Food inflation in SA – What can we expect over the next three months?

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July 2018 Inflation Rates Based on the BFAP Healthy Food Baskets…

	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*)	**R 2 660**	2.80%	-1.70%	32.1%

The low inflation rates of late were to large extent as a result of the disinflation associated with breads and cereals (3%) and fruit (4.2%). The rapid depreciation in the exchange rate will however support grain and fruit prices over the coming months and it is expected that the disinflation will turn into moderate inflation, in these food groups, over the outlook period. In grains specifically, average monthly maize prices have increased by almost 9%, month on month, and around 20% year on year. Consequently, maize meal prices are expected to increase by approximately 10% over the next quarter. Wheat prices, in turn, increased 4% month on month between July and August but are still around 10% lower compared to July 2017 levels. This could serve as a mitigating factor for the above mentioned increases in maize and associated maize meal prices. It should however be noted that wheat is a much smaller share of the final retail product (bread) compared to maize and maize meal. As a result, recent exchange rate and oil price dynamics provides a conducive environment for significant upside risk in bread prices towards the end of quarter 3

The recent disinflation prevalent in fruit could possibly be explained by quality issues related to the drought, causing more fruits to be diverted into the local market and issues related to softer demand. With local consumption spending under pressure, it is expected that consumers will move away from more luxurious items such as fruit to more affordable options such as vegetables and starches. Although demand pressures are expected to persist over the next three months, exchange rate movements, as mentioned above is expected to support fruit prices resulting in marginal inflation rates.

Red meat prices seem to have lost the upward momentum prevalent in 2017. Year on year, producer prices for July hardly changed with A2/A3 cattle prices per kilogram declining from R46.77 per kilogram in July 2017 to R46.43 per kilogram in the corresponding month of this year. Pork prices, in turn, have seen a recovery from the Listeriosis crash in March but are still roughly 12% lower than this time last year. The month-on-month trend however suggest that prices are picking up and that the disinflation in pork prices could also turn into marginal inflation in the outlook period. Reported producer prices also suggest that chicken prices have been moving sideways in year on year terms. With roughly 20% of local of chicken demand being imported, it is expected that the depreciation in the exchange rate will also support retail prices of chicken products to higher levels. Meat inflation in general is not expected to be as pronounced over the outlook period as in 2017 and early 2018. There is however no getting away from the fact that export parity prices for beef and import parity prices for chicken and pork have been effected by the currency slide and that this will support retail prices going forward.

In terms of vegetable prices, potato sales in June and July have been the highest in 3 years. Since the beginning of 2018 the volume of potatoes sold increased by only 1%, prices were however 12% higher. This suggest strong demand growth which serves as an indication that the July inflation of 8.8% associated with vegetables can be an indication of solid demand.

This is in contrast to fruits, as discussed above. If one however compares per kilogram prices of basic fruits such as bananas, apples and oranges to that of basic vegetables such as potatoes, carrots and cabbage, vegetables are still cheaper in absolute terms and therefore provides a more affordable avenue toward the consumption of a relatively balanced diet.

As evident from the discussions above, currency issues are dominating current food inflation dynamics. This impacts primary commodity prices but also has an impact on manufacturing and distribution cost. Given depreciation in late July and early August the food inflation rate is expected to pick up rapidly and reach 4.5 as early as October. This would be concerning from a macro-economic perspective but also on a household level, since it is expected that inflation will be driven by staples such as maize meal of which the price effects were quite benign in the first half of 2018. Key international factors to watch out for over the next the months that could affect the trends discussed above are sanctions on Iran by the US (and possibly European countries) that could support oil prices. At the moment, market sentiment suggests that the effect of this could be offset by lower demand for oil amidst the raging trade dispute between US and China. The main local uncertainty is the mid-term budget in October that could affect South Africa's investment grade and implicitly also our currency■