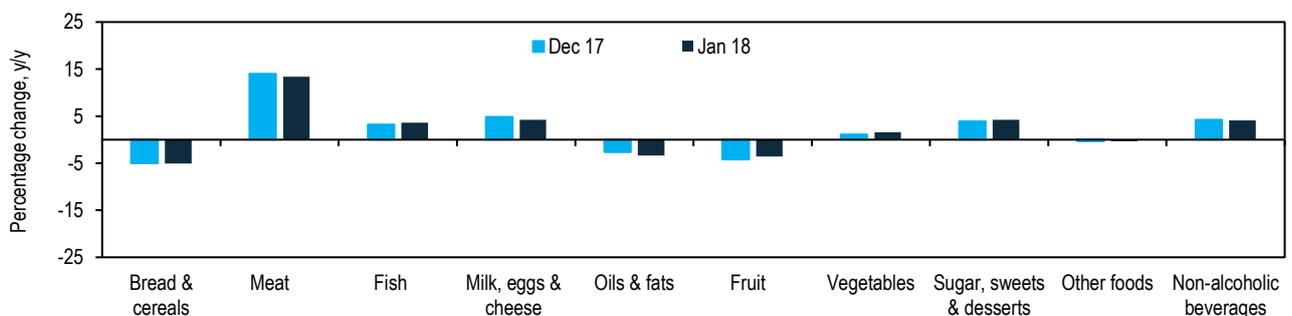


## SA food price inflation decelerates further to 4.5%

Food and non-alcoholic beverages inflation have been on a downward trend since mid-2017, following a robust output from the agricultural sector. In January 2018, food inflation further decelerated to 4.5% y/y, which is the lowest levels in more than two years. With that said, the food basket remains mixed. The livestock products (meat, milk, eggs and cheese) are slightly elevated, whereas the rest is on a slowing path. We expect this trend to persist in the coming months cushioned by large grain stock from the previous season, and expectations of a good harvest in the summer crop growing areas.

- While the summer grain and oilseed season started on a bad footing, characterised by drier conditions in some sections of the Free State and North West, the recent showers have now improved the crop growing conditions across the country. As a result, we forecast South Africa's 2017/18 maize production at 11.2 million tonnes, which is well above the annual consumption of 10.5 million tonnes. Moreover, there will be large carryover stock of 4.2 million tonnes from the current marketing year, which will boost South Africa's maize supplies in the 2018/19 marketing year that commences in May 2018. All this bodes well for food inflation.
- Meat price inflation slowed to 13.4% y/y in January 2018, from 14.0% y/y in December 2017. This comes after cattle slaughtering activity increased by 10% m/m to 262 727 head of cattle in December 2017.
- The Western Cape drought has resulted to a notable decline in wheat production, but we do not foresee that playing a significant role in food price inflation as South Africa is already a net importer of wheat, with prices trading along import parity levels. Moreover, the recent 45% decline in wheat import tariff to R394.85 per tonne also bodes well for food inflation for the coming months.
- Overall, the relatively large grain stock from the previous season, expectations of a good harvest in the summer crop growing areas of the country, a recovery in the sugar belt, a decline in wheat import tariff, and normalisation in livestock slaughtering could contain food inflation at fairly lower levels in the coming months.

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

Source: Stats SA, Agbiz Research

*Disclaimer: Everything has been done to ensure the accuracy of this information, however, AGBIZ takes no responsibility for any loss or damage incurred due to the usage of this information.*