



FOOD INFLATION BRIEF






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

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SUMMARY OF FOOD INFLATION METRICS – August 2023

		Year-on-year (YoY):	Month-on-month (MoM):	For more detail refer to:
Inflation: Food and non-alcoholic beverages (NAB)		+8.0%	+0.0%	Section 1 of this brief
CPI headline inflation:		+4.8%	+0.3%	
Contribution of inflation on food & NAB to CPI headline inflation:		1.4 percentage points	0.0 percentage points	
Food categories with highest inflation:		Sugar Vegetables Dairy & eggs Bread & cereals Fish NAB	Fruit Sugar Vegetables NAB	Section 2 of this brief
Food categories with lowest inflation:		Oils & fats Fruit Meat	Oils and fats Meat Dairy & eggs	

Cost of the BFAP

Thrifty Healthy Food Basket:

(For more detail refer to Section 3)



R3 524 /  /month

Indicators for selected factors affecting food prices in South Africa:

(For more detail refer to Section 4)

Global food commodity prices



FAO Food Price Index

-11.8% YoY (↓ oils, dairy, cereals, meat)
-2.1% MoM (↓ dairy, oils, meat, cereals)

Exchange rate:



R/\$ exchange rate

Depreciation of 12%: R18.76/US\$1 (Aug 2023) vs R16.69/US\$1 (Aug 2022)

Rising costs in value chain:



SA CPI index for:

'Electricity & other fuels': +15.1% YoY; +0.8% MoM
SA CPI index for 'Fuel': -11.7% YoY; +2.2% MoM

Infrastructure challenges:



Persistent electricity loadshedding

SECTION 1: CPI headline and food inflation over time:

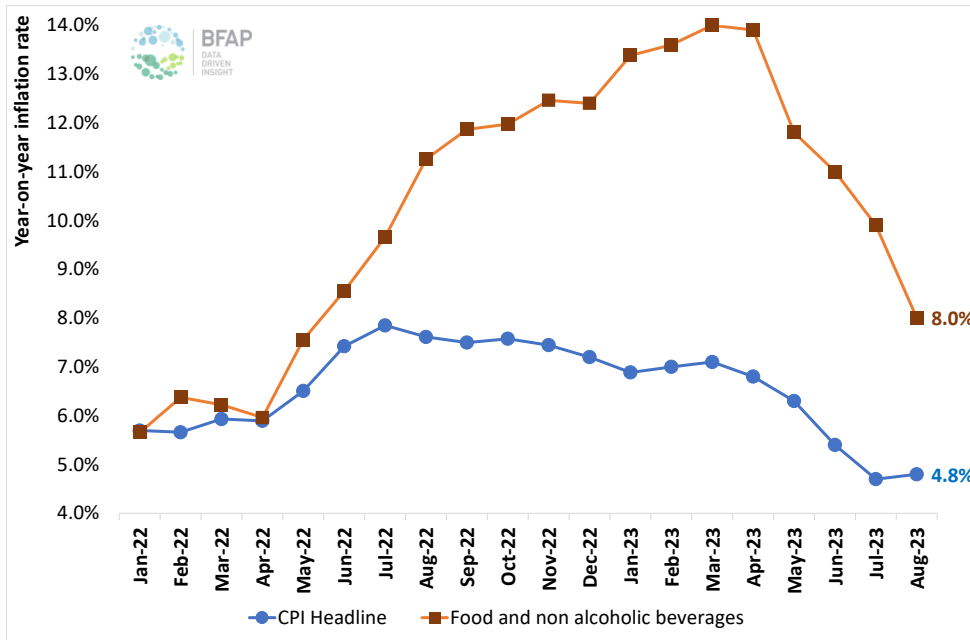


Figure 1: Year-on-year inflation 2022 & 2023 - CPI Headline and Food and non-alcoholic beverages

Source: Stats SA, August 2023

Inflation on food and non-alcoholic beverages declined for the fifth consecutive month, to 8.0% in August 2023. This brings it in line with levels last observed between May 2022 and June 2022 and follows an 11-month period of sustained increases from May 2022 to March 2023. From January 2022 to April 2023 the gap between CPI Headline inflation and inflation on food and non-alcoholic beverages increased from 0.0 to 7.1 percentage points, recovering to a 3.2 percentage points gap in August 2023.

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

Table 1: Inflation on food categories in August 2023 (Source: Stats SA, September 2023)

Category:	YoY inflation	MoM inflation	Comments:
Sugar-rich foods**	18.5%	1.0%	Highest YoY and 2 nd highest MoM inflation among categories.
Vegetables**	16.6%	0.7%	2 nd Highest YoY inflation among categories.
Dairy & eggs**	11.9%	-0.1%	3 rd Highest YoY inflation among categories.
Bread & cereals**	9.9%	0.2%	-
Fish**	8.3%	0.2%	-
NAB**	7.0%	0.5%	-
Meat**	3.6%	-0.7%	-
Fruit*	3.5%	1.6%	Highest MoM inflation among categories.
Oils & fats**	-13.6%	0.2%	-

*Higher YoY inflation rate than in July 2023; ** Lower YoY inflation rate than in July 2023.

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

≥30%	≥20% to <30%	≥10% to <20%	Deflation
<ul style="list-style-type: none"> Onions, broccoli, cauliflower, potatoes, sweet potatoes Brown sugar 	<ul style="list-style-type: none"> Instant noodles, frozen potato chips White sugar Mageu 	<ul style="list-style-type: none"> Maize meal Corned beef, bacon, ham, mutton/lamb offal, pork fillet, fresh chicken portions, polony Frozen hake, fish fingers Peanuts, canned baked beans Pears, bananas, papaya, apples Cabbage, carrots, spinach, pumpkin Milk, cheese, yoghurt Sugar-rich foods Ceylon tea, fruit juice, instant coffee Vinegar, baking powder, tomato sauce, soup powder, whiteners 	<ul style="list-style-type: none"> Canned mixed vegetables, tomatoes, beetroot Pineapple, oranges, avocados Rice Beef (sirloin, brisket, chuck, offal, T-bone, stew, rump, fillet) Mutton/Lamb (chops, neck, leg, stew) Pork (chops) Eggs, fresh cream Plant oils

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



THFB – August 2023:

R3 524/  **/month**

Month-on-month change: -R28 / -0.8%

Year-on-year change: +R344 / +7.8%

Affordability*: 30.7% 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 and national food inflation drivers and expectations

The **FAO Food Price Index (FFPI)**, which measures monthly changes in food commodity prices globally, declined in August 2023 (-2.1%), after a slight rebound in the previous month. It remains well below August 2022 levels (-11.8%). While the sugar price increased further (1.3%) due to concerns about the impact of El Niño conditions on sugarcane production in especially the Northern Hemisphere and high oil prices, the drop in the FFPI was mainly a result of lower prices for dairy, vegetable oils, meat and cereals.

The **dairy price index** registered a 4.0% decrease compared to the previous month, due to a reduction in prices across all dairy products stemming from abundant supplies, especially from Oceania in combination with seasonally higher production and a slowdown in imports by China. Locally, unprocessed milk and dairy product indices were up sharply, amid persistent increases in production, transportation and manufacturing costs.

The **FAO Vegetable Oil Price Index** was down 3.1% month-on-month following the short-lived rebound in July. International prices were lower across all vegetable oils - palm, sunflower, soy and canola. The termination of the Black Sea Grain Initiative has had a minimal impact on the pricing of sunflower oil as prices dropped by about 8% in August, underpinned by high exportable supplies from Ukraine, which can still move products through EU routes, while import demand weakened. However, in the case of sunflower seed, world quotations increased slightly for the second successive month despite favourable growing conditions in Russia and Ukraine. Palm oil prices were down slightly amid rising outputs in main producing countries (Southeast Asia) and low import demand. Global prices for soybeans were lower due to improvements in soybean crop conditions in the USA, while abundant exportable supplies in the world market caused canola prices to move lower in August compared to July.

The **FAO cereal price index** was slightly down (-0.7%) in August due to lower prices for wheat (-3.8%) and coarse grains (-3.4%). International wheat prices fell as ongoing harvests in the Northern Hemisphere contributed to higher seasonal availability. In the coarse grains category, maize prices were down for the seventh consecutive month and reached their lowest value since September 2020, backed by ample supply from a record crop in Brazil in combination with the start of the harvest in the USA. In contrast, global rice prices continued to rise month-on-month (9.8%), reaching a 15-year high in nominal terms, as a result of the protectionist policies of India, the largest exporter of rice. This included an export ban on Indica white rice in July, a subsequent export tax on parboiled rice, as well as a minimum export price on Basmati rice. Seasonally tight supplies of Indica rice ahead of the new crop harvests have exerted additional pressure on rice prices. The trade restrictions imposed by India have sent shockwaves through the rice market whereby supply-chain actors either held on to stocks, re-negotiated contracts or stopped making price offers, ultimately limiting most trade to small quantities or to previously concluded sales. The impact that the export ban has had on global

prices is far greater than the previous ban imposed on non-basmati milled rice in 2008 given that India was then the second-largest exporter of rice.

Supply and demand fundamentals have remained unchanged from the previous month in the local **grains and oilseed** market, with local markets well stocked from the 2nd largest crop on record for maize (16.4 mil tons) and a record soyabean crop (2.8mil tons). Hence, international prices and the exchange rate are currently the dominant drivers of local grain and oilseed prices. Maize prices were marginally lower (yellow, -0.8% and white, -0.1%) correlating to world market trends despite a weaker exchange rate and contracting weekly producer deliveries locally. In contrast, oilseed prices were up for the second consecutive month (sunflower 0.2% and soybeans 7.3%), with soybean prices backed by the weaker exchange rate. Following the international wheat markets, the domestic wheat price was lower (-1.8%) in August compared to the previous month. Recent favourable weather conditions in the Western Cape will provide sufficient moisture for the majority of the wheat crop to complete flouring and filling. Although this is great news for producers, with the total wheat crop expected to exceed 2 million tons, South Africa remains a net importer of wheat with local demand around 3.5 million tons. Hence, local prices are derived from global prices and the exchange rate.

On livestock products, the **FAO Meat Price Index** was lower in August (-3.0%) from July as all international meat prices declined. Ovine meat prices registered the steepest decline (-7.5%), underpinned by high supply availability specifically from Australia while import demand by China was weak. Pork prices were down (-4.0%), driven by a decline in imports in combination with high export availability and minimal internal sales in Europe. In the poultry market, abundant supplies from Brazil pushed prices downward (-3.8%) despite substantial imports primarily in East Asia and the Middle East. Bovine prices shrunk (-1.1%) as a result of softer import demand, especially from North Asia and abundant slaughter-ready cattle in main producing countries.

In the domestic **meat** market prices for most meat types rose with international trends, offset by a weaker exchange rate translating to higher meat prices. The price of pork increased the most (9.9%), reflecting reduced slaughters through the first half of 2023 compared to the same period in 2022, followed by beef (3.4%) and poultry (3.4%). Poultry and egg prices have substantial upside risk in the coming months as a result of the current Avian Influenza outbreak, which has already resulted in substantial culling that will reduce the supply of eggs in particular. In the beef market, weaner calf prices were also up (4.8%) month-on-month indicating that feedlots are starting to stock more with softer maize prices, the expectation of the Chinese market opening up again, and access also obtained to Saudi Arabia. Contrary to prices of other meat types, the price of mutton decreased (-4.4%) in August compared to July, reflecting lower international prices, but also suggesting that local demand is still low given the current economic situation and limitations in consumer spending power.

Tracking the prices of popular **vegetables** such as potatoes, onions, tomatoes, carrots and cabbage over time once again yielded some interesting results. Large volatility in supply, demand and consequently prices remains embedded in the fresh produce trade of these commodities. While a number of exogenous factors contribute to the volatility observed, all of which have been discussed previously, the ongoing impact of prices still remains relevant in explaining the inflation in consumer prices and the effect thereof on different income groups.

While the average sales price of potatoes at municipal markets was slightly lower month-on-month (-4%), when comparing the average price for August 2023 with a year ago, an increase of 80% is observed – from R4.23/kg to R7.62/kg. The relationship between sales and the quantity on hand – stock in the market – is a major driver of prices. When stock builds up – whether it is because of a short run increase in supply or a temporary drop in demand – bargaining power diminishes, and prices fall. Similarly, shortages push prices higher as is the current case with potatoes where potato volumes in the market (year to date) are down 8% year-on-year. A similar situation is playing out in the onion market, where sales prices increased by 42% year-on-year for the month of August. However, the current average sales price of R8.67/kg is already much lower than the almost R14/kg recorded in May 2023, indicating that onion prices are (finally) softening. The market for carrots is almost mirroring the onion market at this point, with 41% year-on-year price increases to R5.30/kg, which is more than R2/kg lower than earlier this year when prices peaked at R7.49/kg in April.

In contrast, the prices of tomatoes (-56%) and cabbage (-26%) dropped significantly in August 2023 compared to the same time last year. The average sales price for tomatoes (R5.62/kg) and cabbage (R2.37/kg) recorded in August is the lowest price for these commodities in the last 19 months. It would be interesting to see how producers would react to these prices and whether the supply push would subside in order to reduce the competing volumes on the market.

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 in September 2023 for the August 2023 data).

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