

FOOD INFLATION- A SOUTH AFRICAN OVERALL PICTURE FROM THE NAMC¹ DATABASE

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1. INTRODUCTION

The right to access sufficient food and water as stipulated in subsection 1 (b) of section 27 of the constitution, of the Republic of South Africa, is under threat. This threat comes from increases in food prices exceeding the upper target (6%) of the South African Reserve Bank inflation targeting. The latest food price trends released by the NAMC show that food prices increased by **13.76%** year on year July 2006- July 2007. This is slightly higher than Statistics South Africa's figure of 10.2%. Food prices have been on a constant increase since 2005 as shown in **table 1**.

2. INTERNATIONAL EXPERIENCES

Food price inflation appears to be a global occurrence. Brookins (2007) shows some of the countries that experienced high food price increases recently.

- USA- **6.7%** May 2007 compared to **2.1%** corresponding period of 2006
- UK- CPI shows **6%** food inflation in April 2007, highest in six years
- China- **7.1%** food inflation in 2007 ending May 2007
- India- **more 10%** on year on year ending May 2007

3. PROBLEM STATEMENT

The South African socio-economics conditions:

- Unemployment- **25.5%**
- Poverty rate- not less than **40%**
- Inequalities- measured by the Gini coefficient stands at **0.56**

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Jensen (2007) argues that food inflation of more than 20% may lead to civil unrest where the majority of people are poor spending (30%-50%) of their disposable income on food. The continuing increase in the rate of food inflation poses a challenge to all the stakeholders. The poor and the majority are vulnerable to food inflation. This poster looks at food inflation and possible causes in South Africa.

4. RESULTS

Presented in **table 1** is food inflation from April 2005 to July 2007. This only includes the urban food price inflation.

Table1: Food price trends between 2005 and 2007

Food inflation	Period
5.65%	Apr 2005 – Apr 2006
6.03%	Jul 2005 – Jul 2006
7.30%	Oct 2005 – Oct 2006
7.88%	Dec 2005 – Dec 2006
7.58%	Mar 2006 - Mar 2007
13.76	Jul 2006 – Jul 2007

Source: NAMC (2006, 2007)

Table 2 shows that food is generally more expensive in rural areas compared to urban areas. The possible causes of the price differences are:

- Transport cost
- Lack of competition
- Transaction cost or cost of doing business

Table 2: Price levels and price change between January 2007 and August 2007 in both urban and rural areas

Product	Size	Urban prices					Rural prices					Urban price change	Rural price change
		Jan-07	Mar-07	May-07	Jul-07	Aug-07	Jan-07	Mar-07	May-07	Jul-07	Aug-07	Jan 07 to Aug -07	Jan 07 to Aug -07
Loaf of brown bread	700 g	4.44	4.68	4.67	4.65	4.86	4.62	4.60	4.74	4.82	4.92	9.36%	6.44%
Loaf of white bread	700 g	4.70	5.18	5.24	5.31	5.35	5.10	5.19	5.47	5.39	5.52	13.78%	8.18%
Maize meal (average super and special)	5 kg	15.47	16.44	18.92	19.22	19.24	21.40	21.61	22.79	24.36	24.21	24.33%	13.13%
Cooking oil	750 ml	7.30	7.11	7.49	8.02	8.42	8.38	8.51	8.51	8.82	9.01	15.33%	7.53%
Block type margarine	500 g	7.97	7.97	8.68	8.44	9.50	8.01	8.04	7.98	8.56	8.86	19.08%	10.64%
Full cream long life milk	1 l	6.48	6.71	6.95	8.01	8.34	6.85	7.14	7.47	8.22	8.45	28.80%	23.33%
Pilchards in tomato sauce	425 g	7.58	7.50	7.68	8.01	8.19	8.91	8.92	9.35	9.64	9.83	8.07%	10.26%
Peanut butter	410g	9.73	10.02	10.40	10.88	11.00	11.22	11.70	12.11	11.91	12.16	13.01%	8.32%
Sugar	2.5 kg	13.88	13.64	13.50	13.78	13.88	16.28	16.36	16.43	16.51	16.45	-0.04%	1.03%
Average price increase												14.63%	9.87%

Source; NAMC (2007)

5. POSSIBLE CAUSES OF FOOD INFLATION IN SOUTH AFRICA

- Global food market- **demand pull inflation** (import parity prices)
- Crude oil and bio-fuels- **cost push inflation and demand pull inflation**
- Population growth and incomes increase- **demand pull inflation**
- Weather conditions- **supply push**
- Monetary policy- **demand pull inflation** (see figure 1)

7. RECOMMENDATIONS

- Possible imports of GMO maize
- Support technology adoption to increase productivity
- Lower supply side constraints
- Increase social welfare grant to the vulnerable groups

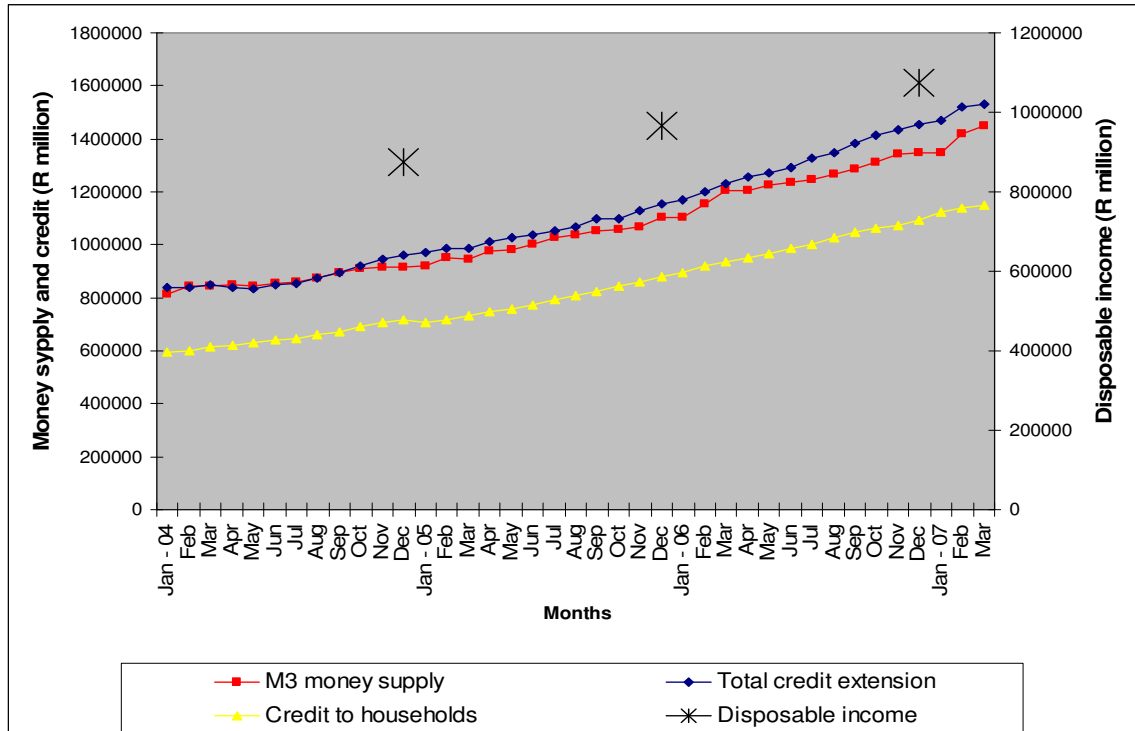


Figure 1: Monetary policy implication on food inflation

6. CONCLUSIONS

- Food inflation affects the vulnerable more severely
- Food inflation is a global challenge- not only see in South Africa
- There are a number of factor that cause food inflation recently

7. REFERENCES

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