

SA consumer inflation food prices closer to the peak

The data released by Statistics South Africa this morning shows that consumer food price increases accelerated by 14,4% in March 2023 from 14,0% in the previous month. The food product prices that increased notably were milk, eggs, and cheese; fruit; vegetables; and sugar, sweets and desserts.

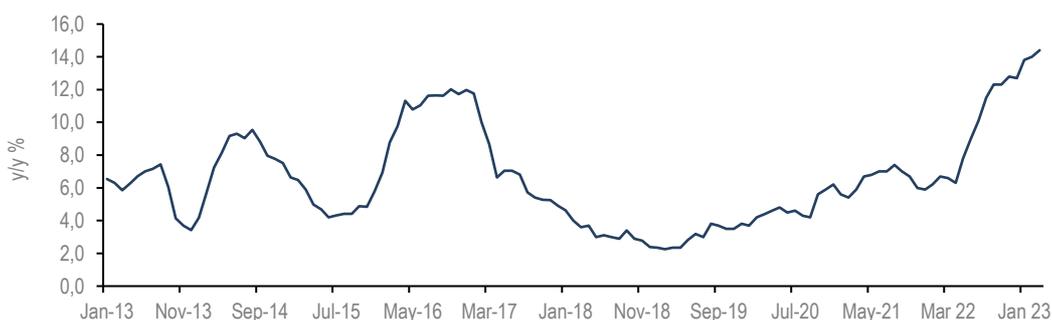
We expect consumer food price increases to remain sticky at relatively higher levels for the coming month, which will likely be a peak. There could be some moderation from around May and into the year's second half.

For April, we will likely see the continuation of the tail-end effects of the high grain prices of last year. If sustained, the current relatively cheaper grain prices will filter mainly in the year's second half. There is a lag between three and five months between farm and retail prices of some products. Other product prices that could remain elevated in the near term are fruits and vegetables. The unfavourable weather conditions over the past few months disrupted production; hence there was a pick-up in some vegetable product prices in recent months. But this will be a temporary blip and should also soften in the year's second half.

The impact of load-shedding may also influence prices for the next few months. The mitigating measures businesses are currently making to improve power supplies, along with the diesel rebate announced by the Finance Minister, should bear fruits later in the year. Positively, global agricultural commodity prices are softening. If the rand/dollar exchange rate remains relatively strong, this will soon be a reality in South Africa, with a lag at the retail level. Notably, South Africa had a favourable agricultural season following adequate rainfall. The 2022/23 summer grains and oilseeds production is estimated at 19,6 million tonnes, up 5% year-on-year. Red meat prices, which have started to soften, should continue to moderate in the coming months, as we already see that continuous trend at the farm level.

In essence, South Africa's consumer inflation food price outlook for the second half of the year is reasonably better. The key drivers of the expected moderation will be meat, grain-related products, vegetable oils and fruits, which comprise roughly two-thirds of the consumer inflation food price basket. The base effects also support a view of a softening pace to levels around 7- 8% y/y in 2023 (from 9,5% in 2022).

Exhibit 1: South Africa's consumer inflation food price



Source: Statistics South Africa and Agbiz Research

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