

SA food and non-alcoholic beverages inflation unchanged

South Africa's food and non-alcoholic beverages price inflation remain unchanged for a third consecutive month, at 3.4% y/y in July 2018. Similar to the previous months, most food products inflation within the basket generally softened due to lower agricultural commodity prices, which in turn, were a reflection of available large supplies. The deceleration in meat price inflation was largely underpinned by lower pork prices. The only food category that showed a notable uptick was milk, eggs and cheese, which was partly due to the effects of avian influenza in South Africa's egg-laying flock.

- One of the products that are in deflation within the food basket is bread and cereals, falling 3.0% y/y in July 2018. This is likely to be the key theme throughout the year due to expectations of large maize supplies of 16.7 million tonnes in 2018/19 marketing year, well above South Africa's annual consumption of 10.8 million tonnes.
- Meat price inflation, which remained elevated for some time in the past couple of months, slowed to 5.6% y/y in July 2018, from 6.8% y/y in the previous month due to lower pork prices. While cattle slaughtering declined by 13% m/m in June 2018 to 190 454 head, the outlook for the rest of the year is positive. The United States Department of Agriculture suggests that the number of cattle to be slaughtered in South Africa in 2018 could increase by 4.0% y/y to 3.5 million head following a general recovery in the industry performance. This potential uptick in beef slaughtering could contain meat price inflation at fairly lower levels for some time.
- As noted in the introductory section, milk, eggs and cheese was the only food category (aside from beverages) that registered a notable uptick of 4.2% y/y in July 2018 from 3.8% in June 2018. Nonetheless, this could be short-lived as expected egg imports from the US and Lesotho will supplement local supplies.
- Overall, food price inflation could average around 5.2% y/y this year. Looking ahead, the key risk in the medium term is the expected El Niño event towards the end of this year, heading into 2019, which could negatively affect the new season summer crop. There will be more clarity about this in a month's time or so.

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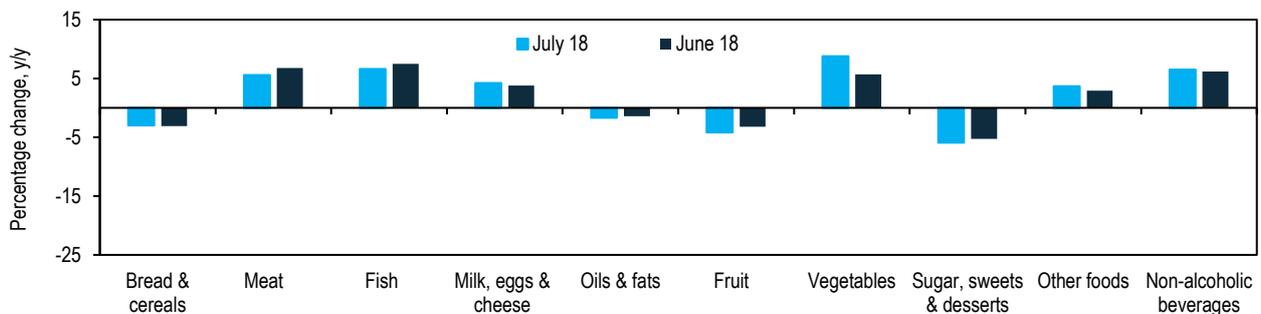


Chart 1: South Africa's food and non-alcoholic beverages inflation (per product)

Source: Stats SA, Agbiz Research

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