24 October 2023

MINERALS COUNCIL
SOUTH AFRICA

CPI Inflation Brief: **September 2023**

SA Consumer Inflation was 5.4% in September 2023

Current (Actual)	**5.4%**	**September 2023 – Statistics South Africa**	
Previous month	**4.8%**	**August 2023 – Statistics South Africa**	
Year-to-date Average	**6.0%**	**Year to September 2023**	
Medium-term Inflation Forecasts			
Institution	**2023**	**2024**	**2025**
SARB	5.9%	5.1%	4.5%
National Treasury	5.3%	4.9%	4.7%
Repo Rate		**Prime Lending Rate**	
8.25% (hiked 4.75% since Nov 2021)		11.75%	

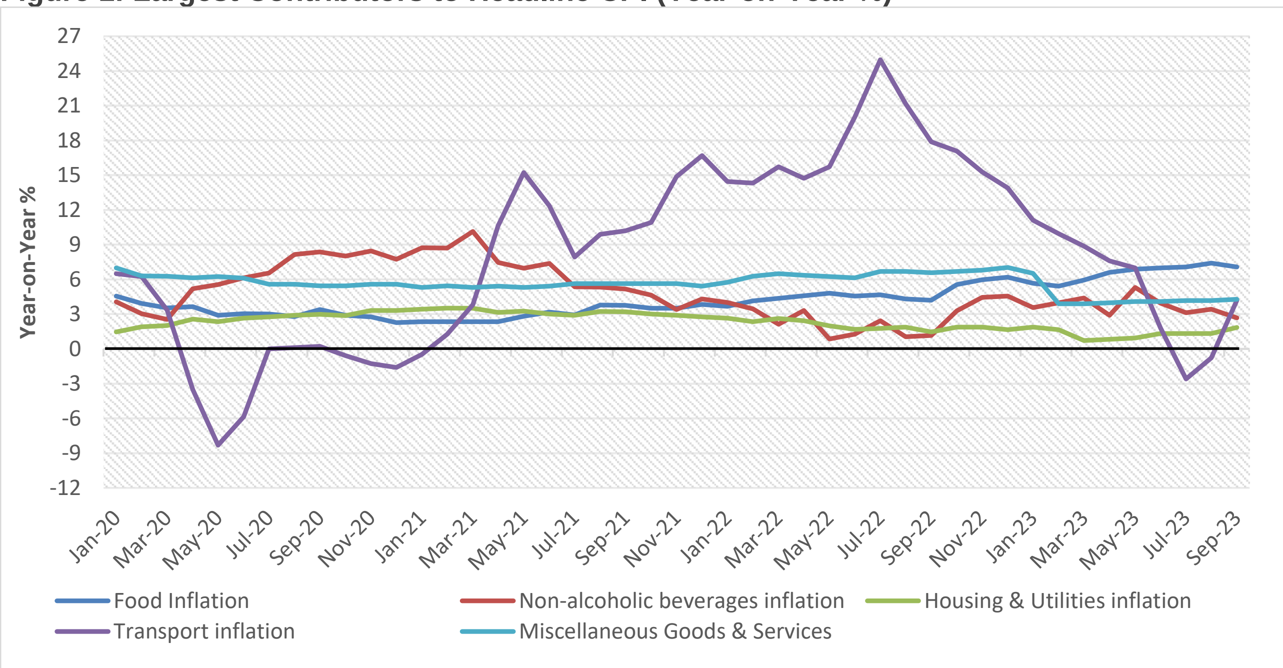
Detailed Breakdown:

The main contributors to the 5,4% annual inflation rate were:

- **food and non-alcoholic beverages** (increased by 8,1% year-on-year and contributed 1,4 percentage points);
- **housing and utilities** (increased by 5,5% year-on-year and contributed 1,3 percentage points);
- **miscellaneous goods and services** (increased by 6,0% year-on-year and contributed 0,9 of a percentage point); and
- **transport** (increased by 4,2% year-on-year and contributed 0,6 of a percentage point).

In September, the annual inflation rate of **goods** was 6,8%, up from 5,6% in August; and for **services** it was 4,0%, unchanged from August.

Figure 1: Largest Contributors to Headline CPI (Year-on-Year %)



Source: Statistics South Africa.

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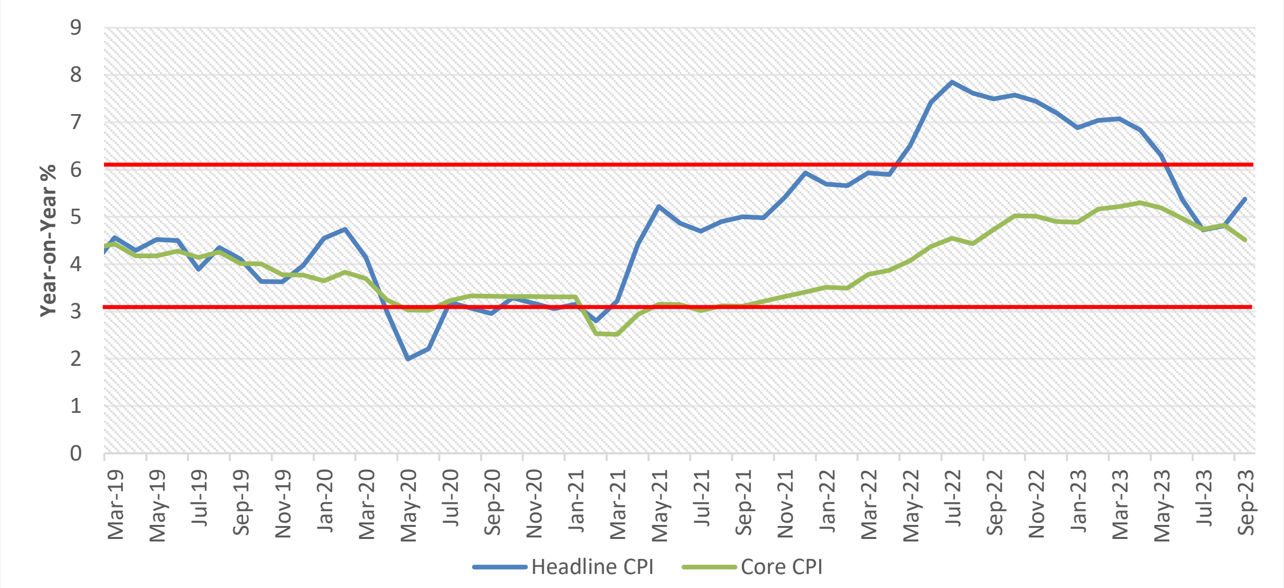
Figure 2 below illustrates the long-term trend in Headline CPI and Core CPI (which excludes the prices of food, non-alcoholic beverages, fuel and energy).

Figure 2: Headline CPI and Core Inflation



Source: Statistics South Africa.
Note: The red lines represent the SARBs inflation target of between 3 and 6%.

South Africa's headline inflation rate ticked up by 0.6% in September to 5.4% but core inflation moderated to the midpoint band at 4.5%. For September 2023 in particular we note that:

- **Food prices** increased by 8.0% y-o-y (following an increase of 8.2% in August);
- **Non-alcoholic beverage** prices increased by 8.6% y-o-y (following an increase of 7.0% y-o-y in August).
- The price of **fuel** increased by 1.5% y-o-y (compared to a decrease of 11.7% in August). However, month-on-month fuel prices were 7.6% higher in September than in August 2023.
- **Electricity** and other fuel prices increased 14.9% y-o-y, an increase from the 14.8% recorded in August. Similarly, water cost consumers 7.9% more in September on a year-to-year basis.

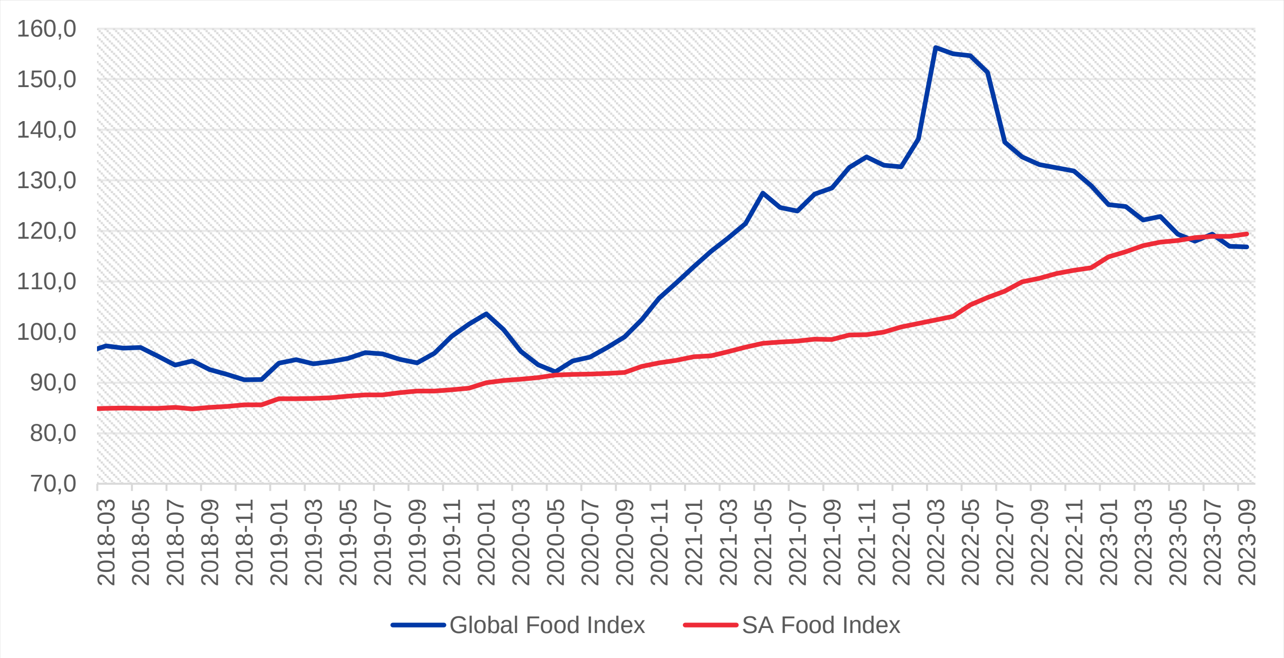
If we exclude these items from the headline CPI cost basket, we obtain core inflation which also reached 4.5% in September 2023 (down from 4.8% in August). Core inflation, however, remains high relative to the pre-pandemic trend and risks to both headline and core inflation are elevated. The risks include those posed by oil. Oil prices have risen sharply recently, jumping from an average of US$80 per barrel in the first half of the year to above US$90 in September. Weather-related food price developments also pose upside risk to inflation while the enduring stickiness in core inflation, alongside the gradual fragmenting of global trade and finance networks, suggests higher interest rates for longer.

<u>What it all means:</u>

- Headline consumer **inflation** increased in September; however, the inflation trend is turning and is now **averaging** at **6.0% for the year to September 2023**. Headline inflation was shaped primarily by fuel, food and electricity price inflation, with the former two largely reflecting global developments and currency movements. Headline inflation is expected to trend broadly sideways into early 2024 before declining towards the midpoint of the target range as fuel price inflation stabilises.

- **Core inflation** decreased to 4.5% in September 2023. Growth in the overall core measure was softened by subdued housing inflation and a sharp, but likely temporary, dip in transport inflation caused by the earlier decline in fuel prices. This, alongside more muted wage growth, helped keep services inflation lower than expected and slowed the rise in core inflation.
- Locally, **food price inflation** is slowing down with September's figure at 8.0% y-o-y, down from 8.2% in August. Local food prices are, however, still on an upward trajectory whilst international food prices are trending downward. The graph below shows how local food price inflation continues its upward trend (albeit at a slower rate) compared to global food prices.

Figure 3: Local vs. Global Food Price Inflation, monthly index

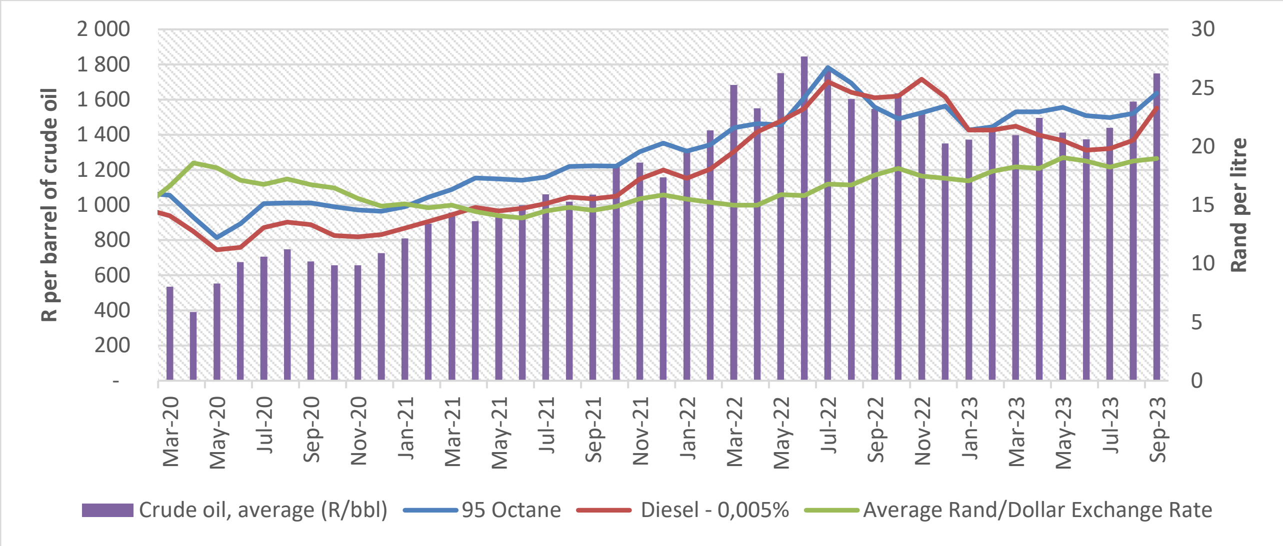


Source: StatsSA, FAO & Minerals Council

- The second largest driver of inflation is **housing and utilities**. September saw water and sanitation prices increase by 7.9% y-o-y while electricity and other fuel prices increased 14.9% y-o-y. The double-digit, above-CPI tariff increases in electricity continue to weigh on consumers while municipal increases in water tariffs are also exerting pressure on consumers.
- Lastly, we note the impact of higher **fuel prices** on inflation. The higher fuel prices are largely driven by higher global prices for Brent crude oil and a depreciating rand-dollar exchange rate. The International Energy Agency (IEA) continues to warn of upward pressure on oil prices and continued geopolitical instability in the middle east and eastern Europe poses supply risks.

Figure 4 below illustrates the relationship between Brent crude oil prices, the rand-dollar exchange rate and fuel prices. South African fuel prices (95 octane and diesel) fluctuate almost in tandem with Brent crude oil prices. A large part of the increase in September's headline number can be ascribed to increased oil/fuel prices.

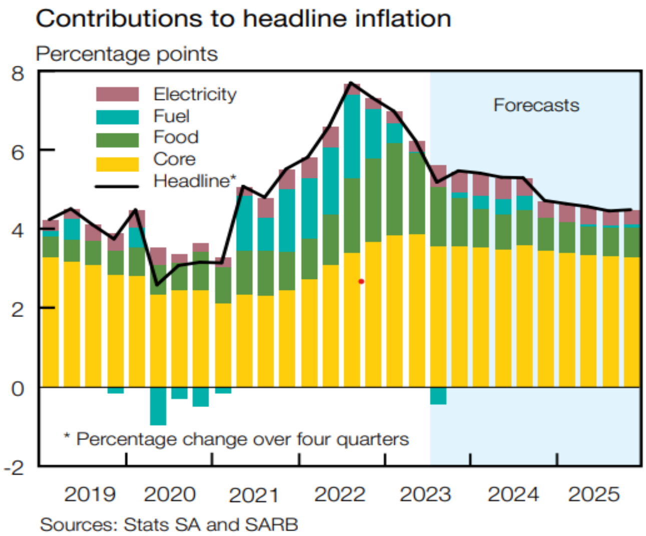
Figure 4: Fuel-, Brent Crude Oil Prices and R/$ Exchange Rate



Source: Statistics South Africa, World Bank and Minerals Council

Conclusion:

Headline CPI inflation has moderated since a high of 7.1% recorded in May, benefitting from strong goods disinflation, especially fuel and food disinflation, as well as tighter monetary policy. The further deceleration towards the 4.5% midpoint of the target range is, however, likely to be slow due to the fading base effects and somewhat sticky core inflation. Upside pressures to core inflation are reflected in still elevated survey-based inflation expectations and a weak rand, with further risks emanating from load-shedding. The recent pickup in global oil prices and expected drier weather conditions add to inflation risks. Headline inflation is projected to average 5.9% in 2023, down from 6.9% in 2022, and to only settle at the midpoint of the target range in the second quarter of 2025.



Over the past year the trajectory of headline inflation was shaped primarily by fuel, food and electricity price inflation, with the former two largely reflecting global developments and currency instability.

Yours sincerely,

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