

An uptick in SA food price inflation in March 2020

South Africa's food price inflation accelerated to 4.4% y/y in March 2020, from 4.2% y/y in the previous month. This uptick was mainly underpinned by relative price rises of meat; milk, eggs and cheese; and fruit. Meanwhile, other products decelerated and some remained roughly unchanged. While there are still unknowns about the definite impact of the COVID-19 pandemic on agriculture and the food sector, we are still convinced that what will matter the most for the direction of food price inflation this year are developments in the grains, meat markets and fruit. These three food categories account for nearly two-thirds of South Africa's food price inflation basket.

Firstly, the outlook for South Africa's grain production is positive. The United States Department of Agriculture (USDA) forecasts South Africa's 2019/20 maize production at 16.0 million tonnes, which is up 36% from the previous season. What's more, global wheat production, which South Africa is a net importer of, is set to be up 4% y/y to 764 million tonnes, according to data from the USDA. As a result of this, the 2019/20 global wheat stocks could reach 293 million tonnes, which is 5% higher than the previous season. This means grain-related product prices could be under pressure in the coming months.

The only key risk which we continue to monitor is COVID-19, specifically on wheat shipments as some countries attempt to place restrictions on exports. With that said, we think there could be some ease in the coming weeks as the outlook for 2020/21 harvest looks promising in major wheat-producing countries.

Secondly, meat price inflation was subdued in 2019 because of the ban on red meat exports on the back of a foot-and-mouth disease outbreak at the start of that year. We are seeing a repeat of a similar situation this year following another foot-and-mouth disease outbreak at the end of 2019. This means South Africa's meat prices could again remain at relatively lower levels for the greater part of this year. Moreover, the potential decline in the household's income during this pandemic could also weigh on red meat sales over the foreseeable future. But the lower base effect of 2019 will mean that meat will not suppress the overall food price inflation in 2020 as much as in the previous year.

Thirdly, there are prospects of good fruit harvests this year, with the citrus industry recently noting a 13% y/y increase in available supplies for export markets. Amid the COVID-19, especially within the EU and Asia region, which are key markets for South African fruit exports; any glitches in supply chains would result in an increased supply for the local market, thereby lowering prices. This would be good for a consumer, but the inverse can be said for farmers.

Against this backdrop, we are convinced that South Africa's food price inflation should hover around 4.0% in 2020 (food price inflation averaged 3.1% y/y in 2019). Under this scenario, the upside pressure will largely come from meat; and importantly, it will mainly be base effects in the case of red meat, and a possible slight uptick in poultry products prices on the back of a recent tariff adjustment.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

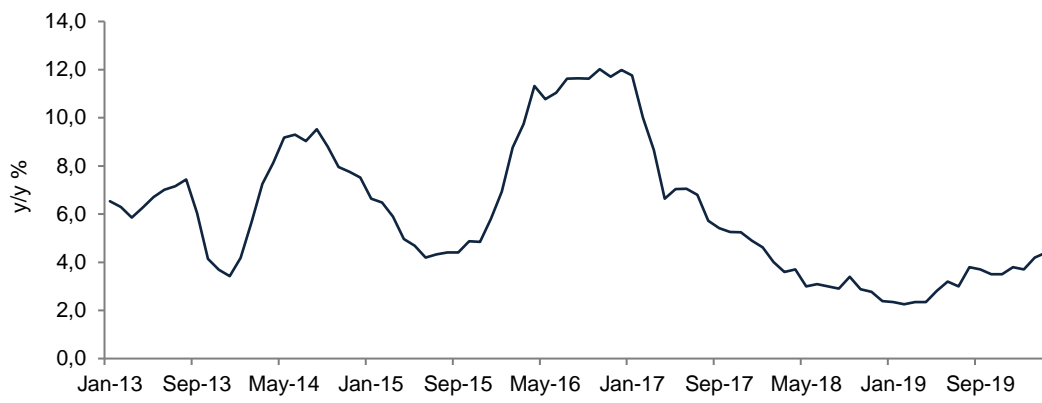
wandile@agbiz.co.za

www.agbiz.co.za

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Exhibit 1: South Africa's food price inflation



Source: Stats SA, Agbiz Research