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## South Africa's consumer food inflation slightly moderated in September 2023

- South Africa's consumer food inflation slightly slowed to 8,0% in September 2023 from 8,2% in the previous month. The product prices underpinning this deceleration are mainly bread and cereals; oils and fats; sugar, sweets and desserts; and vegetables. Our view of the path forward remains unchanged from what we have consistently communicated over the past few months.
- While there are renewed risks in global and agriculture, such as India's decision to ban specific categories of rice exports and the Black Sea Grain Deal Initiative that facilitated grains and oilseeds exports from Ukraine terminated, and domestically, the avian flu, we are still optimistic that South Africa's consumer food inflation will continue to slow throughout the year into 2024.
- The spreading of avian influenza has mostly affected Gauteng, Mpumalanga, Free State, Limpopo and North West. Over a hundred primarily commercial facilities have reported avian influenza cases. There are reported losses in parental stock for breeders of layers and broilers.
- In response to the challenge, the Department of Agriculture, Land Reform and Rural Development, along with poultry producers and retailers, are exploring a range of instruments to respond to the current crisis. These include the containment measures currently being implemented by industry and government to control the spread of the disease. Regarding the egg supply constraints, the industry is working on importing fertilized eggs to rebuild the parental stock lost from this disease and import table eggs (powder and liquid eggs that would help in the baking process and free the whole eggs for human consumption). There are also ongoing processes about the possible vaccinations to curb the spread of the disease.
- There is anecdotal evidence of various retailers that have adjusted egg prices significantly to manage the demand. Such price adjustments in a short period have raised concerns about the possible impact of the current avian influenza on food inflation. What will matter a lot is the duration of these higher prices, which we doubt will persist for an extended period if the interventions of imports and control of the spread of the disease we listed above succeed. The current increases could be a temporary blip, which will likely show on one-monthly inflation figures, and the trend would then continue to the expected path we were on before, which is deceleration or sideways.
- Also worth noting is that eggs have a lower weighting within the food inflation basket, at 0,4%, which means its impact may not be as pronounced in an overall inflation figure. Poultry products, which have a slightly higher weighting of 2,09%, have not increased at the retail level as significantly as eggs. Given that the poultry products supply is still relatively good and various trade measures are under consideration, there should not be supply constraints over the foreseeable future.

- Beyond the poultry developments, the products that could underpin the slowing food inflation trend will likely remain similar to those in the past few months, specifically grain-related products, fats and oils and fruit and vegetables.
- Within the vegetable side, however, we may see temporary price increases in potatoes due to quality issues and lower volumes in some regions. Such price shocks are already visible in some Fresh Produce Markets nationwide. Given the anticipated demand and potential slight price increase, the meat price trend could slightly change ahead of the festive season.
- Regarding the "bread and cereals" product prices, admittedly, the Black Sea Grain Deal challenges and India's rice exports ban are an upside price risk. With South Africa importing a million tonnes of rice and similarly exposed to wheat imports, the disruption in trade of these commodities and the length of it could have implications on global price and, ultimately, South Africa's "bread and cereals" component of the food inflation basket. Still, we have not seen material price changes in the grain prices so far, although there were price reactions after the announcements of both the Black Sea Deal and the India rice exports ban. Hence, we expect the prices of grain-related products in the inflation basket to maintain a softening path.
- We had feared that the "oils and fats" products prices would start to increase and follow the global price trend, which showed an uptick in July. However, the recent data from the FAO shows continuous moderation. For example, In September 2023, the FAO's vegetable oil price index was at 121 points, down 4% from August 2023 and 21% y/y. The decline in the global prices of palm, sunflower, soybean and canola oils underpinned this.
- Beyond the global dynamics, South Africa has a favourable agricultural season. For example, the 2022/23 maize harvest is estimated at 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybean harvest could reach a record 2,8 million tonnes. Other field crops and fruits also provided decent harvests. These increased supplies support the slowing food inflation view we expressed.
- Also crucial for the food inflation outlook going into 2024 is highlighting that El Nino's forecast in the upcoming 2023/24 summer crop season is another aspect to keep an eye on, although we remain optimistic that it will have a mild impact on the sector and thus keep production at decent levels and, by extension, sustain moderating food prices. There are good soil moisture levels across South Africa following several rainy seasons. Furthermore, the weather forecast remains reasonably favourable for the year, with El Nino expected to intensify from January 2024.
- Be that as it may, the prices of these products are influenced by global developments as we are an open economy interlinked to the world markets. So, monitoring global agricultural developments, geopolitics, and energy markets remains vital.

## Exhibit I: South Africa's consumer food inflation

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Source: Stats SA and Agbiz Research