Monthly Food Affordability Tracker

September 2020
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INSIGHT

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agriculture, land reform
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Department:
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Acknowledgement

This report was compiled by a number of collaborating researchers from the Bureau for Food and Agricultural Policy, the Department of Agricultural Economics, Extension and Rural Development at the University of Pretoria, the Department of Agriculture, Land Reform and Rural Development.

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1. Food Inflation Trends in July 2020

Official year on year food and non-alcoholic beverage inflation reflected a slight increase from 4.2% in June to 4.3% in July. If food without the beverage component is considered, the official year on year increase was 4.6%. This figure remains stubbornly high, with constrained demand supporting expectations, prior to the release of the figures, of lower inflation rates. Figure 1 explores month-on-month changes and year on year changes in food inflation and its respective sub-categories and shows which of the subcategories were the major contributors to the relatively strong growth in prices.

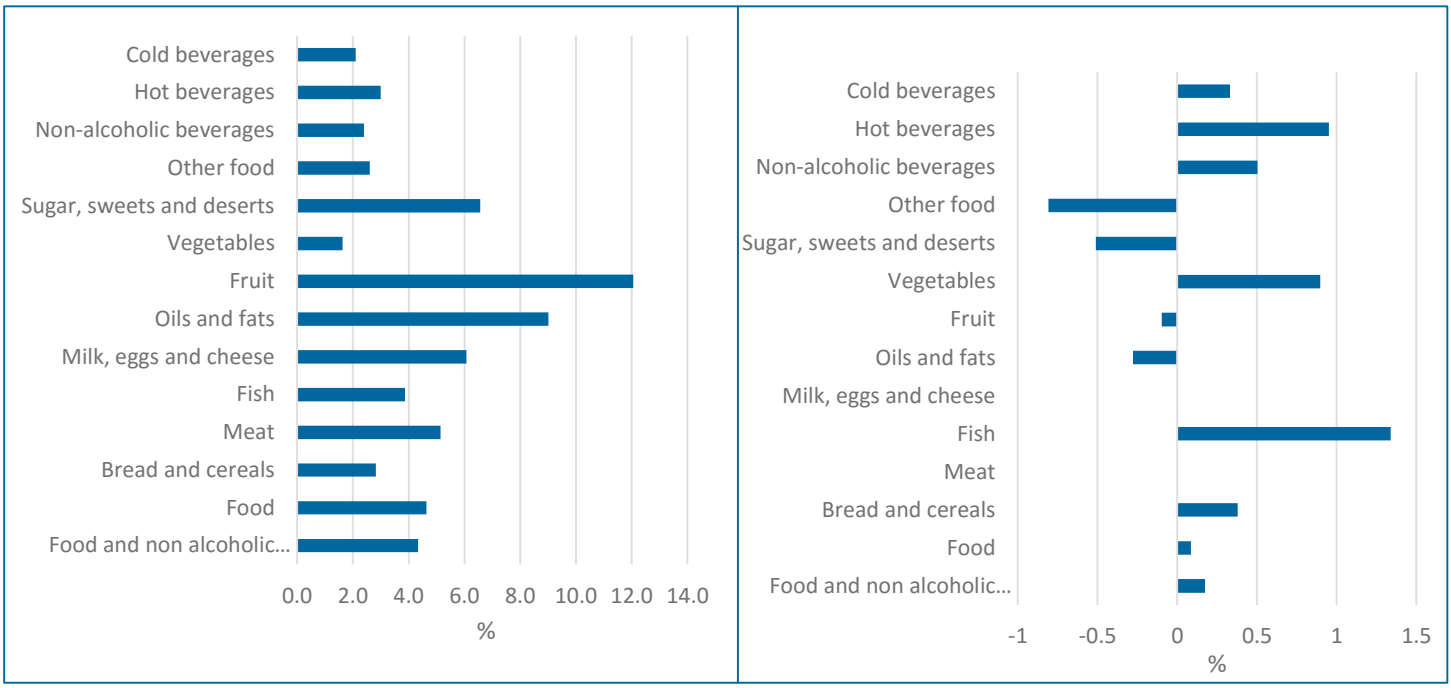

Figure 1: Year on year (left) and month on month (right) inflation for food and associated sub-groups

From Figure 1 it is apparent that *Fruit* (+12.1%), *Oils and Fats* (9%), *Sugar and Confectionary products* (6.6%), *Eggs and Dairy products* (6.1%) and *Meat* (5.1%) had the most substantial increases, in year on year terms (see left hand pane of Figure 1). A month-on-month view, on the right of Figure 1, provides a slightly different perspective. *Meat* and *Eggs and Dairy* products traded sideways showing no upward pressure since June 2020. *Fish* (+1.3%), *Vegetables* (+0.9%) and *Hot Beverages* (+1%) were the main drivers of inflationary pressures between June and July.

The significant year-on-year increase in fruit was driven by price increases in main fruit groups such as bananas and oranges. Prices for bananas were supported by lower volumes due to cold weather. Data on volumes traded through the Johannesburg Fresh produce market suggest that volumes were down by about 20% if compared to corresponding periods in 2019. Oranges, in turn, were down due to the significant amount of cartons exported earlier than usual in April in response to the significant depreciation of the rand. As a result, current and total volumes in the local market are about 10% lower compared to corresponding periods in 2019. Year-on year inflation on Oils and Fats, in turn, was driven by substantial increases in margarine and dry beans. This could be attributed to the cost pressures associated from the oil seed market. Parity prices of vegetable oils increased on the back of a depreciated exchange rate, which, in turn, caused local prices of oilseeds to also increase significantly. It is expected that this increase has been transmitted into retail prices of products derived from oilseeds. In the milk, egg and cheese category inflation was driven predominantly by eggs and cheese. It should however be noted that for cheese specifically, no price data was available for July 2020 and this value was imputed based on previous prices and the average inflation for the milk, egg and cheese of the rest of the category, which could be biased slightly upward due to the large increases experienced in eggs.

2. Price Changes for specific products in July 2020

To evaluate price changes for specific food products, the 15 food items presented in Figure 2 represent a selection of the dominant food items purchased by low(er) income households in South Africa. Expenditure on these items typically represent approximately 70% of total food expenditure for the least affluent half of South African households (according to Stats SA Living Conditions Survey 2014/2015).

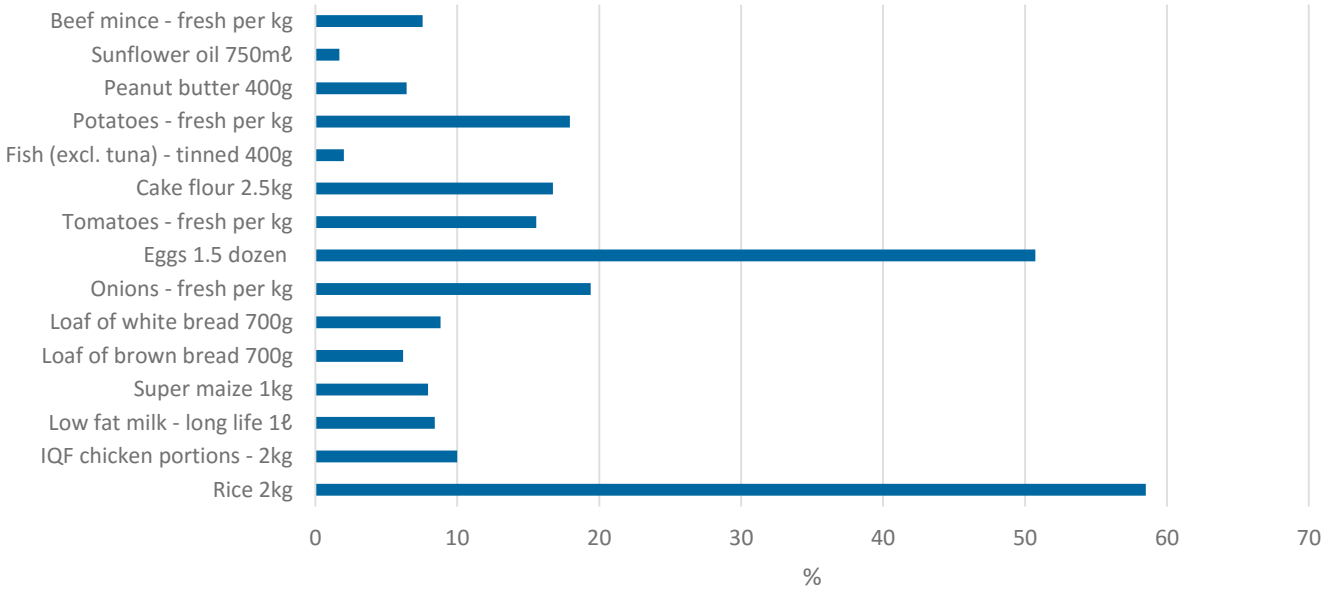

Figure 2: Year on year increases between July 2019 and July 2020 for specific food products

Figure 2 shows that specific prices which experienced the greatest increases are rice with a staggering 58%, eggs (51%), onions (19%), tomatoes (19%), potatoes (18%) and cake flour (17%). The large increases in rice is due to the low base effects of 2019. Rice prices increased significantly during 2020Q2 on the back of a depressed rand and increased world prices following trade restrictions from some major exporters. Similarly, egg prices experienced a structural shift during April and May of 2020. The strong demand from consumer stockpiling at the beginning of the lock-down allowed for a correction in retail prices. Underlying producer prices have been under considerable pressure in the 18 months leading up to the lock-down and strong demand allowed for retail prices to adjust upward. Vegetable prices increases were supported by lower volumes during the winter compared to the winter of 2019. Here, if one considers volumes of potatoes and tomatoes traded through the Johannesburg market, volumes for potatoes were almost 12% lower compared to volumes in June and July 2019, where tomato volumes were down roughly 4% compared to the same time last year. Although not included in the list of products above, this was also the case for major fruit such as oranges and bananas. Cake flour prices, in turn, are also higher due to the above mentioned exchange rate depreciation which caused local wheat prices to be roughly 20% higher compared to 2019Q2 prices.

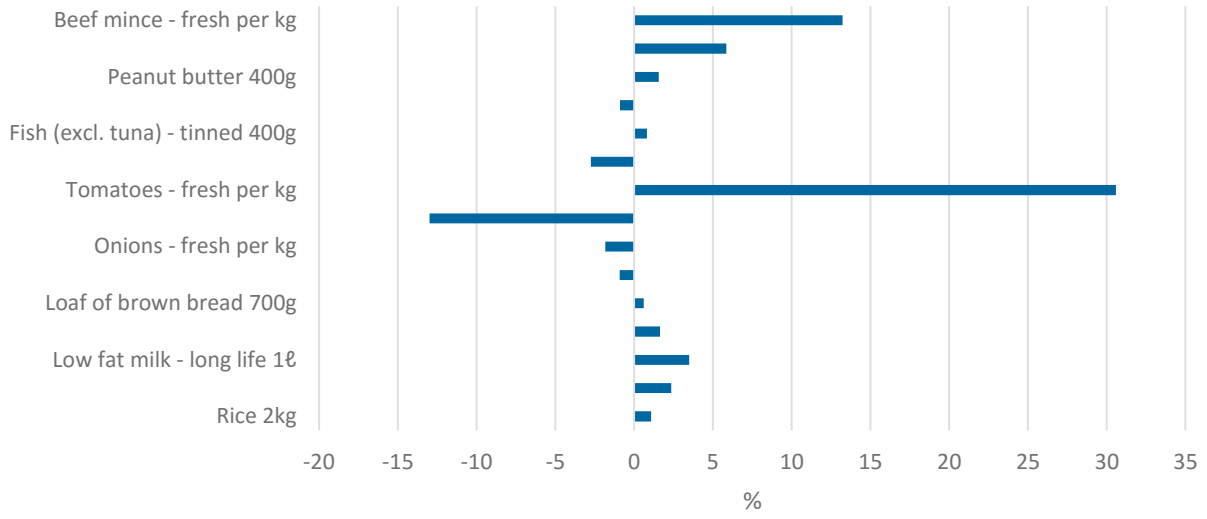

Figure 3: Month on month increases between June 2020 and July 2020

Specific month-on-month price changes suggest that the rapid increases in products such as rice and eggs have lost momentum or might even be contracting somewhat. The most severe price change between June and July is tomatoes with increases amounting to 31%. This is due to the colder weather that caused tomato producers in the northern parts of the country to delay their production. Tomato prices are however expected to contract somewhat as the aforementioned producers start to enter the market as we enter spring. Beef mince showed a month on month increase of 13.2%. Similar trends was apparent in other beef cuts. This despite producer prices for beef moving sideways.

3. The effect of price changes to access to healthy food

To relate the changes in prices to access to healthy food, the table below provides an overview of the aggregate cost of healthy eating for a family of four.

Table 1: BFAP healthy food basket cost – absolute cost and share of income.

	July 2020 - Basket cost (R/month)	Annual inflation**:	Month-on-month inflation	Share of household income (2 wages, 2 child grants):
BFAP Thrifty basket (family of four*)	R2 810	10.5%	1.0%	34.0%
BFAP Thrifty basket (family of four*) with school feeding	R2 372			28.7%

The table shows that healthy eating for a family of four increased by 10.5% year on year. This is substantially higher than official food inflation of 4.3%. In absolute terms the cost of health eating in July would have amounted to R2 810 to feed a family of four and R2 372 if the children in the family had access to a school feeding program. This amounts to a saving of around 20% which points to the importance of school feeding programs in nutrition and healthy eating.

4. Inflation Outlook for the remainder of 2020

Although food inflation dipped below 4% in the second half of 2019, since February 2020 it has consistently been above 4%. The biggest contributor to this is meat prices. Its contribution is twofold. The first is that it comprises the largest proportion of the expenditure basket (35%) but prices in this category are also markedly higher (5.1%) compared to a year ago. This can be attributed to the low base associated with 2019 on the back of foot and mouth disease restrictions that constrained exports. With restrictions on liquor being relaxed since the mid-August it is expected that primal cuts can find price support from increased uptake from the hospitality industry. This could help sustain price increases for meat over the rest of the year. Restricted consumer income that does however not seem to be reflected in retail prices of meat yet and as the economic aftermath of the lock-down unfolds we could see dampened demand providing a ceiling for price growth.

Although fresh produce comprises a much smaller expenditure share of the food basket, compared to meat, this category also exhibited notable inflation of 12.1%. As mentioned, this can be mainly attributed to lower volumes of bananas and oranges traded in the local market. This is also true for vegetable products such as tomatoes and carrots. It is expected that volumes will increase on the back of warmer weather as we enter spring and as a result it is expectation that price increases during the rest of the year will be less pronounced. Factors that could however still provide price support for products such as potatoes and onions is the progressive relaxation of restrictions related to the hospitality industry.

Oils and fats are expected to increases further due to strong price growth in soybean prices. Whilst milk, egg and cheese prices are expected to continue to show high year on year price increases due to the structural price change during lock-down. Month-on-month data does however seem to suggest that egg prices have normalised and there might even be a slight contraction. Official inflation in this group might therefore also tend lower over the rest of the year. Bread and cereal inflation, in turn, are expected to remain low over the outlook period due to large maize surpluses associated with the 2019/2020 harvest.

Although there are numerous fundamental factors that suggest that food inflation should move sideways or tend lower, it should however be noted that PPI for the production of food in July was recorded at 3.2% This shows that there are upward pressures on production cost of food which could add upward pressure on food prices over the rest of 2020.

5. A note on data

This tracker report utilised the official price data as collected and collated by StatsSA. In the past four months, it has been noted in StatsSA CPI releases that the way in which data was collected changed, with April fully reliant on online prices and the sample of prices after that (May to July) continuing with an online price compliment of around 20%. Although information on the online compliment for each category and sub-category is not available it should be noted that online prices could behave vastly differently in an online context compared to that of a physical retail space. There are also multiple instances, especially in the meat category, where actual prices for July was not recorded but imputed from average inflation in the sub-category. We acknowledge that this is best practice in terms of compiling a continuous and consistent inflationary series. In terms of actual food affordability this could give a biased view. In the case of meat, multiple product prices were imputed resulting in a 5.1% year on year increase and a sideways movement month on month. If other month on month meat price sources are considered there has however been a downward tendency in beef products. This is more in line with the fundamentals of depressed demand. Although beef prices are still slightly higher compared to 2019, it should be kept in mind that 2019 represents a low base of FMD issues during this time.