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Promise of rain bodes well for food-price inflation

Although food and non-alcoholic beverages inflation decelerated to 5.7% year on year in August — its lowest level since November 2015 — the average hides wide disparities in the basket. For instance, meat recorded a 15% year-on-year increase, its highest inflation level since December 2011.

Meat has a relatively high weighting of 5.46% in the headline consumer price index basket, which means it accounts for about a third of the food and nonalcoholic beverages basket.

The recent uptick in meat price inflation can largely be explained by two factors — the restocking process in the livestock sector after the 2015-16 El Niño-induced drought, and then there is the spread of avian flu in the poultry industry.

From a livestock perspective, the most recent data from the Red Meat Levy Admin show that South African farmers slaughtered 203,647 head of cattle in July, 13% fewer than the corresponding period in 2016.

Beef alone accounts for about 8% of the food and nonalcoholic beverages inflation basket, so the restocking process is adding to the uptick in meat inflation. At the same time, farmers slaughtered 327,561 sheep and 208,130 pigs, which is 9% and 6% lower, respectively, than in July. Within the food and nonalcoholic beverages inflation basket, pork and lamb together account for a marginal share of 5%.

That said, it appears that sheep and pig slaughter volumes are normalising, which means the rate of increase in the prices of these products should be contained in the coming months.

On the poultry side, the challenge presented by avian flu is in its initial stages and could worsen over the coming months, presenting an upward risk in poultry meat price inflation. At the time of writing, data from the South African Poultry Association showed that more than 3-million layers and broilers had been culled or died due to the disease.

Although a big cost to poultry businesses, this is a relatively small share, given that SA produces close to 1-billion broilers each year.

The big risk is contagion. The disease has already spread across a number of provinces and the number of outbreaks has been high. For example, 26 cases have been confirmed in the Western Cape including among poultry, ostriches and wild birds. Chicken is the biggest contributor of all types of meat, accounting for 14% to the overall food and nonalcoholic beverages inflation basket.

There is not yet a clear light at the end of the tunnel, although both the private and public sectors are putting a lot of effort into containing the outbreak. The risks remain, from both a food inflation standpoint and with regard to jobs in the poultry and allied industries.

On balance, meat seems likely to remain a key risk to food and nonalcoholic beverage inflation for some time. However, the deceleration in grain, dairy, fruit and vegetable product-price inflation could continue to offset the increases in meat prices in the medium term.

The South African Reserve Bank forecasts that food price inflation will average 7.3% in SA this year, from an average of 10.5% in 2016. The coming year could see continued deceleration to 5.2%, and 5.6% is forecast for 2019 — thanks largely to good 2016-17 summer rainfall.

The new season promises a continuation of good rainfall in the country's summer crop-producing regions, which bodes well for food price-inflation in the longer term. — *Wandile Sihlobo*

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