29 July 2024

MINERALS COUNCIL
SOUTH AFRICA

CPI Inflation Brief: **June 2024**

SA's annual headline consumer inflation rate was 5.1% in June 2024

<table>
<tr><td>Current (Actual)</td><td>5.1%</td><td colspan="2">June 2024 – Statistics SA</td></tr>
<tr><td>Previous month</td><td>5.2%</td><td colspan="2">May 2024 – Statistics SA</td></tr>
<tr><td colspan="4">Medium-term Inflation Forecasts</td></tr>
<tr><td>Institution</td><td>2024</td><td>2025</td><td>2026</td></tr>
<tr><td>SARB (July)</td><td>4.9%</td><td>4.4%</td><td>4.5%</td></tr>
<tr><td>National Treasury (February)</td><td>4.9%</td><td>4.6%</td><td>4.6%</td></tr>
<tr><td>Minerals Council SA (July)</td><td>4.8%</td><td>4.5%</td><td>n/a</td></tr>
<tr><td colspan="2">Repo Rate</td><td colspan="2">Prime Lending Rate</td></tr>
<tr><td colspan="2">8.25% (hiked 4.75% since Nov 2021)</td><td colspan="2">11.75%</td></tr>
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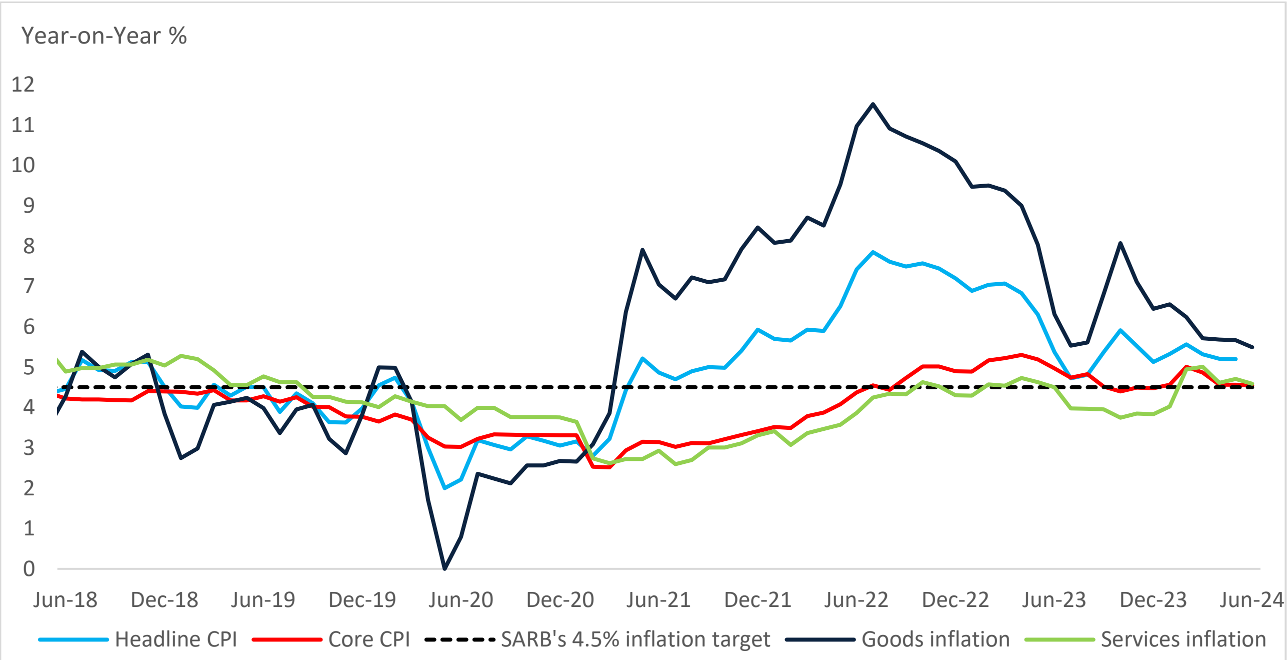
Detailed Breakdown:

South Africa's annual inflation rate decelerated to 5.1% year-on-year (y-o-y) in June 2024, aligning with Bloomberg market consensus projections. At 4.5% y-o-y, the **core inflation** rate, which excludes food, non-alcoholic beverages, fuel, and energy, was below Bloomberg consensus and is in line with the SARB's target. **Goods inflation** was at 5.5% y-o-y in June, down from May, and helped drive down overall inflation. **Services inflation** saw a slight moderation, falling to 4.6% in June from 4.7% in May.

Figure 1: Headline inflation slowing, with core inflation on target



Source: Statistics SA & Minerals Council.

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The main contributors to the 5,1% annual headline inflation rate are discussed below.

1. **Housing and utilities** increased by 5.5% y-o-y and contributed 1.3 percentage points to the headline figure.
    - The largest increase observed was a 15.3% y-o-y rise in electricity and fuel, which has remained unchanged since March, while water saw a 7.9% increase y-o-y. In July and August, Stats SA will survey municipal charges for water, property rates, and electricity. Given the announced tariff increases, these charges will rise, putting further pressure on housing and utilities prices.
    - Actual rentals increased by 0.8% in the second quarter of 2024 compared with the first quarter. Here townhouses recorded the highest quarterly increase at 1.5%.

2. **Miscellaneous goods and services** increased by 7.0% year-on-year and contributed 1.0 percentage points to the headline figure.
    - Personal care items, which include hair products, sanitary towels, toothpaste etc, decreased in June to 6.5% y-o-y, down from 7.0% in May.
    - Financial services (such as banking fees) remained unchanged at 5.6%, while insurance (including funeral insurance) increased slightly to 8.1% y-o-y, up from 8.0% in May.

3. **Food and non-alcoholic beverages** increased by 4.6% year-on-year and contributed 0.9 of a percentage point.
    - The food and NAB category has declined from its recent peak of 14.0% in March 2023. June's reading of 4.6% is the lowest since September 2020, marking a 45-month low.
    - Fruit and vegetable price increases decelerated notably in June, with fruit prices down 2.2% m-o-m and vegetable prices decreased by 2.9% m-o-m.
    - June saw an uptick in prices for hot beverages. The annual rate for hot beverages increased to 16.5% y-o-y in June, up from 14.2% in May. This increase was driven by sharp m-o-m price rises for drinking chocolate (up 3.5%), black tea (up 2.7%), instant coffee (up 2.2%), and rooibos tea (up 1.6%).

4. **Transport** increased by 5.5% year-on-year and contributed 0.8 of a percentage point.
    - Fuel decreased by 4.6% m-o-m in June and was the main cause of the decrease in transportation inflation from May. This was in line with our expectations based on Brent crude oil prices and the rand dollar exchange rate dynamics. We saw a further decrease in the price of 95 octane (down 99 cents/litre) and diesel (down 24 cents) in July. Based on the latest stats from the Central Energy Fund, we expect fuel prices in August to decrease by 5 to 10 cents/litre. This further reprieve, although marginal, should help ease the pressure on headline CPI from the transportation sector in the coming months.
    - We note that new vehicle inflation slowed to 5.2% from a recent high of 8.4% in September 2023. Data from Naamsa indicates lower demand for new passenger vehicles, with sales declining by 9.0% y-o-y in June. Prices for used vehicles was 3.0%, down from 3.7% in May. Overall, given a large import component, if sustained, the stronger rand will also help to keep vehicle input costs in check.
    - Public transport tariffs remained unchanged in June, while private transport operations decreased by 3.7% m-o-m.

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Outlook:

The rand-US dollar exchange rate has been struggling to sustain improvements made over the past two weeks. Even so, if sustained, the current currency level should still be broadly supportive of an improved inflation outlook. Our base case scenario remains that the first policy interest rate reduction will likely occur in September. Combined with the inflation easing, this should provide some relief to consumers and businesses, fostering a more favourable economic environment in the latter stages of 2024 and going into 2025.

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Yours sincerely,

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