

SA food inflation falls marginally to 6.8%, but meat remains a key risk

Food inflation decelerated to 6.8% y/y in July 2017, from 6.9% y/y in the previous month. This mirrors the benefits of the higher agricultural output following good summer rainfall across the country. Although we expect further moderation in the next few months, the picture of the food basket is mixed. Most food products have decelerated, with the exception of meat which is proving stickier than expected, recording 14.4% y/y in July, which is the highest level since December 2011. This is on the back of an outbreak of avian influenza and cattle restocking process after the 2015-16 drought¹.

- The scale of an increase in meat inflation came as a surprise given that cattle slaughtering activity had improved in the most recent months. Data from the Red Meat Levy Admin shows that farmers slaughtered 202 886 head of cattle in May 2017, up by 5% from the previous month. In the succeeding month, June 2017, farmers increased the slaughtering activity further by 1% to 203 983 head of cattle.
- With that said, the outbreak of avian influenza (bird flu) could partially be the key driver of the increase in meat inflation, because of its higher weighting within the food inflation basket. Chicken accounts for a 14% share of the overall food basket, meanwhile beef accounts for an 8% share. Pork and lamb combined account for a 5% share. Overall, this shows the significance of poultry within the food basket.
- On a positive note - grain, dairy and vegetable related food products inflation decelerated due to a recovery in agricultural production. The 2017 summer grain and oilseeds production are set to reach 18.44 million tonnes, which is a 96% annual increase. In addition, there was also a rebound in vegetable production. This might continue to counter the increases in meat inflation and essentially keep food inflation at relatively lower levels.

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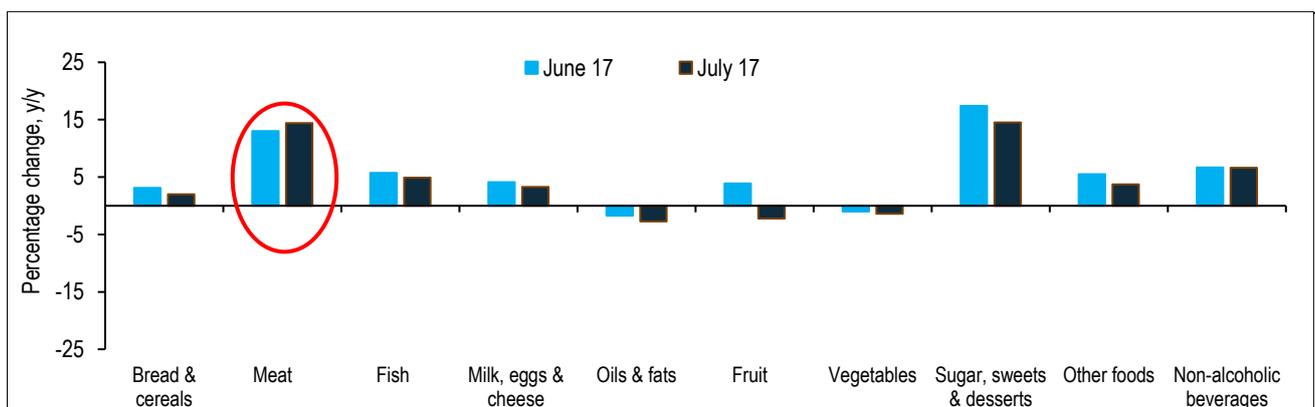


Chart 1: South Africa's Food Inflation (per product)

Source: Stats SA, Agbiz Research

¹ **Meat** has a higher weighting of 5.46% within the CPI basket, which equals to 32% share of food Inflation basket.