

Slight uptick in SA food price inflation in February 2020

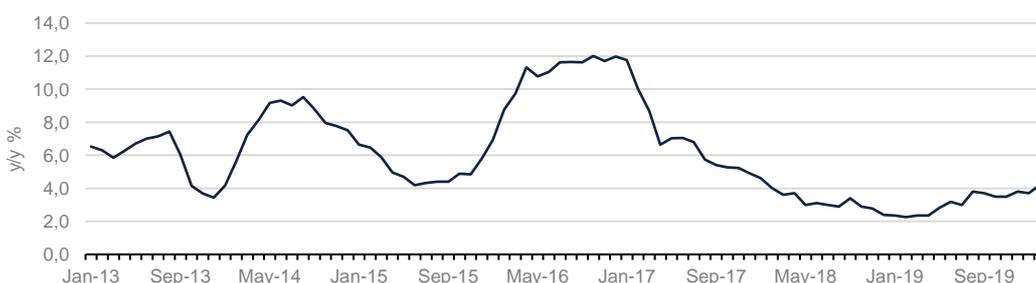
The data released this morning by Statistics South Africa shows that the country's food price inflation accelerated to 4.2% in February 2020, from 3.7% y/y in the previous month. This uptick was mainly underpinned by relative price rises of meat; milk, eggs and cheese; oils and fats; and vegetables. Still, this doesn't change our view that what will matter the most for the direction of food price inflation this year are developments in the grains, meat markets and fruit. These three food categories account for nearly two-thirds of South Africa's food price inflation basket.

Firstly, the outlook for South Africa's grain production is positive. Maize production could increase by 35% y/y to 16.0 million tonnes, according to the latest forecasts from the USDA. This could be the second-largest maize harvest on record after the 2016/17 season (which was 16.8 million tonnes for total maize). What's more, global wheat production, which South Africa is a net importer of, is set to be up 5% y/y to 764.0 million tonnes. This means grain-related product prices could be under pressure in the coming months. The only key risk which we continue to monitor is COVID-19, specifically on wheat shipments. So far, however, we haven't noticed glitches.

Secondly, meat price inflation was subdued in 2019 because of the ban on red meat exports on the back of a foot-and-mouth disease outbreak at the start of that year. We are seeing a repeat of a similar situation this year following another foot-and-mouth disease outbreak at the end of 2019. This means South Africa's meat prices could remain at relatively lower levels for the greater part of this year. But the lower base effect of 2019 will mean that meat will not suppress the overall food price inflation in 2020 as much as in the previous year. Thirdly, there are prospects of good fruit harvests this year, with the citrus industry recently noting a 13% y/y increase in available supplies for export markets. Amid the COVID-19 pandemic, especially within the EU and Asia region, which are key markets for South African fruit exports; any glitches in supply chains would result in an increased supply for the local market, thereby lowering prices. This would be good for a consumer, but the inverse can be said for farmers.

Against this backdrop, we are convinced that South Africa's food price inflation should hover around 4.0% in 2020 (food price inflation averaged 3.1% y/y in 2019). Under this scenario, the upside pressure will largely come from meat; and importantly, it will mainly be base effects in the case of red meat, and a possible slight uptick in poultry products prices on the back of a recent tariff adjustment.

Exhibit 1: South Africa's food price inflation



Source: Stats SA, Agbiz Research

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