



29 June 2017

SA's annual food producer price inflation decelerates to 5.7%

The benefits of the uptick in agricultural production are already reflected in producer price inflation. Data released this morning showed that South Africa's food producer price inflation slowed to 5.7% y/y in May 2017 from 6.4% in April 2017. This suggests that consumer food price inflation could moderate over the coming months, as lower producer prices are transmitted to the retail and consumption end of the food chain.

- The slowing trend in food producer inflation is largely due to the recovery in agricultural production. The total production of summer grains and oilseeds is estimated at 18 million tonnes, which is a 92% annual recovery. The deceleration in food producer inflation was expected given the fall in agricultural commodity prices. White maize spot price currently trades at levels around R1 678 tonnes, which is 64% lower than the same period last year. Yellow maize spot price is trading at levels around R1 804 per tonne, which is 50% lower than the same period last year. Soybean spot price is at a level around R4 387 per tonne, which is a 43% annual decline. The decline in these particular commodity prices also benefits other sectors, such as the livestock and poultry.
- Although we expect the overall food producer inflation to decelerate further over the coming months as lower grain prices could prevail for some time, meat inflation presents some upside risks.
- Farmers are restocking their cattle herds, which means the slaughtering activity could remain depressed, thus leading to a possible increase in beef prices. For example, farmers slaughtered 193 373 head of cattle in April 2017, down 19% from the corresponding period last year. The recent outbreak of avian influenza in the poultry sector also presents risks. With that being said, the virus is still in isolated farms in Mpumalanga and Free State. We will closely monitor the developments within the poultry industry to understand the impact on inflation. See **chart 1** for food products specifics.

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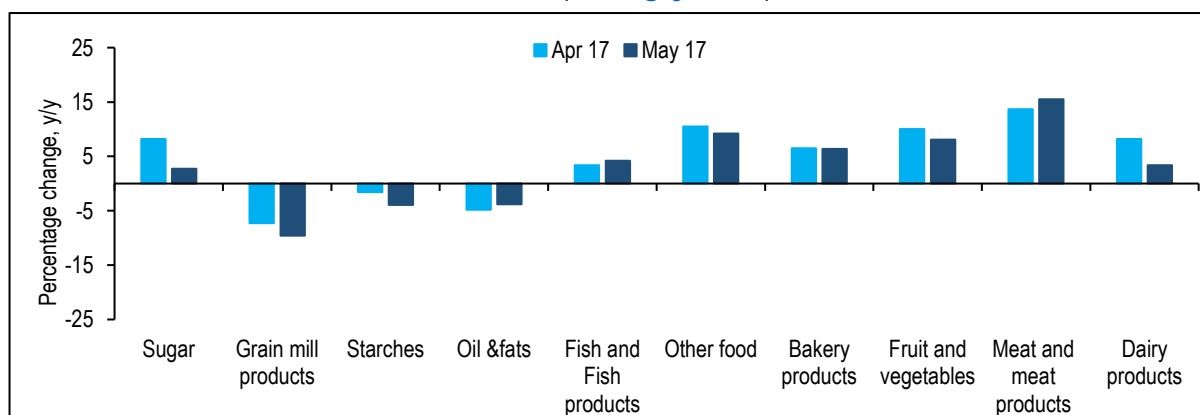


Chart 1: South Africa's Food Producer Inflation (per product)

Source: Stats SA, Agbiz Research

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