



NAMMC

Promoting market access for South African agriculture



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Food Price

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Important note

Resulting from COVID-19 health protocols, retail-based prices recorded across all regions (including online prices) have been pooled to create national average price changes which are applied to each elementary index at a regional level. This means that the geographic index (including total country) changes will, vary according to different weights and not different price changes. The October 2020 CPI data was published on Wednesday November 25, 2020 (see the link below for the CPI publication):

<http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf>

Certain price comparisons would not be feasible at this stage such as the urban vs. rural price comparison.

EXECUTIVE SUMMARY

During October 2020, the Consumer Price Index (CPI) released by Statistics South Africa (Stats SA) indicated that the headline CPI and the food and non-alcoholic beverage price indices reached 3.3% and 5.4%, respectively. The same indices were 3.0% and 3.9% during September 2020.

Prices were compared for selected food items in urban areas for October 2020 vs. September 2020. Food items showing the largest price differences between October 2020 vs. September 2020 urban areas: rice (2kg) at a difference of R3.58, Ceylon/black tea (62.5g) at a difference of R1.38, peanut butter (400g) at a difference of R1.26, super maize (2.5kg) at a difference of R0.64, margarine spread (500g) at a difference of R0.61, white sugar (2.5kg) at a difference of R0.53 and sunflower oil (750ml) at a difference of R0.27. This indicates that urban consumers paid R0.78 more on average, for these 11 food items during October 2020.

The FAO Food Price Index (FFPI) in nominal terms, averaged 100.9 points in October 2020, up 3.0 points (3.1%) from September and 5.7 points (6.0%) higher than its value a year ago. The October value, the highest since January 2020, represented the fifth consecutive monthly increase. Much firmer prices of sugar, dairy, cereals and vegetable oils were behind the latest rise in the FFPI, while the meat sub-index fell slightly for the second consecutive month.



In October 2020, the cost of the NAMC basic urban food basket was R955.71, increasing by 10.3% from October 2019 (year-on-year increase) and increasing by 0.4% from September 2020 (month-on-month change).

Comparing October 2019 to October 2020 retail prices, higher price inflation (6% or more) were observed for the following products within the NAMC food basket (in order from highest to lowest inflation): Rice, oranges, bananas, dried beans, cheddar cheese, eggs, potatoes, cabbage, brown bread, white sugar, white bread, tomatoes, sunflower oil, IQF chicken portions, peanut butter, milk, chicken giblets and beef mince.

The items with high inflation could have negative implication in terms of basic food security (staple food inflation in the case of rice and bread) as well as dietary diversity (e.g. inflation on fruit, vegetables, oil and meat). When comparing the inflation rates for October 2019 to October 2020, with July 2019 to July 2020 (i.e. the previous Food Price Monitor analysis period) the rate of inflation was higher for animal protein foods, fruit, dairy, fats & oils and sugar.

As we approach the festive season food prices are expected to be supported by stronger demand. This is however expected to vary across product categories.

Cost pressures on farm level have also manifested in milk with production tending lower in 2020Q3. This trend is expected to continue which will result in higher retail prices of milk and dairy products over the next 3 to 6 months.

Arguably the biggest wild-card associated with the inflation projections is the occurrence of a second wave of Covid-19 and how government will react to it. As seen from Wave 1, this can lead to severe supply chain disruptions in food processing and retailing, which could lead to intermittent price shocks in certain products.



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Introduction

As November 2020 official CPI data will only be released by December 9th 2020, this section contains data up to October 2020.

During October 2020, the Consumer Price Index (CPI) released by Statistics South Africa (Stats SA) indicated that the headline CPI and the food and non-alcoholic beverage price indices reached 3.3% and 5.4%, respectively. The same indices were 3.0% and 3.9% during September 2020. **Figure 1** shows trends of the headline CPI and food and non-alcoholic beverage inflation rates on a monthly basis, from January 2015 to October 2020.

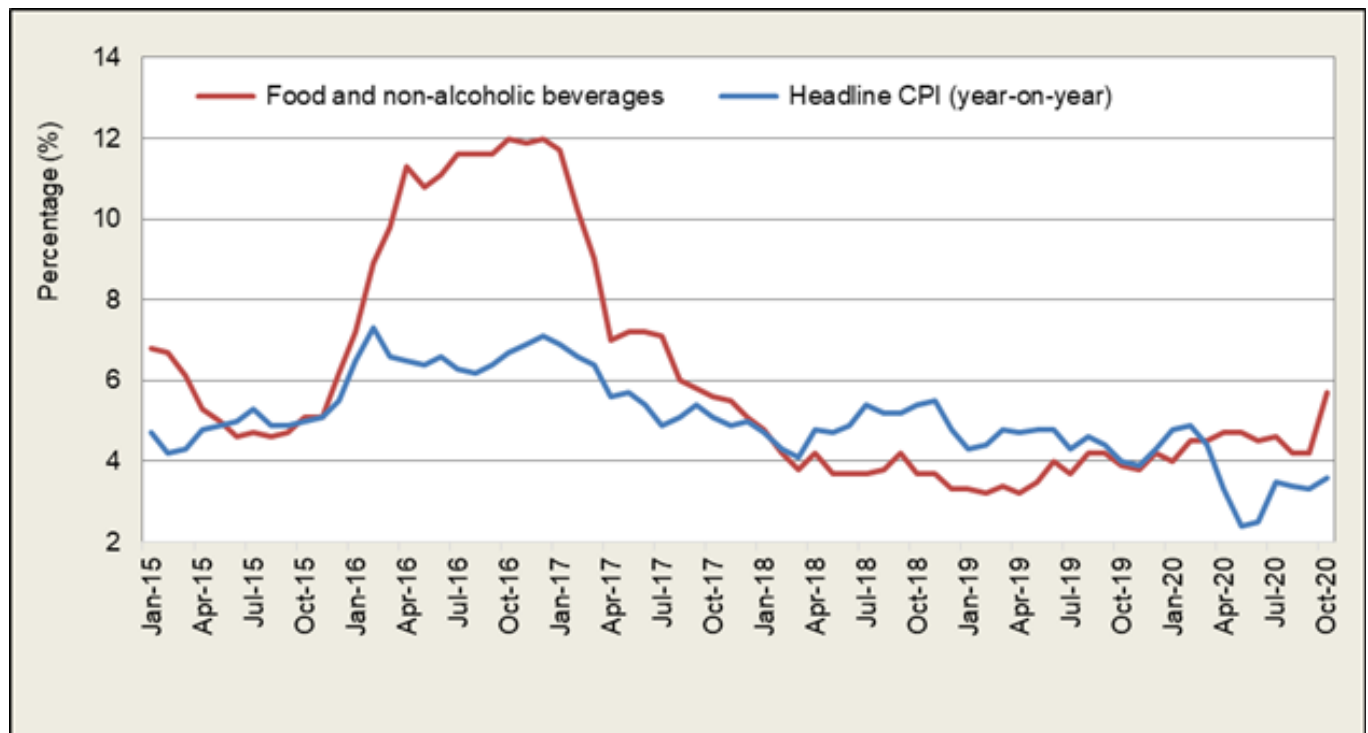


Figure 1:Headline CPI and food and non-alcoholic beverage CPI

Source: Stats SA, 2020

Figure 2 presents the components of the food and non-alcoholic beverage index changes. During October 2020 vs. October 2019, the following changes, in descending order, were reported: fruit (13.9%), sugary foods (9.7%), oils & fats (9.7%), milk, eggs & cheese (6.5%), meat (6.0%), processed foods (5.8%), unprocessed foods (5.5%), fish (5.3%), vegetables (4.7%), other food items (3.6%) and bread & cereals (3.3%). The monthly percentage changes are also illustrated.

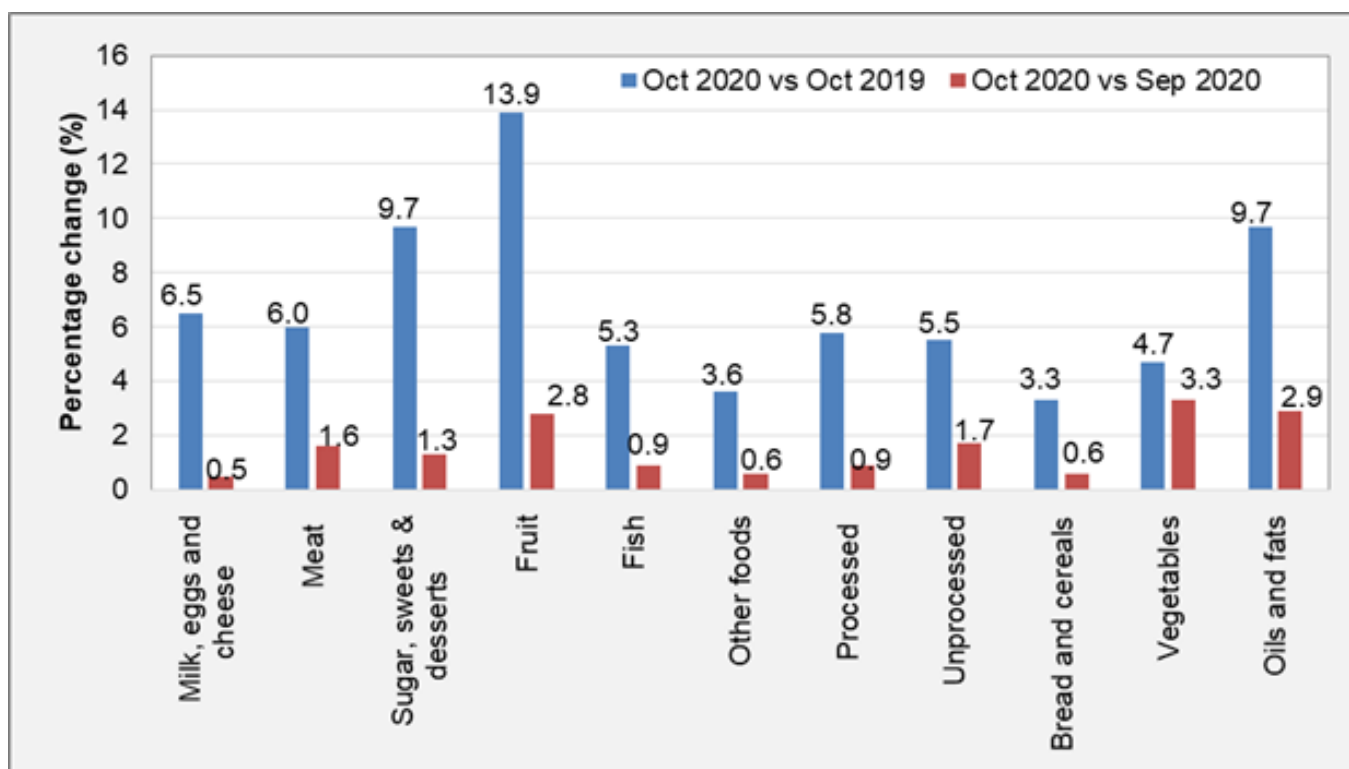


Figure 2: Annual (October 2020 vs. October 2019) and monthly (October 2020 vs. September 2020) CPI changes for different food categories

Source: Stats SA, 2020



Overall inflation and food inflation: South Africa and selected countries

Table 1 shows the annual year-on-year (y-o-y) overall inflation and food inflation rates for October 2020 for South Africa and other selected countries. South Africa's overall inflation for October 2020 reached 3.3% with food inflation reaching 5.4%. The food categories with the largest annual contribution to South African food inflation include fruit, sugary foods and oils & fats categories. The Zambian overall inflation rate for October 2020 reached 16.0%, with food inflation reaching 14.6%. China's overall inflation rate was 0.5%, with food inflation of 2.2% for October 2020. Considering inflation rates of the BRIC countries, China recorded the lowest overall inflation of 0.5%, with Brazil with the highest food inflation contributor at 13.9%.

Table 1: Overall inflation and food inflation during August 2020 to October 2020

	August 2020		September 2020		October 2020	
Country	Overall inflation (%)	Food inflation (%)	Overall inflation (%)	Food inflation (%)	Overall inflation (%)	Food inflation (%)
Botswana	1.0	4.2	1.8	4.2	2.2	4.3
Brazil	2.4	8.8	3.1	11.8	3.9	13.9
China	2.4	11.2	1.7	7.9	0.5	2.2
India	6.7	9.1	7.3	10.7	7.6	11.1
Namibia	2.4	6.8	2.4	6.6	2.3	7.1
Russia	3.6	4.8	3.7	4.9	4.0	NA
South Africa	3.1	3.9	3.0	3.9	3.3	5.4
Turkey	11.8	13.5	11.8	15.0	11.9	16.5
United Kingdom	0.2	0.4	0.5	-0.1	0.7	0.6
United States	1.3	4.1	1.4	3.9	1.2	3.9
Zambia	15.5	15.5	15.7	14.0	16.0	14.6

Sources: Central banks and statistics reporting institutions of these countries, 2020



Urban food price trends: October 2020 vs. October 2019

As a result of the Covid-19 global pandemic, rural prices could not be monitored during October 2020, therefore this section will rank urban price for October 2020 vs. October 2019.

Table 2 rank selected food items pertaining to urban areas according to their various inflation rates. The food products highlighted in **Table 2** are those with annual urban inflation rates exceeding the South African Reserve Bank's (SARB) inflation upper band of 6%:

Table 2: Food items in the urban areas ranked (October 2020 vs. October 2019)

Grain and grain products	%	Meat, meat products, dairy, dairy products and eggs	%	Fresh and processed fruits and vegetables	%
Margarine spread 500g	-5.3%	Polony per kg / 1kg	-6.5%	Cauliflower - fresh per kg / each	-55.7%
Pasta 500g	-2.6%	Ham 500g	-2.6%	Apples - fresh per kg	-32.8%
Super maize 5kg	-2.0%	Chicken portions frozen - non IQF average per kg	-1.9%	Pears - fresh per kg	-2.3%
Super maize 1kg	-1.9%	Chicken portions frozen - non IQF per kg (real)	-1.9%	Onions - fresh per kg	-0.8%
Brick margarine 1kg	-1.5%	Tuna - tinned 170g	-0.3%	Baked beans - tinned 410g	0.6%
Brick margarine 500g	2.4%	Low fat milk - fresh 1ℓ	0.8%	Tomatoes - fresh per kg	10.1%
Special maize 5kg	3.7%	Low fat milk - fresh 2ℓ	2.7%	Cabbage - fresh each	14.1%
Super maize 2.5kg	4.9%	Beef T-bone - fresh per kg	2.8%	Cabbage - fresh per kg	14.1%
Special maize 2.5kg	5.4%	Powdered milk 900g	3.8%	Potatoes - fresh per kg	14.7%
Cold cereals 500g	6.9%	Lamb - offal per kg	4.0%	Beetroot - fresh per kg	18.4%
Cake flour 2.5kg	8.0%	Fish (excl. tuna) - tinned 400g	4.1%	Beans - dried 500g	26.6%
Peanut butter 400g	8.1%	Beef offal - fresh per kg	4.1%	Bananas - fresh per kg	31.0%
Instant noodles 73g	8.6%	Pork - ribs per kg	4.2%	Oranges - fresh per kg	38.5%
Sunflower oil 750ml	9.9%	Full cream milk - fresh 2ℓ	4.7%	Sweet potatoes - fresh per kg	46.3%
Loaf of white bread 700g	10.1%	Lamb - neck per kg	5.0%	Pumpkin - fresh per kg	51.9%
Loaf of brown bread 700g	10.8%	Pork chops - fresh per kg	5.6%		
Spaghetti 500g	15.6%	Beef brisket - fresh per kg	5.6%		
Macaroni 500g	23.7%	Low fat milk - long life 1ℓ	6.0%		
Rice 2kg	61.0%	Beef chuck - fresh per kg	6.3%	Other	%
Rice 1kg	80.2%	Beef mince - fresh per kg	6.5%	Ceylon/black tea 250g	-4.2%
		Full cream milk - fresh 1ℓ	6.9%	Ceylon/black tea 62.5g	-2.8%
		Chicken giblets per kg	7.0%	Instant coffee 250g	3.9%
		Full cream milk - long life 1ℓ	7.2%	White sugar 2.5kg	10.3%
		IQF chicken portions - 2kg	9.1%		
		IQF chicken portions - 1kg	9.7%		
		Beef sirloin - fresh per kg	10.6%		
		Eggs 0.5 dozen	10.8%		

Grain and grain products	%	Meat, meat products, dairy, dairy products and eggs	%	Fresh and processed fruits and vegetables	%
		Bacon 250g	11.2%		
		Sausage 500g	14.6%		
		Lamb - loin chop per kg	14.8%		
		Beef rump steak - fresh per kg	15.3%		
		Corned beef 300g	17.7%		
		Beef fillet - fresh per kg	18.1%		
		Chicken portions - fresh per kg	19.5%		
		Lamb - rib chop per kg	20.2%		
		Eggs 1.5 dozen	22.9%		
		Cheddar cheese per kg	24.6%		
		Lamb - stew per kg	24.8%		
		Whole chicken - fresh per kg	29.5%		
		Beef stew - per kg	46.2%		
		Lamb - leg per kg	50.5%		

Source: Stats SA, 2020

Note: Food items highlighted in the table above experienced price increases above the SARB inflation target of 6%.

A closer look at annual food price trends: October 2020 vs. October 2019

During the period October 2020 vs. October 2019, the international price of wheat increased by 37%, while domestic wheat prices increased by 14.7%. Urban consumers paid 10.8% and 10.1% more for a loaf of brown and white bread (700g), respectively. Domestic yellow maize prices increased by 24.5%, while international yellow maize prices increased by 11.7%. Special and super maize meal prices (2.5kg) increased by 5.4% and 4.9%, respectively in urban areas. During the same period, the urban prices of sunflower oil (750ml) increased by 9.9%. Domestic prices of sunflower seed increased by 39.7% annually, while international sunflower seed prices increased by 31.7%.

During October 2020 vs. October 2019, average beef producer prices (R/kg) of classes B2/B3 and C2/C3 increased by 12.8% and 12.6%, respectively, while the price of class A2/A3 increased by 8.7% during the same period. Lamb/mutton producer prices (R/kg) of classes C2/C3, A2/A3 and B2/B3 increased by 39.3%, 30.1% and 27.9%, respectively. Producer prices of fresh and frozen chicken decreased by 10.3% and 1.5%, respectively while individually quick frozen (IQF) chicken portions (R/kg) increased by 0.6%. Porker and baconer producer prices (R/kg) increased by 15.8% and 9.3%, respectively, during the same period.

Comparison between urban: October 2020 vs. September 2020

Table 3 compares prices of selected food items in urban areas for October 2020 vs. September 2020. Food items showing the largest price differences between October 2020 vs. September 2020 urban areas: rice (2kg) at a difference of R3.58, Ceylon/black tea (62.5g) at a difference of R1.38, peanut butter (400g) at a difference of R1.26, super maize (2.5kg) at a difference of R0.64, margarine spread (500g) at a difference of R0.61, white sugar (2.5kg) at a difference of R0.53 and sunflower oil (750ml) at a difference of R0.27. This indicates that urban consumers paid R0.78 more on average, for these 11 food items during October 2020.

Table 3: Comparison between urban food prices (selected food items)

Product	Urban Food Prices June 2020	Urban Food Estimated Prices July 2020 (R/unit)	Price difference (R/unit)
Full cream milk – long life 1ℓ	15.71	15.68	-0.03
Loaf of brown bread 700g	13.84	13.88	0.04
Loaf of white bread 700g	15.03	15.10	0.07
Special maize 2.5kg	22.55	22.74	0.19
Super maize 2.5kg	24.88	25.52	0.64
Margarine spread 500g	24.80	25.41	0.61
Peanut butter 400g	31.68	32.94	1.26
Rice 2kg	39.64	43.22	3.58
Sunflower oil 750ml	23.84	24.11	0.27
Ceylon/black tea 62.5g	14.62	15.99	1.38
White sugar 2.5kg	43.62	44.15	0.53
Average difference (R/unit)			R0.78

Source: Stats SA, 2020



International food prices

The Food and Agricultural Organization (FAO) of the United Nations (UN) publishes its Food Price Index (FPI) on a monthly basis. The FPI consists of five commodity group price indices, namely, the Meat Price Index, the Dairy Price Index, the Cereals Price Index, the Oils Price Index and the Sugar Price Index. These indices are weighted with the average export shares of each of the groups for 2014 to 2016. In total, 95 price quotations, considered by FAO commodity specialists as representing the international prices of the noted food commodities, are included in the overall index. Figure 3 shows the overall monthly real (deflated) FAO FPI from 2016 to 2020, with July 2020 reaching an index level of 101.9 points, up 3.1% from September 2020.

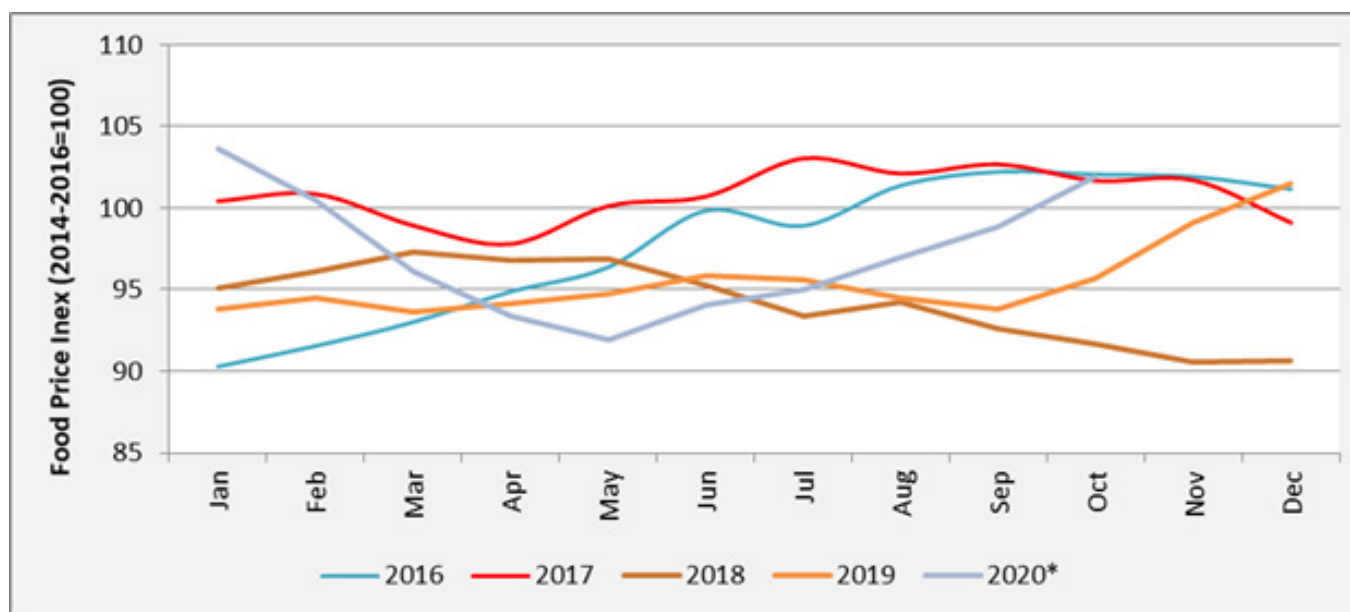


Figure 3: International monthly real FPI

Source: FAO, 2020

*Note: Current year



Figure 4 shows the price indices in real terms for five food categories. The monthly (October 2020 vs. September 2020) growth percentages indicated increasing trends for four of the five Indices. The annual (October 2020 vs. October 2019) growth percentages indicated increasing trends of 27.1% for Oils Price Index and 17.1% for the Cereals Price Index, whilst the Meat Price Index reflected the largest annual decline percentage of 10.3%.

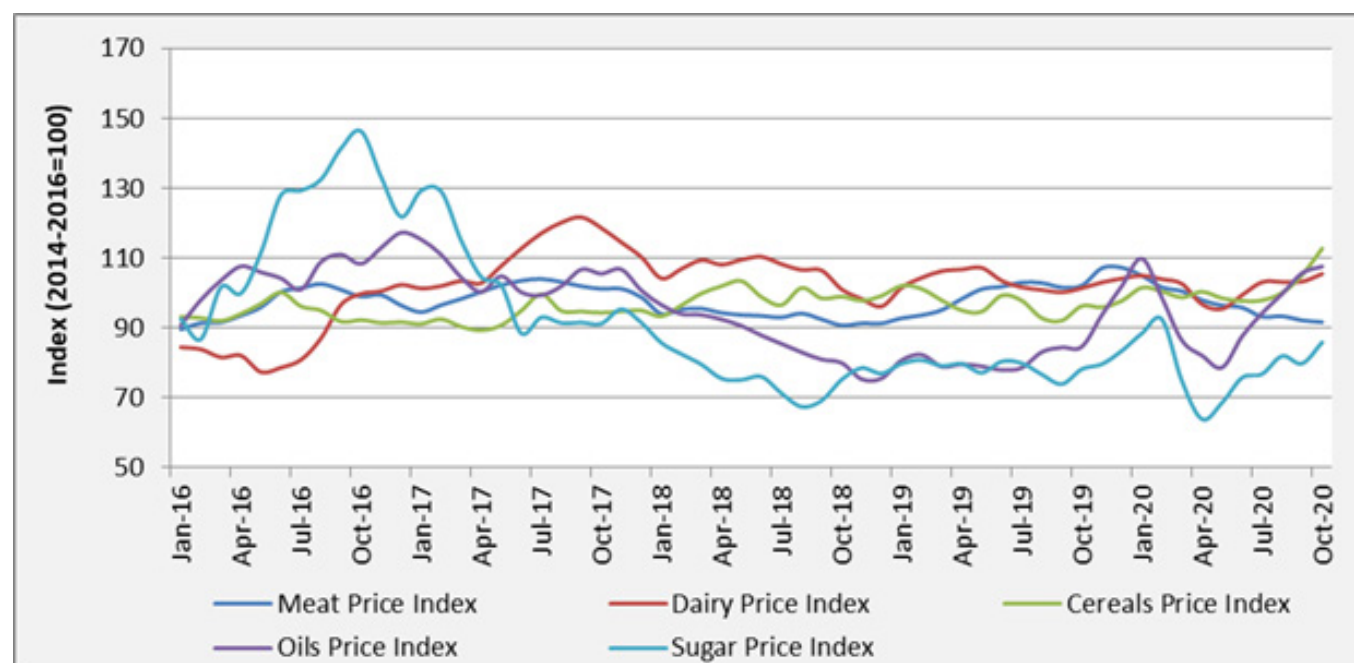


Figure 4: Real price indices for five food categories

Source: FAO, 2020

The **FAO Food Price Index (FFPI)**¹ in nominal terms, averaged 100.9 points in October 2020, up 3.0 points (3.1%) from September and 5.7 points (6.0%) higher than its value a year ago. The October value, the highest since January 2020, represented the fifth consecutive monthly increase. Much firmer prices of sugar, dairy, cereals and vegetable oils were behind the latest rise in the FFPI, while the meat sub-index fell slightly for the second consecutive month.

The **FAO Cereal Price Index** in nominal terms, averaged 111.6 points in October, up 7.5 points (7.2%) from September and as much as 15.8 points (16.5%) above its value in the corresponding month last year. The October rise marked the fourth month of consecutive increase. Wheat export prices rose further in October,

reflecting strong global demand amidst shrinking export availabilities, poor growing conditions in Argentina and continued dry weather adversely affecting winter wheat conditions in parts of Europe, northern America and the Black sea region. International maize prices also rallied to over six-year highs, largely underpinned by a fast pace in purchases by China and higher than earlier anticipated drawdown of stocks in the United States of America as well as sharp declines in export supplies in Brazil and Ukraine. Feed barley and sorghum prices also increased in October, supported by strong demand and spill-over from rising maize and wheat prices. By contrast, international rice prices fell to seven-month lows, as main-crop harvests got underway in Asia, intensifying efforts to attract buyers.

¹Unlike for other commodity groups, most prices utilized in the calculation of the FAO Meat Price Index are not available when the FAO Food Price Index is computed and published; therefore, the value of the Meat Price Index for the most recent months is derived from a mixture of projected and observed prices. This can, at times, require significant revisions in the final value of the FAO Meat Price Index which could in turn influence the value of the FAO Food Price Index.



The **FAO Vegetable Oil Price Index** in nominal terms, averaged 106.4 points in October, up 1.8 points (1.8%) month-on-month and posting a nine-month high. The continued strength of the index largely reflects firmer palm and soy oil prices, while those of rapeseed oil declined moderately. International palm oil quotations rose for a fifth consecutive month, underpinned by below-potential production prospects in leading producing countries and robust global import demand. In the meantime, soy oil values were supported by continued supply tightness in South America. By contrast, after rising five months in succession, international rapeseed oil values decreased in October, amid increased uncertainty regarding demand in the EU following the recent deterioration of the Covid-19 situation across the region.

The **FAO Dairy Price Index** in nominal terms, averaged 104.4 points in October, up 2.2 points (2.2%) from September, marking the fifth consecutive monthly increase and lifting the index 3.6 points (3.5%) above its value in the corresponding month last year. In October, price quotations for all dairy products represented in the index rose, with cheese rising the most, followed by skim milk powder, whole milk powder and butter. Price increases in October reflected some degree of market tightening for near-term deliveries, underpinned by robust import demand from Asian and Middle Eastern markets amidst expectations for less export availabilities from Oceania later this year when production will be declining seasonally. In addition, increases in internal demand for future deliveries in Europe, where production is nearing its seasonal low, also contributed to spot market tightening and price strengthening.

The **FAO Meat Price Index**² in nominal terms, averaged 90.7 points in October, down slightly (0.5 points or 0.5%) from September, marking the ninth monthly decline since January, and standing 10.9 points (10.7%) lower than its value a year ago. Pig meat prices dropped, as a fall in the quotations of German products, reflecting continued influence of the import restrictions imposed by China on Germany, outweighed an increase in those from Brazil due to robust import demand. Meanwhile, bovine meat prices declined due to weak demand in the United States of America, coupled with rising shipments from South America, although supplies from Australia drifted lower due to rising demand for cattle for herd rebuilding. Poultry meat prices also fell slightly because of reduced orders from China and Saudi Arabia. By contrast, prices of ovine meat rose on steady internal demand and low export supplies, especially in Australia.

The **FAO Sugar Price Index** in nominal terms, averaged 85.0 points in October, up 6.0 points (7.6%) from September and 7.2 points (9.3%) from last year. This increase reflected mostly the prospects of a lower sugar output in both Brazil and India, the two largest sugar producing countries, due to below average rainfalls. Sugar prices were also supported by developments in Thailand, where sugar output is seen lower by almost 5 percent from last year as a result of protracted dry conditions. Additional upward pressure was provided by fund buying, as evidenced by the weekly Commitment of Traders (COT) report. Furthermore, sugar prices displayed high volatility, driven also by uncertainties in crude oil market and movements in the Brazilian Real against the United States Dollar.

²Unlike for other commodity groups, most prices utilized in the calculation of the FAO Meat Price Index are not available when the FAO Food Price Index is computed and published; therefore, the value of the Meat Price Index for the most recent months is derived from a mixture of projected and observed prices. This can, at times, require significant revisions in the final value of the FAO Meat Price Index which could in turn influence the value of the FAO Food Price Index.

Estimated impact of food inflation on consumers

The purpose of this section is to illustrate the impact of food inflation on consumers. The analysis presented in the first part of this section is based on the cost of a basic food basket³ (as originally compiled by the Food Price Monitoring Committee in 2003, which was revised in January 2017) and, based on monthly average food price data for the period October 2019 to October 2020.

In October 2020, the cost of this basic urban food basket was R955.71, increasing by 10.3% from October 2019 (year-on-year increase) and increasing by 0.4% from September 2020 (month-on-month change). The cost of this food basket expressed as a share of the average monthly income of the poorest 30% of the population increased from 58.2% in October 2019 to 64.2% in October 2020. The cost of the food basket expressed as a share of the average monthly income of the wealthiest 20% of the population increased from 3.1% in October 2019 to 3.4% in October 2020 (**Figure 5**).

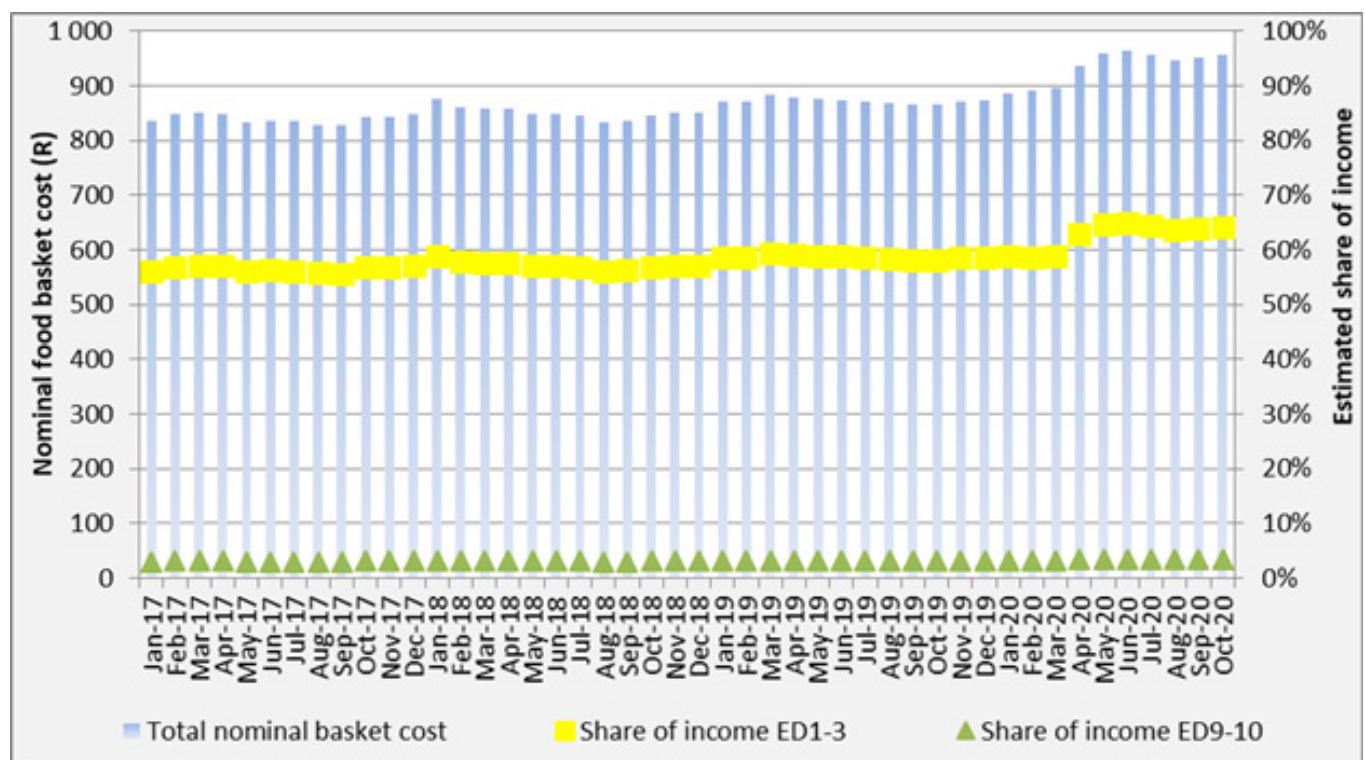


Figure 5: The cost of a typical consumer food basket for the period January 2017 to October 2020, expressed in nominal terms and as share of the average income of the poorest 30% of households (Expenditure Deciles [ED] 1-3) and the wealthiest 20% of households (ED 9-10)

Sources: BFAP calculations, based on Stats SA monitored price data for urban areas, 2020

³Composition of food basket: Apples fresh (per kg), Baked beans tinned (410g), Bananas fresh (per kg), Beans dried (500g), Beef mince fresh (per kg), Beef offal fresh (per kg), Bread loaf brown (700g), Bread loaf white (700g), Cabbage fresh (per kg), Cheese cheddar (per kg), Chicken giblets (per kg), Chicken portions IQF (2kg), Coffee instant (250g), Eggs (1.5 dozen), Fish (excl. tuna) tinned (400g), Maize meal super (5kg), Margarine brick (500g), Milk full cream long life (1ℓ), Onions fresh (per kg), Oranges fresh (per kg), Peanut butter (400g), Polony (per kg), Potatoes fresh (per kg), Rice (2kg), Sugar white (2.5kg), Sunflower oil (750ml), Tea Ceylon/black (250g), Tomatoes fresh (per kg).

To further explore the impact of inflation on consumers, **Figure 6** presents an illustration of the average monthly nominal cost of specific food groups within the basic food basket, comparing October 2019 to October 2020. Food groups with more prominent inflation included bread & cereals, dairy & eggs, legumes, sugar and vegetables.

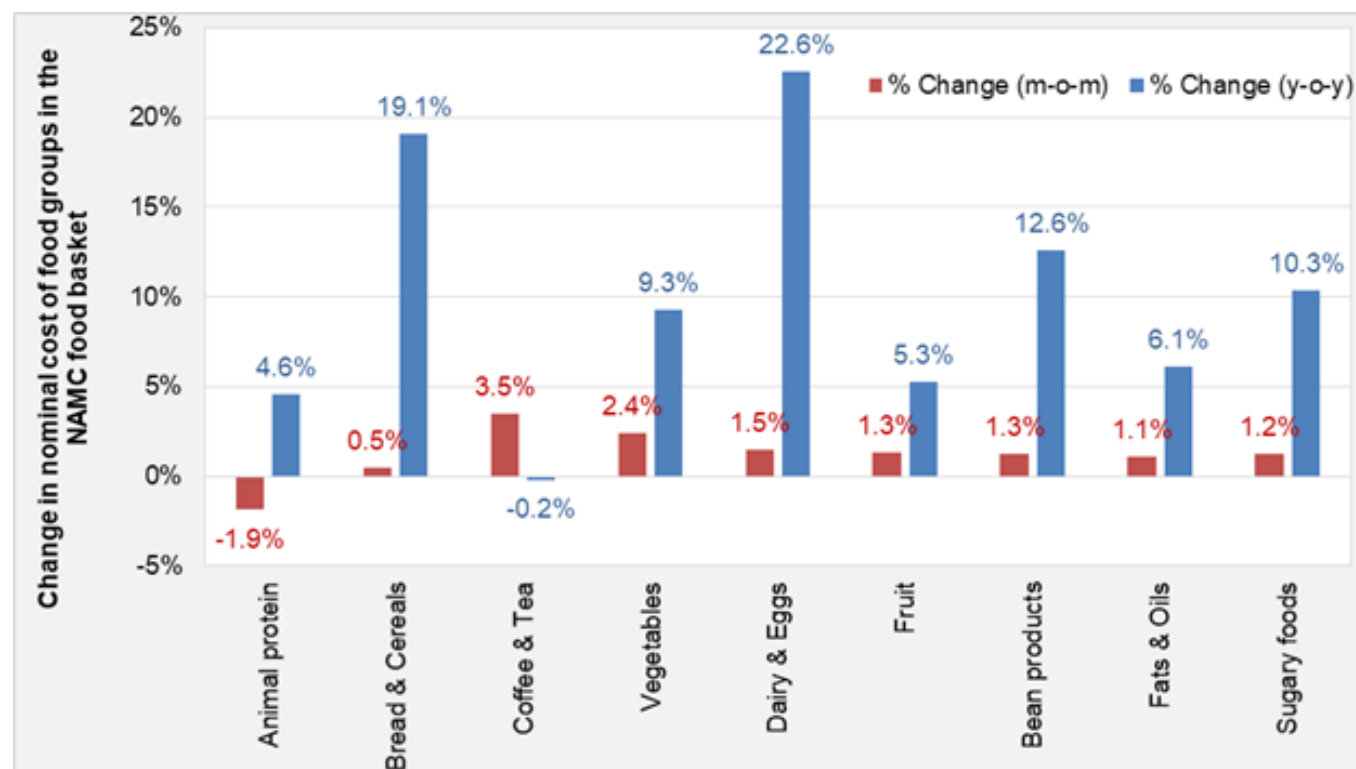


Figure 6: Nominal cost growth of specific food groups within the NAMC's 28-item food basket, comparing October 2020 vs. October 2019 (y-o-y) and October 2020 vs. September 2020 (m-o-m)

Sources: BFAP & NAMC calculations, Stats SA, 2020

The various food groups within this food basket are discussed in more detail in **Table 4** below.

Table 4: Overview of contributions to annual food price increases within the 28-item NAMC food basket, October 2020 vs. October 2019

Food group	Overall inflation rate		Major contributors to inflation in this category	Minor contributors to inflation in this category	Non-contributors to inflation in this category	Comments
	Oct 2020 vs. Oct 2019	Jul 2020* vs. Jul 2019*				
Animal protein	+4.6%	+4.5%	IQF chicken portions (+9.1%) Chicken giblets +7.0%) Beef mince (+6.5%) Beef offal (+4.1%) Tinned fish (+4.1%)	None	Polony (-6.5%)	None
Bread and cereals	+19.1%	+22.0%	Rice (+61.0%) Brown bread (+10.8%) White bread (+10.1%)	None	Maize meal (-2.0%)	None
Vegetables	+9.3%	+13.2%	Potatoes (+14.7%) Cabbage (+14.1%) Tomatoes (+10.1%)	None	Onions (-0.8%)	None
Fruit	+5.3%	+2.6%	Bananas (+31.0%) Oranges (+38.5%)	None	Apples (-32.8%)	None
Dairy	+15.9%	+12.3%	Cheddar cheese (+24.6%) Milk (+7.2%)	None	None	High inflation on eggs and cheese.
Eggs	+22.9%	+50.7%	Eggs (+22.9%)	None	None	
Fats and oils	+6.1%	+0.1%	Sunflower oil (+9.9%)	Brick margarine (+2.4%)	None	Inflation on sunflower oil
Bean products	+12.6%	+9.4%	Dried beans (+26.6%) Peanut butter (+8.1%)	Baked beans (+0.6%)	None	Inflation mainly on dried beans and peanut butter.
Coffee and tea	-0.2%	-8.1%	None	Instant coffee (+3.9%)	Ceylon/black tea (-4.2%)	Instant coffee (+3.9%)
Sugary foods	+10.3%	+6.3%	White sugar (+10.3%)	None	None	Inflation on sugar

Sources: BFAP & NAMC calculations, Stats SA, 2020

*Note: Previous Food Price Monitor analysis period prior to October 2020 vs. October 2019

Thus, when comparing October 2019 to October 2020 retail prices, higher price inflation (6% or more) were observed for the following products within the NAMC food basket (in order from highest to lowest inflation): Rice, oranges, bananas, dried beans, cheddar cheese, eggs, potatoes, cabbage, brown bread, white sugar, white bread, tomatoes, sunflower oil, IQF chicken portions, peanut butter, milk, chicken giblets and beef mince. The items with high inflation could have negative implication in terms of basic food security (staple food inflation in the case of rice and bread) as well as dietary diversity (e.g. inflation on fruit, vegetables, oil and meat). When comparing the inflation rates for October 2019 to October 2020, with July 2019 to July 2020 (i.e. the previous Food Price Monitor analysis period) the rate of inflation was higher for animal protein foods, fruit, dairy, fats & oils and sugar.

The impact of inflation on very poor consumers is further explored below, based on the typical portion sizes of very poor consumers of the five most widely consumed food items in South Africa represented by maize porridge, brown bread, sugar, tea and full cream milk (National Food Consumption Survey - Steyn & Labadarios, 2000⁴; Oldewage-Theron et al, 2005⁵). **Figure 7** illustrates the estimated portion costs for these foods, calculated from monthly food price data for October 2019 and October 2020. Similar to other Food Price Monitor analysis periods, the significant cost contribution of maize meal and bread to the typical basic daily food selection for poor consumers are emphasised by the results in **Figure 7**.

Furthermore, despite the relatively low actual food weight contribution of bread to this ‘food plate’, the bread component costs more than the maize porridge component (about 67% more in this case for October 2020). When comparing, the costs associated with the typical portion sizes of very poor consumers for the five most widely consumed food items in South Africa, based on October 2020 versus October 2019 prices the results in **Figure 7** indicated inflation of about 5.5% (from R6.06 to R6.40 for the selection of typical portions), with tea, sugar and brown bread contributing to inflation. From September 2020 to October 2020 the costs associated with the typical portion sizes of very poor consumers for the five most widely consumed food items in South Africa decreased by 1.4%.

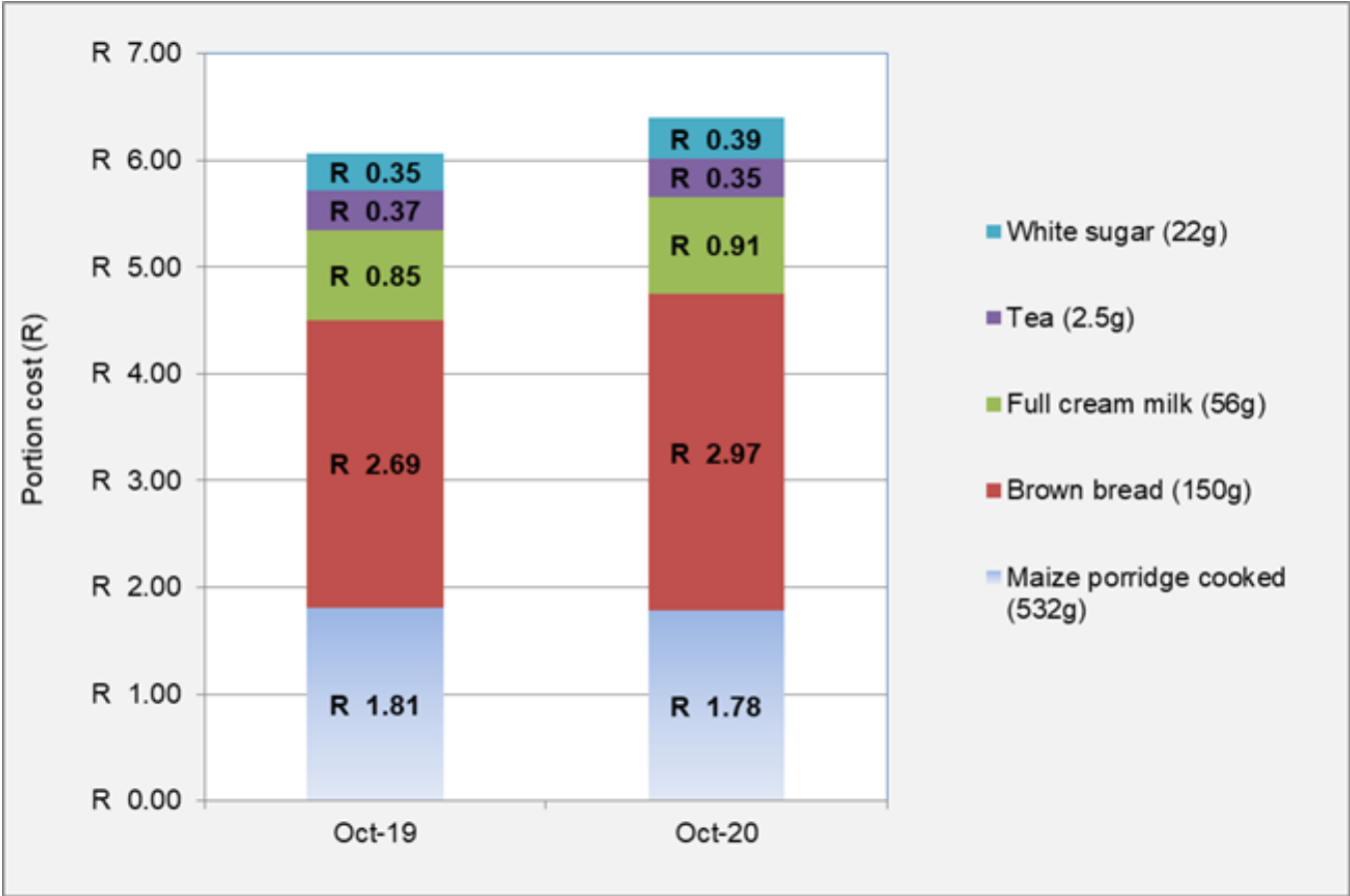


Figure 7:Average nominal cost for the typical portions of the five food items most widely consumed by very poor consumers in South Africa, October 2020 vs. October 2019

Sources: BFAP calculations, Stats SA, 2020

⁴Steyn NP, Labadarios D. National Food Consumption Survey: Children aged 1–9 years, South Africa, 1999. Cape Town: The Department of Health Directorate Nutrition, 2000

⁵Oldewage-Theron W, Dicks E, Napier C, et al. Situation analysis of an informal settlement in the Vaal Triangle. Development Southern Africa 2005; 22 (1): 13-26

As we approach the festive season food prices are expected to be supported by stronger demand. This is however expected to vary across product categories. Nielsen (2020)⁶ notes that there are two types of consumers as we emerge from the Covid-19 lockdowns. The first is the insulated spender, whose income has not been affected by the lockdown and associated economic downturns. These consumers will focus on more expensive and exotic food products to compensate for the fact that vacation and entertainment options are restricted. On the other end of the spectrum, there are constrained spenders. These are spenders that would have normally increased expenditure during the festive season but due to the aftermath of Covid-19 and its associated lockdowns have to pull the belt tighter. In terms of how demand will affect food inflation going forward, the key question is therefore related to the size of these respective groups. It is expected that in the South African context, the constrained spenders will outweigh the insulated spenders which will result in overall dampened demand for food over the coming months, especially with regards to premium food products.

In terms of supply issues, prices on Oils and Fats will remain higher due to the shortage of the underlying commodities. Meat inflation also remains significant high due to the demand over the festive season.

The high increase in mutton and lamb can be attributed to a decrease in the supply which results in lower slaughter numbers. The production of poultry increases and imports are also lower, this can be attributed to an increase in tariffs and logistics constraints through Covid-19. Climatic conditions can favour vegetable production and ease the increase in price. Intentions to plant for maize in the coming season are up by 5.18%, which could dampen price growth in the coming season. Cost pressures on farm level have also manifested in milk with production tending lower in 2020Q3. This trend is expected to continue which will result in higher retail prices of milk and dairy products over the next 3 to 6 months.

Arguably the biggest wild-card associated with the inflation projections is the occurrence of a second wave of Covid-19 and how government will react to it. As seen from Wave 1, this can lead to severe supply chain disruptions in food processing and retailing, which could lead to intermittent price shocks in certain products.

⁶Nielsen 2020. Predicting the Covid-19 behavioural reset. Available on: <https://www.nielsen.com/us/en/insights/report/2020/predicting-the-covid-19-behavioral-reset/>

BACKGROUND INFORMATION

Agriculture, Forestry and Fisheries (DAFF) established the Food Price Monitoring Committee (FPMC) at the NAMC to track and report food price trends in South Africa; to provide explanations of the observed trends and to then advise the Department on any possible action that could be taken should national and household food security be threatened. The FPMC was established after the high food price episode of 2000/01 season. The functions of the FPMC were continued by the NAMC after the FPMC completed its work in August 2004. The NAMC issues four quarterly Food Price Monitoring reports annually and, since 2005, also publishes an annual Food Cost Review report, which documents the margins between farm and retail prices of the major food products, amongst other topics. In 2015, the NAMC began releasing a quarterly Farm-to-Retail-Price-Spread (FTRPS) publication, which seeks to provide more insight into the factors driving commodity and food price margins. This publication, the Food Basket Price Monthly report, came as a result of discussions with industry to keep a more frequent watch on the movements of food prices.

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