



FOOD INFLATION BRIEF

This Brief provides an overview of food inflation dynamics, its associated causes, and the cost of basic healthy eating for December 2022.

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SUMMARY OF FOOD INFLATION METRICS – December 2022

Inflation in food and non-alcoholic beverages:		Contribution to CPI headline inflation:
Month-on-month: +0.4%	Year-on-year: +12.4%	2.1 percentage points contribution to CPI headline inflation of 7.2%
Food category contributions:		
	Month-on-month % change:	Year-on-year % change:
Bread & cereals	0.8%	20.6%
Meat	0.5% ¹	9.7%
Fish	0.5%	10.4%
Milk, cheese, eggs	-0.6%	10.0%
Oils & fats	-0.4%	22.4%
Fruit	+2.0% ²	1.6% ³
Vegetables	+1.4%	12.5%
Sugar & sugar-rich foods	+0.6%	9.1%
Non-alcoholic beverages	+0.2%	9.7%
Commonly purchased food items with high year-on-year inflation rates in December 2022:		
Above 10% inflation:		
Vegetables (onions, spinach, broccoli, lettuce, peppers, canned vegetables, cucumber, tomatoes, cabbage, frozen veg, carrots)		
Fruit (papaya, oranges)		
Pork (ham, bacon)		
Beverages (coffee, tea, fruit juice)		
Starch-rich foods (maize meal, wheat flour, white bread, brown bread, breakfast cereals, baked goods, pasta)		
Fats/oils (vegetable oil, brick margarine)		
Beef (T-bone, corned beef, brisket, offal)		
Legumes (canned baked beans)		
Sugar-rich foods		
Chicken (giblets, frozen non-IQF portions)		
Dairy (milk)		
Fish (canned pilchards, canned tuna)		
6% to 10% inflation:		
Legumes (peanut butter, dried beans)		
Mutton/Lamb (neck)		
Beef (mince, chuck)		
Eggs		
Dairy (powdered milk, yoghurt)		
Granular sugar		
Vegetables (pumpkin)		
Pork (fillet)		
Fish (frozen fish fingers)		
Chicken (IQF chicken portions)		

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)[#]



THFB – December 2022:

R3 352/  **/month**

Month-on-month change: **+R30/ +0.9%**

Year-on-year change: **+R380 / +12.8%**

Affordability*: **32.0% food expenditure share**
(compared to 31.5% in October 2022)

* The share of total income spent on food for a household with a dual minimum wage plus child grants and school meals.

The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for low-income households in South Africa. 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 two adults, 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.

¹ The 0.5% month-on-month increase in meat prices in December 2022 was lower than usual (e.g. +1.2% in December 2020 and December 2021) because meat prices were already high going into the festive season.

² The low year-on-year inflation in fruit prices could be viewed as good news for consumers from an improved dietary diversity perspective.

International overview

The FAO Food Price Index, based on the prices of an international basket of food commodities, was 1.0% **lower** in December 2022 compared to December 2021, declining for the ninth successive month, following a 1.9% decrease from November 2022.

On a month-on-month basis the index decreased for oils (-6.7%), cereals (-1.9%) and meat (-1.2%), while increasing for sugar (+2.4%) and dairy (+1.1%).

Some key observations with respect to commodity groups include:

- FAO Oils Price Index: -6.7% month-on-month; -19.1% year-on-year (the largest year-on-year decrease among the sub-indices) – with lower prices of palm, soy, rapeseed and sunflower oils.
- FAO Sugar Price Index: +2.4% month-on-month; 0.6% year-on-year – mainly linked to adverse weather conditions in India and delays in crushing in Thailand and Australia.
- FAO Dairy Price Index: +1.1% month-on-month; +7.9% year-on-year. The dairy category had the largest year-on-year increase among the sub-indices.
- FAO Meat Price Index: -1.2% month-on-month; +2.5% year-on-year – affected by declining month-on-month prices for bovine and poultry meat and higher pork prices.
- FAO Cereals Price Index: -1.9% month-on-month; +4.8% year-on-year. All major cereals experienced price decreases on a month-on-month basis. The year-on-year increase was driven by market disruptions, increased uncertainties, higher input and energy costs, adverse weather and strong global food demand.

Figure 1 illustrates that in December 2022 food inflation in South Africa was lower than in the EU and Kenya, but higher than in Zambia, Brazil, the USA and China. Compared to November 2022, decreasing food inflation rates have been observed for the USA, Brazil, Zambia, South Africa, Kenya and the EU.

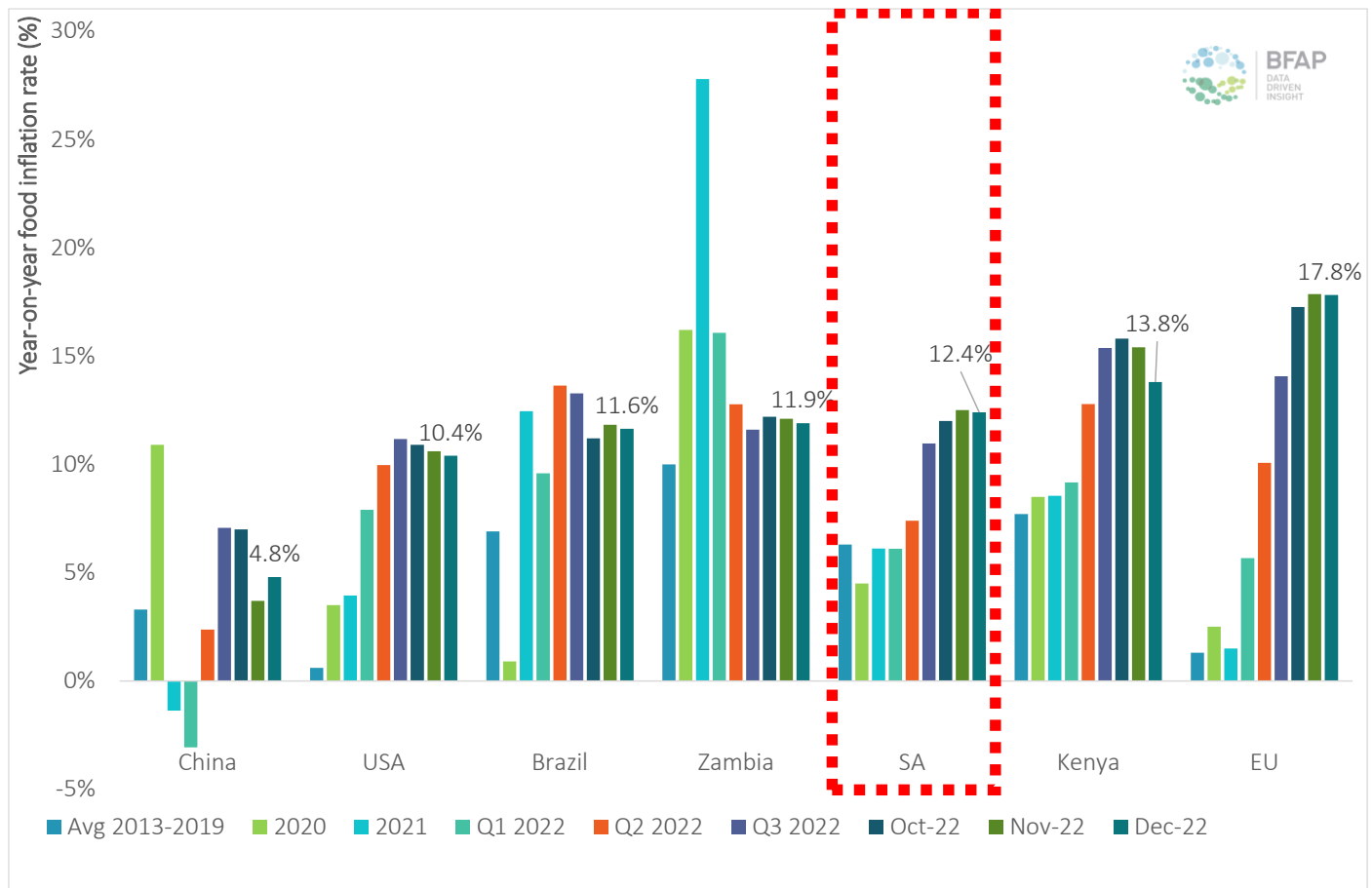


Figure 1: International food inflation comparison
 (Source: Official national food inflation figures of the various countries as reported by national statistical agencies)

Food inflation drivers and expectations

Although the overall inflation rate in South Africa has decreased over the past 6 months, albeit rather modestly, food inflation remains sticky. This is a result of several supply shocks in various agricultural commodity and livestock markets around the globe. These shocks have, in turn, also filtered through to the local market.

The word of the year in 2022 was “Perma crisis” which refers to the state of permanent shocks in which the world economy has found itself over the past two years. In agricultural commodity markets, these crises ranged from hot and dry conditions in key production areas to geopolitical unrest and supply chain disruptions. The latest issue that is supporting global maize and oilseed prices, for example, is a severe drought in Argentina, although rain during the third week of January did cause prices to ease somewhat. High grain and oilseed prices have, in turn, also affected production costs in livestock markets. This, combined with disease issues, limited the supply of products such as poultry which provided upward movement in global and local poultry meat and egg prices.

Locally, higher prices in global markets and a weak exchange rate during the last quarter of 2022 contributed to the inflationary effects apparent in food products. Although exchange rate movements have largely been driven by global monetary policy dynamics, the increase in load-shedding frequency and intensity has also contributed to a weaker rand.

During January we did however experience some relief from a stronger Rand and slightly lower fuel costs. Beef prices during January also traded lower on the back of increased supply and reduced demand after the festive season. This could push food inflation for January 2023 to below 12% year-on-year. Extending further into 2023, global market dynamics as well as local supply and demand dynamics will be an important factor influencing South African food prices. The second Brazilian maize crop will be a key global determinant of staple food price trajectories over the first half of 2023. Locally, the Crop Estimates Committee (CEC) will publish its first official area estimates. Maize and soya futures markets are trading at export parity levels, reflecting the market sentiments that South Africa is still on track to produce surpluses of maize and soya beans under current cropping conditions. This is, however, not the case with sunflower prices, which have increased sharply in the past few days. The market is factoring in fewer hectares planted to sunflower, which implies that local availability could become a cause for concern in the following months. This will influence sunflower oil retail prices. The relative strength of the Rand and the extent of continued load shedding will also play a role.

The impact of loadshedding on the economy and the food system is severe. Load-shedding increases costs directly, and indirectly through higher rates of wastage and spoilage within food chains. Financial results from several food companies indicate that fuel expenses to run generators during load shedding are skyrocketing. These costs cannot be absorbed in the chain and are to a large extent passed on to consumers. In fact, we expect that load-shedding will be a key factor that prevents South Africa from following the global trends of decreasing food price inflation during 2023.

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 18 January 2023 for the December 2022 data).

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