

What to make of South Africa's recent consumer food price inflation data?

Statistics South Africa recently reported much higher figures for consumer food price inflation than some had expected. In April 2021, the country's consumer food prices were at 6,7% year-on-year, the highest level since July 2017. The different thing about 2017 is that it was a year that followed a drought period – so there were still pass-throughs of higher grain prices from the previous poor season. Notably, livestock farmers were restocking their herds after the devastation caused by the drought. This meant that there was less slaughtering activity and meat prices rose, driving the uptick on overall consumer food price inflation, which for July 2017 was reported at 6,9% year-on-year. But we are far from that reality this time around. We have had two consecutive favourable agricultural seasons, characterized by higher rainfall, which supported crop yields and the livestock industry.

Nevertheless, we are operating in a global environment and developments in various regions of the world impact the South African agricultural market. A case in point is global grain prices, which remain elevated because of droughts in South America and dryness in parts of the US and Canada, as previously stated in the above section of this note. Driven by these higher global prices, South African grain prices remain elevated. Similar price trends are also evident in oilseeds (an additional price driver here is also robust Chinese demand for soybeans).

Therefore, in our view, the driving factors of local food prices are not so much what is happening in South Africa, where we are expecting the second-largest maize harvest in history, about 16,7 million tonnes. Instead, the higher global grains and oilseeds prices are the driving factors of prices. We know from our most recent research that the correlation between domestic and international maize prices remains positive, about 60% for white maize (which is mainly traded into the African region) and 85% for yellow maize (which is sold into the global market). This implies that when global maize markets show an increase, domestic maize prices tend to rise in tandem. We see pretty much similar observations for soybeans, of which South Africa is a net importer.

These higher maize and overall oilseeds prices have been our reality since last year, putting increased pressure on the livestock industry. At the start of the week, Astral Foods, one of South Africa's notable poultry companies, signalled that they are now being forced to pass on the rising input costs to consumers.¹ Therefore, it is not surprising to see that one of the products that underpinned the recent increase in South Africa's consumer food price inflation is meat. The meat producers have experienced rising input costs because of higher feed costs for such a long period. Eggs, milk and cheese also increased, and the driving factor is similar.

Oil and fats are another food product category that was behind the notable increase in consumer food price inflation. South Africa imports large volumes of vegetable oil a year, roughly half a million tonnes of palm oil and just over a hundred tonnes of sunflower oil. Currently, the global prices of vegetable oils are relatively higher because of supply

¹ Here is a link for more information on Astral Food's view: <https://www.businesslive.co.za/bd/companies/industrials/2021-05-17-astral-reports-profit-hit-as-sa-maize-prices-push-five-year-high/>

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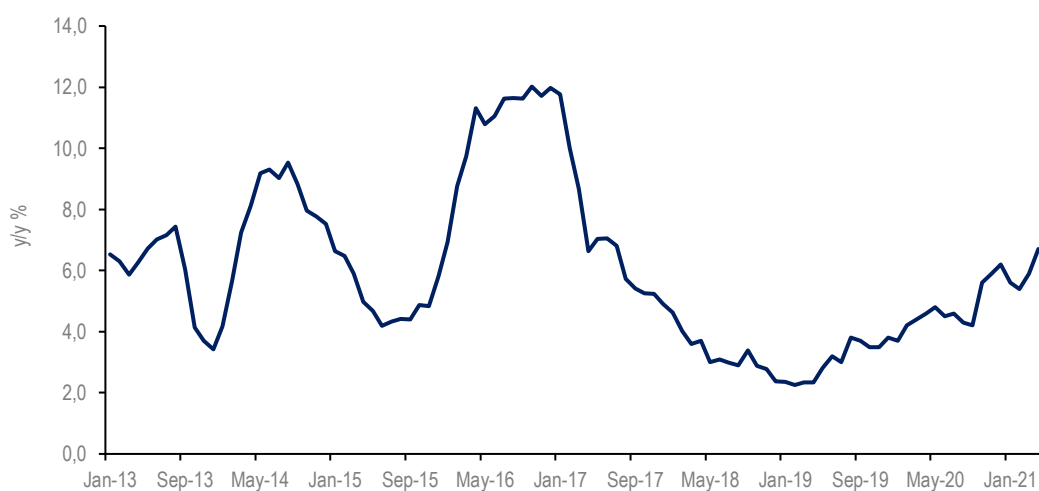
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constraints in the palm oil producing Asian countries, combined with generally higher global demand. What we are witnessing here in the domestic market is a spillover of this phenomenon.

Lastly, vegetables were another contributing factor behind the rise in food price inflation. Here, we are convinced that this was a temporary blip. Several people in my networks complained of higher tomato, onion and carrot prices these past few months. Supply constraints caused those increases as higher rainfalls delayed harvests and caused some crop damage in the northern regions of South Africa. But things are normalizing, and the high-frequency vegetable price data suggests so.

In sum, the higher global grain prices present upside risks to South Africa's food price inflation, despite our sizeable domestic harvest. Our agricultural market is interlinked to the worldwide environment, and we will likely continue to see local prices reflective of the global realities, which is higher prices. But we don't expect such increases to be exorbitant. Hence, we are still comfortable with our view of average consumer food price inflation of about 5,5% y/y (slightly up from 5,0% y/y we had previously communicated) in 2021. Also, meat is an essential product to keep an eye on as companies signal potential price increases for the foreseeable future. The higher grain prices that persuaded them to take this view will likely be with us for the next few months, although probably at slightly lower prices than the R3 500 per tonne levels we are witnessing. We could see some softening of the monthly consumer food price inflation data, mainly underpinned by grains products, from mid-year to when the local maize harvest gains momentum.

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research