

2020Q1 Food Inflation Expectations

September 2019 - Inflation Rates Based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY Inflation	MoM Inflation	Food Exp as % share of HH income*
BFAP Thrifty basket (family of four*)	R 2 561	4.4%	2.8%	31%

* Four member household with multiple income sources: two wage earners and child support grants.

Year on year inflation on food and non-alcoholic beverages was recorded at 3.7% which is slightly less than December figures of 3.9%. Bread and Cereals made the biggest contribution to food inflation in January 2020, contributing 31% to the total food inflation figure. This also amount to roughly 10 percentage points more than the expenditure share attributable to bread and cereals in the food basket. The slight dip in inflation since December 2019 is however also as a result of bread and cereal inflation slowing down since the last quarter of 2019. During 2019Q4 bread and cereal price approached double digits but this was due to low or even negative inflationary rates and low statistical base rates in the year before. It seems that the promise of a large summer grain harvest have caused maize prices to level off and start on a downward trajectory with year on year maize prices 0.5% lower than in December 2019 and 1.6% lower compared to January last year. In terms of wheat prices in January, month on month and year on year prices were slightly higher at 3.3% and 2.8% respectively. This timid price trajectory combined with the prices of maize tending lower is expected to ease commodity price pressures for grains.

Meat inflation is still relatively benign at 2.4% after 2019 marked a year with average meat inflation of around 0.4%. The positive growth in inflation rate is, similar to maize, attributable to low base effects of January 2019.

In terms of red meat specifically, foot and mouth disease are still serving as a buffer from exchange rate depreciation and world price dynamics with prices at the end of 2019 around 2% lower than the comparative period in 2018. Chicken, in turn, has experienced inflationary pressures during 2019 which resulted in year on year price growth of just above 6%. This is largely as a result of exchange rate and global factors. Meat inflation is expected to increase marginally over the next 3 months due to the discussed base effects but strong growth is unlikely due to the poor performance of the economy in general.

In terms of fresh produce, January 2020 exhibited a reversed trend of high vegetable and low fruit inflation with vegetable inflation amounting to 1.1% and fruit amounting to 8.7%. This can again be described with the prevailing base effects of January 2019 and should not be interpreted as a reversal of the underlying fundamental factors that have caused low inflation in fruit and high inflation in vegetables in 2019. Looking forward over the next 3 months vegetable inflation is expected to pick up. The ample rains in the start of the year caused prices of leafy vegetables to spike and would most probably be evident in inflation data for February this year. Fruit inflation, in turn, is expected to be subdued. This is due to the base effects discussed above, but also possibly the effect of the Corona virus on the global economy that have led to decrease in demand.

If we assume the effect of foot and mouth disease will linger over the medium term, this, combined with low maize prices associated with a huge projected harvest for the current season, could steady food inflation between 3.5%- 3.7% over the next 3 months. The upside risk to this is predominantly associated with the exchange rate. A severe depreciation will add to the primary commodity, manufacturing and distribution cost which would ultimately push food inflation to levels closer to 5%. The national budget speech on 26 February and the Moody's credit rating decision at the end of March are key unknowns that could have significant impacts on exchange rate levels. Another supply issue is the cost of electricity and recurring periods of load shedding. This is expected to add to inflationary pressures associated with manufacturing and other value chain costs. To what extent under-pressure consumers would be able to absorb this remains to be seen. ■

