

UPDATE: South African food inflation unchanged – 19 October 2016

- Figures released this morning by Statistics South Africa show that **headline inflation has accelerated to 6.1% year-on-year (y/y) in September 2016 from 5.9% y/y in the previous month**, with rentals for housing and owners' equivalent rent being the key driver of this uptick. However, food and non-alcoholic beverages inflation has remained unchanged from the previous month, at 11.3% y/y.
- 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**. Although overall food and non-alcoholic beverages inflation has remained unchanged, there have been some price movements within the basket. Notably, increases have been recorded in **bread and cereals; milk, eggs and cheese; fruit; sugar, sweets and deserts and other foods** whereas **meat; oils and fats; vegetables and fish** decelerated (**Chart 1**). The increase in **bread and cereals** inflation is still reflective of the effects of the 2015/16 drought, which has led to lower grain supplies and in turn higher prices (**Chart 2**). Additionally, the increase observed in **eggs** inflation is in line with increases in feed prices. The increase in **milk and cheese** inflation coincides with seasonal milk prices, which normally reach higher levels during winter and early spring season owing to lower domestic milk supplies. The increases in **sugar, sweets and deserts** inflation mirror the effects of the 2015/16 drought on sugar cane production.
- Looking ahead**, we believe that **dairy** inflation could decelerate towards the end of this year, when grazing fields start to recover on the back of summer rainfall. Over the past few months, **meat** prices have seen marginal increases due to large supplies on the back of higher slaughtering rates. However, we expect this trend to change in the near future, with **meat being the key driver of food inflation throughout 2017**. Additionally, we expect **bread and cereal** inflation to remain elevated until mid-2017, when the new crops get harvested. Worth noting is that over the past few months, grain prices have maintained a downward trend due to the stronger ZAR/USD and favourable weather outlook for the new season (**Chart 2**).

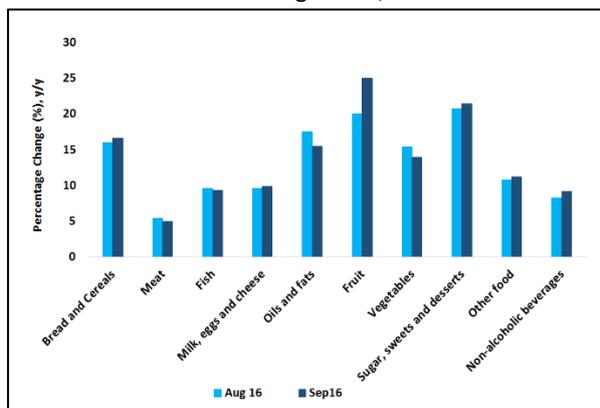


Chart 1: August and Sept. 2016 y/y percentage changes
Source: Statistics South Africa, Agbiz Research

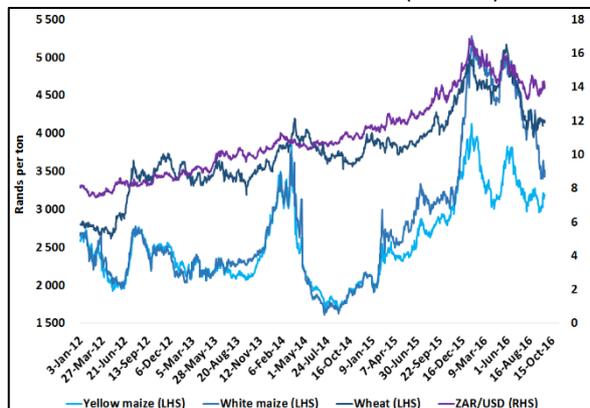


Chart 2: South African grain prices and ZAR/USD exchange
Source: JSE, Agbiz Research

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