



22 March 2017

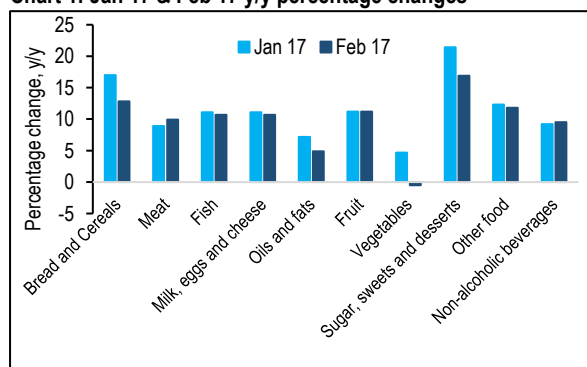
## SA's annual food inflation fell below 10% y/y

*South Africa's annual food and beverages inflation fell below 10% year-on-year for the first time since March 2016. Given the current bearish trends in agricultural commodity prices, this declining path in food inflation is likely to prevail throughout the year.*

- Data released this morning showed that South Africa's food and non-alcoholic beverages inflation eased at 9.9% year-on-year (y/y) in February 2017 from 11.4% in January 2017. With non-alcoholic beverages aside, food inflation fell to 10.0% y/y in February 2017 from 11.8% y/y in January 2017.
- The overall deceleration was largely driven by **bread & cereals**; **fish**; **milk, eggs & cheese**; **oils & fats**; **vegetables**; **sugar, sweets & desserts** and **other foods** which reached 12.8% y/y; 10.7% y/y; 10.7% y/y; 4.9% y/y; -0.5% y/y; 16.9% y/y and 11.8% y/y, respectively (see **Chart 1**).
- The easing of **bread & cereals** inflation mirrors the decline in grain prices (see **Chart 2**). White maize spot prices are currently at levels of R2 115 per tonne, which is 56% lower than the corresponding period last year. Yellow maize spot is at levels of R2 183 per tonne, which is 34% lower than the same period last year. This deceleration is largely driven by expected ample supplies of maize output this season. The wheat spot price is around R4 033 per tonne, which is a 12% annual decline. The decline in **oils & fats** inflation is in line with the movement of sunflower seed spot price which is currently at levels of R4 385 per tonne, down by 44% from the corresponding period last year. Lastly, the **vegetables** and **fruits** inflation declined due to a recovery in production, as well as harvest pressure. Meanwhile, **meat**, as well as **non-alcoholic beverages** inflation accelerated to 9.9% y/y and 9.5% y/y, respectively (see **Chart 1**). The **meat** was mainly driven by slowing slaughtering activity as farmers continue to restock their herds, following a drought season.
- **Looking ahead**, with an expected ample grain supply this season, we believe that headline food inflation will continue to decelerate throughout the year, and that will subsequently ease pressure on consumers.

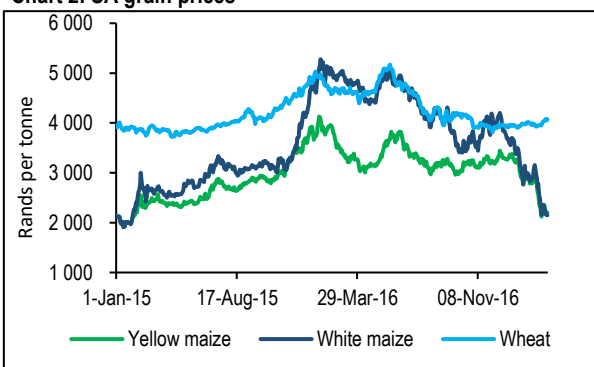
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**Chart 1: Jan 17 & Feb 17 y/y percentage changes**



Source: Stats SA, Agbiz Research

**Chart 2: SA grain prices**



Source: JSE, Agbiz Research

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