

# Consumer Inflation

ECONOMICS | SOUTH AFRICA

## Inflation falls unexpectedly to a two-year low off a higher base.

- **Headline consumer inflation (CPI)** fell to 4.7% in July, the lowest since July 2021, from 5.4% in June. The outcome was better than our and the market's forecast of 5.1% and 5%, respectively. The moderation continued to reflect the impact of a slowdown in food and transport inflation. On a monthly basis, consumer prices increased by 0.9%, mainly driven by housing and utilities, which contributed 0.7 percentage points to the headline figure.

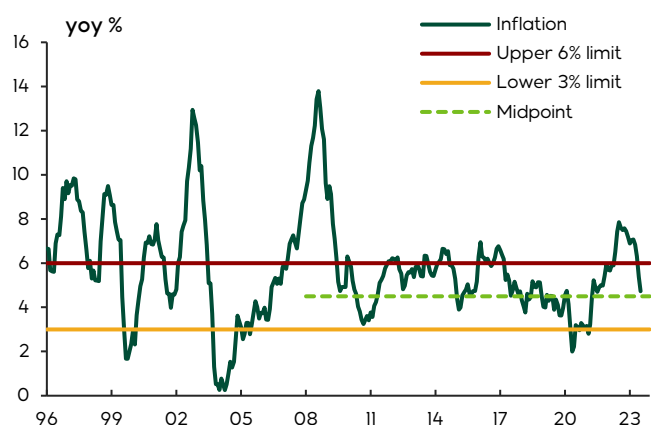
Table 1: Consumer Inflation

	July yoy %	July mom %	June yoy %	Nedbank Forecast yoy %	Market Forecast yoy %
Headline	4.7	0.9	5.4	5.1	5.0
Core	4.7	0.5	5.0	5.1	4.9

Source: Stats SA, Refinitiv

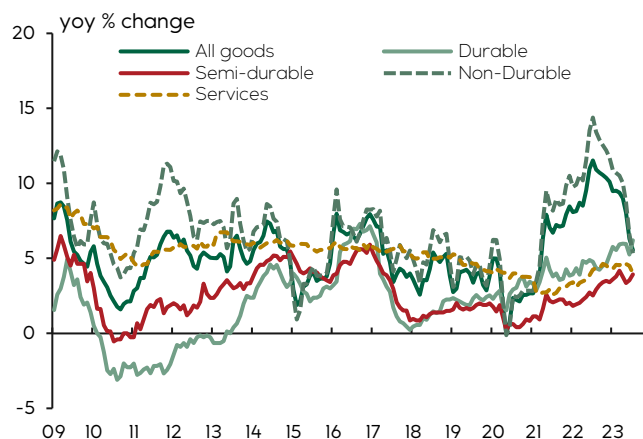
- Inflation for **food and non-alcoholic beverages** slowed to single digits for the first time in 12 months, down to 9.9% yoy from 11% in June. Excluding drinks, food inflation eased to 10% from 11.1%, with price increases in most food subcategories slowing. The most significant downward pressure came from oils and fats, which contracted further for the third consecutive month, down by 12.9% yoy, reflecting the impact of lower global prices and the exceptionally high base established last year when the Russian war on Ukraine disrupted the supply of sunflower seeds and other grains. Prices of bread and cereals eased to 13.1% from 15.5% and meat prices fell to 5.1% from 6.1%. Prices of processed and unprocessed food dropped to 10.5% and 9.5%, from 12.4% and 9.9%, respectively. In contrast, prices of milk, eggs, and cheese (14.4% from 14.1%), fruits (2.6% from 1.2%), and sugar and sweets (18.7% from 16.4%) accelerated.
- **Transport costs** fell by 2.6% yoy, dragged down by lower fuel prices, which declined sharply by 16.8% yoy off a high base. Fuel prices surged by a record 56.2% yoy in July last year as Russia's war on Ukraine pushed the global oil price to historic highs. However, vehicle purchase prices continued to rise, increasing by 8.1%, its highest since February 2017, reflecting the impact of backlogs in supplies of some car parts.
- **Housing and utilities** costs surveyed in July rose by 2.8% mom. Within this category, electricity and water exerted the most upward pressure. Electricity prices were up 14.2% mom as the annual tariff adjustments kicked in after NERSA permitted Eskom to raise the electricity tariffs by more than 18% for the 2023/24 period. Prices of water and other services rose by 4.7% mom. On an annual basis, inflation for housing and utilities rose to 5.1% from 4.2%, with electricity and other fuels surging to 14.7% from 7.9%, while prices of water and other services rose by 5.5%. Actual rent and owners' equivalent rent also accelerated, reflecting the impact of higher interest rates.

Chart 1: Inflation has dipped close to the 4.5% level.



Source: Stats SA

Chart 2: Goods inflation continued to recede.



Source: Stats SA

- **Goods inflation** decelerated to 5.5% in July, the lowest since March 2021, from 6.3% in May, mainly reflecting a significant moderation in non-durable goods inflation, which eased to 5.3% from 6.6%. **Services inflation** also softened further to 4% from 4.5%. In contrast, inflation for durable and semi-durable goods rose to 6.2% and 3.9% from 5.2% and 3.5%, respectively.
- **Core inflation** declined to a 10-month low of 4.7% from 5%.
- The July inflation outcomes are encouraging. We expect inflation to remain below 6% for the remainder of the year, averaging 5.8% for 2023. The downward trend will continue to come from fuel and food prices. The weaker global economy will contain the price of Brent crude oil, which will translate into lower fuel prices. Food prices are also expected to fall further off a higher base, as the lagged effect of the drop in global prices continues to filter through the economy. However, there are upside risks to food inflation, emanating from higher domestic production costs (including the cost of sourcing electricity from diesel generators given persistent load-shedding) and a vulnerable rand. The El Niño weather pattern (associated with drier weather conditions) is predicted to occur this year and introduces another uncertainty for food security. However, weaker domestic demand will increasingly erode companies' pricing power, containing the rate at which firms can pass cost increases onto consumers without reducing sales significantly and helping to contain core inflation.
- Lower inflation will probably prompt the SARB to maintain steady interest rates for the remainder of 2023, with the first cut in the first quarter of 2024 and the repo rate falling to 7.25% in November 2024. The latest inflation figure greatly reduces the likelihood of another SARB hike, even if the Fed hikes further in September.

Table 2: CPI Breakdown

CPI Basket	Weights (Base 2022)	Jul-23			Jun-23		2022	2023
		mom %	yoy %	% contribution to yoy%	mom%	yoy %	AVG	YTD
<b>CPI for all urban areas: Headline</b>	<b>100.0</b>	<b>0.9</b>	<b>4.7</b>	<b>4.7</b>	<b>0.2</b>	<b>5.4</b>	<b>6.4</b>	<b>6.3</b>
Food and non-alcoholic beverages	17.1	0.2	9.9	1.7	0.5	11.0	7.1	12.5
Alcoholic beverages and tobacco	6.3	0.5	6.8	0.4	0.3	6.1	5.8	6.3
Clothing and footwear	3.7	0.2	2.9	0.1	0.2	3.0	1.8	3.0
Housing and utilities	24.5	2.8	5.1	1.3	0.8	4.2	4.6	4.2
Household contents and equipment	4.4	0.5	4.7	0.2	0.2	4.6	3.6	5.8
Health	1.4	-0.2	6.2	0.1	0.5	5.9	4.6	5.5
Transport	14.4	0.3	-2.6	-0.4	-0.9	1.8	17.1	6.3
Communication	2.4	-0.1	-0.4	0.0	-0.1	-0.7	-0.7	-0.2
Recreation and culture	5.2	0.2	3.1	0.2	0.5	4.1	2.0	3.6
Education	2.6	0.0	5.7	0.2	0.0	5.7	4.3	5.4
Restaurants and hotels	3.3	0.0	5.2	0.2	-0.4	5.6	6.1	5.8
Miscellaneous goods and services	14.8	0.3	6.3	0.9	0.2	6.4	3.8	6.0

Yoy%	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
<b>All goods</b>	<b>10.1</b>	<b>9.5</b>	<b>9.5</b>	<b>9.4</b>	<b>9.0</b>	<b>8.0</b>	<b>6.3</b>	<b>5.5</b>
Durable goods	5.2	5.8	5.5	5.9	6.0	6.0	5.2	6.2
Semi-durable goods	3.4	3.6	3.8	4.2	3.8	3.3	3.5	3.9
Non-durable goods	11.7	10.9	10.7	10.5	10.0	8.7	6.6	5.3
Services	4.3	4.3	4.6	4.5	4.7	4.6	4.5	4.0
<b>Core CPI</b>	<b>4.9</b>	<b>4.9</b>	<b>5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>5.2</b>	<b>5.0</b>	<b>4.7</b>

Source: Stats SA and Nedbank calculations

Rounding of decimals may result in minor differences to those published

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