



Food inflation brief – June 2021

Inflation on food and non-alcoholic beverages June 2021: **+6.7% (year-on-year)**

+0.2% month-on-month inflation rate

1.2 percentage points contribution to CPI headline inflation of 4.9%

	M-o-m % change:	Y-o-y % change:
Bread & cereals	+0.0%	+4.6%
Meat	+0.7%	+8.6%
Fish	+0.7%	+7.0%
Milk, cheese, eggs	+0.6%	+6.3%
Oils & fats	+1.4%	+21.6%
Fruit	-3.2%	-3.5%
Vegetables	-2.1%	+6.7%
Sugar & sugar-rich foods	-0.2%	+7.2%

Key observations:

- According to the FAO world food price index, global food prices recorded for June decreased for the first time in 12 months. This was driven by a reduction in cereal and vegetable oil prices, although meat and sugar prices still had an upward trajectory.
- The above was not yet reflected in South African inflation data released for June with year-on-year inflation dynamics similar to the figures recorded for May. All sub-categories except for fruit again showed significant inflation in June. Month on month slowdowns in categories such as meat and oils and fats does however suggest that the rate of growth is losing momentum.
- The price effect in oils and fats is still a result of the international price surge in oilseeds and vegetable oil products over the past year. The high inflationary figure is therefore a result of low base effects in 2020. The effect of this is expected to come down over the coming months.
- Meat prices are also remaining firm. In the case of red meat, this is due to tight supply and high input costs, which was further amplified in June due to a shipment of live sheep and cattle to the middle east. Market stakeholders note that they are sensing consumer resistance to the current high red meat prices and this could cause prices to trade sideways over the months to come. Upside risk with this expectation is however supported by a weaker exchange rate observed since late June and amplified by the unrests in mid-July. In the case of chicken, local prices are expected to trend higher on the back of a weaker exchange rate and pressures on producer margins due to high input costs.
- Expectations are that food inflation in July will slow compared to the second quarter of 2021, due to higher base effects that were apparent during the third quarter of 2020. The unrest, looting and infrastructure destruction incidences during July has however resulted in numerous manufacturing and distribution bottlenecks, which could ultimately impact short-term availability and cost of inputs. This could have knock-on effects on consumer prices and as a result food inflation figures for July could remain firm for longer than initially expected.
- Adding to the above are surges in input cost already apparent before the unrests. Elevated crude oil prices are also expected to add to inflationary pressures in manufacturing and distribution costs with Brent-crude almost 60% higher compared to the corresponding time last year.
- Animal disease issues also remain a concern. Here outbreak of Foot-and-mouth disease in KZN and Avian Influenza outbreaks at selected layer and broiler farms pose a huge inflationary risk if not contained.