

## Narratives that underpin the consumer food inflation outlook in South Africa

- The damaging effects of persistent dryness and heatwave in South Africa's summer crop-growing regions have raised concerns about a possible rise in consumer food inflation in the coming months. With South Africa's food price inflation averaging 11% in 2023 (from 9,5% in 2022, 6,5% in 2021, and 4,8% in 2020)<sup>1</sup>, which was relatively high compared with recent periods, talk of further upside pressure in inflation comes as an unwelcome development.
- However, the underlying drivers of the increase in food inflation in the past two years were mainly the international agricultural commodity prices and, to a much lesser extent, idiosyncratic domestic factors. Still, towards the latter part of 2023, local factors such as animal diseases, weaker domestic currency, and load-shedding-related costs were some of the key drivers of food inflation.
- The drought in South America, China's strong demand for grains and oilseed, rising shipping costs, higher energy prices, and the Russia-Ukraine war were some of the factors that were behind the higher global agricultural producer prices, which, in turn, boosted the domestic prices, and thus leading to relatively elevated consumer food price inflation in 2022 and 2023.
- Also worth noting is that South African food manufacturers had to absorb some of the increases and did not pass on the full increases to consumers who were already under pressure because of weak economic conditions and higher unemployment in the country. For example, in 2022, while consumer food inflation averaged 9,5%, the producer price inflation for agricultural products was 15,0%, and the food manufacturers inflation was 12,3%. This means manufacturers did not pass on the total costs to consumers, contrary to what some regulators have argued.
- The factors that underpinned higher consumer food inflation in 2022 and 2023 have somewhat subsided. There are ample grain supplies in the global market, with the 2023/24 global maize harvest forecast at 1,2 billion tonnes, up 6% y/y, according to data from the International Grains Council (IGC). The IGC forecasts that the 2023/24 global wheat harvest will reach 788 million tonnes, which is well above the long-term average levels (albeit down 1% y/y). There is also a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average (but down 0,6 y/y). The 2023/24 global soybean harvest is estimated at 391 million tonnes, up 5% y/y.<sup>2</sup>
- These global production forecasts also imply a general improvement in the stocks of these major commodities and a moderation in prices. For example, the Food and Agriculture Organization of the

<sup>1</sup> This is according to data from Stats SA that can be accessed in their website here: <https://www.statssa.gov.za/#>

<sup>2</sup> One has to pay to access this data, but for the sake of completeness, it is all available here: <https://www.igc.int/en/default.aspx>

United Nations (FAO) recently released its Food Price Index for February 2024. This index measures the monthly change in international prices of agricultural commodities, not final food products. The FAO Food Price Index averaged 117.3 points in February 2024, down 1% from its revised January level and 11% from last year's corresponding period. The broad decline in grains and oilseed prices underpinned this moderation, again underscoring the importance of improved supplies in the 2023/24 season.

- Aside from the international factors, other major factors driving South Africa's food inflation this past year was the increase in vegetable and poultry products prices. The poor harvest caused the vegetable price increases after load-shedding at the start of the year, undermining crop quality. Things have changed this year. While it has been quite dry across the country since the beginning of February 2024, vegetable production has not taken a strain because all commercial production in South Africa is under irrigation and load-shedding, while risk has not been hard since the start of 2023. Some farmers are better prepared this year for possible regular power cuts.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. Data from the Bureau for Food and Agricultural Policy (BFAP) shows that around 9,5 million birds had to be culled in 2023, leading to a decline in the commercial layers and broilers and an increase in eggs and meat prices. But there is now anecdotal evidence that the restocking process is underway and there is improvement in the poultry products supplies. Therefore, the risks of further price increases have subsided somewhat.
- Considering the above developments, the major risks to consumer food inflation in South Africa in 2024 will primarily be white maize products, while other products within the food basket may moderate or show sideways movement in prices.<sup>3</sup> Indeed, for wheat and rice, the exchange rate also matters as South Africa imports roughly half of its annual wheat consumption and all of its rice consumption. Still, the challenge presented by persistent dryness domestically, at least over the near-to-medium term, is white maize supplies and the potential price reaction to reduced supplies. It is unclear what the white maize harvest will be this year.
- The figures released by the Crop Estimates Committee at the end of February are not as dependable this time. The weather has remained scorching since releasing these figures, so the crop conditions have worsened. At the time, the Crop Estimates Committee stated that white and yellow maize harvest could be 7,0 million tonnes (down 17% y/y) and 7,3 million tonnes (down 8% y/y), thus placing the overall maize production estimate at 14,3 million tonnes (down 13% y/y).<sup>4</sup> The challenge for maize is the possible poor yield in some regions as the area plantings are higher than the 2022/23 season. While this expected harvest is significantly lower than the previous season, if it materializes, it would still meet South Africa's annual maize consumption of roughly 12,00 million tonnes, and the country would remain a net exporter of maize, although a much lower volume than the previous years. However, this may not materialize, given the ongoing heatwave and lack of rainfall. Therefore, we see upside risks in maize prices and grain products in the consumer food inflation basket.

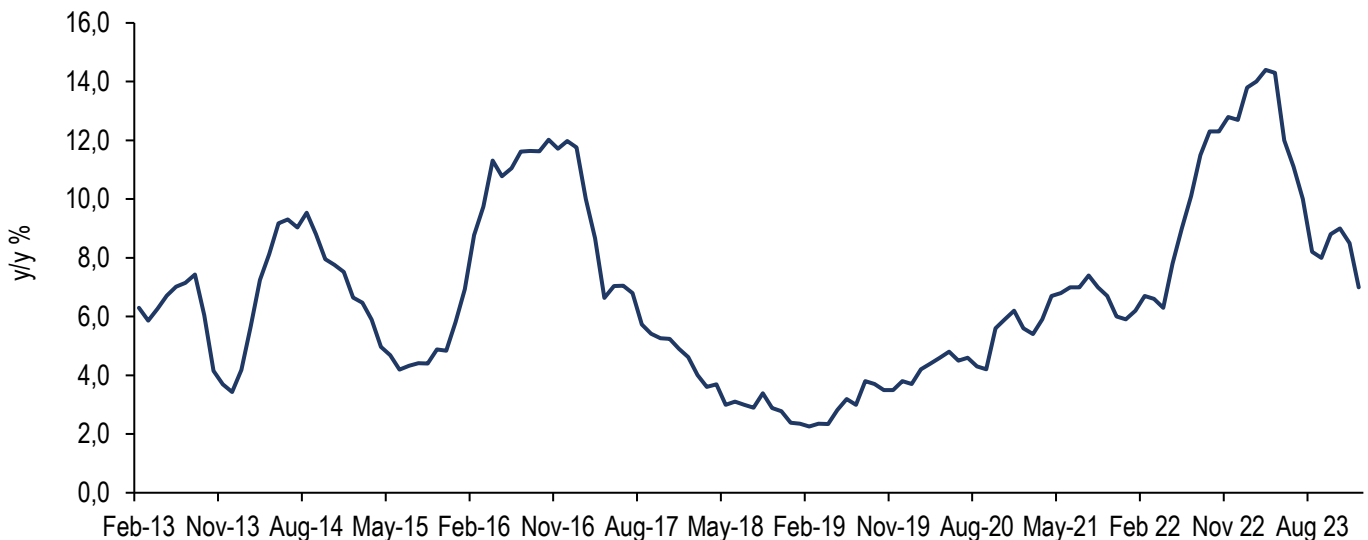
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<sup>3</sup> This is a challenge not only for South Africa, but the entire Southern Africa region. *Lord knows* where folks will get maize from, perhaps Mexico can help if we chat with them on time. Read more here: <https://theconversation.com/dry-weather-hits-southern-africas-farmers-putting-key-maize-supplies-at-risk-how-to-blunt-the-impact-224974>

<sup>4</sup> The data is available under the "2024" tab here: [https://www.sagis.org.za/cec\\_reports.html](https://www.sagis.org.za/cec_reports.html)

- In essence, there is increased uncertainty about South Africa's consumer food inflation path for 2024. However, the underlying factors are not all one-sided, and one has to reflect on the price movements and weighting of various products when considering their food price forecast for the year.
- The significant risks and favourable drivers are outlined in this note for consideration when thinking about the path ahead and where the current dryness would hit the most within the South African consumer food basket.

### Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research

## WEEKLY HIGHLIGHT

### South Africa's agricultural gross value added contracted sharply in 2023

- South Africa's agricultural sector faced several challenges in 2023, but we didn't think the overall annual performance would drop sharply. Along with the Bureau for Food and Agricultural Policy (BFAP), we expected a mild contraction in 2023 because of the animal disease challenges in the livestock and poultry sub-sector. But the figures released by Statistics South Africa last week show that the gross value added fell notably by 12,2% year-on-year.
- The headwinds in the livestock and poultry industry weighed on the sector more intensely than we anticipated. The livestock and poultry industry, which accounts for nearly half the sector's value, was hit by animal diseases such as foot-and-mouth, avian influenza and African swine fever.

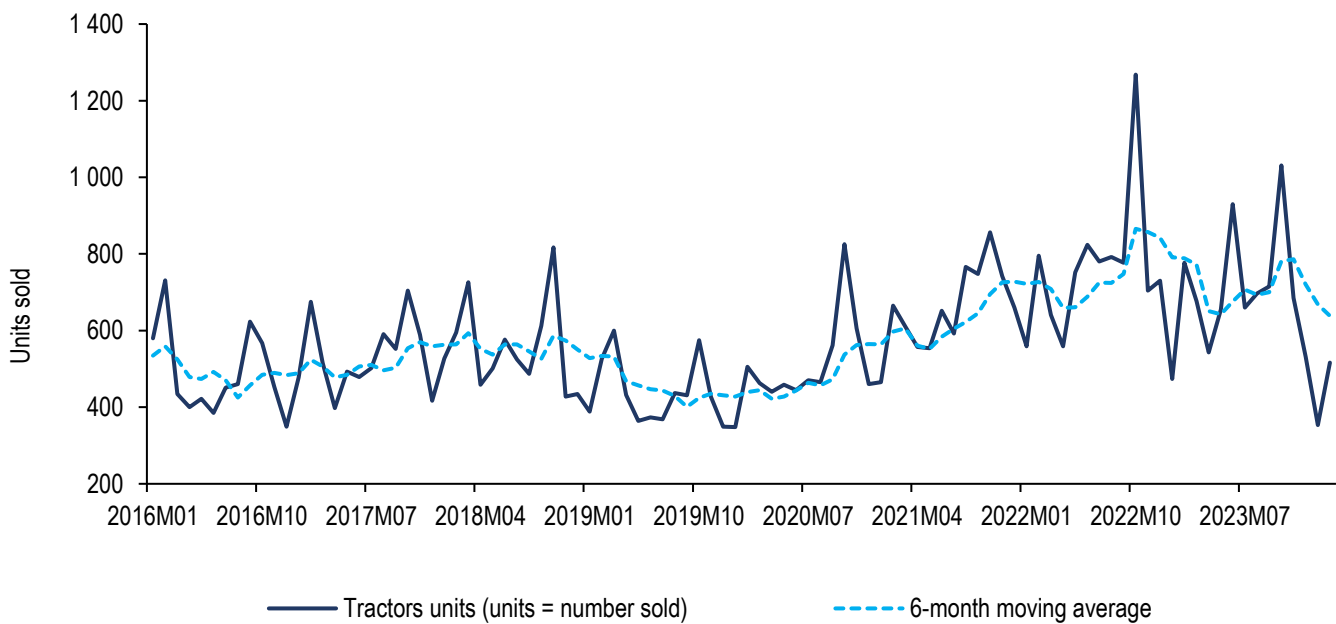
- Regarding the field crops, the harvest was robust but insufficient to boost the overall sector performance. For example, the 2022/23 maize harvest reached a solid 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybean harvest was at a record 2,8 million tonnes.
- Another major field crop, 2023/24's sugar cane, was at 18,5 million tonnes, up 3% y/y. Other field crops and fruit harvests were also decent in 2023. Also worth noting is that some agricultural commodity prices were generally down in 2023, which would have also slightly added to the downward performance of the sector.
- Notably, the signs of possible underperformance in the sector in 2023 were visible in various vital indicators. For example, the Agbiz/IDC Agribusiness Confidence Index (ACI), which we view as a lead indicator of the sector's performance, deteriorated by 10 points to 40 in the last quarter of 2023. This is its lowest level since the second quarter of 2020, at the height of the Covid-19 pandemic hard lockdown restrictions. Critically, the last quarter of 2023 reading of the ACI is below the neutral 50-point mark, implying that South African agribusinesses were downbeat about business conditions in the country. This pessimism emanates from the sector's numerous challenges, such as intensified delays and inefficiencies at the ports, deteriorating rail and road infrastructure, worsening municipal service delivery, increased geopolitical uncertainty and persistent episodes of load-shedding.
- The path ahead for the sector is even more challenging because of the intensified El-Nino-induced dryness that continues to strain the 2023/24 summer crop production prospects. Still, the more reliable production figures for the 2023/24 summer grain will be released by the Crop Estimates Committee at the end of March, and that will provide us with a better guide into the 2024 outlook for the sector. Moreover, the sector still feels the tail-end effects of animal diseases, which may further weigh on growth this year, although possibly milder than in 2023. In essence, the path ahead for South Africa's agriculture remains challenging.

## South Africa's agricultural machinery sales were down notably in February

- South Africa's agricultural machinery sales fell notably in February 2024. The tractor sales were down 34% y/y, with 516 units sold, and the combine harvester sales were down 54%, with 18 units sold. This significant sales decline broadly reflects the normalization of sales after a few years of robust activity.
- For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% y/y and the highest annual sales for the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% y/y and the highest yearly sales figure since 1985. The sales for the year before were also exceptional. These generally strong agricultural machinery sales these past few years were primarily on the back of large grain and oilseed harvests. In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the last year's momentum.

- Thus, we think the agricultural machinery sales will begin a correction period this year. Thus, while in the past, agricultural machinery sales would be read as one of the early indicators of the health of the farming sector, this time around, the sales should be read differently for the reasons we stated above. The farmers planted a decent area of 4,4 million hectares in the 2023/24 summer crop season, up 1% y/y, which means that the lower sales do not necessarily indicate a decline in the area planted.
- Still, the improvement in the area planting does not signal a better outlook in terms of output. South African agricultural sector is not in good shape because of the persistent heatwave and dryness associated with the El Niño cycle. The Crop Estimates Committee at the end of February already showed a double-digit decline in various major grains and oilseed harvests. For example, total maize harvest was estimated at 14,3 million tonnes (down 13% y/y) and soybeans at 2,1 million tonnes, down 23% y/y.
- The Crop Estimates Committee will release the more reliable production figures for the 2023/24 summer grain at the end of March, and that will provide us with a better guide into the 2024 outlook for the sector. The crop conditions have deteriorated notably in various regions of the country since the release of the first production estimates at the end of February. The possible poor crop harvest this year and the various factors highlighted above suggest that agricultural machinery sales will likely remain weak in the coming months and 2025.
- Moreover, the relatively higher interest rates have added pressure to farmers' finances. Also worth noting is that while other input cost prices, such as fertilizer and agrochemicals, have softened in 2023, the price levels were still well above long-term levels, thus adding pressure on farmers' finances during the planting period of the 2023/24 summer grain season.

## Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

## WEEK AHEAD

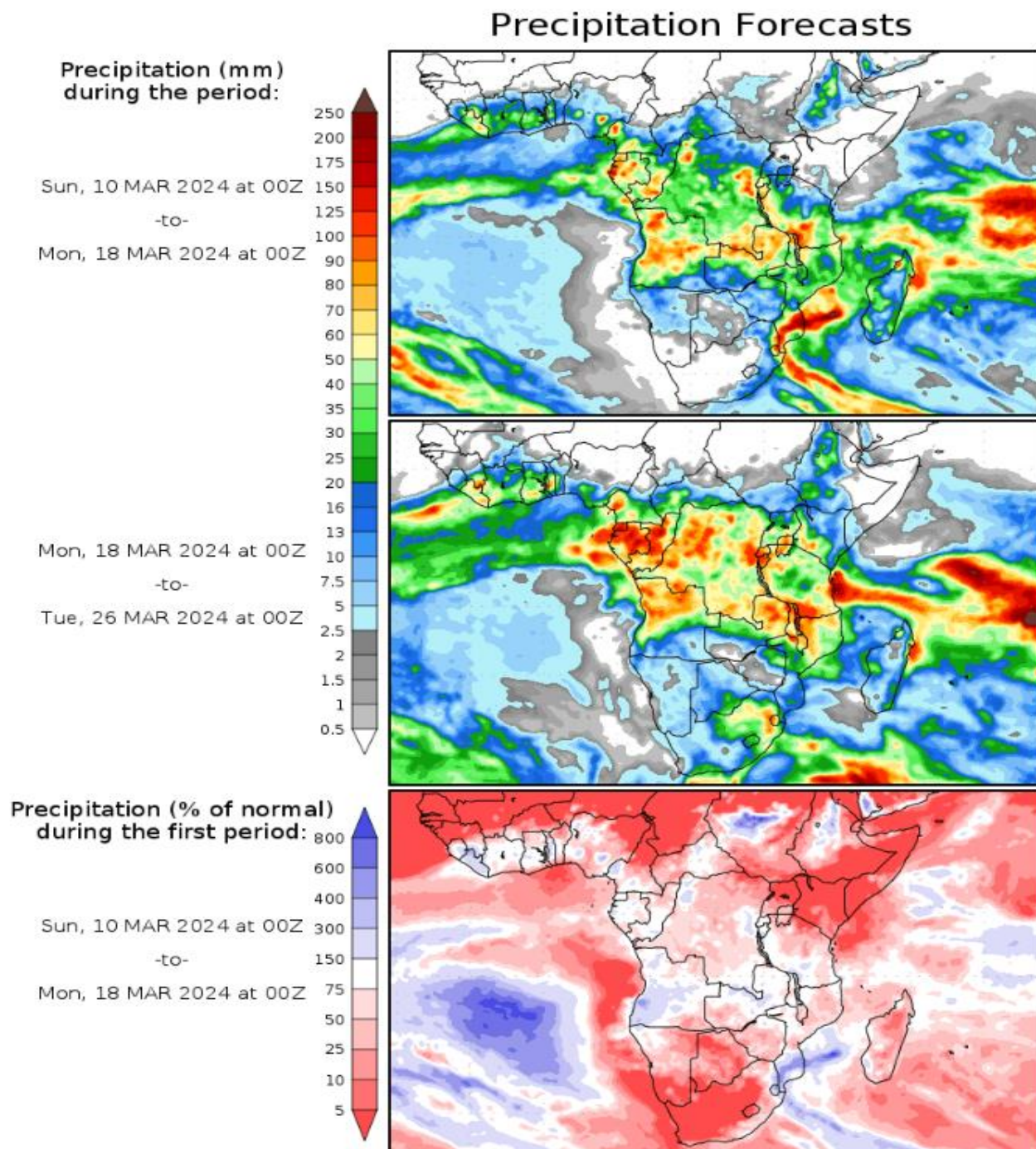
### What we are watching this week

- We start with a global perspective, with only one data release this week. On Thursday, the United States Department of Agriculture (USDA) releases **weekly US grain and oilseed export sales** data.
- Within the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for March 8. In the previous release on March 1, South Africa's 2023/24 maize producer deliveries were about 43 226 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,1 million tonnes out of the overall harvest of 16,4 million.
- The focus on oilseeds is now shifting to the new marketing year. Still, so far, there have been no significant volumes delivered to commercial silos, and the crop is taking a strain from the excessive heat and dryness nationwide.
- In the case of wheat, last week, 4 279 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the expected harvest of 2,1 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for March 4. In the previous release on March 1, the 44th week of the 2023/24 marketing year, South Africa exported 42 743 tonnes of maize. Of this volume, 58% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 3,05 million tonnes out of the seasonal export forecast of 3,30 million.
- South Africa is a net wheat importer, and March 1 was the 22nd week of the new 2023/24 marketing year, with 3 943 tonnes of imports, all from Lithuania. This placed South Africa's 2023/24 wheat imports at 762 747 tonnes out of the seasonal forecast of 1,6 million tonnes.
- Also, Statistics South Africa will release the **Manufacturing: Production and sales** data for January 2024 on Thursday. Our focus in this data will be on the food category.

## South Africa's Precipitation forecast

- South Africa's rainfall prospects remain worrying. The coming week could still be broadly dry, with light scattered showers only in the country's eastern regions. This means that the crop will remain strained by the excessive dryness. The only promising prospects are in the week of March 18, which could bring widespread showers nationwide and provide much-needed relief if it materializes. Still, it might be too late for some regions in the country's western areas.

### Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)