



## Food inflation dip drives lower headline inflation

### Headline inflation surprised to the downside.

Headline inflation decelerated to 3.3% y/y in August from 3.5% y/y in July (Reuters consensus: 3.6%) and core inflation inched up to 3.1% y/y from 3% y/y over the same period.

### Inflation 3.5% or below across expenditure deciles.

This indicates broad-based price relief from elevated levels in early 2024. More recently, however, marginal upward pressure has been concentrated in higher-expenditure households.

### The rand strengthened to around R17.3/US\$ in September.

The EIA (Energy Information Administration) forecasts point to lower oil prices (US\$51/bbl in 2026), which should keep transport costs contained if the rand holds firm.

### Third quarter inflation expectations trended lower across all time horizons.

The five-year average fell to 4.2%, the lowest since 2011, while one- and two-year expectations, also at 4.2%, hit record lows since the survey's start in 2000.



## So what?



While the Bureau for Economic Research's (BER) third quarter inflation expectations trended lower and August's inflation rate surprised to the downside, we maintain our expectation for the South African Reserve Bank (SARB) to keep the repo rate constant at 7% in its September meeting. This is because the SARB's own outlook points to inflation ticking higher in the coming quarters and two-year inflation expectations likely did not fall as much as the SARB was

anticipating according to RMB Morgan Stanley's estimate. However, we note that risks are tilted toward a 25-basis point interest rate cut due to the likelihood of the United States (US) Federal Reserve (Fed) easing in its September meeting, a lower oil price outlook, a stronger rand and broadly contained underlying inflation. Our inflation outlook remains 3.3% for 2025 and 4.1% for 2026, versus consensus (Reuters median) at 3.4% and 3.9%, respectively.

## Consumer lens



### Food inflation decelerated to 5.2% y/y in August from 5.5% y/y in July.

The average cost of a household food basket\* in August was R5 381, up by 2.9% y/y or R153.5.



### Transport deflation moderated to 1.4% y/y in August from 1.7% y/y in July.

Petrol (ULP 95) price is estimated to increase slightly by 16c/l while diesel (0.05%) could decrease by around 9c/l in October\*.

\* According to the Pietermaritzburg Household Affordability Index. The average food basket includes bread, frozen chicken portions, maize meal, sugar, beef, rice, cooking oil, potatoes, tinned pilchards, wors and other items.

\*\* According to the Central Energy Fund (CEF) on 16 September 2025. The petrol cost of an average car (45 litres) is R969.8 in September 2025, R1.8 less than in August 2025 and R27.9 cheaper than a year ago.

## Headline inflation reverted closer to the 3% preference level

Statistics (Stats) SA reported a deceleration in headline inflation from 3.5% y/y in July to 3.3% y/y in August. The outcome surprised to the downside, beating the Reuters consensus forecast of 3.6%.

Headline CPI disinflation was mainly driven by food and non-alcoholic beverages (NAB) easing to 5.2% y/y in August from 5.7% y/y in July.

Alcoholic beverages and tobacco (4.3% y/y from 4.6% y/y), restaurants and accommodation (2.6% y/y from 3% y/y), and information and communication (0.9% y/y from 1% y/y) also contributed favourably. Upward pressure came from transport being less deflationary (negative 1.4% y/y from negative 1.7% y/y), higher prices in personal care and miscellaneous services (2.6% y/y from 2.2% y/y), recreation, sport and culture (2.8% y/y from 2.5% y/y) and health (4.7% y/y from 4.6% y/y).

Core inflation rose marginally to 3.1% y/y in August from 3% y/y in July while the trimmed mean (an alternative measure of underlying inflation) dropped to 3% y/y from 3.2% y/y over the same period, indicative of muted price pressures.

In August 2025, inflation had eased to 3.5% or below across all household expenditure deciles, reflecting broad-based disinflation from elevated levels seen in early 2024 (see table 1). The sharpest relief was felt among lower-income households, where inflation dropped from around 7% at the start of 2024 to c.3%. Higher-spending households also benefited, though inflation here shows early signs of renewed pressure, with a mild uptick in mid-2025. This is because transport makes up a larger share of their spending, and transport prices are not falling by as much, relatively. Transport weighs an average of 12.8 for deciles 8 to 10 compared to only 5.9 for deciles 1 to 3.

Table 1: Recent upward inflationary pressure being felt by higher spending households

	Household expenditure deciles*										Headline CPI
	1	2	3	4	5	6	7	8	9	10	
Jan-2024	7.7	7.1	6.3	5.8	5.6	5.4	5.2	5.1	5.1	5.4	5.4
Feb	6.9	6.4	5.9	5.4	5.3	5.2	5.2	5.0	5.4	5.9	5.6
Mar	6.4	5.8	5.4	4.9	4.9	4.8	4.9	4.9	5.2	5.5	5.3
Apr	6.1	5.6	5.2	4.8	4.8	4.6	4.9	4.7	5.2	5.5	5.2
May	6.1	5.6	5.1	4.8	4.9	4.6	4.9	4.9	5.2	5.5	5.2
Jun	5.9	5.4	5.0	4.7	4.6	4.4	4.5	4.5	5.1	5.4	5.1
Jul	5.6	5.2	4.7	4.4	4.4	4.3	4.3	4.2	4.6	4.9	4.6
Aug	5.7	5.2	4.7	4.4	4.4	4.2	4.2	4.1	4.2	4.5	4.4
Sep	5.6	5.0	4.5	4.1	4.0	3.7	3.6	3.4	3.5	4.0	3.8
Oct	4.7	4.2	3.7	3.4	3.2	3.0	2.8	2.5	2.5	2.8	2.8
Nov	3.8	3.4	3.2	2.9	2.9	2.7	2.7	2.6	2.7	3.0	2.9
Dec	4.1	3.6	3.3	3.2	3.0	2.8	2.9	2.7	2.9	3.1	3.0
Jan-2025	4.0	3.5	3.2	3.2	3.1	2.8	3.0	2.9	3.1	3.4	3.2
Feb	4.2	3.6	3.4	3.2	3.3	2.9	3.0	2.9	3.0	3.3	3.2
Mar	4.2	3.7	3.3	3.2	3.1	2.6	2.5	2.4	2.4	2.9	2.7
Apr	4.3	3.9	3.5	3.4	3.2	2.9	2.7	2.6	2.4	2.6	2.8
May	4.6	4.1	3.7	3.6	3.4	3.1	2.9	2.7	2.4	2.5	2.8
Jun	4.7	4.1	3.7	3.7	3.3	3.1	3.1	3.0	2.8	2.9	3.0
Jul	3.4	3.3	3.4	3.5	3.4	3.4	3.4	3.4	3.3	3.5	3.5
Aug	3.0	2.9	3.2	3.3	3.2	3.2	3.3	3.3	3.3	3.5	3.3

Source: Global Insights, Stats SA, Momentum Investments

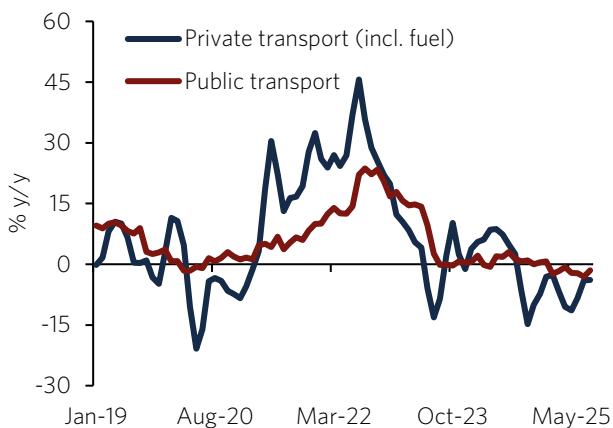
\* Decile 1: up to R20 140, decile 2: R20 141 up to R33 619, decile 3: R33 620 up to R48 673, decile 4: R48 674 up to R65 213, decile 5: R65 214 up to R84 698, decile 6: R84 699 up to R109 163, decile 7: R109 164 up to R143 174, decile 8: R143 175 up to R199 920, decile 9: R199 921 up to R312 246, decile 10: R312 247 and more

## Moderation in transport deflation due to public transport

The moderation in transport deflation in August was due to public transport costs, which eased sharply from a 3.1% y/y decline in July (the steepest drop on record) to a 1.5% y/y decline in August.

Deflation in private transport (including fuel) was broadly unchanged at 3.9% y/y in August while fuel deflation, specifically, intensified to 5.7% y/y from 5.5% y/y previously.

Chart 1: Public transport deflation moderating



Source: Global Insights, Stats SA, Momentum Investments  
Data until August 2025

Petrol prices decreased marginally by 4c/l in September and diesel prices by 56c/l. Estimates based on data from the CEF point to a slight decrease in diesel (9c/l) while petrol is on track for an increase of 16c/l in October.

The rand has strengthened for four consecutive months, appreciating from R18.91/US\$ in April 2025 to R17.70/US\$ in August. Firmer rand momentum has carried into September, with the rand breaking through the R17.50/US\$ technical resistance level and trading around R17.30/US\$ since the second week of the month to date. The recent swings in petrol prices have largely tracked oil market movements, with the price of Brent crude fluctuating between US\$64/bbl and US\$71/bbl from April to August.

Looking ahead, the EIA projects Brent crude to average US\$59/bbl in the fourth quarter of 2025 and to decline further to around US\$50/bbl in early 2026, driven by large inventory builds as the Organisation for Petroleum Exporting Countries (OPEC+) members ramp up production.

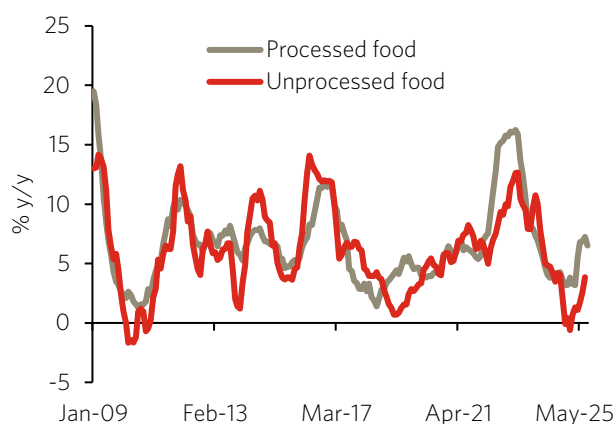
The outlook for lower international oil prices should keep domestic fuel prices low provided the rand holds firm.

## Tentative signs of food inflation easing

Food and NAB inflation picked up from a low of 2.7% y/y in March 2025 to 5.7% y/y in July, mainly due to higher meat and vegetable prices. Meat prices were driven by animal disease outbreaks, while vegetables were affected by adverse weather conditions. Both price pressures are expected to moderate and vegetable inflation has already slowed sharply to 9.3% y/y in August from 14.6% y/y in July. This, along with moderating prices for fruits and nuts, fish and other seafood, cereal products and deeper deflation in milk and other dairy products, contributed

to the overall moderation in food and NAB inflation. Inflation in other food categories; namely meat; oils and fats; sugar, confectionery and desserts; other foods and NAB continued to accelerate.

**Chart 2: Processed food inflation is accelerating faster**



Source: Global Insights, Stats SA, Momentum Investments  
Data until August 2025

“ The acceleration in food inflation was broad-based across both processed and unprocessed food over the past few months, though price increases are far sharper in the processed category (see chart 2). In August, processed food inflation eased to 6.5% y/y from 7.2% y/y in July and unprocessed food eased to 3.6% y/y from 3.8% y/y. ”

## Repo rate likely to remain steady in September despite lower CPI and improving expectations

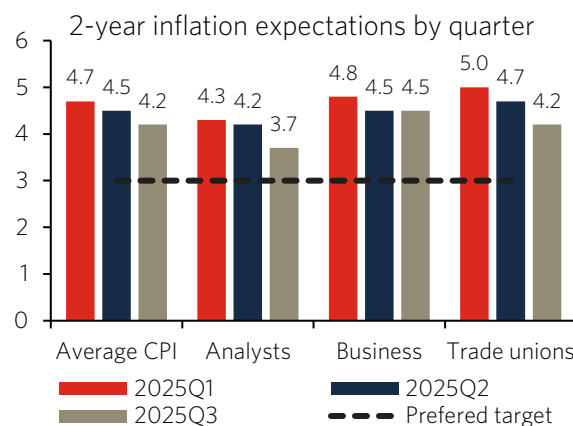
The BER’s third quarter survey showed inflation expectations trending lower across all time horizons. For 2025, expectations eased by 0.1 percentage point (pp) to 3.8%, while 2026 and 2027 expectations declined to 4.2% (down 0.1 and 0.3 pp, respectively). The five-year average also fell by 0.2 pp to 4.2%, marking the lowest level since the survey began in 2011. Expectations for the current year are now at their lowest since the third quarter of 2020, while the one-year and two-year horizon figures dropped to their lowest levels since the survey was first conducted in 2000.

The two-year horizon, which the SARB closely tracks and feeds into its Quarterly Projection Model (QPM), saw notable declines but not to the extent that the SARB was anticipating. Two-year expectations among analysts fell to 3.7% in the third quarter from 4.2% in the second quarter and those of trade unions dropped sharply to 4.2% from 4.7% (see chart 3). Business expectations, however, remained unchanged at 4.5%. Given their role as price setters, this measure is important and will need to trend lower to reinforce the broader disinflationary shift.

Overall, these movements signal a broad-based decline in inflation expectations, which is encouraging and likely to be welcomed by the SARB.

“ Still, two-year expectations were above the QPM’s estimate of 3.8% which RMB Morgan Stanley derived from a 60% backward-looking and 40% forward-looking weighting. This suggests that expectations are less forward-looking than the SARB assumes. RMB Morgan Stanley instead highlights a 75/25 backward versus forward-looking split. ”

**Chart 3: 2027 inflation expectations improving across the board**



Source: BER, Momentum Investments

Due to third quarter inflation expectations disappointing against the SARB's assumption (despite a marked improvement) and inflation expected to inch higher in the coming quarters according to the SARB's projection, we maintain our view that the SARB will likely keep the repo rate constant at 7% at its September interest rate meeting. However, we acknowledge that the risk is skewed toward a 25-basis point cut. Factors that could drive a cut include:

- The risk of the US Fed cutting interest rates by 50-basis points, rather than the expected 25-basis point cut, in its September meeting.
- A more favourable oil price outlook.
- Rand strength against the US dollar.
- Inflation remaining broadly contained.

Our inflation outlook is unchanged at 3.3% in 2025 and 4.1% in 2026. The Reuters median consensus is pencilling in 3.4% in 2025, 3.9% in 2026 and 3.6% in 2027 in the September Econometer poll.

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