

The potential impact on the BER's inflation forecast following the tariff decision by NERSA & the results of the IES

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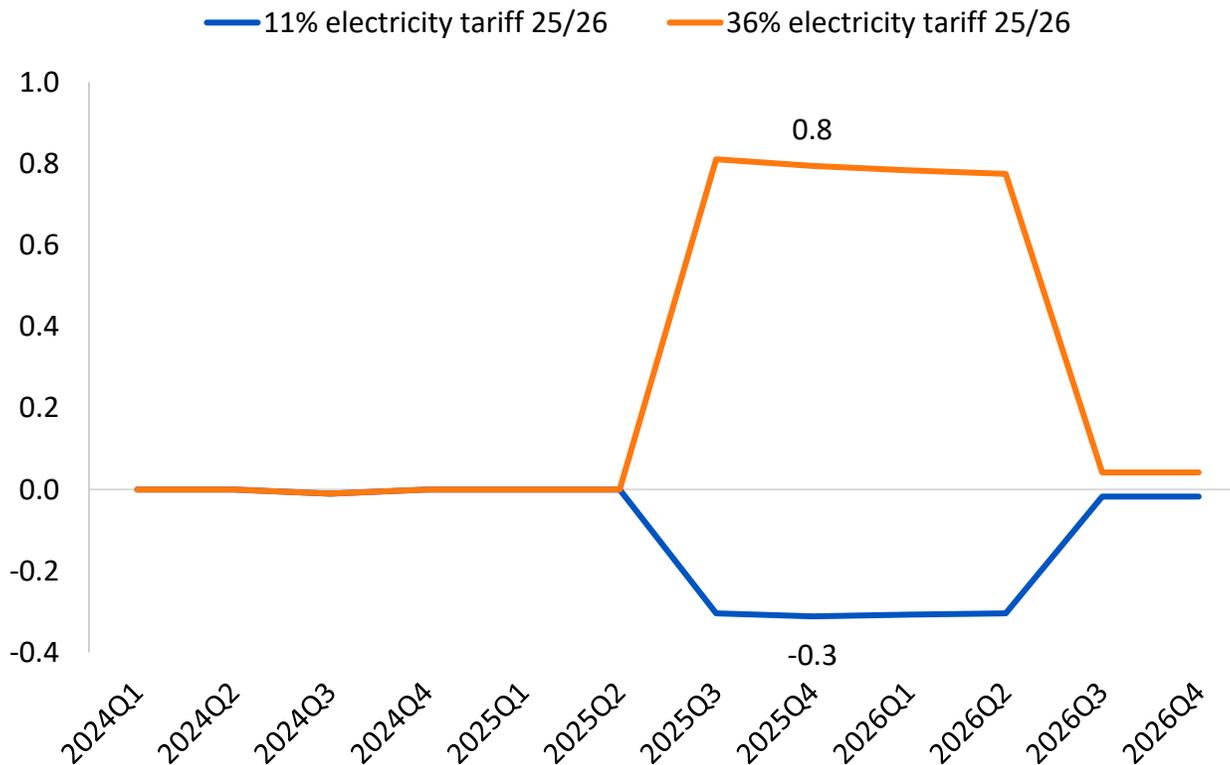
This brief presentation-style overview provides an update on the **electricity tariff increases** granted by NERSA on 30 January and the **Income & Expenditure Survey 2022/23** published by Stats SA on 28 January, as well as the expected implications for the BER's **consumer inflation forecast** and **monetary policy outlook**.

OCTOBER 2024 FORECAST

Given the uncertainty about the electricity tariff that would be allowed for by NERSA during the time of our October forecast update, we ran two alternative scenarios relative to our baseline

BER's electricity price tariff scenarios against October baseline

%pts deviation from baseline



Source: BER

- We expected that NERSA would grant Eskom less than it applied for, but in our **baseline forecast**, we prudently worked with an 18% increase for 2025/26 and increases closer to what was asked for in subsequent financial years.
- We ran two **alternative tariff outcome scenarios** relative to our baseline forecast to test the potential impact on CPI:
 - The first was if Eskom would be granted their full 36.2% application
→ Headline inflation could have been 0.8%pts higher from 2025Q3-2026Q2
 - The second was if 11% was granted (closer to the SARB's assumption at the time),
→ Inflation could be 0.3% lower during the same period

NERSA DECISION (30 January 2025)

The lower-than-applied for tariff increase will be positive for inflation and consumers, but it will be negative for Eskom. It leaves a gap of R246.6bn in income between what Eskom says it needs and what the regulator says it needs. This does not necessarily translate into a shortfall, as Eskom usually applies for more than it actually needs. We need a new tariff methodology that better balances the need for affordability with the need to protect Eskom's bottom line.

	Eskom application	Nersa adjustment	Nersa decision
2025/26			
Allowable revenue	R445.6 bn	(R61.0bn)	R364.6bn
Tariff	36.1%	(23.4%pts)	12.7%
2026/27			
Allowable revenue	R481.4 bn	(R85.8 bn)	R395.5 bn
Tariff	11.8%	(6.4%pts)	5.4%
2027/28			
Allowable revenue	R536.8 bn	(R99.9 bn)	R436.9 bn
Tariff	9.1%	2.9%	6.2%

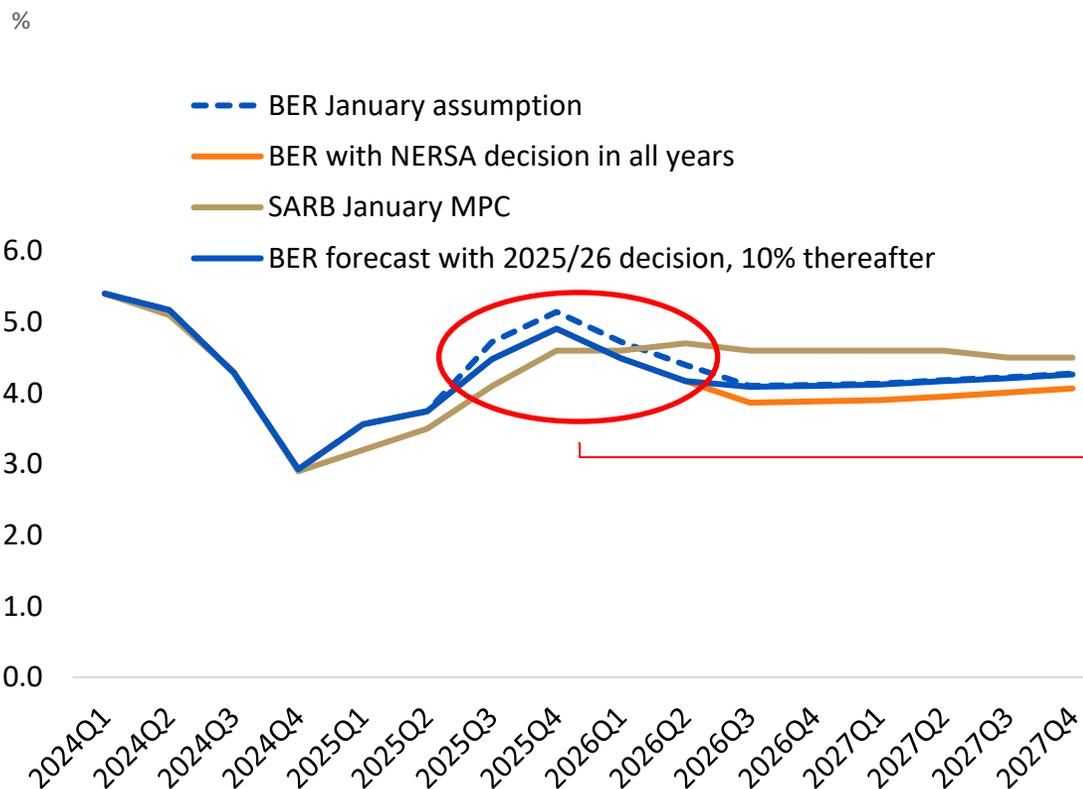
It is likely that Eskom will take this decision on review, while outstanding regulatory clearing account adjustments mean that the 2026/27 and 2027/28 changes may turn out differently than decided now.

Source: NERSA

IMPACT OF THE NERSA DECISION ON THE BER CPI FORECAST

We have inputted the 2025/26 tariff decision into our CPI model and left the assumption unchanged thereafter.

Tariff decision's implication on headline inflation



Source: Eskom, NERSA, SARB, BER

Different electricity price assumptions

	Eskom application	BER January assumption	SARB January MPC	NERSA decision
2025/26	36.15	18.08	15	12.7
2026/27	11.81	10	10	5.35
2027/28	9.10	10	8	6.17

Results in minor adjustment on BER's annual headline inflation forecast

		2024	2025	2026
Headline inflation	BER January forecast	4.4	4.24	4.33
	BER January forecast with 25/26 NERSA tariff	4.4	4.16	4.25
	SARB January MPC	4.4	3.9	4.6
Electricity infation	BER January forecast	13.3	14.9	13.7
	BER January forecast with 25/26 NERSA tariff	13.3	12.1	11.3
	SARB January MPC	13.3	13.3	12.3

INCOME & EXPENDITURE SURVEY 2022/23 (JANUARY 2025)

- **Income & Expenditure Survey (IES) 2022/23** published by Stats SA provides insights into household spending and income spending patterns
- Average annual **household income** was R204 359. Median annual household income R95 770
- Nationally, almost 70% of income is sourced from work. Lower-income households rely mostly on pensions and social insurance
- Average annual **household consumption expenditure** was R143 691. Median expenditure at R82 861

Percentage distribution of annual household consumption expenditure by division expenditure, 2023

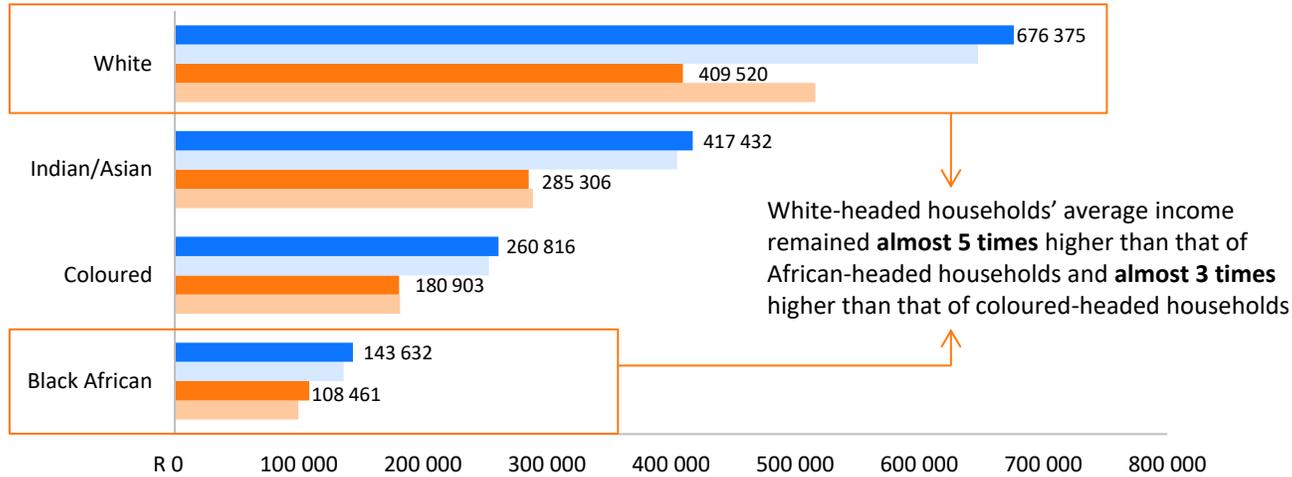


There are differences in spending patterns among the wealthiest (who spend relatively more on insurance and transport) and the poorest (who spend a larger proportion on food – almost 1/3 of expenditure of the lowest income decile is on food)

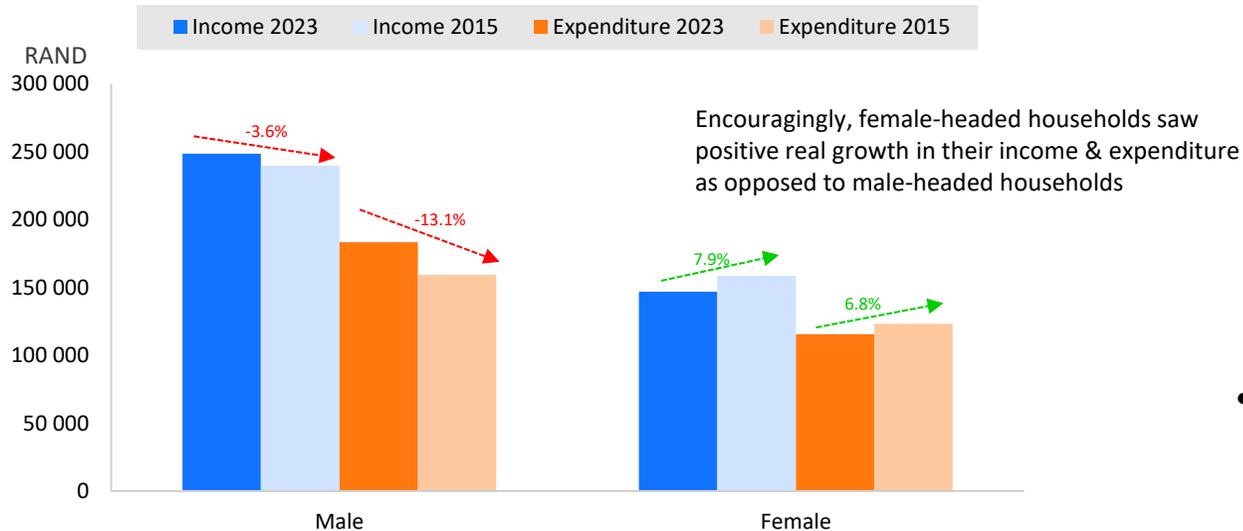
Why the difference between the mean and median earnings/spendings? Income inequality. A large portion spends/earns well below the average, but a small (wealthy) portion spends/earn a lot more

Source: Stats SA Income & Expenditure Survey 2022/2023

IES – CHANGES IN INCOME AND EXPENDITURE FROM 2015 TO 2023



- Average household **income** declined by 0.7% (in real terms)
 - African-headed households experienced the largest real income growth (5.6%) followed by white-headed households (4.4%), other population groups saw about 3% real income growth.
- Average household **consumption** declined by 7.2% (in real terms)
 - African-headed households saw a 8.8% increase in real expenditure
 - Other population groups – coloured (-0,4%), Indian/Asian (-1,2%), and white-headed households (-20,7%) – saw declines.
 - Note: **Stats SA warns** that the decline in household consumption expenditure of white-headed households may be due to under-reporting by sampled households instead of actual changes to household spending patterns.
- Male-headed households have continued to significantly out-earn than their female counterparts (also consuming more).



Source: Stats SA Income & Expenditure Survey 2022/2023

CPI UPDATE FOLLOWING THE IES - WHAT HAS CHANGED?

Update of the **basket**
(consumer preference
and technology changes)

- Some products leave the basket, while some products enter the basket (see the next slide for the list as provided by Stats SA)

Update the **weights**
(changes in consumer
expenditure patterns)

- Some categories now have higher weights (e.g., rentals and food), some have lower weights (e.g., housing & utilities, transport)

Implement the new **COICOP classification** (be in line with international standards)

- Creates a new division (insurance and financial services)
- Expenditure data collected for the first time for certain groups
- No revision, but provide indicative re-classified series
- Changes of names

Re-reference index to December 2024

- Index period is where all indices equal 100
- Previous reference period was December 2021 = 100
- This affects only the level of the index, the rate of change is unchanged/as published

CHANGES IN THE CPI BASKET

71 items **enter** the basket

Food & beverages

Basmati rice
Boerewors
Butter
Chicken nuggets, strips & fingers
Fish (batter or crumbed)
Frozen shrimps & prawns
Garlic
Honey
Meat bones
Meat patties
Natural spices/herbs
Olive oil
Parmesan cheese
Ready-made meals
Russians
Sorghum meal
Viennas

Alcoholic beverages & tobacco

Refills for e-cigarettes
Rosé wine
Snuff

Clothing & footwear

School jerseys
School shirts
School shoes
School skirts/dresses
School socks
School trousers/shorts
Sets for girls
Women's skirts
Women's sleepwear

Housing & utilities

Gas in cylinders
Paint brushes
Refuse collection
Sewage removal
Varnish

Furniture & furnishings

Air fryers
Candles
Cooler boxes
Face cloths
Loose carpets & rugs
Pillows
Refuse bags
Table cloths
Towels

Health

Clinic services
Condoms
Inpatient care centre
Mood enhancing treatment
Optometrists
Orthopaedic surgeons
Pathology services
Physiotherapists
Skin treatment
Spectacles & contact lenses

Transport

Air filters
e-hailing services
Lubricants
Oil filters
School transport

Information & communication

Calculators
Modems and routers
Power banks
Subscription to streaming services
USB & external hard drives
USB cable chargers

Recreation, sport & culture

Toy building bricks

Restaurants & accommodation

Self-catering accommodation

Personal care & miscellaneous

After school centres
Body wash
Earrings
Hiring of equipment for events
Membership fees for associations

53 items **exit** the basket

Food & beverages

Condensed milk
Cream
Drinking chocolate
Flavoured milk
Frozen potato chips
Ground coffee/coffee beans
Pasta (excl. spaghetti & macaroni)
Ready-mix flour
Tinned mixed vegetables

Clothing & footwear

Boys jackets
Girls skirts
Infants jackets
Infants shoes

Housing & utilities

Branding/chip board
Plaster

Furniture & furnishings

Garden water sprinklers
Graters
Household batteries
Insecticide
Teaspoons
Toaster/sandwich maker
Wax shoe polish

Health

Eye drops
General practitioner – public sector
Specialist – public sector

Transport

Driving licences
Rental of postbox
Shock absorbers

Information & communication

Soundbar/speakers
Telephone fees (landline)
TV decoders

Recreation, sport & culture

Crayons
Digital cameras
Files
Magazines
Music CDs
Musical instruments
Plant pots
Pool cleaning equipment
Sleeping bags
Teddy bears :(
Television licences

Personal care & miscellaneous

Bubble bath
Conditioner
Hair colour
Hair relaxer
Make up (foundation)
Non-electrical shavers
Powder
Tampons
Tissues
Toothbrushes
Wipes

Source: *Update of the Consumer Price Index (CPI) weights and basket, 28 January 2025*



CHANGES IN THE CPI WEIGHTS

- Core CPI (i.e. excluding energy, food) is unchanged at about 74% of total CPI, but the weighting of some key components within core has seen some of the larger relative changes – this has implications for the forecast
- There have also been some classification changes leading to relatively larger weight changes in some categories compared to others
 - For example, TVs and IT equipment have moved from “Recreation, sport and culture”, to “Information and communication”, while couriers have moved from “Information and communication” to “Transport”

	2019	2023	Change
Housing & utilities	24.5	24.1	-0.4
Food & non-alcoholic beverages	17.1	18.2	1.1
Transport	14.4	13.9	-0.5
Insurance & financial services	11.4	10.4	-1.0
Restaurants & accommodation	3.2	6.1	2.9
Information & communication	3.9	5.5	1.6
Alcoholic beverages & tobacco	6.3	4.6	-1.7
Clothing & footwear	3.7	3.9	0.2
Furnishings, household equip. & maintenance	4.5	3.3	-1.2
Recreation, sports & culture	3.6	2.9	-0.7
Personal care & misc. services	3.4	2.8	-0.6
Education services	2.6	2.4	-0.2
Health services	1.4	1.8	0.4

Source: Stats SA, BER

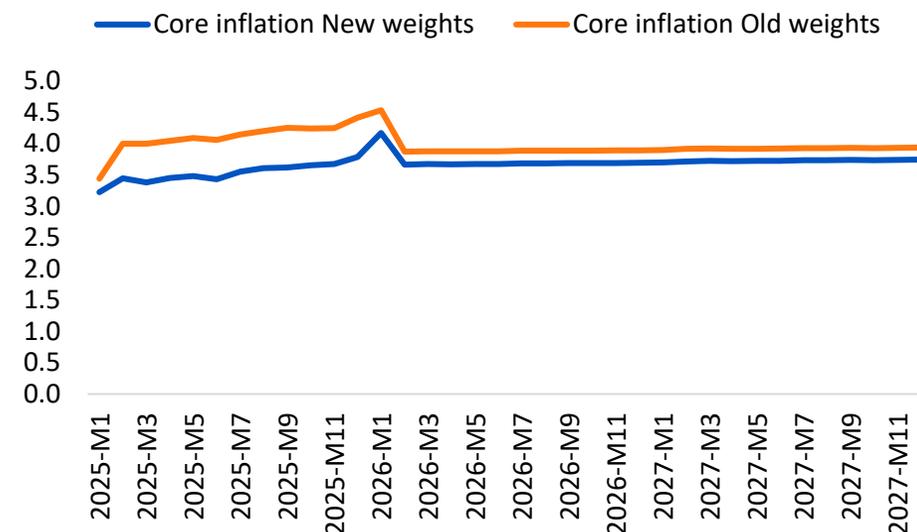
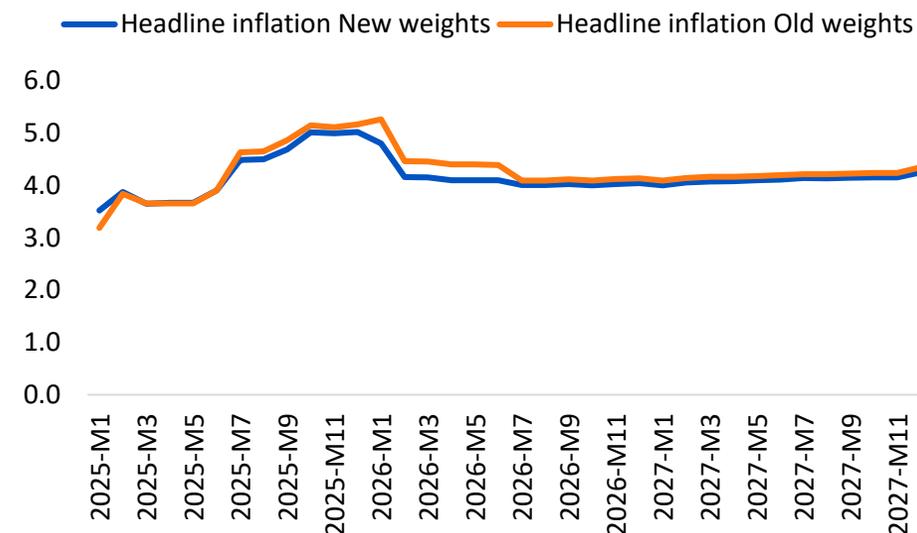
WHAT DOES THIS MEAN FOR OUR FORECAST?

- In all, the NERSA decision and changes to CPI are likely to result in a marginally lower **headline consumer inflation profile** than we expected before
 - The SARB estimates that the NERSA decision will shave off about 0.1%pt from the 3.9% headline CPI inflation forecast for 2025, with the new weights having little impact on the aggregate forecast (although they are still doing research).
- The potential difference in our **core inflation** profile is starker, especially in the near term
 - One of the main drivers stems from the changing the communication component to information and communication
 - This component's weight increased by 1.6%pt. As a share of the core inflation basket, it now makes up 7.41% (from 3.25% before)
 - We forecast that this component will move deeper into deflationary territory on declining prices of communication equipment and base effects
 - Another standout is restaurants and hotels
 - Similar to communication, its relative weight in the core basket has almost doubled from 4.4% to 8.3%
 - Inflation is cooling in this component through 2025, due to high base effects in the hotel sub-component

This provides an initial estimate of how the CPI changes are likely to impact our forecast. We will finalise any changes to our forecast following the January 2025 CPI release by Stats SA on 19 February.

	Headline inflation		Core inflation	
	<i>New weights + NERSA decision</i>	<i>Old weights + old tariff assumption</i>	<i>New weights + NERSA decision</i>	<i>Old weights + old tariff assumption</i>
2025	4.2	4.2	3.5	4.1
2026	4.1	4.3	3.7	3.9
2027	4.2	4.2	3.7	3.9

Source: Stats SA, BER



WHAT DOES THIS MEAN FOR OUR FORECAST?

- The potential marginal change to our inflation forecast does not change our **monetary policy outlook** (see the [January MPC comment](#) for the details)
 - The electricity tariff increase granted was also lower than expected by the SARB, while the certainty now that the announcement has been made removes a near-term upside risk to the SARB's inflation outlook (although uncertainty remains from 2026/27 onwards, for the SARB and for us)
 - The likely lower core inflation profile is in line with the narrative that we have been telling for some time – that inflation is not being driven by demand but rather supply-side factors (for example the rand, oil price and food prices). In fact, subdued core inflation is indicative of weak demand.
 - This is unlikely to change the SARB's policy response for two reasons:
 - First, upside risks from global uncertainty outweigh the pressures on consumers, whose conditions are expected to improve in 2025.
 - The SARB is forward-looking in their response and reacts to second-round effects, which means changes to the near-term inflation outlook are not what they will focus on, but rather the 12-18 month inflation outlook, which sees inflation (and core inflation) picking up.
 - We think there is room for another 25bps rate cut in March, but we're not sure if the SARB sees the space.
 - The MPC seems particularly concerned about the uncertainties over the medium term, and we are unlikely to have much more certainty on that front soon.
 - But, if inflation expectations remain anchored at the target (the next BER Inflation Expectation Survey is due on 17 March – i.e. before the MPC decision), and we see some global windfalls (for example, a steady exchange rate or lower oil prices), a cut should be possible.

THANK YOU.

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