

MEDIA RELEASE

Food price trends: April 2007 to April 2008

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EXECUTIVE SUMMARY

Food prices as measured by the CPI-Food increased by 15.7% from April 2007 to April 2008. This is 0.4% higher than the increase in food prices reported for March 2008. 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. The increase in brown and white bread prices were 21.58% and 26.37%, respectively, year-on-year. The prices of a 5kg bag of super and special maize meal increased by 5.23% and 5.66%, respectively,

year-on-year (this is within the inflation target band), meaning some relief for the poor consumers relying mainly on staple food such as maize meal. Dairy product prices increased, on average, by 24.65%, 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 32.85%. 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. Input cost pressures are playing an increasingly important role in pushing prices higher.

This report also covers trends in milk prices, provides an overview of consumer spending, investigates whether food production is keeping up with population growth and the state of investment and income in agriculture. On the international market dairy product prices show signs of decline, following significant increases in 2007. On the domestic market fresh packed pasteurised milk prices at retail level are showing signs of easing after the significant price increases experienced in 2007. Income per household in rural areas is lower than in urban areas, while rural households also spent a larger portion of their income on food. Hence, increasing food prices will have a more severe impact on rural households. Total food production in South Africa has not been able to keep up with population growth. This is especially the case for the field crop sector that produces the staples largely consumed by the poor. Trends in agricultural investment are not optimal and are contrary to what is expected in a country where agriculture plays a major role in sustaining rural economies, where land reform is a major government imperative and access to food is regarded as a constitutional right. The gap between real gross and net farming income has increased substantially since 1969/70. This is mainly due to the increase in the real expenditure on intermediate goods and services to maintain agricultural operations. This situation seriously hampers the ability of producers to maintain operations and to re-invest in their enterprises. According to the medium term outlook agricultural commodity prices will remain high but stable. Factors from a South African point of view that might, however, change this situation are exchange rate fluctuations, climate events and the ability of producers to access increasing levels of credit.

1. Foreword

Rising food prices continues to threaten household food security in South Africa. The year-on-year (i.e. April 2007 to April 2008) increase in the Consumer Price Index for Food (CPI-Food), as reported by Stats SA, was 15.7%. This is the highest rate of food inflation experienced in the country since January 2003, and 0,4 percent higher than the corresponding annual rate of 15.3% at March 2008. Taking a wider perspective the overall CPI as reported by Stats SA reflects a year-on-year increase of 11.1%, which is 5.1% higher than the 6% upper limit for inflation set by the South African Reserve Bank

(SARB). The CPIX increased by 10.4%. According to Stats SA, the main contributors to the annual increase of 11,1% in the CPI were food (+ 3,8%), housing (+ 2,3%), transport (+ 2,3%), household operation (+ 0,6%), medical care and health expenses (+ 0,5%), education (+ 0,4%) and fuel and power (+ 0,3%). 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.

2. Urban food price trends: April 2007 to April 2008

This section reports the price trends for 68 different food items that are sold in urban areas across South Africa; the selected food items are 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 sourced per food item. The food products whose prices increased by more than the target inflation rate of 6%, set by the South African Reserve Bank, between April 2007 and April 2008 are shown in Table 1.

Table 1: Prices in the urban areas that experienced inflation higher than the SARB inflation target (April 2007 – April 2008)

Grain & grain products		Meat & meat products and dairy & dairy products		Fresh and processed fruits and vegetables	
	%		%		%
White bread 700g	26.37%	Butter 500g	25.36%	Carrots 1kg	6.42%
Brown bread 700g	21.58%	Fresh Milk Full Cream 2 L	29.08%	Onions 1kg	76.99%
Cake flour 2.5kg	52.10%	Fresh Milk Low Fat 2 L	26.44%	Potatoes	29.36%
Spaghetti 500g	47.07%	Fresh Milk Low Fat 1L	22.91%	Tomatoes 1kg	20.75%
Macaroni plain 500g	13.42%	Fresh Milk Full Cream 1L	28.31%	Sweet potatoes 1 kg	34.49%
Cooking oil 750ml	102.95%	Skimmed Powder Milk 1kg	27.78%	Cabbage 1kg	46.96%
Medium fat spread 1kg	58.26%	Long Life Milk Full Cream 1L	12.66%	Lettuce 1kg	23.18%
Margarine 500g	34.82%	Meatballs in Gravy 400g	11.87%	Pumpkin kg	24.88%
King Korn 1kg	19.72%	Picnic Ham 300g	16.60%	Cauliflower 1kg	32.66%
Oats 1kg	24.30%	Polony 1 kilogram	10.93%	Peaches 410g	10.53%
Cornflakes 750g	7.09%	Bacon 250 gram	17.26%	Pears 410g	14.61%
Rice 2kg	13.30%	Pork Chops 1kg	15.07%	Apples 1kg	34.74%
Ricoffy Reg 750g	18.16%	Lamb Chops 1kg	9.96%	Oranges 1kg	37.79%
Peanut Butter Smooth 410g	21.75%	Brisket 1kg	10.40%	Banana 1kg	21.72%
Soya mince tomato & onion 200g	17.48%	Beef chuck 1kg	7.76%	Coca Cola Regular 2l	6.70%
Frozen corn 1kg	18.79%	Rump steak 1kg	6.67%	Strawberry Jam 450g	15.51%
		Chicken - Whole Fresh 1kg	17.33%	Smooth Apricot Jam 450g	8.14%
		Chicken portions 1kg	14.55%	Beans in tomato sauce 420g	12.67%
		Pilchards in Tomato 425g	9.68%	Butter beans in brine 410g	31.96%
		Tuna Shredded in Brine 170g	21.80%	Chopped peeled tomato 410g	14.39%
		Eggs 18's extra large	16.40%	Tomato & onion mix 410g	9.63%
				Canned peas 410g	10.17%
				Frozen green peas 1kg	28.32%
				Frozen baby carrots 1kg	14.47%
				Frozen sliced beans 1kg	17.69%

Products whose prices increased at a rate of lower than 6% over the period under consideration include: maize meal super 5kg (5.23%), maize meal special kg (5.66%), rice crispies 400g (3.55%), sugar 2.5kg (4.17%), tagless teabags 62.5g (3.94%) and pork sausage 500g (3.24%). None of the food items in the basket experienced a decrease in price. There thus seems to be some relieve for the poor consumers relying mainly on staple food such as maize meal.

Appendix A reports the average nominal price in April 2007, January 2008 and April 2008 together with the percentage change from January 2008 to April 2008, as well as the year-on-year percentage change between April 2007 and April 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.

In terms of section 1 the following broad conclusions can be drawn. From a food security point of view prices of staples continued to increase. The increase in brown and white bread prices were 21.58% and 26.37%, respectively, year-on-year, which was higher than the previous year-on-year increase reported in the February Food Price Monitor press release. Although it is expected that wheat prices might drop marginally due to increased expected plantings and hence production, it will not result in significantly lower bread prices since the significant increases in wheat prices over the past season is still being absorbed and the new crop is only expected by the end of the year. The prices of a 5kg bag of super and special maize meal increased by 5.23% and 5.66%, respectively, year-on-year, meaning some relief for the poor consumers relying mainly on staple food such as maize meal; moreover it seems as if the upward pressure on maize meal prices could be lower for the rest of the year. Dairy product prices increased, on average, by 24.65%, but internationally prices have started to move downwards; this is expected to spill over into the South African market. Meat prices on average continued to increase at a much slower rate than most other food products and the year-on-year rate of increase appears to be moving sideways since January. The prices of the main vegetables showed year-on-year increases of 32.85%. 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. Input cost pressures are playing an increasingly important role in pushing prices higher.

3. Rural food price trends: April 2007 to April 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. the price change for a loaf of white bread is reported in two sizes, namely 600g and 700g. The food products whose prices increased by more than the target inflation rate of 6%, between April 2007 and April 2008 are shown in Table 2.

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

Grain and grain products	%	Other products	%
Loaf of brown bread 600g	34%	Tea bags 250g	7.04%
Loaf of brown bread 700g	30.23%	Full cream long life milk 1L	10.78%
Loaf of white bread 600g	34%	Full cream long life milk 500ml	48.13%
Loaf of white bread 700g	29%	Pilchards in tomato sauce 155g	52.55%
Maize meal 1kg	24.51%	Pilchards in tomato sauce 425g	17.83%
Maize meal 2.5kg	13.38%	White sugar 1kg	11.87%
Maize meal 12.5kg	19.84%	White sugar 2.5kg	8.40%
Maize meal 5kg	16.19%	White sugar 500g	29.56%
Samp 1kg	33.08%	Instant coffee 100g	15.92%
Samp 2.5kg	15.75%	Instant coffee 250g	33.45%
Margarine 125g	17.60%	Beans 1kg	51.46%
Margarine 250g	26.32%	Beans 500g	28.10%
Margarine 500g	27.82%	Butter beans 410g	11.44%
Cooking oil 2L	86.29%	Butter beans 420g	7.04%
Cooking oil 500ml	52.96%	Peanut butter 270g	26.51%
Cooking oil 750ml	70.13%	Peanut butter 400g	14.34%
Rice 1kg	18.29%	Peanut butter 410g	11.57%
Rice 2kg	7.79%		
Rice 500g	19.07%		
Sorghum meal 1kg	31.39%		
Sorghum meal 500g	18.51%		

With the exception of Tea bags 62.5g which experienced -0.03% price decrease, all food items experienced food inflation of more than 6% between April 2007 and April 2008. Appendix B reports the average nominal prices in April 2007, January 2008 and April 2008 together with the percentage change between January 2008 to April 2008 and April 2007 to April 2008.

4. Comparison between urban and rural food prices (selected items)

Table 3 shows a comparison between urban and rural food prices for selected food items. With the exception of brown and white bread, all the food items shown in the Table 3 were cheaper in urban areas than in rural areas in April 2007. In April 2008, only the prices of full cream long life milk and cooking oil were less expensive in rural areas than in the urban areas. In April 2007 people living in rural areas had to pay, on average, R3.25 more for a 5kg bag of maize meal than people in the urban areas. This increased further to R3.59 in April 2008. A 700g loaf of brown bread and 700g loaf of white bread were R0.16 and R0.10 cheaper in rural areas than in urban areas in April 2007, respectively. However, in April 2008 the opposite was true. On average, consumers in rural areas paid R0.84 more than the consumers in the urban area for the products shown in Table 3. 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 (Apr-07) R/unit	Price difference (Apr-08) R/unit
		Apr-07	Jan-08	Apr-08	Apr-07	Jan-08	Apr-08		
Block type margarine	500 g	7.64	9.29	10.30	8.06	9.12	10.30	0.42	0.00
Full cream long life milk	1 ℓ	6.52	8.23	8.35	7.25	9.41	8.03	0.73	-0.32
Loaf of brown bread	700 g	4.82	5.35	5.86	4.66	5.38	6.07	-0.16	0.21
Loaf of white bread	700 g	5.31	5.89	6.71	5.21	6.05	6.73	-0.10	0.02
Maize meal ¹	5 kg	18.41	20.84	21.57	21.66	24.83	25.16	3.25	3.59
Peanut butter	410 g	10.53	11.32	12.82	11.91	12.65	13.29	1.38	0.47
Pilchards in tomato sauce	425 g	8.06	8.47	8.84	9.32	10.36	10.98	1.26	2.14
Cooking oil	750 ml	7.80	12.70	15.83	8.43	11.26	14.34	0.63	-1.49
Sugar	2.5 kg	14.14	14.79	14.73	16.28	17.48	17.65	2.14	2.92
Average price difference								1.06	0.84

5. Global commodity price trends

The phenomenon of increasing food prices within South Africa reflects the current reality of the global food market. According to reports from institutions such as the World Bank, World Food Program and the United Nations, a wave of food price inflation is moving through global markets, leading to what some have termed a “silent Tsunami” of hunger. The figures below summarise monthly nominal price movements within the international markets for cereal grain and meat.

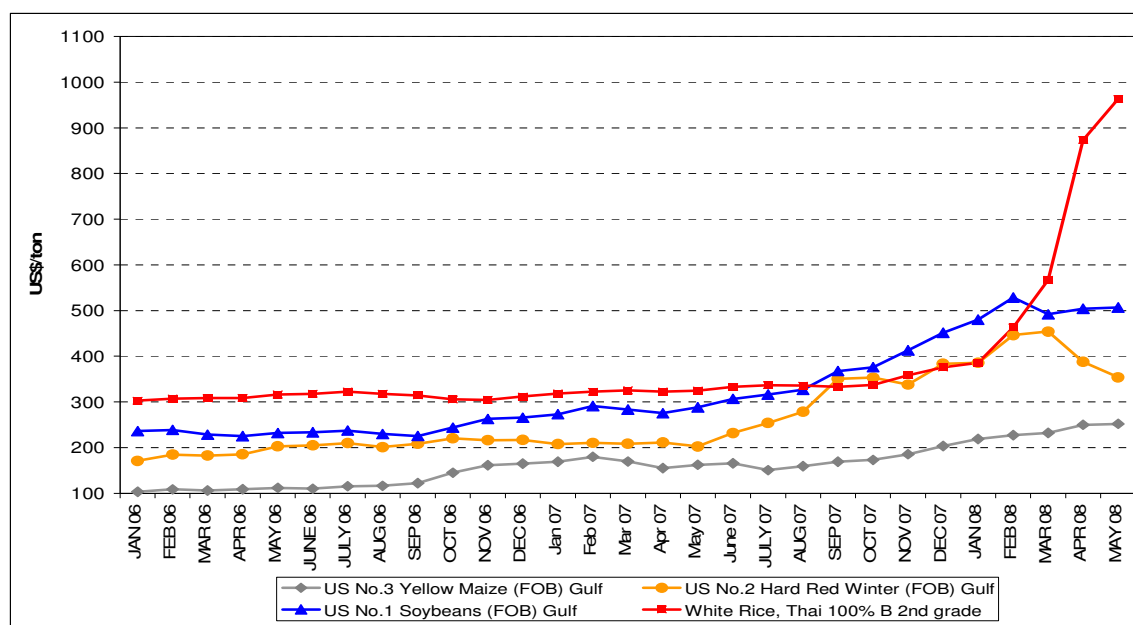


Figure 1: Nominal World Cereal Prices: January 2006 to May 2008 (US\$/ton)

Source: International Grain Council; <http://www.fao.org/es/esc/prices/CIWPQueryServlet> UN-Food and Agricultural Organisation

¹ Super and special maize meal prices are average across brands

Between January 2006 and May 2008 maize and wheat grain prices rose by 144.1 and 107.1 percent, while soybean and rice prices increased by 114.7 and 218.4 percent, respectively. These movements in prices reflect the changing nature of the demand for grain. The sharp increase in world prices of yellow maize since January 2006 from \$103 per ton to \$252 per ton recently is only partly attributed to the rising global demand for biofuels with rising incomes and increased urbanisation also contributing. The rise in maize prices put upward pressure on Soybean prices, since both commodities compete in both the feed and energy markets. In the case of wheat and rice, the upward trend in prices is attributed to economic growth experienced by both China and India over the past five years, which has translated into rising disposable income and increased food demand for both cereal grains and meat products. These changes within the grain markets have exerted an upward pressure on meat and dairy products.

In general, in order to bring to market 1 kg of pork, beef, and chicken it takes approximately 4kg, 10kg, and 2kg of grain; respectively. With input cost rising within the livestock industry, overall meat prices are on the rise. Figure 2 below summarises the price movement of beef, chicken and pork intended for export.

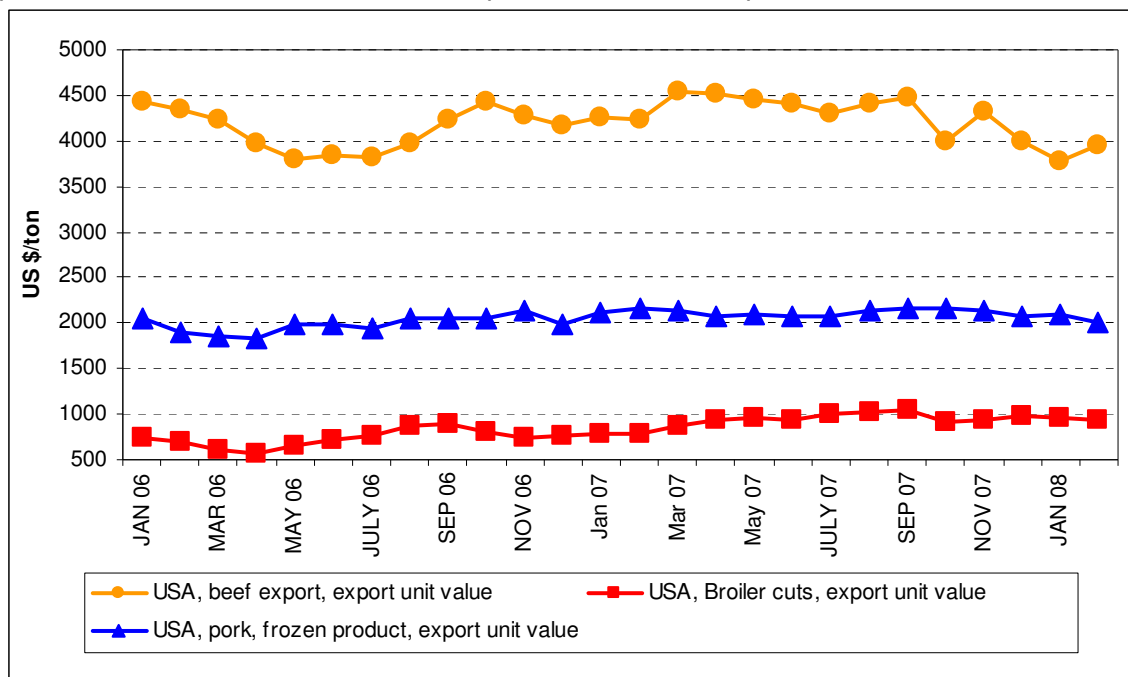


Figure 2: U.S. Bovine, Broiler and Pork Export Unit Value: January 2006 – February 2008 (US\$/ton)

Source: UN-Food and Agricultural Organisation

Although there was a slight reduction in meat prices within the last few months of 2007, overall beef prices rose by 3 percent from 2006, while chicken and pork prices rose by 28 and 6 percent; respectively.

Another important factor that must be taken into account is increasing crude oil prices. For example, between January 2006 and February 2008 crude oil prices rose, on average, by \$1.43 per barrel per month. Given the relationship between crude oil and food production energy costs, rising oil prices imply increasing production, packaging and transportation costs for food production within South Africa.

In order to illustrate the relationship between fuel prices and staple agricultural commodity prices, correlation coefficients were calculated. In general correlation coefficients are measures that are used to determine the strength and direction of a relationship between two variables. The diagram to the right summarises the coefficients between global fuel prices (in Rand currency) and domestic grain prices. From this diagram one can see that there is a strong, positive linear relationship between crude oil and domestic grain prices; implying that increases in global crude oil prices translate into rising domestic cereal prices.

Correlation Coefficients: World Crude Oil and Domestic Grain Prices	
<i>Item</i>	<i>Crude Oil</i>
Crude Oil	1
White Maize	0.73
Yellow Maize	0.69
Wheat	0.89
Soybeans	0.88

Overall, given global conditions, South Africa's domestic food market is in the process of transitioning to a new equilibrium. This process takes time because of the biological nature of agricultural production; but already South African producers have started responding – cereal planting is up by 8%. In the case of government policy, one possible approach to speed-up the transition phase would be to focus on policy options that could potentially increase short-run aggregate supply. One such policy is improved land-redistribution reform. It is generally accepted that the land re-distribution process is too slow to meet the government's 2014 projection of 30% of all commercial land being black-owned. The implication of this slowdown is that large amounts of productive agricultural land under claim are effectively removed from the production process. If these lands were to be effectively redistributed, and therefore come under production, high agricultural commodity prices would provide the right set of incentives for newly emerging commercial farmers.

6. The dairy industry

6.1 International trends

Dairy products, in line with other food products, are experiencing double digit inflation in international markets. Figure 3 shows the trends in the international price of butter, cheddar cheese, skim milk powder and whole milk powder. These products experienced steady price changes between January 2005 and November 2005, after which they showed a noticeable decline. However this decline ended in September 2006 as prices increased markedly. The price of skim milk powder peaked in August 2007, while the price of whole milk powder, butter and cheddar cheese peaked in October 2007, November 2007 and December 2007, respectively. After peaking, prices declined observably, with the whole milk powder price reaching a minimum of \$4 000/ton in January 2008, after which it started to increase. Between March 2007 and March 2008 the price of butter, cheddar cheese, skim milk powder and whole milk powder increased, on average, by 93.89%, 67.61%, 17.05% and 44.46%, respectively.

The main driver of the current price increase in dairy products in the international markets remains the high international demand for dairy products that supply does not meet. This shortage is largely due to an increasing demand for dairy products, resulting from the economic growth achieved in some nations around the globe.

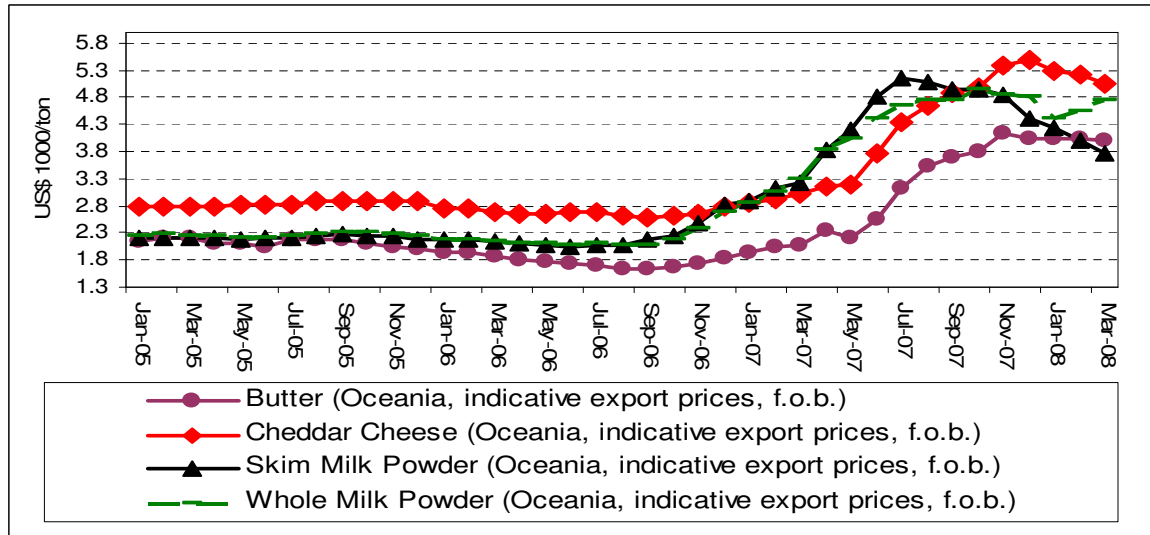


Figure 3: International price trends of dairy products
Source: Food and Agriculture Organization (FAO)

6.2 The domestic market

Figure 4 shows the producer price (farm gate price) of unpasteurized milk in bulk and the retail price of packed pasteurized milk. The farm gate price of unpasteurized milk increased by 37.78% between April 2007 and April 2008. This naturally influenced the retail prices of fresh low fat milk and fresh full cream milk. The prices of fresh low fat and full cream milk fluctuated between R4.20 and R5.05 in the period between January 2005 and March 2007, after which they increased sharply from April 2007 to April 2008 in line with the increase in producer prices.

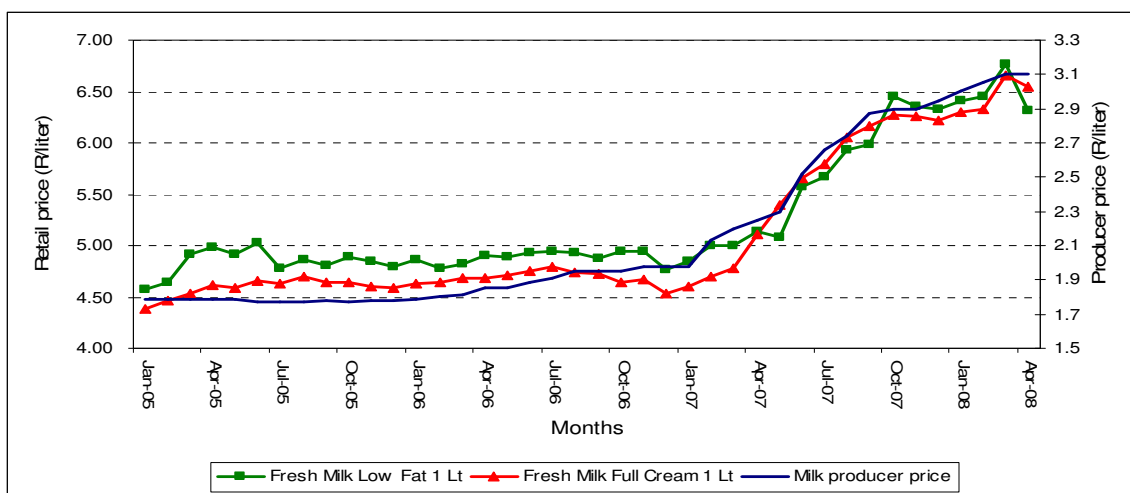


Figure 4: Retail price of milk and producer price of milk.
Source: AC Nielsen and Lactodata

Butter also experienced a significant increase in price during 2007. As shown in figure 5, between January 2005 and July 2006 the price of 500g of butter declined from R16.55 to R15.22. This was followed by a marked increase between July 2006 and April 2008 to a new level of R20.68, almost 25% higher than in April 2007.

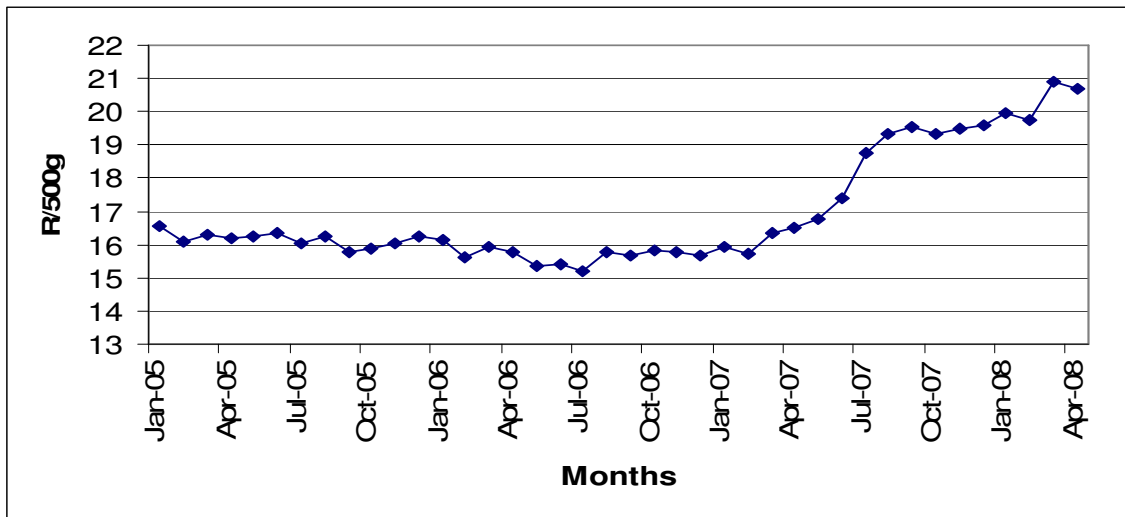


Figure 5: Trend in retail price of butter (500g)

Source: AC Nielsen

Figure 6 shows the margin between the price of unpasteurized milk in bulk at farm gate and the fresh packed pasteurized full cream and low fat milk prices at retail level. The margins for the two products fluctuated between R2.60/liter and R3.26/liter between January 2005 and December 2006, after which they increased observably, peaking at R3.56 and R3.67 in March 2008, respectively. Moreover, between April 2008 and April 2008 the margin between the retail price of packed pasteurized milk (full cream and low fat), and the producer price (price at farm gate) of unpasteurized milk in bulk, increased on average by 20.85 percent and 11.35 percent, respectively. One can postulate that the increase in the margin is due to several reasons, including but not limited to, increasing cost of distribution as a result of increasing diesel costs, increasing prices of packaging material due to constantly increasing oil prices (plastic prices are closely correlated with the oil price) and demand is outstripping the supply of milk.

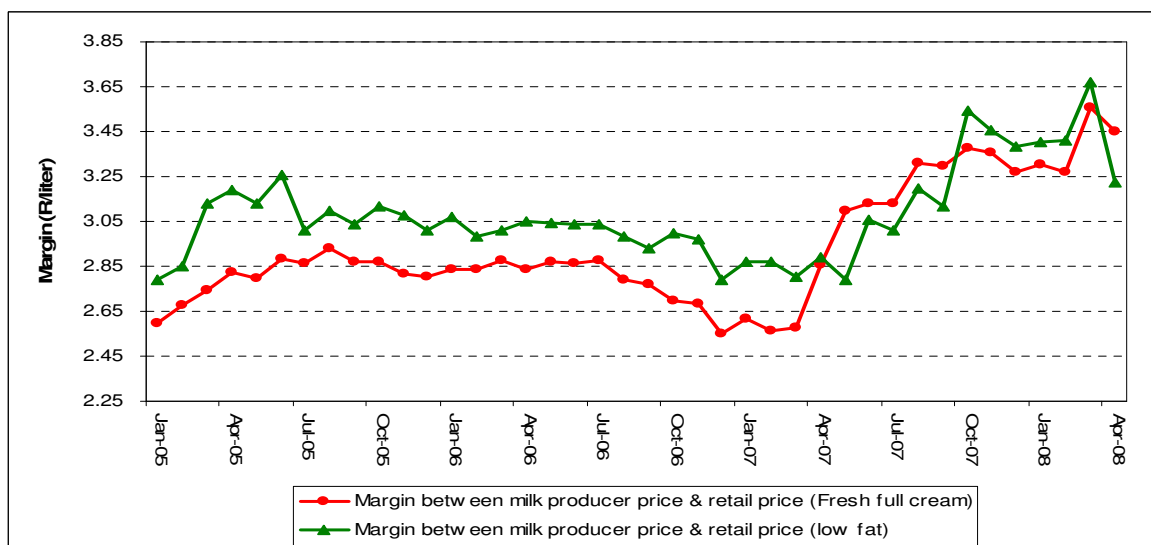


Figure 6: Margin between the retail price and producer price of milk

Source: AC Nielsen and Lactodata

Figure 7 shows the production and consumption of milk that represents the supply of and demand for milk. It clearly shows that in 2004 the country produced enough milk to satisfy domestic consumption. However, from 2005 the growth in domestic milk consumption outpaced the growth in the domestic production of milk. The increasing middle class and increasing per capita disposable income are the main reasons behind the higher rate of growth in the consumption of dairy products. The widest shortage was experienced during 2007. According to forecasts by Lactodata, the shortage will decline during 2008, however it will still be very high (59.73 million litres). This will be down from the shortage of 78 million litres in 2007.

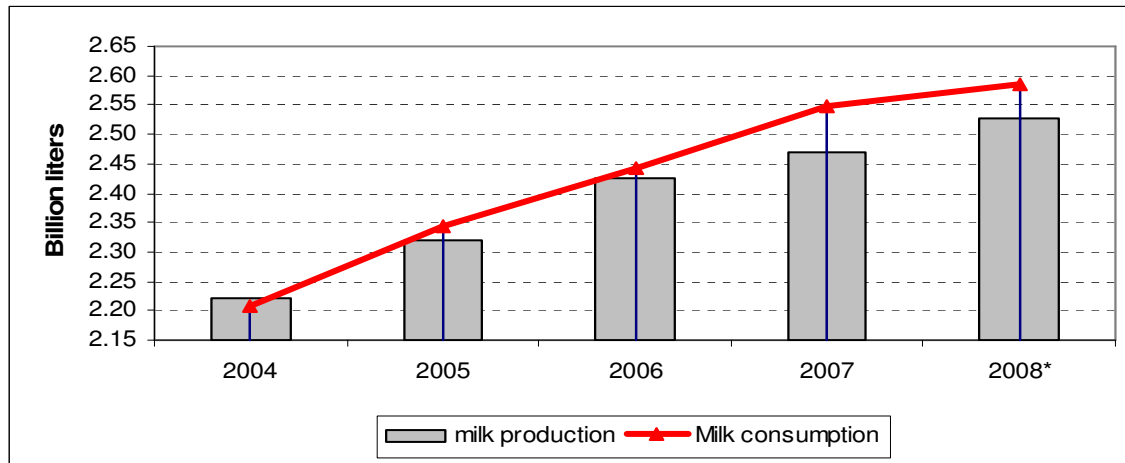


Figure 7: Annual production and consumption of milk

Source: Lactodata

* forecasted market statistics

7. Average household income and consumer expenditure patterns

In this section average household income and consumer expenditure are discussed in an effort to provide a better understanding of the consumer base in South Africa. The information used was extracted from the recently published Income and Expenditure Survey (IES) by Stats SA. This publication can be downloaded at <http://www.statssa.gov.za/ies/publications.asp>.

Figure 8 shows the average household income for rural and urban type settlements in 2005/06. The average income for a household in the urban areas was R98 011, while average household income in the rural areas was R30 859 per year. On average, South African households had an income of R74 589 per year.

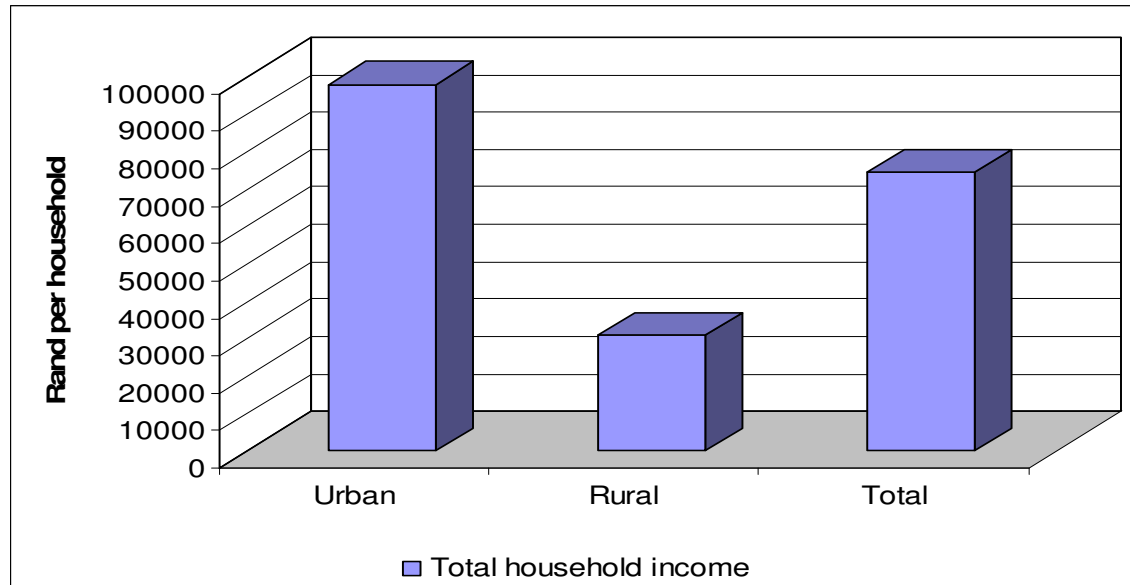


Figure 8: Average household income for rural and urban type of settlement

Source: StatSA IES 2005/06

Below are other interesting facts pertaining to income that emerged from the IES:

- Income from work accounted for 74% of gross income in 2005/06.
- 10% of the population received over 50% of the income from work & social grants in 2005/06.
- Inequality is reflected in tax incidence, in that 30% of households accounted for 95% of tax.
- Social security grants played an important role in reducing inequality in income, e.g. deciles 1 to 4 derived over half their income from grants.
- Real per capita income in all deciles increased from the 2000 to 2005/06 IES. (Note should be taken of the differences in methodology followed between the 2000 IES and the 2005/06 IES – see the abovementioned website).
- The largest proportion of income was spent by households on housing, transport and food, and non-alcoholic beverages.
- There was a relatively slow change in spending patterns, apart from an increase in spending on transport and a decrease in spending on food and non-alcoholic beverages since the 2000 IES.

The rest of this section focuses in more detail on expenditure patterns. Figure 9 depicts the percentage distribution of annual household consumption expenditure by main expenditure group and type of settlement as measured during 2005/06. The main expenditure groups showed are not all inclusive, but represent more than 90 percent of the expenditure. From Figure 9 it is clear that people living in rural areas spent most of their earnings on food and non-alcoholic beverages (24.8%), followed by housing, water, electricity, gas and other fuels (16.3%) and transport (15.3%). People living in urban areas spent 25 percent of their income on housing, water, electricity, gas and other fuels, 20.8 percent on transport and 12.5 percent on food and non-alcoholic beverages.

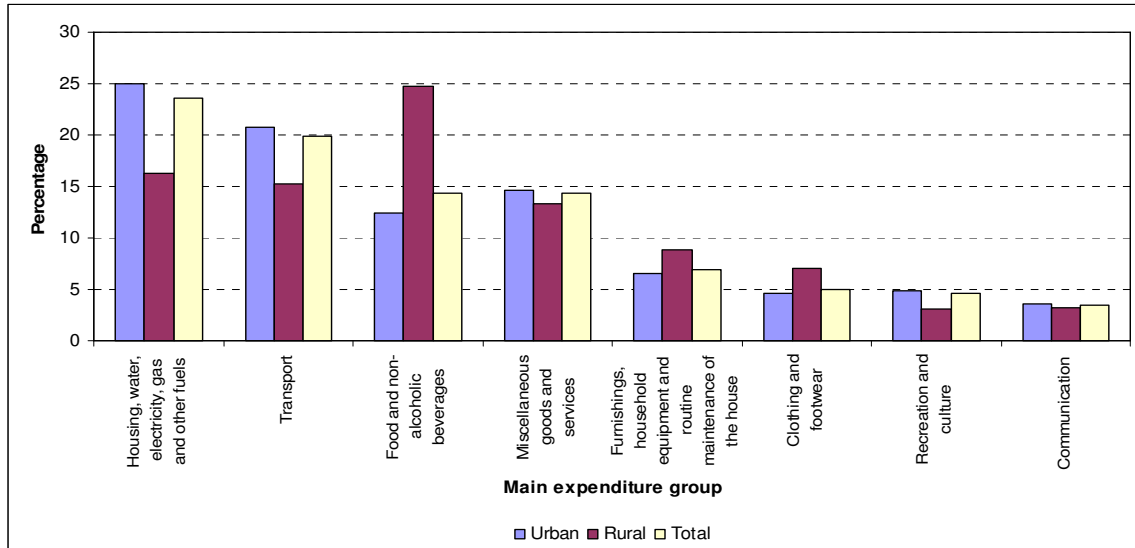


Figure 9: Percentage distribution of annual household consumption expenditure by main expenditure group and type of settlement

Source: StatSA, IES 2005/06

Figure 10 shows the percentage distribution of annual household consumption expenditure by main expenditure group and income deciles. When looking at the breakdown of spending patterns by the different income groups, it is clear from Figure 10 that the lower 3 deciles (30%) spent more than 30 percent of their income on food and non-alcoholic beverages, the next 4 deciles spent more than 20 percent and the top 3 deciles less than 20 percent on food and non-alcoholic beverages.

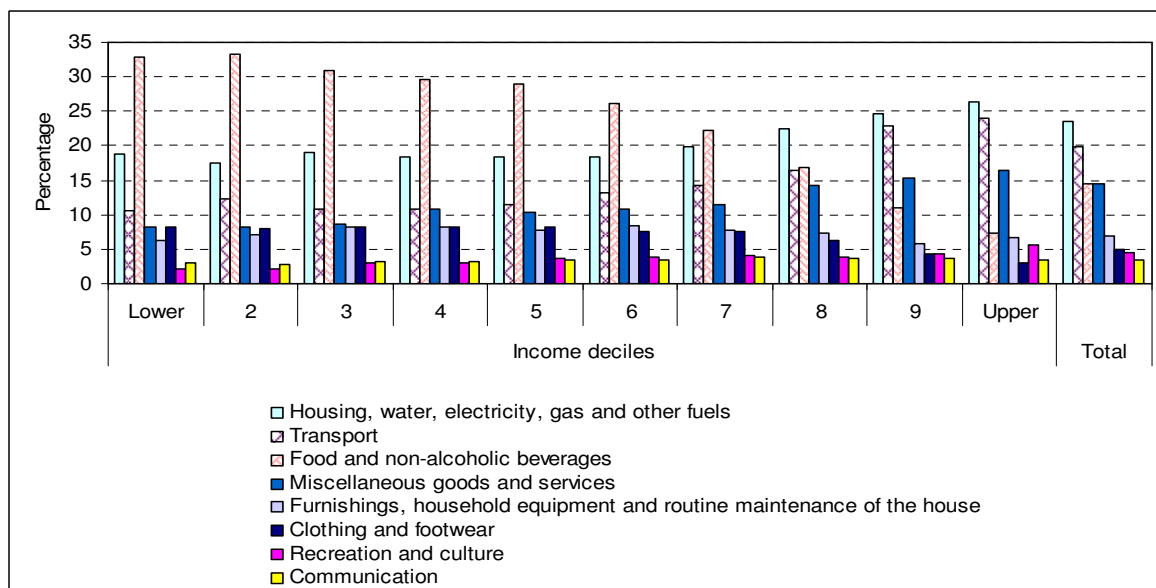


Figure 10: Percentage distribution of annual household consumption expenditure by main expenditure group and income deciles

Source: StatSA, IES 2005/06

If one considers the information contained in Section 1 of the report, combined with expenditure on food by households in different deciles, as well as expenditure patterns

on food per decile recent calculations by BFAP show that inflation on bread is the dominant factor contributing to consumers' additional spending, varying from 20.8% of total additional spending due to inflation for Income Decile 1 to 11.1% for Income Decile 10. The impact of food inflation is most prominent in Income Deciles 1 to 4, with a decreasing impact towards Income Decile 10.

8. Is food production keeping up with population growth?

Figure 11 shows the population numbers from 1991 to 2007. During the depicted period the population numbers in South Africa showed a growth of 32.2 percent to 47.8 million people. Some demographic estimates show that this figure is an undercount between 8 and 16 million due to immigration from other African countries.

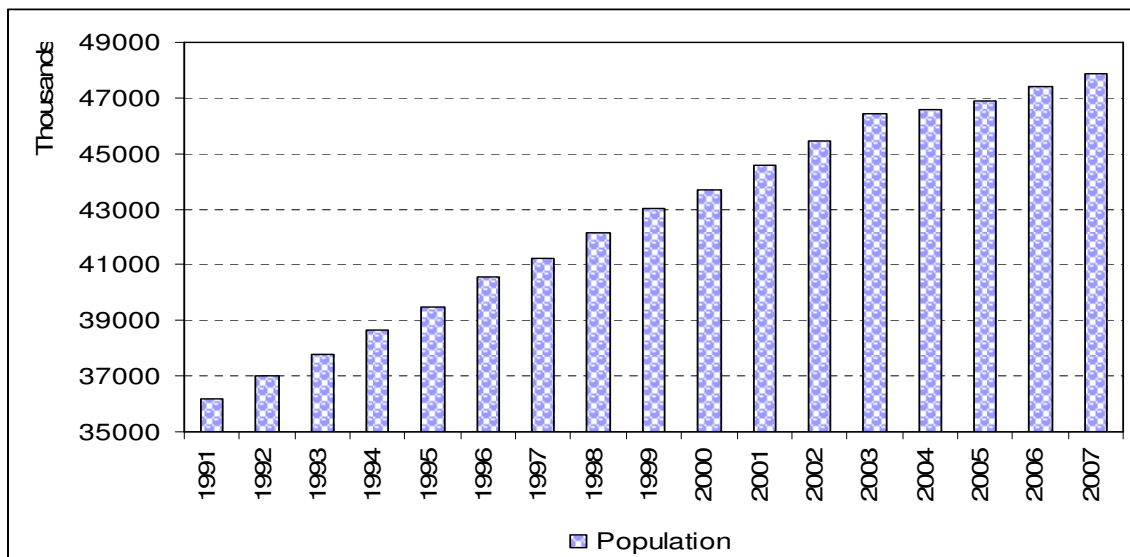


Figure 11: Population numbers from 1991 to 2007

Source: DoA, 2008.

Figure 12 shows the indices of the volume of agricultural production from 1991 to 2007. The total volume of agricultural production increased by 10 percent over the depicted period. In terms of different agricultural sub-sectors, only two showed growth in output from 1991 to 2007, namely the horticultural (52%) and livestock (14%) sub-sectors. The field crops sub-sector showed a decrease of 19 percent in production volumes over the depicted period. Note the large variation in production volumes over time, relative to the other sub-sectors. It is also noteworthy that this sub-sector also produces the staples largely consumed by poor consumers.

Overall the situation is of concern, since food production in South Africa is not keeping up with population growth. The result is that prices of most agricultural commodities tend to move closer to import parity prices, which also translates into agricultural commodity prices being linked more directly to international commodity price movements. In the case where production is sufficient to allow for surpluses to be exported, prices usually tend to move closer to export parity prices that are significantly lower than import parity prices. Moreover, this situation tends to provide relief in periods of increasing food prices.

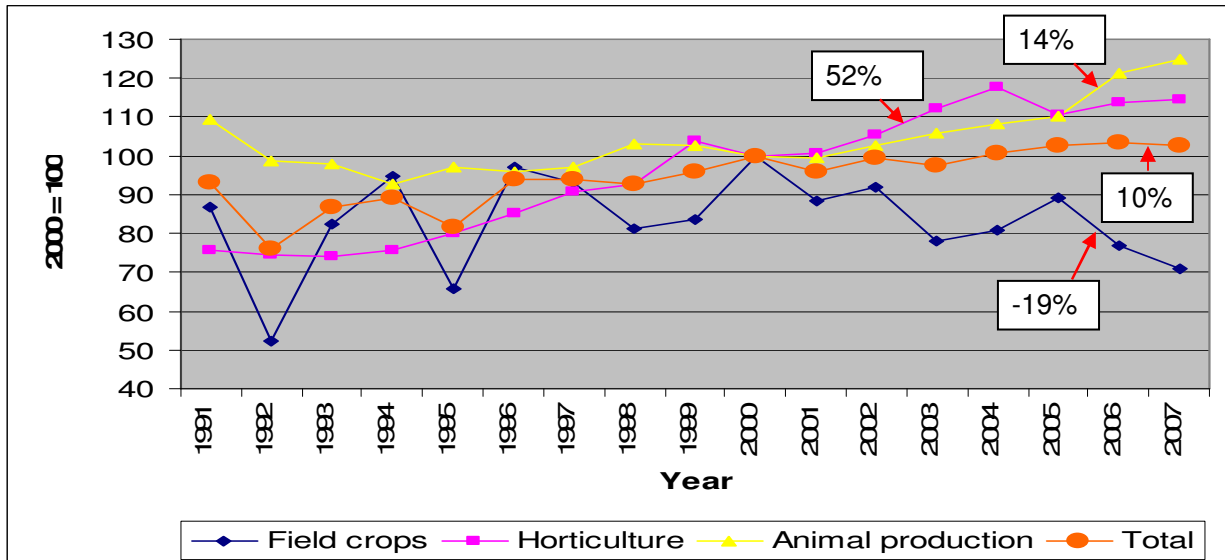


Figure 12: Indices of the volume of agricultural production (2000=100)
Source: DoA, 2008.

9. Investment in agriculture and trends in farming income

Figure 13 shows the gross capital formation in agriculture from 1970 to 2007 in real terms, i.e. the effect of inflation has been removed. It is clear that investment in agriculture was at its highest level during the mid-1970s to the early 1980s. Investment in fixed improvement declined from 1982 to 1992, after which it showed a steady, but slow increase. Investment in tractors, machinery and implements showed a significant drop from 1982 to 1992, after which it moved more or less sideways. Total gross capital investment moved sideways from 2002 to 2007. The trends described are contrary to what is expected in a country where agriculture plays a major role in sustaining rural economies, where land reform is a major government imperative and access to food is regarded as a constitutional right.

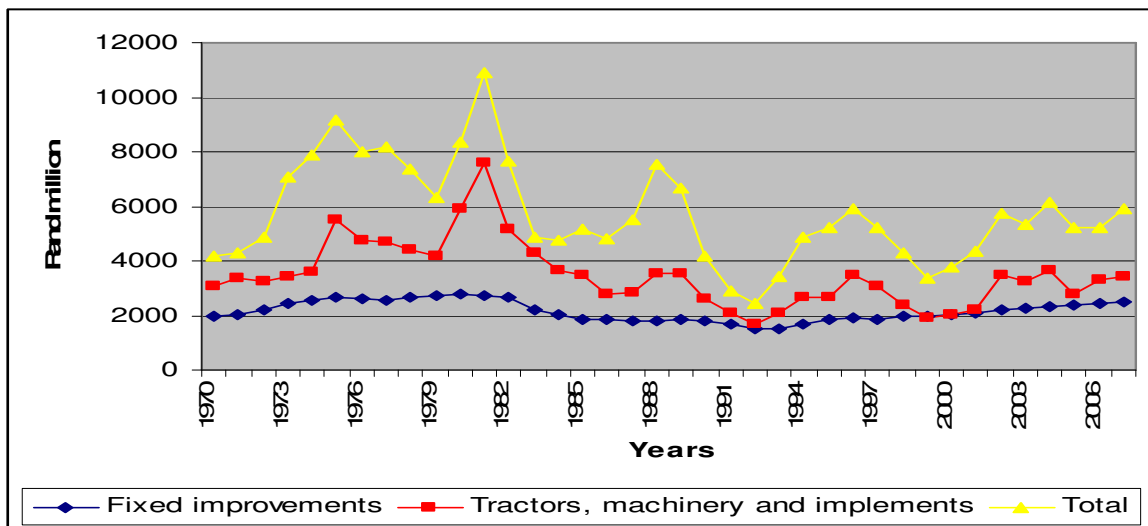


Figure 13: Real gross capital formation in agriculture (2000 = 100)
Note: The total capital formation includes changes in livestock inventory
Source: DoA, 2008.

Figure 14 shows the real gross and net farming income, as well as expenditure on intermediate goods and services. Real gross income shows an increasing trend throughout the depicted period, while net farming income shows a declining trend. It is also important to note that the gap between real gross and net farming income has increased substantially over the depicted period. This is mainly due to the increase in the real expenditure on intermediate goods and services to maintain agricultural operations. This situation seriously hampers the ability of producers to maintain operations and to re-invest in their enterprises.

To illustrate the point, the current size of the South African tractor park, comprising tractors twenty years old and younger, is approximately 64 400 units in 2007 – this is marginally up on 2006, but has declined by 32.2 percent in the last ten years. The reason for this is that producers have been postponing replacement of machinery and the upgrading and maintenance of buildings due to low profit margins and uncertainties related to the socio-political environment. Interesting to note is the recent (February 2008) upsurge in tractor sales. A total of 752 units were sold in February 2008, which was double the number sold in February 2007. The reason for this can be attributed to forced replacement of a very old fleet of tractors combined with the ability to actually do such replacements as a result of higher net farm incomes over the past two seasons.

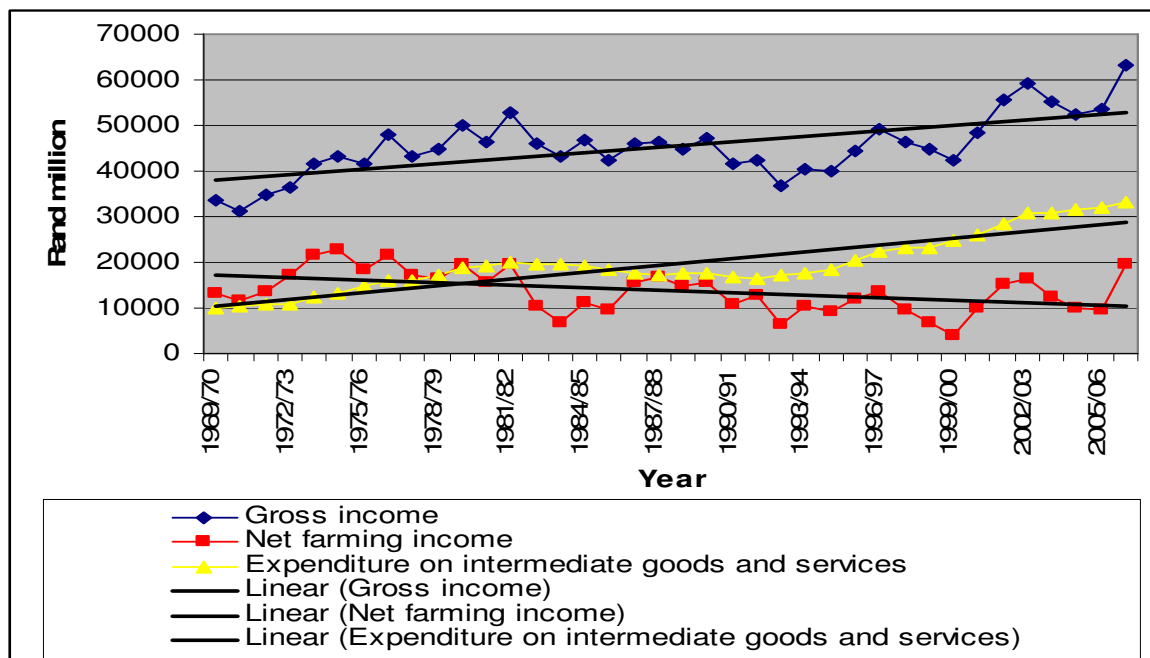


Figure 14: Real gross and net income in agriculture (2000 = 100)

Note: Intermediate goods and services include, amongst others, packaging material, fuel, fertilizers, feed and dips and sprays.

Source: DoA, 2008.

10. Outlook: June 2008 to August 2008

After reaching record levels in the first quarter of 2008, most of the world and local agricultural commodity markets are trading sideways. Although relatively large shifts in area plantings are still expected between the various field crops, it seems like most agricultural commodity markets are settling for a new equilibrium that is much higher than the traditional 10-year average. This new equilibrium is being established as profit

margins for the various industries are either closing or have closed due to rapidly increasing input costs. On international and local markets, farmers are expected to move hectares out of maize production into wheat and oilseed production. For example, the United States Department Agriculture (USDA) reports an increase of 15% in the intended soybean area plantings for the coming season.

Prices of domestic field crops continue to be mainly affected by international prices (which are in turn affected by the international demand and supply situation), the exchange rate and the local demand and supply situation. The major field crops are currently at expected parity levels, e.g. maize is currently moving just above export parity levels, while wheat is moving around import parity levels. This situation is not expected to change over the next three months. The reason for this, as far as maize is concerned, is that the expected maize crop, according to the Crop Estimates Committee is 4.9 million tons higher than a year ago, which should contribute towards improving current maize stock levels. In the case of wheat the Crop Estimates Committee estimated that approximately 120 000 hectares more will be planted with wheat, but cognizance should be taken that South Africa will remain a net importer of wheat, while pressure on stock levels will remain; the result is continued firm prices on the domestic market following import parity. The same reasoning applies to sunflower seed and soybeans, although pressure on stocks will be less severe on the local market.

In the intensive livestock industries, i.e. poultry, pork and dairy production, as well as in feedlots, margins remain under pressure due to the significant increases in grain prices that resulted in higher feeding costs. Given the high capital demand of intensive livestock operations it is not expected that production will increase significantly by means of entry or expansion by smaller players in the market. If any expansion takes place it will most probably come from larger operations. From an extensive livestock farming point of view, good summer rain in most of the production regions has improved the pasture land and no major shock in the number of slaughtering is expected. Prices are expected to remain firm for the rest of the year.

Turning to vegetables and fruits, greater movements of prices can be expected in the coming months. Input costs have increased to such extent, that potato farmers for example, intend to plant less potatoes. An important issue to consider within the vegetable market is the fact that reports indicate that many of the informal dealers of vegetables, i.e. hawkers, were of foreign origin. The current xenophobic violence has already impacted on this market outlet and will continue to do so for at least the outlook period. Major fruit exporters are reaping the benefits of a weaker Rand. Exchange rate movements determine the export realization price for farmers, which in turn influences the volume sold on the local market.

A new equilibrium in agricultural commodity markets does not imply that prices will be less volatile or will decrease. It does, however, imply that the environment and the levels of doing business have shifted. Revenue and costs of production are higher and more credit and collateral are required to do business. Moreover, the major challenge for farmers will be to obtain credit from banks since increasing input costs will increase the demand for credit to finance farming operations. Higher interest rates will make it even more difficult to obtain credit. The sharp rise in energy costs could affect farm-to-retail margins, causing it to increase because processing and distributions costs have increased, especially for highly processed food items

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Stats SA and AC Nielsen are acknowledged for assistance provided to the NAMC in terms of food price data.

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APPENDIX A: DATA ON URBAN FOOD PRICE TRENDS²

Table A.1: Wheat products

Wheat Products	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
White bread 700g	5.31	5.89	6.71	13.92%	26.37%
Brown bread 700g	4.82	5.35	5.86	9.53%	21.58%
Cake flour 2.5kg	11.90	15.06	18.10	20.19%	52.10%
Spaghetti 500g	5.80	7.58	8.53	12.53%	47.07%
Macaroni plain 500g*	5.53	6.37	6.27	-1.46%	13.42%
Average				10.94%	32.11%
SAFEX Wheat R/ton	2162	3174	3973	25.17%	83.73%

*Data from AC Nielsen

Table A.2: Maize products

Maize Products	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Maize meal super 5kg*	19.60	21.05	20.63	-1.99%	5.23%
Maize meal special 5kg*	15.88	17.58	16.78	-4.60%	5.66%
Average				-3.29%	5.45%
SAFEX White maize R/ton	1663	1793	1862	3.86%	11.95%

*Data from AC Nielsen

Table A.3: Sunflower products

Sunflower Products	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Cooking oil 750ml	7.80	12.70	15.83	24.65%	102.95%
Medium fat spread 1kg *	12.28	14.95	19.44	30.08%	58.26%
Margarine 500g	7.64	9.29	10.30	10.87%	34.82%
Average				21.87%	65.34%
SAFEX Sunflower R/ton	2684	4443	4622	4.02%	72.21%

*Data from AC Nielsen

Table A.4: Processed vegetables

Processed Vegetables	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Beans in tomato sauce 420g	4.34	4.75	4.89	2.95%	12.67%
Butter beans in brine 410g	6.07	7.31	8.01	9.58%	31.96%
Chopped peeled tomato 410g*	6.83	6.88	7.81	13.57%	14.39%
Tomato & onion mix 410g*	5.86	6.35	6.42	1.19%	9.63%
Canned peas 410g*	5.23	5.34	5.77	7.94%	10.17%
Frozen green peas 1kg*	17.09	19.61	21.92	11.82%	28.32%
Frozen baby carrots 1kg*	23.35	25.00	26.73	6.92%	14.47%

² 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	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Frozen corn 1kg*	20.82	22.40	24.74	10.41%	18.79%
Frozen sliced beans 1kg*	22.11	24.32	26.02	6.98%	17.69%
Average				7.93%	17.57%

*Data from AC Nielsen

Table A.5: Fresh vegetables

Fresh Vegetables	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Carrots 1kg	7.16	7.89	7.62	-3.42%	6.42%
Onions 1kg	5.63	8.08	9.97	23.39%	76.99%
Potatoes 7kg	5.86	8.12	7.58	-6.65%	29.36%
Tomatoes 1kg	8.56	10.23	10.34	1.08%	20.75%
Sweet potatoes 1 kg	6.43	8.95	8.65	-3.35%	34.49%
Cabbage 1kg	3.88	5.25	5.70	8.57%	46.96%
Lettuce 1kg	17.05	16.33	21.00	28.60%	23.18%
Pumpkin kg	6.11	10.52	7.63	-27.47%	24.88%
Cauliflower 1kg	14.41	16.70	19.12	14.49%	32.66%
Average				3.91%	32.85%

Table A.6: Processed meat

Processed meat	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Meatballs in Gravy 400g*	8.81	9.86	9.86	-0.06%	11.87%
Picnic Ham 300g*	16.50	17.85	19.23	7.74%	16.60%
Polony 1kg	17.94	19.72	19.90	0.91%	10.93%
Pork sausage 500g*	15.48	16.02	15.98	-0.26%	3.24%
Average				2.08%	10.66%

*Data from AC Nielsen

Table A.7: Fresh meat

Fresh meat	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Bacon 250 gram	15.41	17.21	18.07	5.00%	17.26%
Pork Chops 1kg	42.40	49.90	48.79	-2.22%	15.07%
Lamb Chops 1kg	63.94	72.12	70.31	-2.51%	9.96%
Brisket 1kg	36.53	40.43	40.33	-0.25%	10.40%
Beef chuck 1kg	39.08	42.23	42.11	-0.28%	7.76%
Rump steak 1kg	65.72	71.76	70.10	-2.31%	6.67%
Chicken - Whole Fresh 1kg	22.65	26.16	26.58	1.61%	17.33%
Chicken portions 1kg	28.08	32.62	32.17	-1.38%	14.55%
Average				-0.29%	12.38%

*Data from AC Nielsen

Table A.8: Dairy products

Dairy	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Butter 500g*	16.50	19.97	20.68	3.60%	25.36%
Fresh milk full cream 2L*	11.29	14.07	14.57	3.58%	29.08%
Fresh milk low fat 2L*	11.53	14.38	14.57	1.35%	26.44%
Fresh milk low fat 1L*	5.14	6.41	6.32	-1.33%	22.91%
Fresh milk full cream 1L*	5.11	6.31	6.55	3.91%	28.31%
Skimmed powder milk 1kg*	43.03	55.12	54.99	-0.23%	27.78%
Long-Life full-cream 1L*	7.02	8.79	7.91	-9.94%	12.66%
Average				0.13%	24.65%

*Data from AC Nielsen

Table A.9: Fruits

Fruits	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Peaches 410g	6.93	7.16	7.66	6.98%	10.53%
Pears 410g	7.87	8.40	9.02	7.38%	14.61%
Apples 1kg	8.50	10.70	11.45	7.01%	34.74%
Oranges 1kg	7.70	8.46	10.61	25.41%	37.79%
Banana 1kg	6.70	8.36	8.15	-2.51%	21.72%
Average				8.86%	23.88%

Table A.10: Fish products

Fish products	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Pilchards in Tomato 425g	8.06	8.47	8.84	4.37%	9.68%
Tuna Shredded in Brine 170g	6.79	7.60	8.27	8.82%	21.80%
Average				6.59%	15.74%

Table 11: Other products

Other products	Price level			Percentage change	
	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
King Korn 1kg*	7.90	9.48	9.45	-0.30%	19.72%
Oats 1kg	13.99	16.57	17.39	4.95%	24.30%
Cornflakes 750g	21.87	22.87	23.42	2.40%	7.09%
Rice Crispies 400g	17.75	18.00	18.38	2.11%	3.55%
Sugar 2.5kg	14.14	14.79	14.73	-0.41%	4.17%
Rice 2kg	12.71	13.40	14.40	7.46%	13.30%
Ricoffy Reg 750g*	26.99	29.47	31.89	8.22%	18.16%
Tagless teabags 62.5g	5.08	5.15	5.28	2.52%	3.94%
Coca Cola Regular 2L	11.49	11.53	12.26	6.33%	6.70%
Peanut Butter Smooth 410g	10.53	11.32	12.82	13.25%	21.75%
Strawberry Jam 450g	10.51	11.40	12.14	6.49%	15.51%
Smooth Apricot Jam 450g	8.11	8.28	8.77	5.92%	8.14%
Eggs 18's extra large	17.99	19.98	20.94	4.80%	16.40%
Soya mince tomato & onion 200g*	5.58	6.65	6.56	-1.46%	17.48%
Average				4.45%	12.87%

*Data from AC Nielsen

APPENDIX B: DATA ON RURAL FOOD PRICE TRENDS

Table B.1: Wheat products

Wheat products	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Loaf of brown bread 600g	4.47	5.24	5.98	14%	34%
Loaf of brown bread 700g	4.66	5.38	6.07	12.79%	30.23%
Loaf of white bread 600g	4.74	5.63	6.37	13%	34%
Loaf of white bread 700g	5.21	6.05	6.73	11%	29%
Average				12.82%	31.91%

Table B.2: Maize products

Maize products	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Maize meal 1kg	4.79	5.88	5.96	1.37%	24.51%
Maize meal 2.5kg	10.90	12.82	12.36	-3.56%	13.38%
Maize meal 12.5kg	41.53	52.41	49.77	-5.03%	19.84%
Maize meal 5kg	21.66	24.83	25.16	1.34%	16.19%
Samp 1kg	5.17	5.97	6.88	15.13%	33.08%
Samp 2.5kg	10.94	12.99	12.66	-2.52%	15.75%
Average				1.12%	20.46%

Table B.3: Sunflower products

Sunflower products	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Margarine 125g	3.66	4.28	4.30	0.64%	17.60%
Margarine 250g	5.85	6.80	7.39	8.69%	26.32%
Margarine 500g	8.06	9.12	10.30	12.96%	27.82%
Cooking oil 2L	19.02	24.73	35.43	43.25%	86.29%
Cooking oil 500ml	6.51	7.84	9.96	27.01%	52.96%
Cooking oil 750ml	8.43	11.26	14.34	27.35%	70.13%
Average				19.98%	46.85%

Table B.4: Dairy products

Dairy products	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Full cream long life milk 1L	7.25	9.41	8.03	-14.65%	10.78%
Full cream long life milk 500ml	4.82	6.00	7.14	18.93%	48.13%
Average				2.14%	29.46%

Table B.5: Tea and Coffee

Tea and coffee	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Tea bags 250g	14.94	14.79	15.99	8.09%	7.04%
Tea bag 62.5g	5.58	5.53	5.58	0.82%	-0.03%
Instant coffee 100g	6.83	7.70	7.92	2.84%	15.92%
Instant coffee 250g	14.43	15.61	19.26	23.36%	33.45%
Average				8.78%	14.10%

Table B.6: Pilchards

Pilchards	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Pilchards in tomato sauce 155g	5.17	5.51	7.88	42.93%	52.55%
Pilchards in tomato sauce 425g	9.32	10.36	10.98	6.08%	17.83%
Average				24.51%	35.19%

Table B.7: Beans

Beans	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Beans 1kg	8.91	10.43	13.49	29.34%	51.46%
Beans 500g	5.85	7.15	7.50	4.84%	28.10%
Butter beans 410g	6.27	6.85	6.99	1.94%	11.44%
Butter beans 420g	5.84	6.02	6.25	3.79%	7.04%
Average				9.98%	24.51%

Table B. 8: Sugar

Sugar	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
White sugar 1kg	7.02	7.51	7.85	4.50%	11.87%
White sugar 2.5kg	16.28	17.48	17.65	0.99%	8.40%
White sugar 500g	4.34	4.77	5.62	17.90%	29.56%
Average				7.80%	16.61%

Table B. 9: Rice

Rice	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Rice 1kg	7.37	7.23	8.72	20.65%	18.29%
Rice 2kg	14.97	15.85	16.13	1.75%	7.79%
Rice 500g	4.15	4.06	4.94	21.50%	19.07%
Average				14.63%	15.05%

Table B.10: Peanut butter

Peanut butter	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Peanut butter 270g	8.84	9.93	11.19	12.70%	26.51%
Peanut butter 400g	10.99	12.26	12.56	2.47%	14.34%
Peanut butter 410g	11.91	12.65	13.29	5.08%	11.57%
Average				6.75%	17.47%

Table B.11: Sorghum meal

Sorghum products	Apr-07	Jan-08	Apr-08	Jan-08 to Apr-08	Apr-07 to Apr-08
Sorghum meal 1kg	7.16	9.26	9.40	1.53%	31.39%
Sorghum meal 500g	4.54	5.19	5.38	3.72%	18.51%
Average				2.62%	24.95%