

South Africa's food producer price inflation accelerates – 28 July 2016

- The recent producer price index (PPI) data released by Statistics South Africa indicates that in June 2016, producer inflation for final manufactured goods accelerated to 6.8% from 6.5% year-on-year (y/y) in the previous month. Higher food product prices were among the key drivers of this uptick. In fact, food product price inflation reached 11.2% y/y from 10.9% y/y in May 2016.
- The food products basket consists of four broad categories, which include “**meat, fish, fruit, vegetables, oils and fats**”, “**dairy products**”, “**grain mill products, starches and starch products, and animal feeds**” and “**other food products**”. Each of the aforementioned categories within the food products basket is allocated a weight, with the largest being “**meat, fish, fruit, vegetables, oils and fats**” and “**other food products**”, which make up 37% and 41%, respectively.
- The significant increases were recorded on “**sugar, fruit, vegetables, meat, dairy products and other food**”, of which when put together constitutes about half of the food basket (**Chart 1**).
- Grain milling** category, which has been a key driver of food price inflation in the previous months decelerated by 1.2% month-on-month (m/m), in line with the current raw commodity price trend (**Chart 2**). The increase in **dairy products**, is in line with seasonal price trend in the South African milk industry.
- Looking ahead, we expect **dairy prices** to remain elevated at least until Q4, 2016 when grazing fields start to recover on the back of summer rainfall. Moreover, **meat prices** could remain at higher levels in the coming months due to the expected decrease in cattle slaughtering pace. The decrease in **grain milling products** could be short lived, due to lower domestic supplies, which in turn could keep grain prices at relatively higher levels this year. On a positive note, the forecast La-Niña could bring some relief next season.

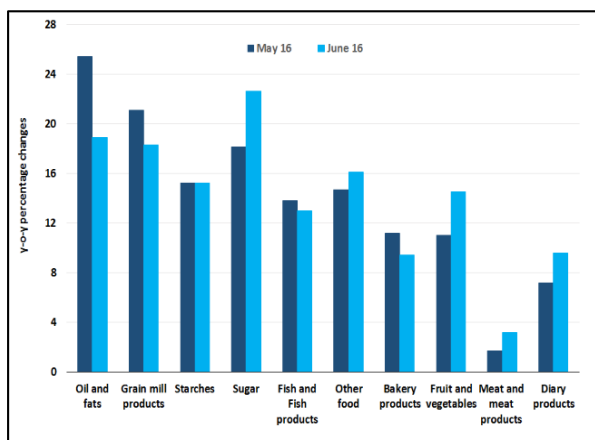


Chart 1: RSA Food products price inflation (y/y)

Source: Statistics South Africa, Agbiz Research



Chart 2: RSA maize and wheat prices

Source: JSE, Agbiz Research

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