National Agricultural Marketing Council

Promoting market access for South African agriculture

Markets and Economic Research Centre

Farm-to-Retail-Price-Spread

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FARM-TO-RETAIL-PRICE-SPREAD
May 2021

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 first quarter of 2021 (January – April 2021), the real farm value share of fresh whole chicken decreased by 8.79%. During the same period, the real FTRPS of fresh whole chicken increased on average by 23.01%. The real farm value share of fresh whole chicken reached 43.28% in April 2021. From April 2020 to April 2021, year-on-year, real FTRPS increased by 17.82%, while the real farm value share decreased by 9.82%, respectively.
- ***Beef:*** The real FTRPS of class A2/A3 beef decreased by 10.88% during the first quarter of 2021 (February – April 2021) to reach R39.07/kg in April 2021. The real farm value share of beef increased by 7.31% during the first quarter and reached 52.63% in April 2021. From April 2020 to April 2021, year-on-year, the real farm value share increased by 11.81%, while the real FTRPS decreased by 11.82%.
- ***Lamb:*** The real FTRPS of class A2/A3 lamb decreased by 5.31% from February to April 2021 to reach R80.77/kg in April 2021. The real farm value share increased by 3.55%, on average, from February to April 2021 to reach 46.53% in April 2021.
- ***Pork:*** The real FTRPS of pork increased by 8.09% from R58.57/kg in February 2021 to R63.31/kg in April 2021. The real farm value share decreased by 9.49%, on average from February to April 2021, to reach 28.61% in April 2021. From April 2020 to April 2021, year-on-year, the real FTRPS and the real farm value share increased by 11.12% and 15.06%, respectively.
- ***Milk:*** The real FTRPS for full cream milk decreased by 5.76% from R8.50/ℓ to R8.01/ℓ, during the first quarter (February – April 2021). The real farm value share increased, on average by 6.45%, during the first quarter. From April 2020 to April 2021, year-on-year, the real farm value share increased by 24.34%, while the real FTRPS decreased by 18.05%.
- ***Maize:*** The real farm value share of super maize meal (5kg) decreased by 4.71% from 57.19% in February 2021 to 54.49% in April 2021. While, the real FTRPS of super maize meal (converted to a price per ton) increased by 2.58% from R3 276.46/ton in February 2021 to R3 360.92/ton in April 2021. From April 2020 to April 2021, year-on-year, the real farm value share increased by 22.71%, while the real FTRPS decreased by 17.41%.
- ***Wheat:*** In April 2021, the real FTRPS for white bread (converted to a price per ton) reached R22 176.51/ton of flour, with brown bread reaching R22 427.49/ton of flour. The real farm value share for white and brown bread reached 17.44% and 16.39%, respectively. From April 2020 to April 2021, real FTRPS for white decreased by 0.62% and brown bread increased by 1.81%. During the same period, real farm value share for the white bread increased by 4.54%, while the brown bread increased by 2.49%.

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 first quarter of 2021 (February – April 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. For more detail on the methodology please read here.

Price Trends, Farm Values and Price Spreads

- ***Poultry:*** During the first quarter of 2021 (January – April 2021), the real farm value share of fresh whole chicken decreased by 8.79%. During the same period, the real FTRPS of fresh whole chicken increased on average by 23.01%. The real farm value share of fresh whole chicken reached 43.28% in April 2021. The South African poultry industry was struggling to stay afloat due to "abnormally" high grain prices as a result of the drought in the US combined with China buying up global grain stocks. From April 2020 to April 2021, year-on-year, real FTRPS increased by 17.82%, while the real farm value share decreased by 9.82%, respectively. See **Figure 1** below.

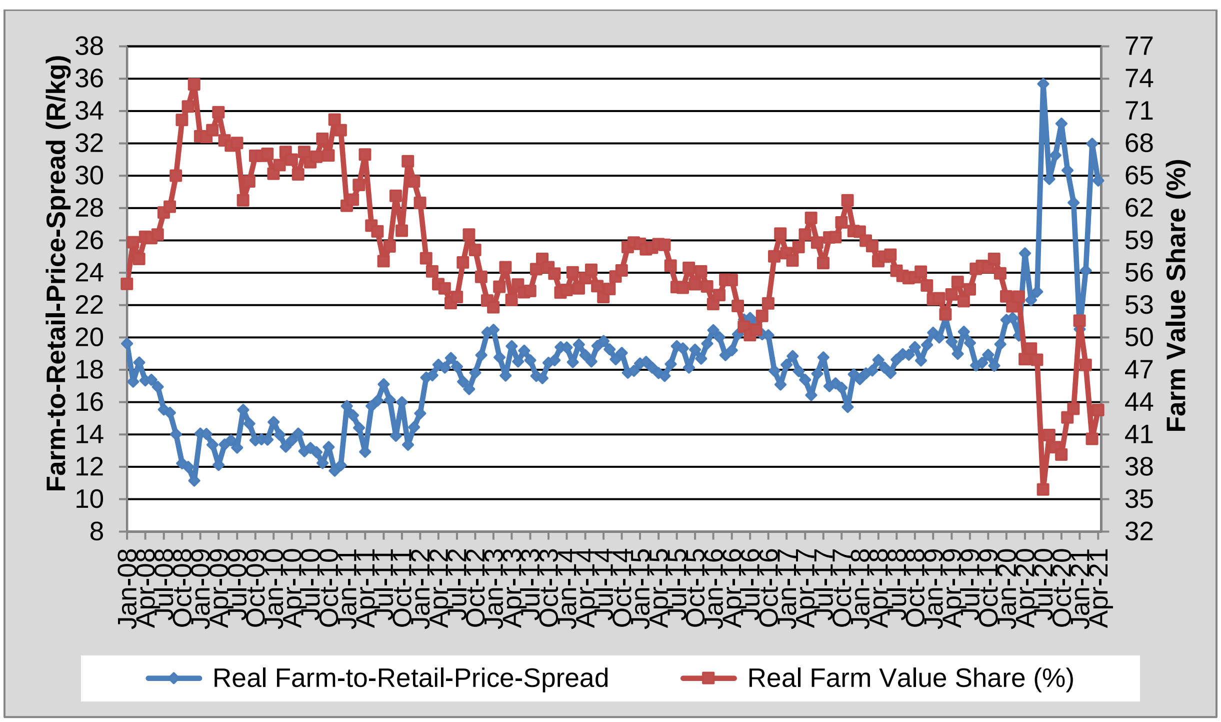

Figure 1: Real farm-to-retail-price-spread and farm value share of poultry
Source: Stats SA, 2021; AMT, 2021 and own calculations

- ***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 farm value share of beef increased by 7.31% during the first quarter (February – April 2021) and reached 52.63% in April 2021.The real FTRPS of class A2/A3 beef decreased by 10.88% during the first quarter of 2021 to reach R39.07/kg in April 2021. Factors that are influence FTRPS are the shifts in retail demand, the shifts in farm commodity supply and the changes in the supply of production input. From April 2020 to April 2021, year-on-year, the real farm value share increased by 11.81%, while the real FTRPS decreased by 11.82%. See **Figure 2** below.

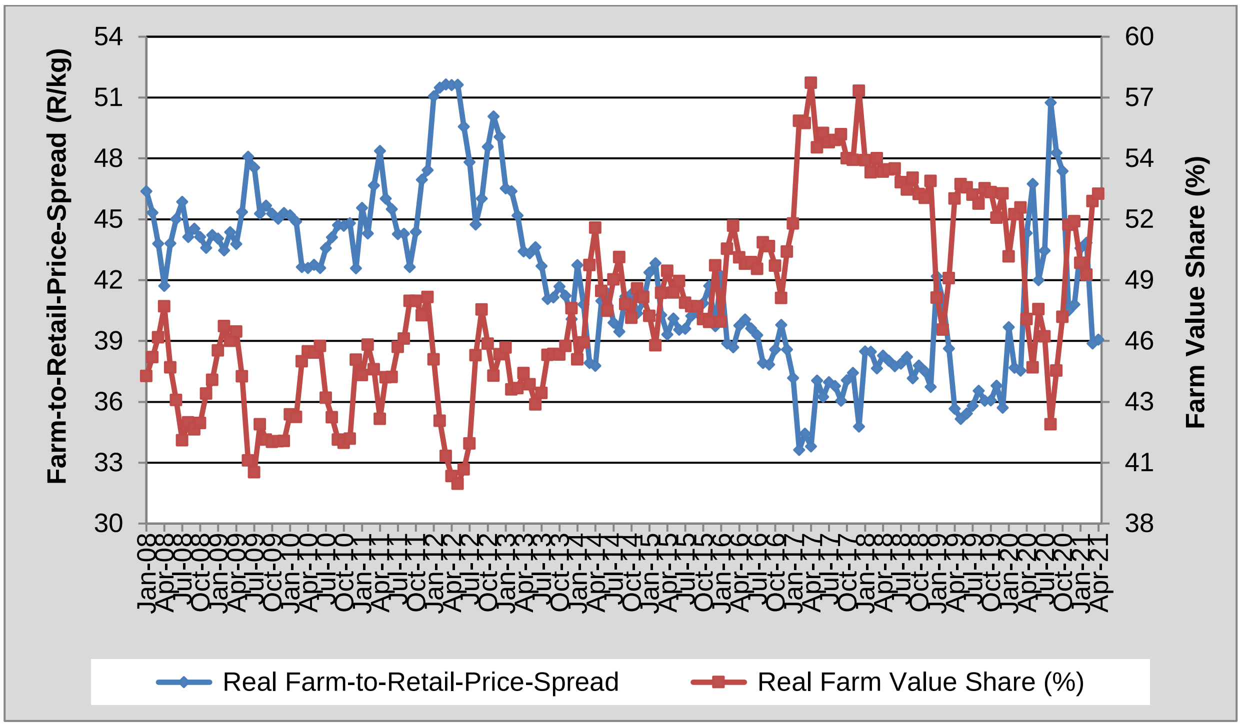

Figure 2: Real farm-to-retail-price-spread and farm value share for beef
Source: Stats SA, 2021 AMT, 2021 and own calculations

- ***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 farm value share increased by 3.55%, on average, from February to April 2021 to reach 46.53% in April 2021. The real FTRPS of class A2/A3 lamb decreased by 5.31% from February to April 2021 to reach R80.77/kg in April 2021. See **Figure 3** below.

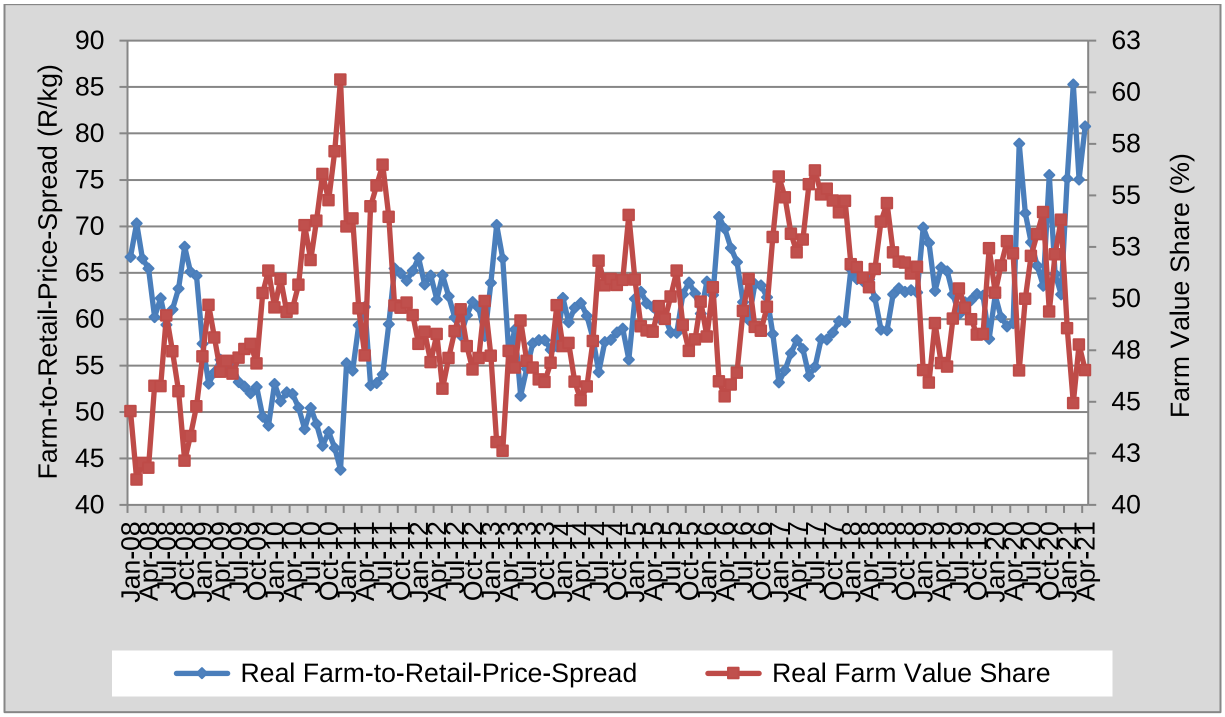

Figure 3: Real farm-to-retail-price-spread and farm value share of lamb
Source: Stats SA, 2021; AMT, 2021 and own calculations

- ***Pork:*** *Due to the inclusion of additional of 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 FTRPS of pork increased by 8.09% from R58.57/kg in February 2021 to R63.31/kg in April 2021. The real farm value share decreased by 9.49%, on average from February to April 2021, to reach 28.61% in April 2021. From April 2020 to April 2021, year-on-year, the real FTRPS and the real farm value share increased by 11.12% and 15.06%, respectively. See **Figure 4** below.

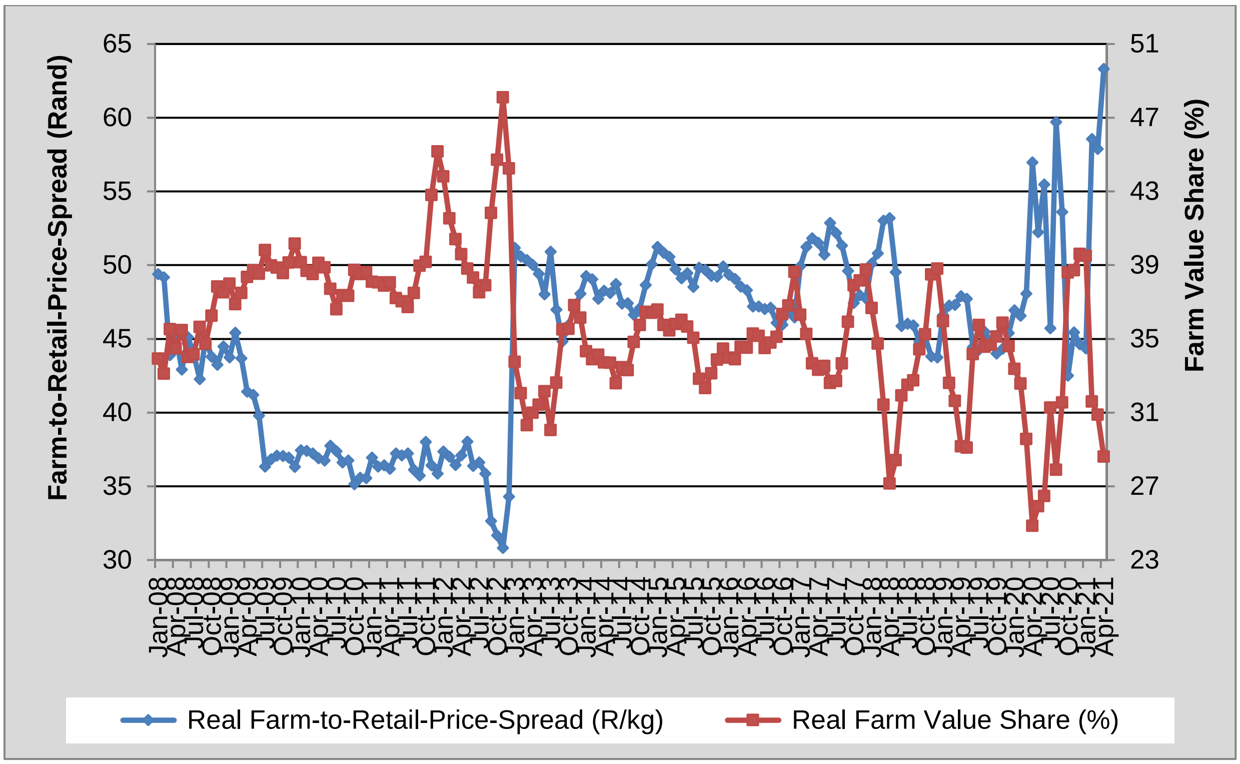

Figure 4: Real farm-to-retail-price-spread and farm value share of pork
Source: Stats SA, 2021; AMT, 2021 and own calculations

- ***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 5.76% from R8.50/ℓ to R8.01/ℓ, during the first quarter (February – April 2021). The real farm value share increased, on average by 6.45%, during the first quarter. From April 2020 to April 2021, year-on-year, the real farm value share increased by 24.34%, while the real FTRPS decreased by 18.05%. See **Figure 5** below.

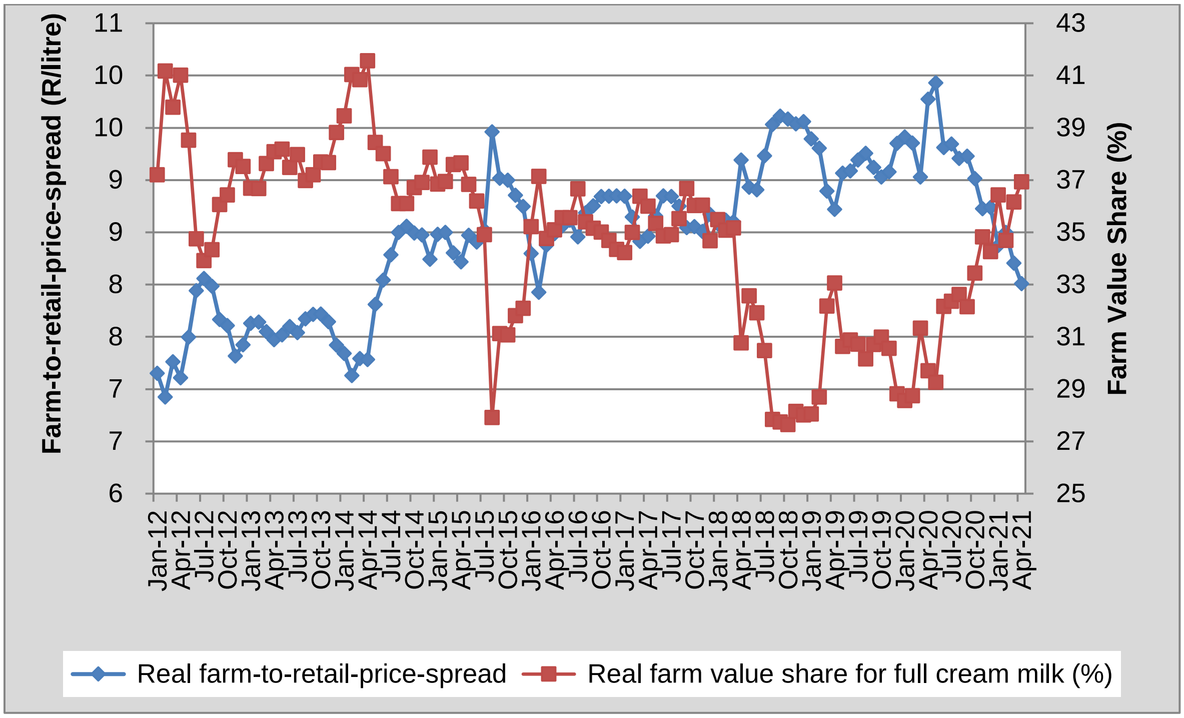

Figure 5: Real farm-to-retail-price-spread and farm value share of milk
Source: Stats SA, 2021; MPO/AMT, 2021 and own calculations

- ***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) decreased by 4.71% from 57.19% in February 2021 to 54.49% in April 2021. While, the real FTRPS of super maize meal (converted to a price per ton) increased by 2.58% from R3 276.46/ton in February 2021 to R3 360.92/ton in April 2021. From April 2020 to April 2021, year-on-year, the real farm value share increased by 22.71%, while the real FTRPS decreased by 17.41%. 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.

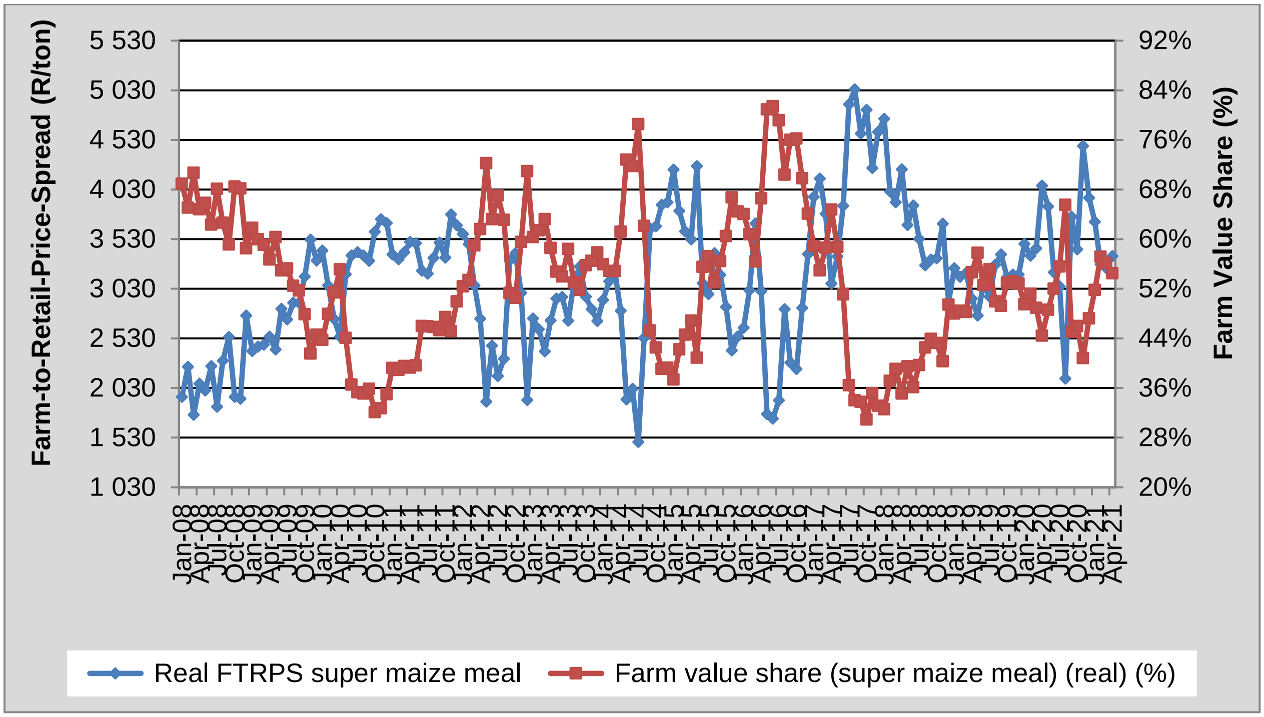

Figure 6: Real farm-to-retail-price-spread and farm value share of super maize meal 5kg
Source: Stats SA, 2021 and own calculations

- ***Wheat:*** In April 2021, the real FTRPS for white bread (converted to a price per ton) reached R22 176.51/ton of flour, with brown bread reaching R22 427.49/ton of flour. The real farm value share for white and brown bread reached 17.44% and 16.39%, respectively. From April 2020 to April 2021, real FTRPS for white decreased by 0.62% and brown bread increased by 1.81%. During the same period, real farm value share for the white bread increased by 4.54%, while the brown bread increased by 2.49%. South Africa is a 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 against the US Dollar as well as the fluctuations in transport costs and to a lesser extent by changes in local production. See **Figure 7** below.

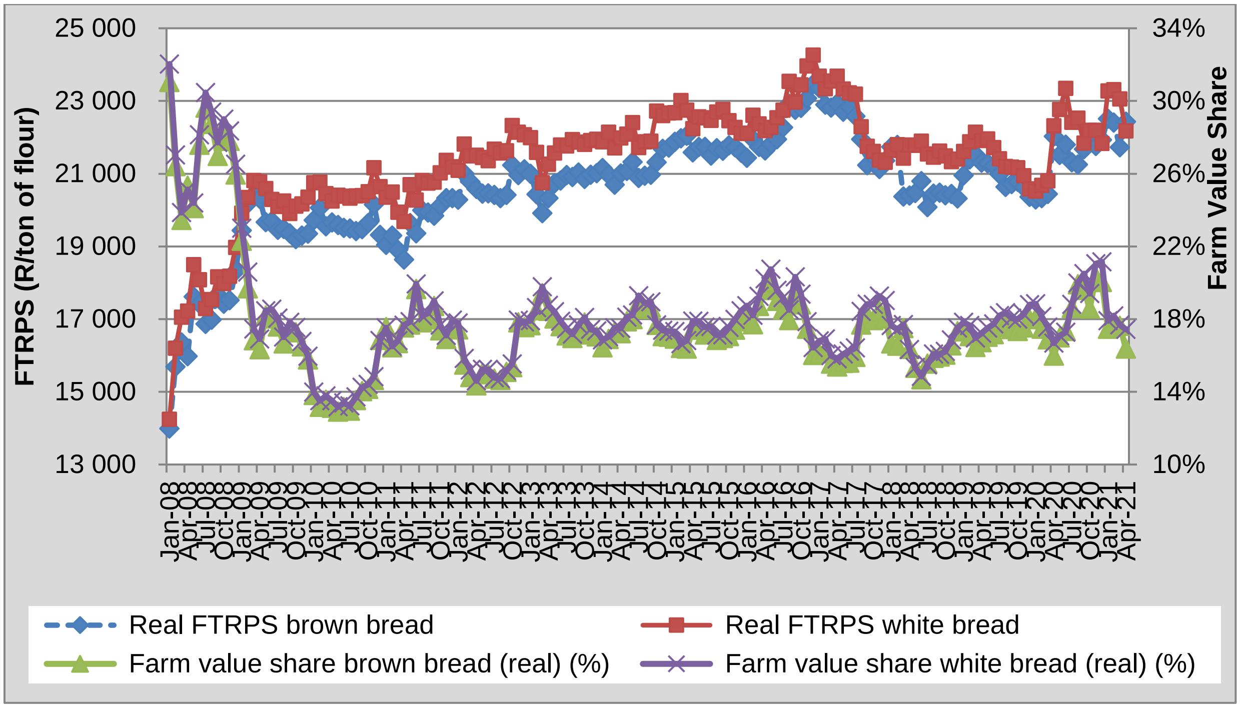

Figure 7: Real farm-to-retail-price-spread and farm value share of wheat

Source: Stats SA, 2021 and own calculations

Conclusion

The report, in light of the above, attempted to define the different farm values and farm-to-retail price spreads of selected commodities. 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 the fluctuation between FTRPS and farm value since February and April 2021. This could be driven by several factors such as openness of international trade, level of competition in the food supply chain, increased levels of food processing, among others.

Compiled by:

<u>Price trends and discussion on selected topics:</u>
Fezeka Matebeni
Corné Dempers
Dr Christo Joubert
Dr Ndiadivha Tempia

<u>Enquiries:</u> Dr Christo Joubert: christo@namc.co.za

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