27 November 2023

MINERALS COUNCIL
SOUTH AFRICA

CPI Inflation Brief: **October 2023**

SA Consumer Inflation was 5.9% in October 2023

Current (Actual)	**5.9%**	**October 2023 – Statistics South Africa**	
Previous month	**5.4%**	**September 2023 – Statistics South Africa**	
Year-to-date Average	**6.0%**	**Year to October 2023**	
Medium-term Inflation Forecasts			
Institution	**2023**	**2024**	**2025**
SARB	5.8%	5.0%	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:

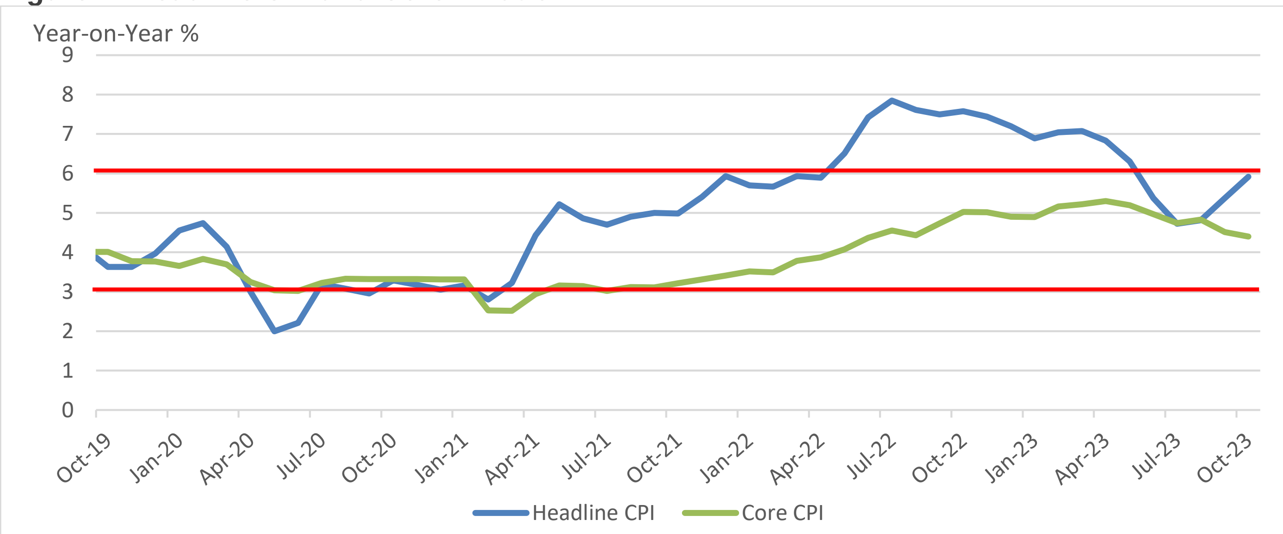
The main contributors to the 5,9% annual inflation rate were:

- **food and non-alcoholic beverages** (increased by 8,7% year-on-year and contributed 1,6 percentage points)
- **housing and utilities** (increased by 5,4% year-on-year and contributed 1,3 percentage points)
- **transport** (increased by 7,4% year-on-year and contributed 1,1 of a percentage point) and
- **miscellaneous goods and services** (increased by 5,3% year-on-year and contributed 0,8 of a percentage point).

In October, the annual inflation rate of **goods** was 8,1%, up from 6,8% in September; and for **services,** it was 3,8%, down from 4.0% in September.

Figure 1 below illustrates the long-term trend in Headline CPI and Core CPI (which excludes the prices of food, non-alcoholic beverages, petrol and energy).

Figure 1: 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 inflation rate rose to 5.9% in October, a 0.5% increase from the previous month, marking the highest level since May. For October 2023 we note that:

- **Food prices** increased by 8.8% y-o-y (following an increase of 8.0% in September);
- **Non-alcoholic beverage** prices increased by 8.4% y-o-y (following an increase of 8.6% y-o-y in September).
- The price of **fuel** increased by 11.2% y-o-y (following an increase of 1.5% in September). Month-on-month fuel prices were 6.5% higher in October than in September 2023.
- **Electricity** and other fuel prices increased 15.2% y-o-y, an increase from the 14.9% recorded in September.

If we exclude these items from the headline CPI cost basket, we obtain core inflation which further eased in October reaching 4.4% (down from 4.5% in September). Food and fuel prices were the primary drivers of inflation in October.

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

- Headline consumer **inflation** increased in October; however, inflation is still **averaging** at **6.0% for the year to October 2023**. The South African Reserve Bank (SARB) has made slight revisions to its inflation forecast for 2023, bringing it down to 5.8% from 5.9%. However, despite this, there have been no significant changes to the underlying drivers of inflation. The economy is still constrained by inefficiencies in electricity supply and rail and port operations, which have a cascading effect on the costs of various economic activities. These factors pose an upside risk to inflation going forward.
- **Core inflation** decreased marginally to 4.4% in October 2023. Better monthly outcomes led to a slight downward revision in core inflation forecast: 4.8% in 2023 (from 4.9%) and 4.6% in 2024 (from 4.7%), with no change in 2025 at 4.5%.
- Locally, **food price inflation** continues to persist with October's figure at 8.8% y-o-y, up from 8.0% in September. Local food prices are still on an upward trajectory whilst international food prices are trending downward. The SARB forecasts food price inflation for 2023 to remain high at 10.6% (from 10.4% previously) and the forecast for 2024 is at 5.5%. El Nino conditions still present long-term concerns for food price inflation. Figure 2 below illustrates local food price inflation's upward trend compared to global food prices which are trending down.

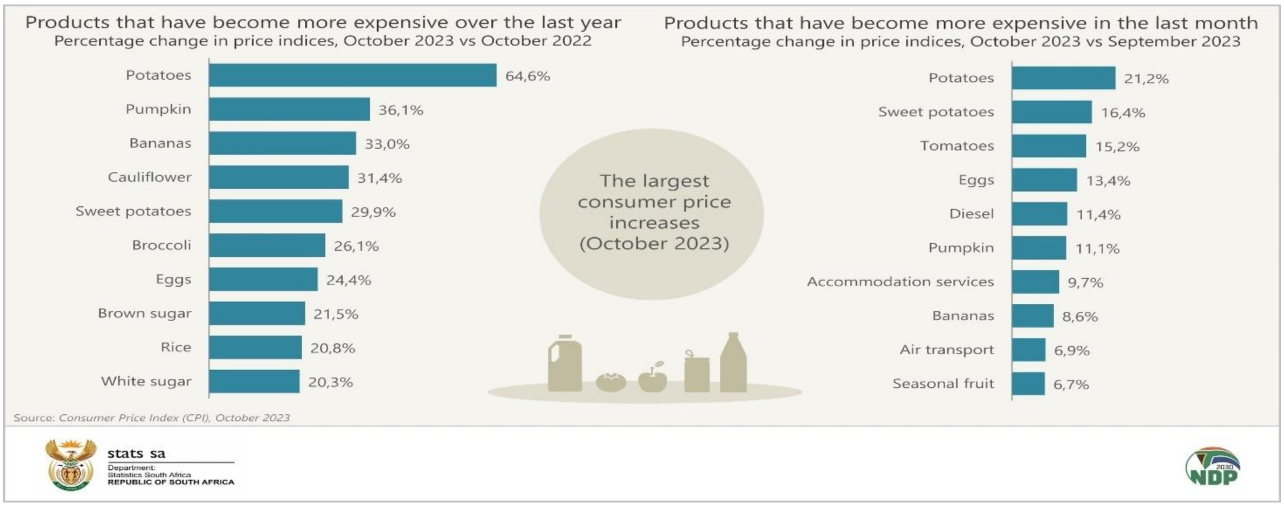
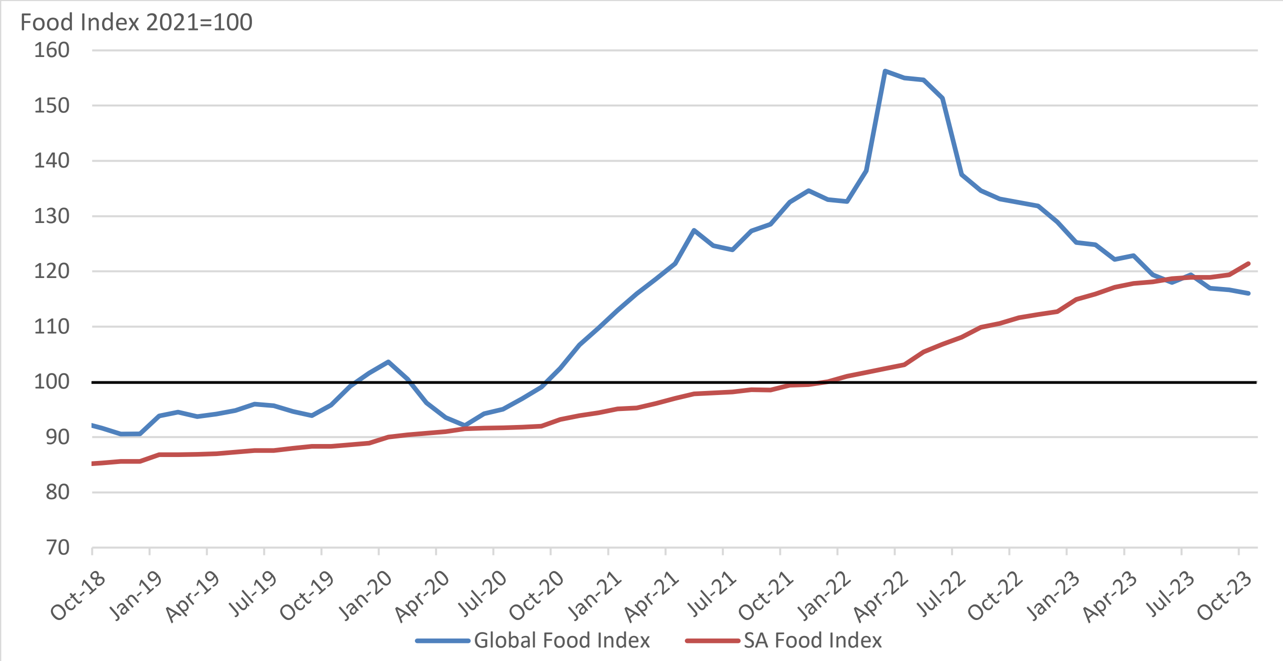


Figure 2: Local vs. Global Food Price Inflation, monthly index



Source: StatsSA, FAO & Minerals Council

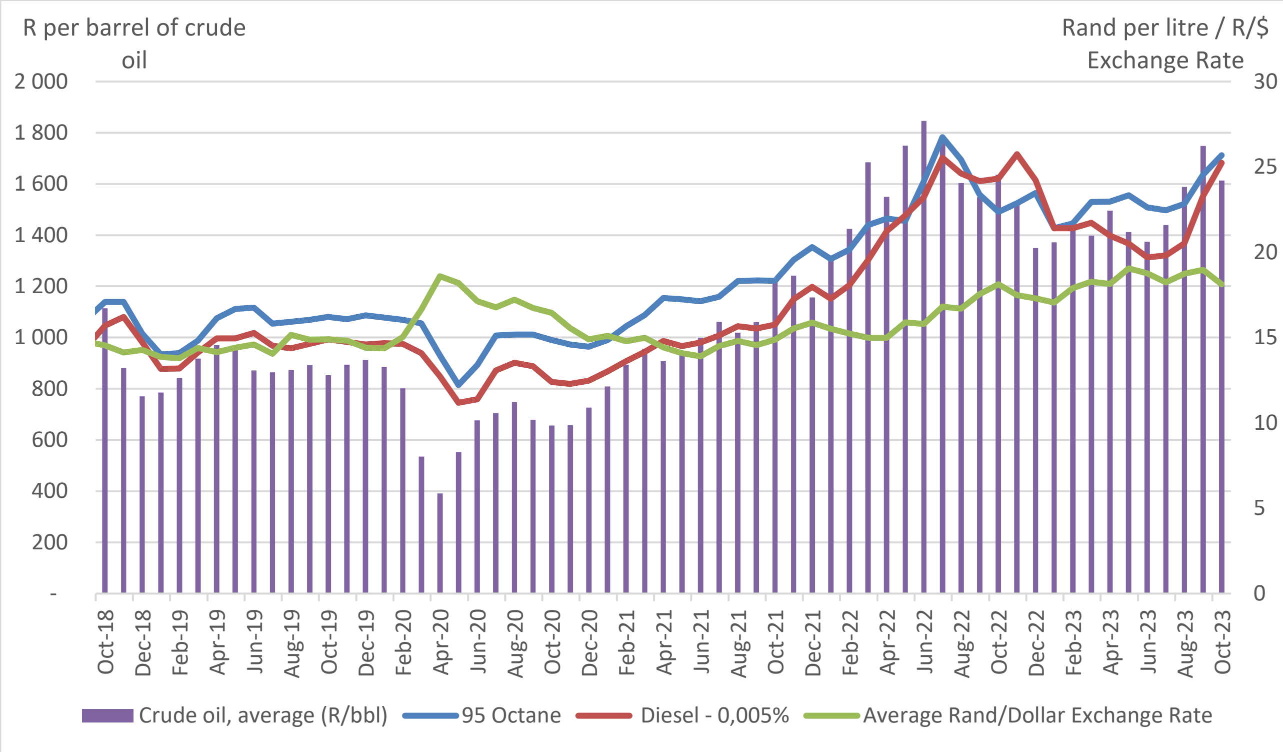
Electricity shortages are preventing farmers from irrigating their crops. The number of days of expected load-shedding is 300 in 2023, decreasing to 150 days and 100 days, respectively in 2024, and 2025. Overall, the costs associated with electricity shortages, running diesel generators, the El Nino weather event, more expensive road logistics and port inefficiencies (farmers import fertilisers etc) along with exogenous shocks like avian flu, have caused producers to pass on the costs to the end consumer.

- The second largest driver of inflation is **housing and utilities**. October saw water and sanitation prices increase by 7.9% y-o-y while electricity and other fuel prices increased 15.2% 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, a region which accounts for more than one-third of the world's seaborne oil trade.

Figure 3 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 October's headline number can be ascribed to increased oil/fuel prices (lagged effect on prices coming from September and carried through to October).

Figure 3: Fuel-, Brent Crude Oil Prices and R/$ Exchange Rate



Source: Statistics South Africa, World Bank and Minerals Council

Conclusion:

Headline CPI inflation in October came in at 5.9%, the highest since May 2023. Although none of the underlying drivers of inflation have fundamentally changed, there are still upside risks to inflation going forward. Currently, food, fuel, electricity and logistics are the main drivers of headline inflation. The SARB has limited control over these factors and has since 2020 recommended additional measures to lower inflation that fall under the government's jurisdiction. These include achieving a prudent public debt level, increasing the supply of energy, keeping administered price inflation (electricity, water and logistics) low and real wage growth in line with productivity gains. The SARB notes that average salaries across the economy are only expected to rise by 4.6% in 2023 (down from 5.4), 6.0% in 2024, and 5.4% in 2025 and in 2026 as productivity gains are minimal. If government takes steps to address these challenges, monetary policy will be more effective and there will be less inflationary pressure on the economy.

Yours sincerely,

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