

## SA consumer food price inflation path uncertain as loadshedding presents risks to irrigation and processing

The data released by Statistics South Africa this morning shows that consumer food price inflation slowed marginally to 12,7% in December 2022 from 12,8% in November. The product prices underpinning this moderation include meat, oils, and fats. For the whole of 2022, the consumer food price inflation averaged 9,5% (compared with 6,5% y/y in 2021 and 4,8% in 2020). Broadly, the high prices of grains, vegetable oils, and meat for much of 2022 were the primary drivers of consumer food price inflation. This was not a unique occurrence to South Africa, but a global challenge mirrored the surge in agricultural commodity prices in the first three quarters of 2022 and the year before. The agricultural commodities price increase emanated from various factors such as the drought in South America, higher shipping costs, strong agricultural product demand in China, and the Russia-Ukraine war.

The higher global grains and oilseeds prices for much of 2022 were the core drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. Notably, these are also products with a relatively higher weighting within the food basket. For example, within the food basket, the essential products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%).

Regarding meat, the 2022 outbreaks of foot-and-mouth disease were vast, to the extent that we observed a slight decline in slaughtering in some feedlots, which ultimately kept red meat prices at higher levels, the opposite of what we initially anticipated. For example, in October 2022, cattle and sheep slaughtering was down by 10% y/y and 7% y/y, with 190 052 head and 335 531 head slaughtered, respectively.

Looking ahead, the global grains and oilseeds prices, which have been the major drivers of the surge in inflation, have softened somewhat. For example, the FAO's Global Food Price Index dropped by 2% in December from the previous month, a ninth consecutive monthly decline. The Index is down 1% lower than in December 2021. Ordinarily, these global developments would, with time, also reflect in South Africa and ultimately in the consumer food price inflation data in the coming months. Importantly, the domestic agricultural season is also broadly positive and benefitted from higher summer rains.

But there are now new risks, such as the intensified loadshedding, which has disrupted the irrigation regions and presents risks to crops. Moreover, the disruptions in some food processing companies and the associated cost increase all present upside risks to consumer food price inflation. Before this intensified loadshedding period, we thought South Africa's consumer food price inflation would slow to 5,5% - 6,0% in 2023 (down from 9,5% in 2022). But these estimates may require revisions once we have a clear sense of the scale of disruption in the agriculture and the broader food, fibre and beverages value chains. We are currently running a survey to gauge the scale of this impact and possible response measures by various firms.

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**Wandile Sihlobo**  
Chief Economist  
+27 12 807 6686  
wandile@agbiz.co.za

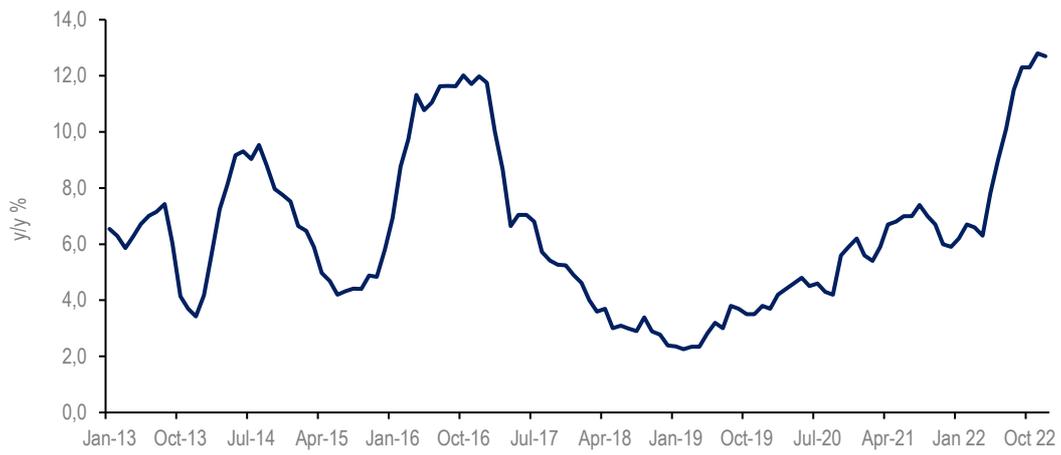
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## Exhibit 1: South Africa's consumer food price inflation

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Source: Stats SA and Agbiz Research