

SA food price inflation decelerates further to 3.5%

Food and non-alcoholic beverages inflation decelerated to 3.5% in March 2018, from 3.9% in the previous month. This is the lowest levels since December 2013 - thanks to last season's robust crop output, as well as deceleration in meat price inflation. While there might be a slight uptick in the coming months in anticipation of the VAT and sugar tax effect, we expect the food and non-alcoholic beverages price inflation to remain at fairly low levels this year cushioned by a large grain stock from the current marketing year, as well as the expectation of a fairly good summer grain harvest.

- One of the products that are in deflation within the food basket is bread and cereals, falling 4.8% y/y in March 2018. This is likely to be the key theme over the next couple of months as South Africa is set for another good crop harvest, albeit being lower than the 2016/17 production season. The latest estimates point to 12.42 million tonnes of maize this production season, which is well above the annual consumption of 10.5 million tonnes. There will be large carryover stocks of 4.1 million tonnes from the current marketing year, which will boost South Africa's maize supplies in the 2018/19 marketing year that commences in May 2018. All this will keep maize prices at fairly lower levels, which bodes well for food inflation. Moreover, the recent 45% decline in wheat import tariff to R394.85 per tonne also bodes well for food inflation for the coming months.
- Meat price inflation slowed to 10.0% y/y in March 2018, from 11.4% y/y in the previous month. While a welcome development, the ongoing cattle and sheep herd rebuilding process following drought conditions could keep meat prices at relatively higher levels compared to other products. Data from the Red Meat Levy Admin shows that farmers slaughtered 185 262 head of cattle and 286 564 head of sheep in February 2018, which is 11% and 23% lower than the corresponding period last year.
- On balance, the relatively large grain supplies, a recovery in the sugar belt and a decline in wheat import tariff could contain food inflation at fairly lower levels in the coming months.

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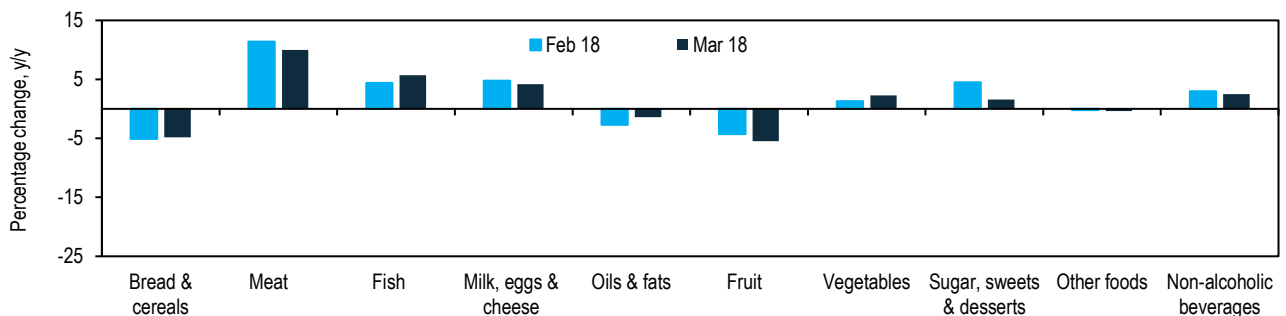


Chart 1: South Africa's food and non-alcoholic beverages inflation (per product)

Source: Stats SA, Agbiz Research

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