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Food Inflation accelerates as the impact of the drought sets in – 18 May 2016

The latest consumer inflation data released by Statistics South Africa indicated that in April 2016, headline inflation expectedly decelerated to 6.2% year-on-year (y/y) from 6.3%y/y in the previous month. However, the inflation of food and non-alcoholic beverages¹ accelerated to 11%y/y, from 9.5%y/y in March 2016.

The food and non-alcoholic beverages basket consists of “**bread and cereals**”, “**meat**”, “**fish**”, “**milk, eggs and cheese**”, “**oils and fats**”, “**fruit**”, “**vegetables**”, “**sugar, sweets and deserts**”, “**non-alcoholic beverages**” and “**other foods**”. Each of the products within the food and non-alcoholic beverages basket is allocated a weight, with the largest being “**meat**” and “**bread and cereal**”, which make up 30% and 23%, respectively (**figure 1**).

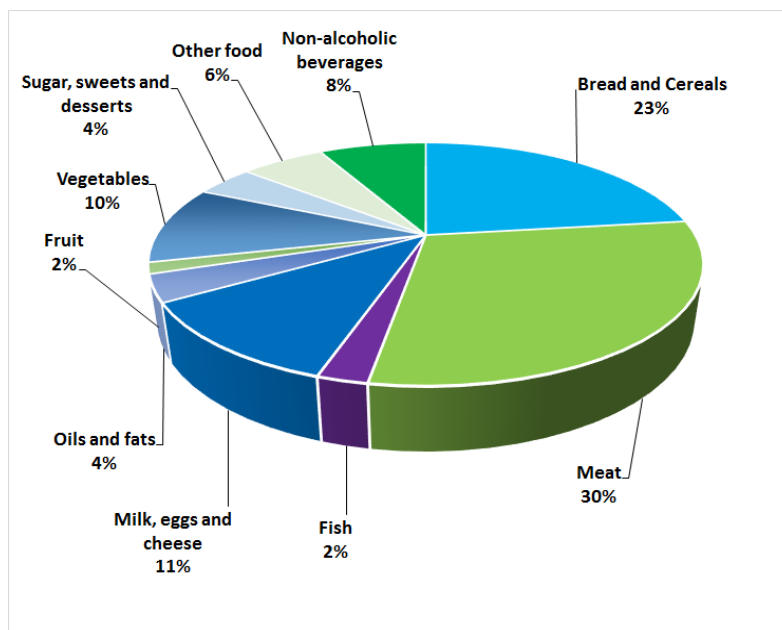


Figure 1: Weights of products in the food and non-alcoholic beverages basket

Source: Statistics South Africa, Agbiz Research

The largest year-on-year percentage increases were recorded in the “**vegetables**”, “**fruit**” and “**oils and fats**”, which rose by 23%, 19.6% and 19.5%, respectively (**figure 2**). This is largely driven by an increase in soft commodity prices due to lower supplies on the back of the ongoing drought.

¹ In the overall Consumer Price Index measure, the food and non-alcoholic beverages basket is allocated a weight of 15.41 index points out of 100.

South Africa is set to be a net importer of grains this season, therefore a weaker Rand also adds inflationary pressures on soft commodity prices, which in turn is translating to higher food prices.

The pass through of soft commodity price increases into food products seem to be accelerating. In the previous months, this increase was relatively marginal due to the lag-effect, which accounts for the processing stages of raw-commodities into food-stuffs. This would roughly be nine months on maize into meat and shorter for maize into maize meal, which is estimated at six months.

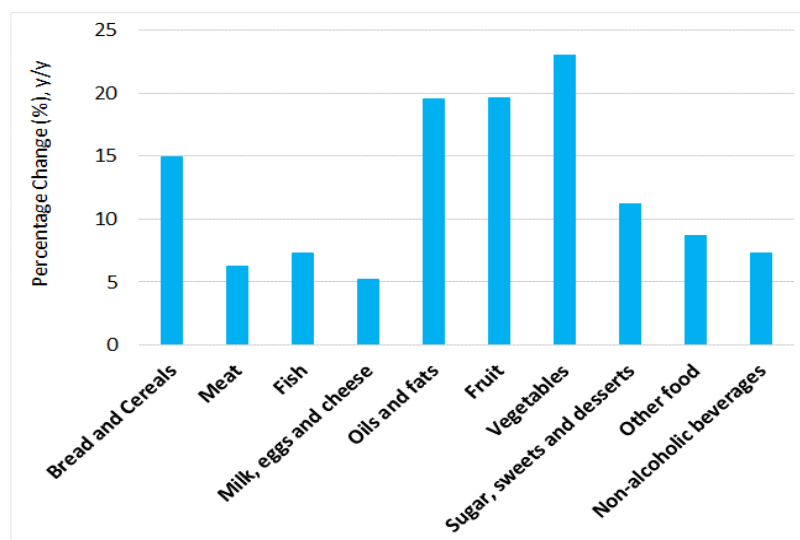


Figure 2: April 2016 y/y percentage growth

Source: Statistics South Africa, Agbiz Research

South Africa is set to import 2 million tons of wheat in 2015/16 season, of which 1.23 million tons have already been imported. The country is set to harvest roughly 7.05 million tons of maize, which is well below the annual consumption of 10.5 million tons. Against this background, the country's 2016/17 total maize import estimate stands at 3.8 million tons. The vegetable and fruit industry has also been hit by the drought and prices remain elevated at higher levels. The effect of the aforementioned factors is apparent in the commodities price movements, therefore food prices (**figure 3 and 4**).

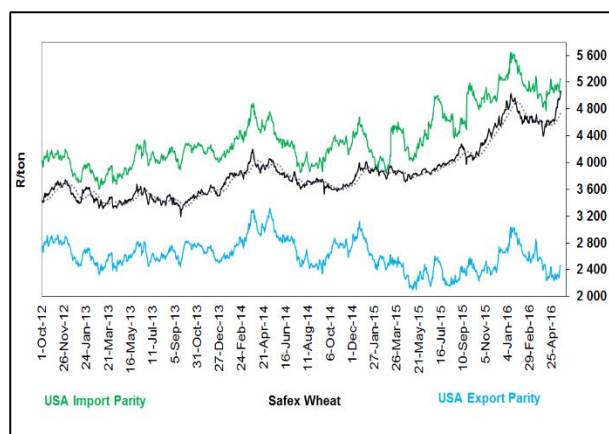


Figure 3: South African wheat prices

Source: Grain SA, Agbiz Research

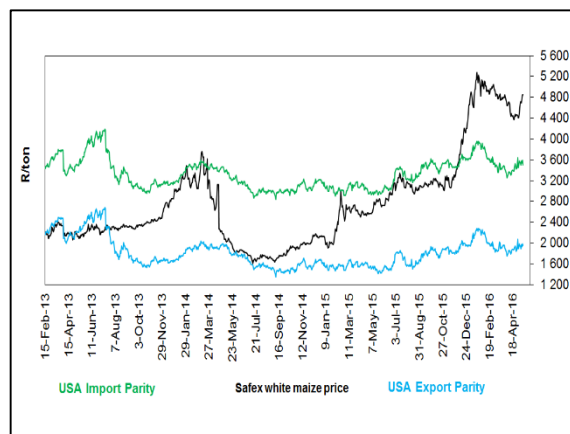


Figure 4: South African white maize prices

Source: Grain SA, Agbiz Research



Outlook

We expect food prices to remain at higher levels, at least until mid-2017, assuming that there will be favourable weather conditions in the 2016/17 production year to replenish market supplies. The vegetable prices are expected to soften towards the end of the year due to estimated increase in production volumes. With that said, the lag-effect could keep food prices elevated for an extended period of time.

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