

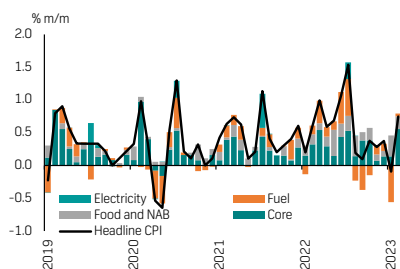


Flash Note: CPI

March 2023

Consumer inflation was 7.0% in February

Figure 1: Headline CPI



Source: Stats SA, FNB Economics

Headline inflation posted 7.0% y/y in February, up from 6.9% in January. Compared to the previous month, headline inflation lifted by 0.7%. This outcome is in line with our expectation, but slightly higher than consensus of 6.8%. Core contributed around 80% to monthly headline inflation, while food and non-alcoholic beverages (NAB) as well as fuel explains the rest.

Core inflation lifted to 5.2% y/y, from 4.9% previously, and had monthly pressure of 0.8%. Major contributions were made by medical insurance (which explains half of the monthly pressure), health as well as restaurants and hotels (explaining another 25%). Minor contributions by the other categories explain the remainder of the monthly lift.

Fuel inflation was 0.9% m/m and 10.9% y/y, from 13.1% previously.

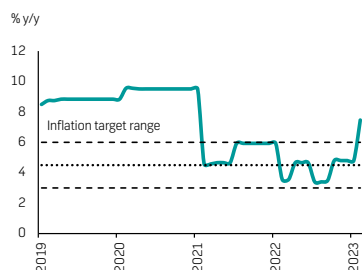
Food and NAB inflation recorded 1.0% m/m and 13.6% y/y, from 13.4% previously. Monthly pressure was primarily from cereals, dairy and eggs, NAB as well as miscellaneous foods, which together explain nearly 80% of the monthly increase.

Outlook

An update of today's data points to headline inflation slowing to 6.9% in March, with sustained monthly pressure of 0.8%. The upward monthly pressure will be driven by the over R1 per litre lift in petrol prices, as well as survey outcomes on housing inflation. Relative to last year, fuel inflation should soften especially if renewed growth fears in the US linger, as banking systemic risks unsettle markets, and oil prices remain softer. Food inflation should remain sticky given an elevated cost of doing business in SA. Core inflation should continue to lift, supported by a weaker rand-dollar exchange rate and continued passthrough of producer price pressures. On average for this year, we predict headline inflation of 5.9%.

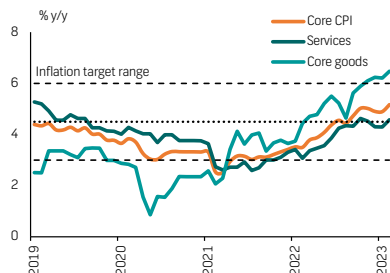
Global inflation has continued to moderate. The latest data from the US showed inflation easing to 6.0%, from 6.4% previously, the slowest pace since September 2021. Weaker global economic activity and easing supply chain pressures should continue to support softer inflation this year. However, longer-term inflation remains above pre-pandemic levels as geopolitical tensions, related fragmentations and the cleaner energy drive keep

Figure 2: Medical insurance



Source: Stats SA, FNB Economics

Figure 3: Core CPI (Services vs Core goods)



Source: Stats SA, FNB Economics

Economist

Koketso Mano

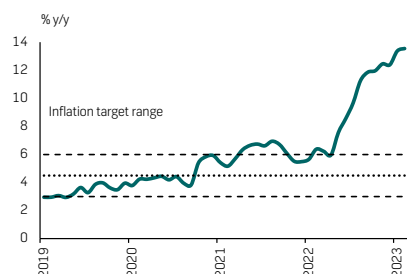
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Figure 4: Food and NAB CPI



Source: Stats SA, FNB Economics

global inflation sticky. SA's woes will be worsened by local energy and logistical issues as well as an El Nino weather pattern that is expected to develop towards year-end and usually results in below-average rainfall that adversely affects food production and prices.

The ECB continued hiking rates at their latest meeting and the Fed should provide further insight on how the banking crisis affects monetary policy at their meeting later today. We anticipate that the SA MPC will hike by a further 25bps at the end of March as inflation remains sticky and inflation expectations continue to edge higher.

The March inflation print is scheduled for release on 19 April. Major periodical surveys conducted in March include housing (16.49% weight in CPI), education and boarding fees (2.67%), domestic worker wages (2.53%) and transport (1.88%).

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