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SA's annual food inflation falls to the lowest level in 14 months

Although there are lag effects between the decline in agricultural commodity prices and retail food prices, the benefits of the uptick in agricultural production are already reflected in food prices. South Africa's annual food and beverages inflation fell to 8.7% year-on-year in March 2017, which is the lowest level in 14 months.

- The general decline in food inflation is largely on the back of a broad recovery in agricultural production. Maize production is estimated at 14.3 million tonnes, which is the second-biggest crop on record after 1980/81. This uptick in production is underpinning a bearish trend in agricultural commodity prices, which is expected to prevail for the better part of the year.
- Data from Statistics South Africa shows that food and non-alcoholic beverages inflation fell to 8.7% year-on-year (y/y) in March 2017 from 9.9% in February 2017. With that said, the picture of the food inflation basket was mixed (*see Chart 1*). While the majority of products decelerated, non-alcoholic beverages, sugar, sweets and desserts accelerated.
- The uptick in **sugar, sweets** and **desserts** is partly on the back of expected decline in sugar production this year. BMI Research forecasts a 1% decline in South Africa's 2017 sugar production to 1.66 million tonnes. This would be a second consecutive annual decline, following a 23% decrease in 2016 due to the drought.
- **Meat** inflation remained unchanged from the previous month, at 9.9% y/y, as the slaughtering activity slowed down, with farmers continuing to restock their herds, following a drought season. In February 2017, farmers slaughtered 192 186 head of cattle, which a 17% annual decline.
- While we expect the overall food inflation to decelerate further over the coming months on the back of large supplies, **sugar, milk, meat inflation** could remain at relatively higher levels. As the winter season approaches, **milk** production could decline, in line with seasonal trends.

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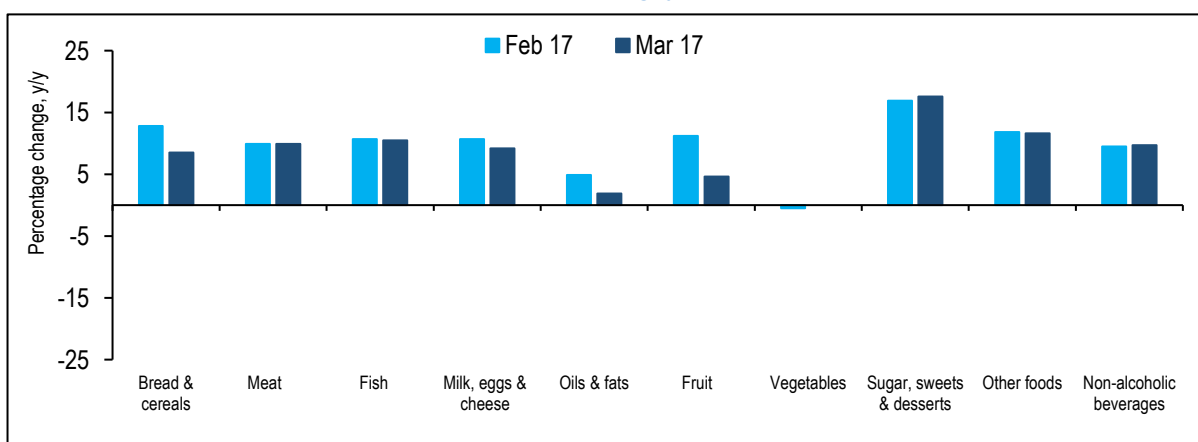


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

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