Food inflation in SA in 2018Q4

February 2019 - Inflation Rates Based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY in Inflation (%)	MoM Inflation (%)	Share of hh income (2 wages, 2 child grants):
BFAP Thrifty basket (family of four*)	R 2 818	2.14%	3.8%	34.1%

Official y-o-y food inflation rates remained constant, at 3%, between December 2018 and January 2019. Marginally higher than the BFAP rate depicted in the table above. It is, however, slightly lower than 3.4% reported for October and November 2018 and somewhat surprising since inflation usually exhibit an increasing trend associated with strong(er) festive season demand. The main contributors to inflation in January was Vegetables (which recorded double digit inflation of 11.1%), Breads and Cereals (2.8%) and sugar and confectionary (3.5%) with most other classes exhibiting relatively subdued inflation. Subdued inflation, specifically in meat, can be attributed to the foot and mouth disease outbreak that resulted in an increase in local supply due to export bans.

Although year on year increases for maize meal is negative, the month on month movement in the price of a 2.5 kg packet increased by approximately 7%. This could signal that the increase in prices of white maize, apparent during late December and early January are starting to manifest in retail prices. Due dry conditions during the last quarter of 2018 planting was extremely delayed. Improved rainfall in February pushed futures prices lower. It is however still too early for certainty on yield levels, and as a result, there exist a significant upside risk to maize prices if late rains affected yields significantly.

These dynamics are therefore expected to support maize meal prices over the outlook period. Wheat prices, in turn, have been moving sideways over the past couple of months but exchange rate movements could impact on this over the next quarter. Brown bread prices have shown a moderate month on month increase and is expected to experience upward pressures due to probable increases in manufacturing and distributional cost.

In terms of meat, as expected with established seasonal patterns, there have been a slight decrease in poultry producer prices between December and January. If a year-on-year effect is considered this decreasing trend is even more amplified, with producer prices for IQF pieces in January 2019 being almost 10% lower compared to January 2018. The expectation is that the sideways movement in poultry prices will continue over the next 3 months. As mentioned above, however, red meat prices declined significantly on a month-on-month and year-on-year basis due to the foot and mouth disease outbreak. It is expected that inflationary pressures for meat will remain subdued for the remainder of 2019, as South Africa works to regain access into lost foreign markets. Based on this, general meat inflation is expected to be marginal over the next three months.

With regards to fresh produce, Fruit inflation was relatively benign in January. Vegetables, in turn, were however the largest contributors to inflation, continuing upward inflationary trend since October 2018. Potatoes recorded a year on year increase of 12.34%, whilst month on month increases amounted to just over 6%. This upward trend is attributable to the drought and heat wave experienced by the Northern part of South Africa late in 2018. It is also expected that there is demand price support for vegetables, due to their relative affordability compared to other food product categories. For lower income households, expenditure on vegetables are about 5 times more than typical expenditure on fruit.

Over the next quarter there are several factors the present an upside risk to the moderate food inflation trends of late. The first is local and global factors that impact on exchange rate dynamics. Locally, the situation surrounding Eskom and South Africa's precarious fiscal position could have a depreciating effect on the currency. Globally, contractionary monetary policy in the US and trade disputes could also serve to weaken the rand. Lastly, there seems to be a consensus amongst economists of bullish oil markets in 2019. This, along with possible exchange rate depreciation and a 29 cents increase in the fuel levy in April will impact on manufacturing and distribution cost and could support food inflation to higher levels 2019Q2■