Consumer inflation

ECONOMICS | SOUTH AFRICA

Inflation slows more than expected

- Headline consumer inflation fell from 3.2% in February to 2.7% in March. The outcome was lower than ours and the markets' forecasts of 3.1% and 3%, respectively. The drag came from fuel prices, which shaved 0.4 percentage points (ppts) off the annual increase in CPI. The contributions from most other goods and services remained unchanged, with housing and utilities as well as food and non-alcoholic beverages adding 1 ppts and 0.5 ppts, respectively.
- Underlying price pressures also cooled further. Core inflation, which excludes food and energy costs, moderated from 3.4% to 3.1%, its lowest since April 2021.

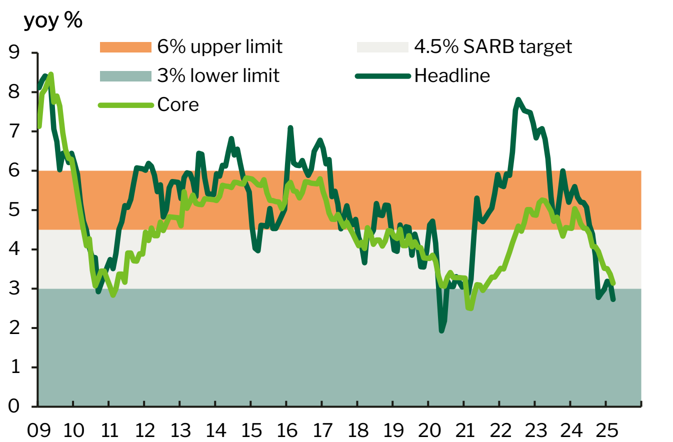
Table 1: Key Inflation Outcomes

	Mar-25		Feb-25	Forecasts (yoy %)	
	yoy %	mom %	yoy %	Nedbank	Reuters
Headline	2.7	0.4	3.2	3.1	3.0
Core	3.1	0.5	3.4	3.2	3.3

Source: Stats SA, Nedbank GEU, Refinitiv, Bloomberg

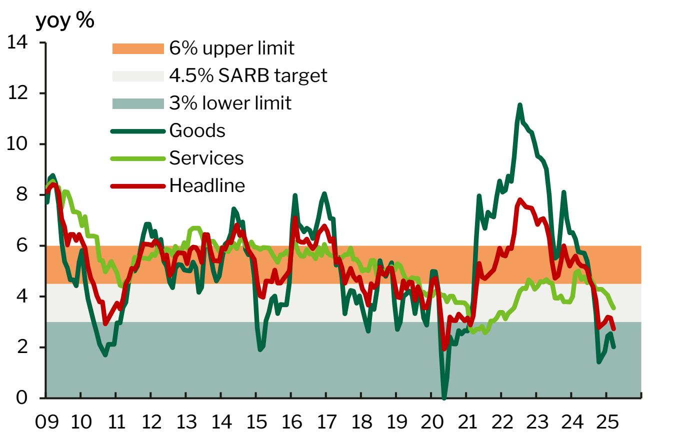
- Housing and utilities inflation was steady at 4.4%. Actual rentals and owners' equivalent rent were unchanged at 2.9% and 2.4%, respectively. Electricity and other fuels were steady at 11.9%, while maintenance and repairs as well as water and other services increased.
- Food and non-alcoholic beverages inflation eased slightly from 2.8% to 2.7% due to lower beverages. Food inflation is starting to normalise off a low base, rising from 1.9% to 2.2%. The main drivers were milk, dairy, egg, oils and fats, and fruits.
- Transport deflation deepened from 0.5% to 2.4%. The drag was fuel prices, which tumbled by 8.8% yoy as global oil prices declined and the rand held relatively steady. Private transport operations also softened while vehicle inflation and public transport costs accelerated.
- Restaurant and accommodation decelerated slightly from 4.6% to 4.2%.
  Insurance and financial services also slowed. Insurance fees moderated from 8.1% to 8%, while financial services eased from 5.2% to 5%.

Chart 1: Inflation eased to 2.7%.



Source: Stats SA

Chart 2: Goods and services inflation moderated.



Source: Stats SA

- Goods inflation dropped from 2.5% to 2%, dragged down by lower prices of durables and non-durables. Services inflation also slowed from 3.8% to 3.5%.
- We expect inflation to remain contained, rising slowly off a low base. Moreover, the risks to the outlook appear relatively balanced. The global landscape remains unsettled as the exact scale of US tariffs and countermeasures by its trade partners are still unknown. These uncertainties have led to significant volatility and unexpected twists in the foreign exchange markets, with the US dollar coming under broad-based pressure in recent weeks, which helped contain the rand's slide against the trade-weighted basket of currencies. The rand is currently trading around R18.55 against the US dollar,

still marginally stronger than the range that prevailed around the same time last year. We expect the rand to remain range bound, exerting only mild upward pressure on inflation in the months ahead. The upcoming VAT rate hike, the 12.74% increase in electricity tariffs and a modest rise in food prices from very low levels will also add to inflation. As far as food is concerned, the boost to domestic production from good rains should help counter the impact of higher global food prices and a weaker rand. Altogether, food inflation is forecast to rise slowly from 2.2% in March to about 4.3% by year-end, still below the SARB's 4.5% target. At the same time, we expect these pressures to be kept in check by lower global oil prices, patchy domestic demand and somewhat lower operating costs due to easing infrastructure constraints. Encouragingly, the Brent crude oil price dipped below $70 per barrel in April and is widely expected to remain subdued around $73 per barrel, suggesting that the deflationary force from domestic fuel prices will last longer than we initially anticipated. Altogether, inflation's most likely trajectory appears quite tame. Given today's better-than-expected outcome, we have revised our inflation forecast for 2025 lower from an average of 3.9% to 3.6%, before climbing to an unchanged 4.5% in 2026.

- The MPC will now have to weigh the benign inflation outlook against the potential upside risks that could emanate from the highly volatile and uncertain global environment. While they may prefer to wait-and-see how global conditions evolve, there appears to be space for another rate cut if the rand holds at current levels.

Table 2: CPI Breakdown

		Mar-25			Feb-25	Mar-24
CPI Basket	Weight Base 2022	Mom%	Yoy%	Contribution (PPTS)	Yoy%	Yoy%
CPI for all urban areas: Headline	100.00	0.4	2.7	2.7	3.2	5.3
Food & non-alcoholic beverages	18.23	0.1	2.7	0.5	2.8	5.1
Food	16.84	0.2	2.2	0.4	1.9	4.9
Non-alcoholic beverages	1.39	0.3	7.9	0.1	8.5	7.4
Alcoholic beverages & tobacco	4.64	1.6	4.1	0.2	4.4	4.5
Clothing & footwear	3.90	0.2	1.3	0.1	1.4	2.5
Housing & Utilities	24.10	0.5	4.4	1.1	4.4	5.9
Household content & maintenance	3.33	0.7	1.8	0.1	1.5	1.7
Health	1.78	0.8	4.2	0.1	3.8	6.1
Transport	13.89	0.1	-2.4	-0.3	-0.5	5.4
Communication	5.47	-0.1	-0.4	0.0	-0.4	-0.8
Recreation & culture	2.94	0.5	2.3	0.1	2.1	2.7
Education	2.41	4.5	4.5	0.1	6.4	6.4
Restaurants & hotels	6.12	-0.4	4.2	0.3	4.6	5.7
Insurance	8.41	-0.1	8.0	0.7	8.1	9.9
Financial Services	2.00	0.0	5.0	0.1	5.2	5.6
Personal care & miscellaneous services	2.78	0.7	1.5	0.0	1.1	8.5

yoy %	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
All goods	1.4	1.6	1.8	2.4	2.5	2.0
Durable goods	1.2	1.2	0.9	0.8	0.8	0.7
Semi-durable goods	1.7	1.5	1.5	1.2	1.2	1.2
Non-durable goods	1.1	1.4	2.0	2.9	3.1	2.2
Services	4.3	4.3	4.2	4.0	3.8	3.5
Core CPI	4.0	3.7	3.5	3.5	3.4	3.1

GROUP ECONOMIC UNIT

Busisiwe Nkonki	+27 10 223 2966	busisiwenkon@nedbank.co.za
Johannes (Matimba) Khosa	+27 10 234 8359	johanneskh@nedbank.co.za

DISCLAIMER

The information furnished in this report (the "report"). which information may include opinions. estimates. indicative rates. terms. price quotations and projections. reflects the existing judgment of the author(s) and the prevailing market conditions as at the date of this report. which judgment and conditions are subject to change without notice. modification or amendment. This report does not necessarily reflect the opinion of Nedbank Limited ("Nedbank"). The information herein has been obtained from various sources. the accuracy and/or completeness of which Nedbank does not guarantee and for which Nedbank accepts no liability.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration. The information contained in this publication may include results of analyses from a quantitative model which represent potential future events that may or may not be realised. and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute Nedbank's judgment as of the date hereof and are subject to change without any notice. Nedbank and/or its affiliates may make a market in these instruments for our customers and for our own account. Accordingly. Nedbank's may have a position in any such instrument at any time.

Nedbank recommends that independent tax. accounting. legal and financial advice be sought should any party seek to place any reliance on the information contained herein. This report is intended for use by professional and business investors only. It may not be considered as advice. recommendation or an offer to enter into or conclude any transactions. This report has been prepared for general dissemination and information purposes only and may not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. Any additional information relative to any financial instruments and/or financial products reviewed in this report is available upon request.