FOOD INFLATION **BRIEF**

This BFAP Food Inflation Brief provides an overview of food inflation dynamics, its associated causes and the cost of basic healthy eating for February 2022.

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BFAP
DATA DRIVEN INSIGHT

SUMMARY OF FOOD INFLATION METRICS – February 2022

Inflation on food and non-alcoholic beverages:

Month-on-month: +0.9% Year-on-year: +6.4%

Contribution to CPI headline inflation:

1.1 percentage points contribution to CPI headline inflation of 5.7%

Food category contributions:

	Month-on-month % change:	Year-on-year % change:
Bread & cereals	+2.4%	+3.7%
Meat	+0.0%	+8.6%
Fish	+2.3%	+5.3%
Milk, cheese, eggs	+0.1%	+4.7%
Oils & fats	+1.4%	+22.7%
Fruit	+1.8%	-1.6%
Vegetables	+0.1%	+7.7%
Sugar & sugar-rich foods	-0.6%	+1.8%
Non-alcoholic beverages	+1.9%	+2.8%

Commonly purchased food items with high year-on-year inflation rates in February 2022:

Above 10% inflation:	*6% to 10% inflation:*
Vegetables (pumpkin, tomatoes, cabbage, spinach)	Beef (T-bone)
Beef (offal, brisket)	Baked beans - tinned
Mutton/Lamb neck	Macaroni
Chicken (giblets, IQF & non-IQF portions)	Eggs
Oil products (margarine, sunflower oil incl canola oil)	Polony
Hake - frozen	Fish (canned pilchards, fish fingers)
Beverages (Ceylon/black tea, instant coffee)	Low fat milk - fresh
Cake flour	Vegetables (cucumber, beetroot, onions, broccoli)
Mixed vegetables - tinned	Beverages (fruit juice)
Whiteners	Whole chicken - fresh
Bacon	

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)#

THFB – February 2022:

R3 117/  /month

Month-on-month change:
+R120 / +4.0%

Year-on-year change:
+R352 / +7.4%

Affordability*:
30.6% 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 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 preferences.

International food inflation overview

Similar to January 2022, major drivers of food inflation internationally include high agricultural commodity prices, resulting from challenging weather conditions, supply chain disruptions and rising energy prices - exacerbated by the ripple effects of the Russia-Ukraine war. In February 2022, the FAO Food Price Index, a measure of underlying agricultural commodity prices, increased by 3.9% from January 2022 (month-on-month) and with 20.7% from February 2021 (year-on-year). This represents a new all-time high, surpassing the levels last reached in February 2011. All commodity sub-indices increased, with the most significant being observed in the vegetable oil (+8.5% month on month) and dairy (+6.4% month on month) price sub-indices. Vegetable oil prices have reached an all-time high and continue to be driven by a combination of strong demand and supply limitations resulting from a combination of weak palm oil export supply from Indonesia and Malaysia, deteriorating soybean production prospects in South America and concerns over sunflower availability from Ukraine. For February 2022, food inflation in South African was lower than the food inflation rates reported for Zambia, Kenya, Brazil and the USA (**Figure 1**). This stems from good summer crop harvest prospects, which have kept prices near export parity levels, and weaker demand amid persistent constraints on spending power.

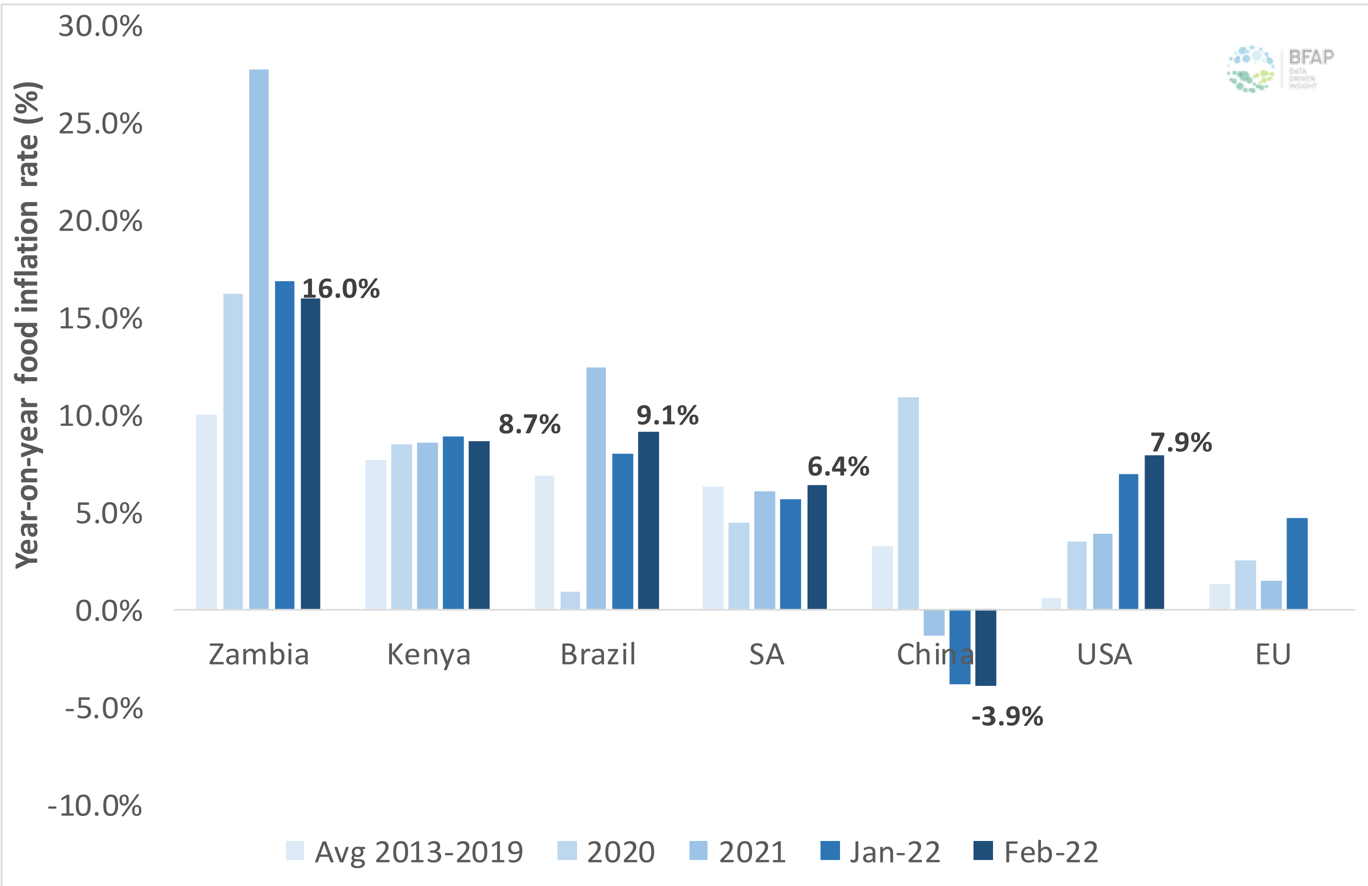

Figure 1: International food inflation comparison

Food inflation drivers and expectations

Year-on-year inflation on Food and Non-alcoholic beverages accelerated even further, with a 6.4% increase in February compared to 5.7% in January 2022. This was underpinned by an uptick in the price of oils and fats, meat, vegetables and fish. Thus, food and non-alcoholic beverage inflation for February increased by 0.7 of a percentage point with the largest increase apparent in bread and cereals, which increased by 2.2 percentage points compared to the month before. While Russian 'military exercises' in January brought some uncertainty to the market, the sharp commodity price impacts arising from the Russian invasion of Ukraine on 24 February is to a large extent not yet captured in the February food inflation figures. While already clear in agricultural commodity markets, there is typically a three to four month lag before the full impact of higher agricultural commodity prices manifests in retail food prices. Therefore, observed higher food inflation for cereals are likely the effect of high global grain and oilseed prices at the end of 2021 and the start of 2022 underpinned by, amongst other factors, dry conditions in South America. We expect to see the price effects of the Russia-Ukraine war in bread and cereals and oils and fats towards April. Bread and cereals will therefore continue to be a key driver of food inflation over the coming months with the magnitude and duration of the inflationary effects being determined by how global supply dynamics play out. These dynamics include grain and oilseed production in the US for the coming production season and the ability of Ukraine to plant, harvest and export amid ongoing conflict in the country. A wide range of scenarios can unfold, depending on the duration and outcome of the war, but some market analysts note that Ukrainian sunflower production can decline by more than 30% in the upcoming production season, which would be only partly offset by unusually large stocks carried into the new season due to the current disruptions in processing. While current high prices are expected to ignite a strong supply response in the Northern Hemisphere, Russia and Ukraine's substantial combined share of global exports among key commodities such as wheat (24%), barley (21%), maize (14%) and sunflower products (56%) still raises concerns. Furthermore, Russia is the world's leading exporter of chemical fertiliser and hence sanctions imposed in response to the conflict and subsequent export restrictions from Russia will push input costs higher, which along with availability, poses a risk that could constrain the supply response.

In terms of meat, inflation remains persistently high on the back of low red meat supply, combined with strong input cost pressures in livestock chains on the back of the grain and oilseed increases mentioned above, and strong export volumes to the Middle East in particular. Meat inflation could however moderate over the coming months as pressure on disposable income weighs on consumers' purchasing power. At this point, the scope for a significant reduction in meat prices seems unlikely as a result of the input cost pressures.

Higher energy prices, particularly oil and fuel prices, are resulting in cost pressures throughout the chain. This affects production, manufacturing, and distribution cost and will likely contribute to inflationary pressures across food categories over the months to come. While oil prices have been rising for some time amid a conservative supply response from OPEC countries, Russia's invasion of Ukraine caused another significant shock to the market. Given that Russia is amongst the leading oil exporters globally, analysts note that oil prices are now likely to remain well above USD 100/barrel for the year. During 2006-2008, a similar phenomenon of two years of persistently high grain commodity and energy prices pushed food inflation to double-digit levels reaching a peak of 19.2% in August 2008. Although this is still far off with food inflation around 6.7%, the situation in Ukraine combined with risks of other supply disruptions such as drought or hurricanes that affect oil refining infrastructure, or Covid-19 related logistical challenges, could fuel inflation to reach double digits towards the end of the year.

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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