

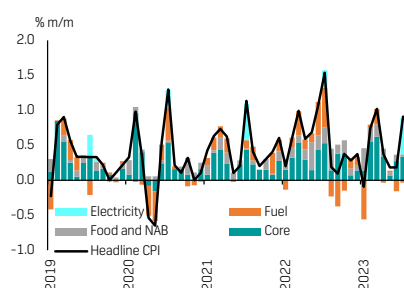


Flash Note: CPI

August 2023

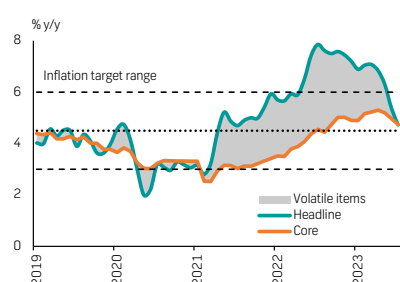
Consumer inflation falls further, supported by base effects

Figure 1: Headline CPI



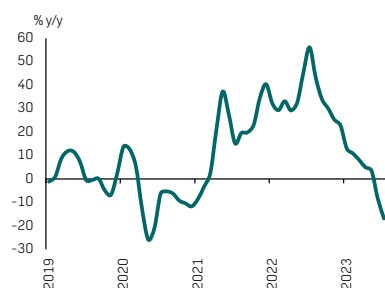
Source: Stats SA, FNB Economics

Figure 2: Headline vs core CPI



Source: Stats SA, FNB Economics

Figure 3: Fuel CPI



Source: Stats SA, FNB Economics

Despite monthly inflation of 0.9%, annual headline inflation fell to 4.7% in July from 5.4% in June. Once again, this outcome mainly reflects positive base effects from last year's elevated average price level, which led to a 7.8% peak inflation rate in July 2022. The print was below ours and the consensus expectation of 5.0% and 4.9%, respectively. Contributing to the monthly pressures was electricity (just over 0.5ppt) and core items (just over 0.3ppt).

Core inflation was 0.5% m/m and 4.7% y/y, down from 5.0% last month. Given the July survey of municipal tariff increases, the major contributor, explaining nearly half of the monthly pressure, was water and other services. Vehicles added 0.1ppt, and the rest of the pressure is explained by smaller contributions by other core items.

Average fuel prices fell by 0.7% in July, and fuel prices are over 15% lower than in July 2022.

Municipal electricity tariff increases averaged 14.2%, following Eskom's 18.65% increase in April. With the latest municipal tariff hikes, utilities inflation lifted from 6.7% in June to 10.3% in July.

Food and NAB inflation slid to 9.9% y/y, down from 11.0% previously, and price pressures between June and July averaged 0.2%. Most of the monthly pressure was from dairy and eggs, sugar and desserts, cereals, as well as miscellaneous foods. Meanwhile, items such as meat recorded negative monthly inflation and shaved off the overall pressure.

Outlook

Including this data in our model indicates that headline inflation could lift to 4.9% in August as positive base effects start to wane. Meanwhile, monthly inflation should slow, with mainly the passthrough of higher input costs and an undervalued rand still trickling in. A weaker rand and higher international oil prices will be reflected in higher fuel prices in August and September, slowing the rate of annual deflation. We anticipate that headline inflation will likely average just below 6.0% this year before sustainably reverting to target on a protracted basis over the medium term.

Economist

Koketso Mano

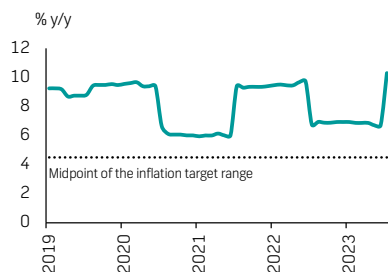
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Figure 4: Utilities CPI



Source: Stats SA, FNB Economics

The slowing in inflation closer to the 4.5% target, should support gradually lower inflation expectations over time. Also, restrictive monetary policy appears to be having the desired effect and demand/supply of credit should continue to slow. However, a resilient US economy could push the Fed to hike rates further before the end of the year. This, along with more adverse risk sentiment should China's prospects not improve and SA's fiscal outlook worsen, suggests that local rates remain restrictive going into 2024, when potential easing comes into the narrative.

The August inflation print is scheduled for release on 20 September. Major periodical surveys conducted in August include any remaining municipal charge increases (6.25% weight in CPI).

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