

UPDATE: South Africa's food producer price inflation rises again – 29 September 2016

- Recent producer price index data indicates that in August 2016, producer inflation for final manufactured goods decelerated to 7.2% from 7.4% year-on-year (y/y) in the previous month. However, food products (producer) inflation edged up to 13.4% y/y from 12.6% y/y in July 2016. This suggests that consumer inflation (food) is likely to increase further over the coming months.
- 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 increases were recorded on **meat, dairy products, bakery products** and **other food** (see **Chart 1**). Inflation in the **meat** category reached 4.4% y/y and up by 1.4% month-on-month - driven in part by expected decrease in slaughtering rate. The increase in **dairy products** coincides with seasonal milk prices, which normally reach higher levels during winter season owing to lower domestic supplies. The increases in **bakery products** inflation are reflective of higher wheat price levels experienced over the past few months.
- 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. In addition, we believe that **dairy** inflation could remain elevated over the next few months, with prices expected to decelerate when grazing fields start to recover later in the year on the back of summer rainfall. **Grain milling products** inflation decelerated in August 2016, however, this could be short lived as we continue to anticipate that grain prices will remain at relatively higher levels over the medium term due to lower domestic supplies. That said, of noteworthy is that over the past few weeks, grain prices have maintained a downward trend, but its sustainability will partly depend on the ZAR/USD exchange movements (see **Chart 2**).

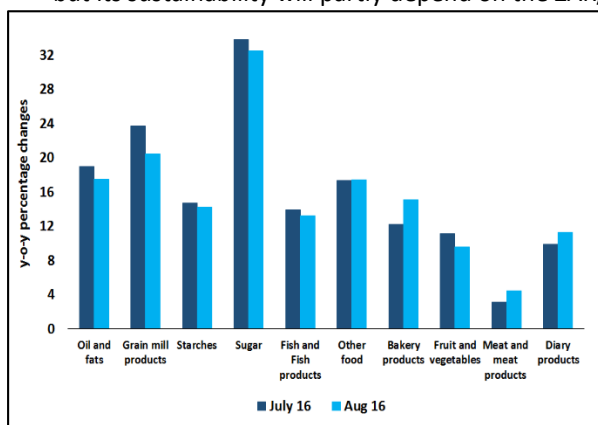


Chart 1: Annual producer inflation for food products

Source: Statistics South Africa, Agbiz Research

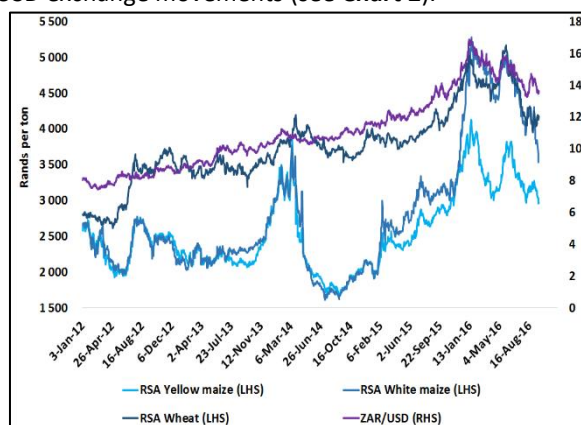


Chart 2: RSA grain prices and ZAR/USD exchange

Source: JSE, Agbiz Research

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