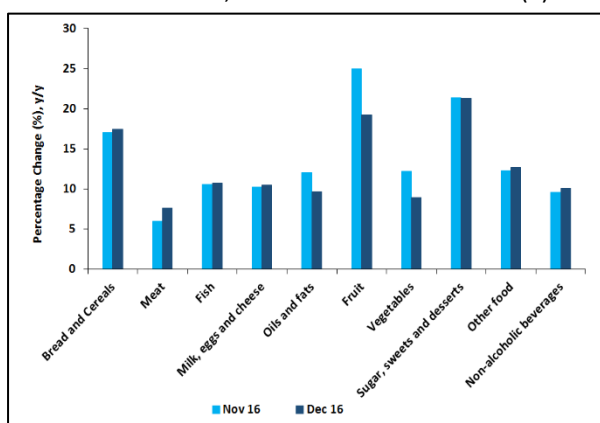
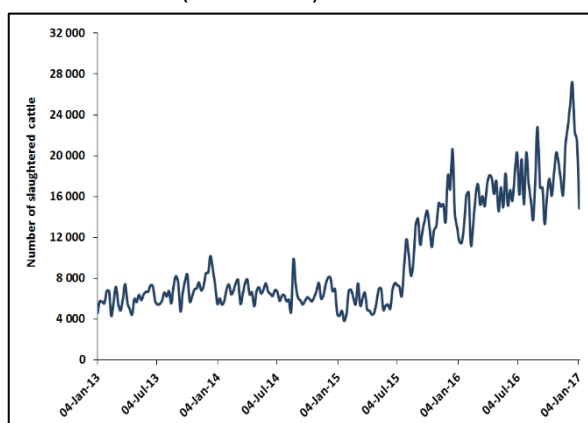


## UPDATE: South Africa's food inflation accelerates – 18 January 2017

- **Recent Consumer Price Index data shows that food and non-alcoholic beverages inflation accelerated to 11.7% year-on-year (y/y) in December 2016 from 11.6% in November 2016<sup>1</sup> (with non-alcoholic beverages aside, food inflation increased to 12% y/y in December 2016 from 11.8% y/y in November 2016).**
- Food and non-alcoholic beverages basket consist of **bread & cereals; meat; fish; milk, eggs & cheese; oils & fats; fruit; vegetables; sugar, sweets & desserts; non-alcoholic beverages** and **other foods**.
- The overall increase was largely driven by **bread & cereals; meat; eggs & cheese** and **other foods** which reached 17.4% y/y; 7.6% y/y; 10.5% and 12.7%, respectively (see **Chart 1**). The increase in the **bread & cereals** inflation is reflective of the effects of 2015/16 El Nino induced drought that led to lower maize supplies and subsequently higher maize prices. The increase in **milk, eggs & cheese** inflation was largely driven by lower domestic milk supplies. In November 2016, the South African Milk Processors' Organisation Raw Milk Purchase Index fell by 3% from the previous month to 135.73 points – reflective of the decline in purchases. The increase in **meat** inflation coincides with seasonal demand during the festive season. Meanwhile, the decline in **vegetables** and **fruits** inflation was driven by harvest pressure.
- **Looking ahead** – we foresee a slowing trend for most food products inflation in 2017 due to an expected recovery in crop production on the back of favourable weather conditions. However, this is with the exception of **meat** which is likely to maintain the upward trend over the coming months due to expected decline in slaughtering rate. With weather conditions improving, we suspect that farmers will soon start to rebuild their herds, which in turn will lead to a decline in slaughtering rate to the normal levels of 6 500 herd of cattle a week, from the current levels of (+) 15 000 herd of cattle (see **Chart 2**)<sup>2</sup>.



**Chart 1: Dec. and Nov. 2016 y/y percentage changes**  
Source: Statistics South Africa, Agbiz Research



**Chart 2: RSA's slaughtered cattle (weekly basis)**  
Source: Red Meat Abattoir Association, Agbiz Research

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*Disclaimer: Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any losses or damage incurred due to the usage of this information.*

<sup>1</sup> Overall headline inflation accelerated to 6.8% y/y in December 2016 from 6.6% y/y in November 2016.

<sup>2</sup>Worth noting is that the overall CPI for **food and non-alcoholic beverages** weighs 15.41 points (out of 100 index points) – in that basket, each of the food products is allocated its weight, with the largest being **meat** and **bread and cereal**, which make up 30% and 23%, respectively. Therefore, an increase in **meat** inflation could potentially overshadow the decrease in other food products.