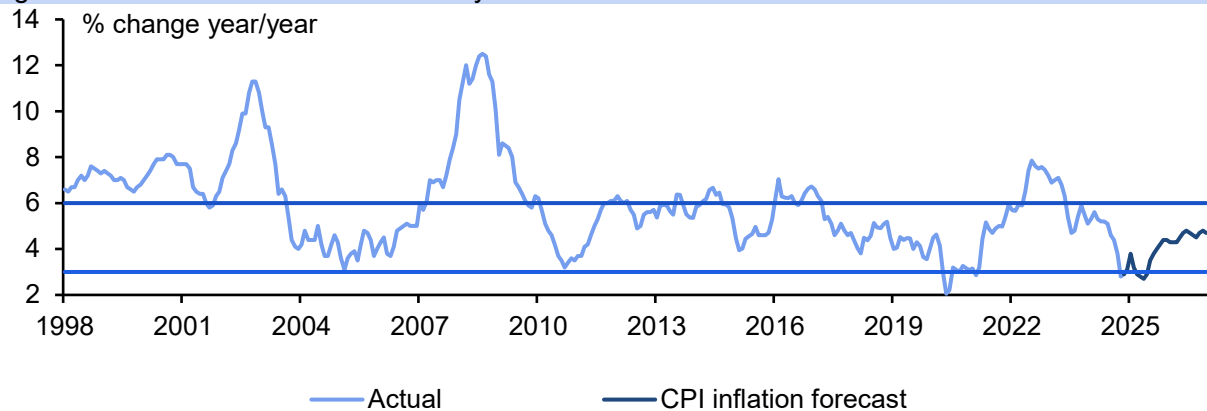




## CPI update: inflation rises moderately, more increases to come

Wednesday 22 January 2025

Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- CPI inflation lifted slightly in December, to 3.0% y/y (0.1% m/m), from 2.9% y/y in November and 2.8% y/y in October. Indeed, inflation fell from 5.6% y/y in February 2024, suppressed by high statistical base effects on higher inflation of a year ago, but the statistical base effect has waned.
- Substantial petrol price drops from May to the end of Q3.24 (of -R4.44/litre) was another key driver of CPI inflation in SA, but again this subduing effect has also come to an end.
- December saw a 17c/litre petrol price rise, and January 12c/litre, while February is set for an 80c/litre increase in fuel prices, which will contribute further to higher inflation in that month.
- The largest single component of CPI, food prices is also a key driver, and international agricultural food prices lifted by a hefty 6.4% m/m (Economist agricultural food commodities index) in December, with domestic food prices influenced by these global prices due to import/export parity pricing.
- The rand has been essentially flat between December and November on average against the US dollar, and so did not make an inflationary contribution for goods imported priced in US dollars, which include all international commodities.
- December also surveys rental costs, household expenses and transport costs and insurance, but these are quarterly surveys and so did not see notable changes.
- With CPI inflation still well below the mid-point of the inflation target of 4.5% y/y, and likely to remain so for the rest of this year and most of the first half of next year, the MPC is still expected to trim interest rates further this quarter, with a -25bp drop in the repo rate this month.
- The US has cut its Bank rate by -100bp so far in its interest rate cutting cycle, and SA by only -50bp to date, with the differential between SA and US interest rates widening markedly. This should allow for a further -25bp drop in SA's interest rates this month without much rand weakness.

Figure 2: Contribution of different groups to the monthly change, m/m in the CPI

	November 2024	December 2024
Food and non-alcoholic beverages	-0.1	0.0
Transport	0.0	0.1
Residual	0.1	0.0
<b>All item</b>	<b>0.0</b>	<b>0.1</b>

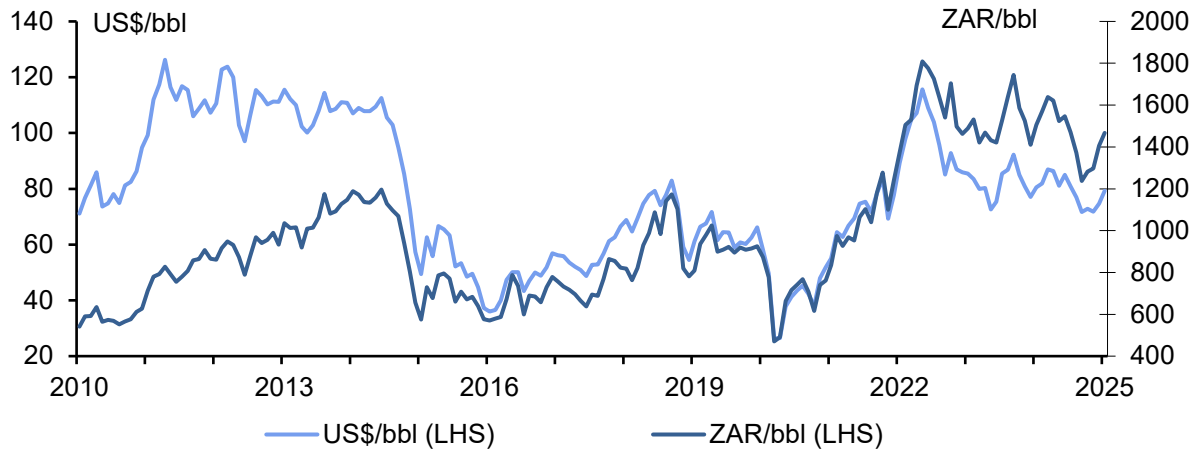
Source: Stats SA



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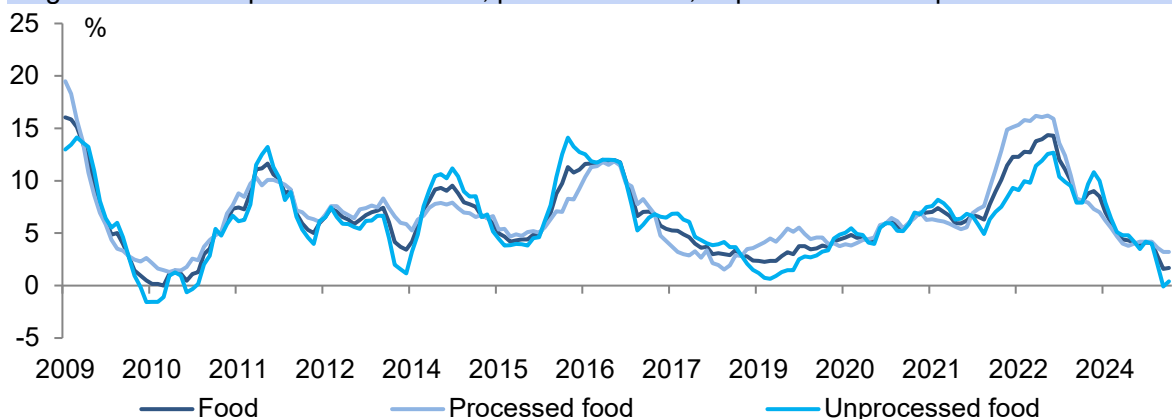
Figure 3: Oil price: rand vs USD



Source: Iress

- Core inflation (which excludes food, non-alcoholic beverages fuel and energy prices), fell to 3.6% y/y in December, from 3.7% y/y in November, evidencing the moderate nature of underlying inflation.
- The residual, a catch all for minor inflationary pressure which can show an incipient build up, was flat, also evidencing the moderate nature of SA's inflation environment, excluding the volatile, food, energy and fuel categories.
- For food (and non-alcoholic beverages) inflation, December saw a 2.5% y/y outcome, from 2.3% y/y in November, with high statistical base effects in 2023 compared to 2024, once again keeping the measure moderate.
- International food prices in January did not change, at 0% m/m at the agriculture level. However, the rand has weakened materially and will add some moderate pressure to the outcome, although domestically costs are moderate.
- Durable goods inflation in South Africa is at 0.9% y/y, while the measure for services runs at 4.2% y/y, with services inflation the main driver of CPI inflation.

Figure 4: SA food price inflation: total, processed food, unprocessed food price inflation



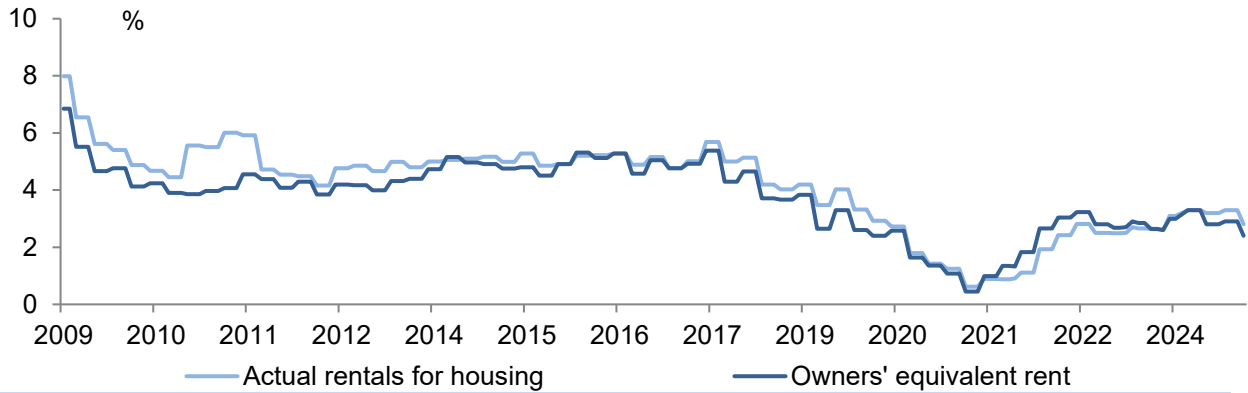
Source: Stats SA



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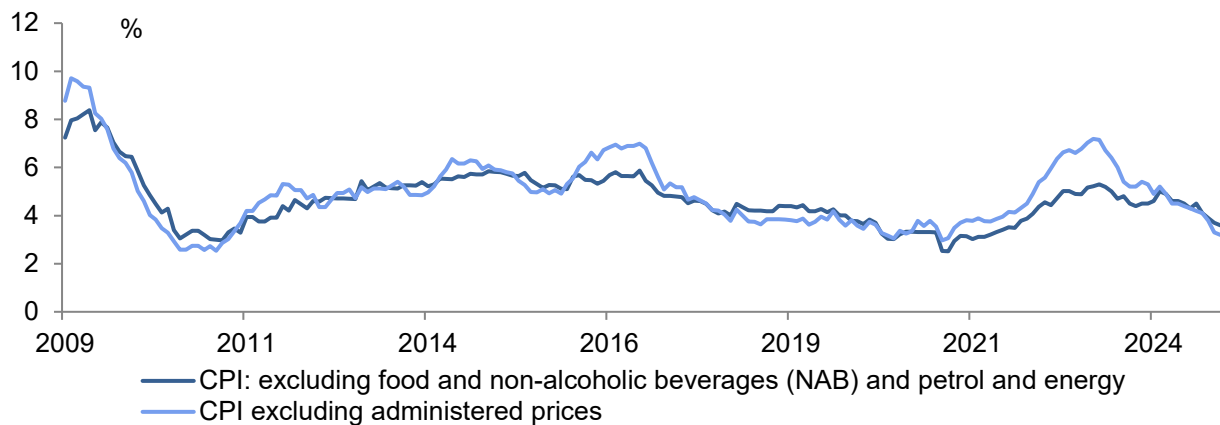
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Figure 5: CPI: Actual rentals vs owners' equivalent rent price inflation



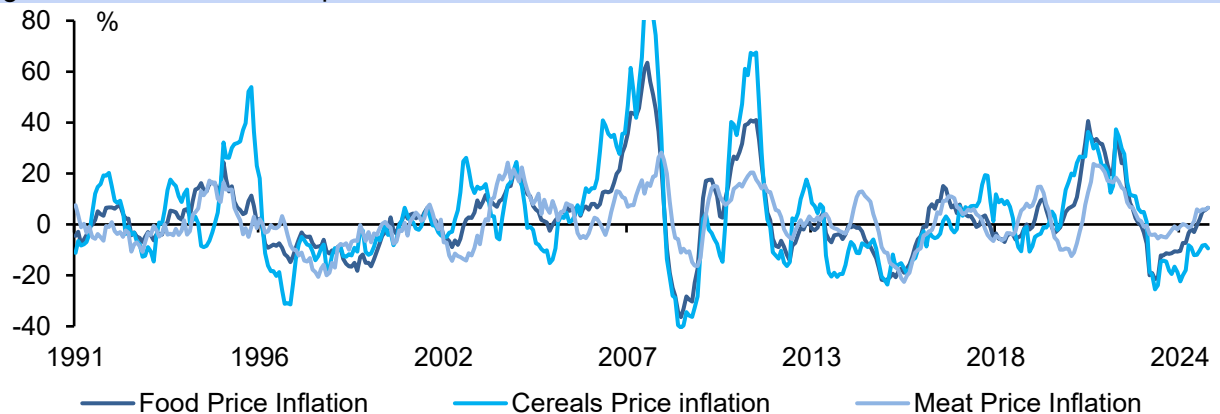
Source: Stats SA

Figure 6: South African CPI inflation excl. food, petrol, administered prices



Source: Stats SA

Figure 7: International food price inflation



Source: UN



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