



CPI Inflation Brief: August 2023

SA Consumer Inflation was 4.8% in August 2023

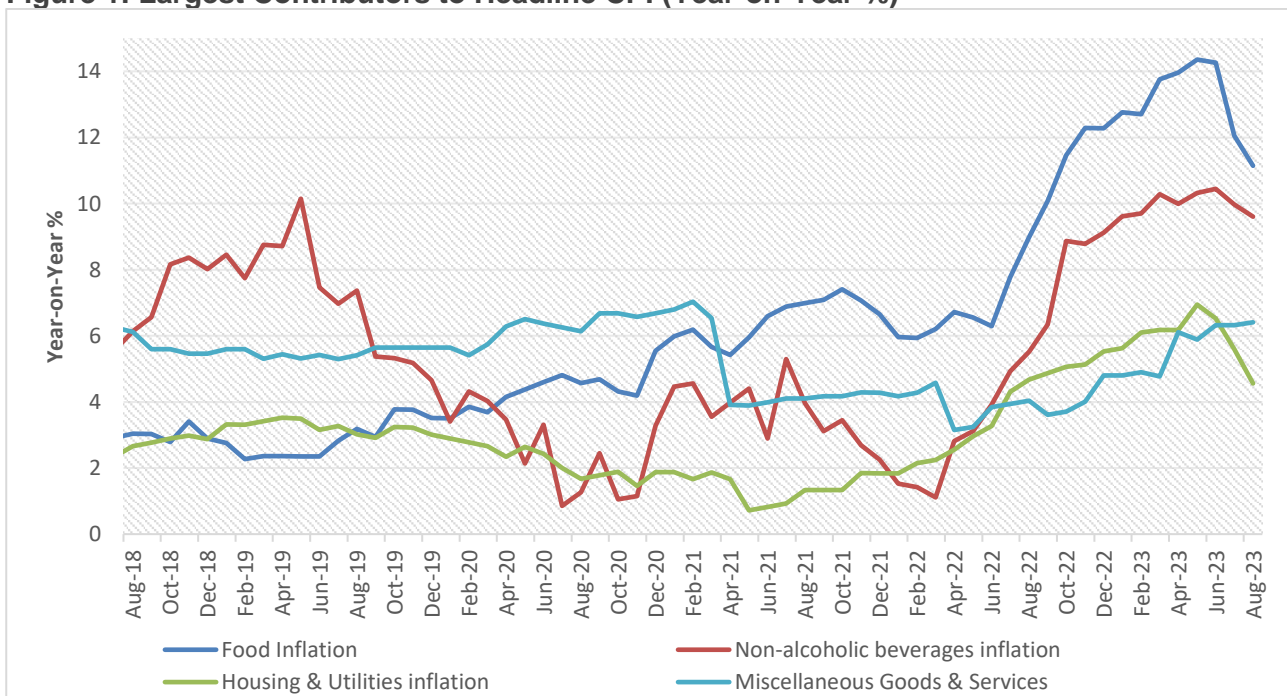
Current (Actual)	4.8%	August 2023 - Statistics South Africa	
Previous month	4.7%	July 2023 – Statistics South Africa	
Year-to-date Average	6.1%	Year to August 2023	
Medium-term Inflation Forecasts			
Institution	2023	2024	2025
SARB	5.9%	5.1%	4.5%
National Treasury	5.3%	4.9%	4.7%
Repo Rate		Prime Lending Rate	
8.25% (hiked 4.75% since Nov 2021)		11.75%	

Detailed Breakdown:

The main contributors to the 4,8% annual inflation rate were:

- **food and non-alcoholic beverages** (increased by 8,0% year-on-year and contributed 1,4 percentage points);
- **housing and utilities** (increased by 5,5% year-on-year and contributed 1,3 percentage points); and
- **miscellaneous goods and services** (increased by 6,2% year-on-year and contributed 0,9 of a percentage point).

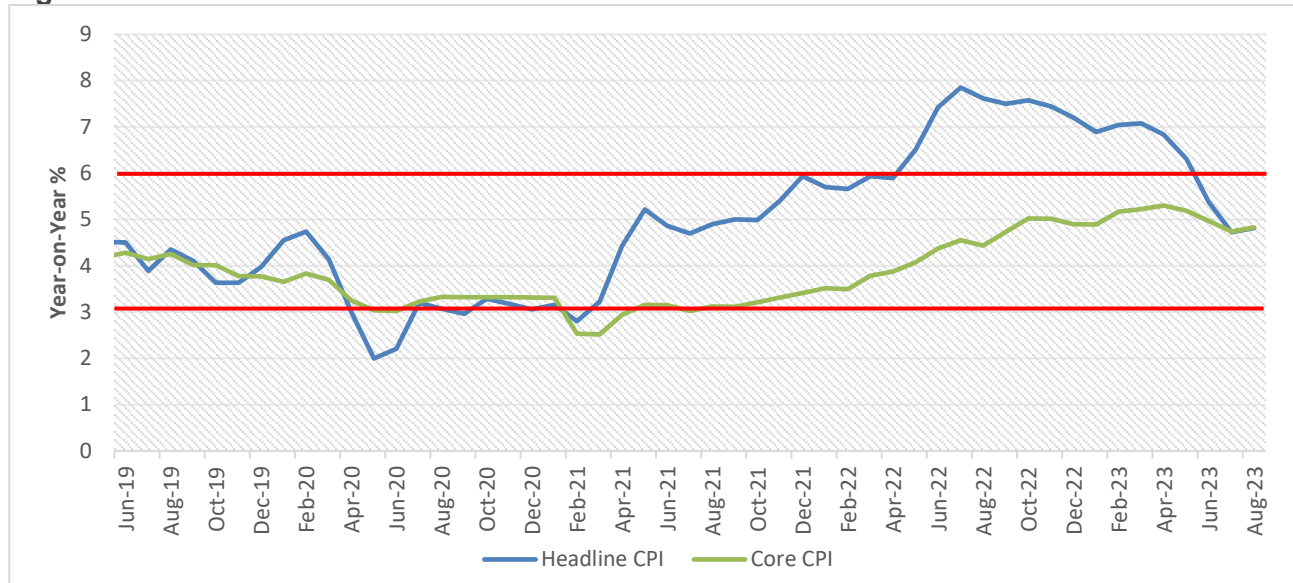
In August the annual inflation rate for **goods** was 5,6%, up from 5,5% in July; and for **services** it was 4,0%, unchanged from July.

Figure 1: Largest Contributors to Headline CPI (Year-on-Year %)


Source: Statistics South Africa.

Figure 2 below illustrates the long-term trend in Headline CPI and Core CPI (which excludes the prices of food, non-alcoholic beverages, fuel and energy).

Figure 2: Headline CPI and Core Inflation



Source: Statistics South Africa.

Note: The red lines represent the SARB's inflation target of between 3 and 6%.

South Africa's headline and core inflation rate ticked up slightly in August but seems to have stabilised in line with expectations. For August 2023 in particular we note that:

- **Food prices** increased by 8.2% y-o-y (following an increase of 10.0% in July);
- **Non-alcoholic beverage** prices increased by 7.0% y-o-y (following an increase of 8.8% y-o-y in July).
- The price of **fuel** decreased by 11.7% y-o-y (compared to a decrease of 16.8% in July). However, month-on-month fuel prices were 2.2% higher in August than in July 2023.
- **Electricity** and other fuel prices increased 15.1% y-o-y, an increase from the 14.4% recorded in July. Similarly, water cost consumers 7.9% more in August on a year-to-year basis.

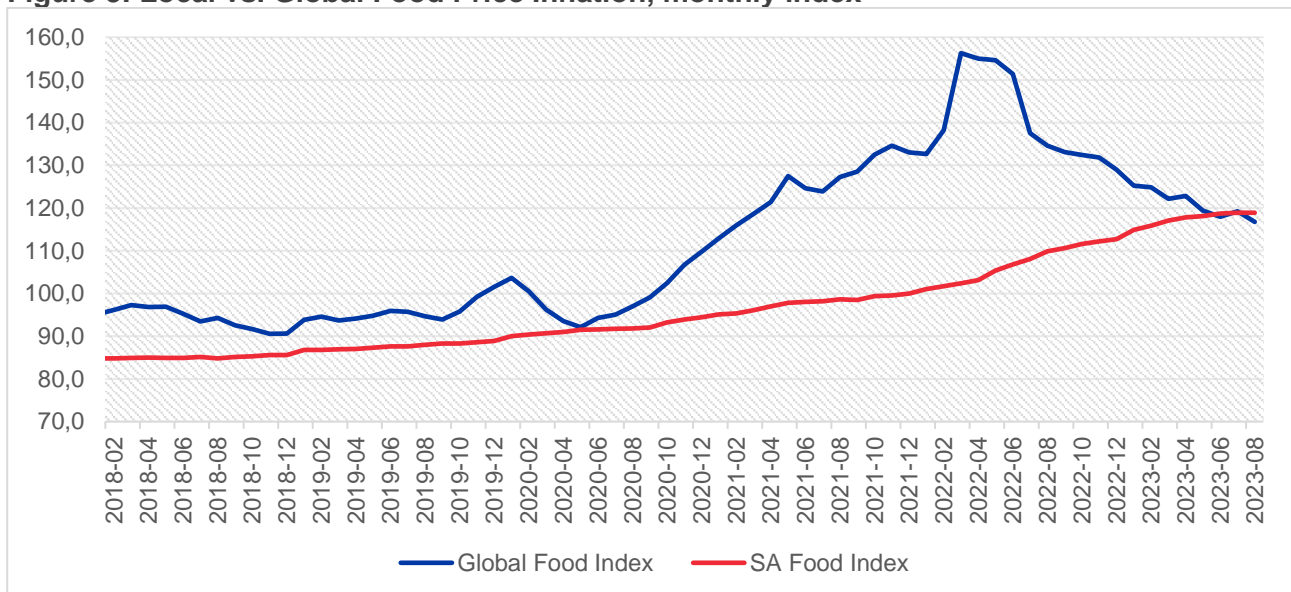
If we exclude these items from the headline CPI cost basket, we obtain core inflation which also reached 4.8% in August 2023 (up from 4.7% in July). This implies that both headline and core inflation increased slightly in August but are still close to the SARB's unofficial midpoint target of 4.5%.

What it all means:

- Headline consumer **inflation** increased slightly in August; however, inflation has moderated and is now **averaging at 6.1% for the year to August 2023**. The SARB expects inflation to average 5.9% this year, which means headline inflation is likely to remain at current levels, increasing slightly in the months to come towards 5%. Economic actors have started to adjust their inflation expectations downward – in line with what the SARB has tried to achieve. The latest inflation expectations survey by the Bureau for Economic Research confirms this and indicates that businesses' and consumers' inflation expectations for 2023 have decreased to 6% from 6.48%.

- **Core inflation** increased to 4.8% in August 2023. The SARB has revised its forecast for core inflation downward to 4.9% in 2023 (previously 5.2%) and to 4.7% in 2024 (from 4.9%). This means core inflation is on target, which is encouraging. The core inflation number confirms that fuel, food and energy prices are driving inflation in South Africa.
- Locally, **food price inflation** is slowing down with August's figure at 8.2% y-o-y, down from 10.0% in July. Food inflation has moderated but is still relatively high. Local food prices are still on an upward trajectory whilst international food prices are trending downward. The graph below shows how local food price inflation continues its upward trend (albeit at a slower rate) compared to global food prices.

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

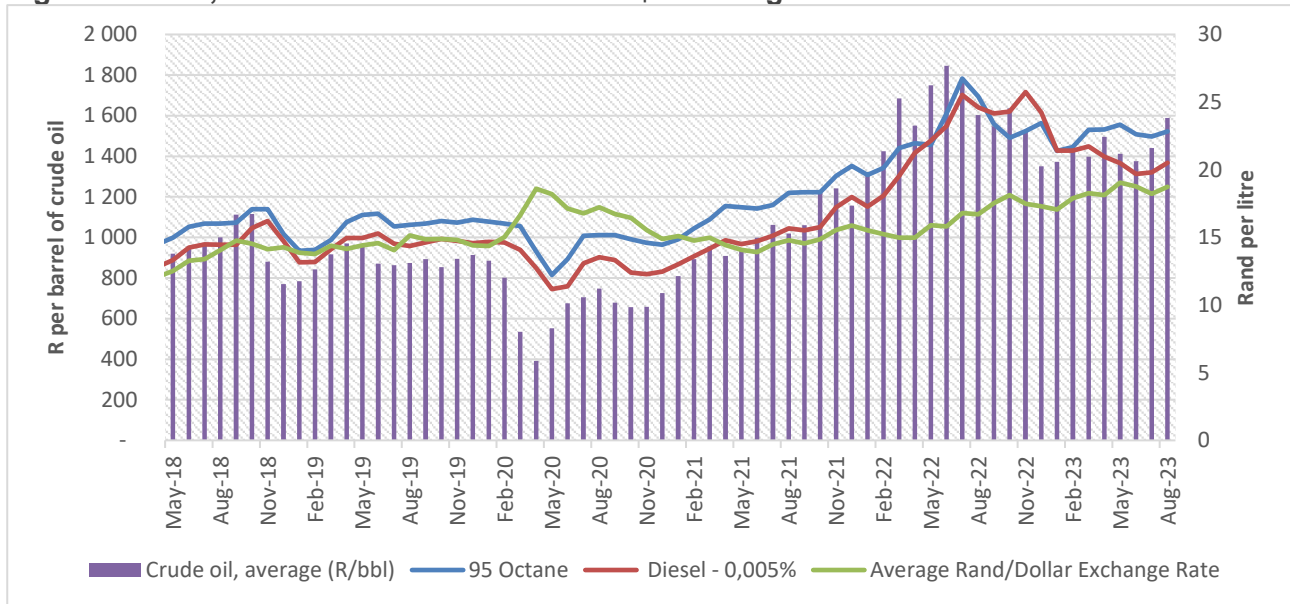


Source: StatsSA, FAO & Minerals Council

- The second largest driver of inflation is **housing and utilities**. August saw water and sanitation prices increase by 7.9% y-o-y while electricity and other fuel prices increased 15.1% y-o-y. The double-digit, above-CPI tariff increases in electricity continue to weigh on consumers while municipal increases in water tariffs are also exerting pressure on consumers.
- Lastly, we note the impact of higher **fuel prices** on inflation. The higher fuel prices are largely driven by higher global prices for Brent crude oil and a depreciating rand-dollar exchange rate. The International Energy Agency (IEA) continues to warn of upward pressure on oil prices due to record levels of demand and supply growth struggling to catch up.

Figure 4 below illustrates the relationship between Brent crude oil prices, the rand-dollar exchange rate and fuel prices. South African fuel prices (95 octane and diesel) fluctuate almost in tandem with Brent crude oil prices.

Figure 4: Fuel-, Brent Crude Oil Prices and R/\$ Exchange Rate



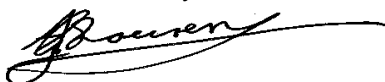
Source: Statistics South Africa, World Bank and Minerals Council

Conclusion:

South Africa's headline inflation rate is mainly driven by fuel and food prices. The cost of Brent crude oil has increased significantly to about \$85 per barrel in recent months, and this increase has been amplified by the weakening of the exchange rate. The increase in fuel prices is passed on to consumers along the entire supply chain and drives inflation. Higher fuel prices also increase the input costs faced by the agricultural sector, which partly affects food prices. Load shedding and the El Niño weather event also contribute to the rise in food prices. However, the swift action taken by the SARB has led to a downward revision in the forecast for headline inflation to 5.9% in 2023 (previously 6.0%), but for 2024 it is revised upward to 5.1% (from 5.0%).

Furthermore, South Africa's electricity load shedding continues to increase, prices for commodity exports continue to fall, and global geopolitical tensions still exist, while local growth is low and tax revenue is insufficient. In the immediate future, stronger El Niño conditions threaten the agricultural outlook, and global climatic events pose additional risks. Energy and logistical constraints remain binding on the growth outlook, limiting economic activity and increasing costs. Therefore, we should expect negative conditions and sentiment to persist for longer, and interest rates will likely remain higher for longer, only dropping in the second quarter of 2024, ceteris paribus.

Yours sincerely,



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