

MEDIA RELEASE

Food price trends: January 2007 to January 2008

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EXECUTIVE SUMMARY

Food prices as measured by the CPI-Food increased by 13.4% from January 2007 to January 2008. This is 0.1% lower than the increase in food prices reported for December 2007. The food categories that made the largest contribution to this increase include grain products; milk, cheese and eggs; fats and oils; fruits and nuts; and vegetables.

From a food security point of view prices of staples continued to increase at relatively high rates. The increase in brown and white bread prices were 16.21% and 19.92%, respectively, year-on-year. The prices of a 5kg bag of super and special maize meal increased by 22.29% and 28.00%, respectively, year-on-year. Dairy product prices increased, on average, by 33.36%, while meat prices on average continued to increase at a much slower rate than most other food products. The prices of the main vegetables showed year-on-year increases of 38.22%. The increase in grain prices was mainly due to pressure on international and domestic grain stocks, while the increases in vegetables prices can be largely attributed to climate events.

This report also covers trends in wheat prices, the possible impact of load shedding on selected agricultural industries, comments on the food versus fuel debate and an outlook for the next three months. The analysis on wheat prices show that domestic prices are largely driven by international trends and that bread prices follows similar trends, although bread prices have not increased as much as wheat prices did. Load shedding could have a significant impact on the agricultural sector, and as the analysis on the milling and baking sector shows could even result in bread shortages. In addition it will impact on farmers' income and ability to re-invest in agriculture, while export earnings from fruit exports could drop as a result of not being able to comply with strict international standards and inferior quality fruit. Turning to the food versus fuel debate, policy makers in the U.S. and Europe are seriously reconsidering the policies that have caused the production of biofuels to expand at a tremendous pace and in turn resulted in feedstock prices to increase to levels where many biofuel plants are not profitable anymore. Notwithstanding this situation, biofuels (if implemented correctly) could potentially provide the necessary incentives to draw investment for rural economic growth.

According to the medium term outlook agricultural commodity prices will remain high but stable. Two factors from a South African point of view might however change this situation, namely exchange rate fluctuations and climate events.

Foreword

Rising food prices, although at a slower rate in January compared to December, continues to threaten household food security in South Africa. The year-on-year (i.e. Jan 07 to Jan 08) increase in the Consumer Price Index for Food (CPI-Food), as reported by Stats SA, was 13.4%. The good news is that this is 0.1% lower than the CPI-Food reported in December 2007 that showed a year-on-year increase of 13.5%.

Taking a wider perspective the overall CPI as reported by Statistics South Africa reflects a year-on-year increase of 9.3%, which is 3.3% higher than the 6% upper limit for

inflation set by the South African Reserve Bank (SARB). The CPIX increased by 8.8%. Food, housing and transport contributed significantly to the overall CPI, i.e. 3.1%, 2.0% and 1.7%, respectively. Food inflation therefore remains one of the major drivers of overall inflation on South Africa.

The purpose of this Media Release is to provide further details and analysis of food price levels and trends in order to promote better understanding of the main factors underlying food price increases.

Urban food price trends: January 2007 to January 2008

This section reports the price trends for 67 different food items that are sold in urban areas across South Africa. In this report food inflation is based on selected food items shown in Appendix A. The data used pertaining to the food items in this report was sourced from both AC Nielsen and Stats SA. Appendix A provides more details from where prices were source per food item. On average, the prices of feed products reported on in this report increased by nearly 20%. 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 January 2007 and January 2008 are shown in Table 1.

Table 1: Prices in the urban areas that experienced inflation higher than the SARB inflation target (Jan 07 - Jan 08)

Grain & grain products		Meat & meat products and dairy & dairy products		Fresh and processed fruits and vegetables	
	%		%		%
White bread 700g	19.92%	Butter 500g	25.17%	Carrots 1kg	23.11%
Brown bread 700g	16.21%	Fresh milk full cream 2L	37.92%	Onions 1kg	69.42%
Cake flour 2.5kg	25.60%	Fresh milk low fat 2L	36.43%	Potatoes 1kg	47.06%
Spaghetti 500g	28.91%	Fresh milk low fat 1L	32.03%	Tomatoes 1kg	18.60%
Macaroni plain 500g	17.32%	Fresh milk full cream 1L t	37.09%	Sweet potatoes1 kg	25.60%
Maize meal super 5kg	22.29%	Skimmed powder milk 1kg	29.22%	Cabbage 1kg	92.69%
Maize meal special 5kg	28.00%	Meatballs in Gravy 400g	6.81%	Pumpkin kg	59.42%
Cooking oil 750ml	66.01%	Picnic Ham 300g	11.48%	Cauliflower 1kg	21.14%
Medium fat spread 1kg	11.70%	Bacon 250 gram	13.30%	Peaches 410g	7.51%
Margarine 500g	20.81%	Pork Chops 1kg	17.24%	Pears 410g	10.82%
King Korn 1kg	20.47%	Lamb Chops 1kg	11.45%	Apples 1kg	22.70%
Oats 1kg	26.59%	Brisket 1kg	10.99%	Oranges 1kg	45.44%
Cornflakes 750g	10.00%	Beef chuck 1kg	9.06%	Beans in tomato sauce 420g	7.47%
Rice Crispies 400g	6.64%	Rump steak 1kg	9.85%	Butter beans in brine 410g	8.14%
Ricoffy Reg 750g	11.37%	Chicken - Whole Fresh 1kg	17.20%	Frozen green peas 1kg	13.73%
Peanut Butter Smooth 410g	11.09%	Chicken portions 1kg	13.42%	Frozen baby carrots 1kg	7.01%
Soya mince tomato & onion	14.10%	Pilchards in Tomato 425g	11.15%	Frozen corn 1kg	8.87%
		Tuna Shredded in Brine 170g	13.77%	Frozen sliced beans 1kg	8.71%
		Eggs 18's extra large	19.00%		

Products whose prices increased at a rate of lower than 6% over the period under consideration include: Chopped peeled tomato 410g (2.92%); Tomato & onion mix 410g (3.24%); Canned peas 410g (2.64%); Sugar 2.5kg (2.85%); Rice 2kg (5.10%); Tagless teabags 62.5g (3.41%); Coca Cola Regular 2L (0.61%); Smooth Apricot Jam 450g (4.28%); Polony 1kg (1.77%) and Pork sausage 500g (5.94%). Lettuce was the only product in our basket that experienced a price drop (i.e. 13.08%).

Appendix A reports the average nominal price in January 2007, June 2007 and January 2008 together with the percentage change from June 2007 to January 2008 as well as the year-on-year percentage change between January 2007 and January 2008. Percentage changes of the main commodity prices are also reported to give readers a sense of the increase in procurement costs many food processors are experiencing.

Rural food price trends: January 2007 to January 2008

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 food products, in our basket, whose prices increased by more than the target inflation rate of 6%, between January 2007 and January 2008 are shown in Table 2.

Table 2: Products in rural areas that experienced higher than the inflation target increases in prices (Jan 07 to Jan 08)

Grain and grain products		Other products	
	%		%
Beans 1kg	15.58%	Tea bags 62.5g	12%
Beans 500g	37.76%	Full cream long life milk 1L	37%
Block type margarine 125g	15.06%	Full cream long life milk 500ml	25%
Block type margarine 250g	21.30%	Instant coffee 100g	18%
Block type margarine 500g	13.86%	Instant coffee 250g	11%
Butter beans 410g	6.04%	Peanut butter 270g	15%
Loaf of brown bread 600g	22.32%	Peanut butter 400g	15%
Loaf of brown bread 700g	16.44%	Peanut butter 410g	13%
Loaf of white bread 600g	20.72%	Pilchards in tomato sauce 155g	12%
Loaf of white bread 700g	18.64%	Pilchards in tomato sauce 425g	16%
Maize meal 1kg	23.10%	White sugar 1kg	9%
Maize meal 2.5kg	20.69%	White sugar 2.5kg	7%
Maize meal 12.5kg	37.57%	White sugar 500g	17%
Maize meal 5kg	16.05%		
Rice 500g	13.79%		
Samp 1kg	25.99%		
Samp 2.5kg	26.64%		
Sorghum-meal 1kg	30.42%		
Sorghum-meal 500g	21.52%		
Sunflower oil 2L	31.29%		
Sunflower oil 500ml	43.33%		
Sunflower oil 750ml	34.37%		

Products whose prices increased at a rate of less than 6% include full cream long life milk-1L (3.11%), rice-1kg (0.44%) and rice-500g (3.06%). The prices of tea bags (62.5g) and rice (2kg) declined by 0.87% and 0.16%, respectively.

Appendix B reports the average nominal prices in January 2007, June 2007 and January 2008 together with the percentage change between June 2007 to January 2008 and January 2007 to January 2008.

Comparison between urban and rural food prices (selected items)

Table 3 shows a comparison between urban and rural food prices for selected food items. In January 2007 all the food items shown in the Table 3 were cheaper in urban areas than in rural areas. However in January 2008, brown bread, white bread and cooking oil had prices lower in the rural areas than in the urban 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 January 2008 when the difference between the price of maize meal in urban and rural areas narrowed to R3.84. 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 2007 in rural areas than in urban areas. However, in January 2008 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 decreased over the period under consideration, i.e. from R1.09 to R1.00. 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 (Jan07) R/unit	Price difference (Jan08) R/unit
		07-Jan	07-Jun	08-Jan	07-Jan	07-Jun	08-Jan		
Block type margarine	500 g	7.69	7.88	9.29	8.01	8.60	9.63	0.32	0.34
Full cream long life milk	1 l	6.51	7.08	8.23	6.85	7.84	8.92	0.34	0.69
Loaf of brown bread	700 g	4.59	4.85	5.35	4.62	4.85	5.25	0.03	-0.10
Loaf of white bread	700 g	4.98	5.30	5.89	5.10	5.41	5.88	0.12	-0.01
Maize meal ¹	5kg	17.39	20.25	20.84	21.40	23.73	24.68	4.01	3.84
Peanut butter	410g	10.19	10.92	11.32	11.22	11.80	12.60	1.03	1.28
Pilchards in tomato sauce	425 g	7.62	8.07	8.47	8.91	9.64	10.14	1.29	1.67
Cooking oil	750 ml	7.65	7.89	12.70	8.38	8.70	10.28	0.73	-2.42
Sugar	2.5 kg	14.38	14.11	14.79	16.28	16.41	18.50	1.90	3.71
Average price difference								1.09	1.00

¹ Super and special maize meal prices are average across brands

The wheat price story

Previous Food Price Monitoring reports reported extensively on increasing food prices internationally and nationally. The increasing trends were met with fierce resistance from consumers in many regions of the world. For example, consumers in Italy went on a one day strike to protest against the increase in pasta prices in September 2007. Other countries where there were protests against increasing food prices include Mexico and Ghana. In South Africa, after an investigation by the Competition Commission into price collusion by major bread manufacturing companies, one company, namely Tiger Brands, was found guilty of price collusion in setting bread prices. In the meanwhile investigations continue against other major bread manufacturing companies. It is therefore no surprise that the general public, NGOs and government has reacted strongly against the increasing trend in bread prices. Within the ambit of the aforementioned events the Minister for Agriculture and Land Affairs called for an urgent meeting between processors, farmers, retailers and the Department of Agriculture to discuss the issue and to come up with solutions and clear answers for the current state of affairs. During this meeting role players resolved that a detailed investigation into the wheat-to-bread value chain is necessary in order to ascertain if there is any unreasonable profiteering by certain firms at the expense of the poor and other role players in the chain. The NAMC was subsequently requested to establish a Section 7 Committee to investigate the aforementioned.

It is against the aforementioned background that this section provides some additional facts to support the continuing debate on this matter. Figures 1a and 1b shows comparisons between bread prices in South Africa and selected countries in 2006. As shown in Figure 1a bread prices in South Africa are higher than most African countries depicted. Figure 1b shows that bread prices in South Africa are significantly lower than in Germany and the UK, but slightly higher than in Argentina (note Argentina is a major wheat producing country).

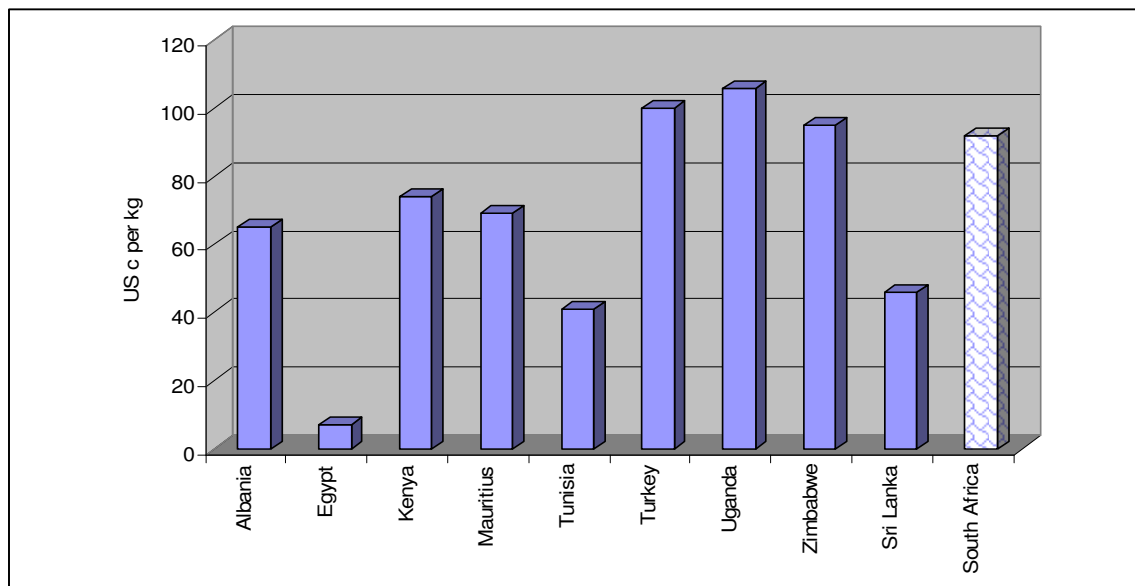


Figure 1a: International bread prices during 2006

Source: International Grain Council (IGC), 2006.

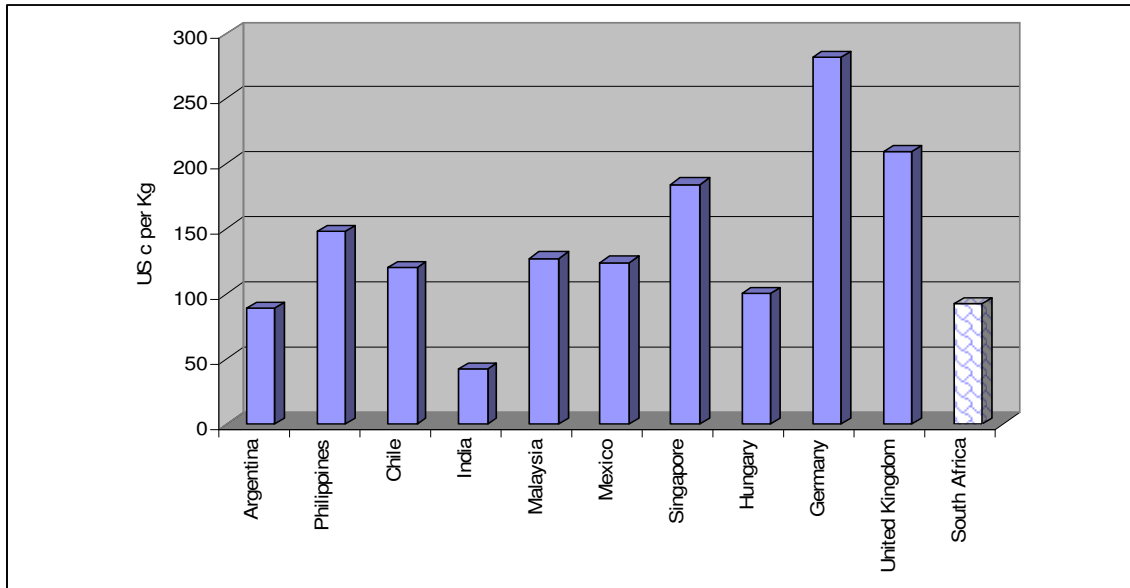


Figure 1b: International bread prices during 2006

Source: International Grain Council (IGC), 2006.

Figure 2 shows a comparison between increases in bread prices and the wheat prices on the domestic market from January 2003 to January 2008. During this period the prices of white bread increased from R4.39 to R5.63 (an increase of 28%) and that of brown bread from R3.86 to R5.16 (an increase of 34%). The SAFEX wheat price increased, on average, by 106% during the same period. Year-on-year (i.e. Jan 2007 to Jan 2008) white bread and brown bread prices increased by 20% and 16%, respectively, while that of wheat increased by 81%. It is therefore highly likely that the trend depicted in Figure 2 will continue for the foreseeable future. Figure 2 also highlights how bread prices are tracking the trend in the price of wheat as one would expect them to.

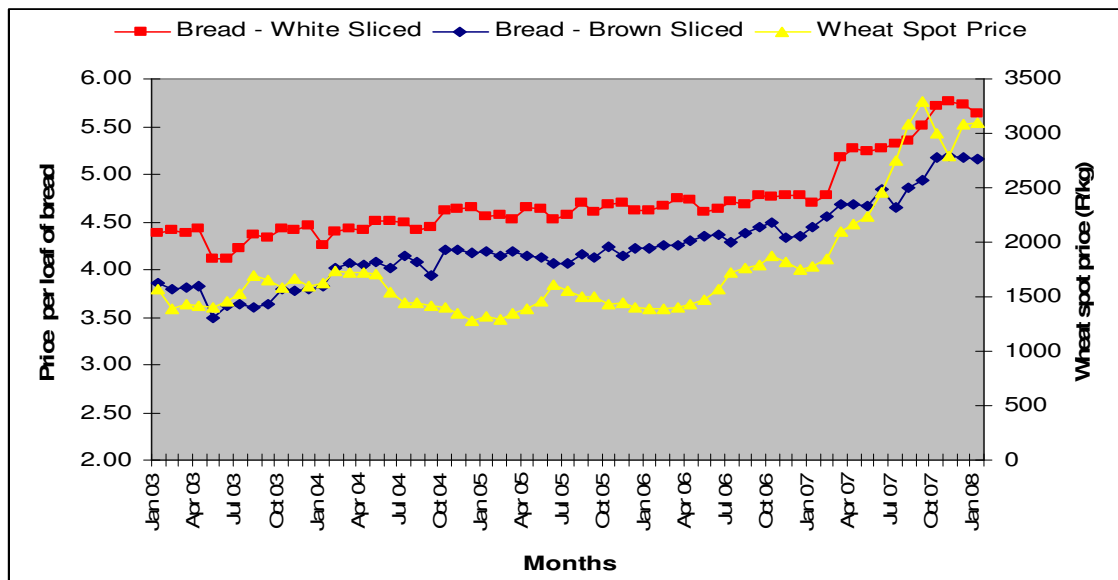


Figure 2: Increases in the prices of white and brown bread and wheat

Source: SAFEX and AC Nielsen, 2008.

One can postulate that the significant increase in wheat prices was one of major reason for the increase in bread prices in general. In this regard it is important to take cognizance of the facts that (i) South Africa is a net importer of wheat and (ii) after deregulation and liberalization domestic wheat prices are derived from the international prices of wheat. The combined effect of the aforementioned is that the domestic price of wheat will be close to the import parity price (i.e. the cost of importing wheat) most of the time and will follow trends in international prices closely.

Figure 3 shows the trends in import and export parity prices and the domestic price of wheat from January 2005. It is clear that the domestic spot price follows the import parity price closely and is even higher in some months.

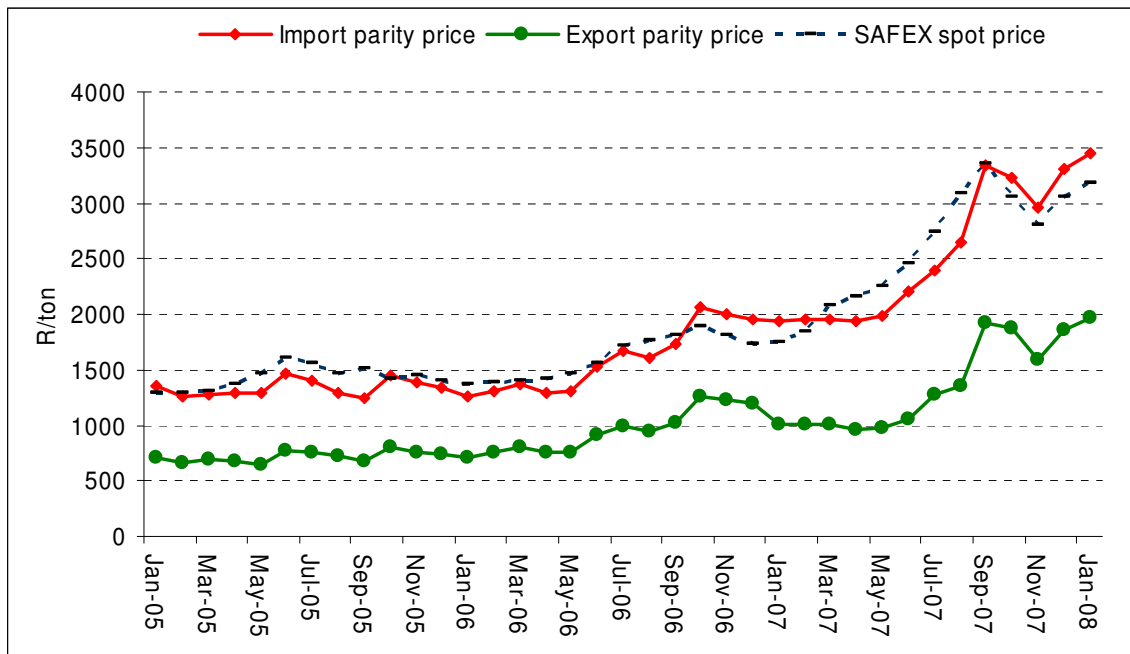


Figure 3: Comparison between the import and export parity prices of wheat and the SAFEX spot price

Source: SAGIS, 2008.

Figure 4 shows the South African wheat price and selected international prices of wheat expressed in US Dollars/ton from January 2001 to January 2008. It is clear that international wheat price started its upward movement as early as 2005 and increased significantly from late 2006. Important to note is that the South African wheat price follows the international price closely, which confirms the close link between domestic and international prices. Note that the international prices are expressed as a free-on-board price, while the domestic wheat prices include all the costs of importing wheat, and hence the reason why it is above the international prices.

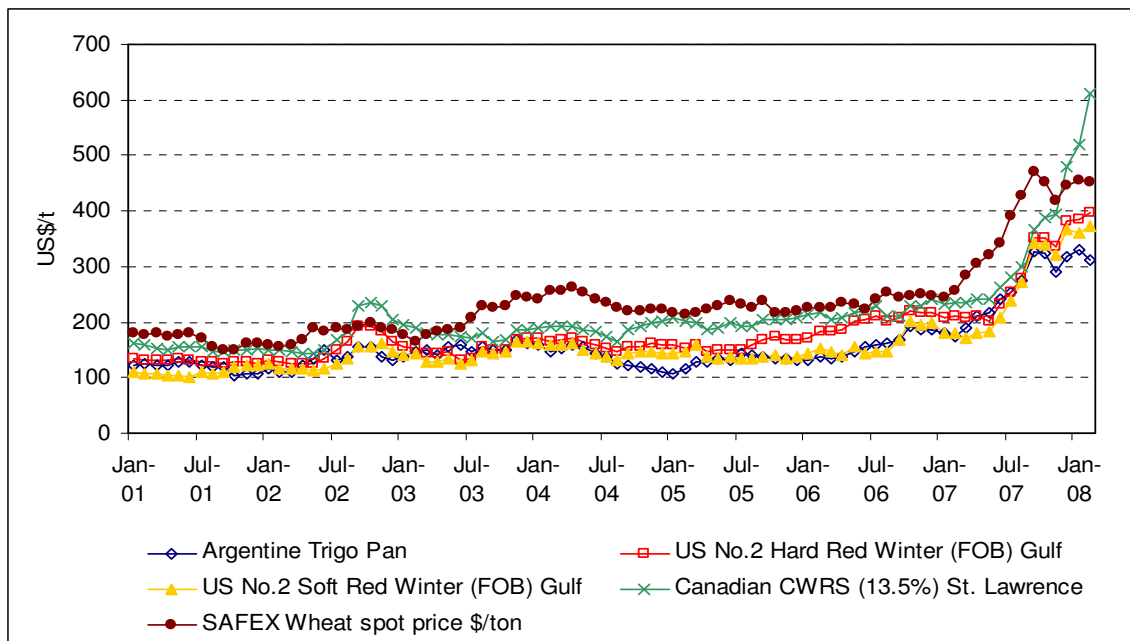


Figure 4: Trends in international and domestic wheat prices

Source: International Grains Council and SAGIS, 2008.

The main reason for the increasing trend in international wheat prices can be derived from the international demand and supply situation. Figure 5 depicts the international demand and supply situation. After a significant increase from 2003/04 to 2004/05 wheat production showed a declining trend to date. Consumption increased from 2003/04 to 2005/06 after which it declined to 2006/07 and showed a slow, but steady increase to date. The end result of these trends was a declining trend in international wheat stock levels since 2004/05 to date and a subsequent increase in the international wheat price.

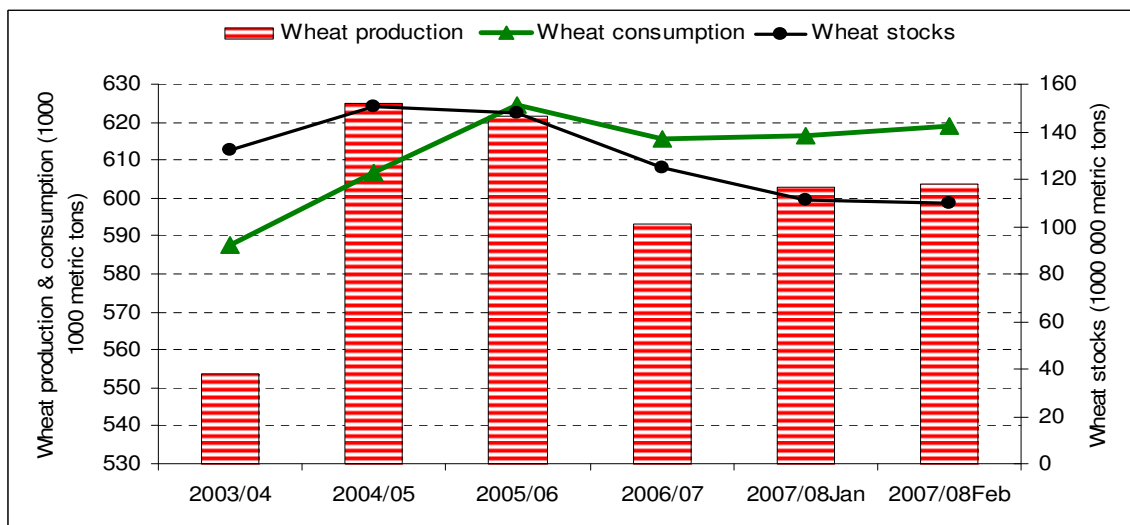


Figure 5: International wheat production, consumption and stock trends

Source: USDA, Foreign Agricultural Services, 2008.

Figure 6 shows South Africa's commercial production of wheat, total consumption, ending stocks and imports. From 1997/98 wheat production dropped until 1999/00 after which it rebounded in 2000/01 and moved sideways until 2002/03. Production dropped significantly in 2003/04 after which production increased steadily until 2006/07, but not reaching the same levels of production during the part of 2000. In 2007/08 production again declined. Consumption on the other hand shows a steady increasing rate since 2001/01 with relative little fluctuations compared to the fluctuations in wheat production. Also depicted in Figure 6 is the low stock levels in South Africa that appears to remain under pressure. In the long run it is also clear that imports show an increasing trend, although there is a high level of variability over time.

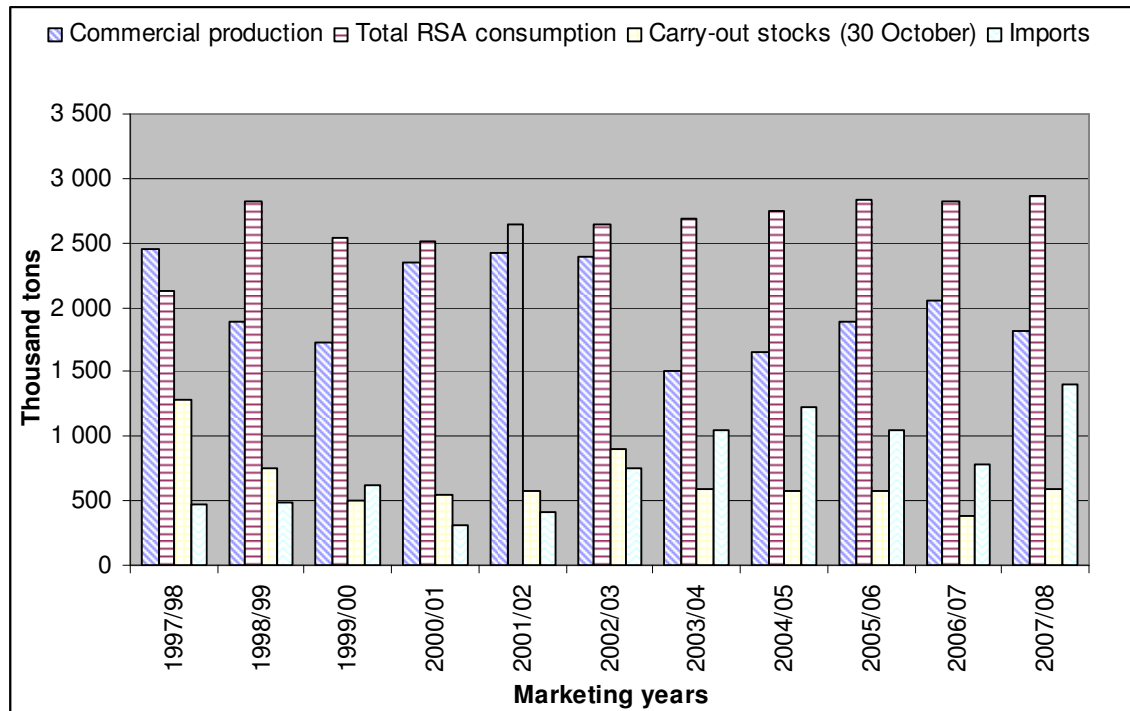


Figure 6: Domestic wheat production, consumption, ending stocks and imports

Source: SAGIS & GrainSA, 2008.

The situation described above shows South Africa's increasing dependence on imports to be able to supply local wheat demand. This is mainly due to South Africa's inability to produce sufficient amounts of wheat locally as a result of non-profitability. The end result is that local prices of wheat are nearly always moving in tandem with import parity and also follows international price trends closely. The main challenge facing the wheat industry and government is to find sustainable solutions to increase the production of wheat.

The power of electricity²

There is hardly a person or business in South Africa that has not been affected by the ongoing problem of Eskom's struggles to deliver an uninterrupted electricity supply. The impact of load shedding and a reduction in the availability of electricity has received a lot of attention, especially in the mining sector. The agricultural sector, on the other hand, has not received the same level of attention despite the fact that electricity shortages could potentially have a significant impact on the availability of raw materials and commodities for food production and could also lead to increased food-production costs throughout the food value chain. Moreover, shortages of raw materials and inputs for food production translate into higher food prices at a time when consumers, especially the poor, are under immense pressure. Another possibility is unforeseen costs, e.g. losses due to quality problems, unproductive working hours, wastage, etc., which could potentially be recovered by passing these costs on to the next stage of the value chain, resulting in higher food prices. Alternatively, value chain role players could attempt to absorb such costs, but this is not sustainable in the long run and eventually the costs would have to be passed on to the next stage of the value chain. The latter usually results in major price increases ultimately. Given the aforementioned background, the remainder of this section briefly discusses the potential impact of load shedding on three industries, namely the milling and baking industry, the dairy industry, and the citrus industry.

- Milling and baking

According to information from a leading mill in South Africa, for every hour that the electricity supply is interrupted there is a minimum loss of 150 tons of wheat. The greatest loss occurs not in the downtime (± 60 tons) but rather in the start-up process (± 90 tons). Loss in this context means that the mill is not able to mill the 150 tons of wheat to produce flour at a point in the future, since most of the mills in South Africa operate 24 hours per day (i.e. loss in this context does not refer to the product being wasted, but rather not being able to use the product). One hundred and fifty tons of wheat produce ± 120 tons of flour and $\pm 250\,000$ loaves of bread; thus the potential reduction in the availability of bread for every 150 tons not processed due to power cuts translates into $\pm 250\,000$ loaves of bread. Cognisance should be taken, however, that the quantity lost in such a case depends mostly on the size of the mill (tons-per-hour capacity), but overall the reduction in the availability of bread due to a lack of availability of locally processed flour could be significant, since lost processing cannot be recovered easily or even at all. The processing capacity is further constrained by the fact that mills and bakeries pay a rate according to the highest peak of electricity used. In order to manage these peaks the mills are started up in series (one by one). It therefore takes a considerable amount of time before an entire plant is running at full capacity again following a load-shedding episode.

As indicated above, the loss of products in the mill during periods of load shedding is not meaningful. However, this is in sharp contrast with a bakery, because in the event of load shedding a bakery loses all its dough plus half the baked bread on the production line if there is no backup generator. Large bakery plants produce $\pm 8\,000$ loaves per hour, and so in the event of a one-hour load-shedding episode the cost of the loss of

² Contributions by the National Chamber of Milling, the Milk Producer Organisation and the Citrus Growers Association are hereby acknowledged.

dough and half-baked bread is estimated at R35 000. Cognisance should be taken that, in addition to this loss, after each such halt in operations it is necessary to clean all the production lines before starting a new baking cycle, which translates into an additional cost of between R5 000 and R6 000 for labour (normally casual workers). Also, during the cleaning process, delivery trucks have to be redirected to other bakeries to collect bread to meet consumer demand (the cost of running these delivery trucks is ±R5/km). It is estimated that the cost of using a generator is four times that of electricity.

The consequence of the above is not only product losses, but also lost man and machine hours, resulting in an increase in the unit cost of the final product.

- Dairy

Load shedding affects the dairy industry throughout the value chain. At farm level, for example, losses are brought about by lower milk production due to cows suffering from heat stress, as well as damage to electric motors and computer systems and stoppages during the milking process. In addition, power outages also impact on the cold chain's capacity to maintain acceptable temperature regimes, resulting in product losses and wastage. The Milk Producer Organisation estimates that losses within the cold chain could cost R100 million a month with continued load shedding. This figure excludes losses incurred by retailers due to interruptions to the cold chain brought on by power failures.

- Citrus

In 2007 the South Africa exported 1.35 million tons of citrus, making it the second largest exporter of citrus fruit in the world (during the northern hemisphere summer, one of every two citrus fruits consumed originates from South Africa). However, the citrus industry's international position could be significantly compromised with the current state of load shedding in South Africa. The industry is affected in several ways, each of which is elaborated on briefly below:

- **On the input side** – There are indications that some fruit industries have been experiencing shortages of packing material, i.e. pallets, cartons, labels and other related packing material. This has been blamed on power shortages in plants producing these components.
- **On the farm** – Excessively high temperatures affect tree growth and hence irrigation is vitally important, especially in the winter rainfall areas of South Africa at this time of year. Irrigation systems are dependent on electricity, and frequent load shedding reduces the irrigation supply. In addition, many growers run their fertilisation through the irrigation system (fertigation) and during prolonged load shedding vital nutrients are not delivered to the trees. Load shedding also severely constraints the growers' ability to apply plant protection products, as the machines used to deliver these cannot be operated without electricity. The end result is a reduction in the size of the crop and other quality problems (such as creasing). This translates into lower exports and hence lower export earnings.
- **At the pack-house** – Pack-house operations are highly organised and follow a number of sequenced processes. If a system (packing-line) comes to a halt there is a high probability of quality deterioration while at the same time

productive man hours are lost. (It is estimated that labour downtime in picking and packing could cost the industry R90 million.) Of equal concern is food safety problems related to these stoppages, i.e. if fruit is in the drench receiving post-harvest treatment and a stoppage occurs, the resultant residues on the fruit would probably far exceed permissible levels.

Cognisance should also be taken that most pack-houses pack according to a specific programme, i.e. a packing schedule according to which fruit is packed for a specific ship and a specific market. Delays in this schedule translate into higher costs of shipping the fruit overseas (e.g. demurrage costs) and a possible loss of marketing windows, which means lower profits and shelf space lost to competing products.

- **In the cold-store** – As with other products, maintaining temperature regimes as fruit flows from one stage to another in the value chain is vitally important. Moreover, fruit quality is improved if the fruit enters the cold chain as soon as possible after packing and the cold chain is not broken at any point between the pack-house and the final consumer. Quality is seriously affected if fruit is exposed to fluctuating temperatures, as occurs when the temperature rises in the cold-store during an electricity outage and then drops again once power has been restored. Most pack-houses have adjacent cold-rooms, while ports are equipped with cold-room facilities. Frequent and prolonged load shedding could make it virtually impossible to comply with the protocols required by many of South Africa's export destinations, resulting in reduced or even no exports to these destinations.

Other points in the citrus value chain that are affected include, but are not limited to, SPS inspections, logistical arrangements and local processing. In conclusion, the combined impact of power outages could severely affect the integrity of the South African citrus value chain and thereby compromise its international standing as one of the leading citrus industries in the world. The same applies to the other fruit sub-sectors in South Africa.

Food versus Fuel

In the NAMC's quarterly press release in August 2007, the impact of biofuels on global and local price trends was illustrated. In this section we draw on some preliminary analysis by the Bureau of Food and Agricultural Policy (BFAP) on the debate about the impacts of biofuels. The rapid increase in food prices has raised concerns about the affordability and accessibility of food for the poor, which has turned into the so called "food versus fuel" debate that has been broadly covered in the media. Much uncertainty exists on the possible long term impacts of biofuels on food security while the impacts on prices, trade flows, and land use patterns are apparent. Despite many general statements and industry analyses that have appeared in magazines and news papers on the issue of food versus fuel the need remains to improve the knowledge base about long-term prospects for global fuel and food security. Policy makers in the U.S. and Europe are seriously reconsidering the policies that have caused the production of biofuels to expand at a tremendous pace. Feedstock prices are currently so high that, despite the high oil prices, biofuel production plants in Europe are going out of business. Despite of this, it cannot be overlooked that biofuels create opportunities for greenhouse

gas mitigation and can help in the transition to a new equilibrium of food and fuel security in the world.

Different flavours are added to the fuel vs food debate across the world. In the U.S. the livestock industry is arguing that profits are eroded by high feedstock prices and it will have to respond by increasing the consumer prices of livestock products. In Europe the big concern is using limited arable land for the production of fuel crops. When debating the possible impact of biofuel production on food security in South Africa and the region, it is important to analyse historic trends in plantings and production of the main staple grains. Long term trends show that plantings have decreased by more than 25% since the eighties. Whereas South Africa was a net exporter of maize in the eighties and nineties, farmers have adopted to free market conditions and are responding to low prices by planting less. For consumers the ideal situation is when market prices are trading at export parity levels. However, the reality is that maize production cannot be sustained at these price levels. Trends over the past decade show that farmers cannot survive and marginal land is moving out of production leading to a scenario where prices tend to increase towards import parity levels.

Turning then to the economic growth impact of biofuels, there are a number of issues to consider. In principle, the rapid expansion of the global biofuels industry can be a driver of agricultural growth that creates opportunities for a growing rural economy. Especially for a country like South Africa where the establishment of emerging farmers has been hampered by low profit potentials in the agricultural sector, biofuels (if implemented correctly) could potentially provide the necessary incentives to draw investment. It is clear that with current technology, the biomass required to produce biofuels in quantities sufficient to substitute completely for fossil fuels exceeds by far the amount that can be supplied under even the most optimistic scenario.

Outlook: March 2008 to May 2008

Since the previous outlook, published in November 2007, significant events have occurred on both the local and international fronts. The sub-prime crisis in the US appears to have triggered various macro-economic events in international markets, causing markets, exchange rates and inflation levels to differ significantly from what was generally expected by market analysts. The local market has seen major changes on the political and economic fronts, including electricity supply disruptions. Some trends remain fundamentally similar to what was discussed in the previous outlook, while new trends that could potentially have a significant impact on food prices during the next three months seem to have emerged.

Theme: Consumer expenditure pressure

In the previous outlook, the pressure on consumer expenditure was foreseen and discussed. Data released since the publication of that outlook supports these views – for example the increase in nonperforming loans, various supermarket chains experiencing profit pressure, car sales dropping further in relation to the previous year, and lower than expected expenditure during the Christmas season.

The expectation is that the positive growth in consumer expenditure will continue to decelerate over the current outlook period. The reasons for this are twofold. Firstly, inflation will remain high (but stable) especially due to a sharp increase in fuel prices, and secondly, consumers are becoming more risk averse due to pessimism surrounding

economic growth, both locally and internationally. This is expected to have a dampening effect on the demand for food, especially high-valued ready-to-eat and takeaway types of food.

Theme: Passing on non-food costs

Oil prices remain high as Asian economies maintain momentum and growth and OPEC refuses to increase oil production quotas. Furthermore, oil stocks – especially in developed economies – remain low compared to historical levels, while supply problems continue to reappear in key oil-producing countries. Local fuel prices are set to rise further with a proposed increase in the fuel tax levy. The expectation is therefore that the increase in fuel costs will at least to some extent be passed on to the final consumer through rising food prices. However, in light of the increasing pressure on consumer expenditure, processors and supermarkets might find it difficult to pass on the full effect of increasing costs to the consumer and hence will have to bear some of the cost pressure themselves.

Theme: International agricultural market stabilisation

Continued growth, especially in developing economies such as China and India, is still driving the demand for protein. The increase in feed costs is exerting pressure on the profits of intensive livestock and dairy production units. This might cause some upward pressure on meat prices throughout the meat value chain.

In the grain and oilseed markets, the drastic switch experienced over the past two years between areas under planting appears to be stabilising to some extent as the prices of basically all oilseeds and grains are at record high levels and producers weigh up the net profit expectations of the various alternatives. Stocks of most grains and oilseeds remain low, however, supporting the extremely high grain and oilseed prices globally. International grain and oilseed prices are therefore expected to remain volatile at high levels until major global users of these products are able to replenish stocks, which depends on above-normal harvests during the next few years. Since South Africa and Southern Africa are net importers of most grains and oilseeds, domestic prices are therefore also expected to remain high and volatile during the outlook period, especially in light of the weakening and volatile exchange rate currently being experienced in the markets. The weakening exchange rate could also lead to rising import parity prices.

Biofuel production, especially bio-ethanol from maize, appears to be stabilising as the profit margins of maize-to-ethanol plants come under pressure, especially in the US. This appears to be slowing down the construction of potential maize-to-ethanol plants. In a number of European countries (especially Germany) many biodiesel plants have ceased operations as a result of the sharp increase in feedstock prices. The picture is somewhat different in Brazil where sugar-to-ethanol plants are currently enjoying positive profit margins and the number of plants is expanding significantly. The area planted under sugarcane is also projected to increase at a rapid pace.

Cognisance should also be taken that some countries, like Argentina, have put into place measures such as export restrictions to provide for increased stability in local food prices. The challenge for South Africa lies in determining the interventions necessary to stabilise local food prices.

Theme: Climate

Most of the production regions received above-normal rainfall during early summer. Despite a hot, dry spell in January and February, causing some damage to summer crops, above-normal yields can be expected for most of the production regions. It is expected that South Africa will produce a surplus of maize in the current production season.

Theme: International macro-economic instability

The sub-prime crisis in the US appears to have triggered various international macro-economic events. Since the full consequences of these events are as yet not fully known and will only unfold during the next year, investors are more risk averse and are attempting to adjust investment patterns in a way that will mitigate some of the potentially negative consequences. The result is that markets, and therefore exchange rates, are significantly more variable compared to historical levels. Since food prices in South Africa are to a large extent driven by exchange rate movements, anything is possible during the next three months. This implies that a weakening in the exchange rate could lead to an increase in the import prices of most commodities, resulting in a rise in domestic prices despite the possibility of above-normal crops, especially in the case of maize.

Conclusion: The outlook

Given the multitude of factors discussed, it can be concluded that the steep rise in food prices could potentially start to decelerate due to slower growth in consumer expenditure, favourable climatic conditions improving production levels, as well as the potential stabilisation of international grain, oilseed and livestock markets due to the stabilisation of production patterns. This does not imply that food prices will drop significantly; however, the extreme price increases and fluctuations that have occurred over the past few months should become more stable over the outlook period. Since grain and oilseed stocks are low, however, any production shock due to unfavourable weather will cause significant fluctuations in the prices of grain, oilseed and livestock products.

Two uncertain factors in terms of this outlook appear to be climate and the international macro-economic scene, which is highly unstable at best and can cause sudden and significant movements in exchange rate levels. This could result in a significant shift in domestic food prices.

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Disclaimer:

Although everything has been done to ensure the accuracy of the information in this Food Price Monitor the NAMC does not take responsibility for the accuracy or the opinions contained in this publication. Results of actions based on this information, will not be the responsibility of the NAMC.

APPENDIX A: DATA ON URBAN FOOD PRICE TRENDS³

Table A.1: Wheat products

Wheat Products	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
White bread 700g*	4.70	5.27	5.63	6.89%	19.92%
Brown bread 700g*	4.44	4.84	5.16	6.50%	16.21%
Cake flour 2.5kg	11.99	12.56	15.06	19.90%	25.60%
Spaghetti 500g	5.88	6.02	7.58	25.91%	28.91%
Macaroni plain 500g*	5.43	5.89	6.37	8.13%	17.32%
Average				13.47%	21.59%
SAFEX Wheat R/ton	1753	2455	3174	29.29%	81.02%

*Data from AC Nielsen

Table A.2: Maize products

Maize Products	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Maize meal super 5kg*	17.21	20.60	21.05	2.15%	22.29%
Maize meal special 5kg*	13.74	17.81	17.58	-1.25%	28.00%
Average				0.45%	25.14%
SAFEX White maize R/ton	1348	1736	1793	3.25%	33.02%

*Data from AC Nielsen

Table A.3: Sunflower products

Sunflower Products	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Cooking oil 750ml	7.65	7.89	12.70	60.96%	66.01%
Medium fat spread 1kg *	13.38	14.00	14.95	6.73%	11.70%
Margarine 500g	7.69	7.88	9.29	17.89%	20.81%
Average				28.53%	32.84%
SAFEX Sunflower R/ton	2451	3231	4443	37.52%	81.24%

*Data from AC Nielsen

Table A.4: Processed vegetables

Processed Vegetables	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Beans in tomato sauce 420g	4.42	4.65	4.75	2.15%	7.47%
Butter beans in brine 410g	6.76	6.51	7.31	12.29%	8.14%
Chopped peeled tomato 410g*	6.68	6.91	6.88	-0.47%	2.92%
Tomato & onion mix 410g*	6.15	6.31	6.35	0.57%	3.24%
Canned peas 410g*	5.21	5.31	5.34	0.55%	2.64%
Frozen green peas 1kg*	17.24	18.41	19.61	6.50%	13.73%
Frozen baby carrots 1kg*	23.37	25.05	25.00	-0.20%	7.01%

³ Note: Data in the tables was obtained from both AC Nielsen and Stats SA.

Data marked with * was obtained from AC Nielsen and data unmarked was obtained from Stats SA.

Processed Vegetables	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Frozen corn 1kg*	20.58	22.17	22.40	1.05%	8.87%
Frozen sliced beans 1kg*	22.37	23.33	24.32	4.22%	8.71%
Average				2.96%	6.97%

*Data from AC Nielsen

Table A.5: Fresh vegetables

Fresh Vegetables	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Carrots 1kg	6.41	7.08	7.89	11.46%	23.11%
Onions 1kg	4.77	6.33	8.08	27.55%	69.42%
Potatoes 1kg*	15.03	19.26	22.10	14.77%	47.06%
Tomatoes 1kg	8.63	8.58	10.23	19.20%	18.60%
Sweet potatoes 1 kg	7.13	6.22	8.95	43.85%	25.60%
Cabbage 1kg	2.72	4.15	5.25	26.39%	92.69%
Lettuce 1kg	18.79	17.18	16.33	-4.96%	-13.08%
Pumpkin kg	6.60	6.23	10.52	68.83%	59.42%
Cauliflower 1kg	13.79	14.79	16.70	12.89%	21.14%
Average				24.44%	38.22%

*Data from AC Nielsen

Table A.6: Processed meat

Processed meat	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Meatballs in Gravy 400g*	9.23	8.82	9.86	11.85%	6.81%
Picnic Ham 300g*	16.01	17.35	17.85	2.92%	11.48%
Polony 1kg *	18.10	16.39	18.42	12.39%	1.77%
Pork sausage 500g*	15.13	15.40	16.02	4.03%	5.94%
Average				7.80%	6.50%

*Data from AC Nielsen

Table A.7: Fresh meat

Fresh meat	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Bacon 250 gram	15.19	16.09	17.21	6.96%	13.30%
Pork Chops 1kg	42.56	42.98	49.90	16.10%	17.24%
Lamb Chops 1kg	64.71	63.92	72.12	12.82%	11.45%
Brisket 1kg	36.43	36.12	40.43	11.92%	10.99%
Beef chuck 1kg	38.72	38.98	42.23	8.33%	9.06%
Rump steak 1kg	65.33	64.68	71.76	10.95%	9.85%
Chicken - Whole Fresh 1kg	22.32	23.19	26.16	12.82%	17.20%
Chicken portions 1kg	28.76	29.19	32.62	11.76%	13.42%
Average				11.46%	12.81%

*Data from AC Nielsen

Table A.8: Dairy products

Dairy	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Butter 500g*	15.95	17.37	19.97	14.92%	25.17%
Fresh milk full cream 2L*	10.20	12.73	14.07	10.50%	37.92%
Fresh milk low fat 2L*	10.54	13.07	14.38	10.00%	36.43%
Fresh milk low fat 1L*	4.85	5.58	6.41	14.87%	32.03%
Fresh milk full cream 1L*	4.60	5.65	6.31	11.56%	37.09%
Skimmed powder milk 1kg*	42.65	43.34	55.12	27.18%	29.22%
Long-Life full-cream 1L*	6.48	7.23	8.79	21.44%	35.67%
Average				13.09%	33.36%

*Data from AC Nielsen

Table A.9: Fruits

Fruits	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Peaches 410g	6.66	7.02	7.16	1.99%	7.51%
Pears 410g	7.58	8.05	8.40	4.35%	10.82%
Apples 1kg	8.72	8.63	10.70	24.01%	22.70%
Oranges 1kg	5.82	4.92	8.46	71.88%	45.44%
Banana 1kg	6.05	5.94	8.36	40.81%	38.26%
Average				28.61%	24.95%

Table A.10: Fish products

Fish products	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Pilchards in Tomato 425g	7.62	8.07	8.47	4.96%	11.15%
Tuna Shredded in Brine 170g	6.68	6.89	7.60	10.30%	13.77%
Average				7.63%	12.46%

Table 11: Other products

Other products	Price level			Percentage change	
	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
King Korn 1kg*	7.87	7.96	9.48	19.17%	20.47%
Oats 1kg	13.09	14.03	16.57	18.10%	26.59%
Cornflakes 750g	20.79	22.90	22.87	-0.13%	10.00%
Rice Crispies 400g	16.88	17.96	18.00	0.22%	6.64%
Sugar 2.5kg	14.38	14.11	14.79	4.82%	2.85%
Rice 2kg	12.75	12.90	13.40	3.88%	5.10%
Ricoffy Reg 750g*	26.46	27.88	29.47	5.70%	11.37%
Tagless teabags 62.5g	4.98	5.19	5.15	-0.77%	3.41%
Coca Cola Regular 2l	11.46	11.64	11.53	-0.95%	0.61%
Peanut Butter Smooth 410g	10.19	10.92	11.32	3.66%	11.09%
Strawberry Jam 450g	10.28	10.83	11.40	5.26%	10.89%
Smooth Apricot Jam 450g	7.94	8.34	8.28	-0.72%	4.28%
Eggs 18's extra large	16.79	17.99	19.98	11.06%	19.00%
Soya mince tomato & onion*	5.83	6.24	6.65	6.61%	14.10%
Average				5.42%	10.46%

APPENDIX B: DATA ON RURAL FOOD PRICE TRENDS

Table B.1: Wheat products

Wheat products	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Loaf of brown bread 600g	4.2811	4.48	5.24	16.95%	22.32%
Loaf of brown bread 700g	4.6223	4.85	5.38	10.92%	16.44%
Loaf of white bread 600g	4.6631	4.78	5.63	17.89%	20.72%
Loaf of white bread 700g	5.1019	5.41	6.05	11.81%	18.64%
Average				14.39%	19.53%

Table B.2: Maize products

Maize products	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Maize meal 1kg	4.78	5.04	5.88	16.77%	23.10%
Maize meal 2.5kg	10.62	11.87	12.82	7.98%	20.69%
Maize meal 12.5kg	38.10	45.23	52.41	15.86%	37.57%
Maize meal 5kg	21.40	23.73	24.83	4.66%	16.05%
Samp 1kg	4.74	5.11	5.97	16.77%	25.99%
Samp 2.5kg	10.26	10.73	12.99	21.05%	26.64%
Average				13.85%	25.00%

Table B.3: Sunflower products

Sunflower products	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Margarine 125g	3.72	3.69	4.28	15.76%	15.06%
Margarine 250g	5.60	5.97	6.80	13.89%	21.30%
Margarine 500g	8.01	8.60	9.12	5.94%	13.86%
Cooking oil 2L	18.84	19.22	24.73	28.68%	31.29%
Cooking oil 500ml	5.47	6.38	7.84	22.96%	43.33%
Cooking oil 750ml	8.38	8.70	11.26	29.45%	34.37%
Average				19.45%	26.53%

Table B.4: Dairy products

Dairy products	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Full cream long life milk 1L	6.85	7.84	9.41	19.99%	37.44%
Full cream long life milk 500ml	4.80	5.13	6.00	16.95%	25.12%
Average				18.47%	31.28%

Table B.5: Tea and Coffee

Tea and coffee	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Tea bags 250g	14.92	16.17	14.79	-8.49%	-0.87%
Tea bag 62.5g	4.92	5.65	5.53	-2.08%	12.41%
Instant coffee 100g	6.54	7.19	7.70	-5.29%	17.75%
Instant coffee 250g	14.07	14.69	15.61	6.24%	10.93%
Average				-2.41%	10.06%

Table B.6: Pilchards

Pilchards	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Pilchards in tomato sauce 155g	4.93	5.47	5.51	0.89%	11.89%
Pilchards in tomato sauce 425g	8.91	9.64	10.36	7.42%	16.18%
Average				4.16%	14.04%

Table B.7: Beans

Beans	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Beans 1kg	9.03	10.75	10.43	-2.98%	15.58%
Beans 500g	5.19	6.17	7.15	15.89%	37.76%
Butter beans 410g	6.46	6.57	6.85	4.31%	6.04%
Butter beans 420g	5.84	5.87	6.02	2.63%	3.11%
Average				4.96%	15.62%

Table B. 8: Sugar

Sugar	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
White sugar 1kg	6.90	7.08	7.51	6.13%	8.92%
White sugar 2.5kg	16.28	16.41	17.48	6.51%	7.34%
White sugar 500g	4.07	4.02	4.77	18.46%	17.14%
Average				10.37%	11.13%

Table B. 9: Rice

Rice	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Rice 1kg	7.20	7.78	7.23	-7.12%	0.44%
Rice 2kg	15.88	14.91	15.85	6.35%	-0.16%
Rice 500g	3.94	3.98	4.06	2.05%	3.06%
Average				0.43%	1.12%

Table B.10: Peanut butter

Peanut butter	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Peanut butter 270g	8.60	8.83	9.93	12.47%	15.44%
Peanut butter 400g	10.62	11.35	12.26	8.06%	15.41%
Peanut butter 410g	11.22	11.80	12.65	7.24%	12.68%
Average				9.25%	14.51%

Table B.11: Sorghum meal

Sorghum products	Jan-07	Jun-07	Jan-08	Jun-07 to Jan-08	Jan-07 to Jan-08
Sorghum meal 1kg	7.10	7.39	9.26	25.23%	30.42%
Sorghum meal 500g	4.27	4.50	5.19	15.46%	21.52%
Average				20.35%	25.97%