



CPI Inflation Brief: December 2023

**SA headline consumer inflation was 5.1% in December 2023**

<b>Current (Actual)</b>	<b>5.1%</b>	<b>December 2023 – Statistics South Africa</b>	
<b>Previous month</b>	<b>5.5%</b>	<b>November 2023 – Statistics South Africa</b>	
<b>2023 Average</b>	<b>6.0%</b>	<b>January to December 2023</b>	
<b>Medium-term Inflation Forecasts</b>			
<b>Institution</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
SARB	5.0%	4.6%	4.5%
National Treasury	4.9%	4.6%	4.5%
<b>Repo Rate</b>		<b>Prime Lending Rate</b>	
8.25% (hiked 4.75% since Nov 2021)		11.75%	

Detailed Breakdown:

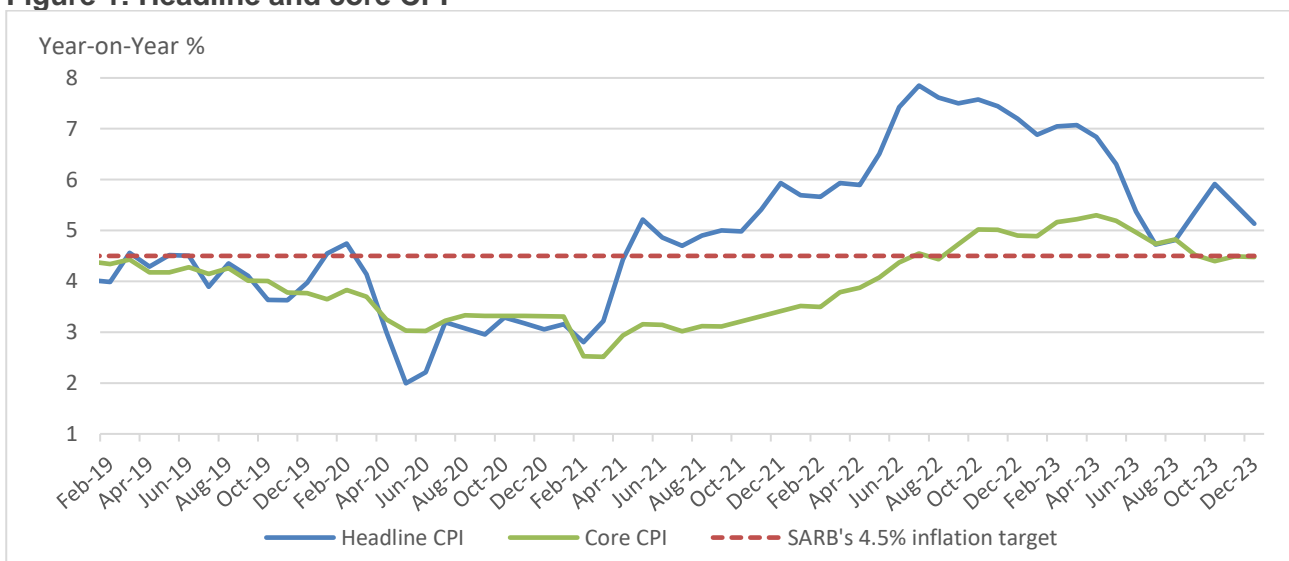
The main contributors to the 5,1% annual headline inflation rate were:

- **food and non-alcoholic beverages** (increased by 8,5% year-on-year and contributed 1,5 percentage points),
- **housing and utilities** (increased by 5,7% year-on-year and contributed 1,3 percentage points),
- **miscellaneous goods and services** (increased by 5,1% year-on-year and contributed 0,7 of a percentage point) and
- **transport** (increased by 2,6% year-on-year and contributed 0,4 of a percentage point).

In December, the annual inflation rate for **goods** was 6,4%, down from 7,1% in November; and for **services** it was 3,8%, unchanged from November.

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 and core CPI**



Source: Statistics SA.

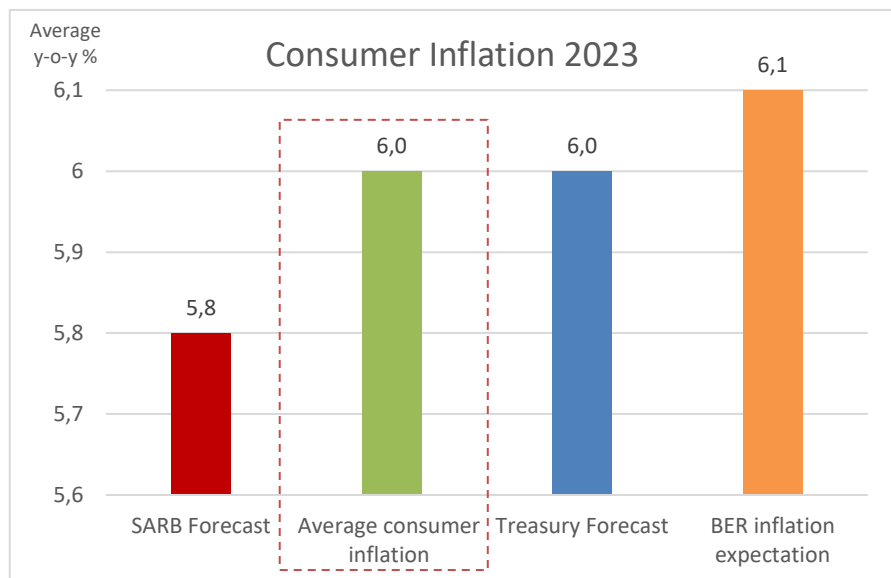
South Africa's inflation rate fell to 5.1% in December, a 0.4 percentage point decrease from the previous month. Average inflation for 2023 stood at 6.0%. For December 2023 we note that:

- **Food prices** increased by 8.5% y-o-y (following an increase of 9.0% in November);
- **Non-alcoholic beverage** prices increased by 9.2% y-o-y (following an increase of 8.5% y-o-y in November).
- The price of **fuel** decreased by 2.5% y-o-y (following an increase of 1.8% in November). Month-on-month fuel prices were 2.7% lower in December than in November 2023.
- **Electricity** and other fuel prices increased 15.2% y-o-y, unchanged from November.

If we exclude these items from the headline CPI cost basket, we obtain core inflation where the annual rate of increase remained unchanged in November at 4.5%.

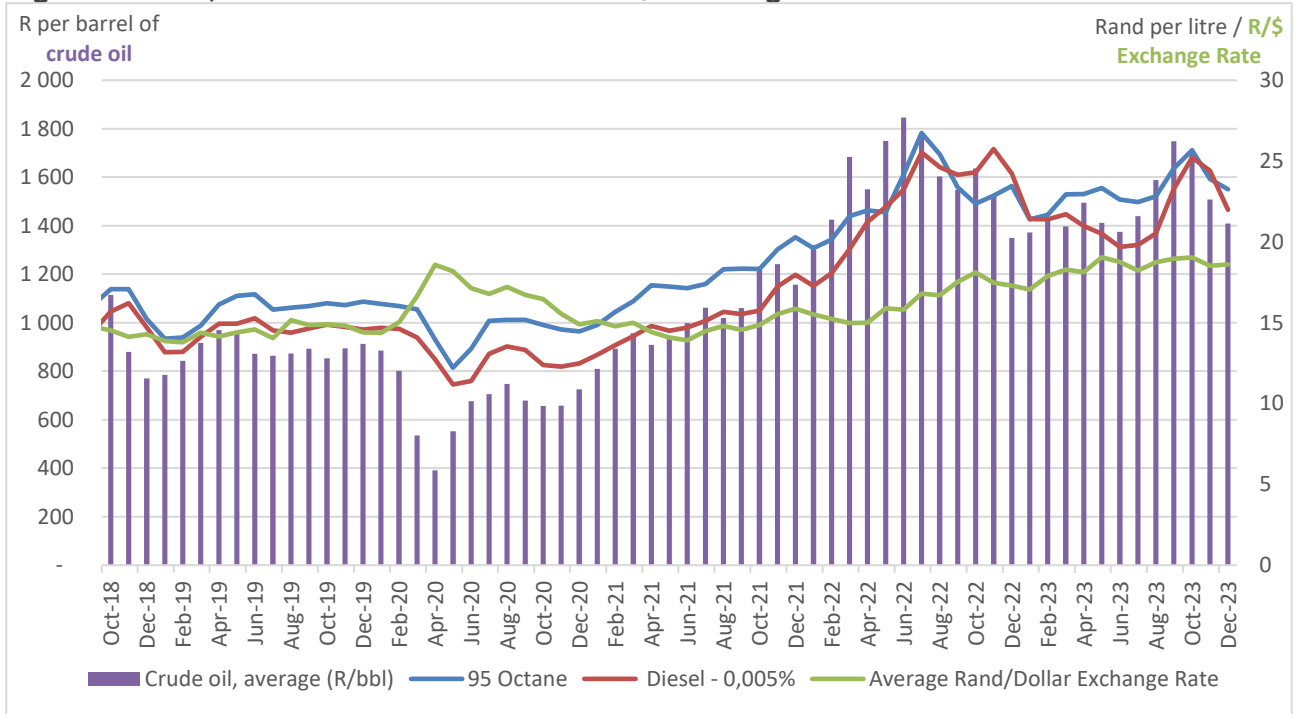
#### What it all means:

- Overall headline consumer inflation **averaged 6% for the year 2023, easing from 6.9% in 2022.** The South African Reserve Bank (SARB) expected inflation for 2023 to average 5.8% in November 2023. Similarly, National Treasury in its MTBPS in November expected inflation to average 6% for the year while the Bureau for Economic Research (BER) Q4 2023 survey of inflation expectations indicated inflation for 2023 at 6.1%.



- **Core inflation** remained stable at 4.5% y-o-y in December 2023. Average core inflation for 2023 amounted to 4.9%, up from 4.3% in 2022. The SARB updated core inflation forecast for 2024 and 2025 is at 4.6%, and 4.5% in 2026.
- Due to global factors, **oil prices** remain generally high at around US\$82 per barrel. In addition, the rand depreciated over the past year by about 11% against the US dollar, making it one of the worst-performing emerging market currencies. This year, the SARB's rand forecast starts at R18.65 to the US dollar. Overall, the SARB expects **fuel price** inflation to be low, averaging below 1% in 2024.

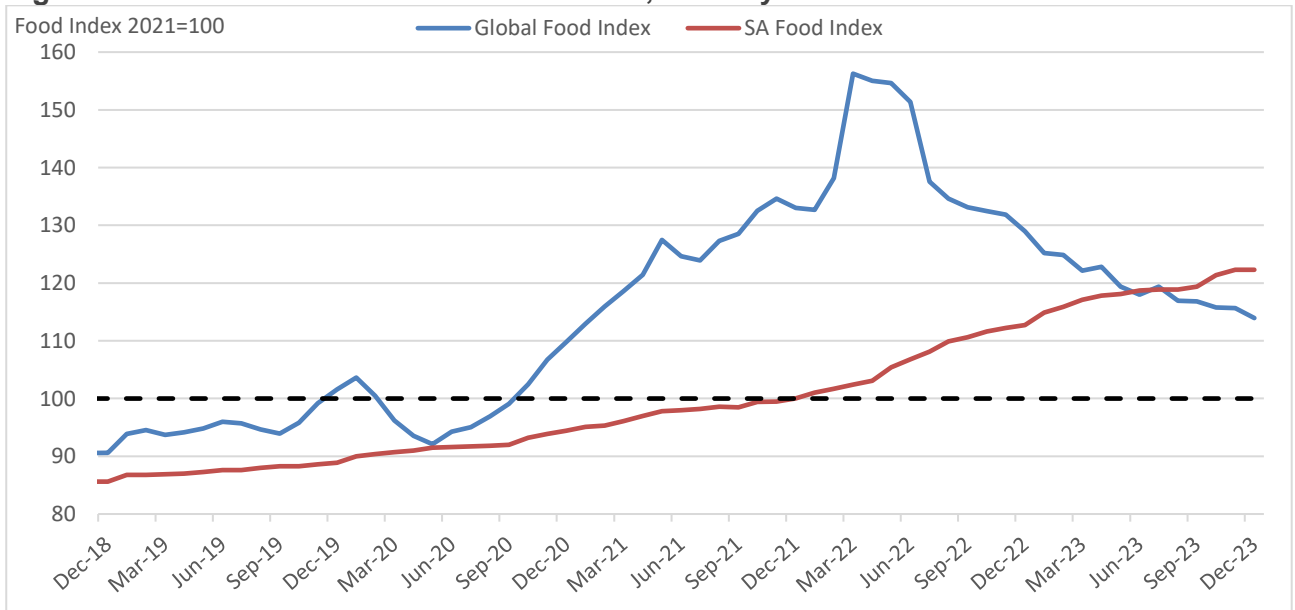
**Figure 2: Fuel-, Brent Crude Oil Prices and R/\$ Exchange Rate**



Source: Statistics South Africa, World Bank and Minerals Council

- Local **food price inflation** averaged 11% in 2023. Staple items such as potatoes, sweet potatoes and eggs increased substantially over the past year and food price inflation remains unpredictable and high. Additionally, electricity prices and logistics constraints continue to present clear inflation risks to food inflation. Overall, local food prices are still on an upward trajectory despite international food prices trending downward. The SARB forecasts food price inflation for 2024 at 5.7%. Figure 3 below illustrates local food price inflation's upward trend compared to global food prices, which are trending down.

**Figure 3: Local vs. Global Food Price Inflation, monthly index**



Source: Stats SA, FAO & Minerals Council

- With subdued local GDP growth in 2023, **average salaries** grew less than expected in the latter half of the year. Average salaries are expected to rise by 3.9% in 2023 (down from 4.6), 6.1% in 2024, and by 5.5% in 2025 and 5.4% in 2026.

**Conclusion:**

Overall headline consumer inflation **averaged 6% for the year 2023**. This was broadly in line with expectations and signals a slow return to the SARB's target of 4.5%. The main drivers of inflation continue to be food and non-alcoholic beverages, electricity, housing, and miscellaneous goods and services. Policy interest rates will likely be cut globally and locally in 2024. However, inflation in South Africa still poses significant risks, primarily due to electricity prices and logistical constraints. For 2024, the SARB's updated headline forecast for inflation is at 5.0% while core inflation is forecast at 4.6%.

Yours sincerely,



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