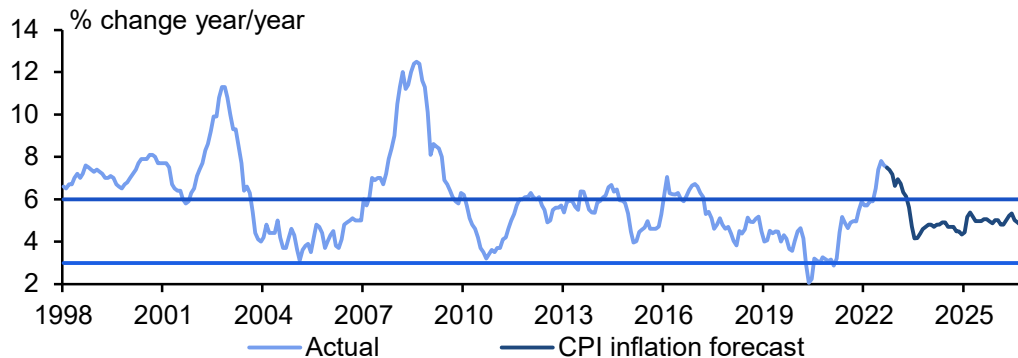




## CPI update: on course to average 6.8% y/y this year

Wednesday 19 October 2022

Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- CPI inflation came out at 7.5% y/y (0.1% m/m) in September, below the Bloomberg consensus expectation (of 7.6% y/y) and aided by the cuts in fuel prices. The outcome was also lower than August's 7.6% y/y (July 7.8% y/y), and October's CPI inflation reading is expected to drop again, to 7.4% y/y. September saw a R2.04/litre cut in the petrol price, and October a R1.02/litre drop.
- Diesel prices, also fell in September, aiding the moderation in fuel costs, with the inflation rate dropping from 56.2% y/y in July, to 43.2% y/y in August and 34.1% y/y in September, while the transport component overall contributed -0.3% m/m to the 0.1% m/m lift in the headline CPI.
- November, however, is building in a small hike in the petrol price, of around 45c/litre so far on the rise in international oil prices, which would see a small upwards contribution to that month's outcome. The diesel price is also likely to rise, by potentially R1.63/litre in November, which will add to the slowing in CPI inflation's descent in Q4.22, and risks remain for even higher energy prices.
- International food prices rose by 1.7% m/m in September, 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.
- South Africa's food prices rose by 0.6% m/m in September, to push through a 12.3% y/y increase, as the lift on the month saw food price inflation higher than August's 11.5% y/y. International food prices have been slower to subside than those of other commodities (with the obvious exception of energy prices), although suppressing base effects will likely take hold over 2023.
- Core CPI inflation rose to 4.7% y/y, from 4.4% y/y. Second round effects have become more apparent with March 2021's core reading at 2.5% y/y and then on an upwards trend since. Core inflation excludes food and non-alcoholic beverages, fuel and energy prices from the CPI.
- The rise in core inflation indicates the broadening in inflationary pressures, and the SARB will worry that high inflation (inflation above its 4.5% y/y midpoint target) can become entrenched. The SARB is expected to hike interest rates on 24<sup>th</sup> November after the Fed does on 2<sup>nd</sup> November, with SA likely to deliver a 100bp increase instead of the 75bp rise it has put through at its last few meetings.

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

	Aug 2022	Sep 2022
Food and non-alcoholic beverages	0.3	0.1
Alcoholic beverages and tobacco	0.0	0.1
Housing and utilities	0.0	0.1
Transport	-0.1	-0.3
Restaurants and hotels	0.0	0.1
<b>All items</b>	<b>0.2</b>	<b>0.1</b>

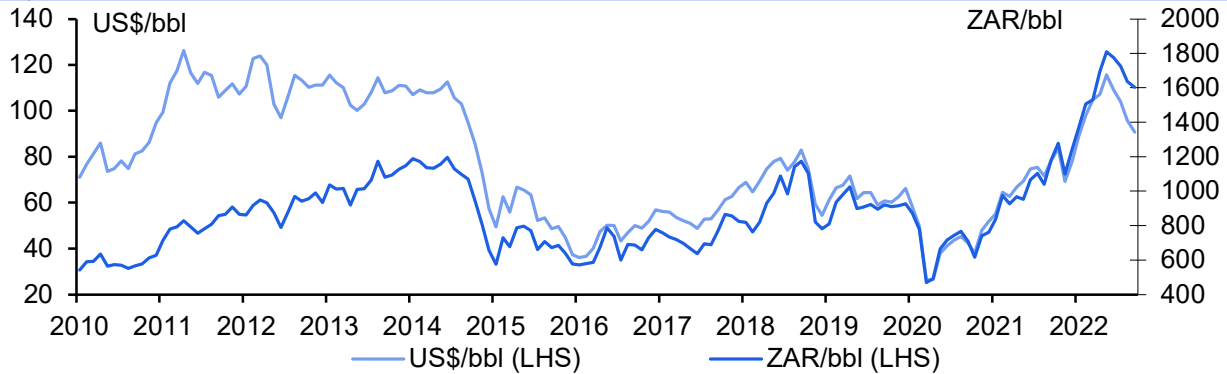
Source: Stats SA



CPI update: on course to average 6.8% y/y this year

Wednesday 19 October 2022

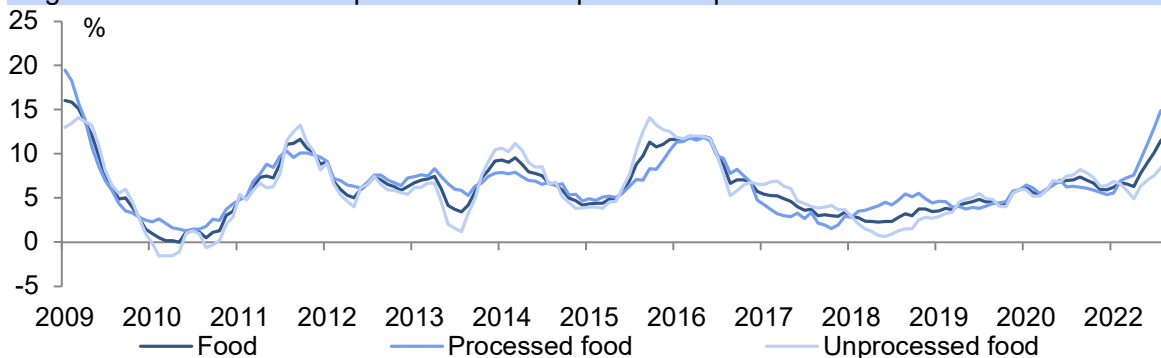
Figure 3: Oil price: Rand vs USD



Source: Iress

- Since June 2021, the US has had higher inflation outcomes than SA, which is an unusual phenomenon historically, but due in part to the US's high integration into the global supply chain. The US is a large, open economy (the largest in the world) with high consumer demand, and the flow of goods to it was disrupted by the dislocation of global supply chains, resulting in significant price elevation. The UK similarly sees higher CPI inflation than SA, at 10.1% y/y in September (US 8.2% y/y).
- Indeed, globalisation, or the interdependence on cross-border trading in goods and services as well as technology, information and investment flows, had all contributed to lowering inflation in general since the 1980's for most countries, while deglobalisation has, in turn, raised price inflation.
- Pressure on supply chains since the pandemic, is not fully unwound yet, while the US has also had the release of pent-up demand, and a strong labour market which has contributed to both demand led and supply push inflation this year and last.
- Some advanced economies still have lower consumer price inflation rates than SA, and these include New Zealand, Canada and Australia in the latest prints. However, countries which produce more of the goods they consume, particularly for bulk commodities such as food, tend to have less severe inflation rates, while those with higher rates of inflation such as the US, UK and EU tend to have to import more of what they consume. High freight costs also bolster inflation.
- The unwind in generally high inflation is likely to take time however, again due to the lagged effects mentioned for shipping costs and price inflation, and so it will take time for SA's inflation rate to fall back below that of the US, UK and the EU.

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



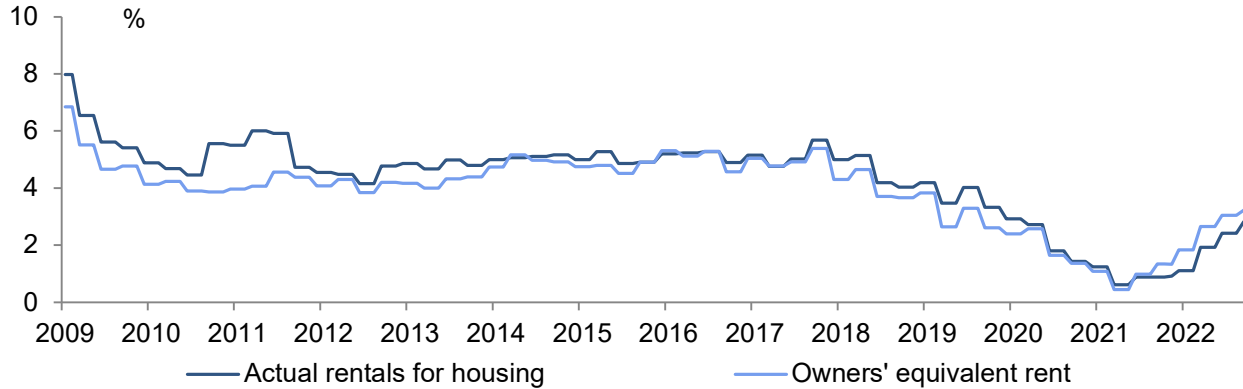
Source: Stats SA



CPI update: on course to average 6.8% y/y this year

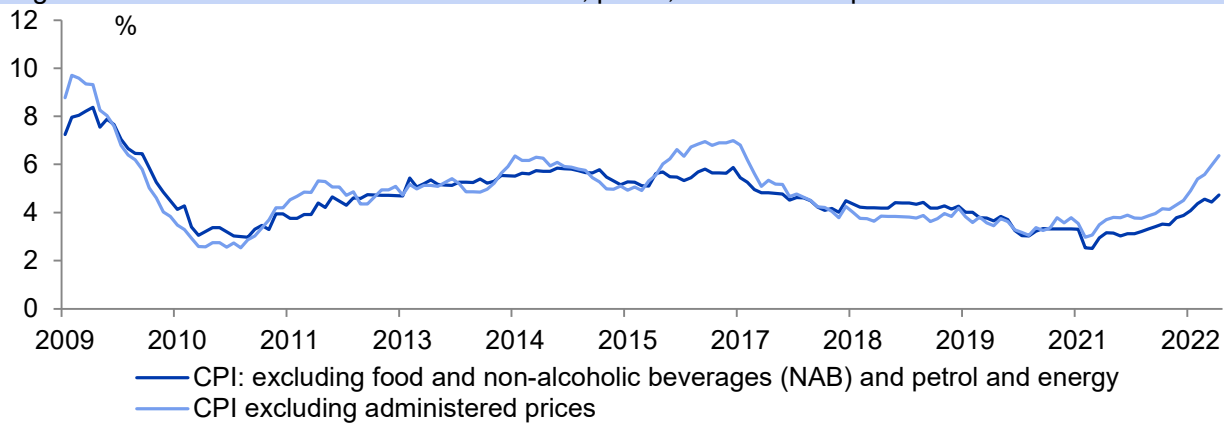
Wednesday 19 October 2022

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



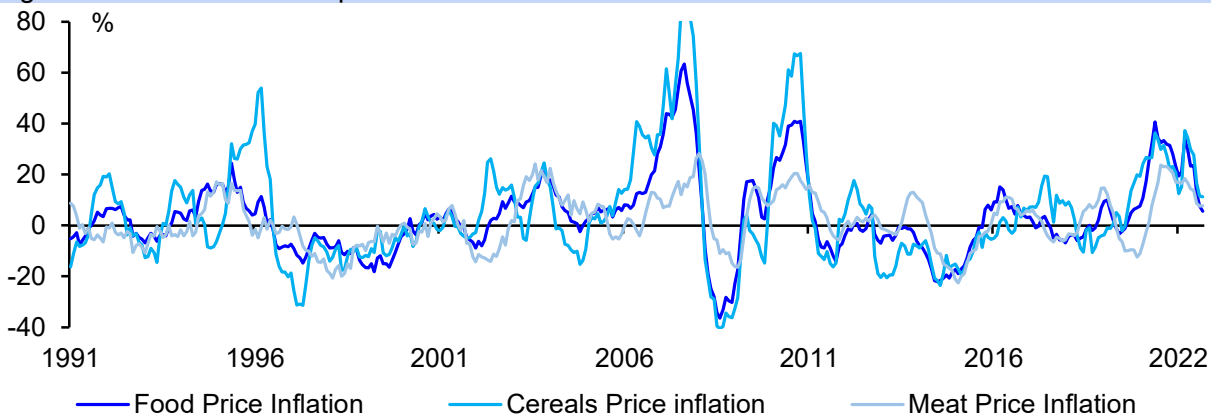
Source: Stats SA

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



Source: Stats SA

Figure 7: International food price inflation



Source: UN

## CPI update: on course to average 6.8% y/y this year

Wednesday 19 October 2022



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## CPI update: on course to average 6.8% y/y this year

Wednesday 19 October 2022

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