

SA food price inflation decelerates

Food inflation slowed to 5.3% y/y in October 2017, from 5.4% y/y in the previous month. This is the lowest level in 23-months, thanks to lower agricultural commodity prices. Most food product price inflation remain at relatively lower levels, with the exception of meat which is still at double digits, at 15.5% y/y last month. While fears of avian influenza have not completely dissipated, the impact has largely been on egg layers. Broilers were roughly 8% of the birds culled thus far. The cattle restocking process is also proving to be slower than we initially anticipated. The uptick observed in August slaughtering activity seems to be somewhat a temporary blip, as September figures showed a decline.

- The deceleration in headline food inflation is largely due to lower agricultural commodity prices, following a good harvest in 2016/17 production season. Encouragingly, farmers intend to increase the summer crop¹ area plantings for the 2017/18 production season by 1% y/y to 4.03 million hectares. Additionally, the weather outlook for the upcoming summer season is favourable, which increases a possibility of yet another good crop.
- Avian influenza, which has been spreading across the country, has largely affected egg layers. Data from the South African Poultry Association shows that approximately 4.8 million birds have been culled or died due to the spread of avian influenza. However, broilers for meat only constituted 8% of the culled birds. Surprisingly, eggs price inflation only increased by 0.5% m/m and 2.7 y/y in October 2017.
- After showing a 12% m/m uptick in August 2017, the cattle slaughtering activity declined by 12% m/m in September 2017, with 209 322 head of cattle slaughtered, according to data from the Red Meat Levy Admin. While this is not the only driver, it does add to the increase in general meat price inflation.
- Overall, we expect food price inflation to remain at relatively lower levels for some time due to promising upcoming production season and expected a recovery in the livestock industry.

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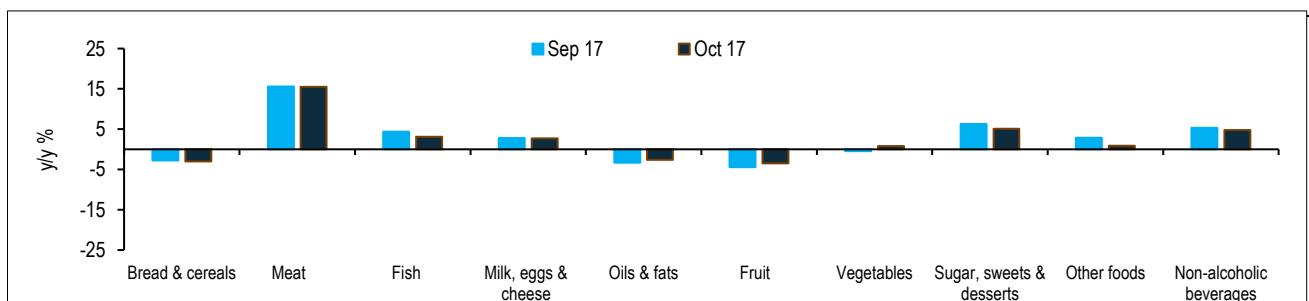


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

¹ Summer gain represents maize, sunflower seed, soybean, groundnuts, sorghum and dry beans.