

## South Africa's consumer food price inflation accelerated in May

We are in a period of elevated prices, and food is at the core of these increases. For example, in May, South Africa's consumer food price inflation accelerated to 7,8% y/y, from 6,3% in the previous month. This is the quickest pace since March 2017. The increase was broad based on all food products in the inflation basket. This largely mirrors the uptick we have been seeing in the global agricultural commodity prices, and indeed the domestic market.

Importantly, we are now also starting to see the spillover the Russia-Ukraine war had on agricultural commodity prices transmitted into retail food prices. In fact, for the grain-related and vegetable oils products, we will likely see a continuous mild uptick in the coming month or two, which could push up mildly the headline food consumer price inflation number further. Since the Russia-Ukraine war began and disrupted the global grains market, the global agricultural commodity prices have increased significantly, with the FAO's Global Food Price Index in May averaging 157 points, which is up 22% y/y, coming from a record high seen in March.<sup>1</sup>

The disruption in the palm oil market, and indeed the entire vegetable oils market, the ban on wheat exports by India, and the expected lower wheat harvest in the 2022/23 production season are added upside risks that could sustain prices at higher levels. We, however, don't see potential further increases in the global agricultural commodity prices, but that prices could hover at current elevated levels for some time. South Africa, which is interlinked with global agricultural markets, has also experienced increased agricultural commodity prices. The result of these developments is the recent uptick in the cereals, and oil and fat products prices in the consumer food price inflation basket. These could remain elevated, in line with our expectations of agricultural commodity prices.

Nevertheless, we still think the outlook on food product prices will remain mixed, despite the recent broad increase in product prices. In the case of fruits and vegetables, South Africa has a sizable harvest and the disruption in fruit exports within the Black Sea region could add downward pressure on domestic prices; Therefore, we hold a generally favourable view of these product price directions for the coming months.<sup>2</sup>

The one essential product whose price trend remains uncertain is meat. The recent outbreaks of foot-and-mouth disease have led to the temporary closure of some key export markets for the red meat industry, thus potentially adding downward pressure on prices. Still, this will be dependent on the cattle and sheep slaughtering activity, which for now remains robust, with 197 712 head of cattle slaughtered in April 2022 (-2% y/y), and 318 155 head of sheep slaughtered in the same month (-10% y/y). Conversely, there are fears of a potential increase in poultry product prices, which could lessen the benefit of softer red meat prices.

Overall, various factors in the food market will likely push in opposing directions in the coming months. Thus, we believe that South Africa's consumer food price inflation could

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<sup>1</sup> The FAO data are available [here](#).

<sup>2</sup> The citrus industry is an example of a large domestic fruit harvest. See [here](#).

average just above 6,0% y/y in 2022 (from 6,5% in 2021). The base effects, along with meat, fruits and vegetables, will likely provide a constructive price inflation path ahead. With that said, the next month or two will likely show elevated consumer food price inflation, with moderation in much of the second half of the year.

### Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research