

What to make of recent SA consumer food price inflation data?

This is a busy week in South Africa's agricultural calendar with many stakeholders attending NAMPO, the first time in two years that the event is hosted in-person. But the high-frequency economic data hasn't stopped; hence, we are sending out a short note on South Africa's consumer food price inflation this morning. The data released by Statistics South Africa this morning showed that the country's consumer food price inflation decelerated to 6,3% y/y in April 2022 from 6,6% y/y in the previous month. This is on the back of relatively softer price increases in meat; milk, eggs and cheese; and vegetables.

These data are roughly within our expectations, and the food products price variation will likely persist in the coming months. In other words, fruit; vegetables; milk, eggs and cheese; and to a lesser extent, meat, could see softer price increases in the coming months. Meanwhile, grain-related products and oils and fats could register notable price increases. This will mirror the price movements we are currently observing in the agricultural markets.

For example, since the war in Ukraine began and disrupted the global grains market, the agricultural commodity prices have increased significantly, with the FAO's Global Food Price Index in April averaging 158 points, which is up 30% y/y, coming from a record high seen in March. But the recent ban on palm oil exports by Indonesia, the ban on wheat exports by India, and the expected lower wheat harvest in the 2022/23 production season has since added renewed upside pressures to agricultural commodity prices. These will likely reflect on the FAO's Global Food Price Index update to be released on 03 June 2022. As interlinked to the global agricultural markets, South Africa has also experienced increased agricultural commodity prices. The resulting observation of these developments is a potential uptick in the cereals, and oil and fat products prices in the consumer food price inflation basket. The additional upside risk to the domestic market is also the rise in fuel 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 also add downward pressure on domestic prices; hence we hold a generally favourable view of these product price directions for the coming months. 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 adding downward pressure on prices. 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 all push in opposing directions in the short term. With that said, we believe that South Africa's consumer food price inflation could average 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.

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Exhibit 1: SA consumer food price inflation



Source: Stats SA and Agbiz Research