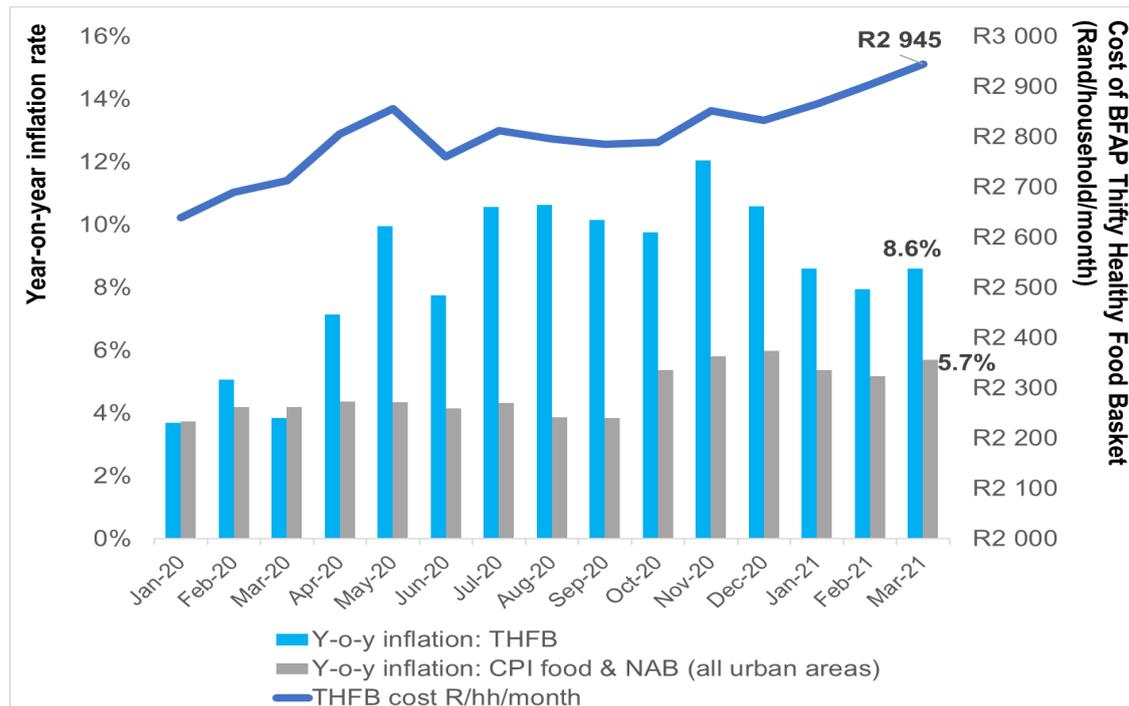


26 April 2021

BFAP Food Inflation Brief – March 2021

In March 2021 the prices of food and non-alcoholic beverages (NAB) increased by 5.7% from March 2020 and by 0.8% from February 2021.¹ Food and NAB contributed 31% to annual CPI headline inflation of 3.2% - making it the main driver of overall inflation in March 2021, followed by 'Housing & Utilities' and 'Transport'.

In March 2021, the monthly cost of the **BFAP Thrifty Healthy Food Basket*** amounted to **R2 945**. This represents an increase of **8.6% (R232)** from March 2020, and **1.4% (R42)** from February 2021. For a four-member household with a dual minimum wage income, benefiting from both child grants and a school feeding program, the share of household income required to afford basic healthy eating would have amounted to ±30% in March 2021 – **effectively excluding approximately half of the SA population from affording a basic healthy diet.**



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 intake patterns. From April 2020 to March 2021 y-o-y inflation on the BFAP THFB was consistently higher than CPI food inflation (Figure 1). This was mainly attributed to lower inflation on staple foods, combined with higher inflation on foods contributing to dietary diversity (e.g. animal-source foods).

Figure 1: An overview of food inflation: January 2020 to March 2021

Source: BFAP Compiled from Stats SA CPI

**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 typical family of four (consisting of an adult male, an adult female, an older child, and a younger child) for a month. BFAP has been tracking this measure since 2015.*

¹ Statistics South Africa (Stats SA) Consumer Price Index (CPI) statistical release (www.statssa.gov.za) for March 2021

In March 2021, prices of certain food categories increased by more than the indicated average of 5.7% (Figure 2). These are meat, fish, dairy & eggs, sugar-rich foods, as well as oils & fats.

Within the top 15 food expenditure items in South Africa, high annual inflation was observed for the following: Rice (+53%), eggs (+20%), wheat flour (+18%) sunflower oil (+18%), white bread (+15%), beef (e.g. beef mince +11%), pork (e.g. pork chops +30%), super maize meal (+12%), brown bread (+11%), white sugar (+9%) and long-life milk (+7%).

High inflation on these foods could affect both adequate energy intake and dietary diversity.

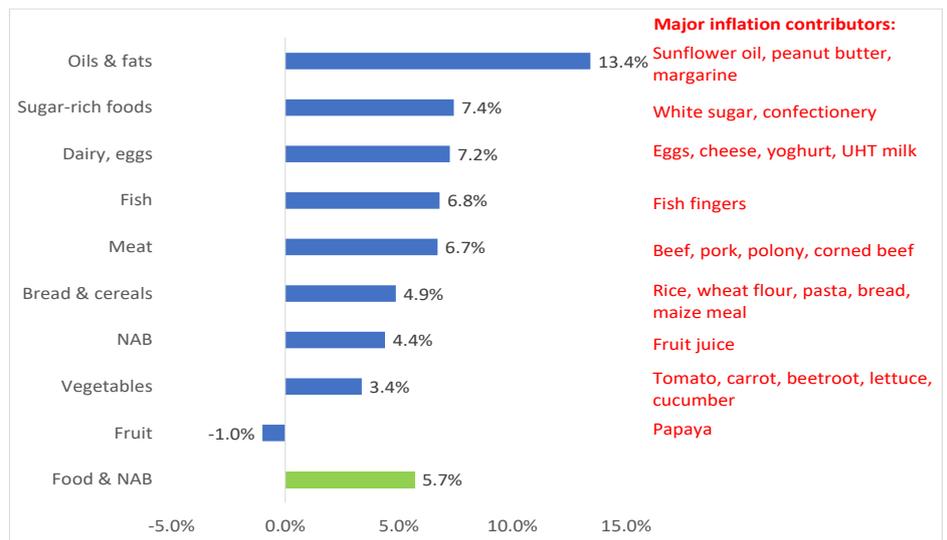


Figure 2: Annual inflation on food categories - March 2021

Source: BFAP compiled from Stats SA CPI

Food inflation drivers and expectations

Food inflation in March was mostly driven by oils and fats which increased by 13.4%, along with confectionery (+7.4%), milk, eggs and cheese (+7.2%), meat (+6.7%) and breads and cereals (4.9%).

The substantial increase in oils and fats can be attributed to the global price run of oilseeds and vegetable oil. In the case of oilseeds, prices were underpinned by strong demand, particularly from China, which is rapidly rebuilding its pig herd following African Swine Fever induced reductions since 2018. Tight supplies are expected to ease as Southern hemisphere soybeans become available. Vegetable oil prices benefited from supply constraints of sunflowers in the Black Sea region combined with disruptions in palm oil production. In the grain sector, maize prices have also benefited from a strong international price run, driven by firm import demand from China. These global price dynamics have also spilled over into South African markets, even if the resilience of the Rand through March moderated the impact somewhat. Consequently, despite the expectation of the largest ever soybean harvest and the second largest maize crop on record, pushing prices to export parity levels, domestic maize and oilseed prices remain well above 2020 levels.

The increase in milk and cheese prices was also driven by an upward trajectory in international dairy prices, whereas egg prices are more reliant on domestic factors. Egg prices underwent a structural shift in the first weeks of April 2020 on the back of consumer stockpiling and changes in demand preferences as more consumers worked from home. This, combined with input cost pressures, created an environment of rising prices, which has not really come down since. A developing issue related to this sector is recent Avian Influenza outbreaks in Gauteng and North West. Avian Influenza is highly contagious and the previous outbreak in 2017 severely constrained egg supply, leading to sharp price increases.

Meat prices are higher on the back of steady export demand and tight supplies of red meat. Good summer rains have created an environment for herd rebuilding efforts to accelerate. This rebuilding cycle is evident in persistently lower slaughter numbers, which in turn supports prices. Poultry prices are also trending upward, albeit at a relatively moderate rate. Stakeholders in this industry reported that demand remains weak, which kept price growth limited even in a rising input cost environment. Given increasing cost pressures in meat production, the expectation is that inflation in this category will remain high.

Food inflation has moderated since January 2021, despite global prices and inflation trending upwards. This follows a stronger than expected Rand exchange rate to the major currencies, due to commitments from the US Federal Reserve to keep interest rates low and stimulate the economy. Inflation in the US did however pick up and will be a threat to continued low US interest rates, and implicitly to the Rand. A key indicator to watch would therefore be the US inflation figures to be released on 12 May. If inflationary pressures persist, this would likely force the US Federal Reserve to increase interest rates, leading to a stronger US dollar and consequently a weaker Rand, decrease its mitigating effect in keeping food inflation lower. There is however also the expectation that international agricultural commodity prices could start to moderate later in the year, based on a strong expected supply response in the Northern Hemisphere.