2019Q4 Food Inflation Expectations

September 2019 - Inflation Rates Based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY Inflation	MoM Inflation	Food Exp as % share of HH income*
BFAP Thrifty basket (family of four*)	R 2 466	5.4%	0.9%	29.8%

** Four member household with multiple income sources: two wage earners and child support grants.*

Food and non-alcoholic beverage inflation rose by 3.9% yoy in September with food inflation rising by 3.7% yoy. This is a rapid increase since August and is predominantly attributable to "*Bread and Cereal*" for which inflation was recorded at 8.5% yoy. This is corroborated by the BFAP thrifty basket, as presented in the table above. This basket has a strong staple and vegetable dependence which resulted in this inflation measurement reaching 5.4% yoy. This increase has been pre-empted due to the depreciation of the Rand since the beginning of 2019. It, however, arrived later than expected. The fact that we are only starting to see the effect of the weaker exchange rate now is evidence of weak consumer demand. This have been countering supply side cost pressures, related to exchange rate movements, which have been apparent from the 2019Q2.

With *Bread and Cereal* being the main inflationary driver in September, it is worthwhile to explore underlying trends associated with this. White maize prices in 2019Q3 have increased by 28.5% compared to 2018Q3. Wheat prices, in turn, were roughly 10% higher in 2019Q3 compared to 2018Q3. This increasing trend persisted into October 2019 for maize although it seemed to have lost some momentum in the case of wheat due to world prices tending lower.

These commodity price pressures experienced in 2019Q2 are manifesting in retail prices of maize meal and bread now and as a result, inflationary pressures in *bread and cereals* are likely to persist in the last quarter of 2019 and into the new-year. Current estimates suggest that this food group could reach inflation rates of up to 10% as we go/ head into 2020.

In September 2019 fruit inflation amounted to 5% with inflation on vegetable prices slightly higher at 5.36%. In terms of fruit, apple prices seemed to be a key driver increasing by 12.63% yoy whilst in vegetable inflation, potatoes featured prominently with a yoy increase of just above 10%. It is expected that both fresh produce categories will have demand support during the festive season which would maintain inflation rates at current levels. The depreciated exchange rate levels are also expected to provide support. Although fruit and vegetable inflation was similar in September, vegetables plays a much larger role in inflation determination due to its higher expenditure share in the consumer food basket. Our calculations show that vegetables contributed 14.3% of total food inflation which is 5 percentage points higher than its expenditure share. This, combined with strong inflation in staples, as mentioned above, are affecting food affordability of low(er) income households negatively.

Meat prices have been the saving grace associated with inflation of food baskets in South Africa in 2019. If meat inflation were at levels experienced in 2018, total food inflation would have surpassed 5.0% in September. Meat inflation in this period however, amounted to 1.12% which, although still low, has turned positive from deflationary trends apparent earlier the year. This is largely attributable to the increase in exports subsequent the FMD outbreak at the beginning of 2019 combined with the weakening of the exchange rate. Over the coming three months, meat inflation is expected to increase due to persistence of the factors mentioned above combined with an uptick in demand during the festive season.

In conclusion it seems as if the benign inflation of the first half of 2019 is picking up, with exchange rate pressures at the heart of it. We therefore expect food inflation to break the 4% threshold in October and linger at 4% and 5% over the next three months. Upside risk associated with this is the mid-term budget speech to be delivered on 30 October which could herald a ratings downgrade. This would initiate a rapid depreciation of the exchange rate that could lead to severe and rapid food inflation.■