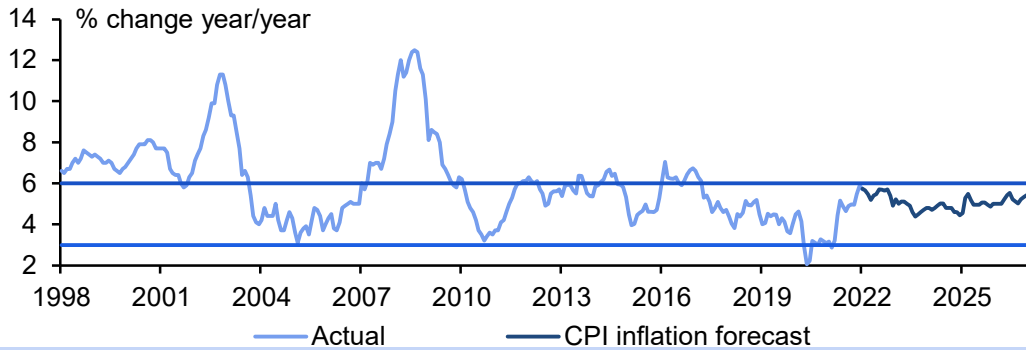




CPI update: high commodity prices keep CPI inflation elevated near the target's upper limit, despite January's easing to 5.7% y/y

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Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- January saw CPI inflation at 5.7 y/y (0.2% m/m), from 5.9% y/y in December, with a small fuel price cut counterbalancing some of the upwards price pressures coming from surveyed building insurance premiums, financial services and personal care price increases, and higher food prices.
- Food prices have been subject to increased production costs and pushed higher by elevated commodity prices globally. International agricultural food and non-food prices also been impacted by supply chain constraints and strong demand. Domestic production has seen mainly imported fertilizer, herbicides and insecticides prices rise by over 50% in the 2021/22 planting season (Agbiz).
- This has made crop losses from flood damage very costly, while the La Nina weather phenomenon has seen some areas become too wet to replant at all. In turn, this has pushed up animal feed prices for grain and soybean, although pastures have seen substantial benefits for grazing.
- Globally supply has battled to keep up with demand for fertilizer, chemical prices have risen sharply as have energy costs for transporting goods, and Agbiz also warns “the winter crop producers of South Africa could experience higher input costs as was the case for the 2021/22 summer crop planting season. Such conditions would overshadow the profits of the 2021/22 large crop”.
- Oil prices at over US\$90/bbl are not expected to subside in the immediate term, higher than a month ago when they were closer to US\$85/bbl (in January), and US\$73/bbl in December with this having been only a temporary moderation in the upwards fuel price climb over most of 2021.
- January’s petrol price easing was largely reversed in February, and a further price hike of up to R1.20/litre is currently seen for March, although government does use the slate levy to absorb sudden fuel price changes as well, and this particularly occurred in February when the under recovery was running well above R1.00/litre, and at times closer to R2.00/lite but goverenmt did not pass it through.
- Core CPI inflation, which excludes food and non-alcoholic beverages, fuel and energy prices from the CPI), came out at a very subdued 3.5%, reflecting the heavy commodities impact on SA prices.

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

	Dec 2021	Jan 2022
Food and non-alcoholic beverages	0.1	0.2
Housing and utilities	0.1	0.0
Transport	0.3	-0.2
Miscellaneous goods and services	0.0	0.1
Residual	0.1	0.1
All items	0.6	0.2

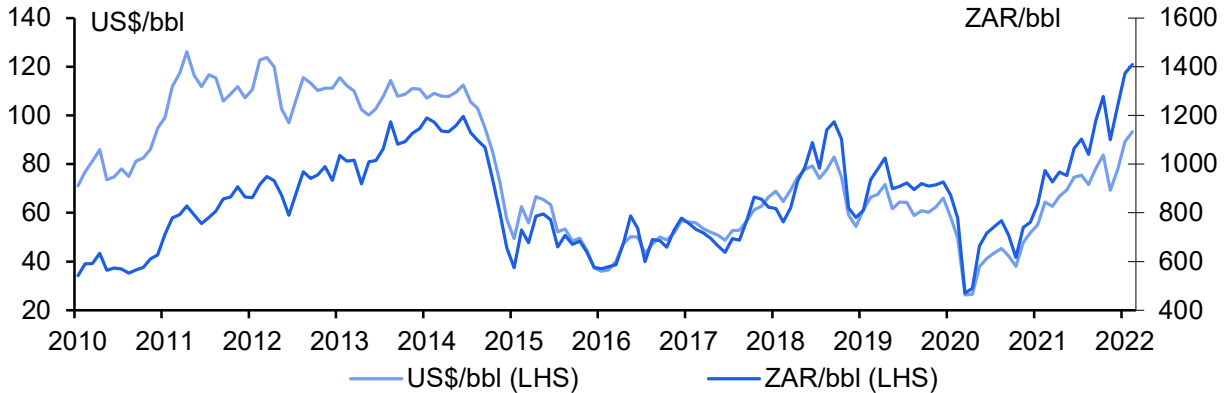
Source: Stats SA



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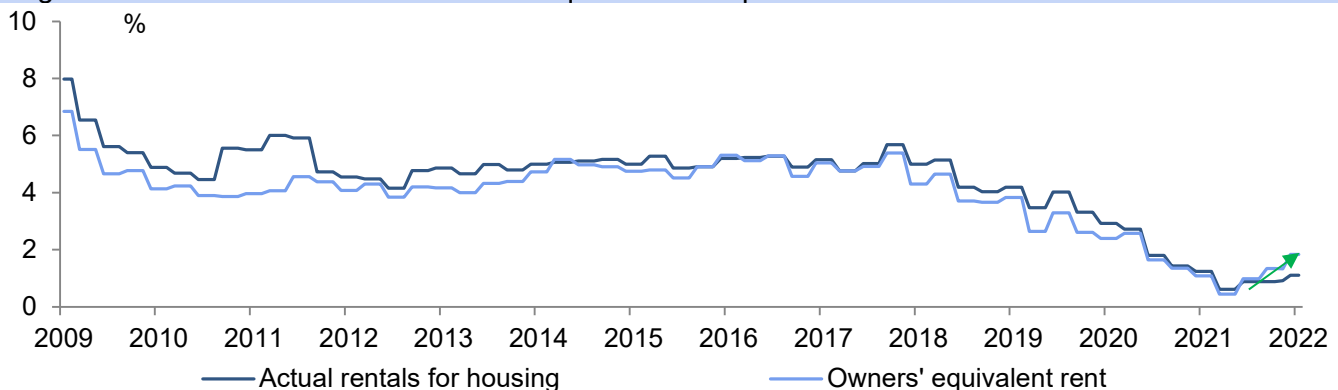
Figure 3: Oil price: Rand vs USD



Source: Iress

- Indeed, goods' price inflation came out at 8.1% y/y in January (December 8.5% y/y), while services' price inflation was at a moderate 3.4% y/y, similar to core inflation in SA, as the key drivers for changing price pressures remained food and energy costs.
- Semi- and non-durable goods did see inflation rates ease slightly in January, to 1.8% and 9.8% respectively (from 2.0% y/y and 10.5% y/y in December), with clothing and footwear price inflation (a key component of semi-durables) easing to 1.5% y/y from 1.7% y/y in December.
- Food price inflation has started rising again, at 5.7% y/y in January, up from 5.5% y/y in December, and excluding non-alcoholic beverages is at 6.2% y/y, up from 5.9% y/y in December. Alcoholic beverages and tobacco saw a small price inflation dip in January, but February's budget will see this sin tax category experience a marked price lift as usual.
- Excluding state administered prices, January's CPI inflation figure was 4.1% y/y, and it does exclude the state administered petrol price, but also electricity costs, which remained hefty in January, at 14.2% y/y, up from 14.0% y/y in January and around 6.0% y/y in the first half of the year.
- Insurance costs rose to 5.4% y/y from 5.0% y/y, and financial services inflation to 5.7% y/y from 4.7% y/y, adding to some start of year upwards price pressure. The slate levy is used to smooth the fuel price, and the petrol price increase in March may be around 60c/litre again, even though the under recovery is much bigger, but government is likely again not to pass it all through.

Figure 4: CPI: Actual rentals vs Owners' equivalent rent price inflation



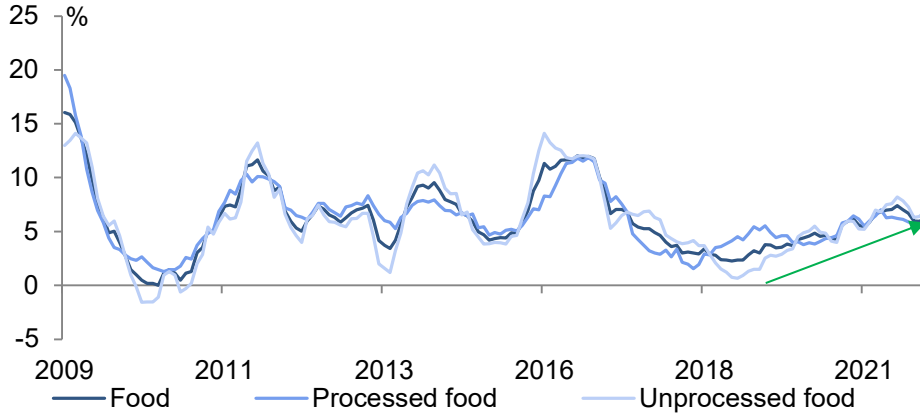
Source: Stats SA



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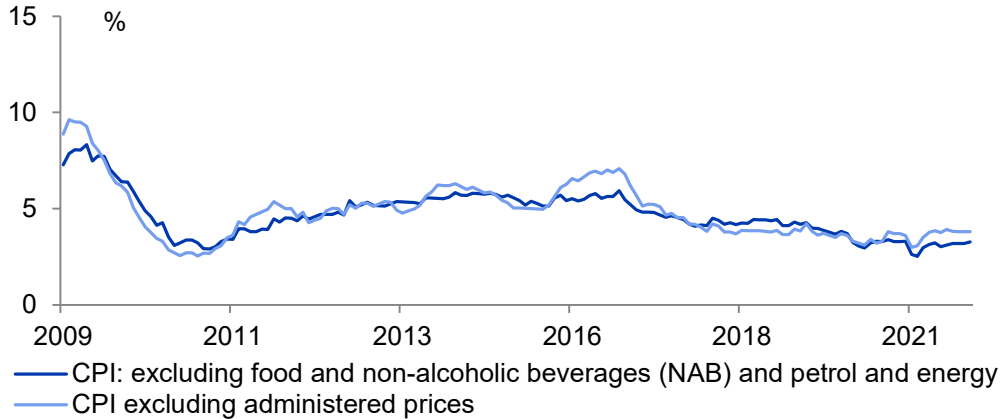
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Figure 5: SA CPI: Food vs processed and unprocessed price inflation



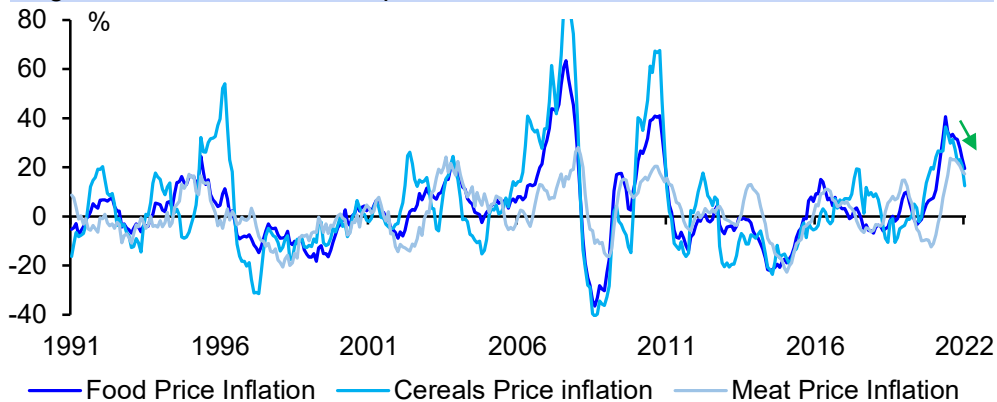
Source: Stats SA

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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