

South Africa's consumer food price inflation hit the highest level since February 2017

South Africa's consumer food price inflation accelerated to 9,0% y/y in June 2022, from 7,8% in the previous month. This was the fastest pace since February 2017. There was an overall increase across the food basket, except for fruit which moderated somewhat. This broader uptick in the consumer food price inflation largely mirror the increase we have seen in the global agricultural commodity prices, and indeed the domestic market.

As we previously stated, we are also seeing the spillover the Russia-Ukraine war had on agricultural commodity prices transmitted into retail food prices. In fact, for the grain-related and vegetable oils products, we will likely see a continuous mild uptick persistent in the coming month or two, which could maintain the headline food consumer price inflation number at higher levels. Since the Russia-Ukraine war began and disrupted the global grains market, the global agricultural commodity prices have increased significantly, with the FAO's Global Food Price Index in June 2022 averaging 154 points, which is up 23% y/y (although this has softened on a monthly basis and from the record high we saw in March 2022). South Africa, which is interlinked with global agricultural markets, has also experienced increased agricultural commodity prices. The result of these developments is the recent uptick in the cereals, and oil and fat products prices in the consumer food price inflation basket.

Still, we think the outlook on South Africa's food product prices will remain mixed in much of the second half of the year. In the case of fruits and vegetables, South Africa has a sizable harvest and the disruption in fruit exports within the Black Sea region could add downward pressure on domestic prices. Therefore, we hold a generally favourable view of these product price directions for the coming months.

The one essential product whose price trend remains uncertain is meat. The outbreaks of foot-and-mouth disease have led to the temporary closure of some key export markets for the red meat industry. Ordinarily, this would add downward pressure on prices as it implies that we would see an increase in domestic meat supplies. But this time around, the spread of the outbreak is vast, to an extent that we might see a decline in slaughtering in major feedlots, which would ultimately keep red meat prices at relatively higher levels; an opposite of what we initially anticipated. This remains uncertain and we will closely monitor the monthly slaughtering activity. Additionally, there are fears of a potential increase in poultry product prices, which too is an upside risk to consumer food price inflation.

In sum, various factors in the South African food market will likely push in opposing directions in the coming months. Still, South Africa will likely remain an exception from the world, with food price inflation contained at relatively lower levels than most regions of the world that have consumer food price inflation hovering at over 10% y/y.

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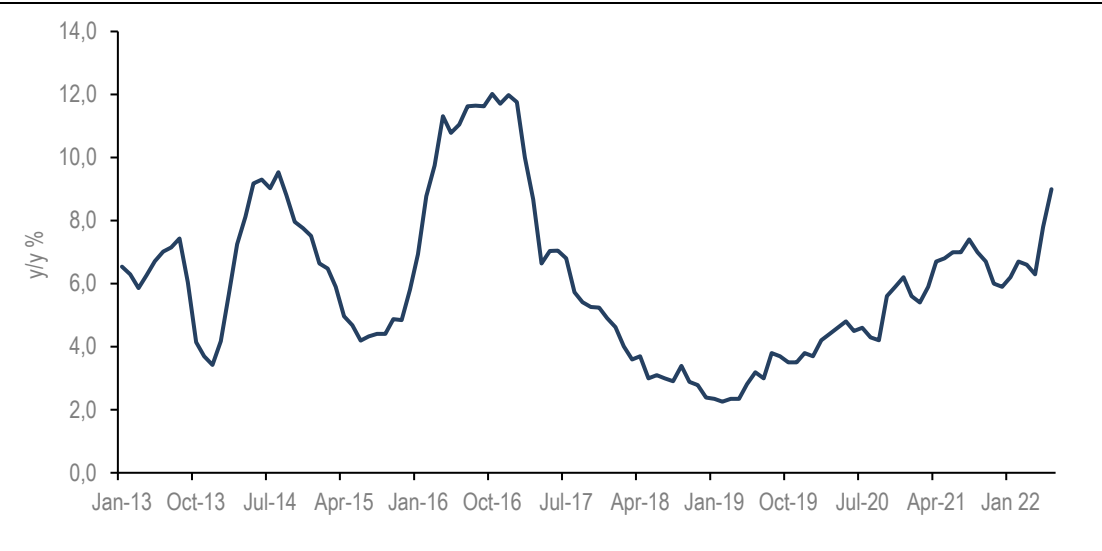
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Exhibit 2: South Africa’s consumer food price inflation



Source: Stats SA and Agbiz Research