



FOOD INFLATION BRIEF

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

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SUMMARY OF FOOD INFLATION METRICS – May 2022

Inflation on food and non-alcoholic beverages:		Contribution to CPI headline inflation:
Month-on-month: +2.1%	Year-on-year: +7.6%	1.3 percentage points contribution to CPI headline inflation of 6.5%
Food category contributions:		
	Month-on-month % change:	Year-on-year % change:
Bread & cereals	3.4%	8.4%
Meat	1.9%	9.4%
Fish	1.2%	6.2%
Milk, cheese, eggs	1.8%	3.8%
Oils & fats	10.1%	26.9%
Fruit	-1.3%	2.1%
Vegetables	1.9%	3.5%
Sugar & sugar-rich foods	1.1%	4.0%
Non-alcoholic beverages	0.9%	4.9%
Commonly purchased food items with high year-on-year inflation rates in May 2022:		
Above 10% inflation:		6% to 10% inflation:
Maize-based foods (super maize meal)		Wheat-based foods (brown bread)
Wheat-based foods (cake flour, bread flour, white bread, Various baked goods, instant noodles)		Breakfast cereals
Mutton/Lamb (neck)		Mutton/Lamb (offal, rib chops)
Beef (rump steak, chuck, brisket)		Beef (sirloin, fillet, stewing, mince, T-bone)
Pork (ham)		Pork (bacon, ribs)
Polony		Chicken portions frozen non-IQF
Fish (frozen hake)		Fish (canned pilchards, fish fingers frozen)
Fats/oils (vegetable oil, margarine, mayonnaise)		Dairy (sour milk)
Dairy (cheddar cheese, powdered milk)		Vegetables (peppers)
Vegetables (avocados, broccoli, cauliflower, mixed tinned vegetables, spinach, cucumber, lettuce)		Fruit (pineapples, oranges)
Legumes (dried beans, baked beans tinned, peanuts)		Granular sugar (white sugar, brown sugar)
Non-alcoholic beverages (coffee, fruit juice)		
Other (coffee / tea whiteners)		

THE BFAP THRIFTY HEALTHY FOOD BASKET (THFB)#



THFB – May 2022:

R3 172/  **/month**

Month-on-month change:

+R74 / +2.4%

Year-on-year change:

+R164 / +5.5%

Affordability*:

30.2% 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 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

After reaching a new all-time high in March 2022 and decreasing by 0.6% (month-on-month) in April 2022, the FAO Food Price Index (FPI) decreased by a further 0.6% (month-on-month) in May 2022. The downturn was mainly driven by the vegetable oil, dairy and sugar sub-index, while the cereal and meat price indices increased. In May 2022 the index was 20.8% higher than in May 2021. The FAO Cereal Price Index increased by 27.6% year-on-year and 2.2% month-on-month in May 2022. The main contributor to the rising cereal price index was wheat prices, driven by India's wheat export ban, production condition uncertainties and the ongoing war which has markedly reduced production and export prospects in Ukraine. The FAO Meat Price Index increased by 11.7% year-on-year and 0.5% month-on-month in May 2022. The main contributor to the rising meat price index was poultry meat, driven by continued supply chain disruptions in Ukraine, avian influenza outbreaks and high demand in Europe and the Middle East.

Figure 1 illustrates that, in May 2022, food inflation in South Africa remained lower than food inflation in Zambia, Kenya, Brazil, the USA and the EU. However, food inflation in South Africa (followed by China) showed the highest month on month increase among these countries, and may signal a catching-up scenario.

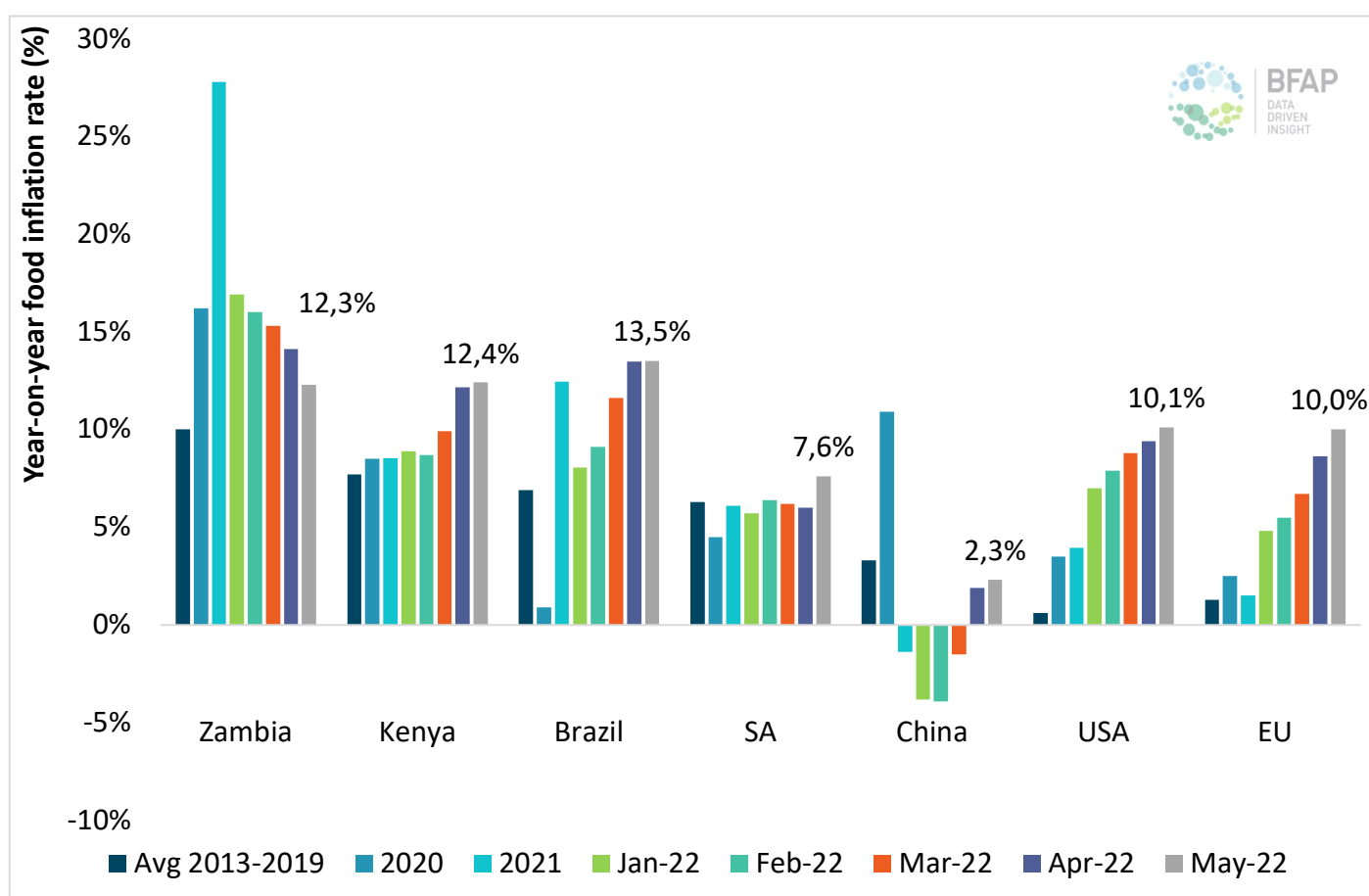


Figure 1: International food inflation comparison

Exploring the impact of energy cost on food inflation in South Africa

The last time inflation has been this high on global agendas was during the energy crisis of the 1970's. Currently energy prices have again spiked and have generated huge inflationary pressures across the globe. Disruptions such as the Russian invasion of Ukraine provided further momentum to a post pandemic inflationary wave that was initially dubbed transitory by most monetary authorities around the world. In South Africa, the increase in energy prices is also adding the proverbial fuel to the food inflation fire. With staple food commodities such as bread and cereals already 8.4% higher compared to this time a year ago, rising fuel costs are further contributing to inflationary pressures through manufacturing and distribution costs of food.

During April, government announced some relief measures in an attempt to contain the soaring prices of fuel. They reduced the general fuel levy (GFL) by R1.50 for April and May. On 31 May, this was further extended to include June, whilst for July, this is set to be halved to R0.75. The estimated fuel price increase for July is currently around R2.00 per litre, which will push diesel prices to above R24.00 per litre on average. In August, the full levy will again be applied. Consequently, this BFAP food inflation brief considers the effect of rising fuel prices on the cost of healthy eating for July. Figure 2 presents the cost of the BFAP Thrifty Healthy Food Basket (THFB) over time, along with an estimate of what food inflation might have looked like in the absence of the fuel cost relief provided through the reduced GFL. This is done through an econometric estimation of the relationship between the cost of the THFB and diesel costs over time. The results suggest that a for a 1% increase in diesel costs, the cost of the THFB will rise by approximately 0.53%.

The figure below shows that, if we only consider increases in fuel prices **without accounting for changes in commodity and other product prices** the value of the THFB could have reached R3285 in June, taking the 1.5 cents per litre relief measure into account. If the relief measures were not available for June, the total value of the basket could have reached a monthly value of R3397. For July, the effect is more pronounced due to the lower fuel levy relief. Our estimates indicate that with diesel prices at around R24.40 per litre the THFB can increase to R3381 per month. In the absence of the fuel levy relief, prices could touch on R3463 per month. With the relief measures suspended in August our estimates further indicate that the cost of the healthy food basket could reach R3495 per month. This could, in turn, be further exacerbated over the coming months by a weakening in the exchange rate and/or increases in global oil prices.

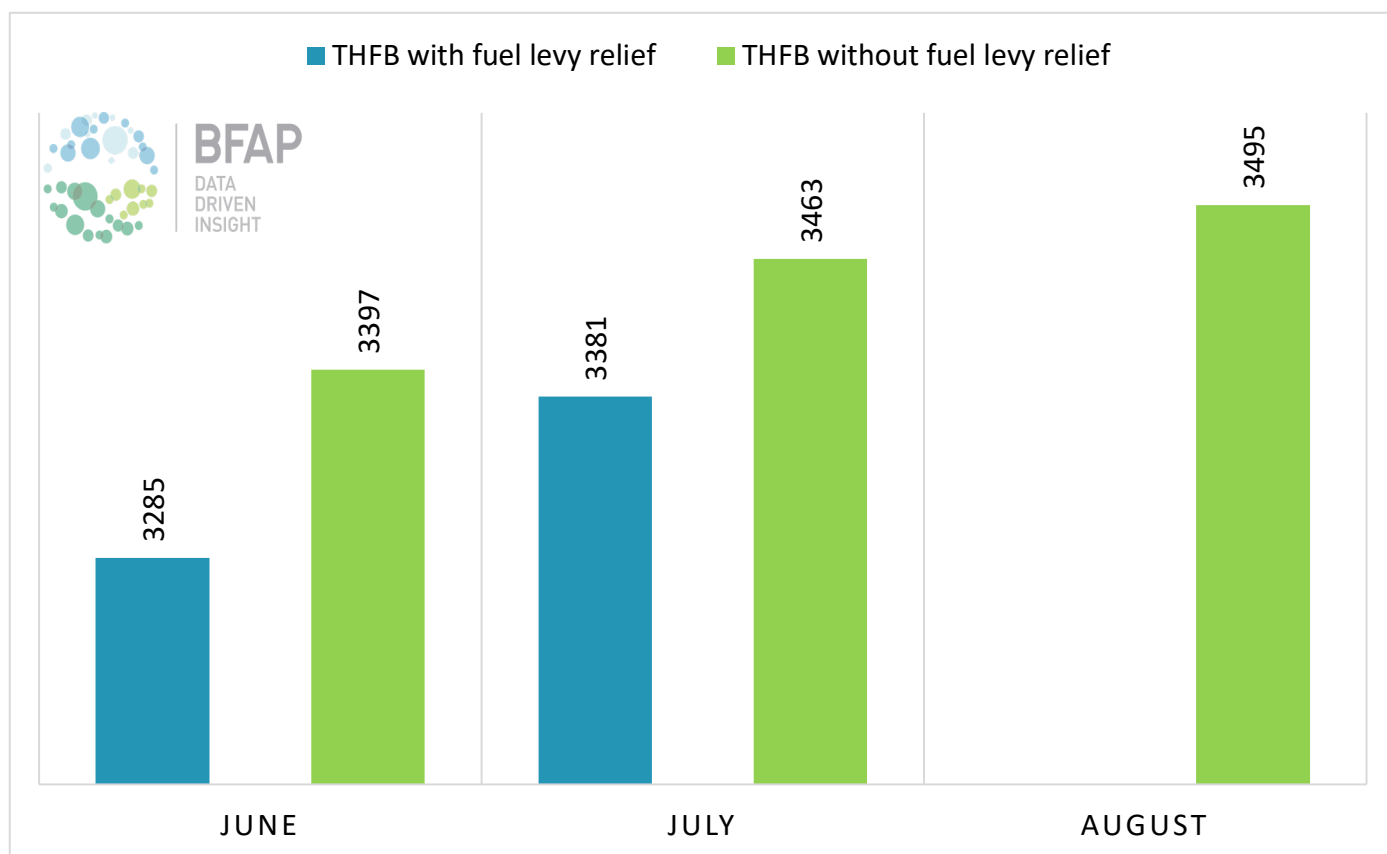


Figure 2: Estimated cost of the THFB with and without fuel levy relief adjustments

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 22 June 2022 for May 2022).

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