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## South Africa's consumer food inflation decelerated in February 2024

- South Africa's consumer food inflation slowed to 6,0% in February 2024, from 7,0% in the previous month. This was underpinned by the deceleration across most food products, except for "sugar, sweets and desserts", which remained roughly unchanged from the last months.
- We expect this broad moderation path to continue for most of the products within the food basket over the near-to-medium term. However, there are significant upside risks for the "bread and cereal products" in the food basket because of the potentially poor white maize harvest on the back of the current heatwave and dryness.
- There are notable crop failures in the western regions of South Africa, which are primarily white maize-producing regions. It is unclear what the white maize harvest will be as the weather conditions remain challenging. At the end of February, the estimates from the Crop Estimates Committee placed South Africa's 2023/24 white maize harvest at 7,0 million tonnes, down 17% year-on-year. This estimate will likely be lowered over the coming months. We have gone through March with virtually no rains in the white maize regions.
- While some may argue that ample maize supplies in the global market could cushion South Africa, the challenge with white maize is that it is not as widely traded. The bulk of global maize supplies is yellow maize. Indeed, there is a lot of maize in the world, with the International Grains Council (IGC) forecasting the 2023/24 global maize harvest at 1,2 billion tonnes, up 6% year-on-year. However, this will primarily be yellow maize, and the demand for white maize will likely increase.
- In addition, the demand for white maize will be a South African challenge and a Southern African regional challenge. Therefore, there could be a disconnect between the domestic white maize prices and the general global maize prices, which are likely to continue softening due to improved supplies. For example, a large spread exists between South Africa's futures prices of yellow and white maize following reports of bad crop conditions. At the end of the week of March 22, South Africa's white maize spot price closed at R5 159 per tonne, while yellow maize was R4 258 per tonne. This signifies the challenge with white maize supplies.
- The products that play favourably for South Africa are wheat and rice, which South Africa remains a significant importer of. There are large supplies of these products in the global market. The IGC forecasts the 2023/24 global wheat harvest at 789 million tonnes, well above the long-term average. There is a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average.

- The stocks of these commodities are at comfortable levels; thus, the international grain prices have continued to moderate. For example, the Food and Agriculture Organization of the United Nations (FAO) 's Food Price Index, which measures the monthly change in international prices of agricultural commodities, 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.
- The exchange rate will also matter much, as South Africa imports roughly half of its annual wheat and rice consumption.
- Another major factor driving South Africa's food inflation this past year was the increase in prices of vegetable and poultry products. 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 has not been intense.
- Moreover, meat prices rose at the end of 2023 due to supply constraints of poultry products on the back of avian influenza. 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.
- Overall, 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.

## Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research