



Monetary Policy Forum

12 April 2022

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Head: Economic Research



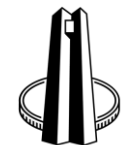
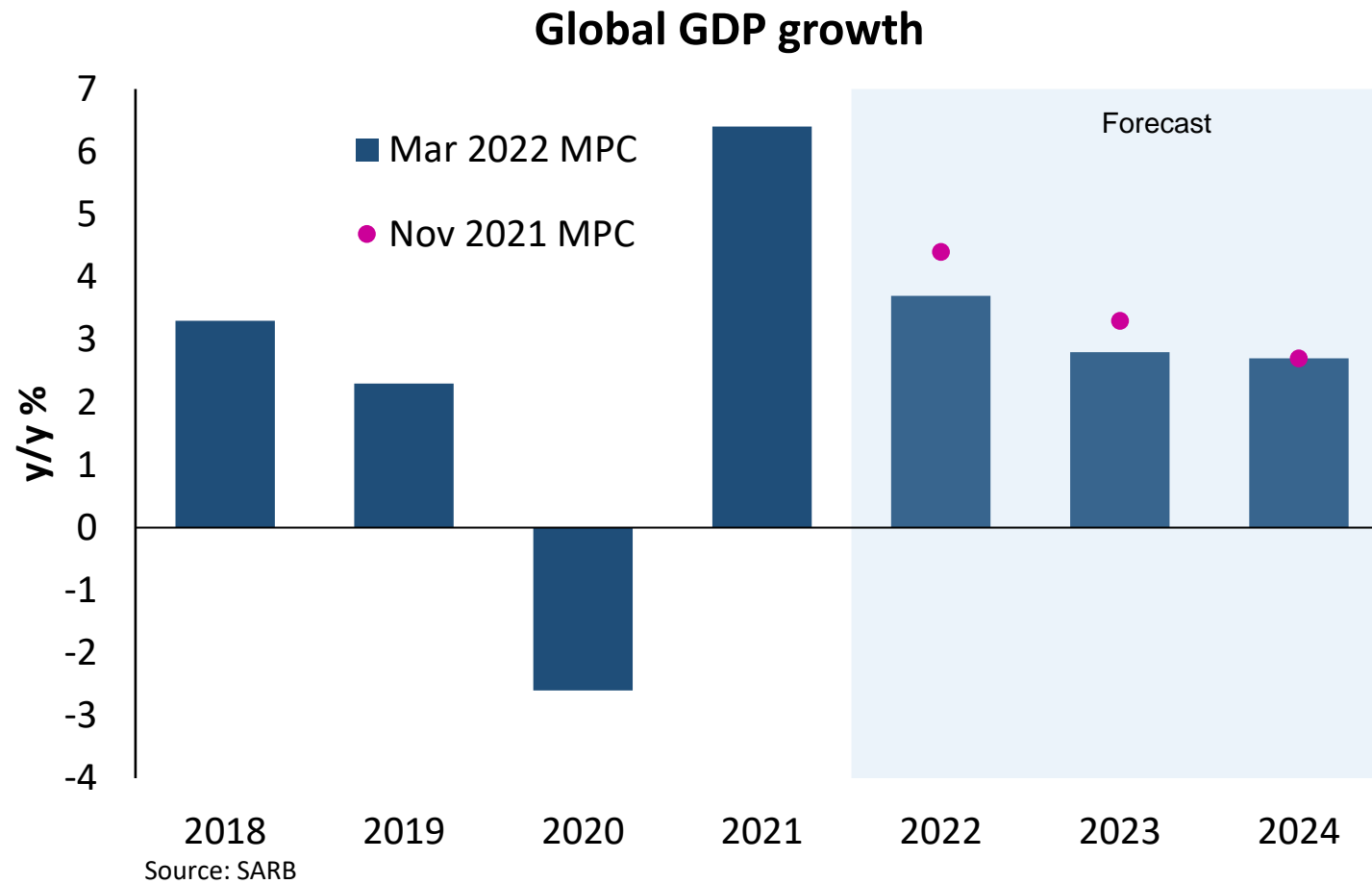
SOUTH AFRICAN RESERVE BANK

Beyond the recovery: ensuring price stability

- **Global growth slower amid new risks**
- **Global inflation sharply higher, persistent**
- **Global rates normalizing... speed and risks?**
- **SA growth slightly stronger, partly on TOT**
- **Domestic inflation higher, with expectations... medium-term pressures subdued but rising**
- **Policy supportive while leaning against inflation risks**
- **Currency supported, dampening imported inflation... good for now, but risks raised**

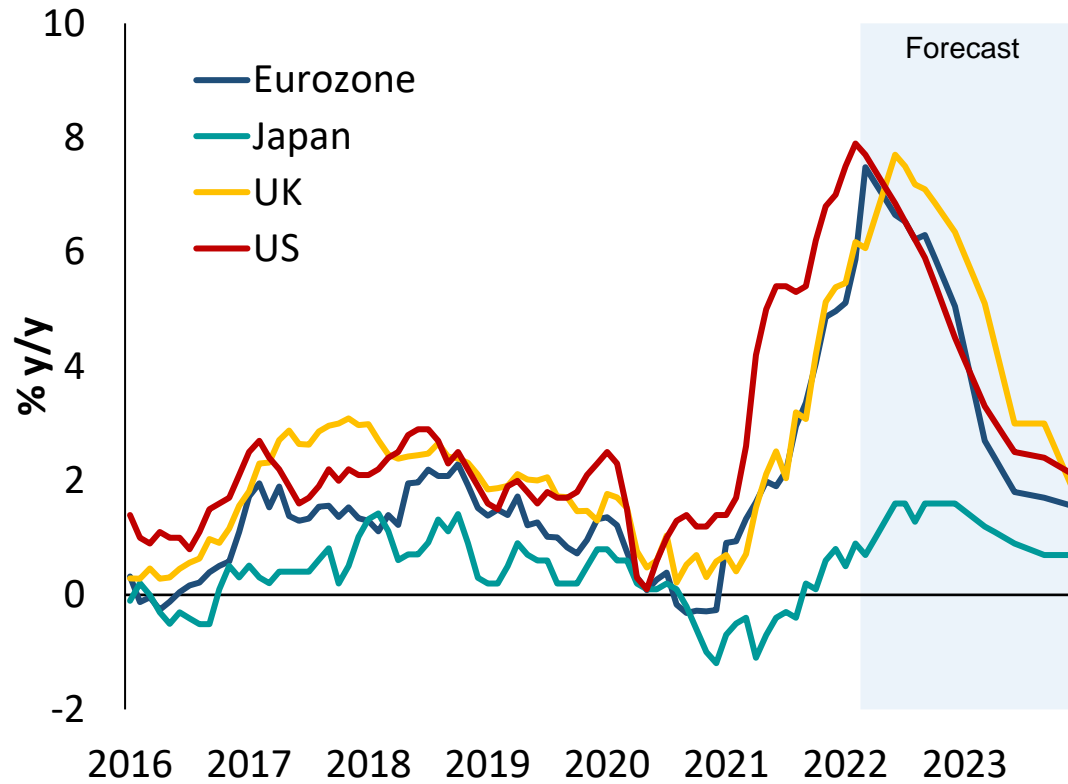


Marked deceleration in global growth after a sharp rebound in 2021...



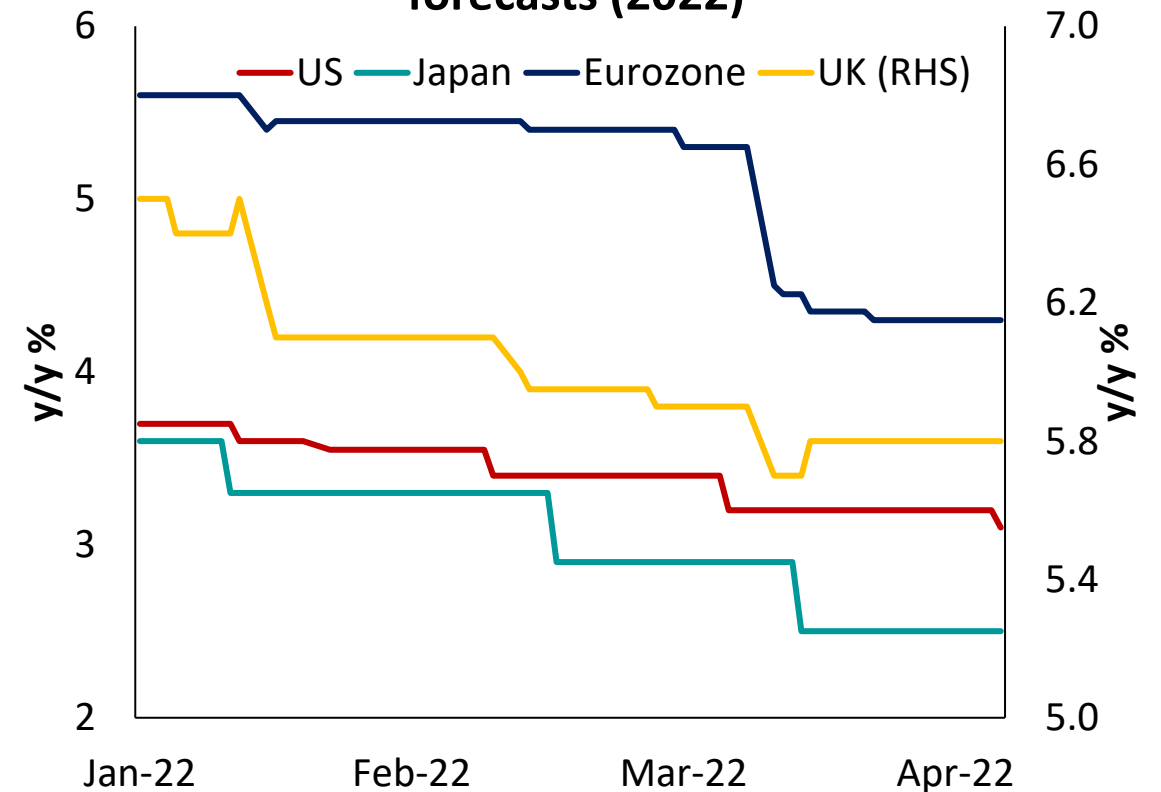
...weighed down by sharply higher and persistent inflation in advanced economies...

Headline consumer inflation



Sources: Bloomberg and Haver

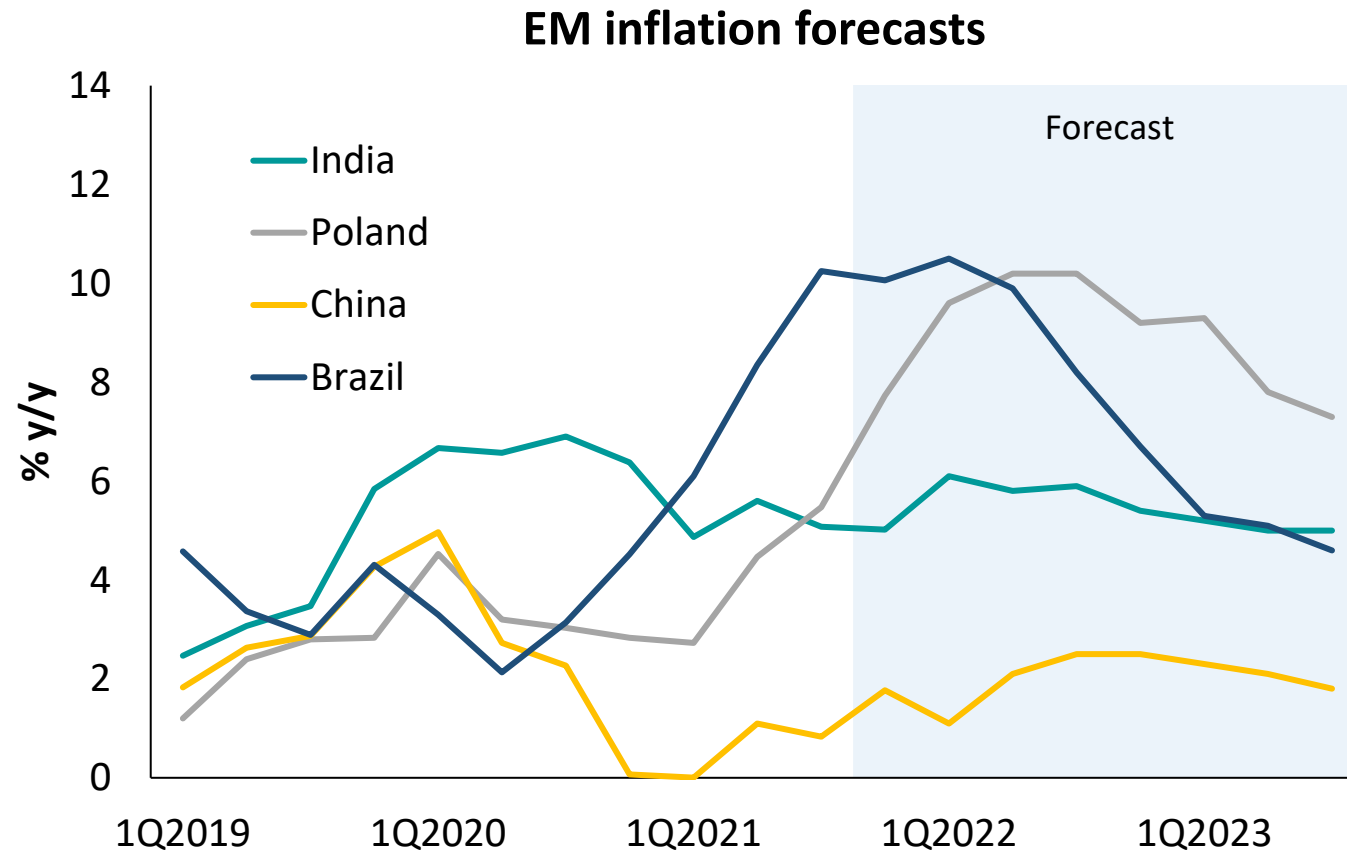
Evolution of household expenditure forecasts (2022)



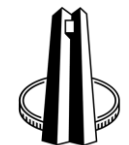
Source: Bloomberg



Inflation also higher in many emerging markets...

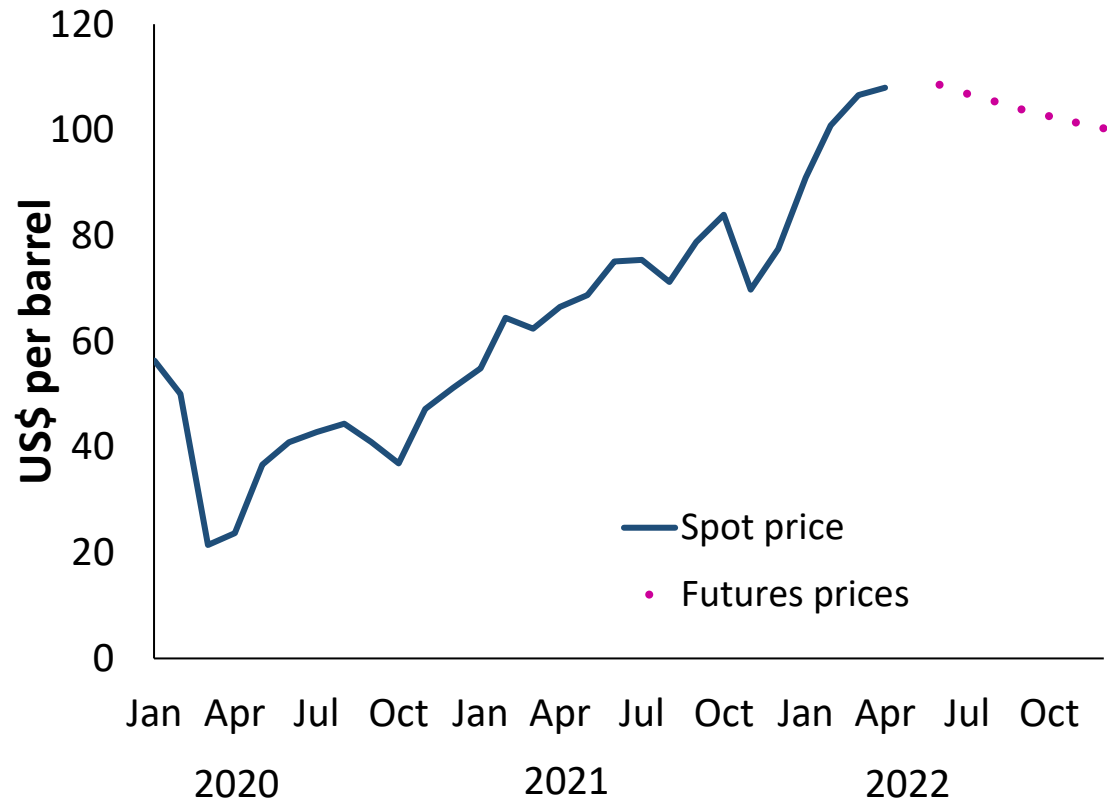


Source: Bloomberg



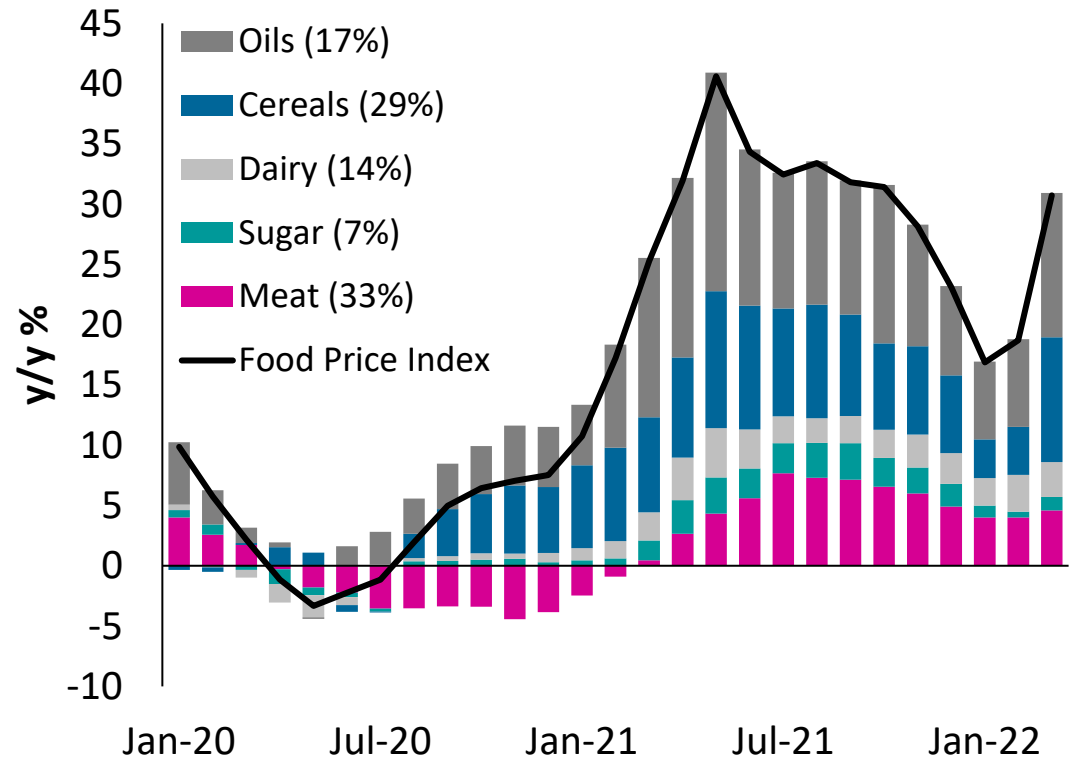
...stoked by sharply higher energy and food prices...

Brent crude oil price



Source: Bloomberg

Contributions to global food inflation*

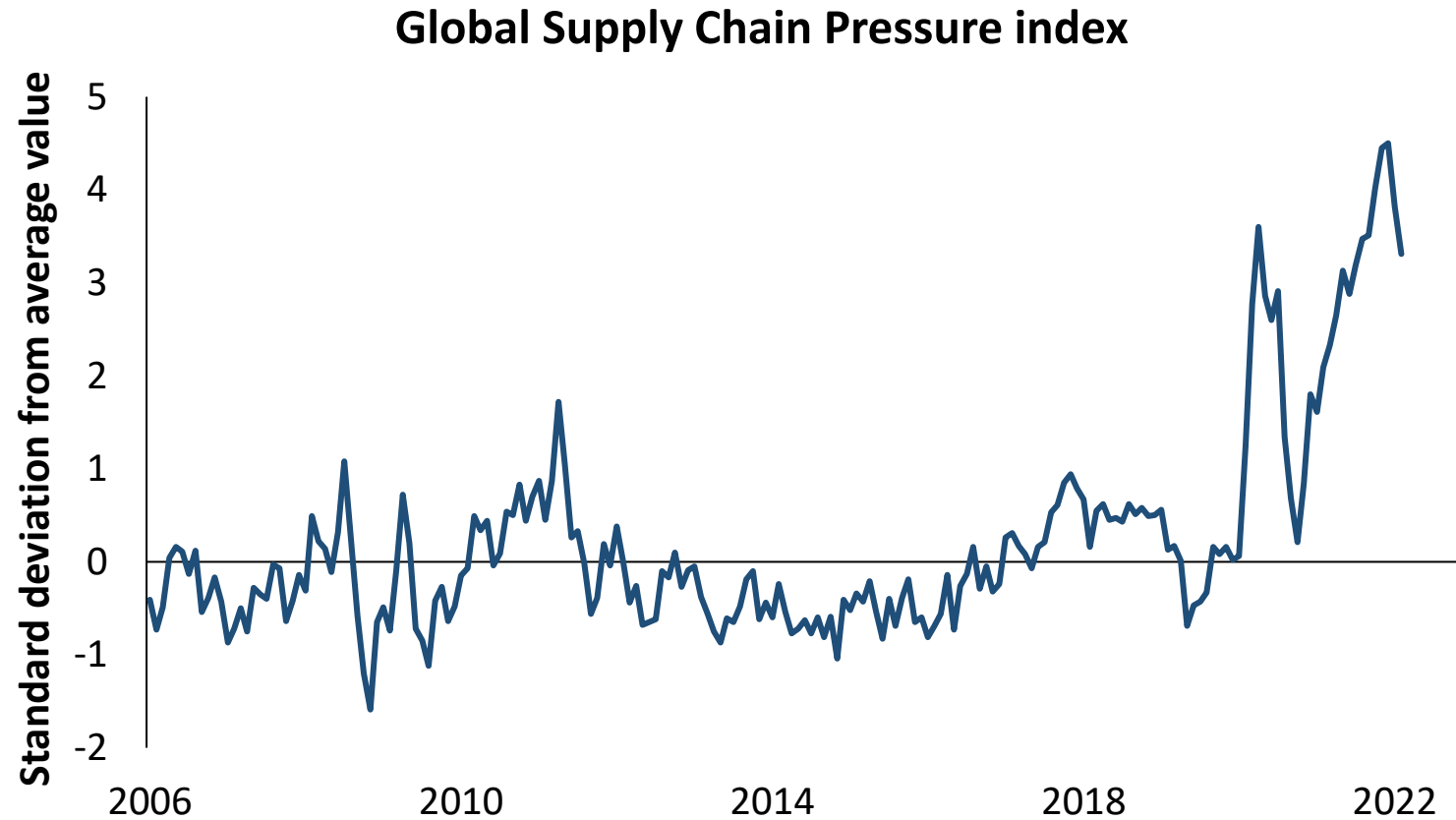


*The real index is shown here

Source: Food and Agriculture organization of the United Nations (FAO) and SARB



... and tightening labour markets & supply bottlenecks

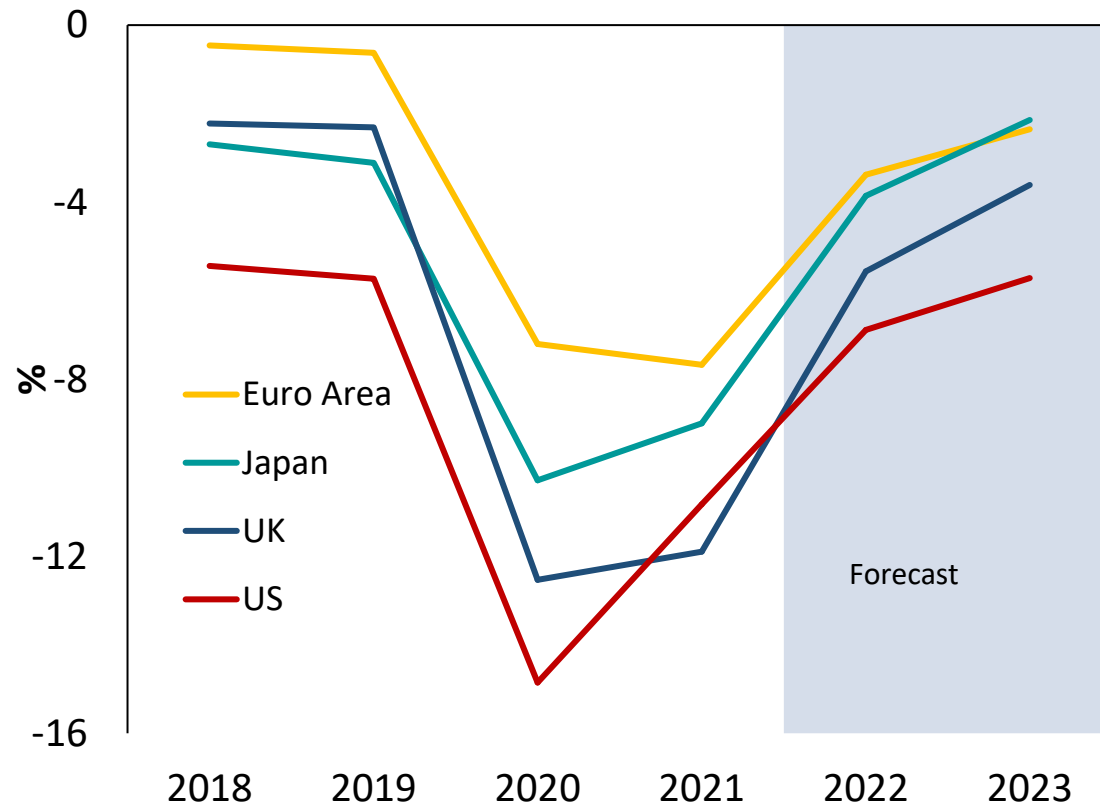


Source: Bloomberg



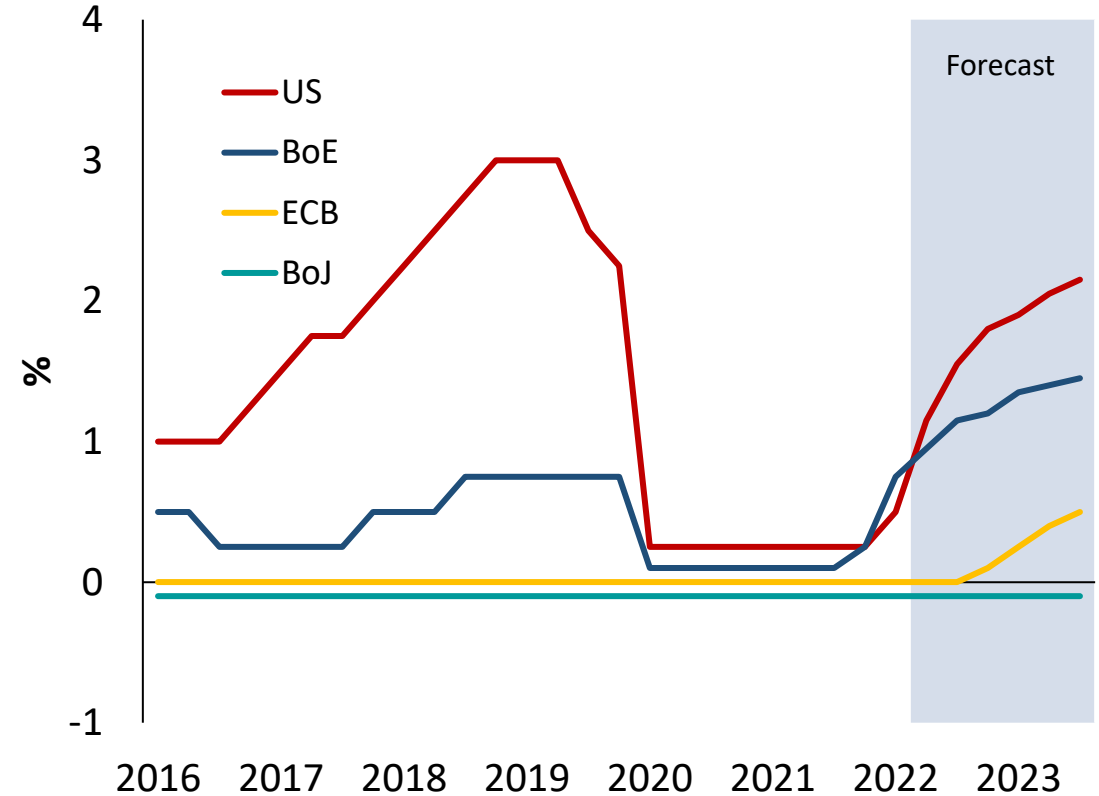
Requiring withdrawal of policy accommodation in advanced economies

Fiscal balance as % of GDP - selected AEs



Source: IMF Fiscal Monitor, October 2021

Policy rate forecasts - AEs

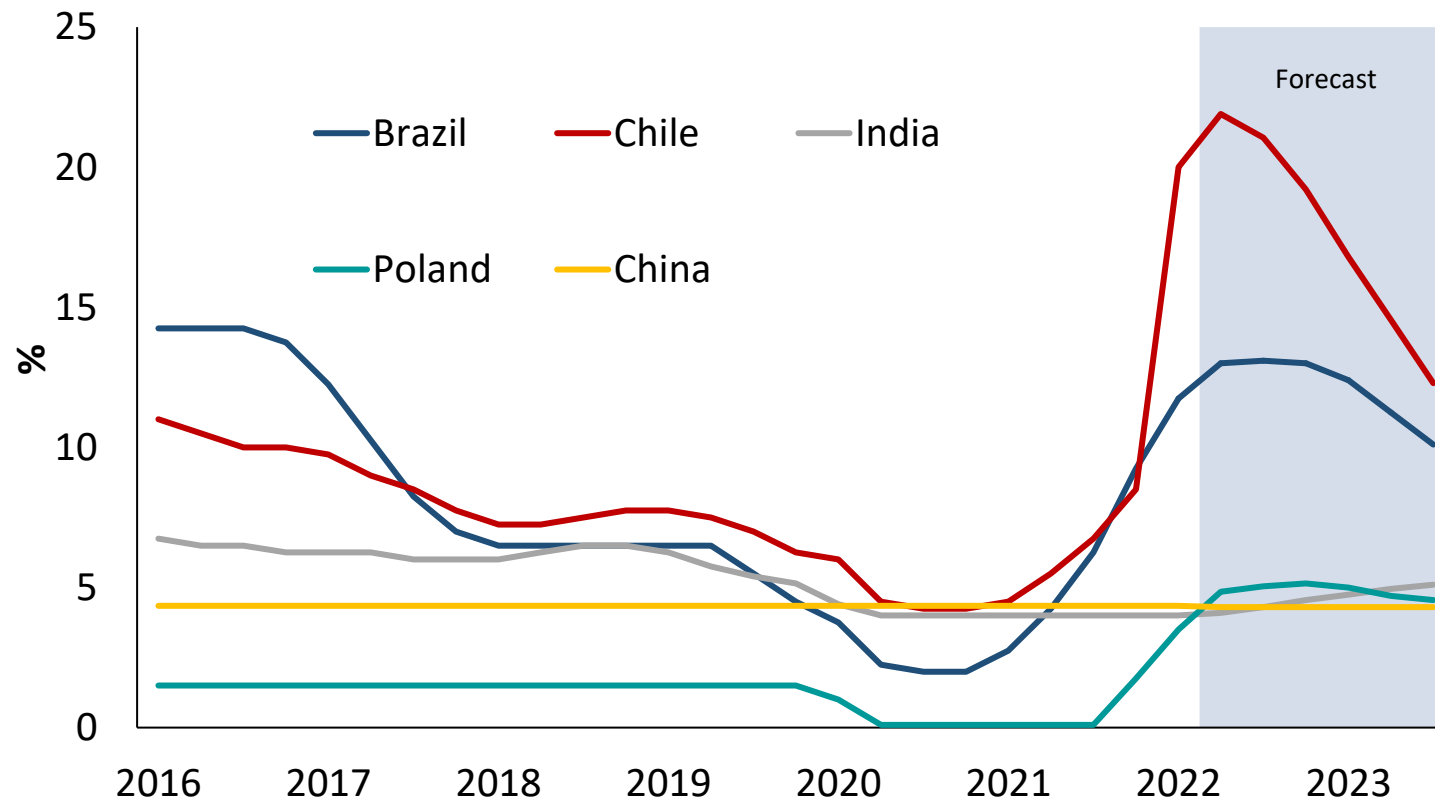


Source: Bloomberg



While rates have sharply risen in high inflation emerging markets

Policy rate forecasts: selected EMs

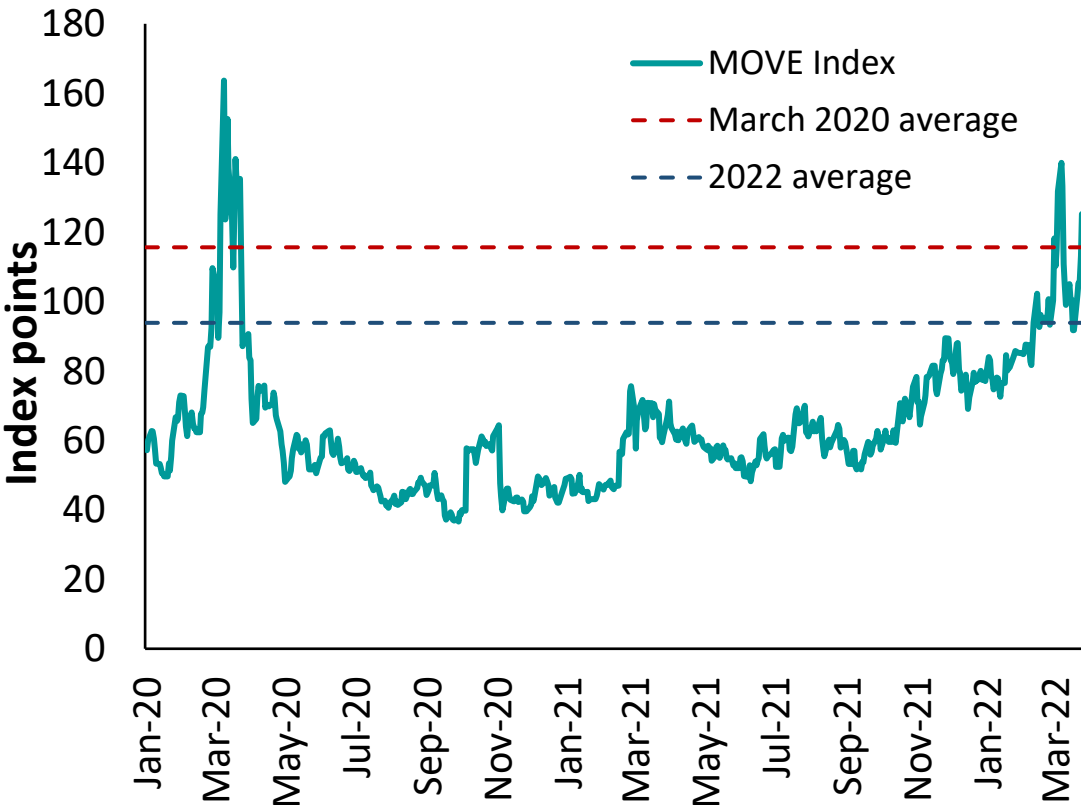


Source: Bloomberg



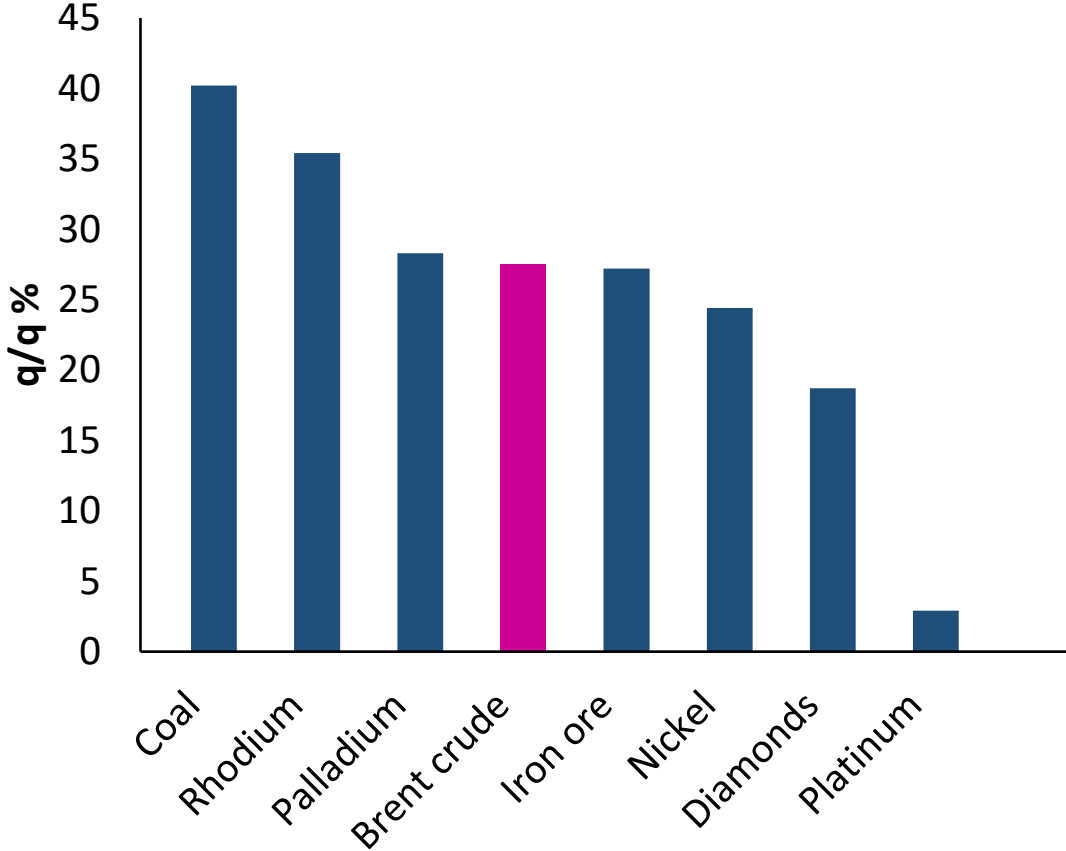
Russia-Ukraine war heightens risk & uncertainty, while pushes up commodity prices

Bond market volatility



Source: Bloomberg

Selected commodity prices



Source: SARB



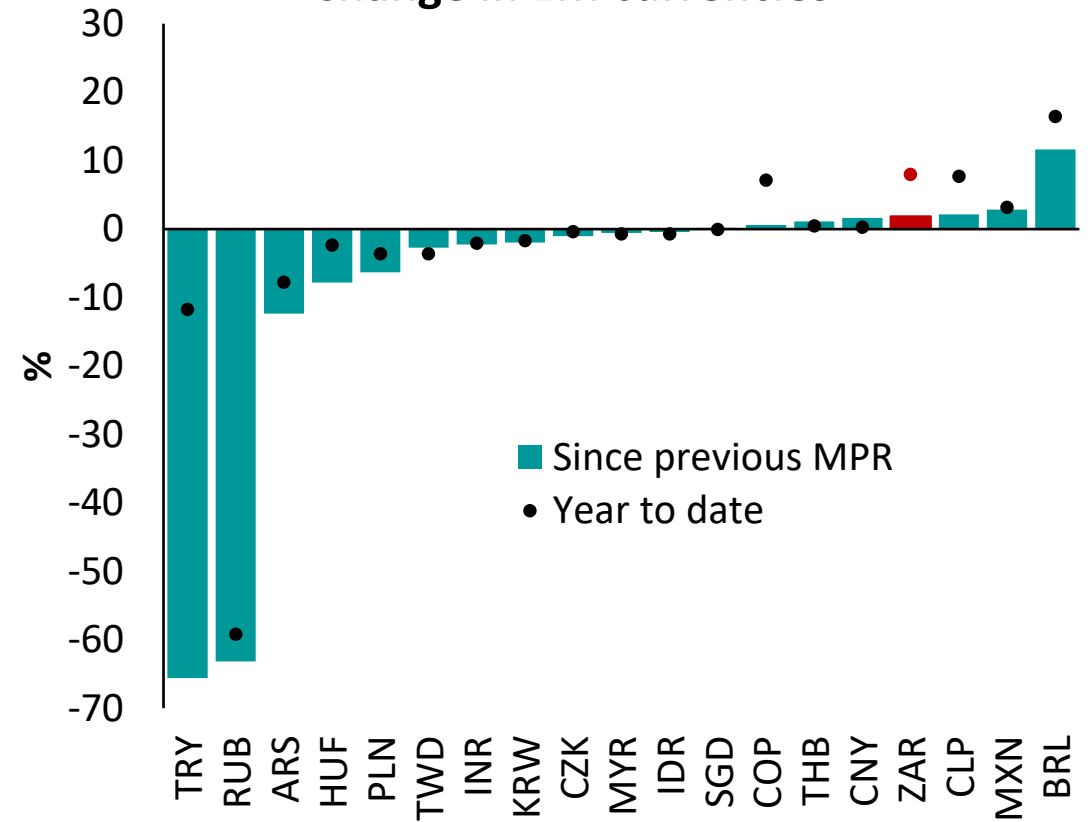
Strengthening the US dollar, with mixed outcomes for emerging market currencies

US dollar index

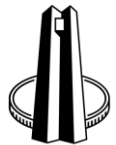


Source: Bloomberg

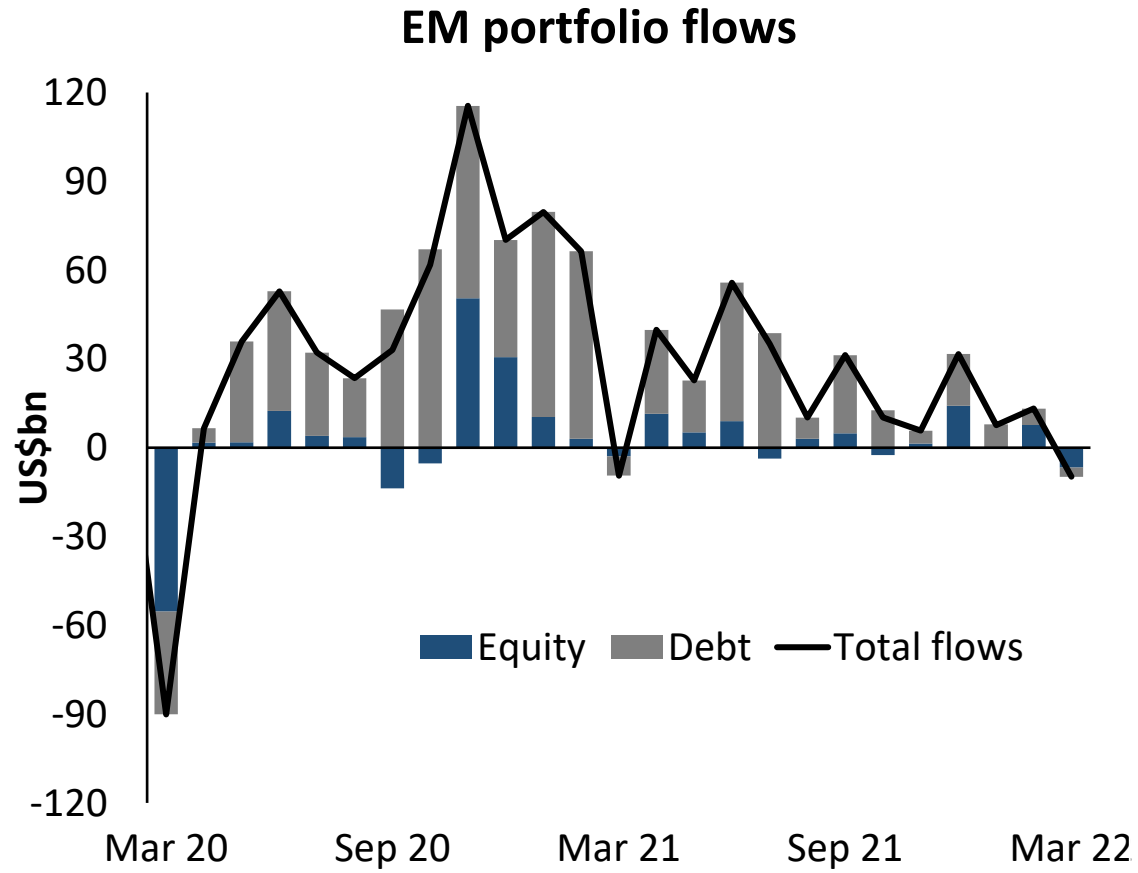
Change in EM currencies



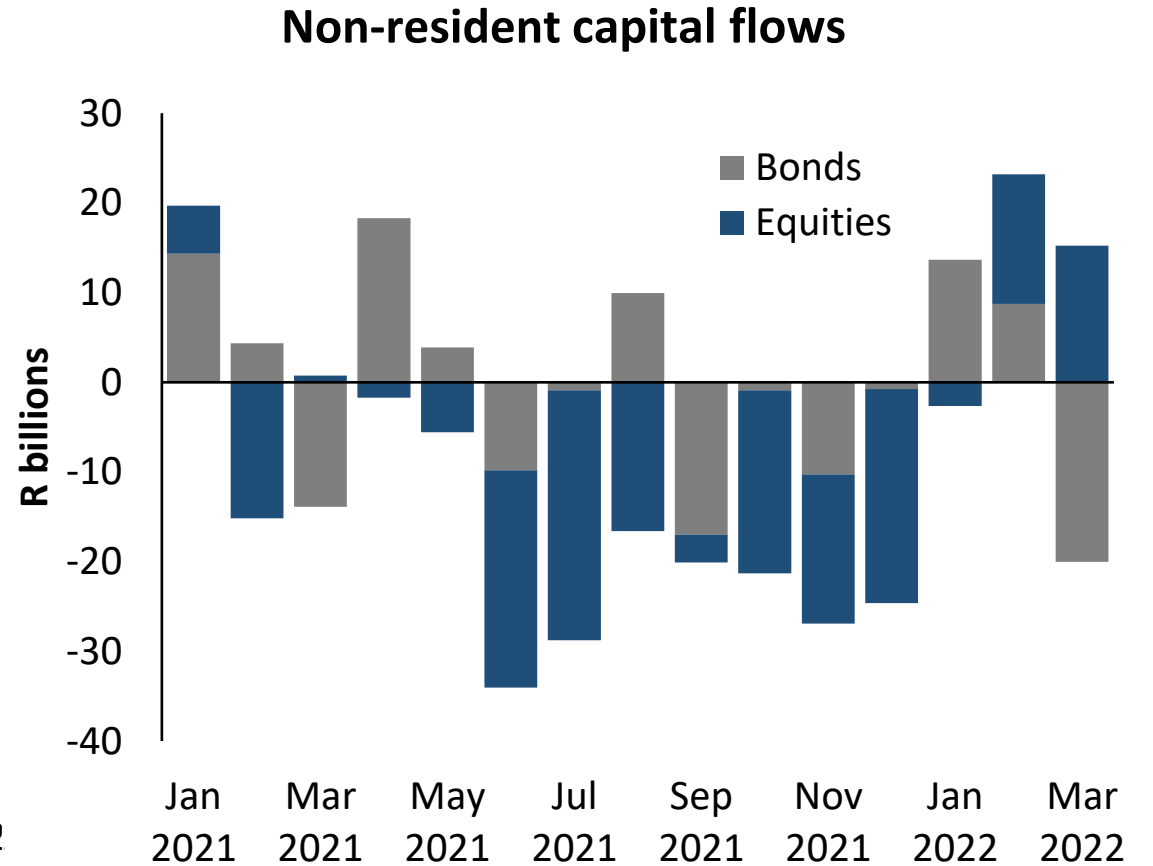
Source: Bloomberg



...as EMs experience net capital outflows



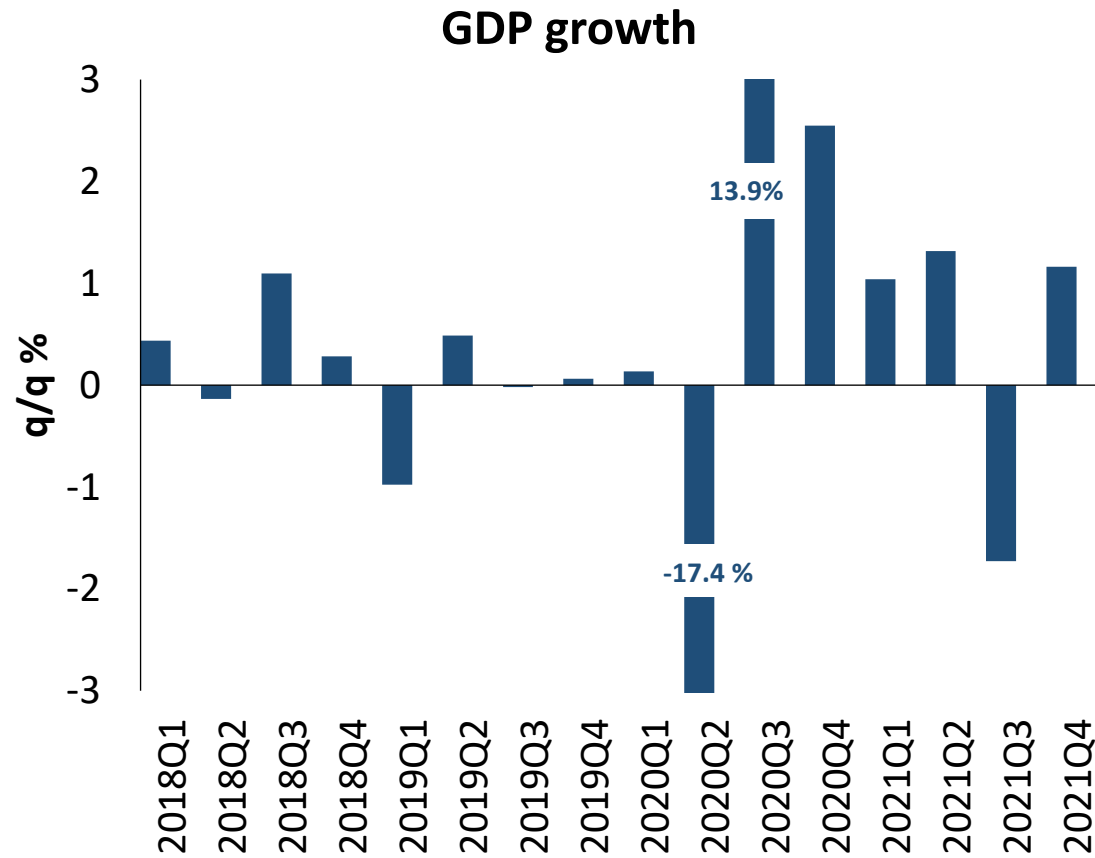
Source: Institute of International Finance



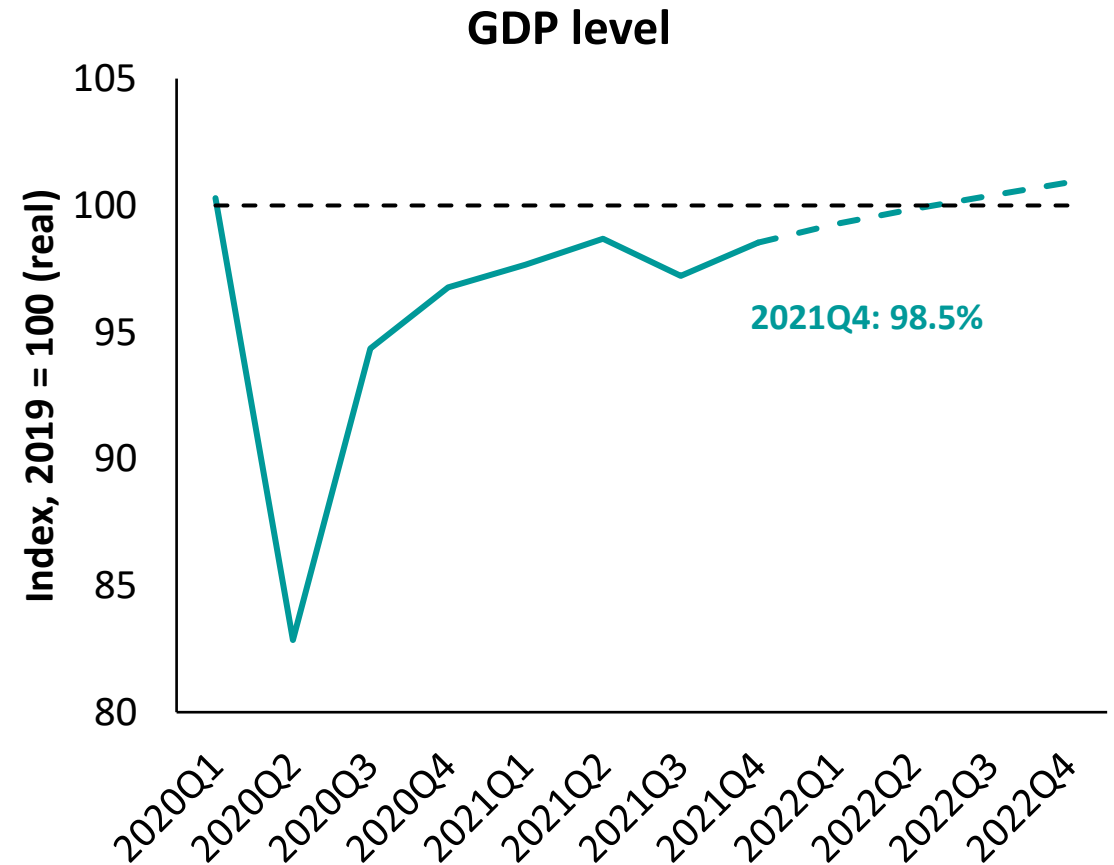
Source: JSE



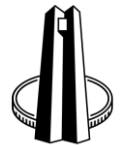
South Africa's own recovery strong...



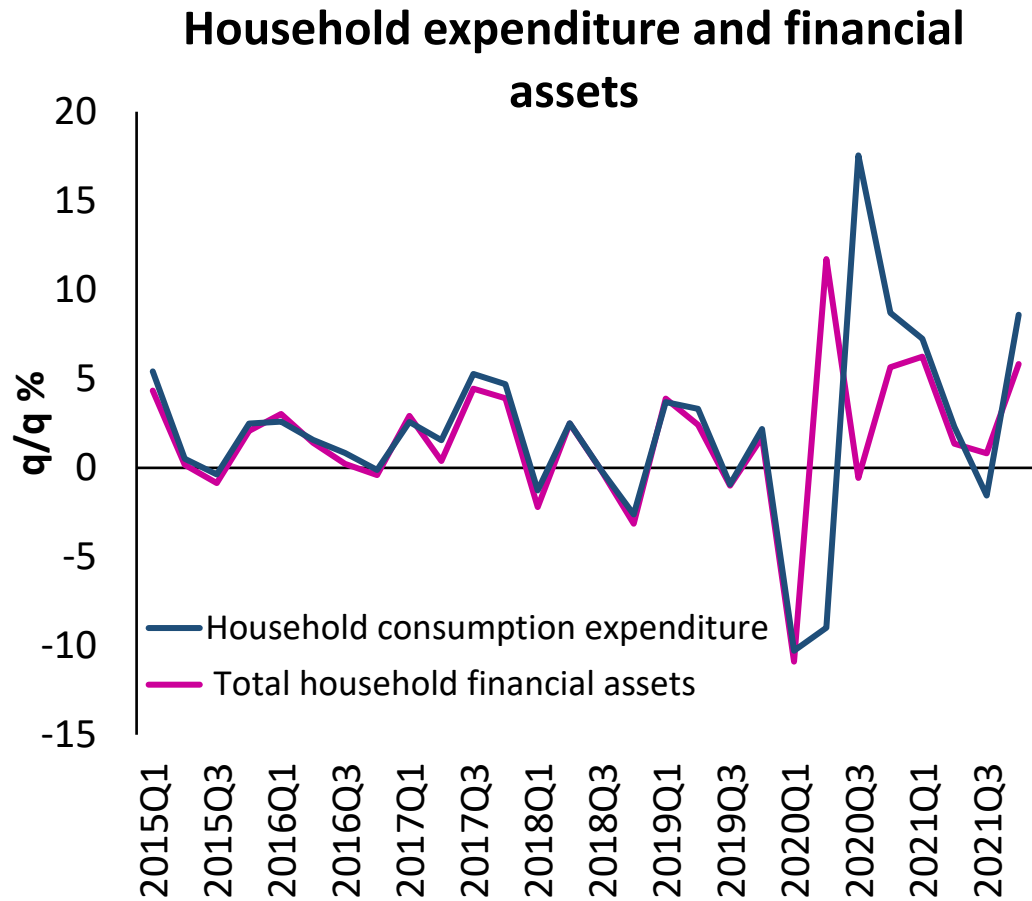
Sources: Stats SA and SARB



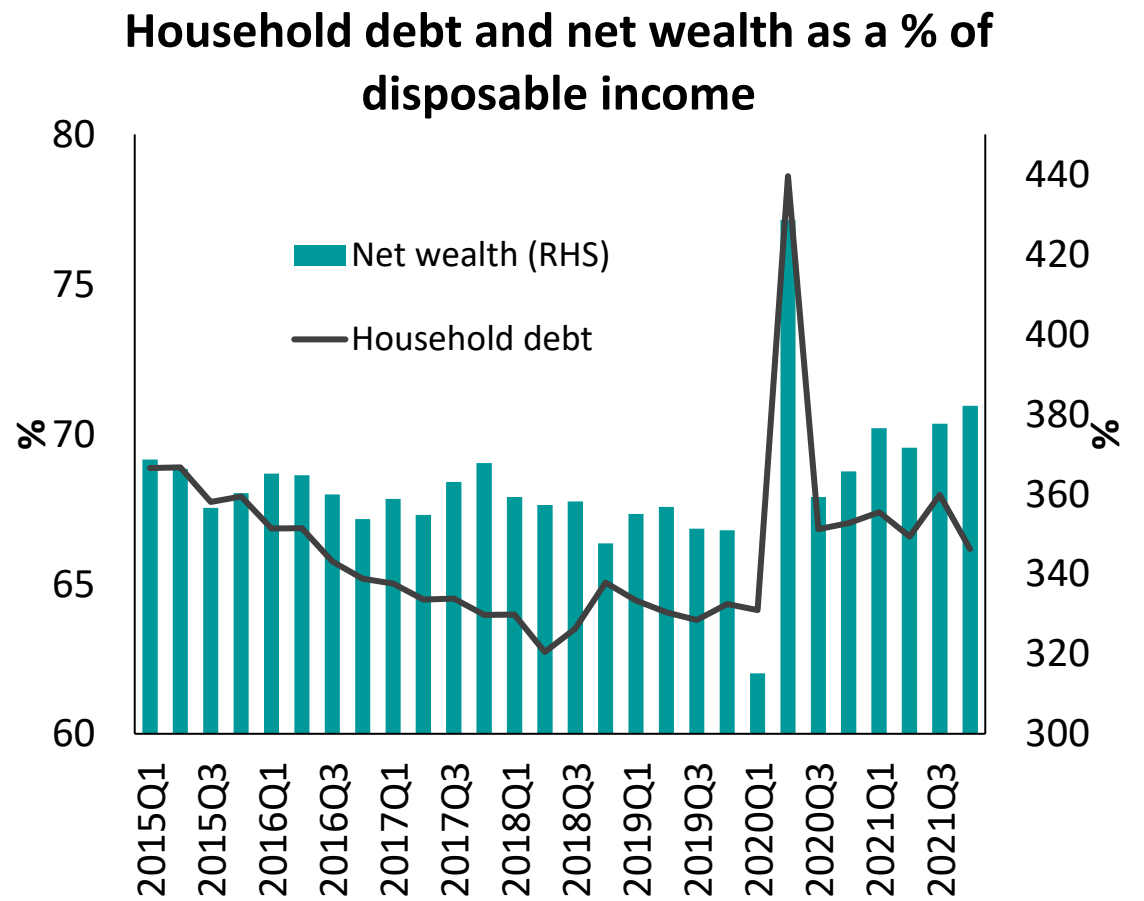
Sources: Stats SA and SARB



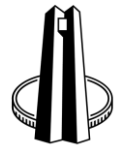
...underpinned by robust HH consumption & improving finances



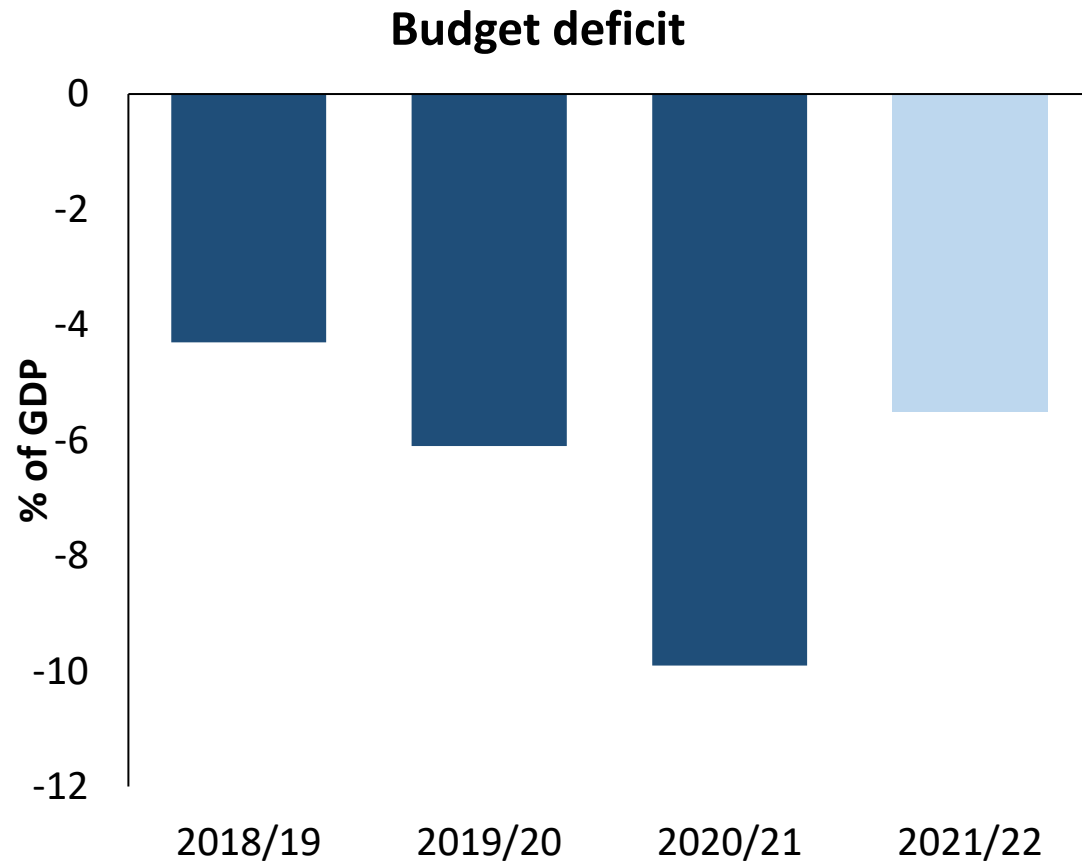
Source: SARB



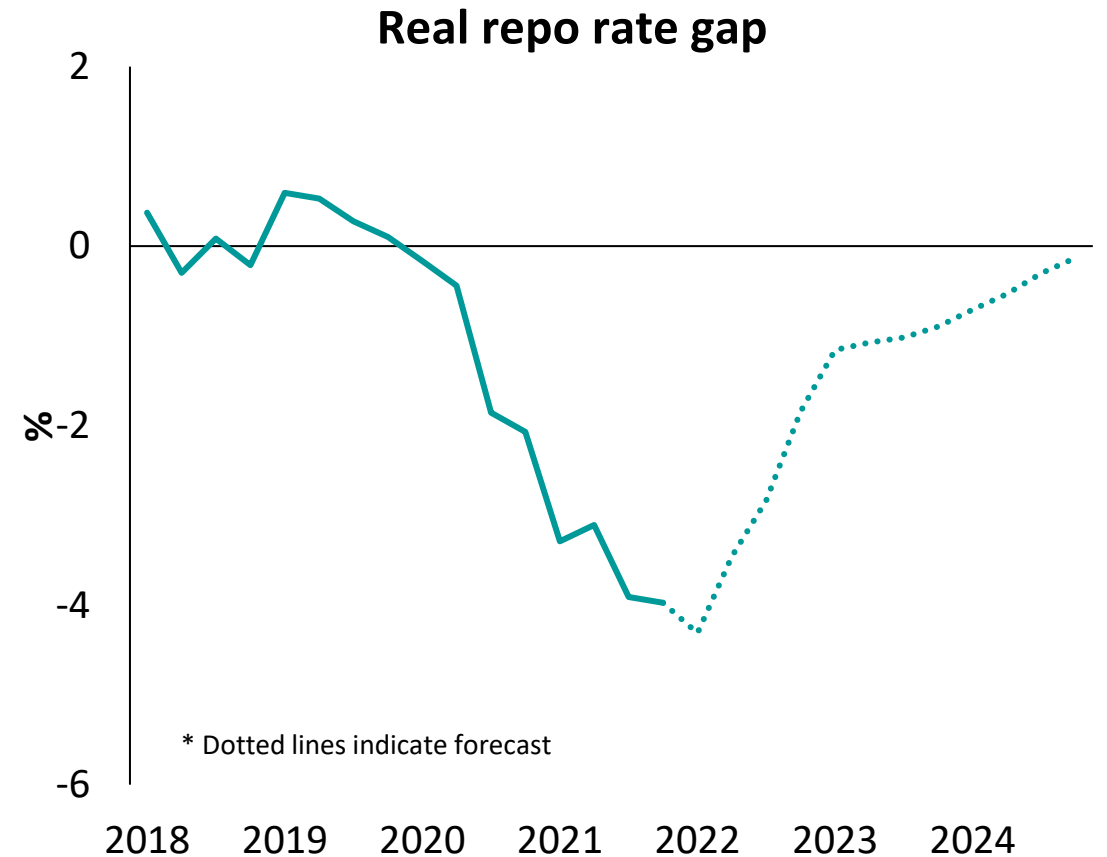
Source: SARB



Supported by fiscal and monetary policy



Source: National Treasury

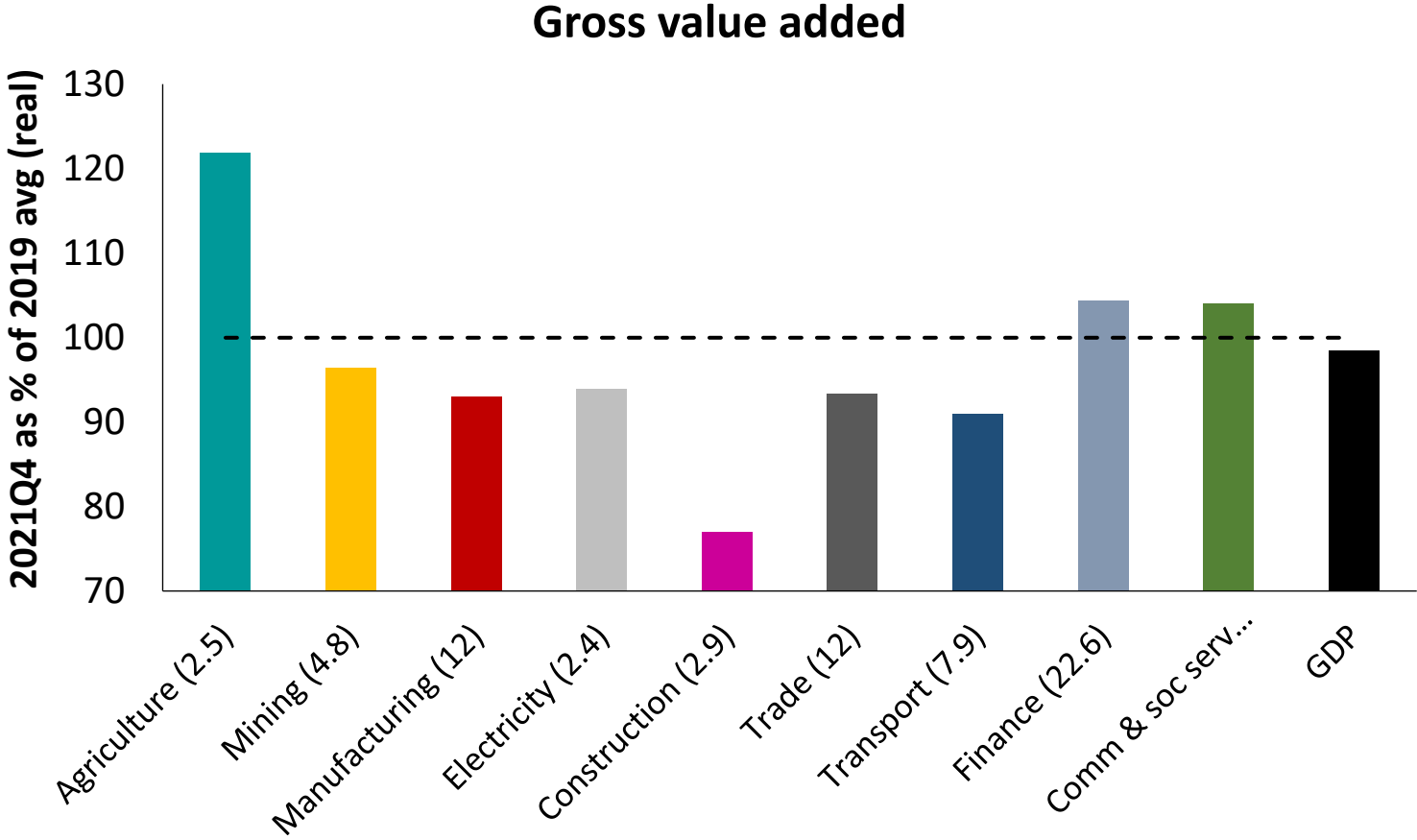


* Dotted lines indicate forecast

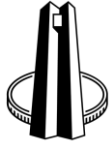
Source: SARB



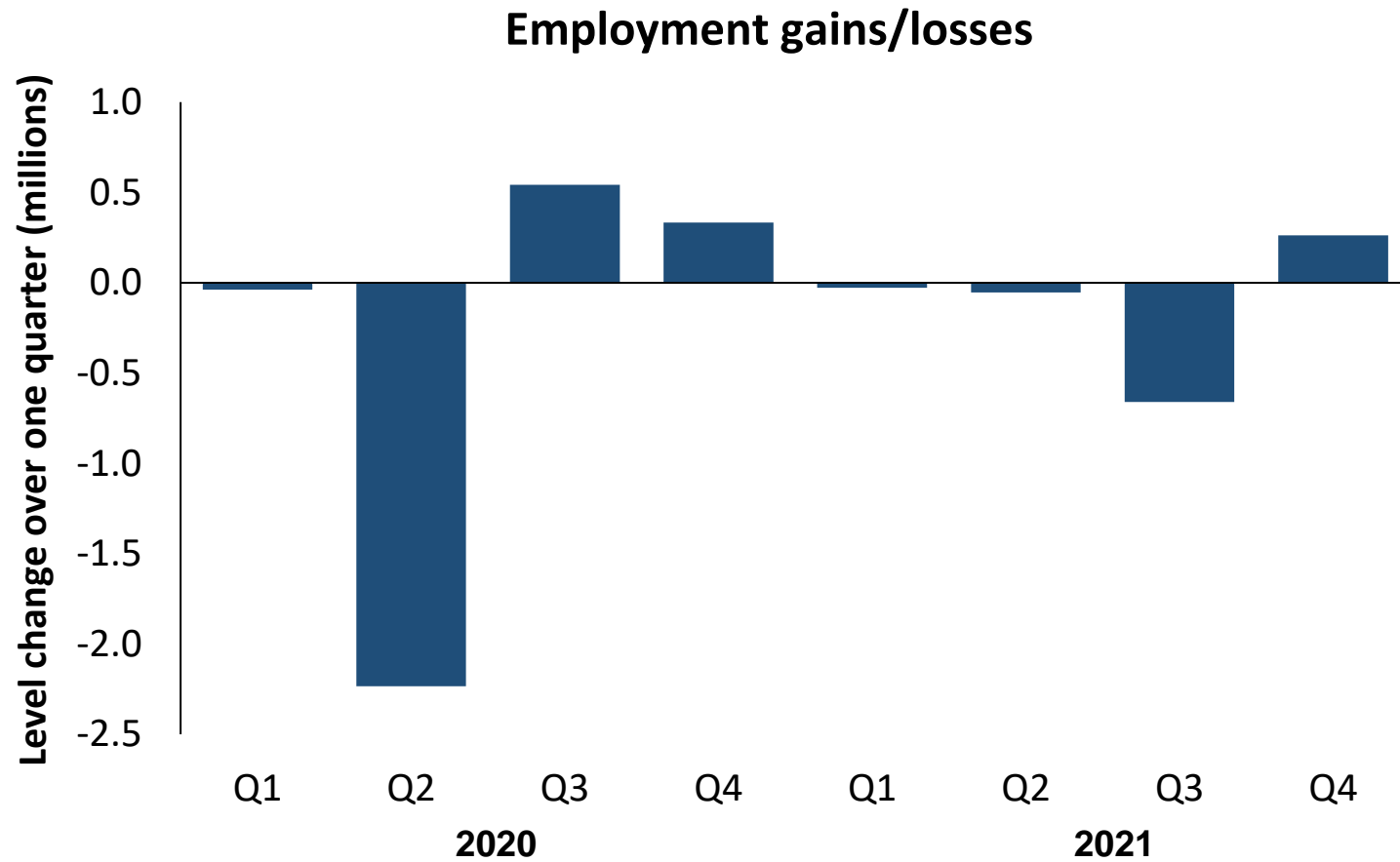
The supply side view less optimistic, scarring likely in some sectors...



Source: Stats SA



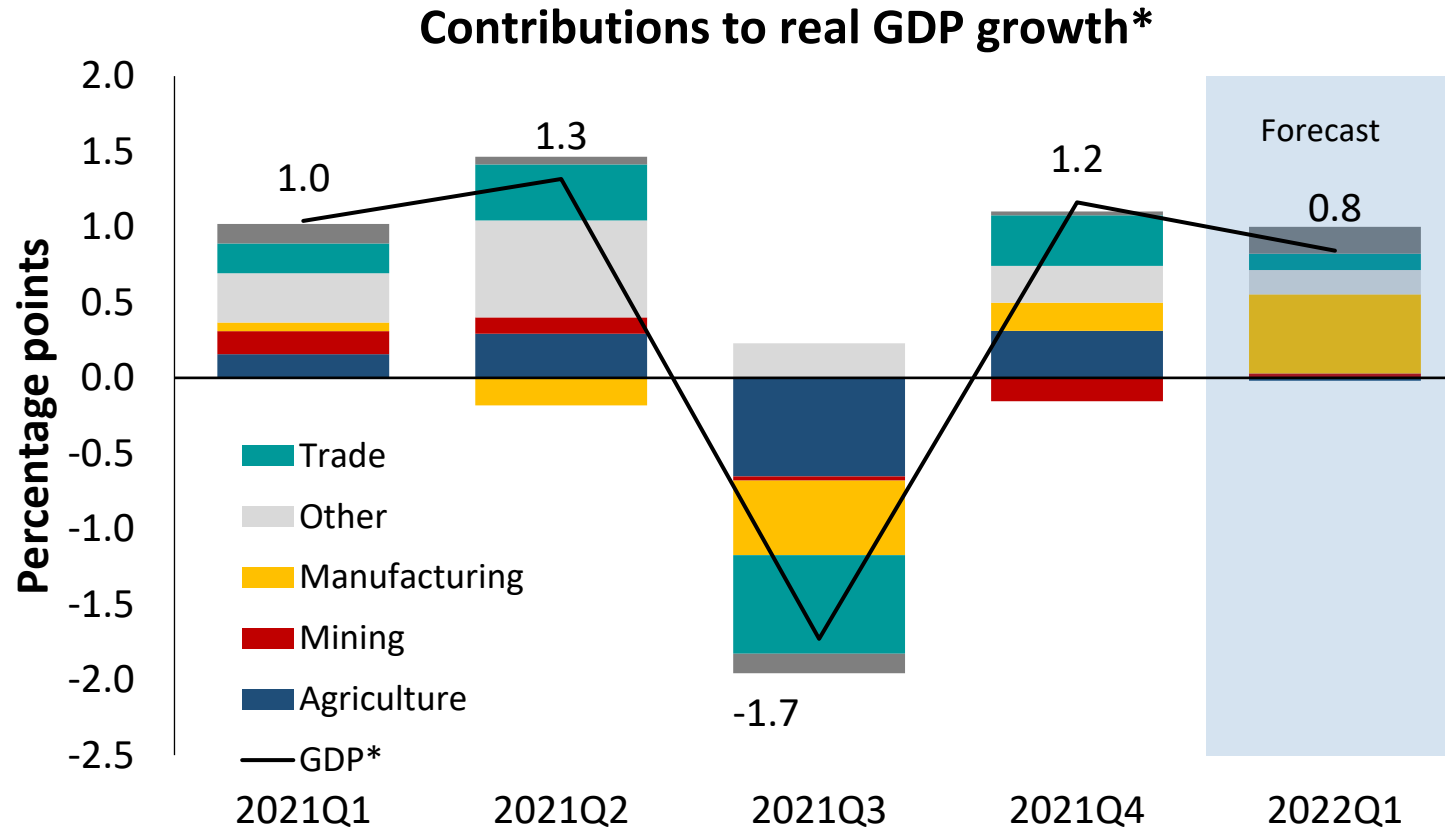
...impeding economy-wide job recovery



Source: Stats SA

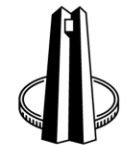


Some upside potential for jobs from stronger sectoral outcomes

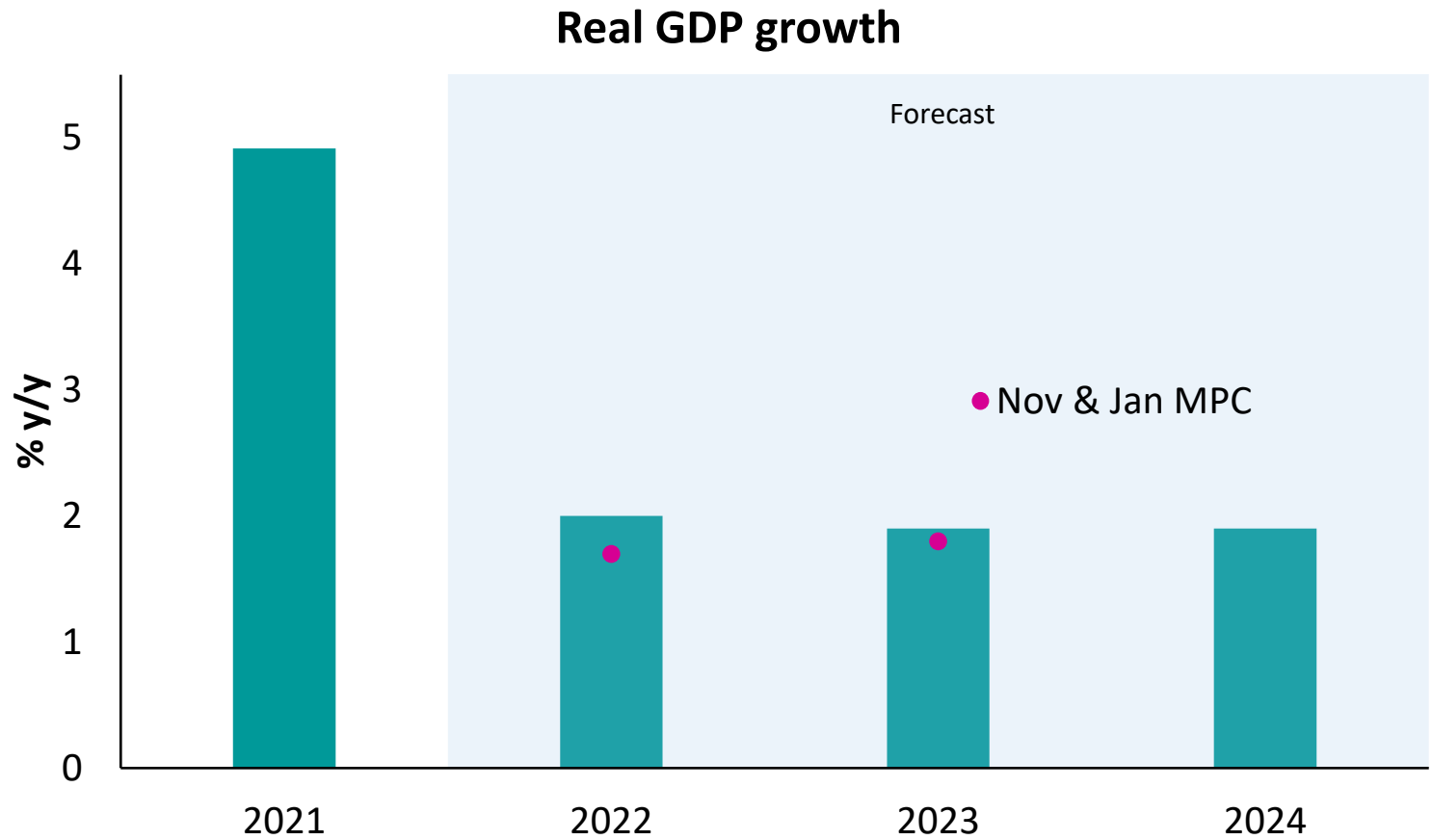


* Percentage change from quarter to quarter

Sources: Stats SA and SARB



And also setting up higher growth for 2022, despite lower global growth

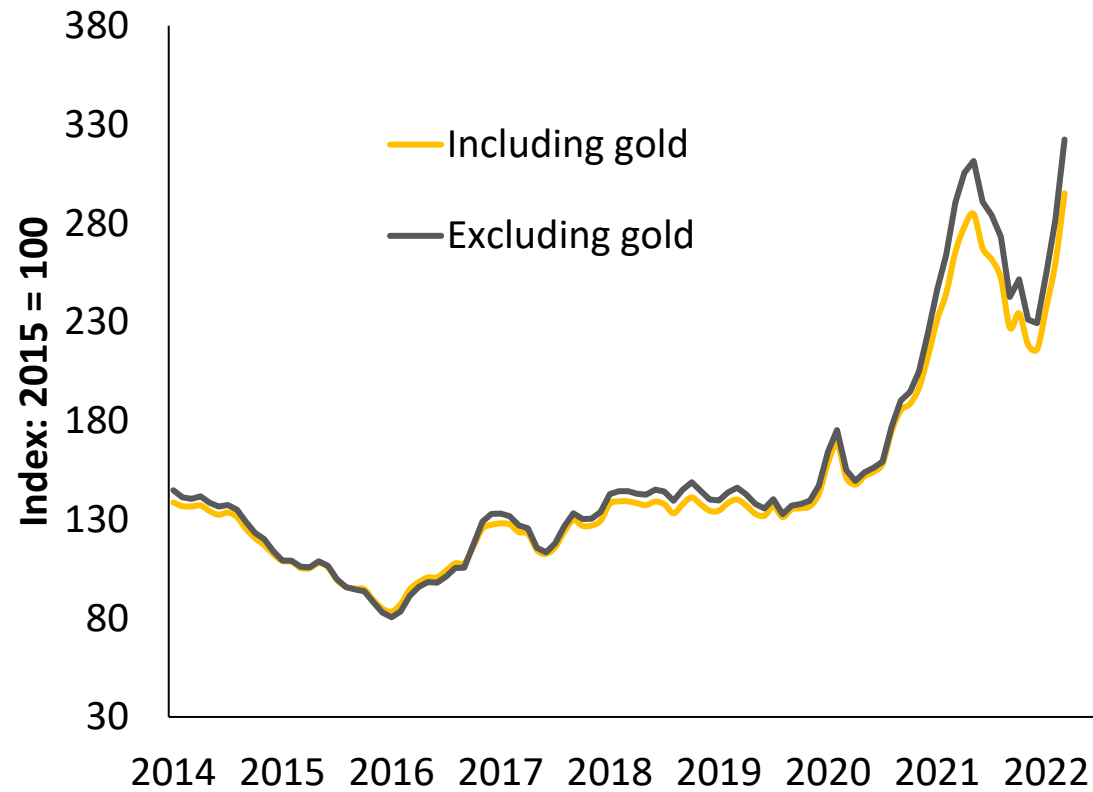


Sources: Stats SA and SARB



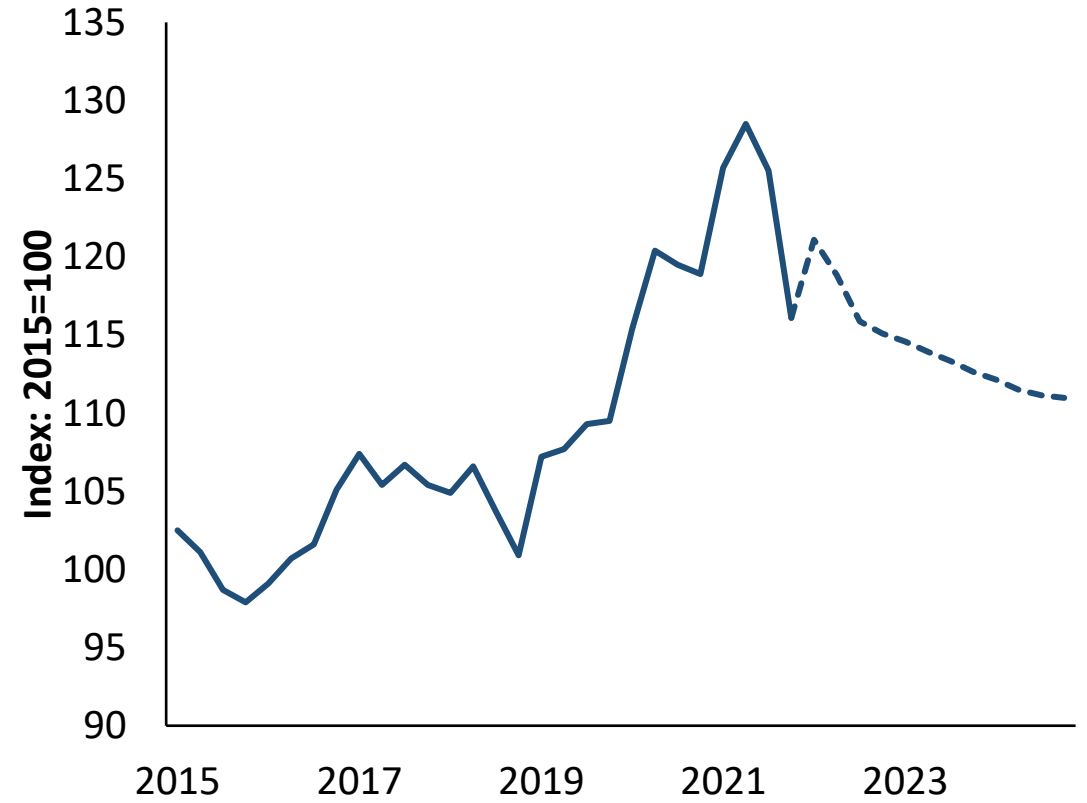
Commodity export prices a key support

Commodity prices



Source: SARB

Terms of trade

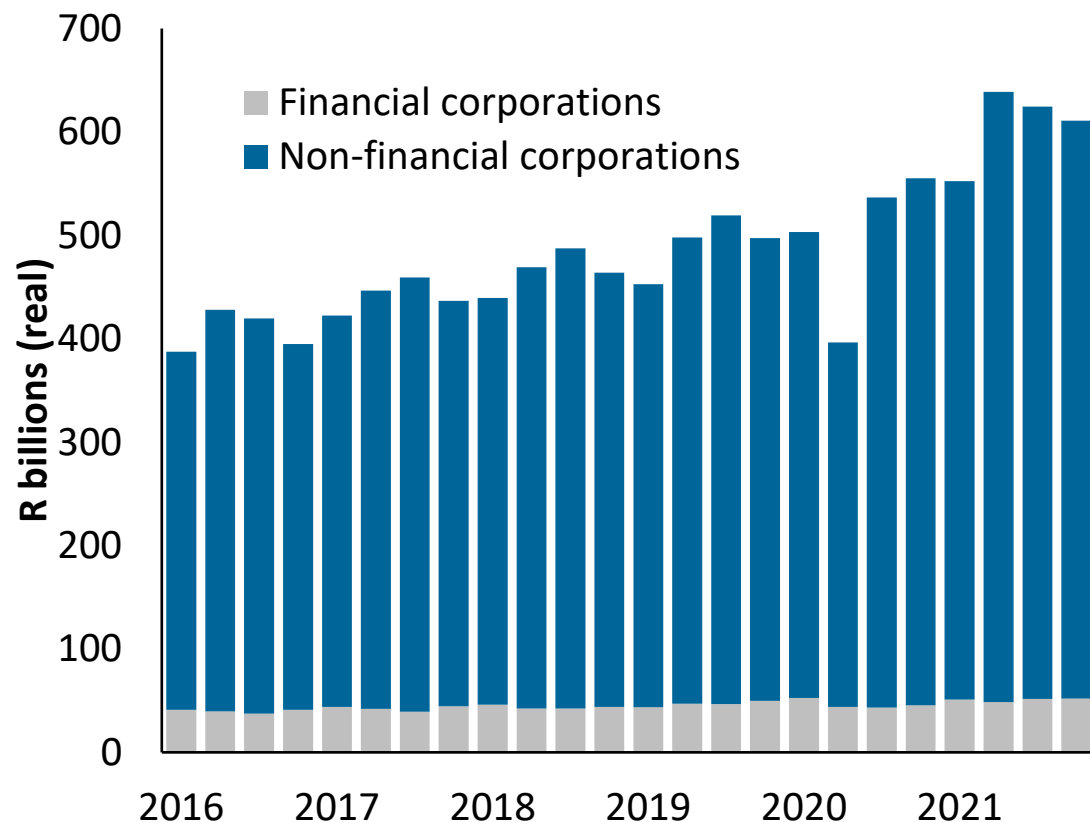


Source: SARB



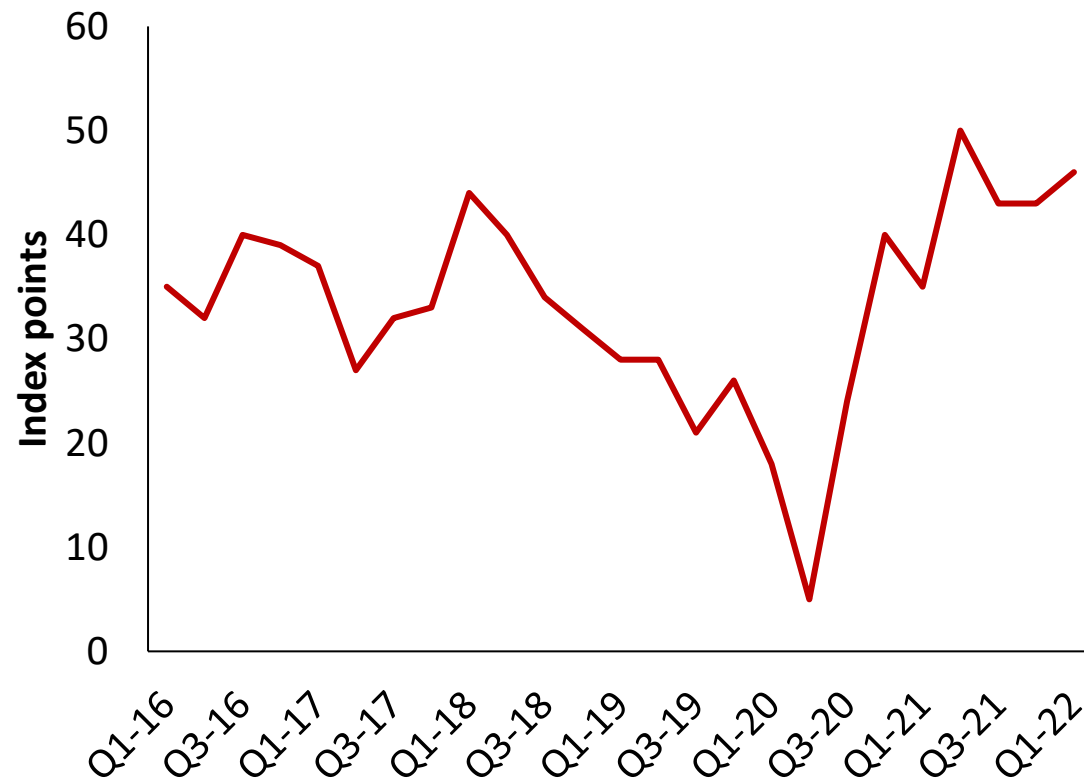
...pushing up corporate earnings and confidence

Company surpluses



Source: SARB

Business confidence

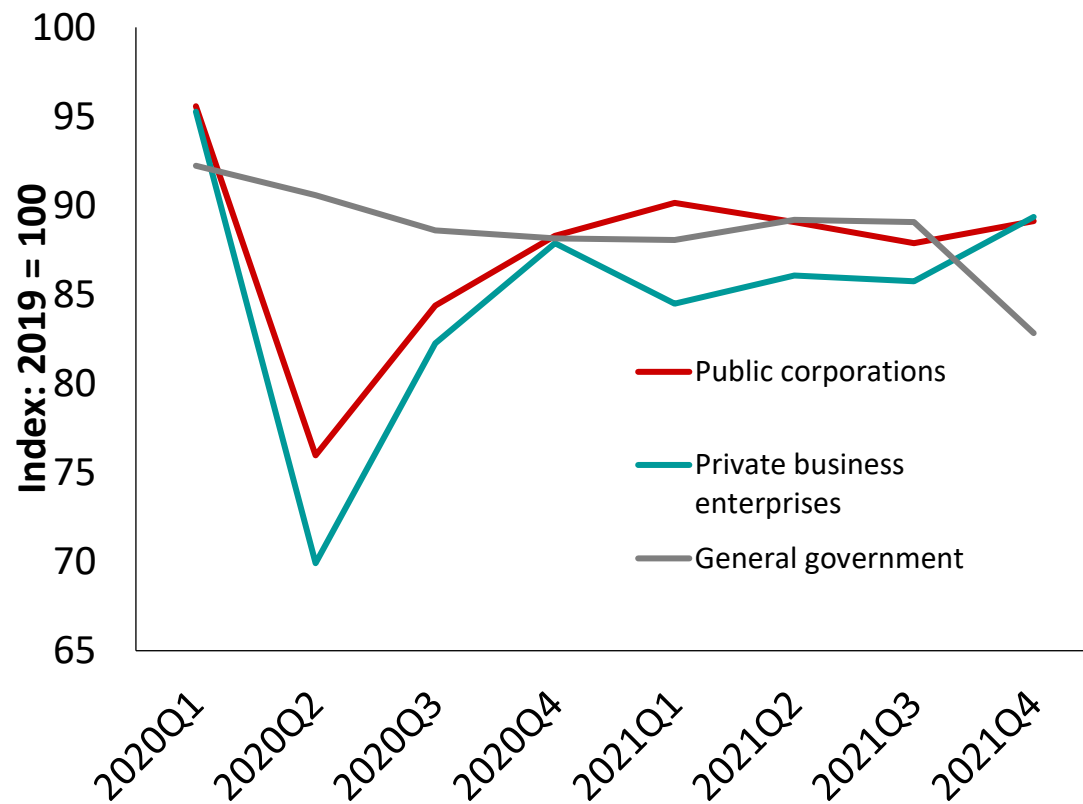


Source: BER



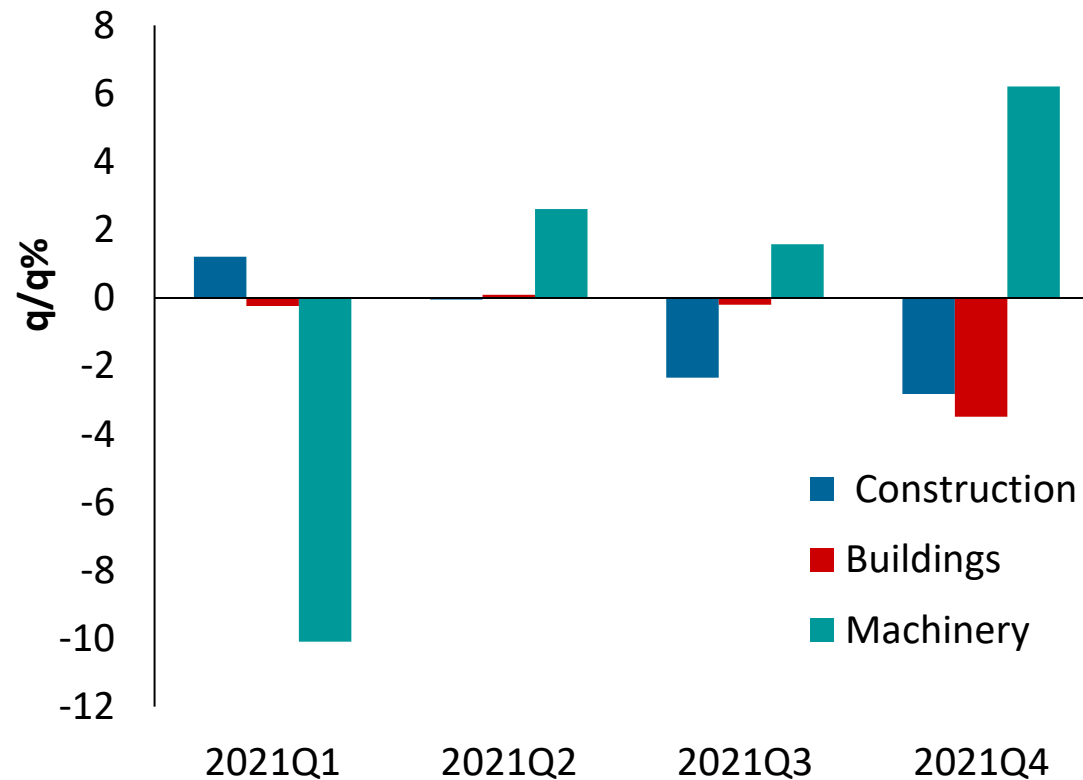
And shown in somewhat better investment spending

Gross fixed capital formation



Source: Stats SA

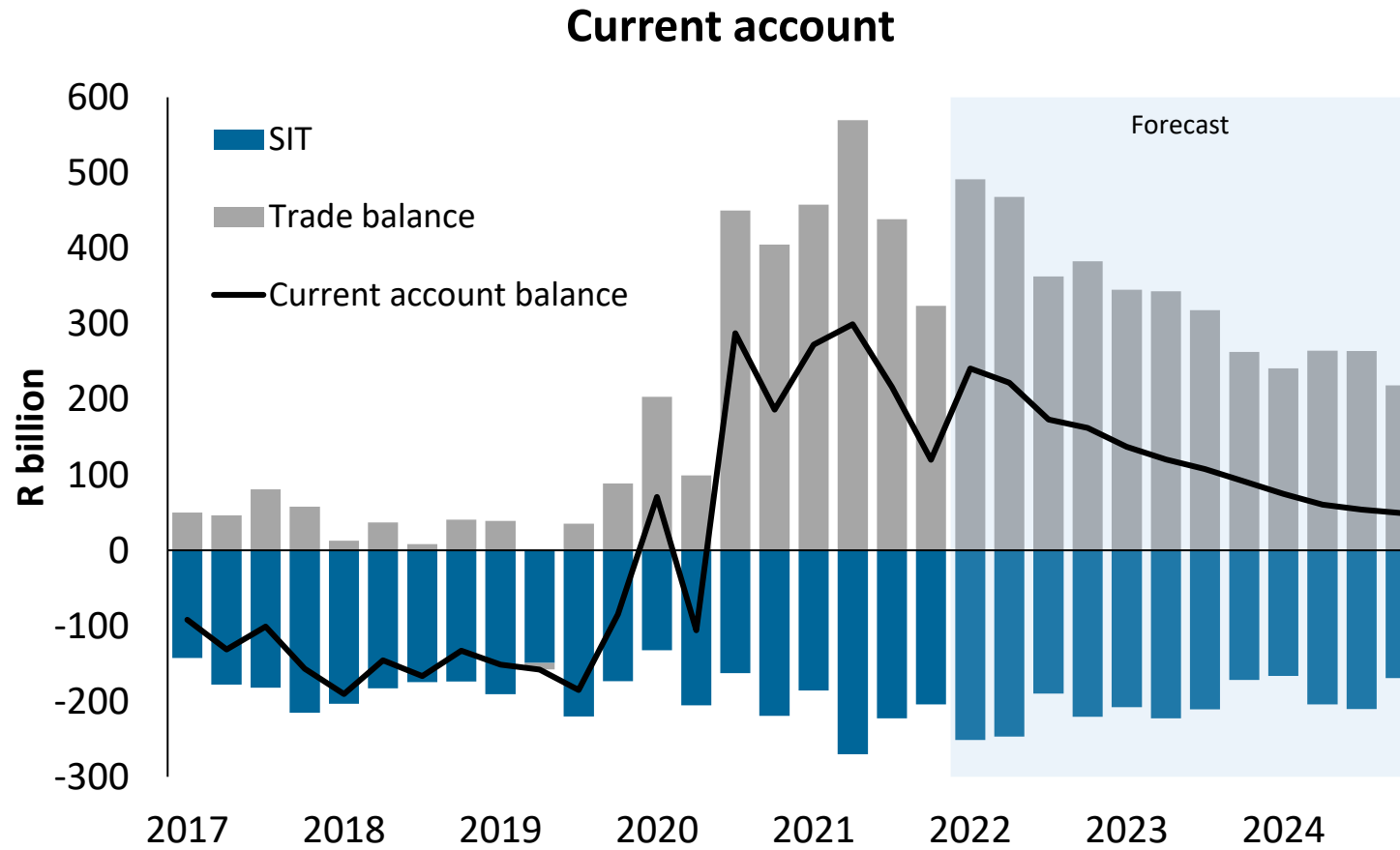
Investment spending by category



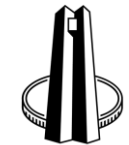
Source: SARB



Net exports prolong the current account surplus beyond expectations

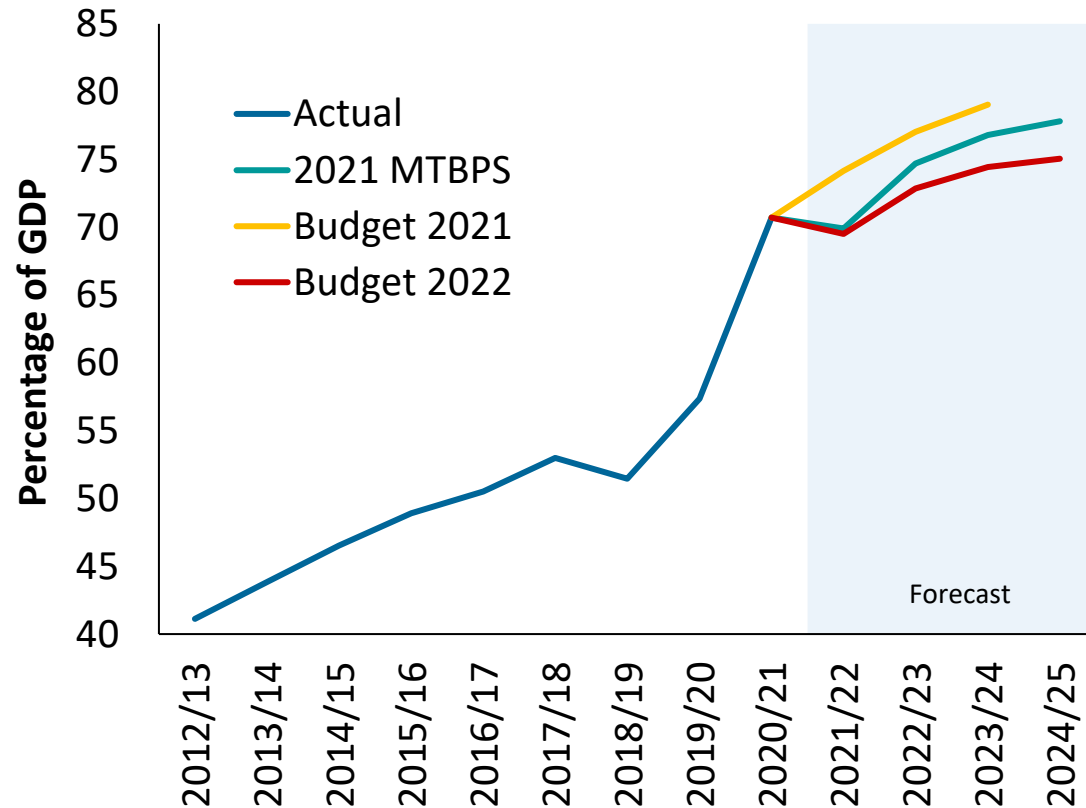


Source: SARB



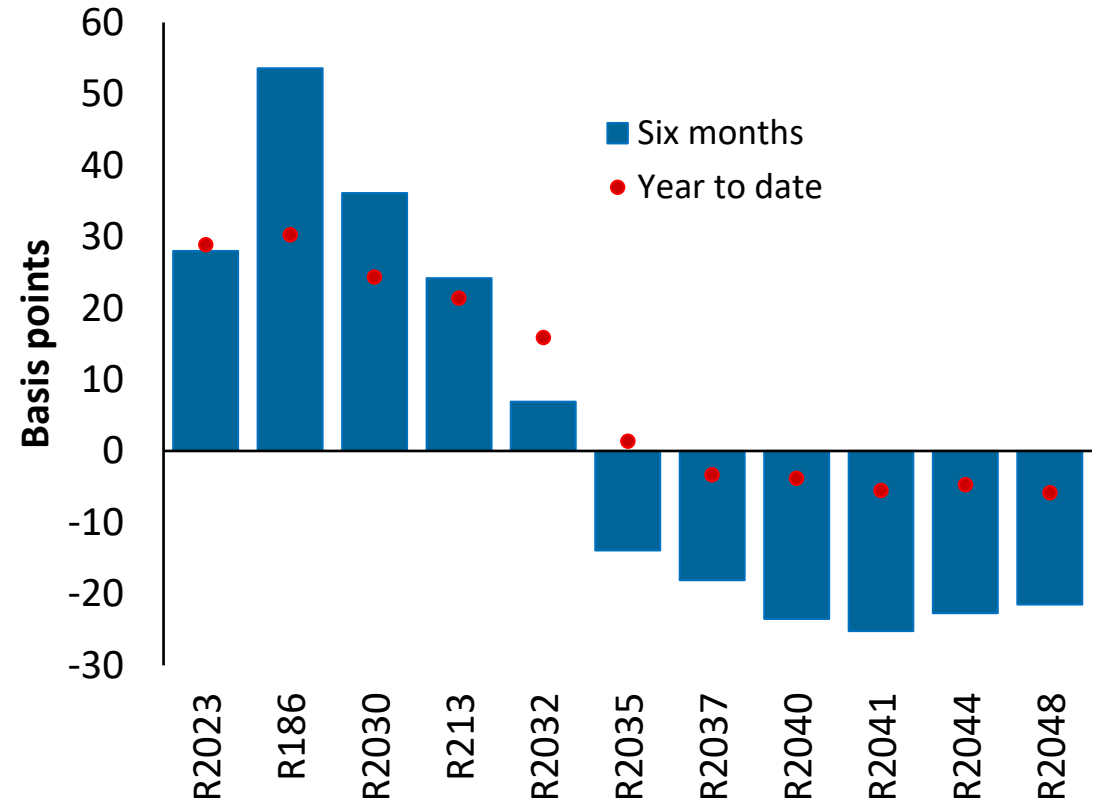
With growth and export prices further supporting fiscal metrics and bond yields

Public debt

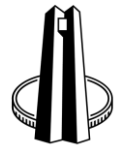


Source: National Treasury

Change in SA government bond yields

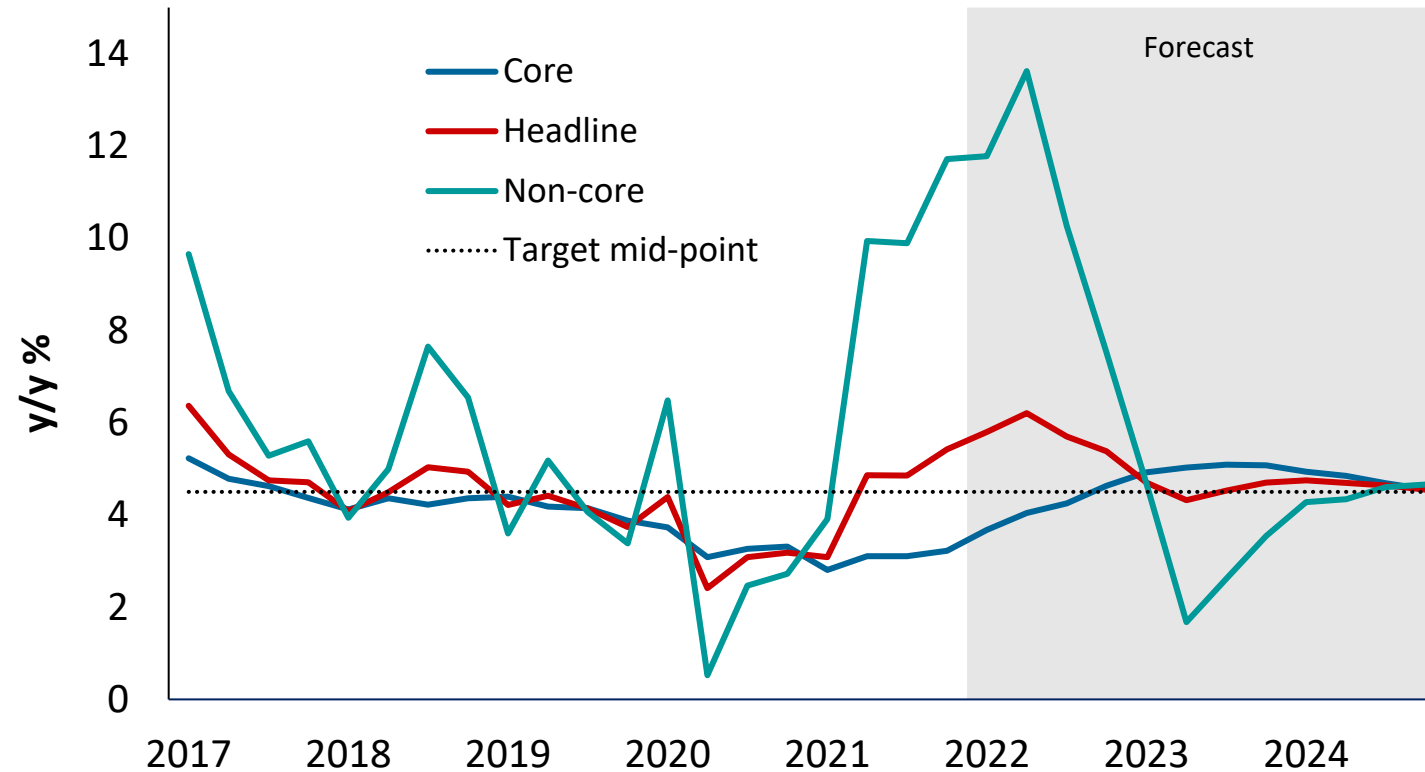


Source: Bloomberg



Near-term headline inflation sharply higher on higher non-core inflation...

Core and non-core inflation

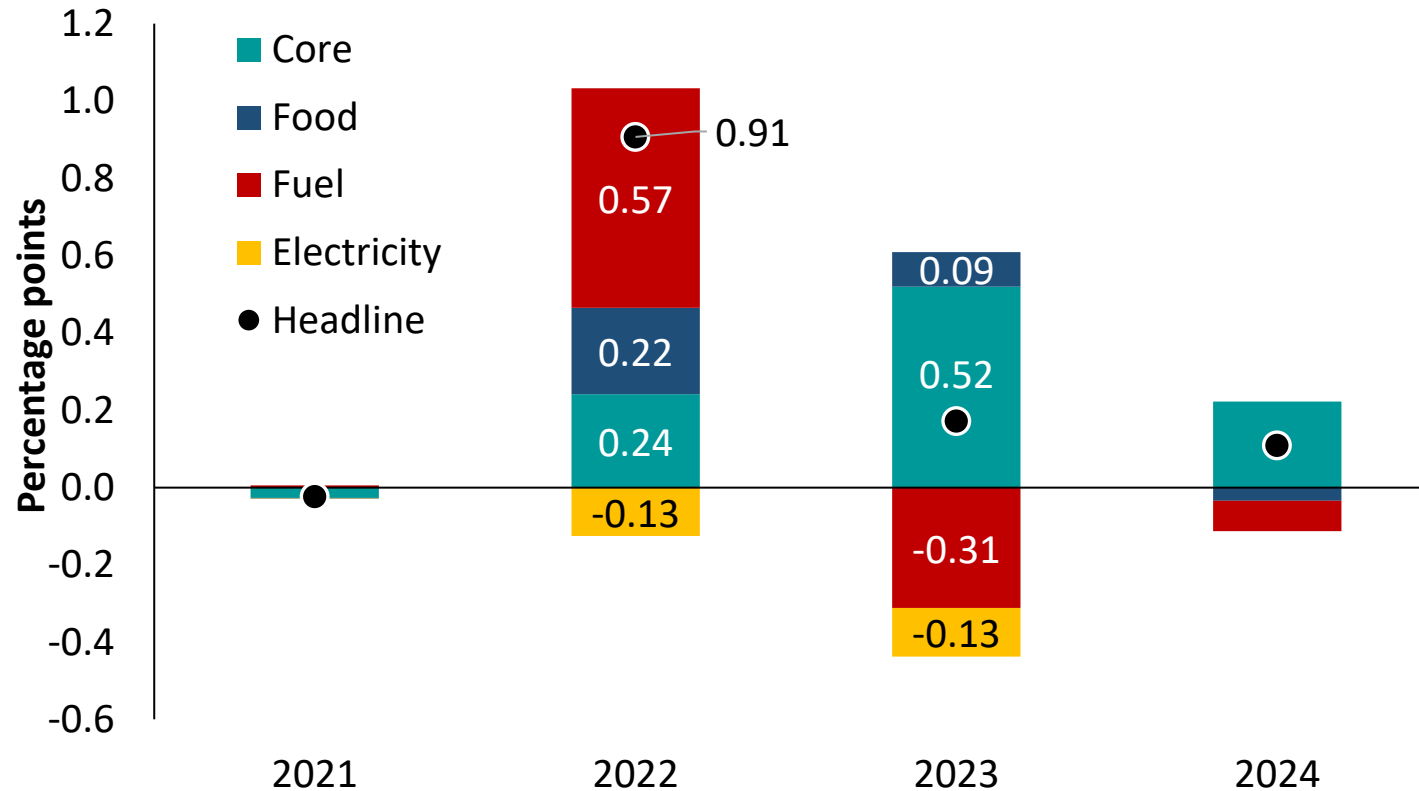


Sources: Stats SA and SARB



...while core inflation shaping medium-term trajectory

Contribution to change in headline inflation

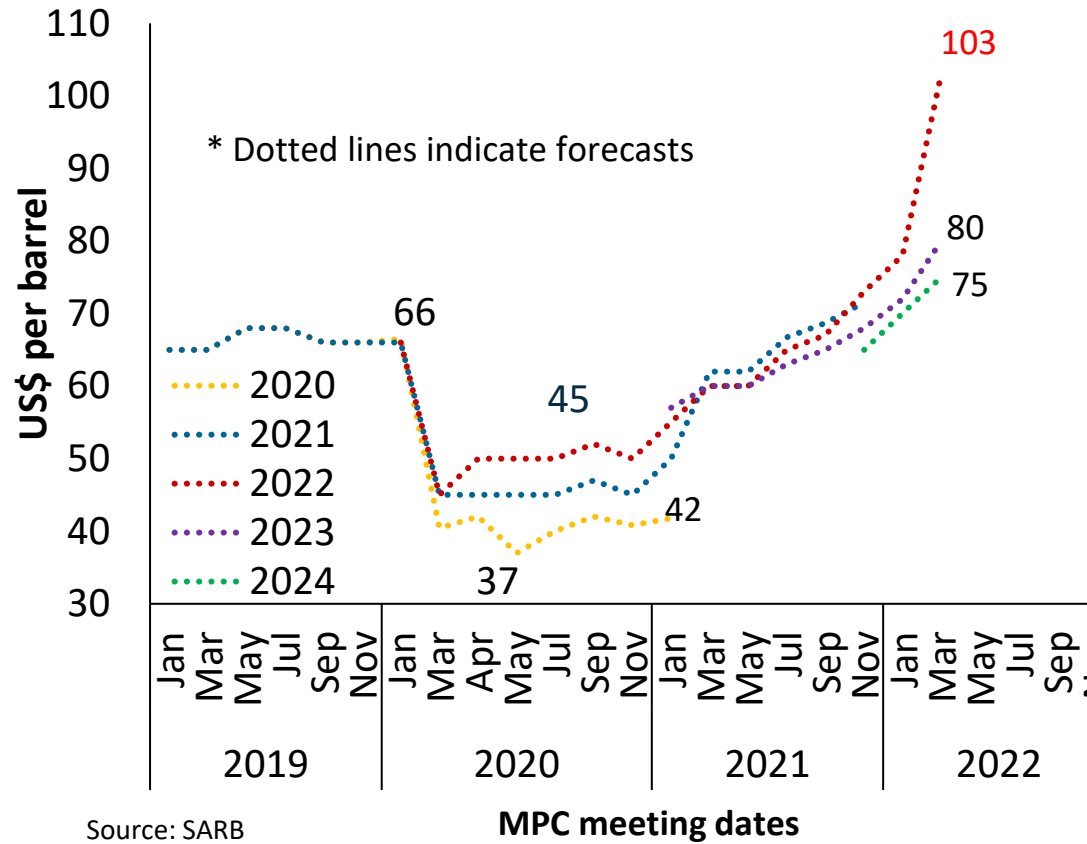


Sources: Stats SA and SARB

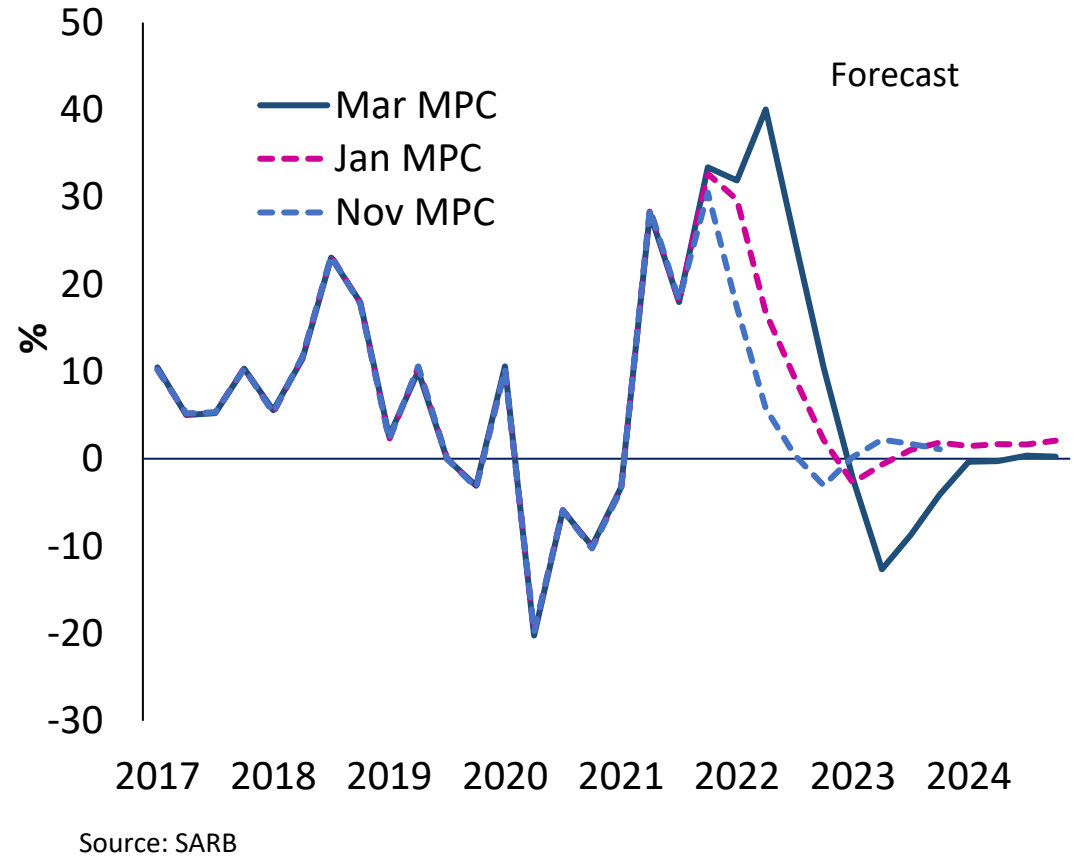


Oil prices have soared higher, feeding through to pump prices...

Evolution of oil price forecasts*

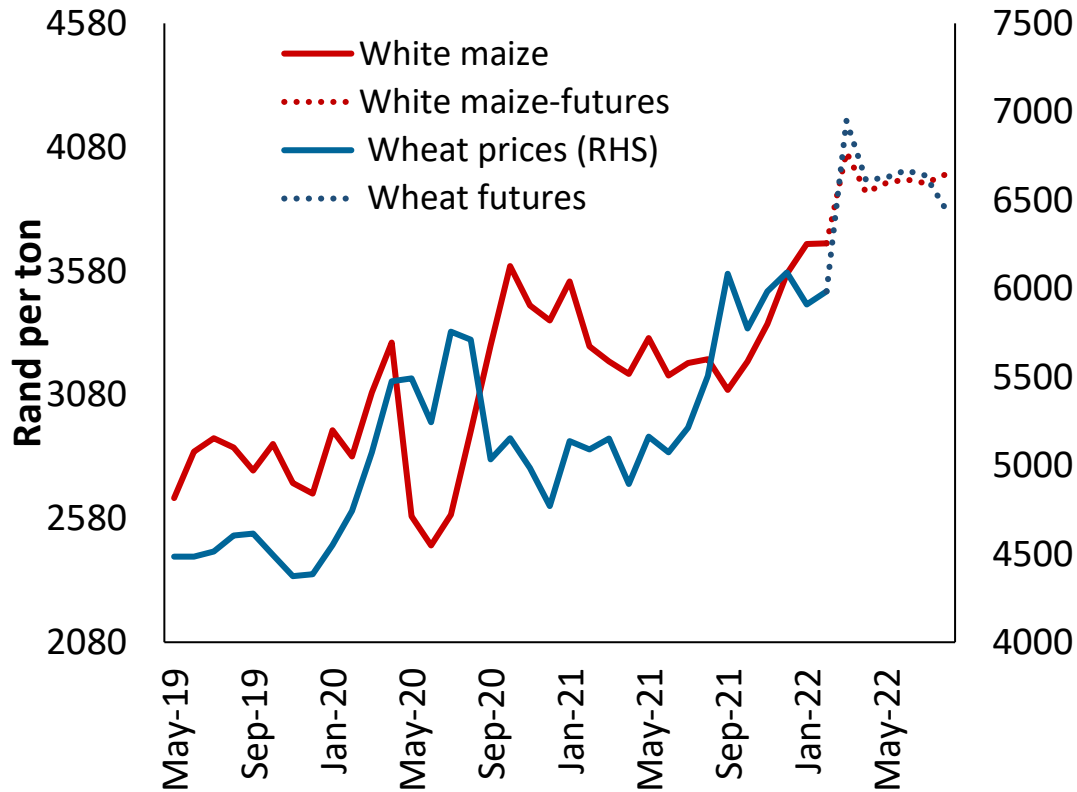


Fuel inflation



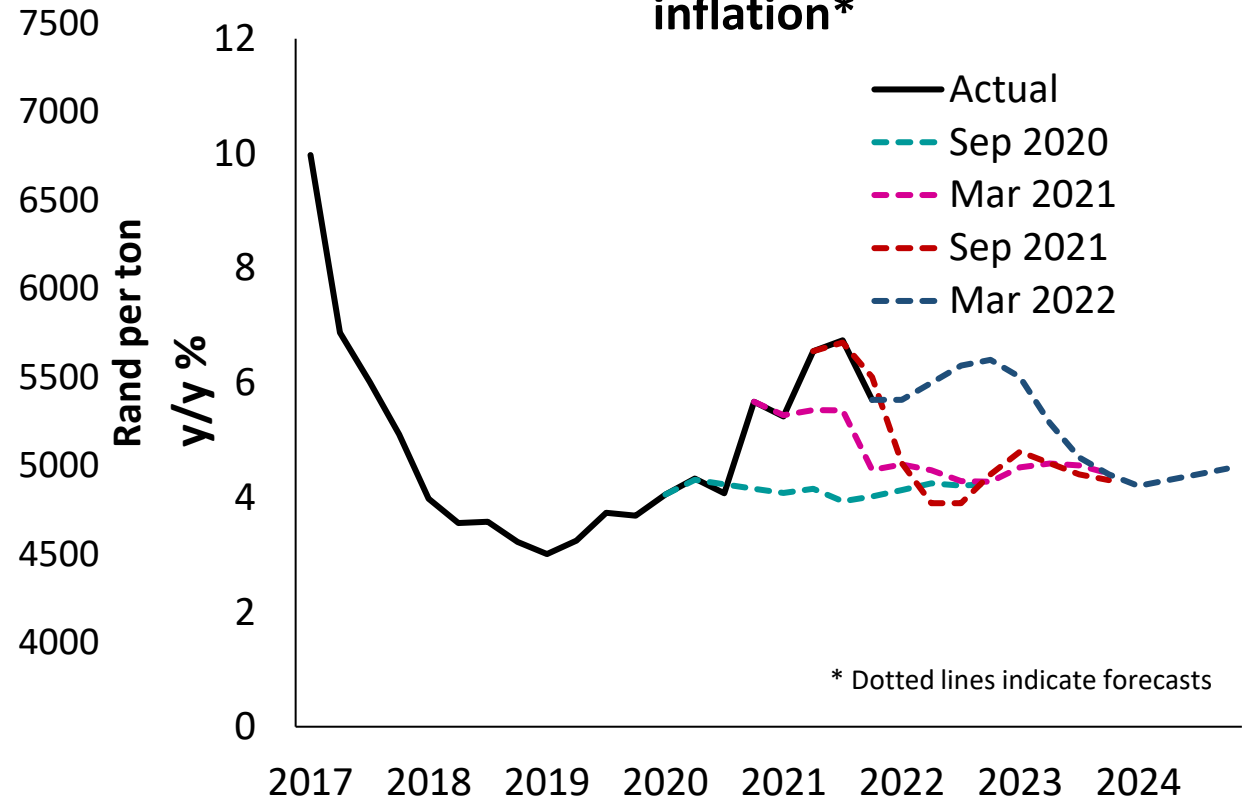
Rising agricultural input costs & supply disruptions pressuring food

Wheat and maize futures



Source: SAFEX

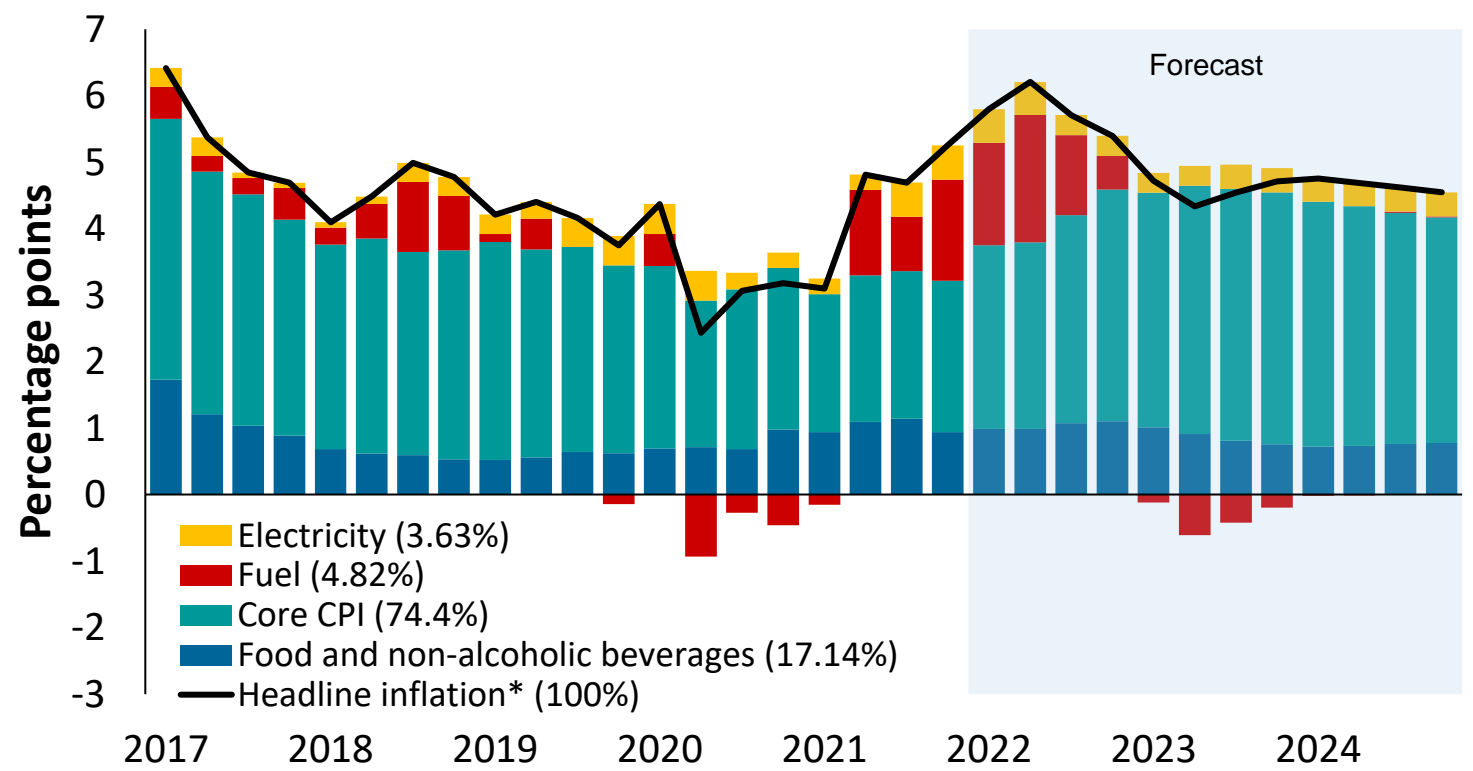
Food and non-alcoholic beverages inflation*



Sources: Stats SA and SARB

Rise in core risks the benign 2018-2021 inflation trajectory

Contributions to headline inflation

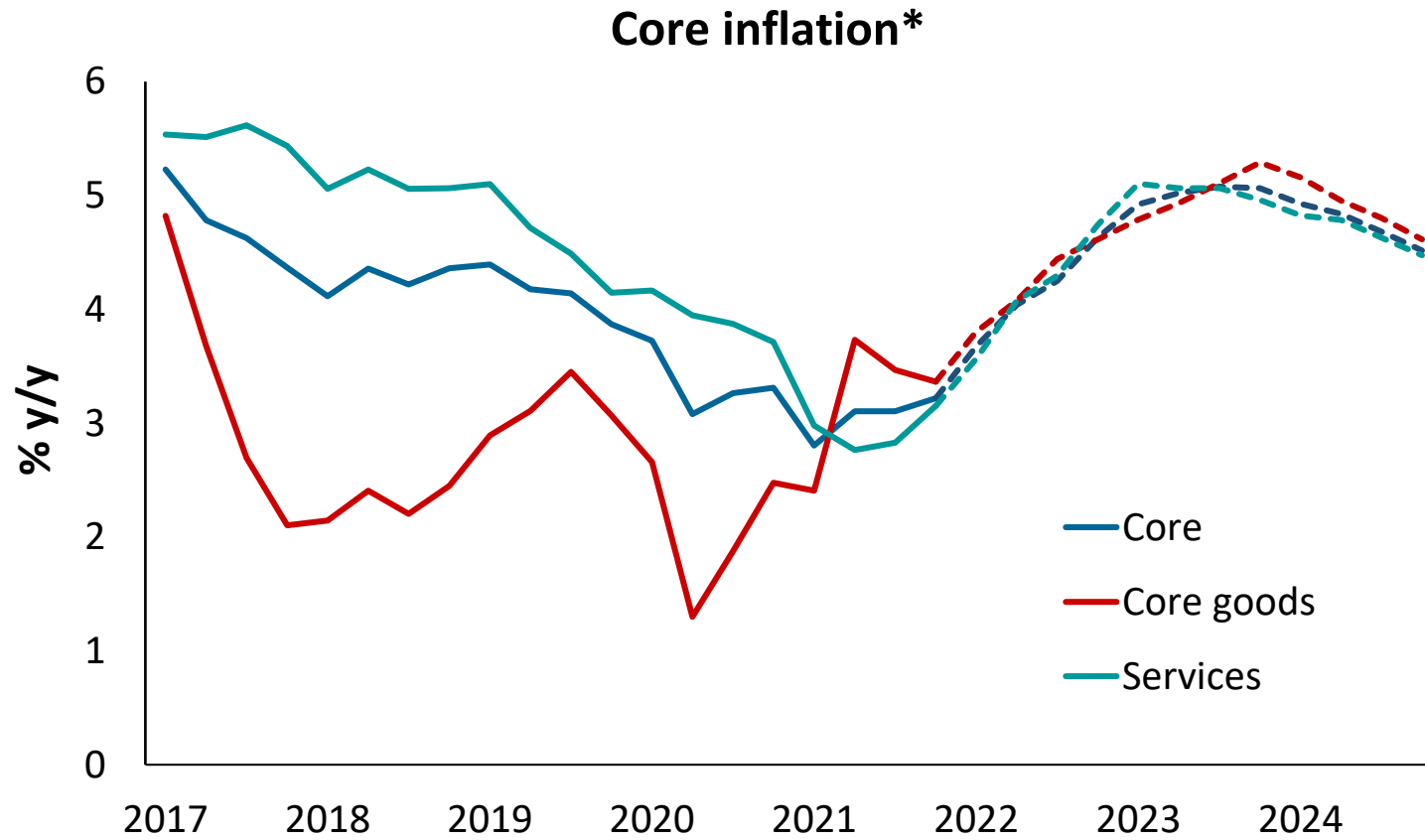


* Percentage change over four quarters

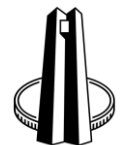
Sources: Stats SA and SARB



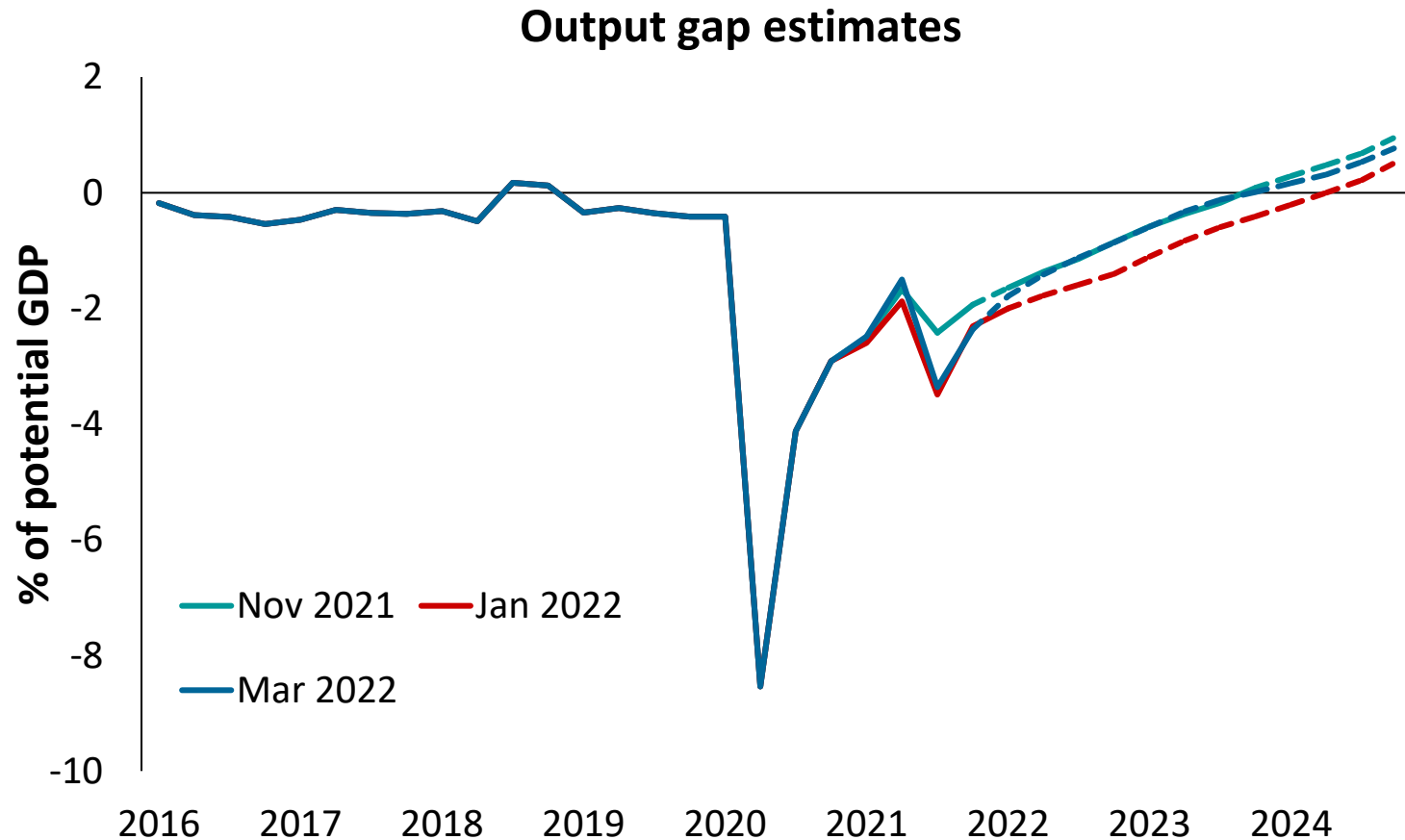
Core goods lower earlier, followed by services... but effect dissipating quickly



* Dotted lines indicate forecasts
Source: SARB



Demand recovery and supply side constraints revealed in output gap closing

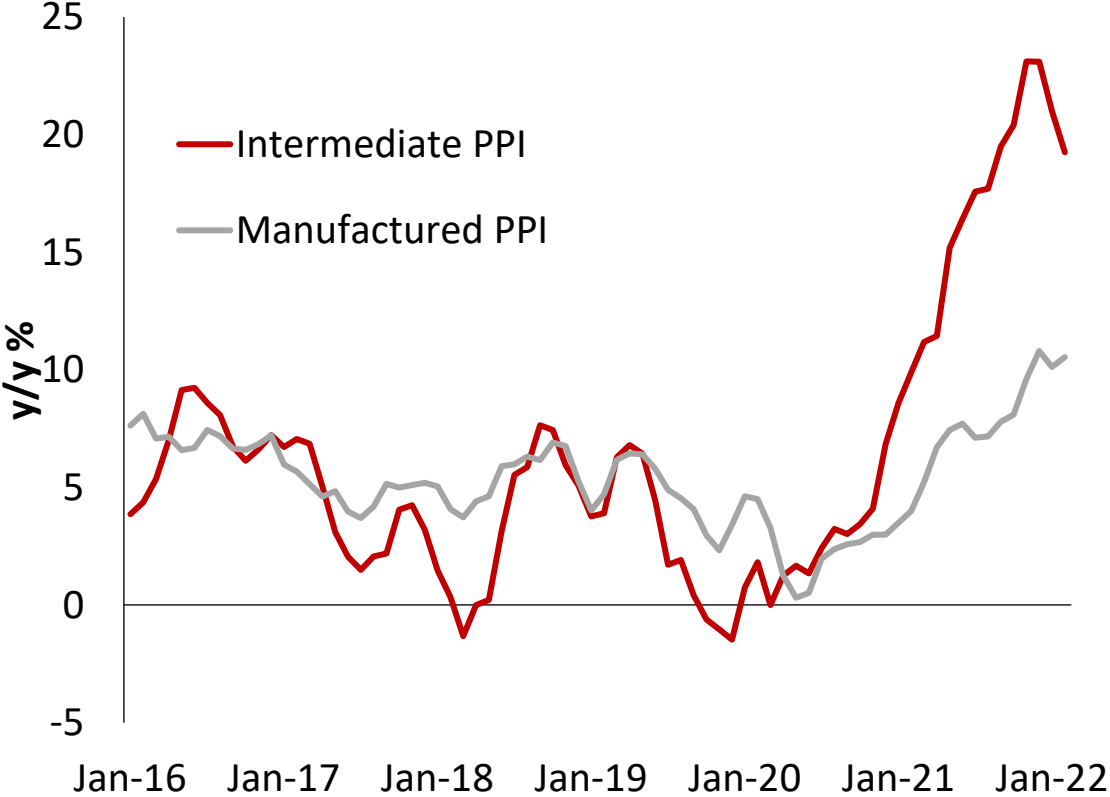


Source: SARB



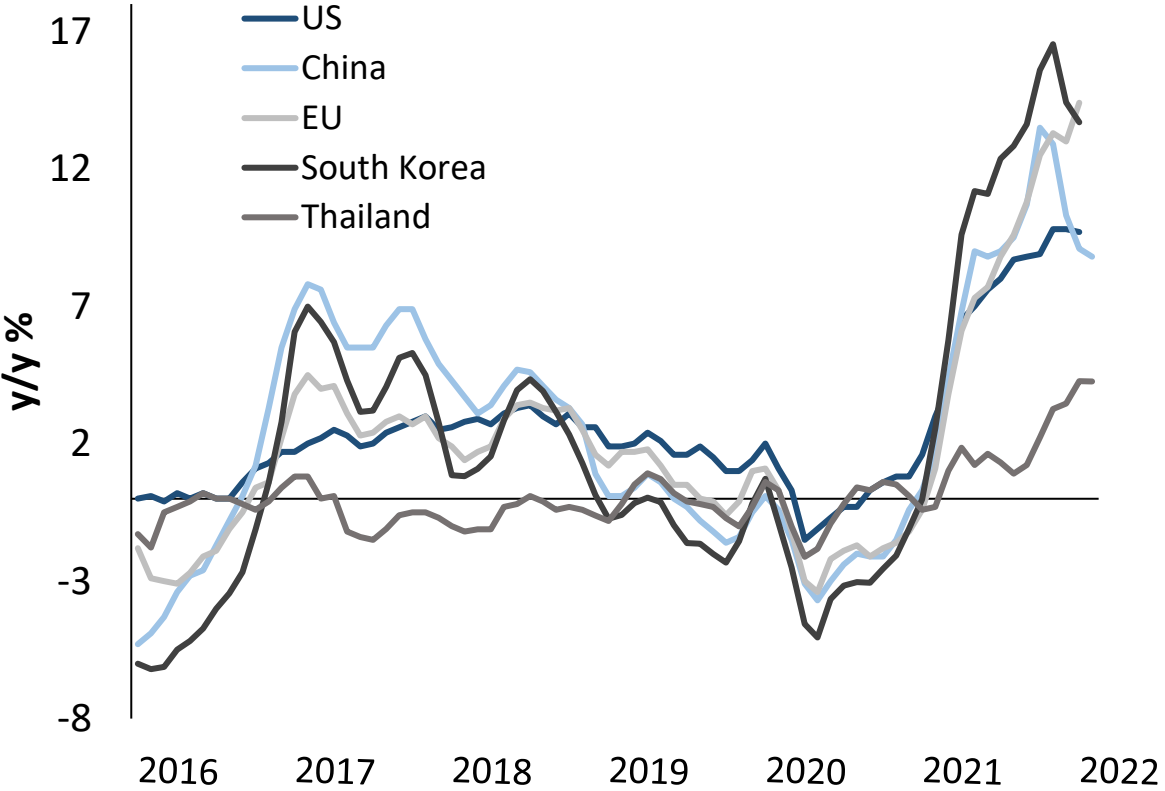
Alongside sharply higher producer prices, and imported inflation pressures...

South African Price Indices



Source: Stats SA

Manufactured goods PPI

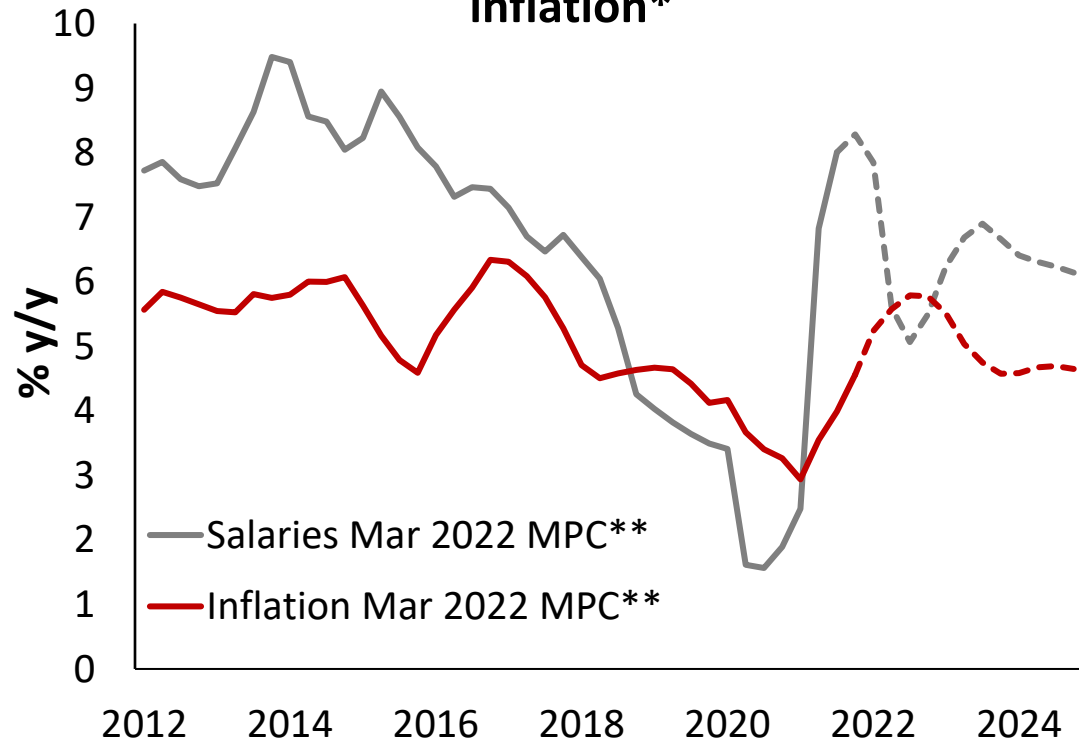


Source: Haver, Bloomberg



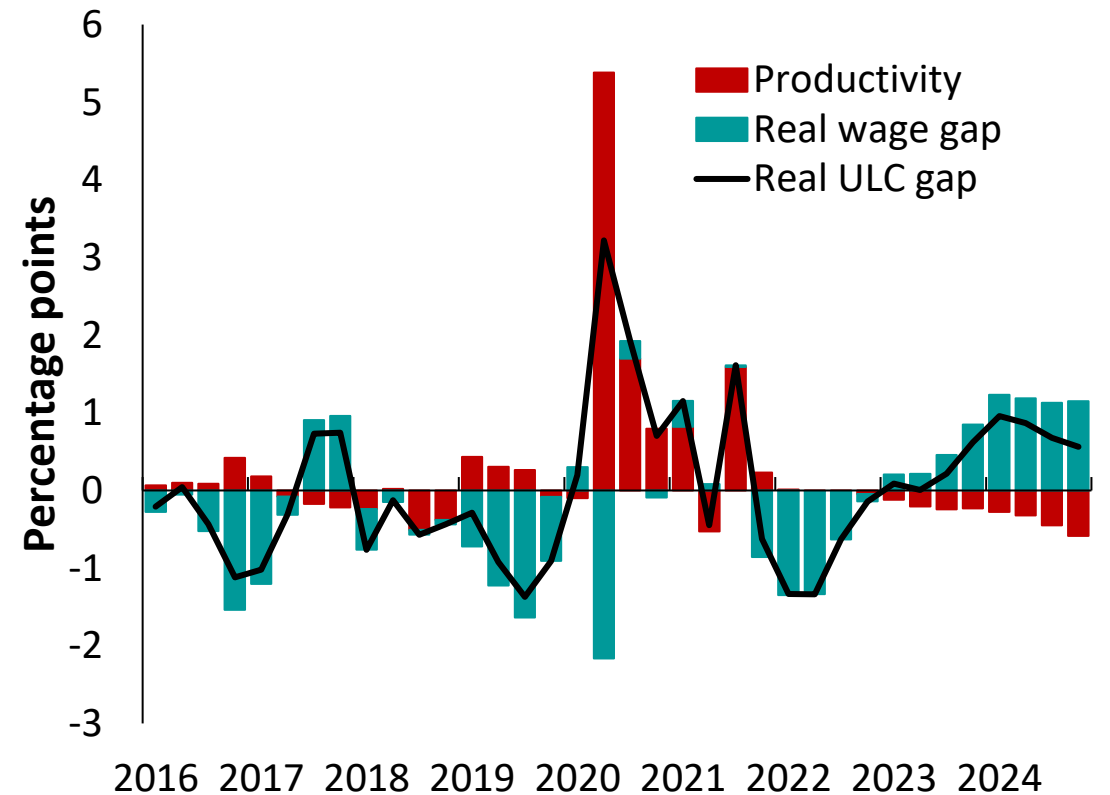
Wage buoyancy, as ULCs shift from disinflationary to inflationary...

Nominal average salaries and headline inflation*



* Dotted lines indicate forecasts
 ** Four-quarter moving average
 Source: SARB

Contributions to unit labour cost gap

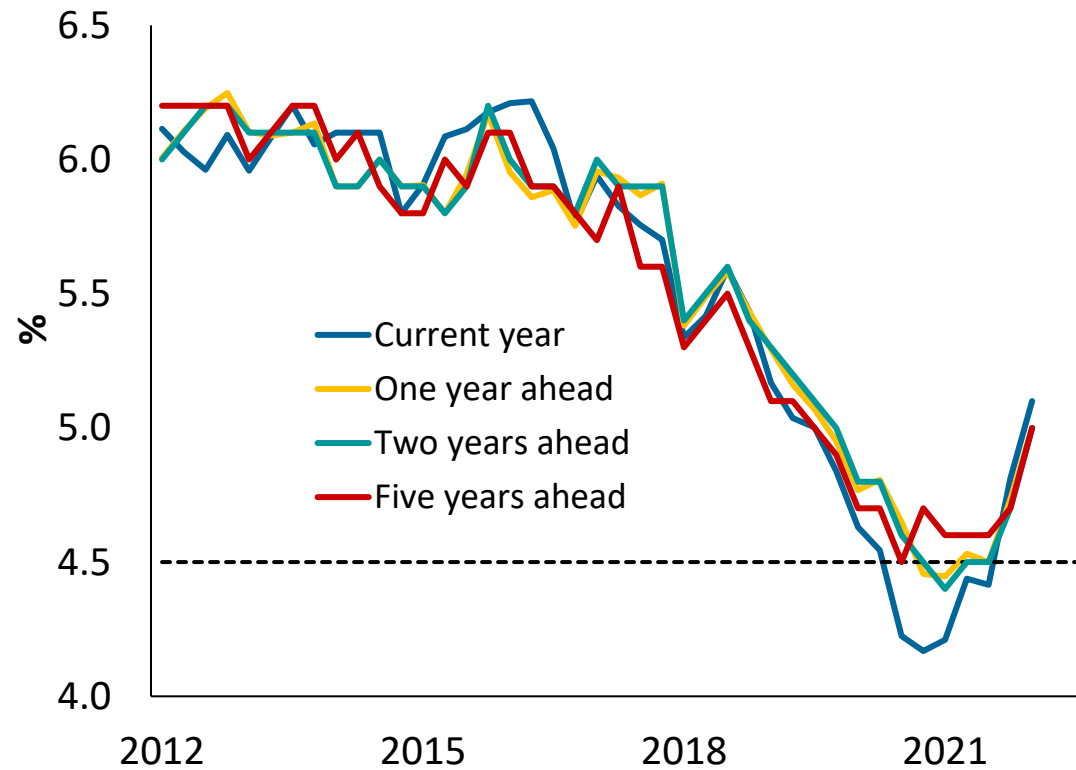


Source: SARB



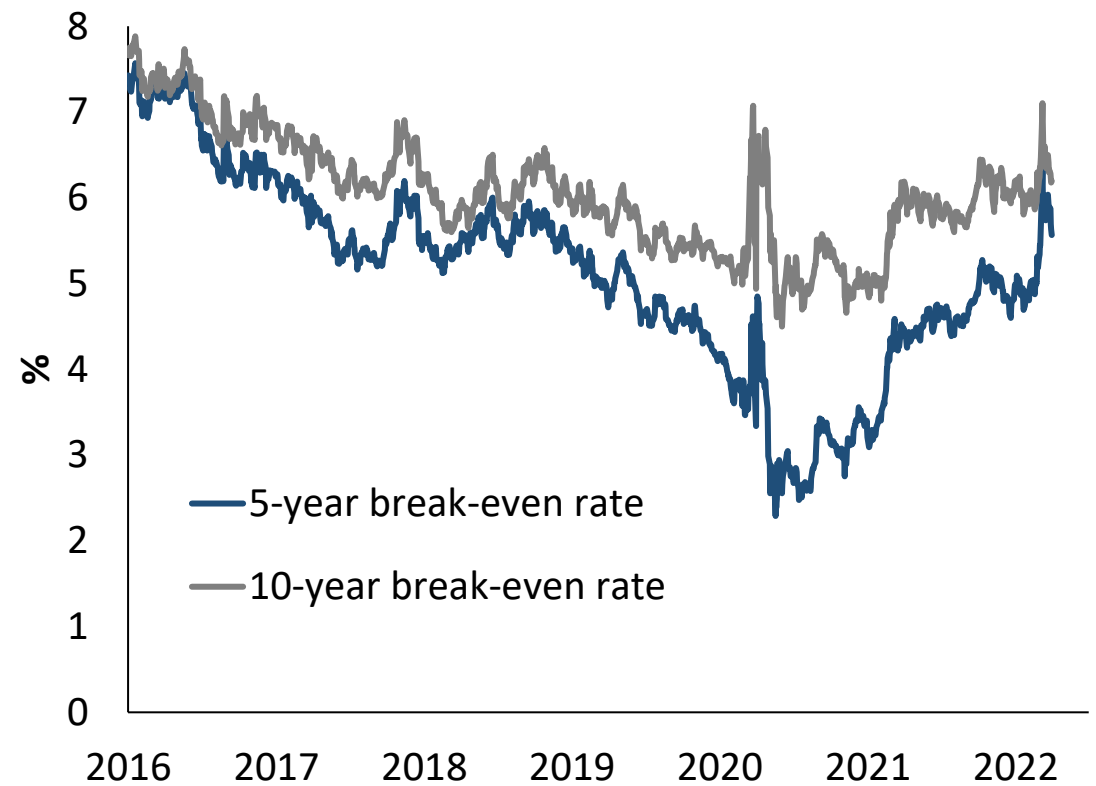
All reflected in rising inflation expectations

BER inflation expectations

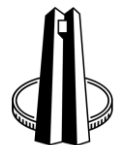


Source: BER

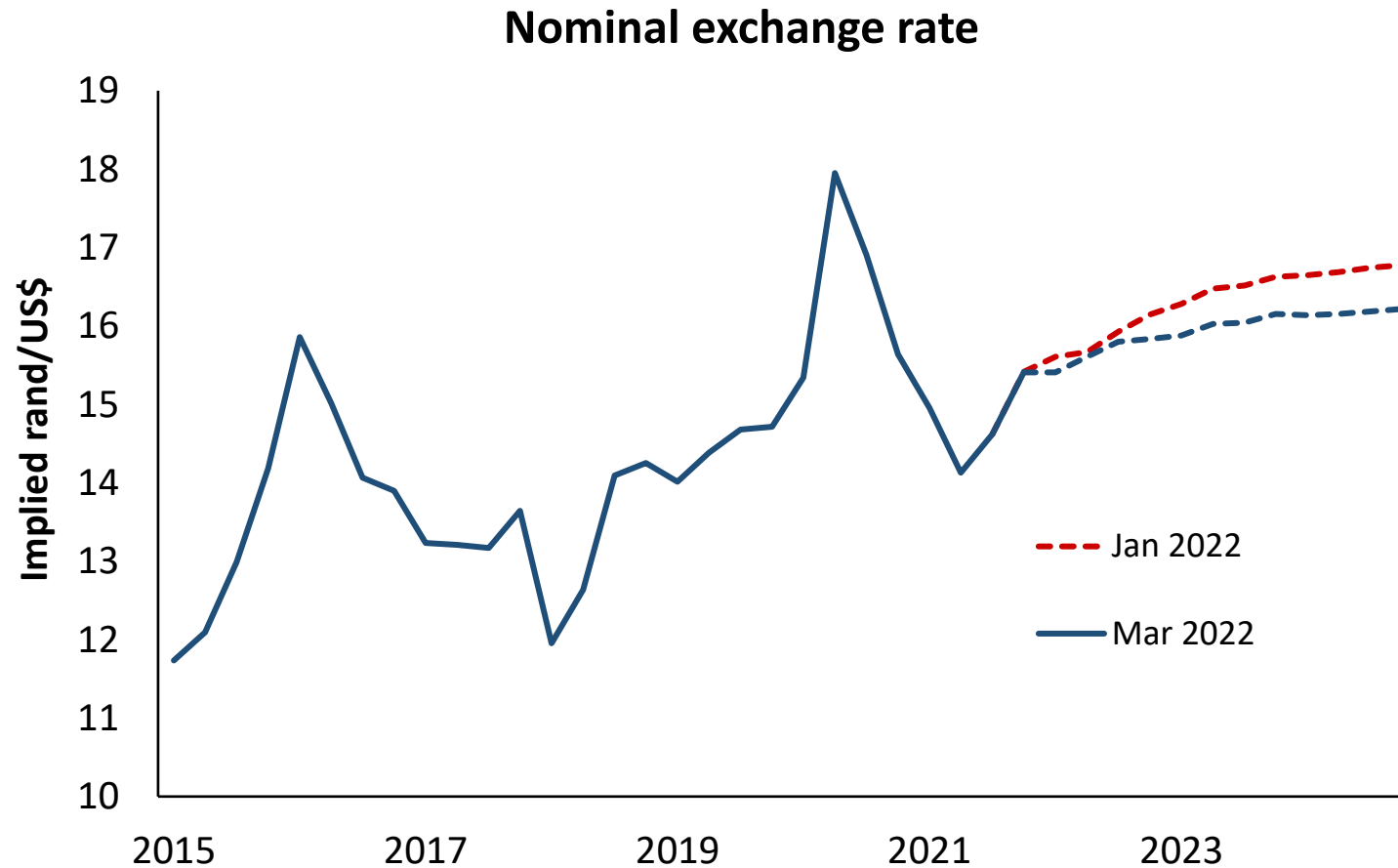
Break-even inflation rates



Source: Bloomberg



Global circumstances aiding currency strength and offsetting effects

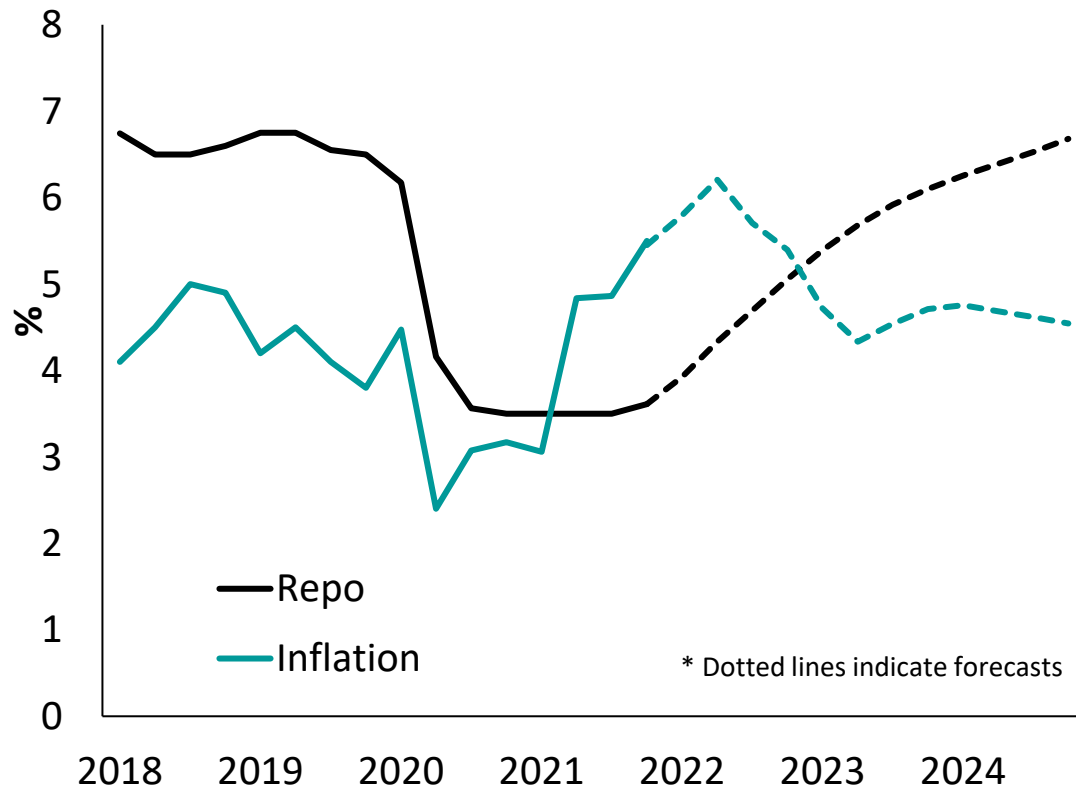


Source: SARB



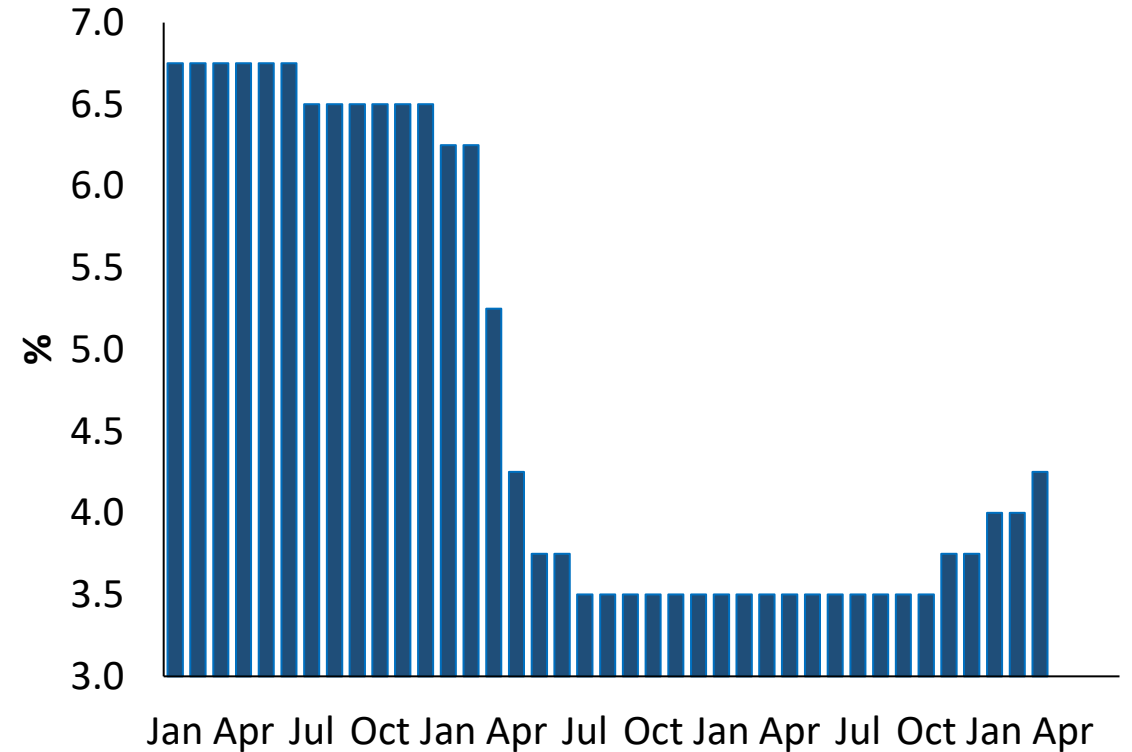
Normalising repo still on a gradual path

Headline inflation and repo

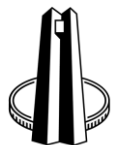


Source: SARB

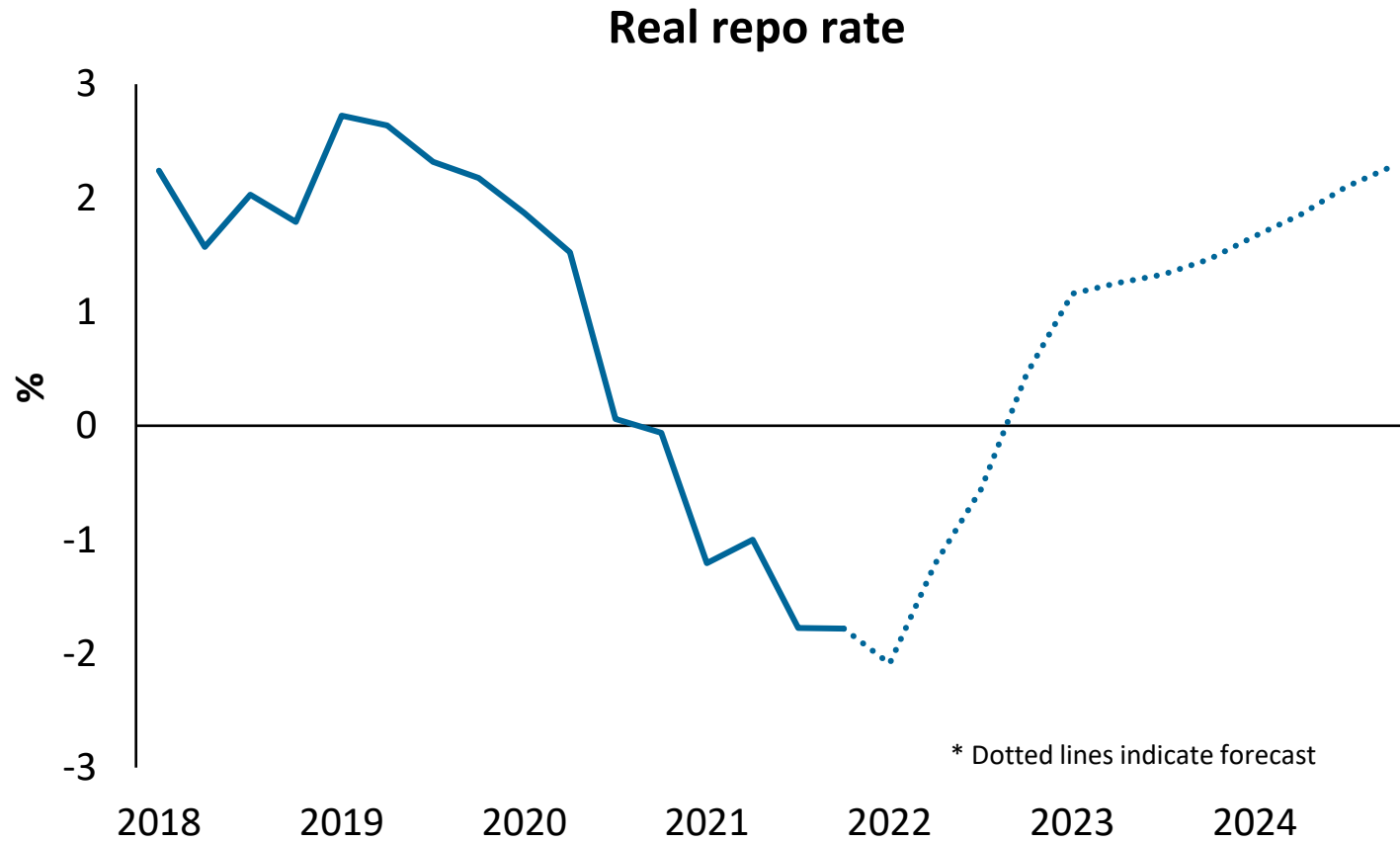
Repo rate



Source: SARB



Real repo looks through temporary supply shocks, increasing with medium-term inflation

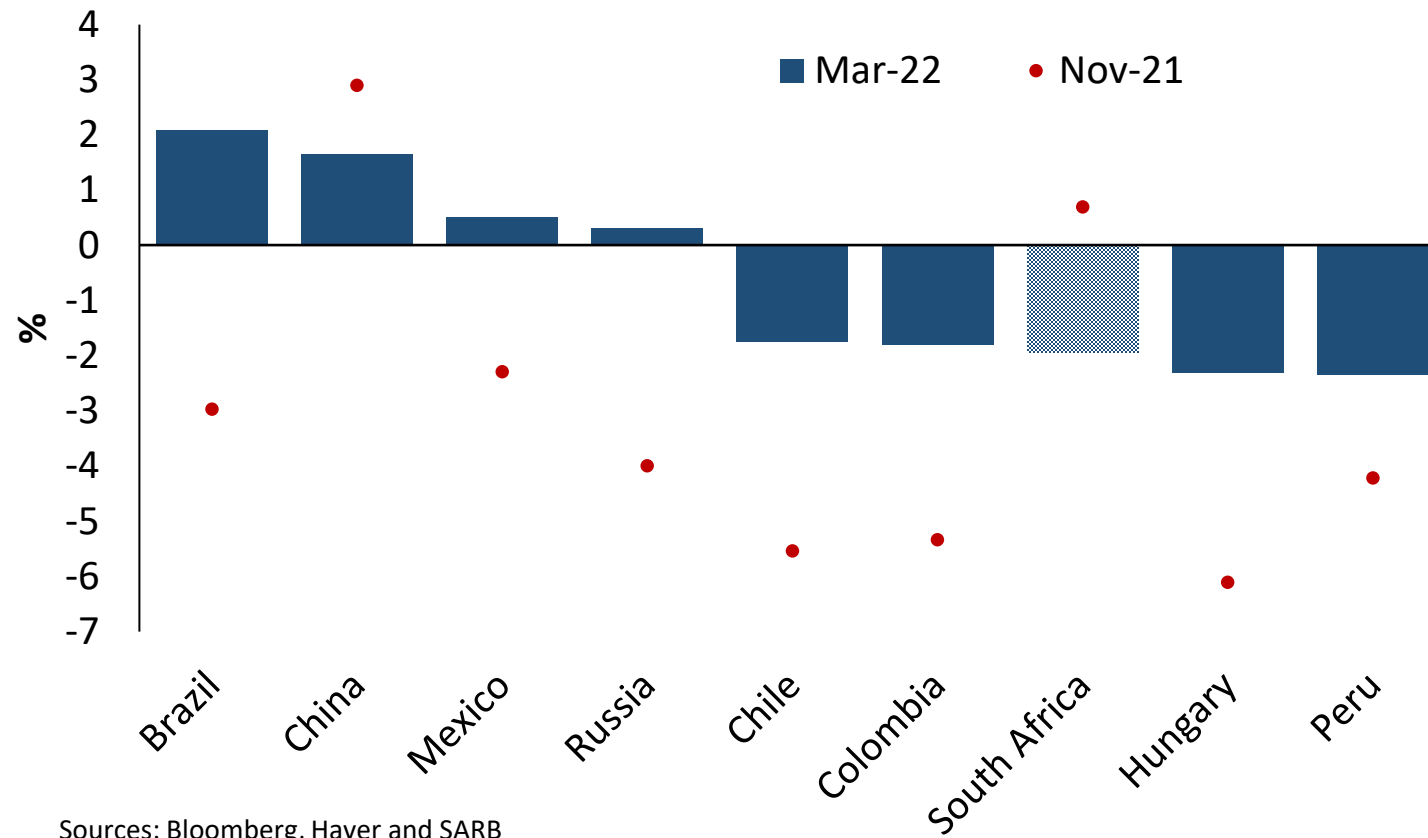


Source: SARB



Real rates comparatively low

Real policy rates: SA and EM peers



Sources: Bloomberg, Haver and SARB



Conclusion

- **Rising global inflation shifting to stagflation?**
- **Inflation risks to the upside, exacerbated by Russian invasion... food, fuel, supply.**
- **Domestic growth revised higher: commodity prices up but tenuous and conditional**
- **Scarring for some sectors, impacting job recovery overall**
- **Inflation sharply higher on exogenous shocks**
- **Output gap closing, with core expected to tick up faster than before**
- **Policy trajectory threading the needle between support and inflation risk**





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