

Food inflation accelerates in line with market expectations – 20 July 2016

- Recent data from Statistics South Africa indicates that in June 2016, headline inflation accelerated to 6.3% year-on-year (y/y) from 6.1% y/y in May 2016. This was in line with market expectations. More specifically, food and non-alcoholic beverages inflation accelerated to 10.8% y/y, from 10.5% y/y in the previous month.
- The food and non-alcoholic beverages basket consists of “**bread and cereals**”, “**meat**”, “**fish**”, “**milk, eggs and cheese**”, “**oils and fats**”, “**fruit**”, “**vegetables**”, “**sugar, sweets and deserts**”, “**non-alcoholic beverages**” and “**other foods**”. Each of these products is allocated a weight, with the largest being “**meat**” and “**bread and cereal**”, which make up 30% and 23%, respectively (see **Chart 1**).
- The largest percentage increases were recorded in all food categories, with the exception of “**meat**”, “**vegetables**” and “**oils and fats**” which eased to 5.9% y/y, 18.5% y/y and 19% y/y, respectively (see **Chart 2**). The decrease in meat was largely on the back of large supplies following high slaughtering pace in the previous months. Some vegetables, specifically potatoes, have slowed from the previous month’s higher levels due to harvest pressure.
- Looking ahead, we expect meat prices to increase in the coming months due to the current decrease in cattle slaughtering. In the first week of July 2016, South Africa’s cattle slaughtering was down by 20% from the previous week, recorded at 16 203 cattle. Milk prices could also increase owing to expected seasonal decrease in production. Moreover, grain prices are likely to remain at higher levels this year owing to lower production. We could see some relief in grain prices in 2017, assuming that the rainfall will normalize during planting season or the forecast La Nina will materialise later this year.

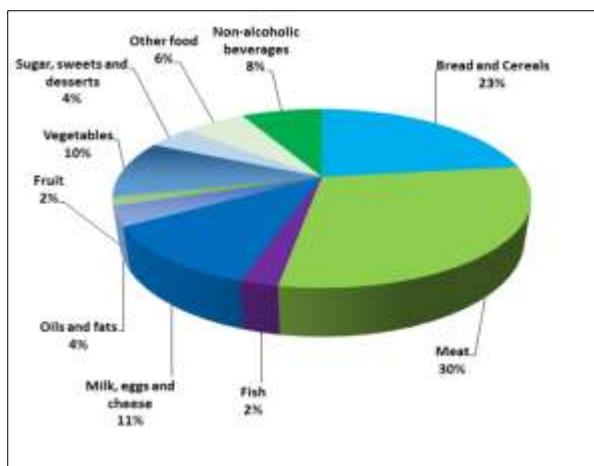


Chart 1: Food and non-alcoholic beverages weights

Source: Statistics South Africa, Agbiz Research

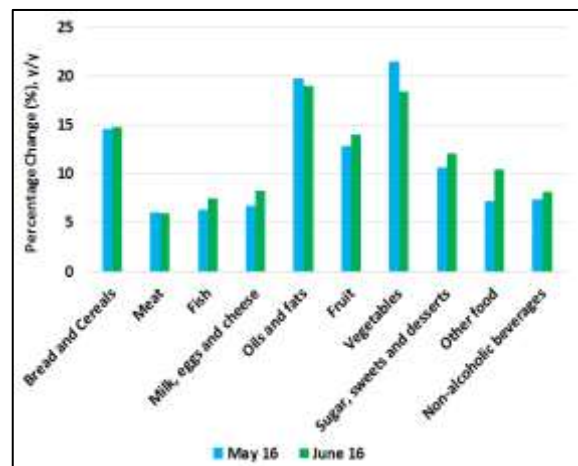


Chart 2: June 2016 y/y percentage changes

Source: Statistics South Africa, Agbiz Research

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