



FOOD INFLATION BRIEF

This Brief provides an overview of food inflation dynamics, its associated causes, and the cost of basic healthy eating for July 2023.

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SUMMARY OF FOOD INFLATION METRICS – July 2023

		Year-on-year (YoY):	Month-on-month (MoM):	For more detail refer to:
Inflation: Food and non-alcoholic beverages (NAB)		+9.9%	+0.2%	Section 1 of this brief
CPI headline inflation:		+4.7%	+0.9%	
Contribution of inflation on food & NAB to CPI headline inflation:		1.7 percentage points	0.0 percentage points	
Food categories with highest inflation:		Sugar Vegetables Dairy & eggs Bread & cereals Fish NAB	Sugar Fish Dairy & eggs Fruit Bread & cereals	Section 2 of this brief
Food categories with lowest inflation:		Oils & fats Fruit	Oils and fats Vegetables Meat NAB	

Cost of the BFAP

Thrifty Healthy Food Basket:

(For more detail refer to Section 3)



R3 552 / /month

Indicators for selected factors affecting food prices in South Africa:

(For more detail refer to Section 4 & Section 5)

Global food
commodity
prices



FAO Food Price Index

-11.9% YoY (↓ oils, dairy, cereals, meat)
+1.3% MoM (↑ oils)

Exchange rate:



R/\$ exchange rate

Depreciation of 8%: R18.19/US\$1 (July 2023) vs R16.85/US\$1 (July 2022)

Rising
costs in value
chain:



SA CPI index for ‘Electricity & other fuels’: +14.7% YoY

SA CPI index for ‘Fuel’: -16.8% YoY

Infrastructure
challenges:



Persistent electricity loadshedding

SECTION 1: CPI headline and food inflation over time:

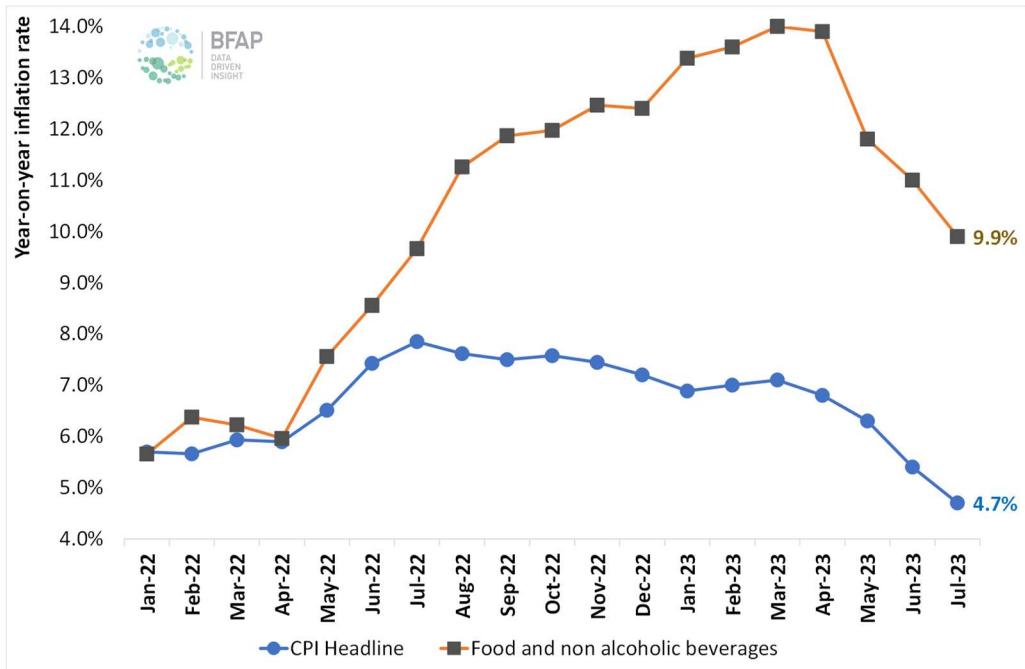


Figure 1: Year-on-year inflation 2022 & 2023 - CPI Headline and Food and non-alcoholic beverages

Source: Stats SA, August 2023

Following an eleven-month increase, inflation on food and non-alcoholic beverages dropped for a fourth consecutive month, to 9.9% - close to inflation levels last observed a year ago in July 2022.

SECTION 2: The contribution of different food categories & food items to inflation:

Table 1: Inflation on food categories in July 2023 (Source: Stats SA, August 2023)

Category:	YoY inflation	MoM inflation	Comments:
Sugar-rich foods*	18.7%	2.5%	Highest YoY and MoM inflation among categories.
Vegetables**	18.5%	-0.5%	2 nd Highest YoY inflation among categories.
Dairy & eggs*	14.4%	-0.5%	3 rd Highest YoY inflation among categories.
Bread & cereals**	13.1%	0.3%	-
Fish**	8.8%	0.9%	-
NAB**	8.8%	-0.3%	-
Meat**	5.1%	0.4%	-
Fruit*	2.6%	1.4%	2 nd Highest MoM inflation among categories.
Oils & fats**	-12.9%	-0.6%	-

*Higher YoY inflation rate than in June 2023; ** Lower YoY inflation rate than in June 2023.

Table 2: Commonly purchased food items with high YoY inflation rates in July 2023

≥30%	≥20% to <30%	≥10% to <20%	Deflation
<ul style="list-style-type: none"> Onions, potatoes, frozen potato chips Ceylon/black tea 	<ul style="list-style-type: none"> Instant noodles Cheddar cheese Pineapple Cauliflower, pumpkin, sweet potatoes White sugar, brown sugar Tomato sauce, salad dressing Fruit juice concentrates 	<ul style="list-style-type: none"> Wheat flour, maize meal Beef fillet, corned beef Pork fillet, bacon, polony Chicken (fresh, frozen non-IQF, giblets) Polony Fish (frozen hake, fish fingers, canned pilchards) Condensed milk, yoghurt, gouda cheese, feta cheese, cream, sour milk, custard, mageu Apples, papaya Cabbage, broccoli, mushrooms Sugar-rich foods Vinegar, mayonnaise, salt, spices, soup powder Coffee, hot chocolate, mineral water, fruit juice 	<ul style="list-style-type: none"> Rice Beef brisket, chuck, T-bone, stew, Mutton/Lamb leg, stew Eggs Sunflower oil & canola oil Oranges, avocados Lettuce, sweet peppers, beetroot Dried beans

SECTION 3: The BFAP Thrifty Healthy Food Basket (THFB)[#]



THFB – July 2023:

R3 552/  /month

Month-on-month change: -R29 / -0.8%

Year-on-year change: +R345 / +9.0%

Affordability*: 30.9% food expenditure share

* The share of total income spent on food for a household with a dual minimum wage plus child grants and school meals.

The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for low-income households in South Africa. The methodology considers national nutrition guidelines, typical food intake patterns of lower-income households, official Stats SA food retail prices, and typical household demographics. Consisting of a nutritionally balanced combination of 26 food items from all the food groups, the BFAP THFB is designed to feed a reference family of four (consisting of two adults, an older and a younger child) for a month. The BFAP THFB comprises a smaller staple component and relatively more items from food groups contributing to dietary diversity than the CPI index.

The CPI index is more reflective of 'typical' food preferences.

SECTION 4: International overview

The FAO Food Price Index, based on the prices of an international basket of food commodities, was 11.8% lower in July 2023 compared to July 2022, showing a declining trend from April 2022 to June 2023, followed by an 1.3% increase from June 2023 to July 2023. From a year-on-year perspective the highest inflation in July 2023 was reported for sugar (+29.6% YoY), while deflation was reported for oils (-23.1%), dairy (-20.6%), cereals (-14.5%) and meat (-5.1%). World sugar prices have been pushing higher since 2022, driven by droughts in Brazil and increased cane to ethanol production due to higher energy prices. More recently, prices have increased even more, with above average rainfall delaying cane harvesting in Brazil, and dry conditions in Asia impacted yields to such an extent that India (world's second largest sugar producer) is considering banning exports.

SECTION 5: Food inflation drivers and expectations

Major factors that contributed to the rise in international food prices in July were the suspension of the Black Sea Grain Initiative, which had been critical to enabling trade flow from Ukraine and Russia through Black Sea ports over the past year, as well as India's ban on exports of non-Basmati white rice. The suspension of the Black Sea Grain Initiative was particularly impactful on sunflower oil, of which Ukraine is a major exporter, resulting in a 15% month on month increase. Prices for other vegetable oils- **palm, soy and rapeseed (canola)** also increased, supported by expectations of a lower soybean crop in the USA due to unfavourable weather, higher demand for palm oil, the drought in Canada pushing rapeseed oil prices up, as well as rising global crude oil prices.

The impact on cereal prices was proportionally less than in oilseeds, mainly as a result of persistent declines in maize prices amid higher seasonal supply from Brazil and Argentina and higher-than-expected production in the USA. In contrast, global wheat prices recovered (1.6%) in July and for the first time in nine months, due to uncertainty over exportable supplies from Ukraine and continued dry conditions in North America. International rice prices were also up, with the FAO All Rice Price Index higher month-on-month (2.8%) and year-on-year (19.7%), reaching the highest level since 2011. **Rice** prices were mainly driven by seasonally tighter supplies in the Indica market segment and additional pressure due to the export ban on non-parboiled Indica implemented by India on the 20th of July 2023, which fostered expectations of more sales from other origins.

In the local **grains and oilseed** market, these international dynamics combined with a stronger exchange rate resulted in lower export parity prices. The local market is trading at export parity due to the large maize crop of 16.3 million tons compared to local demand of just below 12 million tons, which implies that ample surplus stock is available for the export market and for carry-over stocks. In fact, for several weeks during the harvest period, South African maize has been one of the most competitively priced sources for exports on the global market, with the SAFEX price trading well below export parity. Despite another record soybean crop, which has pushed prices to export parity levels,

domestic **oilseed** prices increased, sunflower by 9% and soybeans by 10%, responding to pressure on the international market and corresponding to a drop in weekly producer deliveries. Despite recent increases in oilseed prices, vegetable oil prices are still trading significantly below the peaks reached in the first half of 2022. For example, international sunflower oil prices are currently trading 50% lower than the average price for the first six months of 2022.

Global livestock product prices continue to decline - international **bovine**, **ovine** and poultry meat prices were lower month on month. Bovine and ovine prices were pushed lower by high supply availability in Oceania while import demand was lower, specifically in Asia (bovine meat), China and Western Europe (ovine meat). Similarly, increased supply availability from leading exporting countries pushed **poultry** prices down, despite outbreaks of avian influenza in major producing regions. On the other hand, high seasonal demand and tight export supply from Western Europe and the USA exerted upward pressure on international **pork** prices.

In domestic **meat** markets, weaner calf prices were up month on month (11%), following a persistent decline over the first half of 2023. Cattle and sheep slaughters increased by 2% and 9%, respectively, in June, suggesting that feedlots are increasing placements, prompting the increased demand for weaners. At the same time, the price of both beef and sheep meat dropped by 15% y-o-y. This reflects constraints in consumer spending power, as the price declines of the more affordable meat types, poultry and pork were more modest at 1% and 0.2%, respectively. With reduced intensity in loadshedding, and lower meat prices, the demand for meat could increase somewhat, but consumer spending power is likely to remain strained in the near term and therefore affordability will remain a key consideration.

Month on month inflation on fruit products was the second highest amongst all categories in July, second only to sugar. While year-on-year data for the month of July currently indicates significant price increases on fresh fruit compared to a year ago, the total year-to-date price increases have been far smaller. This reflects market dynamics of last year's winter, when record harvests, record freight rates and turmoil especially in the EU market were the order of the day. Consequently, in many instances, it is more a case of prices returning to longer term norms after having come under immense pressure over the past year, rather than significant increases. The recovery of prices is a welcome relief for producers, who have been under financial pressure in recent years due to global events and local infrastructural and weather-related challenges.

Bananas, oranges and apples are not only some of the most consumed fresh fruit in South Africa, they are also some of the most affordable fruits per serving size. Some of the other winter fruits, such as avocados, other citrus and blueberries, typically resonate with the higher end of the consumer base. In the case of bananas and oranges, prices have increased by 30-35% in July 2023 compared to July 2022, but are still trailing the market realisations of July 2021. This reiterates the dire market conditions of 2022 and suggests that current returns to growers are yet to account for the spike in production cost. This is important, as weak or negative returns could influence supply volumes next year. Interestingly enough, apple prices at the municipal market had dropped below R7/kg during peak supply in 2019-2022 but didn't sell below R8/kg in 2023. This indicates an appetite for affordable, less perishable fresh produce over a broad consumer base, as double-digit increases are observed in many other consumer goods. On the less price sensitive, less elastic consumer front, volume is perhaps a better indicator of demand than price. With that being said, higher volumes of soft citrus (+41%), lemons (+27%), avocados (+2%) and blueberries (+50%) were sold in July 2023 compared to a year ago, all at higher price points (8-20%).

In the coming months, food inflation will remain sensitive to global price dynamics, which have become increasingly uncertain following the suspension of the Black Sea Grain Initiative. Nevertheless, the market was expecting lower trade volumes from Ukraine in 2023 due to weaker production amid ongoing war, which could moderate the price response somewhat, though commodities such as sunflower, where Ukraine is the major global supplier, could remain more sensitive. Weather conditions in major producing countries will also be critical, particularly with more volumes expected from other major exporters given the decline from the Black Sea region. Another critical factor to watch is exchange rate fluctuations. The volatility and general weakening in the Rand exchange rate over the first half of the year has been a critical driver of food inflation. While expectations are that food inflation rates will continue to moderate over the coming months, the exchange rate will be a key determining factor, as will other costs through the value chain and the intensity of loadshedding.

This food inflation brief is a collaboration between BFAP and Dr. Marlene Louw from Absa Agribusiness, based on Statistics South Africa CPI and food retail price data (released in August 2023 for the July 2023 data).

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