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SA's annual food inflation falls to the lowest level in 18 months

Last month's deceleration in food inflation, to 6.7% y/y, means that South Africa's food prices are at the lowest levels in 18 months. This is a reflection of the benefits of higher agricultural output this year following good weather conditions across the country. We think that there is still room for further, but moderate deceleration in the next few months.

- The general decline in food inflation is largely on the back of a broad recovery in agricultural production. Total summer grains and oilseeds production are estimated at 16.9 million tonnes, which is an 82% annual increase. This uptick in production is underpinning a bearish trend in agricultural commodity prices.
- Data from Statistics South Africa shows that food and non-alcoholic beverages inflation fell to 6.7% year-on-year (y/y) in April 2017 from 8.7% y/y in March 2017 (see **Chart 1** for product movements).
- While we expect the overall food inflation to decelerate moderately over the coming months on the back of large maize and vegetable supplies, the influence of the downswing in maize prices could be negated by the potential upswing in wheat prices. However, the increases in wheat prices will not be as significant due to the fact that South African wheat prices typically trade along import parity.
- The concerns around the ongoing drought in the Western Cape province – where winter cereals (wheat and barley) and oilseed (canola) are grown – presents a risk to the outlook.
- From a meat perspective, the **beef** supply side seems to be normalising – which means that the price increase will not be as significant as initially expected. Farmers slaughtered 238 097 head of cattle in March 2017, which is an 18% increase from the previous month, but 6% lower than March 2016.
- Despite the outbreaks of avian flu in EU and parts of the US, **chicken** imports have not decreased significantly as expected. Meanwhile, there are [reports](#) that local production is recovering due to lower feed costs which point to growing supplies – and essentially means chicken prices might not increase significantly either.

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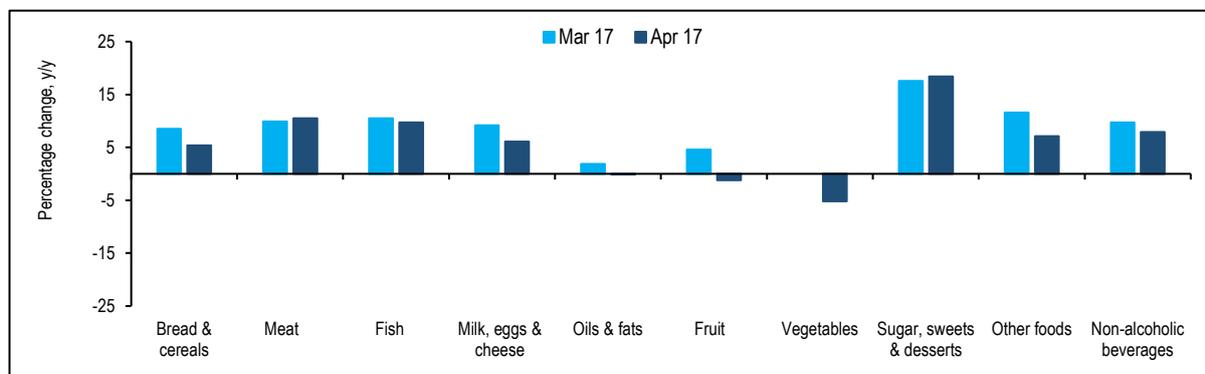


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

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