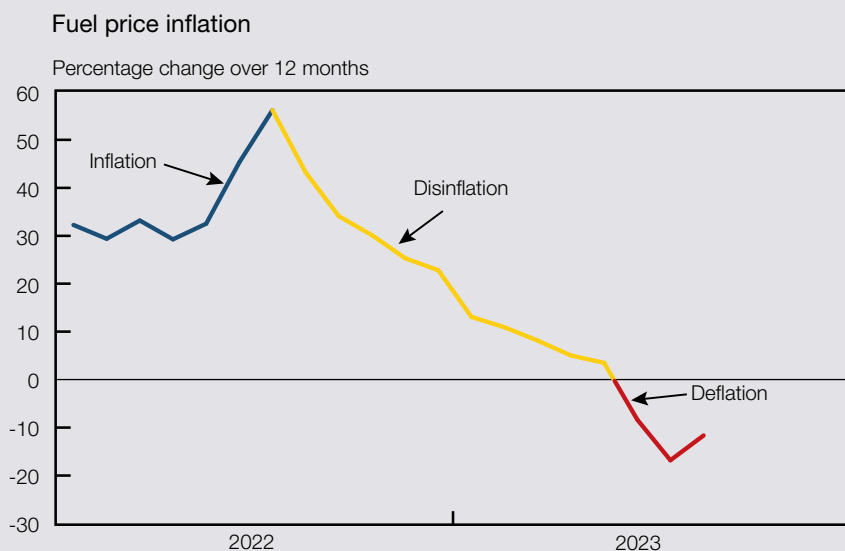


Box 1 Understanding the difference between inflation, disinflation and deflation

Changes in the level of the prices of goods and services in an economy over a specific period can be labelled as either inflation, disinflation or deflation, depending on the characteristics of the specific change.

In this context, the price level is the weighted average price of a fixed basket of consumer goods and services of constant quality and similar characteristics over time, and the change in the general price level is usually expressed as the percentage change over 12 months in the consumer price index (CPI) as compiled by Statistics South Africa (Stats SA).

Inflation is a sustained year-on-year increase in the general price level in an economy which gradually reduces the purchasing power of money. *Disinflation* refers to a deceleration in the rate of inflation and occurs when the general price level is still increasing but at a slower pace than before. By contrast, *deflation* is a decrease in the general price level, as reflected by year-on-year declines in the CPI.



Source: Stats SA

These concepts are also applicable to individual items in the consumer goods and services basket as illustrated by the recent year-on-year changes in domestic fuel prices. Fuel prices increased notably during 2021 and 2022, with the rate of inflation (i.e. the percentage change over 12 months in the consumer fuel price index) accelerating markedly from 29.2% in April 2022 to 56.2% in July. This was followed by disinflation as the year-on-year rate of increase in fuel prices slowed to 3.5% in May 2023. From June to August 2023, domestic fuel prices were in deflation as prices decreased compared to a year earlier.

