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Report Name: Food and Fuel Feed Rising Inflation

Country: South Africa - Republic of

Post: Pretoria

Report Category: Agriculture in the News

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Report Highlights:

South Africa's annual consumer price index inflation rate surged to a 13-year high of 7.4 percent in June 2022, driven mainly by a rise in food and fuel prices. Fuel and food prices soared globally due to the Russia/Ukraine conflict that disrupted commodity markets. Food price inflation was exacerbated in South Africa by ongoing load shedding, or prolonged power outages, that have increased costs along the supply chain. As a result, South Africa's food price inflation accelerated by 9.0 percent, the highest level since February 2017. The consumer prices of grain-related and vegetable oils products are expected to rise in the coming months, which will keep food inflation at relatively higher levels. To help curb the escalating inflation rate, the South African Reserve Bank increased the interest rate by 0.75 percent, rising borrowing costs to its highest level since March 2020.

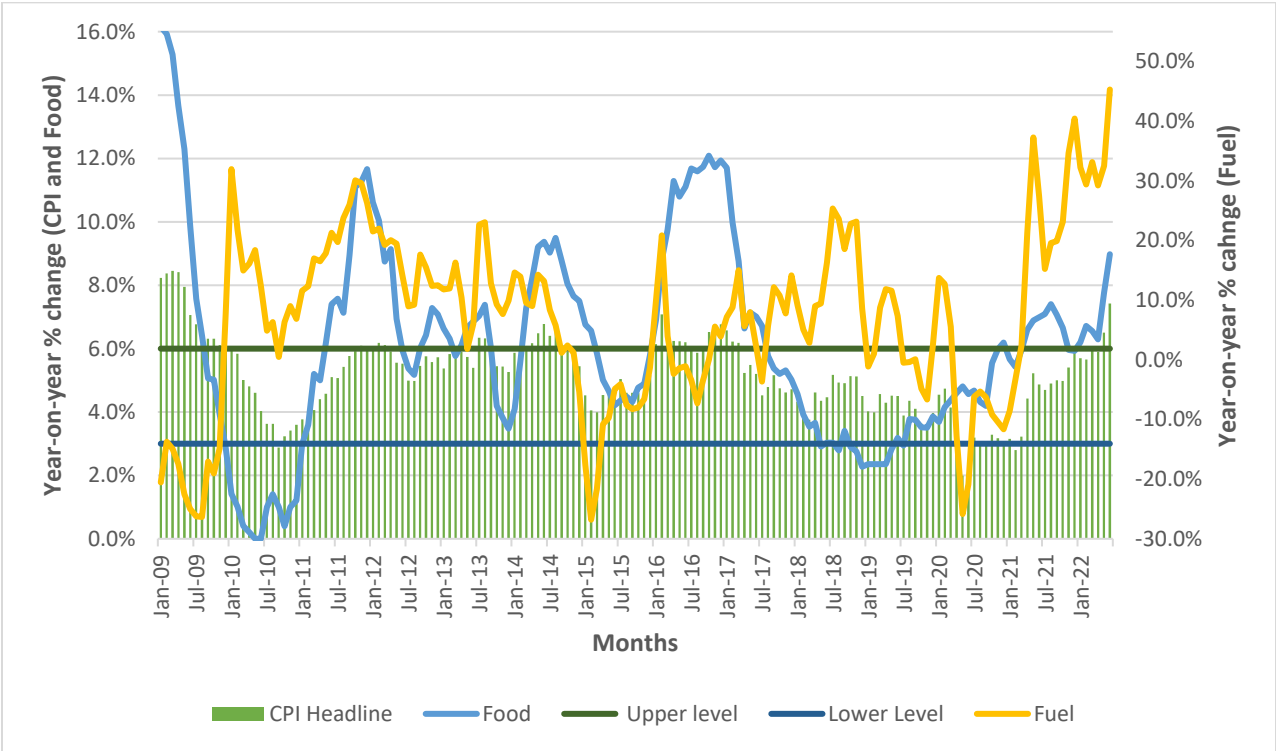
Food and Fuel Responsible for an Upsurge in South Africa’s Inflation Rate

South Africa’s annual consumer price index (CPI) inflation rate surged to a 13-year high of 7.4 percent in June 2022. This is the highest inflation rate since May 2009 when the CPI was 8.0 percent due to the global financial crisis. The main contributors to the escalating CPI in June were food and fuel prices that raised year-on-year by 9.0 percent and 45.3 percent, respectively (see Figure 1). Fuel and food prices soared globally due to the Russia/Ukraine conflict.

As the CPI broke through the upper limit of the South African Reserve Bank’s target inflation range of between 3 percent and 6 percent, the Bank raised the repurchase rate by 0.75 percent to 5.5 percent in July 2022. As a result, the prime interest rate (benchmark rate at which private banks lend out to the public) elevated to 9.0 percent. This is the fifth consecutive rate-hike since November last year rising borrowing costs to its highest level since March 2020.

Figure 1

Headline, Food, and Fuel Inflation Rates in South Africa



Source: Statistics South Africa

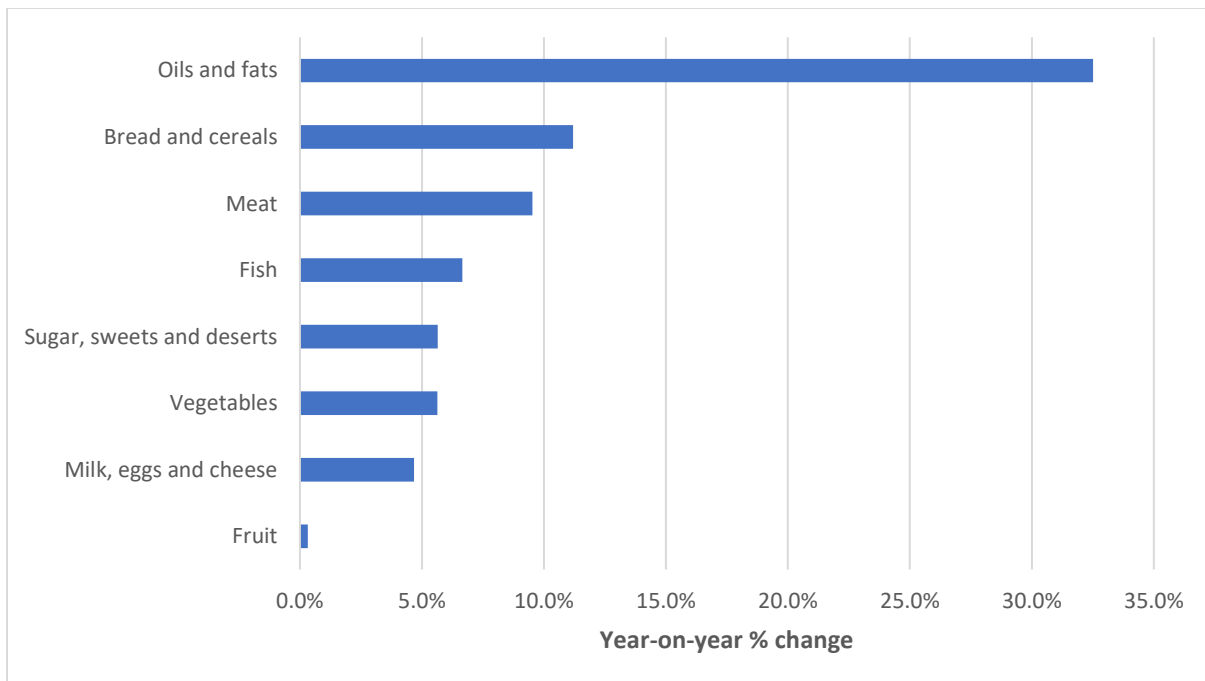
Food Price Inflation

The 9.0 percent acceleration in food price inflation of June is the highest surge since February 2017, when the country was recovering from severe drought. The major drivers for the rise in food prices were wheat-based products, vegetable oils, and meat products (see Figure 2). Although global prices were the main driver of food price inflation, the situation has been exacerbated by an energy crisis in South Africa that has led to record-setting power outages, forcing producers, aggregators, traders, and retailers to pass along higher costs of production associated with extensive use of backup generators during a period of record fuel prices. For more information on the impact of load shedding on the agricultural sector see: [Load Shedding: the Achilles Heel of the South African Agricultural Sector](#)

South Africa's agricultural market for grain and oilseeds operates in a free-market environment where local and international factors have an impact on local prices. Local oilseed, wheat and corn prices reached record-high levels following the onset of the Russia-Ukraine conflict in February 2022. In South Africa, there is usually a lag of between three and four months before fluctuations in agricultural commodity prices are fully displayed in retail food prices. As a result, the consumer prices of grain-related and vegetable oils products will likely continue to rise in the coming months despite the recent easing of global commodity prices. This will keep food inflation at relatively higher levels in the near future.

Figure 2

Inflation of Specific Food Categories



Source: Statistics South Africa

Impact on Consumers

According to a recent Nielsen IQ report, consumers are nearing a tipping point of affordability and desperate to find opportunities to cut costs on food expenditures, with 12 of the top 40 grocery products showing double-digit inflation. The report shows that 85 percent of South Africans report “consciously watching what they spend compared to a year ago.”

With high unemployment, many South Africans are struggling to cope with higher prices. The Nielsen IQ report showed that 44 percent of South Africans have gone as far as halting purchases of certain products to reduce costs. According to Food Forward South Africa, about half of the country’s population is now experiencing some level of food insecurity.

Attachments:

No Attachments.