

UPDATE: South Africa’s Food Producer Inflation Declines Slightly – 26 January 2017

- **Recent Producer Price Index data shows that food products (producer) inflation fell to 11.1% year-on-year (y/y) in December 2016 from 11.2% y/y in November 2016¹. This signals a slight easing of price pressures that could be passed on to the consumer and be reflected in the Consumer Price Index (CPI) data.**
- The food products basket consists of four broad categories which include (1) **meat, fish, fruit, vegetables, oils and fats**, (2) **dairy products**, (3) **grain mill products, starches and starch products**, and **animal feeds** and (4) **other food products**.² Although overall food products inflation has decelerated, some products recorded an upward movement. Notable increases have been recorded in, for instance, **fruit and vegetables; fish and fish products; meat and meat products** and **dairy products** (see Chart 1).
- The increase observed in **fruit and vegetables** inflation coincided with festive-season demand, as well as lower domestic supplies as most fruits were “out-of-season”. The increase in **dairy products** inflation was largely driven by lower domestic milk supplies. In December 2016, the South African Milk Processors’ Organisation Raw Milk Purchase Index fell by 6% from the previous month to 126.02 points – reflecting a decline in purchases. **Meat and meat products** inflation was largely driven by festive-season demand.
- **Looking ahead**, we believe that food products inflation will decelerate over the coming months due to an expected recovery of crop production and grazing fields on the back of favourable weather conditions. However, it is worth noting that there are “unconfirmed” reports of armyworms in parts of Limpopo, Free State and North West provinces. This pest presents some risks for the country’s summer crop harvest. More information about this will unfold over the coming weeks. In addition, **meat and meat products** inflation also presents an upward risk to overall food products inflation as the expected decline in slaughtering rate will subsequently lead to higher meat prices (see [South Africa’s food inflation accelerates](#), 18 January 2017).

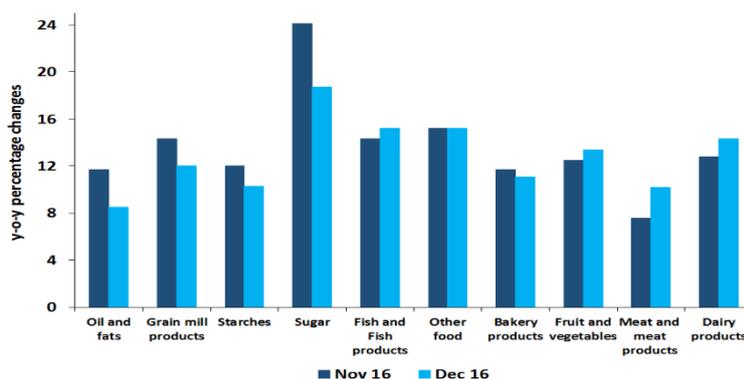


Chart 1: Annual producer inflation for food products

Source: Statistics South Africa, Agbiz Research

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¹ Overall Producer Price Index (PPI) inflation accelerated to 7.1% in December 2016, from 6.9% in November 2016.

² Overall PPI for **food products** weighs 25.20 points - each of the food categories within the food products basket is allocated a weight, the largest being “**meat, fish, fruit, vegetables, oils and fats**” and “**other food products**”, which make up 37% and 41%, respectively.