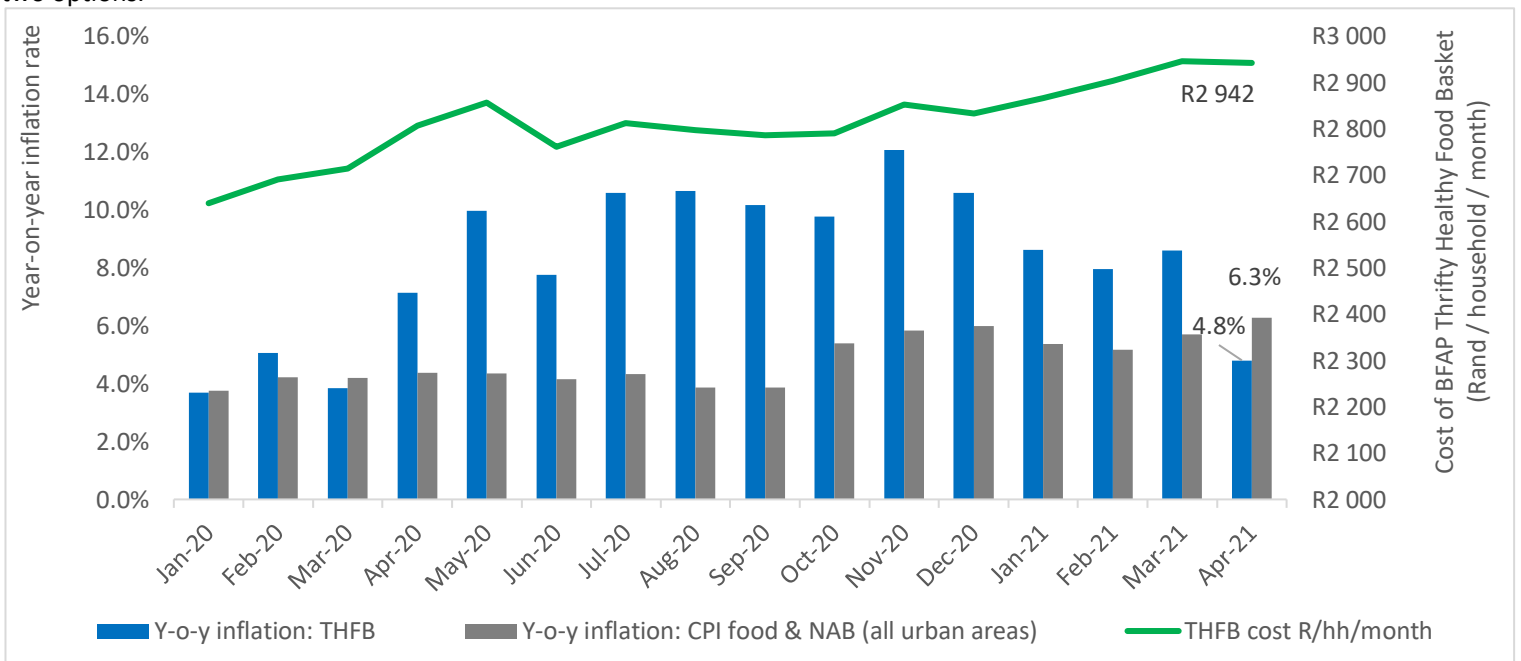




## Food inflation brief – April 2021

The prices of food and non-alcoholic beverages (NAB) increased by 6.3% from April 2020 to April 2021, and by 0.9% from March 2021, well below the record food inflation rate of 11.8% observed in October 2016 linked to the 2015 / 2016 drought in South Africa.<sup>1</sup> Food and NAB contributed 1.1 percentage points to annual CPI headline inflation of 4.4% - making it the second largest driver of overall inflation in April 2021, after 'Transport' (1.5 percentage points) and followed by 'Housing & Utilities' (0.6 percentage points). In April 2021, the monthly cost of the BFAP Thrifty Healthy Food Basket\* amounted to R2 942. This represents an increase of 4.8% (R136) from April 2020, and a 0.1% decrease (-R3.75) from March 2021. For a four-member household with a dual minimum wage income, benefiting from both child grants and a school feeding program, the share of household income allocated to basic healthy eating would have amounted to  $\pm 30\%$  in April 2021 – effectively excluding approximately half of the SA population from affording a basic healthy diet. In April 2021 y-o-y inflation on the BFAP THFB was lower than CPI food inflation (Figure 1) for the first time since April 2020. Thus, even though the cost of a basic healthy food basket is still higher than the typical monthly food expenditure of many South African households, the cost of the healthy basket increased at a slower rate than the cost of the typical food basket purchased by the average South African household. Thus, even though the cost of a basic healthy food basket is still higher than the typical monthly food expenditure of many South African households, the cost of the healthy basket increased at a slower rate than the cost of the food basket purchased by the average South African household causing a slight narrowing in the affordability gap between the two options.



**Figure 1: An overview of food inflation: January 2020 to April 2021**

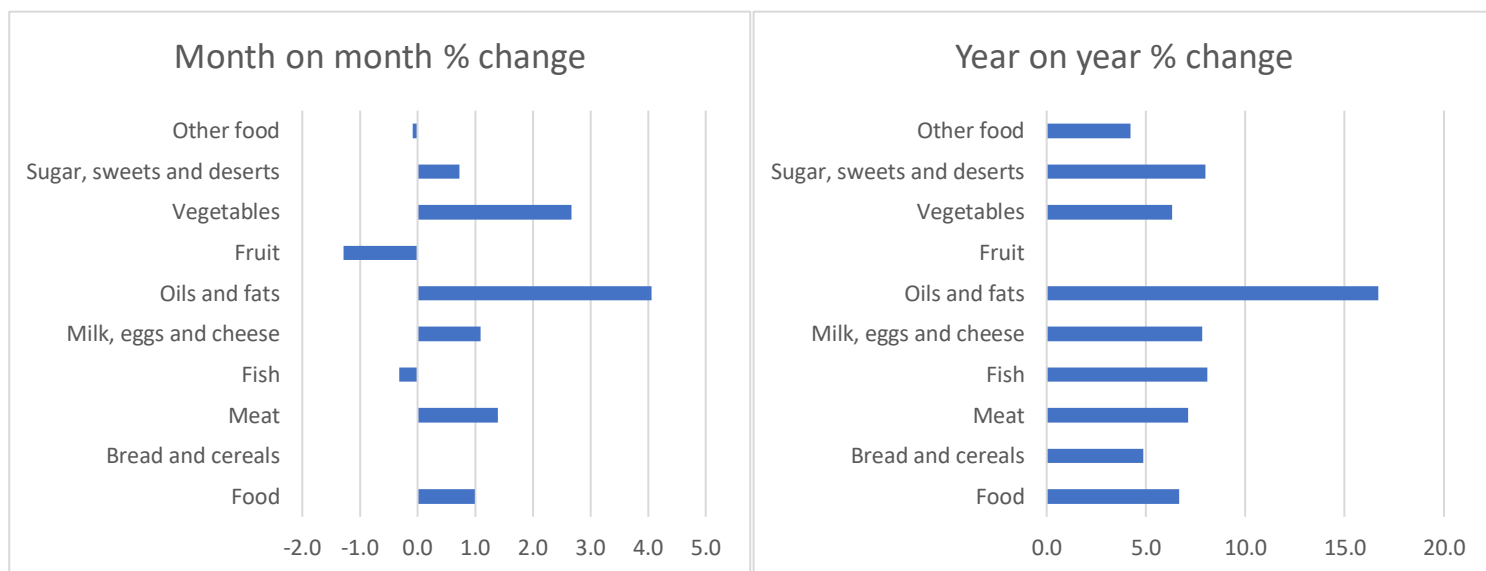
Source: BFAP Compiled from Stats SA CPI

\*The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for low-income households in the South African context. The methodology considers national nutrition guidelines, typical food intake patterns of lower-income households, official Stats SA food retail prices and typical household demographics. Consisting of a nutritionally balanced combination of 26 food items from all the food groups, the BFAP THFB is designed to feed a reference family of four (consisting of an adult male, an adult female, an older child, and a younger child) for a month. The BFAP THFB comprises a smaller staple component and relatively more items from food groups contributing to dietary diversity than the CPI index. The CPI index is more reflective of 'typical' food intake patterns.

<sup>1</sup> Statistics South Africa (Stats SA) Consumer Price Index (CPI) statistical release ([www.statssa.gov.za](http://www.statssa.gov.za)) for April 2021

## Food inflation drivers and expectations

In April 2021, all categories except *bread and cereals* and *fruit* recorded annual inflation rates above 5% (Figure 2). *Meat*, which has the largest share of the food expenditure basket at 31.7%, was a key driver of inflationary pressure - recording an increase of 7.1%. Although official slaughter figures for April are not available yet, first quarter slaughter numbers for red meat were down by around 3.5% year-on-year. This is indicative of tight supplies amidst a cycle of herd expansion following multiple drought years with increased slaughtering, fewer animals in feedlots due to the high maize price and the seasonal effect of farmers buying and holding back animals to fatten on harvest remainders. Furthermore, prices were buoyed by higher demand over the Easter period, which is reflected in the monthly increase in meat inflation (1.4%). Other protein sources such as *milk, eggs and cheese* recorded corresponding levels of high inflation at 7.8%. This is attributable to increased inflationary pressures in global dairy products, as well as significant increases in manufacturing and distribution costs. In terms of eggs, the recent outbreaks of Avian Influenza at layer production units in Gauteng, the Northwest and the Western Cape is concerning and further spread of this disease could have a significant effect on egg production and prices.



**Figure 2: Month on month and year on year inflation per food sub-group**

*Oils and fats* recorded the largest year on year increase of 16.7%. International prices of oilseeds and vegetable oil have surged since mid-2020, due to firm import demand for oilseeds from China, combined with short supply. Several shocks resulted in lower vegetable oil production during 2020 and early in 2021, including dry conditions in the Black Sea region and labour constraints in key palm oil producing countries. Domestic price gains reflect these global dynamics. Similar to oils and fats, increases in breads and cereals also emanate from global dynamics. Maize prices benefited from increases in global markets, where maize prices have doubled from April 2020 levels. This reflects firm import demand from China, which is rebuilding its swine herd and produced a below average maize crop. In the local context, the year-on-year increase in grain prices is smaller, with the average yellow maize price only 20% higher compared to a year ago and almost 4% lower for white maize. This is, in part, due to the resilience of the exchange rate, which mitigated some of the price surges apparent in global markets. It is however expected that factors related to manufacturing and distribution cost will keep bread and cereal prices at non-trivial levels going forward. Grains and oilseeds serve as a core input in livestock production so that significant cost increases associated with these commodities are also expected to contribute to cost pressures in meat.

Fruit prices have been stable relative to a year ago and decreased month on month, despite smaller volumes traded through fresh produce markets between March and April 2021. Apple volumes declined by almost 20% month-on-month. In a year-on-year context the stable prices can be attributed to the relatively high base at which fruit traded in April last year, as the weak exchange rate and strong global demand for products rich in Vitamin C spurred export growth. In the case of vegetables, which recorded inflation of 6.3%, prices have been pulled up by tomatoes, where supply has been constrained following heavy rains in the northern parts of South Africa. Tomato prices traded 59% higher in April 2021 relative to a year ago and prices could remain high in the short term, until supply constraints ease. Other vegetable prices such as potatoes (-23%), pumpkins (-13%) and onions (-19%) declined year-on-year, offsetting some of the tomato price gains, thereby moderating total vegetable inflation. Going forward, vegetable inflation will likely remain strong, as volumes are expected to be lower compared to 2020 - onion producers for example note a reduction in volume of 20% compared to last year due to earlier wet weather in key onion producing regions.

Some of the inflationary expectations BFAP identified in previous inflation briefs have now manifested in April. In our view, two key overarching drivers played a significant role in edging local inflation higher. The first is high global commodity prices and the second is an increase in domestic manufacturing and distribution costs. Our view is that neither of these factors will abate soon. Over the medium-term global commodity prices will return to more normalised levels. Low stock to use ratios combined with firm demand on the back of economic recovery is expected to sustain (agricultural) commodity and food product prices globally, whilst increased oil, fuel and other administered costs are expected to continue to push manufacturing and distribution cost higher.