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South Africa's consumer food inflation decelerated in July 2023

- South Africa's consumer food inflation continued to slow in July 2023, recorded at 10,0% from 11,1% in the previous month. The product prices underpinning this deceleration are primarily bread and cereals; meat; fish; and oils and fats. While there are renewed risks in global 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, we are still optimistic that South Africa's consumer food inflation will continue to slow during this second half of the year.

- The products that could underpin the slowing food inflation trend will likely remain similar to those in the past few months. Notably, red meat prices, which have softened at the farm level, should continue on this trend at the retail level in the coming months. Fruit prices should also remain affordable because of improved domestic supplies.

- However, there are some risks in some food product categories. For example, the recent decline in "oils and fats" products in the inflation basket mirrored the softening price trend we saw in the global environment a few months ago. But this trend may change slightly in the coming months as we see the changes already in the global environment. In July 2023, the FAO's vegetable oil price index was at 130 points, up 12% from June. Significantly, this marked the first increase after seven months of consecutive declines. This increase was due to Black Sea concerns, mainly on sunflower oils, and the subdued production conditions on palm oil, a product South Africa imports in large volume. We will keep an eye on the global vegetable oil prices as their price trends, over time, may reflect in South Africa, but not in equal proportion as the global price changes.

- Regarding the "bread and cereals" product prices, the Black Sea Grain Deal challenges and India's rice exports ban remain 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 a material change in prices for now, and we should not be alarmed; what is essential to monitor is the extent of price changes and their duration. Importantly, there is roughly a lag between three to five months between the price changes at farm and retail levels. Hence, we expect the prices of grain-related products in the inflation basket to maintain a softening path regardless of the recent disruption in grain prices.

- 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. Soybeans harvest could reach a record 2,8 million tonnes. 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. Other field crops and fruits also show prospects for decent harvest this season. These increased supplies support the slowing food inflation view we expressed. However, there are now renewed upside global risks and energy costs issues in the domestic market that needs constant monitoring.

Exhibit 1: South Africa's consumer food inflation

Source: Stats SA and Agbiz Research