

SA Economics



Inflation outlook: Q3.24 is expected to see CPI inflation average 4.5% y/y, and 4.1% y/y for Q4.24

Tuesday 3 September 2024

SA inflation forecasts	2023	2024	2025	2026	2027	2028	2029
Consumer Inflation (Av: %)	5.9	4.8	4.4	4.6	4.7	4.6	4.8
(year-end: %)	5.1	4.4	4.4	4.7	4.5	4.6	4.5
Producer Inflation (Av: %)	6.8	4.5	4.9	5.1	5.0	5.1	4.9
(year-end: %)	4.0	4.5	4.8	5.3	4.9	5.1	5.2
Salary & wage increases (%)	4.7	4.2	5.1	5.4	5.5	5.6	5.9

Source: Investec, SARB, Stats SA

SA Consumer Inflation: history and forecasts

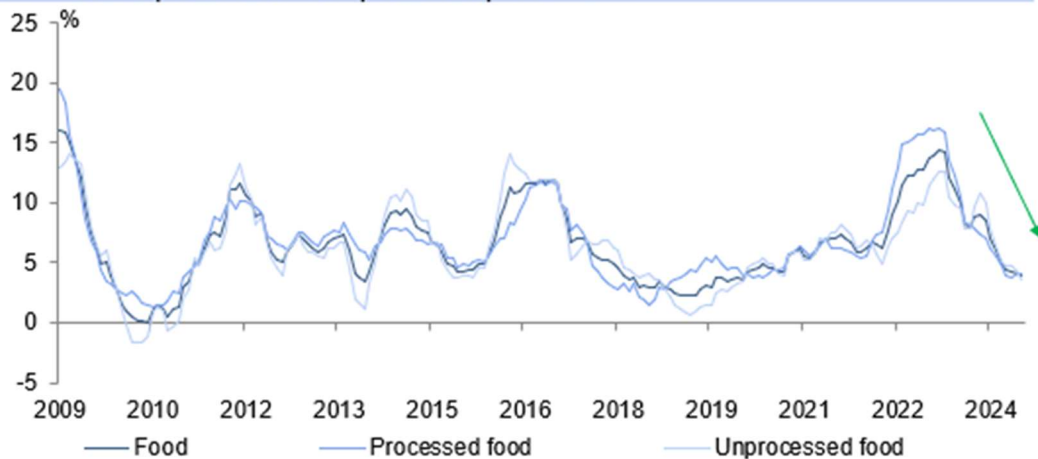


CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar Year y/y	
Jan 2024	112.8	5.3	0.1			
Feb 2024	113.9	5.6	1.0			
Mar 2024	114.8	5.3	0.8	5.4		
Apr 2024	115.1	5.2	0.3			
May 2024	115.3	5.2	0.2			
Jun 2024	115.4	5.1	0.1	5.2		
Jul 2024	115.9	4.6	0.4			
Aug 2024	116.2	4.6	0.3			
Sep 2024	116.6	4.3	0.3	4.5		
Oct 2024	117.1	3.8	0.4			
Nov 2024	117.4	4.2	0.3			
Dec 2024	117.6	4.4	0.2	4.1	2024	4.8
Jan 2025	118.5	5.0	0.7			
Feb 2025	118.9	4.4	0.4			
Mar 2025	119.5	4.1	0.5	4.5		
Apr 2025	119.8	4.1	0.2			
May 2025	119.9	4.0	0.1			
Jun 2025	120.1	4.1	0.2	4.1		
Jul 2025	121.5	4.8	1.1			
Aug 2025	121.8	4.8	0.3			
Sep 2025	122.2	4.8	0.3	4.8		
Oct 2025	122.3	4.5	0.1			
Nov 2025	122.6	4.4	0.2			
Dec 2025	122.8	4.4	0.2	4.4	2025	4.4
Jan 2026	123.5	4.3	0.6			
Feb 2026	124.0	4.3	0.4			
Mar 2026	124.7	4.3	0.5	4.3		
Apr 2026	125.2	4.5	0.4			
May 2026	125.5	4.7	0.3			
Jun 2026	125.9	4.8	0.3	4.7		
Jul 2026	127.2	4.7	1.0			
Aug 2026	127.4	4.6	0.2			
Sep 2026	127.7	4.5	0.2	4.6		
Oct 2026	128.1	4.7	0.3			
Nov 2026	128.4	4.8	0.3			
Dec 2026	128.6	4.7	0.1	4.7	2026	4.6
Jan 2027	129.3	4.7	0.6			
Feb 2027	130.0	4.8	0.5			
Mar 2027	130.8	4.9	0.6	4.8		

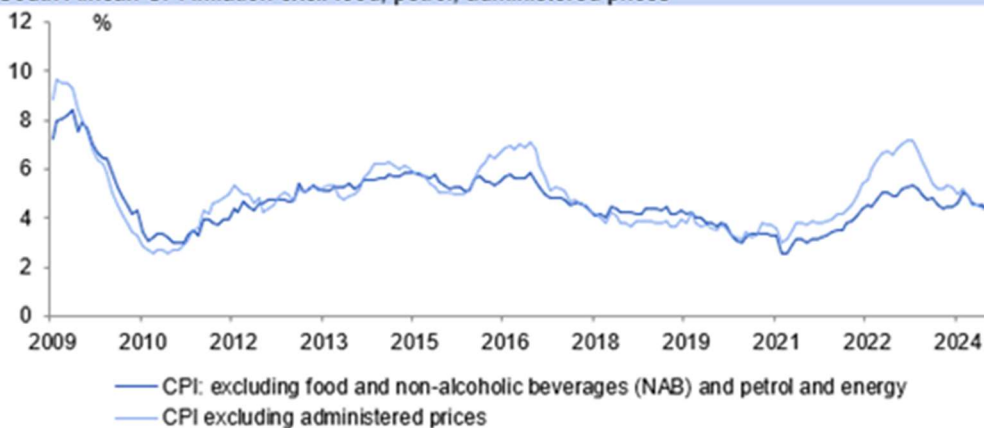
Source: Stats SA, Investec

CPI: Food vs processed and unprocessed price inflation



Source: Stats SA

South African CPI inflation excl. food, petrol, administered prices



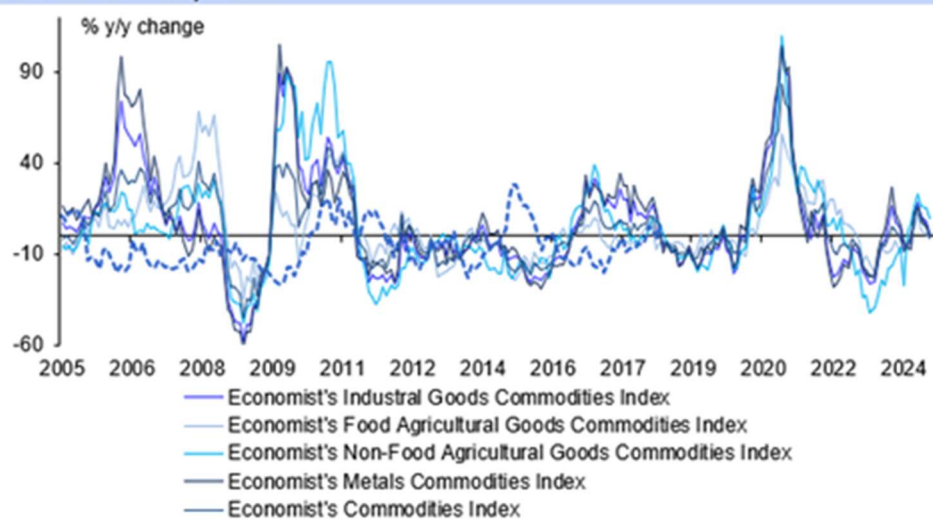
Source: Stats SA

- The sharp drop in South Africa's consumer price inflation rate, to 4.6% y/y in the latest print (July) from 5.1% y/y in June, underscores the likelihood of CPI inflation averaging 4.5% y/y for Q3.24, the midpoint of the inflation target range.
- August's inflation outcome (published in September) is due to also come out at 4.6% y/y, but unlike July's figure, it does not have any suppressing statistical base effects to moderate the outcome, while the petrol price drop was small at -15c/litre.
- Both July and August saw the rand strengthen against the US dollar, with August experiencing greater appreciation on average, with the domestic currency's strength placing downwards pressures on US dollar-based commodities costs, such as fuel.

- South Africa's largest sub-component in the CPI basket, food prices, are heavily influenced by the price of agricultural food commodities prices globally (US dollar based) as SA's agricultural goods are priced on import/export parity.
- In July, rand appreciation and a -0.7% fall on the month in global food prices occurred, as grain prices continued to moderate on over supply (see Commodities' Notes, 14th May and 14th June, contact details below), dulling price pressures.
- In addition, grains (and oils) prices have fallen on high prices experienced a year ago. Higher prices in early 2023, which formed the high base effect, were due to the over twelve-month effects of the Russian/Ukraine war (see CPI note 19th June).
- Plentiful supply had served to cut global wheat prices over the last two years (see CPI Outlook, 3rd July), along with more recently improved weather conditions in key grain crop areas globally, although wheat prices have seen some volatility too.
- A very substantial drop, of -5.3% m/m occurred in the international prices of agricultural food commodities in August, which together with the strengthening of the rand against the USD by 1.4% m/m, will suppress food price inflation.
- August's CPI inflation figure is likely to come out close to 4.5% y/y, and is published during the MPC's September meeting period, with the MPC widely expected to cut interest rates by -25bp on the 19th of September.

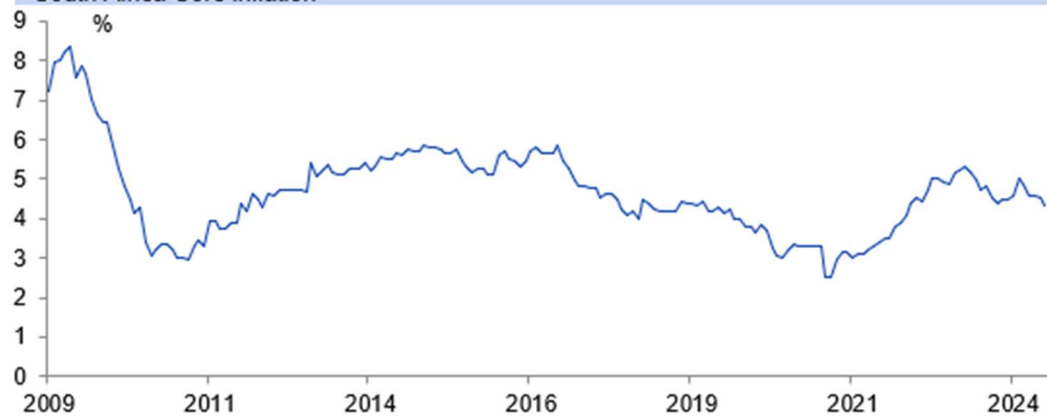
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Economist's commodity indices



Source: IRESS, Economist, IMF

South Africa Core inflation



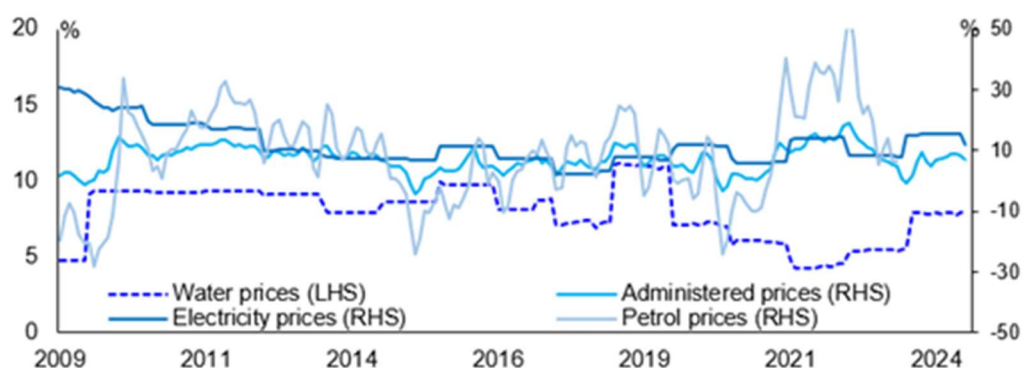
Source: Stats SA

Inflation expectations survey Q1.24 and Q2.24

Survey conducted during	2024Q1				2024Q2			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2024	5.0	5.8	5.5	5.4	5.0	5.6	5.3	5.3
2025	4.7	5.6	5.6	5.3	4.6	5.4	5.0	5.0
2026	4.7	5.4	5.4	5.2	4.5	5.3	4.8	4.9

Source: BER

Inflation rate of administered prices in SA - inflation target 3-6%



Source: Stats SA

SA CPI all goods vs services price inflation



Source: Stats SA

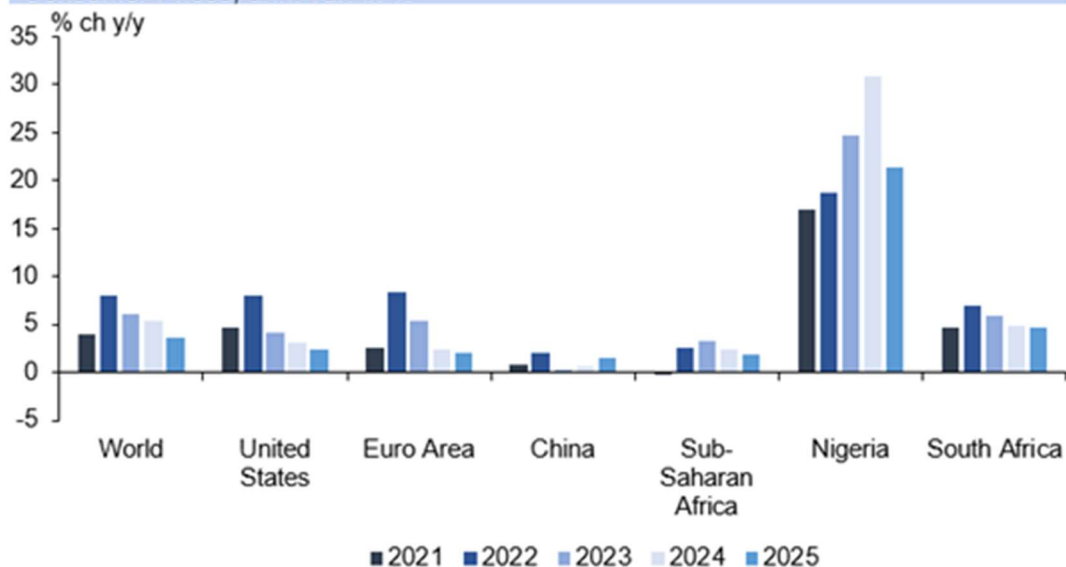
- August is a medium survey month, with private sector hospital costs of note. Municipal charges for water, rates and taxes and electricity are surveyed again after July's figures but are not expected to show significantly different results.
- Price pressures on the month are expected overall to be relatively subdued for August, given the substantial downwards pressure coming through from international food prices, and some rand strength.
- This will aid in counterbalancing some of the domestic price pressures, both at the food price level, and also for CPI inflation price pressures overall, given the large size of the food price component in the index.

- July (the latest f CPI inflation data published) also saw a negative contribution come through from the catch-all residual category, a category designed to amalgamate all the price changes too small to reflect on their own in their categories.
- A negative contribution from the residual category shows some waning price pressures along with the drop in the core inflation reading for July, to 4.3% y/y, below the 4.5% y/y midpoint of the inflation target range.
- August is expected to see the core inflation reading also remain moderate, which will add to the SARB's (South African Reserve Bank's) comfort to begin the anticipated interest rate cut cycle in SA tat its MPC meeting his month.
- Looking ahead, South Africa's fuel price drop of -92c/litre in September, due to be implemented tomorrow, will exert downwards pressure on September's CPI inflation figure, assisting in likely bringing it below the 4.5% y/y mark.
- Q4.24 is forecast to see CPI inflation outcomes below 4.5% y/y over Q4.25, as inflationary pressures remain moderate. Another sizeable petrol price cut is building, currently near -R1.50/litre for October.
- The rand benefits from lower interest rates in the US, with the FOMC expected to put through three -25bp cuts in the remainder of this year, superseding South Africa's - 50bp cut at most, and so allowing further rand strength and lower inflation.

Consumer Prices, annual variation in %					
	2021	2022	2023	2024	2025
World	4.0	8.0	6.1	5.4	3.6
United States	4.7	8.0	4.1	3.1	2.4
Euro Area	2.6	8.4	5.4	2.4	2.1
China	0.9	2.0	0.2	0.7	1.6
Japan	-0.2	2.5	3.2	2.4	1.8
Sub-Saharan Africa	11.0	15.0	15.3	14.0	10.5
Angola	25.8	21.4	13.6	26.1	18.1
Botswana	6.7	12.2	5.1	4.1	4.0
Cameroon	2.3	6.3	7.4	5.3	3.9
Code d'Ivoire	4.2	5.2	4.4	3.3	2.6
DR Congo	9.0	9.3	19.9	16.3	8.8
Ethiopia	26.8	33.9	30.3	23.9	18.1
Ghana	10.0	31.9	39.2	20.5	12.6
Kenya	6.1	7.7	7.7	5.8	5.7
Mozambique	6.6	10.4	7.0	4.8	5.5
Nigeria	17.0	18.8	24.7	30.9	21.4
Rwanda	-0.4	17.7	19.8	5.1	5.6
Senegal	2.2	9.7	5.9	2.7	2.1
South Africa	4.6	6.9	5.9	4.9	4.6
Tanzania	3.7	4.3	3.8	3.7	4.3
Uganda	2.2	7.2	5.4	3.9	4.9
Zambia	22.0	11.0	10.9	13.8	10.0
Zimbabwe	7.9	28.3	6.7	33.9	22.2

Source: Focus Economics August 2024

Consumer Prices, ann. var. in %



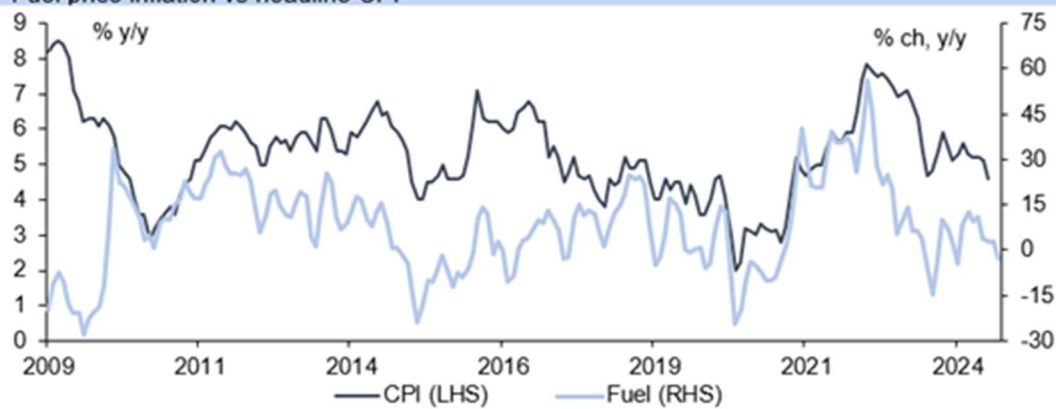
Source: Focus Economics August 2024

Oil price: Rand vs USD



Source: Iress

Fuel price inflation vs headline CPI



Source: Stats SA

International food prices



Source: Iress