

UPDATE: Food and beverages manufacturing output declines – 8 September 2016

- Recent data from Statistics South Africa indicates that the food and beverages sector's manufacturing output declined by 0.8% year-on-year (y/y) in July 2016.
- This sector consists of five sub-sectors, namely (1) **meat, fish, fruit, etc.**, (2) **dairy products**, (3) **grain mill products**, (4) **beverages** and (5) **other food products**. A substantial decrease in annual output was recorded in the **grain mill products** sub-sector, which was down by 7.6% y/y in July 2016. Moreover, **dairy products** and **meat, fish, fruit, etc.** subsectors declined by 5.3% y/y and 0.3% y/y, respectively. Meanwhile, output of **beverages** and **other foods** increased by 1.3 and 0.8 y/y, respectively (see **Chart 1**).
- The decline in **grain milling** output is in line with a monthly decrease in maize meal production and other grain food products (see **Chart 2**). Moreover, a decline in the output of **dairy products** coincides with a seasonal production trend in the milk industry. During winter season, production tends to decrease and that in turn affects the output in dairy products.
- Looking ahead**, we are of the opinion that over the medium term, **grain milling** output could bounce back due to domestic demand, regardless of higher prices. Grain milling products are staple foods that are largely inelastic. We believe that milk production could remain under pressure throughout the spring season, and that will subsequently weigh on **dairy products** output. In addition, we expect **meat** output to continue with a downward trend in the coming months, due to an expected decline in slaughtering rate. The long term weather forecasts suggest that weather conditions could normalise later in the season. If this materialises, it could result in the improvement of grazing fields across the country. Against this background, we are of the opinion that livestock farmers could soon start to rebuild their herds and that might lead to a decline in slaughtering activity and in turn to meat output.

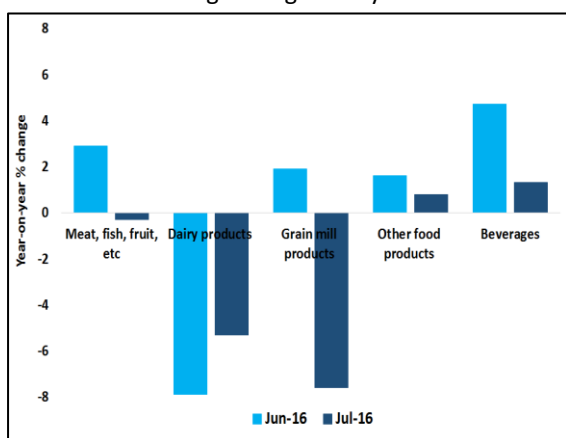


Chart 1: June and July 2016 manufacturing output changes

Source: Statistics South Africa, Agbiz Research

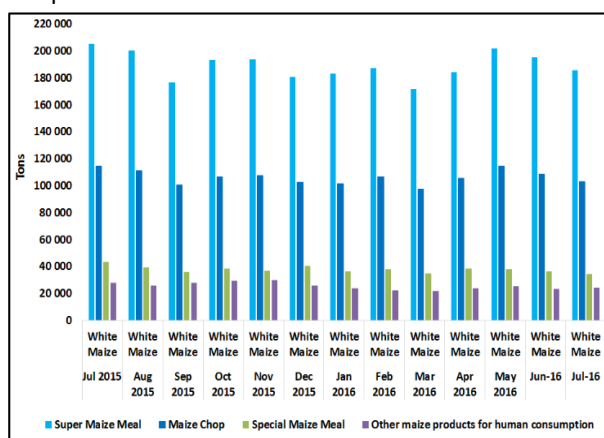


Chart 2: RSA white maize consumption

Source: SAGIS, Agbiz Research

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