Higher food prices not the doing of domestic farmers

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In a year of large crop harvests following good rainfall, a few people probably thought consumer food price inflation would accelerate as we have witnessed in the past ten months, averaging 6,6% y/y (compared with 4,5% y/y in 2020). But the large crop harvests in South Africa contributed less towards price determination in global food prices compared to production constraints in South America, combined with rising demand for oilseeds and grains in China. South America has poor crop harvests, especially for maize, because of the La Niña weather phenomenon that typically leads to below average rainfall (In Southern Africa La Niña leads to above average rainfall). These poor harvests, combined with the rising demand in China, provided upward pressure on global grain and oilseed prices. The lingering shipping container shortage and associated rise in shipping costs for much of the year also supported prices.

South Africa, a relatively small player in global agriculture, is linked to the global market. Thus, the general rise in global prices overshadowed the improved domestic supply. The domestic consumer food price inflation peaked in August 2021, reaching 7,4% y/y, the highest level since March 2017. Fortunately, subsequent months show moderation, with food price inflation slowing to 6,7% y/y in October 2021. There was a deceleration in product price inflation across the food basket, except for vegetables. Still, I think the uptick in vegetable price inflation is temporary and was mainly caused by the supply constraints in the northern parts of South Africa in the past few months, which has now normalised.

Although at the Agricultural Business Chamber of South Africa (Agbiz) we still expect consumer food price inflation to continue to slowdown in the coming months, we have since trimmed our forecast. This is because meat, vegetable oils and fats, which decelerated somewhat in October, will likely remain at fairly higher price levels for some time, thus countering the potential decline in various products such as 'bread and cereals' and 'vegetables.'

To support this, the cattle and sheep slaughtering activity remains at relatively lower levels compared to 2020, and this could provide mild support for meat price inflation in the near term. In August 2021, cattle and sheep slaughtering activity was down by 1% y/y and 3% /y/y, with 207 449 and 293 883 head slaughtered, respectively. The livestock industry is still in the herd-rebuilding process since the drought of 2015-16. Moreover, the continuous outbreak of the foot-and-mouth disease in some provinces of South Africa, such as KwaZulu-Natal and Limpopo, has recently led to farmers slowing their slaughtering activity.

This is slightly different from what we have observed in the past when such outbreaks and concomitant temporary export bans would typically result in somewhat increased meat supply and, consequently, softened prices. The excellent performance in crop production may have helped to provide some financial breathing room for some diversified farmers to rebuild herds rather than sell more meat to the domestic market to stay afloat.

In addition, South Africa is a net importer of vegetable oils and fats, and these products' prices have remained elevated in the global market. For example, the Food and Agriculture

Organization of the United Nations (FAO) 's Vegetable Oil Price Index averaged 185 points in October 2021, up by 10% month-on-month to an all-time high. This is underpinned by higher palm oil, soybeans, sunflower seed and canola prices on the back of constrained supplies in key producing countries such as Malaysia, Canada and parts of Europe, and the generally strong demand from China and India. This is similar to what I explained earlier about the global food products' impact on domestic food prices.

In essence, food prices are now increasing at a softer pace, and will likely continue moderating. But the headroom for this moderation will be limited despite the favourable domestic agricultural production outlook. The relatively higher food prices are not caused by domestic farmers and food processors, nor are they unique to South Africa; this is a global phenomenon.

We expect a slight moderation in South Africa's consumer food price inflation going into 2022. However, the major upside risks to global food prices, such as dryness in South America and rising demand for agricultural products in Asia, persist. We are already in a La Niña period, as evidenced by fairly above average rainfall in much of South Africa in recent weeks. The question remains as to how La Niña, which typically brings below average rainfall to in South America, will affect the 2021/22 global crop production and prices. We will watch global meteorological developments closely, as they will influence what we pay for our food basket in 2022 and possibly beyond.

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