23 August 2024

CPI Inflation Brief: **July 2024**

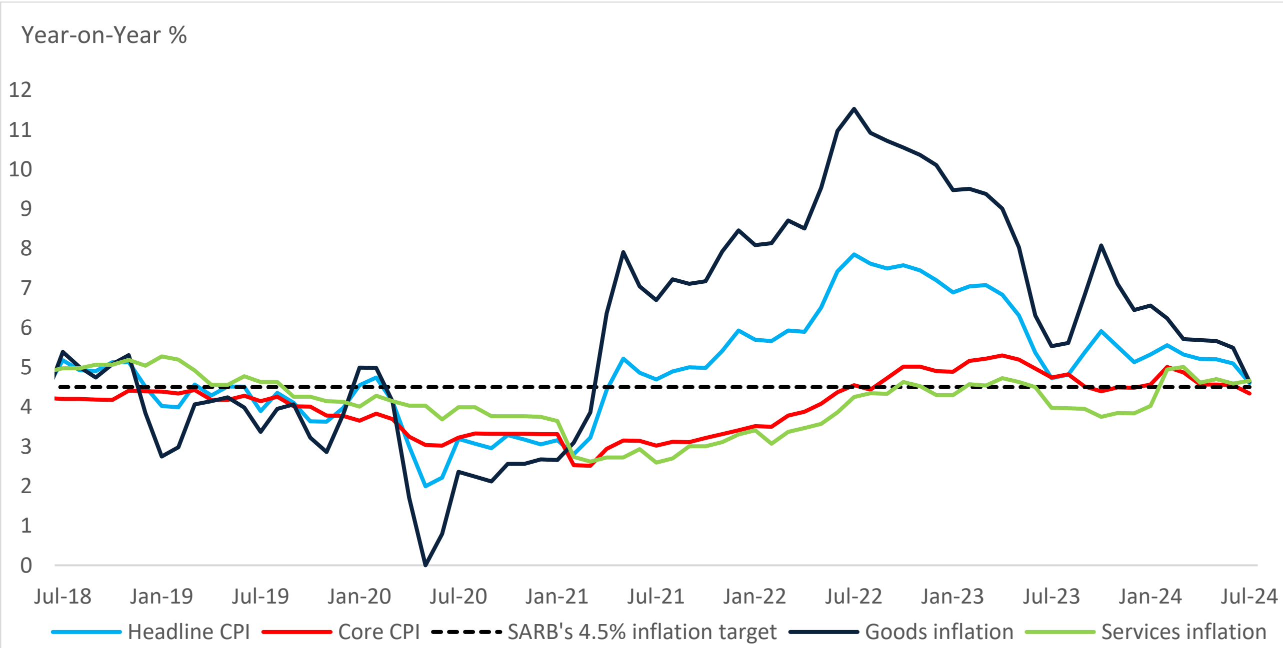
SA's annual headline consumer inflation rate was 4.6% in July 2024

Current (Actual)	**4.6%**	**July 2024 – Statistics SA**	
Previous month	5.1%	June 2024 – Statistics SA	
Medium-term Inflation Forecasts			
Institution	**2024**	**2025**	**2026**
SARB (July)	4.9%	4.4%	4.5%
National Treasury (February)	4.9%	4.6%	4.6%
Minerals Council SA (August)	4.6%	4.1%	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** experienced a notable deceleration in July 2024, dropping to 4.6% year-on-year (y-o-y), from 5.1% in June. The July figure was below the Bloomberg market consensus of 4.8%, aligning with the lower end of the consensus. **Core inflation** also saw a decline, falling below the South African Reserve Bank's (SARB) 4.5% target to 4.3% y-o-y. This was below the most optimistic (lowest) estimate of the Bloomberg consensus. The easing in headline inflation was primarily driven by a significant decrease in **goods inflation**, which fell to 4.6% y-o-y in July from 5.5% y-o-y in June. Conversely, **services inflation** experienced a marginal increase, rising to 4.7% y-o-y in July from 4.6% in June.

Figure 1: July headline inflation lowest in three years



Source: Statistics SA & Minerals Council.

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The main contributors to the 4,6% annual headline inflation rate are discussed below.

1. **Housing and utilities** increased by 5.3% y-o-y and contributed 1.3 percentage points to the headline figure.
    - The most significant increase recorded was a 12.1% y-o-y rise in the electricity subcomponent which reflects the 12.7% NERSA-approved electricity tariff increase in July. Stats SA surveyed electricity, water, and property rates across 39 municipalities in July 2024, capturing 117 prices, and the remaining 10 prices—primarily from smaller municipalities—are set to be surveyed in August.
    - While most municipalities implemented electricity tariff increases in July, the overall rise is lower than last year's. However, electricity prices have consistently outpaced both water tariffs and property rates, with an average annual increase of 10.5% over the past 15 years.
    - Despite the widespread implementation of electricity tariffs this year, a Gauteng High Court ruling in June declared NERSA's approval of tariff hikes for municipalities in the 2024/2025 financial year, without the required cost-of-supply studies, as unlawful and invalid. Only 66 municipalities had completed the necessary cost-of-supply studies. As a result, at least 112 municipalities have been charging unlawful electricity rates. The court has since mandated that these municipalities revert to the electricity rates approved for the 2023/2024 financial year. It is currently unclear how the legal process will proceed and how municipalities will react to the court ruling. Given the uncertainty and depending on municipalities' compliance with this ruling, the electricity tariff increases surveyed by Stats SA in July could move lower in the coming months.
    - Water tariffs increased by 7.5% in 2024 (compared to 9.6% in 2023) and property rates by 10.7% (compared to 8.4% in 2023), as surveyed in July 2024.

2. **Miscellaneous goods and services** increased by 7.0% y-o-y and contributed 1.0 percentage points to the headline CPI figure.
    - Personal care items, including hair products, sanitary towels, and toothpaste, saw a further deceleration in July to 5.5% y-o-y, down from 6.5% in June.
    - Financial services, such as banking fees, and insurance, including funeral insurance, increased slightly to 8.3% y-o-y (up from 8.1%) and 5.9% y-o-y (up from 5.6%), respectively.

3. **Food and non-alcoholic beverages** increased by 4.5% y-o-y and contributed 0.8 of a percentage point.
    - The annual rate for food & NAB was 4,5% in July, down from 4,6% in June. July's reading is the lowest since September 2020.
    - While overall food inflation has slowed, bread & cereals are showing upward momentum. The category recorded an increase of 5,6% y-o-y in July, courtesy of a 0.7% m-o-m increase. Products with the largest y-o-y increases in July include rice (+21,3%), pizza or pies (+11,6%) and samp (+6,9%), while maize meal prices rose by 5,1%. On a positive note, bread flour, cake flour, pasta and macaroni were cheaper than a year ago.

- As was highlighted in the June CPI comment, hot beverages continue to witness high inflation rates. Price levels for the category increased sharply by 17,6% y-o-y, up from 16,5% recorded in June. Large y-o-y price increases were recorded for instant coffee (up 21,8%), drinking chocolate (up 17,7%), black tea (up 15,7%), ground coffee and coffee beans (up 14,6%) and rooibos tea (up 11,1%). Cappuccino sachets recorded the lowest price increase in this category, rising by 7,6% over the same period.
- Meat, which accounts for over a third of household spending on food, recorded a m-o-m decline of 0,4% in July, with a modest y-o-y rise of 1,0%.

4. Transport increased by 4.2% y-o-y and contributed 0.6 of a percentage point.

- Except for public transport, which increased to 3.0% y-o-y and by 0.6% m-o-m, all categories within the transport group experienced a decline.
- Fuel prices receded for a second straight month, declining by 3,6% m-o-m. This followed a 4,6% m-o-m decrease in June.
- As per our expectation in the previous CPI comment, fuel prices decreased by 9 cents/litre for 95 octane and 16 cents/litre for 0.005% diesel in August. Based on the latest stats from the Central Energy Fund, we expect fuel prices in September to decrease further by between 60 to 90 cents/litre. This will mark the fourth consecutive m-o-m decline in fuel prices and will continue to ease pressure on headline CPI from the transportation sector.

<u>Outlook:</u>

The rand has strengthened further against the US dollar in recent weeks, buoyed by US economic data releases that raised expectations that the US Federal Reserve will reduce its policy interest rate in September. As a result, the rand has traded stronger than R18/$ for the past week. Given the better-than-expected domestic inflation print for July and the stronger-performing rand, our base case scenario remains that the South African Reserve Bank (SARB) will likely cut the repo rate by a cumulative 50 basis points (25bps each in September and November) this year. Given a nominal repo rate of 8.25% and headline CPI at 4.6%, South Africa's real policy interest is now at 3.65%, the highest since May 2006. This further reinforces the likelihood of upcoming rate cuts by the SARB. The Monetary Policy Committee (MPC) will announce its decisions at the upcoming meetings on September 19 and November 21.

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Yours sincerely,

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