

SA food inflation falls to the lowest level in 21 months

Food inflation decelerated to 5.7% y/y in August 2017, from 6.8% y/y in the previous month. This is the lowest levels since November 2015 - thanks to good summer rain, which led to a higher agricultural output. While we expect further moderation in the next few months, the picture of the food basket remains mixed. All food products have decelerated, with the exception of meat which remains stickier, recording 15.0% y/y in August 2017, which is the highest level since December 2011. This is on the back of the spreading avian influenza and cattle restocking process after the 2015-16 drought¹.

- The increase in meat inflation came as no surprise given that over 3 million birds have been culled due to the spread of avian influenza. In addition, the ongoing cattle restocking process also adds to the uptick in the meat inflation. Data from the Red Meat Levy Admin shows that farmers slaughtered 203 647 head of cattle in July 2017, which is 13% lower than the corresponding period last year.
- As we set out on 23 August 2017, the outbreak of avian influenza could be the key driver of the increase in meat inflation, because of its higher weighting within the food inflation basket. Chicken accounts for a 14% share of the overall food basket, meanwhile beef accounts for an 8% share. Pork and lamb combined account for a 5% share. Overall, this shows the significance of poultry within the food basket.
- On a positive note - grain, dairy, fruit and vegetable related food products inflation decelerated due to a recovery in agricultural production. The 2017 summer grain and oilseeds production are set to reach 18.91 million tonnes, which is double the previous season's volume. Moreover, there was also a rebound in vegetable production. Above all, the robust summer crop output might continue to counter the increases in meat inflation and essentially keep food inflation at relatively lower levels over the near-to-medium term.

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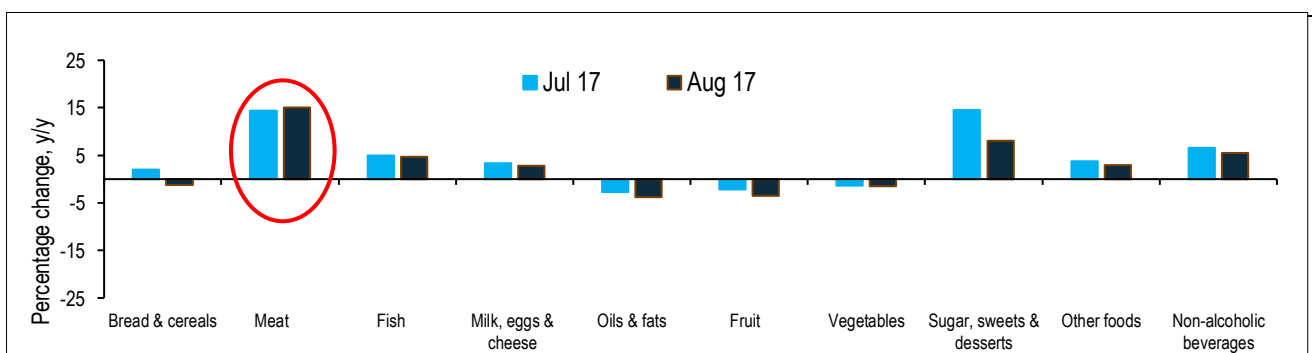


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

¹ Meat has a higher weighting of 5.46% within the CPI basket, which equals to 32% share of food Inflation basket.

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