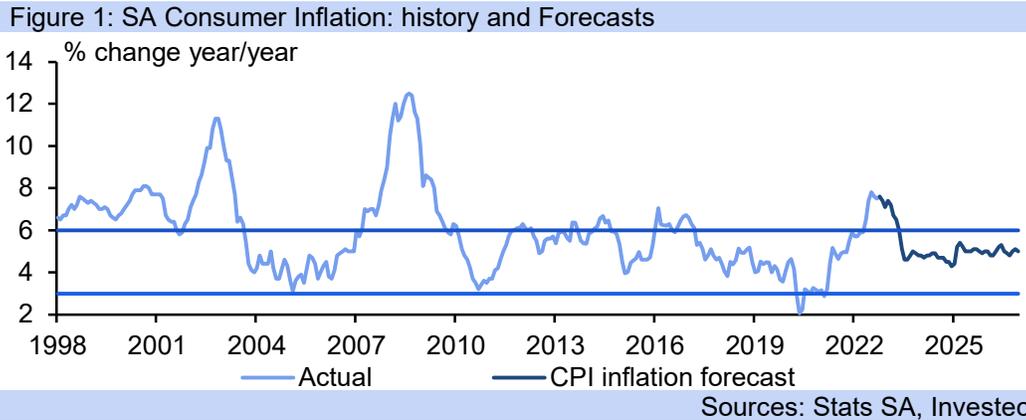




CPI update: price pressures broaden as CPI inflation lifts

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- October's CPI inflation rate rose slightly to 7.6% y/y (0.4% m/m), from 7.5% y/y in September, above the Bloomberg consensus expectation (of 7.4% y/y) on upwards pressure from food price inflation and also a broadening of price pressures.
- South Africa's food prices rose by 0.9% m/m in October, to maintain a high 12.3% y/y increase for a second month, the highest food price inflation rate that has been recorded in the current CPI's history back to 2010. The jump in food (and non-alcoholic beverages) prices on the month contributed half of October's monthly CPI inflation rate.
- International food prices rose by 1.4% m/m in October, a key contributor to local food costs as SA is a price taker for most agricultural food produced through either import, or export, parity pricing.
- Worryingly, core CPI inflation, which excludes food and non-alcoholic beverage prices as well as excluding fuel and energy costs, rose to 5.0% y/y in October from 4.7% y/y in September. Second round effects have become more apparent as the year progresses, with the residual category also contributing to the overall lift in the CPI by 0.1% m/m – which further indicates the broadening nature of CPI inflationary pressures in SA.
- The SARB will worry that high inflation (inflation above its 4.5% y/y midpoint target) can become entrenched, and both the lift in the core measure and rise in headline CPI inflation in October will add to these concerns. That is in the latter, the reversal of the downwards momentum that headline CPI inflation has been on since July's 7.8% y/y drop to 7.6% y/y in August and then 7.5% y/y in September has been interrupted by October's print today of 7.6% y/y for October.
- The SARB discussed a 100bp hike at the last MPC meeting, but instead hiked by 75bp although it may choose to deliver the 100bp increase now at its MPC interest rate decision tomorrow, instead of another 75bp rise, given the deterioration in the inflation figures today.

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

| | Sep 2022 | Oct 2022 |
|----------------------------------|------------|------------|
| Food and non-alcoholic beverages | 0.1 | 0.2 |
| Alcoholic beverages and tobacco | 0.1 | 0.0 |
| Housing and utilities | 0.1 | 0.0 |
| Transport | -0.3 | 0.0 |
| Restaurants and hotels | 0.1 | 0.0 |
| Miscellaneous goods and services | 0.0 | 0.1 |
| Residual | 0.0 | 0.1 |
| All items | 0.1 | 0.4 |

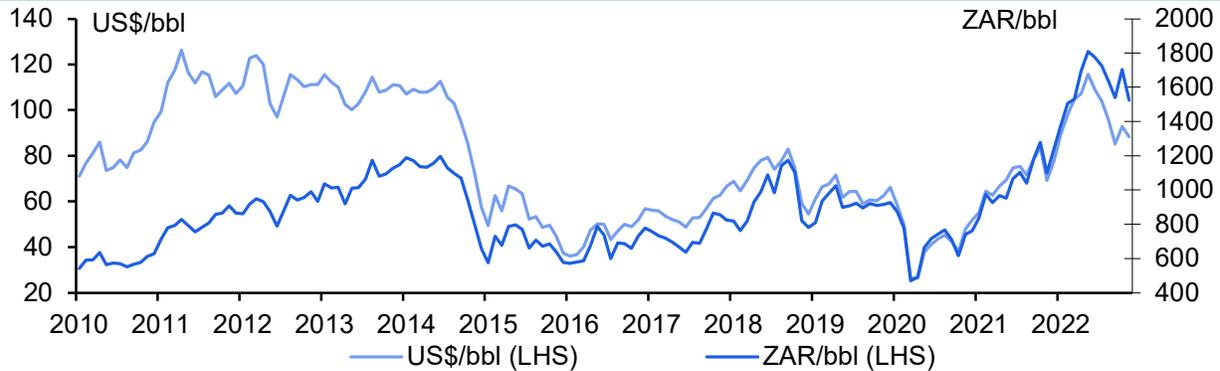
Source: Stats SA



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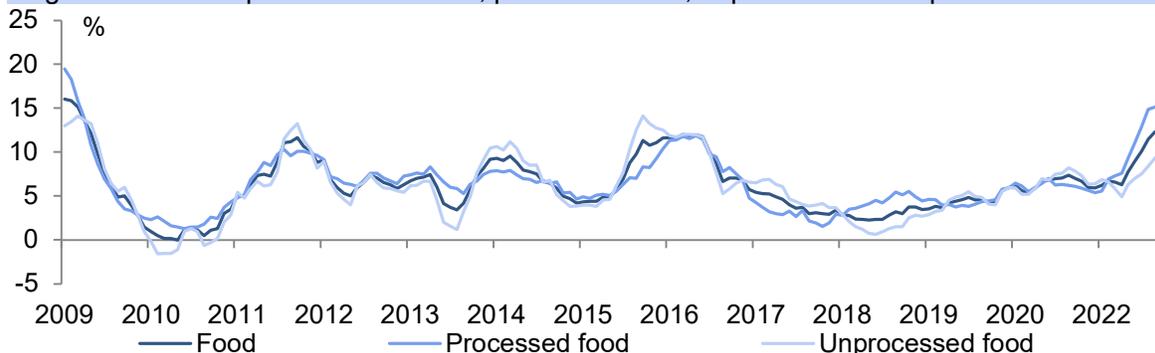
Figure 3: Oil price: rand vs USD



Source: Iress

- Additionally, upwards pressure is coming through from fuel prices for the months of November and December. October's R1.02/litre drop in the petrol price was countered by the rise in the purchase cost of motor vehicles in the transport category in the CPI, which did not see any downwards price pressure coming through on the month from transport.
- The higher purchase cost of motor vehicles recorded in the CPI reflects broadening price pressures as well, as do the increases in miscellaneous goods and services prices, in October driven by hefty personal care and insurance cost increases.
- December is building in a 70c/litre hike in the petrol price so far on the rise in international oil prices, in the first half of the month, although the second half of November is seeing some small moderation in oil prices which could see the overall change in the petrol price in December under, as opposed to over, 60c/litre if oil prices remain contained.
- November saw the first lift in commodities prices overall since March (as measured by the Economist commodities price index), and some upwards pressure will still likely come to bear on SA's inflation for the remainder of the year from this source, as volatility persists.
- Indeed, a large degree of uncertainty remains for the outlook. Price inflation increased in October in some other countries as well, with volatility in commodities prices likely to persist on the high levels of uncertainty. The ongoing Russian/Ukraine war, severe COVID lockdowns in China on its economic activity and concerns over global economic growth all add to the high levels of uncertainty, which will also worry the SARB as it targets inflation over the next six to twenty-four months.

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



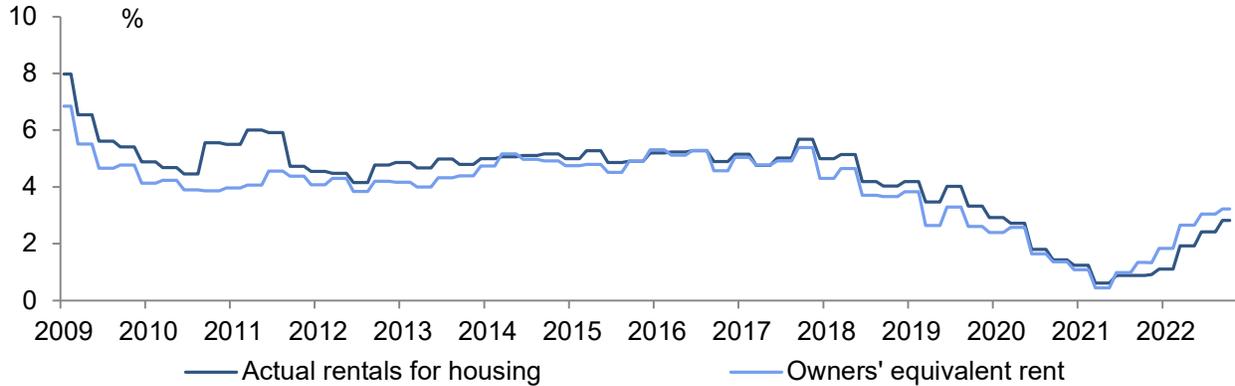
Source: Stats SA



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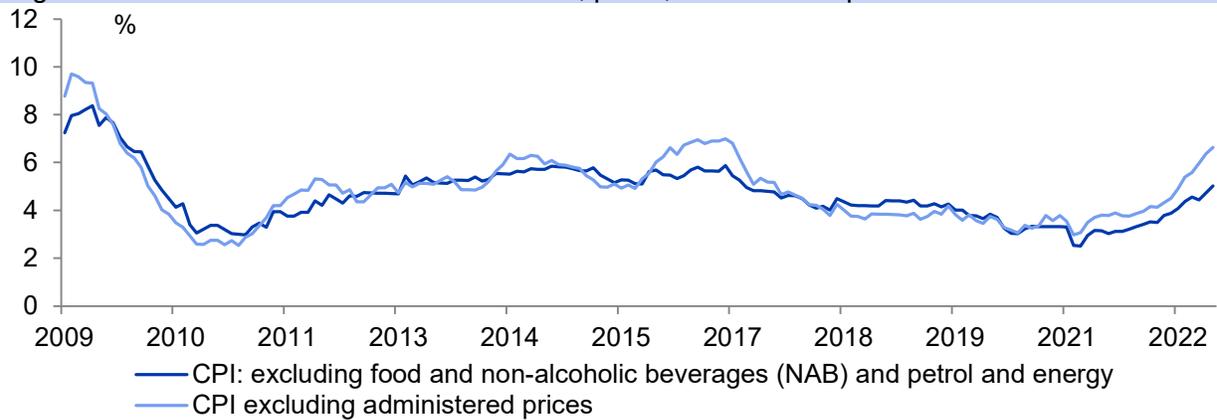
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Figure 5: CPI: Actual rentals vs owners' equivalent rent price inflation



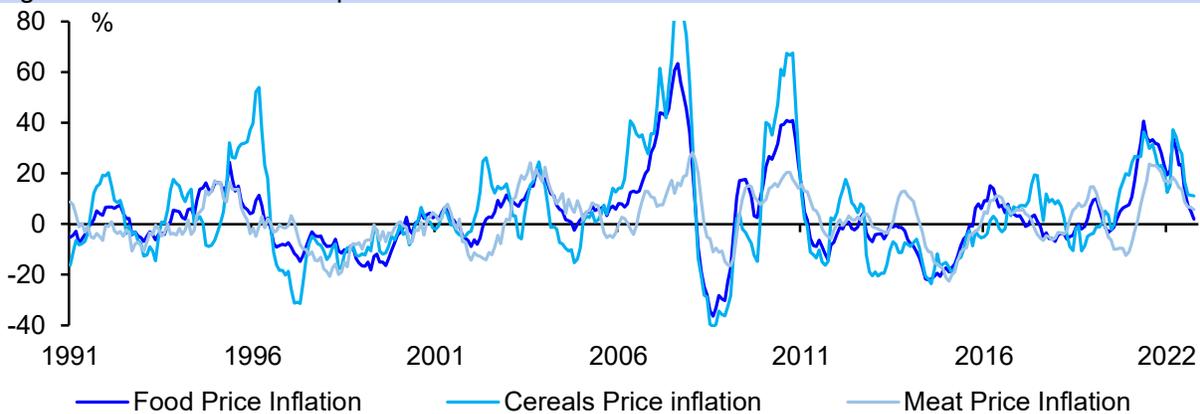
Source: Stats SA

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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