



FOOD INFLATION BRIEF

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

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SUMMARY OF FOOD INFLATION METRICS – January 2022

Inflation on food and non-alcoholic beverages (NAB):		Contribution to CPI headline inflation:	
Month-on-month: +0.9%	Year-on-year: +5.7%	1.0 percentage points contribution to CPI headline inflation of 5.7%	
Food category contributions:			
	Month-on-month % change:	Year-on-year % change:	
Bread & cereals	0.4%	1.5%	
Meat	1.2%	8.2%	
Fish	0.6%	4.6%	
Milk, cheese, eggs	0.3%	5.2%	
Oils & fats	2.9%	22.9%	
Fruit	0.8%	-2.0%	
Vegetables	3.4%	8.6%	
Sugar & sugar-rich foods	0.2%	2.9%	
NAB	0.2%	1.1%	
Commonly purchased food items with high year-on-year inflation rates in January 2022:			
Above 10% inflation:		6% to 10% inflation:	
Margarine		Spinach	
Beef (offal, rump, sirloin, brisket)		Pasta	
Pumpkin		Bacon & ham	
Sunflower & canola oil		Cake flour	
Tomatoes		Beef mince	
Mutton/Lamb loin chops		White & brown sugar	
Eggs		Frozen fish fingers	
Fresh whole chicken		Flavoured yogurt	
Cabbage		Fresh low-fat milk	
Frozen hake		Polony	
Whiteners		Frozen chicken portions	

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



THFB – January 2022:

R2 997/  **/month**

Month-on-month change:

+R26 / +0.9%

Year-on-year change:

+R132 / +4.6%

Affordability*:

30.3% food expenditure share

* 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 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.

International overview

Major drivers of food inflation internationally include high agricultural commodity prices, exacerbated by challenging weather conditions, supply chain disruptions and rising energy prices. In January 2022, the FAO Food Price Index, a measure of underlying agricultural commodity prices, increased by 1% from December 2021. In real terms, the index has surpassed the previous highs of 2011 since October 2021. While the latest increase is modest, prices typically softened in January following the festive season. These global factors have driven inflation higher in many parts of the world and in January 2022 (as in December 2021) food inflation in South African was lower than the food inflation rates reported for Zambia, Kenya, Brazil and the USA (Figure 1).

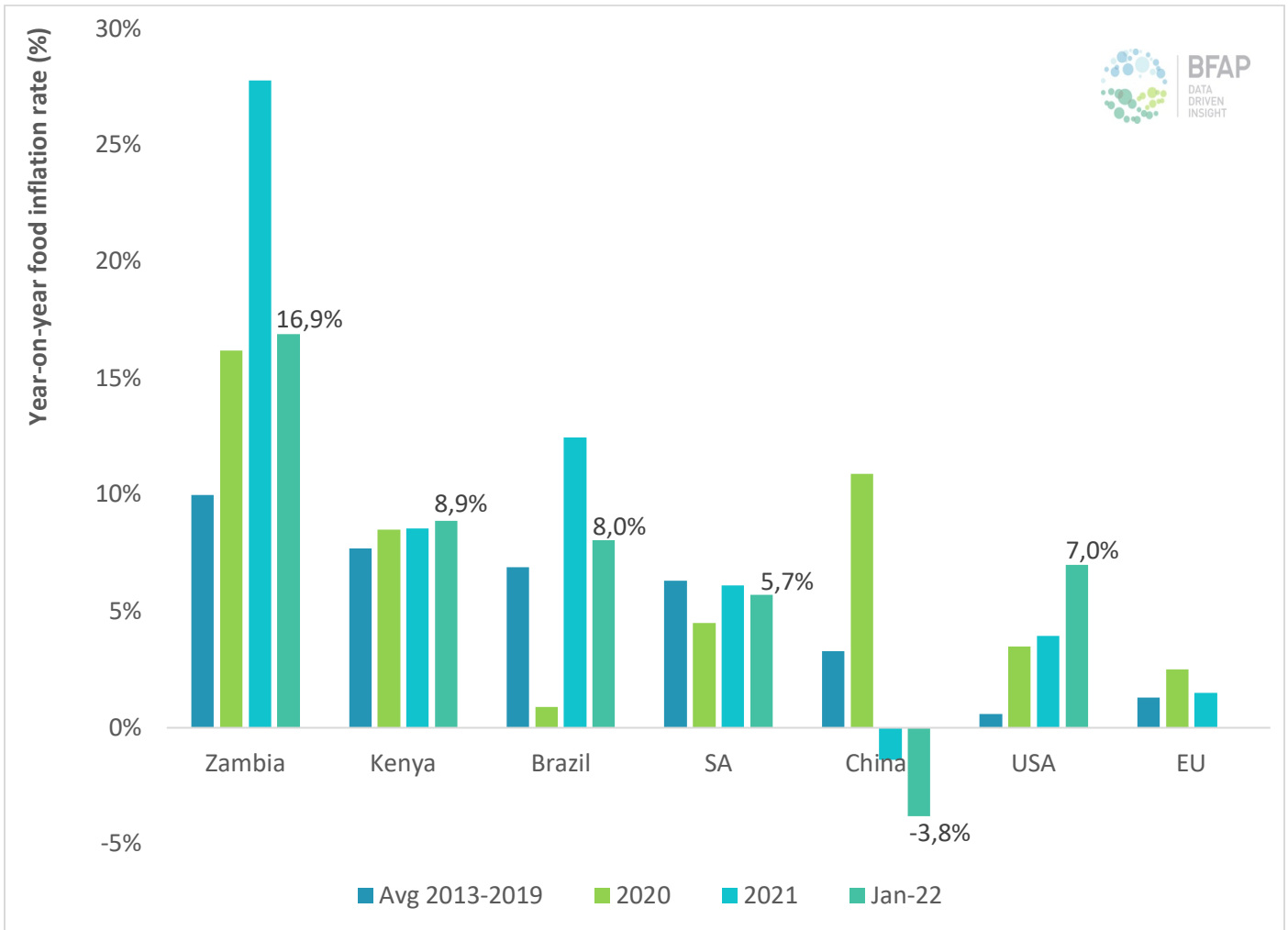


Figure 1: International food inflation comparison

Food inflation drivers and expectations

Year-on-year inflation on Food and Non-alcoholic beverages accelerated to 5.7% in January, from 5.5% in December 2021. This was underpinned by an uptick in the price of cereals, bread, oils and fats, milk and eggs, and vegetables.

The increase in bread and cereal prices is predominantly driven by global factors. South Africa's first official 2022 summer crop estimate will be released at the end of February, but early indications are that, despite some weather related challenges, the domestic maize crop will be sufficient to provide an exportable surplus. Accordingly, while it is important to monitor the evolution of weather conditions over February and March, prices will most likely continue to be driven by international trends and exchange rate dynamics. In the global space, dry conditions in South America and geo-political tensions between Russia and Ukraine are fuelling further gains in prices of maize, wheat and vegetable oils. Ukraine is the world's 4th largest maize exporter, accounting for around 15% of exports, while Russia

is the global leader in wheat exports, accounting for around 20% of global trade. Both Russia and Ukraine are amongst the top 10 exporters of sunflower seed. The potential for escalation in Russian insurgence and the associated uncertainty is expected to support global prices over the coming weeks and also represents a significant risk factor that could drive world prices for major cereals, oilseeds and vegetable oils substantially higher over the coming months.

Local dairy and cheese prices have shown sizable price growth over the past year, increasing by 5.6%. This is the combined effect of an increase in global dairy prices over the past 5 months, combined with input cost pressures resulting from persistently high feed grain prices. It is expected that dairy prices will remain elevated over the coming months as global exportable supplies decrease on the back of lower production in major milk-producing regions such as Western Europe.

In terms of vegetables, prices increased due to lower availability of key products such as tomatoes and potatoes as a result of the excessively wet conditions experienced around South Africa in December and January. It is expected that quality and availability could increase over the coming months, pushing prices lower.

Red meat products have been a key subcategory contributing to food inflation, but in line with typical seasonal trends after the festive period, meat inflation decelerated in January. Poultry prices have also traded lower due to a firmer exchange rate and easing global prices, whilst pork is substantially lower due to increased supplies and low regional export demand compared to the corresponding period in 2021. As economic pressures, such as increasing interest rates and electricity tariffs, increase economic pressures on consumers, demand for meat could ease. This is also likely to result in lower food inflation over the coming months. Rapidly increasing oil prices remain a threat, however, as they are likely to push manufacturing and distribution costs higher. This could mitigate the effect of softer demand on food prices. At the same time, the risks associated with rising tensions between Russia and Ukraine could influence both international commodity prices and investor risk sentiments which may lead to depreciation in the Rand exchange rate. Through its influence on energy, international agricultural commodity prices and exchange rate depreciation, possible escalation of tensions in the Black Sea region presents a major risk factor to food inflation.

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.

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