

Consumer inflation

ECONOMICS | SOUTH AFRICA



Inflation dropped below 3% on lower transport costs and food prices.

- **Headline consumer inflation** decelerated further to 2.8% in October, the lowest since February 2021, from 3.8% in September. The figure was lower than our and the market's forecast of 3.3% and 3.2%, respectively.
- The downward pressure primarily stemmed from a sharp decline in transport costs. Food and non-alcoholic beverage prices also surprised to the downside.

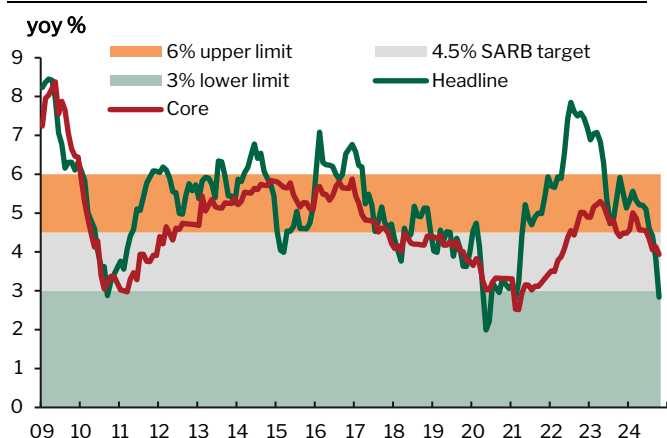
Table 1: Key Inflation Outcomes

	Oct-24		Sep-24	Forecasts (yoy %)	
	yoy %	mom %	yoy %	Nedbank	Market
Headline	2.8	-0.1	3.8	3.3	3.2
Core	3.9	0.2	4.1	4.0	4.1

Source: Stats SA, Nedbank GEU, Refinitiv

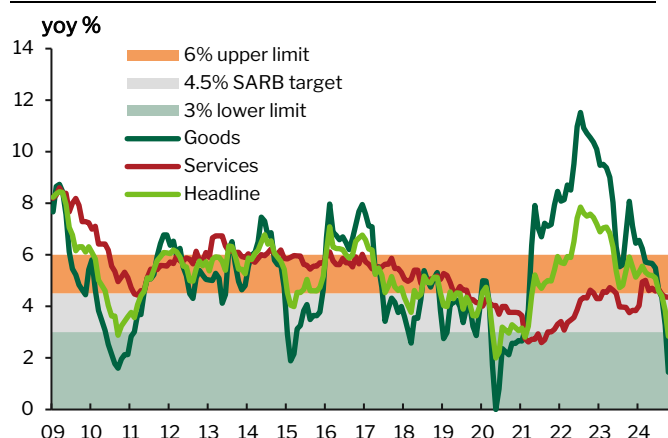
- **Transport inflation** fell further in October, down sharply by 5.3% yoy after dropping by 1.1% in September. The downward pressure emanated from fuel. Fuel prices fell by 5.3% mom and 19.1% yoy, helped by lower Brent Crude oil price and a firmer rand/dollar exchange rate. Vehicle inflation also moderated, but public transport costs edged up slightly.
- **Food and non-alcoholic beverages inflation** surprised to the downside, falling to 3.6% after remaining steady at 4.7% in August and September. The moderation resulted from lower food prices, which eased to 2.8% yoy, its slowest pace since May 2019, with both processed and unprocessed food prices easing. Within the sub-categories, the slowdown in prices was broad-based, including vegetables (2.4% from 6.8%), milk, eggs and cheese (4.1% from 6.9%), meat (0.5% from 0.9%), and bread and cereals (4.6% from 5.4%). Prices of oils and fats continued to decline. However, inflation for non-alcoholic beverages bucked the trend, increasing slightly in October due to elevated prices of hot beverages (14.1%) and an acceleration in the price of cold beverages.
- **Housing and utilities** inflation was unchanged at 4.8%, the lowest since June 2023. 'Actual rent and owners' equivalent rent', 'maintenance and repairs' and 'water and other services' costs were steady. Electricity and other fuels remained elevated but edged down slightly to 11.4% from 11.5%.
- Prices of **miscellaneous goods and services** decreased further to 6.8% from 6.9% and 7% in September and August, respectively. The moderation resulted from lower personal care costs (4.6% vs 5.2%), while the increases in insurance and financial services were steady.

Chart 1: Inflation eased further below the SARB's target.



Source: Stats SA

Chart 2: Both goods and services costs are easing.



Source: Stats SA

- **Goods inflation** moderated sharply to 1.4%, the lowest since June 2020, due to a significant deceleration in non-durable and durable goods prices. Prices of semi-durable goods increased slightly. Services inflation was unchanged at 4.4% as declines in 'communications' and 'restaurants and hotels' costs were counterbalanced by higher prices of 'recreation and culture' and 'education' services.
- **Core inflation** fell to 3.9%, the lowest since April 2022, contained by subdued domestic demand and elevated interest rates.

Chart 3: Food prices will start to edge higher.

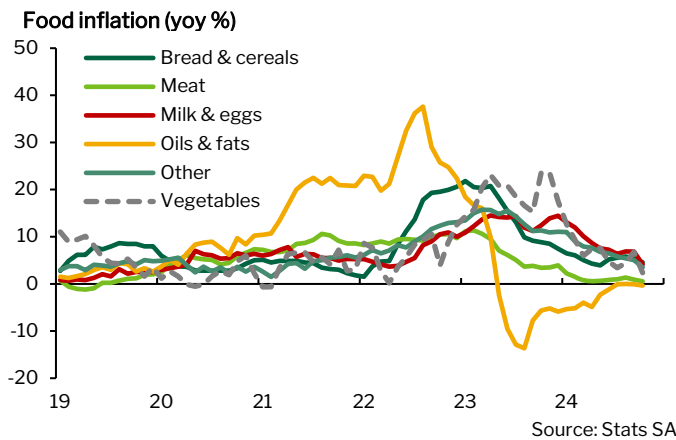
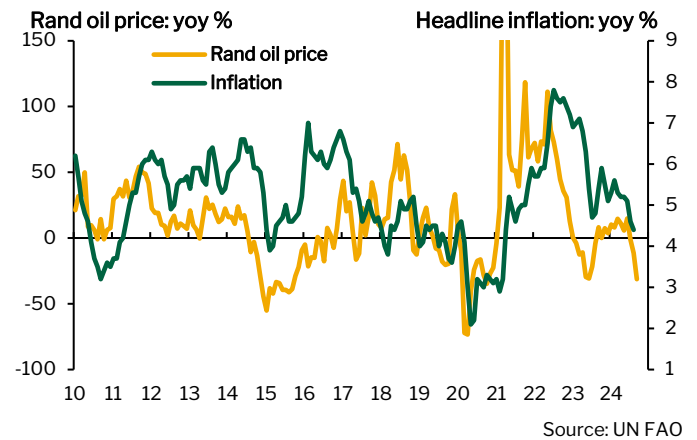


Chart 4: A firm rand and low oil price will contain inflation.



- We expect headline inflation to start edging up next month and throughout next year as the base normalises. Fuel prices will also increase due to a slightly higher global oil prices and a weaker rand. In November, the price of Brent crude rose by more than 1% mom, and the rand lost ground against the firmer US dollar, which rallied after Donald Trump won the US elections. Food prices will also increase as the impact of drier weather conditions earlier in the year continues to filter through to certain food items. However, global disinflation and favourable climate conditions will partly mitigate the upside in food inflation. Improved domestic operating conditions due to a stable electricity supply and further efficiency gains in logistics should also help contain input costs and operating expenses throughout the food supply chain. We forecast inflation to end the year just below 4% and to average 4.5% in 2024.
- The upside risks to our forecast have increased somewhat over the past month. The most significant concern is the likely change in US economic policies during the next four years during Donald Trump's administration, which will pressure the rand. The persisting geopolitical tensions around the oil-producing regions could disrupt the supply channels, resulting in a renewed surge in the oil price. High wage settlements and the possibility of higher-than-expected electricity tariffs and other administered prices could also exert some upside pressure. The economic recovery is unlikely to lead to significant demand pressure on prices. Despite these risks, the inflation outlook remains relatively subdued, with CPI expected to hover around the SARB's 4.5% target. Consequently, we expected the SARB to cut interest rates by 25-bps tomorrow, followed by a further 75-bps reduction in 2025.

Table 2: CPI Breakdown

CPI Basket	Weights Base 2022	Oct-24			Sep-24		2023	2024
		mom%	yoy%	ppts to yoy%	mom%	yoy%	Avg	Ytd
CPI for all urban areas: Headline	100.0	-0.1	2.8	2.8	0.1	3.8	5.9	4.7
Food and non-alcoholic beverages	17.1	0.4	3.6	0.6	0.6	4.7	10.8	5.0
Alcoholic beverages and tobacco	6.3	0.3	4.5	0.3	0.3	4.7	5.9	4.5
Clothing and footwear	3.7	0.2	1.8	0.1	0.1	1.8	2.7	2.1
Housing and utilities	24.5	0.0	4.8	1.2	0.4	4.8	4.7	5.4
Household contents and equipment	4.4	-0.1	1.6	0.1	0.6	1.9	5.0	2.1
Health	1.4	0.1	4.8	0.1	0.1	5.1	5.9	5.5
Transport	14.4	-1.5	-5.3	-0.8	-1.2	-1.1	5.1	3.4
Communication	2.4	0.0	-0.5	0.0	-0.2	-0.5	-0.2	-0.4
Recreation and culture	5.2	0.0	1.4	0.1	0.0	1.4	3.5	2.4
Education	2.6	0.0	6.3	0.2	0.0	6.3	5.5	6.2
Restaurants and hotels	3.3	1.7	5.9	0.2	0.5	7.4	5.9	6.9
Miscellaneous goods and services	14.8	0.1	6.8	1.0	0.0	6.9	5.8	7.1

yoy %	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
All goods	5.7	5.7	5.7	5.5	4.6	4.4	3.3	1.4
Durable goods	4.2	3.3	3.2	3.4	2.4	1.8	1.8	1.2
Semi-durable goods	2.5	3.0	2.9	2.5	2.1	1.9	1.6	1.7
Non-durable goods	6.7	6.8	6.7	6.2	5.3	5.0	3.5	1.2
Services	5.0	4.6	4.7	4.6	4.7	4.5	4.4	4.4
Core CPI	4.9	4.6	4.6	4.5	4.3	4.1	4.1	3.9

Source: Stats SA

GROUP ECONOMIC UNIT

Johannes (Matimba) Khosa
Nicky Weimar

+27 10 234 8359
+27 10 234 8357

johanneskh@nedbank.co.za
nickywe@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.

All rights reserved. Any unauthorised use or disclosure of this report is prohibited. This report may not be reproduced without the prior written consent of Nedbank. The information contained in this note is intended solely for the recipient and may not be distributed by the recipient.

All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of Nedbank or its affiliates.