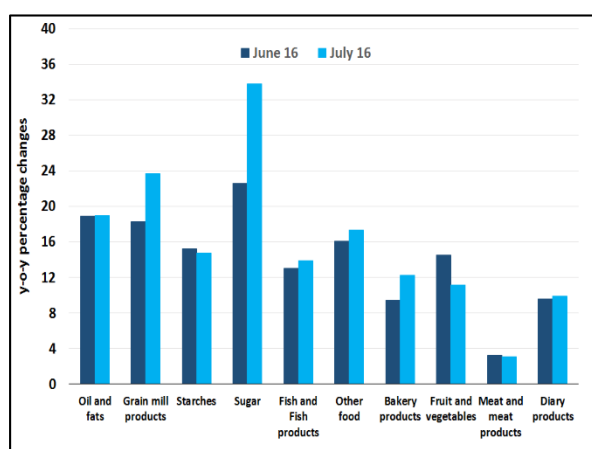


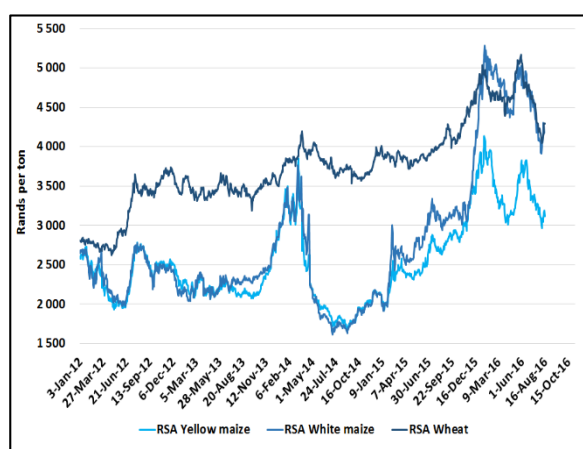
## UPDATE: South Africa's food producer price inflation accelerates – 25 August 2016

- The recent producer price index (PPI) data released by Statistics South Africa indicates that in July 2016, producer inflation for final manufactured goods accelerated to 7.4% from 6.8% year-on-year (y/y) in the previous month. Food products price inflation were among the key drivers of this increase, reaching 12.6% y/y from 11.2% y/y in June 2016 – driven in part, by lower domestic supplies and a weaker Rand against the US Dollar.
- The food products basket consists of four broad categories, which include (1) **meat, fish, fruit, vegetables, oils and fats**, (2) **dairy products**, (3) **grain mill products, starches and starch products**, and **animal feeds** and (4) **other food products**. Each of the aforementioned categories within the food products basket is allocated a weight, with the largest being “**meat, fish, fruit, vegetables, oils and fats**” and “**other food products**”, which make up 37% and 41%, respectively.
- The significant increases were recorded on **sugar, grain mill products** and **other food** (see **Chart 1**).
- Inflation in the **sugar** category reached 33.8% y/y and up by 8.3% month-on-month (m/m). All of this is reflective of the effects of the 2015/16 drought which has led to lower supplies in the sugar cane industry. The increase in **grain mill products** has also been driven by higher grain prices on the back of lower domestic supplies (see **Chart 2**).
- Looking ahead, we continue to anticipate sustained increases in the **meat and meat products** category due to expected decreases in the slaughtering pace, which will weigh in on supplies. Moreover, we could see sustained increases in **dairy products** as we expect milk prices to remain elevated at least until last quarter of this year. Over a medium term, **grain milling products** inflation could remain high due to lower domestic supplies, which in turn could keep grain prices at relatively higher levels this year.



**Chart 1: Annual price inflation of food products**

Source: Statistics South Africa, Agbiz Research



**Chart 2: RSA maize and wheat prices**

Source: JSE, Agbiz Research

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