

UPDATE: South Africa's food inflation accelerates – 23 November 2016

- **Recent Consumer Price Index data shows that food and non-alcoholic beverages inflation accelerated to 11.7% year-on-year (y/y) in October 2016 from 11.3% in September 2016¹ (with non-alcoholic beverages aside, food inflation rose to 12% y/y in October 2016 from 11.6% in September 2016).**
- 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.**
- The largest percentage increases were recorded in **meat; fish; milk, eggs and cheese; vegetables and other foods** which reached 5.5% y/y, 9.7% y/y, 10.5% y/y, 14.8% y/y and 13%y/y, respectively (see **Chart 1**).
- Worth noting is that, of all the aforementioned products, **meat** constitutes about a third of the general consumer price index headline food basket.² Moreover, data from the Red Meat Abattoir Association shows that the slaughtering rate trebled - from a 2014 average weekly rate of 6 500 head of cattle, to an average of 15 000 head per week in 2016 (see **Chart 2**). In fact, recent data shows that South African farmers slaughtered 17 585 head of cattle in the week ending 11 November 2016, up by 17% y/y. Given this trend, meat prices would ideally have been in deflation. Therefore, the current increases signal some structural adjustments on the demand side. Meanwhile, 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. Moreover, **vegetables** inflation mirror the effects of the 2015/16 drought.
- **Looking ahead** – although we expect food inflation to remain elevated this year, we foresee a deceleration in most food products inflation in 2017, with the exception of **meat**. We believe that **meat** inflation could maintain the current upward trend for some time, as farmers will soon start to reduce slaughtering rates in an effort to rebuild their herds.

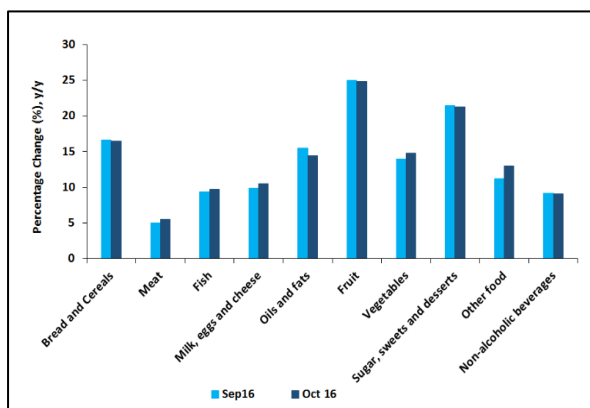


Chart 1: August and Sept. 2016 y/y percentage changes

Source: Statistics South Africa, Agbiz Research

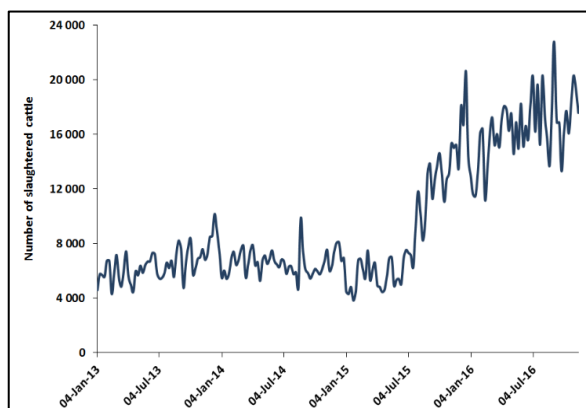


Chart 2: RSA's slaughtered cattle (weekly basis)

Source: Red Meat Abattoir Association, Agbiz Research

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Disclaimer: Everything has been done to ensure the accuracy of this information, however Agbiz takes no responsibility for any losses or damage incurred due to the usage of this information.

¹ Overall headline inflation reached 6.4% y/y in October 2016 from 6.1% in September 2016.

² Overall CPI for **food and non-alcoholic beverages** weighs 15.41 points (out of 100 index points) – in that that basket, each of the food products is allocated its weight, with the largest being **meat** and **bread and cereal**, which make up 30% and 23%, respectively.