Food inflation brief – September 2021

SUMMARY OF FOOD INFLATION METRICS – SEPTEMBER 2021:

Inflation on food and non-alcoholic beverages:

M-o-m: +0.0%   Y-o-y; +6.6%

Contribution to CPI headline inflation:

1.1 percentage points contribution to CPI headline inflation of 5.0%

Food category contributions:

	M-o-m % change:	Y-o-y % change:
Bread & cereals	+0.0%	+3.2%
Meat	-0.2%	+10.3%
Fish	-0.2%	+5.2%
Milk, cheese, eggs	+0.0%	+5.5%
Oils & fats	+0.1%	+22.4%
Fruit	-1.2%	-2.1%
Vegetables	-0.2%	+4.2%
Sugar & sugar-rich foods	+1.7%	+5.8%
Non-alcoholic beverages	-0.1%	+2.8%

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

Above 10% inflation:	***6.6% to 10% inflation:***
Sunflower oil	Tinned pilchards
Dried beans	Potatoes
Polony	Brick margarine
Super maize meal	Pasta
IQF chicken	Sugar
Mutton/lamb	Tuna
	Pork

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)# August 2021: R2 864/ /month

M-o-m change:	Y-o-y change:	Affordability*:
-R75 / -2.5%	+R79 / +2.8%	29.0% food expenditure share

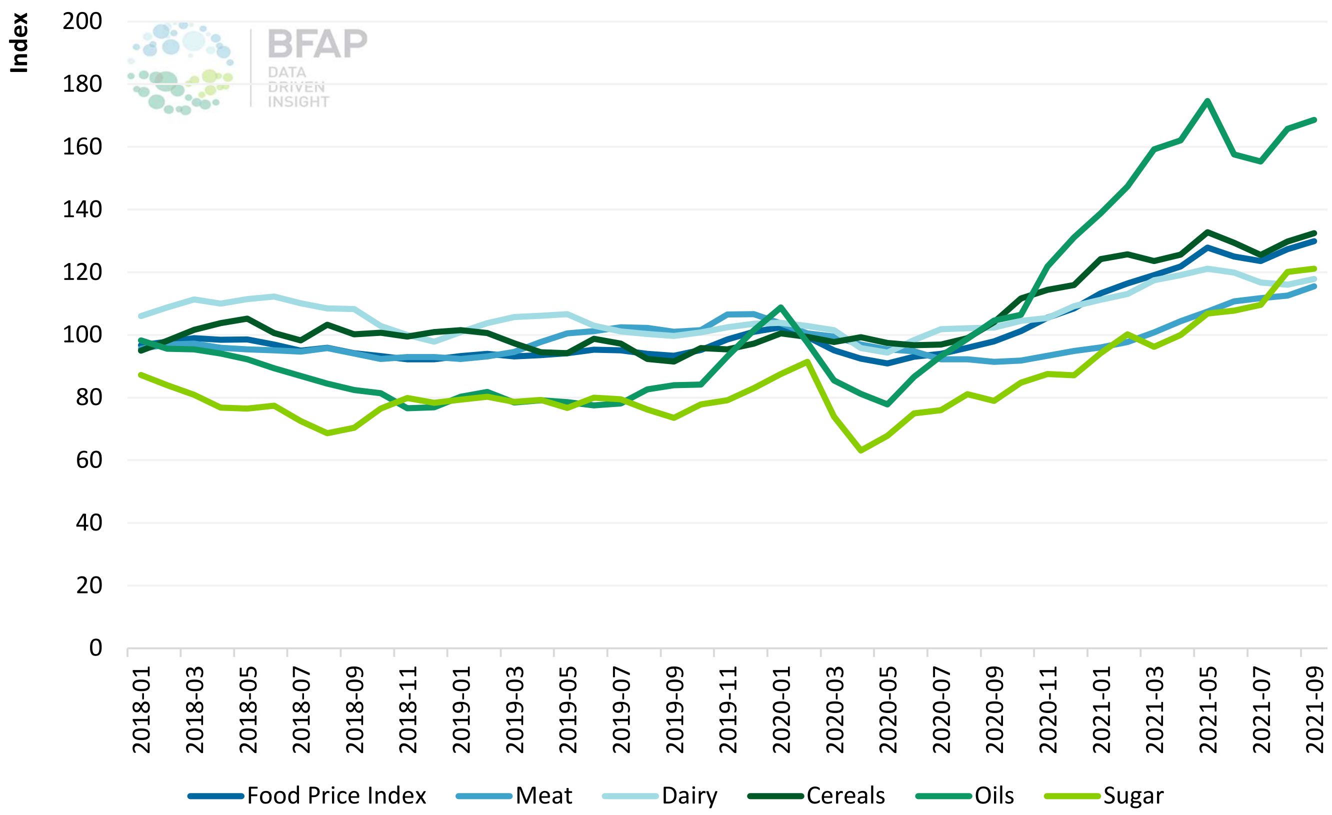
** Share of total income spent on food – household with dual minimum wage income, also receiving child grants & school feeding.*

 # 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 surprised at a higher than anticipated 5%, with the main contributing categories transport, housing and utilities, and food. In terms of the latter, numerous drivers highlighted in our previous inflation briefs remain relevant. These include high red meat prices on the back of lower slaughter numbers and rising world prices, as well as firm chicken prices as a result of strong global prices and the depreciation of the exchange rate through the end of quarter 3. Despite its small weighting in the food basket, oils and fats are also still a key contributor with year-on-year inflation of 22.4%. This is driven by global factors which include supply constraints for products such as palm oil and sunflower oil, combined with strong demand for oilseeds for animal feed and biofuel feedstocks (which is strongly linked to crude oil prices that have more than doubled since September 2020). We anticipate that prices for oils and fats will only start to decline meaningfully in the first two quarters of 2022 as global supply and demand fundametals for the 2021/2022 season point to production surpluses and recovery of stocks in soybean, sunflower and palm oil. However, this could be reversed by continued bottlenecks in shipping. Lastly, vegetable prices have also remained firm on the back of late winter frost damage in the Northern parts of the country. However, the effects seem to have abated during October, with improved volumes reaching fresh produce markets.

Figure 1: FAO food price index reflects continued strength of global markets



Our view is that inflationary figures for the rest of 2021 can continue to surprise towards the upside as meat prices are expected to remain firm as we approach the festive season. Here, higher trending prices are already apparent in the weaner calf market. International markets also remain strong, largely due to persistent stock reduction in major grains and oilseeds and constraints in the supply of beef and lamb from Oceania and South America. Other factors such as the projected 99 cents increase in petrol and R1.42 increase in diesel prices per litre are further likely to add to production, processing and distribution costs, which could put upward pressure on food prices in general. It is expected that consumers will however only be able to absorb a part of these price increases as leading economic indicators indicative of demand, such as retail and vehicle sales, point to consumers that are already under pressure.