



# FOOD INFLATION **BRIEF**

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

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## SUMMARY OF FOOD INFLATION METRICS – September 2022

<b>Inflation in food and non-alcoholic beverages:</b>		<b>Contribution to CPI headline inflation:</b>
Month-on-month: <b>+0.5%</b>	Year-on-year: <b>+11.9%</b>	<b>2.0 percentage points</b> contribution to CPI headline inflation of 7.5%
<b>Food category contributions:</b>		
	<b>Month-on-month % change:</b>	<b>Year-on-year % change:</b>
Bread & cereals	1.3%	19.3%
Meat	0.5%	9.9%
Fish	-0.3%	9.1%
Milk, cheese, eggs	0.7%	9.0%
Oils & fats	-6.1%	29.0%
Fruit	0.0%	-0.2%
Vegetables	0.9%	10.6%
Sugar & sugar-rich foods	1.3%	8.9%
Non-alcoholic beverages	-0.2%	8.8%
<b>Commonly purchased food items with high year-on-year inflation rates in September 2022:</b>		
<b>Above 10% inflation:</b>		<b>6% to 10% inflation:</b>
<ul style="list-style-type: none"> <li>Beef (offal, T-bone, rump steak, fillet, brisket, mince, stewing beef)</li> <li>Vegetables (tomatoes (fresh), peppers (fresh), onions (fresh), cabbage (fresh), pumpkin (fresh), broccoli (fresh), beetroot (fresh), canned vegetables, frozen vegetables))</li> <li>Fats/oils (sunflower oil, mayonnaise, margarine)</li> <li>Non-alcoholic beverages (fruit juice, coffee, tea)</li> <li>Starch-rich foods (wheat flour, super maize meal, brown bread, instant noodles, white bread, pasta, various baked goods, breakfast cereals)</li> <li>Pork (ham)</li> <li>Fruit (apples, pineapples, oranges)</li> <li>Legumes (tinned baked beans)</li> <li>Chicken (whole fresh, frozen non-IQF portions)</li> <li>Other foods (whiteners, salt)</li> <li>Sugar-rich foods (sweets, chocolates, ice cream)</li> <li>Dairy (flavoured milk, condensed milk, cheese spread, cream, cheddar cheese, gouda cheese, milk)</li> <li>Eggs</li> </ul>		<ul style="list-style-type: none"> <li>Fish (canned pilchards, canned tuna)</li> <li>Dairy (powdered milk)</li> <li>Beef (chuck, sirloin)</li> <li>Pork (bacon)</li> <li>Legumes (peanut butter)</li> <li>Dairy (sour milk, yoghurt)</li> <li>Non-alcoholic beverages (fizzy drinks)</li> <li>Chicken (IQF chicken portions)</li> <li>Mutton/Lamb (rib chops)</li> </ul>

### THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)<sup>#</sup>



### THFB – September 2022:

**R3 288/**  **/month**

Month-on-month change:

**+R18/ +0.6%**

Year-on-year change:

**+R432 / +14.8%**

**Affordability\*:**

**31.4% food expenditure share (compared to 31.2% in August 2022)**

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

<sup>#</sup> The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for low-income households in South Africa. 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

The FAO Food Price Index, a measure of an international basket of food commodities, was 5.5% higher in September 2022 compared to September 2021, but the index declined for the sixth successive month, having decreased by 1.1% from August 2022. Declines were observed in four of the five the sub-indices:

- FAO Oils Price Index: -6.6% month-on-month; -9.5% year-on-year (the largest month-on-month decrease among the sub-indices) – affected by lower prices for palm oil, soy oil, sunflower oil and rapeseed oil.
- FAO Sugar Price Index: -0.7% month-on-month; -9.5% year-on-year.
- FAO Dairy Price Index: -0.6% month-on-month; +20.7% year-on-year (the largest year-on-year increase among the sub-indices).
- FAO Meat Price Index: -0.5% month-on-month; +7.7% year-on-year – driven by declining bovine meat and poultry meat prices, even though pig meat prices increased further.

The cereals index increased by 1.5% from August 2022 and by 11.2% from September 2021 – mainly driven by higher wheat and rice prices.

**Figure 1** illustrates that in September 2022 food inflation in South Africa was lower than food inflation in Kenya, the EU and Zambia, but higher than food inflation in Brazil, the USA and China.

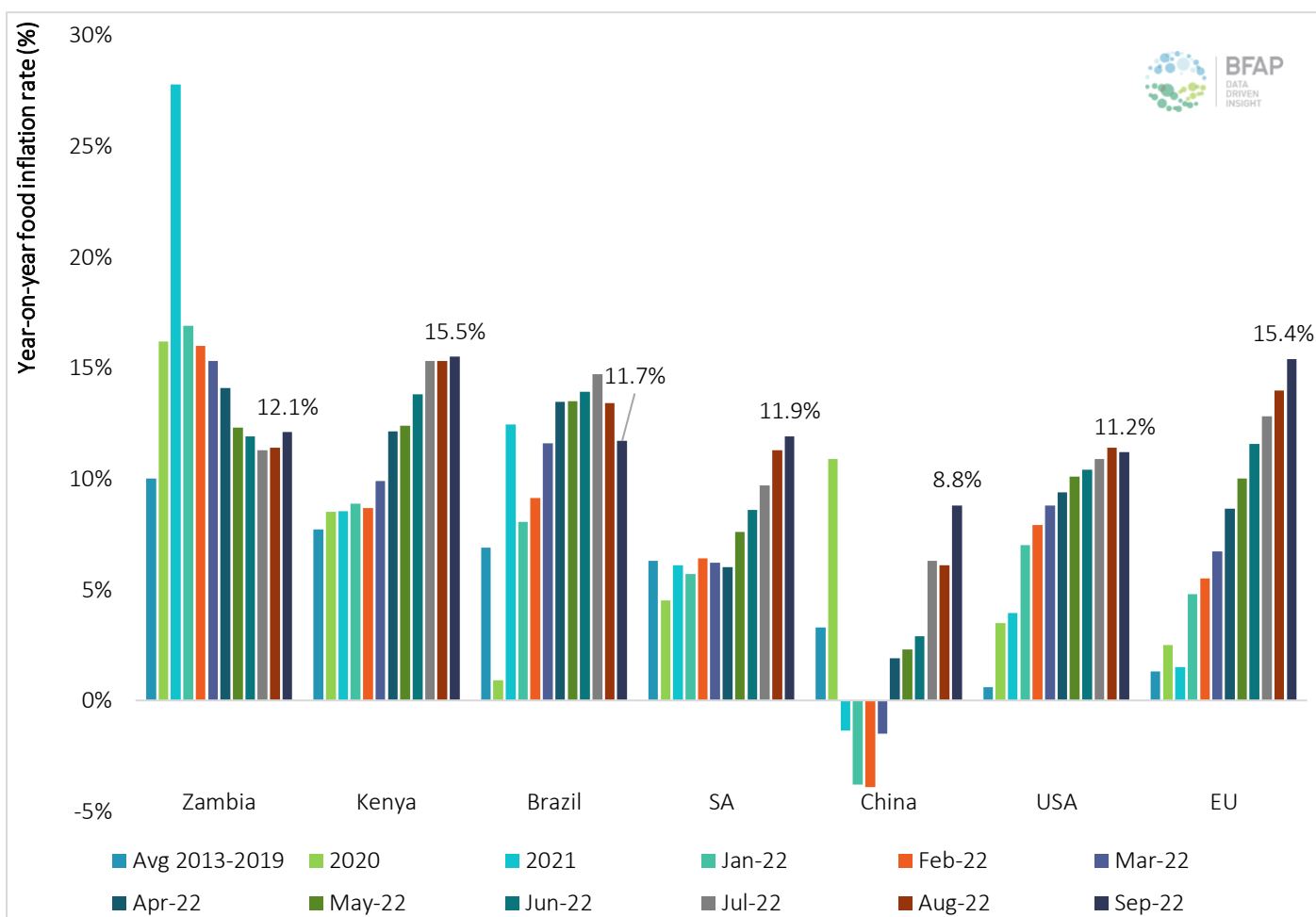


Figure 1: International food inflation comparison

(Source: Official national food inflation figures of the various countries as reported by national statistical agencies)

## Food inflation drivers and expectations

In South Africa, prices of food and non-alcoholic beverages increased by 11.9% year-on-year in September 2022. The main inflation contributors were *Bread and Cereals* (3.6 percentage points), followed by *Meat* (3.1 percentage points) and *Milk, eggs and cheese* (1.3 percentage points).

According to the Statistics South Africa Living Conditions Survey 2014/2015, the least affluent 50% of South African households allocate approximately 35% of their food budget to starch-rich foods. Year-on-year inflation of 19.3% on the *Bread and Cereals* category thus poses a significant threat to the food security of many South African households. **Figure 2** presents a comparison of the single serving unit (SSU<sup>1</sup>) costs of super maize meal, brown bread, white bread and rice. Maize meal remains the most affordable staple food in South Africa, with a cost of R0.32/SSU in September 2022, compared to rice (R0.39/SSU), brown bread (R0.95/SSU) and white bread (R1.07/SSU). The affordability gap between maize meal and the other starch-rich food options presented in **Figure 2** has decreased over time, with the most significant reduction observed for rice, where the gap declined from 80% in 2021 to only 24% in September 2022. Considering the shorter cooking times of rice relative to maize meal, the reduced affordability gap could motivate consumers to substitute some maize meal in their diet with rice, which could imply a significant loss of micronutrient intake as maize meal is fortified while rice is not fortified in South Africa.

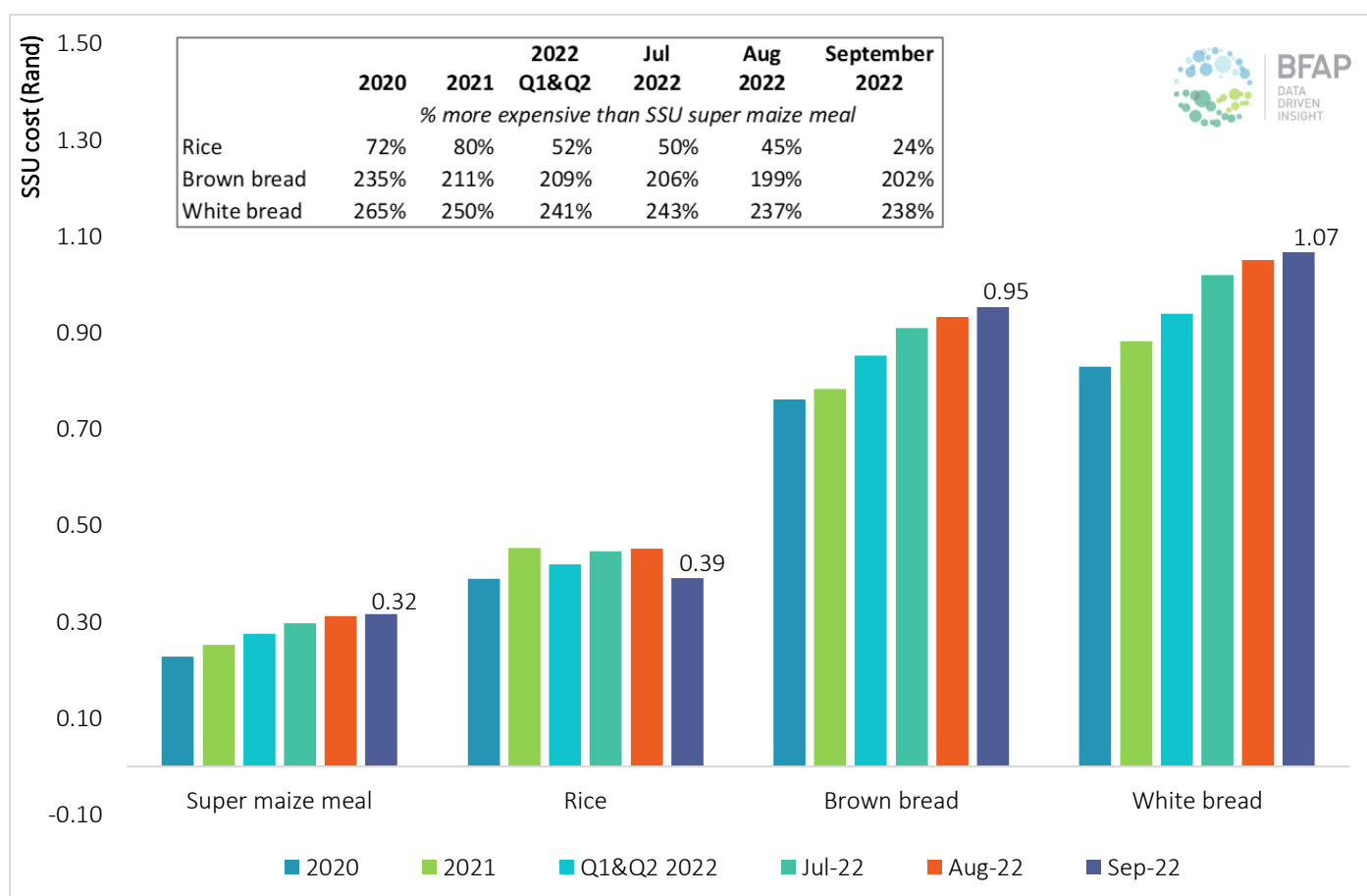


Figure 2: A comparison of staple food SSU costs over time  
 (Source: BFAP calculations based on Stats SA food price observations)

The major driver behind South Africa's double-digit food inflation is the surges in global grain and oilseed prices, exacerbated in the local context by a weakening exchange rate. As was observed in previous editions of this report, surges in commodity prices take between two to three months to show up in associated retail food prices, hence the *Bread and Cereal* inflation of 19.3% in September is the result of high grain commodity

<sup>1</sup> A Single Serving Unit (SSU) refers to a single unit of a particular food within a particular food group providing a similar amount of nutrients as other units within the same group (in the case of this example, 25g raw maize meal, a 40g slice of bread and 22g raw rice are considered equally nutritious according to the literature on the sources of nutrition).

prices in July, when average white maize prices were just above R4300 per ton. This was 34% higher than the corresponding period in the previous year. Although local maize price increases lost some momentum during August due to easing global maize prices, they gained renewed momentum in September on concerns regarding the size of the maize harvest in the Northern hemisphere. Subsequently, in early October, expectations of another dry summer production season in South America amid persistent La Nina conditions fueled another maize price run. This was further exacerbated in the local context by a weakening exchange rate and on 10 October SAFEX white maize prices breached R5000 per ton. This is likely to keep *Bread and Cereal* inflation and food inflation in general at elevated levels for the rest of 2023. High grain prices are also likely to have cost-push inflationary effects in livestock sectors and could result in persistently high food inflation during the first half of 2023.

For 2023 specifically, exchange rate movements and the progression of the Southern hemisphere crop, mainly South America, will be key in giving commodity prices and local inflationary figures direction. In terms of exchange rate dynamics, global recession fears and tighter monetary policy are likely to keep the dollar strong. Load shedding intensity, would, in turn, be a key local factor that will determine at which levels the local currency trades. A key factor to note is that although there are concerns about production conditions for South America, an actual supply shock is yet to occur. More favourable conditions than anticipated could therefore result in substantial commodity price declines which would ease global and local inflationary pressures. Furthermore, South Africa continues to trade at export parity for key commodities such as maize, sunflower, soybeans and canola. This essentially means that surplus production is keeping local prices low and that inflationary trends are driven by global prices, the weak exchange rate and growing costs of logistics and processing of products, such as transport, electricity and wages. Under a scenario where we do not produce surpluses of these crops, prices would rise to import parity, i.e. by at least 30 percent, which would cause a major shock in domestic food security among the poorest households, which could result in a shock to the overall socioeconomic stability of the country. At least for now, the weather forecast for the summer cropping season remains favourable, therefore BFAP's Baseline projections indicate that farmers could plant the largest area under summer crops in twenty years, despite the sharp increase in inputs costs. Hence, if favourable weather conditions persist, we are expecting prices to continue to trade at export parity, yet the actual level of export parity prices will be determined by factors outside the control of our agricultural sector. The range of commodity price trajectories that could play out over the coming months is quite wide and for now, the only certainty related to food prices and inflation is that we are in for a volatile time.

*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 19 October 2022 for the September 2022 data).*

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