



15 February 2017

## SA's annual food inflation decelerates

The recent food and non-alcoholic beverages inflation data suggest that we might have already reached the peak in food inflation and the coming months could show sideways to a downward trend. Data released this morning showed that South Africa's food and non-alcoholic beverages inflation eased at 11.4% year-on-year (y/y) in January 2017 from 11.7% in December 2016. With non-alcoholic beverages aside, food inflation eased at 11.8% y/y in January 2017 from 12% y/y in December 2016<sup>1</sup>.

- 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 deceleration was largely driven by **bread & cereals; oils & fats; fruit; vegetables; other foods** and **non-alcoholic beverages** which reached 17.0% y/y; 7.2% y/y; 11.2%; 4.7% y/y; 12.3% y/y and 9.2%, respectively (see **Chart 1**). The easing of **bread & cereals** inflation is in line with the decline in grain prices. White maize spot prices are currently at levels around R2 860 per tonne, which is 40% lower than the corresponding period last year. Wheat spot prices are at levels of R4 000 per tonne, which is a 13% annual decline (see **Chart 2**). The decline in **oils & fats** inflation mirrors the movement of sunflower seed prices which are currently at levels of R5 115 per tonne, down by 38% from the corresponding period last year. The decline in **vegetables** and **fruits** inflation was driven by harvest pressure.
- Meanwhile, **meat; fish; milk, eggs & cheese; sugar, sweets & desserts** inflation accelerated to 8.9% y/y; 11.1% y/y; 11.1% y/y and 21.4% y/y, respectively (see **Chart 1**)
- **Looking ahead**, we think food inflation may remain 'sticky' at these current 'high' levels over the next few months, with notable deceleration expected later in the year. This is partly on the back of lag effect on grain prices, as well as expected higher meat prices<sup>2</sup>. The deceleration later in the year is due to expected recovery in grain production, with our maize production estimate at 11.9 million tonnes, a 53% annual increase.

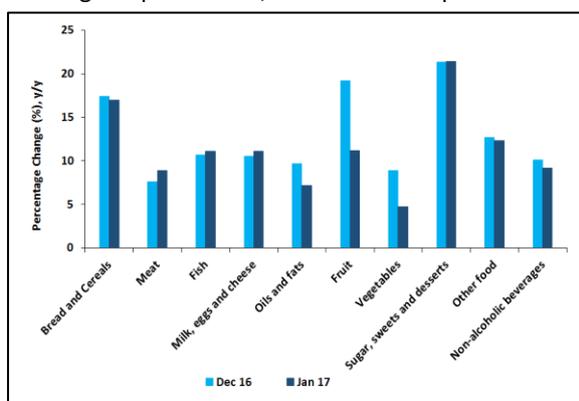


Chart 1: Jan 17 & Dec 16 y/y percentage changes

Source: Statistics South Africa, Agbiz Research

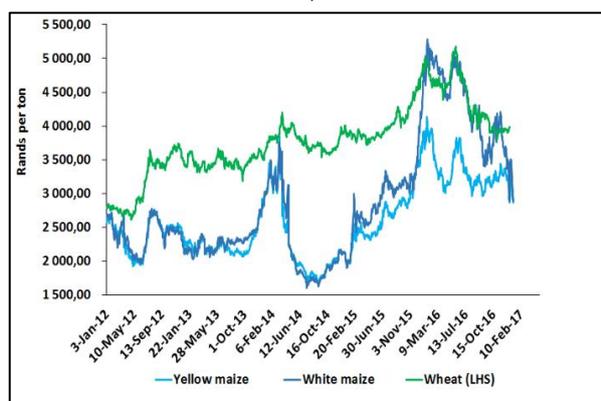


Chart 2: SA Grain Prices

Source: JSE, Agbiz Research

Wandile Sihlobo (wandile@agbiz.co.za)

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 decelerated to 6.6% y/y in January 2017 from 6.8% y/y in December 2016.

<sup>2</sup> Worth noting is that the overall CPI for **food and non-alcoholic beverages** weighs 17.24 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 & cereal**, which make up 32% and 19%, respectively.

