressures at the production level (with PPI inflation at 15%), and this does not provide the environment for a rapid deceleration in domestic inflationary pressures. This will negatively impact consumers, with a 50bp hike in interest rates expected in July, although the risk is growing for a 75bp lift instead.

Figure 2: Contribution of different groups to the monthly change, m/m in the CPI

	May 2022	June 2022
Food and non-alcoholic beverages	0.4	0.2
Housing and utilities	0.0	0.1
Household contents and services	0.0	0.1
Transport	0.1	0.6
Residual	0.2	0.1
All items	**0.7**	**1.1**

Source: Stats SA

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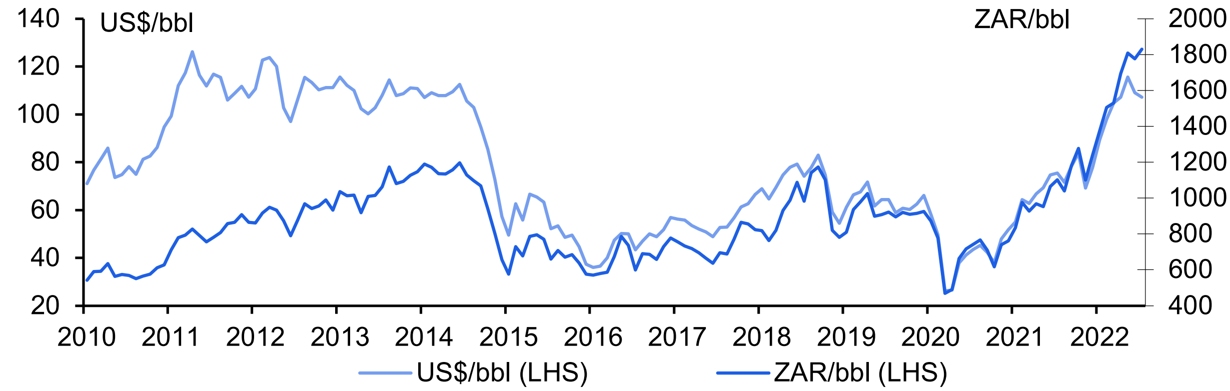
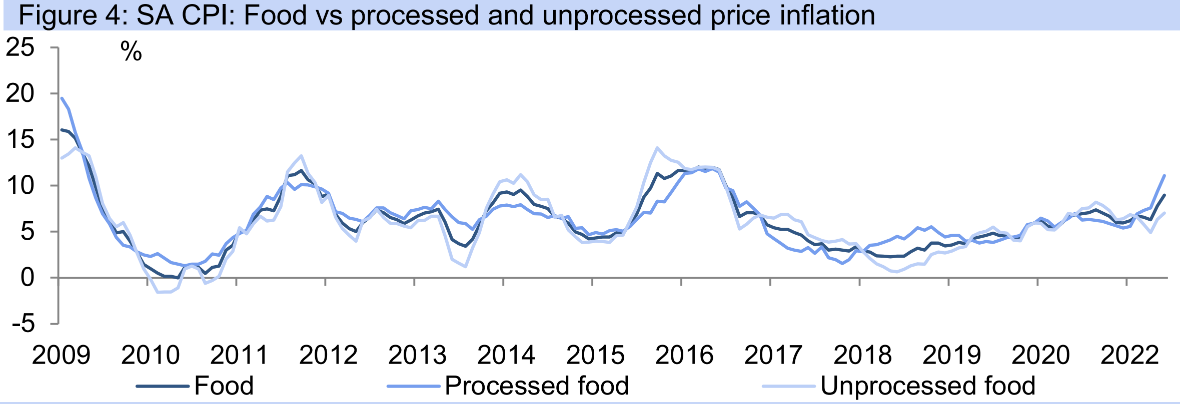
Figure 3: Oil price: Rand vs USD



Source: Iress

- Returning to today's CPI release from Stats SA, June also saw rental costs surveyed, along with domestic workers' wages, and these price pressures' categories contributed 0.1% m/m respectively (0.2% m/m in total) to the overall 1.1% m/m increase in the CPI in June.
- Core CPI inflation, which excludes food and non-alcoholic beverages, fuel and energy prices from the CPI, rose to 4.4% y/y in June, from 4.1% in May (April 3.9% y/y), reflecting both high food and fuel price pressures in comparison, but also some second-round effects of the high inflation environment.
- August is currently heading for a cut in both petrol and diesel prices on the decline in the oil price, which should slow the m/m increase in the CPI back towards 0.5% m/m in August. From August base effects of low inflation in 2021 (excluding the electricity survey month of July) will also resume.
- Globally, risks of recession have increased, particularly for the start of 2023 (if not from the last quarter of 2022) on the lagged effects of rapidly rising interest rates in the US and expected in a number of other key Western economies. This has increased concerns over global demand and weakened oil prices recently, while global agricultural food price inflation started to calm on the month in June.
- Producer price inflation showed a steady rise overall from 10% y/y in January, to 15% y/y by June, with PPI leading (influencing) CPI inflation by one to two months. The second half of 2022 is not expected to see the same run up in CPI inflation as the first half.
- In H2.22 CPI inflation is likely to only rise towards 8.0% y/y from June's 7.4% y/y (January 2022 5.7% y/y). CPI inflation is expected to peak at 7.8% y/y in October, and average 6.9% y/y for 2022.

Figure 4: SA CPI: Food vs processed and unprocessed price inflation



Source: Stats SA

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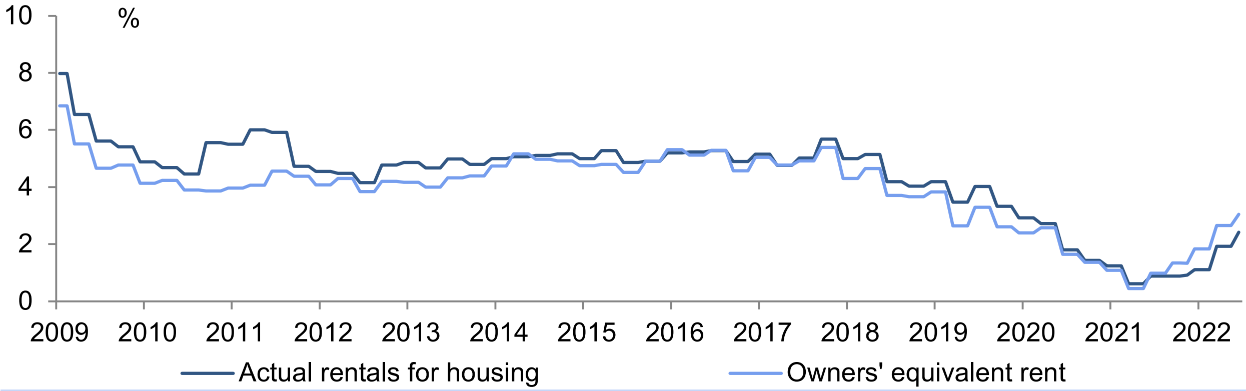
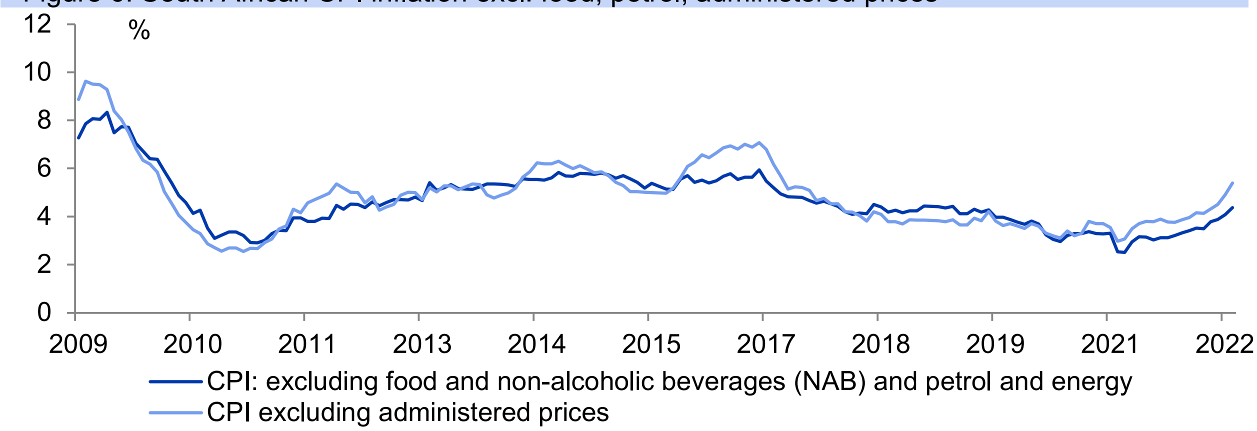
Figure 5: CPI: Actual rentals vs Owners' equivalent rent price inflation



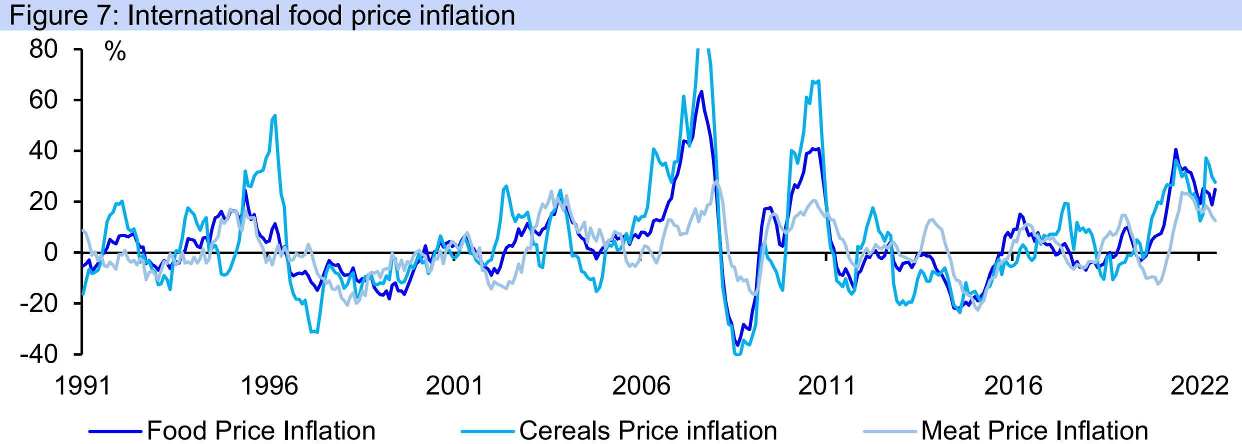
Source: Stats SA

Figure 6: South African CPI inflation excl. food, petrol, administered prices



Source: Stats SA

Figure 7: International food price inflation



Source: UN

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