

WANDILE SIHLOBO AND TINASHE KAPUYA

Food and beverages manufacturing takes a knock in the first quarter of 2016 – 13 May 2016

Manufacturing data released on 12th May 2016 by Statistics South Africa indicates that the country's total output declined by 2% year-on-year (y/y) in March 2016. Meanwhile, the food and beverages sector's output – which is the largest in the manufacturing sector¹ – declined by 1.5% y/y.

The food and beverages manufacturing sector consists of five sub-sectors, namely, “**meat, fish, fruit, etc.**”, “**dairy products**”, “**grain mill products**”, “**beverages**” and “**other food products**”. Each sub-sector is allocated a different weight, with the largest single sub-sector being **beverages**, which makes up 27% of the overall food and beverages manufacturing output (**figure 1**).

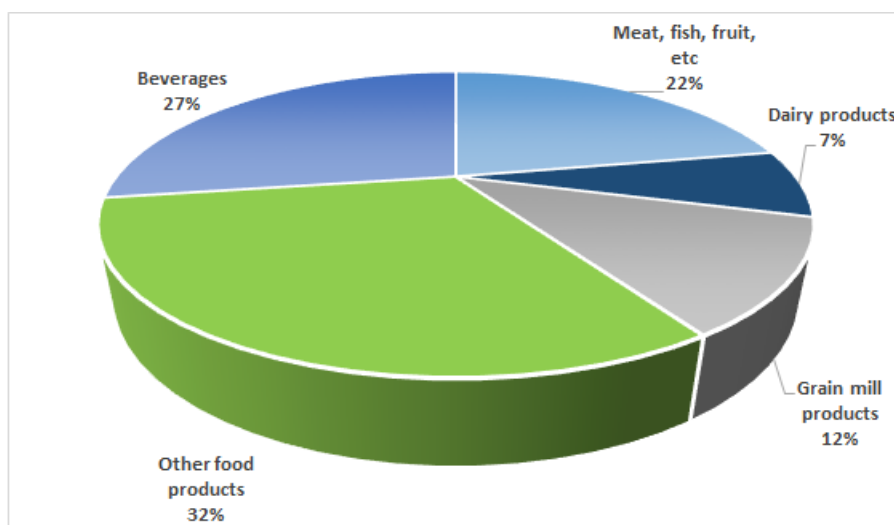


Figure 1: Composition of food and beverages manufacturing weights

Source: Statistics South Africa, Agbiz Research

Within the food and beverages manufacturing sector, the largest decline was recorded in the **meat, fish and fruit, etc.** subsector, which dropped 5.4% quarter-on-quarter (q/q). **Beverages** output fell 4.9%, while **dairy products** output declined by 2.5%. The only sector to register positive output growth in the first quarter is **grain mill products**, which rose by 2.2% (**figure 2**).

¹ Food and beverages manufacturing has a weighting of 24.44 of the total overall manufacturing sector.

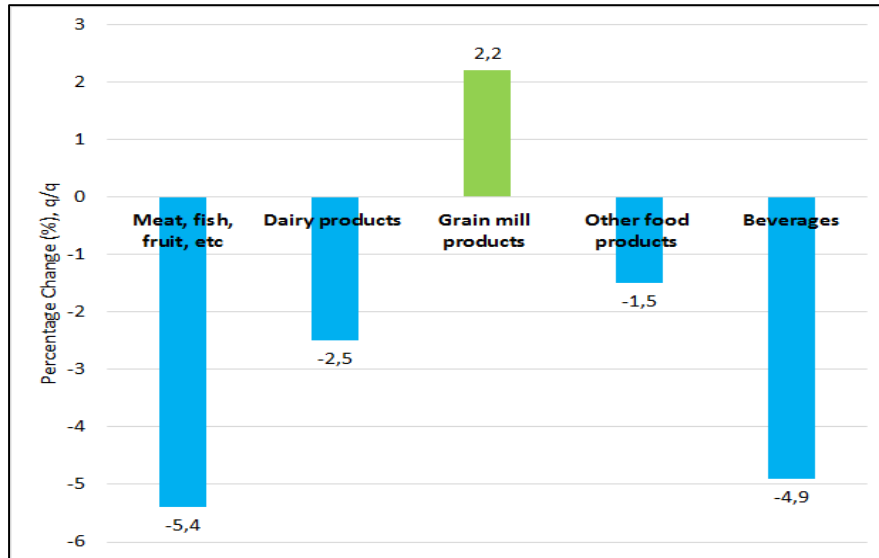


Figure 2: March 2016 q/q % growth changes

Source: Statistics South Africa, Agbiz Research

The food and beverages manufacturing output data suggests two important things. Firstly, the softening consumption of households from a demand side perspective, and rising production input costs from a supply side perspective, are both weighing down on the food and beverages manufacturing output. Secondly, more demand-elastic sub-sectors – such as **meat, fish, fruit etc.** and **beverages** – are showing sharper drops in output, while more demand-inelastic basic food-stuffs such as **grain mill products** have risen despite rising soft commodity prices (**figure 3 and 4**).

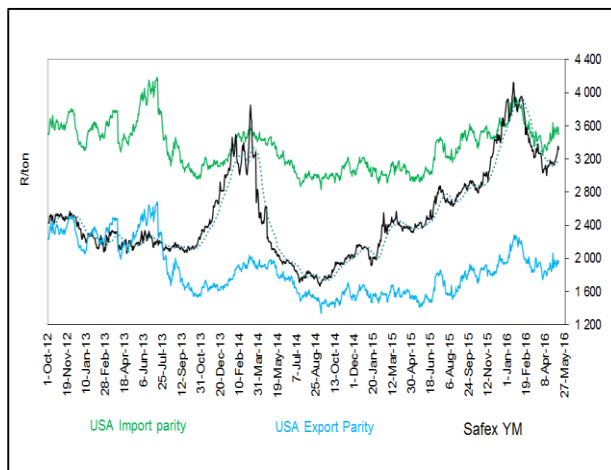


Figure 1: South African yellow maize prices

Source: Grain SA, Agbiz Research

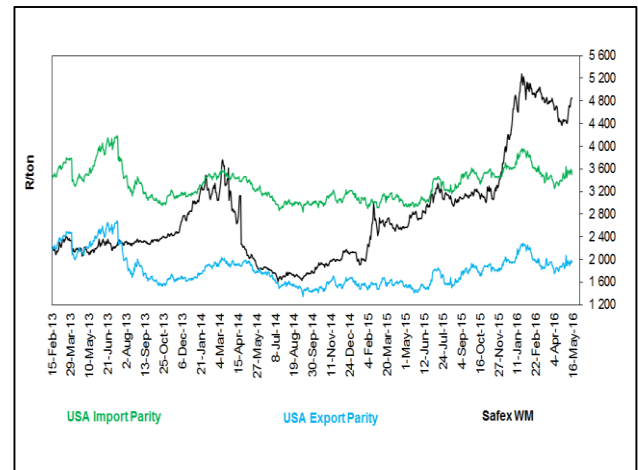


Figure 2: South African white maize prices

Source: Grain SA, Agbiz Research

Outlook

In the second quarter, growth in the food and beverages output is again likely to contract, on the back of elevated soft commodities prices on the supply side, and high food inflation on the demand side.



With respect to the latter, food inflation peaked to 9.8% year-on-year in March, which will put households under pressure in the coming months. Moreover, the recent jobs data presents a negative outlook, with unemployment rising to 26.7%, which also has negative implications on income and affordability of food.

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