Consumers will feel the pinch ... but not everywhere

By Wandile Sihlobo, Business Day, 24 January 2019

The subdued pace of food price inflation we observed in 2018 is over. The lower agricultural commodity prices that underpinned 2018's downward trend are showing a drastic reversal as persistent dryness in the western parts of SA's maize belt lead to lower-than-expected maize plantings and a general expectation of a poor harvest in the 2018/19 season. Earlier this week SA's white and yellow maize spot prices were up by 66% and 44%, respectively, from the corresponding period in 2018, trading around R2,807/ton and R3,127/ton.

The Agricultural Business Chamber (Agbiz) estimates that SA farmers planted 1.98-million hectares of maize in the 2018/19 production season, 19% lower than the intended area of 2.44-million hectares owing to dryness. An official estimate will be released on January 29, but Agbiz figures are almost in line with the area planted during the drought period of the 2015/16 production year. At that time SA maize production amounted to 7.8-million tons, turning the country into a net importer since annual maize consumption is roughly 10.8-million tons.

But 2019 could be far better than the 2015/16 season. SA will start the 2019/20 marketing year in May with large stocks of about 3.4-million tons. This is well above the 1.1-million ton opening stocks of the 2016/17 marketing year (corresponding with the 2015/16 production season), which necessitated imports that year to boost domestic maize supplies. That was a tough period for the SA consumer as food price inflation averaged 10.5% before decelerating to 7% in 2017.

In 2019 SA's food prices are likely to increase at a relatively slower pace than 2016 and 2017, with a possible average of about 5% despite the uptick in maize prices. The reason for this is that while maize prices have increased, the current levels are nowhere close to the R4,000/ton we saw in 2015 and 2016, partly because of the aforementioned stock level, which has somewhat cushioned the country's maize supplies.

Moreover, if SA manages to produce at least 8-million tons the country will at least be self-sufficient, assuming there are no exports. This is not a far-fetched prospect. At the moment, the 2018/19 maize production estimates vary between 10.4-million tons and 12-million tons, compared to 7.8-million tons during the 2015/16 season. This means there may be a tough season ahead for both farmers and consumers, but it is no crisis.

Moreover, meat prices, which account for more than a third of the food inflation basket, are likely to be under pressure in the near term. This is due to expectations of an increase in domestic meat supplies as the recent outbreak of foot-and-mouth disease has led to a ban on SA beef in key export markets. The most recent data from beef farmers already points to a decline in domestic beef prices.

Also worth noting is that dryness is mainly concentrated in the western Free State and the North West. Therefore, fruit and vegetable production in other provinces could experience minimal disruption, and that should keep prices in check in the near to medium term.

The grain-related foodstuffs in the food inflation basket, which are the most exposed to dryness, account for a 21% share. Hence, the potential price increases could be overshadowed to a large degree by the anticipated slowdown in meat price inflation. Nevertheless, this is not to suggest that consumers will not feel the pinch in the coming months; they certainly will, but the price increases at the till will differ product by product. The overall impact will be more moderate than the rate of increases of the 2015 and 2016 drought periods.

From an agricultural GDP perspective, the impact of dryness will be notable, but that is a discussion for another day.