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SA consumer food price inflation has reached its lowest level since January 2020

- South Africa's consumer food price inflation slowed to 3,9% in July 2024, from 4,1% in the previous month. This is the level since January 2020 and was underpinned by the continued moderation in price inflation across most products in the food baskets, except for "bread and cereal" and "meat".
- We initially thought the increase in the "bread and cereals" and "meat" products would soon change the direction of food inflation to a slight uptick. Positively, they have been fairly outweighed by the continued moderation of other products. The slowing price inflation in products such as "oils and fats", "milk, eggs and cheese", "fruit", and "vegetables" is due to increased supplies; to an extent, the stronger rand to the dollar helps in the case of imported vegetable oils.
- With that said, we continue to monitor the prices of "bread and cereals", and we believe the prices may increase in the coming months. The challenge arises from the mid-summer drought that led to a 19% y/y decline in maize production to an expected 13,34 million tonnes. White maize production is forecast at 6,35 million tonnes (down 26% y/y), and yellow maize at 6,99 million tonnes (down 12% y/y). Given the scale of the decline in the white maize harvest and the expected strong demand from Southern Africa, we expect white maize prices to remain reasonably elevated for some time and thus sustain the increases in bread and cereal products in the food basket.
- That said, we don't expect the potential price increase to be substantial as the forecasts from the International Grains Council signal the possible higher global wheat and rice production in the 2024/25 season, estimated at 799 million tonnes (up 0,6% y/y) and 528 million tonnes (up 1,2% y/y), respectively. Given that South Africa imports nearly half of its annual wheat consumption, about 1,5 million tonnes yearly.
- Furthermore, South Africa imports about a million tonnes of rice each year. Therefore, favourable global production conditions of these grains in the 2024/25 season and the possible subsequent price softening would be welcome developments. Moreover, the relatively firmer domestic currency will also help ease the costs of imported foods.
- As per our recent observations on this issue, we believe the meat price increases could remain mild in the coming months. Weak consumer demand also remains a challenge, particularly for red meat.
- In sum, we continue to believe that the possible upside price risks on "bread and cereals" and "meat", because of their more significant weightings in the food basket, may change the direction of the headline food price inflation from moderation to a mild uptick in the coming months.

Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research