

Recent uptick in SA food price inflation could be temporary

South Africa's food price inflation accelerated to 4.8% y/y in May 2020, from 4.6% y/y in the previous month. This uptick was mainly underpinned by relative price rises of milk, eggs and cheese; oils and fats, and fruit. Meanwhile, other products' price inflation slowed and some remained roughly unchanged. In the case of eggs, the sharp demand at the start of the lockdown period was, in part, a key driver of the uptick in prices in May and also the previous month. In terms of oil and fats, South Africa imports a notable share, therefore the weaker ZAR/USD partially supported the prices. We were surprised by a notable uptick in fruit prices as the country has large supplies this year. And we think this could be a temporary blip.

Overall, our view on South Africa's food price inflation remains roughly unchanged from what we advanced last month. This means 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 the maize harvest estimated at 15.5 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 months due to large supplies. The United States Department of Agriculture forecasts the 2020/21 global wheat and rice harvest at 761 million tonnes and 502 million tonnes, each respectively up by 15% y/y. The slightly firmer ZAR/USD, and if sustained, bodes well for imported products amid subdued international oil prices.

Secondly, as we have continuously pointed out, 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. This year, the base effect of 2019 will mean that meat price inflation could show a 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. There is also a broad recovery in the production of deciduous fruit, with apple and pear production up by 5% y/y and 1% y/y, respectively in 2020.¹ 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; it will mainly be base effects in the case of red meat, and an 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

¹ https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Fresh%20Deciduous%20Fruit%20Semi-annual_Pretoria_South%20Africa%20-%20Republic%20of_05-15-2020

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