



FOOD INFLATION **BRIEF**






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

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SUMMARY OF FOOD INFLATION METRICS – September 2023

| | | Year-on-year (YoY): | Month-on-month (MoM): | For more detail refer to: |
|--|--|---|---|---------------------------|
| Inflation: Food and non-alcoholic beverages (NAB) |  | +8.1% | +0.6% | Section 1 of this brief |
| CPI headline inflation: |  | +5.4% | +0.6% | |
| Contribution of inflation on food & NAB to CPI headline inflation: |  | 1.4 percentage points | 0.1 percentage points | |
| Food categories with highest inflation: |  | Sugar Vegetables Dairy & eggs Bread & cereals Fish NAB | Fruit NAB Sugar Meat Bread & cereals Fats & oils | Section 2 of this brief |
| Food categories with lowest inflation: |  | Oils & fats Meat Fruit | Vegetables Dairy Fish | |

Cost of the BFAP

Thrifty Healthy Food Basket:

(For more detail refer to Section 3)



R3 576 /



month

Indicators for selected factors affecting food prices in South Africa:

(For more detail refer to Sections 4 & 5)

Global food commodity prices



FAO Food Price Index

-10.7% YoY (↓ dairy, oils, cereals, meat; ↑ sugar)
-0.1% MoM (↓ oils, dairy, meat; ↑ sugar, cereals)

Exchange rate:



R/\$ exchange rate

Depreciation of 8.1%: R18.98/US\$1 (Sept 2023) vs R17.56/US\$1 (Sept 2022)

Rising costs in value chain:



SA CPI index for:

‘Electricity & other fuels’: +15.1% YoY; +0.0% MoM

SA CPI index for ‘Fuel’: +1.5% YoY; +7.6% MoM

Infrastructure challenges:



Persistent electricity loadshedding

SECTION 1: CPI headline and food inflation over time:

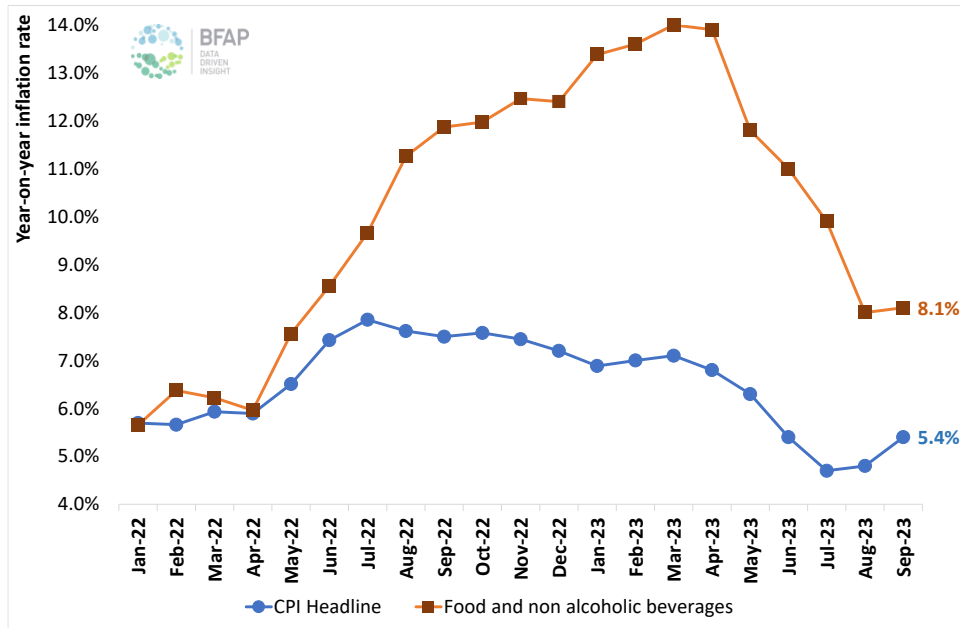


Figure 1: Year-on-year inflation 2022 & 2023 - CPI Headline and Food and NAB

Source: Stats SA, September 2023

- Following five months of declining food inflation, the food inflation rate in September 2023 was 0.1 of a percentage point higher than in August 2023 –in line with levels last observed between May and June 2022.
- From January 2022 to April 2023 the gap between CPI Headline inflation and inflation on food and NAB increased from 0.0 to 7.1 percentage points due to the sharp rise in agricultural commodity prices, but as prices started declining again, the gaps reduced significantly and food price inflation is trending closer to CPI headline inflation.

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

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

| Category: | YoY inflation: | MoM inflation: | Comments: |
|-------------------|----------------|----------------|---|
| Sugar-rich foods* | 17.7% | 0.6% | Highest YoY and 3 rd highest MoM inflation among categories. |
| Vegetables* | 15.3% | -0.2% | 2 nd Highest YoY inflation among categories. |
| Dairy & eggs* | 11.2% | 0.1% | 3 rd Highest YoY inflation among categories. |
| Bread & cereals* | 9.2% | 0.6% | - |
| Fish** | 8.7% | 0.1% | - |
| NAB** | 8.6% | 1.3% | 2 nd highest MoM inflation among categories |
| Fruit** | 6.7% | 3.1% | Highest MoM inflation among categories. |
| Meat** | 3.8% | 0.6% | - |
| Oils & fats** | -7.7% | 0.3% | - |

*Lower YoY inflation rate than in previous month; ** Higher YoY inflation rate than in previous month.

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

| ≥30% | ≥20% to <30% | ≥10% to <20% | Deflation |
|--|---|--|--|
| <ul style="list-style-type: none"> Onions, cauliflower, potatoes Brown sugar | <ul style="list-style-type: none"> Rice Bananas, pears Broccoli, sweet potatoes Polony Frozen hake Ceylon tea White sugar Soup powder | <ul style="list-style-type: none"> Maize meal Papaya Carrots, cucumber, pumpkin, mushrooms, cabbage Beef (corned & extract) Bacon Chicken (fresh portions & giblets) Frozen fish fingers Peanut butter, canned baked beans Milk, cheese, yoghurt, whiteners Coffee, fruit juice, mineral water Sugar-rich foods Baking powder, spices, instant yeast | <ul style="list-style-type: none"> White bread Pineapple, oranges Canned mixed vegetables, sweet peppers, beetroot, tomatoes Beef (mince, chuck, T-bone, sirloin, stew, rump steak, fillet, offal) Mutton/Lamb (rib chops, stew, neck, leg) Pork chops Fresh whole chicken, eggs Fresh cream Sunflower & canola oil |

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



THFB – September 2023:

R3 576/  **/month**

Month-on-month change: -R7.09 / -0.2%

Year-on-year change: +R343 / +6.6%

Affordability*: 31.1% 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 food inflation overview

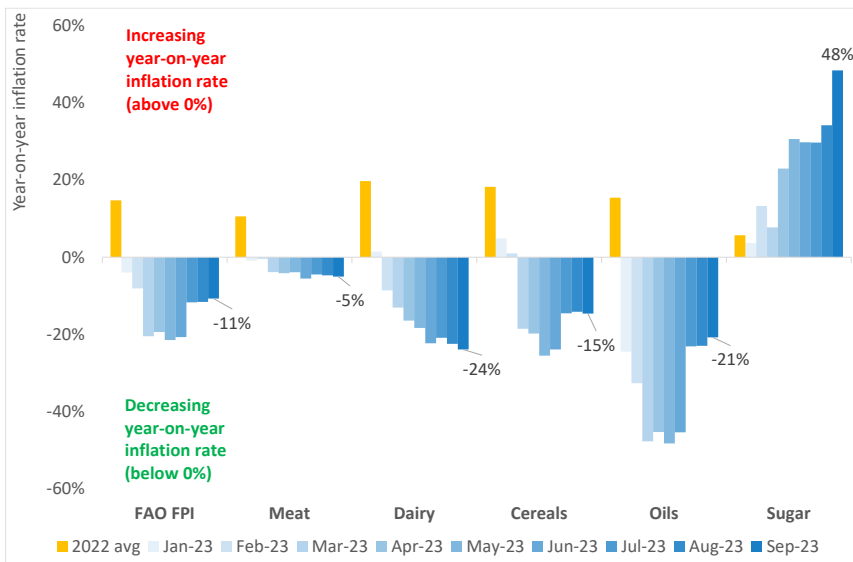


Figure 2: The FAO Food Price Index (Source: FAO, 2023)

- In September 2023, the FAO Food Price Index (FPI) reached a value of 121.5, similar to index values last observed in March/April 2021 - 11% lower than a year ago (Figure 2) and 0.1% lower than in Aug 2023.
- From January to September 2023 the FAO FPI and the sub-indexes for meat, dairy, cereals and oils had consistently negative YoY inflation rates (Figure 2) – with the most negative deflation for dairy and oils followed by cereals.

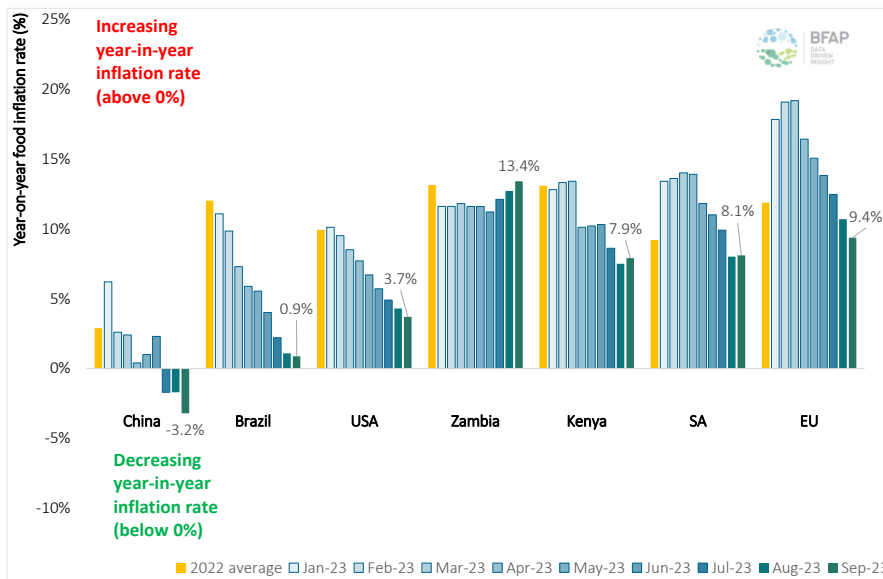


Figure 3: International food inflation comparison (Source: Official food inflation figures of the various countries / regions reported by national statistical agencies)

Figure 3 shows that:

- The highest year-on-year food inflation among the countries presented in Figure 2 was in Zambia, the EU and South Africa.
- In September 2023 food inflation in South Africa was higher than in China, Brazil, USA and Kenya.
- China, Brazil, USA and the EU have experienced declining food inflation trends since January 2023.
- Following declining trends since March, small increases in food inflation were reported for Kenya and South Africa for September.

SECTION 5: Food inflation drivers and expectations

Global market dynamics remain an important driver of agricultural commodity prices and food inflation in South Africa, but in many instances the depreciation in the Rand exchange rate offset much of the reduction in the FAO food price index. At the same time, domestic factors such as loadshedding continue to drive food inflation, both directly through additional costs in the chain, and indirectly through its influence on the supply of irrigated commodities.

Domestic **oilseed and vegetable oil** markets are strongly influenced by global dynamics. The FAO Vegetable Oil Price Index was down 3.9% month-on-month due to lower prices across all oil types- palm, sunflower, soybean, and rapeseed. In the case of palm oil, prices decreased in response to seasonally higher production in the main producing countries in Southeast Asia. In the sunflower oil market, market quotations in the Black Sea region continued to decline reflecting harvest pressure and aggressive selling of sunflower seeds by farmers. In the canola and soybean oil markets, prices were also lower, pushed by a high exportable supply in both markets, despite strong demand by the biodiesel sector (soybean oil). The decline in sunflower prices globally was sufficient to induce a decline of 2% in domestic sunflower prices, despite the depreciation in the exchange rate. By contrast, domestic soybean prices increased by 3.2%, despite the third successive record crop resulting in prices based on export parity levels on the back of exportable surpluses. The increase reflects a weaker exchange rate, which offset the decline in global soybean prices, which was far less than the decline observed in sunflower markets. South African soybeans are competitively priced globally, especially in Asian markets, and the local demand for soya meal will be negatively affected by the AI outbreak in the chicken industry. Hence, we believe that total exports for the season will most likely exceed the current estimate of 420 000 tons by the Supply and Demand Estimates Committee and can potentially exceed 600 000 tons by the end of the season.

The global **dairy** price index declined for the ninth consecutive month, down by 2.3% month-on-month due to a reduction in prices across all dairy products, which stemmed from abundant supplies along with low import demand in the global market. Ample export supply from New Zealand coupled with minimal demand by the European Union and a weaker Euro compared to the United States Dollar, exerted additional pressure on global prices.

On the **meat** side, the FAO Meat Price Index was 1% lower in September compared to August, underpinned by a decline in prices for pig, poultry, and ovine meat types despite a recovery in bovine meat prices. Pig meat prices showed the largest decline of 2.6% as a result of large export availabilities and low import demand, especially from China. The price of poultry was 2.5% lower, backed by ample supplies from Brazil, the largest global exporter. Ovine prices were down marginally (-0.6%) resulting from high supplies from Australia although demand was firm, specifically from China and the Middle East. In contrast, global bovine meat prices increased by 1.3% in September, supported by strong import demand for lean meat in the USA countering high exportable quantities from Brazil and Australia.

In the domestic meat market, poultry and pork prices moved contrary to international trends, given the weak exchange rate. Poultry prices were slightly higher (1.4%) for the second consecutive month and up by 16.8% year-on-year, reflecting persistently high input costs and the weaker exchange rate. Poultry prices could increase further in coming months, as the full effect of the current widespread Avian Influenza (AI) outbreak starts to manifest in markets. This impact is expected to be stronger in egg prices where an estimated 5 million layers have been culled, and it is more difficult to supplement domestic availability through imports. Pork prices were also up by 11.3%, while beef prices showed a marginal increase of 1.6%. While weaner calf prices dropped by 2.3% in September, beef prices are expected to improve as demand grows in preparation for the festive season, a trend which could be exacerbated by the reduced availability of poultry due to the AI outbreak. Demand for sheep meat remains low as this is the most expensive meat type, resulting in prices for mutton being in line with international trends, moving lower by -2.3% in September.

The **cereal** price index increased (by 1.0%) in September compared to the previous month, stemming from higher international prices for coarse grain (5.3%). Prices were pushed up mainly due to the rebound in maize prices (7.0%) following a constant decline since February. The growth in maize prices was influenced by a combination of factors, including increased barge freight rates given low water levels in the Mississippi River in the USA, strong demand for supplies from Brazil and slower marketing by farmers in Argentina. On the contrary, global wheat and rice prices fell by -1.6% and -0.5%, respectively, following improved production estimates in September and a sufficient supply of wheat from the Russian Federation, while rice prices were driven mainly by low import demand. The decline in rice prices was capped by uncertainties regarding India's rice export restrictions and minimal supplies ahead of the new crop harvests in Asia, although prices were still higher by 27.8% compared to September 2022. Locally, maize prices corresponded to the international trend, with yellow and white maize prices up by 5.5% and 8.2%, respectively. South Africa's bumper maize harvest has resulted in a substantial exportable surplus, thereby keeping prices at export parity levels. The wheat price, which typically reflects import parity levels, was slightly higher in September (0.1%) mainly due to the weaker exchange rate.

In the **fruit** industry, the softer shipping rates and better price returns due to a weaker Rand have improved export conditions. Reduced supply and good juice prices have resulted in lower volumes of apples and pears being supplied to the municipal markets. Adverse weather conditions, such as hail and floods, also played a role in the supply of produce this season. Year to date, apple (-4%) and pear (-13%) sales at fresh produce markets dropped, with a consequent year-on-year increase in sales prices of 15-16%. In September, as stock in cold storage dropped, apple market prices increased by 34%. Similarly, the supply of oranges for the year to date also decreased by 18% compared to 2022, yielding an increase in average sales prices of 30%. This season is also somewhat of a correction from last season when the highest volume in seven years was sold on the local market as the industry faced many challenges with exports. Despite an increase in the total sales of soft citrus from September and for the year to date on the local market, soft citrus prices appear to have found support from the overall reduced supply of fresh produce to the market as prices were 28% higher in September 2023 than a year ago, despite volumes increasing by 6%. After record levels of banana supply in the third quarter of 2022, a return to more longer-term average supply in 2023 saw the quantity on hand at the market in September drop by two-thirds. Consequently, prices shot up, from R5.17/kg, on average in September 2022, to R11.14/kg on average in September 2023. Timing in the market appears to play a major role, as the year-to-date figures are less erratic, reflecting a 4% decrease in volume year to date and an average increase in prices of 22%.

Potato prices have also experienced notable fluctuations, contributing substantially to food inflation metrics. Major contributing factors to the observed price increase were persistent load shedding, ongoing input cost escalations, changing crop preferences owing to relative profitability, and regional yield variability. The adverse effects of load shedding on irrigation practices persisted over the year, leading to inconsistent crop production, weaker yields and reduced supplies in the market. The extended period of high input costs further strained farmers' finances, inducing shifts into more profitable crops with lower risk, which further diminished potato supply.

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 October 2023 for the September 2023 data).

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