

## SA food price inflation accelerated in April 2020

South Africa's food price inflation accelerated to 4.6% y/y in April 2020, from 4.4% y/y in the previous month. This uptick was mainly underpinned by relative price rises of meat; milk, eggs and cheese; and oils and fats. Meanwhile, other products decelerated and some remained roughly unchanged. In the case of meat, the base effects, following lower levels of last year when meat exports were banned on the back of foot-and-mouth disease, were the key driver of the uptick in April. In eggs, the sharp demand at the start of the lockdown period was, in part, a key driver of the uptick in prices. In terms of oil and fats, South Africa imports a notable share, therefore the weaker ZAR/USD partially supported the prices.

Looking ahead, we are still convinced that what will matter the most for the direction of food price inflation this year are developments in the grains, meat markets and fruit. These three food categories account for nearly two-thirds of South Africa's food price inflation basket.

Firstly, the outlook for South Africa's grain production is positive, with maize harvest estimated at 15.6 million tonnes which are the second-largest harvest on record. Moreover, global wheat and rice prices, which South Africa is a net importer of, could soften in the coming month as the 2020/21 harvest is estimated at 766 million tonnes and 506 million tonnes, respectively. The slightly firmer ZAR/USD recently and if sustained, bodes well for imported products amid subdued international oil prices. The risk on the imported products, which we continue to monitor is COVID-19-related disruptions on logistics or shipments.

Secondly, meat price inflation was subdued in 2019 because of the ban on red meat exports on the back of a foot-and-mouth disease outbreak at the start of that year, as previously noted. This year, the base effect of 2019 will mean that meat price inflation could show an mild uptick. Thirdly, South Africa has had a generally good fruit harvest this year, with the citrus industry recently noting a 13% y/y increase in available supplies for export markets. This could keep prices at relatively lower levels this year.

Against this backdrop, we still think that South Africa's food price inflation could average around 4% y/y in 2020 (from 3.1% y/y in 2019). The upside pressure will largely come from meat; and importantly, it will mainly be base effects in the case of red meat, and a possible slight uptick in poultry products prices on the back of a recent tariff adjustment.

### Exhibit 1: South Africa's food price inflation



Source: Stats SA, Agbiz Research

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