

SA food and non-alcohol beverages accelerated to 3.9%

South Africa's food and non-alcoholic beverages price inflation accelerated to 3.9% y/y in September 2018, from 3.5% y/y in the previous month. This is the highest rate in five months. The uptick was not widespread across the food basket, the key drivers were mainly milk, eggs and cheese; vegetables, non-alcoholic beverages; oils and fats as well as fish. Meanwhile, meat price inflation decelerated from levels seen the previous month, with bread and cereals; fruit; and sugar, sweets and desserts still in deflation, albeit slowly pulling back due to recent increases in raw commodity prices.

- The notable uptick in milk, eggs and cheese was due to a combination of factors which include the tail-end effects of avian influenza in the case of eggs which affected the South Africa egg layers flock last year. From a milk perspective, this was more of a seasonality issue, hence we expect milk prices to soften as the summer season approaches, and as milk production increases. The vegetable prices were also underpinned by the seasonality factor, therefore prices should somewhat decelerate in the months to follow when production resumes in most parts of the country, given that early summer rainfall has already started.
- While the bread and cereals price was still in deflation in September, the rate of a decline has narrowed, measured to -0.6% y/y, from -2.2% in August 2018. This follows the recovery in commodity prices, with white and yellow maize currently up by more than 20% from levels seen last year. Furthermore, the wheat prices are also up by more than 5% y/y. But, this does not mean that South Africa's grain supplies are tight, it has more to do with uncertainty about the weather outlook and effects on crops in the 2018/19 season, given the prospects of a weak El Niño later in summer. This is a key upside risk to food inflation, but will not be as drastic as what we observed in 2015-16. There are sufficient supplies in the market to cushion South Africa, for at least until 2019. The prospects thereafter will depend on the current planting season. Meat price inflation continued to decelerate due to lower pork prices and a recovery in cattle slaughtering activity, amongst other factors.

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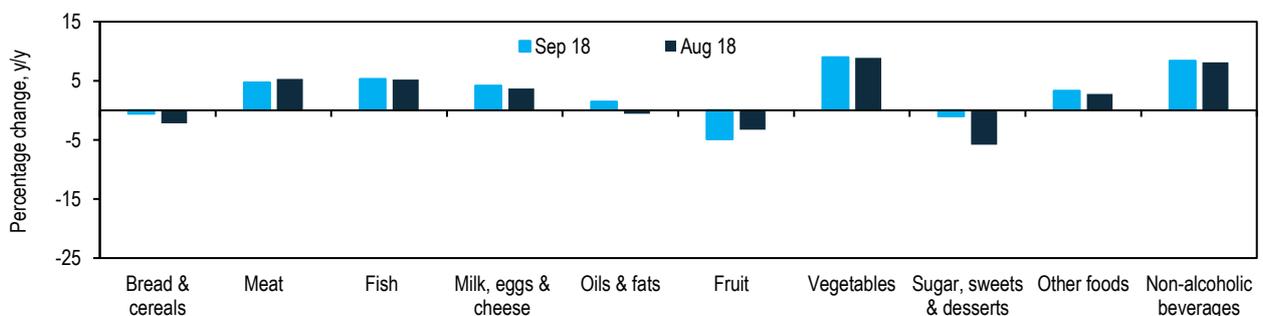


Chart 1: South Africa's food and non-alcoholic beverages inflation (per product)

Source: Stats SA, Agbiz Research

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