

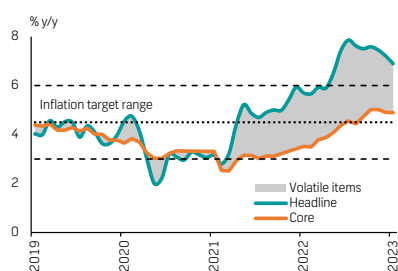


Flash Note: CPI

February 2023

Consumer inflation softened to 6.9% in January

Figure 1: Headline vs core CPI



Source: Stats SA, FNB Economics

Headline inflation was 6.9% y/y in January, down from 7.2% in December. Compared to the previous month, headline inflation is down 0.1%. This outcome is slightly higher than our expectation of 6.8%, but in line with consensus. Core contributed 0.14ppt to the monthly headline inflation, food and non-alcoholic beverages (NAB) added 0.32ppt, while fuel shaved off 0.58ppt.

Core inflation was unchanged at 4.9% y/y but had monthly pressure of 0.2%. Major shifts took place in the transport category where vehicles added 0.11ppt to the monthly pressure while public transport shaved off 0.07 ppt. Minor contributions by the other categories explains the overall monthly lift.

Fuel inflation was -10.5% m/m and 13.1% y/y, from 22.8% previously. This is explained by the over R2 per litre fall in fuel prices in January.

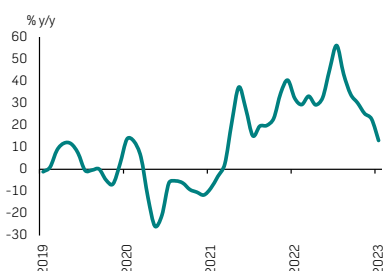
Food and NAB inflation surprised to the upside and recorded 1.8% m/m and 13.4% y/y, from 12.4% previously – reversing what appeared to be the start of a downward trend. Monthly pressure was primarily from meat, vegetables, cereals as well as dairy and eggs, which together explain nearly 90% of the increase.

Outlook

An update of today's data points to headline inflation remaining unchanged in February. We should see upward monthly pressure driven by the lift in fuel prices, as well as survey outcomes on health-related services that should lift core inflation. Throughout 2023, fuel inflation should soften relative to last year, albeit at a slower pace than previously anticipated given the expected lift in oil demand that should follow China's reopening. Food inflation should be sticky given elevated local input costs. Core inflation should continue to lift as second-round effects permeate the consumer basket. On average for this year, we predict headline inflation of 5.8%.

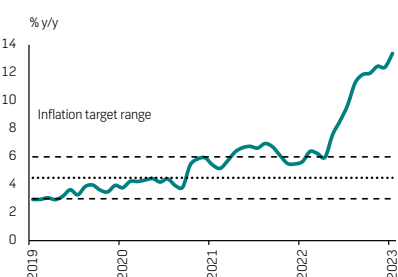
Global inflation continues to slow, the latest data from the US showed inflation easing slightly to 6.4%, from 6.5% previously, the slowest pace since October 2021. Weaker global economic activity and easing supply chain pressures should continue to support softer inflation this year. However, fragmentations such as export restrictions, sanctions as

Figure 2: Fuel CPI



Source: Stats SA, FNB Economics

Figure 3: Food and NAB CPI



Source: Stats SA, FNB Economics

Economist

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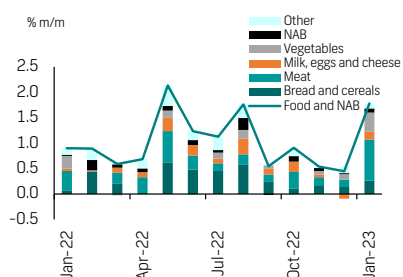
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Figure 4: Food and NAB



Source: Stats SA, FNB Economics

well as reshoring of business operations should be lingering consequences of escalated geopolitical tensions. These, along with transient inflation from the move towards cleaner energy, should keep global inflation sticky and above pre-pandemic levels for some time. The spill over of these factors to South Africa will be exacerbated by local production issues so long as the electricity constraint remains binding on the economy.

The February inflation print is scheduled for release on 22 March. Major periodical surveys conducted in February include medical insurance (7.11% weight in CPI), private hospitals and private medical services (0.82%).

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