Monthly Food Affordability Tracker

October 2020
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Acknowledgement

This report was compiled by a number of collaborating researchers from the Bureau for Food and Agricultural Policy, the Department of Agricultural Economics, Extension and Rural Development at the University of Pretoria, the Department of Agriculture, Land Reform and Rural Development.

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1. Food Inflation Trends in Augstus 2020

The month of August presented the first full month since the hard lockdown in which the foodservice industry in South Africa was operational. This month also allowed for the restrictions on interprovincial travel to be lifted, which, in turn, provided the opportunity for local tourism to increase. This is expected to have provided price support for food in terms of stronger demand, albeit marginally. Cost pressures prevalent related to the virus and exchange rate depreciation during quarter 2 also seems to have levelled out in food inflation figures for August. The combination of this resulted in the official month-on-month food inflation showing growth of 0.1%.

There were however selected products that experienced significant month-on-month inflation amongst the 15 dominant items purchased by consumers in South Africa. These dominant food items, purchased by low(er) income households in South Africa, typically comprises 70% of total food expenditure for the least affluent half of South African households (according to Stats SA Living Conditions Survey 2014/2015). These month-on-month changes, combined with a year-on-year view is depicted in Figure 1 below.

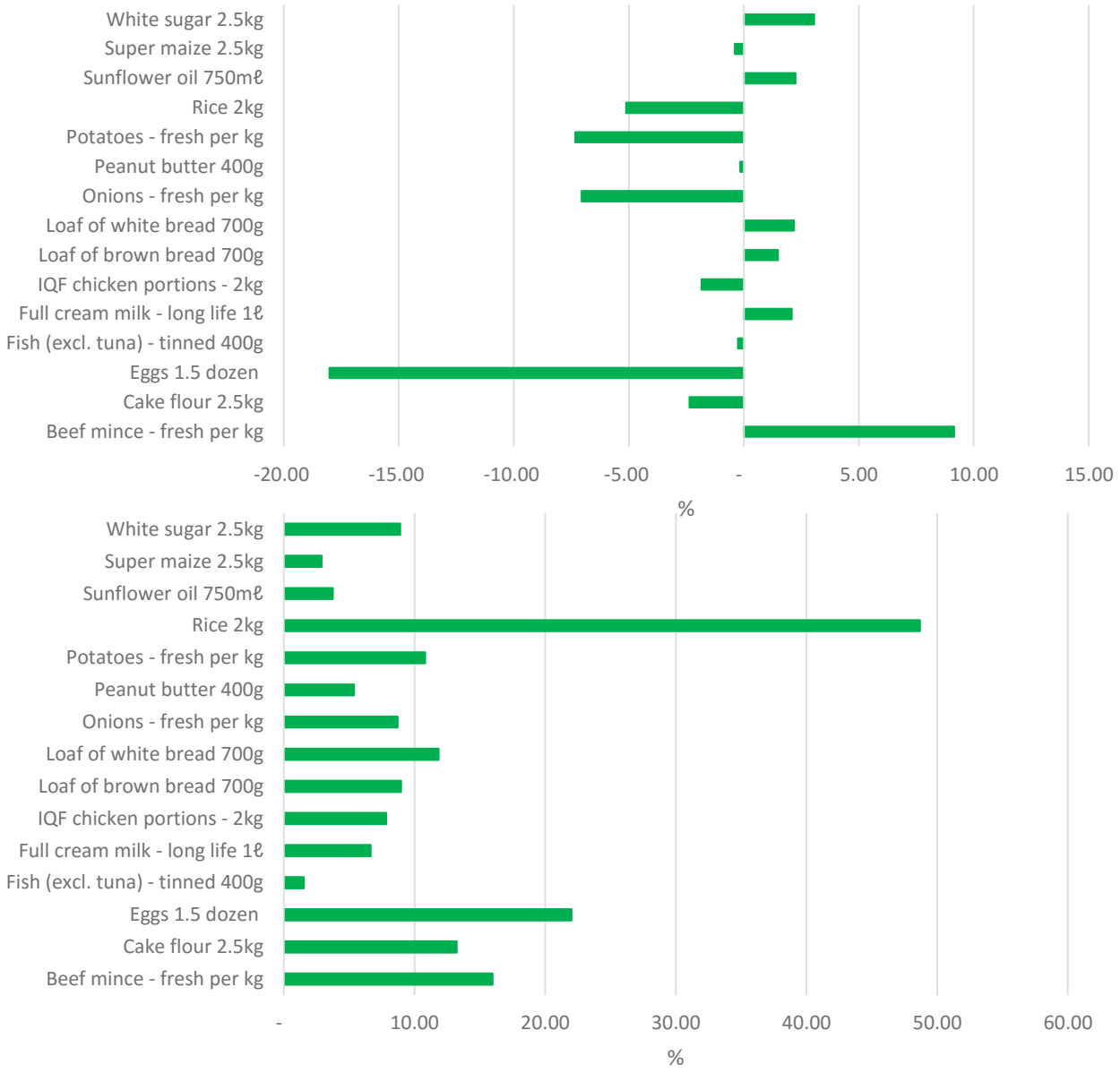

Figure 1: Month on month (top) and year on year (bottom) inflation for food and associated sub-groups

The major contributor to month-on-month increases is beef mince, which increased by 9.4% between July and August. Other products that showed less pronounced increases are sugar (3.1%), sunflower oil (2.3%), white bread (2.2%) and UHT milk (2.1%). Sugar prices are increasing on the back of stronger demand. Canegrowers SA notes that for the 2020 year to date there is a 150 thousand tonne increase in sugar sales, compared to 2019. This is supporting the upward retail price trend apparent from April 2020. This trend also seemed to have gained momentum with the re-opening of sales of alcoholic beverages, which use sugar in the manufacturing of selected products. Sunflower oil and bread price increases can, in turn, be ascribed to the underlying commodity price pressures associated with the exchange rate depreciation in 2020Q2, whilst UHT milk prices increased on the back of increased manufacturing and distribution cost. Electricity prices increased by 8.76% on the 1st of April for Eskom direct customers and 6.9% on 1 July for municipalities whilst fuel prices increased by 45 cents for a litre of diesel. These factors are creating increased cost pressures in perishable supply chains supporting prices to higher levels.

Year-on-year inflation on all products and products categories increased (see Figure 2). The main contributors to the official food inflation of 3.9% were fruit (14%), oils and fats (7.6%), sugar, sweets and desserts (6.7%), milk, eggs and cheese (5.4%) and meat (4.1%). The double-digit increase in fruit prices can be attributed to low volumes traded in the local market. Due to the favourable exchange rate, substantial amounts of citrus fruits were exported during the first weeks of the exporting season which, in turn, reduced local availability. Orange volumes traded through local markets were roughly 22% lower compared to volumes traded during August 2019. Apple trading volumes were roughly 7% lower and banana volumes were lower by 28% compared to last year's volumes. The latter is as a result of colder average temperatures during the 2020 winter which negatively affected yields. Oils and fats are continuing the sharp growth in prices based on exchange rate dynamics affecting the parity prices of the underlying commodities and derived products. Sugar, sweets and deserts have seen growth in prices comparable with increases in the producer price of sugar over the past year. Producer prices for sugar increased in November 2019 by 6.5% which could account for price growth apparent through most of 2020. This is further supported by a strong demand-pull for sugar mentioned above. Price growth in milk, eggs and cheese is still largely dominated by year-on-year price growth in eggs. Although it seems that the upward trend in eggs might have faded, eggs are still 22% higher than in August 2019. Milk, in turn, is 6.7% higher than a year ago and as mentioned earlier this is driven by increased manufacturing and distributional cost. Meat inflation seems to have been driven by strong price growth in red meat prices. Retail prices for primal cuts grew substantially with rump and fillet increasing by around 28% year-on-year. Mince and stew also grew substantially with 16% and 36% respectively. The strong growth is a result of a relatively low base associated with meat prices in 2019 combined with the hospitality industry benefiting from less restrictive practices during August.

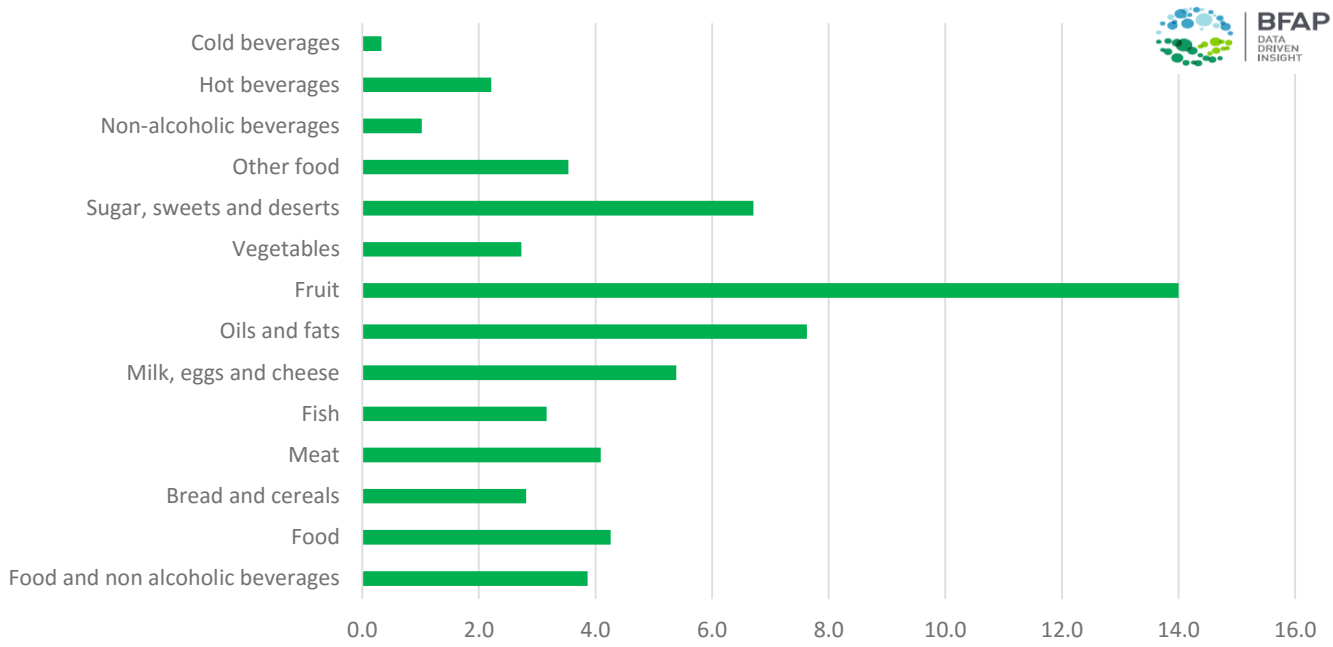

Figure 2:Official year-on-year food inflation (Aug 2020)
Source: StatsSA (2020)

In terms of the cost of basic healthy eating, the August 2020 value and dynamics of the BFAP Thrifty Healthy Food Basket is presented in Table 1 below. From Table 1 it should be apparent that the cost of this basket increased by more than official food inflation. This could probably be attributed to the increased price growth experienced in food groups adding dietary diversity, such as fruit, fats/oils and animal source foods – contributing a comparatively larger weight to the BFAP Thrifty Healthy Food Basket than to the CPI index (which in turn has a larger contribution weight of basic foods such as starch-rich staple items.

Table 1: BFAP healthy food basket cost – absolute cost and share of income (Aug 2020)

	August 2020 - Basket cost (R/month):	Annual inflation**:	Month-on-month inflation
BFAP Thrifty basket (family of four*)	R 2 795		
BFAP Thrifty basket (family of four*) with school feeding	R 2 360	10.6%	-0.6%

2. A comparison of food inflation to other developing countries

Rapid food inflation erodes purchasing power and affects well-being and access to food. From our earlier briefs, it is apparent that the Covid-19 pandemic and it's associated lockdowns affected purchasing power and caused disruptions in some supply chains, causing strong increases in prices. Figure 3 below shows how growth in per capita income (SA Reserve Bank figures) in South Africa has compared with CPI headline and food inflation. From this figure, it is apparent that for the last 5 years income growth has been less than food inflation suggesting that there are increasing pressure on consumers' ability to afford a healthy diet.

Note: 2020 CPI values - average values for January to August 2020

Figure 3: Disposable income vs Inflation

This section of the report, therefore, gauges how South Africa's food inflation fared in comparison to some of its peers over the past few years and explores some of the underlying features that certain countries have to absorb or amplify the effect of exogenous shocks on food prices. This section will therefore firstly benchmark South Africa against a selected group of its developing peers and other countries in Sub-Saharan Africa and then compare key features that could serve as a conduit for rapid food inflation in times of crisis.

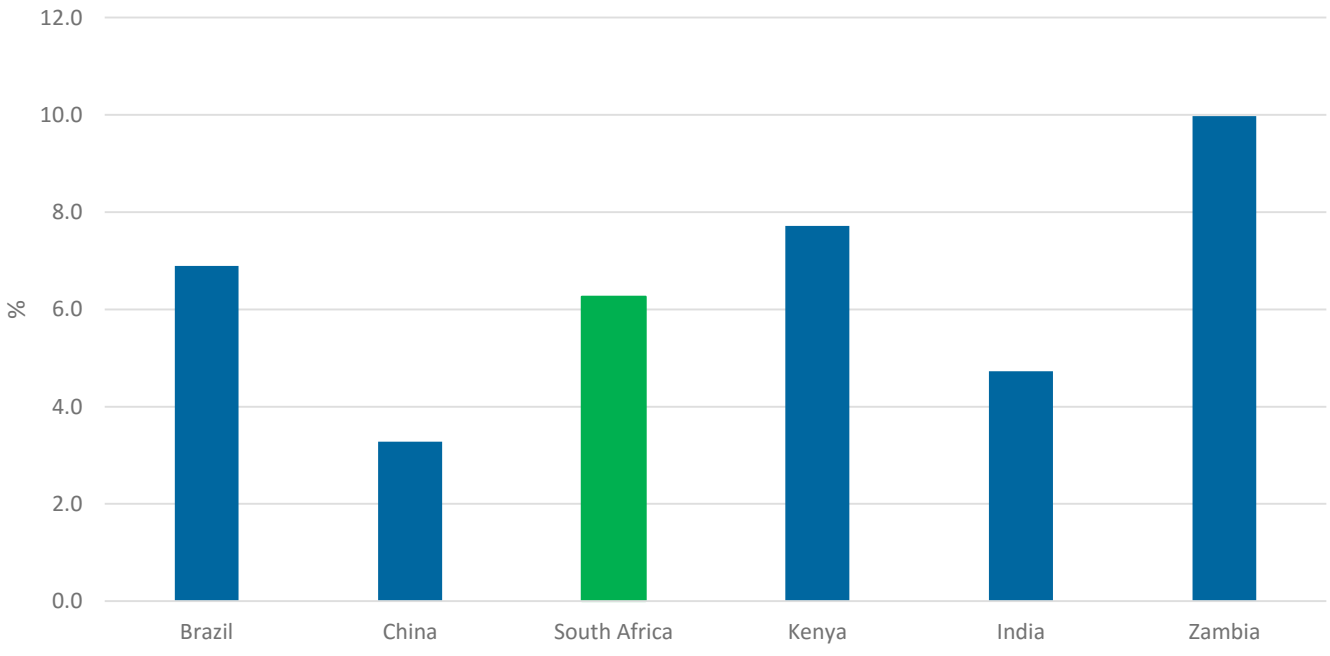

Figure 4: Average food inflation rates from 2013-2019
Source: FAOStat, 2019

From the figure above it shows that South Africa experienced average food inflation rates of 6.3%, which is higher than two of our BRICS counterparts namely India (4.7%) and China (3.3%). Brazil, in turn, had a slightly higher average of 6.9% over the past six years. In terms of some of our regional peers, South African food inflation is comparatively low with Kenya exhibited an average of 7.7% and Zambia of 10%. In our opinion, three factors that are key drivers of these figures are agricultural trade balance, level and rate of urbanization and exchange rate movements. The table below shows the country related figures for these variables. Other factors that cannot be measured explicitly is the level of transport infrastructure development and whether the country is landlocked or not. The measurable features are compared in Table 2 below.

Table 2: Exchange rate, urbanization and trade balance figures for the countries under consideration

	Average Food Inflation (2013-2019)	Agricultural and Food Trade Balance in USD (2019)	Average Rate of Urbanization (2013- 2019) Source: World Bank	Proportion of urban population as % of total population in 2019 (source: World Bank)	Exchange Rate against USD (2013-2019)
Zambia	10	6.4 billion	4.30%	44	176% depreciation
Kenya	7.7	605 million	4.20%	28	17% depreciation
Brazil	6.9	65.2 billion	1.1 %	87	105% depreciation
South Africa	6.3	3.3 billion	2.30%	67	62% depreciation
India	4.7	14.5 billion	2.30%	34	34% depreciation
China	3.3	-62.9 billion	2.7 %	60	17% depreciation

From Table 2 it seems that there is a strong correlation between countries with high food inflation and countries that experienced significant exchange rate depreciation against the USD. This suggests that South Africa, with the Rand being the most traded developing market currency, contributes significantly to the variability in food inflation apparent over the last decade. The other factor that seems to have a strong correlation with high inflation is the rate of urbanization. Countries that experience a rapid rate of urbanization could create a demand-pull from urban centres that exerts pressure on food supply chains and established infrastructure. This in turn supports food prices and shows the importance of creating an enabling environment in which food distribution and investment in food distribution can operate. ■