



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 December 2021.



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SUMMARY OF FOOD INFLATION METRICS – December 2021

Inflation on food and non-alcoholic beverages (NAB):		Contribution to CPI headline inflation:
Month-on-month: +0.5%	Year-on-year: +5.5%	1.0 percentage points contribution to CPI headline inflation of 5.9%
Food category contributions:		
	Month-on-month % change:	Year-on-year % change:
Bread & cereals	+0.2%	+1.8%
Meat	+1.2%	+8.6%
Fish	+0.5%	+3.7%
Milk, cheese, eggs	+0.2%	+5.3%
Oils & fats	+1.5%	+20.8%
Fruit	+2.1%	-1.2%
Vegetables	-1.9%	+3.1%
Sugar & sugar-rich foods	+0.2%	+3.6%
Non-Alcoholic Beverages	+0.1%	+1.4%
Commonly purchased food items with high year-on-year inflation rates in December 2021:		
Above 10% inflation:		6% to 10% inflation:
Cheese		Chicken (frozen non-IQF portions, fresh portions, IQF portion, whole fresh)
Mutton/lamb (leg, stew)		Mutton/lamb (loin chops)
Margarine		Beef (mince, stewing, brisket)
Beef (sirloin, rump, offal, fillet)		Pasta
Vegetable oil		Dried beans
Eggs		
Fish (frozen hake, fish fingers)		
Polony		
Pork (chops, bacon)		

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)# 	THFB - December 2021: R2 976/  /month
	Month-on-month change: +R9.23 / +0.3% Year-on-year change: +R142.33 / +5.0% Affordability*: 30.1% 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 child, 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 intake patterns.

INTERNATIONAL OVERVIEW

The recent resurgence of inflation in many parts of the world has been ascribed to a combination of supply chain disruptions emanating from the Covid-19 pandemic and the measures taken to manage its impact, weather conditions in key production regions and structural drivers of demand. This has become a cause for concern to economic policy makers, and the role that food prices play has not gone unnoticed. Figure 1 shows that food price inflation in South Africa has tended to be lower than in at least one of our BRICS partners (Brazil), and in the USA and some other African countries, but higher than in China and the EU.

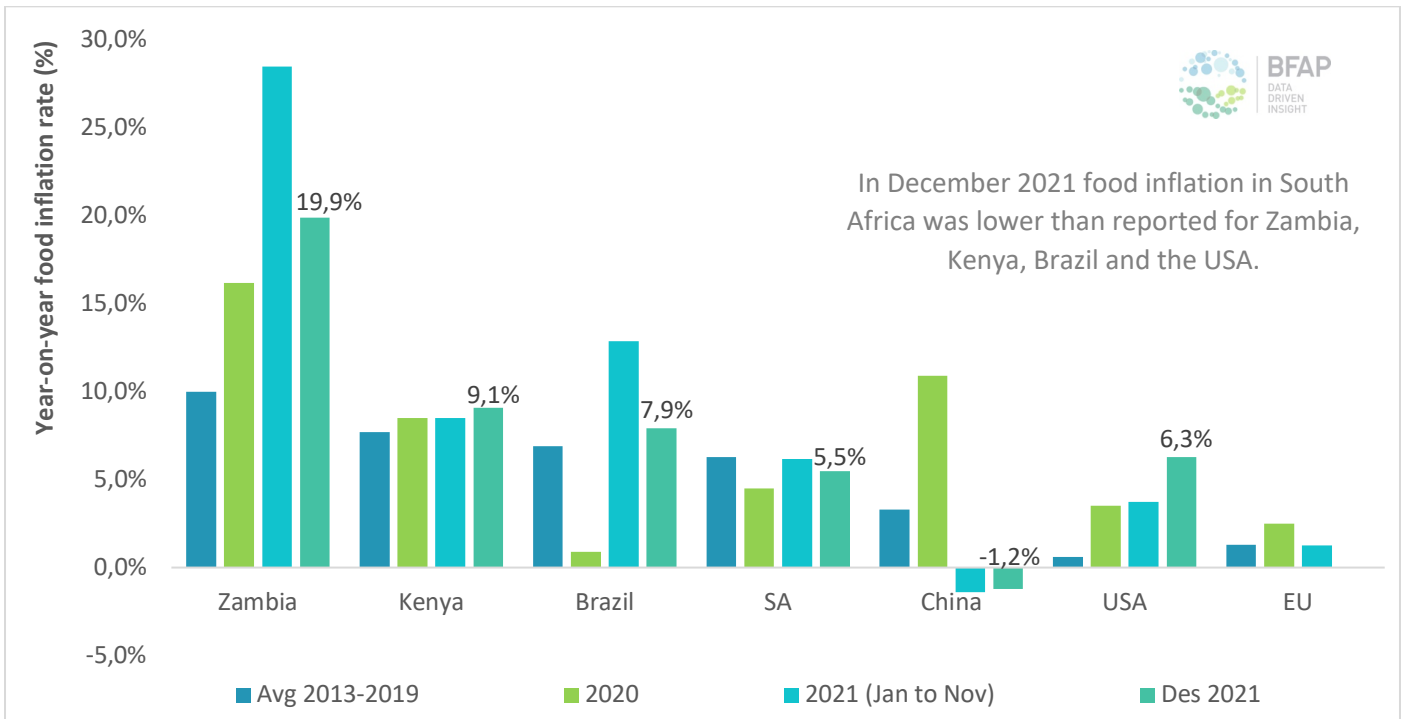


Figure 1: International food inflation comparison

Food inflation drivers and expectations

Since our previous inflation brief in November 2021, the identification of the Omicron variant, combined with excessive rainfall in the summer rainfall areas, has presented the possibility of further supply disruptions that could affect global and local inflation. International meat and other food prices lost some momentum in early December, but firming demand drove stronger prices towards the end of the month. Locally, market analysts seem to agree that the high rainfall in December, in both the Eastern and Western parts of the summer crop production areas, is likely to result in a smaller grain and oilseed harvest compared to the past two seasons, but that stocks from previous bumper crops are likely to prevent considerable local price increases.

Food inflation figures for December 2021 came in at 5.9%, whilst food and non-acholic beverages were slightly more moderate at 5.5%. This follows a steady increase from 5.4% in January 2021 to a peak of 6.9% in August 2021. The main contributors to the persistent food inflation remains *oils and fats* (20.8%), *meat* (8.6%) and *dairy and eggs* (5.3%).

UNDERLYING AGRICULTURAL COMMODITY PRICES REMAIN FIRM

In the case of meat, ongoing tight supplies combined with strong festive season demand resulted in monthly meat inflation of 1.2%. Although slaughter numbers are not yet available for December, November 2021 numbers were 5.3% lower compared to November 2020, whilst sheep slaughtering was 22.6% lower for the corresponding time a year ago. It is expected that this trend of tight supplies also prevailed in December, with fewer store lambs entering the market due to much improved rain and grazing conditions in sheep production areas. Poultry prices also firmed towards the end of 2021 due to a rapid and significant depreciation in the exchange rate. International factors continue to dominate price dynamics in vegetable oil markets. In 2021 prices of oilseeds surged due to production disruptions and long-term structural changes in the palm oil market, further exacerbated by increased demand for oilseeds as feedstocks for biofuels. These dynamics have persisted in the last months of December but recent developments such

as flooding in Malaysia, the world's second-largest palm producer, and dry conditions in South America, have fuelled new upward momentum in vegetable oil markets.

SHARP INCREASES IN UNDERLYING COST STRUCTURES ALSO DRIVING FOOD INFLATION

Further to the movements observed in underlying agricultural commodity prices, costs in the value chain have also added to food inflation. Figure 2 presents a few examples where the average price of the underlying commodity is compared to final retail products. The share of commodities in the price of final retail products ranges from as low as 20% to 67%, indicating that additional cost factors in the value chain, such as logistics, processing and value addition, also make a significant contribution to food inflation. The pandemic has also added to these costs, while prices of factors such as fuel and electricity, to name but a few, have increased greatly over the course of 2021. In December 2021, the year-on-year inflation for administered prices was 15.6%, with inflation on electricity measured at 14% and fuel at 40.5%.

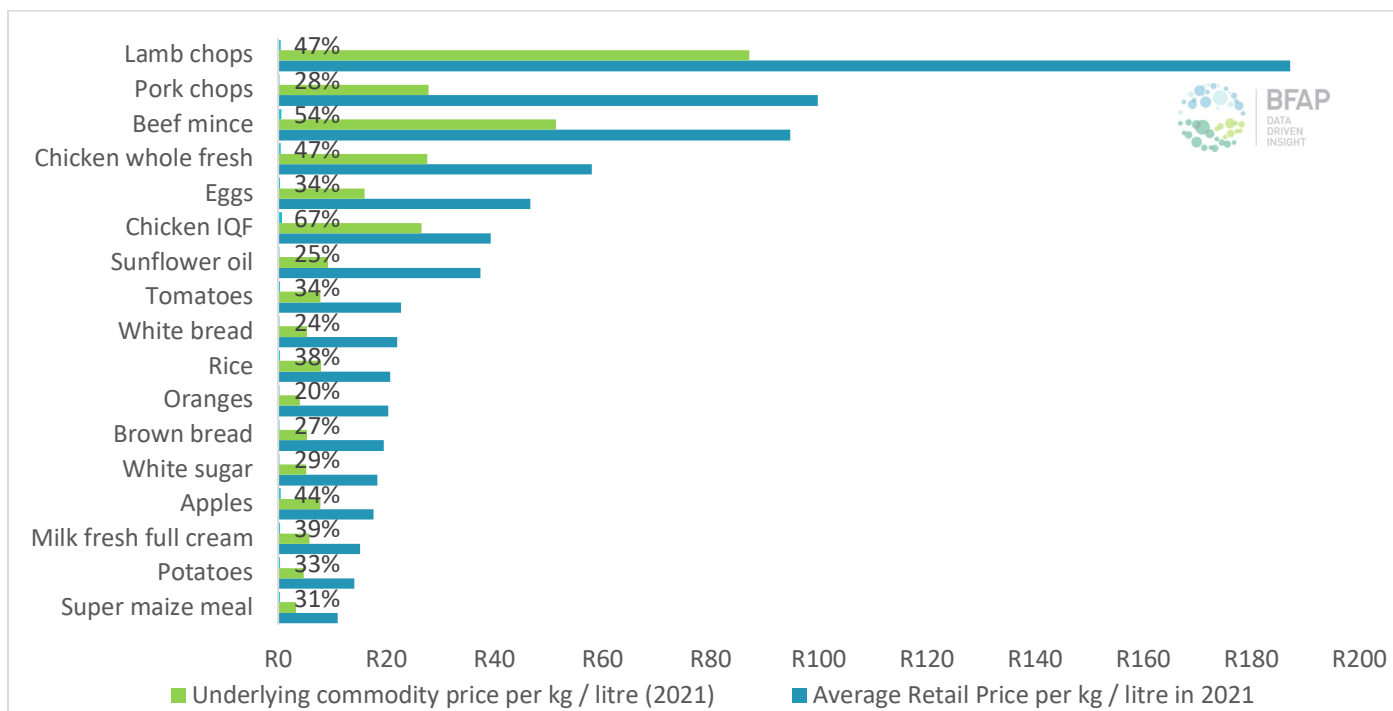


Figure 2: Share of underlying commodity prices in final retail value in 2021

WHAT CAN WE EXPECT IN 2022?

We expect that food inflation could moderate somewhat over the coming months as a result of high base effects associated with high price levels during 2021. There are however many emerging factors that present upside risk to this view. The first is global climatic conditions, specifically in South America. This is likely to be the main price driver in global grain and oilseed markets and persistent dry conditions could cause prices of these commodities to increase. Based on the significant share expenditure of *bread and cereals* in the consumer expenditure basket, this could play a key role in inflationary figures over the coming months. The second is the trajectory of the exchange rate, with inflationary pressure and employment data out of the US suggesting that the time is right for an upward cycle in US interest rates. As a result, the rand could come under pressure, with some analysts expecting levels of close to R17.00. This will add to commodity price pressure in rand terms but also impact further on manufacturing and distribution costs. The third key determinant that drives upside risk is energy prices. Crude oil prices are firming due to supply disruptions in key oil-producing regions. Production issues include lower levels of production than their allocated OPEC+ quotas in countries like Russia, Libya and Nigeria, which point to capacity issues, whilst in the US and Canada oil flows were disrupted by severe cold and frost. Market analysts are bullish in their expectations for oil over the coming months, with some projecting oil to reach USD 90/barrel by the third quarter of 2022. This will also add to the broad-based increase in food production and manufacturing cost which could push prices higher.

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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