

OPINION PIECE:

South Africa's food price inflation to remain subdued in the near term

By Wandile Sihlobo, [Business Day](#), 20 November 2019

Since the news that South Africa could be hit by yet another drought, a frequent topic of discussion has been its possible implications on South Africa's food price inflation. This comes at a time when South Africa's food price inflation has generally been subdued, having averaged 2.9% y/y in the first nine months of this year.

This is because of relatively lower meat, milk, eggs and cheese prices, amongst other products, which managed to overshadow the price increases of grain-related products over this period. The lower consumer demand has also played a part in this inflation development as consumer food price movements have not necessarily moved in conjunction with producer price inflation as has been the case in the past.

Although this year's drought is a concern, current indications such as soil moisture, near-term weather forecasts and meat market dynamics, suggest that it might not be as intense as the 2015-16 drought, where South Africa's food price inflation was at double-digit highs for some time. There are three major reasons for this.

First, over the past two weeks there has been a general improvement in South Africa's soil moisture content and that has allowed farmers to commence with summer crop plantings, specifically in Mpumalanga, Limpopo, KwaZulu-Natal, the eastern Free State and the Eastern Cape. Estimates from various farming groups and our conversations with farmers suggest that about a third of the expected maize hectares have now been planted, mainly in Mpumalanga and the eastern Free State.

This, however, is way behind the optimal maize planting window for these provinces which is typically from 15 October to 15 November 2019. There is a risk of frost later in the season from planting beyond this date which impacts yields. Be that as it may, the plantings spurred by improved soil moisture might benefit from potential maize price increases in the near term.

Second, the near-term weather forecasts from [wxmaps.org](#), a George Mason University-based weather forecast, show prospects of 16 and 60 millimetres of rainfall this week over the summer rainfall areas of South Africa. This is with the exception of the Eastern Cape which is expected to remain dry and warm throughout the week. This would generally further improve soil moisture and subsequently crop-growing conditions in areas that have started planting. As with the previous point, this would keep maize prices hovering around its current levels. On 14 November 2019, yellow and white maize prices traded around R2 637 per tonne and R2 692 per tonne, which is up by 8% y/y and 12% y/y, respectively.

Third, meat, which accounts for more than a third of South Africa's food price inflation basket, could remain subdued in the near term. The possible marginal upticks will mainly be because of base effects. Last week, we highlighted another case of foot-and-mouth disease in the Molemole district of Limpopo. The consequence of this is likely to be a temporary ban on South Africa's meat exports. Mozambique, Zimbabwe

and eSwatini are some of the countries that have already placed a ban on South African livestock and its products imports. This could result in a slight increase in domestic meat supply and thereby keeping meat prices at fairly lower levels in the near term. This bodes well for consumer price inflation, but the same cannot be said for farmers.

Overall, we had initially estimated South Africa's food price inflation for 2020 at 4.9% y/y and we will revisit this estimate at the end of January 2020 when there is concrete evidence about the actual summer crop area planted and weather outlook for the rest of the 2019/20 production season. The main upside risk for food price inflation in 2020 is the weather. The outlook suggests that South Africa could receive below normal rainfall from end of January 2020. This includes all regions, and is, therefore, a concern even for the western and central regions of South Africa, which in the near term could receive above-normal rainfall between November 2019 and January 2020, according to the South African Weather Service.

With that said, the food price inflation outlook is much better than during the 2015-16 drought years. Also, worth noting is that the global agricultural environment is likely to have minimal impact on South Africa's food price inflation in the medium term. The main product that South Africa is exposed to the most is wheat, and there are large supplies of it in the world, keeping prices at comfortable levels. This is beneficial to the South African consumer.

- *Sihlobo is chief economist of the Agricultural Business Chamber of SA (Agbiz).*