

Voluntary Report – Voluntary - Public Distribution

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Report Name: Bone-in Chicken Shortage

Country: South Africa - Republic of

Post: Pretoria

Report Category: Poultry and Products

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Report Highlights:

Numerous fast-food restaurants in South Africa have announced supply shortages of bone-in chicken products, with KFC closing 70 restaurants. Although loadshedding, or rolling blackouts, have been blamed for the shortage, record-low imports in the later half of 2022 driven by high tariffs are certainly a significant factor. Loadshedding, which is expected to continue and intensify in the near term, is limiting the ability of domestic producers to meet specific requirements by the quick-service industry. The resulting closures are harmful to the fast-food sector and create challenges for consumers who are increasingly reliant upon fast food due to the challenges of food preparation during a blackout. Softening global poultry prices may drive an increase in imports and stabilize domestic supply, providing relief to the industry.

Background

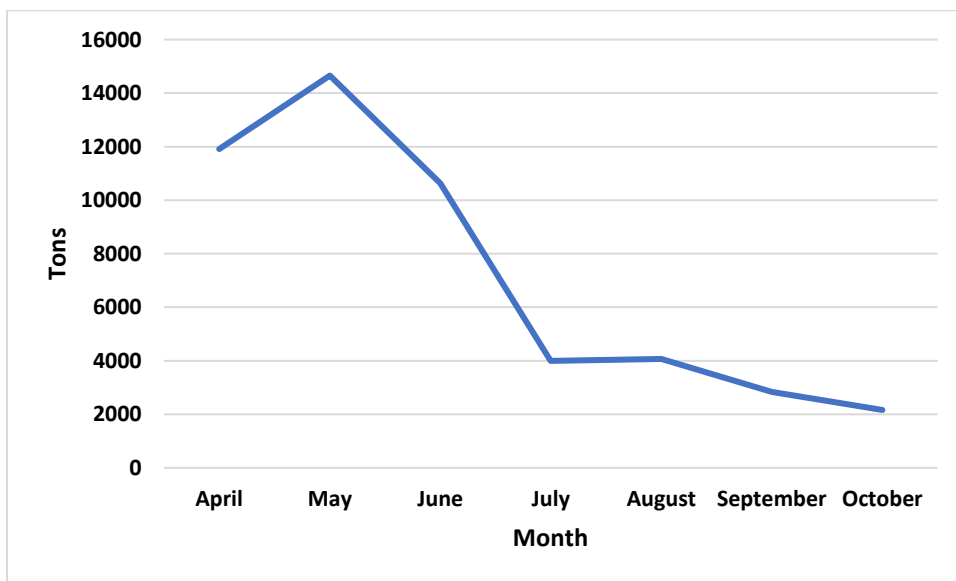
On December 28, KFC announced the closure of 70 restaurants due to a shortage of bone-in poultry. A few days later, Nando's Chicken, and Famous Brands, which owns many of South Africa's fast-food restaurants including Wimpy, Steers, Debonairs, and Mugg and Bean, told the press that they are also facing serious struggles in maintaining adequate bone-in chicken supply. The CEO of Famous Brands confirmed that they were managing to keep all 300 restaurants in South Africa open despite enormous pressure.

Shortages have been primarily blamed on loadshedding, the significant planned power outages (more than 200 days in 2022) that have become the norm in South Africa. According to Astral Foods, one of the largest poultry producers in South Africa, loadshedding has impacted production norms and limited their ability to supply specific weight ranges and portion sizes required by the restaurant industry. While loadshedding is a factor in supply chain challenges, record low imports have substantially lowered poultry supply. Because South Africa does not produce enough poultry to meet demand, the country relies upon imports to sustain an adequate supply.

Falling Imports

Imports have fallen consistently over the past few years, with year-to-date bone-in chicken imports declining to under 100,00 tons from nearly 300,000 tons four years ago. However, imports from all sources dropped to record lows for consecutive months in the second half of 2022, causing domestic supply to fall well below demand.

Chart 1: South Africa Monthly Bone-in Chicken Imports from the World (April to October 2022)



Source: Trade Data Monitor

Impact of High Tariffs on Supply

South African poultry prices are inflated through high tariffs. Bone-in poultry, key cuts for quick service restaurants, are particularly impacted. In March 2020, import tariffs on bone-in poultry were raised from 37% to 62%. Although this made imported poultry much more expensive, demand persisted for these cuts when global

market prices were at normal levels. Despite the large tariff markup, prices on bone-in imports remained competitive with domestic chicken.

In the past year, however, global prices rose significantly, due largely to Highly Pathogenic Avian Influenza and inflated feed costs. In South Africa, these price increases were exacerbated by high tariffs. For example, an 11 rand increase in a bone-in product price would yield a nearly 18 rand surge after tariffs. It appears, therefore, that in the past six months, the cost of imported poultry (global market price + 62% tariff + in some cases, anti-dumping duties) pushed the price of imported bone-in poultry well above domestic prices and above market acceptability, creating a shortage.

Outlook

The highly disparate prices driven by high tariffs appear to have prevented market correction. However, with slightly softening poultry prices likely, additional imported product may arrive and bolster supply in the coming months. However, if loadshedding continues to hamper domestic production, a quicker pace of imports may be needed to bolster supply.

The fast-food industry in South Africa, which is dominated by chicken-focused chains, is one of the fastest growing sectors and has presented strong growth despite South Africa's economic challenges. However, whether offering reduced menus or suspending operations altogether, this segment may take a significant hit at a time of very high growth potential, especially if the shortage is not remedied soon. Loadshedding is increasingly impacting consumer's behavior as perishable foods are seen as risky buys due to long outages of refrigeration and food preparation at home is often not feasible. With electric ovens and microwaves out of commission during mealtimes, many families are turning to fast-food on a regular basis. Growing demand and insufficient supply is creating frustration and loss for the restaurants, but could result in even more significant challenges for South African in securing affordable meals if the serious challenges with supply force additional closures.

Attachments:

No Attachments.