



# FOOD INFLATION BRIEF

BFAP's Food Inflation Brief provides an overview of food inflation dynamics, its associated causes, and the cost of basic healthy eating for March 2022.

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## SUMMARY OF FOOD INFLATION METRICS – March 2022

<b>Inflation on food and non-alcoholic beverages:</b>		<b>Contribution to CPI headline inflation:</b>
Month-on-month: <b>+0.6%</b>	Year-on-year: <b>+6.2%</b>	<b>1.1 percentage points</b> contribution to CPI headline inflation of 5.9%
<b>Food category contributions:</b>		
	<b>Month-on-month % change:</b>	<b>Year-on-year % change:</b>
Bread & cereals	1.1%	4.7%
Meat	0.7%	9.0%
Fish	0.5%	4.6%
Milk, cheese, eggs	0.7%	4.1%
Oils & fats	0.7%	4.1%
Fruit	-1.3%	-0.7%
Vegetables	-0.4%	2.8%
Sugar & sugar-rich foods	1.7%	3.4%
Non-alcoholic beverages†	0.6%	3.1%
<b>Commonly purchased food items with high year-on-year inflation rates in March 2022:</b>		
<b>Above 10% inflation:</b>		<b>6% to 10% inflation:</b>
Beef (offal, stew, brisket)		Powdered milk
Mutton/lamb (neck, offal, rib chops)		Ceylon tea
Margarine		Pork (bacon, ham, ribs)
Chicken (portions: IQF, non-IQF & fresh)		Pasta (macaroni, spaghetti)
Sunflower oil		Beef (T-bone, chuck, corned beef)
Polony		Instant coffee
Tinned baked beans		Super maize meal
Cake flour		Instant noodles
		Canned pilchards
		Cabbage

### THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)<sup>#</sup>



### THFB – March 2022:

**R3 092/  /month**

Month-on-month change:

**-R26 / -0.8%**

Year-on-year change:

**+R147 / +5.0%**

Affordability\*:

**29.5% food expenditure share**

\* Share of total income spent on food – household with dual minimum wage income, also receiving child grants & school feeding.

<sup>#</sup> 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 reference family of four (consisting of an adult male, an adult female, 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.

## A historical view on the affordability of the BFAP Thrifty Healthy Food Basket over time

The affordability of the BFAP THFB is influenced by food price movements as well as household incomes. From January 2019 to March 2022 the cost of the BFAP basket increased by R547 (+21.5%), compared to a smaller increase of 17.3% in the CPI for food and non-alcoholic beverages. Thus, during this period, the cost of basic healthy eating increased at a higher rate than food inflation, pointing to the increasing challenge of eating a basic healthy diet in South Africa. During this period the four-member reference household, with an income consisting of two minimum wages, supplemented by child grants and school meals for the two children, had to spend between 27.7% and 30.4% of their total income on food. This proportion increased between mid-2019 to May 2021, then declined (despite fluctuations) towards 2022.

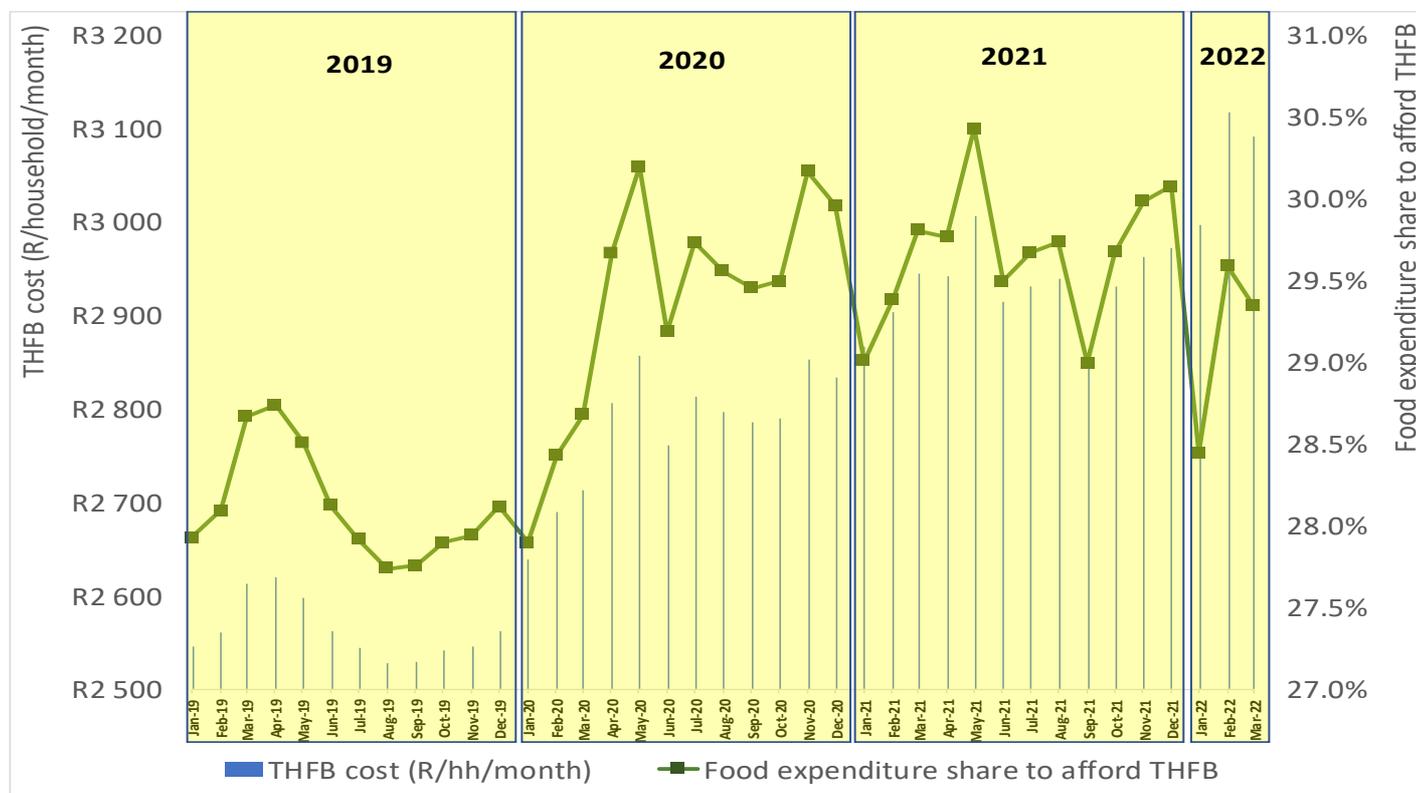


Figure 1: THFB affordability over time

## International overview

The FAO Food Price Index (FFPI), a measure of underlying agricultural commodity prices, reached a new all-time high in March 2022, rising by 12.6% from February 2022 and by 33.6% from March 2021. Year-on-year inflation was particularly high for vegetable oils (+56%), cereals (+37%), dairy (+24%), sugar (+23%) and meat (+19%).

Major drivers of food inflation internationally include:

- Production and export disruptions due to the Russia-Ukraine war (e.g. affecting grains, oilseed products and poultry);
- Concerns over US crop conditions;
- Strong demand (e.g. milk powders and butter in Asian markets, and internal demand for dairy and meat in Western Europe);
- Avian flu outbreaks pushing up poultry prices;
- Easter demand fuelling price increases in meat in particular;
- Ongoing trucker strikes in Argentina causing severe delays in delivery of cereals and oilseeds to ports for exports
- Rising crude oil prices leading to increased demand for sugarcane for ethanol production;
- Generally elevated energy and input costs.

These global factors have driven inflation higher in many parts of the world in March 2022. Food inflation in South Africa was lower than the food inflation rates reported for Zambia, Kenya, Brazil and the USA (Figure 2), due to a combination of strong domestic production prospects, constrained spending power influencing demand and strengthening of the Rand exchange rate through March 2022.

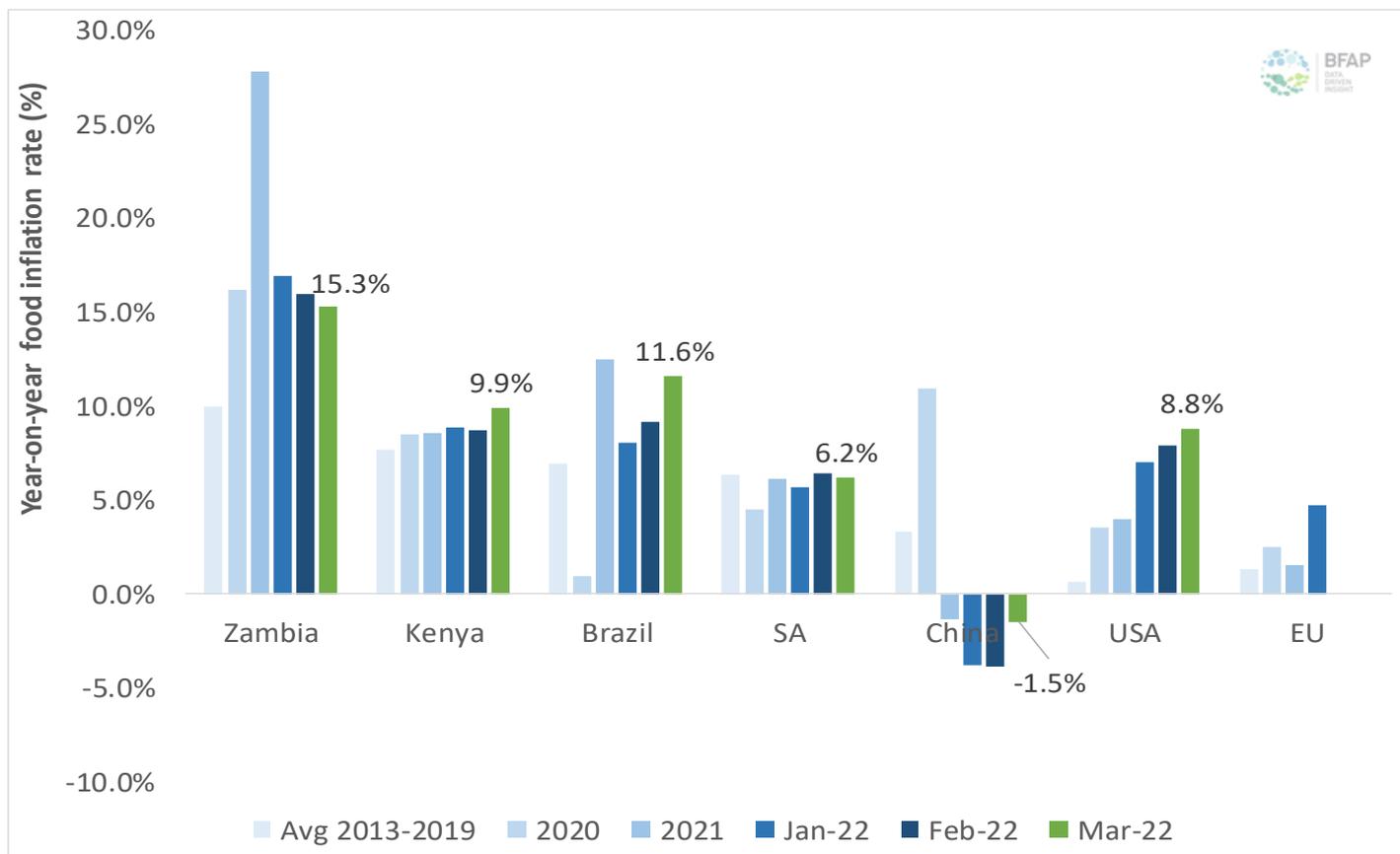


Figure 2: International food inflation comparison

## Food inflation drivers and expectations

With March the first full month of elevated global grain and oilseed prices due to the Russian invasion of Ukraine, the recent release of March food inflation figures in South Africa was keenly anticipated. Contrary to expectations, food inflation softened by 0.2 percentage points from 6.4% in February to 6.2% in March. This was largely due to lower inflation in *Milk, Eggs, Cheese, Oils and Fats, and Vegetables* with the most apparent effect in vegetables, which decreased from 7.7% in February to 2.8% in March. During March and April 2021 tomato and potato prices were high due to weather disruptions earlier in the year. As a result, annual increases during March 2022 were more moderate even though the prices of products such as tomatoes were still high. *Bread Cereals* and *Meat* did however record an uptick in inflation, with the former increasing from 3.7% in February to 4.7% in March. This is attributed to the significant spike in global commodity prices of wheat, maize and sunflower oil. During March global reference prices of these products increase by between 16% and 55%, at their peaks, which also affected local prices. Although prices of some commodities such as wheat have declined somewhat since then, prices are trading around 20% higher for wheat and 23% higher for maize, compared to the months preceding the invasion. The effect is likely to spill over to higher retail prices for the rest of 2022, which will put pressure on household budgets and social support systems.

Year-on-year price increases for meat are still close to double-digit figures. For red meat specifically, this is underpinned by a combination of short supply and high input costs, reflecting persistently high grain and oilseed prices. However, price increases during March did lose momentum and it is expected that the meat prices will ease over the coming months. This expectation is supported by increasing signs of constrained demand due to higher interest rates, electricity and fuel costs, to name but a few, along with typical seasonal impacts as winter approaches. Significant disinflation in meat is however unlikely given the significant rise in input costs. Here a caveat is the multiple foot-and-mouth disease outbreaks that have occurred around the country over recent weeks. Although this has not yet affected our ability to export bilaterally to the Middle East, it has influenced exports to China and also poses a significant risk to the industry if additional export agreements were to be compromised. This implies significant downside risk related to red meat prices.

Over the past months, a mitigating factor that contributed to keeping food inflation subdued was the relative strength of the rand. In the third week of April, the rand however depreciated to above R15.00 to the dollar for the first time since mid-March. This is driven by local factors such as loadshedding and the recent floods in KZN and the effect that this could have on the fiscus, combined with an increase in global (China specifically) and local Covid cases and poorer export prospects as global growth wanes. Globally, inflationary pressures are also providing scope for tighter monetary policy from countries such as the US, which also puts pressure on the rand. Our view is therefore that food inflation will remain above 6% in April and May as the effects of the Russian invasion of Ukraine, high input costs and a weakening in the exchange rate continue to drive prices higher.

*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 20 April 2022).*

**Enquiries: Dr H Vermeulen ([hester.v@bfap.co.za](mailto:hester.v@bfap.co.za))**

[www.bfap.co.za](http://www.bfap.co.za)