

UPDATE: Food and beverages manufacturing output accelerates – 11 October 2016

- Recent food and beverage sectors' manufacturing data indicates that in August 2016, output increased by 3.1% year-on-year (y/y), after registering a 0.8% y/y contraction 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 increase in annual output was recorded in the **dairy products** sub-sector, which was up by 3.9% y/y in August 2016. Moreover, **beverages** and **other food products** subsectors increased by 5.3% y/y and 5.2% y/y, respectively. Meanwhile, output of **grain mill products** declined by 3.1 y/y (**Chart 1**).
- The increase in **dairy products** output was in line with a seasonal milk production trend. During spring season milk production normally increases from the winter season's lower levels, and that in turn affects the output in dairy products. This is also mirrored on the South African Milk Processors Organisation's Raw Milk Purchases Index, which increased by 4.9% y/y in August 2016 to 120.54 index points. **Meat, fish, fruit, etc.** sub-sector output increased marginally by 0.6% y/y, following an increase in cattle slaughtering pace (**Chart 2**). Meanwhile, **grain milling** output declined by 3.1% y/y due to a 9% y/y decrease in (raw) white maize demand, from 386 234 tons in August 2015 to 351 032 tons in August 2016.
- Looking ahead**, despite the recent decline in **grain milling** output, we anticipate that output could show a slight recovery over the medium term due to firm domestic demand. **Grain milling products** are staple foods that are largely inelastic. Regarding **dairy products**, we believe that milk production could increase over the coming months, as grazing fields improve which will subsequently add onto the products output. In addition, we expect **meat products** output to decline slightly over the coming months due to an expected decrease in slaughtering rate, as farmers will soon start to rebuild their stocks after higher slaughtering rates late last year and this year (**Chart 2**).

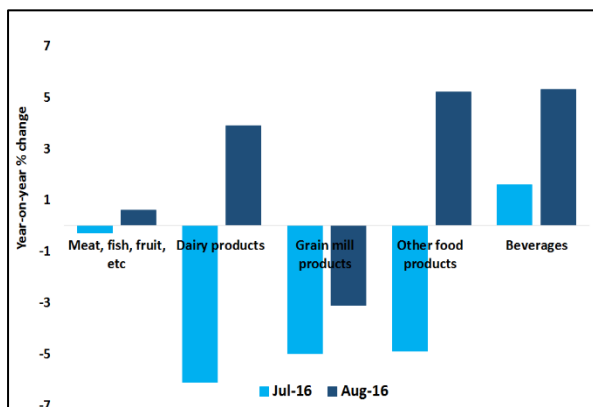


Chart 1: July and Aug 2016 manufacturing output changes
Source: Statistics South Africa, Agbiz Research

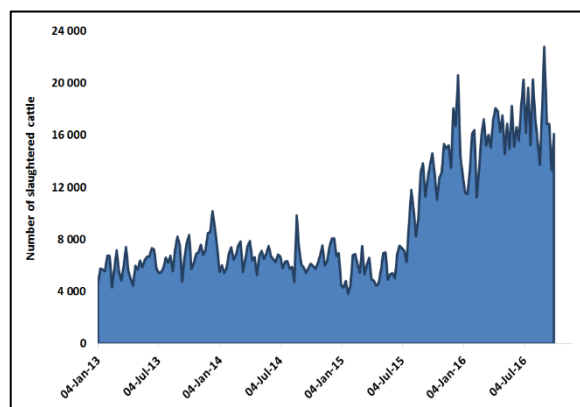


Chart 2: RSA's weekly number of slaughtered cattle
Source: RMAA, Agbiz Research

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