

## SA consumer food price inflation moderated in March 2022

Since the war in Ukraine began and disrupted the global grains market, the agricultural commodity prices have increased significantly, with the FAO's Global Food Price Index in March averaging 170 points, which is the highest level since the inception of the Index in 1990. The rise in grains and vegetable oil prices has been the primary driver of the surge in the Index. As interlinked to the global agricultural markets, South Africa has also experienced increases in agricultural commodity prices. The resulting observation of these developments has been a potential uptick in consumer food price inflation. But there is a lag between farmgate price increases and the retail level.

Hence, the data released by Statistics South Africa this morning showed that the country's consumer food price inflation moderated to 6,6% y/y in March 2022 from 6,7% y/y in the previous month. This is on the back of softer price increases in fish; milk, eggs and cheese; oils and fats; and vegetables. The moderation in the "oils and fats" products prices is temporary. The global vegetable oils prices continue to surge, and local prices will follow a similar trend with time. Moreover, the higher grains prices will also reflect on the elevated "bread and cereals". Still, with the Russia-Ukraine war affecting the global grains trade and domestically the floods in KwaZulu-Natal, we don't foresee risks to food products supply over the foreseeable future, only a potential price increase. There is a sizeable domestic harvest of grains, fruits, and expected import volumes for products that the country typically imports, such as rice, wheat, and palm oil. The one essential product whose price trend remains uncertain is meat. The recent outbreak of foot-and-mouth disease will likely lead to the temporary closure of some key export markets for the red meat industry, thus adding downward pressure on prices. Conversely, there are fears of a potential increase in poultry product prices, which could somewhat lessen the benefit of softer red meat prices.

There are various factors all pushing in opposing directions in the short term. As a result of these dynamics, we now expect South Africa's consumer food price inflation to increase modestly from readings in recent months, and possibly average 6,0% y/y in 2022 (from 6,5% in 2021), and not follow the drastic surge that we have observed in grains prices. The base effects and meat and fruit will also play a constructive role in the consumer food price inflation path.

### Exhibit 1: SA consumer food price inflation



Source: Stats SA and Agbiz Research

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