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MEDIA RELEASE
Food price trends: October 2006 to October 2007

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Foreword

Food prices have, for the third quarter of this year, generated concern among consumers and government officials as increasing food costs continue to put pressure on household disposable incomes. STATSSA announced the Consumer Price Index (CPI) for October 2007 to be 147.4 reflecting a year-on-year inflation rate of 7.9%. This is 1.9% above the target inflation rate set by the South African Reserve Bank (SARB). The year-on-year increase in the CPIX was 7.3%. Of specific importance within the context of this report is the CPI for Food, which according to STATSSA recorded a new high of 12.3% year-on-year. Food prices therefore increased significantly faster than headline inflation and were again one of the main drivers of inflation. CPI excluding food was 6.6% year-on-year. The purpose of this Media Release is to provide further detail and analysis of food price levels and trends in a bid to promote a better understanding of the main factors underlying increasing food prices.

Urban food price trends: October 2006 to October 2007

In this report the prices of 67 different food items are reported for urban areas. Cognisance should be taken that the food items that are reported are not necessarily representative of a typical food basket used by consumers and hence comparisons between the food inflation figures reported by StatsSA and those in this report should be done with care (StatsSA base their food inflation on a typical weighted food basket as derived from the Income and Expenditure survey conducted by them). The percentage increase in food prices reported in this report, however, represents the average price increase applicable to the food items shown in Appendix A.

Based on the urban food items monitored by the NAMC at retail level, national food prices increased, on average, by 16.26% between October 2006 and October 2007. This is 3.96% higher than the October 2007 figure of 12.3% reported by STATSSA.

Improvement in data used

In previous editions of the Quarterly Food Price Monitor prices pertaining to meat, vegetables and fruits were reported on a variable weight basis, i.e. the price per package. It was found that over time this could result in inconsistencies since the price is not reported on a per unit basis (e.g. R/kg), and hence the changes in prices can be either over or under estimated. For this reason, prices reported henceforth will be based on the price per weight unit for meats, vegetables and fruit. The NAMC will continuously evaluate the quality of the food price data it obtains from external sources and make adjustments where necessary to improve the quality of this data. Currently food price data is sourced from AC Nielsen and StatsSA.

The food products, in our basket, whose prices increased by more than the target inflation rate of 6%, set by the South African Reserve Bank, between October 2006 and October 2007 are shown in Table 1.

Table 1: Products in urban areas that experienced higher than the inflation target increases in prices (Oct 06 to Oct 07)[1]

Grain and grain products	%	Meat and meat products & dairy and dairy products	%	Fresh and processed fruit and vegetables	%
White bread 700g	16.19	Bacon 250g	18.44	Frozen peas 1kg	14.35
Brown bread 700g	16.11	Meatballs in gravy 400g	13.18	Frozen carrots 1kg	6.90
Flour 2.5kg	18.51	Picnic ham 300g	13.40	Frozen sliced beans 1kg	7.30
Spaghetti 500g	19.07	Polony 1kg	12.63	Beans in tomato sauce 420g	9.63
Macaroni 500g	17.94	Pork sausages 500g	7.38	Potatoes 7kg	64.88
Oats 1kg	24.17	Pork Chops 1kg	10.40	Onions 1kg	55.96
Maize meal super 5kg	15.20	Lamb Chops 1kg	8.14	Tomato 1kg	51.20
Maize meal special 5kg	34.71	Chicken - Whole Fresh 1kg	16.38	Sweet potato 1kg	18.13
King Korn 1kg	15.88	Chicken portions 1kg	12.17	Peaches 410g	8.42
Frozen corn 1kg	18.27	Pilchards in tomato 425g	13.90	Pears 410g	12.67
Rice 2kg	8.85	Tuna 170g	9.09	Apples 1kg	9.58
Soya minced tomatoes and onion 200g	6.69	Skimmed powdered milk 1kg	32.40	Oranges 1kg	22.46
Sugar 2.5kg	10.41	Butter 500g	22.32	Strawberry jam 450g	13.05
Ricoffy reg 750g	8.49	Fresh milk 2L – full cream	32.97	Banana 1kg	6.11
Tagless teabags 62.5g	8.88	Fresh milk 2L – low fat	29.65	Cabbage 1kg	61.67
Cooking oil 750ml	24.93	Fresh milk 1L – full cream	35.19	Pumpkin 1kg	8.19
Peanut butter 410g	13.89	Fresh milk 1L – low fat	30.28		
Medium fat spread 1kg	8.58	Long-life 1L – full cream	30.09		
Margarine 500g	19.44	Eggs (18 eggs)	15.57		

Products whose prices increased at a rate of lower than 6% over the period under consideration include: Brisket per kg (3.86%); Beef chuck – fresh per kg (2.98%); Beef rump steak –fresh per kg (1.03%); Butter Beans in Brine 410g (4.53%); Chopped Peeled Tomato 410g (2.30%); Tomato & Onion Mix 410g (4.35%); Canned Peas 410g (3.61%); Carrots 1kg (5.52%); Cauliflower per kg (4.93%); Cornflakes 750g (3.94%); Rice Crispies 400g (5.44%); Coca Cola 2l (3.04%) and Smooth Apricot Jam (3.73%).

Appendix A reports the average nominal price in October 2006, May 2007 and October 2007 together with the percentage change from May 2007 to October 2007 as well as the year-on-year percentage change between October 2006 and October 2007. In

[1] Note the data used to calculate the changes in prices was sourced from both AC Nielsen and StatSA. Appendix A provides more detail on the specific source per food item.

addition we report the percentage changes of the main commodity prices. This is provided to give readers a sense of the increase in procurement costs many food processors are experiencing and to explain a large part of the latest increase in food retail prices.

Rural food price trends: January 2007 to October 2007

The rural food price monitoring activity is executed throughout the country in over 180 stores and shops in rural areas. In this section, food price trends for 39 food items are summarized; some of which are reported in two or more units, e.g. price change for a loaf of brown bread is reported in two sizes, namely 600g and 700g. The analysis reveals that, on average, prices for the selected food items increased by 13.30% between January 2007 and October 2007[2]. The food products, in our basket, whose prices increased by more than the target inflation rate of 6%, between October 2006 and October 2007 are shown in Table 2.

Table 2: Products in rural areas that experienced higher than the inflation target increases in prices (Jan 07 to Oct 07)

Grain and grain products		Other products	
	%		%
Loaf of brown bread 600g	15.38	Instant coffee 100g	13.93
Loaf of brown bread 700g	7.33	Instant coffee 250g	9.24
Loaf of white bread 600g	16.32	Tea 62.5g	12.88
Loaf of white bread 700g	10.76	Full cream long life milk 1L	30.99
Maize meal 12.5kg	25.92	Full cream long life milk 500ml	20.50
Maize meal 1kg	14.49		
Maize meal 2.5kg	17.03	Pilchards in tomato sauce 155g	8.41
Maize meal 5kg	15.52		
Samp1kg	20.05	Pilchards in tomato sauce 425g	13.46
Samp 2.5kg	20.24		
Margarine 250g	11.53	Peanut butter 270g	10.74
Margarine 500g	8.13	Peanut butter 400g	9.33
Cooking oil 2l	9.19	White sugar 1kg	8.61
Cooking oil 500ml	22.60	White sugar 500g	14.99
Cooking oil 750ml	11.65		
Dried beans 1kg	24.52		
Dried beans 500g	35.09		
Butter beans 410g	6.15		
Rice 1kg	22.17		
Sorghum-meal 1kg	17.62		
Sorghum-meal 500g	17.17		

Products whose prices increased at a rate of lower than 6% over the period under consideration include: Margarine 125g (4.6%); Tea 250g (0.25%); Butter beans 420g (4.01%); White sugar 2.5kg (5.02%); Rice 500g (3.03%) and Peanut butter 410g

[2] Note that the starting date differs from that used for urban prices since the rural food price data are only available from January 2007.

(4.95%). Rice 2kg is the only product that was monitored in rural areas that shows a drop in prices (-5.16%) between October 2006 and October 2007.

Appendix B reports the average nominal price in January 2007, May 2007 and October 2007 together with the percentage change from May 2007 to October 2007 as well as the percentage change between January 2007 and October 2007 as observed in the rural areas.

Comparison between urban and rural food prices (selected items)

Table 3 shows comparisons between urban and rural food prices for selected food items. In October 2007 brown bread, white bread and margarine were the only food items which had prices lower in the rural areas than in the urban areas. In January 2007, however, all the food items shown in the table were cheaper in urban areas than in rural areas.

In January 2007 people living in rural areas had to pay, on average, R4.01 more for a 5kg bag of maize meal than people in the urban areas. The situation changed somewhat in October 2007 when the difference between the price of maize meal in urban and rural areas narrowed to R3.69. A 700 g loaf of brown bread and 700 g loaf of white bread were, respectively, R0.03 and R0.12 more expensive in January in rural areas than in urban areas. However, in October 2007 the opposite was true, i.e. prices in rural areas were actually lower than in urban areas. On average, the price differences for the selected products narrowed over the period under consideration, i.e. from R1.09 to R0.86. The possible reasons for these differences were highlighted in the previous Food Price Monitor (July 2007 available at http://www.namc.co.za/pages/pub_published.htm).

Table 3: Comparisons between urban and rural food prices (selected food items)

Product	Unit	Urban food prices (R)			Rural food prices (R)			Price difference (Jan) R/unit	Price difference (Oct) R/unit
		07-Jan	07-May	07-Oct	07-Jan	07-May	07-Oct		
Block type margarine	500 g	7.69	7.86	8.97	8.01	7.98	8.66	0.32	-0.31
Full cream long life milk	1 ℓ	6.51	6.78	8.20	6.85	7.47	8.97	0.34	0.77
Loaf of brown bread	700 g	4.59	4.77	5.19	4.62	4.74	4.96	0.03	-0.23
Loaf of white bread	700 g	4.98	5.26	5.74	5.10	5.47	5.65	0.12	-0.09
Maize meal[3]	5kg	17.39	20.10	21.03	21.40	22.79	24.72	4.01	3.69
Peanut butter	410g	10.19	10.44	11.56	11.22	12.11	11.78	1.03	0.22
Pilchards in tomato sauce	425 g	7.62	8.00	8.52	8.91	9.35	10.11	1.29	1.59
Cooking oil	750 ml	7.65	7.81	9.17	8.38	8.51	9.36	0.73	0.19
Sugar	2.5 kg	14.38	14.15	15.17	16.28	16.43	17.10	1.90	1.93
Average								1.09	0.86

[3] Super and special maize meal prices are average across brands

Discussion on selected topics

- **Global inflation trends**

The phenomenon of increasing food prices within South Africa reflects the current reality of the global food market. Global prices for non-energy commodities have continued to rise within the third quarter of 2007 as a result of both supply and demand conditions. The surge in prices has been led primarily by dairy and grains, but prices of other commodities, with the exception of sugar, have also increased significantly. According to the FAO (2007) Food Outlook, agricultural commodity prices rose sharply in 2006 and, in some cases, are soaring at an even faster pace during 2007. The FAO food price index rose by 9 percent in 2006 compared to 2005, and increased significantly up to September 2007 reaching 172 points, which represents a year-on-year increase in value of roughly 37 percent.

According to the LINK Global Outlook, published by the United Nations, continued robust global demand, particularly from emerging economies such as China is a primary factor for the upward movement in non-energy commodity prices. At the same time, higher oil prices also contribute to the upward pressure in prices, either directly in the form of higher production costs or through an indirect substitution effect. For example, higher oil prices have induced an expansion of bio-fuel production, and consequently the rise in the demand for and the prices of corn, soybeans and oil seeds.

According to the OECD-FAO Agricultural outlook 2007-2016, food price increases may continue to remain firm for the next 10 years or so; the reason for this being structural changes as a result of increased demand for feedstock from the biofuel production, impacts of past policy reforms, increased demand for protein, etc. The OECD-FAO agricultural outlook and the LINK Global Outlook expects global inflation to slow. Moreover, changes in inflation will differ across regions and countries and it is expected that in developed countries general inflation will decrease in 2008, while in developing countries it is expected to increase due to the impact of both energy and food prices which have a stronger impact on developing economies due to different consumption basket weights assigned to these goods.

Table 4 shows current and expected future price trends for selected major world commodities. Grain and dairy prices are expected to increase further, while most meat prices are likely to decline in the short-run. It is interesting to note that animal feed ingredient prices (grains) are expected to increase, while most prices of products that use the feeds as intermediate inputs, such as pork and beef, are expected to decline.

Table 4: Current and expected future price trends for selected major world commodities

Product	Price levels			Percentage changes	
	Average 01/02 to 05/6	2006/7est	2007/8	2005/6 to 2006/7	2006/7 to 2007/8
Wheat (US$/t)	152	204	204.5	34.21%	0.25%
Coarse grains (US$/t)	103.6	140.4	158.9	35.52%	13.18%
Rice (US$/t)	238.4	311.4	352.1	30.62%	13.07%
Vegetable oils (US$/t)	520.6	590.7	618	13.47%	4.62%
Raw Sugar (US$/t)	217.6	253.5	242.5	16.50%	-4.34%
Refined Sugar (US$/t)	269.7	360.5	341.7	33.67%	-5.21%
EU Beef and Veal (EUR/100kg)	244.1	285.2	250.4	16.84%	-12.20%
USA Beef and Veal (US$/100kg)	282	303.6	303.4	7.66%	-0.07%
Argentina Beef and Veal (ARs/100kg)	307.1	427.3	323.2	39.14%	-24.36%
EU Pork (EUR/100kg)	134.9	141.4	142.4	4.82%	0.71%
USA Pork (US$/100kg)	136.4	145	126.2	6.30%	-12.97%
Brazil Pork (BRL/100kg)	187.7	216.2	202.2	15.18%	-6.48%
EU Poultry meat (EUR/100kg)	102.8	101.5	100.5	-1.26%	-0.99%
USA Poultry meat (US$/100kg)	141.8	140.9	159.5	-0.63%	13.20%
Sheep meat (NZD/100kg)	390.1	330	325.4	-15.41%	-1.39%
Butter (US$/100kg)	155.9	186.5	196.2	19.63%	5.20%
Cheese (US$/100kg)	231.3	272.8	300.4	17.94%	10.12%
Skim milk powder (US$/100kg)	185.7	234.9	259.4	26.49%	10.43%
Average annual change (%)				16.70%	0.15%

Source: OECD-FAO, 2007. (est = estimate)

- **Primary determinants of South African food price inflation**

Given South Africa's deregulated and open market economy, global market trends have important implications for domestic markets, particularly food markets, in terms of supply conditions and prices. The Quarterly Food Price Monitor released in July provides a detailed description of the forces currently driving food prices globally and how these link to the domestic market (available at http://www.namc.co.za/pages/pub_published.htm)

In the discussion to follow, we review current trends in the producer price index (PPI) for the various agricultural commodity groups. The producer price index measures the change in producer prices and is therefore used as a measure of producer level inflation. Our reason for following these trends in producer price inflation is that it can give us an idea of how producer costs will be transferred to the consumer markets. For example, if agri-businesses have to pay more for agricultural commodity inputs, it is highly likely that this will put upward pressure on food prices. This is because processors, wholesalers and retailers would aim to maintain current margins or at least cover all costs to move the product to the end consumer. Figure 1 depicts the movement of the PPI from 2005 through to 2007 for grain, oil seeds, vegetables, fruit, meat and milk and eggs. The base year is 2000 and the time period under observation includes one year prior to the relative peak of global prices registered in 2006.

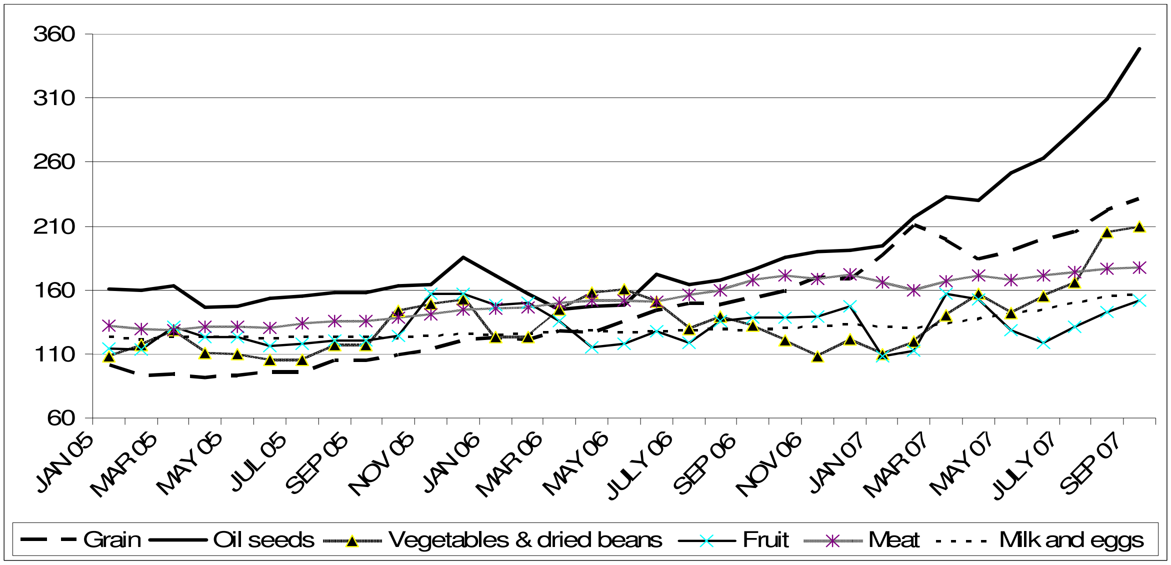

Figure 1: Agricultural Producer Price Index for Consumption in South Africa: 2005 to 2007

Source: Statistics South Africa, 2007.

Figure 1 shows that the PPI remained relatively constant for most agricultural commodities between January 2005 and mid-2006, except for grains, which saw a slight increase during this period. However, by July 2006 significant increases in the PPI for grain and oil seeds can be seen. For the other commodities such as vegetables and milk it was not until early 2007 that noticeable increases in the PPI were observed.

Table 5 reports the average PPI in September 2005, 2006 and 2007 together with the year-on-year percentage change between these three years. It is clear that the PPI for all agricultural commodities, except fruit and meats, increased significantly year-on-year, i.e. Sept-06 to Sept-07. There is no doubt that the increasing trend in the PPI has contributed to rising consumer prices for food items such as bread, maize meal, vegetables and milk (see Tables 1 and 2 above, as well as Appendices A and B).

Table 5: Producer Price Index (base 2000)

Commodity	Producer Price Index			Percentage change	
	05-Sep	06-Sep	07-Sep	Sept-05 to Sept-06	Sept-06 to Sept-07
Grain	104.5	153.7	231.2	47.10%	50.40%
Oil seeds	157.9	175.6	348.3	11.20%	98.30%
Vegetables & dried beans	117.3	132.1	209.7	12.60%	58.70%
Fruit	120.8	138.5	151.5	14.70%	9.40%
Meat	135.6	167.8	177.5	23.70%	5.80%
Milk and eggs	123.4	128.3	155.9	4.00%	21.50%

Source: Statistics South Africa, 2007.

- **Price trends in the wheat and bread markets**

Figure 2 depicts the price movements of bread and wheat in real terms (i.e. the data series have been deflated in order to remove the effects of inflation).

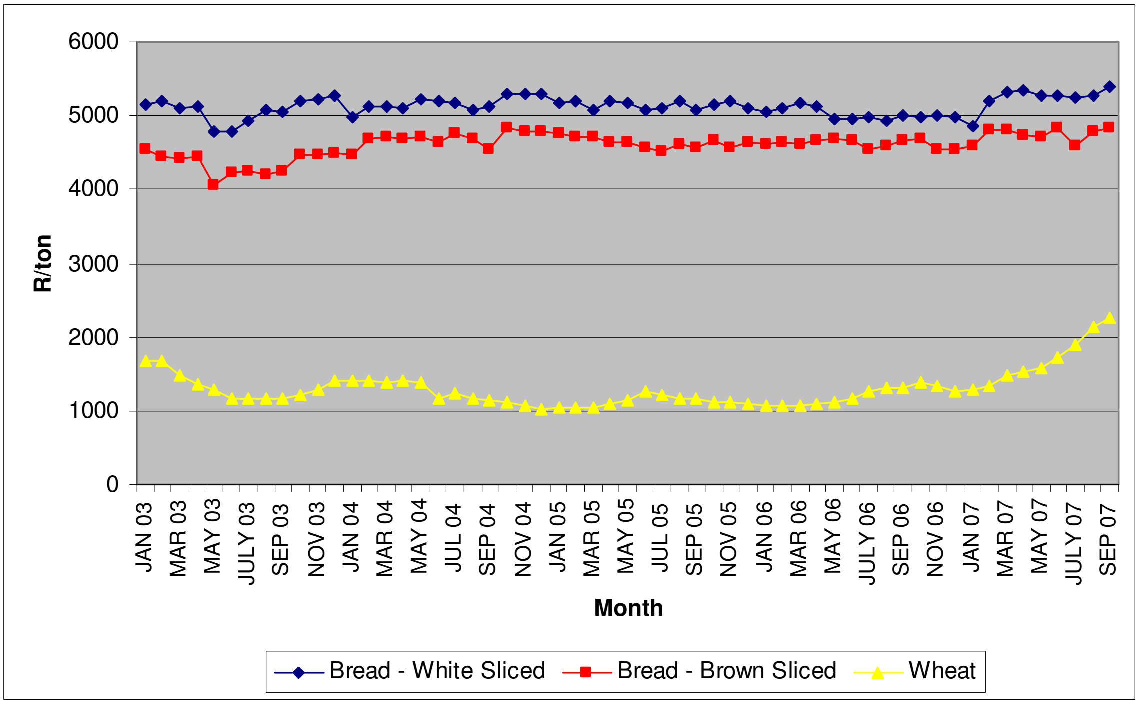

Figure 4: Inflation-adjusted wheat and bread prices (converted to R/ton)[4], (January 2003 to September 2007)

Starting in January 2003, one can see that wheat prices, in real terms, trend slightly downwards until September 2003, after which it increased until December 2003 and then remained relatively constant until May 2004. After that it dropped back to similar levels of mid-2003 and moved more or less sideways until June 2006, where after the real wheat price started its upward trends, gaining significant momentum from January 2007 to date. This upward trend in the latter periods under observation can be attributed to supply and demand shocks within the global grain markets.

Retail bread prices, measured in Rands per ton, followed a similar trend to that of wheat prices from January 2003, but only until May 2003. Thereafter real white bread prices increased until December 2003, whereafter they moved more or less sideways until January 2007. Since January 2007 prices appeared to increase gradually to date, although not in a linear fashion. Real brown bread prices continued to increase from

[4] Note that the methodology used in this report only shows the margin when all prices are converted to Rand per ton in real terms. The methodology used in the Food Cost Review analysis of the entire supply chain, including the various costs, price lags and extraction rates. Please visit www.namc.co.za/assets/pdf/foodcostreview_new020807.pdf for more detail. The trends showed in this report and the Food Cost Review are nevertheless similar.

May 2003 until March 2004, whereafter it moved more or less sideways until the end of the current period of observation.

From the above descriptive analysis the following is evident: (i) that real bread prices after the initial increase from mid-2003 up until early 2004 remained more or less at these levels for nearly two years despite the fact that wheat prices dropped back to price levels of mid-2003 for the majority of months over the same period, and (ii) real bread prices, especially brown bread, have not responded as significantly as real wheat prices to global trends in wheat prices since January 2007. Overall, one can postulate that real marketing margins widened in mid-2003 and remained more or less at these levels for the largest part of the period depicted.

Given the discussion above it is necessary to interrogate the price movements between 2003 and 2007 in a more disaggregated manner. Table 6 summarizes the means for wheat and bread prices, measured in Rands per ton.

Table 6: Descriptive Statistics (all variables in monetary units are expressed in constant 2000 rand per metric ton)

Year	Wheat price	Retail price, White bread	Retail price, Brown bread	Difference between white bread and wheat price	Difference between brown bread and wheat price
	Mean ((R/mt)			(R/mt)	
2003	1339	5076	4353	3737	3014
2004	1245	5168	4691	3923	3446
2005	1121	5144	4634	4023	3513
2006	1204	5021	4625	3817	3421
2007	1691	5241	4743	3550	3052

Between 2003 to 2004, mean real wheat prices declined from R1339/mt to R1245/mt or by 7.1%, while during the same period real retail prices for white and brown bread rose by 1.8% and 7.8%, respectively. This movement indicates that the marketing margins expanded in real terms.

Between 2004 and 2005, wheat prices continued to decline by 9.9% in real terms, while both white and brown bread prices declined as well, but only by 0.5% and 1.2%, respectively. This translated into another increase in the marketing margin (see last two columns of Table 6). The trends in real prices from 2005 to 2006 resulted in a reduction in the margin to more or less similar levels to 2004.

When prices move from 2006 to 2007, one can see a substantial increase in the mean real wheat price of 40.4%. The mean real white bread and mean real brown bread prices increased by 2.6% and 4.4%, respectively. The result is more or less similar marketing margins to 2003.

- **Price trends in fuel prices**

In addition to food prices, transport makes the largest contribution the CPIX increase, i.e. food contributed 3.1% and transport contributed 1% to the increase of 7.3% in the CPIX. It is therefore worthwhile to also reflect on transport, and more specifically fuel prices. Approximately 36% of South African demand for liquid fuels is met by locally produced synthetic fuels (largely from coal and natural gas). The remaining 64% is met by products refined locally from imported crude oil. South Africa produced 23 571 million litres of liquid fuels in 2005. The petrol price in South Africa is linked to the price of crude oil in international markets and is quoted in US dollars (US$) per barrel. Crude oil prices combined with the Rand/Dollar exchange rate therefore have a major impact on petrol prices (Department of Mineral and Energy, 2007). The petrol pump price is made up of certain international and domestic price elements. The international element, or Basic Fuel price (BFP), is based on the import parity principal (the cost for a South African importer of petrol to buy the petrol from an international refinery, transport the product from that refinery, insure the product against losses at sea and land the product on South African shores). To arrive at the final pump price in the different pricing zones (magisterial district zones) certain domestic transport costs, government imposts (or taxes and levies) and retail and wholesale margins need to be added to the international price. The petrol retail price is regulated by government, and changed every month on the first Wednesday of the month. The Central Energy Fund (CEF) is responsible for the price calculation (on behalf of the Department of Minerals and Energy). Changes in margins and the transport element are based on actual costs incurred by the South African industry and calculated according to a formula (approved by the Minister of Minerals and Energy) (iFleet, 2007). Figure 5 shows trends in the basic fuel and diesel prices.

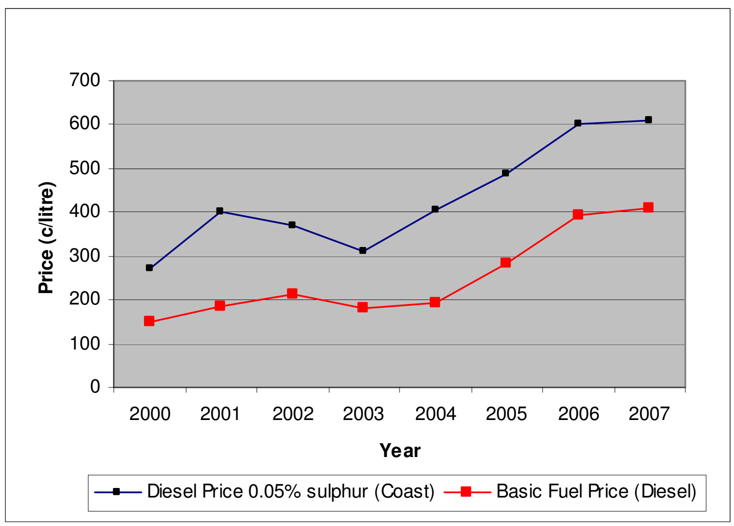

Figure 5: Basic Fuel Price (Diesel) and Wholesale Diesel Price (0.05 Sulphur) June 2000 to June 2007[5]

Source: Department of Minerals and Energy, 2007.

Farmers qualify for a fuel rebate of 83.5 c per liter (November 2007) on 80% of consumption, calculated as follows: The RAF (Road Accident Fund) levy (41.5 c per liter) plus 40% of the fuel tax (105 c per liter).

[5] See Appendix C for a breakdown of Diesel price.

Outlook: November 2007 to February 2008

This outlook period is characterized by a multitude of factors that push and pull food prices either up or down. Hence, the outlook will be discussed under a number of main themes.

- **Consumer expenditure pressure**

South African interest rates have increased significantly compared to 2006. This, together with a significant increase in debt levels of consumers, is pressuring consumer expenditure and also limiting the creditworthiness of consumers. The expected consequences are therefore a slowdown in general consumer expenditure leading to pressure on food consumption expenditure and therefore food prices especially in the more expensive and value added food categories.

- **Passing on non-food costs**

A second important trend is the general increase in non-food prices such as fuel prices, wage rates, as well as an increase in administered prices. Since food is essentially supplied through extensive supply chains, the impact of the general increase in non-food prices still needs to play out in full at consumer level. The result is that although the growth in per capita demand might be slowing down, food prices might still increase slightly as a result of increases in non-food costs.

- **Growth in consumer numbers**

The third trend of interest is the broad based increase in the number of consumers able to buy more food. The total consumer base is increasing as a result of empowerment in the economy, as well as immigration of people from countries such as Zimbabwe. The result is that although per capita consumer expenditure is under pressure, total demand is increasing as a result of more people with the ability to buy food and non-food items. The result of this broad based increase in consumer numbers is expected to become clearer during the festive season. It is expected, however, that expenditure during the 2007 festive season will not be at the same magnitude as the seasons of 2005 and 2006 due to consumers who are financially constrained as discussed in the first theme.

- **The festive season**

The possibility exists that moderate price increases in pork, poultry, and beef could occur during December. The reason for this is that profit margins of intensive livestock production units are under pressure due to extreme increases in feed costs. The significant increase in feed costs are a result of increases in grain prices, both domestically and international.

- **International market stabilization**

International grain markets appear to have stabilized after the majority of crops in the Northern Hemisphere have already been harvested. However, greater certainty exists around the Southern Hemisphere's harvest. Difficult plantings conditions have affected countries like Australia, Brazil and Argentina. The strong growth in especially developing economies is still driving demand for protein. This trend, along with the increase in feed costs, is pressuring intensive livestock production units' profits and is therefore driving up prices of final protein products since producers need to pass on the costs to consumers in order to relieve some pressure on profit margins.

- **Rainy days**

Local production conditions have improved significantly in both the summer and winter rainfall areas due to above average rainfall. Soil moisture has improved significantly in most parts of the summer production areas, creating the possibility for grain farmers to increase the area planted under summer grains. Conditions for vegetable and milk production have also improved rapidly because of the early rainfall. Together with favourable weather conditions, above-normal prices for grain, vegetable, and dairy products are providing farmers with strong incentives to expand production. There are three key factors that might limit the expansion in production. These are a possible shortage of seed and fertilizer and a rapid increase of input costs.

- **Un-replenished stocks**

Extremely low carryover stock levels in the domestic and international grain and oilseed markets will support grain and oilseed prices and might even cause a further increase. Although the current maize harvest in the USA is projected at record levels, indications are that it will not be enough to replenish world stocks due to the sharp increase in demand for maize. The result is that the stock situation remains on a knife's edge. This adds to the upward pressure on prices, especially as the demand for grains and oilseeds is increasing due to economic development but also because of biofuel production. In South Africa, stock levels are also very low. The result is that South Africa will be a net importer of almost all food products during the outlook period. The implication is that the exchange rate will have a significant influence on food prices during the outlook period. Currently, a weakening US Dollar is causing the Rand to strengthen. This makes imports cheaper, and therefore puts less upward pressure on food prices. However, should the Rand depreciate against the Dollar imports will become much more expensive. This effect will in time be passed on to the consumer through the marketing chain.

- **Herd building**

General grazing conditions are improving due to good rainfall in the summer production regions. As a consequence, livestock producers, especially beef farmers, are in a position of rebuilding their cattle herds after increased slaughtering, due to serious drought conditions over the past season, has reduced the size of cattle herds significantly. The impact of this will be a decrease in supply of live animals. This can be regarded as a lagged effect and will most probably have a larger impact on prices beyond the period under review in this outlook.

Conclusion: The outlook

Given the multitude of factors discussed, one can conclude that it is more likely for food prices to remain high and increase even further over the outlook period (November 2007 – February 2008). Although the first decrease in prices on the futures market can be expected due to traders' anticipation of a much larger crop, it takes time for the decrease in futures price to be transmitted to consumer prices and, therefore, consumer prices of food items will most probably remain high.

Key uncertainties:

Some factors appear to be key uncertainties. These might cause significant changes in the movement of food prices and could either increase or decrease food prices significantly during the outlook period:

Climatic

- Excessive temperatures in January and February during pollination of maize could have a dampening effect on eventual yields, and therefore total production. This can potentially cause a significant increase in maize future prices since stocks are low and imports will have to increase.
- Rainfall during November and December could cause significant damage to the table grape crop, leading to increases in prices.
- Given current expectations of climatologists of a possible La Nina occurrence, excessive rainfall during December and January could lead to flood conditions. This can potentially damage crops causing a decrease in total production of summer grains.

Economy and trade

- Exchange rate movements, especially the Rand US$ exchange rate, will show higher volatility. This is due indications that the Dollar will weaken further given economic problems in the USA.
- Shipping costs have already increased significantly during the past year because of rising fuel costs as well as a general shortage of shipping capacity. It is expected that shipping rates will remain high during the outlook period. However, any shock to the oil price, will affect shipping rates and influence the costs of imported food.
- Argentinean export taxes have recently increased, making imports from South America more expensive. South Africa imports yellow maize and wheat from Argentina, thus the question is whether South African importers will find alternative sources for imported grain or will they be willing to pay the higher price.
- Although clear signals exist that consumer expenditure is under pressure, formal statistics show that there is a general growth in lending. This indicates that consumers still have some room to manoeuvre in. Any additional spending on food over the festive season will put upward pressure on food prices.

APPENDIX A: DATA ON URBAN FOOD PRICE TRENDS[6]

Table A.1: Wheat Products

	Price level			Percentage change	
Wheat Products	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Bread – White Sliced 700g	4.94	5.26	5.74	9.13%	16.19%
Bread – Brown Sliced 700g	4.47	4.77	5.19	8.81%	16.11%
Flour 2.5kg	11.51	12.41	13.64	9.91%	18.51%
Spaghetti Plain 500g	5.61	5.95	6.68	12.27%	19.07%
Macaroni Plain 500g*	5.36	5.81	6.32	8.84%	17.94%
Average				**9.79%**	**17.56%**
SAFEX Wheat R/ton	1886	2246	3060	36.24%	62.25%

* Data from AC Nielsen

Table A.2: Maize Products

	Price level			Percentage change	
Maize Products	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Maize Super 5kg*	17.75	20.31	20.45	0.67%	15.20%
Maize Special 5kg*	13.00	17.53	17.51	-0.12%	34.71%
Average				**0.27%**	**24.96%**
SAFEX White Maize R/ton	1275	1653	1819	10.04%	42.66%

* Data from AC Nielsen

Table A.3: Sunflower Products

	Price level			Percentage change	
Sunflower Products	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Cooking Oil 750ml	7.34	7.81	9.17	17.41%	24.93%
Medium Fat Spread 1kg*	12.71	13.58	13.80	1.62%	8.58%
Margarine 500g Brick	7.51	7.86	8.97	14.12%	19.44%
Average				**11.05%**	**17.65%**
SAFEX Sunflower R/ton	2385	2890	4603	59.27%	93%

* Data from AC Nielsen

[6] Note: Data in these tables was obtained from both AC Nielsen and StatsSA. Data marked with a * was obtained from AC Nielsen.

Table A.4: Processed vegetables

	Price level			Percentage change	
Processed vegetables	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Beans in Tomato Sauce 420g	4.36	4.56	4.78	4.82%	9.63%
Butter Beans in Brine 410g	6.62	6.39	6.92	8.29%	4.53%
Chopped Peeled Tomato 410g*	6.74	6.90	6.90	-0.13%	2.30%
Tomato & Onion Mix 410g*	6.06	6.28	6.33	0.67%	4.35%
Canned Peas 410g*	5.14	5.30	5.32	0.40%	3.61%
Frozen Green Peas 1kg*	16.83	17.41	19.24	10.53%	14.35%
Frozen Baby Carrots 1kg*	23.50	23.45	25.12	7.15%	6.90%
Frozen Corn 1kg*	19.35	20.46	22.89	11.84%	18.27%
Frozen sliced beans 1kg*	22.42	22.16	24.05	8.55%	7.30%
Average				**5.79%**	**7.92%**

* Data from AC Nielsen

Table A.5: Fresh vegetables

	Price level			Percentage change	
Fresh Vegetables	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Carrots 1kg	6.58	6.95	6.94	-0.22%	5.52%
Onions 1kg	5.13	6.20	8.00	28.89%	55.96%
Potatoes 7kg*	15.11	16.94	24.92	47.11%	64.88%
Tomatoes 1kg	8.61	8.28	13.02	57.28%	51.20%
Sweet Potatoes 1kg	6.53	6.27	7.72	23.14%	18.13%
Cabbage per kg	2.94	4.09	4.75	15.97%	61.67%
Pumpkin per kg	8.23	5.98	8.90	48.92%	8.19%
Cauliflower per kg	12.35	13.50	12.96	-4.00%	4.93%
Average				**27.14%**	**33.81%**

* Data from AC Nielsen

The high price increases for some vegetables, including potatoes warrants some explanation. In the case of potatoes, there was a record crop at the end of 2006 due to good production conditions in all the production regions. However, the 2007 crop (specifically at the end of the winter season) was significantly lower due to a longer, colder and wetter winter in all the production regions. As a result 2 million (10kg) bags less were sold on the Fresh Produce Markets in October 2007 than was the case in October 2006. The fact that less bags was sold had a significant impact on the price. Hail damage early in the season and wet weather has caused lower supplies of onions to the market and hence higher prices. In the case of tomatoes frost had a significant impact on production due to lower than normal yields. Dry weather conditions in the early part of the year and then longer colder weather conditions later in the year had a significant (negative) impact on the supply of cabbages and hence higher prices.

Table A.6: Processed Meat

	Price level			Percentage change	
Processed Meat	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Meatballs in Gravy 400g*	8.27	9.28	9.35	0.84%	13.18%
Picnic Ham 300g*	15.67	16.63	17.77	6.85%	13.40%
Polony 1kg	16.86	17.80	18.99	6.69%	12.63%
Pork sausage 500g*	14.77	15.22	15.86	4.18%	7.38%
Average				**4.64%**	**11.65%**

* Data from AC Nielsen

Table A.7: Fresh meat

	Price level			Percentage change	
Fresh meat	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Bacon 250 gram	14.48	15.87	17.15	8.07%	18.44%
Pork Chops per kg	40.94	42.59	45.20	6.13%	10.40%
Lamb Chops per kg	60.64	64.15	65.57	2.22%	8.14%
Brisket per kg	35.98	36.22	37.37	3.18%	3.86%
Beef chuck – fresh per kg	38.32	39.01	39.46	1.14%	2.98%
Beef rump steak – fresh per kg	63.14	65.23	63.78	-2.21%	1.03%
Chicken - Whole Fresh per kg	21.23	23.26	24.71	6.21%	16.38%
Chicken portions per kg	26.93	28.52	30.21	5.92%	12.17%
Average				**3.83%**	**9.17%**

Table A.8: Dairy and eggs

	Price level			Percentage change	
Dairy and Eggs	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Butter 500g*	15.81	16.78	19.34	15.28%	22.32%
Fresh Milk Full Cream 2L*	10.24	11.72	13.61	16.10%	32.97%
Fresh Milk Low Fat 2L*	10.63	11.93	13.78	15.54%	29.65%
Fresh Milk Low Fat 1L Sachet*	4.95	5.09	6.45	26.69%	30.28%
Fresh Milk Full Cream 1L Sachet*	4.64	5.40	6.28	16.27%	35.19%
Skimmed Powder Milk 1kg*	42.62	44.95	56.43	25.55%	32.40%
Long Life Milk Full Cream 1L*	6.53	6.95	8.49	22.26%	30.09%
Eggs 18's	16.99	17.99	19.64	9.15%	15.57%
Average				**18.35%**	**28.56%**

* Data from AC Nielsen

Table A.9: Fruit

	Price level			Percentage change	
Fruits	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Peaches 410g	6.53	7.09	7.08	-0.14%	8.42%
Pears 410g	7.42	8.00	8.36	4.50%	12.67%
Apples 1kg	7.93	8.19	8.69	6.12%	9.58%
Oranges 1kg	4.49	6.35	5.50	-13.37%	22.46%
Banana 1kg	6.19	6.53	6.57	0.52%	6.11%
Average				**-0.47%**	**11.85%**

Table A.10: Fish

	Price level			Percentage change	
Fish	**Oct-06**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Oct-06 to Oct-07**
Pilchards in Tomato Sauce 425g	7.48	8.00	8.52	6.50%	13.90%
Tuna 170g	6.49	6.82	7.08	3.81%	9.09%
Average				**5.16%**	**11.50%**

Table A.11: Other

	Price level			Percentage change	
	Oct-06	May-07	Oct-07	May-07 to Oct-07	Oct-06 to May-07
King Korn 1kg*	7.84	8.74	9.08	3.95%	15.88%
Oats 1kg	12.99	13.95	16.13	15.63%	24.17%
Cornflakes 750g	21.85	22.73	22.71	-0.09%	3.94%
Rice Crispies 400g	17.27	17.80	18.21	2.30%	5.44%
Sugar 2.5kg	13.74	14.15	15.17	7.21%	10.41%
Rice 2kg	12.43	12.89	13.53	4.97%	8.85%
Ricoffy Reg 750g*	26.73	27.29	29.00	6.26%	8.49%
Tagless tea bags 62.5 g	4.73	5.11	5.15	0.78%	8.88%
Coca Cola Regular 2l	11.19	11.54	11.53	-0.09%	3.04%
Peanut Butter Smooth 410g	10.15	10.44	11.56	10.73%	13.89%
Strawberry Jam 450g	10.04	10.90	11.35	4.13%	13.05%
Smooth Apricot Jam 450g	8.05	8.33	8.35	0.24%	3.73%
Soya Mince Tomato & Onion 200g*	5.76	5.92	6.14	3.79%	6.69%
Average				**4.60%**	**9.73%**

* Data from AC Nielsen

APPENDIX B:
DATA ON RURAL FOOD PRICE TRENDS

Table B.1: Wheat products

	Price level (R)			Price change	
Wheat products	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Loaf of brown bread 600g	4.28	4.46	4.94	10.85%	15.38%
Loaf of brown bread 700g	4.62	4.74	4.96	4.59%	7.33%
Loaf of white bread 600g	4.66	4.80	5.42	13.11%	16.32%
Loaf of white bread 700g	5.10	5.47	5.65	3.25%	10.76%
Average				**7.95%**	**12.45%**

Table B.2: Maize products

	Price level (R)			Price change	
Maize products	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Maize meal 12.5kg	38.10	44.25	47.97	8.40%	25.92%
Maize meal 1kg	4.78	5.06	5.47	7.99%	14.49%
Maize meal 2.5kg	10.62	11.45	12.43	8.52%	17.03%
Maize meal 5kg	21.40	22.79	24.72	8.44%	15.52%
Samp 1kg	4.74	5.12	5.69	11.25%	20.05%
Samp 2.5kg	10.26	10.69	12.34	15.45%	20.24%
Average				**10.01%**	**18.87%**

Table B.3: Sunflower products

	Price level (R)			Price change	
Sunflower products	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Margarine 125g	3.72	3.67	3.89	5.83%	4.60%
Margarine 250g	5.60	6.12	6.25	2.12%	11.53%
Margarine 500g	8.01	7.98	8.66	8.43%	8.13%
Cooking oil 2L	18.84	19.03	20.57	8.11%	9.19%
Cooking oil 500ml	5.47	6.31	6.71	6.23%	22.60%
Cooking oil 750ml	8.38	8.51	9.36	9.96%	11.65%
Average				**6.78%**	**11.28%**

Table B.4: Dairy products

	Price level (R)			Price change	
Dairy products	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Full cream long life milk 1L	6.85	7.47	8.97	20.08%	30.99%
Full cream long life milk 500ml	4.80	4.86	5.78	18.86%	20.50%
Average				**19.47%**	**25.75%**

Table B.5: Tea and coffee

	Price level (R)			Price change	
Tea and coffee	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Tea 250g	14.92	15.35	14.96	-2.56%	0.25%
Tea 62.5g	4.92	5.25	5.56	5.80%	12.88%
Instant coffee 100g	6.54	7.04	7.45	5.79%	13.93%
Instant coffee 250g	14.07	14.59	15.37	5.36%	9.24%
Average				**3.60%**	**9.08%**

Table B.6: Pilchards

	Price level (R)			Price change	
Pilchards	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Pilchards in tomato sauce 155g	4.93	5.31	5.34	0.66%	8.41%
Pilchards in tomato sauce 425g	8.91	9.35	10.11	8.18%	13.46%
Average				**4.42%**	**10.94%**

Table B.7: Beans

	Price level (R)			Price change	
Beans	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Dried beans 1kg	9.03	9.71	11.24	15.79%	24.52%
Dried beans 500g	5.19	6.01	7.01	16.55%	35.09%
Butter beans 410g	6.46	6.24	6.86	9.94%	6.15%
Butter beans 420g	5.84	5.87	6.07	3.56%	4.01%
Average				**11.46%**	**17.44%**

Table B.8: Sugar

	Price level (R)			Price change	
Sugar	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
White sugar 1kg	6.90	6.98	7.49	7.41%	8.61%
White sugar 2.5kg	16.28	16.43	17.10	4.06%	5.02%
White sugar 500g	4.07	4.33	4.68	8.16%	14.99%
Average				**6.54%**	**9.54%**

Table B.9: Rice

	Price level (R)			Price change	
Rice	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Rice 1kg	7.20	7.67	8.79	14.61%	22.17%
Rice 2kg	15.88	14.85	15.06	1.43%	-5.16%
Rice 500g	3.94	4.09	4.06	-0.66%	3.03%
Average				**5.13%**	**6.68%**

Table B.10: Peanut butter

	Price level (R)			Price change	
Peanut butter	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Peanut butter 270g	8.60	8.78	9.52	8.48%	10.74%
Peanut butter 400g	10.62	11.33	11.61	2.49%	9.33%
Peanut butter 410g	11.22	12.11	11.78	-2.70%	4.95%
Average				**2.76%**	**8.34%**

Table B.11: Sorghum meal

	Price level (R)			Price change	
Sorghum meal	**Jan-07**	**May-07**	**Oct-07**	**May-07 to Oct-07**	**Jan-07 to Oct-07**
Sorghum-meal 1kg	7.10	7.32	8.35	14.09%	17.62%
Sorghum-meal 500g	4.27	4.28	5.00	17.01%	17.17%
Average				**15.55%**	**17.40%**

APPENDIX C:
BREAKDOWN OF DIESEL WHOLESALE PRICE ON 3 OCTOBER 07

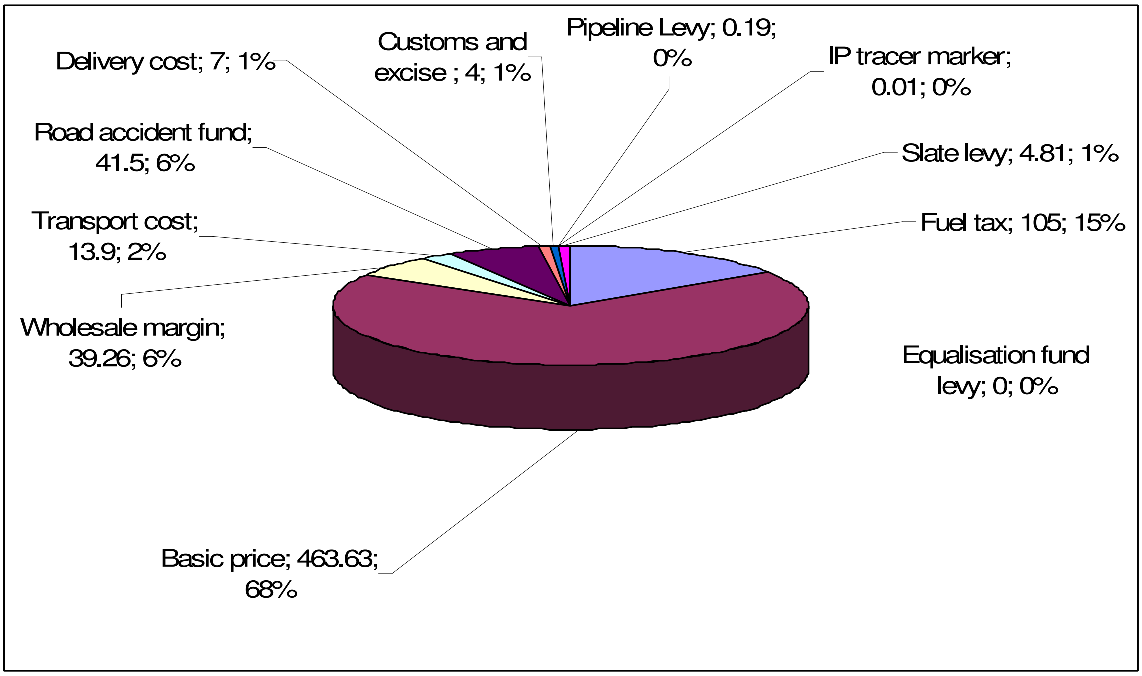

FIGURE: Breakdown of (Gauteng) diesel wholesale price: 679.30 c/l on 3 October 2007 (0.05% sulphur content) – price (c/l); percentage (%) of total price

Source: Department of Minerals and Energy, 2007.

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