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MINERALS COUNCIL
SOUTH AFRICA

CPI Inflation Brief: **March 2024**

SA headline consumer inflation was 5.3% (year-on-year) in March 2024

Current (Actual)	**5.3%**		
Previous month	**5.6%**		
Q1 2024 (Average)	**5.4%**		
Medium-term Inflation Forecasts			
Institution	**2024**	**2025**	**2026**
SARB (March)	5.1%	4.6%	4.5%
National Treasury (February)	4.9%	4.6%	4.6%
Minerals Council SA (April)	5.2%	4.5%	n/a
Repo Rate		**Prime Lending Rate**	
8.25% (hiked 4.75% since Nov 2021)		11.75%	

<u>Detailed Breakdown:</u>

South Africa's annual headline consumer inflation (CPI) rate slowed to 5.3% in March 2024, from 5.6% in February. On a monthly basis, headline CPI rose by a hefty 0.8%. The annual increase in March was somewhat lower than the Bloomberg consensus and our own forecast of 5.4%.

Core CPI (which strips the prices of food, non-alcoholic beverages, petrol and energy from headline CPI) increased by 0.7% month-on-month (m-o-m) and 4.9% year-on-year (y-o-y), largely unchanged from the 5% y-o-y recorded in February. In terms of the split between goods and services CPI, **goods inflation** eased to 5.7% y-o-y from 6.2% in February 2024. In contrast, the rate of increase for the **services CPI** accelerated slightly to 5% y-o-y (4.9% in February). Figure 1 below provides a breakdown of the trends in the key CPI measures since 2019.

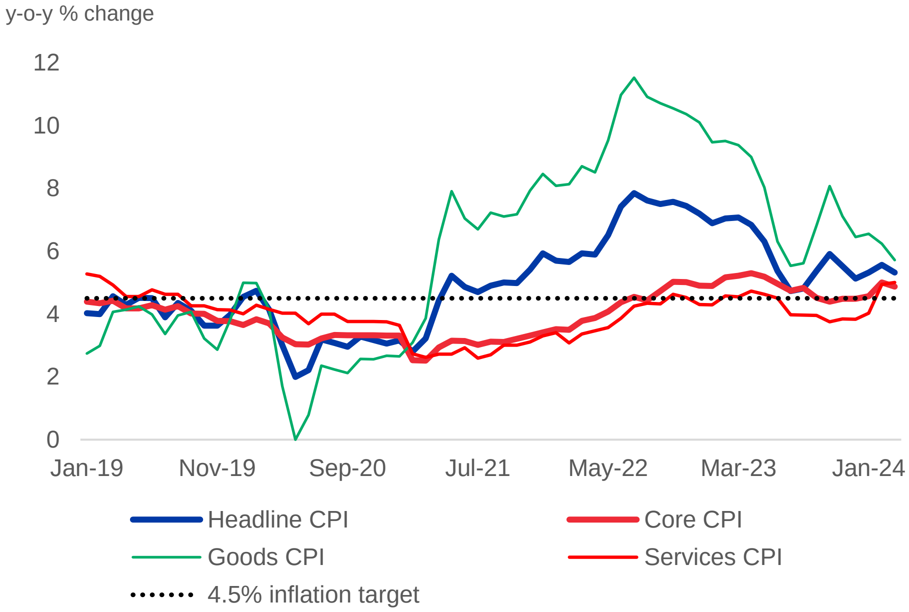
Returning to the monthly change for headline CPI, March is a heavy survey month that includes a quarterly survey on **rental escalations** and an annual survey of **education costs**. The impact of the increase in **sin taxes** on tobacco products (ranging from 4.7% to 8.2%) and alcoholic beverages (ranging from 6.7% to 7.2%) announced in the February budget was also reflected in the March CPI figures. Alcoholic beverages and tobacco added 0.1 percentage point to the overall m-o-m increase for headline CPI. On top of this, large increases in the price of petrol (+R1.21/litre) and diesel (R1.05/litre) at the start of the month also contributed to the elevated m-o-m rise in headline CPI. At 0.3 percentage points, the **transport component** was the largest contributor to the 0.8% m-o-m rise in headline CPI. Given the further 60c/litre rise in the petrol price during April and a likely additional hike in May as the Brent crude oil price hovers around $90/barrel[1], transport is expected to continue to put upward pressure on headline CPI in coming months.

[1] In early February, the Brent crude oil price was trading below $80/barrel. The recent increase was driven by escalating tension in the oil-rich Middle East region.

Education's contribution to headline CPI was 0.2 percentage points. This was courtesy of a 6.5% m-o-m increase, reflecting the once-off annual increase in primary and secondary school fees, as well as the rise in university tuition and boarding fees.

These monthly increases were somewhat countered by a second consecutive month of declines in **food prices** on a monthly basis (-0.1%). Within food, the prices of meat, oils and fats, and fruit were lower compared to the previous month. The monthly decline in food prices supported a further moderation in the annual rate of increase for food prices to 4.9%, from 6% in February 2024 and down notably from a 10.9% rise for the entire 2023. Looking ahead, there are concerns that a 35% year-to-date jump in domestic white maize prices will start to lift the CPI grains category from mid-year onwards.

Figure 1: Annual headline CPI remains around 5.5%



Source: Statistics SA & Minerals Council.

<u>Inflation and interest rate outlook:</u>

Further fuel price hikes in April and May, the sustained weakness of the rand exchange rate, and the likely passthrough of higher maize prices to selected food categories should see headline CPI continue to hover around 5.5% y-o-y in the next several months. Combined with an uncertain post-election environment that could result in volatile domestic financial markets, the near-term inflation outlook suggests that the SA Reserve Bank (SARB) will keep the policy interest rate on hold in the foreseeable future. At this stage, we believe it is only from September 2024 onwards that the SARB's monetary policy committee will start to contemplate (modest) interest rate cuts. This view is also informed by global investors scaling back the expected start of US policy interest rate reduction(s) amid sticky US inflation and surprisingly robust economic activity.

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Hugo Pienaar
Chief Economist
Cell: **+27 (0)83-387-1150**
Email: **HPIENAAR@MINERALSCOUNCIL.ORG.ZA**