

UPDATE: South African food inflation accelerates – 21 September 2016

- Recent consumer price index data indicates that in August 2016, headline inflation decelerated to 5.9% year-on-year (y/y) from 6% y/y in July 2016. Overall food and non-alcoholic beverages inflation remained unchanged from the previous month, at 11.3% y/y. However, leaving beverages component aside, **food inflation accelerated to 11.6% y/y** from 11.5% y/y in July 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 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 increases were recorded in **bread and cereals; milk, eggs and cheese; fish and sugar, sweets and deserts**, whereas other food products decelerated (see **Chart 1**).
- The increase in **bread and cereals** inflation is still reflective of the effects of the 2015/16 drought, which has led to lower grain supplies and in turn higher prices (see **Chart 2**). Additionally, the increase observed in **eggs** inflation is in line with increases in feed prices (grain prices). The increase in **milk** and **cheese** inflation coincides with seasonal milk prices, which normally reach higher levels during winter season owing to lower domestic supplies. Lastly, the increases in **sugar, sweets and deserts** inflation signifies the effects of the 2015/16 drought on sugar cane production.
- Looking ahead**, we believe that **dairy** inflation could remain elevated over the next few months, with prices expected to decelerate when grazing fields start to recover later in the year on the back of summer rainfall. **Meat** inflation could accelerate in the coming months, as we continue to anticipate a decrease in cattle slaughtering pace. We expect **bread and cereal** inflation to remain elevated until mid-2017 when the new crop gets harvested. Worth noting is that over the past few weeks, grain prices have maintained a downward trend. However, its sustainability will depend on the ZAR/USD exchange movements (**Chart 2**).

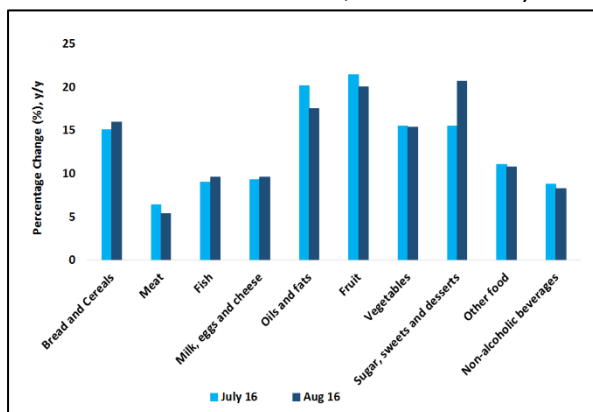


Chart 1: July and August 2016 y/y percentage changes

Source: Statistics South Africa, Agbiz Research

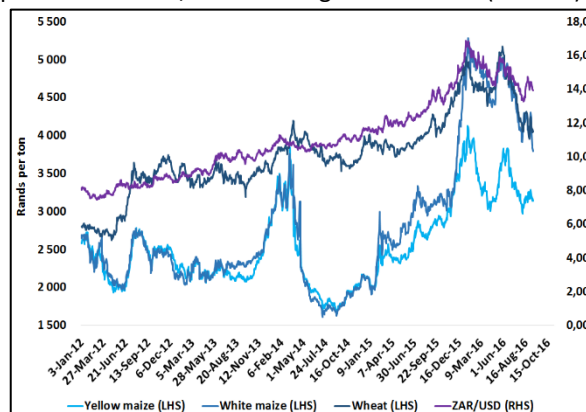


Chart 2: South African grain prices and ZAR/USD

Source: JSE, Agbiz Research

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