



FOOD INFLATION BRIEF

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



Brief Release Date: 31 August 2022



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SUMMARY OF FOOD INFLATION METRICS – July 2022

Inflation in food and non-alcoholic beverages:		Contribution to CPI headline inflation:
Month-on-month: +1.1%	Year-on-year: +9.7%	1.7 percentage points contribution to CPI headline inflation of 7.8%
Food category contributions:		
	Month-on-month % change:	Year-on-year % change:
Bread & cereals	2.4%	13.7%
Meat	0.5%	9.4%
Fish	2.0%	9.7%
Milk, cheese, eggs	0.7%	5.5%
Oils & fats	3.2%	36.2%
Fruit	-1.0%	-1.4%
Vegetables	1.5%	8.3%
Sugar & sugar-rich foods	0.5%	7.5%
Non-alcoholic beverages	0.5%	6.3%
Commonly purchased food items with high year-on-year inflation rates in July 2022:		
Above 10% inflation:		6% to 10% inflation:
Vegetables (spinach, broccoli, cauliflower, beetroot, onions, cucumber, tomatoes, lettuce, cabbage)		Mutton/Lamb (neck)
Fruit (oranges, avocados, apples)		Beef (chuck, rump steak, mince, offal)
Fats/oils (Vegetable oil, margarine)		Dairy (yoghurt, milk, cheese)
Legumes (canned baked beans, dried beans)		Chicken (IQF portions, giblets)
Pork (ham, bacon)		Peanut butter
Beverages (Ceylon/black tea, coffee, fruit juice)		
Starch-rich foods (wheat flour, super maize meal, brown bread, pasta, white bread)		
Beef (T-bone, brisket)		
Canned pilchards		

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)[#]	THFB – June 2022:
	R3 261/  /month
	Month-on-month change: +R76/ +2.4%
	Year-on-year change: +R329 / +11%
	Affordability*: 31.1% food expenditure share (compared to 30.4% in June 2022)

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

[#] 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 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.

International overview

The FAO Food Price Index was 13.1% higher in July 2022 compared to July 2021, but the index declined for the fourth consecutive month (decreasing by 8.6% from June 2022). This was driven by a significant decline in commodity prices for vegetable oils and cereals, with less severe declines observed for sugar, dairy and meat. Declining commodity prices are mainly linked to the agreement between Ukraine and Russia to unblock Ukraine’s main ports in the Black Sea, indicating the pending reopening of exports from Ukraine, combined with subdued demand from China. However, further declines in global commodity prices could be halted by uncertainty around weather conditions in the Northern Hemisphere and we are expecting a tug-of-war between bearish and bullish factors for the next couple of months.

Figure 1 illustrates that food inflation remained lower than food inflation in Zambia, Kenya, Brazil, the USA and the EU in July 2022. However, food inflation in South Africa showed the second highest month-on-month increase after China (followed by Kenya and the EU), which might signal a continued ‘catching-up’ scenario (as was the case in June 2022).

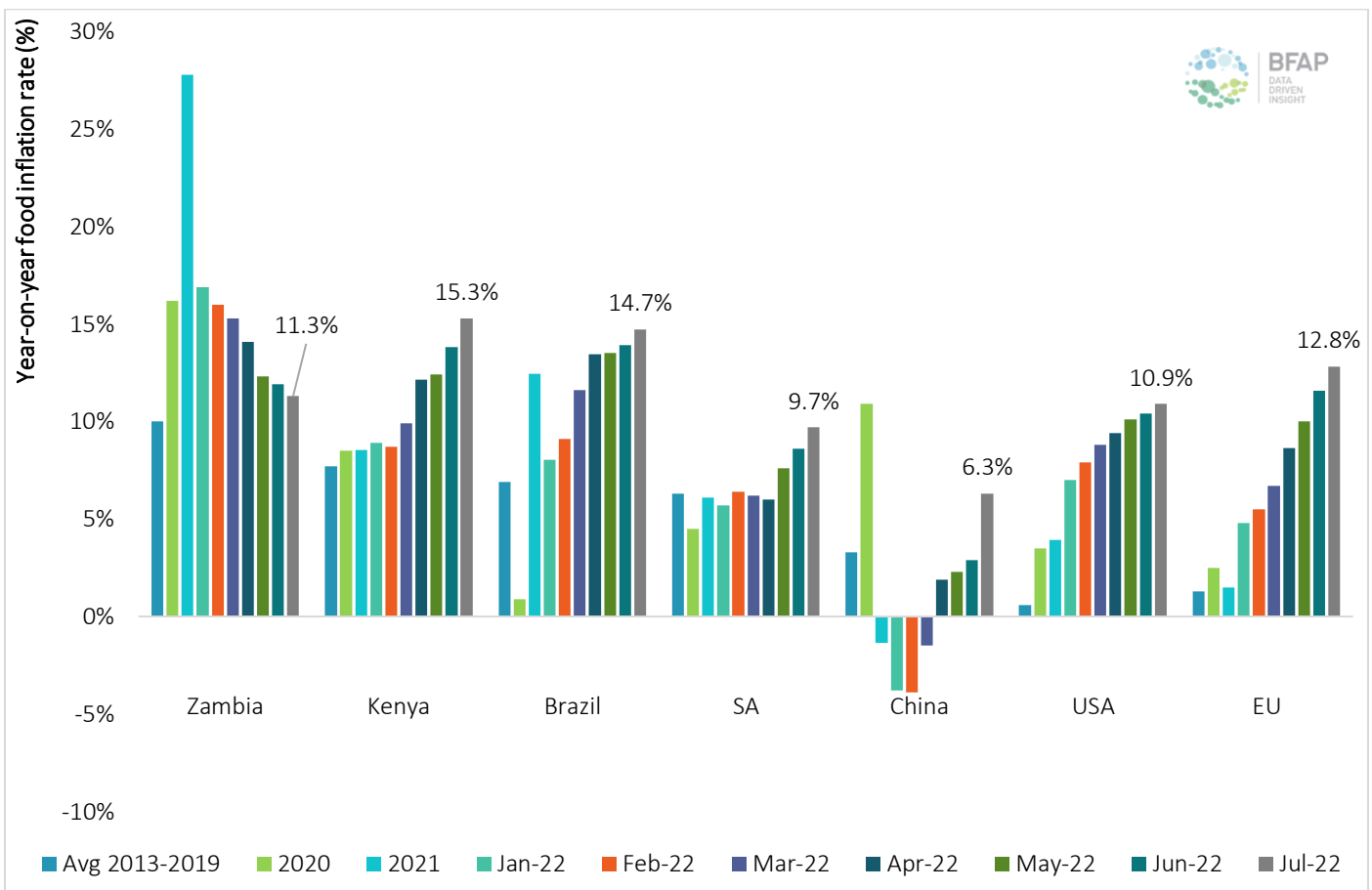


Figure 1: International food inflation comparison

Food inflation drivers and expectations

Inflation for Food and Non-Alcoholic beverages reached 9.7% in July. This is comparable to levels last recorded in 2016/17 – which was due to the widespread drought in South Africa. The high levels of inflation are a culmination of numerous factors in global commodity and money markets. In this regard, the effect of the Russian invasion of Ukraine in late February, which caused prices for grains and oilseeds to surge during March and April, is likely still affecting local bread and cereal prices, which recorded inflation of 13.4% in July. Research has shown that price shocks in local grain and oilseed markets take approximately 3 to 4 months to fully transmit to retail prices and although global prices for these commodities have eased over the past weeks, a weaker exchange rate and persistently high global shipping costs are keeping local commodity prices elevated. The weaker rand is largely the effect of high inflation and hawkish monetary policy around the globe and increased and intensive load shedding during June and July. Concerns around slower global growth result in pressure on emerging market currencies such as the rand. Continued high grain prices are also affecting prices in the meat complex, where feed is a major cost driver, with inflation recorded at 9.4% for meat. Here, slaughter numbers for June are down almost 3% year on year for cattle, and this occurred from a base

that already recorded low slaughterings in 2022. Although slaughter statistics for July are not available yet, this trend is expected to have continued. Poultry prices also continued to rise, following global markets, where persistent supply constraints in the Northern Hemisphere amid the continued spread of Avian Influenza have pushed the FAO poultry price index to an all-time high. Vegetables also recorded substantial inflation of 8.3%. This is the result of two factors at play in South Africa: The first is wet and cool weather which affected yields for key vegetables over the past months. Secondly, consumer demand is also firm as certain vegetables serve as a possible substitute for high staple food costs such as maize meal.

Our view is that food inflation is close to peaking - if the July figures were not at the peak already. The reason for this view is that commodity prices were higher in the latter half of 2021, which would result in lower base effects. This, combined with easing global commodity prices, and short-term outlooks for the exchange rate suggesting that the rand could trade at average levels of around R16.50, could result in food prices losing momentum. The upside risk is the ban on cattle transport in an attempt to curb the spread of Foot and Mouth Disease (FMD), which was instituted in the third week of August. Any extension of the initial 3-week period could limit red meat availability towards the end of the year and during the festive season. If this is the case, meat prices would likely be a key contributor to food inflation during November and December and we could see food inflation figures gaining momentum again. Crop quality issues and possibly lower yields due to hot and dry conditions in the Northern hemisphere also remain a concern and could add to global price pressures towards the end of the year. This is however a developing issue and should be monitored closely over the coming months.

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 24 August 2022 for the July 2022 data).

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