Food inflation in SA in 2019Q3 and 2019Q4

July 2019 - Inflation Rates Based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY Inflation (%)	MoM Inflation (%)	Food Exp as a % share of HH Income
BFAP Thrifty basket (family of four)	R 2 450.90	4.4%	-0.75%	31.6%

Food and non-alcoholic beverage inflation rose by 3.36% in July with food inflation (without beverages) slightly lower at 3%. This is much lower than the year on year inflation of 4.4% associated with the BFAP Thrifty Healthy Eating Basket depicted in the table above. This timid growth in food inflation can mostly be attributed to the marginal year on year inflation in the meat category (+0.17%). This was caused by a combination of factors, including Foot and Mouth Disease (FMD) which resulted in high(er) value cuts destined for export markets now being sold locally and a consumer under severe pressure. The main contributors to inflation in July were Bread and Cereals, Vegetables and Sugar, Sweets and Confectionary.

On a month to month basis, prices of bread moved sideways. Year on year figures for brown bread however increased substantially by 11.24%. This retail trend is mimicking wheat price movements of the past few months where wheat prices changed marginally between June and July 2019 but year on year increases for July was 11%. These substantial increases were already pre-empted in 2019Q2 with average quarterly wheat showing an increase of 16.2% y-o-y. Initial indications for 2019Q3, of y-o-y average quarterly growth in wheat prices, indicate that the upward pressures on bread prices will persist during the rest of 2019 albeit at a slower rate.

The average price growth across all recorded packaging sizes for super maize meal was 11.3% year on year. Similar to bread, this price increase is driven by a substantial year on year increases of the underlying commodity price, namely white maize. Initial comparative white maize prices between 2019Q3 and 2018Q3 suggest that maize meal prices will also experience upward pressure throughout the rest of the year. This could be exasperated by recent and further exchange rate depreciations.

Meat prices only showed marginal growth of 0.71% between July 2018 and July 2019. As mentioned above, this is partly due to increased domestic supply but also as a result of dismal local economic conditions that are constraining consumer spending. It is expected that price growth in this industry will slowly pick up on the back of regained access to some markets lost due to FMD. With regards to meat there is surely a significant upside risk to inflationary projections due to the recent and possible future devaluation of the Rand.

With regards to fresh produce inflation, vegetable prices showed an increase of 4.3% whilst fruit prices increased by almost 6% since July 2018. Despite persistent growth in vegetable prices since October 2018 the rate of growth does seem to be slowing down. This could signify a stabilization of the demand support that vegetable prices have received over the first half of 2019. With regards to fruit, the notable increase in prices could possibly be attributed to an increase in quality after the recovery from the prolonged drought the Western Cape. The improved quality also allows for a larger portion of fruit production to be exported, which, in turn, intensifies the link to global prices and the exchange rate. Based on this it is expected that fruit price growth will increase for the remainder of 2019.

Sugar and confectionary product prices increased by 8.73% since July 2018. This high rate could possibly be attributed to the pre-tariff base effect that was still present in July 2018. Other factors that could play a role are spill over price effects from the sugar tax which is currently only applied to carbonated drinks with high levels of sugar. It is expected that the y-o-y growth will remain above 5% for the rest of 2019.

A key factor that can provide upward pressure to the outlook as discussed above are exchange rate movements over the next six months. Looming global and macro-economic issues such as an intensification of the USA-China trade war and a ratings downgrade for South Africa could accelerate inflationary pressures on food which is currently relatively benign.■

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