

An uptick in SA consumer food price inflation in January 2022

The data released by Statistics South Africa this morning shows that consumer food price inflation accelerated to 6,2% y/y in January 2022, from 5,9% y/y in the previous month. Fish, oils and fats, and vegetables are the primary products underpinning this uptick in the overall consumer food price inflation.

South Africa is a net importer of vegetable oils and fats, and therefore, domestic prices tend to mirror the global trend. In January, the global vegetable oil prices remained elevated, as illustrated by the Food and Agricultural Organisation Vegetable Oil Price Index, which increased by 4,2% in January from the previous month to 186 points, an all-time high. This is on the back of concerns about a possible poor palm oil harvest in Indonesia, which South Africa imports roughly half a million tonnes of a year. India's firming demand for soybean oil also added to the general global increase in vegetable oil prices.

Domestically, the heavy rains at the start of the year disrupted some vegetable fields and thus resulted in a reduction in volumes delivered to various fresh produce markets. The volumes of some vegetables such as onions, cabbages, and tomatoes will likely remain at levels below average in the near term and potentially recover as the year progresses. Noteworthy, the La Niña induced rains could also slow from March onwards.

Some of the essential food products for the consumer food price inflation trajectory for the year are grains harvest and meat, which for January slightly moderated. In summer grains and oilseeds, the impact of the excessive rains across South Africa on production and prices remains uncertain. Indeed, farmers planted 0,4% more hectares for summer crops in the 2021/22 season than the previous one with 4,21 million hectares. Still, there are prospects of poor yields in areas that experienced flooding in some regions. We will have a clearer view of the potential size of the crop on 28 February when the Crop Estimates Committee releases its first production estimates. We believe that while the harvest could be lower than the 2020/21 season, South Africa could have sufficient produce for key grains such as maize.

Also worth emphasizing is that global prices have primarily underpinned the increases in domestic agricultural commodity prices over the past two years. The size of the domestic harvest mattered less than the crop conditions in South America or oilseeds and grains demand in China and India, which were primary drivers of the global market. These factors provided upward pressure on global grains and oilseeds prices. South Africa, a relatively small player in global agriculture, is linked to the global market. Thus, the general rise in global prices overshadowed the improved domestic crop supply in the 2020/21 production season. These conditions remain the dominant feature in the global agricultural market, although the grains prices could soften slightly from now onwards because of the expected improvement in global stocks.

For example, the United States Department of Agriculture (USDA) still maintains a reasonably positive view of South America's crop despite the fears of La Niña induced dryness. For example, in this month's update, the USDA maintained its estimates for 2021/22 global maize production of around 1,2 billion tonnes, up by 7% y/y. Due to the expected relatively

¹ https://www.fao.org/worldfoodsituation/foodpricesindex/en/

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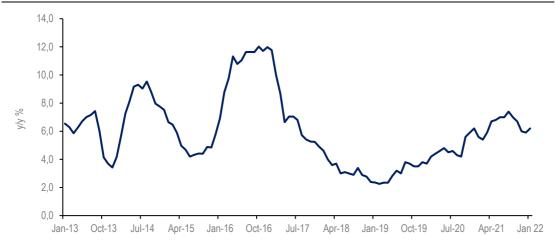
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large global production, the USDA forecasts 2021/22 global maize stocks at 302 million tonnes, up by 4% y/y.

Notably, the essential data to watch domestically, which could present upside risks to consumer food price inflation, is meat. South Africa's cattle slaughtering activity was relatively lower in 2021 than in 2020. The continuous rebuilding of the cattle herd since the 2016 drought, combined with foot-and-mouth disease last year, were amongst the factors that contributed to modest slaughtering activity. In the latest data we have, which is November 2021, cattle and sheep slaughtering activity was down by 4% year-on-year and 21% year-on-year, respectively. The direction slaughtering will take this year will matter for meat prices. Another vital issue to remember is poultry import tariffs that came in effect last year; this year's base effects will likely positively affect the consumer price inflation moderation path.

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research