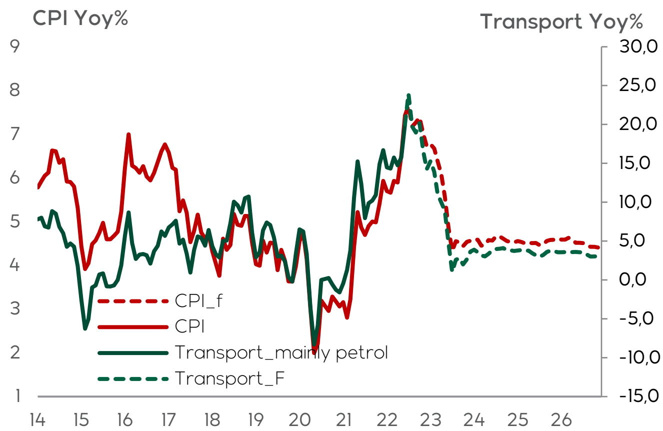
Consumer Inflation Preview

ECONOMICS | SOUTH AFRICA

Inflation is forecast to have reached its peak at 7.7% in July

- **Headline consumer inflation** (CPI) for July will be out on Wednesday. We expect July's figure to be the peak in the current cycle, with CPI rising by 1.4% mom to 7.7% yoy, after surging to 7.4% in June from a trough of 2% in May 2020. July's hefty petrol price hikes will account for the bulk of the acceleration. **Petrol prices** alone account for 4.82% of the inflation basket. This component of CPI is expected to have increased by 10.4% mom to a frightening 57.7% yoy.
- **Food prices** also increased further, but we expect a much more modest increase than in June. **Food inflation** is forecast to have increased by 0.3% mom to 9.1% yoy, up slightly from 9% in June.
- Upward pressure is also anticipated to come from **electricity and other fuels** as well as **water and other services**, which are surveyed by Stats SA every July. These categories account for 3.46% and 3.7%, respectively. The National Energy Regulator of South Africa granted Eskom permission to raise electricity tariffs by 9.6% in 2022, which is expected to have lifted the electricity and other fuels category by around 4% mom to 11.7% yoy.
- **Core inflation** probably crept up further to around 4.5% yoy, as companies continue to pass cost increases onto consumers.
- **The outlook beyond July**: Inflation is forecast to turn the corner in August, moderating to around 6.7% by the end of the year. We forecast headline inflation to average 6.7% over the whole of 2022. The downward trend should gain traction off this year's higher base, with inflation forecast to reach the 4.5% midpoint of the Reserve Bank's target range by around July 2023 and close the year around this level. Inflation is forecast to average around 5.2% in calendar 2023. Weaker world demand in response to much tighter global monetary policies should ultimately force oil and other commodity prices down and alleviate supply chain bottlenecks in the process. According to the United Nations' Food and Agriculture Organisation, food price increases moderated gradually over the past four months, moderating to 10.1% yoy in July from 30.8% in March. The resumption of grain exports from Ukraine has helped to ease some of the pressure, while recent crop estimates point to higher world food production in 2023. However, our expectations for oil and food prices face significant upside risks, including further potential supply shocks due to Russia's war on Ukraine, ever-stricter sanctions against Russia, and increasingly erratic and disruptive global weather patterns. Another key uncertainty is the rand. The currency has been volatile, abruptly changing course on shifts in global risk appetites, usually triggered by any news suggesting that the US Fed will stick to its aggressive rate hiking path. The rand is likely to remain under pressure for as long as US interest rates rise and global growth fades. Given these uncertainties and the steady uptick in core inflation, the Reserve Bank is expected to tighten monetary policy further. We believe the Reserve Bank will raise its policy rate by another larger-than-usual 50 basis points (bps) in September before returning to increments of 25 bps in November, January, March and May, taking the prime lending rate up to a peak of 10.5% in 2023.

Chart 1: Transport prices are expected to start moderating



Source: Stats SA and Nedbank GEU

Chart 2: Food prices are also forecast to start easing

Source: Stats SA and Nedbank GEU

GROUP ECONOMIC UNIT

Johannes Khosa +27 10 234 8359 johanneskh@nedbank.co.za
Nicky Weimar +27 10 234 8357 nickywe@nedbank.co.za

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