

UPDATE: South African food inflation accelerates – 24 August 2016

- Recent data from Statistics South Africa indicates that in July 2016, headline inflation eased at 6% year-on-year (y/y) from 6.3% y/y in June 2016. This was slightly below market expectations of 6.1% y/y. However, food and non-alcoholic beverages inflation accelerated to 11.3% y/y, from 10.8% y/y in the previous month.
- 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 these products is allocated a weight, with the largest being **meat** and **bread and cereal**, which make up 30% and 23% of the food and non-alcoholic beverages basket, respectively.
- The percentage increases were recorded in all food categories, with the exception of **vegetables**, which eased at 15.5% y/y (see **Chart 1**). This decrease was mainly due to large supplies on the back of ongoing harvest, specifically in potatoes industry.
- The increase in **bread and cereals** inflation is reflective of the effects of the 2015/16 drought, which has led to higher grain prices (see **Chart 2**). Additionally, the increase in **milk** inflation is in line with seasonal milk prices, which normally reach higher levels owing to lower domestic supplies during the winter season. More broadly, the effects of the drought are also reflected on the **fruit** and **sugar** inflation.
- Looking ahead**, we expect **dairy** inflation to remain elevated at least until the fourth quarter of 2016 when grazing fields start to recover on the back of summer rainfall. **Meat** inflation could also remain elevated in the coming months, as we continue to anticipate a decrease in cattle slaughtering pace. Moreover, **bread and cereal** inflation could remain elevated until mid-2017 when the new crop gets harvested. The recent increase in a wheat tariff could also add inflationary pressures on wheaten food products. That said, the forecast La-Niña could lead to above normal rainfall in late spring to summer season, which will benefit crops and livestock and eventually lead to lower food prices.

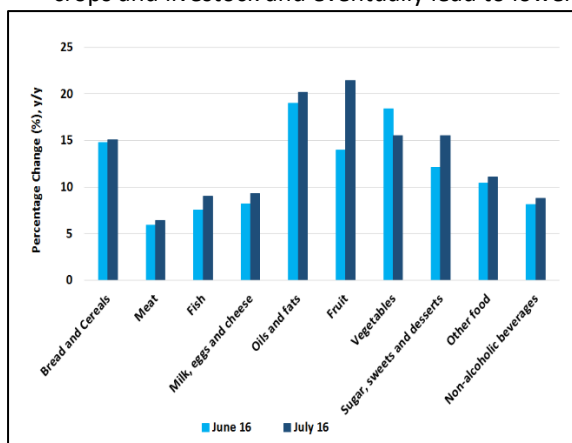


Chart 1: July 2016 y/y percentage changes

Source: Statistics South Africa, Agbiz Research

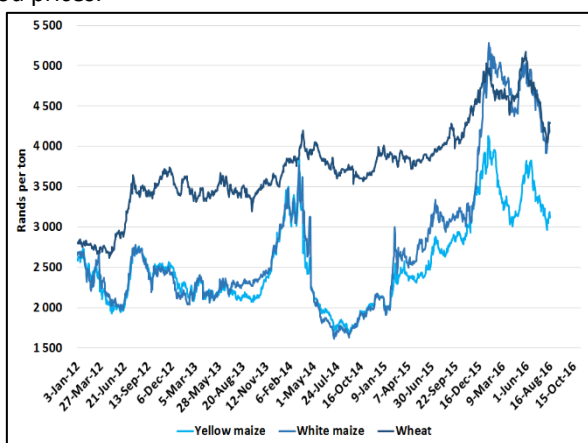


Chart 2: South African grain prices

Source: JSE, Agbiz Research

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