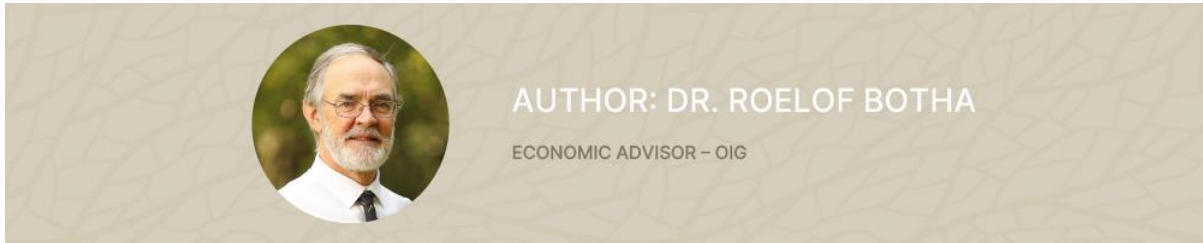


## Consumer Price Index declines again

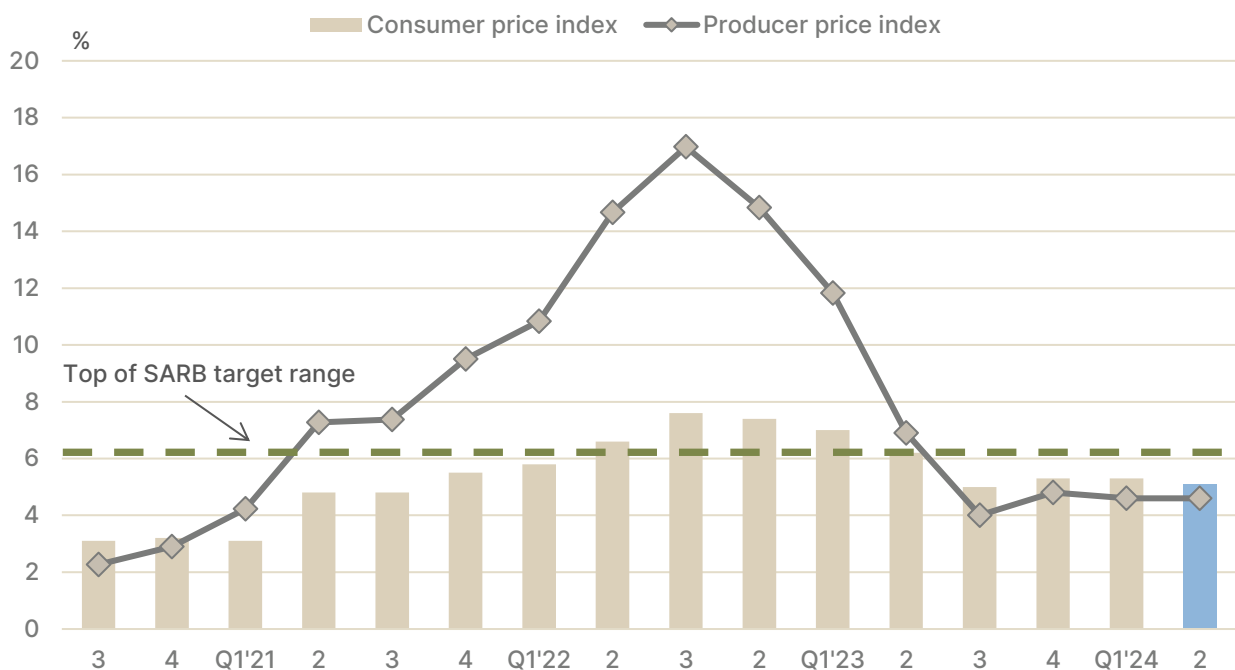
25 July 2024



Households and businesses with debt would have been disappointed at the decision by the Monetary Policy Committee (MPC) of the Reserve Bank to maintain the official bank rate at 8.25% (and the prime rate at 11.75%) during their July policy meeting.

Fortunately, some good news filtered through less than a week later with the publication by Statistics S.A. of the latest inflation rate, as measured by the consumer price index (CPI). This rate declined marginally to 5.1% in June (from 5.2% in May).

**Exhibit 1 |** Consumer and producer inflation remain within SARB's target range



Source: Statistics South Africa. Data published 24 July 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

Importantly, the CPI has now been within the Reserve Bank's target range for inflation for a full year, with two leading indicators of future expectations for consumer inflation also pointing in the right direction.

Firstly, the sub-index for food and beverages has dropped to below the mid-point of the MPC's inflation target range (3% to 6%). In combination, food (including non-alcoholic beverages) and alcoholic beverages comprise more than 21% of the weighting of the CPI basket and any further downward movement will almost certainly serve to lower the CPI further.

Secondly, after some nervousness with an uptick in producer prices in April, the producer price index (PPI) declined again in May, with the latest reading of 4.6% virtually on the nose of the mid-point of the Reserve Bank's target range for inflation.

Price increases at the factory gate are currently lower than consumer inflation. As a rule, producer prices act as a leading indicator for consumer prices, which bodes well for a further drop in the consumer price index in the months ahead.

Scrutiny of the June CPI data reveals the negative impact of several consumption expenditure groups that are directly influenced by the public sector (usually referred to as administered prices), especially electricity, water and fuel. With a bit of luck, the recent strength of the rand exchange rate could eventually lead to a moderation of fuel price increases.

## Exhibit 2 | Consumer price index groups with year-on-year increases well above the CPI (in June 2024)

| CPI group            | Weight % | y-o-y % change |
|----------------------|----------|----------------|
| Electricity          | 3.7      | 15.3           |
| Insurance            | 9.89     | 8.1            |
| Water                | 3.46     | 7.9            |
| Fuel                 | 4.82     | 7.6            |
| Restaurants & hotels | 3.25     | 7.5            |

Note: Groups with a weighting of more than 3%. Source: Statistics South Africa, author's own calculations. Data published 24 July 2024. Past performance is not a reliable guide to future performance. For illustrative purposes only and not indicative of any investment.

Overall, a further moderation of inflationary trends should continue in 2024, with a good chance of an interest rate cut in September.