Food inflation in SA in 2018Q4

September 2018 Inflation Rates based on BFAP Healthy Food Baskets

	Basket cost (R/month):	YoY in Inflation (%)	MoM Inflation (%)	Share of hh income (2 wages, 2 child grants):
BFAP Thrifty basket (family of four*)	R 2 655	2.7%	0.8%	32.1%

The table above shows YoY inflation for a 4-member household following the hypothetical BFAP thrifty healthy eating option. The inflation rate associated with this basket of products amounted to 2.7%, which is lower than official numbers on total CPI for food and non-alcoholic beverages. Within the Thrifty BFAP basket option a household could benefit from general staple disinflation (with bread and cereals contributing more to this basket compared to CPI weights), somewhat offset by a higher exposure to fresh produce price hikes.

In September, official CPI inflation for food and non-alcoholic beverages was recorded at a relatively subdued level of 3.9%. This is slightly higher than recorded levels in August which amounted to 3.5%. The main culprits of this slight increase is meat, which contributed to 51% of the total increase in food inflation. This is roughly 15% more than its allocated share in the CPI food inflation basket. Similarly, vegetables contributed 23% of the total increase, which is 14% more than its allocated share. Bread and cereals, fruit and sugar and confectionary, in turn, showed disinflation with bread and cereals amounting to disinflation of 0.62% and sugar amounting to 1.04%. In the case of fruit, the disinflationary trend is more pronounced amounting to about 4.9%. This helped to keep aggregated food inflation in September at relatively subdued levels.

On a month on month basis, white maize and wheat prices have been trading sideways for the last three months. As a result, we do not expect significant increases in products such as maize meal driven by commodity price changes, for the rest of the year. Pressures in terms of manufacturing and distribution cost, based on the significant increases in fuel, over the past couple of months, could however contribute to cost pressures in maize meal and bread for the remainder of 2018.

Fruits and vegetables present and interesting dynamic. The recent disinflationary trend in fruit could be as a result of subdued demand associated with the weak economic circumstances which causes consumers to buy less (higher value) fruit and more (lower value) vegetables. Lower fruit prices can also be driven by quality issues based on the recent drought, although the effect of this is expected to dissipate over the next 6 months, as harvests of the new season become available. Vegetable prices are therefore supported by relatively strong demand combined with increased cost pressures associated with its distribution due to the high cost of fuel. As a result, we expect to start seeing marginal increases in fruit inflation over the outlook period, whilst the strong inflationary pressures associated with vegetables are expected to persist.

In terms of red meat carcass prices both month on month and year on year trends suggest a sideways movement. Between August and September 2018, A2/A3 cattle prices, in fact, decreased marginally from R46.31/kg to R45.97/kg. This reflects a small recovery in supply in recent months, as well as weak domestic demand. It also indicates that inflationary pressures seem to be originating from the rest of the chain. Again, as with vegetables, it is expected that the high fuel prices associated with the last three months are contributing to distribution cost. Increases in carcass prices are expected to remain subdued over the festive season and it is unlikely that carcass prices will reach levels of R48/kg towards December.

In terms of chicken, since South Africa is a net importer, it is expected that the depreciation of the exchange rate has contributed to upward pressure in chicken prices, which are, in turn, supporting meat inflation in general. Pork, comprising a relatively small share of meat consumption, has also seen a price recovery over the past three months, after the Listeriosis outbreak. It is expected that this is an additional factor supporting meat inflation. In light of typical seasonality, the current level of meat inflation is expected to gain momentum as we enter the festive season.

Over the next three months, three key global factors are expected to shape the trajectory of food inflation in South Africa. The first is the exchange rate. The significant probability of looming downgrades could cause the currency to depreciate rapidly for the remainder of 2018. We persist that a food inflation level of 4.5% is eminent under current currency levels. Oil prices are also a significant uncertainty. Although, current US stock levels are depressing prices, US sanctions on Iranian oil could provide support for prices to increase again. Continuous political tensions between the USA and Saudi Arabia further increases uncertainty. The last factor is local grain plantings for the new season and the potential impact of an El Niño weather event. With the CEC's intentions to plant, BFAP projects a maize crop well over 13 million tons for the new season under normal weather conditions and therefore very little inflationary pressure on maize meal prices linked to higher maize prices. However, under severe drought conditions, especially in the Western production areas, maize prices could rise rapidly in January and February 2019.