

SA Economics



Wednesday 20 January 2021

Inflation rate note: South Africa's inflation trajectory is set to rise as opposed to the disinflation trend of the past four years, with 2021 at 4.2% y/y (2020 3.3% y/y), and then a higher structural rate of inflation rate out to 2026

Inflation forecasts	2020	2021	2022	2023	2024	2025	2026
Consumer Inflation (Av: %)	3.3	4.2	4.8	5.0	5.0	5.0	5.1
(year-end: %)	3.1	4.6	5.0	5.0	4.8	4.9	5.2
Producer Inflation (Av: %)	2.5	4.3	5.0	5.0	5.1	5.1	5.2
(year-end: %)	3.1	4.3	5.6	4.3	5.3	4.9	5.4
Salary & wage increases	2.0	4.3	5.0	5.2	6.1	6.5	6.6

Source: Investec, SARB, Stats SA

Inflation expectations survey Q2.20 and Q3.20								
Survey conducted during	Analysts	2020Q2			Analysts	2020Q3		
		Business people	Trade union officials	Average		Business people	Trade union officials	Average
Headline CPI inflation during the year								
2020	3.2	4.5	4.0	3.9	3.2	4.1	3.4	3.6
2021	4.2	5.1	4.3	4.5	4.0	4.7	4.0	4.2
2022	4.6	5.3	4.5	4.8	4.4	5.2	4.4	4.6

Source: BER

South Africa: Inflation forecasts	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Consumer Inflation (Av: y/y %)	4.4	2.4	3.1	3.2	3.3	4.7	4.2	4.5	4.6	4.7	4.8	5.0
Producer Inflation (Av: y/y %)	4.1	0.7	2.3	2.9	3.4	5.2	4.3	4.2	4.3	4.8	5.2	5.5
Salary & wage increases (y/y %)	4.4	-2.6	3.0	3.1	9.0	4.3	1.2	2.7	4.1	7.1	4.7	4.4

Source: Statistics SA, SARB, Investec

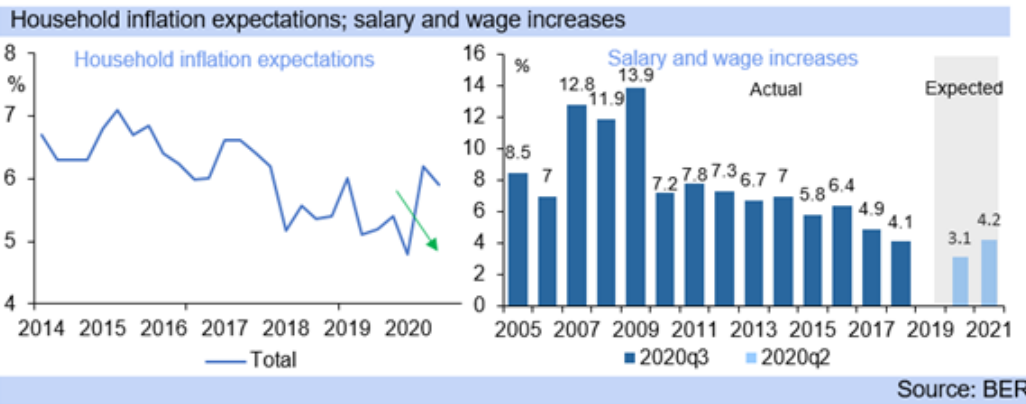
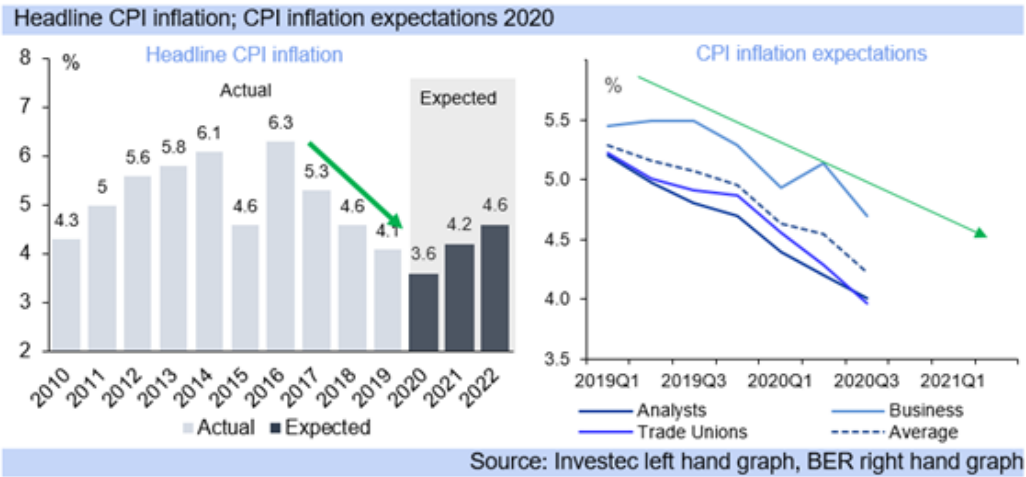
Inflation forecasts	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Consumer Inflation (Av: y/y %)	5.0	4.9	5.2	5.1	5.0	5.2	5.0	4.7	5.2	5.0	5.0	4.9
Producer Inflation (Av: y/y %)	5.5	5.2	4.9	4.5	4.9	5.1	5.1	5.2	5.3	5.0	5.0	4.9
Salary & wage increases (y/y %)	4.7	5.5	5.5	5.3	5.5	5.9	6.3	6.9	6.8	6.8	6.6	6.0

Source: Statistics SA, SARB, Investec

Inflation forecasts	2026 Q1	2026 Q2	2026 Q3	2026 Q4
Consumer Inflation (Av: y/y %)	5.0	5.3	5.0	5.2
Producer Inflation (Av: y/y %)	5.0	5.4	5.2	5.4
Salary & wage increases (y/y %)	6.5	6.8	6.6	6.6

Source: Statistics SA, SARB, Investec

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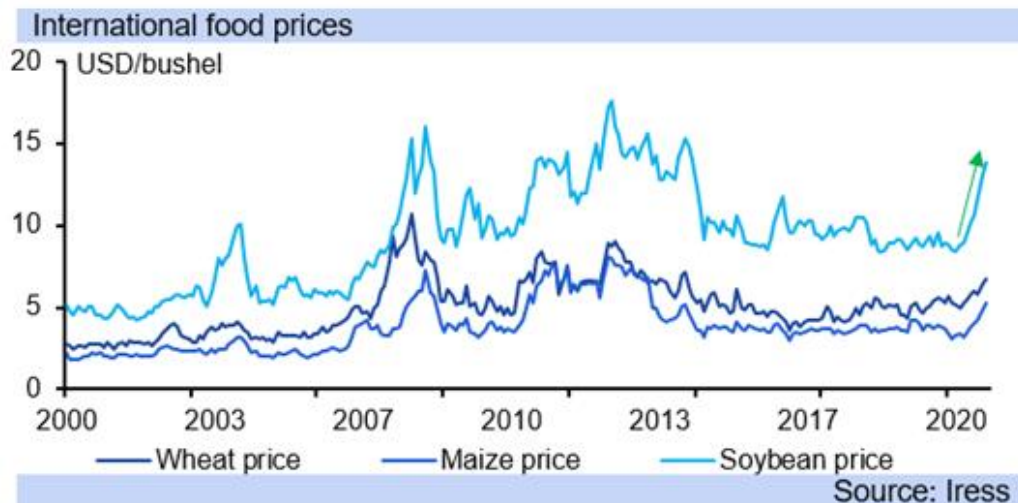


- South Africa’s drop in its CPI inflation to 2.1% y/y last year was to recent historic lows for the headline inflation rate, with the CPI itself not always having been the inflation rate targeted by the South African Reserve Bank (SARB), i.e. the targeted or headline rate.
- South Africa has seen four years of materially declining inflation, from an average of 6.3% y/y in 2016, to an average of 3.3% y/y last year, but this disinflationary trend is widely expected to be broken this year, with the CPI increasing by 4.2% y/y.
- Inflation expectations have risen as well, both for this year and for next year. The disinflation experienced since end 2016, was largely driven by food price inflation dropping from double to single digits, and exacerbated in 2020 by the collapse in oil prices and weak demand.
- While 2021 will see a bounce back in inflation due partly to the extreme base effect created by the very low inflation outcomes caused by the COVID-19 induced financial crisis early last year, upwards price pressures are also expected to come from other drivers.

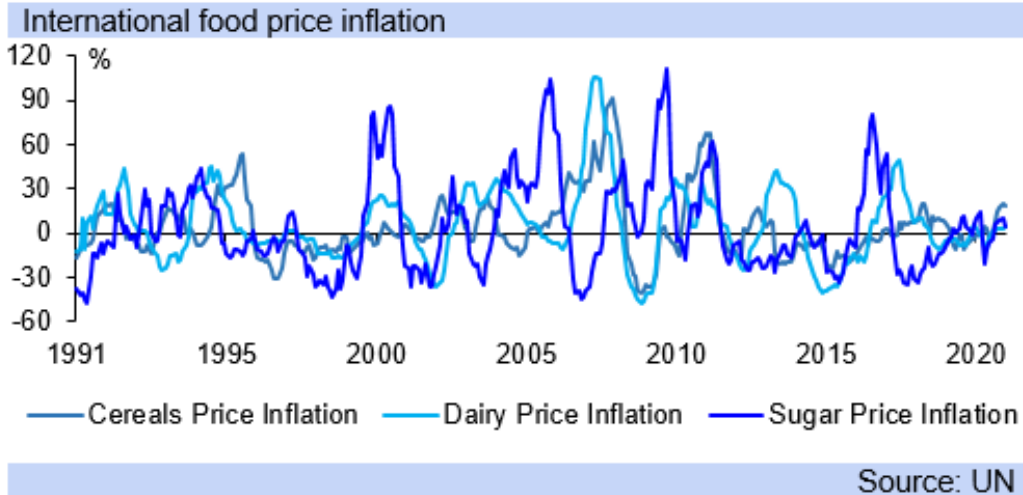
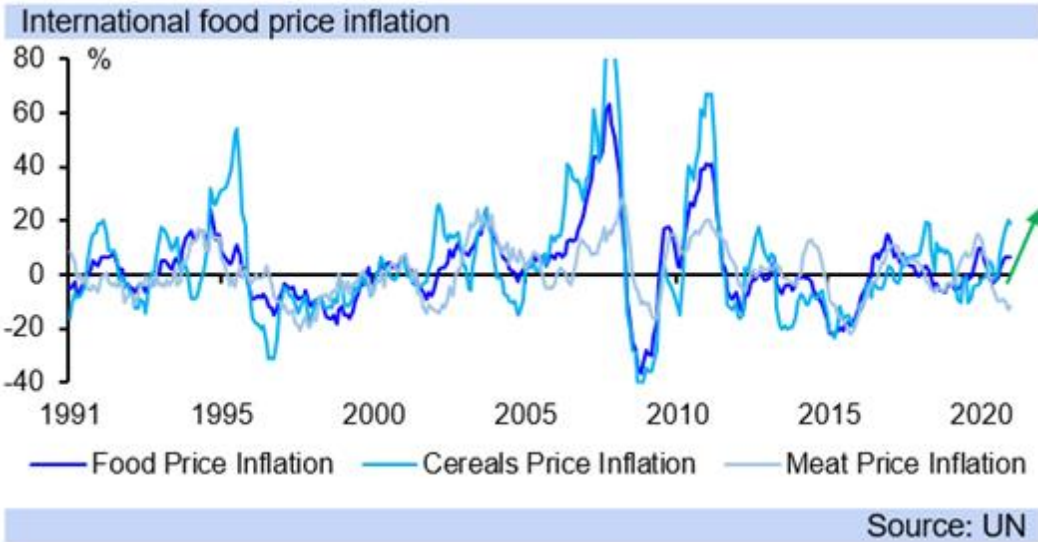
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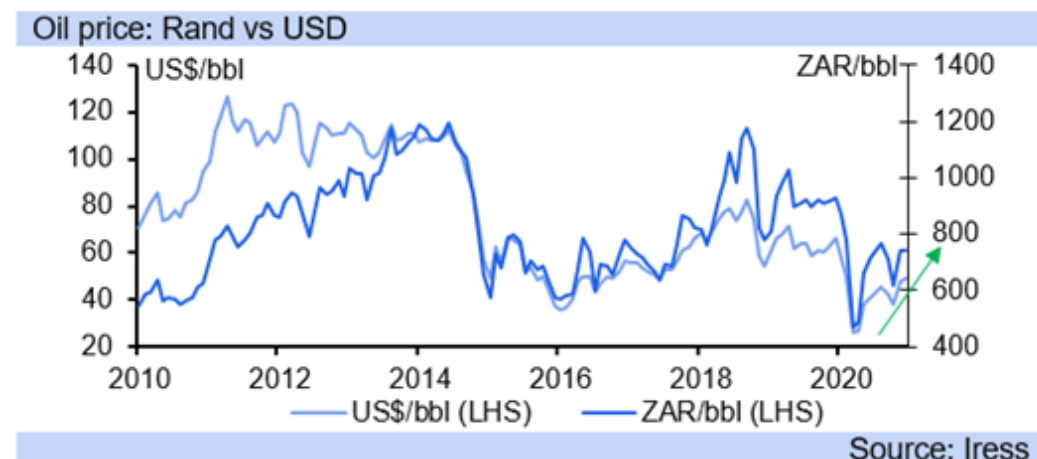
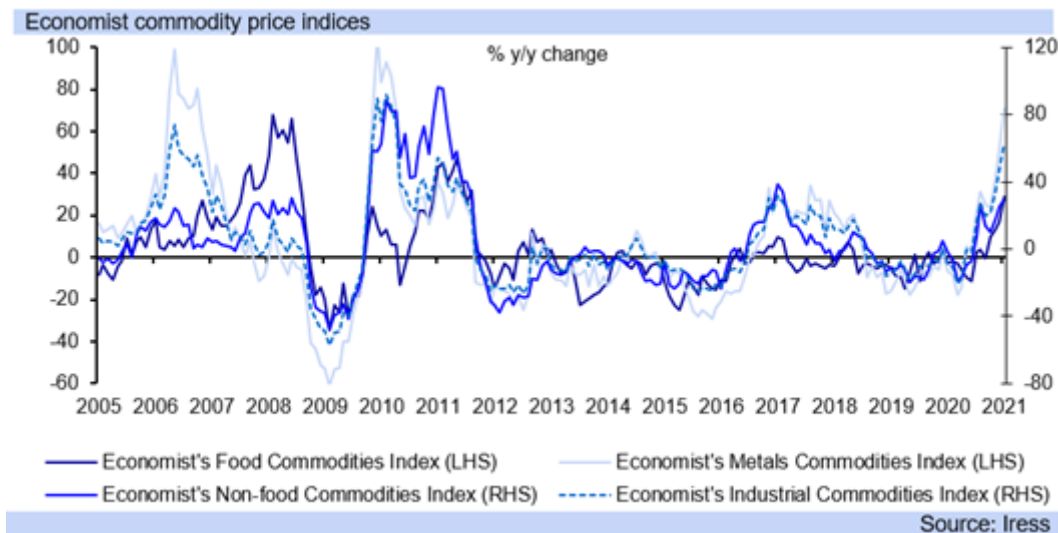
- Growing demand globally and locally will have some influence, although this will likely be stronger internationally than in the domestic market, but fuel price inflation is expected to have a bolstering effect this year on the CPI, instead of the suppressing one as it did last year.
- Already, January is seeing a petrol price increase of close to 80c/litre growing for the first week of February which could contribute 0.3% to the overall inflation outcome. With most of January now over, there is certainly likely to be a sizeable rise in fuel prices next month.
- January 2021 will likely see a lift in CPI by about 0.5% m/m, as some price pressures continue to push through from higher food and non-alcoholic beverage prices, and likely also from the general small price pressures collected in the residual.
- By the second quarter of this year the upwards momentum in headline CPI inflation is likely to become entrenched, exceeding 4.0% y/y, and even reaching close to 5.0% y/y temporarily in May, if the global economic recovery, and demand, builds as anticipated.
- However, neither the global, nor the domestic, economic recovery is expected to be quick, and building demand pressures over 2022 would aid in pushing domestic inflation rates higher, towards 5.0% y/y, a rate at which we expect to become entrenched structurally.



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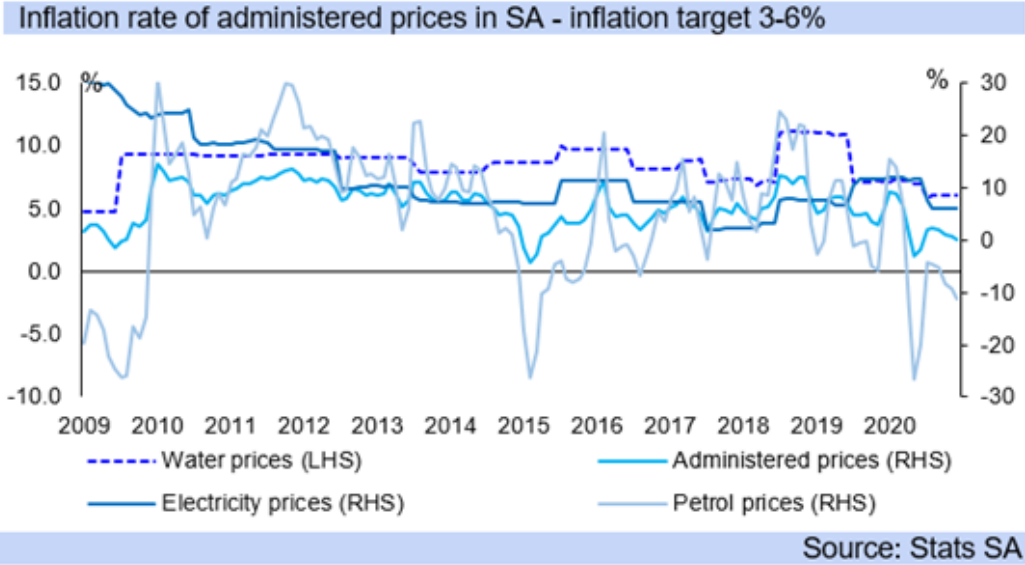


- The expected higher trend in CPI inflation from this year will also likely be aided by higher administered price pressures as well as growing demand pressures, with GDP expected to strengthen to 2.3% y/y by 2023, after averaging closer to 1.5% y/y for 2021 and 2022.
- That is, while there will likely be a statistical rebound in GDP this year, to 2.9% y/y (although it could come out lower if load shedding intensifies), next year is expected to only see GDP growth of 1.0% y/y, as the economy will still be beset by fundamental weaknesses.
- However, 2023 should begin to benefit from some, but not all, of the erosion of structural impediments to the economy's performance, provided government proves more proactive in reducing the stifling levels of red tape and the high regulatory burden in SA.

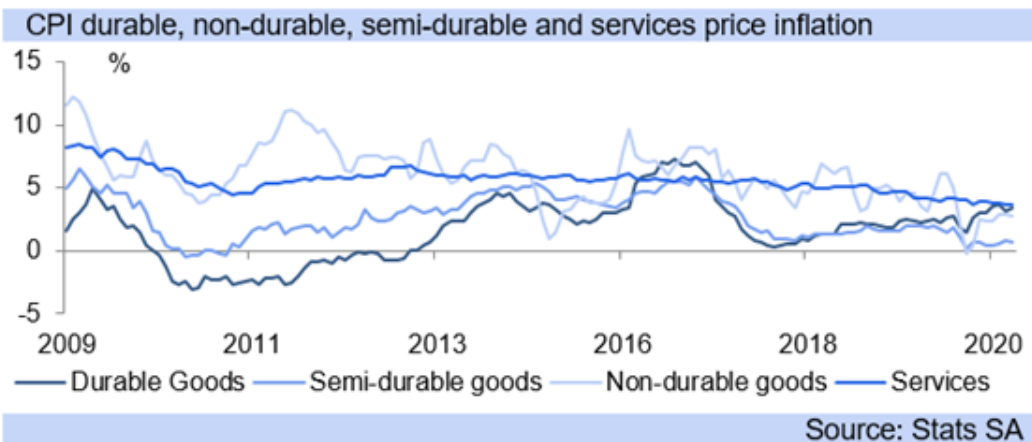
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- Out to 2026, GDP is expected to lift by 2.5% y/y in 2024, 2.7% y/y in 2025 and 3.0% y/y in 2026, with household consumption expenditure expected to see a similar trajectory of growth from this year, a component which accounts for near to two thirds of GDP.
- The structural lift in inflation will also be driven by a lift in infrastructure spend, seen to be a key influencer of the quickening in GDP growth over the next five years, aided by the Presidential infrastructure drive.
- With CPI inflation averaging 4.0% y/y for the last three years (2018, 2019 and 2020), and now expected to return to 5.0% y/y, this would imply higher salary and wage increases, which will be a key contributor to faster economic growth, unless the SARB is harsh on interest rates.
- However, the lift in salary and wages needs to be driven by a lift in private sector remuneration in order to drive economic growth and not imperil government finances any further, with public sector remuneration outpacing the private sector for a significant portion of the last decade.
- The substantial upswell in civil servant remuneration over the 2010s has driven the rise in expenditure and so State borrowings, which now needs to slow to prevent further crowding out of the private sector, particularly growth enhancing private sector investment.
- That is, there should be a substantial slowing in wage momentum in the public sector, and a lift in that of the private sector to aid growth and the repair of government revenues. Above inflation remuneration of any civil servants going forward will bring SA closer to debt default.



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Inflation expectations survey Q3.19 and Q4.19

Survey conducted during	2019Q3				2019Q4			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2019	4.4	5.0	4.6	4.6	4.2	4.8	4.6	4.5
2020	4.8	5.3	4.8	5.0	4.7	5.1	4.7	4.8
2021	4.8	5.5	4.9	5.1	4.7	5.3	4.9	5.0

Source: BER

Inflation expectations survey Q4.19 and Q1.20

Survey conducted during	2019Q4				2020Q1			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2020	4.7	5.1	4.7	4.8	4.3	4.7	4.3	4.4
2021	4.7	5.3	4.9	5.0	4.4	4.9	4.6	4.6
2022	-	-	-	-	4.5	5.1	4.6	4.8

Source: BER

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Dates when surveys were conducted

	Analysts, businesses and trade unions			Households			
	Mail questionnaire	Date of return	Process results	Fieldwork		Process results	
2017Q1	07-Feb	14-Mar	15-Mar	04-Apr	-	13-May	04-Jul
2017Q2	30-May	04-Jul	05-Jul	26-May	-	22-Jun	04-Jul
2017Q3	01-Aug	05-Sep	06-Sep	-	-	-	-
2017Q4	31-Oct	05-Dec	06-Dec	28-Oct	-	04-Dec	16-Jan
2018Q1	06-Feb	13-Mar	14-Mar	26-Feb	-	08-Mar	05-Apr
2018Q2	29-May	03-Jul	04-Jul	20-Apr	-	07-Jun	06-Jul
2018Q3	31-Jul	06-Sep	06-Sep	24-Oct	-	08-Nov	19-Nov
2018Q4	30-Oct	04-Dec	06-Dec	23-Oct	-	07-Dec	10-Jan
2019Q1	05-Feb	12-Mar	13-Mar	04-Mar	-	25-Mar	15-Apr
2019Q2	28-May	02-Jul	04-Jul	21-Mar	-	18-Apr	15-May
2019Q3	30-Jul	05-Sep	06-Sep	12-Sep	-	20-Sep	27-Sep
2019Q4	29-Oct	03-Dec	04-Dec	12-Nov	-	18-Nov	26-Nov
2020Q1	09-Jan	20-Feb	21-Feb	17-Feb	-	27-Feb	02-Mar
2020Q2*	08-Jun	25-Jun	26-Jun	01-Jun	-	12-Jun	19-Jun
2020Q3*	11-Aug	27-Aug	28-Aug	11-Aug	-	21-Aug	25-Aug

Source BER

*Online survey only

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CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y		Calendar year y/y	
Jan 2020	114.1	4.5	0.3				
Feb 2020	115.2	4.6	1.0				
Mar 2020	115.6	4.1	0.3	4.4	1.2		
Apr 2020	115.0	3.0	-0.5				
May 2020	114.3	2.1	-0.6				
Jun 2020	114.9	2.2	0.5	2.4	-0.2		
Jul 2020	116.4	3.2	1.3				
Aug 2020	116.6	3.1	0.2				
Sep 2020	116.8	3.0	0.2	3.1	1.6		
Oct 2020	117.1	3.3	0.3				
Nov 2020	117.1	3.2	0.0				
Dec 2020	117.3	3.1	0.2	3.2	0.5	2020	3.3
Jan 2021	117.9	3.3	0.5				
Feb 2021	118.7	3.1	0.7				
Mar 2021	119.5	3.3	0.6	3.3	1.3		
Apr 2021	119.9	4.3	0.4				
May 2021	120.2	5.1	0.2				
Jun 2021	120.4	4.8	0.2	4.7	1.2		
Jul 2021	121.1	4.1	0.6				
Aug 2021	121.5	4.2	0.3				
Sep 2021	122.0	4.4	0.4	4.2	1.1		
Oct 2021	122.2	4.4	0.2				
Nov 2021	122.5	4.6	0.2				
Dec 2021	122.7	4.6	0.2	4.5	0.8	2021	4.2
Jan 2022	123.3	4.6	0.5				
Feb 2022	124.2	4.6	0.7				
Mar 2022	124.9	4.6	0.6	4.6	1.4		
Apr 2022	125.4	4.6	0.4				
May 2022	125.8	4.7	0.3				
Jun 2022	126.2	4.8	0.3	4.7	1.3		
Jul 2022	127.0	4.8	0.6				
Aug 2022	127.3	4.8	0.3				
Sep 2022	127.8	4.8	0.4	4.8	1.2		
Oct 2022	128.4	5.0	0.4				
Nov 2022	128.6	5.0	0.2				
Dec 2022	128.9	5.0	0.2	5.0	1.0	2022	4.8
Jan 2023	129.5	5.0	0.5				
Feb 2023	130.3	4.9	0.6				
Mar 2023	131.2	5.0	0.7	5.0	1.3		
Apr 2023	131.7	5.0	0.4				
May 2023	132.0	4.9	0.2				
Jun 2023	132.3	4.8	0.2	4.9	1.3		
Jul 2023	133.6	5.2	1.0				
Aug 2023	134.0	5.2	0.3				
Sep 2023	134.5	5.2	0.4	5.2	1.5		
Oct 2023	134.9	5.1	0.3				
Nov 2023	135.2	5.1	0.2				
Dec 2023	135.3	5.0	0.1	5.1	0.8	2023	5.0
Jan 2024	136.0	5.0	0.5				
Feb 2024	136.8	5.0	0.6				
Mar 2024	137.8	5.0	0.7	5.0	1.3		
Apr 2024	138.5	5.1	0.5				
May 2024	138.9	5.2	0.3				
Jun 2024	139.2	5.2	0.2	5.2	1.4		
Jul 2024	140.3	5.0	0.8				
Aug 2024	140.7	5.0	0.3				
Sep 2024	141.1	4.9	0.3	5.0	1.3		
Oct 2024	141.3	4.7	0.1				
Nov 2024	141.7	4.8	0.3				
Dec 2024	141.8	4.8	0.1	4.7	0.6	2024	5.0
Jan 2025	142.6	4.9	0.6				
Feb 2025	144.0	5.3	1.0				
Mar 2025	145.3	5.5	0.9	5.2	1.7		

Source: Stats SA, Investec