

Voluntary Report – Voluntary - Public Distribution

Date: May 09, 2021

Report Number: SF2021-0031

Report Name: Rising Food Price Inflation in South Africa Causes Concern For Consumers

Country: South Africa - Republic of

Post: Pretoria

Report Category: Agricultural Situation, Agriculture in the News, Agriculture in the Economy

Prepared By: Wellington Sikuka

Approved By: Laura Geller

Report Highlights:

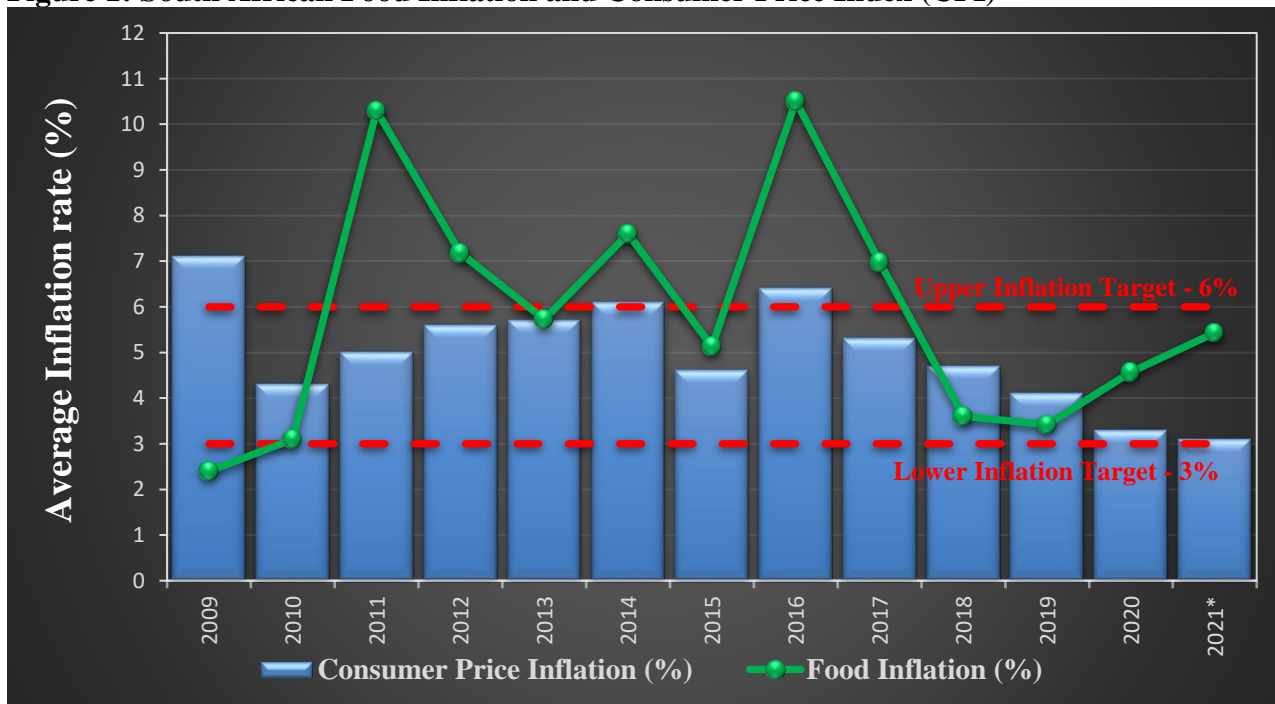
The continued sharp increases in food price inflation from 3.4 percent in 2019, to 4.6 percent in 2020 and to an estimated 5.4 percent in 2021, remains a concern in South Africa. This is due to its inflationary role in the general Consumer Price Inflation (CPI), and its potential to exacerbate the ongoing economic and social impact of COVID-19, especially with regard to food security in poor households. Some of the drivers of food price inflation are state administered electricity tariff increases (+15 percent); increases in minimum wages (+16 percent); allegations of excessive price increases by some retailers; and changing consumer shopping trends. South Africa has also been impacted by higher crude oil prices (+30 percent in 2021) and international commodity prices such as sunflower oil, grains, and meat. While Post expects that U.S agricultural exports may rebound in 2021, the increase in food inflation may compound the challenges being faced by U.S. agricultural exports.

Background:

The price of various products such as protective clothing (masks), sanitizers and food, were under increased scrutiny when the COVID-19 pandemic started in South Africa in March 2020. Reports on food price inflation have continued to garner scrutiny and interest in 2021, due to allegations of excessive and uncompetitive pricing, and concerns with the impact of food inflation on consumers, especially poor households. Several research and media reports on the impact of rising food prices to consumers have been published in South Africa ([Bureau for Food and Agricultural Policy \(BFAP\)](#); [National Agricultural Marketing Council \(NAMC\)](#); [Competition Commission of South Africa](#); [Daily Maverick](#); [Sowetan](#)).

Food price inflation has increased from 3.4 percent in 2019, to 4.6 percent in 2020 and an estimated 5.4 percent in 2021. While such increases are a concern, current food price inflation has not reached the peak levels of 10.5 percent recorded in 2016 as shown in **Figure 1**. Food price inflation is an important economic indicator in South Africa because of its contribution and influence to the general Consumer Price Inflation (CPI) and its potential impact to food security, given the high levels of inequality and poverty in South Africa. South Africa uses inflation targeting, which aims to maintain CPI between 3 and 6 percent. The South African Reserve Bank (SARB) uses monetary policy to control CPI, and has been successful in keeping CPI between 3 – 6 percent in the past decade as shown in **Figure 1**. However, the continued sharp rising of food inflation in 2021, remains a concern in South Africa due to its inflationary role to the general CPI, and its potential to exacerbate the ongoing economic and social impact of COVID-19, especially for food security.

Figure 1: South African Food Inflation and Consumer Price Index (CPI)



*Estimate based on year-to-date figures up to February 2021.

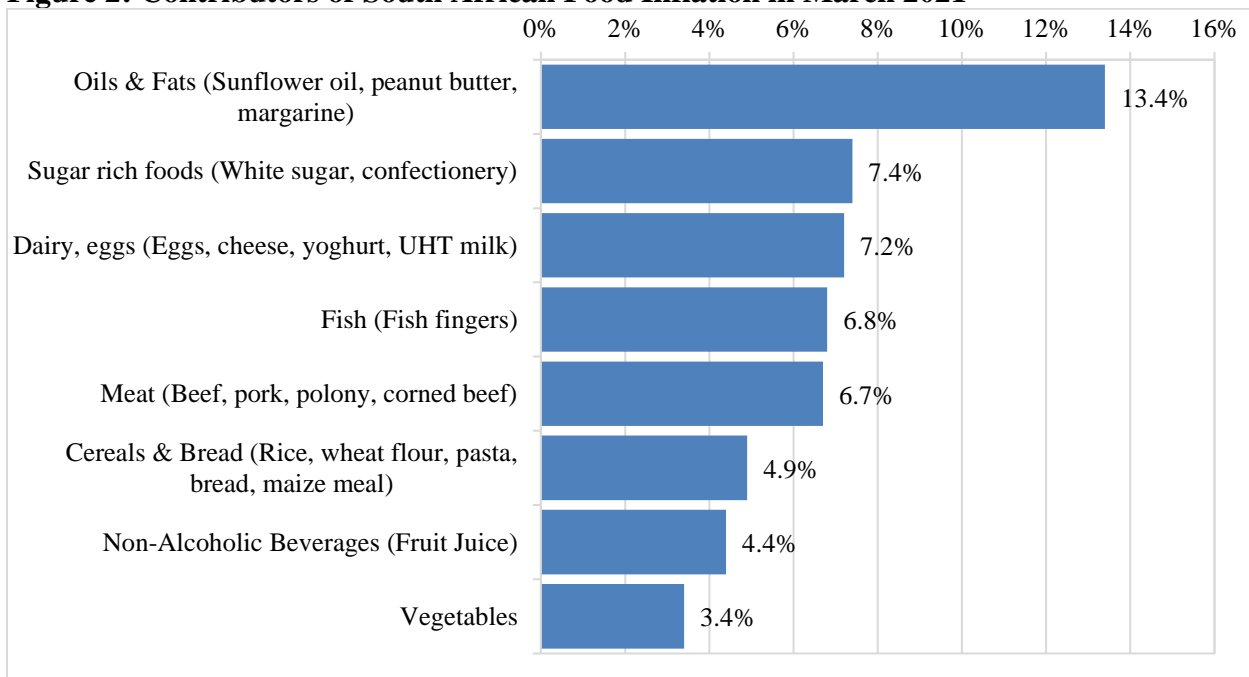
Source: Statistics South Africa, National Agricultural Marketing Council (NAMC)

Key Drivers of Food Inflation in 2020 and 2021

The sharp increase in food inflation is due to both international and domestic factors. Domestic factors that have contributed to the rise in prices are the increases in food production costs, mainly due to the state administered electricity tariff increases (+15 percent) and increases in minimum wages (+16 percent). Other domestic factors include, allegations of uncompetitive and excessive increase by some retailers, changing consumer shopping trends (stock-piling), and domestic supply-demand factors for some commodities. The international factors that have contributed to the increase in food inflation are higher prices for crude oil (+30 percent in 2021) which translates to high food production costs and growth in international commodity prices such as sunflower oil, grains, and meat.

According to the [Bureau for Food and Agricultural Policy \(BFAP\)](#), the increase in food inflation in March 2021, was driven by oils and fats which rose by 13.4 percent, followed by confectionary (7.4 percent), milk, eggs and cheese (7.2 percent), meat (6.7 percent) and cereals (4.9 percent) as shown in **Figure 2**. The substantial increase in the global price of oils and fats is due to strong demand, particularly from China, which is rapidly rebuilding its pig herd which had been reduced by the African Swine Fever. Strong global maize prices have also been driven by firm import demand from China. The increase in milk and cheese prices domestically was driven by an upward trajectory in global dairy prices. Some commodities such as eggs, flour, sugar, confectionary products, vegetables, and fruits increased in prices due to consumer stockpiling and changes in demand preferences as more consumers worked from home. Avian Influenza outbreaks in the Gauteng and North West provinces in South Africa also severely constrained egg supply, leading to sharp price increases. Meat prices are higher based on steady export demand, and tight domestic supplies of red meat.

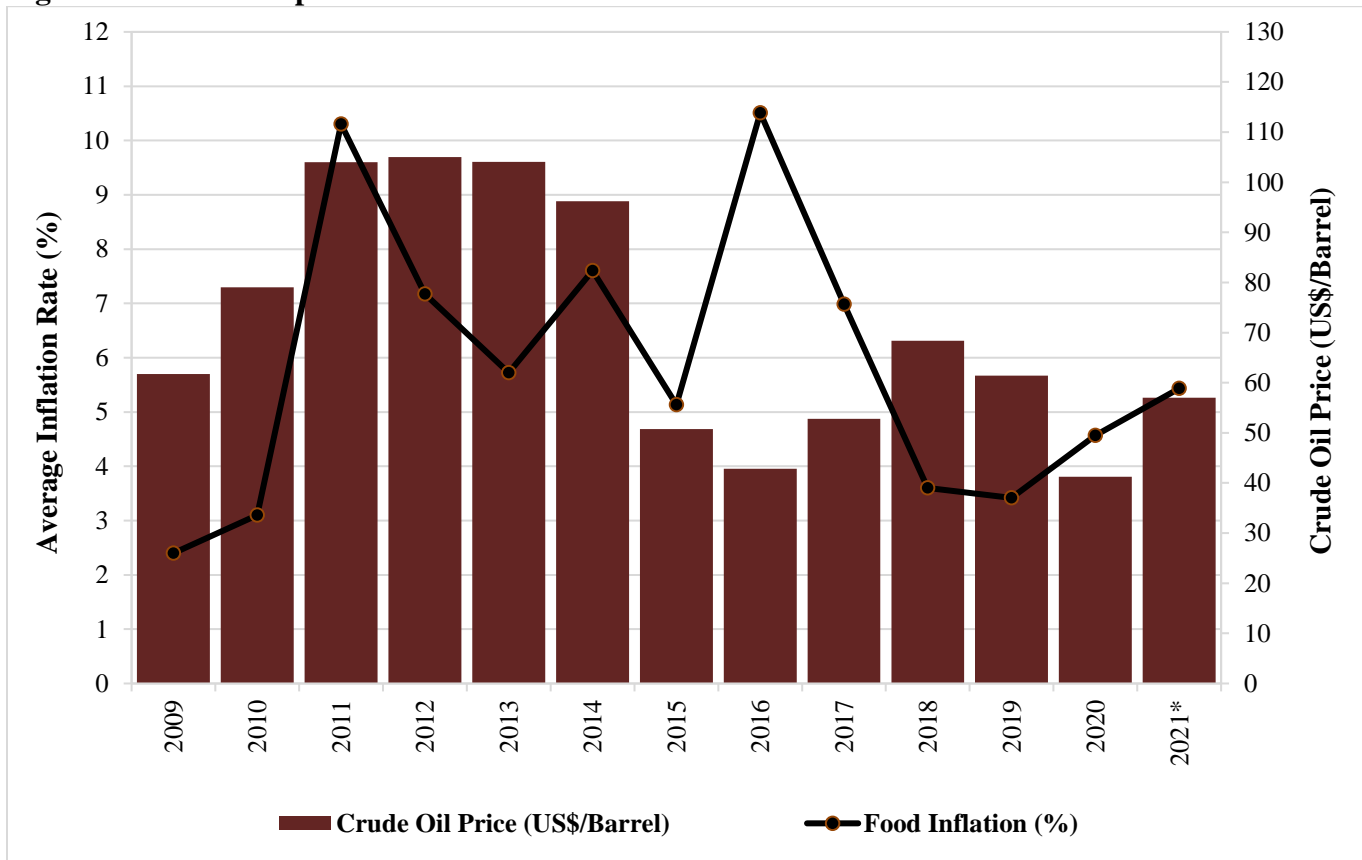
Figure 2: Contributors of South African Food Inflation in March 2021



Source: [Bureau for Food and Agricultural Policy \(BFAP\)](#)

The above factors, combined with input cost pressures (electricity, minimum wages) created an environment of rising food prices in 2020, which has continued in 2021. Given the increasing production cost pressures in agricultural production due to the recently implemented 15 percent annual increase in electricity, 16 percent increase in minimum wages, and estimated crude oil price increases as shown in **Figure 3**, Post forecasts that food inflation will remain high in 2021. This may be partially offset by a stronger than expected Rand exchange rate to the US\$ as shown in **Figure 4**.

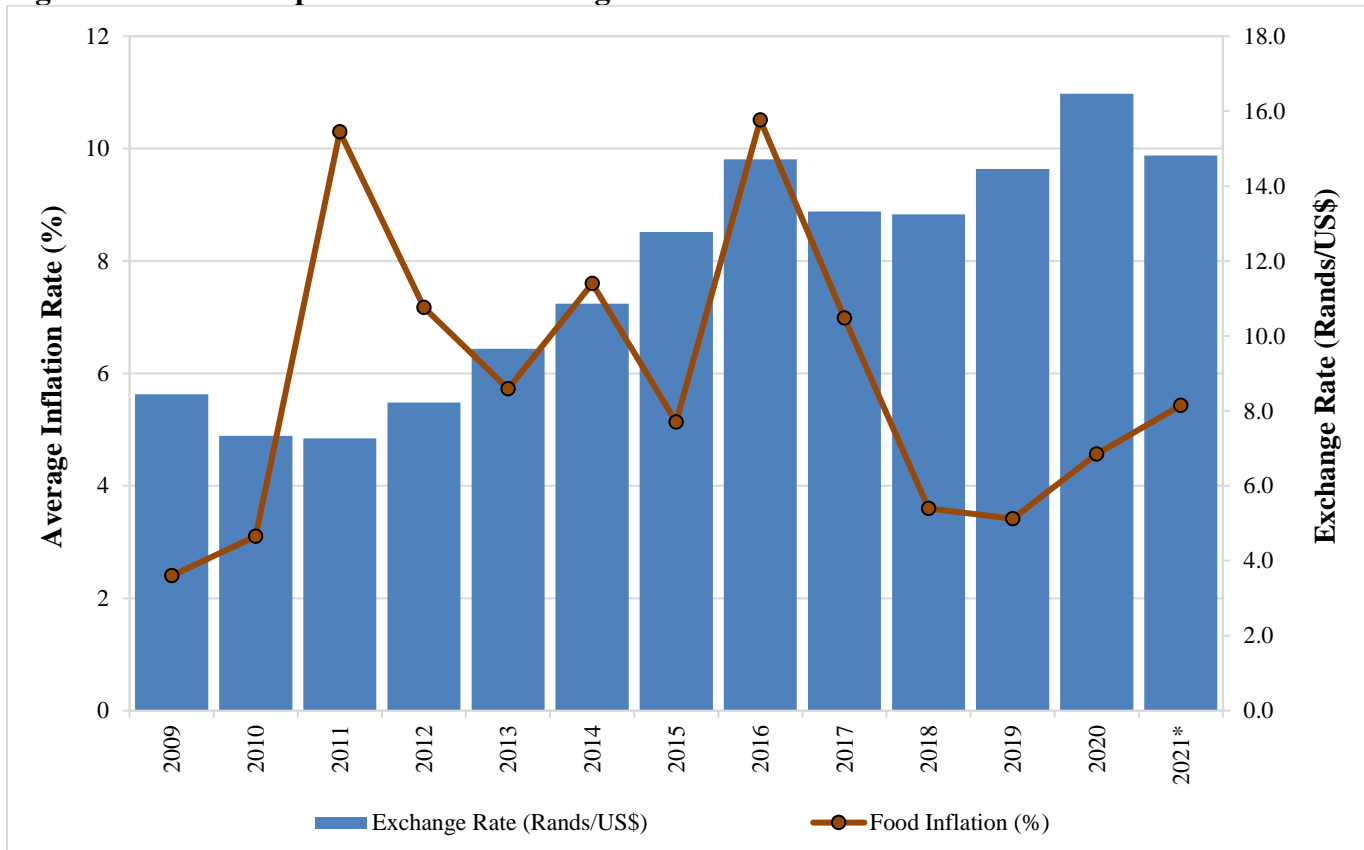
Figure 3: Relationship between Crude Oil Prices and South African Food Inflation



*Estimates

Sources: Statistics South Africa, NAMC & SA Department of Energy

Figure 4: Relationship between the Exchange Rate and South African Food Inflation



*Estimates

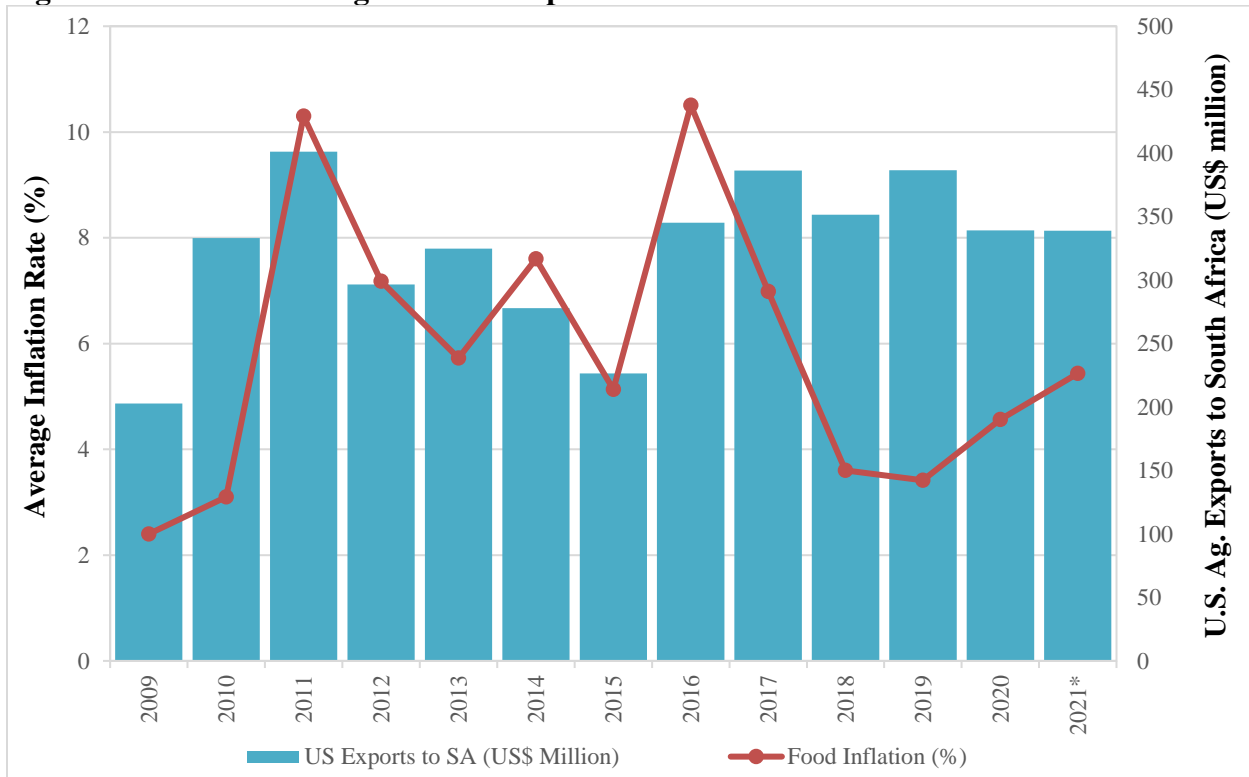
Sources: Statistics South Africa, NAMC & SA Reserve Bank

United States Agricultural Exports May Suffer

United States agricultural exports were already impacted by COVID-19 in 2020. Post published the following GAIN report on the impact of COVID-19 to U.S agricultural trade in 2020, [The United States and Southern Africa Agricultural Trade Decreases Due to COVID-19 \(Report No. SF2021-0017\)](#).

While Post expects that U.S agricultural exports may rebound in 2021 from US\$339.2 million in 2020, increased food inflation may pose a risk. This is due to the impact of rising food prices on domestic consumer affordability levels, and the resulting reduction in demand of products deemed expensive. Additionally, increasing pressure from local manufacturers and retailers to source cheaper alternative products or suppliers can further reduce imports. **Figure 5** shows that the relationship between food inflation and the value of U.S agricultural exports to South Africa has been inconsistent over the past decade. However, the trend from 2018 to 2021 seems to suggest that an increase in domestic food price inflation is correlated to a decrease in U.S agricultural exports to South Africa.

Figure 5: United States Agricultural Exports and South African Food Inflation



*Estimates

Sources: Statistics South Africa, NAMC & Trade Data Monitor

Government Interventions on Food Price Inflation Seem to Counteract Each Other

Food price inflation is an important indicator to the South African government due to its role in the overall inflationary process (CPI), and its impact to price stability and consumer purchasing power, especially for poor households. Statistics South Africa is the primary government institution mandated to provide accurate and timely food price information, as well as insights on how to measure food price inflation. The Food Price Monitoring Committee (FPMC) comprised of diverse stakeholders including the Ministry of Agriculture, Land Reform, Rural Development and its associated agencies such as the NAMC, is also responsible for providing robust analysis and monitoring of food inflation and its implications. These government institutions have done well in reporting food inflation timely and accurately.

Another government organization, the Competition Commission, is responsible for curbing excessive, unfair and anti-competitive pricing in South Africa. In 2020, the Competition Commission investigated and published several findings on alleged excessive pricing by retailers during the COVID-19 lockdowns. In March 2021, the Competition Commission signed an agreement with major retailers to cap the prices of garlic and ginger which are experiencing excessive demand due to their perceived health benefits for COVID-19 (<http://www.compcom.co.za/wp-content/uploads/2021/03/THE-COMPETITION-COMMISSION-WELCOMES-THE-SIGNING-OF-A-MEMORANDUM-OF-AGREEMENT-WITH-PICK-N-PAY-ON-CAPPING-OF-GARLIC-AND-GINGER-PRICES.pdf>).

Other decisions, rulings and pending investigations by the Competition Commission may be found on

the following website, <http://www.compcom.co.za/media-releases/> . While the Competition Commission has been commended for acting on allegations of excessive and un-competitive food pricing practices, there are instances when their reaction is too slow to curb such inflationary and unfair practices. This is especially true if such practices are undertaken by opportunistic retailers leaving consumers at the brunt of unfair food price increases for some products.

Other notable interventions by government to address poverty and to protect vulnerable members of societies from inflation in 2021, included increasing social support grants for the elderly (+1.6 percent), disabled (+1.6 percent), foster care (+1 percent), and child support (+3.4 percent). While these increases were below inflation, this was done under a difficult fiscal year. In addition, the government introduced a special COVID-19 Social Relief Distress Grant amounting to R350 (US\$18) monthly targeting the unemployed and individuals affected by the COVID-19 pandemic.

There are some government policies and decisions that seem to counter the above interventions and have exacerbated food price inflation in 2021. The state administered 15 percent electricity hike; 16 percent increase in minimum wages; and tax increases in the fuel and road levies, continue to drive production costs upwards resulting in food price increases that will continue in 2021.

Attachments:

No Attachments.