



National Agricultural Marketing Council

Strategic positioning of South African Agriculture
in dynamic global markets

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Food price trends: July 2006 to July 2007

Food Prices have, for the third quarter of this year, generated concern among consumers and government officials as increasing food costs continue to put pressure on household disposable incomes. STATSSA announced the Consumer Price Index (CPI) for June 2007 to be 143.0, reflecting a year-on-year inflation rate of 7.0% - just 1% above the target inflation rate set by the Reserve Bank. However, when the food price inflation is calculated for the all the food items in the CPI basket, it stands at 9.5%, indicating that food prices increased between June 2006 and June 2007 faster than the current inflation rate and substantially above the inflation target of 6%. Many are in the process of trying to understand and/or identify the main factor(s) underlying increasing food prices. This media release attempts to do the same by providing further detail and analysis of the price levels and trends. Since we are issuing this release ahead of the STATSSA CPI release for July 2007 later this month and given the trends reported below it is almost certain that food prices will put upward pressure on inflation for July 2007.

This is the first media release to also include the rural food price trends compiled by the NAMC. A straight comparison should be carefully made or avoided as the rural food price trends cover the period from January 2007 to July 2007 as opposed to urban food price trends covering the period from July 2006 to July 2007.

The first section of this media release reports on the nominal year-on-year (July 2006 to July 2007) and January to July 2007 price changes for the major food products in urban areas compiled by the NAMC. It also highlights products whose prices have increased by more than the inflation target of 6%. The second section provides January to July 2007 price changes for the majority of food prices gathered by the NAMC for rural areas. The third section gives a detailed discussion on global food prices and its impact on domestic food production. In the final section of this report we also provide an outlook of what can be expected with regard to food price trends in the next quarter.

Urban food price trends: July 2006 to July 2007

Based on the food items monitored by the NAMC at retail level in metropolitan areas, national average food prices increased on average by **13.76%** between July 2006 and July 2007. This is considerably higher than the June 2007 figure of 9.5% reported by STATSSA and also up from the NAMC figure of 7.58% for March 2007. The food commodities, in our basket, that increased by more than the target inflation rate of 6%, set by the Reserve Bank between July 2006 and July 2007 include:

- white bread (12.89%),
- brown bread (8.39%),
- flour (13.99%),
- maize meal super (22.01%),
- maize meal sifted (20.39%),
- spaghetti (16.09%),
- macaroni (16.43%),
- rice crispies (8.83%),
- rice – 2kg (17.51%),
- jungle oats (21.38%),
- tinned meatballs in gravy (17.77%)
- Picnic Ham (16.94%),
- butter (23.13%),
- pork sausages (9.39%)
- cheddar cheese (39.55%),
- fresh milk 2L – full cream (26.345%),
- fresh milk 2L – low fat (26.12%),
- long-life – full cream (29.31%),
- tinned baked beans (18.43%),
- tinned butter beans in brine (14.63%),
- tinned chopped peeled tomatoes (11.33%),
- tinned tomatoes and onion (9.30%),
- canned peas (11.75%),
- frozen peas (23.85%),
- frozen carrots (14.11%),
- frozen corn (26.60%),
- frozen sliced beans (7.82%),
- tinned pilchards (8.62%),
- Coca Cola 2L (19.65%)
- streaky bacon (14.13%),
- brisket beef (18.91%),
- pork chops (46.54%),
- lamb chops (15.38%),
- beef mince (14.48%),
- beef stewing (7.61%),
- boerewors (30.94%),
- french polony (8.79%),
- frozen chicken (30.18%),
- fresh whole chicken (23.91%),
- rindless back bacon (6.07%),
- onions (24.27%),
- potatoes (7.37%),
- pre-packaged crisp lettuce (14.04%),
- loose leaf lettuce (17.25%),
- minced tomatoes and onions (8.05%)
- tinned sliced peaches (7.66%),
- tinned pear halves (15.28%),
- apples – 1.5kg (12.16%),
- cooking oil (32.06%),
- peanut butter (22.23%)
- medium fat spread (9.11%),
- margarine (8.86%)
- strawberry jam (16.84%)
- apricot jam (9.19%),
- instant coffee (9.89%).

Products whose prices decreased over the same period include: eggs (-4.14%), tomatoes (-4.47%), hubbard squash (-9.95%), bananas (-20.23%), oranges (-2.11%). It is clearly largely fresh produce which showed decreases largely as a result of normal seasonal fluctuations.

The tables below report the average nominal price in July 2006, January 2007 and July 2007 together with the percentage change from January 2007 to July 2007 as well as the year-on-year percentage change between July 2006 and July 2007. In addition we report the percentage changes of the main commodity prices. This is provided to give readers a sense of the increase in procurement costs many food processors are experiencing and explain a large part of the latest increase in food retail prices.

Table 1: Wheat Products

Wheat Products	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Bread – White Sliced	4.71	4.70	5.31	13.1%	12.89%
Bread – Brown Sliced	4.29	4.44	4.65	4.7%	8.39%
Flour 2.5kg	10.64	11.29	12.13	7.4%	13.99%
Spaghetti Plain 500g	5.02	5.42	5.83	7.7%	16.09%
Macaroni Plain 500g	5.04	5.43	5.86	8.0%	16.43%
Average				8.2%	13.56%
SAFEX Wheat R/ton	1719	1775	2744	54.6%	59.6%

Table 2: Maize Products

Maize Products	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Maize Super 5kg	16.97	17.21	20.70	20.3%	22.01%
Maize Special 5kg	14.73	13.74	17.74	29.1%	20.39%
Average				24.7%	21.20%
SAFEX White Maize R/ton	1384	1346	1689	25.5%	22.04%

Table 3: Sunflower Products

Sunflower Products	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Cooking Oil 750ml	6.07	7.30	8.02	9.9%	32.06%
Medium Fat Spread 1kg	11.23	13.38	12.25	-8.4%	9.11%
Margarine 500g Brick	7.75	7.97	8.44	5.8%	8.86%
Average				2.4%	16.67%
SAFEX Sunflower R/ton	2288	2502	3414	36.4%	49.21%

Table 4: Processed Vegetables

Processed Vegetables	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Beans in Tomato Sauce 420g	3.69	3.86	4.37	13.1%	18.43%
Butter Beans in Brine 410g	6.34	7.11	7.27	2.2%	14.63%
Chopped Peeled Tomato 410g	6.19	6.68	6.89	3.1%	11.33%
Tomato & Onion Mix 410g	5.68	6.15	6.21	1.1%	9.30%
Canned Peas 410g	4.77	5.21	5.33	2.3%	11.75%
Frozen Green Peas 1kg	15.11	17.24	18.71	8.5%	23.85%
Frozen Baby Carrots 1kg	21.96	23.37	25.06	7.3%	14.11%
Frozen Corn 1kg	17.35	20.58	21.96	6.7%	26.60%
Frozen sliced beans 1kg	21.72	22.37	23.42	4.7%	7.82%
Average				5.5%	15.31%

Table 5: Fresh Vegetables

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Fresh Vegetables					
Carrots 1kg Pack	5.80	6.10	6.01	-1.5%	3.74%
Onions 1kg Pack	6.11	5.47	7.59	38.7%	24.27%
Potatoes 7kg	15.17	15.03	16.28	8.3%	7.37%
Tomatoes per kg	9.38	9.84	8.96	-9.0%	-4.47%
Sweet Potatoes 1kg	6.99	7.22	7.03	-2.6%	0.61%
Hubbard Squash each	8.56	8.17	7.71	-5.7%	-9.95%
Crisp Lettuce Ls each head	6.03	6.74	7.07	4.9%	17.25%
Crisp lettuce per package	6.64	6.62	7.58	14.4%	14.04%
Average				5.95%	6.61%

Table 6: Fresh Meat

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Red Meat and Chicken					
Chicken - Whole Frozen	16.66	23.89	21.69	-9.2%	30.18%
Chicken - Whole Fresh	17.50	21.71	21.68	-0.1%	23.91%
Rind less Back Bacon 250g	14.79	15.47	15.69	1.4%	6.07%
Streaky Bacon 250g	13.28	14.38	15.16	5.4%	14.13%
Pork Chops per packet	30.36	37.68	44.49	18.1%	46.54%
Lamb Chops per packet	49.88	58.01	57.55	-0.8%	15.38%
Brisket per packet	31.70	35.86	37.69	5.1%	18.91%
Beef Mince per packet	30.36	33.10	34.76	5.0%	14.48%
Beef Stewing per packet	31.90	34.43	34.33	-0.3%	7.61%
Average				2.7%	19.69%

Table 7: Processed Meat

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Meatballs in Gravy 400g	7.93	9.23	9.34	1.2%	17.77%
Picnic Ham 300g	15.31	16.01	17.91	11.8%	16.94%
French Polony 1kg	16.88	18.10	18.37	1.5%	8.79%
Pork Sausages 500g	14.67	15.13	16.05	6.1%	9.39%
Boerewors per packet	27.55	31.35	36.07	15.1%	30.94%
Average				7.1%	16.77%

Table 8: Dairy and Eggs

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Dairy and Eggs					
Butter 500g	15.22	15.95	18.74	17.5%	23.13%
Cheese – Cheddar	35.20	37.42	49.12	31.3%	39.55%
Fresh Milk Full Cream 2l	10.27	10.20	12.97	27.2%	26.34%
Fresh Milk Low Fat 2l	10.60	10.54	13.37	26.9%	26.12%
Fresh Milk Low Fat 1L Sachet	4.95	4.85	5.67	16.9%	14.61%
Fresh Milk Full Cream 1L Sachet	4.79	4.60	5.79	25.9%	20.93%
Skimmed Powder Milk 1kg	44.24	42.65	46.30	8.6%	4.67%
Long Life Milk Full Cream 1L	6.19	6.48	8.01	23.6%	29.31%
Eggs 30's	27.17	28.89	26.05	-9.8%	-4.14%
Average				18.7%	20.06%

Table 9: Fruit

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Fruit					
Sliced Peaches 410g	5.93	6.00	6.39	6.4%	7.66%
Pears Halves 410g	7.12	7.68	8.21	6.9%	15.28%
Granny Smith Apples 1.5kg	7.85	10.16	8.80	-13.4%	12.16%
Bananas 1kg	7.48	8.67	5.97	-31.1%	-20.23%
Oranges 2.5kg	7.99		7.82		-2.11%
Average				-7.8%	2.55%

Table 10: Fish

	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
Fish					
Pilchards in Tomato 425g	7.37	7.58	8.01	5.6%	8.62%
Tuna Shredded in Brine 170g	6.97	7.00	7.01	0.1%	0.64%
Average				2.9%	4.63%

Table 11: Other

Other	Price level			Percentage change	
	July-06	Jan-07	July-07	Jan-07 to July-07	July-06 to July-07
King Korn 1kg	7.77	7.87	8.20	4.2%	5.55%
Jungle Oats 1kg	11.18	13.00	13.57	4.4%	21.38%
Cornflakes 750g	19.84	20.48	20.33	-0.7%	2.46%
Rice Crispies 400g	15.88	16.33	17.28	5.8%	8.83%
Sugar 2.5kg	13.17	13.88	13.78	-0.8%	4.61%
Rice 2kg	9.00	10.25	10.58	3.2%	17.51%
Ricoffy Reg 750g	25.98	26.46	28.55	7.9%	9.89%
Glen Tea 100's	9.86	10.60	10.13	-4.4%	2.74%
Coca Cola Regular 2l	8.79	10.55	10.52	-0.3%	19.65%
Peanut Butter Smooth 410g	8.90	9.73	10.88	11.8	22.23
Strawberry Jam 450g	9.20	10.00	10.76	7.6	16.84
Apricot Jam 450g	7.46	7.87	8.15	3.5	9.19
Soya Mince Tomato & Onion	5.71	5.83	6.17	5.7%	8.05%
Average				3.7%	11.46%

Detailed discussion: Urban food price trends

Without a doubt, food prices are once again on the rise. Table 12 below summarizes price changes over the past 5 years for selected food products that the Food Price Monitoring Committee in 2003 considered to be important for the majority of household consumption. Between January 2003 and July 2007, the cost of this food basket rose from R253.85 to R287.97 in nominal terms. This represents a nominal increase in food costs over the four-and-half year period of 13.4%. However, when we deflate the prices of the food basket (i.e. adjust for changes in overall prices over time) we see almost a constant level of food costs in real terms (in June 2007 the real cost of this basket represented a 2.6% decline). This implies that today's market basket of food goods cost more or less the same in real terms than the same basket in 2003, when using constant 2000 prices.

Table 12: The cost of a typical food basket

	JAN 03	JAN 04	JAN 05	JAN 06	JAN 07	JULY 07
Bread - White Sliced	4.39	4.25	4.55	4.62	4.70	5.31
Bread - Brown Sliced	3.86	3.82	4.19	4.22	4.44	4.65
Butter Beans in Brine 410g	5.22	5.75	5.91	6.31	7.11	7.27
Pilchards in Tomato 425g	6.72	7.15	6.46	6.39	7.58	8.01
Cooking Oil 750ml	7.00	6.51	6.05	5.85	7.30	8.02
Maize Super 5KG	19.52	15.02	14.26	13.03	17.21	20.70
Sugar 2.5KG	11.79	11.80	11.92	12.53	13.88	13.78
Rice 2KG	9.98	8.84	8.59	8.86	10.25	10.58
Instant Coffee 750g	26.47	26.51	25.30	26.62	26.46	28.55
Glen Tea 100's	10.67	10.39	10.42	9.86	10.60	10.13
Milk Full Cream 1L (Long Life)	5.83	6.57	6.58	6.38	6.48	8.01
Rama 500g Brick	7.47	7.26	7.28	7.26	7.97	8.44
Peanut Butter Smooth 410g	7.74	8.73	8.99	8.97	9.73	10.88
Chicken - Whole Fresh	17.17	16.54	17.08	20.35	21.71	21.68
Eggs 30's	24.51	24.44	25.53	24.14	28.89	26.05
Beef Stewing per kg	26.71	23.69	27.30	28.83	34.43	34.33
Onions 1kg Pack	4.63	5.95	4.95	5.01	5.47	7.59
Cabbage – Each (Head)	3.76	4.37	3.85	4.93	3.01	6.16
Potatoes BS – 7kg	16.39	16.84	15.68	18.63	15.03	16.28
Tomatoes per kg	8.42	9.75	9.20	9.02	9.84	8.96
Granny Smith Apples 1.5kg	10.66	8.87	8.61	10.63	10.16	8.80
Bananas 1kg	5.38	5.01	4.45	5.65	8.67	5.97
Oranges Bag 2.5kg	9.58	9.28	8.44	12.52	9.95*	7.82
Total cost of Food Basket (nominal)	253.85	247.34	245.59	260.60	280.88	287.97
Total cost of Food Basket (constant 2000 prices)	208.76	203.07	195.84	199.85	203.24	NA**

Note: * = no observed orange prices for January 2007; so given figure represents an average of all January orange prices between 2003 and 2006
 ** note in June 2007 this value was R203.27 in 2000 prices. The July value in real prices cannot be estimated due to the fact that the July 2007 CPI number has not yet been released

The section to follow deals with rural food price trends for the period covering January 2007 to July 2007.

Rural food price trends: January 2007 to July 2007

The rural food price monitoring activity covers 29 outlets in the Free State, 17 in the Eastern Cape, 16 in Mpumalanga, 16 in Gauteng, 21 in Limpopo, 24 in North West, 27 in KwaZulu-Natal, 14 in the Northern Cape and 19 in the Western Cape. In total, prices of 26 food items are monitored at 183 rural outlets throughout the country. These products include maize meal, brown bread, white bread, chicken meat, beef meat, rice, samp, sorghum meal, pilchards, milk, eggs, apples, bananas, oranges, potatoes, onions, tomatoes, cabbages, butter beans, dried beans, sugar, tea, coffee, margarine, peanut butter and cooking oil.

For purposes of this report inflation for 16 food products in rural areas of will be reported. Note that for certain products variable sizes are reported. For example, a loaf brown bread is reported in two sizes namely 600g and 700g. Following this approach the number of items included in this section increases to 39. The food items that experienced an increase of more than 6% from January 2007 to July 2007 are reported below:

- Loaf of brown bread 600g (6.37%)
- Maize meal 1kg (8.31%)
- Maize meal 2.5kg (15.00%)
- Maize meal 12.5kg (24.11%)
- Maize meal 5kg (13.84%)
- Samp 1kg (14.84%)
- Samp 2.5kg (7.61%)
- Sunflower oil 500ml (22.86%)
- Margarine 250g (10.11%)
- Margarine 500g (6.91%)
- Full cream long life milk1ℓ (20.00%)
- Full cream long life milk 500ml (7.78%)
- Tea 62.5g(8.68%)
- Instant coffee 100g (10.66%)
- Pilchards in tomato sauce 155g (7.28%)
- Pilchards in tomato sauce 425g (8.15%)
- Dried beans 1kg (15.37%)
- Dried beans 500g (19.12%)
- Rice 1kg (8.63%)
- Rice 500g (6.48%)
- Peanut butter 270g (6.98%)
- Peanut butter 400g (6.24%)
- Peanut butter 410g (6.14%)

Those products that experienced a price drop over the mentioned period are:

- Margarine 125g (-1.70%)
- Beans 410g (-0.86%)
- Sugar 2.5kg (-0.34%)
- Rice 2kg (-9.28%)

The rest of this section reports the information in more detail in Tables 13 to 23. The tables report the average nominal price level in January 2007, April 2007 and July 2007 together with the percentage change from January 2007 to July 2007, as well as April 2007 to July 2007.

Table 13: Wheat products

Wheat products	Product size	Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Loaf of brown bread	600g	R4.28	R4.47	R4.55	1.95%	6.37%
Loaf of brown bread	700g	R4.62	R4.66	R4.82	3.42%	4.29%
Loaf of white bread	600g	R4.66	R4.74	R4.86	2.65%	4.32%
Loaf of white bread	700g	R5.10	R5.21	R5.39	3.51%	5.71%
Average					2.88%	5.17%

Table 14: Maize products

Maize products	Product size	Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Maize meal	1kg	R4.78	R4.79	R5.17	8.07%	8.31%
Maize meal	2.5kg	R10.62	R10.90	R12.21	12.02%	15.00%
Maize meal	12.5kg	R38.10	R41.53	R47.28	13.86%	24.11%
Maize meal	5kg	R21.40	R21.66	R24.36	12.47%	13.84%
Samp	1kg	R4.74	R5.17	R5.44	5.37%	14.84%
Samp	2.5kg	R10.26	R10.94	R11.04	0.90%	7.61%
Average					8.78%	13.95%

Table 15: Sunflower products

Sunflower products	Product size	Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Cooking oil	2ℓ	R18.84	R19.02	R19.56	2.82%	3.80%
Cooking oil	500ml	R5.47	R6.51	R6.72	3.23%	22.86%
Cooking oil	750ml	R8.38	R8.43	R8.82	4.65%	5.26%
Margarine	125g	R3.72	R3.66	R3.65	-0.16%	-1.70%
Margarine	250g	R5.60	R5.85	R6.17	5.49%	10.11%
Margarine	500g	R8.01	R8.06	R8.56	6.25%	6.91%
Average					3.71%	7.87%

Table 16: Dairy products

Dairy	Product size	Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Full cream long life milk	1ℓ	R6.85	R7.25	R8.22	13.33%	20.00%
Full cream long life milk	500ml	R4.80	R4.82	R5.17	7.29%	7.78%
Average					10.31%	13.89%

Table 17: Tea and coffee

Tea and coffee	Product size	Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Tea	250g	R14.92	R14.94	R15.52	3.90%	4.02%
Tea	62.5g	R4.92	R5.58	R5.35	-4.14%	8.68%
Instant coffee	100g	R6.54	R6.83	R7.24	5.94%	10.66%
Instant coffee	250g	R14.07	R14.43	R14.56	0.91%	3.48%
Average					1.65%	6.71%

Table 18: Pilchards

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Pilchards	Product size					
Pilchards in tomato sauce	155Gram	R4.93	R5.17	R5.29	2.33%	7.28%
Pilchards in tomato sauce	425Gram	R8.91	R9.32	R9.64	3.39%	8.15%
Average					2.86%	7.71%

Table 19: Beans

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Beans	Product size					
Dried beans	1kg	R9.03	R8.91	R10.41	16.89%	15.37%
Dried beans	500g	R5.19	R5.85	R6.18	5.65%	19.12%
Tinned beans	410g	R6.46	R6.27	R6.41	2.21%	-0.86%
Tinned beans	420g	R5.84	R5.84	R5.94	1.78%	1.76%
Average					6.63%	8.85%

Table 20: Sugar

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Sugar	Product size					
Sugar	1kg	R6.90	R7.02	R7.16	2.02%	3.80%
Sugar	2.5kg	R16.28	R16.28	R16.51	1.39%	1.39%
Sugar	500g	R4.07	R4.34	R4.06	-6.50%	-0.34%
Average					-1.03%	1.62%

Table 21: Rice

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Rice	Product size					
Rice	1kg	R7.20	R7.37	R7.82	6.03%	8.63%
Rice	2kg	R15.88	R14.97	R14.41	-3.74%	-9.28%
Rice	500g	R3.94	R4.15	R4.20	1.24%	6.48%
Average					1.18%	1.94%

Table 22: Peanut butter

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Peanut butter	Product size					
Peanut butter	270g	R8.60	R8.84	R9.20	4.04%	6.98%
Peanut butter	400g	R10.62	R10.99	R11.29	2.72%	6.24%
Peanut butter	410g	R11.22	R11.91	R11.91	0.01%	6.14%
Average					2.26%	6.45%

Table 23: Sorghum meal

		Price level			Percentage change	
		Jan-07	Apr-07	Jul-07	Apr 07 – Jul 07	Jan 07 – Jul 07
Sorghum-meal	Product size					
Sorghum-meal	1kg	R7.10	R7.16	R7.51	4.94%	5.77%
Sorghum-meal	500g	R4.27	R4.54	R4.45	-2.05%	4.18%
Average					1.45%	4.97%

Table 24 compares urban and rural food prices. According to this table, in July 2007 people staying in rural areas paid R0.17 more to buy a 700g loaf of brown bread than the people staying in urban areas. This is down from R0.18 in January 2007. In July 2007 the maize meal price was higher in rural areas than urban areas, by R5.14, down from R5.92 in January 2007. Thus maize meal was 38.27% and 26.74% more expensive in rural areas than in urban areas in January and July 2007, respectively. Moreover, it should be clear that the prices for the selected food items in rural areas are higher than in the urban areas. There are a number of reasons why this may be the case, i.e.:

- (i) Transport is a major factor, since processing of raw materials takes place mainly in the urban areas and the finished products have to be transported to the rural areas at additional cost. Hikes in the prices of fuel and diesel compounds the situation since food items have to be transported over greater distances to rural areas than is the case in urban areas;
- (ii) In many cases the outlets referred to are not big retailers, but small businesses in deep rural areas where the transaction cost is high to make food items available to consumers. High transaction cost could be due to a number of reasons, e.g. poor infrastructure, absence of economies of scale and high product wastage;
- (iii) It may also be due to the lack of enough competition since in many areas there may only be one or two food outlets.

In addition to the above, Table 24 shows a comparison of the increases in prices of selected food items. On average the prices of the selected food items increased more over the period January 2007 to July 2007 in urban areas than in rural areas. A concern at this point is that the price increases in the selected food items may not have been transmitted to rural areas yet.

Table 24: Urban and rural food price comparison

Product	Size	Urban prices				Rural prices				Urban price change	Rural price change
		Jan-07	Mar-07	May-07	Jul-07	Jan-07	Mar-07	May-07	Jul-07	Jan 07 to Jul 2007	Jan 07 to Jul 2007
Loaf of brown bread	700g	4.44	4.68	4.67	4.65	4.62	4.60	4.74	4.82	4.71%	4.29%
Loaf of white bread	700g	4.70	5.18	5.24	5.31	5.10	5.19	5.47	5.39	13.08%	5.71%
Maize meal ¹	5kg	15.47	16.44	18.92	19.22	21.40	21.61	22.79	24.36	24.20%	13.84%
Cooking oil	750ml	7.30	7.11	7.49	8.02	8.38	8.51	8.51	8.82	9.86%	5.26%
Block type margarine	500g	7.97	7.97	8.68	8.44	8.01	8.04	7.98	8.56	5.83%	6.91%
Full cream long life milk	1ℓ	6.48	6.71	6.95	8.01	6.85	7.14	7.47	8.22	23.61%	20.00%
Pilchards in tomato sauce	425g	7.58	7.50	7.68	8.01	8.91	8.92	9.35	9.64	5.64%	8.15%
Peanut butter	410g	9.73	10.02	10.40	10.88	11.22	11.70	12.11	11.91	11.80%	6.14%
Sugar	2.5kg	13.88	13.64	13.50	13.78	16.28	16.36	16.43	16.51	-0.75%	1.39%
Average										10.89%	7.97%

¹ Super and special maize meals prices are averaged

In the discussion to follow, we attempt to unpack the main causes behind increasing food inflation.

Global Food Market

The phenomenon of increasing food prices within South Africa reflects the current reality of the global food market. In countries such as Canada and the U.S. food price inflation has risen faster than the overall inflation rate within the past few months, causing considerable concern among consumers. Europe and Asia as well are experiencing rising consumer prices for goods such as bread, meats and dairy products. In the US the Food Commodities Index, which tracks a dozen agricultural raw materials used by food companies including wheat, barley, milk, cocoa and edible oils, show cost inflation of 21 per cent this year - the biggest increase since the index started almost a decade ago. Few countries have not felt the impact of food price rises. In the US, prices have risen by 6.7 per cent, seasonally adjusted, since the beginning of this year, compared to 2.1 per cent for all of 2006. The UK's consumer price index showed annual food price inflation of 6 per cent in April - its highest level in almost six years, and well ahead of overall inflation of 2.8 per cent. Food price inflation is lower in the Euro zone at 2.5 per cent but still rising more quickly than overall prices. In China, food costs are increasing more than twice as quickly as other kinds of prices, up 7.1 per cent last month compared to a year earlier, which will likely increase year on year CPI inflation in China to above 4%. Pork prices have risen as much as 30% in Chinese cities caused both by higher corn/feed prices and diseases that have forced officials to slaughter millions of animals.

The culprits for the increasing trends in global food prices include rising energy costs and increasing demand for biofuels. At the same time global demand for the major food items is at an all-time high as greater affluence in countries in South-East Asia is driving greater demand for food. In South Africa a fast increasing population (fuelled by increasing immigration) as well as more people in the higher income brackets of the population than before, has increased the demand for many products such as red meat, eggs, bread, milk and chicken. The fast growing market for food away from home is also playing an important role here.

Rising Energy Costs

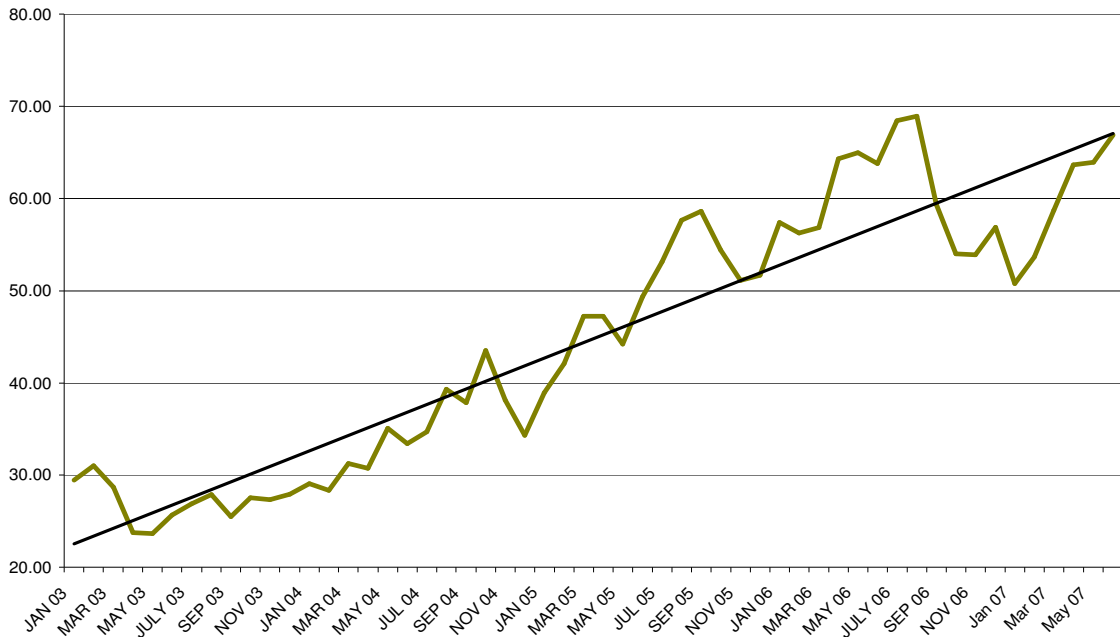
Figure 1 below summarizes the world price movement of crude oil between January 2003 and June 2007. During this period, crude oil prices have risen, on average, by \$0.84 per barrel per month. Given the relationship between crude oil and food production energy costs, rising oil prices imply increasing production, packaging and transportation costs for food.

Impact of Increased Biofuels Demand

Prices for primary commodities, such as maize and soybeans, have increased due to rising global demand for Biofuels. This rise in global maize and soybean prices, not only affects the price of final consumer goods which contain maize and soybean derivatives, but also meat and dairy prices since both commodities serve as inputs to the livestock feed markets. Figures 2, 3, and 4 below depict the world price movements for cereal grains, meat, and powdered milk between January 2003 and June 2007.

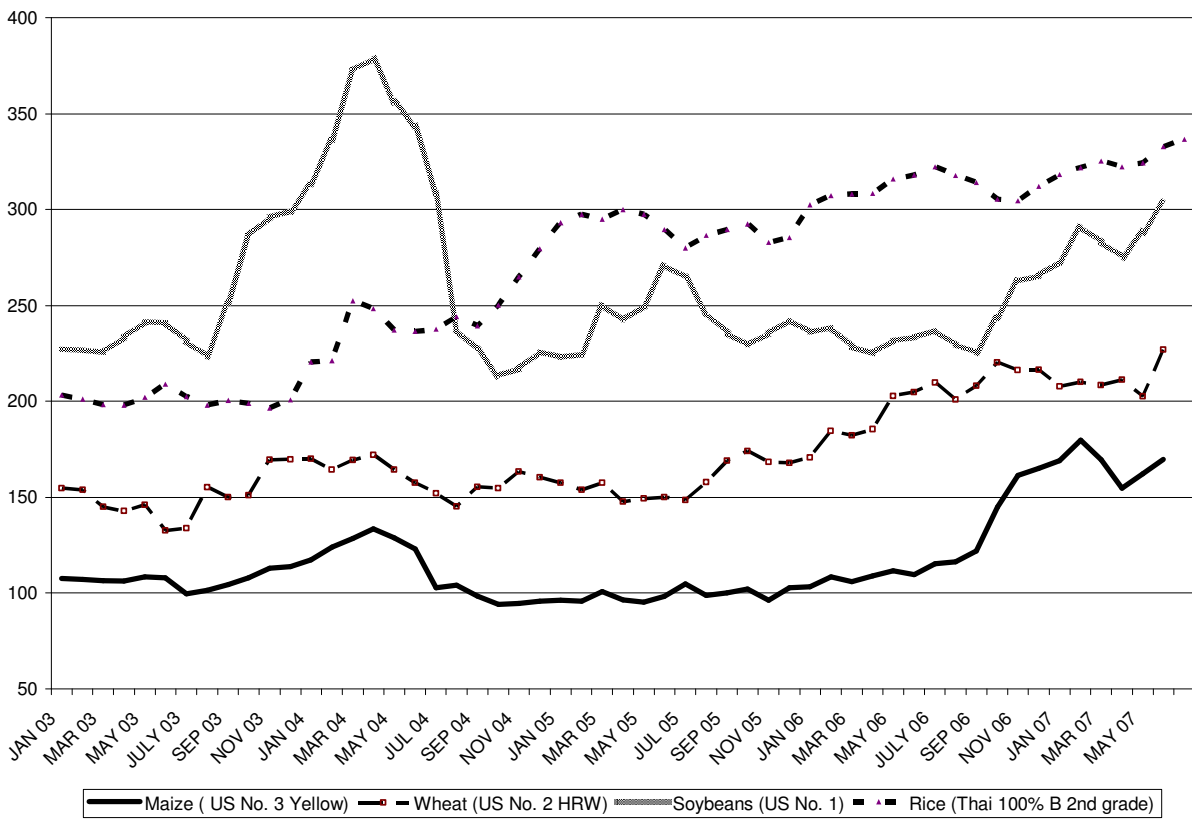
Figure 1: World Oil Spot Prices (U.S. Dollars per Barrel)

All Countries Spot Price FOB Weighted by Estimated Export Volume
(Dollars per Barrel)



Source: U.S. Department of Energy

**Figure 2: Nominal World Cereal Prices: January 2003 – June 2007
(US\$/ton)**



Source: International Grain Council; UN-Food and Agricultural Organization

Looking at the movement of international cereal prices, we can observe that between July 2004 and January 2006, yellow maize prices have remained relatively constant, and started to increase noticeably in January 2006. The sharp increase in world prices of yellow maize since May 2006 from \$110 per ton to almost \$160 per ton recently is largely attributed to the rising global demand for biofuels. The rise in maize prices puts 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 growing global demand as a result of increasing disposable incomes in newly emerging markets and low international stock levels.

The rising feed grain prices lead to an overall increase in prices for meats as well as dairy products. Figures 3 and 4 summarize the price movements for both meat and whole milk powder.

Following a slight decline in meat prices during the first half of 2005, we now observe increasing prices for beef, chicken and pork. The observed rise in global meat prices over the past year or so has been linked to rising feed grain prices coupled with increasing consumer confidence due to a reduction in animal disease outbreaks as well as greater demand for animal protein.

Figure 3: U.S. Bovine, Broiler and Pork Export Unit Value: January 2003 – June 2007 (US\$/ton)

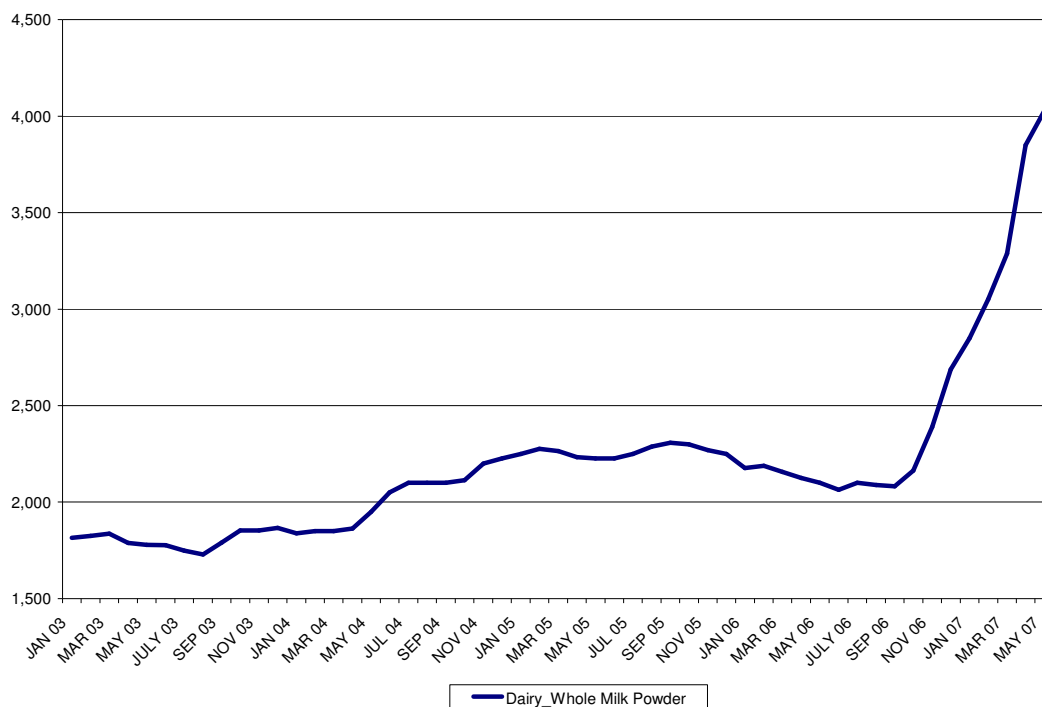


Source: UN-Food and Agricultural Organization

Dairy product prices are currently at historically high levels. The FAO price index of traded dairy products has risen by 46 percent since November 2006, with international prices for milk powders increasing the most. Figure 4 depicts the price movement of one of the major traded dairy products, namely whole milk powder between January 2003 and June 2007. During this period, powdered milk prices have remained relatively constant until November 2006, when a

sudden sharp rise is observed. As with cereal grain prices, this sharp rise in powdered milk prices is due to increasing global demand coupled with rising feed prices.

Figure 4: Whole Milk Powder: Oceania, indicative export prices, f.o.b. (US\$/ton)



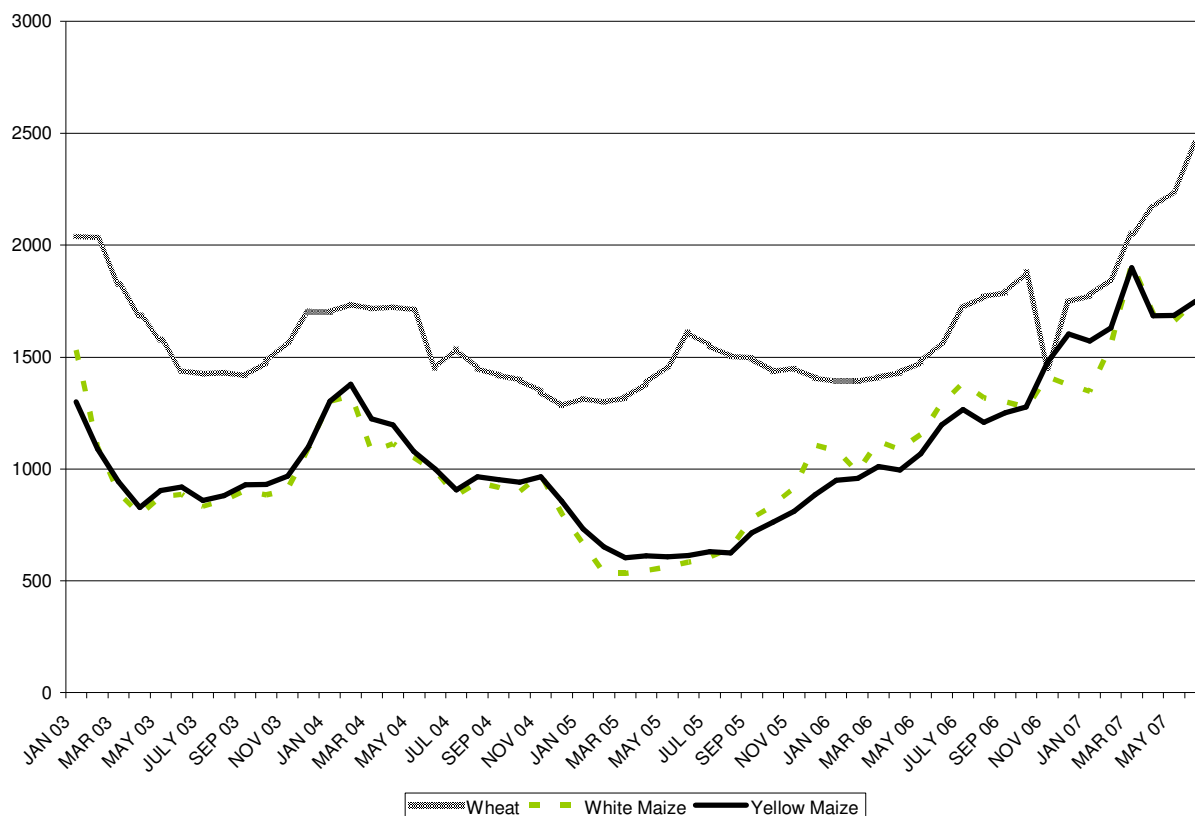
Source: UN-Food and Agricultural Organization

Implications for the South African food market

Through various trade agreements, such as the WTO Agreement on Agriculture, South Africa’s domestic markets are closely tied to global food markets. Therefore, the observed upward trends in global cereal grains, meat and dairy product prices have important implications to the South African domestic food market.

For instance, in the case of domestic cereal prices, when we graph the price movements of maize and wheat grain, a pattern emerges that coincides with world grain prices. Figure 5 below summarizes domestic price movements for maize and wheat. From this graph it clear that for the first half of the period under observation, maize and wheat grain prices exhibit slight downward trends. It is not until March and September 2005 that we observe an upward trend in both wheat and maize prices. The timing of the upward trend in domestic prices precedes international price trends for the same commodities by approximately 2 months (See Figure 2).

**Figure 5: Domestic Price Movements of Grains: January 2003 to June 2007
(R/ton)**

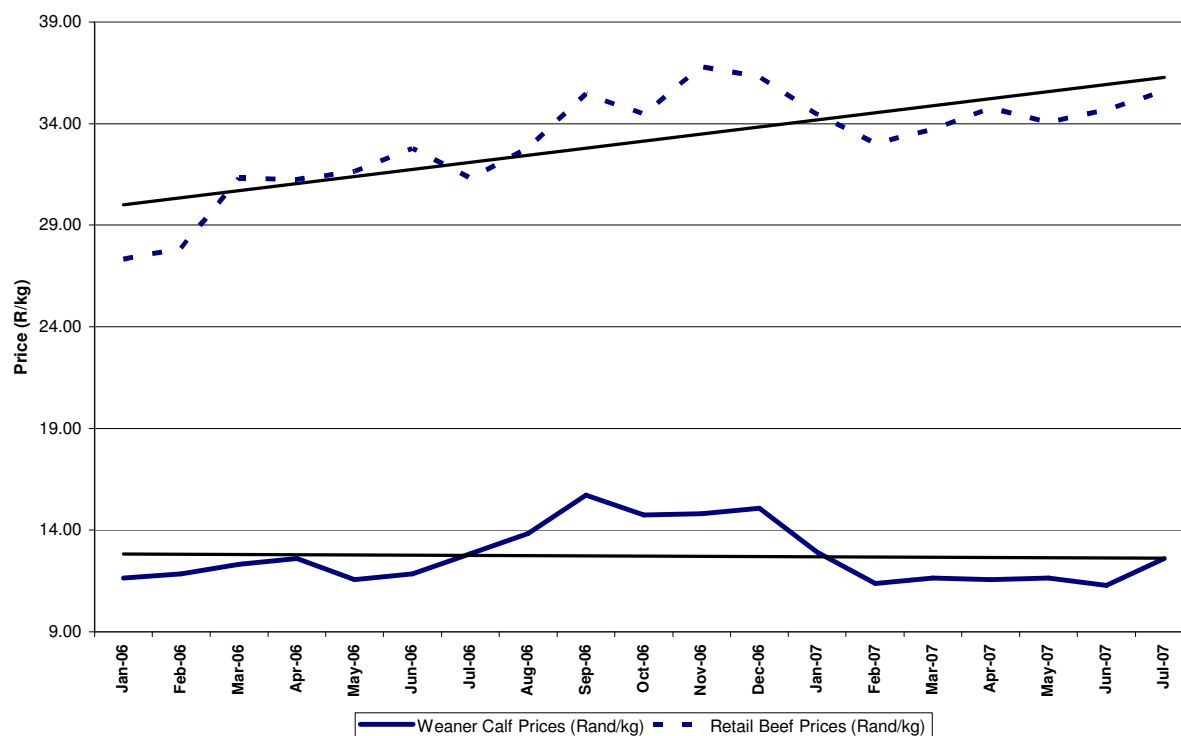


Source: Grain South Africa

The sharp increase in retail prices for chicken as noted earlier is largely driven by rising feed costs since it constitutes one of the most important inputs in the broiler industry. Commodity inputs account for approximately 63% of the total production cost in the broiler industry; key commodities being yellow maize, sunflower oilcake and soybeans. The inland prices of the three ingredients increased, on average, by 35.6%, 48.0% and 30.6% year on year July 2007, respectively. On other hand the coastal prices increased by 26.3%, 48.0% and 31.1%, respectively. The inland prices of broiler feeds (starter, grower and finisher) increased, on average, by 26.1%, 35.9% and 38.8% year on year July 2007, respectively while the coastal prices increased by 27.5%, 30.9% and 33.1%, respectively. Maize, sunflower oilcake and soybeans prices increased more than 25% year on year July 2007.

In terms of domestic beef prices, Figure 6 below depicts the monthly price movements of weaner calf and retail beef prices between January 2006 and July 2007. From this graph it is clear that retail beef prices have been trending upwards in nominal terms at a rate of R0.34/kg per month, while weaner calf prices have remained relatively constant, with a slight decrease of R0.01/kg per month, on average. The correlation coefficient between these two price series is 0.493, indicating that these two prices are not highly correlated.

Figure 6: Domestic prices of Weaner calves and Retail Beef Prices: January 2006 – July 2007



Source: For weaner prices: AMT

Looking ahead

The purpose of this section is to highlight the critical drivers and uncertainties that could have an impact on the marketing environment of the agricultural sector over the period August to October 2007. The possible impacts of these drivers and uncertainties on the grain, livestock and horticultural industries are discussed and guidelines are provided of possible future shifts in prices. Important to note is that this document only focuses on the occurrence of possible events for the specific period (Quarter: August-October) under review and not beyond this period. It can, therefore, be regarded as a short-term outlook.

The period of August to October is normally an extremely volatile period as a new summer production season begins. The following factors are regarded as the key factors that will drive food price trends during the period August 2007 to October 2007:

Macro factors are the oil price, interest rates, exchange rate fluctuations and inflation. It is expected that oil prices will remain high due to political and supply uncertainties surrounding the major oil producing countries. High oil prices along with high food prices (which are explained in the following paragraphs), will keep the CPIX above the 6% level, causing interest rates to remain high and possibly increase further. As a result the exchange rate is expected to vary significantly, but on average follow a slightly depreciating trend due to the negative balance of payments. Economic growth continues, although higher interest rates and higher fuel prices will dampen consumer spending, especially on luxury and high-value items.

It is expected that the national biofuels strategy will be announced. The strategy will potentially influence events over the long-run, but no significant market impacts are expected during the

following three months. The temporary rebate of the duty on soya beans for the extraction of soya bean oil to be used in the production of biodiesel was recently announced but is only due for implementation by July 2008.

Moving from winter to summer, weather conditions are unpredictable and a quick shift in weather patterns will have a major impact on all markets, regardless whether physical or future. Late frost can potentially occur which might cause disruptions in the production of vegetables and some fruits. Along with this, early spring rainfall can significantly influence crops and livestock markets through the potential area of summer grain plantings, and availability of grazing. It can be expected that the first intentions to plant summer field crops, which will be published by the National Crop Estimates Committee (CEC) in August, will be positive due to high current and future market prices. For most of the summer crops, farmers can lock in very favourable prices for the next season.

On the production side, the current season's harvest is finalised and is generally below domestic consumption levels. As a result, domestic shortages will be supplemented by imports. Domestic prices will, therefore, keep on trading at or close to import parity levels and as a result will be influenced by factors on international markets such as the size of the US maize crop (which is currently on track for a record harvest) and the exchange rate. The high US crop is not expected to lower international maize prices since a significant amount of maize will be used inside the US markets for the production of ethanol. Domestically, a shortage in oilseeds is experienced. High levels of imports of vegetable oil and oil meal are, therefore, expected to continue. Oilseed prices will be driven by international markets such as Europe. Oilseed crops in Europe are currently under stress due to adverse climatic conditions. The same phenomenon is playing out in China; hence, world oilseed supplies are low causing world prices to increase. Only the production of palm oil is not under pressure, making imports of palm oil relatively less expensive and causing an increase in palm oil imports into South Africa. International wheat supplies along with stocks remain stable but low, causing prices to remain high and stable. A clear distinction needs to be made between the winter and summer wheat production regions in South Africa. In the Western Cape, wheat farmers are experiencing an excellent production season, while in the summer production region conditions remains highly unfavourable. Therefore, South Africa will remain a net importer of wheat and domestic price levels will be influenced by the international market.

Towards the end of 2006 the number of animals slaughtered increased due to relatively high market prices. In the first few months of 2007 slaughtering remained high, but not due to the high prices, but rather the unfavourable grazing conditions caused by the drought. This put downward pressure on prices during the past couple of months. Early spring rain and availability of grazing will significantly determine slaughtering in the next three months. Early spring rain will lower slaughtering numbers as farmers will attempt to build herds after the drought. This might put upward pressure on red meat prices. As a result, consumers could shift to more affordable meats such as poultry and pork, causing prices of these meats to also increase. High grain prices also affect animal feed costs, putting upward pressure on production costs and eventually prices of mainly poultry and pork. On the international scene, import restrictions and trade disruptions will remain due to animal disease.

Current milk shortages will continue at least for the next three months, therefore, further increases in dairy product prices are expected. International milk supplies are currently under pressure, and limited supplies will cause further increases in prices over the short and medium term.

The decline in sunflower seed and oil production in the Black Sea Region as well as worldwide will reach unprecedented dimensions. Oil world weekly expect sunflower oil prices in Rotterdam to increase up to US\$1200 -1300 per ton during the next 3 months. This will increase demand for other vegetable oils, which will put further upward pressure on prices of plant oils in general.

Severe frost during May 2007 inflicted significant damage on vegetable and fruit crops, causing fruit and vegetable prices to rise significantly. If late frosts were to occur during September and October 2007, additional supply constraints will cause prices to continue with the upward trend.

The combination of all the events discussed above will affect the consumer's pocket. Due to a small domestic grain crop and, therefore, a need to import grains, domestic grain prices are expected to remain high causing high maize meal and bread prices. In fact, wheat prices increased substantially over the past few months, and this effect will cause bread prices to further increase during the next three months as the high wheat prices are transmitted through the supply chain. The imports of vegetable oil will continue to supplement local supplies, causing cooking oil prices to remain high. Beef and lamb prices are expected to remain high that could result in consumers to change consumption patterns to pork and chicken and other sources of protein.

Finally, it is important to note that the high level of imports to supplement local supplies will increase the pressure on the local logistical network and the balance of payments.

The key uncertainties during the three month period are:

- 1) Exchange rate volatility and the average trend – depreciation or appreciation?
- 2) Will significant early spring rainfall occur?
- 3) Will late frost occur and if yes, what will be the damage on the vegetable and fruit crop?
- 4) How well will the logistical system handle the additional pressure due to large imports of grains, oilseeds and animal products?
- 5) Occurrence of animal disease either inside or outside South Africa that will cause disturbances in trade flow patterns and, therefore, animal product prices.

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