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PBC

South Africa's Middle-Income Inflation Monitor

May 2026

HEADLINE SNAPSHOT	May 2026	Apr 2026	Δ MoM
Middle-Income Inflation Index (Deciles 4-7) (% y/y)	3.9%	3.7%	▲ +0.2ppt
National Headline CPI (% y/y)	4.5%	4.0%	▲ +0.5ppt
Middle Income Premium (Ppt)	**-0.6ppt**	**-0.3ppt**	

Core Necessities Index CNI	**Non-Essentials Index NEI**	**Semi-Essentials Index SEI**
4.2% ▲	2.6% ▲	5.3% ■
+0.1ppt	+0.2ppt	~0.0ppt
Weight: 66%	Weight: 27%	Weight: 7%

SQUEEZE INDICATOR
CNI – NEI = 1.6ppt (▼ -0.1ppt from Apr)

Executive Summary

- South Africa's **Middle-Income Inflation Index** (Deciles 4-7) accelerated further in May 2026, rising by 0.2 percentage point (ppt) to 3.9% y/y. **National Headline CPI** rose even more sharply, up by 0.5ppt to 4.5%, and now sits 1.5ppt above the SARB's 3%-point target.

- **Monetary policy implications** have sharpened, as the SARB faces a harder balancing act heading into its next MPC meeting, with headline CPI now materially above target and early signs of emerging second-round effects.

- The **Middle-Income Premium** (Middle-Income CPI vs National Headline CPI) deepened further into negative territory, with the inversion versus upper-income households (Deciles 8-10) widening even more sharply, as fuel-intensive upper-income baskets bore the brunt of May's price surge.

- **Transport inflation** surged again in May, reflecting higher fuel prices, countered partly by ongoing **food CPI** which moderated to its lowest level in 17 months. Early signs of **second-round passthrough effects** are emerging, consistent with rising logistics and input costs feeding into goods and service inflation.

- The **Middle-Class Squeeze Indicator (CNI - NEI)** narrowed slightly, not because pressure eased, but because NEI quickened this month, on the back of services inflation.

1. The Headline Numbers

The latest inflation data from Statistics South Africa (Stats SA) showed that our ***Middle-Income Inflation Index*** (Deciles 4-7)[1] rose to 3.9% y/y in May 2026, from 3.7% in April. National Headline CPI accelerated more sharply still, up 0.5ppt to 4.5% y/y - now firmly above the SARB's 3% inflation target. Higher transport CPI and increased services inflation were key drivers of the acceleration.

The ***Middle-Income Premium*** (Middle-income minus National headline CPI) deepened further into negative territory to -0.6ppt from -0.3ppt in April. Underlying this, was the ***continued inversion in inflation inequality*** which reflected the sharper increase in upper-income inflation which carries a heavier weight in private vehicle ownership and fuel consumption, meaning they are absorbing a disproportionate share of the current fuel shock[2]. Once fuel CPI begins to decelerate on a y/y basis, we expect the structural middle-income premium to reassert itself.

Inflation for lower-income households (Deciles 1-3) eased slightly to 3.6% y/y (from 3.7% in April). This means that middle-income households face more pressure, with an ***affordability gap*** of +0.3 ppt. South Africa's middle class is more exposed to the fuel shock than the lowest-income cohort, but without the financial buffers of the wealthy.

2. Fuel prices dominate the story

Petrol and diesel prices were, for the second consecutive month, the single largest driver of South African inflation, with ***pump prices rising sharply***, despite government[3] relief measures remaining in place, and becoming even more generous for diesel users.

Pump Price (R/litre, inland)	1 Apr 2026	6 May 2026	MoM Change
Diesel (500ppm)	R25.90	R31.17	▲ +R5.27 (+20.3%)
Petrol 93 (unleaded)	R23.25	R26.52	▲ +R3.27 (+14.1%)
Petrol 95 (unleaded)	R23.36	R26.63	▲ +R3.27 (+14.0%)

Source: Automobile Association of South Africa https://aa.co.za/fuel-pricing/

The scale of these fuel price increases continued to outpace the ***fuel levy relief***. Diesel users received the maximum possible relief of R3.93/litre on 6 May (to 2 June), after the levy was reduced to zero, while the petrol levy relief remained unchanged at R3.00/litre. The continuing ***Middel East conflict*** has sustained ***pressure on international oil prices*** and on the Basic Fuel Price (BFP), which is the largest single component of the domestic pump price.

On a y/y basis, the price of diesel rose by nearly 64.9% (from R18.90/litre in May 2025), and petrol by about 25% y/y, leaving ***transport CPI*** to surge by 4.5 ppt to 9.4% y/y in May to contribute disproportionately to the acceleration in headline CPI.

Looking ahead, the relief itself becomes a source of risk, with the relief halved on 3 June (petrol levy rising to R2.60/litre, and diesel to R1.97/litre), and scheduled to expire entirely from 1 July (petrol returning to R4.10/litre, diesel to R3.93/litre). This is likely to add upside pressure to fuel and transport CPI prints in June and July. Should the agreement be implemented, the recent U.S.-Iran deal may ease fuel costs going forward, though the timing and durability of this remain uncertain.

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[1] Statistics South Africa reports monthly inflation on ten (10) expenditure decile groups.

[2] Upper-income households spend nearly 16% of their budgets on transport, compared to 8.3% for middle class, and 6.1% for lower-income households.

[3] National Treasury and the Department of Mineral and Petroleum Resources.

3. **Policy Implications**
   - The sharp increase in ***National Headline CPI*** to 4.5% y/y, 1.5ppt above the SARB's 3% target, results from a supply shock (primarily driven by the Middle East conflict's impact on global oil prices) and not a demand shock. The increase in services inflation (restaurants, recreation) suggests that ***second-round effects*** could be emerging and broadening, although food inflation continues to moderate.

   - Should the ***SARB*** respond to broadening second-round effects with ***rate hikes***, this would risk damaging growth and employment, given that rate adjustments cannot address the supply shock directly.

   - The ***levy phaseout schedule*** is likely to manufacture additional upside pressure in Q3 2026, and contribute to elevated headline CPI, further complicating the SARB's policy rate decision.

   - For ***Middle-Income Households***, cost-of-living pressures are compounded, as higher debt-to-income ratios make them more sensitive to any rate hike, while they also feel the pain of the fuel price shock. The R17.2 billion in foregone government fuel levy revenue, funded through underspending and windfalls rather than structural reform, leaves limited room for further fiscal relief beyond June.

4. **Essentials Inflation climbs further, and services inflation quickens**

Our ***Core Necessities Index (CNI)***, which tracks food and non-alcoholic beverages (NAB), housing and utilities, and transport[4], rose further by 0.1 ppt to 4.2% y/y in May, driven almost entirely by the transport cost shock.

Housing and utilities CPI also remained elevated at 5.3% y/y (5.2% in April), continuing to reflect higher actual rentals and municipal tariff pressures. Housing remains the single largest structural cost burden for middle-income households, even as it moves at a more measured pace (month-on-month) relative to transport.

The broad-based disinflation in food prices (grains, fruit and vegetables, and edible oils) continues to provide some relief, with *food CPI* slowing sharply to 1.9% y/y (from 2.9% in April). We expect the shock to diesel-intensive food distribution and logistics to begin filtering through to shelf prices[5]. For the remainder of 2026, however, ample domestic and global supplies should remain the dominant driver of food disinflation.

Alongside this, our ***Non-Essentials Index (NEI)***[6] rose at a faster pace, by 0.2 ppt to 2.6% y/y, driven by accelerating services inflation (possibly tentative early evidence of second-round effects), which meant the ***Middle-Class Squeeze Indicator (CNI minus NEI)*** narrowed marginally (-0.1 ppt) to 1.6 ppt - not a sign of easing pressure.

Our ***Semi-Essentials Index (SEI)***[7] was essentially unchanged at 5.3% y/y in May, as April's survey-driven spike in health-related categories partially unwound. Insurance (5.8% y/y) and education (5.4% y/y) held at structurally elevated levels. Still, the SEI remains largely insensitive to interest rate cycles, reflecting deeper pressures in insurance and public service delivery.

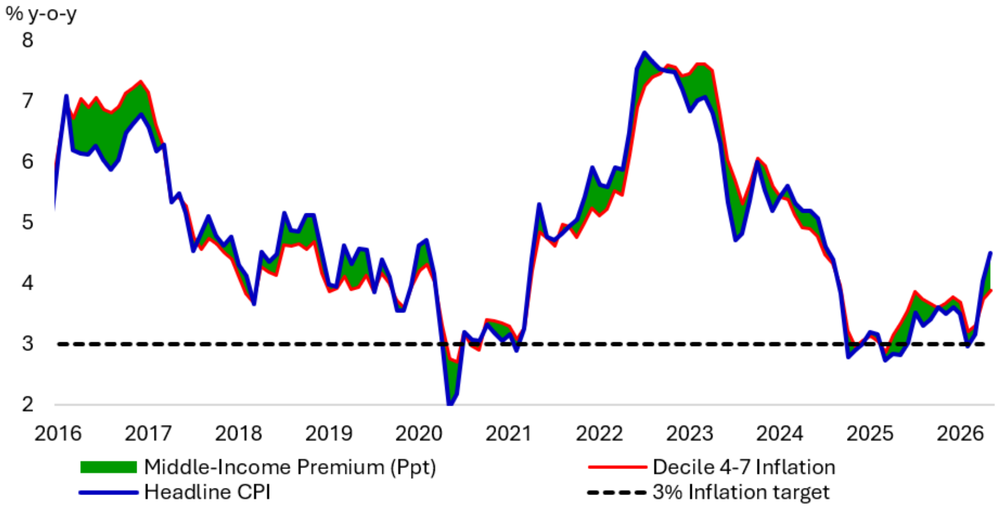
[4] These three items collectively account for about 66% of the middle-income inflation basket

[5] Fuel accounts for a significant share of food products distribution costs, with over 80% of staple food products are transported by road (Source: Afgri).

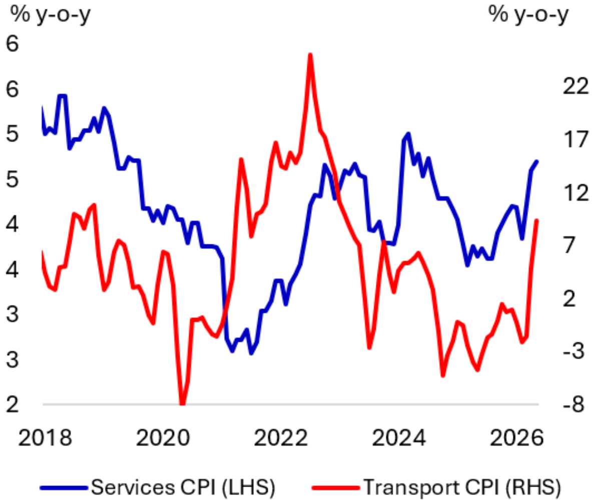
[6] Covers inflation basket items beyond food, housing, transport, education, health and insurance

[7] These items represent about 7% of the middle-income basket

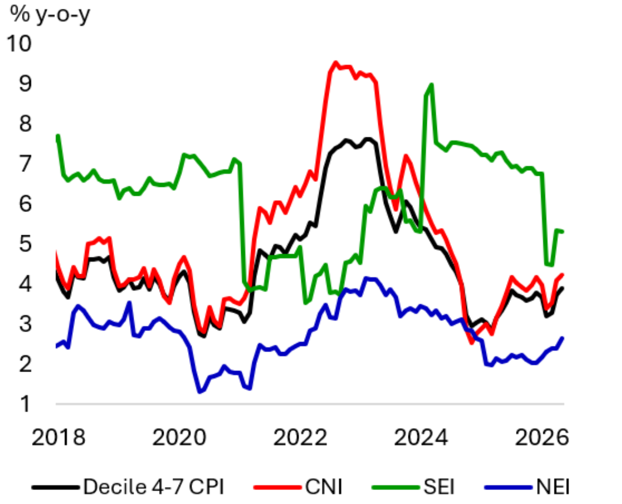
A. The Middle-Income Inflation Index quickened further in May 2026, and National Headline CPI accelerated sharply...



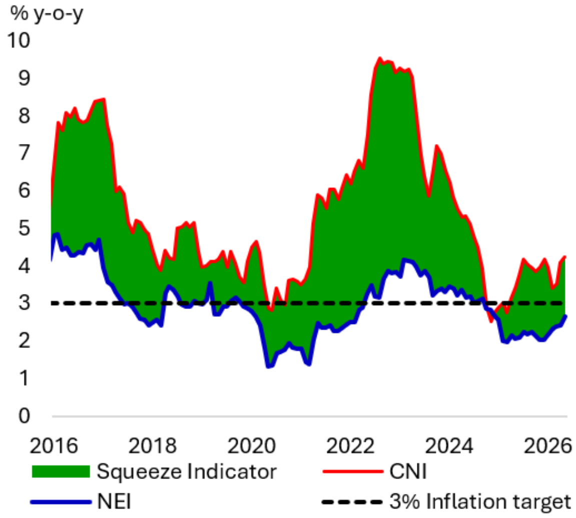
B. ... driven by higher transport CPI and services inflation



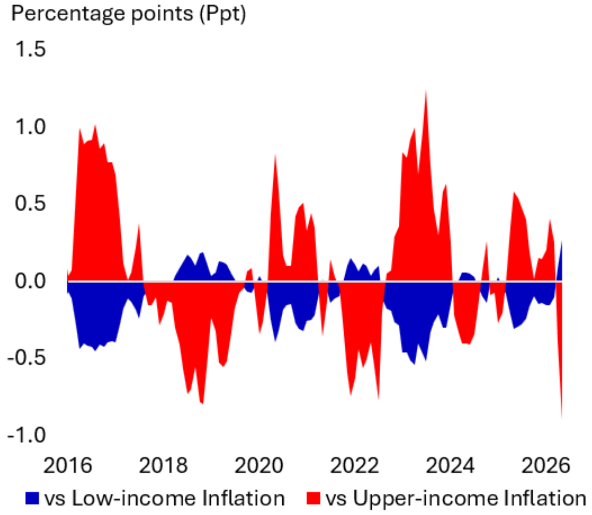
C. Services CPI pushed our NEI higher...



D. ... leading to a slight narrowing in the Middle-Class Squeeze Indicator



E. Inflation inequality remains inverted amid the ongoing fuel price shock



Sources: Statistics South Africa, PBC calculations

Methodology and Notes

1. Data Sources

- **Price Data:** All underlying price indices, including headline CPI and its components (food, transport, fuel, housing, etc.), are sourced from Statistics South Africa's monthly Consumer Price Index releases (P0141).
- **Fuel Price Data:** Pump price data (diesel 500ppm, petrol 93 and 95 unleaded) sourced from the Automobile Association's monthly fuel price tracker, alongside National Treasury communiques on fuel levy relief measures.
- **Expenditure Weights:** Weights for constructing the Deciles 4–7 index are derived from Stats SA's official "CPI per expenditure decile" data, based on the 2022/23 Income and Expenditure Survey (IES). For this analysis, weights for deciles 4, 5, 6, and 7 were aggregated to represent the middle-income group.

2. Index Construction

2.1. The middle-income (Deciles 4–7) CPI

The middle-income (Deciles 4–7) CPI is calculated by reweighting the official CPI component indices according to the expenditure patterns of the middle-income group. The year-on-year inflation rate for this group is derived as follows:

$$\pi_t^{Deciles\ 4-7} = \sum_{c=1}^{n} [w_c \text{ X} \left(\frac{CPI_{c,t}}{CPI_{c,t-12}} - 1\right) \text{ X } 100]$$

Where:

- w_c = expenditure weight of category *c* for Deciles 4–7
- $CPI_{c,t}$ = price index for category c in month t
- $CPI_{c,t-12}$ = price index for the same category 12 months earlier

These weights reflect each category's share of aggregate household expenditure for the middle-income group, ensuring the index is representative of their consumption patterns.

2.2. Sub-Indices

To analyse distributional price pressures, three subgroup indices were constructed:

a. **Core Necessities Index (CNI)**: Weighted average of Food & Non-Alcoholic Beverages, Housing & Utilities, and Transport (66.1% of the Deciles 4–7 basket).
b. **Semi-Essentials Index (SEI)**: Weighted average of Health, Education, and Insurance (7.0% of the basket).
c. **Non-Essentials Index (NEI)**: Weighted average of all remaining categories (26.9% of the basket).

Each sub-index is calculated as a weighted average of its constituent categories' inflation rates, using their within-group expenditure shares.

3. Context: Stats SA's Expenditure Deciles

Stats SA divides South Africa's urban population into 10 expenditure deciles, each representing 10% of households ranked by total monthly expenditure. The table below shows the official CPI weights (as a percentage of the national CPI basket) for each decile, based on the 2023 weight update:

CPI per expenditure decile	CPI Weights
Decile 1 – up to R35 864	0.71
Decile 2 – R35 865 up to R51 168	1.31
Decile 3 – R51 169 up to R64 855	1.85
Decile 4 – R64 856 up to R80 320	2.54
Decile 5 – R80 321 up to R97 976	3.30
Decile 6 – R97 977 up to R120 028	4.42
Decile 7 – R120 029 up to R150 774	6.23
Decile 8 – R150 775 up to R202 419	8.89
Decile 9 – R202 420 up to R307 885	15.03
Decile 10 – R307 886 and more	55.72

Source: Statistics South Africa, CPI 2023 Weights (P0141.5)

4. Decile 4-7 Weight Structure (2023 Weights)

Category	Weight
Food & NAB	30.5%
Housing & Utilities	27.3%
Transport	8.3%
Insurance	5.3%
Clothing & Footwear	5.7%
All other categories	22.9%
Total	**100%**

5. Stats SA's Survey schedule for non-monthly surveys

The table below shows the survey schedule for items that are not surveyed monthly.

Frequency	Survey Months	Items
Quarterly	January, April, July, October	• Gymnasium fees (Recreation and culture) • Funeral expenses, funeral policies, gravestone maintenance (Miscellaneous)
	February, May, August, November	• Private-sector hospitals (Health) • Rugby tickets (Recreation and culture) • Cricket tickets (Recreation and culture)
	March, June, September, December	• Actual rentals for housing, owners' equivalent rent (Housing and utilities) • Domestic workers' wages (Household contents and services) • Taxi fares, train fares (Transport) • Motor vehicle insurance (Miscellaneous)
Biannual	January, July	• Building insurance, household content insurance (Miscellaneous)
	February, April	• Medical aid (Miscellaneous)
	April, October	• Television licences (Recreation and culture)
	May, November	• Electricians, plumbers (Housing and utilities)
	July, August	• Municipal charges for water, property rates and electricity (Housing and utilities)

Annual	January	• Post box rental (Communication) Lotto tickets (Recreation and culture)
	February	• Private-sector doctors and dentists (Health)
	March	• School and university tuition fees (Education) • Toll fees (Transport) • University boarding fees (Restaurants and hotels) Crèche fees (Miscellaneous)
	April	• Public-sector hospitals and doctors (Health) • Stamps (Communication)
Other	January, March, April, June, July, September, October, December	• Local bus fares (Transport)

Source: Statistics South Africa

6. Key Assumptions and Limitations

- **Experimental Index:** This constructed index is for analytical purposes only and is not an official statistic published by Stats SA.
- **Weight Currency:** Decile expenditure weights are based on survey data (IES 2022/23). If the survey is not the most recent, weights may not fully reflect current spending patterns.
- **Within-Group Homogeneity:** The index assumes uniform spending patterns within each decile and across the combined middle-income group, which may not capture the full diversity of individual households.
- **Price Coverage:** The index relies on the same price collection and item coverage as the official CPI, which may not perfectly match the consumption basket of every middle-income household.
- **Driver Analysis:** Observations about inflation drivers (e.g., housing, food, transport) are based on the relatively higher expenditure weights these categories hold in the decile data.
- **Second-Round Effects:** References to second-round pass-through in Section 4 are based on observed correlations between transport-exposed categories and the timing of the fuel shock. These are analytical observations, not formal econometric pass-through estimates.
- **Headline CPI Dominance:** National headline inflation is dominated by higher-expenditure deciles, which carry larger weights in the aggregate basket. This can lead to divergence between middle-income inflation and the official headline rate.

7. Disclaimer

This analysis and the derived indices are intended for informational and research purposes. They should not be used as a basis for formal policy decisions, wage negotiations, or financial indexation without further validation and expert consultation. The author bears no responsibility for decisions made using this data.

8. References

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