FOOD INFLATION **BRIEF**

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

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SUMMARY OF FOOD INFLATION METRICS – June 2022

Inflation on food and non-alcoholic beverages: Month-on-month: +1.2% Year-on-year: +8.6%	**Contribution to CPI headline inflation:** 1.5 percentage points contribution to CPI headline inflation of 7.4%

Food category contributions:

	Month-on-month % change:	Year-on-year % change:
Bread & cereals	2.6%	11.2%
Meat	0.9%	9.5%
Fish	1.1%	6.7%
Milk, cheese, eggs	1.4%	4.7 %
Oils & fats	5.9%	32.5%
Fruit	-4.9%	0.3%
Vegetables	-0.2%	5.6%
Sugar & sugar-rich foods	1.4%	5.7%
Non-alcoholic beverages	0.9%	5.5%

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

Above 10% inflation:

Staples (wheat flour, maize meal, bread, pasta)
Beef (offal, rump steak, T-bone, sirloin)
Mutton/Lamb (rib chops, neck)
Polony, Ham
Frozen hake
IQF chicken portions
Fats/oils (plant oil, margarine)
Vegetables (broccoli, cucumber, beetroot, cauliflower, cabbage, lettuce)
Baked beans tinned
Pineapple, avocados
Instant coffee, Whiteners

6% to 10% inflation:

Beef (chuck, brisket, mince, fillet)
Pilchards canned
Chicken portions frozen non IQF
Bacon
Sugar-rich foods
Pork ribs
Tomatoes
Dried beans
Cheese
Stewing mutton/lamb
White sugar

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)#

THFB – June 2022:

R3 184/ /month

Month-on-month change:
+R13 / +0.4%

Year-on-year change:
+R270 / +9.3%

Affordability*:
30.4% 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 two adults, 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 overview

After reaching a new all-time high in March 2022 at 159.7 points, the FAO Food Price Index (FPI) dropped to 154.2 points in June 2022, decreasing by 2.3% from May 2022 but still 23.1% higher than in June 2021. The month-on-month downturn was mainly driven by declining prices for vegetable oils, cereals, and sugar, accompanied by increased dairy and meat prices.

Figure 1 illustrates that, in June 2022, food inflation in South Africa remained lower than food inflation in Zambia, Kenya, Brazil, the USA and the EU. However, food inflation in South Africa showed the third highest month on month increase after China and the EU and may signal a 'catching-up' scenario.

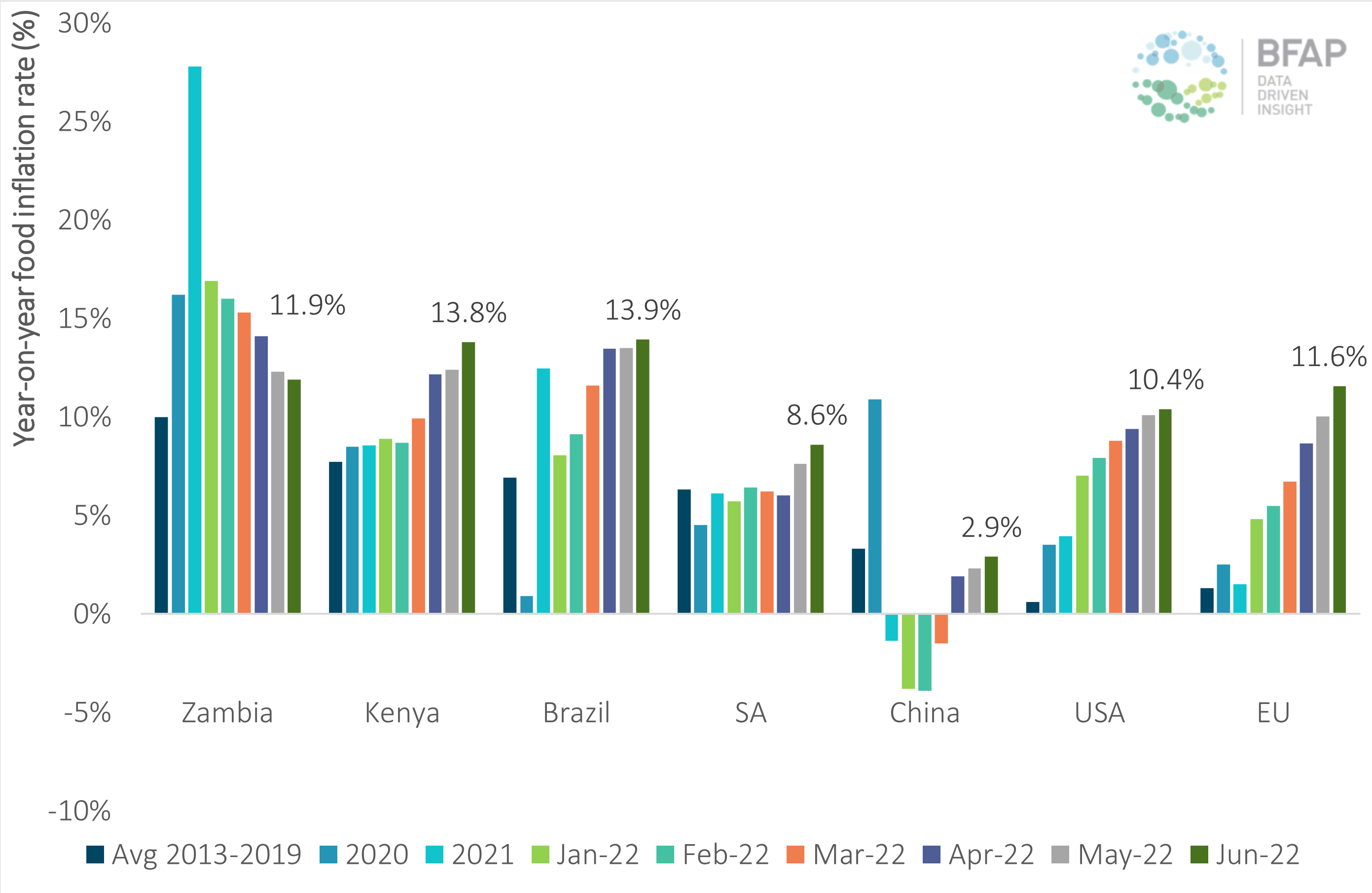

Figure 1: International food inflation comparison

Food inflation drivers and expectations

South African inflation on food and non-alcoholic beverages continued on an upward trajectory, reaching 8.6% in June 2022, mainly driven by price increases for meat (3.0 percentage points contribution), bread/cereals (2.1 percentage points), oils and fats (0.9 percentage points) and dairy/eggs (0.7 percentage points).

Prices for all categories of meat held firm during June, albeit for different reasons. The price of poultry meat, for example, increased due to global supply issues and disease outbreaks in key production areas (e.g. Avian flu in China). This, combined with a weaker exchange rate and broad-based input cost pressures, allowed room for local price increases. In the case of red meat, beef carcass prices remained above R60.00 per kg in June for A2/A3 grades, but seem to have stabilised at these levels. The ongoing foot-and-mouth disease (FMD) issues around the country are also likely at play in the current price dynamics. Weaner calf prices have already declined substantially since the start of the year on the back of softer demand, but for carcass prices, FMD issues combined with high feed prices are increasing production risk, which is likely to weigh on supply. This would support prices and offset, at least to some degree, the economic pressures faced by consumers that impact demand negatively. We therefore expect that meat prices will remain firm over the coming months.

The full effect of the commodity price shock of the Russian – Ukraine invasion on grains and oilseeds is now apparent, with inflation on *bread and cereals* amounting to 11.2% and *oils and fats* recorded at a staggering 32.5%. Our empirical research shows that it takes between 3 and 4 months for price shocks in grain and oilseed markets to fully manifest in retail prices, and the published June inflationary figures confirm this. Underlying global commodity prices did however ease in June due to aggressive increases in the US interest rate. Downward grain price trends gathered further momentum in July with talks of increased exports from Black Sea areas such as Ukraine, which would affect global wheat availability and prices. After easing during the start of July, global maize and soybean prices regained momentum towards the middle of the month as heatwaves affected key production areas in the US and EU. Going forward, key factors to monitor would be weather issues in the Northern hemisphere and how the US Federal Reserve adjusts interest rates. If US inflation remains persistently high, another 75 basis point hike could be on the cards, which would dampen demand for commodities and weigh on prices. This would also be transmitted to local prices but could be offset by a relatively weaker local currency as a weaker Rand is associated with higher interest rates in the US.

It is also worthwhile noting that inflationary pressures over the past two months did not originate only from agricultural commodity and product prices, but that there were cross-cutting issues related to manufacturing and distribution that affected the retail prices of food. In June, diesel prices were roughly 58% higher compared to the corresponding month in 2021. For July, this increased to 68% and is likely to be a big driver in the July inflationary figures. An additional factor that would impact inflation for July is the severe bouts of load-shedding the country experienced in the first half of the month. The effect is however difficult to quantify because it implies both higher production costs and lower demand. Since higher production costs resulting from load shedding is more immediate, our view is that it could contribute significantly to inflationary figures for July and August.

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 (released on 20 July 2022 for the June 2022 data).

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