

SA Economics



Inflation rate note: CPI inflation is likely to fall further in SA, but climate change poses risks

Wednesday 2 August 2023

SA inflation forecasts	2022	2023	2024	2025	2026	2027
Consumer Inflation (Av: %)	6.9	5.7	4.6	4.3	4.6	4.7
<i>(year-end: %)</i>	7.2	4.9	4.1	4.4	4.7	4.5
Producer Inflation (Av: %)	14.4	6.9	5.0	5.1	5.1	5.0
<i>(year-end: %)</i>	13.5	4.4	4.9	4.8	5.3	4.9
Salary & wage increases (%)	4.0	3.2	4.0	4.0	4.1	4.7

Source: Investec, SARB, Stats SA

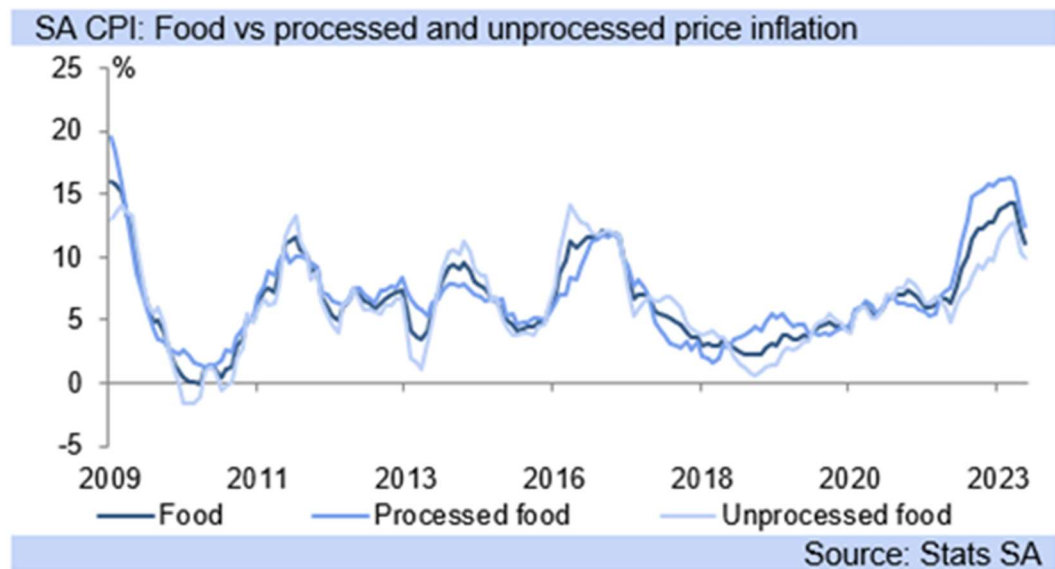
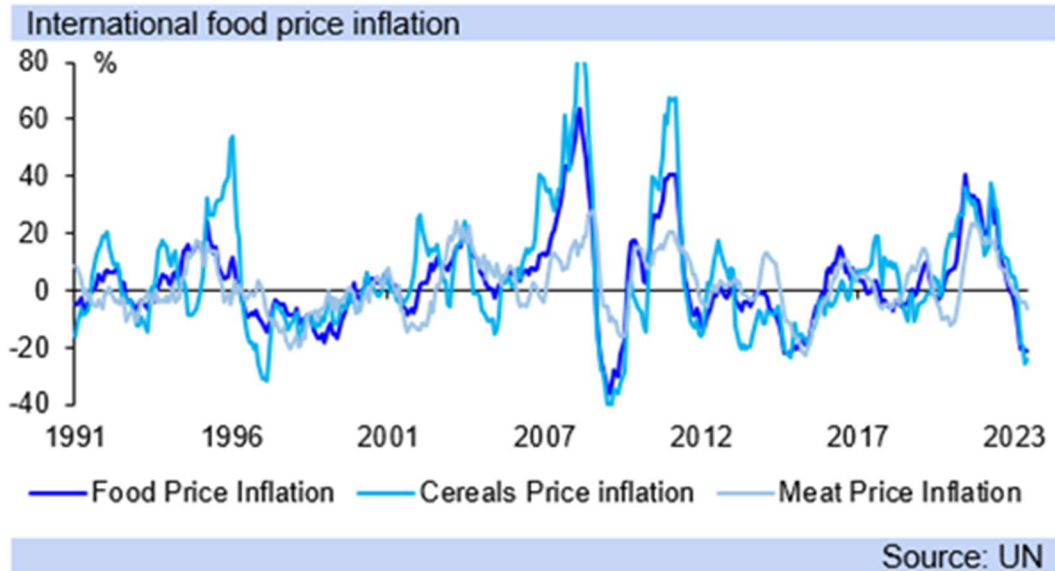
SA Consumer Inflation: history and forecasts



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	110.7	4.6	0.8			
Aug 2023	111.1	4.8	0.4			
Sep 2023	111.5	5.0	0.3	4.8		
Oct 2023	111.9	5.1	0.4			
Nov 2023	112.2	5.1	0.3			
Dec 2023	112.5	4.9	0.2	5.0	2023	5.7
Jan 2024	113.0	5.5	0.5			
Feb 2024	113.4	5.1	0.3			
Mar 2024	114.0	4.6	0.6	5.1		
Apr 2024	114.4	4.6	0.3			
May 2024	114.7	4.7	0.3			
Jun 2024	115.0	4.7	0.2	4.6		
Jul 2024	115.9	4.7	0.8			
Aug 2024	116.1	4.5	0.2			
Sep 2024	116.5	4.5	0.3	4.6		
Oct 2024	116.7	4.3	0.2			
Nov 2024	117.0	4.3	0.3			
Dec 2024	117.1	4.1	0.1	4.2	2024	4.6
Jan 2025	117.9	4.3	0.7			
Feb 2025	118.4	4.4	0.4			
Mar 2025	119.0	4.3	0.5	4.4		
Apr 2025	119.2	4.2	0.2			
May 2025	119.3	4.0	0.1			
Jun 2025	119.6	4.0	0.2	4.1		
Jul 2025	120.9	4.3	1.1			
Aug 2025	121.3	4.4	0.3			
Sep 2025	121.6	4.4	0.3	4.4		
Oct 2025	121.7	4.3	0.1			
Nov 2025	122.0	4.2	0.2			
Dec 2025	122.2	4.4	0.2	4.3	2025	4.3
Jan 2026	123.0	4.3	0.6			
Feb 2026	123.5	4.3	0.4			
Mar 2026	124.1	4.3	0.5	4.3		

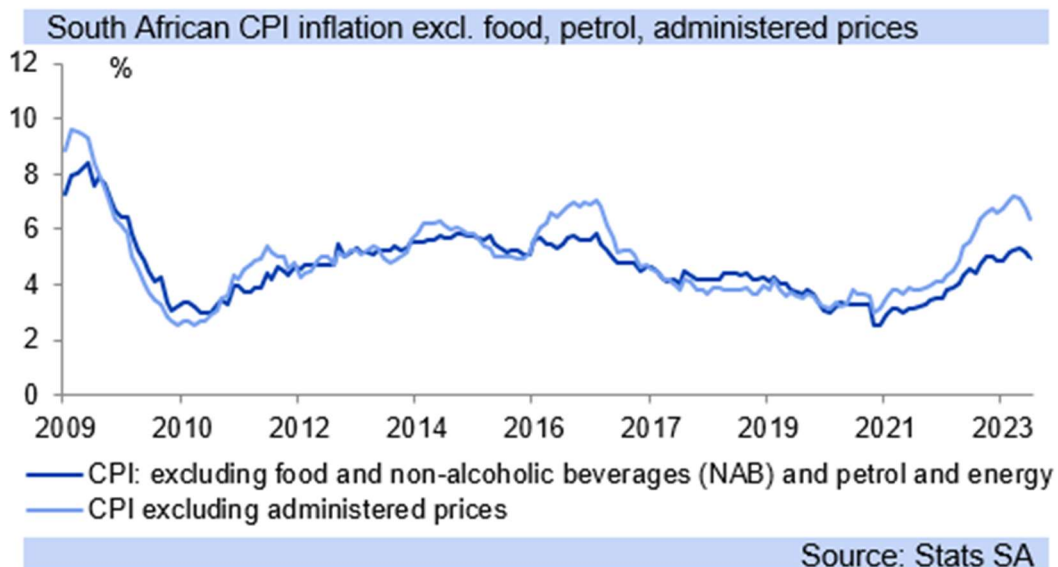
Source: Stats SA, Investec

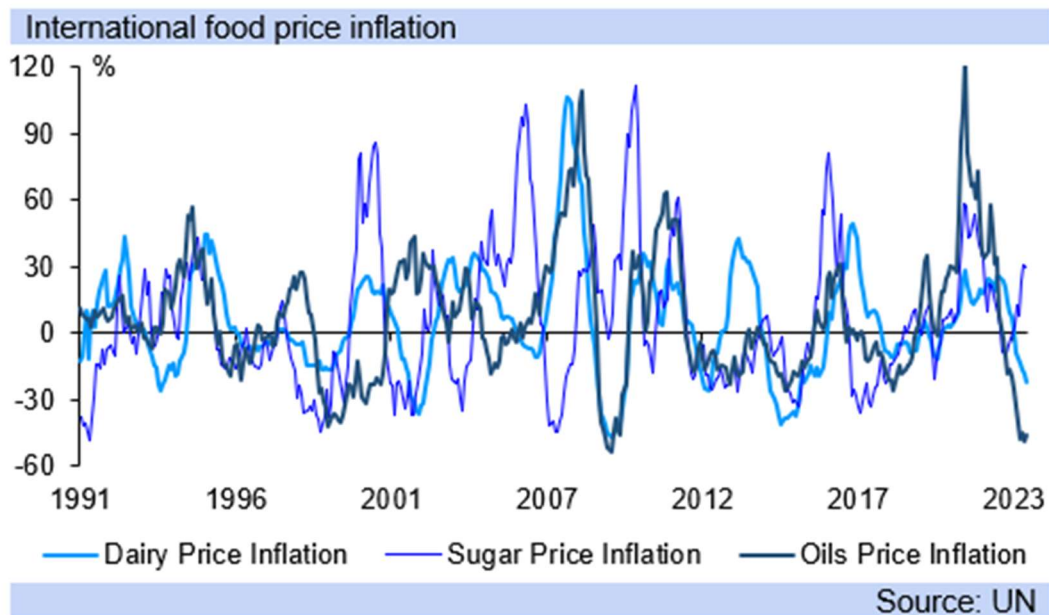
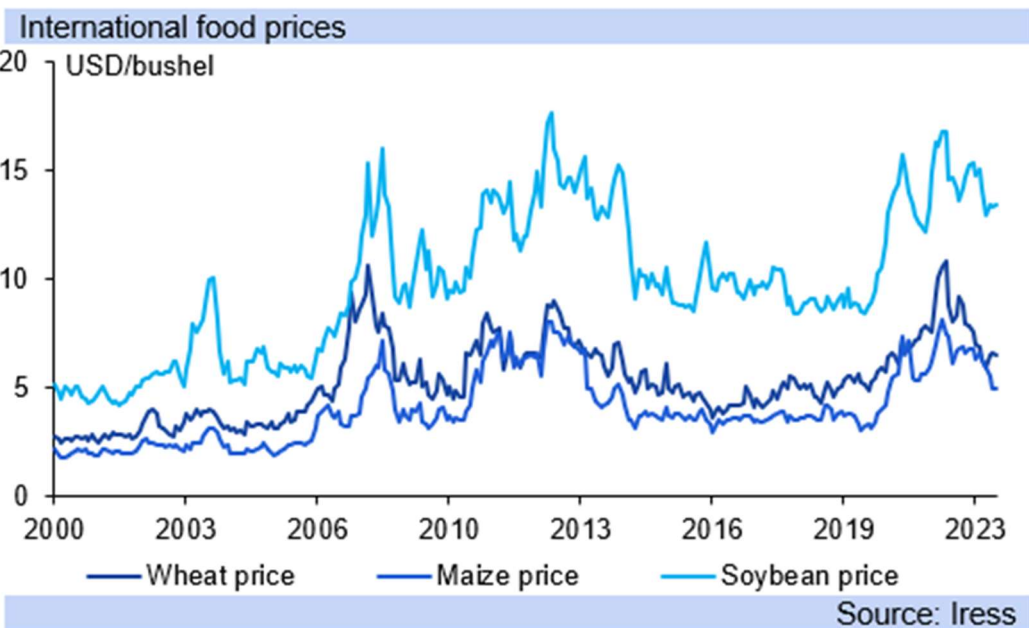


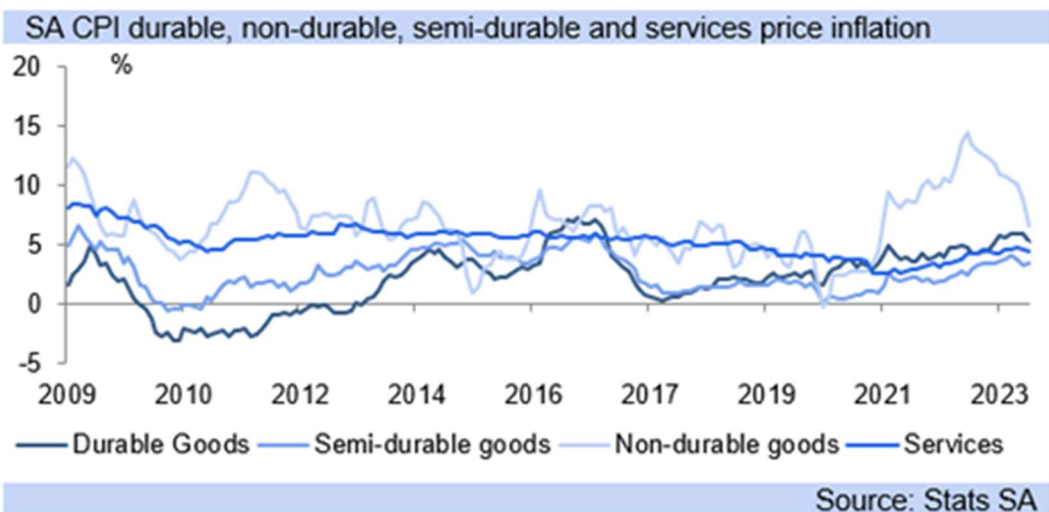
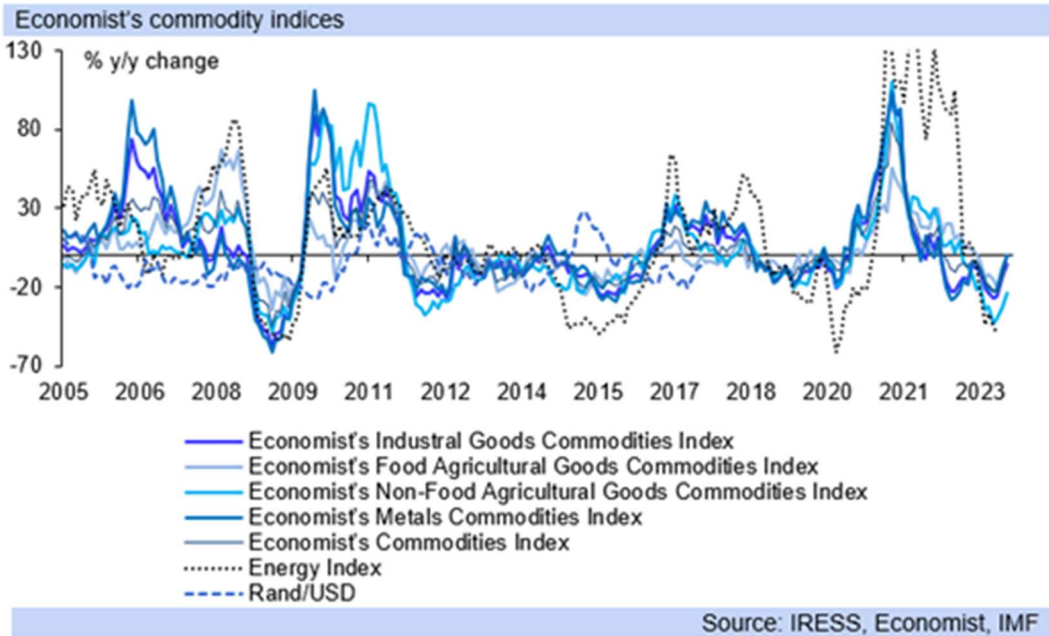
- This month should see CPI inflation fall further in South Africa, below 5.0% y/y as the general downward trend begun a year ago persists albeit with some stickiness in certain months. SA's CPI has proved less sticky than the core measure.
- July 2022 saw CPI (headline or targeted) price inflation rise to the peak in the current inflation cycle of 7.8% y/y, creating a high base for this July's CPI inflation rate to be calculated off, with inflation a year on year measurement for a basket of prices.
- With the electricity tariff increase taking effect in July, 18.49% on the 1st of July 2023 for municipalities, this will contribute to the bulk of the rise in the headline inflation rate, while petrol prices remained essentially flat, falling by only 17c/litre last month.

- Otherwise, July sees insurance costs surveyed for buildings and household contents, while food prices are also likely to contribute on the month, and indeed there are a number of areas likely contributing to the inflation rate outcome in July.
- This results in the possibility of the inflation rate ranging between 4.5% y/y and 5.0% y/y, although food price inflation has seen some moderation this year, from 14.0% y/y in March to 11.0% y/y in June, with SA experiencing favourable weather conditions.
- The El Nino period, of below average rainfall, is expected to see some pressure on agricultural production going forward, although SA has come from a lengthy LA Nina (above average) rainfall period, which has substantially bolstered soil moisture.
- In combination with the effects of climate change, which have been very marked this year in the northern hemisphere summer, South Africa's summer crop production does hold some uncertainty, and could see stickiness in food price inflation.
- The high price inflation of 2022 (the highest for South Africa since 2009), created base effects that aided the subsequent descent, or disinflation (falling inflation), but these base effects will wear out from August, and particularly over Q4.23.
- While CPI inflation is expected to average around 4.5% y/y in 2024, there are risks, particularly from food price inflation, with retailers seeing margin squeeze on the costs of load shedding, while climate change is escalating globally and locally.

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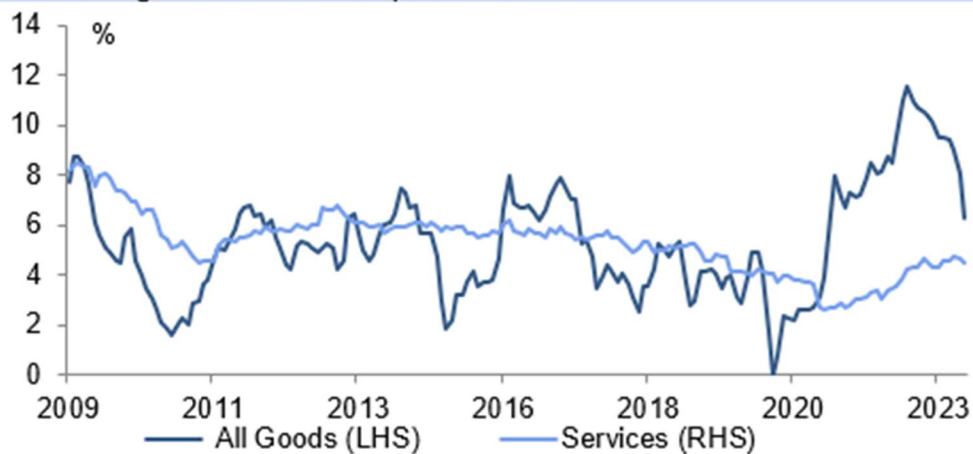




- The World Meteorological Organization (WMO) and the European Commission's Copernicus Climate Change Service recently said the northern hemisphere's "first three weeks of July have been the warmest ... ever observed in our record".
- The G20 Environment Meeting last week (ahead of this year's COP28 climate talks) saw a lack of agreement on tripling renewable energy use and peaking global carbon emissions by 2025, despite "(r)ecords of temperatures, catastrophes, giant fires."
- France's ecological transition minister, Christophe Bechu, also added "(w)e are not able to reach an agreement of increasing drastically renewable energies, we are not able to reach an agreement on phasing out or down fossil fuels, especially coal".

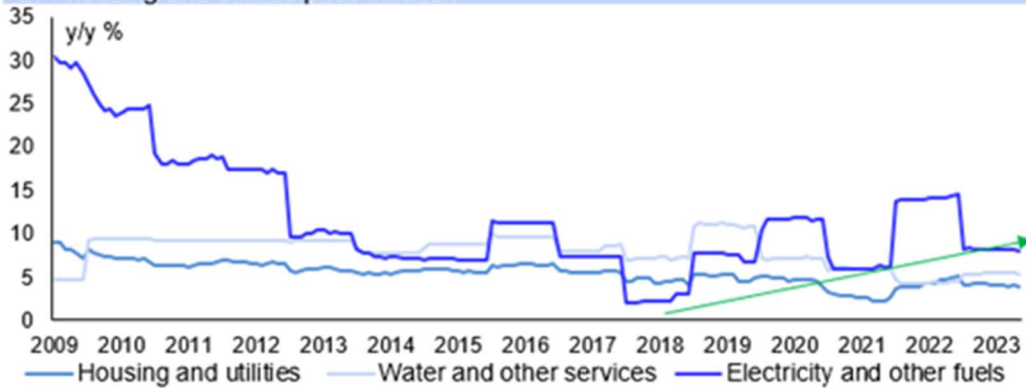
- The European Union’s environment commissioner, Virginijus Sinkevičius, noted that as G20 countries account for up to 80% of global greenhouses emissions, G20 countries were “nowhere” on their commitments to address climate change.
- The commissioner is also reported to have said that some delegations had attempted to reduce previous commitments to reduce climate change, but “(w)e cannot allow the pace of change to be set by the slowest movers in the room”.
- The EU is reported to be planning to levy a carbon border adjustment mechanism (CBAM) by October, with SA’s DTI “Department of Trade, Industry and Competition” warning that it would affect US\$1.5bn worth of SA exports.
- “CBAM has the effect of transferring the burden of climate action onto developing economies and places undue and unjust burdens on our country and industries,” the DTI said. Coal accounts for around 80% of Eskom’s power generation.
- The economic effects of climate change will increasingly be felt, as will the impact of climate mitigation actions. SA is battling in its transition to renewable energy due to a number of factors, including high financing costs and lack of transmission capacity.
- Turning to the rand, key for the inflation outlook, any negative event (such as the recent credit rating downgrade in the US) sparks risk aversion in global financial markets and so safe haven flows into US treasuries, strengthening the dollar.

SA CPI all goods vs services price inflation



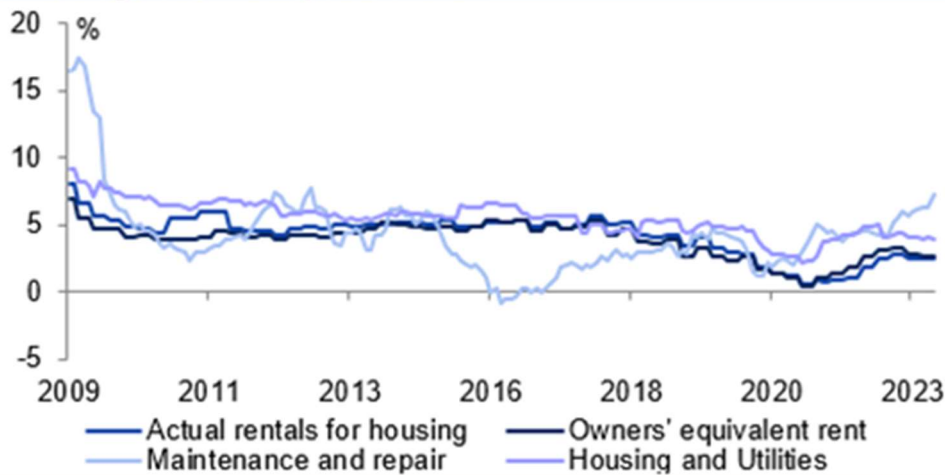
Source: Stats SA

CPI housing and utilities price inflation



Source: Stats SA

CPI housing and utilities price inflation



Source: Stats SA

Inflation expectations survey Q1.23 and Q2.23

Survey conducted during	2023Q1				2023Q2			
	Analysts	Business people	Trade union officials	Average	Analysts	Business people	Trade union officials	Average
Headline CPI inflation during the year								
2023	5.6	6.8	6.5	6.3	5.9	6.9	6.6	6.5
2024	4.9	6.6	6.1	5.8	5.1	6.6	6.2	5.9
2025	4.6	6.2	5.8	5.5	4.7	6.3	5.9	5.6

Source: BER

Dates when BER surveys for inflation expectations were conducted

	Analysts, businesses, and trade unions			Households			
	Mail questionnaire	Date of return	Process results	Fieldwork	Process results		
2018Q1	06-Feb	13-Mar	14-Mar	26-Feb	-	08-Mar	05-Apr
2018Q2	29-May	03-Jul	04-Jul	20-Apr	-	07-Jun	06-Jul
2018Q3	31-Jul	06-Sep	06-Sep	24-Oct	-	08-Nov	19-Nov
2018Q4	30-Oct	04-Dec	06-Dec	23-Oct	-	07-Dec	10-Jan
2019Q1	05-Feb	12-Mar	13-Mar	04-Mar	-	25-Mar	15-Apr
2019Q2	28-May	02-Jul	04-Jul	21-Mar	-	18-Apr	15-May
2019Q3	30-Jul	05-Sep	06-Sep	12-Sep	-	20-Sep	27-Sep
2019Q4	29-Oct	03-Dec	04-Dec	12-Nov	-	18-Nov	26-Nov
2020Q1	09-Jan	20-Feb	21-Feb	17-Feb	-	27-Feb	02-Mar
2020Q2*	08-Jun	25-Jun	26-Jun	01-Jun	-	12-Jun	19-Jun
2020Q3*	11-Aug	27-Aug	28-Aug	11-Aug	-	21-Aug	25-Aug
2020Q4	08-Oct	03-Dec	04-Dec	23-Nov	-	04-Dec	07-Dec
2021Q1	13-Jan	25-Feb	26-Feb	22-Feb	-	05-Mar	10-Mar
2021Q2	12-May	24-Jun	25-Jun	07-Jun	-	14-Jun	17-Jun
2021Q3	21-Jul	02-Sep	03-Sep	16-Aug	-	30-Aug	01-Sep
2021Q4	13-Oct	09-Dec	10-Dec	14-Nov	-	25-Nov	30-Nov
2022Q1	12-Jan	24-Feb	25-Feb	21-Feb	-	04-Mar	08-Mar
2022Q2	11-May	23-Jun	24-Jun	06-Jun	-	20-Jun	22-Jun
2022Q3	20-Jul	01-Sep	02-Sep	15-Aug	-	22-Aug	25-Aug
2022Q4	21-Nov	08-Dec	09-Dec	14-Nov	-	23-Nov	25-Nov
2023Q1	20-Feb	09-Mar	10-Mar	27-Feb	-	09-Mar	13-Mar
2023Q2	19-Jun	29-Jun	30-Jun	05-Jun	-	15-Jun	21-Jun

Source BER

Note: in 2023Q2, 19 analysts, 124 business people, 10 trade unions and 500 households participated