

The macro signal

South African inflation monitor

July 2026



Sanisha Packirisamy
Group Economist



Tshiamo Masike
Economist



Fuel shock lifts June inflation higher

Statistics South Africa (Stats SA) reported a surge in headline inflation to 5% y/y in June from 4.5% y/y in May.

This was driven primarily by higher private and public transportation costs following the war-inflicted increase in fuel prices.

Core and services inflation also accelerated in June, reflecting higher transport services costs.

The impact so far has been concentrated in transport-related categories. Further monitoring is needed to assess broader pass-through effects.

The collapse of the United States (US)-Iran ceasefire reignited oil market uncertainty.

Brent crude oil prices have risen close to US\$95/bbl on a reignition of the war. Russia's diesel export ban has tightened global diesel supply and increased the upside risks to local fuel prices.

Inflation expectations for 2026 jumped from 3.6% in the first quarter survey to 4.4% in Q2.

However, medium-term expectations and wage growth expectations remained relatively well anchored. Persistent price pressures risk a further increase in longer-dated inflation expectations.



So What?

- 1 The magnitude in the acceleration in inflation in June was unexpected. The balance of risks has shifted to the upside following renewed US-Iran tensions and rising inflation expectations.
- 2 The likelihood of a 25-basis point interest rate hike at the July meeting has increased, although the Monetary Policy Committee (MPC) views could remain divided.
- 3 We expect inflation to average 4.2% in 2026 before moderating to 3.5% in 2027, although the outlook remains sensitive to geopolitical developments, the exchange rate and weather conditions.



CONSUMER LENS



Food inflation moderated to 1.4% y/y in June from 1.6% y/y in May.

The average household food basket* cost R5 502.42 in June, up by 1.1% y/y, or R59.29 more relative to a year ago.



Transport inflation spiked to 12.7% y/y in June from 9.4% y/y in May.

Estimates** point to a 79c/l decrease in petrol prices (ULP 95) and a 45c/l increase in diesel prices (0.05%) in August. However, these may change as the Middle Eastern conflict evolves.

* According to the Pietermaritzburg Household Affordability Index. The average food basket includes bread, frozen chicken portions, maize meal, sugar, beef, rice, cooking oil, potatoes, tinned pilchards, wors and other items.

** According to the Central Energy Fund (CEF) on 20 July 2026. The petrol cost of an average car full tank (45 litres) is R1 174.50 in July 2026, R88.20 lower than in June 2026.

Spike in services inflation presents a risk to more entrenched inflation pressures

Headline inflation accelerated to 5% y/y in June from 4.5% y/y in May, exceeding market expectations. Despite this, average inflation for the second quarter was 4.5%, marginally below the SARB's forecast of 4.6%.

The increase in June was largely driven by transport inflation, while food and non-alcoholic beverages (NAB) continued to provide some offset, easing from 1.9% y/y in May to 1.6% y/y in June.

Housing inflation edged up slightly with actual rentals inflation rising to 4.1% y/y in June from 4% y/y in May and owners' equivalent rent to 4% y/y from 3.9% y/y over the same period. Although both measures are now at or just above the upper end of the SARB's 2% to 4% inflation target range, the pace of acceleration has moderated compared with the previous survey.

Core inflation rose to 4.1% y/y in June from 3.8% y/y in May, while services inflation accelerated to 5.2% y/y from 4.7% y/y. This is the highest services inflation rate recorded since the pandemic (see chart 1).

The increase in services inflation was mainly driven by passenger transport services. However, there has been a gradual inflation increase in other services components over the past four months from 3.8% in February, indicating broader price pressure across services.

Chart 1: June services inflation reaches highest level since February 2019



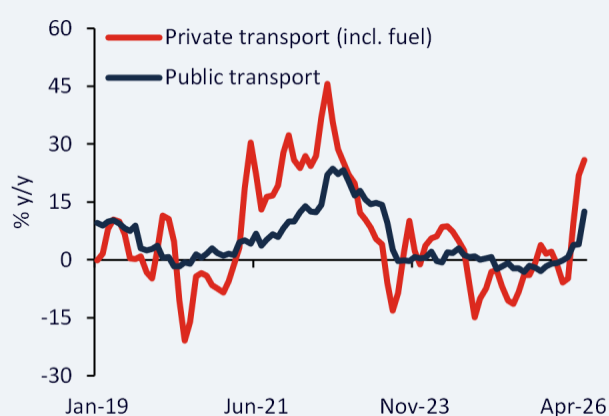
Source: Global Insight, Stats SA, Momentum Group
Data until June 2026

Fuel relief at risk

Transport inflation accelerated further to 12.7% y/y in June, from 9.4% y/y in May, largely reflecting the R1.43/l increase in petrol prices implemented in June and increase in public transport costs. The South African National Taxi Council (SANTACO) announced that local taxi fares would rise by between R2 and R6, while long-distance fares would increase by between R10 and R30. Consequently, public transport inflation accelerated to 12.5% y/y in June from 4% y/y in May (see chart 2). However, taxi, bus and train fares are surveyed only once a quarter, which may have amplified the increase recorded in June.

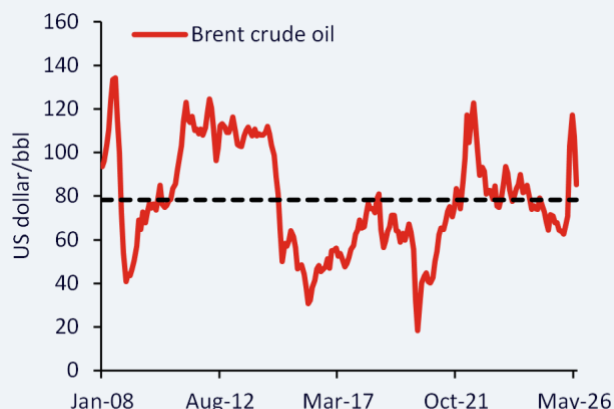
Private motorists received some relief in July, with petrol (ULP 95) prices declining by R1.96/l and diesel (0.05%) by R3.14/l, even with a full reversal of the general fuel levy relief. The decline was largely due to lower international oil prices during the pricing period (chart 3).

Chart 2: Transport inflation spiked in June



Source: Global Insight, Stats SA, Momentum Group
Data until June 2026

Chart 3: Average global oil prices dropped to US\$85/bbl in June



Source: Iress, Energy Information Administration, Momentum Group
Data until June 2026



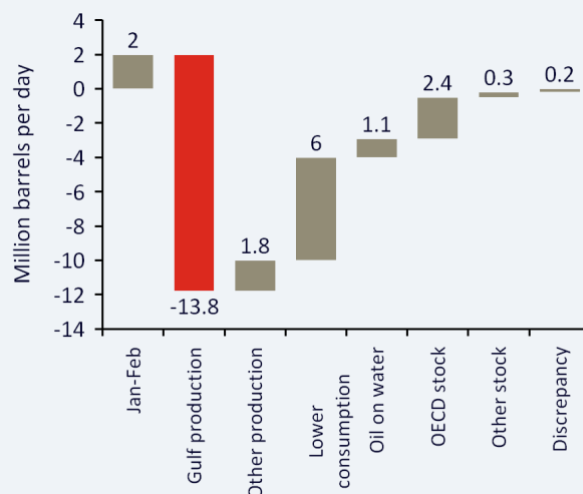
Conflict in the Strait of Hormuz continues to present the most significant near-term upside risk to inflation.

The Memorandum of Understanding (MoU), signed on 17 June 2026, temporarily eased geopolitical tensions and contributed to Brent crude prices falling below US\$75/bbl. However, the agreement collapsed shortly thereafter following a dispute over tolling ships transiting the Strait of Hormuz. This resulted in shipping traffic declining sharply after a brief recovery.

Even so, international oil prices have remained below their April peaks at the time of writing. According to the International Monetary Fund (IMF), the global oil market has adjusted relatively well to the disruption, with roughly two-thirds of the 13.8 million barrels per day shortfall coming through lower demand and increased production elsewhere, while the remainder has been absorbed through inventory drawdowns (see chart 4). These adjustments have helped contain the increase in global oil prices despite elevated geopolitical tensions.

Nevertheless, the renewed exchange of strikes between the US and Iran, together with recent threats by the US president to escalate the conflict, highlight the fragility of the current environment and the risk of further oil supply disruptions, particularly given declining global oil inventories.

Chart 4: Global oil market has adjusted to supply disruptions



Source: IMF, Momentum Group
Jan.-Feb bar indicates that production was on average two million barrels per day above consumption in those months
Discrepancy captures measurement and estimation errors

For SA, higher oil prices are transmitted to the economy primarily through fuel prices. Rising petrol and diesel costs increase transport costs, raise business operating expenses and place upward pressure on headline inflation.

A mitigating factor has been the resilience of the rand, which has helped limit the pass-through of higher global oil prices to domestic fuel prices.



Beyond the Middle East, diesel markets face additional supply risks from Russia, which on 9 July, suspended diesel exports until 31 July.

This was due to severe damage to its refining infrastructure from Ukrainian drone attacks and domestic fuel shortages. Since late April, Ukraine has reportedly targeted each of Russia's ten largest refineries, temporarily knocking out an estimated 45% of the country's refining capacity, with repairs expected to take months in some cases. Given Russia's importance in global diesel markets, the export ban has tightened global diesel supply and placed upward pressure on diesel prices.

Mid-month data from the CEF currently point to a 79c/l decrease in petrol prices (ULP 95) in August, while diesel prices are expected to increase marginally by around 45c/l. However, with two thirds of the pricing period still outstanding and geopolitical tensions escalating, these estimates remain highly uncertain.

Estimates at the end of the first week of July pointed to potential price decreases of around R2.23/l for petrol (ULP 95) and R2.60/l for diesel, illustrating how quickly

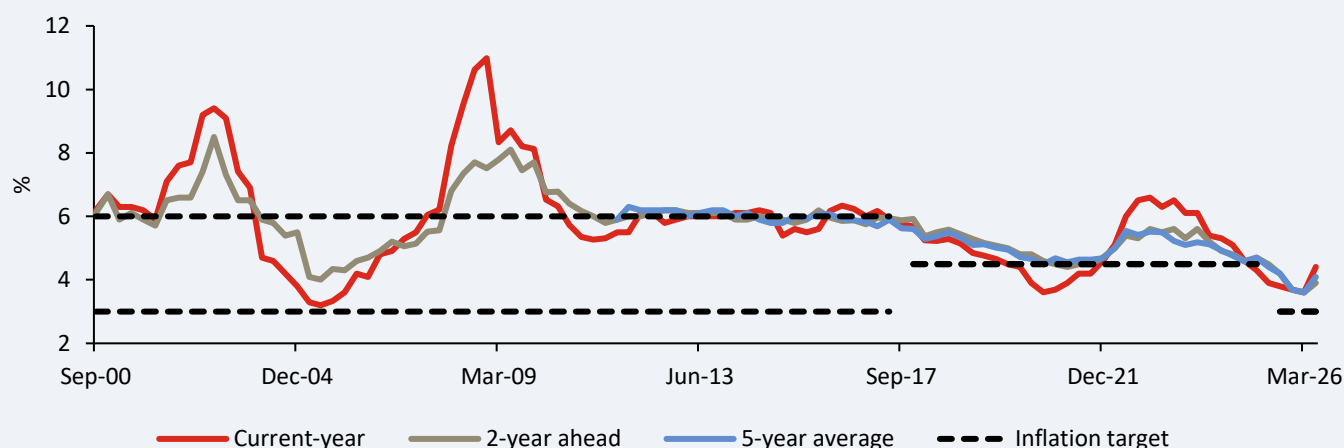
fuel price expectations can change as global energy prices and the exchange rate fluctuate.

Inflation expectations reverse their decline as fuel prices remain concerning

Inflation expectations for 2026 rose notably from 3.6% in the first quarter of 2026 to 4.4% in the second quarter (see chart 5) following the sharp increase in fuel prices associated with the Middle East conflict. By contrast, medium-term expectations remained relatively

well-anchored, with two-year ahead inflation expectations edging up to 3.9% from 3.6%. Across respondent groups, trade unions recorded the largest increase in two-year-ahead inflation expectations, revising their forecast to 4.4% from 3.7% previously.

Chart 5: Inflation expectations lift further from target



Source: Global Insight, Bureau for Economic Research (BER), Momentum Group
5-year average = 5-year average in 5 years' time

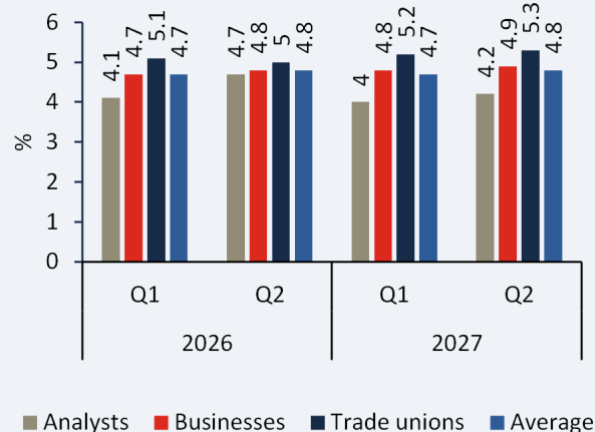
Despite the rise in inflation expectations, expected salary and wage increases remained broadly contained. Average wage growth expectations for both 2026 and 2027 increased only marginally from 4.7% to 4.8% between the first and second quarter surveys (see chart 6).

The increase for 2026 was driven primarily by analysts, who revised their expectation up to 4.7% from 4.1% in the previous survey. Businesses also increased their expectations slightly by one percentage point to 4.8%, while trade unions lowered theirs by one percentage point but continued to expect the strongest wage growth from all respondents surveyed of 5%.

Households remained the most pessimistic respondent group. Having experienced the impact of higher fuel prices following the Middle East conflict, they raised their 12-month inflation expectation to 6% in the second quarter from 5.4% in the first quarter. Looking further ahead, households expect inflation to average 9.1% over the next

five years, well above the expectations of analysts (3.5%), businesses (4.2%) and trade unions (4.7%), all of whom anticipate inflation will moderate over the medium term, and significantly higher than the SARB's inflation target of 3%.

Chart 6: Average global oil prices dropped to US\$85/bbl in June



Source: BER, Momentum Group



The survey suggests that respondents continue to place greater weight on recent inflation outcomes than on the expected future path of inflation, indicating that inflation expectations remain more backward-looking than forward-looking.

The SARB has also noted that inflation expectations are influenced by prominent news events, making them reactive to highly visible economic developments, such as the Middle Eastern conflict.

The odds of an interest rate hike have increased

Headline inflation accelerated further in June, reflecting the increase in fuel prices and transport costs. Following Stats SA's release of the May CPI data, our view was that inflation would rise in June before moderating over the remainder of the year. Consequently, another hike was not widely expected at the July MPC meeting, although the possibility was not ruled out given the upside risks to the inflation outlook.

Since then, the balance of risks has become less favourable. The ceasefire between the US and Iran has collapsed, geopolitical tensions have intensified and inflation expectations have lifted. Furthermore, services inflation has accelerated, which is likely to attract the SARB's attention given its tendency to be more persistent than goods

inflation. While international oil prices are currently below the levels recorded at the May MPC meeting (averaging US\$80/bbl month to date compared with US\$107/bbl in May), renewed uncertainty surrounding the Strait of Hormuz and tighter global diesel supplies have increased the risk of a rise in energy prices.

Should shipping through the Strait of Hormuz remain materially disrupted, keeping international oil prices elevated, local fuel prices could increase further. This would delay the expected moderation in inflation and place additional upward pressure on domestic inflation expectations. Given the SARB's goal of anchoring inflation expectations around its 3% inflation target, the probability of a 25-basis point interest rate increase at the July MPC meeting has risen, although it is likely that the committee's views will be split.



We expect inflation to average 4.2% in 2026 before moderating to 3.5% in 2027. The trajectory of oil prices, geopolitical developments, the exchange rate and weather conditions will be key determinants of whether inflation evolves in line with this outlook and if a more restrictive monetary policy response is required.