



Chicken or beef: evaluating factors driving meat price inflation in South Africa

31 October 2022



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Introduction

South Africa's food price inflation reached a multi-year high in September 2022, a phenomenon largely driven by global dynamics and evident in many countries around the world. Amongst the various food groups contributing to inflation, meat is the largest at 32% (Figure 1) and therefore, while the price of meat has not increased to the same extent as vegetable oil, breads and cereals, it has been a major driver of rising food inflation in South Africa. Within the meat basket, poultry (12%) and beef (8%) products make the largest contribution. Thus it is worth considering the key factors driving meat prices and how these factors might evolve over the coming months.

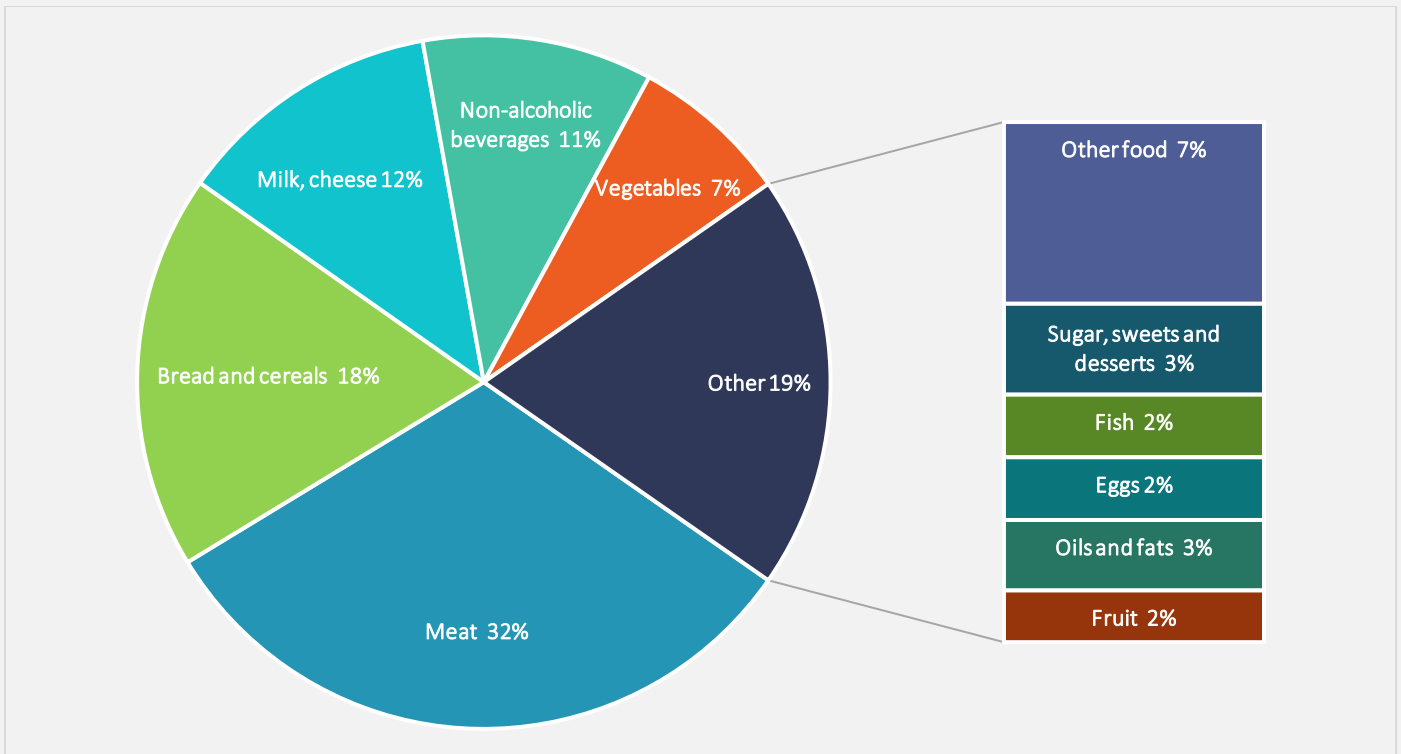


Figure 1: Contribution of various product groups to food inflation in South Africa
Source: Compiled from Stats SA, 2022

Price formation dynamics amongst South Africa's various meat sectors differ due to inherent differences in production systems, consumption patterns and the role of trade for the various products. For instance, imports constitute roughly 22% of South African poultry consumption, and hence the prices of imported products, which compete in the market with South African products, have a significant influence on domestic prices. Conversely, the beef sector recently transitioned to a net export position, with around 5% of production exported into the global market over the past three years. Exports predominantly comprise higher value cuts and, while export growth has accelerated, and global market dynamics play an important role in domestic price formation, domestic supply and demand conditions still play a major role in driving domestic carcass prices. Amongst the smaller meat types, such as pork and lamb, international trade also comprises a relatively small share of the market, and so prices reflect a combination of global market dynamics, exchange rate fluctuations, domestic supply and demand, and the inherent substitutability between various meat types.

International prices diverging across meat types

The FAO meat price index, a combined measure of meat prices globally, peaked in June 2022, 14% higher than June 2021 and 33% above June 2020 levels (Figure 2). Within that, the various meat types have diverged – as lamb and mutton prices have been declining steadily since November 2021, whereas pork prices were still rising in September 2022, after bottoming out in January 2022. While beef prices have declined steadily since March 2022, the poultry price index increased by a staggering 25% over the 4 month period from February 2022 to June 2022. This is a result of supply constraints in the global market, emanating from high feed costs

over the past year, the ongoing war in Ukraine as well as the spread of Avian Influenza across the Northern Hemisphere. In Europe, the 2021-22 season produced the largest epidemic observed to date and positive cases have also been detected in the USA and Mexico.

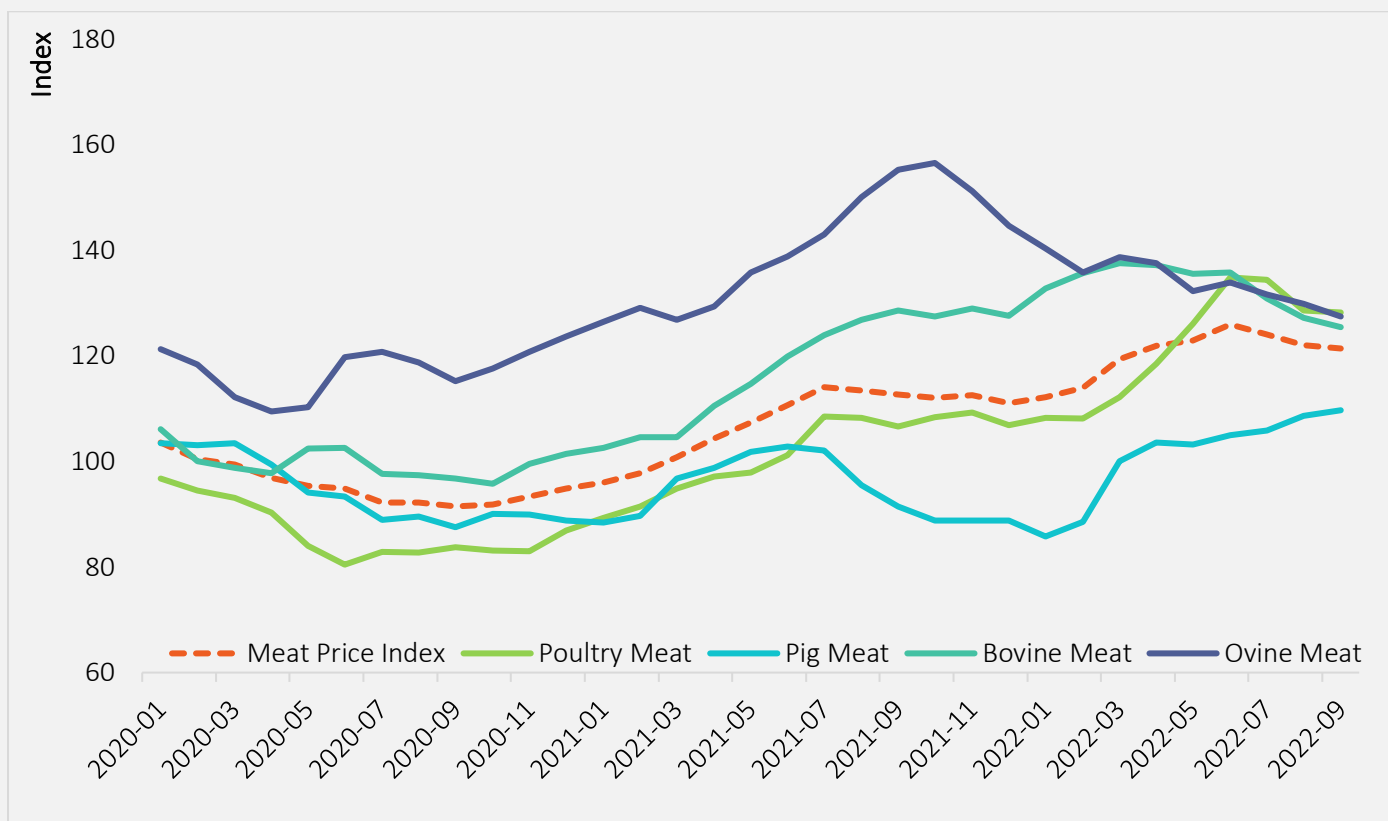


Figure 2: Meat price index: 2020-2022 YTD

Source: FAO, 2022

These international price movements spill over into the South African market, often with a lag, and are further amplified by ad valorem tariffs ranging from 0% to 82%. For bone in portions, which comprise around 35% of South Africa’s poultry imports and compete with Individually Quick Frozen (IQF) portions that form the bulk of South Africa’s market, the rate is 62%. Furthermore, sharp increases in transportation rates and the depreciation in the value of the Rand all add to the cost of imported products. Domestically, high feed costs have also constrained profit margins, despite higher prices.

Limited supply keeping beef prices elevated, despite economic constraints

Despite the decline in global markets and constrained spending power among domestic consumers, South African beef carcass prices increased by almost 8% from February 2022 to September 2022, reflecting a 15% depreciation in the exchange rate, high feed costs and domestic supply constraints. Slaughter volumes over the first 9 months of 2022 remain 1% below the comparable period for 2020 and 2021 and almost 5% below the comparable period in 2019 (pre-COVID). South Africa remains in a herd rebuilding phase following various drought periods since 2016, with mixed enterprise producers (grain-livestock farmers) benefitting in recent years from strong cashflows due to bumper summer crops and quality grazing in order to expand beef herds. Furthermore, the continued spread of foot and mouth disease, followed by a 21 day countrywide ban on the movement of cattle, which was extended in some provinces with active outbreaks, all contributed to limit stocking rates in feedlots, thus exacerbating existing supply constraints. In September 2022, slaughter volumes were almost 10% below that of September 2021. Given that the ban on movement of cattle has been lifted, additional supply could enter the market in the coming months, but at the same time, seasonal demand typically increases in December, which would lend support to prices, even if supply increases.

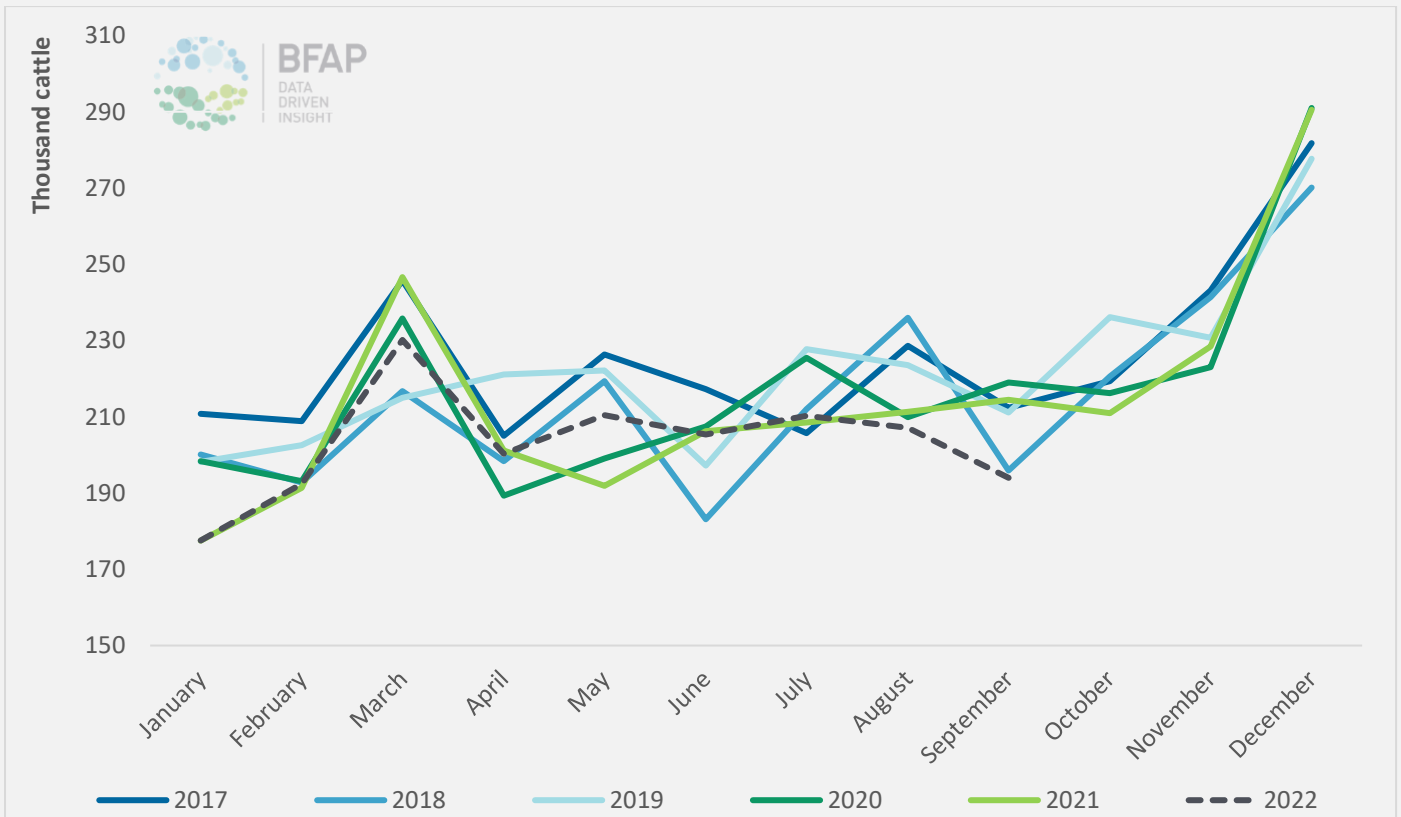


Figure 3: South African monthly cattle slaughters: 2017-2022 YTD

Source: Levy admin, 2022

In conclusion

To conclude, meat prices have been a significant driver of food inflation in 2022, with a number of factors in both the domestic and global market contributing to rising prices. Key amongst these is animal disease outbreaks and high feed costs, which have affected world and domestic markets for most meat types. As one considers how prices might evolve over the rest of the year, the management of disease outbreaks will be a major determinant, along with seasonal demand dynamics, feed price trends and the evolution of the Rand exchange rate. Global prices seem to have peaked, but domestic prices continue to rise as continued depreciation in the exchange rate has more than offset international declines in recent months.

Thank you



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