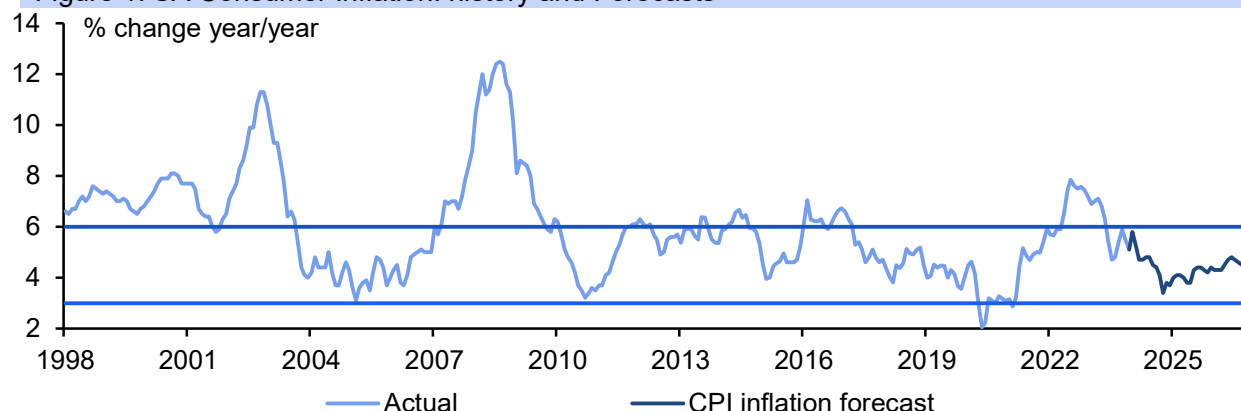




## CPI update: inflation subsides to 5.1% y/y

Wednesday 24 January 2024

Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- CPI inflation dropped, to 5.1% y/y (0.0% m/m) in December, from 5.5% y/y % in November, slightly below the Bloomberg market consensus of 5.2% y/y.
- The fuel price had a moderating effect, with the petrol price dropping 65c/litre in December, along with private vehicle operation costs, and the transport category contributed -0.1% m/m alone to the flat (0.0% m/m) CPI outcome.
- Food and non-alcoholic beverage prices did not contribute (0.0% m/m) to the inflation outcome. International (US dollar) agricultural food commodities prices fell by -3.1% m/m in December (Economist commodities index) while the rand saw only fractional weakness of 0.4% m/m against the US dollar. The overall food (and non-alcoholic beverages) inflation rate came out at 8.5% y/y, from 9.0% y/y in December.
- Core inflation (which excludes food, non-alcoholic beverages fuel and energy prices), remained at 4.5% y/y, showing underlying inflationary pressures are at the midpoint of the target range.
- January recorded another petrol price cut, of -76c/litre, which will exert downwards pressure on the inflation outcome, although it is a price increase month, and in addition it suffers from a low base which will elevate inflation. February is currently on course for a small petrol price hike of 40c/litre.
- The MPC meets tomorrow to make its interest rate decision, and will likely continue to have a hawkish tone, warning of inflation risks, although on balance is expected to keep interest rates unchanged.
- The MPC's last meeting forecast CPI inflation at 5.0% y/y for 2024 and 4.5% y/y for 2025, and today's figure is unlikely to change its 2024 view, with the SARB currently targeting inflation in 2024 and 2025.

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

	November 2023	December 2023
Food and non-alcoholic beverages	0.2	0.0
Housing and utilities	0.0	0.1
Transport	-0.3	-0.1
<b>All items</b>	<b>-0.1</b>	<b>0.0</b>

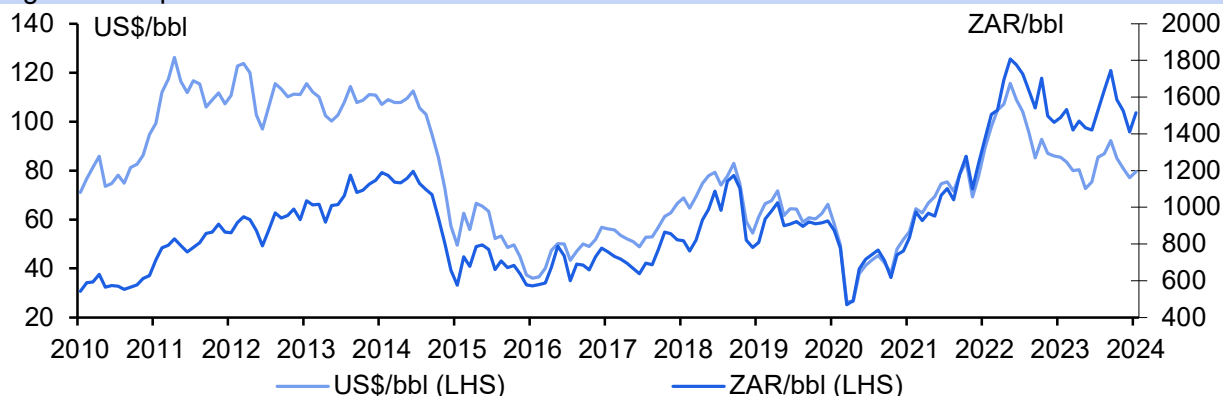
Source: Stats SA



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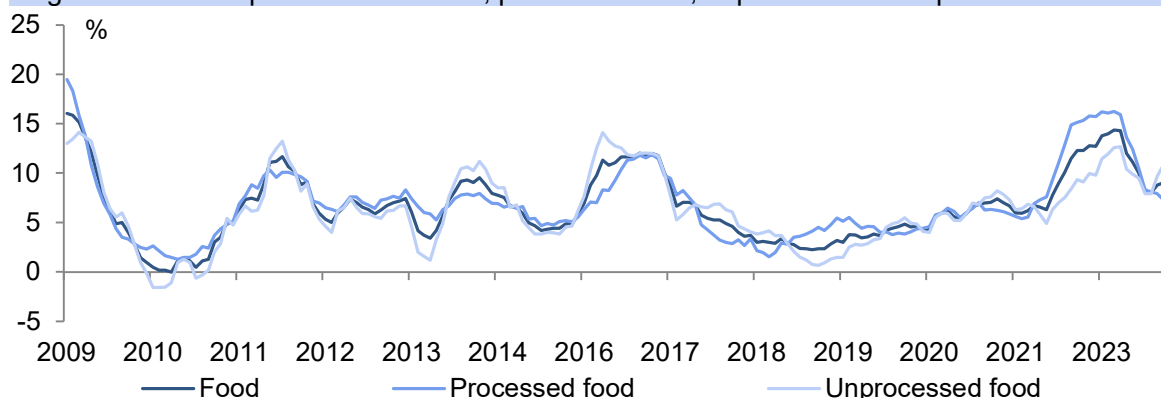
Figure 3: Oil price: rand vs USD



Source: Iress

- Base effects in the CPI index provided upwards pressure to the overall CPI inflation outcomes in 2023, but January 2024 is the last month in the series to suffer from these distorting effects.
- Food (and non-alcoholic beverages) prices contributed over a quarter (1.5% y/y) of the overall CPI inflation rate (of 5.1% y/y) in December.
- On a year-on-year basis, December saw international (US dollar) agricultural food commodities prices fall by -9.0% y/y and in January so far, they are down -10.5% y/y, and -0.9% m/m (all from the Economist food commodities index). With around a week left in January, moderating price pressures are likely from this source for January CPI inflation print.
- International food prices are a key contributor to local food costs as South Africa is a price taker for most agricultural food produced through either import, or export, parity pricing.
- Housing and utilities saw a not unusual 0.1% contribution to the m/m CPI outcome, on some upwards price pressure from water costs and rentals, as December was the survey month for these costs.
- We currently expect CPI inflation to average 4.5% y/y this year, and 4.2% y/y for 2025.

Figure 4: SA food price inflation: total, processed food, unprocessed food price inflation



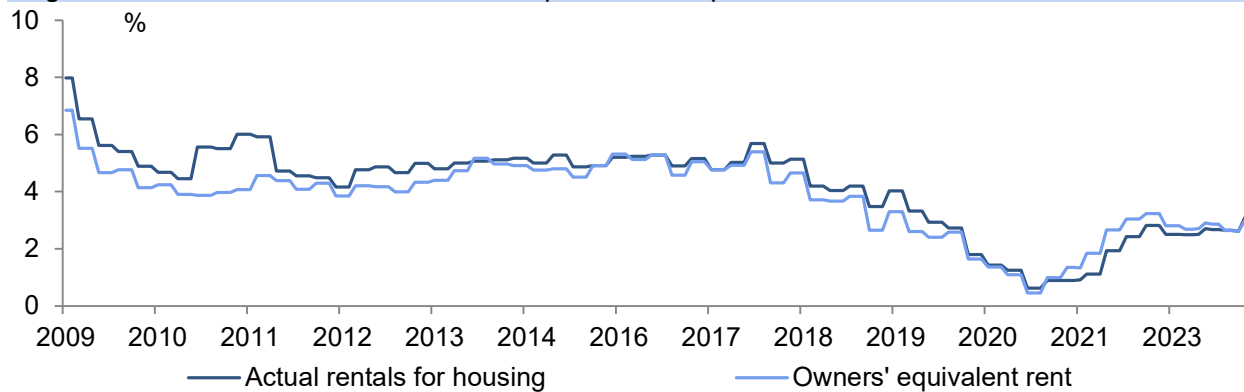
Source: Stats SA

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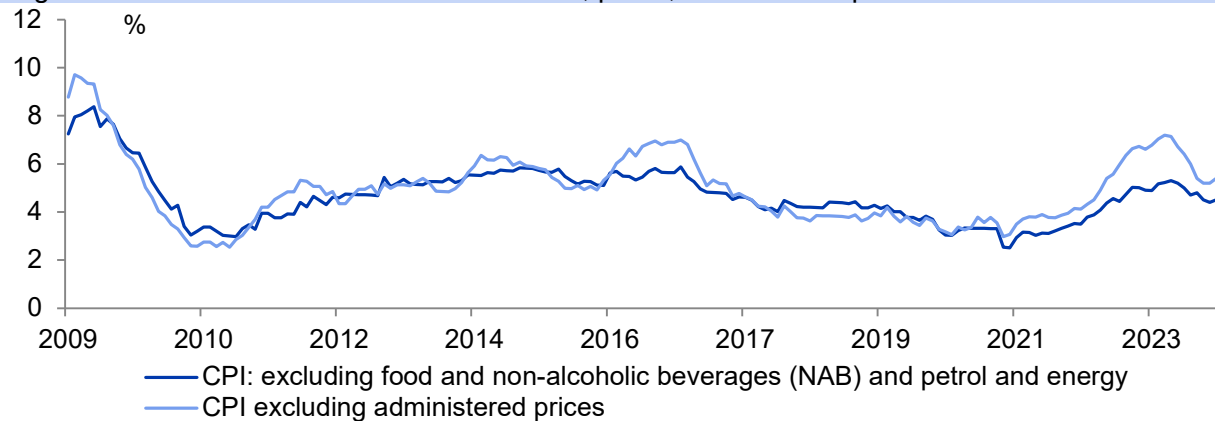


Figure 5: CPI: Actual rentals vs owners' equivalent rent price inflation



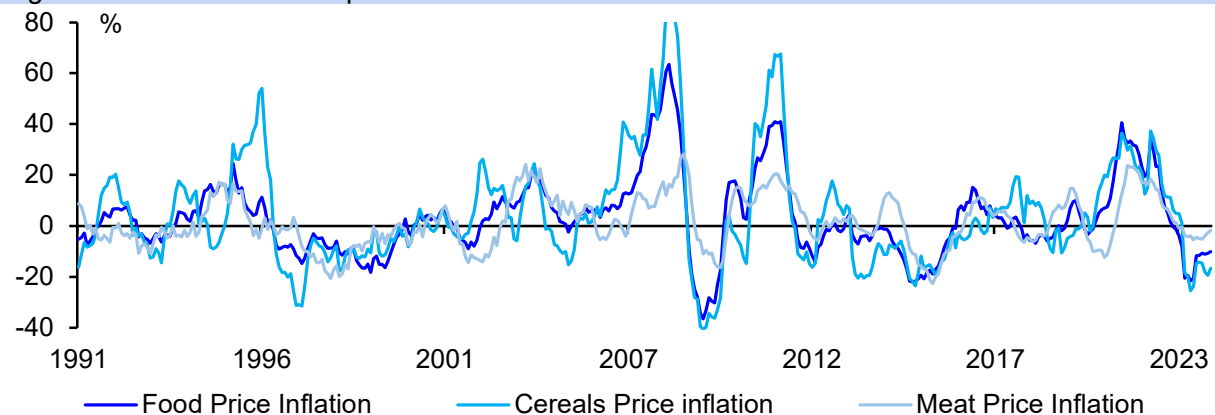
Source: Stats SA

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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