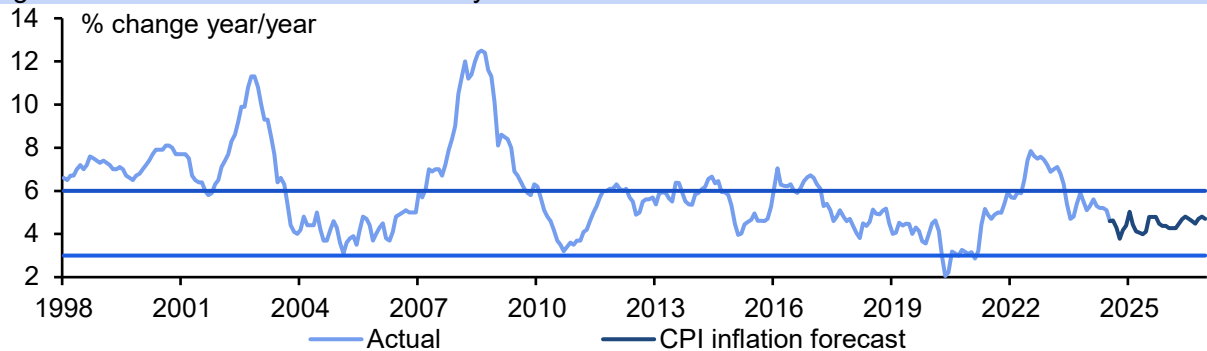




CPI update: inflation drops sharply to 4.6% y/y

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Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- CPI inflation fell in July, to 4.6% y/y (0.4% m/m) from 5.1% y/y in June, and below the Bloomberg market consensus of 4.8% y/y, aided also by high statistical base effects.
- July sees utilities costs (water, electricity and rates and taxes) surveyed, along with repairs and maintenance costs, and building and household contents insurance.
- This year, the electricity price increase, at 13% y/y pushed up the housing and utilities component's contribution to CPI inflation to 0.6% m/m, which was partly counteracted by some lower pressures.
- A petrol price decrease of 99c/litre occurred, which yielded a -0.1% contribution to the overall CPI inflation outcome.
- The residual category, a catch all for cost pressures not large enough to contribute significantly to their own categories, made a -0.1% contribution to the overall CPI month on month outcome.
- The food (and non-alcoholic beverages) inflation rate eased to 4.5% y/y in July, from 4.6% y/y in June, benefiting from lower international food prices and rand strength.
- July saw international (US dollar) agricultural food commodities prices drop by -0.7% m/m, (Economist agricultural food commodities index) and the rand strengthened by 1.0% m/m, which both contributed to exerting some moderating pressure on the CPI food inflation component.
- August has seen a -15c/litre cut in the petrol price, which will exert little effect on that month's inflation outcome, but September is in line for around a -75c/litre petrol price cut so far, on lower international oil prices, which will assist in subduing inflationary pressures.
- Core inflation (which excludes food, non-alcoholic beverages fuel and energy prices), fell to 4.3% y/y, from 4.5% y/y in June.
- CPI inflation is closer to the 4.5% y/y midpoint of the inflation target range, which will likely see the Reserve Bank's MPC tone soften but remain cautious on the inflation outlook. We continue to expect the first interest rate cut this year will occur in in September (-25bp).

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

	June 2024	July 2024
Food and non-alcoholic beverages	0.1	0.0
Housing and utilities	0.1	0.6
Transport	-0.2	-0.1
Residual	0.1	-0.1
All item	0.1	0.4

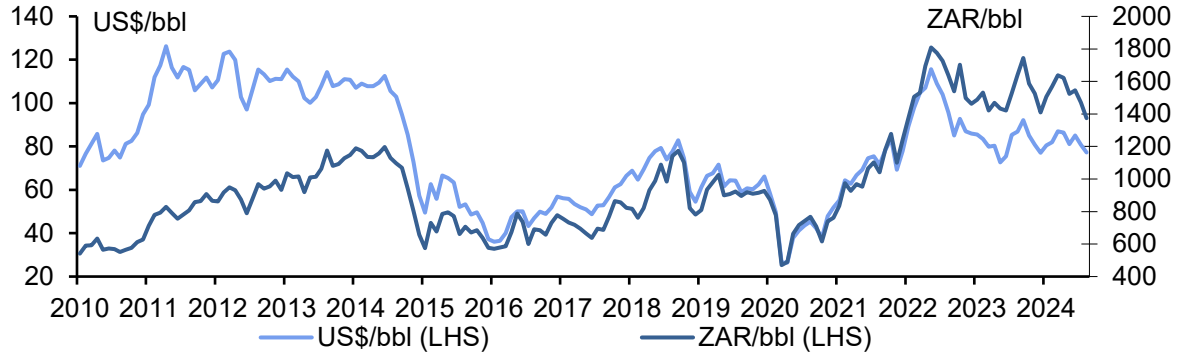
Source: Stats SA



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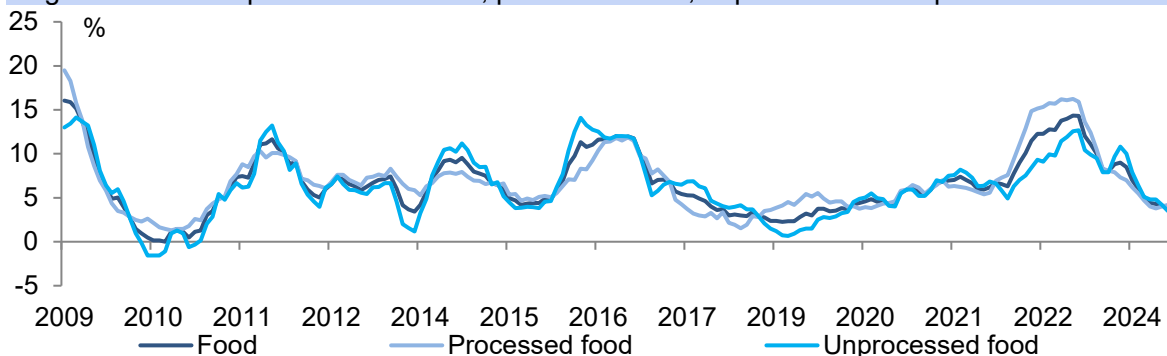
Figure 3: Oil price: rand vs USD



Source: Iress

- Sharply lower unprocessed food price inflation (disinflation), dropping to 3.5% y/y from 4.2% y/y, was the driver of lower overall food price inflation.
- Dairy and eggs prices saw a moderation in the inflation rate, to 6.4% y/y from 7.3% y/y, while edible oils and fats continued to see prices fall, by -0.1% y/y. Fruit and vegetables price inflation dropped to 2.0% y/y from 4.1% y/y, and 3.4% y/y from 4.7% y/y respectively.
- In addition, sugar and other food price inflation fell, to 8.3% y/y and 5.8% y/y respectively, from 10.5% y/y and 6.5% y/y, with broad-based disinflation pressures at the food level.
- International food prices are a key contributor to local food costs as South Africa is a price taker for most agricultural food produced through either import, or export, parity pricing.
- August to date has seen a decline in international agricultural food prices, by a hefty -4.4% m/m, while the rand has strengthened slightly. If the momentum persists in both indicators, this will add to some downwards pressure on food price inflation in the next CPI print.
- The domestic currency closed at R17.82/USD yesterday, having convincingly broken the R18.00/USD resistance level this week, strengthening on the increased probability of rapid US interest rate cuts this year, but Friday’s Fed address at Jackson Hole is still key for the rand.
- We continue to forecast R18.00/USD (average) for Q3.24. The quarter tends to be volatile, averaging R18.23/USD so far, but the remainder of the quarter is likely to see a stronger rand, as the domestic currency gains on subsiding risk aversion. Q4.24 is expected at R17.70/USD.

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



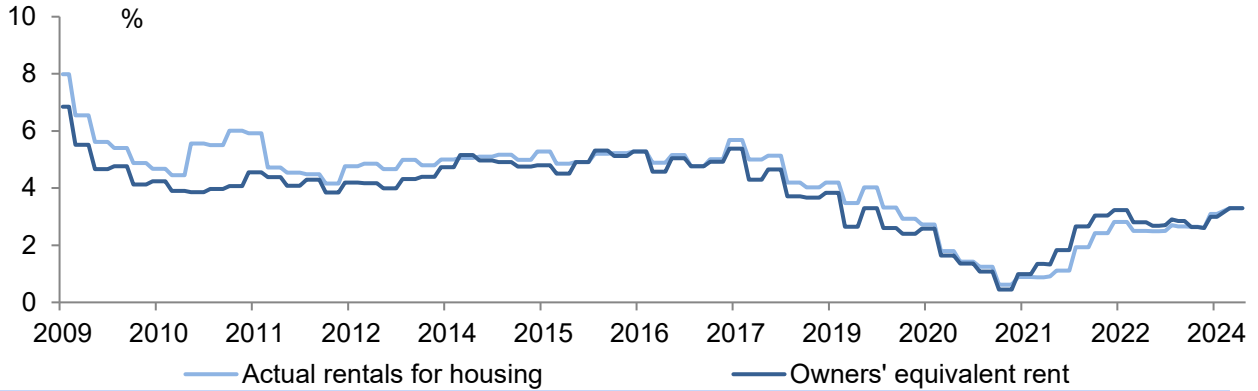
Source: Stats SA



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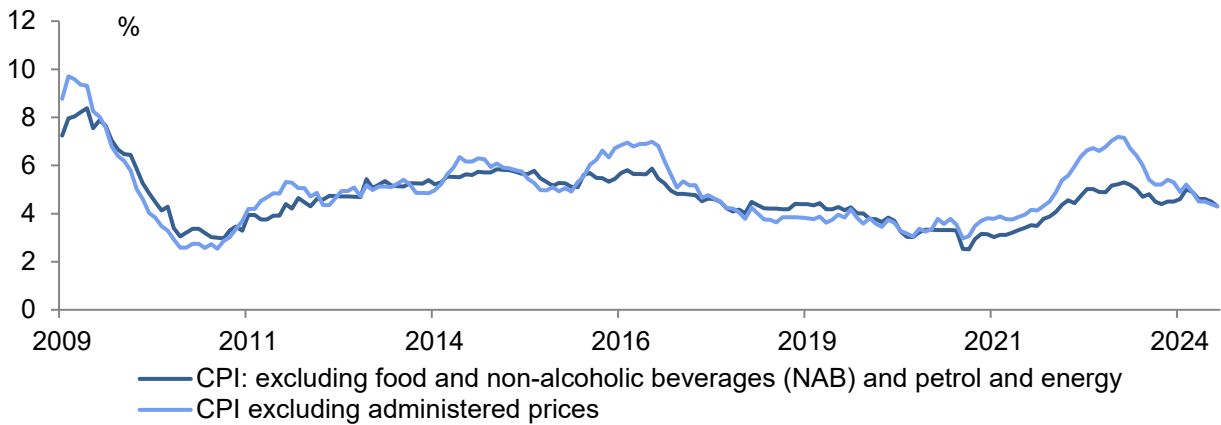
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Figure 5: CPI: Actual rentals vs owners' equivalent rent price inflation



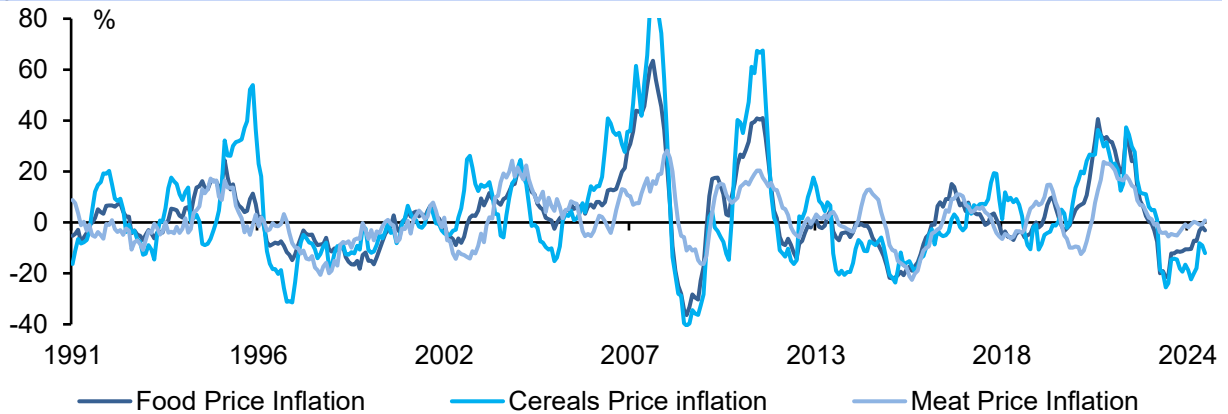
Source: Stats SA

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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