



Food inflation brief – August 2021

SUMMARY OF FOOD INFLATION METRICS – AUGUST 2021:

Inflation on food and non-alcoholic beverages:

M-o-m: **+0.2%**

Y-o-y; **+6.9%**

Contribution to CPI headline inflation:

1.2 percentage points contribution to
CPI headline inflation of 4.9%

Food category contributions:

	M-o-m % change:	Y-o-y % change:
Bread & cereals	-0.5%	+3.5%
Meat	+0.8%	+10.7%
Fish	+1.1%	+6.0%
Milk, cheese, eggs	-0.6%	+5.5%
Oils & fats	0.0%	+21.3%
Fruit	+0.7%	-2.2%
Vegetables	+1.4%	+5.6%
Sugar & sugar-rich foods	-0.4%	+5.3%
Non-alcoholic beverages	-0.2%	+3.4%

Commonly purchased food items with high y-o-y inflation rates in August 2021:

Above 10% inflation:

Apples
Canned pilchards
Chicken
Dried beans
Margarine
Mutton/lamb
Pork
Spinach
Super maize meal
Vegetable oils

6.9% to 10% inflation:

Beef
Eggs
Pasta
Peanut butter
Pumpkin
Rice



THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)[#] August 2021: **R2 939/** **/month**

M-o-m change:

+R7.24 / +0.2%

Y-o-y change:

+R142 / +5.1%

Affordability*:

29.7% food expenditure share

* Share of total income spent on food – household with dual minimum wage income, also receiving child grants & school feeding.

[#] 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.

FOOD INFLATION DRIVERS AND EXPECTATIONS:

Headline inflation came in higher than expected and one of the key drivers was food inflation - at 6.9%, this is a level not seen since 2017. The main food category driving this was meat, with inflation of 10.7%. This is also incidentally the food category with the highest expenditure share in the CPI food basket. As early as June 2021 some market stakeholders noted consumer resistance to high meat prices, especially in the case of red meat. Slaughter figures for July however decreased drastically in month-on-month and year-on-year terms, with numbers for July almost 8% lower than June and around 16% lower than July 2020. This trend is expected to have also spilled over into August as a result of high feed cost and Foot and Mouth Disease pressures in parts of the country. The price of chicken has been following an upward trend due to increases in international poultry prices combined with a weakening in the exchange rate. Individually quick frozen (IQF) prices specifically have also provided significant support for the surge in meat prices in general. In the case of pork products, slaughtering and processing capacity and infrastructure losses due to the KZN looting and violence contributed to price pressure.

Another food category that has made a significant contribution to the August food inflation is vegetables, recording inflation of 5.3%. This is noteworthy since vegetable prices in 2020Q3 were already high and as a result, this year's prices should be seen in the context of a higher base. The underlying driver is significant increases in potato prices, driven by lower volumes on the back of late frost damage that affected early season potatoes from Limpopo. The substantially higher cost of agro-chemicals could cause upward price pressure on commodities such as potatoes and onions, partly due to reduced plantings. It is however expected that as the Northern regions of the country get into full production, prices will moderate and vegetable prices will ease.

Oils and fats, and dairy and eggs also continue to support high inflation numbers. For dairy and eggs, high input costs (mainly feed) are contributing to price pressures. For eggs specifically, selected Avian Influenza outbreaks earlier this year, combined with firm demand as the most affordable source of animal protein, is creating a conducive environment for prices to increase. In the case of oils, prices are higher on the back of international factors (such as rising global commodity prices (as illustrated in Figure 1) that have been discussed comprehensively in earlier inflation briefs, but remain relevant. Weather conditions in key production regions over the coming months will be a key factor in influencing the future price path of vegetable oil prices globally. For imported food products in general, escalating international sea freight costs could also continue to contribute to food inflation. Pressure on sugar prices, which are 5.3% higher y-o-y for sugar and sugar-rich foods, is linked to rising international prices and the recent social unrest in KwaZulu-Natal, which caused cane and sugar stock losses, as well as the temporary closing of sugar mills.

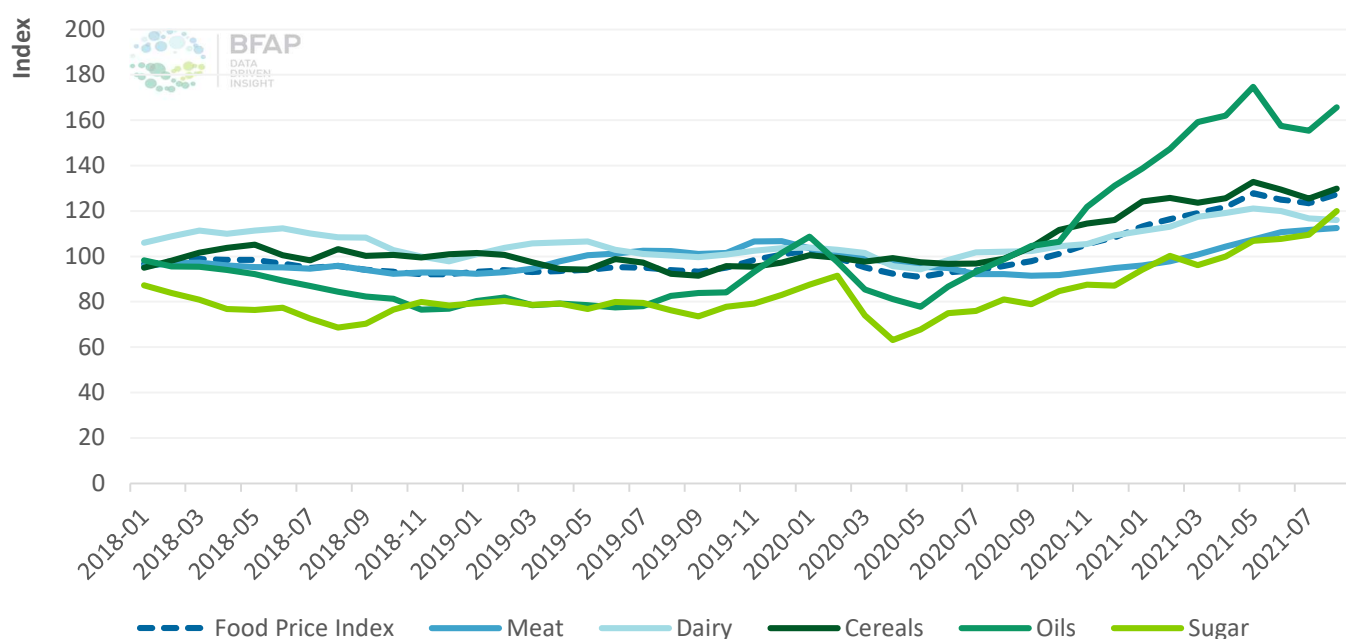


Figure 1: FAO Food price indices: Jan 2018 to August 2021

Source: FAO, 2021

Our view is still that food inflation will moderate towards the end of 2021. This is underpinned by two factors. The first is relatively high base effects, where upward price trends in selected food categories already started mid-2020. The second is a moderation in meat prices as slaughter numbers pick up towards the end of the year, though it must be noted that seasonal demand also tends to increase over the festive period. Here, a crucial caveat is movements in the rand. While the rand has been remarkably strong over the last year, supported by a substantial positive commodity price - fueled trade balance, since mid-September the rand has depreciated by around 4.5%, and hard commodity prices are coming down. A weaker rand is expected to provide some continued price support for products such as grains and oilseeds, poultry meat, and fruits. The effect of this could constrain downward potential in inflation and is a key variable to watch over the coming months.

This food inflation brief is a collaboration between BFAP and Dr. Marlene Louw from Absa Agribusiness, based on Statistics South Africa CPI and food retail price data.

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