Investec

Inflation rate note: CPI inflation likely to average 4.5% y/y for 2024, risks are to the upside

Friday 5 January 2024

SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	6.0	4.5	4.2	4.6	4.7
(year-end: %)	*7.2*	*5.2*	*3.7*	*4.4*	*4.7*	*4.5*
Producer Inflation (Av: %)	14.4	7.0	4.8	5.1	5.1	5.0
(year-end: %)	*13.5*	*3.8*	*4.9*	*4.8*	*5.3*	*4.9*
Salary & wage increases (%)	3.8	4.6	4.7	5.3	5.5	5.6

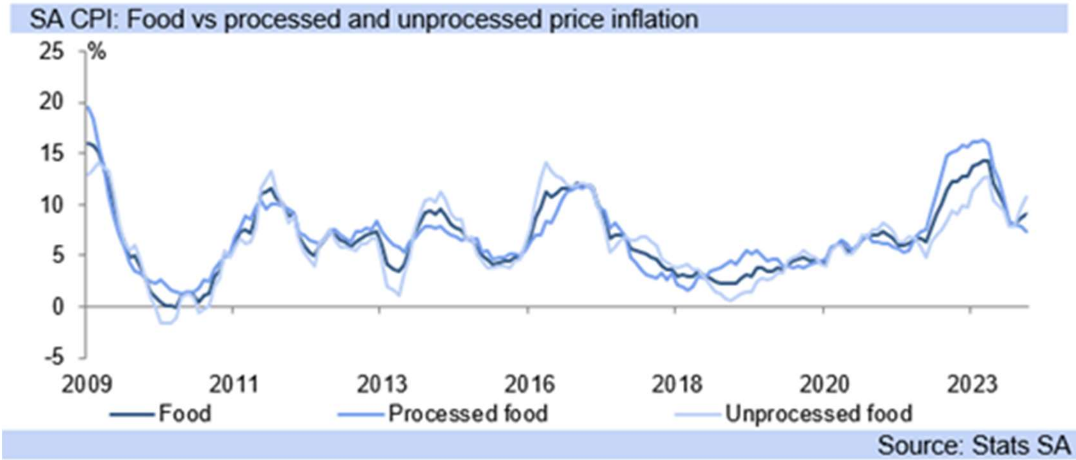
Source: Investec, SARB, Stats SA

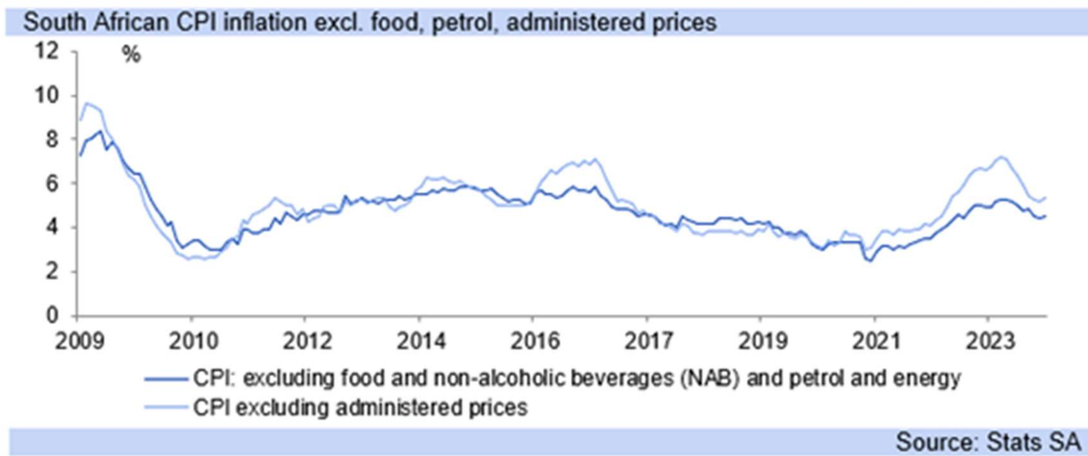
SA Consumer Inflation: history and forecasts

Source: Stats SA, SARB, Investec

CPI forecast averages						
Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar Year y/y	
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.8	5.2	0.1	5.6	2023	5.9
Jan 2024	113.3	5.8	0.4			
Feb 2024	113.6	5.3	0.3			
Mar 2024	114.2	4.7	0.5	5.3		
Apr 2024	114.5	4.7	0.3			
May 2024	114.9	4.8	0.3			
Jun 2024	115.1	4.8	0.2	4.8		
Jul 2024	115.8	4.5	0.6			
Aug 2024	116.0	4.4	0.2			
Sep 2024	116.4	4.1	0.3	4.3		
Oct 2024	116.6	3.4	0.2			
Nov 2024	116.9	3.8	0.3			
Dec 2024	117.0	3.7	0.1	3.6	2024	4.5
Jan 2025	117.8	4.0	0.7			
Feb 2025	118.3	4.1	0.4			
Mar 2025	118.9	4.1	0.5	4.1		
Apr 2025	119.1	4.0	0.2			
May 2025	119.2	3.8	0.1			
Jun 2025	119.5	3.8	0.2	3.9		
Jul 2025	120.8	4.3	1.1			
Aug 2025	121.2	4.4	0.3			
Sep 2025	121.5	4.4	0.3	4.4		
Oct 2025	121.6	4.3	0.1			
Nov 2025	121.9	4.2	0.2			
Dec 2025	122.1	4.4	0.2	4.3	2025	4.2
Jan 2026	122.9	4.3	0.6			
Feb 2026	123.4	4.3	0.4			
Mar 2026	124.0	4.3	0.5	4.3		

Source: Stats SA, Investec





- This year South Africa's CPI inflation rate is currently likely to come out at 4.5% y/y, the midpoint of the inflation target range, although this average could face upside risks, potentially from food prices, a weaker rand and higher global commodity prices.
- Specifically, we currently forecast that CPI inflation will reach 4.5% y/y in July this year, dipping to 3.4% y/y in October and moving back towards 4.0% y/y in December on base effects, although the upside risks mentioned could derail this outcome.
- An average of 4.5% y/y for 2024, and likely similar for 2025, if not slightly lower (currently the forecast is at 4.2% y/y for 2025), would imply interest rate cuts, with monetary policy increasingly restrictive from mid-Q1.24 without easing rates.
- However, given the marked weakness in the rand, which has contributed significantly to higher inflation, South Africa's MPC (Monetary Policy Committee) would likely favourably view rand strength in order to drive inflation lower.
- The rand remains undervalued, over R3.00/USD removed from its fair (PPP) value against the USD. Such substantial weakness has been instrumental in contributing to higher fuel and food costs in SA, amongst other inflationary effects.

- Should the US cut interest rates in H1.24, with March currently viewed as the first month this could likely occur, the rand could see some strength as the differential (difference) between US and SA Bank rates widens if SA does not cut.
- Inflationary pressures, globally and domestically, are on a general downwards trend, which is adding to expectations of interest rate cuts. This does not mean inflation consistently falls (at every print), but instead in general is tending to decline.
- Fuel prices are key for SA's inflation outcomes, and November's large R1.78/litre cut in the petrol price helped pull inflation down to 5.5% y/y in November, from 5.9% y/y in October, and December's -64c/litre cut should aid it lower, to around 5.2% y/y.
- While inflation is likely to temporarily return to around 5.8% y/y in January's outcome for this year, it should drop to near 5.3% y/y in February, and 4.7% y/y in March, as an overall downwards trend is maintained, allowing for interest rates cuts this year.

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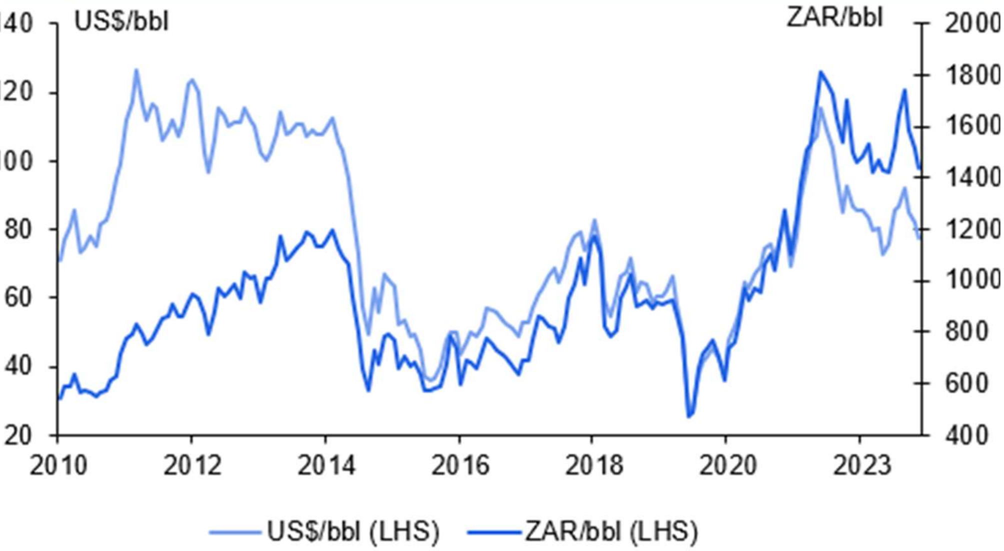
Oil price: Rand vs USD

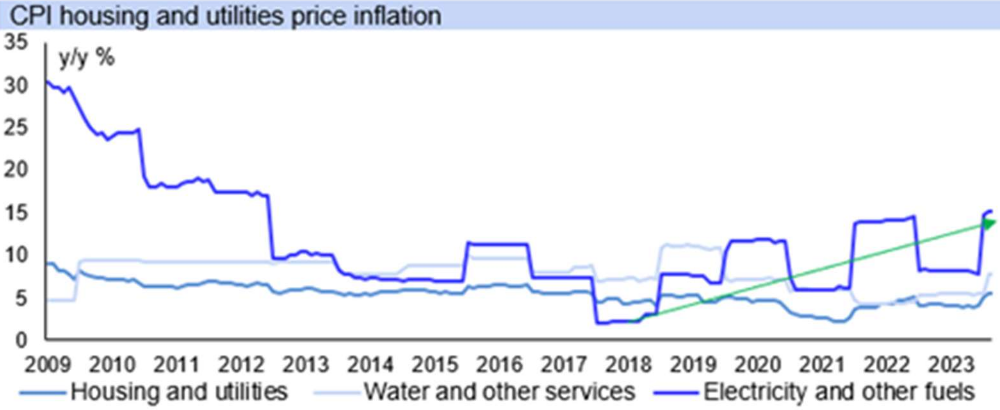


Source: Iress

SA CPI all goods vs services price inflation

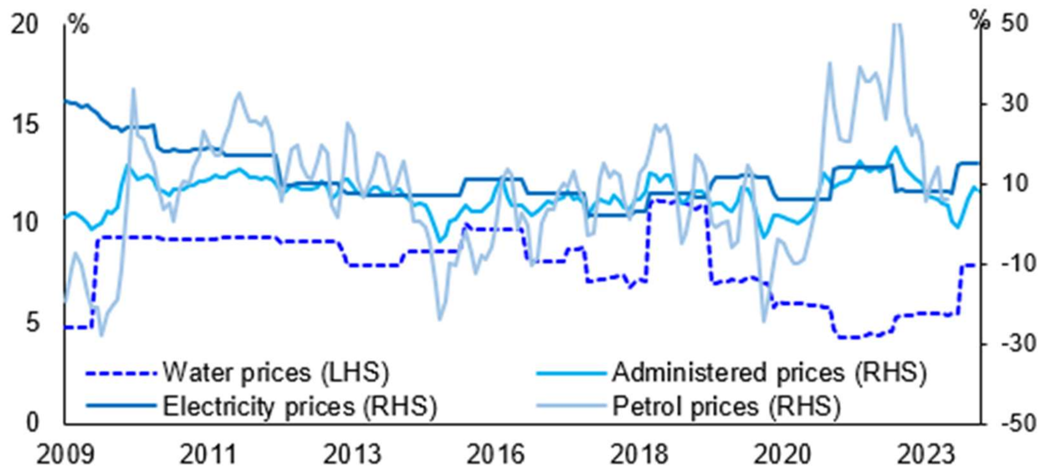
Source: Stats SA

CPI housing and utilities price inflation



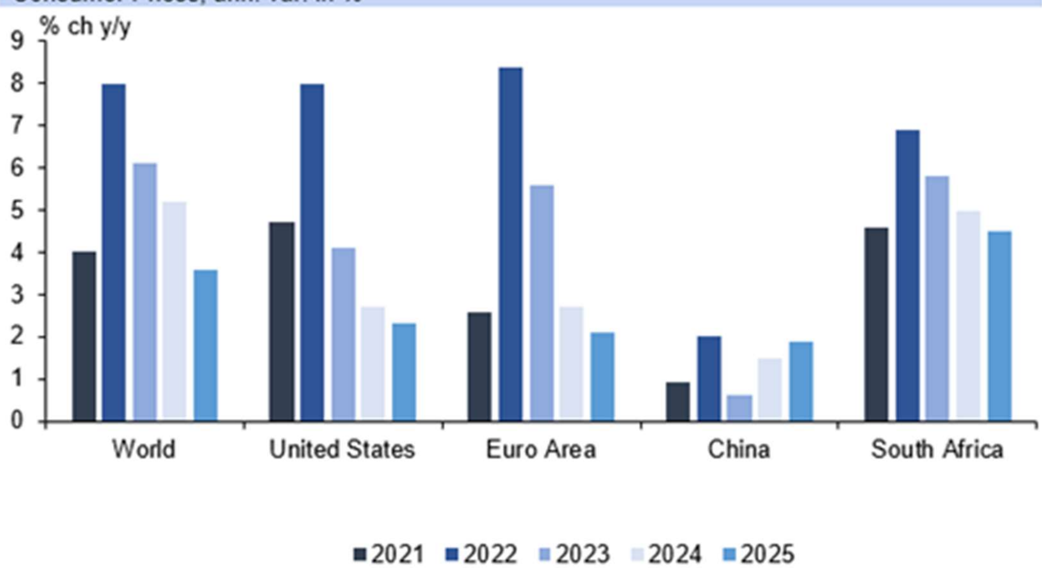
Source: Stats SA

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



Source: Stats SA

Consumer Prices, ann. var. in %



Source: Focus Economics January 2024

- The petrol price fell this week, by 76c/litre and diesel by R1.18/litre (after falling by -64c/litre and R1.35/litre respectively in December), with further modest fuel cuts building for February, which will detract from inflationary pressures in those months.
- A substantially stronger rand would aid in greater petrol price cuts, as well as exerting some downwards pressure on food price inflation, along with other commodity price inflation rates.
- The rand has been weakened by the higher US interest rate environment since 2022, as well as severe risk-off since 2020, and indeed the sharp elevation of government borrowing, which has added to risk-off materially.

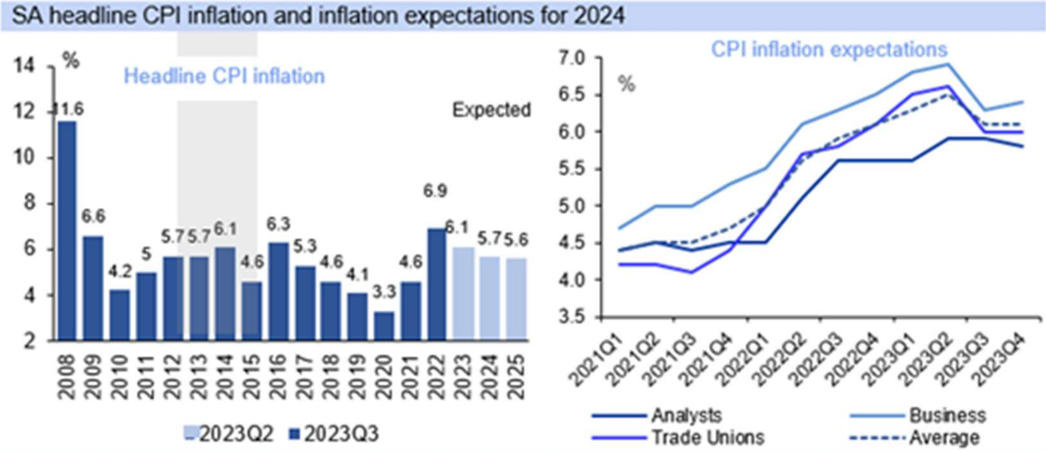
- With the Budget taking place next month, typically around the 21st , an update on government expenditure and revenue collection will be given, along with debt projections, but already the budget deficit has widened notably over 2023.
- While main budget figures, and not consolidated, the deficit to date for 2023/24 is already over -R300bn, at -R312, while the revised deficit for the full fiscal year is projected at -R347bn. This has widened substantially from -R247bn in 2022/23.
- Gross loan debt is projected at 74.7% of GDP for 2023/24, well up from 70.9% of GDP in 2022/2023, and the 72.2% of GDP originally projected for GDP in 2023/24. This lift in projected borrowings has caused market concern and weakened yields.
- SA has not benefited substantially from the prospect of US interest rate cuts compared to other emerging market (EM) economies, the rand is the fourth worst performing EM currency year on year after Russia, Argentina and Turkey's currencies (Bloomberg).
- The deterioration of SA's fiscal health provided some disincentive to foreign investment into SA government debt, which usually strengthens markedly on expectations of US rate cuts. A weaker rand remains a key risk to SA's inflation this year.
- While an El Nino year would typically push up food price inflation, this risk has been muted to date by the high soil moisture content from the previous La Nino weather pattern, but adverse weather conditions remain a risk for inflation in 2024.

Inflation expectations survey Q3.23 and Q4.23

Survey conducted during	2023Q3 Analysts	2023Q3 Business people	2023Q3 Trade union officials	2023Q3 Average	2023Q4 Analysts	2023Q4 Business people	2023Q4 Trade union officials	2023Q4 Average
Headline CPI inflation during the year								
2023	5.9	6.3	6.0	6.1	5.8	6.4	6.0	6.1
2024	5.0	6.0	5.6	5.5	5.1	6.2	5.9	5.7
2025	4.8	5.7	5.5	5.3	4.7	6.0	6.0	5.6

Source: BER

SA headline CPI inflation and inflation expectations for 2024



Source: BER

Dates when surveys were conducted							
	Analysts, businesses and trade unions			Households			
	Mail questionnaire	Date of return	Process results		Fieldwork		Process results
2023Q3	20-Nov	07-Dec	08 Dec	13- Nov	-	24 Nov	28 Nov
							Source BER

Note: in 2023Q4, 16 analysts, 137 businesspeople, 12 trade unions and 500 households participated

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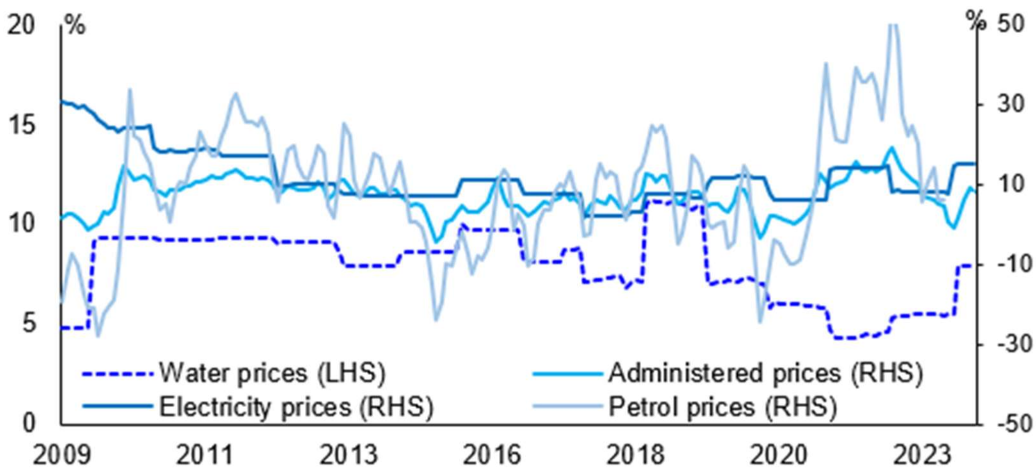

Source: Stats SA