# Higher than expected consumer food price inflation in August

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South Africa’s consumer food price inflation continues to surprise on the upside. We thought the start of the second half of the year would moderate the increase we observed in the past few months. But the data released by Statistics South Africa on 22 September 2021 show that consumer food price inflation accelerated to 7,4% y/y in August 2021 after registering 7,0% in the previous two months. This is the highest level since March 2017. The underpinning drivers of this uptick in consumer food price inflation was meat and, to a lesser extent, fish and vegetables. Meanwhile, most products in the food basket, including ‘bread and cereals, and ‘oils and fats’, decelerated, the latter after a sharp increase in recent months.

The notable increase in meat price inflation can be partly explained by the decline in cattle and sheep slaughtering activity over the past few months. For example, in July 2021, cattle and sheep slaughtering activity was down by 16% y/y and 11% /y/y, with 188 865 and 298 873 head slaughtered, respectively. The livestock industry is still in the herd rebuilding process that we have been in since the drought of 2015-16. Moreover, the continuous outbreak of Foot and Mouth Disease in some provinces of South Africa, such as KwaZulu-Natal and Limpopo, has recently led to farmers slowing the slaughtering activity. This is slightly different from what we have observed in the past when such outbreaks and the temporary ban in exports that would typically result in a somewhat increase in meat supply and consequently softening in prices. It is possible that the good performance in crops production may have helped to provide some financial breathing room for some diversified farmers to rebuild herds rather than sell more meat to the domestic market.

Moreover, the uptick in vegetable price inflation reflects the tight stocks we have been observing in products such as potatoes because of production damages in the northern regions of the country. This, however, is temporary, and supplies could soon improve, and prices may soften. Under such a scenario, the vegetable price inflation trend would follow other major products such as grain-related, which are cooling off from the higher levels of the past few months, reflective of agricultural commodity prices. Overall, we still hold a constructive view of possible moderation on food price inflation which will most likely be underpinned by the possible softening in grain-related products, dairy and vegetables. The path for meat prices remains uncertain for now. We will closely observe the slaughtering data of the coming months to ascertain our view on the price trend of this particular product.

**Exhibit 1: South Africa’s consumer food price inflation**

Source: Stats SA and Agbiz Research