

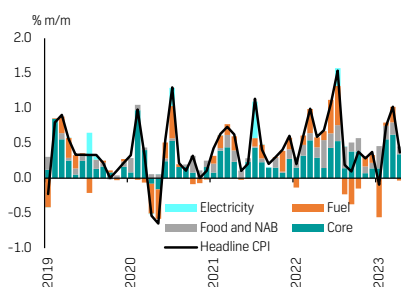


# Flash Note: CPI

May 2023

## Consumer inflation moderated to 6.8% in April

Figure 1: Headline CPI



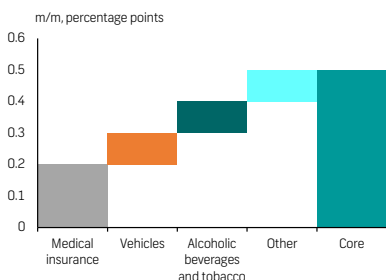
Source: Stats SA, FNB Economics

Headline inflation recorded 6.8% y/y in April, down from 7.1% in March, and 0.4% m/m. This outcome was slightly lower than our and the consensus expectation of 7.0%. Core items contributed 0.3ppt to monthly headline inflation, while food and non-alcoholic beverages (NAB) added 0.1ppt.

Core inflation was 5.3% y/y and 0.5% m/m. Major contributions to the monthly pressure were from medical insurance (0.2ppt), vehicles (0.1ppt), as well as alcoholic beverages and tobacco (0.1ppt).

Fuel prices fell by 0.7% m/m and prices were 5.0% above April 2022 levels, down from 8.1% previously.

Figure 2: Core CPI



Source: Stats SA, FNB Economics

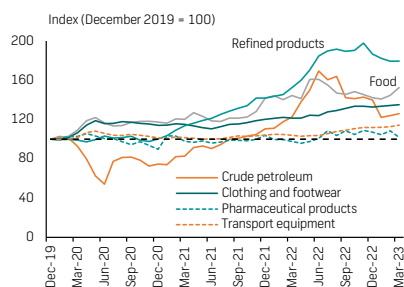
Food and NAB prices are still facing monthly pressure, posting 0.6% m/m and 13.9% y/y. Monthly pressure was from dairy and eggs (0.2ppt), vegetables (0.2ppt), cereals (0.1ppt), as well as NAB (0.1ppt).

### Outlook

Including this data in our model shows headline inflation slowing further to 6.3% in May, as positive annual base effects reflect in the data. Food inflation will be an important driver given the strong acceleration experienced from May 2022. However, we remain concerned about the impact of intensified load-shedding this winter, which should lift the marginal cost of production and reduce the benefit of expected base effects. Furthermore, the weaker rand should also add to imported inflation, affecting various items across the consumer basket. Fortunately, lower international oil prices have so far overshadowed the weaker exchange rate and fuel prices should fall in June. We, along with the consensus of analysts, expect average headline inflation to land around the upper band of the inflation target range of 6% this year.

The latest bout of rand depreciation and intensified load-shedding should keep inflation risks elevated going into the upcoming MPC interest rate announcement. The impact on aggregate demand is likely to be mired by the ongoing investment into alternative sources of energy. In line with this, consensus expectations are for the MPC to hike rates by another 25-50bps, bringing the repo rate to 8.00-8.25%. A continuation of the hiking

Figure 3: Selected imported goods UVIs



Source: Stats SA, FNB Economics

## Economist

Koketso Mano

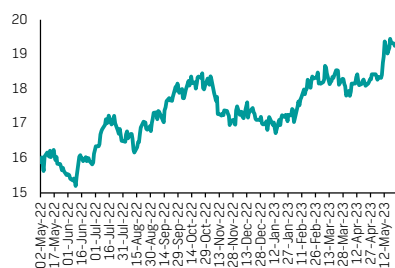
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Figure 4: Dollar/Rand



Source: S&P Global, FNB Economics

cycle would showcase the MPC’s efforts to uphold their credibility in guiding inflation to target, especially in a time when global inflation remains elevated. It will also show their aim at avoiding under-tightening, which would be harder to reverse and have more adverse implications for the economy when inflation expectations remain elevated, and policy needs to be much tighter than the current trajectory.

The May inflation print is scheduled for release on 21 June. No major periodical surveys are conducted in May.

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