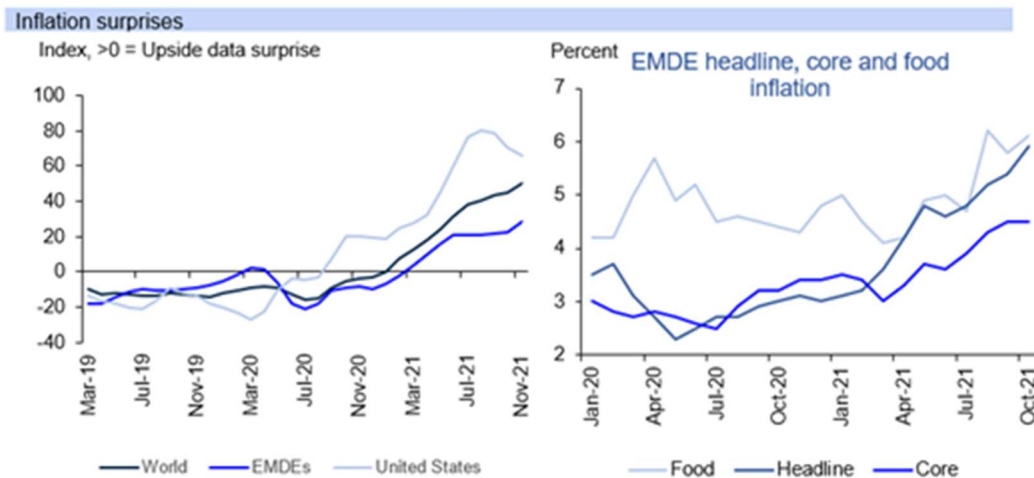


SA Economics



Tuesday 1 February 2022

Inflation rate note: the update of South Africa's CPI inflation components does not see substantial changes, but price pressures are building in the economy

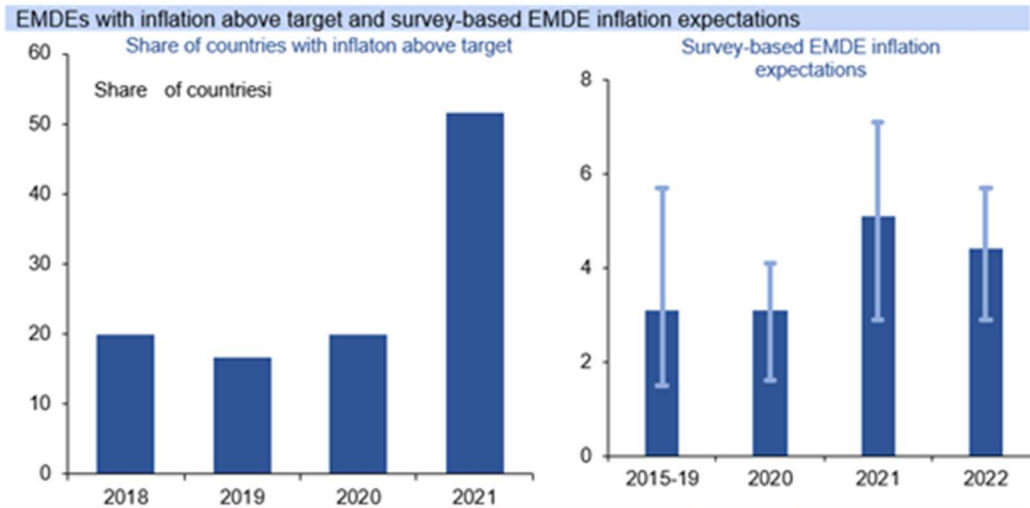


Source: World Bank, Global Economic Prospects January 2022

Note: LH chart, shows the 3-month moving average of the Citigroup Economic Surprise Index. Index measures price surprises relative to market expectations. A positive (negative) index reading means inflation was higher (lower) than expected. Last observation is November 2021.

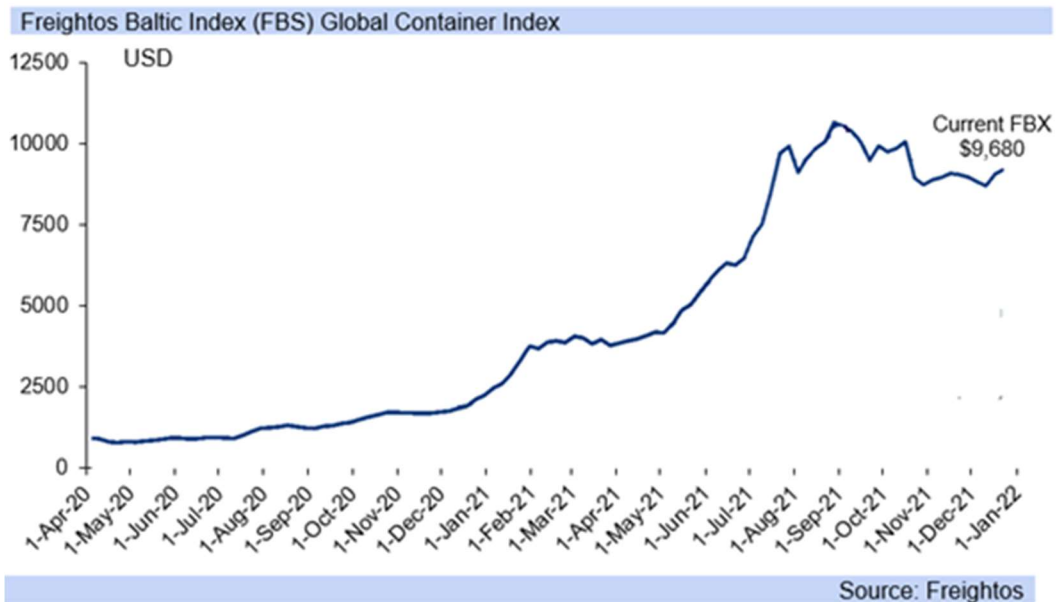
RH chart shows median year-on-year food, headline and core consumer price index (CPI) inflation for 50 EMDEs.

SA Economics

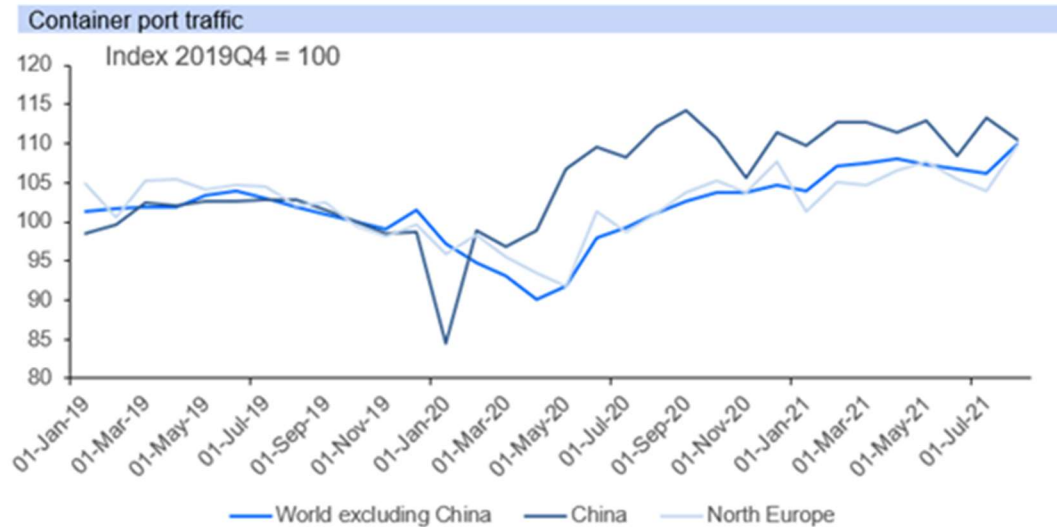


Source: World Bank, Global Economic Prospects January 2022

Note: EMDEs = emerging market and developing economies. Figure shows share of inflation-targeting EMDEs that experienced inflation above the target range for each year. 2021 inflation is based on average of January-October 2021.



SA Economics



Source: OECD Economic Outlook 2021

Major economies and Sub-Saharan Africa					
Consumer Prices, annual variation in %	2018	2019	2020	2021	2022
World	2.9	2.5	4.1	3.9	2.9
United States	1.8	1.2	4.7	4.2	2.3
Euro Area	1.2	0.3	2.6	2.5	1.5
China	2.9	2.5	0.9	2.2	2.2
Japan	0.5	0.0	-0.2	0.7	0.66
Sub-Saharan Africa	10.9	166.0	12.6	10.3	8.3
Angola	17.3	21.88	28.8	19.2	13.2
Botswana	2.8	1.9	6.7	5.4	4.4
Cameroon	2.5	2.4	2.3	2.3	2.2
Cote d'Ivoire	0.8	2.4	4.2	1.9	1.9
DR Congo	4.5	15.0	9.8	6.6	6.2
Ethiopia	15.8	20.3	27.2	25.5	16.4
Ghana	8.7	9.9	10.0	9.9	8.7
Kenya	5.1	5.4	6.2	6.1	5.5
Mozambique	2.8	3.1	5.7	6.5	6.4
Nigeria	11.4	13.3	17.0	13.8	12.1
South Africa	4.1	3.3	4.6	4.8	4.5
Tanzania	3.4	3.3	3.7	4.6	4.7
Uganda	2.1	2.8	2.2	4.1	4.7
Zambia	9.2	15.77	22.0	12.0	9.1

Source: Focus Economics

- South Africa sees the normal five-year review to its inflation survey take effect from the publication of the January CPI inflation figures later this month (on the 16th), but unlike the previous update in 2017, it is not expected to have a substantial effect.

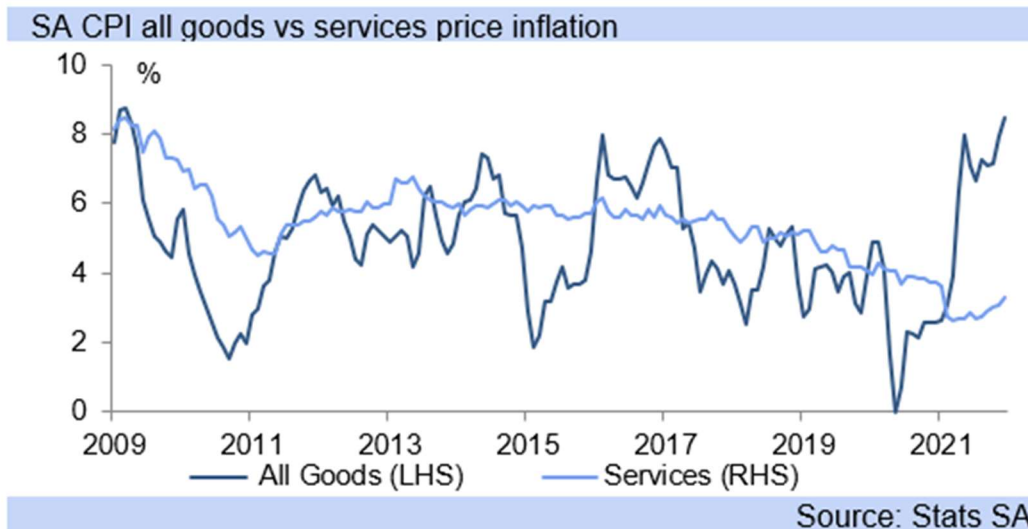
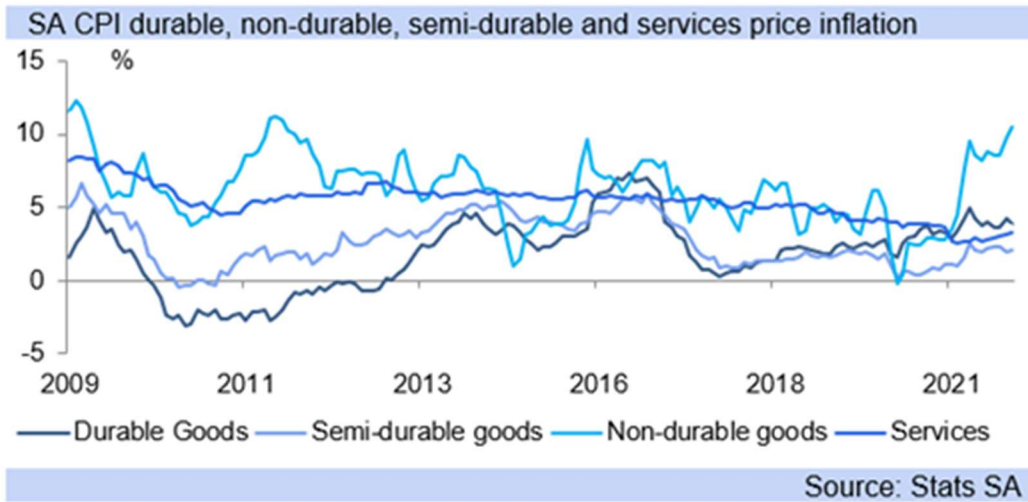
SA Economics



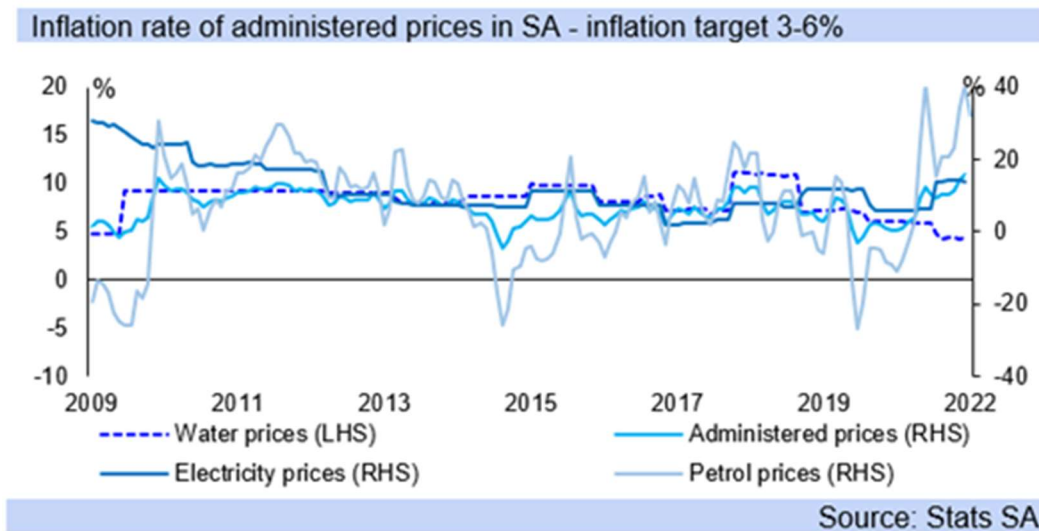
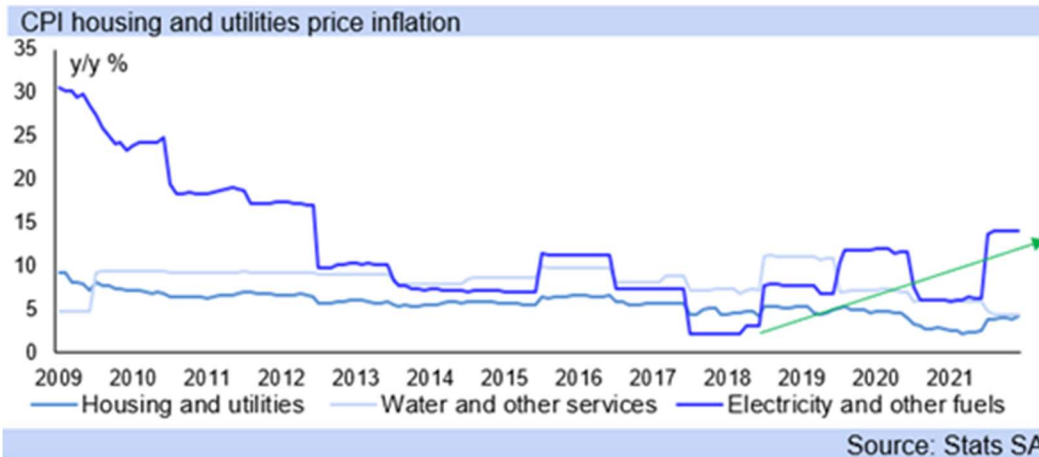
- Inflation pressures in SA have been on an upwards trend on the consumer side, pushed up by some of the same pressures experienced globally, particularly higher fuel and food prices, with domestic food prices influenced by prevailing global food costs.
- However SA's CPI inflation has not accelerated to the extent of that of the US (latest print 5.9% y/y versus US 7.0% y/y), with the US seeing a high degree of fiscal stimulus which substantially increased consumer spending power, and so demand led inflation pressures.
- On the producer side, SA saw PPI inflation climb to 10.8% y/y in December 2021, up substantially from 3.0% y/y in December 2020, driven by high commodity prices, base effects in some subsectors and high transport and equipment costs driving up supply cost pressure.
- Globally producer price inflation is generally running at high rates too, reflective of the strong supply side price pressures as global supply chain costs remain elevated, despite recently plateauing at high levels, but unlikely to collapse in the next few months.
- PPI inflation in South Africa of 10.8% y/y in December, is not dissimilar to China's PPI inflation reading of 10.3% y/y, with domestic inflation impacted by high and rising import costs, not least of all shipping costs.
- Low production costs in China helped moderate inflation globally in the 2000s, and keep it anchored in the 2010's decade, but its rapidly rising producer prices are raising concerns about already high global consumer inflation rates, and how long they will persist.
- Rapid increases in chemicals, rubber and plastic products prices (34.7% higher y/y), along with metals prices (up 23.6% y/y for base and fabricated metals and 40.9% y/y for basic iron and steel) have pushed up PPI inflation in SA, stemming from high commodity prices globally.
- Globally inflation is still at a heady pace, and risks seeing a stretched decline through this year as opposed to the quick collapse that was hoped for, but high inflation is not likely to be permanent either, just not as transitory as markets and policy makers initially believed.

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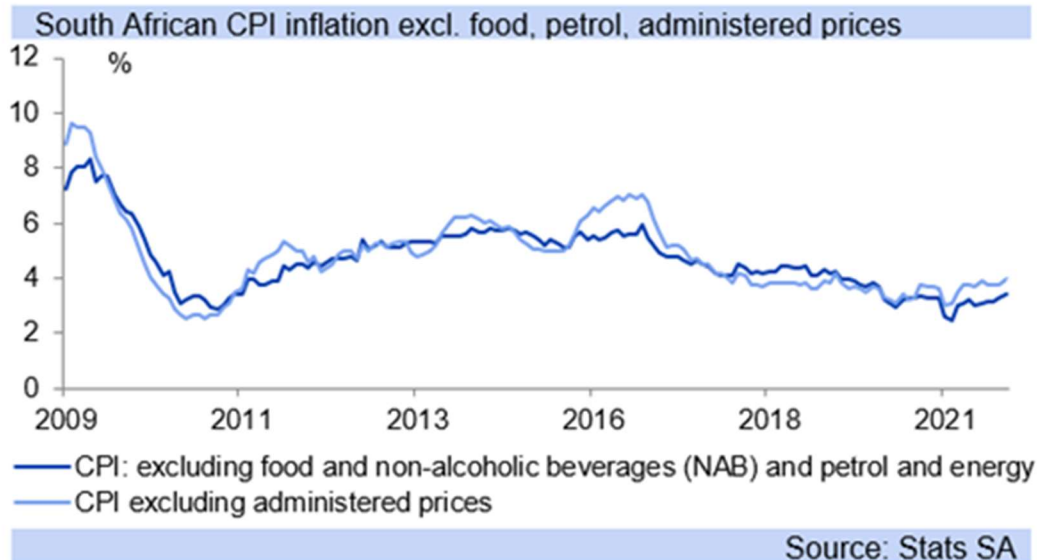
SA Economics



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SA Economics



- China saw a modest easing in its PPI inflation, from 12.9% in November, as China had some success with inflation cooling measures, which are expected to persist this year, but not intentionally to the extent that substantially weakens economic growth.
- That is, the EM giant will not likely see sufficient measures to drive subdued global inflation of below 2.0% y/y for 2022, with forecasts instead hovering around 4.0% y/y for the globe in its annual CPI change against last year, and 2023 at 2.9% y/y.
- Next year is widely anticipated to see US CPI inflation drop back to 2.3% y/y from 4.2% y/y expected for this year, and the euro area down to 1.5% y/y in 2023, from 2.5% in 2022, while China sees economic growth of 5.1% y/y in 2022 and 5.2% y/y in 2023.
- China's CPI inflation rate is expected to lift to 2.2% y/y this year, from 0.9% y/y in 2021, and remain at 2.2% y/y in 2023, while PPI inflation comes out higher. For South Africa, PPI inflation is currently expected at close to 8.0% y/y this year after 2021's 7.1% y/y.
- South Africa has also seen high meat price inflation, and animal products generally drive-up food price inflation, with live agricultural animals' prices 18% higher y/y in December, and meat prices up 9.6% y/y, both in the PPI.
- This will place upwards pressure on meat prices in the CPI print in January, while globally food prices lifted slightly in January m/m, by 1.2%, after December's more significant 6.4% m/m lift. Elevated commodity prices, including food continue to boost SA's trade exports.
- Commodities' prices rose 5% m/m in January and metals by 9.4% m/m (Economist indices), aiding the rand on SA's strong monthly trade surpluses trend (see rand note 17th January – email address below), with the strength creeping into February.

SA Economics



- Eskom has applied for a 20.5% price increase this year (effective 1st April), with the SOE using diesel fuel gas turbines to supplement power during load shedding, which was material last year. Eskom reports high risk of loadshedding in 2022 on maintenance.
- South Africa is still expected to see CPI inflation average over 5.0% y/y this year, with some small demand side pressures emerging in the latest CPI print (December), but the majority of price increases driven by the supply side.

SA Economics



CPI food and non-alcoholic beverages weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Food and non-alcoholic beverages	17,24	17,14	-0,10
Bread and cereals	3,21	3,16	-0,05
Meat	5,46	5,42	-0,04
Fish	0,40	0,40	0,0
Milk, cheese and eggs	2,57	2,53	-0,04
Oils and fats	0,45	0,45	0,0
Fruit	0,34	0,33	-0,01
Vegetables	1,30	1,27	-0,03
Sugar, sweets and desserts	0,56	0,58	0,02
Other food	1,19	1,16	-0,03

Source: Stats SA

CPI non-alcoholic beverages and tobacco weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Non-alcoholic beverages	1,76	1,84	0,08
Hot beverages	0,65	0,67	0,02
Cold beverages	1,11	1,17	0,06
Alcoholic beverages and tobacco	5,82	6,26	0,44
Alcoholic beverages	3,89	4,29	0,4
Tobacco	1,93	1,97	0,04

Source: Stats SA

CPI Clothing and footwear weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Clothing and footwear	3,83	3,65	0,18
Clothing	2,71	2,64	-0,07
Footwear	1,12	1,01	-0,11

Source: Stats SA

CPI Housing and utilities weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Housing and utilities	24,62	24,29	-0,33
Actual rentals for housing	3,52	3,50	-0,02
Owners' equivalent rent	13,32	12,99	-0,33
Maintenance and repair	0,82	0,84	0,02
Water and other services	3,16	3,46	0,3
Electricity and other fuels	3,80	3,70	-0,1

Source: Stats SA

SA Economics



CPI Household contents and services weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Household contents and services	4,35	4,37	0,02
Furnishings, floor coverings and textiles	0,81	0,82	0,01
Appliances, tableware and equipment	0,73	0,80	0,07
Supplies and services	2,81	2,88	0,07
Domestic workers' wages	2,45	2,53	0,08

Source: Stats SA

CPI Health weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Health	1,40	1,44	0,04
Medical products	0,53	0,57	0,04
Medical services	0,87	0,74	-0,13

Source: Stats SA

CPI Transport weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Transport	14,28	14,35	0,07
Purchase of vehicles	6,12	5,91	-0,21
Private transport operation	5,86	6,01	0,15
Fuel	4,58	4,82	0,24
Other running costs	1,28	1,19	-0,09
Public transport	2,30	2,43	0,13

Source: Stats SA

CPI Communication weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Communication	2,63	2,42	-0,21
Postal services and telecommunication services	2,43	2,23	-0,2
Telecommunication equipment	0,20	0,19	-0,01

Source: Stats SA

CPI Recreation and culture weights 2016* and 2019

Category	2016	2019	Difference 2016 v 2019
Recreation and culture	5,16	5,20	0,04
Recreational equipment	1,25	0,60	-0,65
Recreational and cultural services	3,10	3,14	0,04
Books, newspapers and stationary	0,64	0,61	-0,03
Package holidays	0,17	0,17	0,0

Source: Stats SA

SA Economics



CPI Education weights 2016* and 2019			
Category	2016	2019	Difference 2016 v 2019
Education	2,53	2,62	0,09
Primary and secondary	1,54	1,57	0,03
Tertiary	0,99	1,05	0,06

Source: Stats SA

CPI Restaurants and hotels weights 2016* and 2019			
Category	2016	2019	Difference 2016 v 2019
Restaurants and hotels	2,09	3,25	1,16
Restaurants	1,98	2,20	0,22
Hotels	1,11	1,05	-0,06

Source: Stats SA

CPI Miscellaneous goods and services weights 2016* and 2019			
Category	2016	2019	Difference 2016 v 2019
Miscellaneous goods and services	15,05	14,81	-0,24
Personal care	2,12	1,72	-0,4
Insurance	10,06	9,89	-0,17
Financial services	1,53	1,53	0,0
Other goods and services	1,34	1,29	-0,05

Source: Stats SA

SA inflation forecasts	2020	2021	2022	2023	2024	2025	2026
Consumer Inflation (Av: %)	3.3	4.5	5.6	4.8	4.8	4.9	5.2
(year-end: %)	3.1	5.9	5.0	4.8	4.4	5.0	5.4
Producer Inflation (Av: %)	2.5	7.1	7.9	4.8	4.8	5.1	5.1
(year-end: %)	3.0	10.8	4.7	4.6	4.9	4.8	5.3
Salary & wage increases	0.8	5.9	4.6	5.5	6.2	6.7	7.1

Source: Investec, SARB, Stats SA

SA Economics



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		2020	3.3
Feb 2020	115.2	4.6	1.0			
Mar 2020	115.6	4.1	0.3	4.4		
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		
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		
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		
Jan 2021	117.7	3.2	0.3		2021	4.5
Feb 2021	118.5	2.9	0.7			
Mar 2021	119.3	3.2	0.7	3.1		
Apr 2021	120.1	4.4	0.7			
May 2021	120.2	5.2	0.1			
Jun 2021	120.5	4.9	0.2	4.8		
Jul 2021	121.8	4.6	1.1			
Aug 2021	122.3	4.9	0.4			
Sep 2021	122.6	5.0	0.2	4.8		
Oct 2021	122.9	5.0	0.2			
Nov 2021	123.5	5.5	0.5			
Dec 2021	124.2	5.9	0.6	5.4		
Jan 2022	124.6	5.9	0.3		2022	5.6
Feb 2022	125.4	5.8	0.6			
Mar 2022	126.0	5.6	0.5	5.8		
Apr 2022	126.5	5.3	0.4			
May 2022	126.9	5.6	0.3			
Jun 2022	127.3	5.6	0.3	5.5		
Jul 2022	128.9	5.8	1.3			
Aug 2022	129.4	5.8	0.4			
Sep 2022	129.7	5.8	0.2	5.8		
Oct 2022	130.1	5.8	0.3			
Nov 2022	130.3	5.5	0.2			
Dec 2022	130.5	5.0	0.1	5.5		
Jan 2023	131.1	5.2	0.5		2023	4.8
Feb 2023	131.6	5.0	0.4			
Mar 2023	132.4	5.1	0.6	5.1		
Apr 2023	133.0	5.1	0.4			
May 2023	133.2	5.0	0.2			
Jun 2023	133.5	4.9	0.2	5.0		
Jul 2023	134.8	4.6	1.0			
Aug 2023	135.1	4.4	0.2			
Sep 2023	135.5	4.5	0.3	4.5		
Oct 2023	136.1	4.6	0.4			
Nov 2023	136.5	4.7	0.3			
Dec 2023	136.7	4.8	0.2	4.7		
Jan 2024	137.4	4.8	0.5		2024	4.8
Feb 2024	137.8	4.7	0.3			
Mar 2024	138.8	4.8	0.7	4.8		
Apr 2024	139.5	4.9	0.5			
May 2024	139.9	5.0	0.3			
Jun 2024	140.2	5.0	0.2	5.0		
Jul 2024	141.3	4.8	0.8			
Aug 2024	141.6	4.8	0.2			
Sep 2024	142.0	4.8	0.3	4.8		
Oct 2024	142.3	4.6	0.2			
Nov 2024	142.7	4.6	0.3			
Dec 2024	142.8	4.4	0.1	4.5		
Jan 2025	143.7	4.5	0.6		2025	
Feb 2025	145.1	5.3	1.0			
Mar 2025	146.4	5.5	0.9	5.1		

Source: Stats SA, Investec

SA Economics

