

South Africa's consumer food inflation slowed in June 2023

South Africa's consumer food inflation slowed in June 2023, recorded at 11,1% from 12,0% in the previous month. The product prices underpinning this deceleration are mainly bread and cereals; meat; fish; milk, eggs and cheese; and oils and fats. While there are renewed risks in global agriculture, such as India threatening to ban the exports of rice and the Black Sea Grain Deal Initiative that facilitated grains and oilseeds exports from Ukraine terminated, we are still positive that South Africa's consumer food inflation will continue to slow during this second half of the year.

The products that could underpin the slowing food inflation trend will be similar to those in June. Notably, red meat prices, which have softened at the farm level, should continue on this trend at the retail level in the coming months. Fruit prices, although no longer in deflation, should remain affordable because of improved domestic supplies. The decline in "oils and fats" products is in line with a softening price trend we are seeing in the global environment, as South Africa still imports its palm oil usage. For example, in June 2023, the FAO's vegetable oil price index was at 117 points, down 22% y/y.

Admittedly, there are renewed risks on "bread and cereals" product prices. With South Africa importing a million tonnes of rice and similarly exposed to wheat imports, the disruption in trade of these commodities and the length of it could have implications on global price and, ultimately, South Africa's "bread and cereals" component of the food inflation basket.

Still, we should not be alarmed; what is important to monitor is the extent of price changes and their duration. So far, we have seen notable gains in international and domestic maize and wheat prices. Whether these price gains are sustained will depend on the developments in the Black Sea Grain Deal and India's rice exports, which have not dominated the news as much. Importantly, there is roughly a lag between three to five months between the price changes at farm and retail levels. Hence, we expect the prices of grain-related products in the inflation basket to maintain a softening path regardless of the recent disruption in grain prices.

Beyond the global dynamics, South Africa has a favourable agricultural season. For example, the 2022/23 maize harvest is estimated at 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybeans harvest could reach a record 2,8 million tonnes. Be that as it may, the prices of these products are influenced by global developments as we are an open economy interlinked to the world markets. Other field crops and fruits also show prospects for decent harvest this season. These increased supplies support the slowing food inflation view we expressed, along with the global agricultural prices, which had declined notably in months before the termination of the Black Sea Grain Deal, whose impact is yet to transpire fully. For example, the FAO global food price index, which measures price changes of international agricultural prices, averaged 122.3 points in June 2023, down by 23% from its peak in March 2022. It will be useful to monitor this index's July 2023 reading.

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Exhibit 1: South Africa's consumer inflation food price



Source: Statistics South Africa and Agbiz Research