

What is driving South Africa's consumer food prices higher?

Rising food prices continue to dominate the headlines, domestically and globally. It is not unusual for one to see complaints about rising sunflower oil prices or broader headline food price inflation on the domestic front.¹ This has, in turn, raised questions of how this could be in a year of an abundant agricultural harvest?

The answer goes back to the fact that South Africa is interlinked to the global food system, which at the present moment is facing an uptick in prices. Consider sunflower oils; South Africa is a net importer of sunflower oils, importing on average 197 342 tonnes per annum in the past five years. Additionally, South Africa imports, on average, 477 185 tonnes of palm oil a year. The global prices of these products have been on an upward trajectory for months, with palm oil reaching the highest level since 2011 in May this year. These increases are caused by the combination of lower supplies in Southeast Asian countries, specifically for palm oil, and rising demand for sunflower oils and soybeans, particularly in China and the global biodiesel sector.

South Africa gets to experience these shocks, hence even if one observes the recent consumer food price inflation data, the oils and fats were amongst the categories showing the fastest increases within the food basket in the May 2021 CPI release. Also, worth noting is that, unlike other domestic summer crops, which are set to increase in the 2020/21 season, South Africa's sunflower seed production is down by 9% y/y, which once again necessitates the need for imports.

In May 2021, South Africa's consumer food price inflation accelerated at the fastest pace since July 2017, measured at 6,8% y/y, from 6,7% y/y in April 2021. The underpinning drivers of this increase were the aforementioned oils and fats, meat, vegetables, and to an extent, staple grain-related products. The grains products prices are at relatively higher levels, not because of supply constraints in the domestic market, but the surge in global prices. South Africa has its second-largest grains harvest on record, and maize prices are at export parity levels. The second-largest maize harvest on record in the 2020/21 production season has not led to a decline in domestic maize prices. This is mainly because of the 56% increase in export parity prices in the 2020/21 season. Export parity prices are derived from the global maize price multiplied by the exchange rate minus transaction costs and can be regarded as a "floor price" for domestic maize prices. As domestic prices trade closer to export parity levels, South African maize becomes more competitive in international export markets, triggering an increase in volumes of exports or demand by foreign buyers.

Meat, which also underpinned the increase in food price inflation in May 2021, could likely soften in the coming months, albeit South Africa's supplies being roughly balanced in red meat, while an importer of poultry products. This time around, the unique factor to South Africa, which stakeholders in the food industry will have to monitor consistently, is the impact of biosecurity challenges. The most recent announcements of a foot-and-mouth disease outbreak in parts of KwaZulu-Natal and Limpopo and the subsequent ban of South Africa's beef in various export markets is one such matter to monitor, along with the African swine fever and avian influenza. While these diseases are damaging and costly for farmers, they

¹ Sunflower oil, tomatoes are 30% pricier than a year ago, and other food prices also rocketed. Read by [clicking here](#).

28 June 2021

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

tend to lead to a decline in domestic meat prices due to the ban in exports, then bode positively for local consumer food price inflation in the near-to-medium term.

Beyond our borders, the IMF released a note on 24 June 2021, highlighting four facts about the soaring consumer food prices.² The first point of the note was that food inflation started increasing in 2018, before the pandemic. The price increases were induced by an outbreak of African swine fever in China, which wiped out much of China's pig herd, which represents more than 50% of the world's pig. This event led to an overall increase in global animal protein prices, which also filtered into countries such as South Africa. The intense trade conflict between the US and China at the time also contributed to animal protein price increases.

Secondly, the early lockdown measures, globally, and supply chain disruptions induced a spike in consumer food prices. This specifically refers to the shift in consumption patterns when lockdown started, from dining out to the retail grocery. Moreover, the stockpiling that occurred at that period across the globe also added to price increases. Nevertheless, this was a temporary event, and prices had moderated in the second quarter of 2020 for several countries.

Thirdly, the rising shipping and transport costs also contribute to increased global food prices. Lastly, global food producer prices have rallied, reaching multi-year highs because of supply concerns. Such concerns include the consistent downward revision of Brazil and Argentina's maize and soybean harvest because of dryness there and the drier weather conditions in Russia, Ukraine, and the United States at the start of the 2021/22 production season. The production conditions have since improved in Russia, Ukraine, and the United States, pointing to a reasonably good crop this season. Perhaps, the central point to make here is that while production conditions for the 2021/22 global harvest are promising for all major crops, there are generally lower stocks. This causes global prices to remain volatile or sensitive to any reports of unfavourable weather conditions in major producing countries, even if such weather events will have minimal impact on crops.

Ultimately, the rising consumer food price inflation in South Africa, which consumers have complained about, is not solely a domestic phenomenon but a global one. With that said, we still believe that South Africa's food price inflation could soften in the second half of 2021. We base this view on the expected sizeable domestic harvest, the expected softening in global grains prices due to anticipated large harvest in 2021/22, and recent developments in the domestic meat industry, which we have discussed above.

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

² Four Facts about Soaring Consumer Food Prices. Read by [clicking here](#).