

23 February 2017

SA's annual food producer price inflation decelerates

The recent producer price inflation data signals an easing of price pressures that could be passed on to the consumer over the coming months and be reflected in the Consumer Price Index (CPI) data. Figures released this morning showed that South Africa's food producer price inflation decelerated 10.6% y/y in January 2017 from 12.2% in December 2016.

- The food products basket consists of four broad categories which include (1) **meat, fish, fruit, vegetables, oils & fats**, (2) **dairy products**, (3) **grain mill products, starches & starch products, and animal feeds** and (4) **other food products**¹. While the overall food products inflation has slowed, the basket presented a mixed picture - **meat & meat products** and **sugar** inflation accelerated, and the rest showed a decline (**Chart 1**).
- The increase in **meat & meat products** inflation come as no surprise as the rebuilding of cattle herds means lower slaughtering activity and therefore an increase in meat prices. South Africa slaughtered 299 767 head of cattle in December 2016, a 22% increase on the previous month. This underscores the demand for meat during the festive season as well as higher feed costs, which made it difficult for some farmers to maintain their herds. The increase in **sugar** inflation still mirrors the negative effects of the 2015/16 drought season that lowered domestic supplies, as well as higher global sugar prices.
- The easing of the rest of food products inflation marks the recovery route of the agricultural sector. The recent favourable weather conditions have made notable improvements in crop conditions and the commodity prices reflect the positive sentiment. White maize spot price is currently at levels around R3 086 per tonne, which is 39% y/y decrease. The sunflower seed spot price is at levels of R4 922 per tonne, a 36% annual decline. Most vegetables and fruit prices also mirror a similar trend.
- **Looking ahead**, we think that food producer inflation will decelerate further over the coming months due to expected lower agricultural commodity prices. With that said, high **meat & meat products** inflation remain a key risk that could potentially negate some of the expected declines.

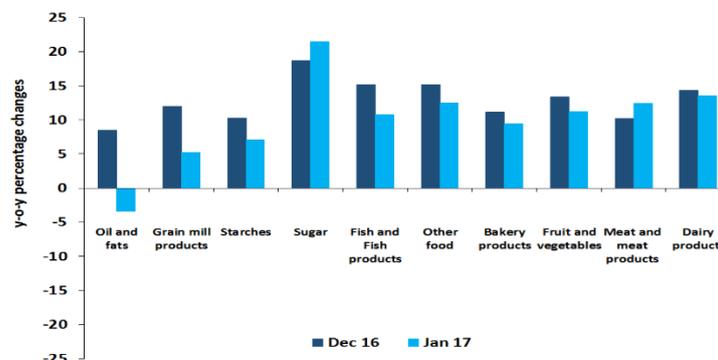


Chart 1: Annual producer price inflation for food products

Source: Statistics South Africa, Agbiz Research

Wandile Sihlobo (wandile@agbiz.co.za)

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¹Overall PPI for **food products** weighs 25.17 points (out of 100) - each of the food categories within the food products basket is allocated a weight, the largest being "**meat, fish, fruit, vegetables, oils and fats**" and "**other food products**", which make up 39% and 38%, respectively.

