



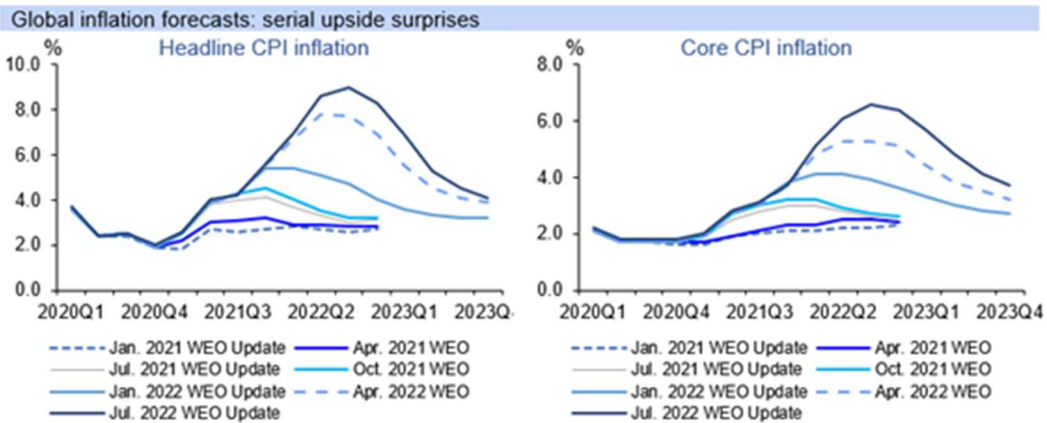
SA Economics

Thursday 1 September 2022

Inflation rate note: for South Africa, price pressures are likely to decelerate over Q4.22, starting in Q3.22

SA inflation forecasts						
	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.8	5.4	4.7	5.0	5.0	5.0
(year-end: %)	6.8	4.8	4.3	5.0	5.0	5.0
Producer Inflation (Av: %)	15.2	9.4	4.8	5.1	5.1	5.1
(year-end: %)	16.0	5.2	4.9	4.8	5.3	5.3
Salary & wage increases (%)	6.8	5.4	5.6	6.0	6.1	6.2

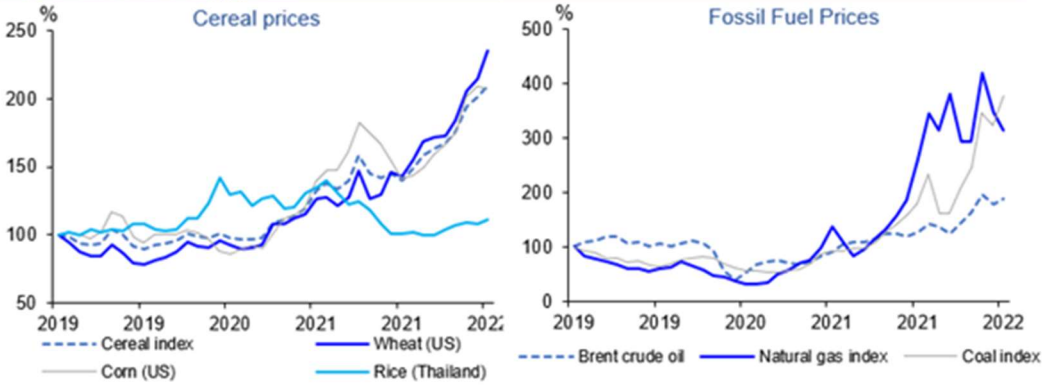
Source: Investec, SARB, Stats SA



Source: World Bank, WEO July 2022

Note: Global inflation is a weighted average of individual countries' numbers using GDP valued at purchasing power parity as weights

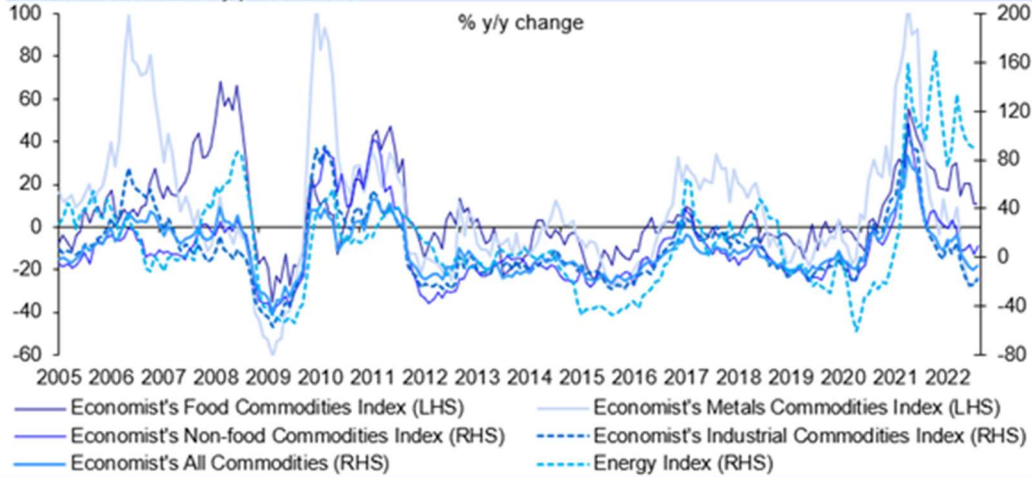
Higher food and energy prices



Source: World Bank, WEO July 2022

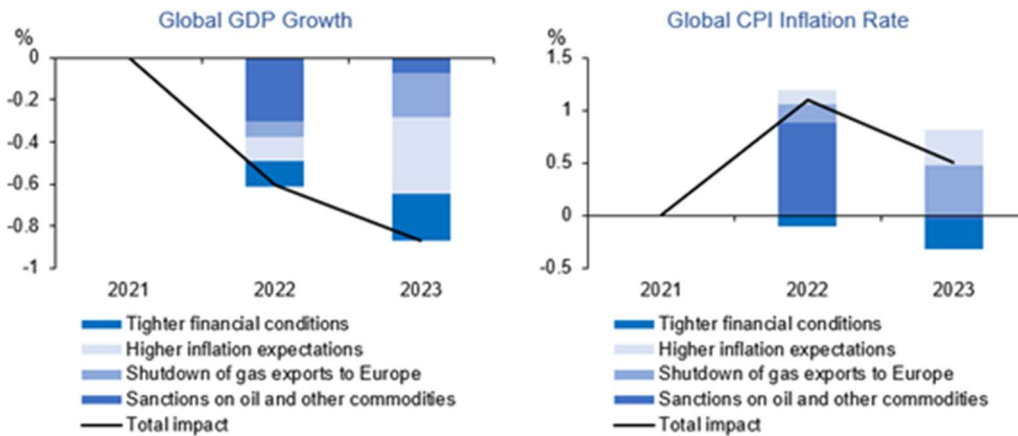
Note: Cereal index comprises barley maize (corn), oats, rice sorghum, and wheat, natural gas index comprises European, Japanese and US natural gas price indices, coal index comprises Australian and South African coal.

Economist commodity price indices



Source: Iress, Economist

Global Scenario



Source: World Bank, WEO July 2022

Note: IMF, Group of 20 Model simulation, and IMF staff calculations.

- A global recession is increasingly seen as likely in 2023, driven by higher interest rates, the dulling effect of high inflation on economic activity, particularly higher energy prices, while the Russian/Ukraine war drags on and real disposable incomes shrink.
- Already, the Euro-bloc saw economic confidence drop to its lowest level since early 2021, when the world was beginning to recover from the pandemic, as record high inflationary pressures and energy supply constraints push the region closer to a recession.
- Specifically, Euro-area economic confidence fell in August, most markedly for industry and services' sectors on fears the energy supply crunch will weaken production while high inflation dents demand. For the Euro-area, CPI inflation is at a high of 9.1% y/y (4.3% y/y for core).
- In August, consumers were more pessimistic on the outlook than in the pandemic. Warnings that Europe is already in recession are also emerging, with Germany, the region's largest economy, seeing contractions in manufacturing production, and private-sector activity overall.
- Inflation in Germany has risen to 7.9% (8.8% y/y harmonised), the highest since the inception of the euro, prompting calls for substantially higher interest rates while its economy is slowing markedly. As is common around the world, food and energy prices were the key drivers.
- Germany has been providing a fuel rebate as part of its government relief measures, along with very low public transport costs to assist in climate change goals, but both measures will soon expire, adding further upwards pressure to prices.
- Euro-area inflation is at 9.1% y/y, and the ECB sees Germany's inflation rate reaching 10% y/y in Q4.22. Supply chain costs have come off but the IMF warns "the inflationary impact of shipping costs will continue to build through the end of 2022".
- "(S)hipping costs are an important driver of inflation around the world: when freight rates double, inflation picks up by about 0.7 percentage point. ... the effects are quite persistent, peaking after a year and lasting up to 18 months".
- "This implies that the increase in shipping costs observed in 2021 could increase inflation by about 1.5 percentage points in 2022." While the descent in inflation is expected to be slow, a significant recession would quicken the fall, particularly a collapse in oil prices.

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Cargo crunch

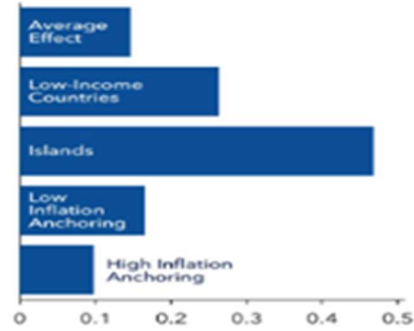
Global shipping costs surged during the pandemic and are likely to continue boosting inflation through year-end.

Shipping costs

(indexes: March 1, 2020=100)



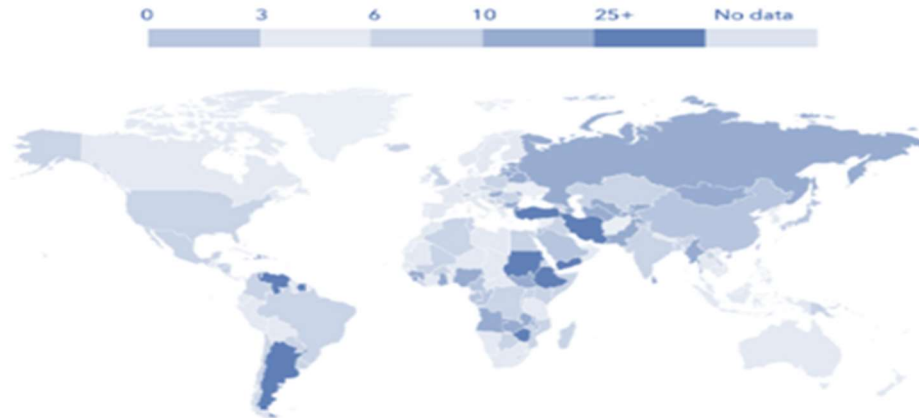
Inflation effects 12 months after shipping costs increase (percentage point)



Source: IMF

Note: Chart is based on estimates in Carriere-Swallow and others (2022), and presents the impact of a one standard deviation increase in world shipping costs (+21.8 percentage points) on domestic headline inflation after 12 months.

Price pressures – the war in Ukraine and a broadening of price pressures are expected to elevate inflation for longer than previously forecast.



Source: IMF

Fog of war

The World Uncertainty Index is climbing again as the invasion of Ukraine clouds the economic outlook



Source: IMF

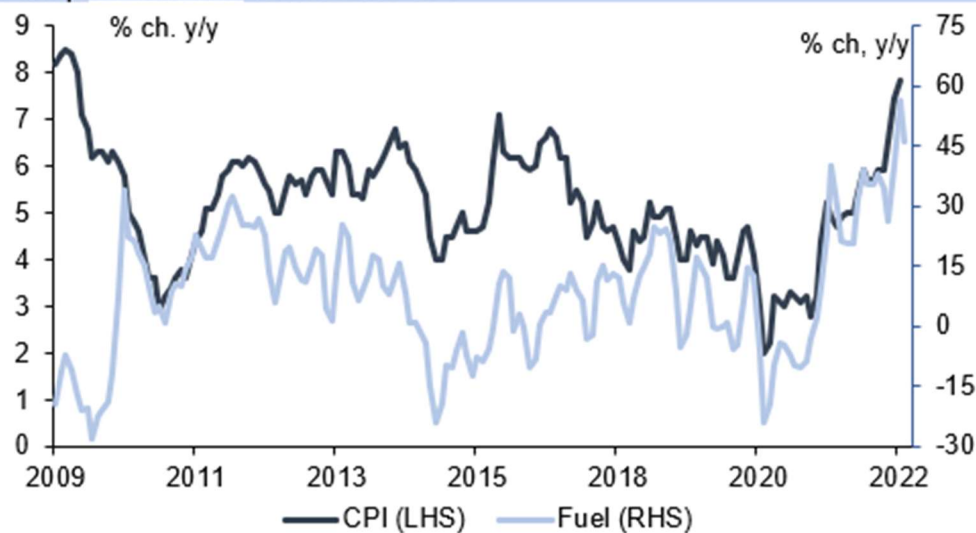
Note: Chart is computed by counting the percent of the word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The index is rescaled by multiplying by 1,000,000. A higher number means higher uncertainty and vice versa.

Oil price: Rand vs USD



Source: Iress

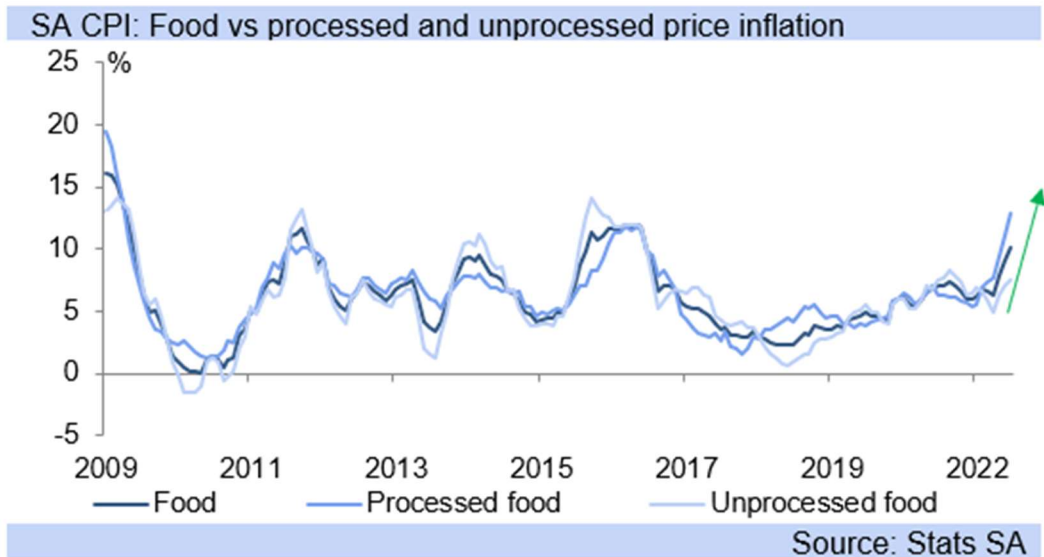
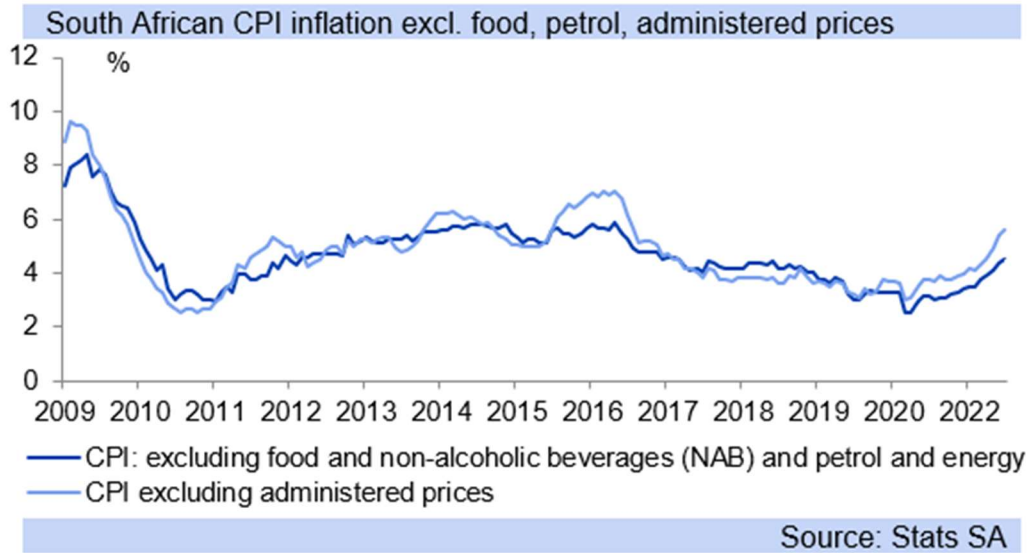
Fuel price inflation vs headline CPI



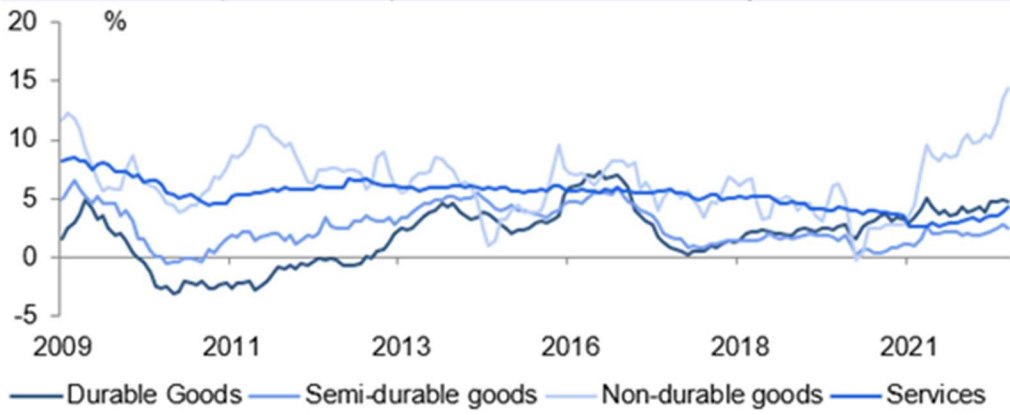
Source: Stats SA

- Oil prices have moderated somewhat from highs earlier in the year, but are still well above H2.21 levels, which creates upwards pressure on inflation on the year-on-year measurements, despite oil prices falling in the last few months.
- The Brent crude oil price has dropped from US\$124/bbl in June, to US\$94/bbl today, with markets worrying about the impact of high interest rates, and particularly of what is termed a growth recession, i.e. one of rising unemployment and very weak economic activity.
- China too, which continues to pursue a zero COVID strategy, is adding to global growth concerns, with the latest PMI reading showing that manufacturing production, fell again in August, while China's property market woes and energy supply concerns add to worries.
- Furthermore, the IMF warns "(t)he U.S. has only a slim chance of avoiding ... recession, "it will ... test ... the mettle of central banks ... to continue raising interest rates in a bid to restore price stability".
- "It's easy to cool off the economy when ... (it) is running hot. It's much harder to reduce inflation when the economy is close to a recession." Levels of uncertainty are high, which has created risk-off for financial markets, and so negatively affected commodity prices.
- High inflation remains the main focus globally, and locally. CPI inflation is likely to peak in South Africa in Q3.22, based on the current environment, but additional, unexpected shocks to the system could derail this.
- South Africa is in line for another fuel price cut in September, but unfortunately the government has not been passing the full effects through of the drops in the rand oil, or rand gasoline, prices, as it attempts to smooth prices and recoup costs.
- The state normally attempts to recoup fuel costs from one month to the next, but with cuts of around R2.00/litre for petrol, and around R1/litre for diesel, in the over recovery for August, September is certainly in line for some cut in fuel prices.

- This should add to moderating pressure at the end of Q3.22, into Q4.22, along with slowing global food price inflation, which will see a weakening in price acceleration, but the actual descent is still likely to be slow, globally and domestically, barring harsh global recession.



SA CPI durable, non-durable, semi-durable and services price inflation



Source: Stats SA

CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar Year y/y	
Jan 2022	100.2	5.7	0.2			
Feb 2022	100.8	5.7	0.6			
Mar 2022	101.8	5.9	1.0	5.8		
Apr 2022	102.4	5.9	0.6			
May 2022	103.1	6.5	0.7			
Jun 2022	104.2	7.4	1.1	6.6		
Jul 2022	105.8	7.8	1.5			
Aug 2022	105.9	7.5	0.1			
Sep 2022	106.0	7.4	0.1	7.6		
Oct 2022	106.4	7.5	0.4			
Nov 2022	106.6	7.3	0.2			
Dec 2022	106.8	6.8	0.1	7.2	2022	6.8
Jan 2023	107.3	7.1	0.5			
Feb 2023	107.7	6.9	0.4			
Mar 2023	108.4	6.4	0.6	6.8		
Apr 2023	108.8	6.2	0.4			
May 2023	109.0	5.7	0.2			
Jun 2023	109.2	4.8	0.2	5.6		
Jul 2023	110.3	4.3	1.0			
Aug 2023	110.5	4.4	0.2			
Sep 2023	110.9	4.6	0.3	4.4		
Oct 2023	111.3	4.6	0.4			
Nov 2023	111.7	4.7	0.3			
Dec 2023	111.9	4.8	0.2	4.7	2023	5.4
Jan 2024	112.4	4.8	0.5			
Feb 2024	112.8	4.7	0.3			
Mar 2024	113.6	4.8	0.7	4.8		
Apr 2024	114.0	4.8	0.4			
May 2024	114.4	4.9	0.3			
Jun 2024	114.6	4.9	0.2	4.9		
Jul 2024	115.5	4.7	0.8			
Aug 2024	115.7	4.7	0.2			
Sep 2024	116.1	4.7	0.3	4.7		
Oct 2024	116.3	4.5	0.2			
Nov 2024	116.7	4.5	0.3			
Dec 2024	116.7	4.3	0.1	4.4	2024	4.7
Jan 2025	117.4	4.4	0.6			
Feb 2025	118.6	5.2	1.0			
Mar 2025	119.7	5.4	0.9	5.0		

Source: Stats SA, Investec

Inflation expectations survey Q1.22 and Q2.22

Survey conducted during	2022Q1				2022Q2			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2022	5.1	5.3	5.0	5.1	6.1	5.9	5.9	6.0
2023	4.5	5.5	5.0	5.0	5.1	6.1	5.7	5.6
2024	4.5	5.4	5.0	5.0	4.6	5.9	5.7	5.4

Source: BER

