

# SA Economics



Inflation rate note: CPI inflation likely to rise to, and remain around 5.0% y/y, in remainder of 2023

Tuesday 5 September 2023

SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.8	4.6	4.2	4.6	4.7
(year-end: %)	7.2	5.1	3.9	4.4	4.7	4.5
Producer Inflation (Av: %)	14.4	6.9	5.0	5.1	5.1	5.0
(year-end: %)	13.5	4.4	4.9	4.8	5.3	4.9
Salary & wage increases (%)	4.0	3.2	4.0	4.0	4.1	4.7

Source: Investec, SARB, Stats SA

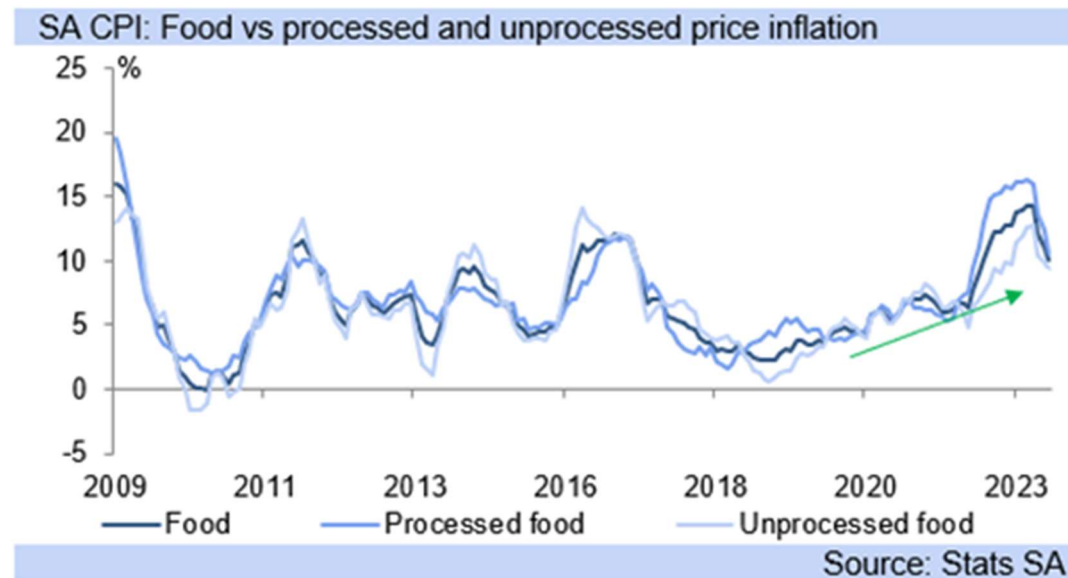
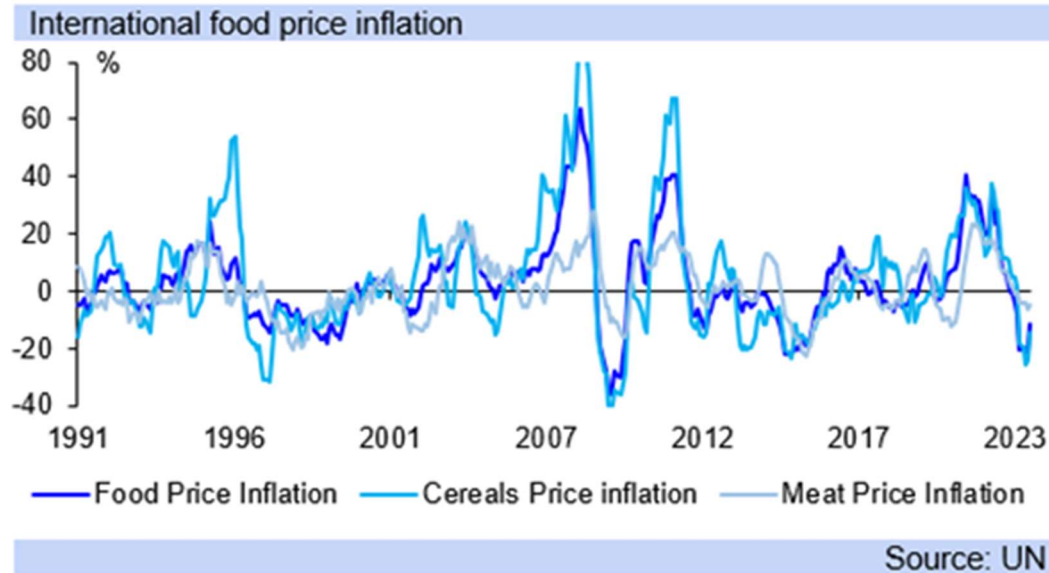
### SA Consumer Inflation: history and forecasts



## CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar Year y/y	
Jan 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	111.2	4.9	0.4			
Sep 2023	111.7	5.3	0.5	5.0		
Oct 2023	112.1	5.3	0.4			
Nov 2023	112.5	5.3	0.3			
Dec 2023	112.7	5.1	0.2	5.2	2023	5.8
Jan 2024	113.1	5.6	0.4			
Feb 2024	113.5	5.2	0.3			
Mar 2024	114.2	4.7	0.6	5.2		
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	115.9	4.6	0.7			
Aug 2024	116.1	4.4	0.2			
Sep 2024	116.5	4.3	0.3	4.4		
Oct 2024	116.7	4.1	0.2			
Nov 2024	117.1	4.1	0.3			
Dec 2024	117.1	3.9	0.1	4.0	2024	4.6
Jan 2025	117.9	4.2	0.7			
Feb 2025	118.4	4.3	0.4			
Mar 2025	119.0	4.2	0.5	4.3		
Apr 2025	119.2	4.1	0.2			
May 2025	119.4	3.9	0.1			
Jun 2025	119.6	3.9	0.2	4.0		
Jul 2025	120.9	4.3	1.1			
Aug 2025	121.3	4.4	0.3			
Sep 2025	121.6	4.4	0.3	4.4		
Oct 2025	121.8	4.3	0.1			
Nov 2025	122.0	4.2	0.2			
Dec 2025	122.2	4.4	0.2	4.3	2025	4.2
Jan 2026	123.0	4.3	0.6			
Feb 2026	123.5	4.3	0.4			
Mar 2026	124.1	4.3	0.5	4.3		

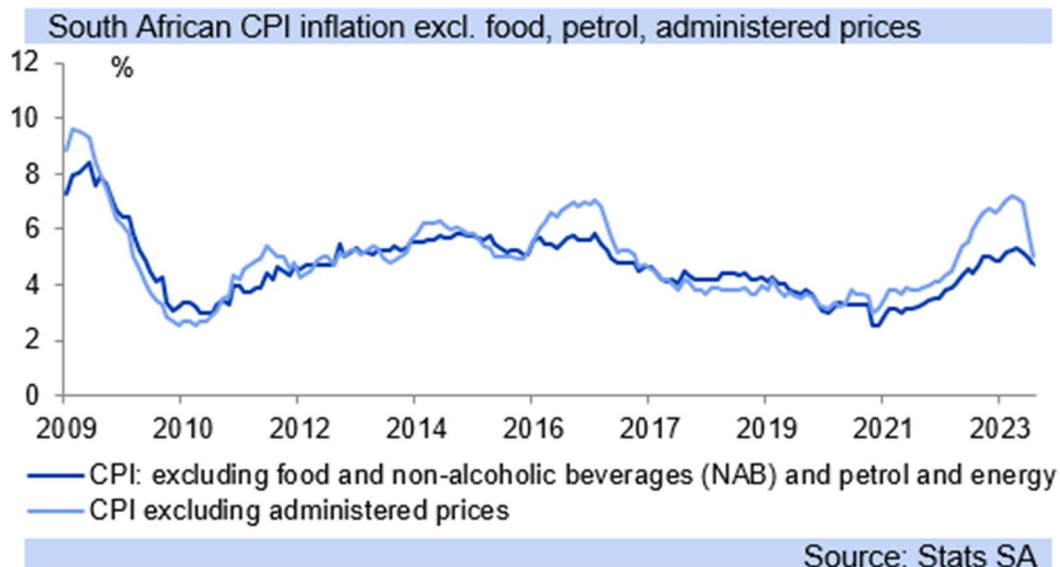
Source: Stats SA, Investec



- CPI inflation has likely reached its low point for 2023, coming in at 4.7% y/y in July, as it benefited from statistical base effects in its descent over most of this year (the first half of 2022 to July saw inflation rise sharply in SA).
- The next few months (August to February 2024) will likely see inflation rise to, and then remain above, 5.0% y/y, before moving back towards 4.5% y/y for the remainder of 2024, potentially undershooting towards 4.0% y/y at the end.
- Fuel prices saw modest changes in August, with the petrol price rising by only 37c/litre last month, but tomorrow it is set to rise by R1.71/litre while diesel prices rise by around R2.80/litre, which will place some upwards pressure on the CPI.

- However, petrol prices account for 3.5% of the CPI basket, while diesel prices only make up 1.4%. The lower weighting of the diesel sub component will have some moderating effect, but still place upwards pressure on the September CPI outcome.
- Otherwise, August sees medical costs surveyed for private sector hospitals, and municipal rates and taxes. The largest individual component of the CPI basket, which is made up of food prices, will likely have only a small impact in August.
- That is, although US dollar based international agricultural commodity food prices would have contributed some downwards price pressure on the month, the rand weakened by about 3.3% m/m against the dollar, eradicating the impact.
- The publication of the August figure (in September) is likely to see South Africa's CPI inflation rate climbing towards 5.0% y/y - mainly as a consequence of statistical base effects as CPI inflation began to fall in general from August last year.
- While CPI inflation is expected to average around 4.5% y/y in 2024 – we currently have 4.6% y/y, risks remain from food price inflation in a El Nino (below average rainfall) year, along with the costs of load shedding.
- This year, CPI inflation is expected to come out just below 6.0% y/y, potentially at 5.8% y/y, while further out in the period to 2025 and 2026, inflation is expected closer to the mid-point of 4.5% y/y, but with pressure to move to 5.0% y/y.

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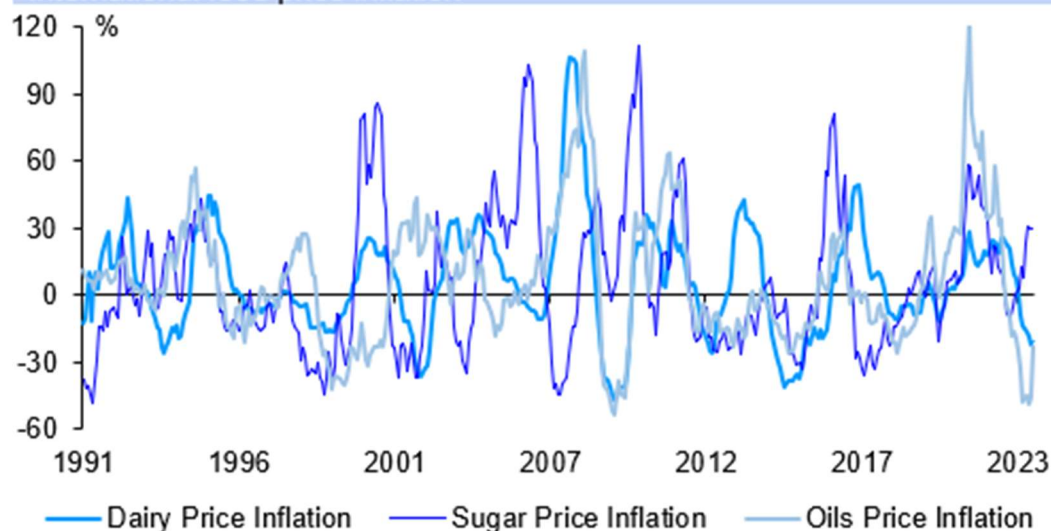


### International food prices

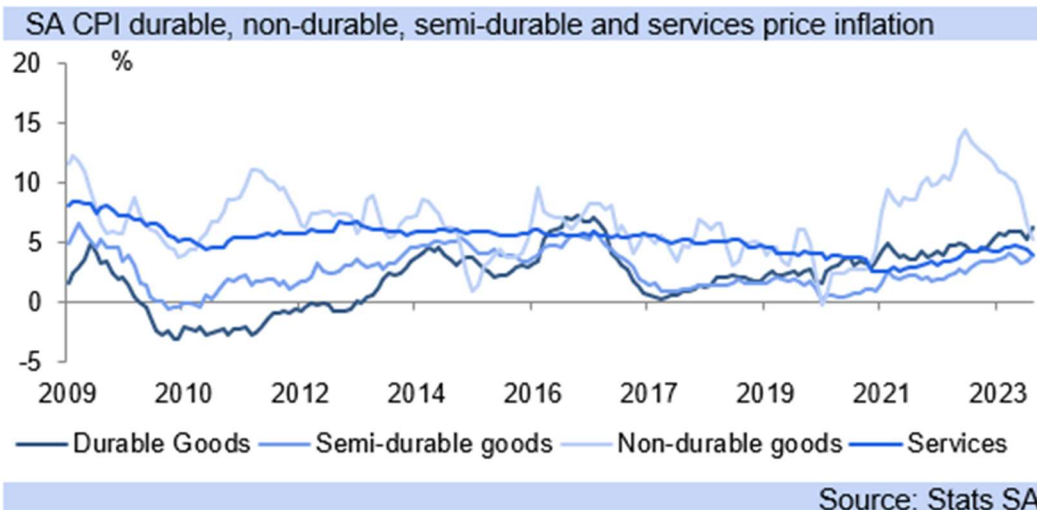
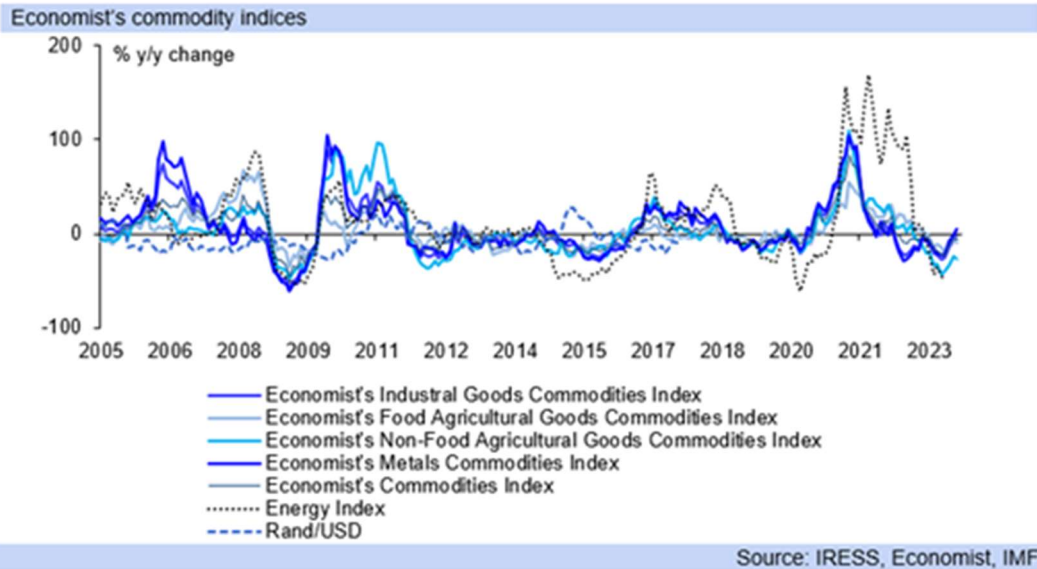


Source: Iress

### International food price inflation



Source: UN

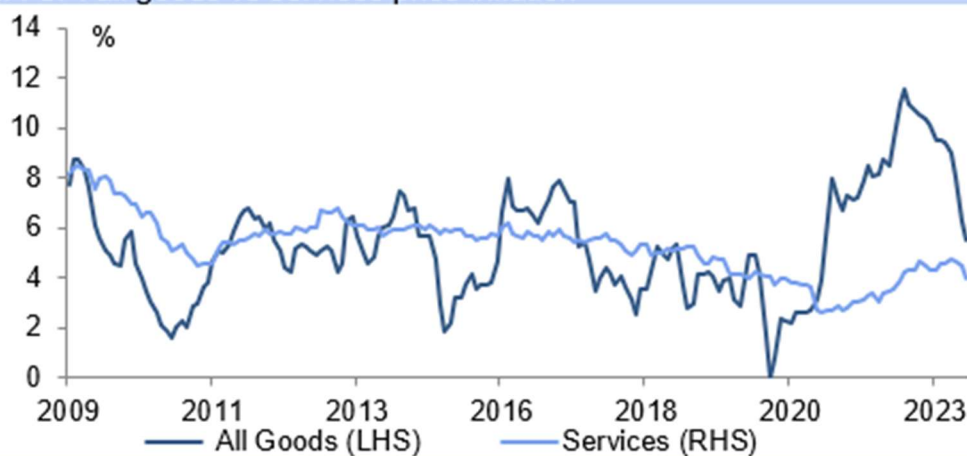


- Core CPI inflation in South Africa rose to 5.3% y/y in April this year, before dropping off to 4.7% y/y by July. The 5.3% y/y marks the peak in the current cycle and will provide some suppressing base effects for the remainder of this year and Q1.24.
- That is, the general rise in core inflation previously provided a high base, which this year's core inflation rate will be calculated off going forward, and out to April 2024. This will aid its downwards descent (or disinflation).
- Core inflation excludes food, non-alcoholic beverages and fuel costs, and the effects of the EL Nino are not expected to directly impact this measure of inflation (with inflation the rate of price changes year on year).



- In the US, the Fed's preferred measure of inflation rose in July, coming out at 3.3% y/y for the PCE (Personal Consumption Expenditure) deflator from 3.0% y/y in June, and to 4.2% y/y from 4.1% y/y for the core measure.
- This aided rand weakness against the US dollar, with the rand reaching R19.15/USD yesterday, and R19.27/USD today, from R18.13/USD at the start of last week on some worries of a US interest rate hike.
- Also concerning was the lower than expected US unemployment rate, at 3.5% versus the consensus of 3.8%, as the US labour market remained strong, while US non-farm payrolls rose to 187k from 157k.
- However, overall the Fed funds implied futures have not factored in an additional US rate hike, despite market expectations for a 170k US non-farm payroll figure, with the 187k outturn higher. However, overall the Fed funds implied futures have not factored in an additional US rate hike, despite market expectations for a 170k US non-farm payroll figure, with the 187k outturn higher.
- For South Africa, there is no interest rate hike factored in for the remainder of the year either, and indeed from March next year the markets Forward rates start to factor in a cut meaningfully.
- We continue to believe the interest rate hike cycle in SA has ended, and that next year will see some interest rate cuts. The risk to inflation both this year and next year is however likely to be to the upside in South Africa.

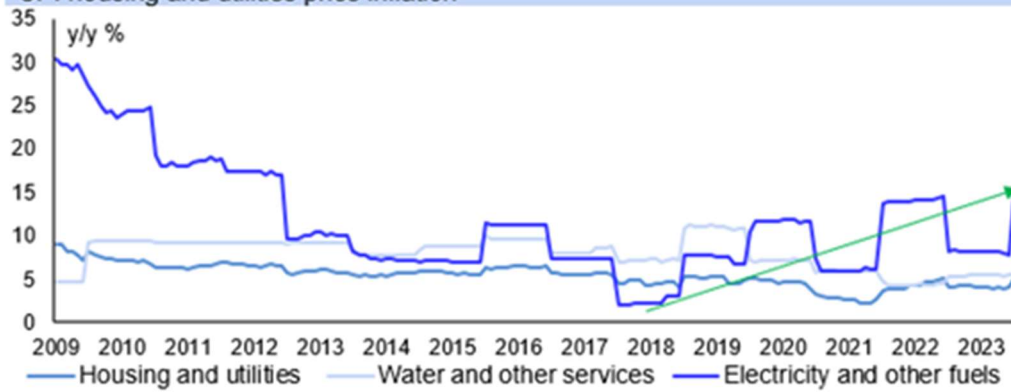
SA CPI all goods vs services price inflation



Source: Stats SA

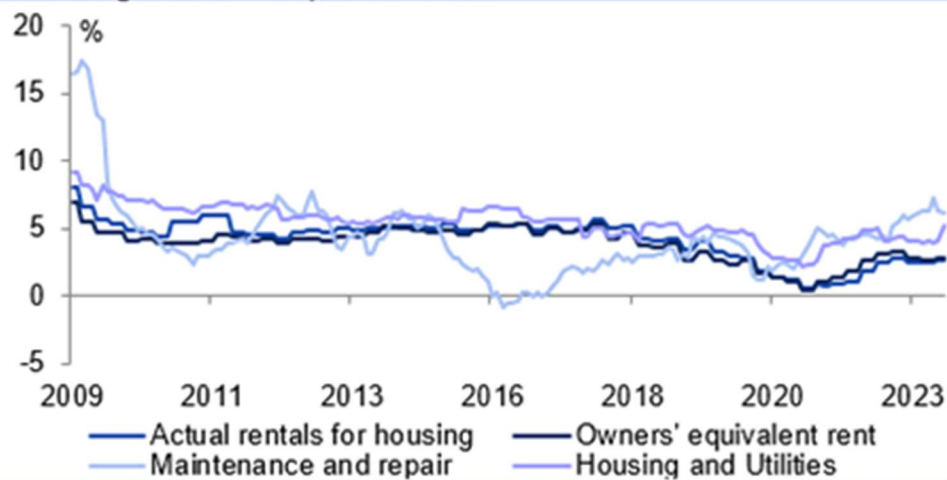


### CPI housing and utilities price inflation



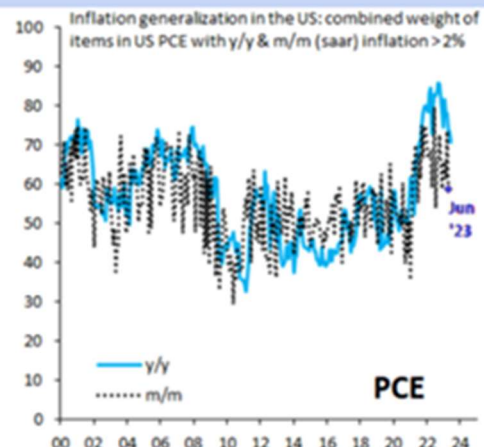
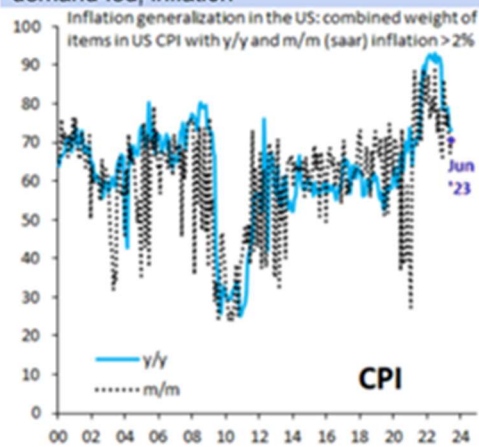
Source: Stats SA

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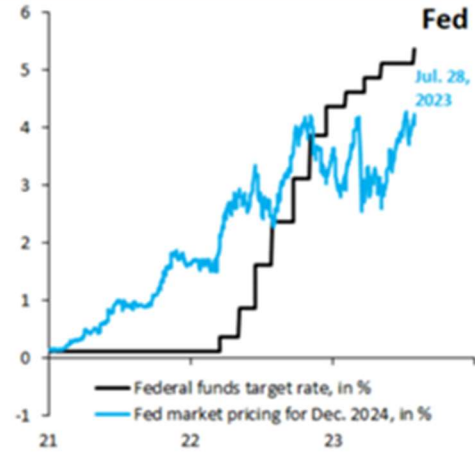
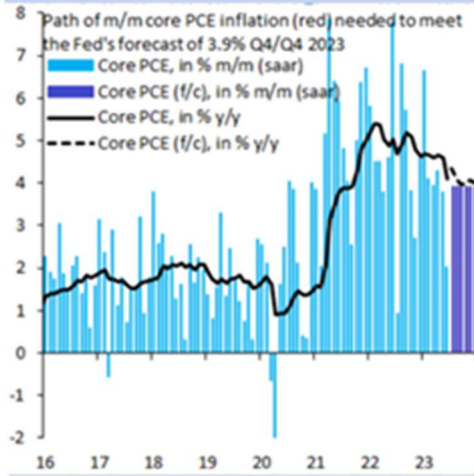
Source: Stats SA

### US inflation generalization is back down to normal levels, ...consistent with supply-led, not demand-led, inflation



Source: IIF

The Fed has yet to recognise this benign inflation picture. This opens the door to earlier and faster rate cuts.



Source: IIF