

CPI Inflation Brief: **May 2024**

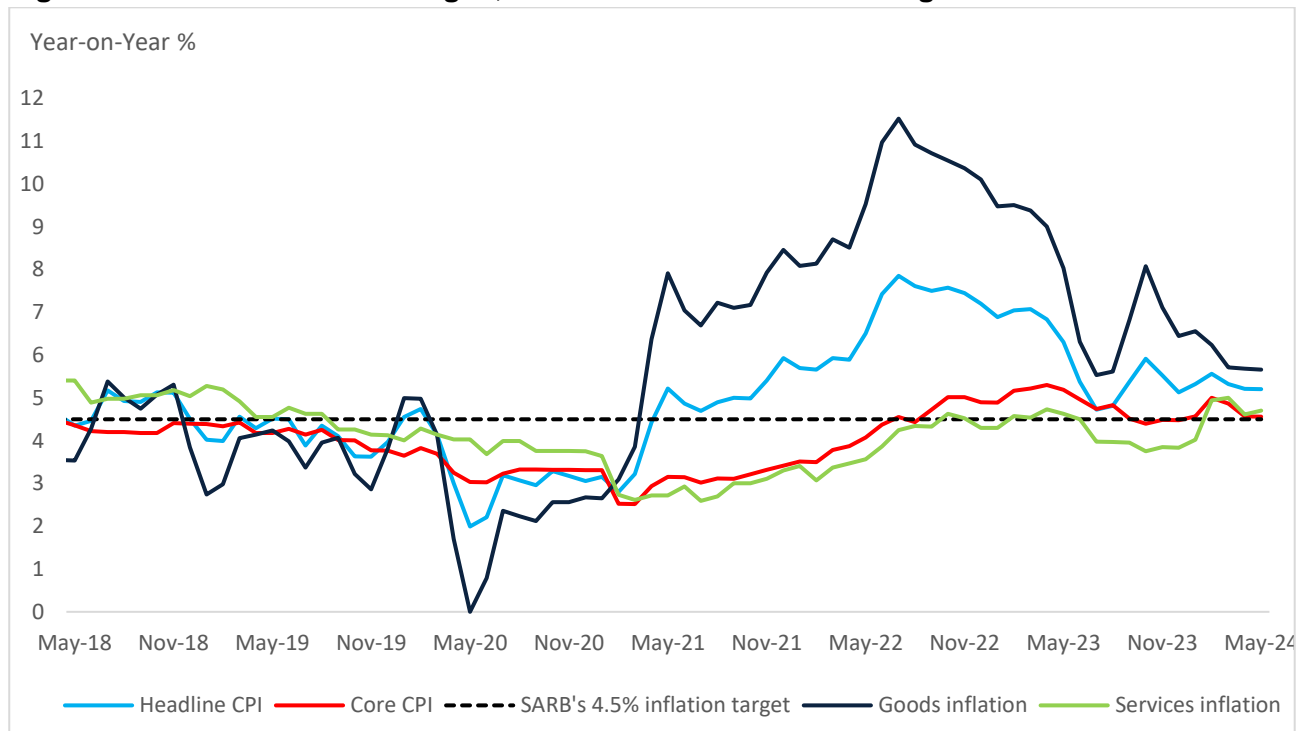
SA's annual headline consumer inflation was 5.2% in May 2024

Current (Actual)	5.2%	May 2024 – Statistics SA	
Previous month	5.2%	April 2024 – Statistics SA	
Medium-term Inflation Forecasts			
Institution	2024	2025	2026
SARB (May)	5.1%	4.5%	4.5%
National Treasury (February)	4.9%	4.6%	4.6%
Minerals Council SA (June)	4.9%	4.5%	n/a
Repo Rate		Prime Lending Rate	
8.25% (hiked 4.75% since Nov 2021)		11.75%	

Detailed Breakdown:

South Africa's annual inflation rate remained unchanged at 5.2% year-on-year (y-o-y) in May 2024, aligning with the Bloomberg market consensus and Minerals Council projections. At 4.9% y-o-y, the **core inflation** rate, which excludes food, non-alcoholic beverages, fuel, and energy, also remained steady. **Goods inflation** was at 5.7% in May, unchanged from April, and continued to be the primary factor driving overall inflation. **Services inflation** saw a slight increase, rising to 4.7% in May from 4.6% in April.

Figure 1: Core inflation unchanged, close to the 4.5% inflation target



Source: Statistics SA & Minerals Council.

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The main contributors to the 5,2% annual headline inflation rate are discussed below.

1. **Housing and utilities** increased by 5,8% y-o-y and contributed 1,4 percentage points to the headline figure.
 - This was mainly driven by a 15.3% y-o-y increase in electricity and fuels, unchanged from April, while water saw a 7.8% increase y-o-y.
 - Rentals remained steady at 3.3% y-o-y in May.
 - Electricity and water prices are regulated and subject to annual increases, resulting in stable month-to-month price fluctuations. Rental prices, however, are surveyed quarterly resulting in monthly fluctuations once every quarter.
2. **Miscellaneous goods and services** increased by 7,1% year-on-year and contributed 1,1 percentage points to the headline figure.
 - Personal care items, which include hair products, sanitary towels, toothpaste etc, decreased in May to 7.0%, down from 7.6% in April. Personal care products with the highest inflation rates in May included baby powder (up 18,4%), shampoo (up 16,6%), toothbrushes (up 16,5%) and toothpaste (up 16,1%).
 - Financial services (such as banking fees) and insurance (which includes funeral insurance) again increased by 5.6% and 8.0% y-o-y, respectively.
3. **Transport** increased by 6,3% year-on-year and contributed 0,9 of a percentage point.
 - Fuel increased by 0,6% m-o-m in May and was the main cause of the rise in transportation inflation. However, given movements in the price of Brent crude oil and the strengthening of the rand dollar exchange rate in June 2024, we expect a sizeable decline in fuel prices in July 2024. Along with the price drop seen for fuels in June 2024, this should help alleviate the pressure on headline CPI from the transportation sector in the coming months.
 - Public transport tariffs decreased by 0.9% in May compared with April, while private transport operations increased by 0.6% m-o-m.
4. **Food and non-alcoholic beverages** increased by 4,7% year-on-year and contributed 0,9 of a percentage point.
 - Fruit and vegetable prices rose again in May, increasing by 6% (from 4.5% in April) and 7.6% (from 7.4% in April) y-o-y, respectively.
 - Inflation for sugar, sweets & desserts also continued a downward trajectory to 15.5%, down from 16.8% in April. This decline was driven by reduced prices for sugar, jam, chocolate, and ice cream. Although sugar inflation cooled in May, annual increases for white and brown varieties remain in double-digit territory, at 18,8% and 15,8% respectively.
 - May saw an uptick in inflation for hot beverages, oils & fats, fish and meat. Hot beverage inflation accelerated from 11.4% in April to 14.2% in May, reaching its highest level since January 2023 (16.4%) while inflation for instant coffee, ground coffee, coffee beans, and black tea stands above 10%. Instant coffee prices, in particular, increased by an annual 17.9% in May 2024, up from 13.8% in April. Lastly, fish prices increased by 4.8% in May, up from 3% in April, while meat prices rose by 0.7% in May 2024, up from 0.5% in April.

Lastly, we make mention of two other contributors to the 5,2% annual headline inflation rate below.

5. **Health:** With winter chills setting in, the price of cold and flu medication saw an annual increase of 11.1%. Other health-related products that recorded significant increases include eyedrops (up 15.9%), laxatives (up 11.3%), cough syrup (up 8.1%), and vitamins (up 7.1%). Despite these increases, overall inflation for health products cooled from 7.7% in April to 5.8% in May.
6. **Restaurants and Hotels:** Stats SA's index for restaurants and hotels rose by an annual 6.5% in May 2024. Hotel prices increased by 8.0% over the same period, with hotels in Gauteng, Free State, and Limpopo registering increases exceeding 10%.

Outlook:

If sustained, the notable strengthening of the rand against the US dollar in recent weeks bodes well for the inflation outlook. Combined with another petrol price reduction that is on the cards for July, the annual rate of increase for headline CPI is expected to moderate further in the second half of 2024. Our base case has been that the first policy interest rate reduction from the monetary policy committee (MPC) of the SA Reserve Bank will be in September. Although recent events have increased the possibility of an earlier cut at the next MPC meeting in July, for now we remain with the September call.

-End-

Yours sincerely,



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