



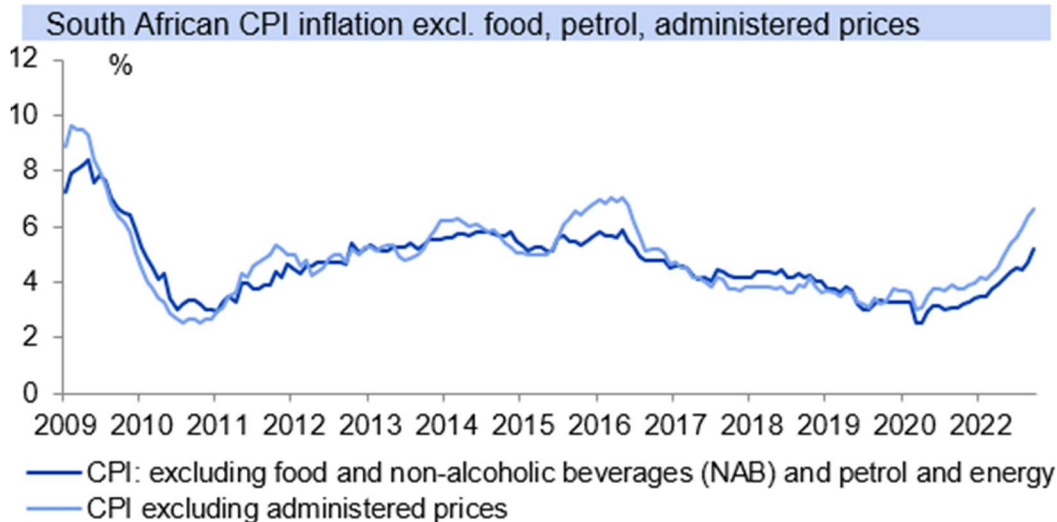
# SA Economics

Tuesday 29 November 2022

Inflation rate note: while 2022 will likely see CPI inflation come out at, or very close to, 6.8% y/y the risks are wider for 2023's inflation rate

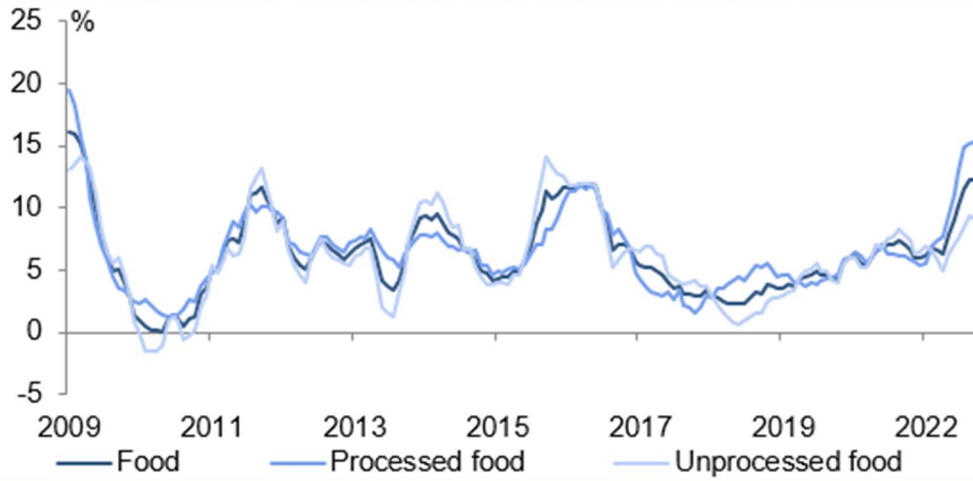
SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av. %)	6.8	5.5	4.7	5.0	5.0	5.0
(year-end: %)	7.0	4.8	4.3	5.0	5.0	5.0
Producer Inflation (Av. %)	14.4	8.2	4.8	5.1	5.1	5.1
(year-end: %)	14.0	5.2	4.9	4.8	5.3	5.3
Salary & wage increases (%)	6.8	6.2	5.6	6.0	6.1	6.2

Source: Investec, SARB, Stats SA



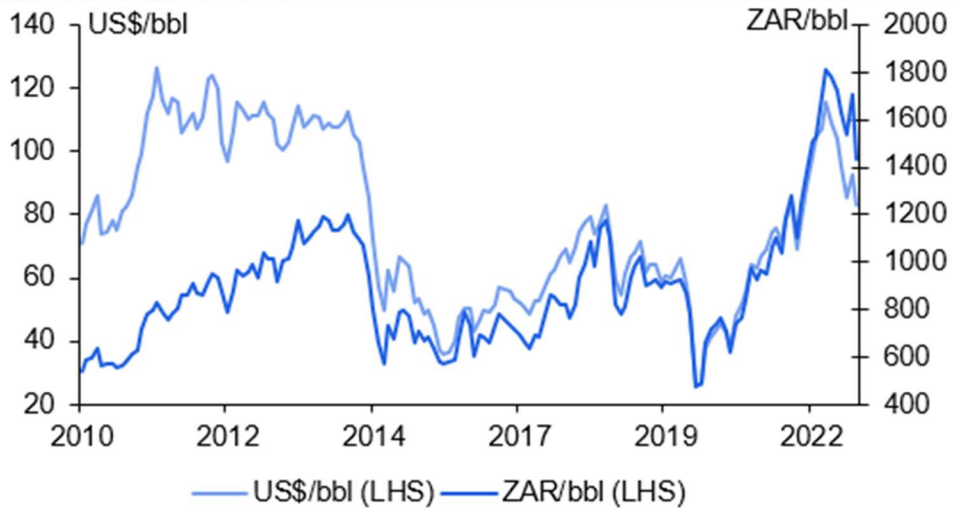
Source: Stats SA

### SA CPI: Food vs processed and unprocessed price inflation



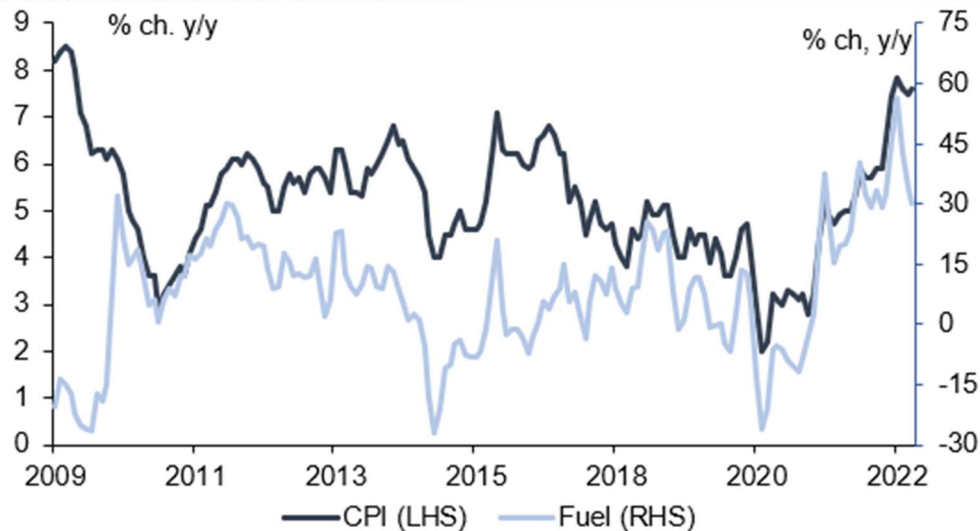
Source: Stats SA

### Oil price: Rand vs USD



Source: Iress

### Fuel price inflation vs headline CPI



Source: Stats SA

- The recent uptick in CPI inflation in October is expected to be short-lived. November is a low survey month while international food prices fell -2.9% m/m and the petrol price only saw a small uptick. However, some broadening in price pressures will likely be evident.
- International food prices are a key contributor to local food costs as SA is a price taker for most agricultural foods produced, through either import, or export, parity pricing. Domestically, the start of the 2022/23 crop season has seen strong rainfalls which should boost production.
- While excessive rain can be damaging to crops, and there has been some impact from heavy rains and wind, so far it is very small in proportion to the total, while delays in planting are expected to be made up, and yields overall are expected to be robust.
- Food prices have come down, and for grains in particular compared to early in the year as the flow of shipping has largely resumed after interruptions in October that drove prices up as Russia temporarily suspended its grain export deal with the Ukraine.
- The FAO (Food and Agricultural Organisation of the UN) has warned however that “(w)orld cereal stocks are forecast to contract by 2.0 percent below opening levels by the end of seasons in 2023, to 841 million tonnes, down 7.3 million tonnes from last month’s forecast.”
- Food prices are expected to remain relatively elevated, although volatility will persist between months and quarters, and be affected by further slowing in global economic activity in H1.23. The high base food price inflation is calculated off in 2023 will have some suppressing effect.
- An end to the Russian/Ukraine war is not in sight, and has been a key driver of commodity price volatility and elevation this year, as well as market sentiment and its impact on economic activity, inflation and in particular energy prices.
- After a sharp rise this year in energy prices, the Brent crude oil price has dropped over November, from US\$98.6/bbl, to US\$83.2/bbl yesterday, on concerns over slowing global demand, which has reduced the petrol price increase building for December.

- CPI inflation is still likely to come out at 6.8% y/y in 2022, albeit with upside risk. Oil prices could fall further, and the slowdown in China has already weakened prices, while renewed concerns have surfaced in the markets about the severity of the likely global recession.

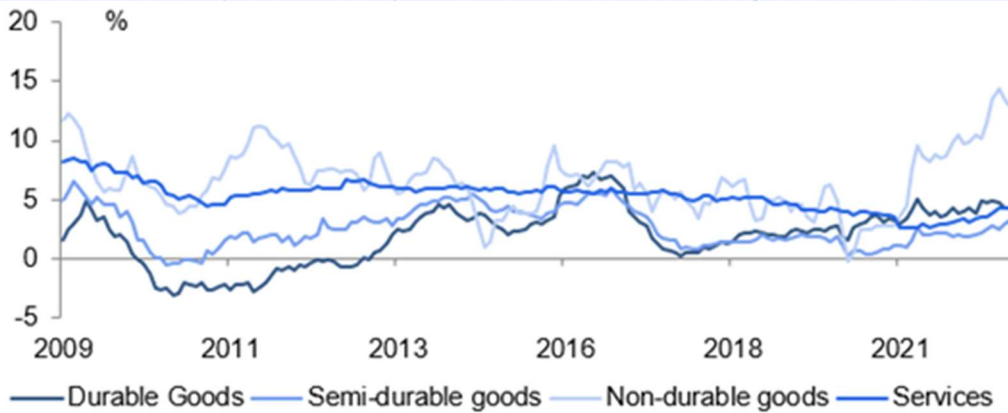
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SA CPI all goods vs services price inflation



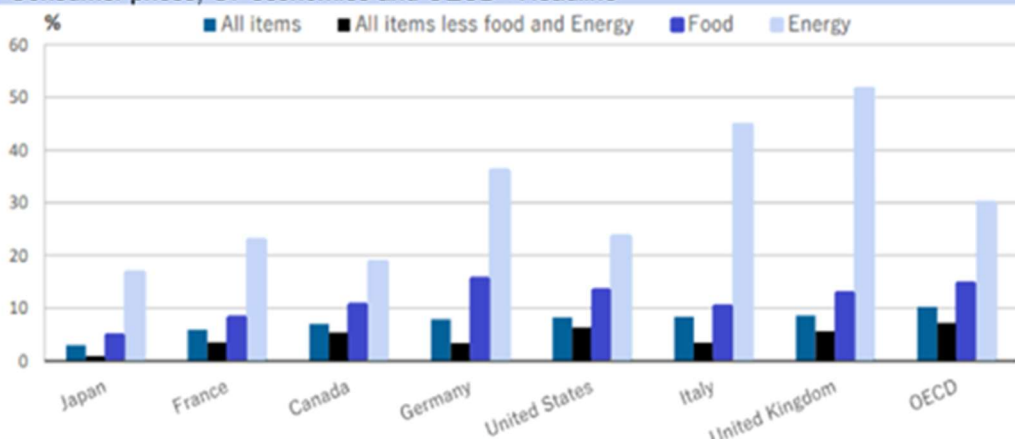
Source: Stats SA

SA CPI durable, non-durable, semi-durable and services price inflation



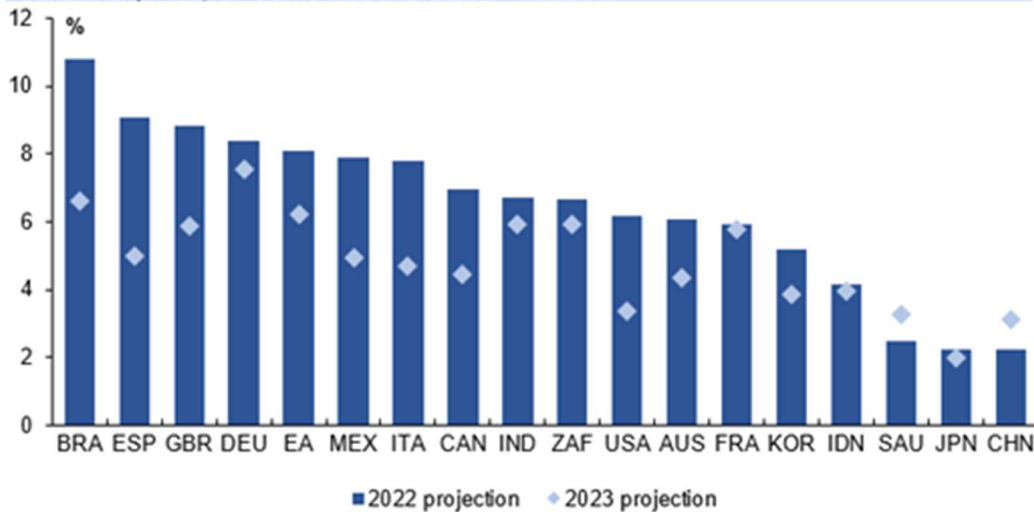
Source: Stats SA

Consumer prices, G7 economies and OECD - Headline



Source: OECD

Consumer prices, G7 economies and OECD - Headline

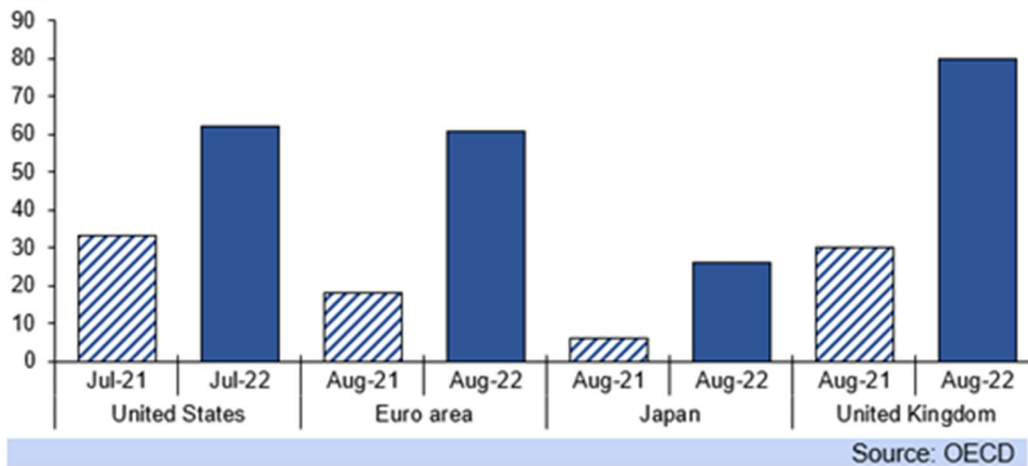


Source: OECD

Note: Inflation for Turkey is projected to be 71.0% in 2022 and 40.8% in 2023. For Argentina, inflation projections are 92.0% in 2022 and 83.0% in 2023. India projections are based on fiscal years, starting in April.

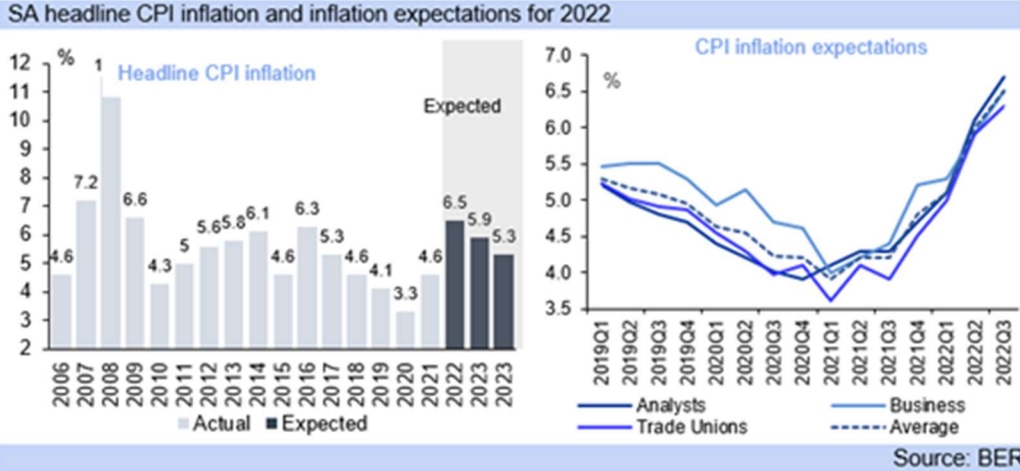
**A large share of goods and services show substantial price increases**

% of items in the consumer basket with annual inflation over 4%



- G7 nations are seeking a price cap on imports of Russian oil, and the EU bans crude oil imports from Russia on 5<sup>th</sup> December. OPEC+ (Organization of the Petroleum Exporting Countries) and associated producers including Russia meet on 4<sup>th</sup> December.
- With supply outpacing oil demand currently, there is a risk that the oil cartel and allied oil exporting countries lower supply, which could risk higher petrol and diesel prices in January. In SA, diesel prices are set to fall by R1.47/litre so far for early December.
- The fuel price inflation rate in the CPI in October has fallen to 30.1% y/y, from 56.2% y/y in July, driving the inflation rate down from 7.8% y/y in July to 7.6% y/y in October, although food price inflation is a key driver too to the overall outcome, due to its high weighting.
- Ukraine and aligned nations have launched a US\$150m grain export plan for vulnerable nations with Ukrainian President Zelenskyy highlighting "(w)e plan to send at least 60 vessels from Ukrainian ports to countries that most face the threat of famine and drought."
- Zelenskyy added that Kyiv had raised \$150m from more than 20 countries, as well as from the EU itself, in order to fund grain exports to countries that include South Sudan, Ethiopia, Sudan, Yemen and Somalia.
- COVID-19 cases in China have reached new highs after the past weekend of broad scale social unrest across the nation, causing the virus to spread further. President Xi has tightened his grip as sentiment against him flares.
- Waning support for the communist party is on the rise in China, with the President rolling back signs of moving away from the country's zero tolerance policy on COVID which has caused markets to recalibrate the outlook for the global economy.
- SA is an oil importer, and the direction of fuel prices will be a key determinate on inflation in the year ahead. 2023 is expected to see CPI inflation average 5.1% y/y, although the risks are wider, to both the down and upside for next year, with inflation volatile.

- While some Fed members are sounding more dovish tones, the ECB's Governor Christine Lagarde, has said that despite weakening economic growth in the remainder of this year and into next, the ECB must continue to raise its interest rates.



**Inflation expectations survey Q2.22 and Q3.22**

Survey conducted during	2022Q2				2022Q3			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2022	6.1	5.9	5.9	6.0	6.7	6.5	6.3	6.5
2023	5.1	6.1	5.7	5.6	5.6	6.3	5.8	5.9
2024	4.6	5.9	5.7	5.4	4.7	5.7	5.4	5.3

Source: BER

Dates when surveys were conducted

	Analysts, businesses and trade unions			Households			
	Mail questionnaire	Date of return	Process results	Fieldwork		Process results	
2018Q1	06-Feb	13-Mar	14-Mar	26-Feb	-	08-Mar	05-Apr
2018Q2	29-May	03-Jul	04-Jul	20-Apr	-	07-Jun	06-Jul
2018Q3	31-Jul	06-Sep	06-Sep	24-Oct	-	08-Nov	19-Nov
2018Q4	30-Oct	04-Dec	06-Dec	23-Oct	-	07-Dec	10-Jan
2019Q1	05-Feb	12-Mar	13-Mar	04-Mar	-	25-Mar	15-Apr
2019Q2	28-May	02-Jul	04-Jul	21-Mar	-	18-Apr	15-May
2019Q3	30-Jul	05-Sep	06-Sep	12-Sep	-	20-Sep	27-Sep
2019Q4	29-Oct	03-Dec	04-Dec	12-Nov	-	18-Nov	26-Nov
2020Q1	09-Jan	20-Feb	21-Feb	17-Feb	-	27-Feb	02-Mar
2020Q2*	08-Jun	25-Jun	26-Jun	01-Jun	-	12-Jun	19-Jun
2020Q3*	11-Aug	27-Aug	28-Aug	11-Aug	-	21-Aug	25-Aug
2020Q4	08-Oct	03-Dec	04-Dec	23-Nov	-	04-Dec	07-Dec
2021Q1	13-Jan	25-Feb	26-Feb	22-Feb	-	05-Mar	10-Mar
2021Q2	12-May	24-Jun	25-Jun	07-Jun	-	14-Jun	17-Jun
2021Q3	21-Jul	02-Sep	03-Sep	16-Aug	-	30-Aug	01-Sep
2021Q4	13-Oct	09-Dec	10-Dec	14-Nov	-	25-Nov	30-Nov
2022Q1	12-Jan	24-Feb	25-Feb	21-Feb	-	04-Mar	08-Mar
2022Q2	11-May	23-Jun	24-Jun	06-Jun	-	20-Jun	22-Jun
2022Q3	20-Jul	01-Sep	02-Sep	15-Aug	-	22-Aug	25-Aug

Source BER

\*Online survey only



## 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	105.8	7.8	1.5			
Aug 2022	106.0	7.6	0.2			
Sep 2022	106.1	7.5	0.1	7.7		
Oct 2022	106.5	7.6	0.4			
Nov 2022	106.7	7.4	0.2			
Dec 2022	107.0	7.0	0.2	7.3	2022	6.8
Jan 2023	107.5	7.3	0.5			
Feb 2023	107.9	7.1	0.4			
Mar 2023	108.6	6.6	0.6	7.0		
Apr 2023	109.0	6.4	0.4			
May 2023	109.2	5.9	0.2			
Jun 2023	109.4	5.0	0.2	5.8		
Jul 2023	110.5	4.5	1.0			
Aug 2023	110.7	4.5	0.2			
Sep 2023	111.1	4.7	0.3	4.5		
Oct 2023	111.5	4.7	0.4			
Nov 2023	111.9	4.8	0.3			
Dec 2023	112.1	4.8	0.2	4.8	2023	5.5
Jan 2024	112.6	4.8	0.5			
Feb 2024	113.0	4.7	0.3			
Mar 2024	113.8	4.8	0.7	4.8		
Apr 2024	114.2	4.8	0.4			
May 2024	114.6	4.9	0.3			
Jun 2024	114.8	4.9	0.2	4.9		
Jul 2024	115.7	4.7	0.8			
Aug 2024	116.0	4.7	0.2			
Sep 2024	116.3	4.7	0.3	4.7		
Oct 2024	116.5	4.5	0.2			
Nov 2024	116.9	4.5	0.3			
Dec 2024	116.9	4.3	0.1	4.4	2024	4.7
Jan 2025	117.6	4.4	0.6			
Feb 2025	118.8	5.2	1.0			
Mar 2025	119.9	5.4	0.9	5.0		

Source: Stats SA, Investec

SA household inflation expectations; salary and wage increases



Source: BER