

Food inflation in SA in 2019Q2 and 2019Q3

April 2019 - Inflation Rates Based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY Inflation (%)	MoM Inflation (%)	BFAP Thrifty basket cost as % of household income (two minimum wage earners + two child grants)
BFAP Thrifty basket (family of four)	R 2 524	5.5%	-0.4%	32.3%

Food and non-alcoholic beverage year-on-year inflation for April 2019 was 2.9% with food excluding beverages even lower at 2.3%, unchanged from March 2019 figures, which is much lower than the healthy basket inflation depicted in the table above. These low rates are surprising since Easter is usually associated with increased price levels based on demand growth. The marginal slowdown is largely attributable to meat inflation which has lost momentum since April 2018. This loss in momentum was amplified by the foot and mouth disease (FMD) outbreak in January 2019. The combination of FMD and muted demand are putting downward pressure on meat prices. With South African consumers under pressure, demand pull for affordable eating options such as grains and vegetables are relatively strong but is reduced in more luxurious food groups such as meat / animal protein foods. The main contributors to inflation in April 2019 were vegetables with year-on-year inflation of 10.1%, fruit (6.4%) and breads and cereals (6.1%). Within these food categories tomatoes, cabbages, bananas, apples and bread had the most significant inflation rates.

In April 2019 maize meal prices continued its upward trend which was prevalent from the last quarter of 2018. Year-on-year prices increased by roughly 6% whilst month-on-month prices increased by just below 2%. Year-on-year average SAFEX white maize prices for May 2019, in turn, has shown an increase of 23.6 by 10.3%.

Although the month-on-month movement between March 2019 and April 2019 was marginal, year-on-year increases in wheat prices suggest that that bread prices could experience upward cost pressures over the next three months.

Price movements in meat is a key driver in the benign food inflation of late. As mentioned above, FMD along with muted demand are causing meat prices to increase at a slow(er) rate. In terms of red meat, producer prices for A2/A3 beef carcasses prices in April 2019 were roughly 7% lower than the corresponding month in 2018. Price changes between March 2019 and April 2019 did however increase by around 6% (which could possibly be explained with the Easter period) and falling in April 2019. It is expected that beef prices will move sideways over the next quarter based on the prevailing FMD and demand conditions. Producer prices for IQF pieces in April 2019 was 3.6% lower compared to April 2018. The expectation is that the sideways movement in poultry prices will continue over the next 3 months. This view is supported by relatively stable exchange rates and disinflation in selected input cost prices over the last quarter.

With regards to fresh produce, year-on-year fruit inflation was around 6% in April 2019. Contrastingly, if month-on-month inflation on fruit is regarded, general fruit prices decreased by around 4% between March and April 2019.

Vegetables, as mentioned above, were the largest contributors to inflation, continuing the upward inflationary trend observed since October 2018. Potatoes recorded a year-on-year increase of just below 4%, whilst month-on-month prices traded sideways (increased by roughly 1%). The slight upward trend is much less pronounced than the huge price increases recorded at the beginning of 2019 due to the drought and heat wave experienced by the northern part of South Africa late in 2018. Based on the stabilisation in supply, month-on-month increases is expected to be marginal over the next three months Year-on-year, prices are however still expected to be significantly higher over the next quarter due to strong demand pull for vegetables.

Key factors that pose upside risk to the expectations for the various categories mentioned above are the electricity price hikes as announced by the National Energy Regulator in March 2019 and exchange rate movements. For 2019 it was announced that the electricity prices would increase by 9.1%. This could add significant cost pressures to food manufacturing, cold chain processes and retailing costs over the short to medium term. In terms of the exchange rate, all eyes are on South African politics to see how cabinet choices speak to the structural problems facing the fiscus and state owned enterprises. If the appointments do not show the commitment to solve these problems, disinvestment and a possible investment status down-grade could cause sharp depreciation in exchange rates.

