

SA Economics



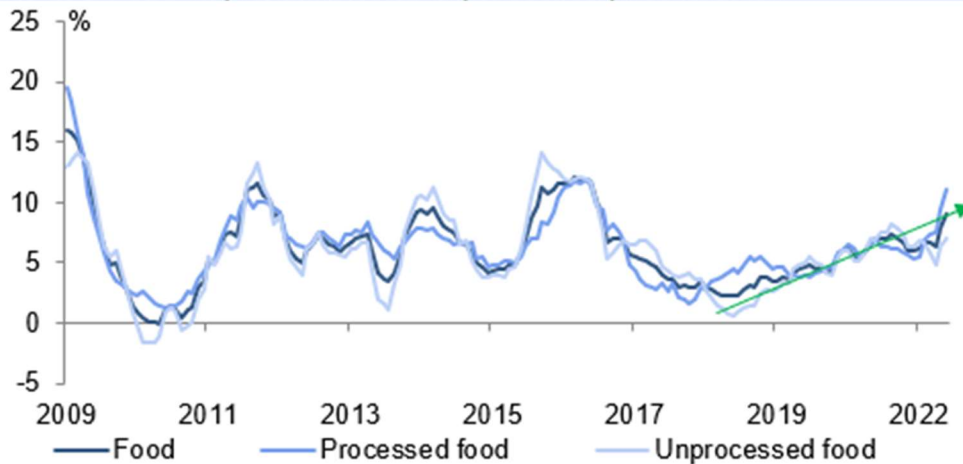
Tuesday 2 August 2022

Inflation rate note: inflation price pressures continue to become more broad based, but there is also evidence that Q4.22 will see slowing inflation

SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.6	4.7	5.0	5.0	5.0
(year-end: %)	7.1	4.8	4.3	5.0	5.0	5.1
Producer Inflation (Av: %)	15.2	9.4	4.8	5.1	5.1	5.0
(year-end: %)	16.0	5.2	4.9	4.8	5.3	4.9
Salary & wage increases (%)	7.0	5.6	6.3	6.7	6.8	7.1

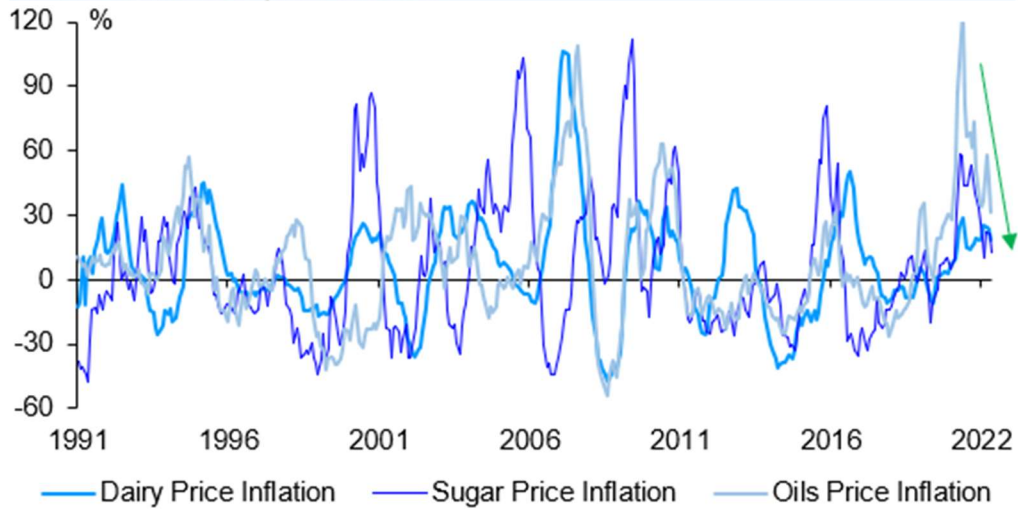
Source: Investec, SARB, Stats SA

SA CPI: Food vs processed and unprocessed price inflation



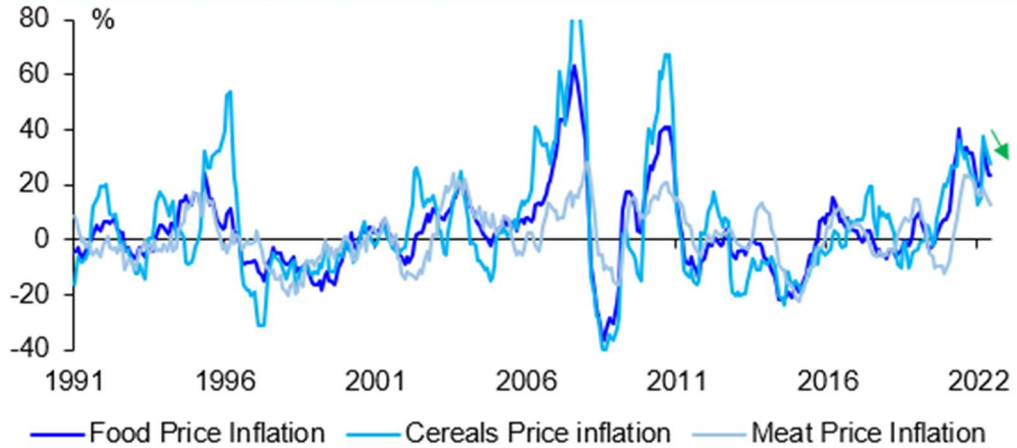
Source: Stats SA

International food price inflation

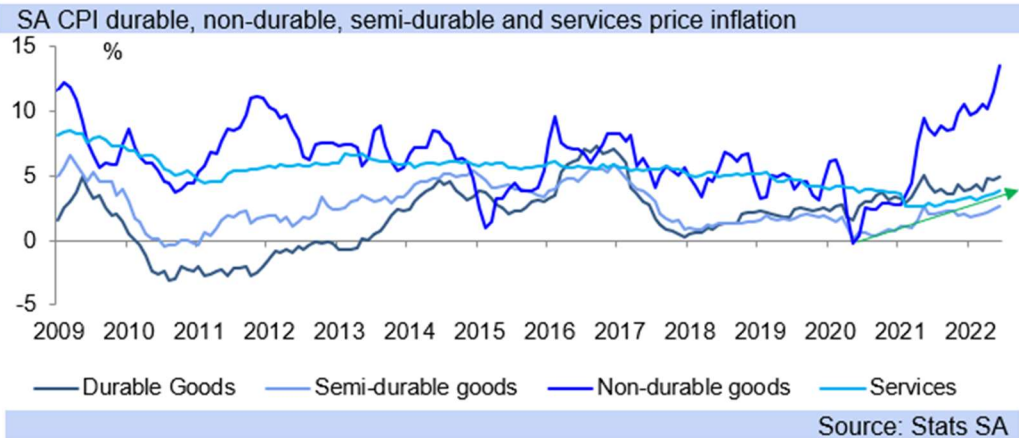


Source: UN

International food price inflation



Source: UN



- Consumer price inflation has risen rapidly in Q2.22 for South Africa, from 5.9% y/y to 7.4% y/y, still below June's US CPI inflation of 9.1% y/y, but July's figures are expected to see a halt in the severe rising pressure on inflation rates for both areas.
- July's CPI inflation rates are still likely to be high, with the US near 9.0% y/y, and SA close to 7.5% y/y, but not accelerating in the big jumps experienced in Q2.22 for SA, and indeed subsiding somewhat in the US in July, to a market consensus of 8.8% y/y.
- The US looks at the PCE deflator readings in particular for its monetary policy decisions, preferring the core measure, which rose to 4.8% y/y in June (expected 4.7% y/y, previous 4.7% y/y), and 0.6% m/m (expected 0.5% m/m, previous 0.3% m/m).
- Inflation has tended to surprise on the upside, both globally and domestically, with the latest producer price inflation print coming in at 16.2% y/y, versus expectations of 15.6% y/y, heralding further pressure on South Africa's CPI measure in the near term.
- There is a one to two month feed through lag between CPI and PPI. The higher than expected PPI figure, with food price inflation now at a heady 13.0% y/y for final manufactured goods, and at 9.0% y/y for the CPI, heralds further upwards pressure for CPI inflation in Q3.22.
- At the agricultural level, cereals prices rose to 33.4% y/y in June, from 30.8% y/y in May, while products of crops and horticulture overall increased by 17.5% y/y, and that of live animals by 12.4% y/y, above the food price inflation rate of the CPI in June.
- However, food price inflation at the commodity level is also starting to turn lower than in previous months, and this is likely to feed through into more modest PPI inflation figures by the end of Q3.22, and so into more modest CPI inflation over Q4.22 for South Africa.
- International oil and petroleum products prices have dropped from mid-June, with the Brent crude oil price at USD99.7/bbl, from USD123.6/bbl in June. Another petrol price cut is building for SA in September, of around R3.00/litre, after the cut announced for August.
- South Africa is still expected to see CPI move towards 8.0% y/y in Q3.22, from 7.4% y/y in June, but at a slower pace of acceleration than in Q2.22, while Q4.22 will likely see a moderation, towards 7.0% y/y, and over the course of Q1.23 to below 7.0% y/y.

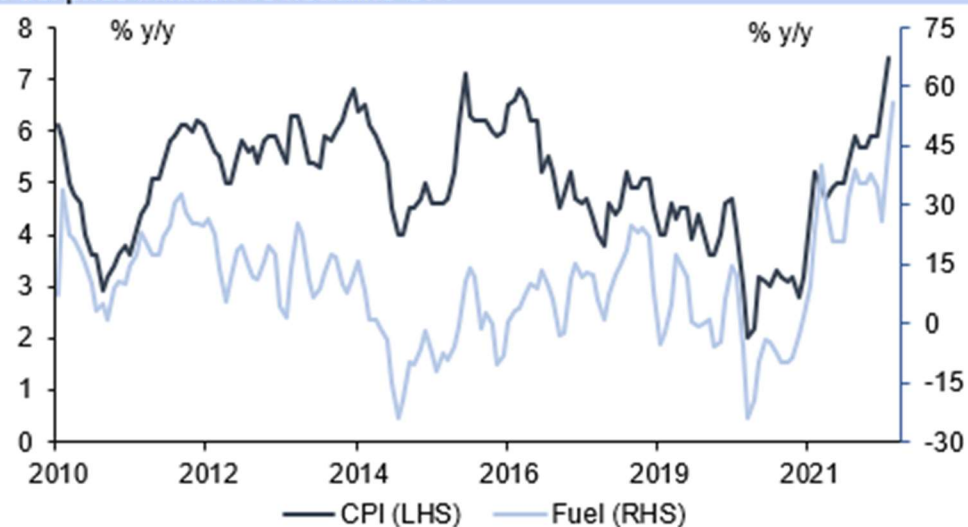
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CPI forecast averages

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	105.4	7.4	1.1		
Aug 2022	105.9	7.5	0.5		
Sep 2022	106.3	7.7	0.4	7.5	
Oct 2022	106.7	7.8	0.4		
Nov 2022	106.9	7.6	0.2		
Dec 2022	107.1	7.1	0.1	7.5	2022 6.9
Jan 2023	107.6	7.4	0.5		
Feb 2023	108.0	7.2	0.4		
Mar 2023	108.7	6.7	0.6	7.1	
Apr 2023	109.1	6.5	0.4		
May 2023	109.3	6.0	0.2		
Jun 2023	109.5	5.1	0.2	5.9	
Jul 2023	110.6	5.0	1.0		
Aug 2023	110.9	4.7	0.2		
Sep 2023	111.2	4.6	0.3	4.8	
Oct 2023	111.6	4.6	0.4		
Nov 2023	112.0	4.7	0.3		
Dec 2023	112.2	4.8	0.2	4.7	2023 5.6
Jan 2024	112.8	4.8	0.5		
Feb 2024	113.1	4.7	0.3		
Mar 2024	113.9	4.8	0.7	4.8	
Apr 2024	114.3	4.8	0.4		
May 2024	114.7	4.9	0.3		
Jun 2024	114.9	4.9	0.2	4.9	
Jul 2024	115.8	4.7	0.8		
Aug 2024	116.1	4.7	0.2		
Sep 2024	116.4	4.7	0.3	4.7	
Oct 2024	116.6	4.5	0.2		
Nov 2024	117.0	4.5	0.3		
Dec 2024	117.1	4.3	0.1	4.4	2024 4.7
Jan 2025	117.8	4.4	0.6		
Feb 2025	118.9	5.2	1.0		
Mar 2025	120.0	5.4	0.9	5.0	

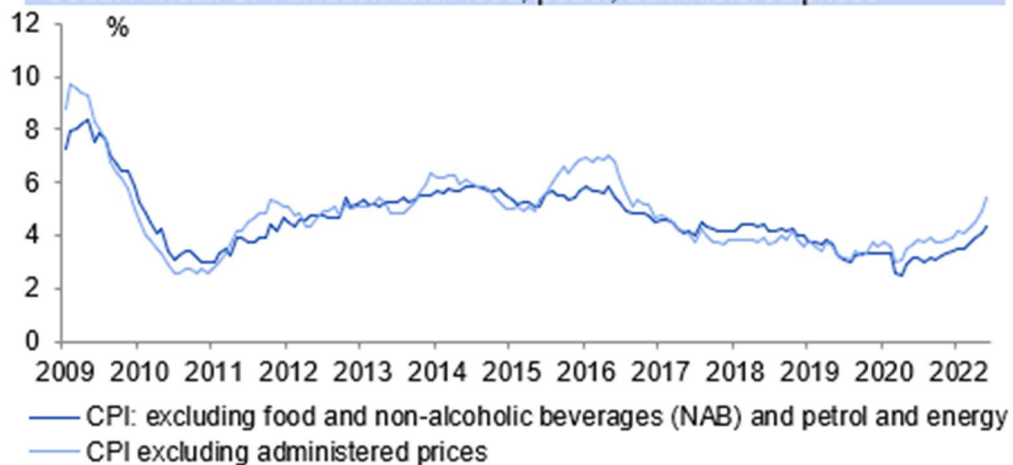
Source: Stats SA, Investec

Fuel price inflation vs headline CPI

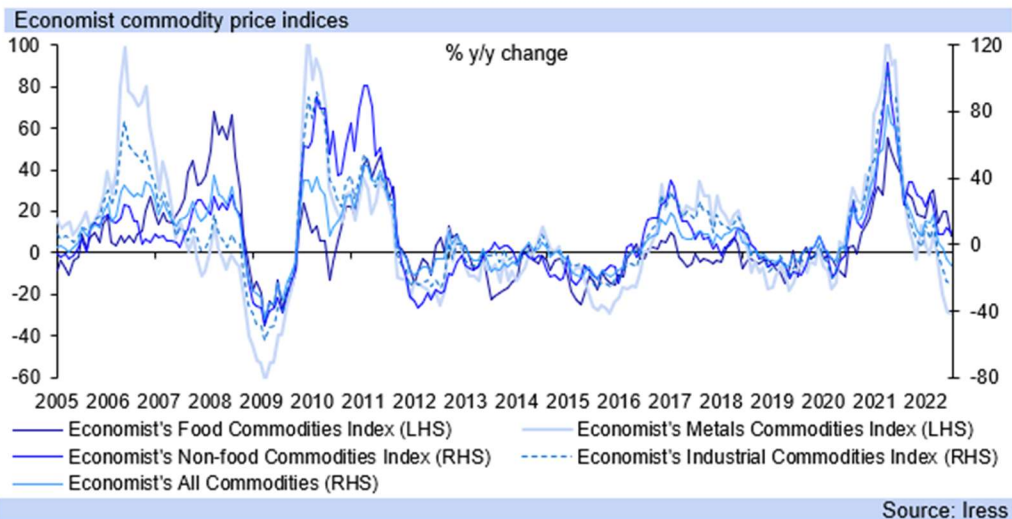


Source: Stats SA

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

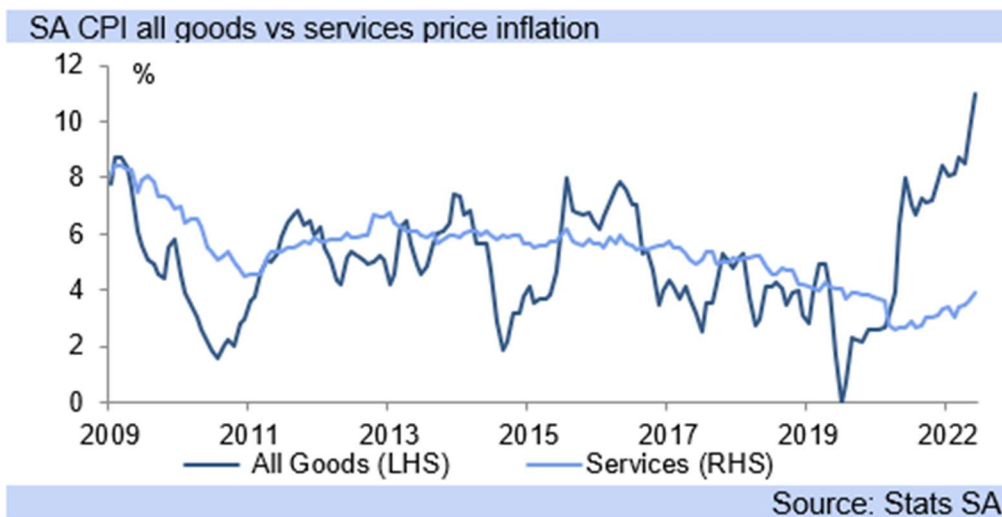
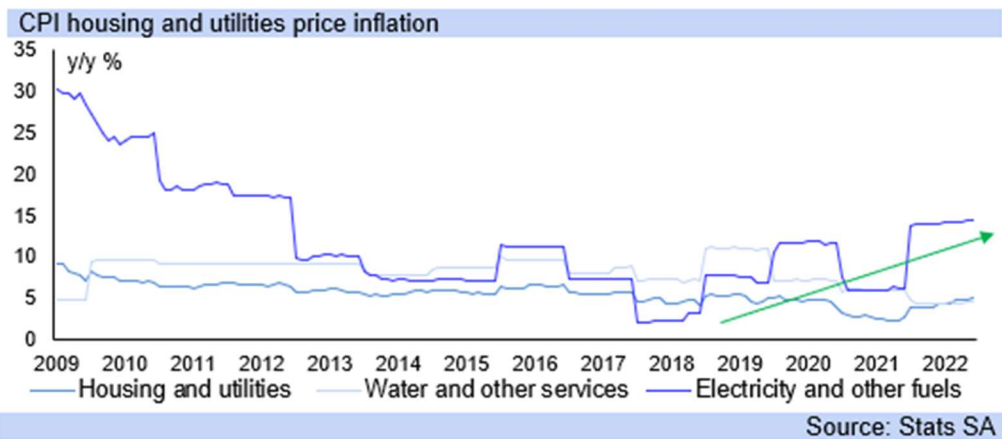


Source: Stats SA

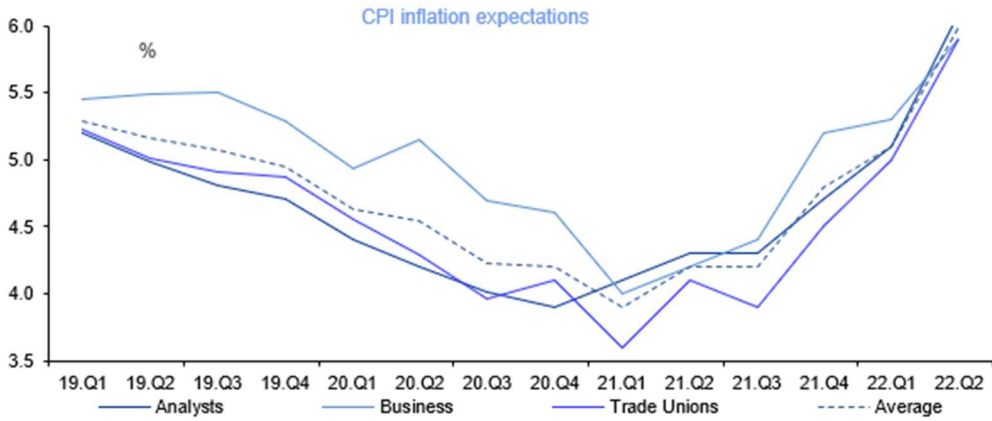


- While the risk to inflation in the first half of 2022 was to the upside, the risk in the second half may well prove to be to the downside if international commodity prices maintain their moderation, which has occurred on slowing global demand.
- The overall commodity price index (Economist) recorded a fall of -12.2% y/y in July, as food commodity prices dropped by -16.2% m/m. June saw a -1.7% m/m drop, which has already largely fed into June's PPI agricultural figures.
- Russia and the Ukraine have signed a deal to allow a "de facto ceasefire" on grain ships, which will release millions of tons of Ukrainian grain from the ports, easing grain export blockages on the Black Sea, and aimed at averting famine in some areas of the world.
- This has aided in stabilizing global food prices, with both Russia and Ukraine agreeing to cease attacks on port facilities, merchant and civilian vessels, reportedly according the U.N. Lower grain prices also assist in lowering animal feed costs.

- Q3.22 is likely to see a moderating impact on producer price inflation, as additionally petroleum prices eased on global economic growth concerns, the latter causing the large fuel price hikes building for September (if petroleum prices remain around current levels).
- The latest inflation publication is for June, while July saw large fuel price hikes which will still feed through into inflation in that month. It is only in August's inflation figures that the impact of the fuel price cuts announced yesterday will be felt.
- Looking forward, the moderation in inflation at the end of this year and into next year for SA is already expected by the SARB, while the FOMC has recently indicated less on the interest rate hike front in the remainder of this year.
- This means, both the US and SA's next interest rate move, scheduled for 21st and 22nd September respectively, will likely be 50bp hikes instead of 75bp. Thereafter, the SARB may raise interest rates again, by 25bp but this is not a certainty.
- With the monetary authorities having frontloaded the interest rate hikes into mainly H1.22 and July this year, the expectation is for a reduction in demand for commodities this year, which is quelling their prices, and will aid the expected moderation in inflation.

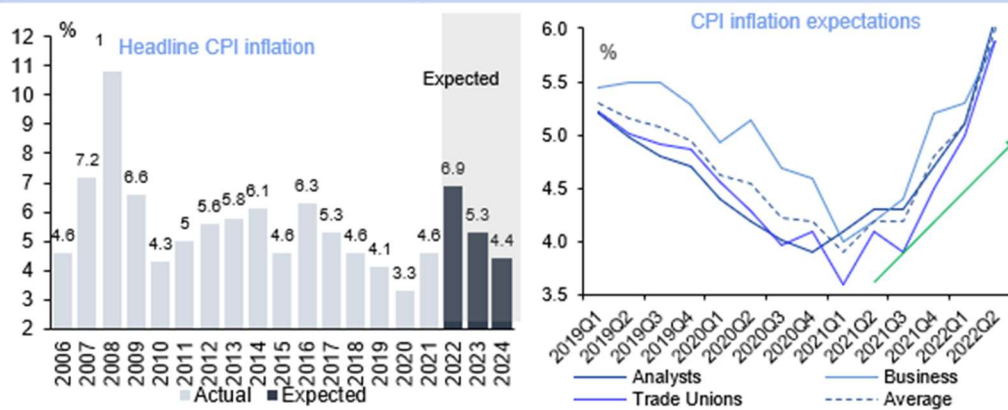


SA headline CPI inflation and inflation expectations for 2022



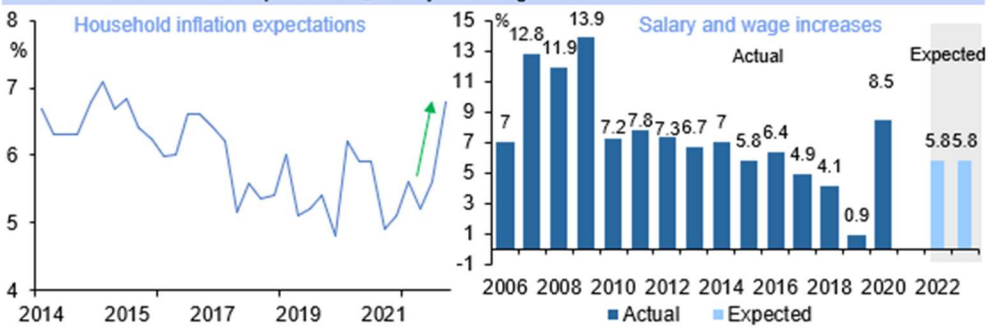
Source: BER

SA headline CPI inflation and inflation expectations for 2022



Source: BER

SA household inflation expectations; salary and wage increases



Source: BER