



FOOD INFLATION BRIEF






This Brief provides an overview of food inflation dynamics, its associated causes, and the cost of basic healthy eating for May 2023.

Release Date: 26 June 2023



BFAP
DATA
DRIVEN
INSIGHT

SUMMARY OF FOOD INFLATION METRICS – May 2023

		Year-on-year (YoY):	Month-on-month (MoM):	For more detail refer to:
Inflation: Food and non-alcoholic beverages (NAB)		+11.8%	+0.3%	Section 1 of this brief
CPI headline inflation:		+6.3%	+0.2%	
Contribution of inflation on food & NAB to CPI headline inflation:		2.1 percentage points	<0.0 percentage points	
Food categories with highest inflation:		Vegetables Bread & cereals Dairy & eggs Sugar NAB	Sugar Dairy & eggs Bread & cereals NAB	Section 2 of this brief
Food categories with lowest inflation:		Fruit Oils & fats	Fruit Oils & fats Fish Meat	

Cost of the BFAP

Thrifty Healthy Food Basket:

(For more detail refer to Section 3)



R3 614/  /month

Indicators for selected factors affecting food prices in South Africa:

(For more detail refer to Section 4 & Section 5)

Global food commodity prices:



FAO Food Price Index

-21.3% YoY (↓ oils, cereals, dairy, meat)
-2.6% MoM (↓ oils, cereals, dairy)

Exchange rate:



R/\$ exchange rate

Depreciation of 19.5%: R19.02/US\$1 (May 2023) vs R15.91/US\$1 (May 2022)

Rising costs in value chain:



SA CPI index for 'Fuel': +3.5% YoY

SA CPI index for 'Electricity & other fuels': +8.0% YoY

Infrastructure challenges:



Persistent & severe electricity loadshedding

SECTION 1: CPI headline and food inflation over time:

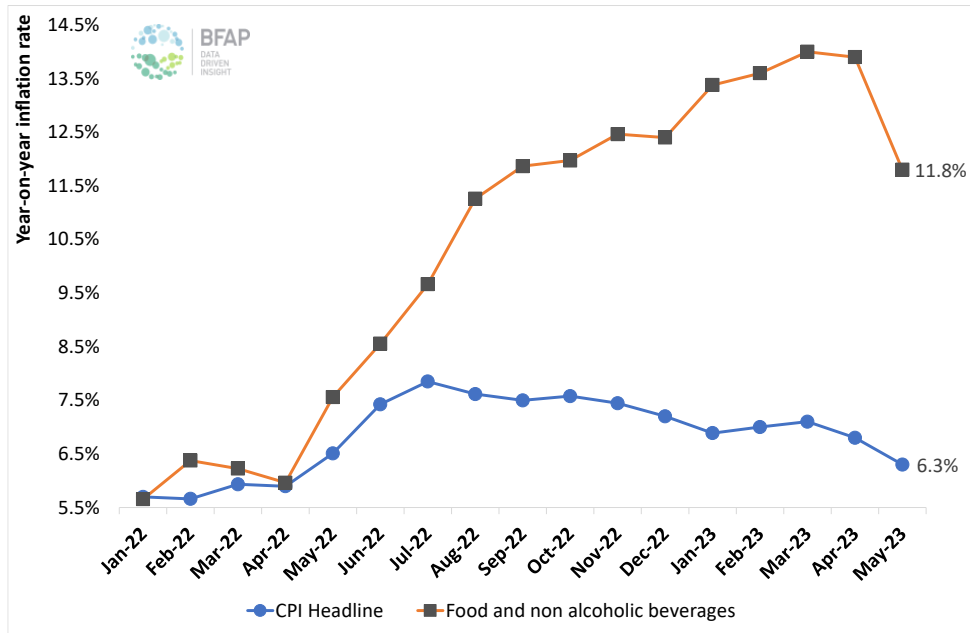


Figure 1: Year-on-year inflation 2022 & 2023 - CPI Headline and Food and non-alcoholic beverages

Source: Stats SA, June 2023

Following an eleven-month increase, inflation on food and non-alcoholic beverages dropped sharply to 11.8% - close to inflation levels last observed in September 2022.

SECTION 2: The contribution of different food categories & food items to inflation:

Table 1: Inflation on food categories in May 2023

Source: Stats SA, May 2023

Category:	YoY inflation:	MoM inflation:	Comments:
Vegetables	20.8%	0.1%	Highest YoY inflation among categories. Lower YoY inflation rate than in April 2023.
Bread & cereals	18.1%	1.1%	2 nd Highest YoY inflation among categories. 3 rd Highest MoM inflation among categories. Lower YoY inflation rate than in April 2023.
Dairy & eggs	14.2%	1.5%	3 rd Highest YoY inflation among categories. 2 nd Highest MoM inflation among categories. Lower YoY inflation rate than in April 2023.
Sugar-rich foods	11.9%	2.2%	Highest MoM inflation among categories. Higher YoY inflation rate than in April 2023.
NAB	10.0%	0.4%	Lower YoY inflation rate than in April 2023.
Fish	9.7%	-0.9%	Lower YoY inflation rate than in April 2023.
Meat	7.1%	-0.4%	Lower YoY inflation rate than in April 2023.
Oils & fats	-2.4%	-2.2%	Lower YoY inflation rate than in April 2023.
Fruit	-3.3%	-7.9%	Lower YoY inflation rate than in April 2023.

Table 2: Commonly purchased food items with high YoY inflation rates in May 2023

≥30%	≥20% up to <30%	DEFLATION
<ul style="list-style-type: none"> Wheat flour Bacon, Ham Cheddar cheese Onions, Broccoli, Cauliflower, Spinach, Pumpkin, Peppers Pineapple Baked beans 	<ul style="list-style-type: none"> Baked goods, Pasta, Bread Corned beef, Canned pilchards, Frozen hake, Polony Sour milk Carrots, Potatoes, Cucumber, Cabbage, Cucumber Avocado's Sunflower oil Sugar-rich foods Coffee Fruit juice Ceylon tea 	<ul style="list-style-type: none"> Rice Mutton/lamb leg, Pork chops Papaya, Oranges, Bananas, Pears Mineral water Sunflower oil

SECTION 3: The BFAP Thrifty Healthy Food Basket (THFB)#



THFB – April 2023:

R3 614/  /month

Month-on-month change: +R11/ +0.3%

Year-on-year change: +R443 / +14.0%

Affordability*: 31.5% food expenditure share

* The share of total income spent on food for a household with a dual minimum wage plus child grants and school meals.

The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for low-income households in South Africa. 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.

SECTION 4: International overview

The FAO Food Price Index (FPI), based on the prices of an international basket of food commodities, was 21.3% lower in May 2023 compared to May 2022. Following a consistent 12-month index value decline from March 2022 to March 2023, it increased by 0.6% from March 2023 to April 2023, and then decreased by 2.6% from April 2023 to May 2023. From a year-on-year perspective the highest inflation in May 2023 was reported for sugar (+30.9% YoY), while deflation was reported for oils (-48.2%), cereals (-25.3%), dairy (-17.7%) and meat (-4.1%) as international supply prospects improve.

Figure 2 shows that food inflation was higher in South Africa than in any of the selected countries save the EU in May 2023, which is in line with observations from April 2023. From April 2023 to May 2023, declining food inflation rates were observed for Brazil, USA, South Africa and the EU, with the fastest decline in YoY inflation observed in South Africa followed by the USA and EU.

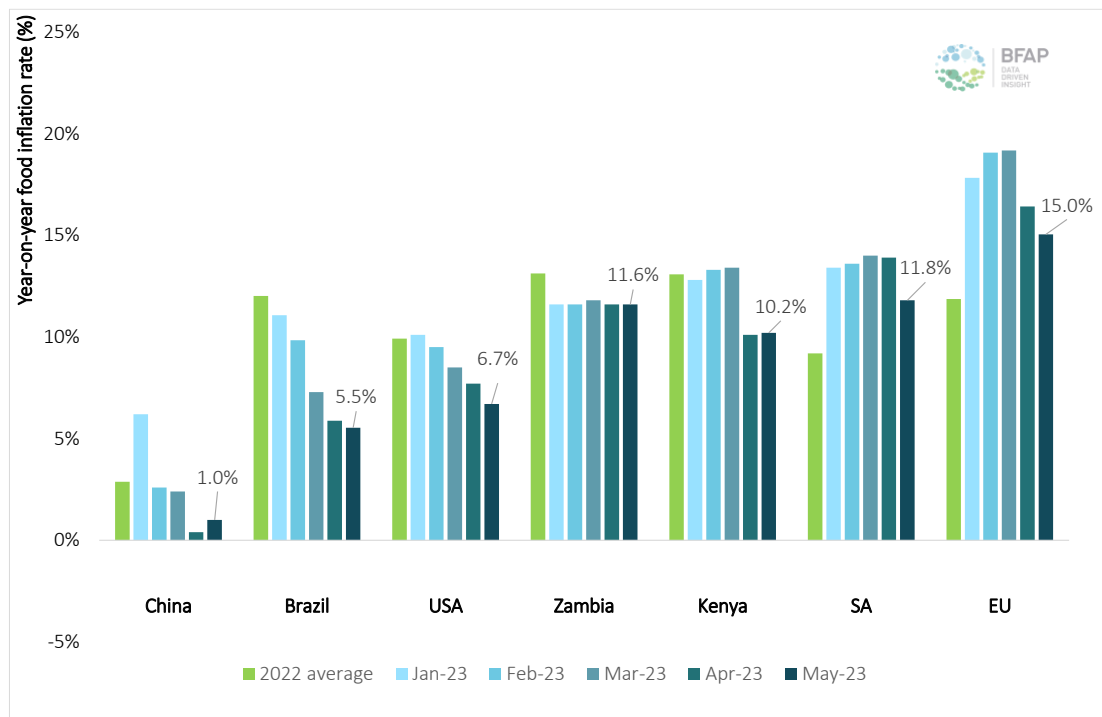


Figure 2: International food inflation comparison

Source: Official food inflation figures of the various countries reported by national statistical agencies

SECTION 5: Food inflation drivers and expectations

South Africa is expecting another bumper summer crop, with the latest estimates from the Crop Estimates Committee pointing to a maize crop in excess of 16 million tonnes. This suggests that South Africa's exportable maize could exceed 3.5 million tonnes for the third consecutive year, hence prices have traded below export parity in recent months. An all-time record soybean crop points to a similar dynamic, with prices expected to remain at export parity levels. Conversely, South Africa imports almost half of its wheat requirement and hence prices will remain at import parity levels. Consequently, across all three commodities, global factors will continue to be the primary drivers of domestic price levels, along with exchange rate dynamics. At global level, **grains and oilseed** prices continued to decline in May 2023, backed by the extension of the Black Sea Grain Initiative and expectations of ample global supply in the 2023/24 season. Maize prices were down almost 10% month-on-month, pressured by prospects of higher production from Brazil and the United States (US), along with slow moving exports from the US due to cancelled purchases by China. Soybean prices are also lower internationally, pressured by a bumper crop in Brazil and high US stocks.

South Africa's **meat** price inflation has also started to slow, despite marginally higher international prices. International poultry prices were higher in May for the fourth consecutive month amid firm import demand from Asia and persistent supply concerns as Avian Influenza continues to spread. Despite continued high cattle slaughters in Australia, bovine meat prices rose in May, stemming from higher global demand for supplies from Brazil and tightened supplies from the US. Pig prices also increased for the fourth consecutive month, linked to limited supply due to high production costs and animal diseases elsewhere boosting demand for Brazilian supplies. Given that the weaker Rand would further increase the cost of imported products, the slowdown in meat inflation in South Africa reflects the extent of pressure on consumer's spending power, as interest rates continue to rise, economic growth remains slow and load-shedding continues to constrain economic activity. Lower feed prices have also provided some relief to producers.

While the weight of **fruit** (1%) and **vegetables** (4%) in the CPI food and NAB basket is fairly small, the inclusion of fresh produce in diets remains important and hence, trends observed on this front are relevant. Amidst "international turbulence and climate-related problems, made more complex by recent trade restrictions", South African firms have been able to expand their European vegetable footprint in 2023. As a result, domestic market dynamics are influenced by the demand abroad for South African produce. This is particularly true for onions and dried vegetables, including legumes (SARS, 2023). Some of these exports came at the expense of trade with other regions. Despite the growth in value and volume of vegetables to Europe, Africa remains the single biggest off taker of South African fresh produce. Unit values did not increase to the extent that has been observed domestically, which suggests that lower quality produce was sold to neighboring countries. Domestically, lower volumes of potatoes (-6%), onions (-21%), and tomatoes (-3%) were recorded on the municipal markets for May compared to the same period last year, with an increase in cabbage volumes of 5%. Unit prices (year-on-year for May 2023) increased disproportionately relative to the drop in volumes – onions (+165%), potatoes (+36%), tomatoes (+19%), and cabbage (+27%), reflecting firm demand for vegetables. This is often the case in an environment where consumer spending power is limited, due to their relative affordability compared to fruit. The fact that cabbage prices increased despite higher volumes further substantiates the firm demand for products that provide better value for money.

Fruit production and harvesting are seasonal, and thus one should be careful to draw conclusions from month-on-month data, as early or late harvesting could affect supply regardless of the changes on the demand side. Prices remain stable, and even lower year-on-year on the domestic market as production volumes remain elevated as a result of incentives that drove area expansion, particularly over the last decade.

With the exception of vegetables, producer prices in South Africa are on a declining trend. These declines are starting to reach retail markets for some products and will likely continue to filter through the value chain in the coming months. Nevertheless, loadshedding and the associated cost of alternative energy sources remains a major cost driver across the value chain, which may offset some of the decline at retail level. Good news for producers is that the cost of agricultural inputs in May 2023 continued its downward trend from December 2022 levels, despite a weaker Rand, with average fertilizer costs declining by 4% MoM. The cost of diesel also continued its downward trend in May 2023. These cost reductions will influence producers' future planting decisions and supply prospects in the coming season.

While food inflation remains high, May 2023 numbers provided a sharp decline from recent months and the first solid indication of a turnaround. This momentum is expected to persist over the coming months, with food inflation expected to continue trending downwards, reflecting strain on consumer budgets, high base effects, the relative recovery in the value of the Rand over the past month and the filtering through of recent lower producer prices to retail level. The relative strength of the Rand remains a key factor to watch, as the high-risk environment, both domestically and globally, could trigger sharp movements that affect price levels. Another sharp depreciating cycle will again drive food 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 (released on 21 June 2023 for the May 2023 data).

Enquiries: Dr H Vermeulen (hester.v@bfap.co.za)

www.bfap.co.za