Monthly Food Affordability Tracker

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INSIGHT

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agriculture, land reform
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University of Pretoria

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 Affordability Trends

In October 2020, year-on-year inflation for food and non-alcoholic beverages increased by 5.4%, with month-on-month inflation amounting to 1.4%. Both of these figures are steep increases compared to the relatively constant growth in prices in 2020Q3. This is likely a combined result of increased cost pressures in food value chains, combined with a slight rebound in consumer confidence which could signal an uptick in demand. In 2020Q3 the FNB/BER consumer confidence rose by 10 index points after plunging 24 index points in 2020Q2. This suggest that consumer confidence are still depressed and it has not recovered to pre-Covid lockdown levels. This could dampen demand for higher value products over the coming months.

Inflationary trends in the 15 dominant food items purchased by consumers in South Africa are presented in Figure 1, below. 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).

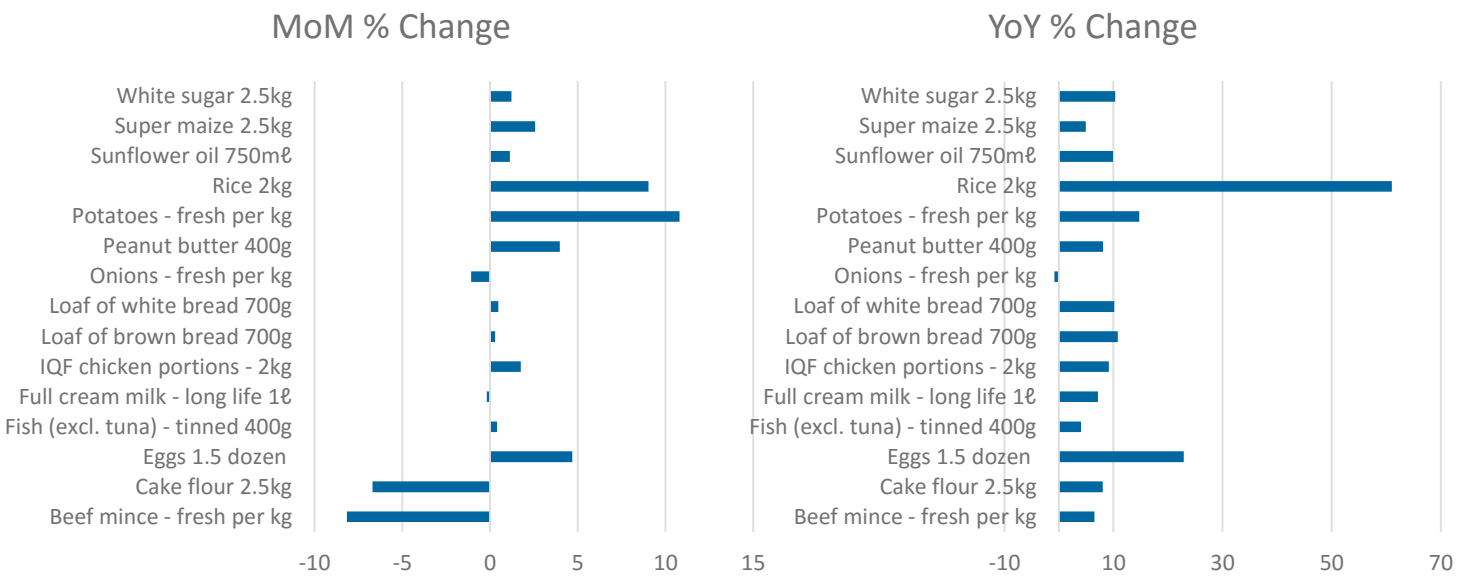

Figure 1: Month-on-month and year-on-year price changes for selected food products (Oct 2020)

Figure 1 shows that there was significant month-on-month increases in selected products and non-trivial increases in all products, with the exception of onions, in a year-on-year context. The major contributors to month-on-month inflation are potatoes (10.8%), rice (9.03), and eggs (4.69%). Potato prices increased significantly between September and October on the back of lower volumes traded on fresh produce markets. This is attributable to relatively wet weather that affected potato harvesting during October. After spiking in April due to trade disruptions, international rice prices decreased up until June after which it started to increase again. The apparent month-on-month increase in rice prices is the lagged effect of higher world prices for rice in 2020Q3. Egg prices, in turn, have increased after three months of consecutive decreases. The decreases followed the spike in egg prices in lockdown due to strong stockpiling demand. Egg prices are however still almost 23% higher compared to October 2019, suggesting the presence of production cost pressures. Beef mince and cake flower, in turn, experienced substantial month-on-month decreases of 8.2% and 6.2% respectively. Beef prices approached R100 per kg in August after which it decreased in September and October. This could be due to weaker demand on the back of high prices – consumers might be opting for more affordable meat options. This trend is especially evident in beef prices and less pronounced in chicken. Month-on-month prices of primal beef cuts like fillet and rump tended lower whilst prices of value cuts went up. In terms of chicken, prices of fresh chicken went up marginally with prices of IQF's going down. In terms of cake flour, prices tended lower, with underlying wheat commodity prices moving marginally lower between 2020Q2 and 2020Q3. There has however been an erratic movement in cake flour prices since the beginning of 2020 which makes it difficult to link the retail movements to the underlying fundamentals.

Products that exhibited significant year-on-year changes in prices in October were rice (61%), eggs (22.9%) and potatoes (14.7%). In terms of rice and eggs, the growth is still as a result of a structural price shift in that occurred during lockdown. In the case of rice, international prices increased on the back of a weaker exchange rate and higher world prices as a result of global trade disruptions. Egg prices, in turn, increased on the back of stockpiling demand during lockdown. This increase in demand also allowed for a correction in the producer retail price margin. Producer prices for eggs have been under pressure for some time and cost pressures associated with egg production also supported prices to higher levels.

If a broader perspective is taken one can consider the inflationary movement of the sub-categories or groups of products contained in the CPI food basket. This is presented in Figure 2 below.

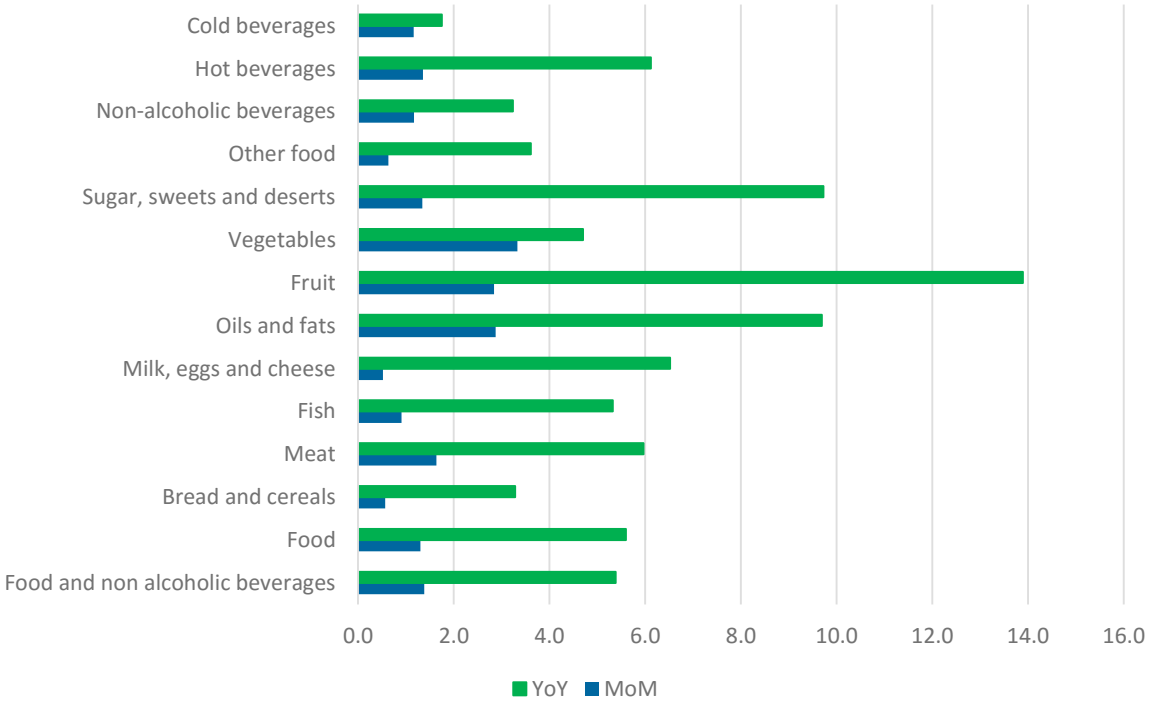

Figure 2: Official year-on-year and month-on-month inflation for October 2020

Here it can be seen that Fruit prices increased by 13.9% y-o-y, Sugar and Confectionary by 9.7% y-o-y, Oils and Fats by 9.7% y-o-y, Milk, Eggs and Cheese by 6.5% y-o-y and Meat by 6% y-o-y. As in previous months, the double-digit increase in fruit prices can still 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 volumes. Orange volumes are approximately 22% compared to the same period in 2019. Lower Banana volumes, in turn, are due to adverse climatic conditions that affected yields this year. Banana volumes are approximately 30% lower compared to 2019Q3. Apples, in turn, was roughly 10% lower compared to 2019Q3. Oils and fats are continuing the growth in prices based on world price increases in oils. There is currently a global shortage of palm oil and sunflower oil which is increasing demand for soybean oil and supporting prices of the oils and fats complex to higher levels. 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. Growth in prices of Milk, Eggs and Cheese prices continue to be dominated by the large year-on-year increase in egg prices for the reasons as discussed above, with milk prices also contributing to upward pressure due to steep increases in producer prices since the beginning of 2020. Meat prices have increased on the back of lower slaughter numbers and increased tariffs that is levied on imported poultry products. In the case of red meat specifically, beef slaughterings are down marginally by 0.6% year-on-year, with the slaughtering contraction for lamb and mutton being more pronounced. This combined with a low base of 2019, is resulting in non-trivial meat inflation in October 2020.

2. Outlook for the next three months

As we approach the festive season food prices are expected to be supported by stronger demand. This is however expected to vary across product categories. Nielsen (2020) notes that there are two types of consumers as we emerge from the Covid lockdowns. The first is the insulated spender, whose income has not been affected by the lockdown and associated economic downturns. These consumers will focus on more expensive and exotic food products to compensate for the fact that vacation and entertainment options are restricted. On the other end of the spectrum, there are constrained spenders. These are spenders that would have normally increased expenditure during the festive season but due to the aftermath of Covid and its associated lockdowns have to pull the belt tighter. In terms of how demand will affect food inflation going forward, the key question is therefore related to the size of these respective groups. It is expected that in the South African context, the constrained spenders will out way the insulated spenders which will result in overall dampened demand for food over the coming months, especially with regards to premium food products.

In terms of supply issues, parity pressures on Oils and Fats will remain given the global shortage of palm and sunflower oil with Meat inflation will also remain significant on the back of the issues discussed above. Vegetable prices, in turn, are expected to show intermittent spikes due to the La Nina projections that could affect harvesting. This could cause lower volumes supplied to the market and fruit inflation might tend lower as summer fruit volumes in the market increase. The wet weather projections could however curb growth in bread and cereal prices. This, combined with favourable prices during the 2019/20 season is expected to increase plantings during the 2020/21 season. Intentions to plant for maize in the coming season are up by 5.18%, which could dampen price growth in the coming season. Cost pressures on farm level have also manifested in milk with production tending lower in 2020Q3. This trend is expected to continue which will result in higher retail prices of milk and dairy products over the next 3 to 6 months.

3. The affordability of healthy eating in South Africa

The BFAP Thrifty Healthy Food Basket (THFB) measures the cost of basic healthy eating for a low-income household in South Africa by taking into consideration: national nutrition guidelines, typical food intake patterns of lower-income households, official Stats SA food retail prices and typical household demographics. The THFB contains 26 core food items (typically consumed by low-income households) from all the food groups.

In October 2020 the monthly cost of the BFAP THFB amounted to R2 789, increasing with 9.8% (i.e. R248 more expensive) year-on-year from October 2019 and increasing by 0.1% (i.e. R3.89 more expensive) from September 2020 (see Figure 3). From 2013 to October 2020 the lowest value of the BFAP THFB was observed in August 2013 (R1 871), while the highest value was observed in May 2020 (R2 857) linked to the food affordability impact of the COVID-19 pandemic.

The composition of the THFB reference family is defined as: an adult male, an adult female, an older child and a younger child.
Starch-rich staples: super maize meal, rice, brown bread, wheat flour & potatoes; Fruit: apples, bananas & oranges; Vegetables: tomatoes, onions, carrots, cabbage & pumpkin; Dairy: milk, maas & cheese; Animal protein foods: beef mince, chicken, canned pilchards & eggs; Fats / oils: sunflower oil, margarine & peanut butter; Legumes: dried beans & baked beans in tomato sauce; Sugar-rich foods: A small quantity of white sugar.

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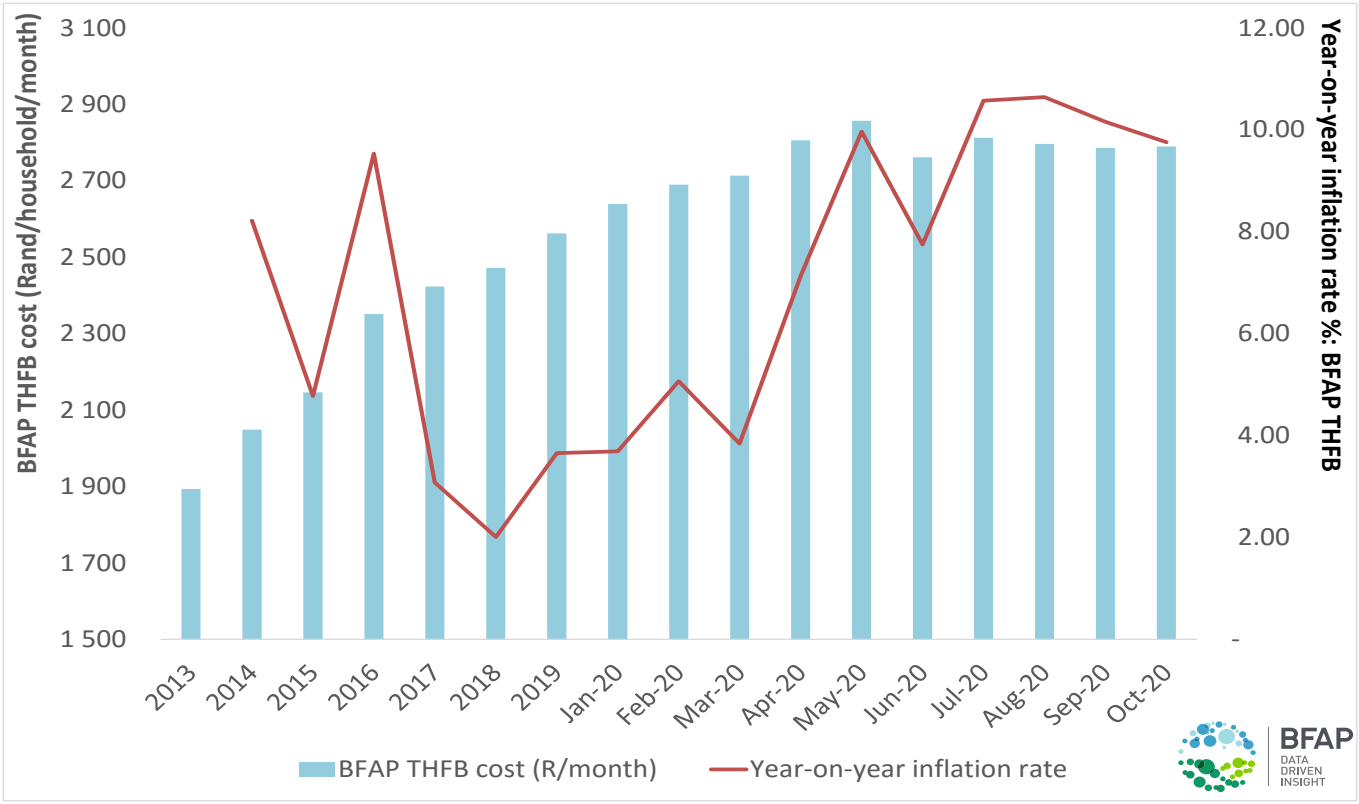

Figure 3: The BFAP Thrifty Healthy Food Basket from 2013 to October 2020
(Source: BFAP calculations)

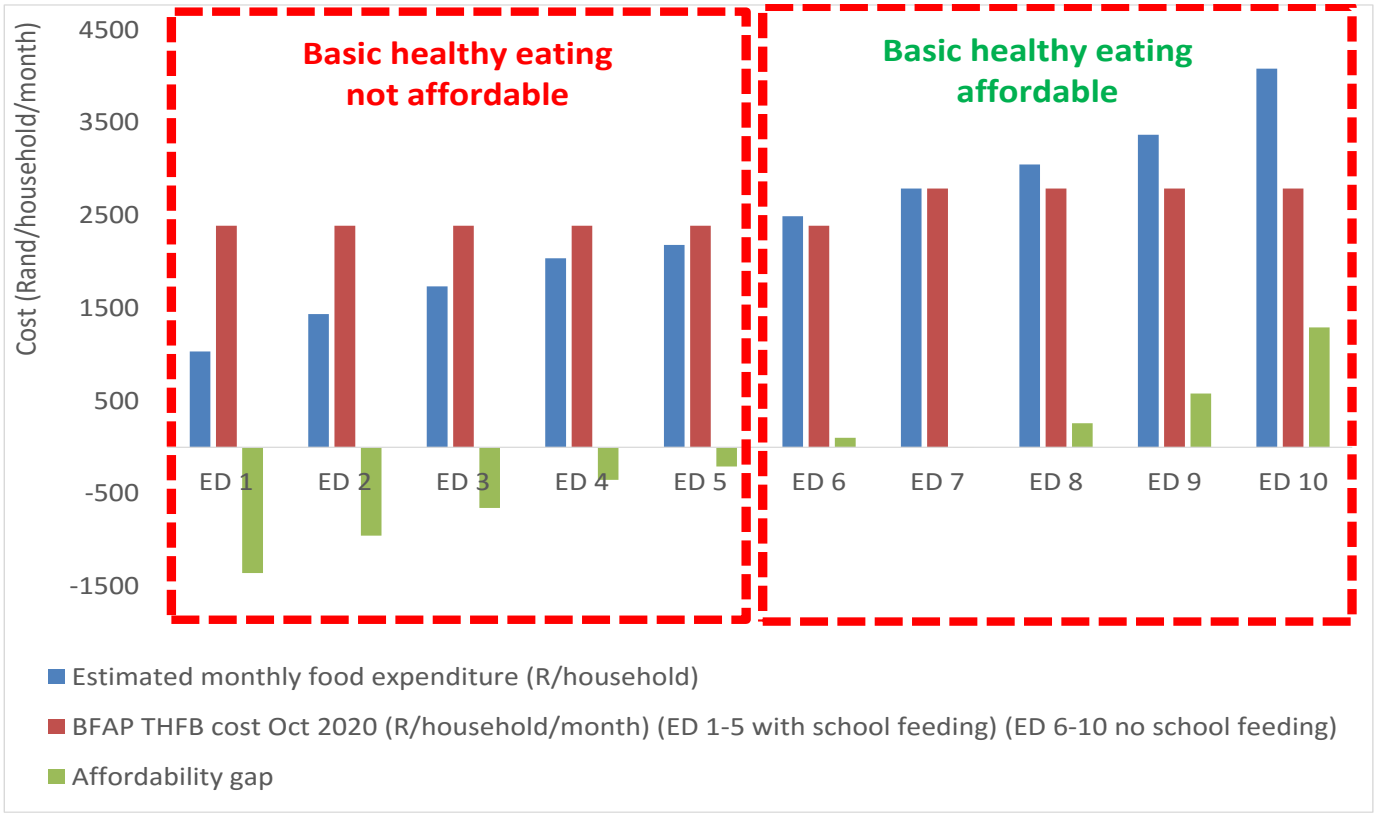

Figure 4: Affordability of the BFAP Thrifty Healthy Food Basket in October 2020
(Source: BFAP calculations)

Each Expenditure Decile (ED) represents 10% of the households in South Africa. Current household food expenditure was estimated from inflation adjustments on Stats SA LCS 2014/2015 data.

As illustrated in Figure 4, basic healthy eating is not within the reach of the least affluent 50% of households in South Africa, despite receiving child grants and potentially benefiting from school feeding programs. Households in expenditure decile 5 could potentially afford basic healthy eating if they increase their food expenditure share from the typical 29% to 35%.

In summary, the affordability of a nutritionally diverse food basket remains a significant challenge in the South African context. It is always critical to remember that food security involves more than only consuming adequate energy – dietary diversity is a critical contributor to consumers' overall health status. Furthermore, with a very small positive food affordability gap, middle-income households (expenditure deciles 6 to 8) are still very vulnerable to impact of food price shocks.

Arguably the biggest wild-card associated with the inflation and food affordability projections is the occurrence of a second wave of COVID-19 and how government will react to it. As seen from Wave 1, this can lead to severe household income pressure, supply chain disruptions in food processing and retailing, which could lead to intermittent price shocks in certain products.