



National Agricultural Marketing Council

Strategic positioning of South African Agriculture
in dynamic global markets

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MEDIA RELEASE*

Food price trends: March 2006 to March 2007

The functions of the Food Pricing Monitoring Committee – established by the Minister of Agriculture and Land Affairs in consultation with the Cabinet in 2003 – were assumed by the National Agricultural Marketing Council (NAMC) after the committee completed its work in August 2004. Prof. Johann Kirsten, the former chairperson of the Committee, continues in his capacity as council member to oversee the food price monitoring activities of the NAMC. The NAMC issues 4 media releases every year and since 2005 also publishes an Annual Food Cost Review, which documents the margins between farm prices and retail prices of the major food products - the 2006 Food Cost review is due in June 2007.

Basic food prices are once again increasing, generating concerns within government (note the Cabinet statement of 3 May 2007) and among consumers. These concerns are largely originating from our earlier press release (March 2007) and the most recent CPI figures released by STATSSA showing food price inflation at **7.7%** for the year March 2006 to March 2007 – down from the **8.6%** reported for January 2007. Many are in the process of trying to understand and/or identify the main factor(s) underlying increasing food prices. This media release (the 2nd statement on food price trends issued by the National Agricultural Marketing Council (NAMC) during 2007) attempts to do the same by providing further detail and analysis of the price levels and price trends for individual food items.

* The work behind the production of this Media Release on Food Prices is conducted under the auspices of the **Markets and Economic Research Centre (MERC)** of the NAMC.

Given the large concerns about food prices it is critical that we present a brief overview of the agricultural and food industry to put food price trends in better perspective. For this reason we depart from our usual format by providing some additional information in the introductory sections below.

Food Price Increases: Understanding the complexity of the food industry

Consumers seldom purchase food or food products directly from farmers. Every food product that is sold in a retail store undergoes transformation as it moves up the supply chain. The price the consumer pays for food is almost invariably higher than payment received by the farmers.

It is also true that there is little appreciation for the fact that all food originate from the farming sector where farmers have to deal with rapid rising input costs, extreme weather risks and extreme variability of market prices caused by sharp fluctuations in production levels and world prices. For example, the international prices for grain commodities have increased sharply in the last year – largely as a result of a drought in Australia (wheat) and the increase demand for maize in the US for biofuels. Farmers produce the basic raw commodity to be processed for the final consumer product (i.e. wheat-to-bread; maize-to-maize meal; sunflower seeds-to-cooking oil; milk-to-cheese) and when farmers sell these commodities they usually have no ability to influence market prices since so many produce the same product and sell to only a few big buyers. Because of the fully deregulated and liberalized domestic market for agricultural products the prices farmers receive are either a function of the combination of world prices, exchange rates and transport costs (in the case of maize, wheat, rice, sunflower, soybeans), or it is negotiated between farmers and agri-food business (for example dairy, processed potatoes, sugar). In these circumstances farmers have little or no bargaining power.

Food price trends: March 2006 – March 2007

As usual we report on the nominal year-on-year (March 2006 to March 2007) price changes for the major food products as well as the price changes between January and March 2007. The analysis of individual food items provides a more comprehensive analysis where we distinguish between “real” and “inflationary” effects of the main groups of commodities responsible for the increase in the cost of the basic food basket. The first section of the document highlights products whose prices have increased by more than the inflation target of 6% which is then followed by a detailed discussion on the price trends of the major food commodities.

Based on the food items monitored by the NAMC at retail level, national average prices increased on average by **7.58%** between March 2006 and March 2007. It should be noted that this figure differs from that of STATSSA (**7.7%**) because we take a simple average while STATSSA uses a weighted average based on the income and expenditure survey. The food commodities, in our basket, that increased by more than the inflation target of the Reserve Bank of 6% include:

- spaghetti (14.93%),
- macaroni (14.84%),
- flour (9.23%),
- white bread (9.16%),
- brown bread (10.09%),
- super maize meal (24.98%),
- special maize meal (31.50%),
- rice (12.91%),
- jungle oats (10.69%),
- tinned meatballs in gravy (15.40%),
- streaky bacon (7.49%),
- brisket beef (17.08%),
- lamb chops (26.34%),

- stewing beef (7.08%),
- frozen chicken (33.84%),
- fresh whole chicken (7.55%),
- picnic ham (7.74%),
- tuna in brine (7.14%),
- Long-life – full cream (7.07%),
- peanut butter (12.30%)
- cooking oil (21.87%),
- medium fat spread (14.32%),
- butter beans (11.30%),
- tinned chopped peeled tomato(10.00%),
- canned peas (8.00%),
- frozen peas (10.11%),
- frozen baby corn (19.17%),
- onions (19.95%),
- carrots (20.53%)
- tomatoes (7.74%)
- broccoli (17.81%)
- tinned sliced peaches (12.27%),
- tinned pear halves (11.52%),
- apricot jam (16.5%),

In our list 66 products in the tables below we have noted 10 products that have shown a decrease in prices from their March 2006 levels. The most noteworthy are: beans in tomato sauce (-1.53%), cheddar cheese (-14.36%), skimmed milk powder (-12.77%), margarine brick (-1.86%), tinned tomatoes & onions (-1.93%), cauliflower (-49.36%), potatoes (-24.49%), granny smith apples (-6.18%).

The tables below report the average price in March 2006, January 2007 and March 2007 together with the percentage change from January 2007 to March 2007 as well as the

year-on-year percentage change between March 2006 and March 2007. In addition we report the percentage changes of the main commodity prices to create some understanding for the correlation between commodity and retail prices.

Table 1: Wheat Products

Wheat Products	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Bread – White Sliced	4.74	4.70	5.18	10.2%	9.2%
Bread – Brown Sliced	4.25	4.44	4.68	5.4%	10.1%
Flour 2.5kg	10.30	11.29	11.25	-0.3%	9.2%
Spaghetti Plain 500g	4.75	5.42	5.46	0.9%	14.9%
Macaroni Plain 500g	4.76	5.43	5.47	0.7%	14.8%
Average				3.4%	11.6%
SAFEX Wheat R/ton	1409.30	1775.09	2051.54	15.6%	45.6%

Table 2: Maize Products

Maize Products	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Maize Super 5kg	14.47	17.21	18.08	5.1%	25.0%
Maize Special 5kg	11.25	13.74	14.80	7.7%	31.5%
Average				6.4%	28.2%
SAFEX White Maize R/ton	1122.67	1345.68	1920.48	42.7%	71.1%

Table 3: Sunflower Products

Sunflower Products	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Cooking Oil 750ml	5.84	7.30	7.11	-2.5%	21.9%
Medium Fat Spread 1kg Tub	10.56	13.38	12.07	-9.8%	14.3%
Margarine 500g Brick	8.12	7.97	7.97	0.0%	-1.9%
Average				-4.1%	11.4%
SAFEX Sunflower R/ton	1729	2501.91	2743.85	9.7%	58.7%

Table 4: Processed Vegetables

Processed Vegetables	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Beans in Tomato Sauce 420g	3.89	3.86	3.83	-1.0%	-1.5%
Butter Beans in Brine 410g	6.35	7.11	7.07	-0.6%	11.3%
Chopped Peeled Tomato 410g	6.09	6.68	6.70	0.3%	10.0%
Tomato & Onion Mix 410g	5.75	6.15	5.99	-2.5%	4.2%
Canned Peas 410g	4.80	5.21	5.18	-0.4%	8.0%
Frozen Green Peas 1kg	14.71	17.24	16.19	-6.1%	10.1%
Frozen Baby Carrots 1kg	22.34	23.37	22.46	-3.9%	0.5%
Frozen Corn 1kg	17.35	20.58	20.67	0.5%	19.2%
Frozen sliced beans 1kg	20.99	22.37	22.20	-0.7%	5.8%
Average				-1.6%	7.5%

Table 5: Fresh Vegetables

Fresh Vegetables	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Carrots 1kg Pack	5.55	6.10	6.69	9.6%	20.5%
Onions 1kg Pack	5.60	5.47	6.72	22.8%	19.9%
Potatoes BS- 7kg	17.68	15.03	13.35	-11.2%	-24.5%
Tomatoes per kg	9.06	9.84	9.76	-0.8%	7.7%
Sweet Potatoes 1kg	6.97	7.22	7.21	-0.2%	3.4%
Average				4.0%	5.4%

Table 6: Fresh Meat

Red Meat and Chicken	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Chicken - Whole Frozen	18.09	23.89	24.21	1.3%	33.8%
Chicken - Whole Fresh	20.33	21.71	21.86	0.7%	7.5%
Rind less Back Bacon 250g	15.07	15.47	15.54	0.4%	3.2%
Streaky Bacon 250g	13.90	14.38	14.94	3.9%	7.5%
Pork Chops per packet	42.13	37.68	41.66	10.6%	-1.1%
Lamb Chops per packet	42.86	58.01	54.15	-6.7%	26.3%
Brisket per packet	30.82	35.86	36.08	0.6%	17.1%
Beef Mince per packet	30.98	33.10	30.69	-7.3%	-0.9%
Beef Stewing per	32.11	34.43	34.38	-0.1%	7.1%

packet					
Average				0.4%	11.2%

Table 7: Processed Meat

	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Meatballs in Gravy 400g	8.39	9.23	9.68	4.8%	15.4%
Picnic Ham 300g	15.35	16.01	16.54	3.3%	7.7%
French Polony 1kg	17.10	18.10	18.08	-0.1%	5.7%
Pork Sausages 500g	14.88	15.13	15.56	2.9%	4.6%
Boerewors per packet	29.37	31.35	29.35	-6.4%	-0.1%
Average				0.9%	6.7%

Table 8: Dairy and Eggs

Dairy and Eggs	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Butter 500g	15.92	15.95	16.32	2.3%	2.6%
Cheese – Cheddar	43.52	37.42	37.27	-0.4%	-14.4%
Fresh Milk Full Cream 2l	10.01	10.20	10.69	4.8%	6.8%
Fresh Milk Low Fat 2l	10.26	10.54	10.95	3.9%	6.7%
Fresh Milk Low Fat 1L Sachet	4.82	4.85	5.01	3.2%	3.9%
Fresh Milk Full Cream 1L Sachet	4.68	4.60	4.77	3.8%	1.9%
Skimmed Powder Milk 1kg	51.48	42.65	44.90	5.3%	-12.8%
Long Life Milk Full Cream 1L	6.27	6.48	6.71	3.6%	7.1%
Eggs 30's	26.89	28.89	28.30	-2.1%	5.2%
Average				2.7%	0.8%

Table 9: Fruit

Fruit	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Sliced Peaches 410g	5.60	6.00	5.83	-2.8%	4.1%
Pears Halves 410g	7.01	7.68	7.81	1.7%	11.5%
Granny Smith Apples 1.5kg	11.10	10.16	10.41	2.5%	-6.2%

Average				4.9%	21.5%
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Table 10: Fish

Fish	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
Pilchards in Tomato 425g	7.17	7.58	7.50	-1.1%	4.6%
Tuna Shredded in Brine 170g	6.66	7.00	7.13	1.9%	7.1%
Average				0.4%	5.9%

Table 11: Other

Other	Price level			Percentage change	
	Mar-06	Jan-07	Mar-07	Jan-07 to Mar-07	Mar-06 to Mar-07
King Korn 1kg	7.42	7.87	7.88	0.1%	6.1%
Jungle Oats 1kg	12.15	13.00	13.45	3.5%	10.7%
Cornflakes 750g	19.42	20.48	20.09	-1.9%	3.5%
Rice Crispies 400g	16.46	16.33	17.59	7.7%	6.9%
Sugar 2.5kg	12.90	13.88	13.64	-1.7%	5.8%
Rice 2kg	8.95	10.25	10.10	-1.4%	12.9%
Ricoffy Reg 750g	25.12	26.46	26.30	-0.6%	4.7%
Glen Tea 100's	10.18	10.60	10.23	-3.5%	0.5%
Coca Cola Regular 2l	10.17	10.55	10.21	-3.3%	0.3%
Peanut Butter Smooth 410g	8.92	9.73	10.02	3.0%	12.3%
Strawberry Jam 450g	9.47	10.00	10.00	0.0%	5.6%
Apricot Jam 450g	6.80	7.87	7.92	0.5%	16.5%
Soya Mince Tomato & Onion	5.88	5.83	5.77	-1.0%	-1.9%
Average				0.1%	6.4%

Detailed Discussion: How bad are these increases?

In terms of changing prices, when people speak of food prices, they refer to changes in nominal prices, measured in Rands. But nominal prices do not specify how much of the difference is from changes in the value of money over time. Real prices remove this ambiguity by removing the distorting effect of inflation from the phenomenon of rising food prices.

The analysis done in the previous section summarizes the nominal price increases of basic food items. In this section, we will look at “real” price changes in order to distinguish between the ‘real’ and ‘inflationary’ effects of increasing food prices. All real price series are in constant 2000 Rands.

Typical Food Basket

To illustrate this point we compare the cost of the basket of food items the Food Price Monitoring Committee selected to monitor in 2003 with the cost of the same basket in subsequent years. Between January 2003 (at the height of the previous food price crisis) and March 2007, the cost of this food basket, consisting of items listed in Table 12 below, rose from R253.85 to R288.52 in nominal terms. This represents a nominal increase in food costs of R35 or 13.7% over more than 4 years. The cost of the food basket was at its lowest in August 2004 when the FPMC report was handed to the Minister of Agriculture and Land Affairs and increased steadily in the following years. When we deflate the nominal prices (i.e. remove the effects of inflation on prices) the real cost of a typical food basket decreased by 0.7% during the same period. Figure 1 below depicts the price movement of a typical food basket between 2003 and 2007. From this figure we see that nominal price for the food basket trend upwards at a rate of approximately 63 cents per month. However, when the effects of inflation are removed, food prices in fact remain relatively constant over the observation period.

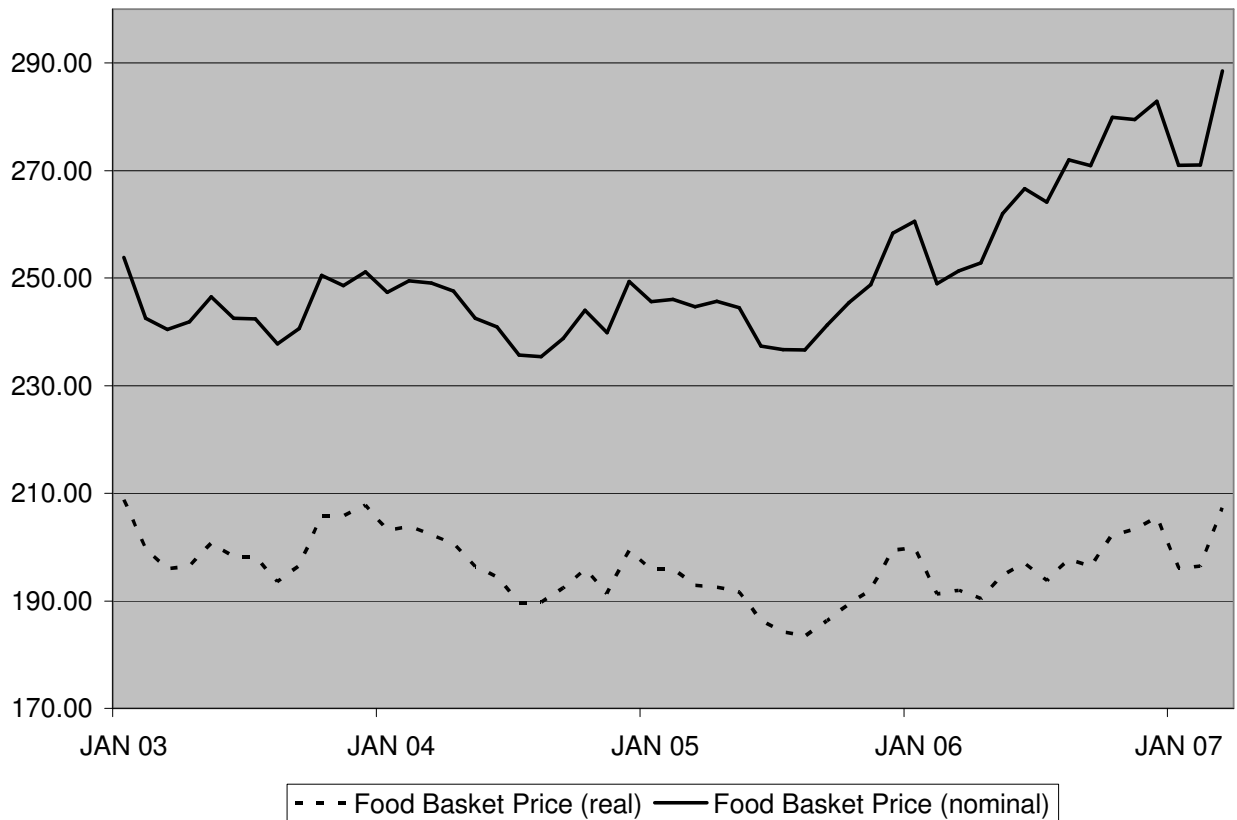


Figure 1: Typical Food Basket: Nominal vs. Real Costs

Table 12: A cross time comparison of the cost of buying a basket of 23 food items (2003 – 2007)

	JAN 03	SEP 03	AUG 04	MAR 05	MAR 06	MAR 07
Bread - White Sliced	4.39	4.34	4.41	4.52	4.74	5.18
Bread - Brown Sliced	3.86	3.64	4.07	4.19	4.25	4.68
KOO Butter Beans in Brine 410g	5.22	5.69	5.97	6.03	6.35	7.07
Lucky Star Pilchards in Tomato 425g	6.72	6.84	6.81	6.21	7.17	7.50
Cooking Oil 750ml	7.00	6.45	6.45	6.01	5.84	7.11
Maize Super 5KG	19.52	16.75	14.27	13.35	14.47	18.08
Sugar 2.5KG	11.79	12.29	12.13	12.19	12.90	13.64
Rice 2KG	9.98	8.88	8.44	8.68	8.95	10.10
Ricoffy Reg 750g	26.47	26.05	25.94	25.27	25.12	26.30
Glen Tea 100's	10.67	10.76	10.09	10.29	10.18	10.23
LongLife Milk Full Cream 1L	5.83	6.67	6.49	6.62	6.27	6.71
Rama 500g Brick	7.47	8.27	7.46	7.34	8.12	7.97

	JAN 03	SEP 03	AUG 04	MAR 05	MAR 06	MAR 07
Black Cat Peanut Butter Smooth 410g	7.74	9.24	9.48	9.39	8.92	10.02
Chicken - Whole Fresh	17.17	16.44	16.78	18.70	20.33	21.86
Eggs 30's	24.51	24.36	24.73	25.48	26.89	28.30
Beef Stewing per kg	26.71	21.54	23.59	26.06	32.11	34.38
Onions 1kg Pack	4.63	6.98	5.97	5.34	5.60	6.72
Cabbage - Each (Head)	3.76	3.73	3.34	2.71	0.00	5.56
Potatoes BS - 7kg	16.39	13.64	11.53	14.98	17.68	13.35
Tomatoes per kg	8.42	8.66	9.62	9.54	9.06	9.76
Granny Smith Apples 1.5kg	10.66	7.03	5.30	9.09	10.63	10.41
Bananas 1kg	5.38	5.41	4.92	4.74	5.80	10.24
Oranges Bag 2.5kg	9.58	6.99	7.60	7.99	8.80	13.34
Total cost of Food Basket (nominal)	253.85	240.63	235.40	244.71	260.18	288.52
Total cost of Food Basket (real 2000 prices)	208.76	196.44	189.69	192.84	191.96	207.27
Wage rate (Rand per month) [Typical wage for 2003 adjusted annually by the rate at which official minimum wages were adjusted]	1000	1000	1089.47	1186.97	1242.50	1301.25
Basket as share of wage (nominal)	25.4%	24.1%	21.6%	20.6%	20.9%	22.2%

Notes: January 2003: Appointment of Food Price Monitoring Committee
September 2003 End of time series for FPMC analyses
August 2004 Report of FPMC made public

Purely for illustration purposes, we also tried to express the cost of the food basket as a share of typical lower end wage. If we assume an average minimum wage a R1000 per month and adjust it with the rate at which the lowest minimum wages were adjusted as published in the government gazette, the food basket expressed as a share of this income dropped from the high of 25% in January 2003 to a low of 20.6% in March 2005 and increased to 22.2% in March 2007. This statistic can be interpreted in a number of ways: It again shows that food prices declined since the last high point of 2003 and recently increased to the same levels of 2003. It again confirms that the increase in food price trends is much more influenced by macro and international factors such as the exchange rate, oil prices and commodity prices. The intention of this analysis is not to show that workers are better off but rather to show that agriculture is still succeeding in its goal to provide affordable food to the population of South Africa

Maize meal

Year-on-year March 2006-2007 maize meal prices increased, in nominal terms, by 28.2%. When we remove the effect of inflation, we see that on average, maize meal prices increased by 20.8% in real terms. This can be attributed to the increase in the SAFEX commodity prices for white and yellow maize as shown in Table 2. These increases can again be traced back to the increase in the international commodity prices and the drought conditions during the domestic production season and a weaker exchange rate during 2006/07. However, when the real maize meal prices are plotted over the past four years we see that in real terms they trend downwards. Figure 2 depicts real price movements for 5kg bags of super and special maize meal between January 2003 and March 2007. When a linear trend line is fitted to the series, we see that the super maize meal price declined at a rate of 7 cents per 5kg bag per month, whereas that of special maize meal declined by 5 cents per month, in real terms.

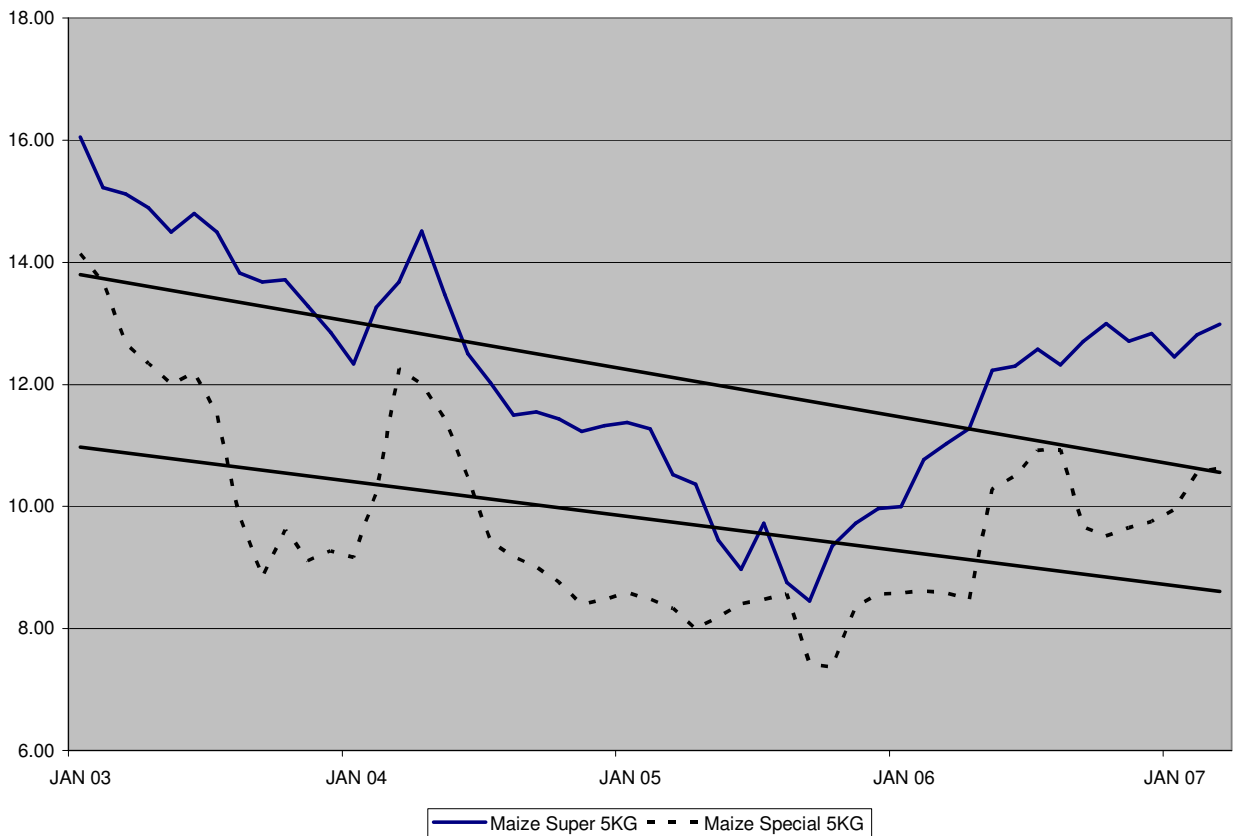


Figure 2: Real Maize Meal Prices: Super and Special

Bread

The bread price increased on average by 9.7% in nominal terms between March 2006 and March 2007. This is above the inflation target of 6%. When the effects of inflation on bread prices are removed, they increased on average by 3.4% in real terms. This indicates that although there are other factors responsible for increasing bread prices, inflation is the primary driver. When brown and white bread prices are disaggregated and deflated an interesting trend emerges. Figure 3 depicts the movement of real prices for both white and brown bread loaves between January 2003 and March 2007. When trend lines are fitted to both series we observe a relatively constant trend in white bread prices but a slightly increasing trend for brown bread.

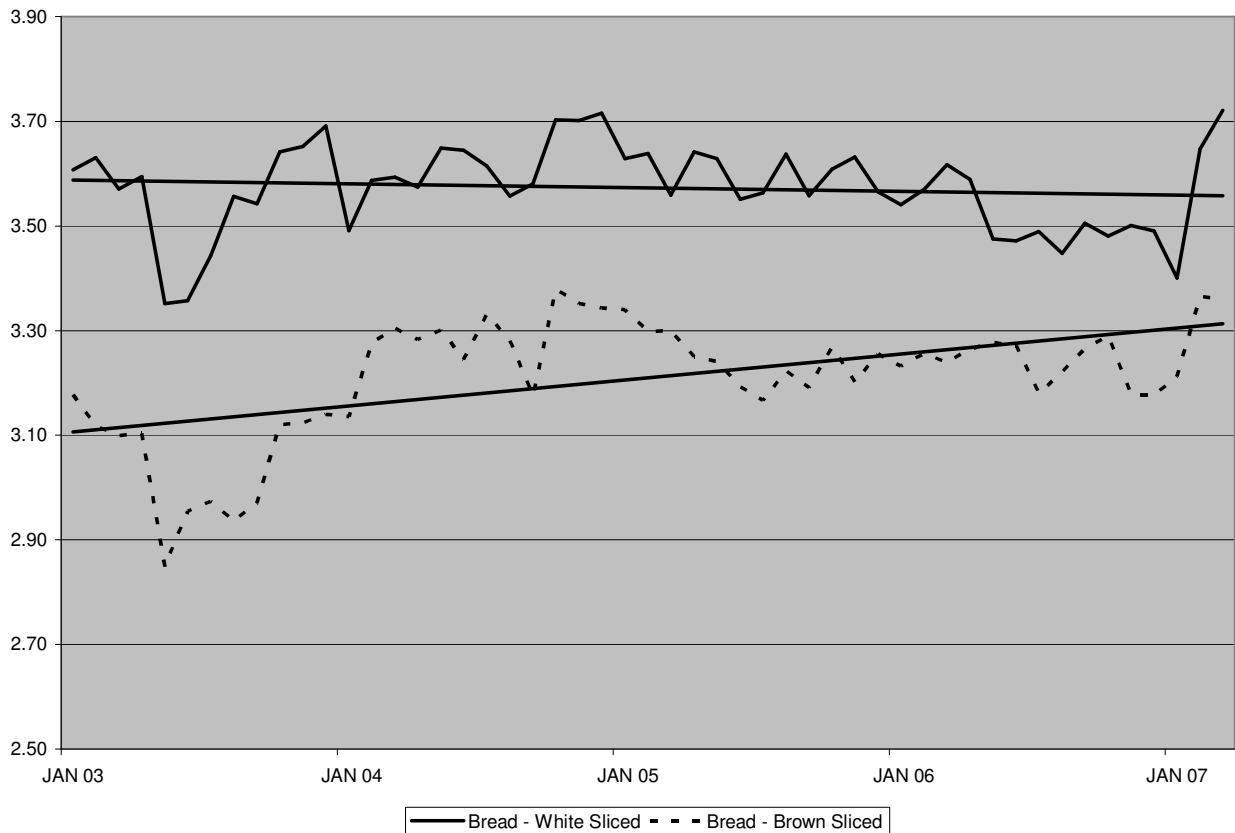


Figure 3: Real White and Brown Bread Prices

Dairy products

Milk prices per litre, on average, increased by 4.3% in nominal terms between March 2006 and March 2007. However, real prices of milk, during the same period, declined by 1.7%, indicating therefore, that milk prices did not keep pace with inflation over the year. This implies that price increases observed in milk products over the year are entirely due to inflation. When real price movements for a litre of milk are plotted over time, we observe a downward trend in all series. Figure 4 below illustrates these price movements.

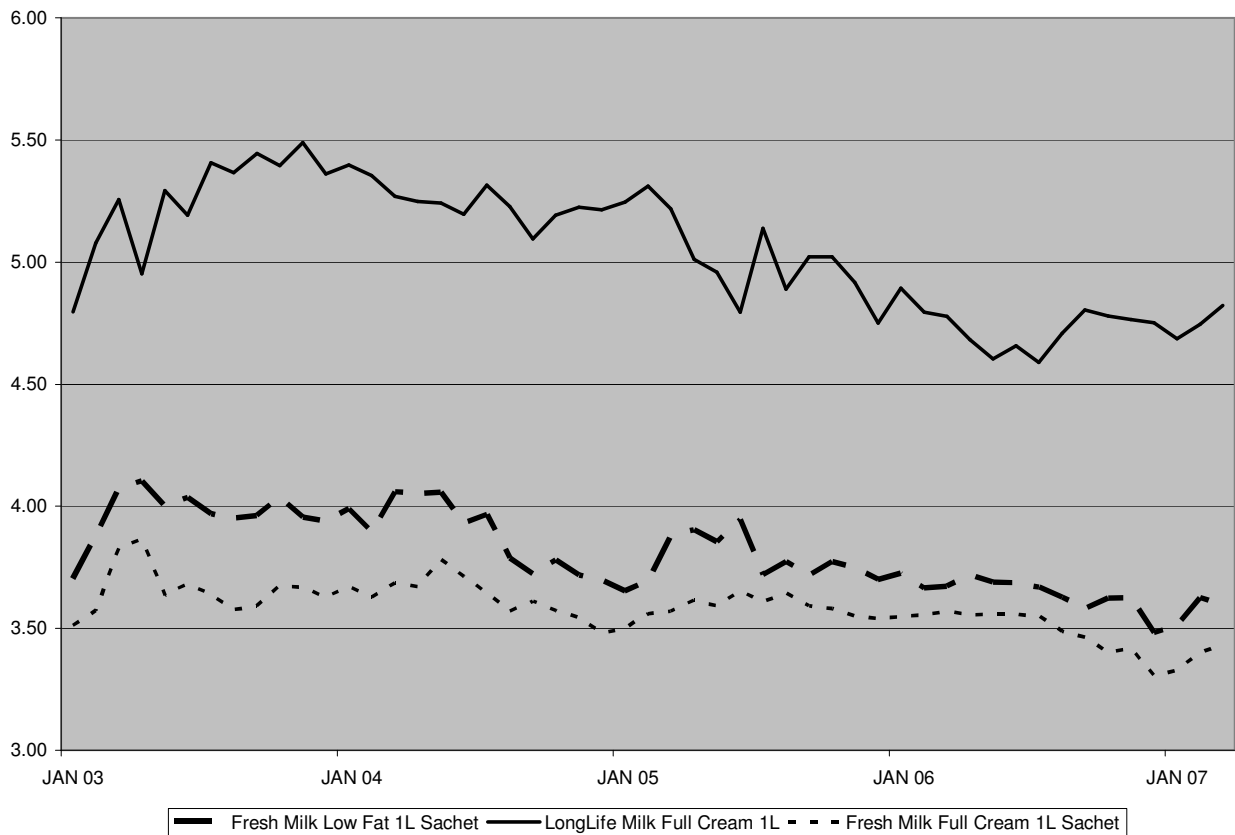


Figure 4: Real Fresh and Long-Life Milk Prices

Beef and Poultry Products

Year-on-year March 2006 to March 2007 fresh and processed meat prices increased, on average, in nominal terms by 11.2% and 6.7%; respectively. When effects of inflation were removed from the meat price series, both fresh and processed meat prices increased in real terms. For fresh meat this increase was approximately 4.7% and 2.7% for

processed meats. The percentage change in real price estimates indicate that within the year, the observed increase in meat prices were largely driven by inflation.

Concluding Comments

From this report, it is clear that the long term trend in food prices shows that there are no abnormalities in the increases, that prices over the last couple of months actually increased at a slower rate than at the beginning of the year and that the value of the food basket as percentage of earnings remained almost the same. Very important is that in real terms food prices remained almost the same, i.e. the agricultural sector has to a large extent been able to supply food without any significant increases in real prices. Of some concern however is that agriculture still experiences noticeable volatility in prices due to many external factors, e.g. international market shocks and the weather.

For this reason investigation into mechanisms to potentially reduce volatility is of extreme importance. Cognisance should however be taken that government policies that hold food prices down, such as price controls and/or expenditure of national reserves, can themselves be inflationary. Price controls and the expenditure of financial reserves can ultimately subsidize inflationary levels of demand and deter increases in supply, making it more difficult to reduce inflation. Direct interventions by government therefore need careful consideration and should consider a myriad of complex interrelated factors such as monetary policy, demand and supply shift factors with the least distorting effects on the economy as a whole.

Given this policy reality the NAMC is currently more concerned with the excessive market power of agrofood companies and retailers and is conducting research to determine how this market power is negatively affecting farmers and consumers. The NAMC is in particular concerned about the long-term future of the agriculture industry as a result of the increasing concentration and resulting power especially as it can potentially negatively influence the future sustainability of the agricultural sector and the financial success of emerging black enterprises and poor consumers.

The general situation of too much market power located in the processing and retailing industries has been noted in the international literature to have detrimental effects on the welfare of consumers and producers. On the producer side the NAMC has over the last 18 months received several reports of dairy farmers being put out of production. Farmers until recently continued to receive low prices and when they recently received some reprieve with higher producer prices their laboratory reports on the milk solids suddenly reflect lower counts which translates in the same or lower gross income. The strong buying power of these regional monopsonies clearly put dairy farmers at a disadvantage and with so many dairy farmers discontinuing dairy production it is no wonder that South Africa is currently experiencing a dairy shortage (demand is exceeding current production levels). This shortage could translate in much higher increases for dairy products in the near future.

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