

12 March 2024

Narratives that underpin the consumer food inflation outlook in South Africa

- The damaging effects of persistent dryness and heatwave in South Africa's summer crop-growing regions have raised concerns about a possible rise in consumer food inflation in the coming months. With South Africa's food price inflation averaging 11% in 2023 (from 9,5% in 2022, 6,5% in 2021, and 4,8% in 2020)¹, which was relatively high compared with recent periods, talk of further upside pressure in inflation comes as an unwelcome development.
- However, the underlying drivers of the increase in food inflation in the past two years were mainly the international agricultural commodity prices and, to a much lesser extent, idiosyncratic domestic factors. Still, towards the latter part of 2023, local factors such as animal diseases, weaker domestic currency, and load-shedding-related costs were some of the key drivers of food inflation.
- The drought in South America, China's strong demand for grains and oilseed, rising shipping costs, higher energy prices, and the Russia-Ukraine war were some of the factors that were behind the higher global agricultural producer prices, which, in turn, boosted the domestic prices, and thus leading to relatively elevated consumer food price inflation in 2022 and 2023.
- Also worth noting is that South African food manufacturers had to absorb some of the increases and did not pass on the full increases to consumers who were already under pressure because of weak economic conditions and higher unemployment in the country. For example, in 2022, while consumer food inflation averaged 9,5%, the producer price inflation for agricultural products was 15,0%, and the food manufacturers inflation was 12,3%. This means manufacturers did not pass on the total costs to consumers, contrary to what some regulators have argued.
- The factors that underpinned higher consumer food inflation in 2022 and 2023 have somewhat subsided. There are ample grain supplies in the global market, with the 2023/24 global maize harvest forecast at 1,2 billion tonnes, up 6% y/y, according to data from the International Grains Council (IGC). The IGC forecasts that the 2023/24 global wheat harvest will reach 788 million tonnes, which is well above the long-term average levels (albeit down 1% y/y). There is also a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average (but down 0,6 y/y). The 2023/24 global soybean harvest is estimated at 391 million tonnes, up 5% y/y.²
- These global production forecasts also imply a general improvement in the stocks of these major commodities and a moderation in prices. For example, the Food and Agriculture Organization of the

¹ This is according to data from Stats SA that can be accessed in their website here: <https://www.statssa.gov.za/#>

² One has to pay to access this data, but for the sake of completeness, it is all available here: <https://www.igc.int/en/default.aspx>

United Nations (FAO) recently released its Food Price Index for February 2024. This index measures the monthly change in international prices of agricultural commodities, not final food products. The FAO Food Price Index averaged 117.3 points in February 2024, down 1% from its revised January level and 11% from last year's corresponding period. The broad decline in grains and oilseed prices underpinned this moderation, again underscoring the importance of improved supplies in the 2023/24 season.

- Aside from the international factors, other major factors driving South Africa's food inflation this past year was the increase in vegetable and poultry products prices. The poor harvest caused the vegetable price increases after load-shedding at the start of the year, undermining crop quality. Things have changed this year. While it has been quite dry across the country since the beginning of February 2024, vegetable production has not taken a strain because all commercial production in South Africa is under irrigation and load-shedding, while risk has not been hard since the start of 2023. Some farmers are better prepared this year for possible regular power cuts.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. Data from the Bureau for Food and Agricultural Policy (BFAP) shows that around 9,5 million birds had to be culled in 2023, leading to a decline in the commercial layers and broilers and an increase in eggs and meat prices. But there is now anecdotal evidence that the restocking process is underway and there is improvement in the poultry products supplies. Therefore, the risks of further price increases have subsided somewhat.
- Considering the above developments, the major risks to consumer food inflation in South Africa in 2024 will primarily be white maize products, while other products within the food basket may moderate or show sideways movement in prices.³ Indeed, for wheat and rice, the exchange rate also matters as South Africa imports roughly half of its annual wheat consumption and all of its rice consumption. Still, the challenge presented by persistent dryness domestically, at least over the near-to-medium term, is white maize supplies and the potential price reaction to reduced supplies. It is unclear what the white maize harvest will be this year.
- The figures released by the Crop Estimates Committee at the end of February are not as dependable this time. The weather has remained scorching since releasing these figures, so the crop conditions have worsened. At the time, the Crop Estimates Committee stated that white and yellow maize harvest could be 7,0 million tonnes (down 17% y/y) and 7,3 million tonnes (down 8% y/y), thus placing the overall maize production estimate at 14,3 million tonnes (down 13% y/y).⁴ The challenge for maize is the possible poor yield in some regions as the area plantings are higher than the 2022/23 season. While this expected harvest is significantly lower than the previous season, if it materializes, it would still meet South Africa's annual maize consumption of roughly 12,00 million tonnes, and the country would remain a net exporter of maize, although a much lower volume than the previous years. However, this may not materialize, given the ongoing heatwave and lack of rainfall. Therefore, we see upside risks in maize prices and grain products in the consumer food inflation basket.

³ This is a challenge not only for South Africa, but the entire Southern Africa region. *Lord knows* where folks will get maize from, perhaps Mexico can help if we chat with them on time. Read more here: <https://theconversation.com/dry-weather-hits-southern-africas-farmers-putting-key-maize-supplies-at-risk-how-to-blunt-the-impact-224974>

⁴ The data is available under the "2024" tab here: https://www.sagis.org.za/cec_reports.html

- In essence, there is increased uncertainty about South Africa's consumer food inflation path for 2024. However, the underlying factors are not all one-sided, and one has to reflect on the price movements and weighting of various products when considering their food price forecast for the year.
- The significant risks and favourable drivers are outlined in this note for consideration when thinking about the path ahead and where the current dryness would hit the most within the South African consumer food basket.

Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research