

SA food price inflation decelerates to the lowest level in 22 months

Food inflation continued to decelerate driven by lower agricultural commodity prices. In September 2017, the overall food price inflation eased to 5.4%, which is the lowest since November 2015. With that said, the picture remains mixed within the food basket. Meat price inflation remains stickier primarily due to base effects, as well as spreading avian influenza. Livestock restocking process, which has been the key driver of meat price inflation for some time is somewhat normalising, as abattoir's data show an uptick in monthly slaughtering activity. Given the weight of poultry in the overall food price inflation, the spreading avian influenza will remain a key upside risk to food inflation over the foreseeable future.

- The deceleration in headline food inflation is due to the robust recovery in agricultural production. The 2017 total summer grain and oilseed harvest is estimated at 19.9 million tonnes, which is double the previous season's volume¹. This has led to a widespread decline in agricultural commodity prices. For example, white maize spot price currently trades at levels around R1 876 tonnes, which is 45% lower than the same period last year. Yellow maize spot price is trading at levels around R1 974 per tonne, which is a 38% year-on-year decline.
- As we set out in our note on 20 September 2017, the spreading of avian influenza remains a key risk in meat inflation because of poultry's higher weighting. Poultry accounts for a 14% share of the overall food basket, meanwhile beef accounts for an 8% share. In terms of livestock, the recent data from the Red Meat Levy Admin shows that farmers slaughtered 228 632 head of cattle in August 2017, up by 12% from the previous month, but still down by 5% from the corresponding period last year. This suggests some levels of normalisation.
- Looking ahead – there are positive prospects regarding the upcoming summer crop production season, with the South African Weather Service forecasting widespread rainfall between November 2017 and February 2018. Overall, this should keep agricultural commodity prices at relatively lower levels for some time.

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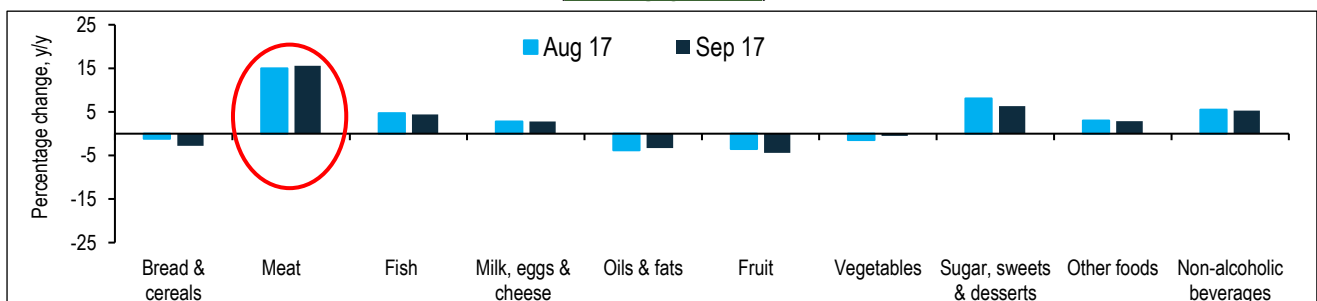


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

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