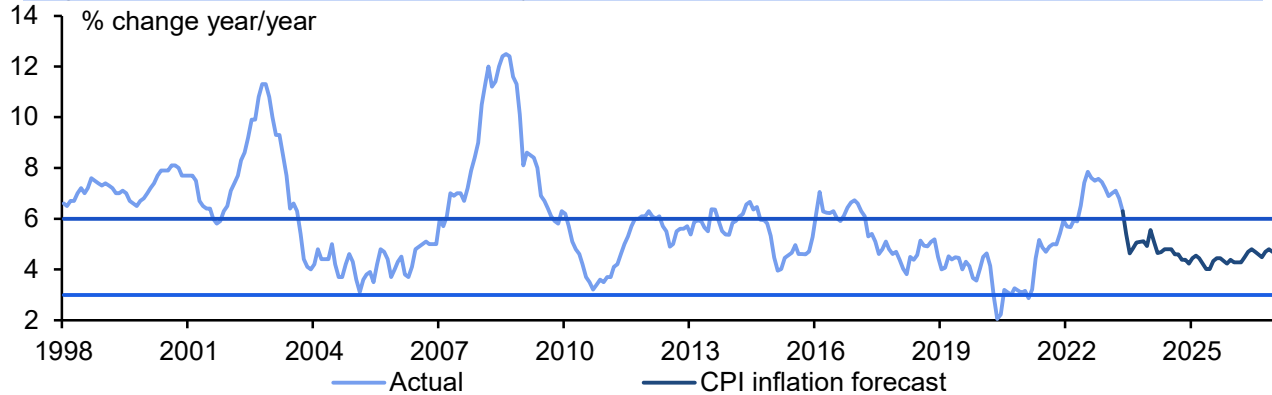




CPI update: a good inflation print, further drops to come

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Figure 1: SA Consumer Inflation: history and Forecasts



Sources: Stats SA, Investec

- May's CPI inflation rate dropped to 6.3% y/y (0.2% m/m), from 6.8% y/y in April. The CPI inflation rate is likely to continue to subside over most of 2023, reaching the midpoint of the inflation target of 4.5% y/y in 2024, and then remaining around 4.5% y/y over the forecast period.
- With the petrol price rising by only a relatively small 37c/litre it did not add much to price pressures, while June recorded a petrol price cut of 72c/litre, which will exert downwards pressure on that month's inflation outcome. July is on course to see a small petrol price cut currently.
- Food and alcoholic beverage prices did not contribute to the inflation outcome on the month, despite the weakness of the rand in May as the inflation figures are calculated from the 7th of the month back and so the substantial rand weakness against the US dollar over the full month of May is not included.
- The inflation rate for food in May dropped to 12.0% y/y from 14.3% y/y in April, up 0.3% m/m, but benefiting from high base effects as food prices began a steep upwards ascent a year ago. Food (and non-alcoholic beverages) prices still contributed a third (2.1% y/y) of the overall CPI inflation rate.
- May saw international (US dollar) agricultural food commodities prices fall by -11.4% y/y, although high domestic cost pressures, particularly that of self-generation for retailers who have to refrigerate and freeze food, added to overall consumer prices, given high diesel costs.
- The 0.1% m/m contribution from restaurants and hotels also reflects this, while another 0.1% m/m was recorded from the residual category, capturing price changes too small to be recorded elsewhere.
- Food price pressures are seeing some stabilisation in Q2.23 now as expected, which is aiding CPI inflation lower, and base effects will be key in pulling cost of living increases (the CPI inflation rate) down to below 5.0% y/y by year end for 2023. The Reserve Bank is likely to be happy with the drop in the CPI inflation rate, but cautious as the core inflation rate ticked up to 5.4% y/y. We expect flat interest rates for the remainder of this year, and a cut only in 2024.

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

| | Apr 2023 | May 2023 |
|----------------------------------|------------|------------|
| Food and non-alcoholic beverages | 0.1 | 0.0 |
| Alcoholic beverages and tobacco | 0.1 | 0.0 |
| Restaurants and hotels | 0.0 | 0.1 |
| Miscellaneous goods and services | 0.2 | 0.0 |
| Residual | 0.0 | 0.1 |
| All items | 0.4 | 0.2 |

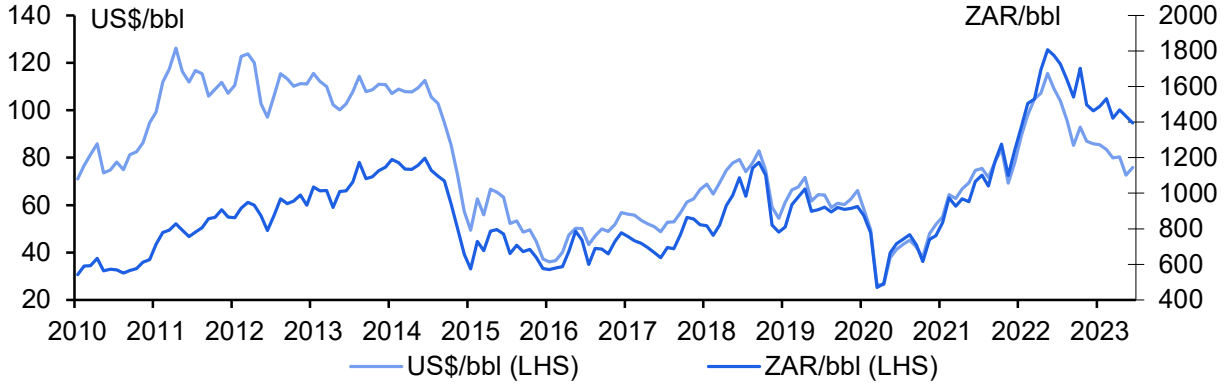
Source: Stats SA



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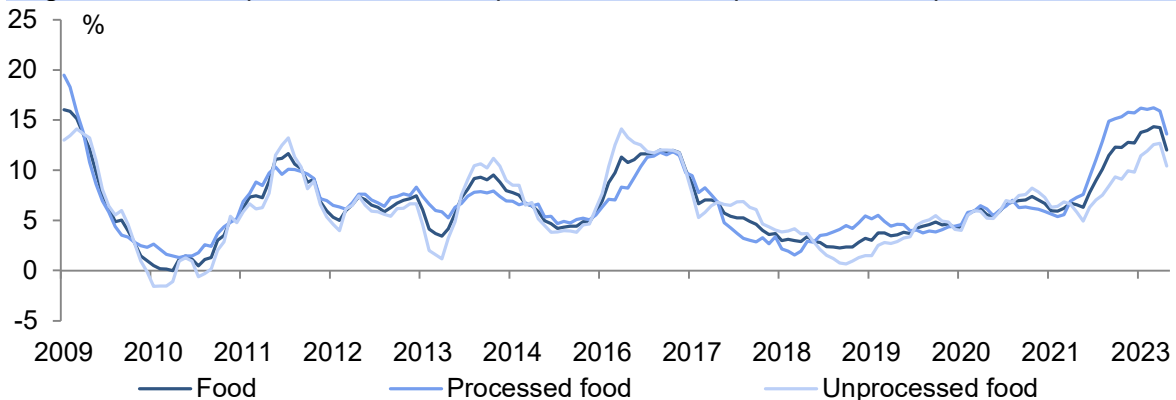
Figure 3: Oil price: rand vs USD



Source: Iress

- Specifically, May’s core inflation rate (which excludes food and non-alcoholic beverage prices as well as fuel and energy costs) rose from 5.3% y/y in April to 5.4% y/y, as core inflation recorded a slight broadening of price pressures,
- Positive however, is that the rand has pulled back from R20.00/USD earlier this month, to around R18.30/USD today, gaining somewhat this morning on the better than expected CPI inflation data for SA - with the consensus expecting an outcome of 6.5% y/y for May instead of the 6.3% y/y achieved.
- With the implied point in the SARB’s model of R18.68/USD, and a lower rand exchange rate now, gains in the US dollar will likely be positive for the SARB’s inflation forecast too, and so for its monetary policy decisions, with the SA reserve bank targeting CPI inflation, not the core measure.
- We expect that CPI inflation will average near 6.0% y/y for this year, and if the rand does not see further, marked weakness, it could come out just below 6.0% y/y, at 5.7% y/y
- Looking forward, South Africa’s financial markets, as indicated by the FRA (Forward Rate Agreement) curve, have factored in one more 25bp hike in the current interest rate cycle, at year end, but we think this is currently unlikely and that SA has reached its terminal interest rate in the current cycle.
- The FRA curve also indicated the likelihood of a 25bp cut in SA’s repo rate by the end of next year, if not only in 2025, but this is likely to occur earlier to prevent SA’s monetary policy from becoming restrictive as inflation falls towards 4.5% y/y.

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



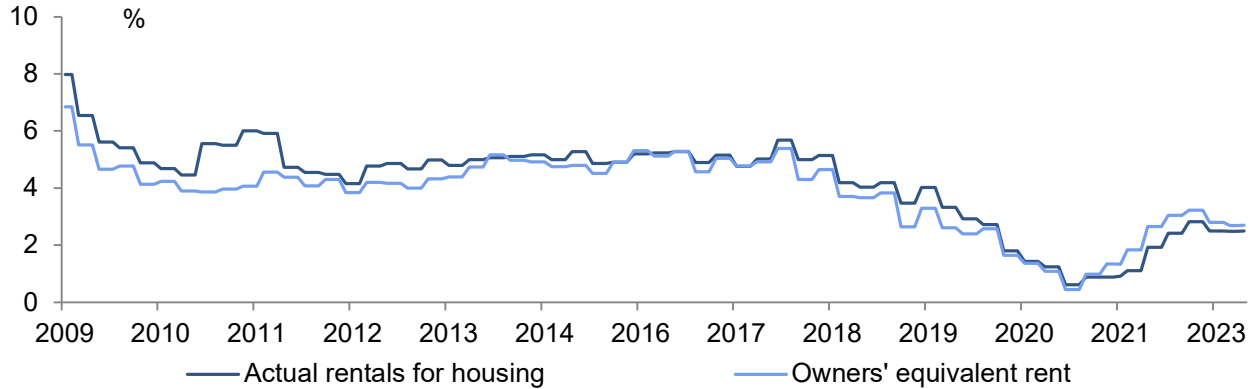
Source: Stats SA



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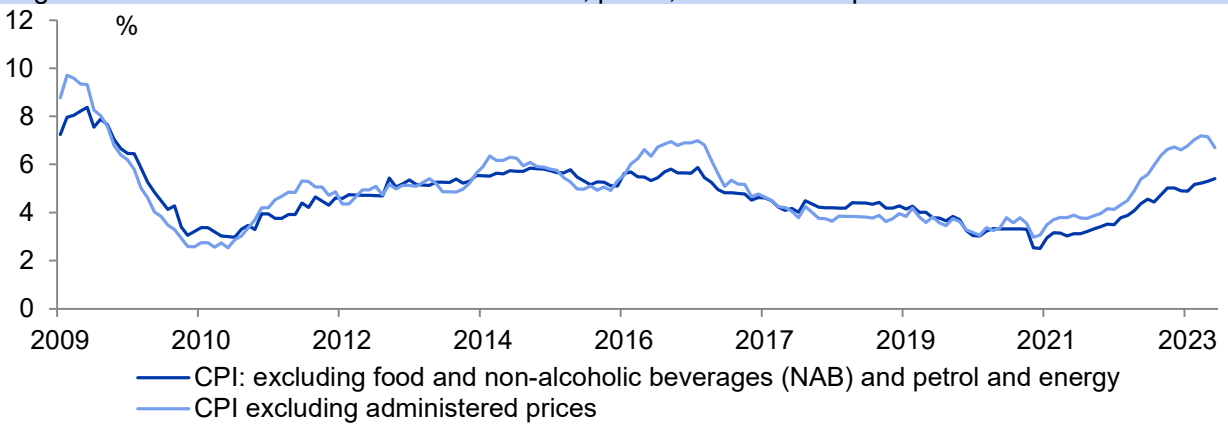
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Figure 5: CPI: Actual rentals vs owners' equivalent rent price inflation



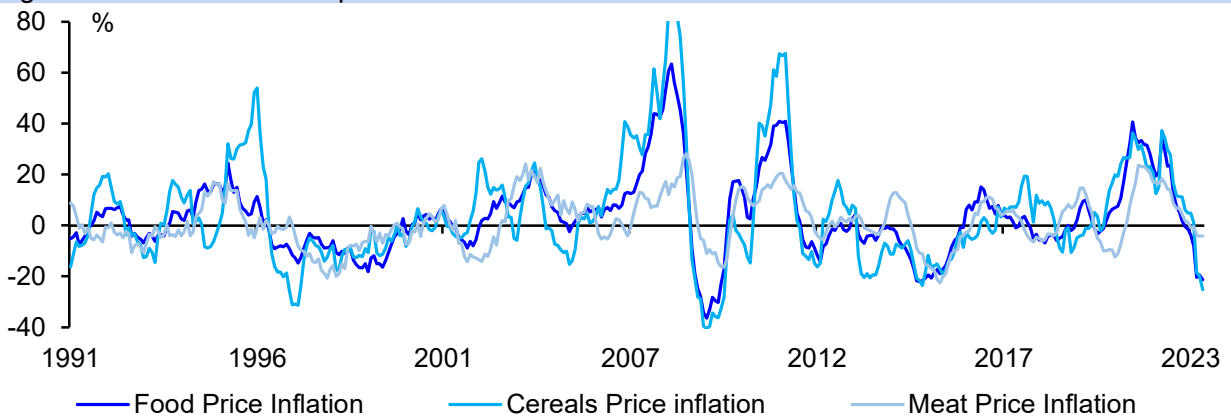
Source: Stats SA

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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