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Farm-to-Retail-Price-Spread

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FARM-TO-RETAIL-PRICE-SPREAD

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EXECUTIVE SUMMARY

The farm value share is the value of the farm product's equivalent in the final food product purchased by the consumers. The Farm-to-Retail-Price-Spread (FTRPS) is the difference between what the consumer pays for the food product at retail level and the value of the farm product used in that product. Price spreads measure the aggregate contributions of food manufacturing, distribution, wholesale and retail firms that transform farm commodities into final products:

- **Poultry:** During the fourth quarter of 2020 (November 2020 – January 2021), the real farm value share of fresh whole chicken increased by 21.06%. During the same period, the real FTRPS of fresh whole chicken decreased on average by 32.36%. The real farm value share of fresh whole chicken reached 51.54% in January 2021. From January 2020 to January 2021, year-on-year, real FTRPS and the real farm value share decreased by 2.74% and 4.23%, respectively.
- **Beef:** The real FTRPS of class A2/A3 beef increased by 7.57% during the fourth quarter of 2020 (November 2020 – January 2021) to reach R43.58/kg in January 2021. The real farm value share of beef decreased by 3.31 during the fourth quarter and reached 49.56% in January 2021. From January 2020 to January 2021, year-on-year, the real FTRPS increased by 9.80%, while the real farm value share decreased by 0.58%.
- **Lamb:** The real FTRPS of class A2/A3 lamb increased by 15.82% from November 2020 to January 2021 to reach R75.15/kg in January 2021. The real farm value share decreased by 6.87%, on average, from November 2020 to January 2021 to reach 48.57% in January 2021. The real FTRPS increased by 20.07% while the real farm value share decreased by 3.40% between January 2020 and January 2021.
- **Pork:** The real farm value share increased by 2.02%, on average from November 2020 to January 2021, to reach 39.51% in January 2021. The real FTRPS of pork decreased by 2.38% from R45.45/kg in November 2020 to R44.36/kg in January 2021. From January 2020 to January 2021, year-on-year, the real farm value share increased by 18.35%, while the real FTRPS decreased by 5.48%.
- **Milk:** The real FTRPS for full cream milk decreased by 4.04% from R8.73/ℓ to R8.37/ℓ, during the fourth quarter (November 2020 – January 2021). The real farm value share increased, on average by 4.63%, during the fourth quarter. From January 2020 to January 2021, year-on-year, the real farm value share increased by 27.55%, while the real FTRPS decreased by 11.04%.
- **Maize:** The real farm value share of super maize meal (5kg) increased by 26.90% from 40.82% in November 2020 to 51.80% in January 2021. While, the real FTRPS of super maize meal (converted to a price per ton) decreased by 17.13% from R4 468.42/ton in November 2020 to R3 703.14/ton in January 2021. From January 2020 to January 2021, year-on-year, the real FTRPS and the real farm value share increased by 6.37% and 4.63%, respectively.
- **Wheat:** In January 2021, the real FTRPS for white bread (converted to a price per ton) reached R23 274.52/ton of flour, with brown bread reaching R22 509.08/ton of flour. The real farm value share for white and brown bread reached 17.91% and 17.47%, respectively. From November 2020 to January 2021, real FTRPS for white and brown bread increased by 4.86% and 3.43%, respectively.

Introduction

The Farm-to-Retail-Price-Spread (FTRPS) is the difference between the farm price and the retail price of food, reflecting charges for processing, shipping, and retailing farm goods (also called the marketing spread). This publication attempts to provide more insight into the factors driving commodity and food price margins. The purpose of this publication is to reflect on food price spreads during the fourth quarter of 2020 (November 2020 – January 2021). The NAMC compares prices paid by consumers for food with prices received by farmers for corresponding commodities, analyses this data sets and reports these comparisons for a variety of foods sold through retail food stores such as supermarkets and hypermarkets. The margin between farm gate prices and the price the consumer pays for selected food items is a topic that is frequently debated. In order to better understand the difference between farm gate and retail prices, farm values of selected products and the FTRPS are calculated.

Price Trends, Farm Values and Price Spreads

- Poultry:** During the fourth quarter of 2020 (November 2020 – January 2021), the real farm value share of fresh whole chicken increased by 21.06%. During the same period, the real FTRPS of fresh whole chicken decreased on average by 32.36%. The real farm value share of fresh whole chicken reached 51.54% in January 2021. From January 2020 to January 2021, year-on-year, real FTRPS and the real farm value share decreased by 2.74% and 4.23%, respectively. Low demand for consumer-ready food products can drive the food marketing system to reduce value adding to the poultry products grown by farmers.

The low demand of chicken due to Covid-19 regulations could have contributed to the reduction of both real FTRPS and the real farm value share between January 2020 and January 2021. Furthermore, this reduction of the gap could be also the influx of cheap, low quality cuts imported and sold through the South African retail outlets. See **Figure 1** below.

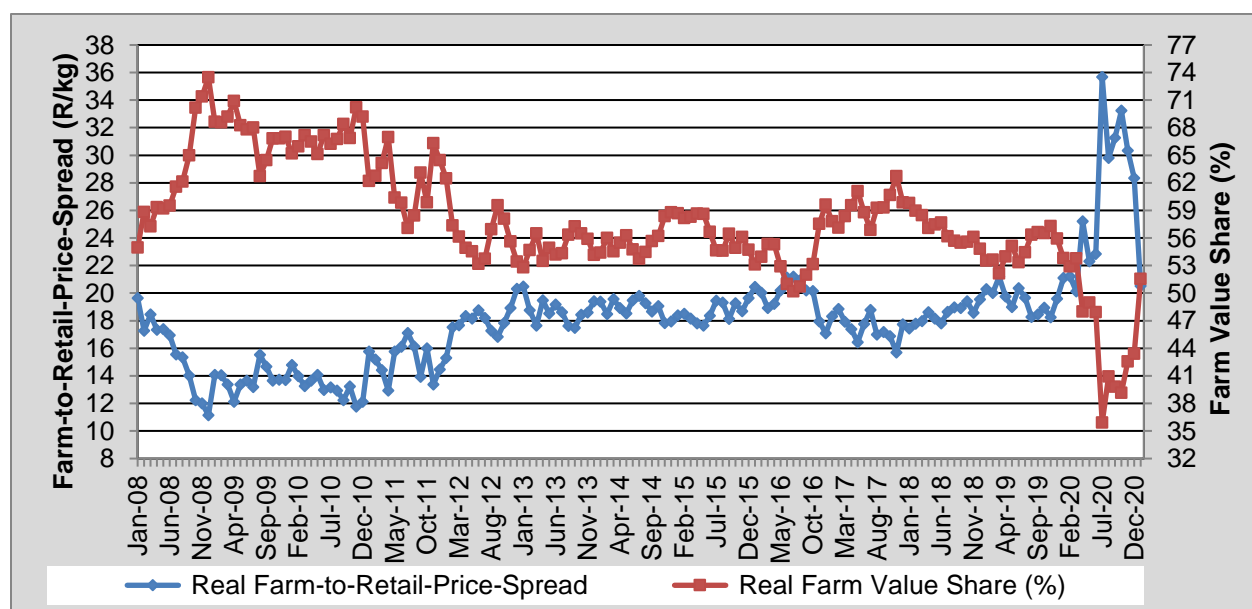


Figure 1: Real farm-to-retail-price-spread and farm value share of poultry

Source: Stats SA, 2021; AMT, 2021 and own calculations

- **Beef:** Due to the inclusion of additional products in the new CPI basket (beef stew and offal) from January 2017, annual comparisons are possible for beef retail prices. The FTRPS of beef will therefore include additional cuts, i.e. sirloin, stew and fillet, in the calculation of the spread from January 2017 onwards, but will exclude beef offal in the calculation of the spread.

The real FTRPS of class A2/A3 beef increased by 7.57% during the fourth quarter of 2020 (November 2020 – January 2021) to reach R43.58/kg in January 2021. The real farm value share of beef decreased by 3.31% during the fourth quarter and reached 49.56% in January 2021. From January 2020 to January 2021, year-on-year, the real FTRPS increased by 9.80%, while the real farm value share decreased by 0.58%.

The beef market was also disrupted, this was illustrated by the stewing beef retail price show the biggest change as they have been increasing steadily peaking at R102/kg in August 2020 from a low level of around R90.30/kg in January 2020. This shows that beef retail prices were adversely affected by the pandemic. See **Figure 2** below.

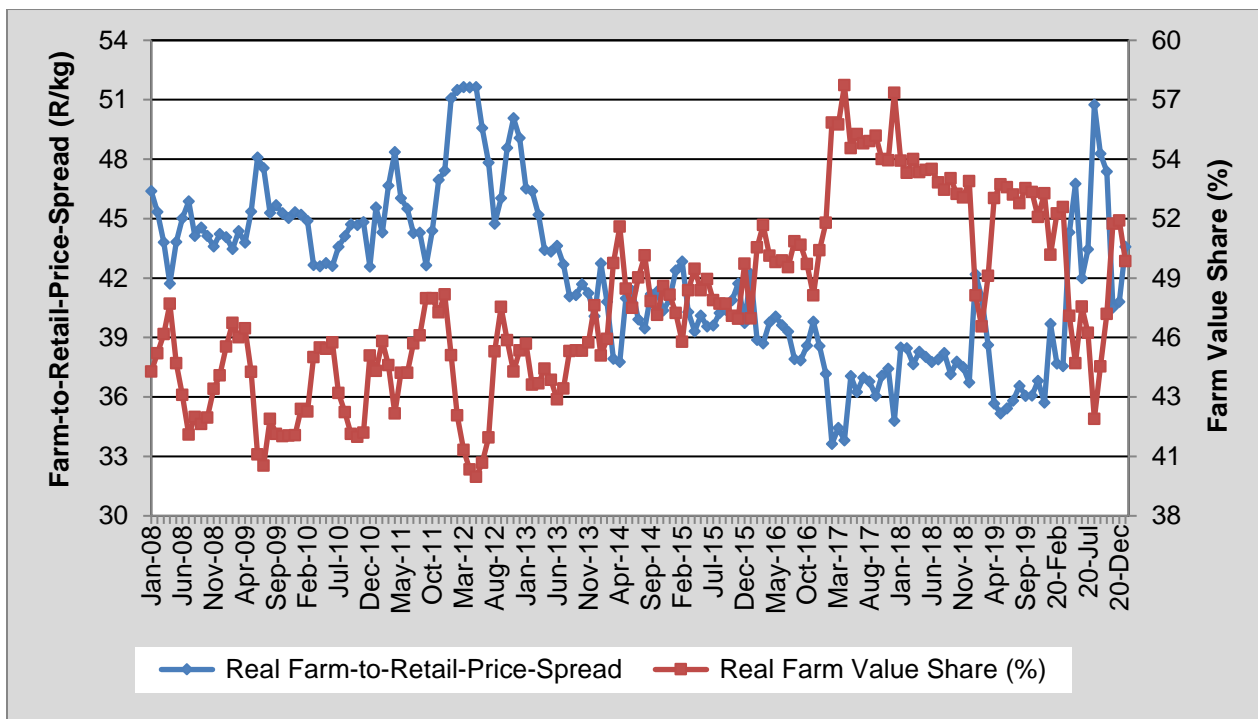


Figure 2: Real farm-to-retail-price-spread and farm value share for beef

Source: Stats SA, 2021 AMT, 2021 and own calculations

- Lamb:** Due to the inclusion of additional products in the new CPI basket (lamb stew and offal) from January 2017, annual comparisons are possible for lamb retail prices. The new FTRPS of lamb will therefore include leg, loin chops (saddle chops), neck, rib chops and stew, but will exclude lamb offal in the calculation of the spread.

The real FTRPS of class A2/A3 lamb increased by 15.82% from November 2020 to January 2021 to reach R75.15/kg in January 2021. The real farm value share decreased by 6.87%, on average, from November 2020 to January 2021 to reach 48.57% in January 2021. The impact on market dynamics and pricing by the pandemic and lockdown, is clearly evident in the sale of mutton/ lamb as well. This was illustrated by the real FTRPS increased by 20.07% while the real farm value share decreased by 3.40% from January 2020 to January 2021. See **Figure 3** below.

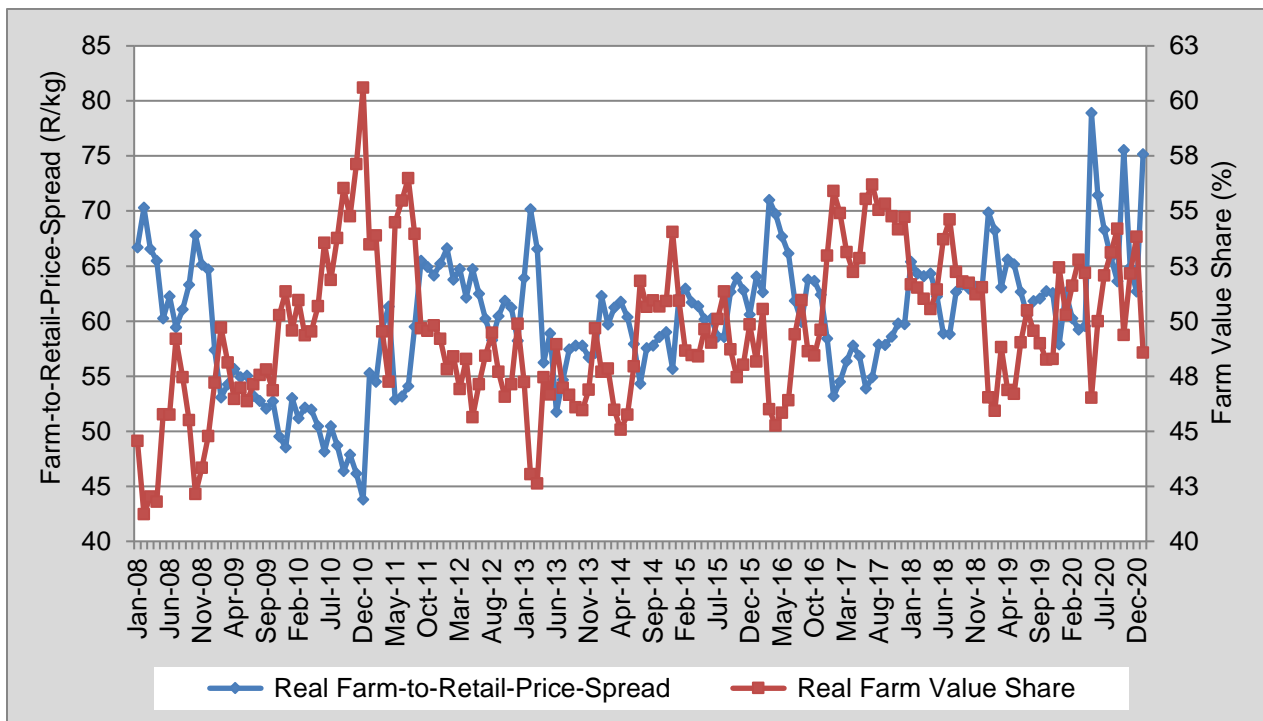


Figure 3: Real farm-to-retail-price-spread and farm value share of lamb

Source: Stats SA, 2021; AMT, 2021 and own calculations

- Pork:** Due to the inclusion of additional products in the new CPI basket (pork ribs) from January 2013, annual comparisons can now be made for pork retail prices. The new FTRPS of pork will therefore include the pork ribs effective January 2013.

The real farm value share increased by 2.02%, on average from November 2020 to January 2021, to reach 39.51% in January 2021. The real FTRPS of pork decreased by 2.38% from R45.45/kg in November 2020 to R44.36/kg in January 2021. From January 2020 to January 2021, year-on-year, the real farm value share increased by 18.35%, while the real FTRPS decreased by 5.48%. See **Figure 4** below.

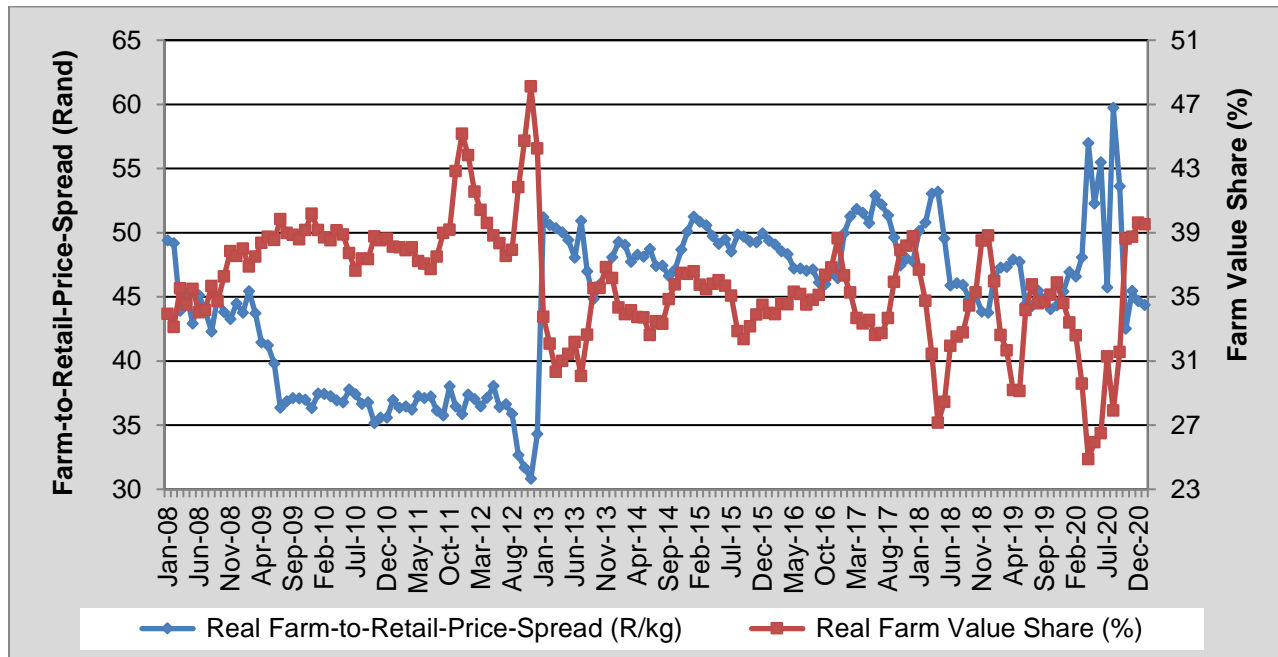


Figure 4: Real farm-to-retail-price-spread and farm value share of pork

Source: Stats SA, 2021; AMT, 2021 and own calculations

- Milk: Milk is an essential food product and form an important part of the consumer basket and is also one of the top 10 food expenditure items for low-income households in South Africa. The farm to retail price spread is too wide and exhibiting a divergent trend. The real FTRPS for full cream milk decreased by 4.04% from R8.73/ℓ to R8.37/ℓ, during the fourth quarter (November 2020 – January 2021).

The real farm value share increased, on average by 4.63%, during the fourth quarter. The January 2021 national average producer milk is calculated as R5.30. According to market information (MPO) the price is set to increase to an average of R5.75 in March 2021. From January 2020 to January 2021, year-on-year, the real farm value share increased by 27.55%, while the real FTRPS decreased by 11.04%. See **Figure 5** below.

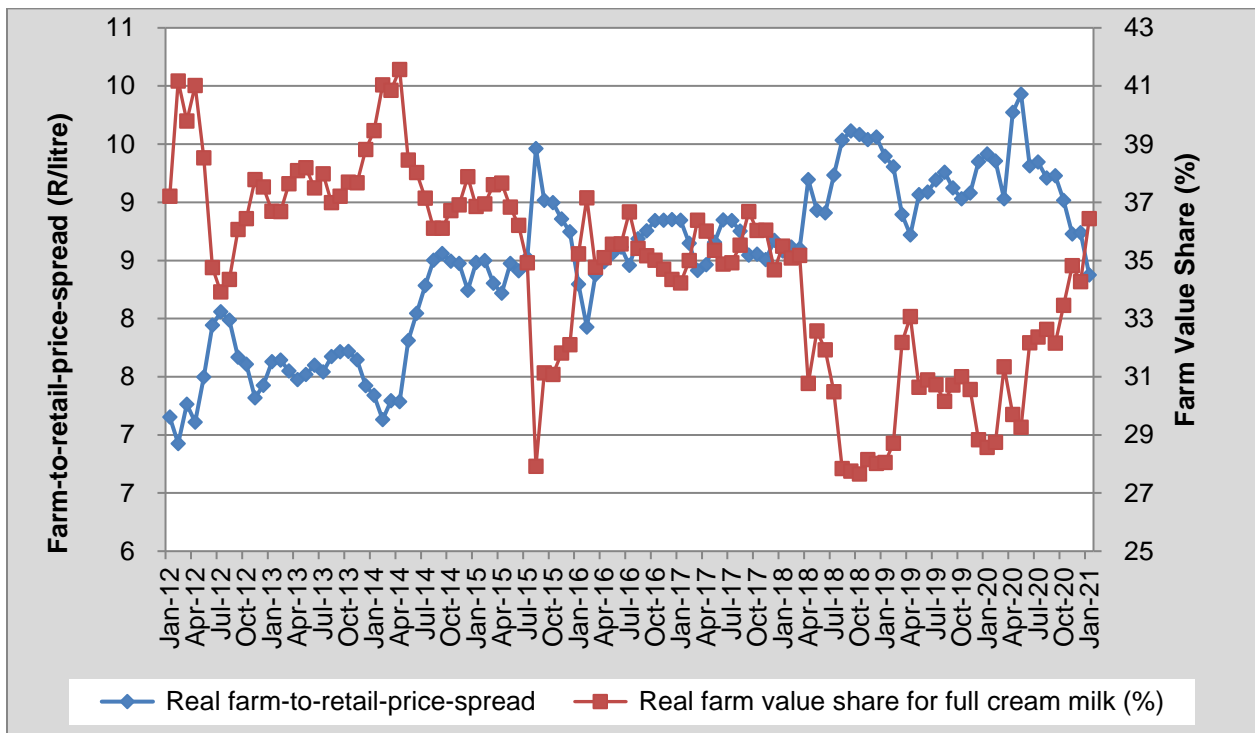


Figure 5: Real farm-to-retail-price-spread and farm value share of milk

Source: Stats SA, 2021; MPO/AMT, 2021 and own calculations

- **Maize:** Due to data limitations for the monitoring of an average retail price for special maize meal (5kg) by Stats SA for the period February 2015 to December 2016, this section will only include the spread for super maize meal (5kg).

The real farm value share of super maize meal (5kg) increased by 26.90% from 40.82% in November 2020 to 51.80% in January 2021. While, the real FTRPS of super maize meal (converted to a price per ton) decreased by 17.13% from R4 468.42/ton in November 2020 to R3 703.14/ton in January 2021.

From January 2020 to January 2021, year-on-year, the real FTRPS and the real farm value share increased by 6.37% and 4.63%, respectively. It is clear that maize meal prices follow the price trend of white maize. The analysis also shows that when white maize prices increase, maize meal prices at retail level increase fast, but when maize prices decrease it happens at a slower rate. See **Figure 6** below.

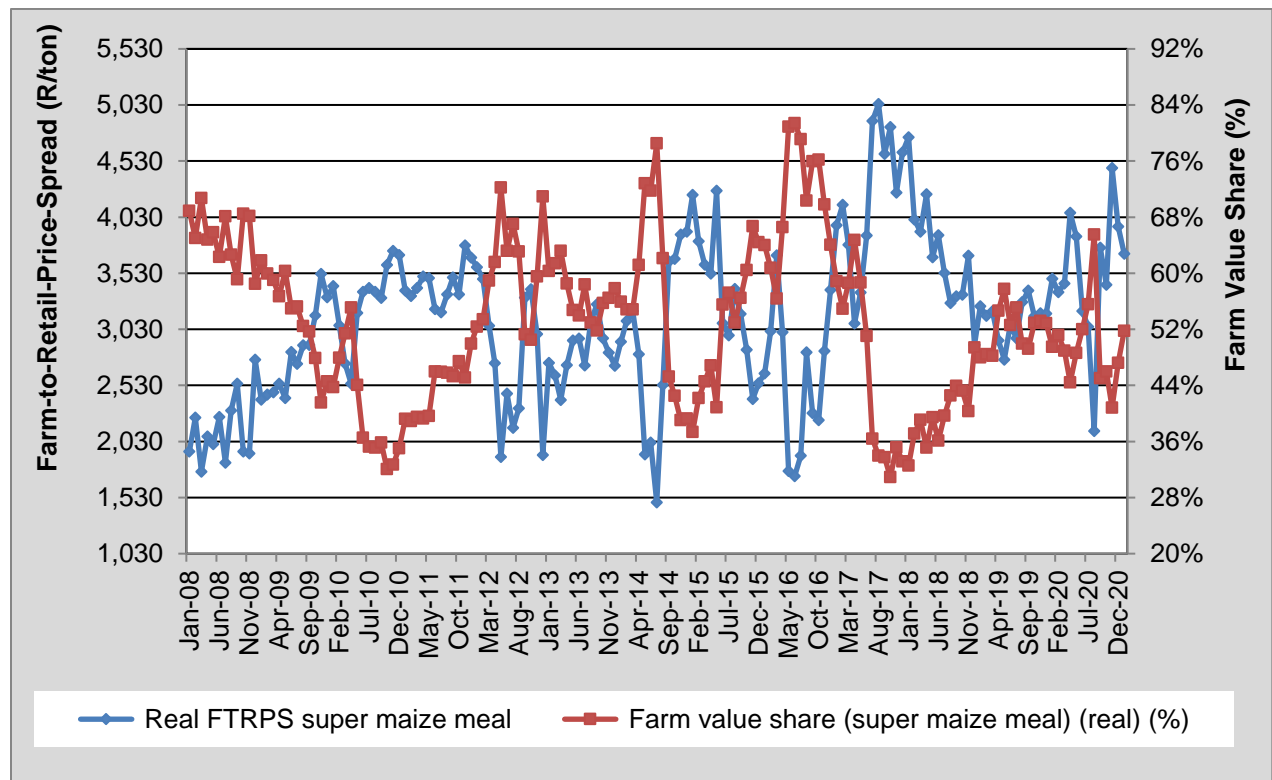


Figure 6: Real farm-to-retail-price-spread and farm value share of super maize meal 5kg

Source: Stats SA, 2021 and own calculations

- Wheat:** In January 2021, the real FTRPS for white bread (converted to a price per ton) reached R23 274.52/ton of flour, with brown bread reaching R22 509.08/ton of flour. The real farm value share for white and brown bread reached 17.91% and 17.47%, respectively. From November 2020 to January 2021, real FTRPS for white and brown bread increased by 4.86% and 3.43%, respectively. During the same period, real farm value share for white and brown bread decreased by 14.93% and 14.08%, respectively.

South Africa is the net importer of wheat in a relative free market environment and local wheat price usually follows the overall trend of import parity price. The local wheat price is primarily influenced by developments in the global market, the strength of the South African Rand and US Dollar exchange rate as well as the fluctuations in transport costs and to a lesser extent by changes in local production. See **Figure 7** below.

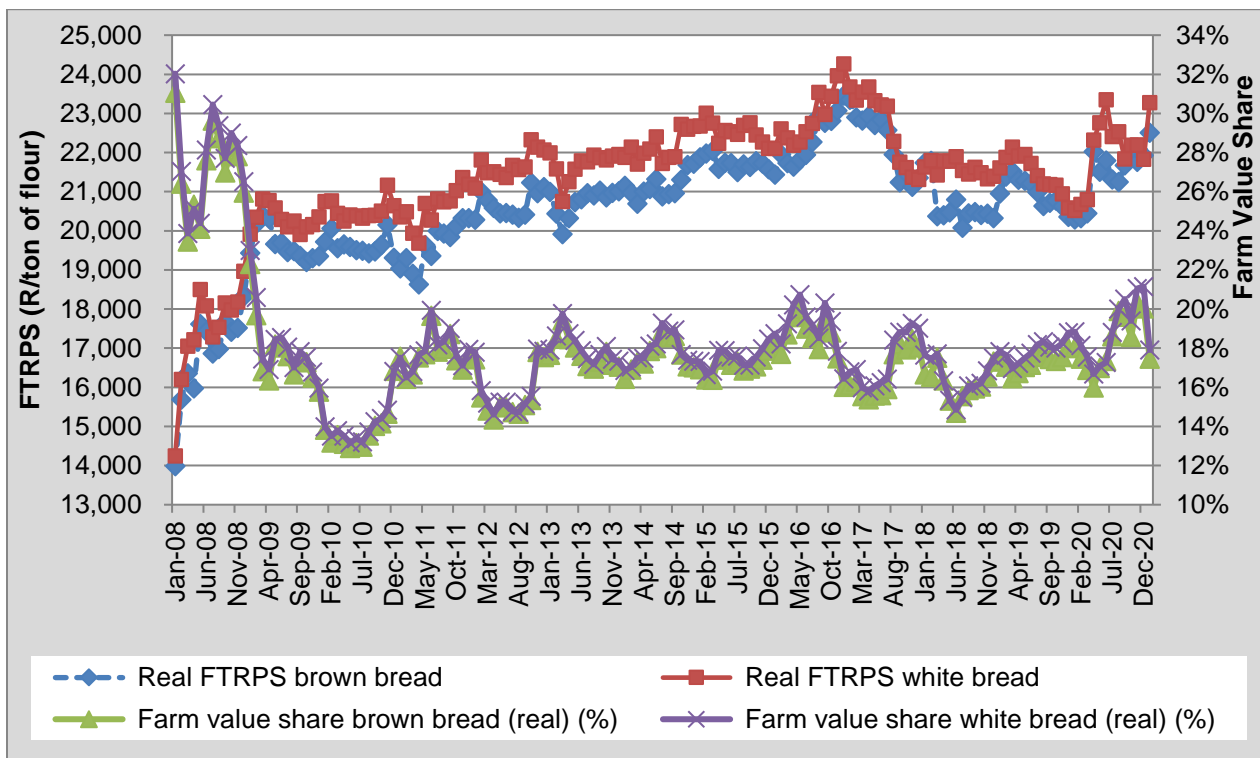


Figure 7: Real farm-to-retail-price-spread and farm value share of wheat

Source: Stats SA, 2021 and own calculations

Conclusion

In a nutshell, it is important to monitor the margins between producer and retailer prices, at least for the more essential products such as maize, wheat, dairy, poultry, lamb and beef. The updated producer and retailer prices for these selected commodities, show that the fluctuation between FTRPS and farm value since November 2020 and January 2021. This could be driven by several factors such as openness to international trade, level of competition in the food supply chain, increased levels of food processing, among others.

Compiled by:

Price trends and discussion on selected topics:

Fezeka Matebeni

Corné Dempers

Enquiries: Dr Christo Joubert: +27 12 341-1115 or christo@namc.co.za

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