Investec

Inflation rate note: CPI inflation is still expected to average around 5.0% y/y this year

Thursday 30 May 2024

SA inflation forecasts	2023	2024	2025	2026	2027	2028	2029
Consumer Inflation (Av: %)	5.9	4.9	4.4	4.6	4.7	4.6	4.8
(year-end: %)	*5.1*	*4.5*	*4.4*	*4.7*	*4.5*	*4.6*	*4.5*
Producer Inflation (Av: %)	6.8	4.9	5.2	5.1	5.0	5.1	5.1
(year-end: %)	*4.0*	*5.0*	*4.8*	*5.3*	*4.9*	*5.1*	*5.2*
Salary & wage increases (%)	4.8	4.7	5.2	5.5	5.6	5.6	5.9

Source: Investec, SARB, Stats SA

SA Consumer Inflation: history and forecasts

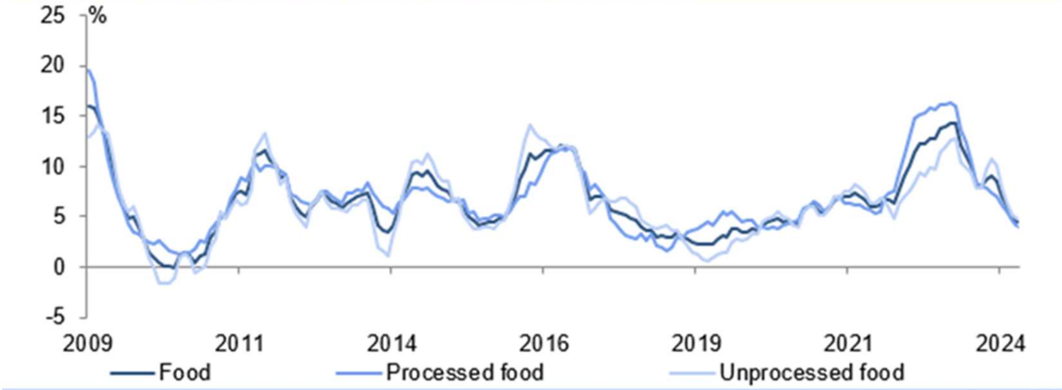
Source: Stats SA, SARB, Investec

CPI forecast averages

Date	Index Base 2016	Annual y/y	Monthly m/m	Quarterly y/y	Calendar Year	y/y
Jan 2023	107.1	6.9	-0.1			
Feb 2023	107.9	7.0	0.7			
Mar 2023	109.0	7.1	1.0	7.0		
Apr 2023	109.4	6.8	0.4			
May 2023	109.6	6.3	0.2			
Jun 2023	109.8	5.4	0.2	6.2		
Jul 2023	110.8	4.7	0.9			
Aug 2023	111.1	4.8	0.3			
Sep 2023	111.8	5.4	0.6	5.0		
Oct 2023	112.8	5.9	0.9			
Nov 2023	112.7	5.5	-0.1			
Dec 2023	112.7	5.1	0.0	5.5	2023	5.9
Jan 2024	112.8	5.3	0.1			
Feb 2024	113.9	5.6	1.0			
Mar 2024	114.8	5.3	0.8	5.4		
Apr 2024	115.1	5.2	0.3			
May 2024	115.3	5.2	0.2			
Jun 2024	115.6	5.2	0.2	5.2		
Jul 2024	116.3	4.9	0.6			
Aug 2024	116.5	4.8	0.2			
Sep 2024	116.8	4.5	0.3	4.8		
Oct 2024	117.3	4.0	0.4			
Nov 2024	117.7	4.4	0.3			
Dec 2024	117.7	4.5	0.1	4.3	2024	4.9
Jan 2025	118.5	5.1	0.7			
Feb 2025	119.0	4.5	0.4			
Mar 2025	119.6	4.2	0.5	4.6		
Apr 2025	119.9	4.1	0.2			
May 2025	120.0	4.0	0.1			
Jun 2025	120.2	4.0	0.2	4.1		
Jul 2025	121.5	4.5	1.1			
Aug 2025	121.9	4.6	0.3			
Sep 2025	122.3	4.6	0.3	4.6		
Oct 2025	122.4	4.3	0.1			
Nov 2025	122.6	4.2	0.2			
Dec 2025	122.9	4.4	0.2	4.3	2025	4.4
Jan 2026	123.6	4.3	0.6			
Feb 2026	124.1	4.3	0.4			
Mar 2026	124.7	4.3	0.5	4.3		

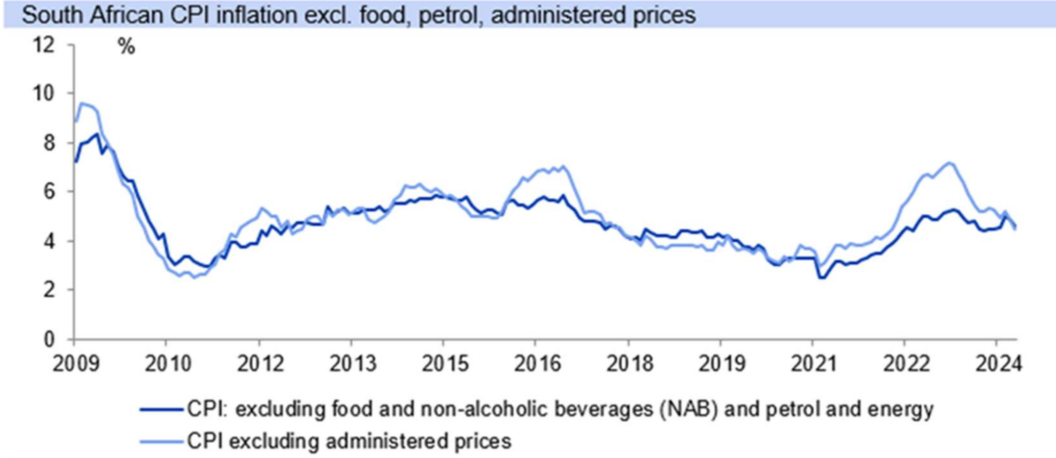
Source: Stats SA, Investec

SA CPI: Food vs processed and unprocessed price inflation



Source: Stats SA

South African CPI inflation excl. food, petrol, administered prices



Source: Stats SA

- While inflation moderated in April, to 5.2% y/y from 5.3% y/y in March, and 5.6% y/y in February, the descent has been slow overall since 2022, with inflation sticky, and inflation at times rising, and at risk of seeing further unevenness.
- The rand has a direct influence on prices in SA, through both fuel and food costs, with the domestic currency volatile, strengthening from around R19.30/USD in April, to R18.03/USD this month, but then bouncing back to R18.69/USD today.
- Rand weakness pushes the cost of US dollar-based oil and petroleum product imports higher for South Africa, along with food prices, with the latter priced off international food prices, along with domestic inputs.
- The US has not seen a softening in its monetary policy tone, and so an indication of earlier US interest rate cuts, as hoped for earlier this month, causing the rand to lose some ground, while the rand has weakened further today as election results feed in.

- Markets hope for an ANC outcome of at least around 45%, allowing policy continuity, a shrinking budget deficit and debt ratios, with positive effects on monetary policy and inflation, but early results have shown the ANC closer to 43%.
- Markets would prefer the ANC to avoid collations if not with a centrist market friendly party/parties. BMI research warns that a ANC/EFF coalition would instead "see headwinds to attempts to rein in South Africa's deficit and debt load".
- BMI adds it "would expect an adverse market reaction to this coalition, prompting a pronounced rise in bond yields and a decline in the rand's value against the dollar, reflecting investor fears over a shift towards more radical economic policies."
- And furthermore "(a)n ANC-EFF coalition would result in a significant slowdown in policymaking, particularly concerning reforms to South Africa's state-owned enterprises, given the ideological differences between the two parties."
- Higher government debt and fiscal deficits tend to contribute to higher inflation, while markets are also concerned about threats to the SARB's independence with a market unfriendly coalition partner, although it is too early to tell the election outcome yet.

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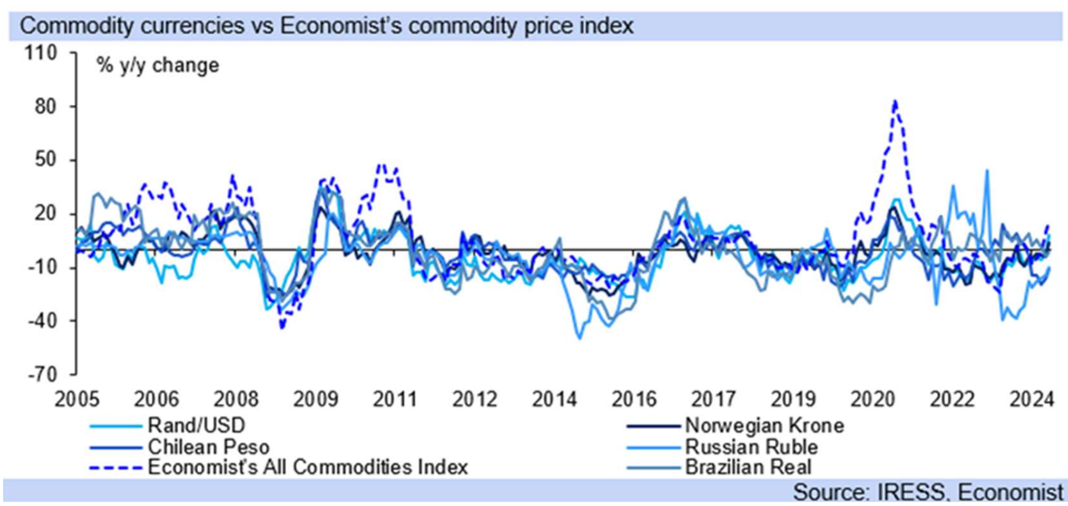
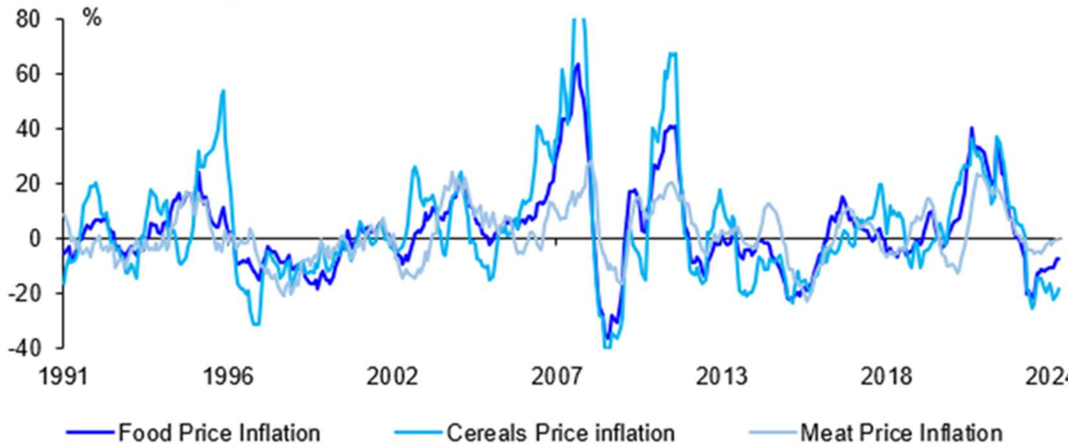


South Africa Core inflation

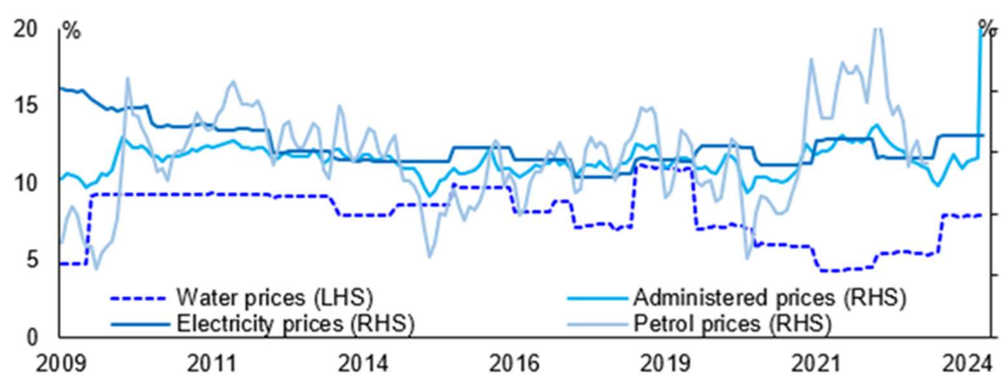
Source: Stats SA

International food price inflation

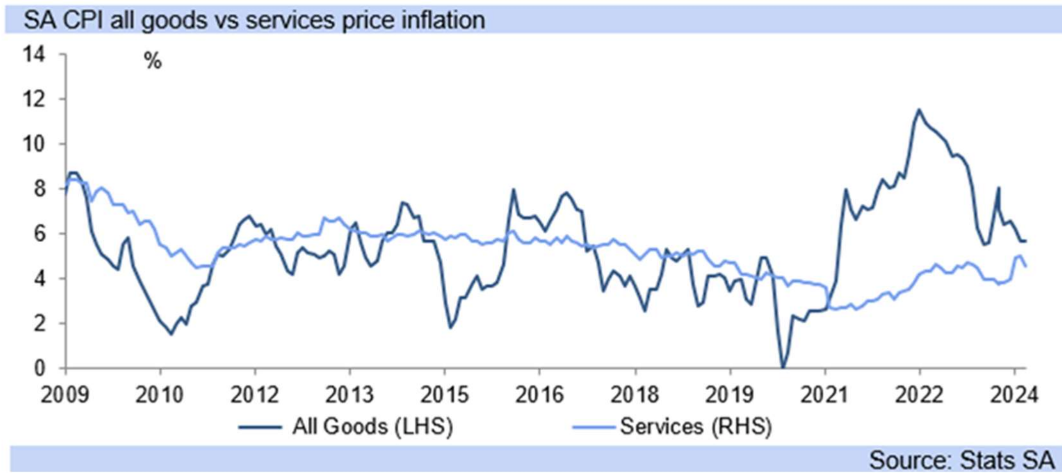


Source: UN

Inflation rate of administered prices in SA - inflation target 3-6%



Source: Stats SA



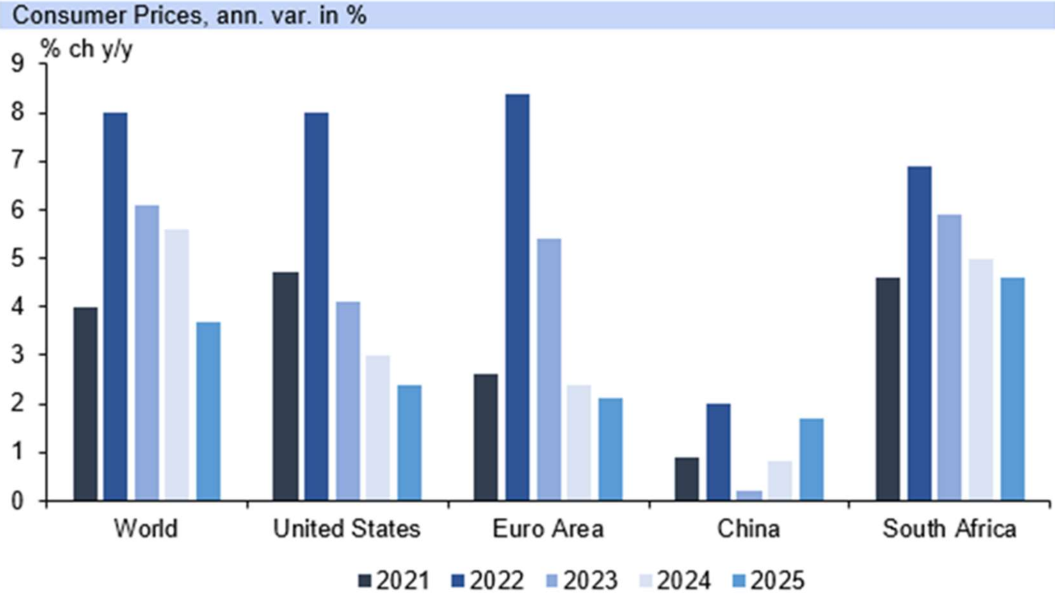
- Higher fiscal debt and deficits also threaten the country's credit ratings, making it more difficult to borrow in financial markets, increasing the cost of borrowing and so placing upwards pressure on interest rates, negatively affecting economic growth.
- The BIS (Bank for International Settlements) finds "the greatest inflationary effect … under a "fiscally led" regime, … in which fiscal policy is profligate and the central bank is constrained only in a limited way from lending to the public sector."
- Defining a fiscally led regime "as a regime in which the government does not adjust the primary balance to stabilise debt and the central bank is less independent or puts less emphasis on price stability".
- Under such a regime, which an ANC/EFF coalition would be expected to deliver as per the BMI, the BIS notes "the average effect on inflation of higher deficits is found to be up to five times larger than under a monetary-led regime."
- The BIS further highlights that "(h)igher deficits increase the inflation risks on the upside (ie the probability of high inflationary outcomes), and these effects are larger in the fiscally led regime."
- "A higher deficit is least inflationary under a "monetary-led" regime, … in which the fiscal authority acts prudently to stabilise public debt and the central bank is highly independent (and faces strong legal limitations on its ability to lend to the public sector)."
- The ANC is not expected to threaten SA's monetary policy, or fiscal policy stability by entering into a coalition which has this effect in the expected case. It needs to be noted as well that at currently under 30% of votes tallied, the figures are verry preliminary.

- With oil prices below US$90/bbl, this has moderated the pressure on fuel prices, with a cut in the petrol price of around R1.00/litre currently due next month, which will place some downwards pressure on inflation in June.
- Food price inflation has seen some moderation of late, but upwards pressure is building globally on food prices due to adverse weather effects, with food price inflation still posing some risk to the overall inflation outcome.

Consumer Prices, annual variation in %	2021	2022	2023	2024	2025
World	**4.0**	**8.0**	**6.1**	**5.6**	**3.7**
United States	4.7	8.0	4.1	3.0	2.4
Euro Area	2.6	8.4	5.4	2.4	2.1
China	0.9	2.0	0.2	0.8	1.7
Japan	-0.2	2.5	3.2	2.3	1.8
Sub-Saharan Africa	**11.3**	**15.3**	**15.7**	**14.4**	**10.6**
Angola	25.8	21.4	13.6	24.6	16.8
Botswana	6.7	12.2	5.1	4.2	4.1
Cameroon	2.3	6.3	7.4	5.3	3.9
Code d'Ivoire	4.2	5.2	4.4	2.9	2.5
DR Congo	9.0	9.3	19.9	14.5	8.2
Ethiopia	26.8	33.9	30.3	24.8	18.1
Ghana	10.0	31.9	39.2	19.9	12.1
Kenya	6.1	7.7	7.7	6.1	5.7
Mozambique	6.6	10.4	7.0	5.5	5.9
Nigeria	17.0	18.8	24.7	30.6	21.1
Rwanda	-0.4	17.7	19.8	5.2	5.6
Senegal	2.2	9.7	5.9	2.9	1.9
South Africa	4.6	6.9	5.9	5.0	4.6
Tanzania	3.7	4.3	3.8	3.7	4.2
Uganda	2.2	7.2	5.4	4.3	5.0
Zambia	22.0	11.0	10.9	12.9	9.4
Zimbabwe	19.7	43.5	28.3	45.0	28.1

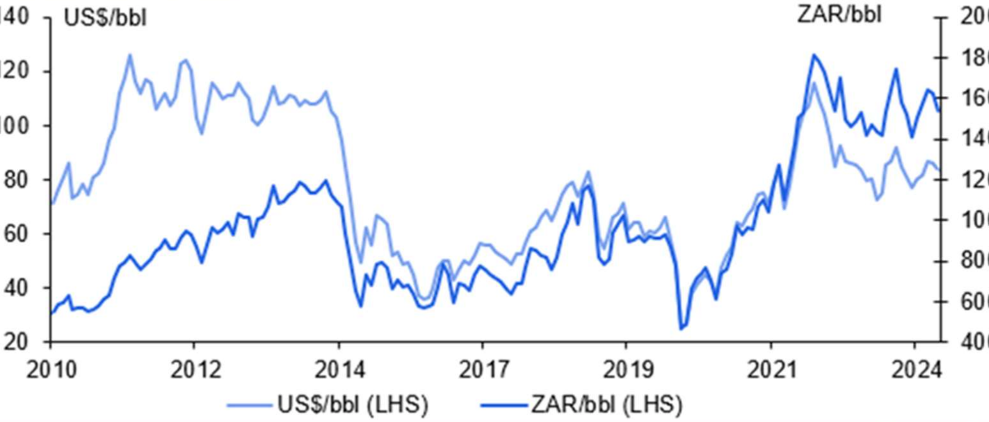
Source: Focus Economics June 2024

Consumer Prices, ann. var. in %



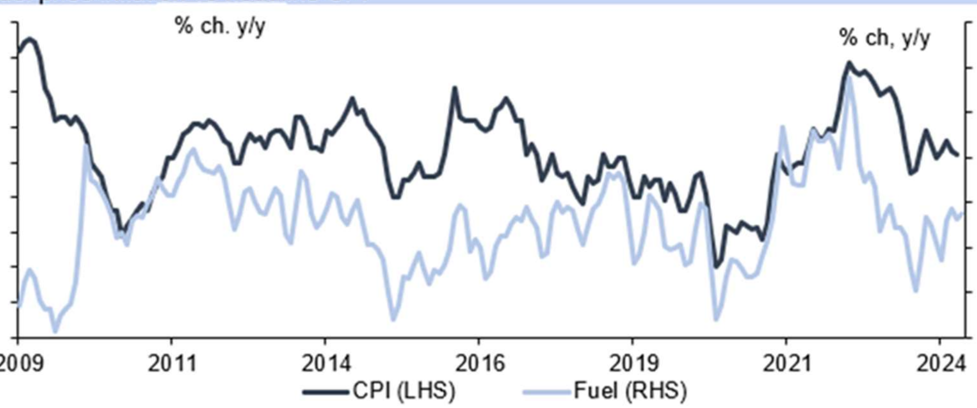
Source: Focus Economics June 2024

Oil price: Rand vs USD



Source: Iress

Fuel price inflation vs headline CPI



Source: Stats SA

International food prices

Source: Iress