



FOOD INFLATION BRIEF

This brief provides an overview of food inflation dynamics, its associated causes, and the cost of basic healthy eating for January 2023.

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SUMMARY OF FOOD INFLATION METRICS – January 2023

Inflation in food and non-alcoholic beverages (NAB):

Month-on-month: **+1.8%** Year-on-year: **+13.4%**

Contribution to CPI headline inflation:

2.3 percentage points contribution to
CPI headline inflation of 6.9%

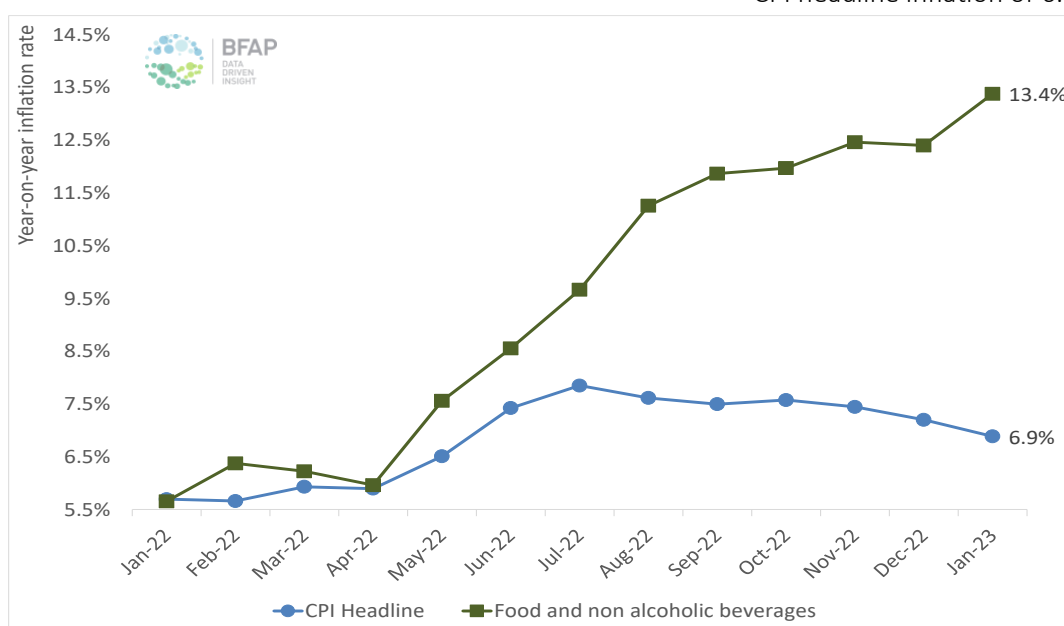


Figure 1: Year-on-year inflation (CPI Headline and Food and non-alcoholic beverages)

Source: Stats SA CPI data

The contribution of different food categories to inflation:

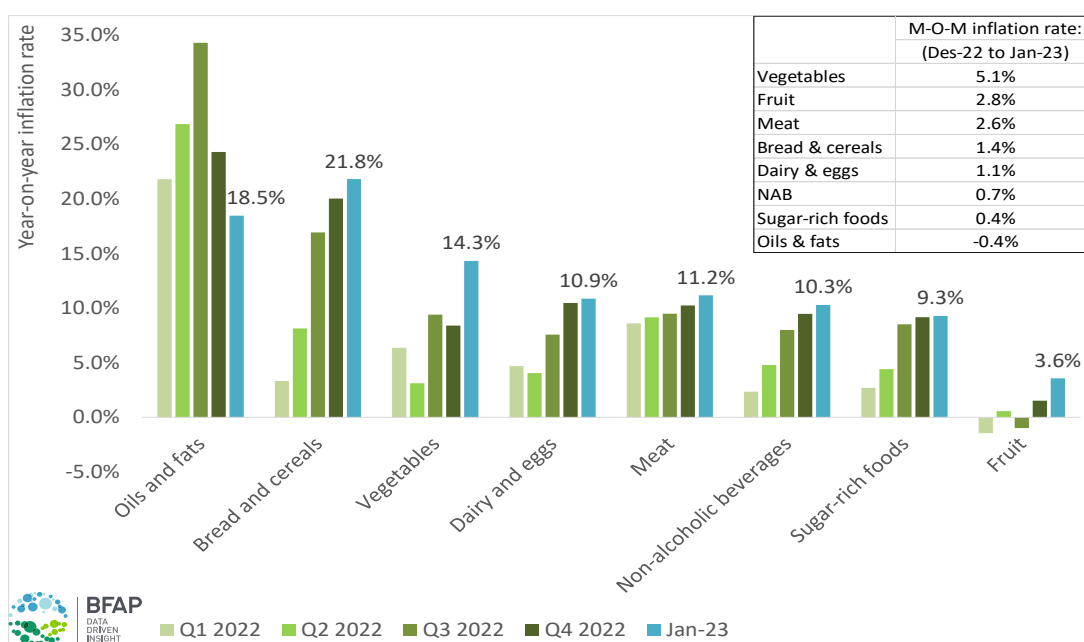


Figure 2: Year-on-year inflation on food categories (Q1 2022 to Jan-23)

Source: BFAP calculations based on Stats SA urban retail prices

There are three things to note from these graphs:

- Food inflation has continued to increase while the overall CPI has been declining since July last year.
- Inflation in the prices of oils and fats, bread and cereals, and vegetables was higher than the average year-on-year (y-o-y) inflation in the prices of food and non-alcoholic beverages of 13.4%.
- Y-o-y inflation has increased for all food categories excepting for oils and fats, whose prices are coming off a very high base.
- The highest month-on-month (m-o-m) inflation rates were seen in vegetables, followed by fruit, meat, bread and cereal and dairy and eggs.
- The dominant contributors to y-o-y inflation on food & non-alcoholic beverages of 13.5% were bread and cereals (4 percentage points out of the total of 13.5%), meat and fish (3.8 percentage points); dairy and eggs (1.6 percentage points); and vegetables (1.1 percentage points).

Commonly purchased food items with high year-on-year inflation rates in January 2023:					
Food category:	Y-o-y inflation range:				
	≥30%	≥20% up to <30%	≥10% up to <20%	≥6% up to <10%	DEFLATION
Starch-rich foods	Maize meal	Wheat flour, bread	Pasta, potatoes	-	Rice
Beef	Fillet, sirloin	-	Rump, T-bone, brisket, mince, chuck	-	Offal
Pork	Ham	Chops	Fillet, bacon, ribs	-	-
Mutton/lamb	-	Neck	Rib chops, offal	Stewing meat	Leg
Chicken	-	-	Giblets, frozen non-IQF pieces	Fresh pieces, IQF pieces	-
Fish	-	-	Canned pilchards, canned tuna	Frozen fish fingers	-
Dairy	-	-	Whiteners, milk, cheddar, mageu	Powdered milk, sour milk, yoghurt	-
Fats / oils	-	-	Plant oils, margarine, peanut butter	-	-
Fruit	Apples	-	-	Oranges	Bananas, avocados
Vegetables	Onions	Spinach	Carrots, beetroot, cabbage, pumpkin	-	-
Legumes	-	-	Canned baked beans	Dried beans	-
Sugar-rich foods	-	-	Various sugar-rich foods	Granular sugar	-
NAB	-	Coffee, Ceylon tea	Fruit juice	Fizzy drinks	Mineral water, fruit juice concentrate

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)#



THFB – January 2023:

R3 415/  **/month**

Month-on-month change: +R64/ +1.9%

Year-on-year change: +R418 / +13.9%

Affordability*: 32.6% food expenditure share
(compared to 32.0% in December 2022)

* The share of total income spent on food for a household with a dual minimum wage plus child grants and school meals.

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 (FPI), based on the prices of an international basket of food commodities, was 3.3% lower in January 2023 compared to January 2022, declining for the tenth successive month, resulting in a 0.8% decrease from December 2022. **Table 1** provides an overview of the January 2023 observations.

Table 1: Overview of the FAO FPI in January 2023

	Y-o-y inflation:	M-o-m inflation:	Comments:
Cereals sub-index	+4.8%	+0.1%	Largest m-o-m increase in rice, with slight increases in maize and sorghum. Largest m-o-m decrease in wheat, followed by barley.
Sugar sub-index	+2.8%	-1.1%	First m-o-m decline following sharp increases in Nov 2022 and Dec 2022.
Dairy sub-index	+2.7%	-1.4%	Lowest index level in 12 months. m-o-m decline in butter and milk powder prices, along with increasing cheese prices.
Meat sub-index	+1.3%	-0.1%	m-o-m decline continued for the 7 th consecutive month, with lower world prices for poultry meat, bovine meat and pork.
Oils sub-index	-24.5%	-2.9%	Lower world prices for palm, soy, sunflower and rapeseed oils.

Source: FAO FPI, January 2023 [<https://www.fao.org/worldfoodsituation/foodpricesindex/en/>]

Figure 3 illustrates that in January 2023 food inflation in South Africa was lower than in the EU, but higher than in Kenya, Zambia, Brazil, the USA and China. Compared to December 2022, decreasing food inflation rates have been observed for Kenya, Brazil, USA and Zambia. SA's food inflation was comparatively low for 2020, 2021 and the first half of 2022, but has since followed international rates more closely.

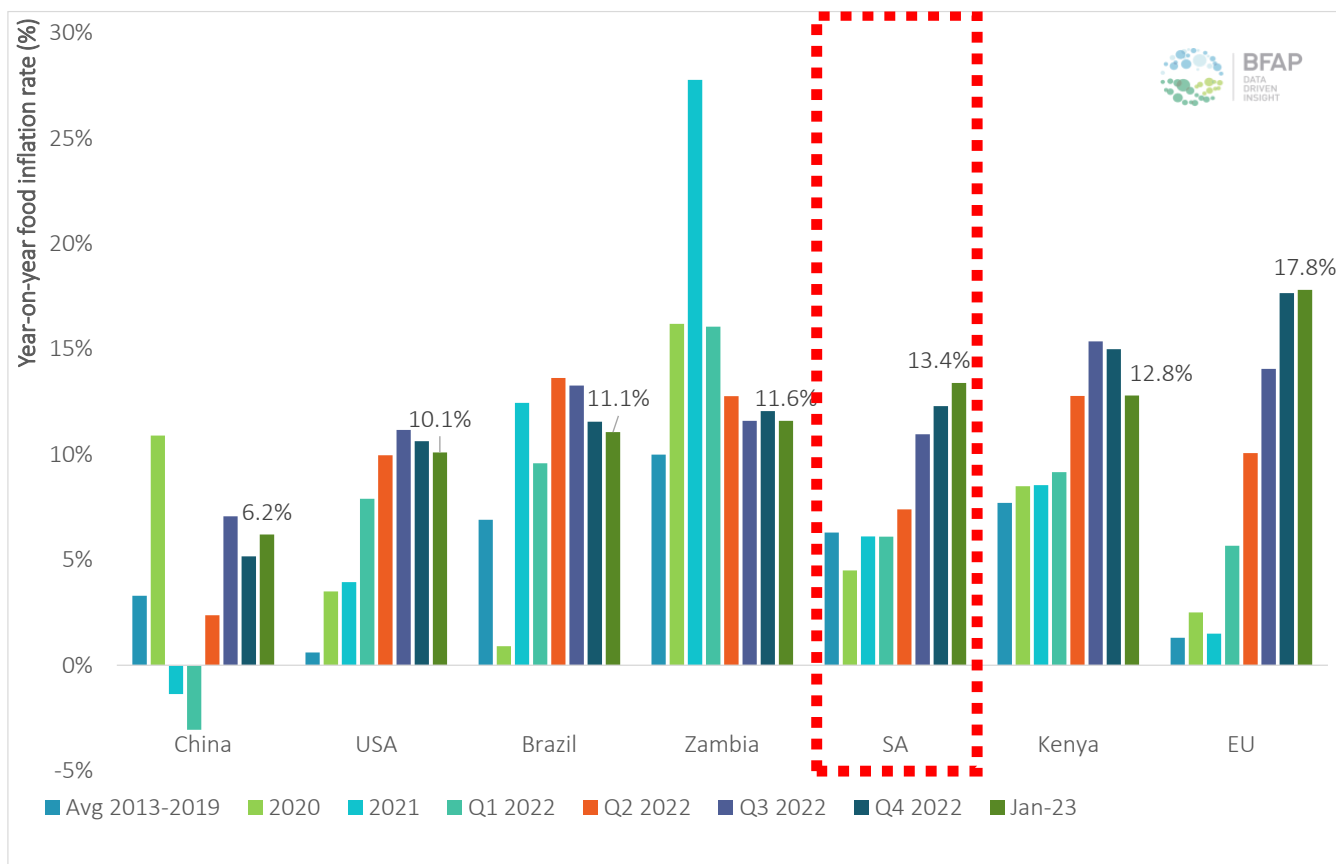


Figure 3: International food inflation comparison

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

Food inflation drivers and expectations

Even though overall (CPI headline) inflation has eased somewhat from 7.8% in July 2022 to 6.9% in January 2023, inflation on food and non-alcoholic beverages has been increasing steadily from 9.7% in July 2022 to 13.4% in January 2023 – representing the highest inflation figure since May 2008 and more than double the upper inflation target limit. The increase in bread and cereals prices is largely a result of the weakening in the Rand in September and October 2022, which resulted in higher prices for imported grains and the local equivalent prices. There is typically a lag of around three months for commodity price movements to reflect fully in consumer product prices. December and January grain prices were slightly lower again, and there is hope that this will reflect in bread and cereal prices in the next months. However persistent, increasingly frequent and increasingly severe load shedding continues to add additional costs through the value chain, which could offset the marginally softer agricultural commodity prices. The good news is that South Africa's first summer crop estimate supports the expectation of another bumper crop, which should see maize prices remain at export parity levels for the coming season. This also implies that global factors will continue to influence South African prices strongly.

At a global level several supply shocks in various agricultural commodity and livestock markets around the globe continue to contribute to rising food prices, filtering through to the South African food market. Prominent shocks include hot and dry conditions in key production areas (e.g. South America), geopolitical unrest, supply chain disruptions and animal diseases. The current outbreak of Highly Pathogenic Avian Influenza (HPAI) is the worst to date in Europe and has spread widely through North America. More recently, cases have also been recorded in several South American countries – including Argentina, but not yet in Brazil. Combined with reduced output in Ukraine amid ongoing war, HPAI has been a major factor that has driven poultry prices up rapidly through the second half of 2022, though weaker demand amid consumer spending constraints in many parts of the world has supported some modest declines over the past three months. In South Africa, these declines have generally been offset by the depreciation in the exchange rate: From July 2022 to February 2023 the exchange rate weakened by 12.5%. As a result of these disease challenges meat supply in general is weaker globally, as producer margins have been under prolonged pressure due to high feed prices. In the current weaker demand environment global meat prices are not expected to rise further in the short term in the absence of further major supply disruptions.

South African consumers have benefitted from expanded fruit production in recent years and more recently reduced returns from exports, driven by export logistics issues and changing market dynamics (supply and demand) that resulted in additional fruit being channelled into the local market. This resulted in lower consumer prices. Conversely, vegetable prices have increased, due largely to weather related challenges in key production regions, and strong consumer demand for more affordable vegetables in light of persistent spending power constraints. In some areas there has also been reduced plantings of some vegetables due to extreme increases in input costs, the additional cost of alternative energy sources to irrigate, and the concerns regarding reduced spending power and consequent risk of stock build-up at the municipal markets.

While global agricultural commodity prices have been trending downwards or in some cases sideways, persistently dry weather conditions in South America remain a key factor to watch with respect to the evolution of markets over the coming months. With the weakening and expected neutralisation of the current La Nina phenomenon, weather conditions and resultant supply from the Northern Hemisphere could improve later in 2023. At the same time, depreciation in the Rand exchange rate has offset much of the reduction observed internationally in recent months. This is an important reason why South African food inflation has not slowed to the same extent as many other countries (**Figure 3**). Another reason is the severe and persistent occurrence of loadshedding, which is pushing up food prices across supply chains and further influences them indirectly by adding to the risks that influence the weak Rand. Loadshedding remains a major risk that will likely see food prices in South Africa remaining higher for longer.

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 15 February 2023 for the January 2023 data).

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