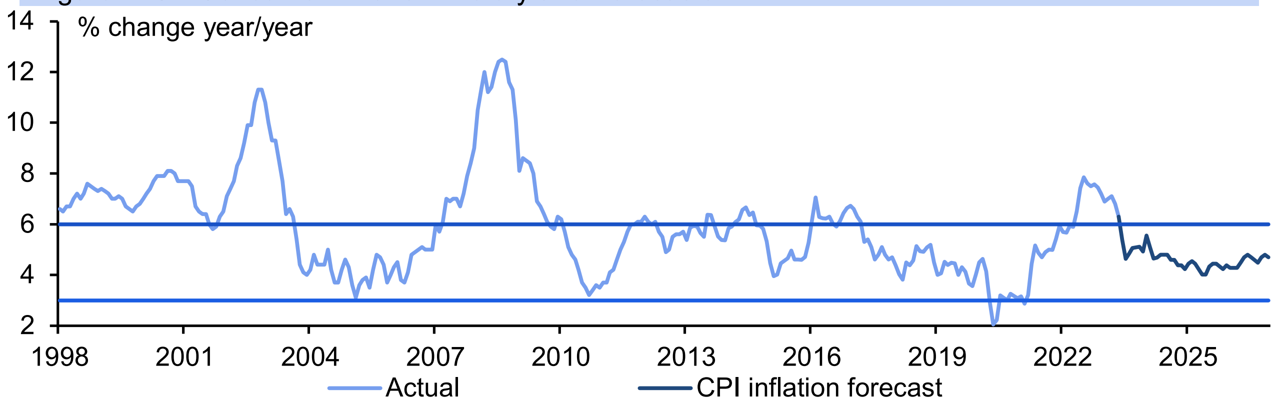
CPI update: a good inflation print, further drops to come

Wednesday 21 June 2023

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.

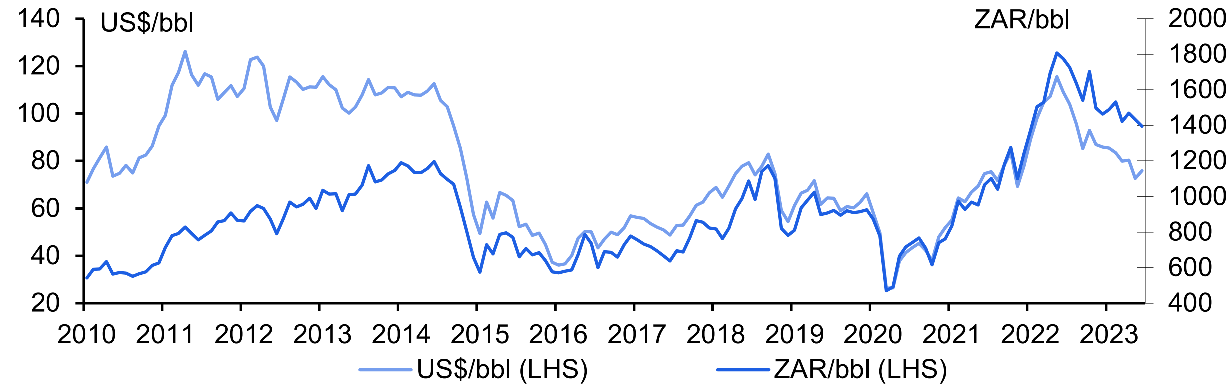
Figure 2: Contribution of different groups to the monthly change, m/m in the CPI

	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

Annabel Bishop • Investec Bank Limited • email: ambishop@investec.co.za • (27+)11 286 7188

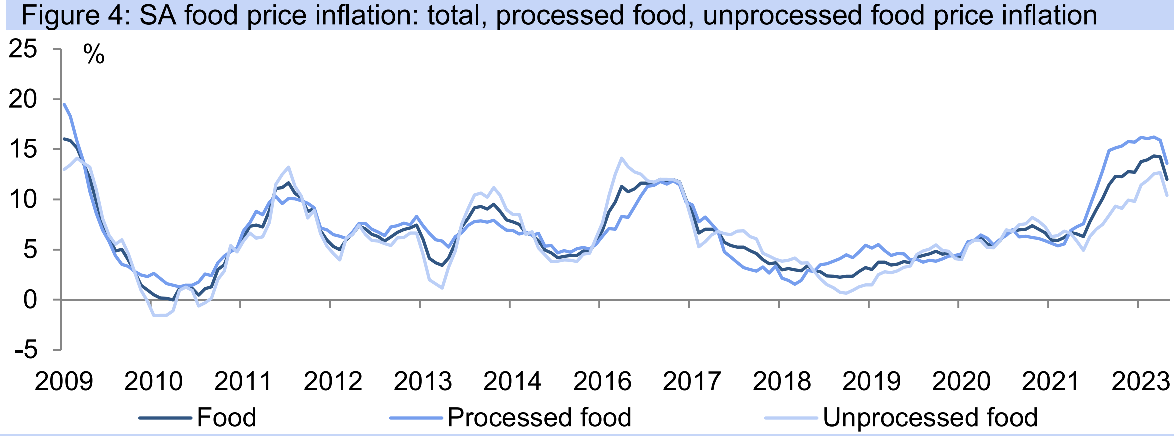
Figure 3: Oil price: rand vs USD



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.

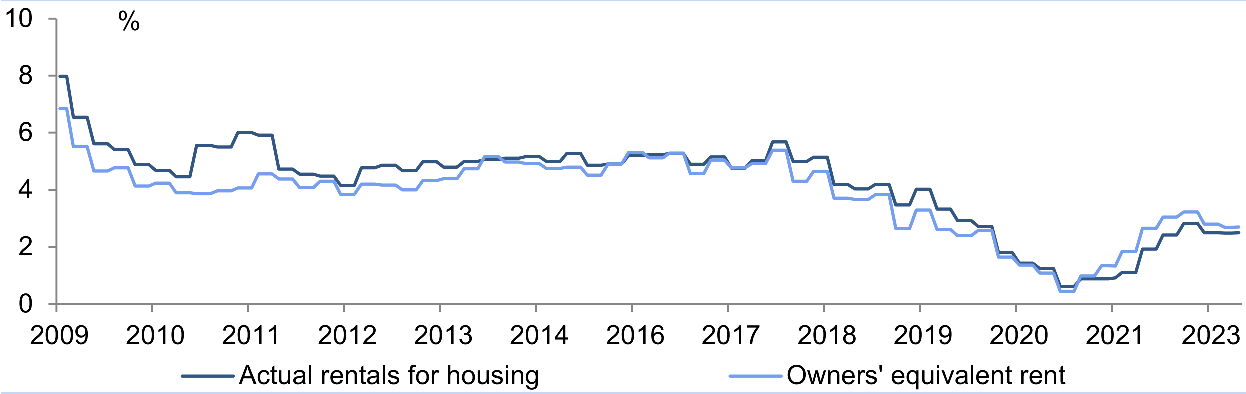
Figure 4: SA food price inflation: total, processed food, unprocessed food price inflation



Source: Stats SA

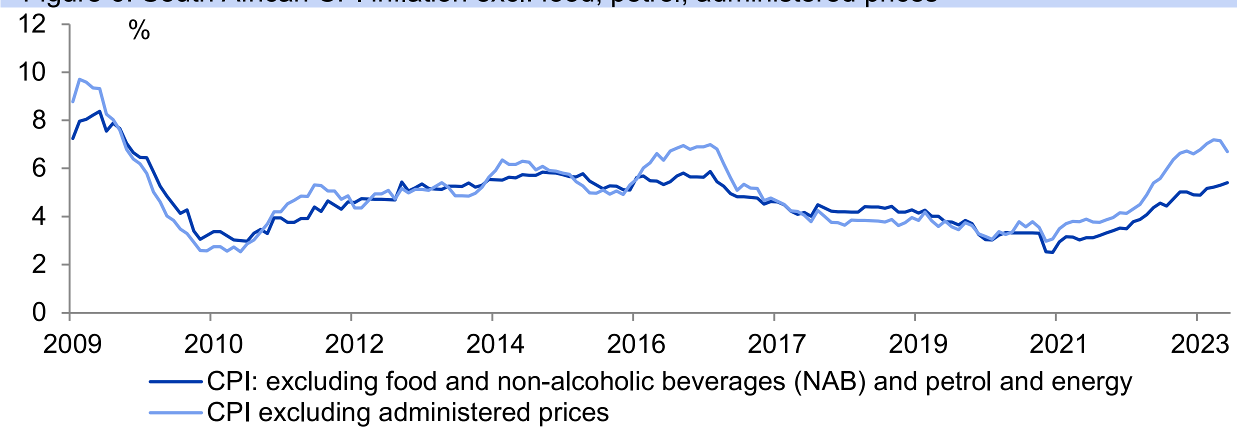
Annabel Bishop • Investec Bank Limited • email: ambishop@investec.co.za • (27+)11 286 7188

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



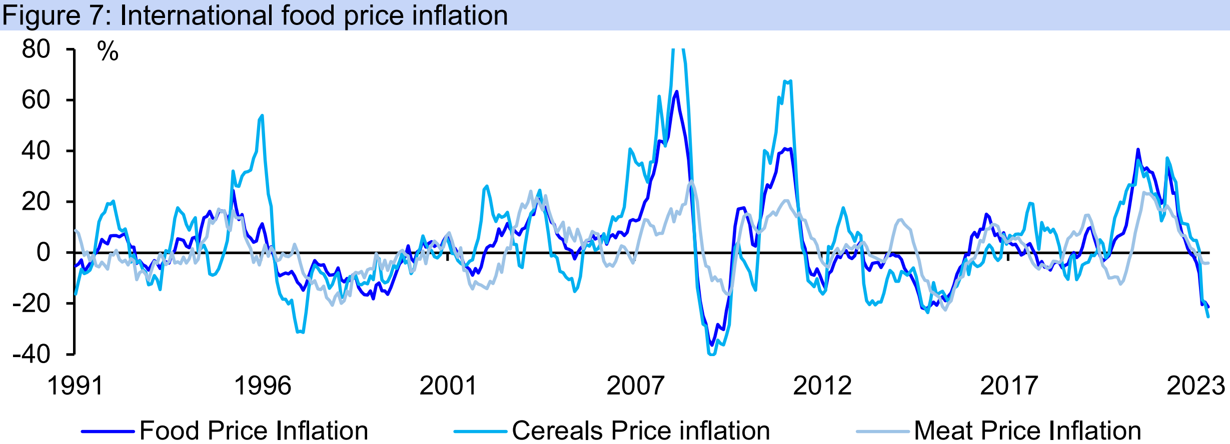
Source: Stats SA

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



Source: Stats SA

Figure 7: International food price inflation



Source: UN

Annabel Bishop • Investec Bank Limited • email: ambishop@investec.co.za • (27+)11 286 7188

Disclaimer

For the purposes of this disclaimer, Investec shall include Investec Bank Limited, its ultimate holding company, a subsidiary (or a subsidiary of a subsidiary) of that entity, a holding company of that entity or any other subsidiary of that holding company, and any affiliated entity of any such entities. “Investec Affiliates” shall mean any directors, officers, representatives, employees, advisers or agents of any part of Investec.

The information and materials presented in this report are provided to you solely for general information and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto.

The information in this report has been compiled from sources believed to be reliable, but neither Investec nor any Investec Affiliates accept liability for any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. The information in this report and the report itself is subject to change without notice. This report as well as any other related documents or information may be incomplete, condensed and/or may not contain all material information concerning the subject of the report; its accuracy cannot be guaranteed. There is no obligation of any kind on Investec or any Investec Affiliates to update this report or any of the information, opinions, forecasts or estimates contained herein.

Investec (or its directors, officers or employees) may, to the extent permitted by law, own or have a position or interest in the financial instruments or services referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such financial instruments. Investec (or its directors, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published. Investec may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. The value of any securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors.

This report does not contain advice, except as defined by the Corporations Act 2001 (Australia). Specifically, it does not take into account the objectives, financial situation or needs of any particular person. Investors should not do anything or forebear to do anything on the basis of this report. Before entering into any arrangement or transaction, investors must consider whether it is appropriate to do so based on their personal objectives, financial situation and needs and seek financial advice where needed.

No representation or warranty, express or implied, is or will be made in relation to, and no responsibility or liability is or will be accepted by Investec or any Investec Affiliates as to, or in relation to, the accuracy, reliability, or completeness of the contents of this report and each entity within Investec (for itself and on behalf of all Investec Affiliates) hereby expressly disclaims any and all responsibility or liability for the accuracy, reliability and completeness of such information or this research report generally.

The securities or financial instruments described herein may not have been registered under the US Securities Act of 1933, and may not be offered or sold in the United States of America or to US persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. US entities that are interested in trading securities listed in this report should contact a US registered broker dealer.

For readers of this report in South Africa: this report is produced by Investec Bank Limited, an authorised financial services provider and a member of the JSE Limited.

For readers of this report in United Kingdom and Europe: this report is produced by Investec Bank Plc (“IBP”) and was prepared by the analyst named in this report. IBP is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. This report is not intended for retail clients and may only be issued to professional clients and eligible counterparties, and investment professionals as described in S19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005.

For readers of this report in Ireland: this report is produced by Investec Bank plc (Irish Branch) and was prepared by the analyst named in this report. Investec Bank plc (Irish Branch) is authorised by the Prudential Regulation Authority in the United Kingdom and is regulated by the Central Bank of Ireland for conduct of business rules.

For readers of this report in Australia: this report is issued by Investec Australia Limited, holder of Australian Financial Services License No. 342737 only to ‘Wholesale Clients’ as defined by S761G of the Corporations Act 2001.

Annabel Bishop • Investec Bank Limited • email: ambishop@investec.co.za • (27+)11 286 7188

Annabel Bishop • Investec Bank Limited • email: ambishop@investec.co.za • (27+)11 286 7188