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Report Name: Food Inflation Surged to a 14-Year High in South Africa

Country: South Africa - Republic of

Post: Pretoria

Report Category: Agriculture in the Economy

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Report Highlights:

South Africa's food inflation rate surged to a 14-year high in March 2023, a departure from global easing of food prices. Food product prices that increased notably were vegetables, wheat and corn-based products, and plant-based oils. Although local grain and oilseed price movement is aligned with global commodity prices, and South African farmers are producing a fourth consecutive bumper corn crop and record soybean crop, the current electricity crisis has aggravated the food price situation. The electricity crisis in South Africa has led to persistently record-setting power outages, adding substantial costs across food value chains. Ultimately, this higher cost of production is passed down to the consumer rising food price inflation. Food inflation is the main contributor to South Africa's escalating consumer price index inflation rate, increasing the probability of another interest rate hike.

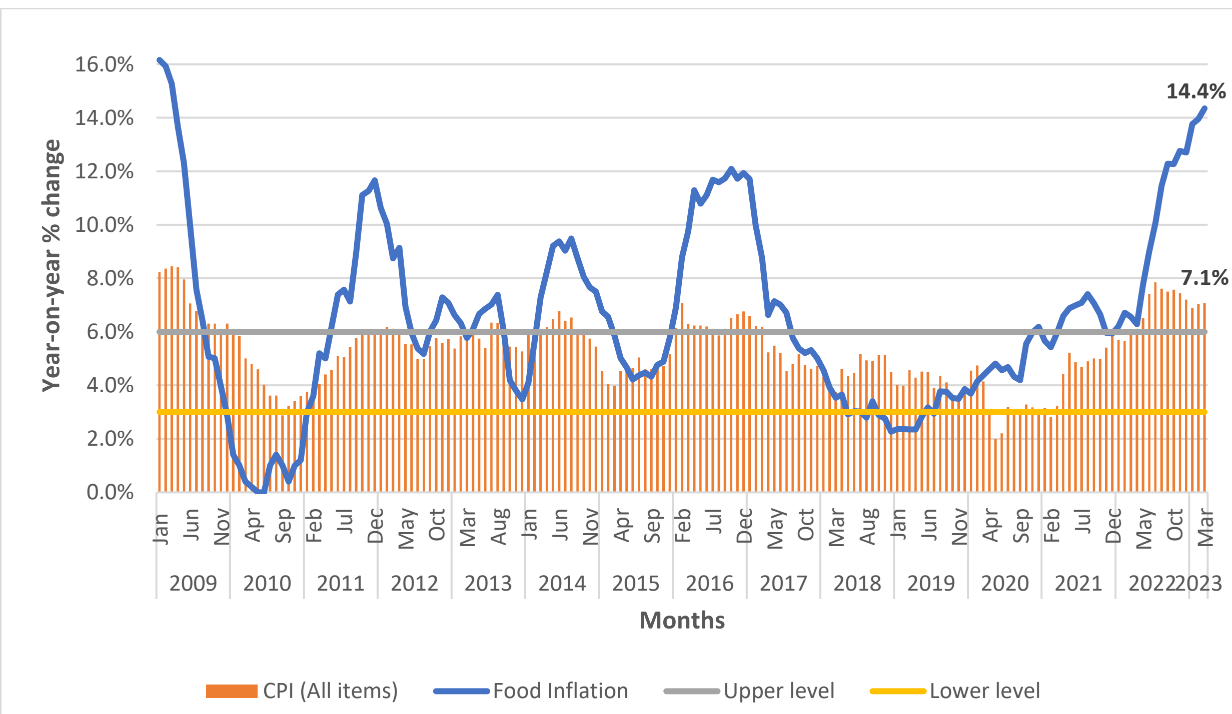
Food Inflation Surged to a 14-Year High in South Africa

South Africa's food inflation rate surged to a 14-year high of 14.4 percent in March 2023 after climbing steeply over the past year (see Figure 1). Food inflation is also the main contributor to the escalating consumer price index (CPI) inflation rate to 7.1 percent in March 2023, adding 2.4 percent. Food was followed by transport, notably fuel costs (1.3 percent), housing and utilities, including higher electricity and water costs (1.0 percent) and miscellaneous goods and services (0.9 percent). The stickiness of the CPI to move back to the South African Reserve Bank's (SARB) target inflation range of between 3 percent and 6 percent, increase the probability of another interest rate hike. The SARB has a mandate to keep inflation in-line with the target range and uses monetary policy tools, mainly interest rates to achieve that. As a result, the Bank raised the repurchase rate by 0.50 percent to 7.5 percent in March 2023 after CPI reached 7.0 percent in February 2023. This was the ninth consecutive interest rate-hike since November 2021, raising borrowing costs to its highest level since 2008, when inflation accelerated upwards amid the global financial crisis.

Although rising food prices created concern for much of the world in early 2022, the challenge has since abated. The FAO Food Price Index was down 2.6 percent in March 2023, marking the twelfth consecutive monthly decline in global food prices. However, food prices in South Africa are bucking the global trend and continue to rise. While global food prices have fallen by 20.8 percent in the past year, South Africa's domestic food prices have climbed by 14.4 percent.

Figure 1

CPI and Food Inflation Rates in South Africa

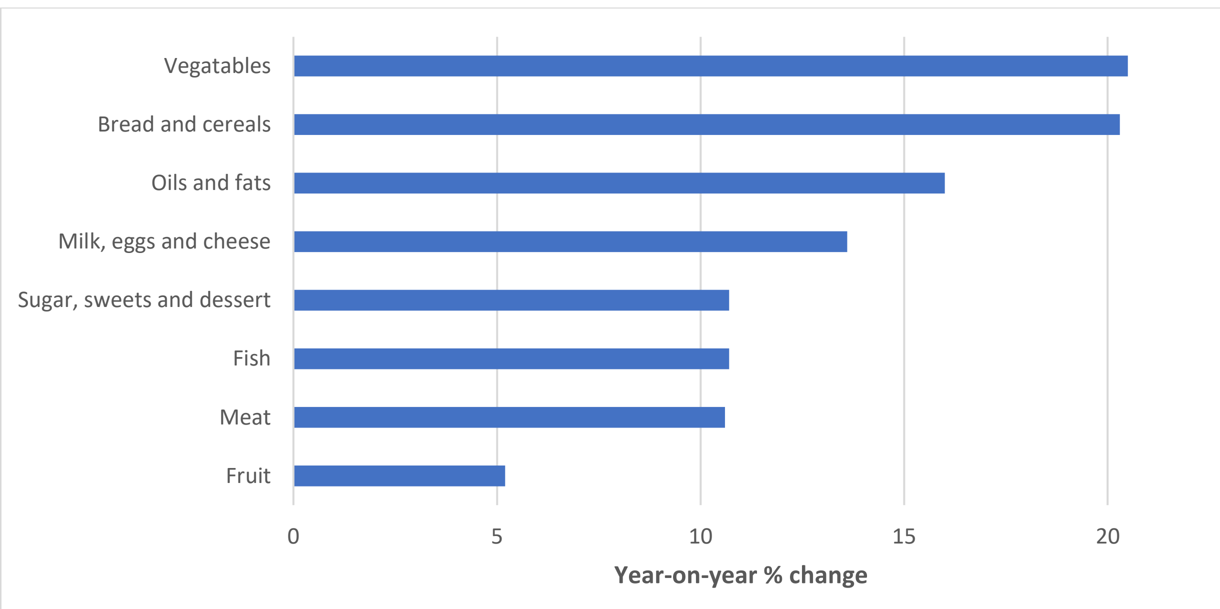


Source: Statistics South Africa (StatsSA)

Food product prices that increased notably were vegetables, wheat and corn-based products and plant-based oils (see Figure 2). Many of the factors that have driven food inflation during the past year were not unique to South Africa. These include high global agricultural commodity prices, elevated fuel prices and a major upsurge in the cost of farming inputs, especially fertilizers. South Africa's agricultural market for grain and oilseeds operates in a free-market environment where local and international factors impact local prices. Local oilseed, wheat and corn prices reached record-high levels in 2022, following the onset of the Russia-Ukraine conflict in February 2022, but started to ease in-line with global commodity prices. In fact, local sunflower, soybeans, corn and wheat farmgate prices are, respectively, 19 percent, 14 percent, 11 percent and 4 percent lower than a year ago. In addition, South Africa is on course to produce a fourth consecutive bumper corn crop and the largest soybean crop on record adding to a bearish outlook on local corn and oilseed prices (also see South Africa Grain and Feed Annual and South Africa Oilseeds and Products Annual. Though, in South Africa, there is usually a lag of between three and five months before fluctuations in agricultural commodity prices are fully displayed in retail food prices. As a result, lower grain and oilseed prices should start to filter through to retail level in the second half of the year.

Figure 2

Inflation of Specific Food Categories



Source: Statistics South Africa

Although global prices are the main driver of food price inflation in South Africa, the situation has been exacerbated by the deterioration of infrastructure, including roads, rail, water and, most notably, electricity supply. The electricity crisis in South Africa has added significant costs across agriculture and food value chains (also read Load shedding and the Economic Strain on South Africa's Food Supply Chain). Load shedding is the major contributor for the rise in the consumer prices of vegetables, dairy products, eggs and meat as these supply chains are heavily reliant upon electrification. Fruit and vegetable farmers experienced a drop in yields and quality as they struggle to keep to irrigation schedules, while livestock and poultry producers are struggling with the effect of load shedding on processing capacity. Across the supply chain, the struggle to continue operations and prevent a break in the cold chain is forcing many companies to purchase backup power sources, most often generators that are expensive to fuel. Ultimately, this significant higher cost of production is passed down to the consumer aggravating food price inflation.

Consumer Response

According to a recent Nielsen IQ report, consumers are taking action to counter the rising food inflationary pressures. Almost 85 percent of South Africans indicated that they are "consciously watching what they spend compared to a year ago". To cope with rising food prices, consumers are scaling back, with the top action being cooking at home, followed by spending less on discretionary items such as takeout, dining out, and socializing occasions. Another trend that is observed is to buy food in bulk. Brand loyalty has also been weakened, leading consumers to more frequently select the lowest price products.

There is, however, more pressure on the lower-income household to not only reduce spending on food but also to cut back on non-staple food items. The tendency of vulnerable households to reduce the intake of meat and fresh produce in favor of staple foods to cope with financial pressure strengthened the reliance of corn meal. Corn meal, as a relatively inexpensive source of carbohydrates, is the main staple food choice for South Africans with about 6.0 million metric tons of consumption annually.

With South Africa's high unemployment rate (currently 33 percent), a mounting number of households are experiencing food inadequacy and hunger. According to a recent study by StatsSA, 21 percent of South Africa's 18.0 million households stated that they have inadequate access to food, posing major fears regarding possible civil unrest and violence in the current high food inflation environment (also see Impact of ongoing civil unrest on South Africa's food and agricultural sector).

Looking forward

Consumer prices for plant oil and grain-based products are expected to ease in line with global commodity prices in the second half of the year. However, a significant depreciation of South Africa's exchange rate could have the opposite effect. Since the beginning of the year, depreciation of the South African rand by more than seven percent has already prevented some of the observed decline in global commodity prices from spilling into local markets.

If loadshedding, the Achilles heel of food inflation, decreases, the effect of added cost to the food value chains could ease. However, most analysts predict that loadshedding will remain at fairly high levels for the foreseeable future, especially during the upcoming winter months.

Attachments:

No Attachments.