

SA food price inflation slows to 4.9%

Food inflation for December 2017 was in line with our expectation at 4.9% y/y, from 5.2% in November 2017. This is reflective of the current lower agricultural commodity prices, which in turn, have been pressured by a large harvest from the 2016/17 production season. We expect this trend to persist in the short term cushioned by the relatively large stock from the previous season, despite the fears of dryness in the western parts of the country.

- The early start of the summer grain and oilseed production season has not been good as we anticipated. The planting activity came short of intentions due to dryness in the western Free State and North West provinces. However, this has had minimal impact on grain prices such as maize which is still around 40% lower than levels seen this time of the year. Supporting this price movement are large maize stocks, which are recorded at 8.2 million tonnes in November 2017, about twice the volume seen at the same time the previous year.
- Meat price inflation slowed to 14.0% y/y in December 2017, from 14.9% y/y in November. This comes after cattle slaughtering activity increased by 9% m/m to 238 369 head of cattle in November 2017. This trend could prevail in the coming months as the livestock industry continues to normalise after the recent drought.
- While the Western Cape drought has resulted to a significant decline in agricultural production of crops such as wheat, we do not foresee that playing a significant role in food price inflation as South Africa is already a net importer of wheat, with prices trading along import parity levels. The details of the food price inflation basket are illustrated in the chart 1 below.
- Overall, while current the general dryness in the western parts of the country is an immediate concern for farming communities, the outlook on food inflation will not change significantly in the near term due to the buffer of large stocks from the previous season and normalisation in the livestock industry, as well as the recovery of the sugar belt.

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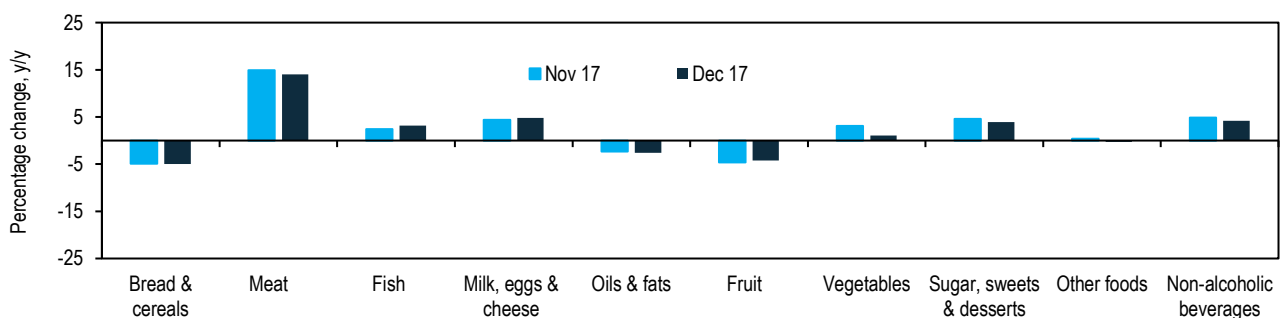


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

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