

• National Agricultural Marketing Council •

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## MEDIA RELEASE

### Food price trends: July 2005 to July 2006

Food plays an important part in the daily life of every South African. As a result, few are immune to the effects of food price inflation. The affordability of food to the population at large is important, however it is of particular importance to the poorer segments of the population and those affected by HIV/AIDS as it directly impacts their ability to survive. STATS SA reported a CPI of 5% and CPI food of 7.5% for July 2006. In this media release, as in previous media releases, the year on year price changes as well as January to July price changes are reported. Factors that contributed to food price inflation will also be highlighted. A detailed discussion on certain products, and in particular maize meal, can be found in the second section of the document.

Based on the 75 food products monitored by the NAMC at retail level, year on year July 2005-2006 food price increase averaged 6.03%. Overall prices that increased by more than the inflation target of the Reserve Bank of 6% were: Plain macaroni (8.02%), super and special maize meal (35.5%), cooking oil (7.12%), frozen beans (8.78%), potatoes (9.92%), tomatoes (8.54%), lamb chops (26.51%), brisket beef (27.53%), beef mince(20.95%), stewing beef (30.22%), apples (16.5%), oranges (9.78%), pilchards (14.7%), king korn (16.77%). Products whose prices decreased year on year by more then 6% include: frozen peas (-9.91%), frozen corn (-10.15%), pork chop (-23.35%), cheese (-11.87%), skimmed milk powder (-17.54%), long life milk (-6.25%), strawberry jam (-9.52%), coca cola (-11.18%).

The tables below report the average price in July 2005, January 2006 and July 2006 together with the percentage change January 2006 to July 2006 as well as the year on year percentage change July 2005 to July 2006.

Wheat Products	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
Bread - White Sliced	4.58	4.62	4.71	1.96%	2.81%
Bread - Brown Sliced	4.07	4.22	4.29	1.76%	5.42%
Flour 2.5kg	10.92	10.88	10.64	-2.21%	-2.58%
Spaghetti Plain 500g	4.73	4.63	5.02	8.59%	6.15%
Macaroni Plain 500g	4.66	4.64	5.04	8.64%	8.02%
<b>Average</b>				<b>3.75%</b>	<b>3.97%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Maize Meal</b>					
Maize Super 5kg	12.50	13.03	16.97	30.20%	35.78%
Maize Special 5kg	10.90	11.19	14.73	31.67%	35.22%
<b>Average</b>				<b>30.93%</b>	<b>35.50%</b>

	Price level			Percentage change	
	July-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Sunflower Products</b>					
Cooking Oil 750ml	5.67	5.85	6.07	3.82%	7.12%
Medium Fat Spread 1kg Tub	11.33	11.84	11.23	-5.15%	-0.93%
Margarine 500g Brick	7.36	7.26	7.75	6.85%	5.34%
<b>Average</b>				<b>1.84%</b>	<b>3.84%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Processed Vegetables</b>					
Beans in Tomato Sauce 420g	3.97	3.86	3.69	-4.51%	-6.94%
Butter Beans in Brine 410g	6.14	6.31	6.34	0.51%	3.22%
Chopped Peeled Tomato 410g	6.19	6.17	6.19	0.40%	0.06%
Tomato & Onion Mix 410g	5.67	5.76	5.68	-1.27%	0.28%
Canned Peas 410g	4.76	4.80	4.77	-0.60%	0.22%
Frozen Green Peas 1kg	16.78	14.34	15.11	5.37%	-9.99%
Frozen Baby Carrots 1kg	21.20	22.16	21.96	-0.88%	3.61%
Frozen Corn 1kg	19.31	19.69	17.35	-11.90%	-10.15%
Frozen sliced beans 1kg	19.97	20.98	21.72	3.53%	8.78%
<b>Average</b>				<b>-1.04%</b>	<b>-1.21%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Fresh Vegetables</b>					
Carrots 1kg Pack	5.81	5.98	5.80	-3.03%	-0.31%
Onions 1kg Pack	6.14	5.01	6.11	21.93%	-0.57%
Potatoes BS- 7kg	13.80	18.63	15.17	-18.62%	9.92%
Tomatoes per kg	8.64	9.02	9.38	3.97%	8.54%
Sweet Potatoes 1kg	6.77	7.14	6.99	-2.23%	3.12%
<b>Average</b>				<b>0.40%</b>	<b>4.14%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Red Meat and Chicken</b>					
Meatballs in Gravy 400g	7.76	8.31	7.93	-4.53%	2.20%
Picnic Ham 300g	15.43	15.41	15.31	-0.66%	-0.78%
French Polony 1kg	17.45	17.65	16.88	-4.35%	-3.24%

Rind less Back Bacon 250g	14.21	14.28	14.79	3.59%	4.07%
Streaky Bacon 250g	12.70	13.06	13.28	1.67%	4.59%
Pork Chops per kg	39.61	35.10	30.36	-13.51%	-23.35%
Lamb Chops per kg	39.42	46.64	49.88	6.94%	26.51%
Boerewors per kg	29.00	30.30	27.55	-9.09%	-5.02%
Brisket per kg	24.85	26.87	31.70	17.96%	27.53%
Beef Mince per kg	25.10	26.30	30.36	15.45%	20.95%
Beef Stewing per kg	24.50	28.83	31.90	10.65%	30.22%
Chicken - Whole Frozen	17.08	18.37	16.66	-9.32%	-2.43%
Chicken - Whole Fresh	16.75	20.35	17.50	-14.03%	4.48%
<b>Average</b>				<b>0.06%</b>	<b>6.59%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Dairy and Eggs</b>					
Butter 500g	16.04	16.13	15.22	-5.65%	-5.11%
Cheese – Cheddar	39.94	33.04	35.20	6.56%	-11.87%
Fresh Milk Full Cream 2l	10.13	10.05	10.27	2.17%	1.38%
Fresh Milk Low Fat 2l	10.43	10.36	10.60	2.38%	1.62%
Fresh Milk Low Fat 1L Sachet	4.78	4.86	4.95	1.86%	3.49%
Fresh Milk Full Cream 1L Sachet	4.64	4.63	4.79	3.55%	3.31%
Skimmed Powder Milk 1kg	53.65	50.01	44.24	-11.54%	-17.54%
LongLife Milk Full Cream 1L	6.60	6.38	6.19	-2.96%	-6.25%
Eggs 30's	25.66	24.14	27.17	12.55%	5.91%
<b>Average</b>				<b>0.99%</b>	<b>-2.78%</b>

	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
<b>Fruit</b>					
Sliced Peaches 410g	6.21	5.85	5.93	1.34%	-4.52%
Pears Halves 410g	4.76	4.80	4.77	-0.60%	0.22%
Strawberry Jam 450g	10.17	10.13	9.20	-9.18%	-9.52%
Apricot Jam 450g	7.52	7.35	7.46	1.51%	-0.77%
Granny Smith Apples 1.5kg	6.74	10.63	7.85	-26.18%	16.50%
Orange 2.5 kg	7.28	12.52	7.99	-36.18%	9.78%
<b>Average</b>				<b>-9.90%</b>	<b>1.95%</b>

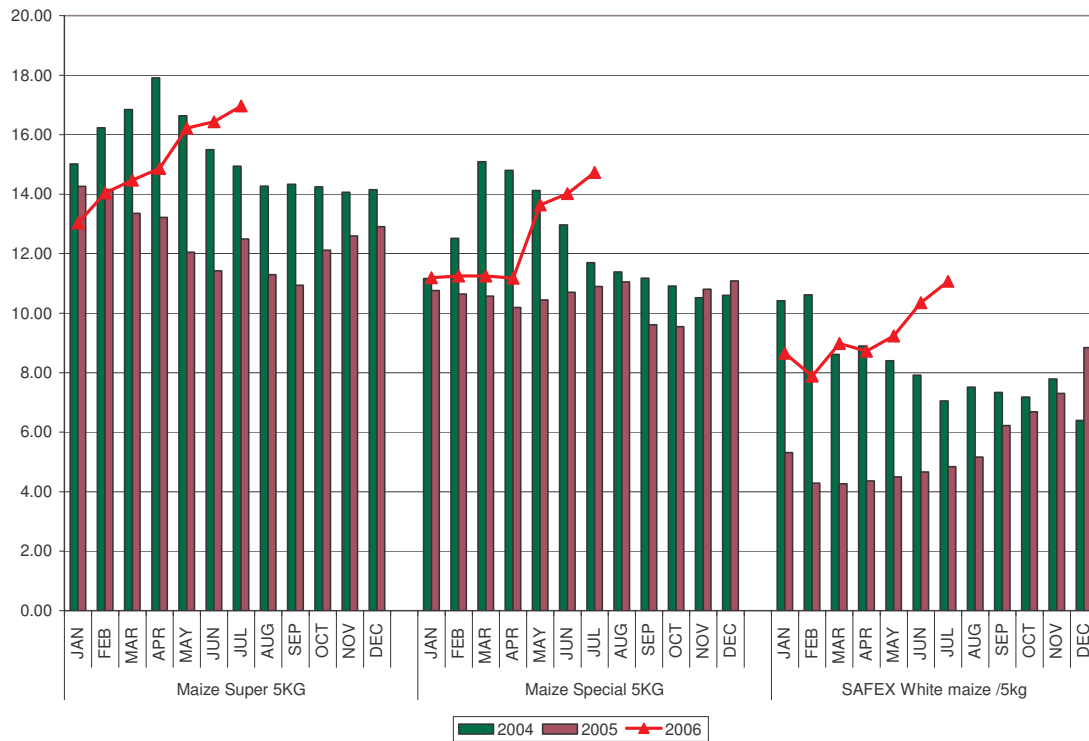
Fish	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
Pilchards in Tomato 425g	6.43	6.39	7.37	15.41%	14.70%
Tuna Shredded in Brine 170g	7.17	6.71	6.97	3.82%	-2.92%
<b>Average</b>				<b>9.61%</b>	<b>5.89%</b>

Other	Price level			Percentage change	
	Jul-05	Jan-06	Jul-06	Jan-06 to Jul-06	Jul-05 to Jul-06
King Korn 1kg	6.65	6.58	7.77	18.08%	16.77%
Jungle Oats 1kg	11.46	12.24	11.18	-8.69%	-2.50%
Cornflakes 750g	18.76	18.28	19.84	8.52%	5.75%
Rice Crispies 400g	15.16	15.60	15.88	1.80%	4.74%
Sugar 2.5kg	12.31	12.53	13.17	5.14%	6.99%
Rice 2kg	8.54	8.86	9.00	1.57%	5.42%
Ricoffy Reg 750g	26.44	26.62	25.98	-2.40%	-1.73%
Glen Tea 100's	9.69	9.86	9.86	0.03%	1.71%
Coca Cola Regular 2l	9.90	9.71	8.79	-9.48%	-11.18%
Peanut Butter Smooth 410g	8.89	8.97	8.90	-0.72%	0.08%
Soya Mince Tomato & Onion	5.70	5.86	5.71	-2.63%	0.11%
<b>Average</b>				<b>1.02%</b>	<b>2.38%</b>

## Detailed Discussion

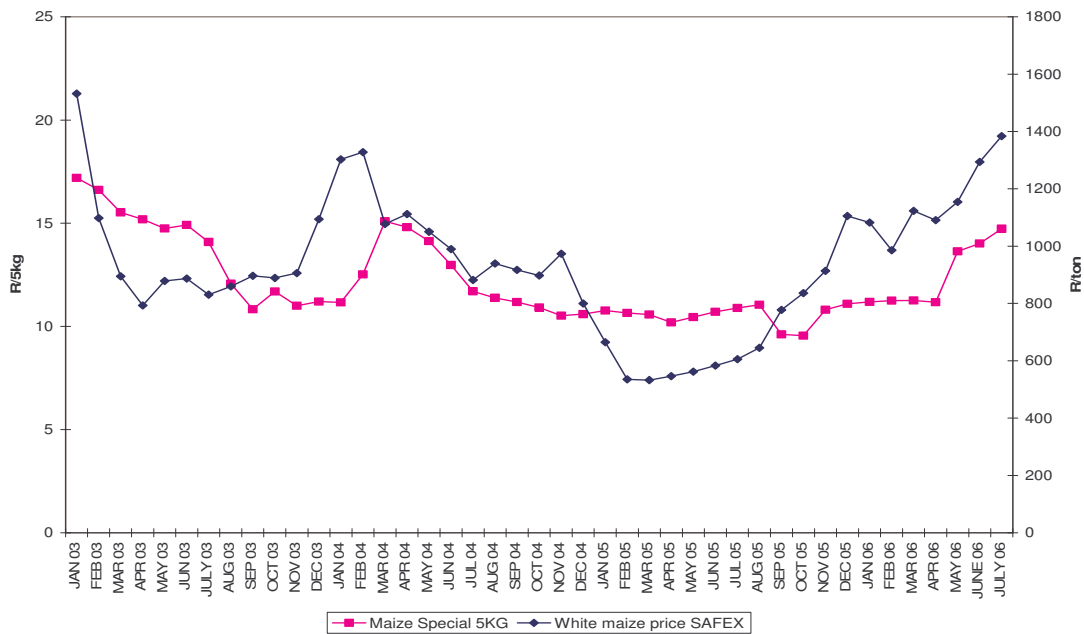
### *Maize meal*

Year on year July 2005-2006 maize meal prices increased on average by 35.50%. This is an extremely large price increase for a product considered to be a staple food for the majority of the South African population. The graph below reports the retail price for super and special maize meal for 2004, 2005 and 2006 together with the monthly average SAFEX spot price of white maize converted in 5kg bag of maize meal (far right panel in the diagram). The price of maize meal in SAFEX terms was calculated by taking into account an extraction rate of 0.63, which means that from one ton of maize you get 630kg of maize meal. It should be noted that NO production or transport costs were taken into consideration and the calculation was done to show the link between the SAFEX price and retail price trends. From this graph it is clear that the 2005 maize meal price was relatively low compared to the other two years, resulting in the high year on year price increase. From the graph it is also clear that maize meal prices only began to rise above 2004 price levels in June and also follow a similar trend to the SAFEX price.



**Figure 1: Year on Year Maize Meal Prices and SAFEX white Maize Price**

The graph below illustrates the strong relationship between the SAFEX spot price of white maize and the retail price of maize meal.



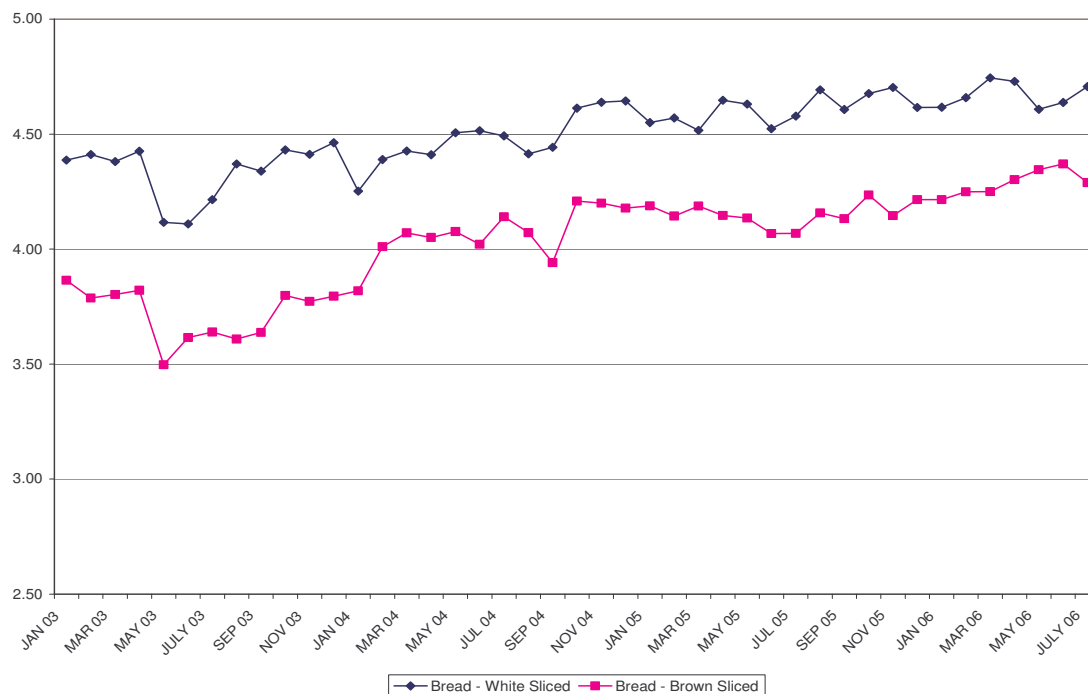
**Figure 2: Special Maize Meal Price and SAFEX White Maize Spot Price**

In the final report written by the FPMC in December 2003, a large section of the report was dedicated to the possibility of stabilizing prices through either a strategic grain reserve or a “virtual” grain reserve using the derivative market. The committee found that the cost and administration requirements of setting up and maintaining a physical grain reserve were prohibitive due to the purchasing and storing costs. The alternative to a physical grain reserve would be a “virtual” reserve through the use of SAFEX or international derivatives that

would be triggered in certain circumstances. This would be a much cheaper option, not without risks however. Over all the Committee felt that the strategic grain reserves (virtual or physical) would not be the best route to provide relief for the poorest households. The Committee also suggests that given the changing nature of the food economy, prices stabilised at commodity level would not necessarily be passed through to retail level and that more direct measures to ensure affordable food to communities may be a better option.

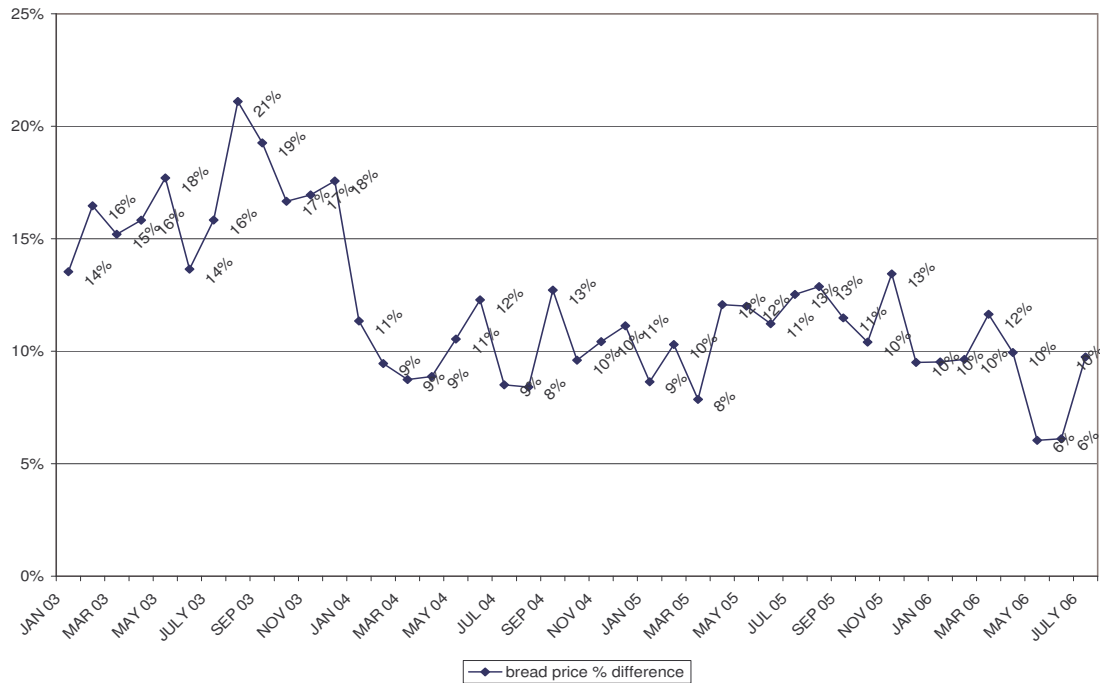
### Bread

Both white and brown bread prices continue to increase year on year. White bread increased by 2.8% and brown bread increased by 5.4% year on year July.



**Figure 3: Average White and Brown Bread Prices**

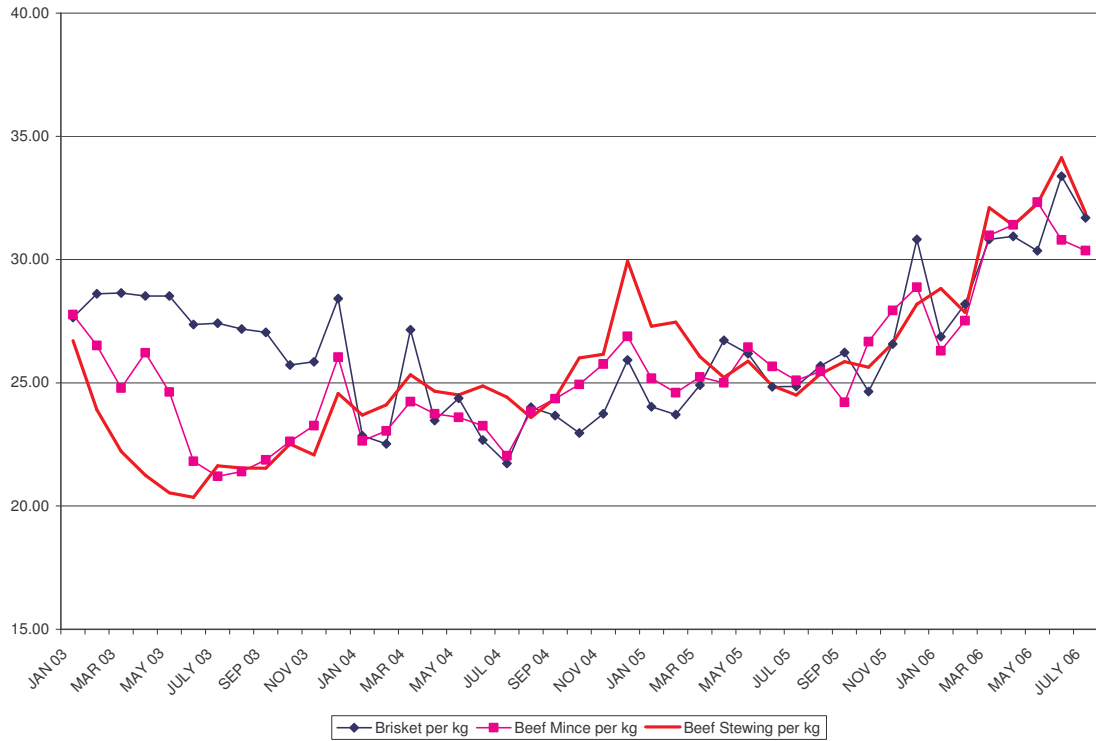
Although the bread price increases could be justified by increasing fuel prices, SAFEX prices and others, the production process and inputs remain the same for white and brown bread. For this reason one would expect the prices of the two products to change by the same amount. This is however not the case. The graph above shows how the “gap” between white and brown bread price is getting smaller. In January 2003 the difference between the price of your average loaf of brown and white bread was 14%, increasing to 21% in August 2003. This “gap” has been decreasing ever since, reaching a minimum of 6% in May and June 2006. This may not seem to be an issue, however, the government, in an effort to reduce the tax burden on the poor, exempts certain products from VAT, among these is brown bread. This means that the bread prices collected by the FPMC should show at least a 14% difference between the white and brown bread price. What this also means is that if VAT were levied on brown bread it would currently be more expensive than white bread even though it is cheaper to produce because you can produce 2280 loaves of brown bread from 1 ton of flour and only 2135 loaves of white bread from the same ton of flour. The graph below illustrates how the difference between white and brown bread prices is decreasing.



**Figure 4: Percentage Difference between White and Brown Bread Prices**

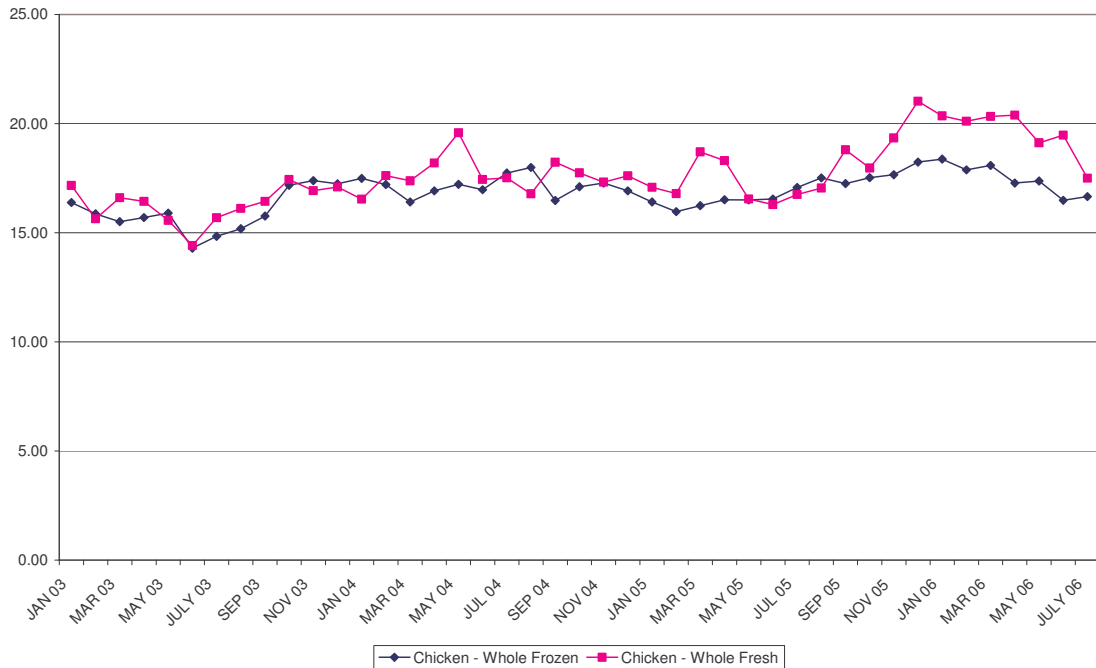
*Beef and Poultry products*

On average fresh beef products prices increased by 26% year on year at the retail level. The increase in the price of beef is largely due to the increase in weaner and grain fed carcass prices which increased by 35% and 26% respectively year on year. This increase in weaner and grain fed carcasses can be attributed to two dominant factors: the first is a relative shortage of livestock due to decreased imports from Namibia, and farmers holding back stock to increase herd sizes.



**Figure 5: Selected Beef Prices**

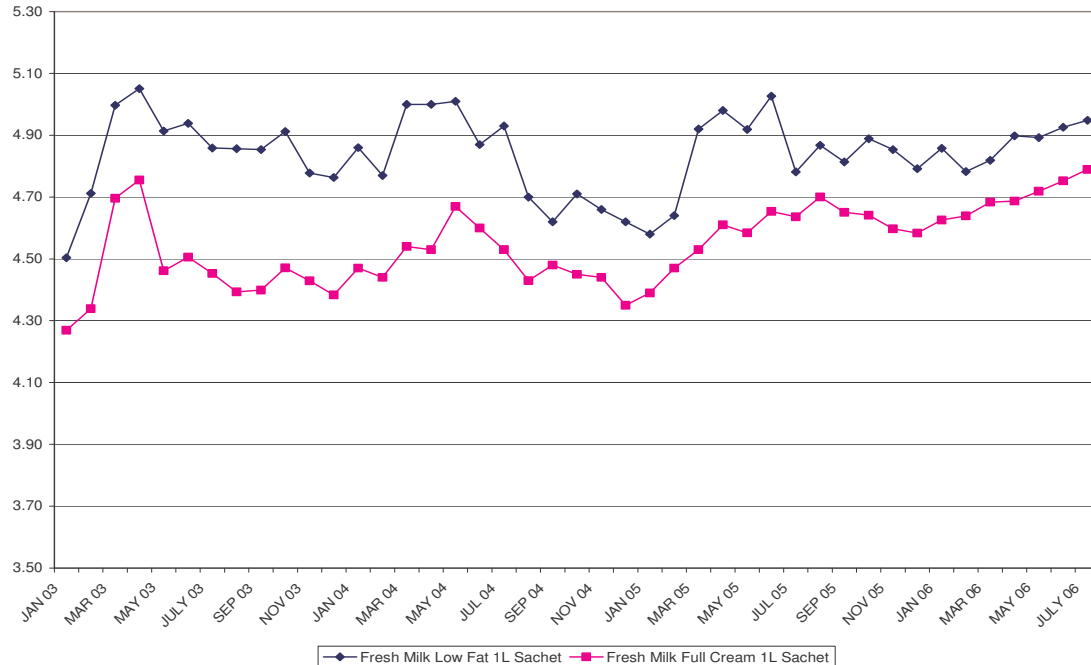
Whole fresh chicken prices increased by 4.48% while frozen chicken prices decreased by 2.43% year on year July. The increase in fresh chicken prices is likely due to the increased feed cost as maize constitutes the main component of poultry feeds.



**Figure 6: Fresh and Frozen Chicken Prices**

## Dairy products

Dairy prices display an interesting set of price changes with fresh milk prices increasing while cheese, butter, UHT milk and skimmed milk powder all decreasing. It is unclear why fresh milk prices increase while processed dairy prices follow a decreasing price trend as does the price of raw milk paid to farmers.



**Figure 7: Low Fat and Full Cream Sachet price**

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