

PPI UPDATE: SA food products price inflation slows to 1.3% y/y

Food products' price inflation eased to 1.3% y/y in September 2017, from 1.9% y/y in the previous month. The deceleration was broad-based, with the exception of dairy products which inched up from the previous month. Meat and meat products' inflation, which has been the key driver of the headline inflation for some time, also eased. This reflects an improvement in livestock slaughtering activity. However, there are still risks associated with the spread of avian influenza albeit having affected a relatively small share of broilers at the moment, with impact more pronounced on the layers.

- As we set out in our note on 28 September 2017, the broad deceleration in food producer inflation is due to a robust summer crop harvest, as well as improving slaughtering activity, particularly cattle and sheep.
- Meat and meat products price inflation eased to 16.5% y/y in September 2017, from 16.8% y/y in the previous month. This was largely driven by the improvement in cattle and sheep slaughtering activity. About 228 632 head of cattle were slaughtered in August 2017, up by 12% from the previous month. At the same time, 374 838 head of sheep, which is an 11% monthly uptick. For now, it is unclear whether this will be a temporary blip or a continuous recovery. We will get more clarity tomorrow, 27 October 2017, when the Red Meat Levy Admin releases the figures for September 2017. Within the meat and meat products basket, the spread of avian influenza remains a major concern, although it has, so far, largely affected layers for egg production.
- A slight uptick in dairy products price inflation to 1.7% y/y in September 2017 came as no surprise. It is merely a reflection of seasonal trends. We expect dairy products inflation to soften in the coming months, in anticipation for improvement in grazing veld and milk production during the summer rainfall season.
- Apart from avian influenza, large agricultural output and positive prospects for the new summer crop season will keep commodity prices under pressure over the short-to-medium term, which should contain food products' inflation at relatively lower levels.

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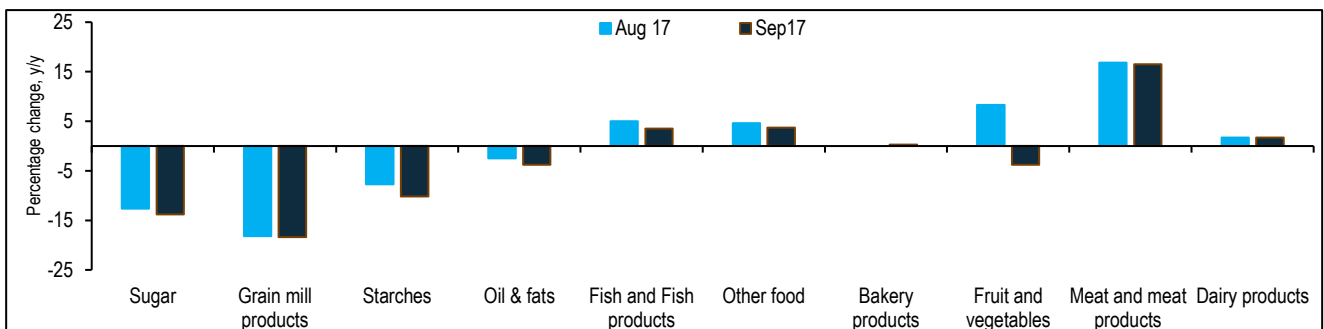


Chart 1: South Africa's food producer inflation (per product)

Source: Stats SA, Agbiz Research

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