26 February 2025

CPI Inflation Brief: **January 2025**

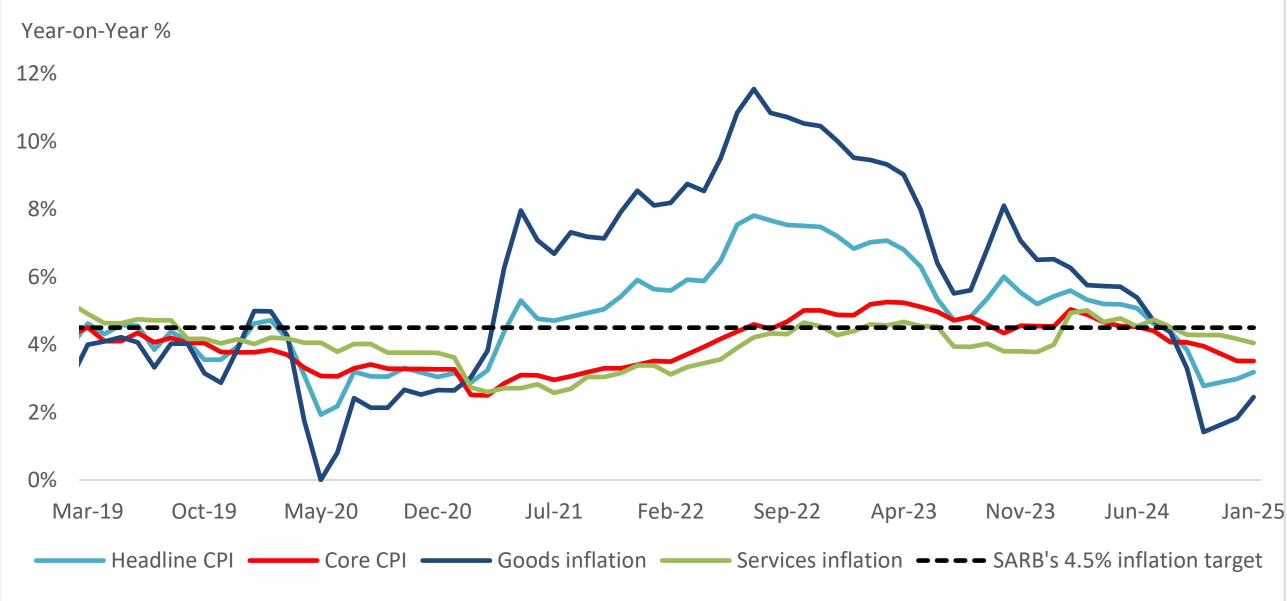
**SA's annual headline consumer inflation rate was 3.2% in January 2025**

| **Current (Actual)** | **3.2%** | **January 2025 – Statistics SA** | |
|---|---|---|---|
| Previous month | 3.0% | December 2024 – Statistics SA | |
| **Medium-term Inflation Forecasts** | | | |
| **Institution** | **2025** | **2026** | **2027** |
| SARB (January MPC) | 3.9% | 4.6% | 4.5% |
| National Treasury (October MTBPS) | 4.4% | 4.5% | 4.5% |
| Minerals Council SA (February) | 3.7% | 4.5% | n/a |
| **Repo Rate** 7.50% | | **Prime Lending Rate** 11.00% | |
| (Next decision due: 20 March 2025) | | | |

Detailed Breakdown:

South Africa's annual **headline CPI inflation rate** increased for the second consecutive month, rising to 3.2% year-on-year (y-o-y) in January 2025, up from 3.0% in December 2024. This outcome was in line with the Bloomberg market consensus and our forecast. **Core inflation**, which excludes volatile food and energy prices from the headline figure, continued to ease, declining to 3.5% y-o-y in January from the previous month's 3.6% y-o-y. This also aligned with the median analyst forecast in a Bloomberg poll. In terms of price category movements, **goods inflation** accelerated to 2.4% y-o-y in January, up from 1.9% in December. In contrast, **services inflation** moderated to 4.0% y-o-y, down from 4.2% in the previous month.

**Figure 1: Headline CPI remains at the low end of the SARB's target**




Source: Statistics SA & Minerals Council SA.

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The main contributors to the 3,2% annual headline inflation rate in January 2025 are discussed below.

1. **Housing and utilities** increased by **4.5%** y-o-y and contributed 1.1 percentage points to the headline figure.
    - **Maintenance and Repairs**: Prices saw a modest 0.2% increase in January. The annual inflation rate eased to 1.3%, down from 1.5% in December.
    - **Electricity and Other Fuels**: The weighting increased from 3.7 to 4.1, signalling a greater emphasis on electricity costs in household utility expenses. Annual inflation rose to 11.8% in January, up from 11.4% in December.

For other components, such as **water and other services**, **actual rentals**, and **owners' equivalent rentals**, inflation rates remained unchanged in January.

2. **Food and non-alcoholic beverages (NAB)** increased by **2.3%** y-o-y and contributed 0.4 of a percentage point.

Food inflation rose by 0.4% m-o-m, bringing the annual rate to 1.5% y-o-y, down from 1.7% recorded in December.

- Among the most notable adjustments, **processed food**'s weight decreased from 8.57 to 7.73, while its annual inflation rate climbed from 3.2% y-o-y to 3.8% y-o-y.
- In contrast, **unprocessed food**'s weight increased from 6.73 to 9.11, while its y-o-y inflation fell from 0.4% to -0.6%.

The shift toward unprocessed food, which experienced price declines, diluted overall food inflation, while the lower weight of processed food reduced its contribution to the total index despite its higher inflation rate.

Within food subcategories, **cereal products** (Stats SA previously referred to this category as bread & cereals) recorded a 0.6% m-o-m increase, with y-o-y inflation at 3.8%. **Meat** prices rose 0.8% m-o-m but remained 0.5% lower y-o-y, with a weight reduction from 5.42 to 5.10. Similarly, **milk, dairy, and eggs** declined by 0.5% m-o-m, increasing by 1.7% y-o-y, while their combined weight dropped from 2.53 to 1.83. **Vegetables**, now carrying more weight (1.27 to 1.74), increased by 0.9% m-o-m, though annual inflation remained muted at 0.7%.

**Non-alcoholic beverages** saw a 0.6% m-o-m increase, bringing y-o-y inflation to 9.0%. Notably, **hot beverages** posted the largest increase at 1.0% m-o-m, with an elevated 13.7% y-o-y inflation rate. **Cold beverages** rose by 0.5% m-o-m, with y-o-y inflation at 5.9%, while their weight fell from 1.17 to 1.00.

3. **Restaurants and accommodation services** increased by **4.9%** y-o-y and contributed 0.3 percentage points to the headline CPI figure.
    - Overall inflation for the **restaurants and accommodation services** category rose by 0.7% m-o-m, contributing to an annual increase of 4.9%, likely reflecting price hikes amid increased demand over the holiday period.
    - **Catering services** (restaurants) remained stable, with no change m-o-m, while annual inflation was recorded at 4.0%.
    - In contrast, **accommodation services** experienced a 3.4% increase m-o-m, leading to a significant y-o-y inflation rate of 8.2%, attributed to heightened demand during the holiday period.

Lastly, we make mention of **transport inflation**.

- As expected, the rise in fuel prices during January added upward pressure to transport inflation. Fuel prices increased by 0.9% m-o-m, while the annual deflation in fuel prices eased to -4.5%, from -10.2% in December.
- Fuel prices increased again in February of 2025. Petrol (95-octane) increased by 82 cents to R22.41 a litre, 93-octane rose by 82 cents to R22.16, and 0.005% diesel by 101 cents to R20.44 a litre. This will exert further upward pressure on the February CPI print.
- Preliminary data from the Central Energy Fund suggests that some fuel grades may decrease in March, with an anticipated decline of 1 to 17 cents per litre for most fuel types, while 93 octane is projected to rise by approximately 10 cents per litre. This expected decrease is primarily attributed to falling Brent crude oil prices, which dipped to $74.50 per barrel in late February, down from an average of $78.20 per barrel in January 2025. Additionally, the rand has remained relatively stable throughout February, showing a slight appreciation against the dollar compared to January, which has eased the pressure on the price of imported goods.

Outlook:

The South African Reserve Bank (SARB) projected in January that headline CPI inflation for the year would average 3.9%. In its fourth-quarter 2024 survey, the Bureau for Economic Research indicated that inflation expectations for 2025moderated to 4.5%, with forecasts suggesting a potential drop in the prime interest rate from 11% to 10.5%. Assuming the SARB sticks with rate moves in increments of 25bps, this implies a consensus expectation of two additional rate cuts this year. However, this outlook faces two significant risks.

First, global factors. These include the actual policies of President Trump and uncertainty about his future actions that could disrupt international trade. Second, domestic uncertainties surrounding the Budget add to the risks, particularly regarding potential tax increases. The Treasury had initially considered a 2% VAT hike, fully aware of its inflationary impact, but this proposal has been abandoned. As a result, alternative tax measures will need to be explored. The nature of these tax changes - especially if they lead to higher government spending - could push inflation higher than anticipated. With the Budget set for 12 March, its outcome could also influence the SARB's decision at its March meeting, particularly as it may shape the risks surrounding the bank's baseline inflation and growth forecasts. A much higher than previously forecast public sector wage bill for 2025/26 has also been concluded, well above inflation and above the 4.8% Treasury budgeted for in the October MTBPS.

Given these considerations, upside risks remain to expectations—including our own—that headline CPI could average below 4% this year. As a result, the SARB is likely to maintain a cautious approach, balancing domestic challenges with external influences as it navigates the evolving economic landscape. On balance, the SARB may opt to delay another 25 basis point repo rate cut until later in 2024. Furthermore, as seen in January when two Monetary Policy Committee members opposed the rate reduction, any potential cut in March is unlikely to be a unanimous decision.

**-End-**

Yours sincerely,

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