Consumer inflation

ECONOMICS | SOUTH AFRICA

Inflation continued its gentle rise.

- Headline consumer inflation rose from 3% in December to 3.2% in January. The outcome was slightly better than our consensus market forecasts. Housing and utilities exerted the most upward pressure, rising from 4.4% to 4.5% yoy and contributing 1.1 percentage points (ppts) to the annual increase. Food and non-alcoholic beverages (NAB) slowed further, easing from 2.6% to 2.3%, but nonetheless contributed 0.4 ppts to the overall increase. Significant upward pressure also came from restaurants and accommodation as well as insurance fees, while most other categories registered modest price increases.
- Encouragingly, core inflation, which excludes volatile food and fuel prices, held steady at 3.5%, suggesting that underlying price pressures remained well contained below the SARB's 4.5% inflation target.

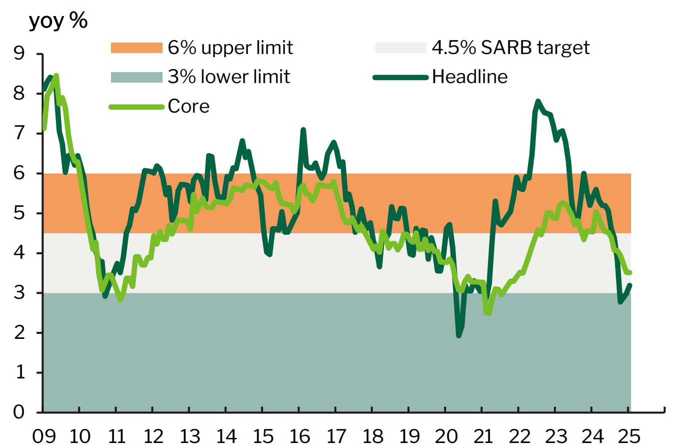
Table 1: Key Inflation Outcomes

	Jan-25		Dec-24	Forecasts (yoy %)	
	yoy %	mom %	yoy %	Nedbank	Market
Headline	3.2	0.3	3.0	3.4	3.3
Core	3.5	0.2	3.5	3.6	3.5

Source: Stats SA, Nedbank GEU, Refinitiv

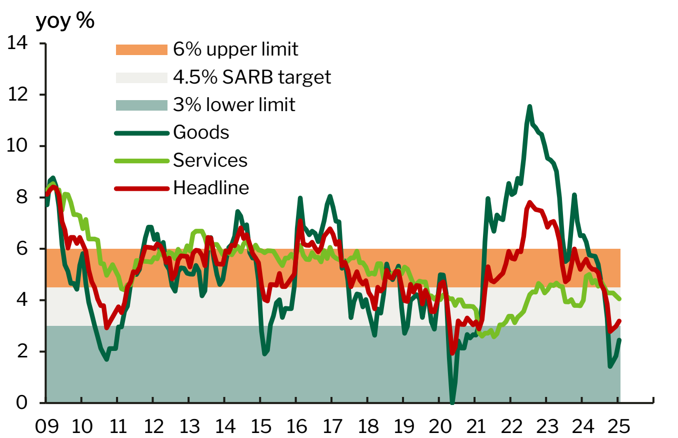
- Housing and utilities ticked up, driven mainly by electricity and other fuels, which accelerated from 11.4% in December to 11.8% in January. Electricity and other fuels added 0.5 ppts to the annual increase in Consumer Price Index (CPI).
- Restaurants and accommodation rose by 4.9% yoy, up from 4.2% in December. While restaurant inflation eased from 5% to 4%, hotels jumped from 2.4% to 8.2%.
- Within miscellaneous goods and services, insurance remained elevated, still rising by 8% yoy, only slightly softer than 8.2% in December. Insurance contributed 0.7 ppts to the annual increase in CPI.
- Food and non-alcoholic beverages inflation again surprised downside, easing from 2.6% to 2.3%. Food inflation slowed from 1.7% to 1.5%, supported by continued deflation in meat prices and softer price increases of dairy products, fish, fruits, sugar, sweets and desserts. Non-alcoholic beverages exerted upward pressure, accelerating from an already high 8.7% to 9%.

Chart 1: Inflation edged up.



Source: Stats SA

Chart 2: Goods inflation rose slightly, but services eased.



Source: Stats SA

- Transport deflation continued but less severely than in December. Transport costs fell by 0.2% yoy, much shallower than the 2% contraction of December and the 3.3% drop recorded in November. This trend continued to reflect fading deflation in fuel prices, which fell by 4.5% yoy in January, compared with declines of 10.2% and 13.5% in December and November, respectively. These reflected the third consecutive monthly hike in petrol and diesel prices in January. Encouragingly, vehicle price inflation eased from 2.6% to 2.4%.

- Goods inflation picked up pace from 1.8% to 2.4%, while services inflation softened from 4.2% to 4%. Within the goods category, the upward pressure came from non-durables, which accelerated significantly from 2% to 2.9%. In contrast, the gradual moderation in durables and semi-durables continued, easing to a low 0.8% and 1.2%, respectively.
- The gradual upward drift from a low base will likely continue throughout 2025. Goods inflation will start edging up, driven by food and fuel prices. The upside will be kept in check by subdued services inflation, which is expected to moderate further in the first half before reversing course towards year-end. Despite the anticipated upward trend, headline and core inflation remain well below the SARB's 4.5% target, with no evidence of significant upward momentum among the goods and services in the basket. We still expect headline inflation to average 4% in 2025, down from 4.4% in 2024. Today's inflation numbers are relatively benign, while the rand has stabilised despite the uncertain global landscape. Unless circumstances change dramatically, current fundamentals support a further 25-bps reduction in interest rates in March. However, we believe the MPC will likely pause, leaving the interest rate unchanged in March, focussing on the upside risks to the inflation outlook emanating from the threat posed to the rand and imported inflation from a global trade war, sticky global inflation and the increasing likelihood of a prolonged pause in US interest rates.

Table 2: CPI Breakdown

	Weights	yoy %			Contribution	mom%
		Jan-25	Dec-24	Jan-24	ppts	Jan-25
Headline	**100.00**	**3.2**	**3.0**	**5.4**	-	**0.3**
Food & non-alcoholic beverages	18.23	2.3	2.6	7.2	0.43	0.4
Food	16.84	1.5	1.7	7.0	0.26	0.4
NAB	1.39	9.0	8.7	8.1	0.12	0.6
Alcoholic beverages & tobacco	4.64	4.3	4.3	5.1	0.20	0.3
Clothing & footwear	3.9	1.5	1.7	2.4	0.06	0.1
Housing & utilities	24.1	4.5	4.4	5.6	1.08	0.1
Household content & maintenance	3.33	1.8	1.4	2.7	0.06	0.6
Health	1.78	4.4	4.3	6.5	0.08	0.2
Transport	13.89	-0.2	-2.0	4.6	-0.03	0.1
Information & communication	5.47	-0.5	-0.2	-0.2	-0.03	-0.2
Recreation, sport and culture	2.94	1.5	1.5	3.2	0.04	0.4
Education	2.41	6.4	6.4	5.7	0.15	0.0
Restaurants & accommodation	6.12	4.9	4.2	8.0	0.30	0.7
Miscellaneous goods & Services	13.19	5.9	6.6	5.5	0.78	0.1

Source: Stats SA

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