

FARM-TO-RETAIL-PRICE-SPREAD

August 2023 Issue

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EXECUTIVE SUMMARY

The farm value share is the value of the farm product's equivalent to 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 period between May 2023 and July 2023, the real farm value share increased by 9.44%, while the real FTRPS of fresh whole chicken decreased by 18.63%. The real farm value share of fresh whole chicken reached 56.12% in July 2023. From July 2022 to July 2023, year-on-year, the real farm value share decreased by 1.47%, while the real FTRPS increased by 6.83%.
- **Beef:** During the period between May 2023 and July 2023, the real FTRPS of class A2/A3 beef and the real farm value share of beef decreased by 3.02% and 1.45%, respectively. The real farm value share reached 46.76% in July 2023. From July 2022 to July 2023, year-on-year, the real FTRPS increased by 9.39%, while the real farm value share decreased by 14.11%.
- **Lamb:** The real FTRPS of class A2/A3 lamb decreased by 3.38% (from 78.63/kg to R75.97/kg), while the real farm value share increased by 4.12% (from 49.61% to 51.66%), during the period between May 2023 and July 2023. From July 2022 to July 2023, year-on-year, the real farm value share decreased by 13.76%, while the real FTRPS increased by 14.53%.
- **Pork:** The real FTRPS decreased by 21.10%, on average from R65.99/kg in May 2023 to R52.06/kg in July 2023, while the real farm value share of pork increased by 16.52%, from 29.58% to 34.47%, during the same period. From July 2022 to July 2023, year-on-year, the real FTRPS decreased by 5.88%, while the real farm value share increased by 7.52%.
- **Milk:** The real FTRPS for full cream milk increased on average from R10.37/ℓ to R10.92/ℓ representing a 5.31% increase during the period between May and July 2023. The real farm value share decreased by 3.99% during the same period. From July 2022 to July 2023, year-on-year, the real FTRPS increased by 12.43%, while the real farm value share decreased by 5.10%.
- **Maize:** The real farm value share of maize meal (5kg) decreased by 12.25% from 56.77% in May 2023 to 49.81% in July 2023. While the real FTRPS of a maize meal (converted to a price per ton) increased from R4 757.24/ton in May 2023 to R5 414.61/ton in July 2023, representing a 13.82% increase. From July 2022 to July 2023, year-on-year, the farm value share decreased by 9.56%, while the real FTRPS increased by 20.63%.
- **Wheat:** In July 2023, the real FTRPS for white bread (converted to a price per ton) reached R29 132.93/ton of flour, with brown bread reaching R28 653.64/ton of flour, whilst the real farm value share for white and brown bread reached 19.45% and 18.72%, respectively. From July 2022 to July 2023 real FTRPS for white and brown bread increased by 3.78% and 6.85%, 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. This publication attempts to provide insights into the factors driving commodity and food price margins. The purpose of this publication is to reflect on food price spreads during the period between May 2023 and July 2023. The NAMC compares prices paid by consumers for food with prices received by farmers for corresponding commodities, analyses data sets and reports the 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 a consumer pays for selected food items is a topic that is frequently debated. 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:** Figure 1 shows that during the period between May 2023 and July 2023, the real farm value share increased by 9.44%, while the real FTRPS of fresh whole chicken decreased by 18.63%. The real farm value share of fresh whole chicken reached 56.12% in July 2023. From July 2022 to July 2023, year-on-year, the real farm value share decreased by 1.47%, while the real FTRPS increased by 6.83%. This could be due to the competitiveness of the poultry value chain being affected by factors such as imports and high feed prices, amongst other factors.

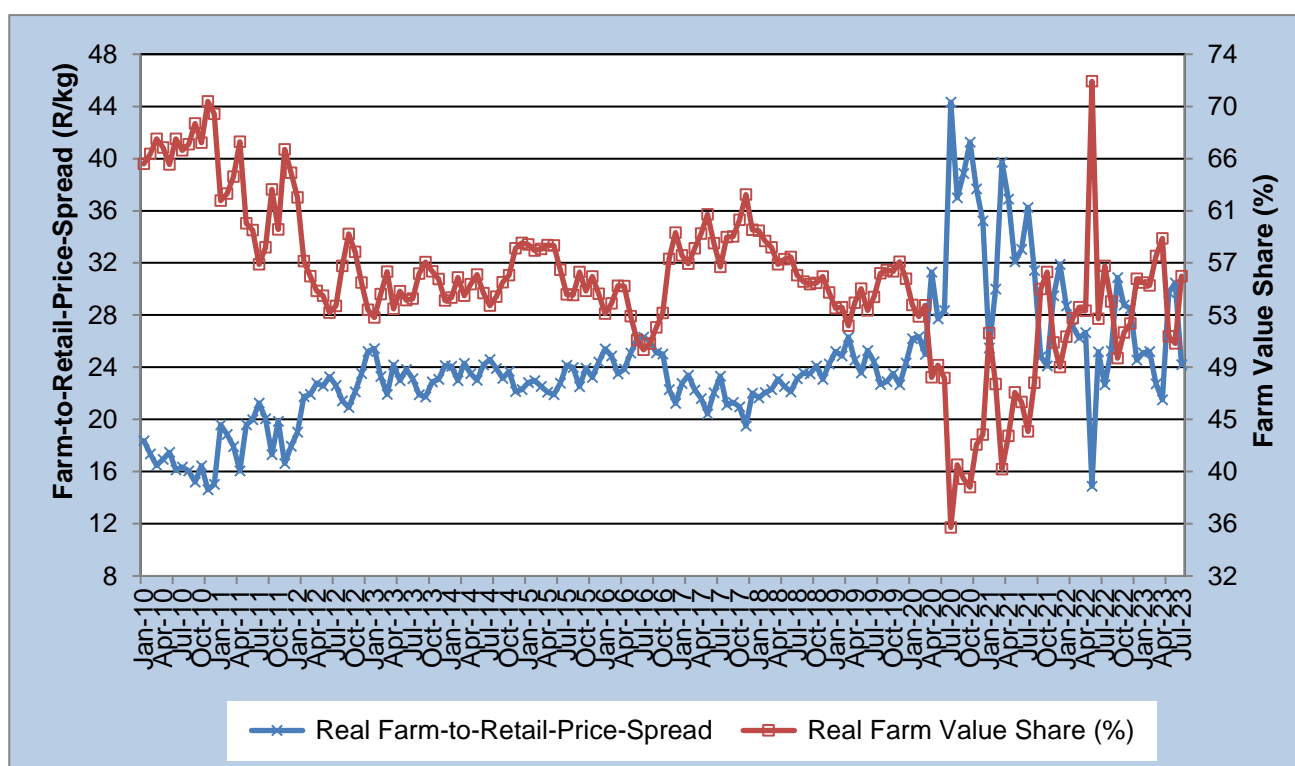


Figure 1: Real farm-to-retail-price-spread and farm value share of whole chicken

Source: Stats SA, 2023; AMT, 2023 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 therefore includes additional cuts, i.e., sirloin, stew, and fillet, in the calculation of the spread from January 2017 onwards, but excludes beef offal in the calculation of the spread.

Figure 2 shows that during the period between May 2023 and July 2023, the real FTRPS of class A2/A3 beef and the real farm value share of beef decreased by 3.02% and 1.45%, respectively. The real farm value share reached 46.76% in July 2023. From July 2022 to July 2023, year-on-year, the real FTRPS increased by 9.39%, while the real farm value share decreased by 14.11%. The gap between FTRPS and farm value share can be attributed to the lingering effects of the Foot and Mouth Disease (FMD) that disrupted the production of red meat locally, changes in retail demand and farm commodity supply.

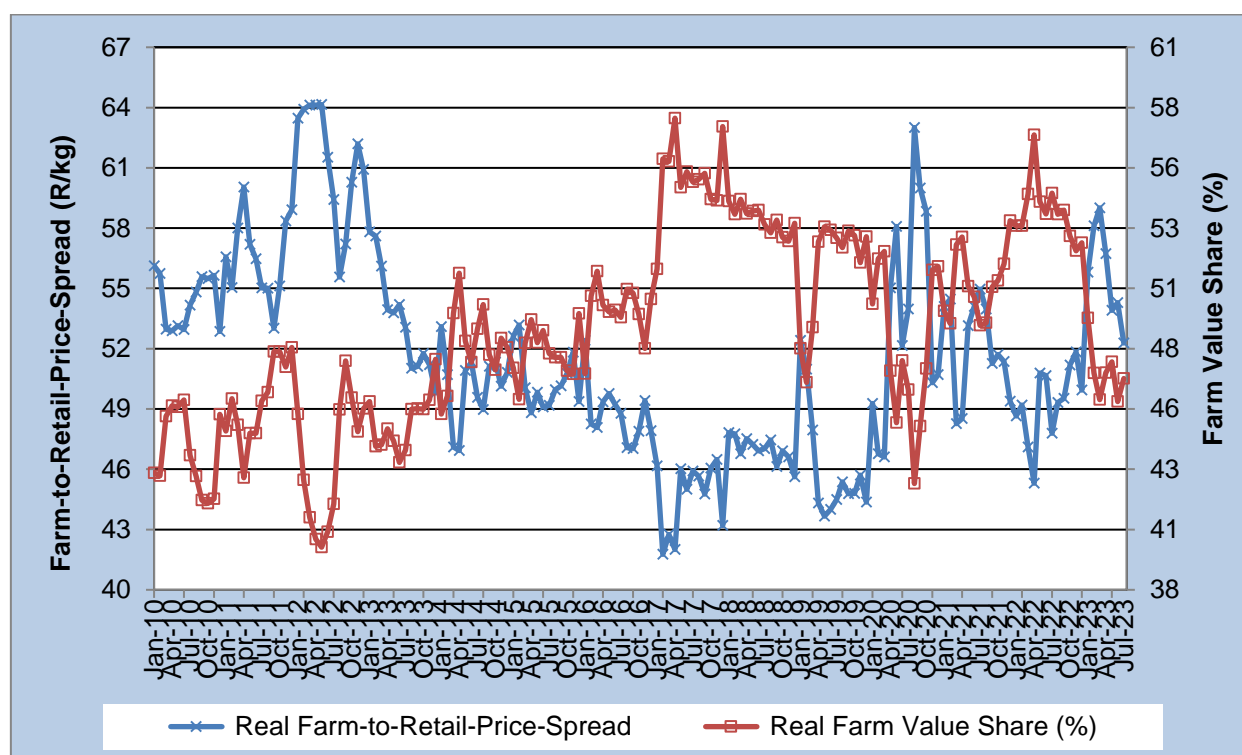


Figure 2: Real farm-to-retail-price-spread and farm value share for beef

Source: Stats SA, 2023; AMT, 2023 and own calculations

- **Lamb:** Due to the inclusion of additional products (lamb stew and offal) in the new CPI basket from January 2017, annual comparisons are possible for lamb retail prices. The new FTRPS of lamb therefore includes leg, loin chops (saddle chops), neck, rib chops and stew, but excludes lamb offal in the calculation of the spread.
- **Figure 3** shows that the real FTRPS of class A2/A3 lamb decreased by 3.38% (from R78.63/kg to R75.97/kg), while the real farm value share increased by 4.12% (from 49.61% to 51.66%), during the period between May 2023 and July 2023. From July 2022 to July 2023, year-on-year, the real farm value share decreased by 13.76%, while the real FTRPS increased by 14.53%.

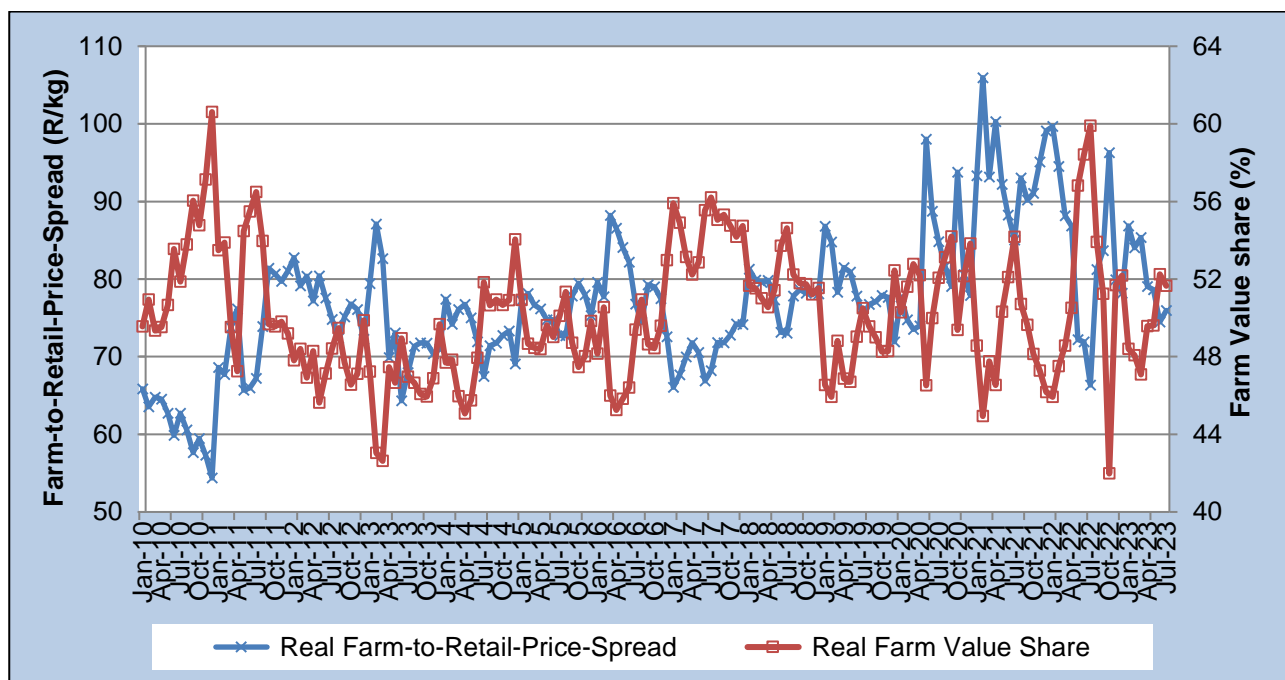


Figure 3: Real farm-to-retail-price-spread and farm value share of lamb

Source: Stats SA, 2023; AMT, 2023 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 therefore includes the pork ribs effective January 2013.

Figure 4 shows that real FTRPS on average decreased by 21.10%, from R65.99/kg in May 2023 to R52.06/kg in July 2023. While the real farm value share of pork increased by 16.52% from 29.58% in May 2023 to 34.47% in July 2023. From July 2022 to July 2023, year-on-year, the real FTRPS decreased by 5.88% (from R55.31/kg to R52.06/kg), while the real farm value share increased by 7.52% (from 32.06% to 34.47%).

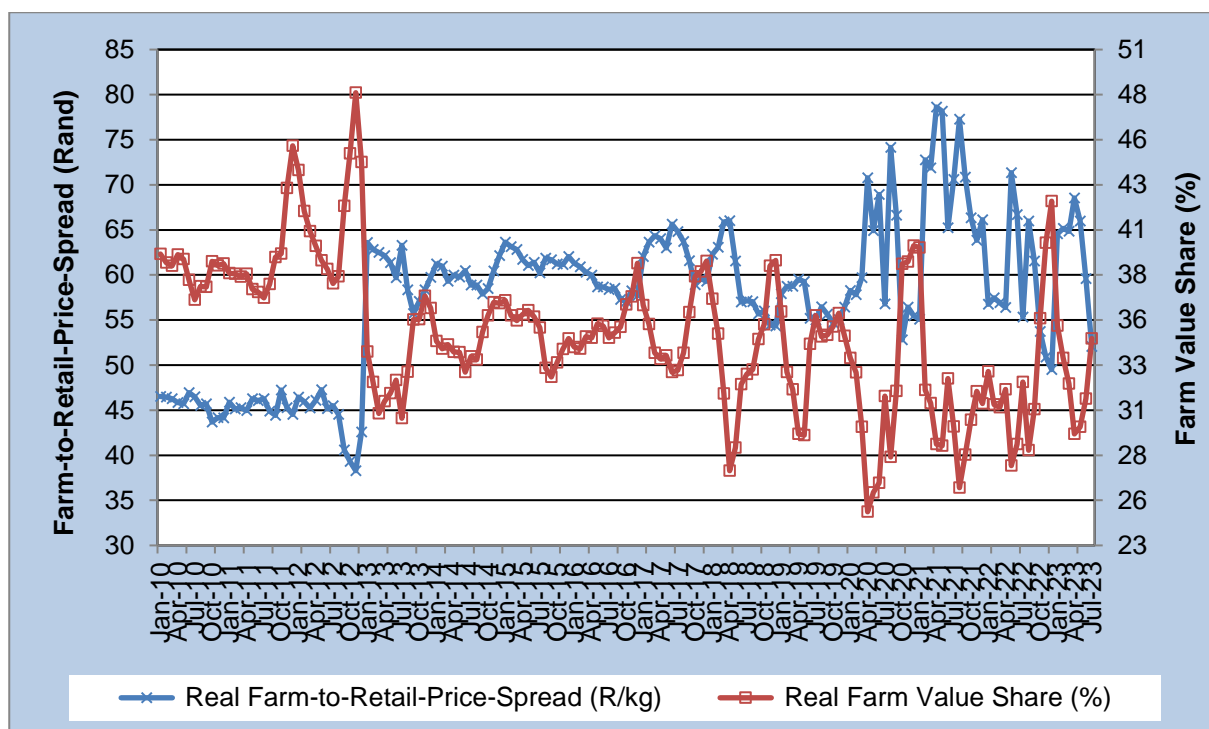


Figure 4: Real farm-to-retail-price-spread and farm value share of pork

Source: Stats SA, 2023; AMT, 2023 and own calculations

- Milk:** Milk is an essential food product in consumer's basket. Furthermore, milk is one of the top 10 food expenditure items for low-income households in South Africa. **Figure 5** shows that the real FTRPS for full cream milk increased on average from R10.37/ℓ to R10.92/ℓ, representing a 5.31% increase during the period between May 2023 and July 2023. The real farm value share decreased by 3.99% during the same period. From July 2022 to July 2023, year-on-year, the real FTRPS increased by 12.43%, while the real farm value share decreased by 5.10%.

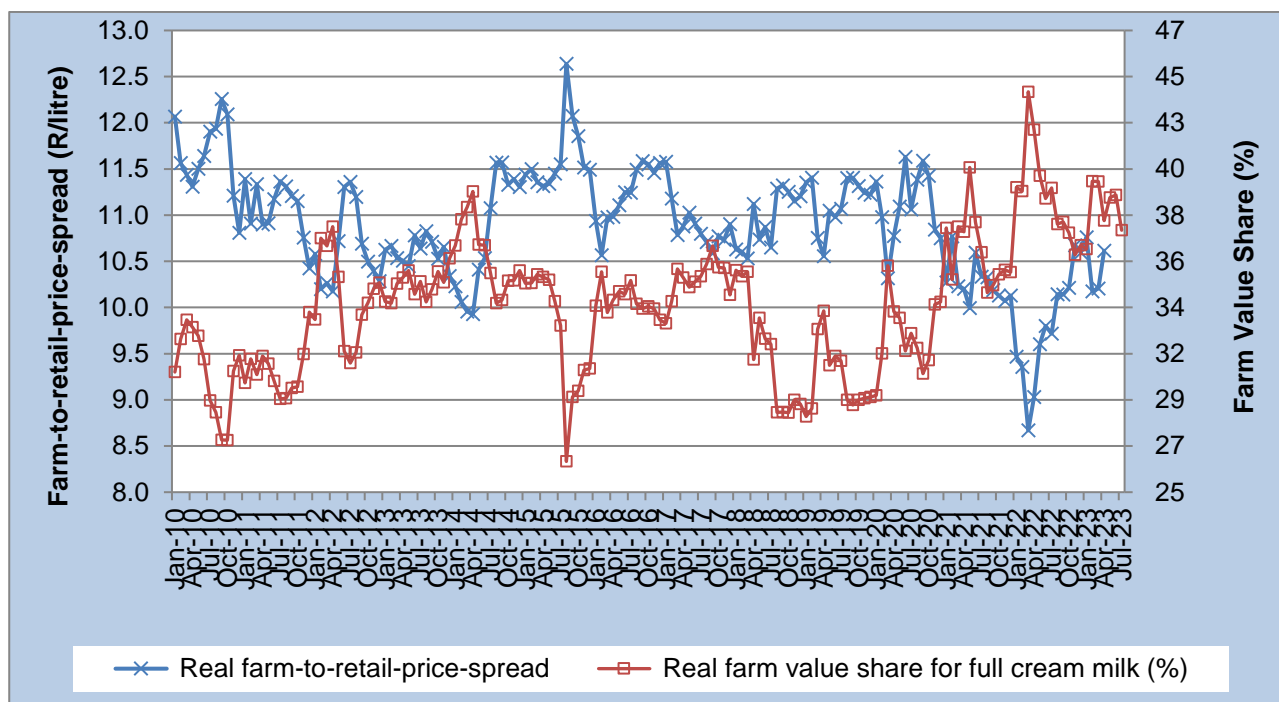


Figure 5: Real farm-to-retail-price-spread and farm value share of milk

Source: Stats SA, 2023; AMT, 2023 and own calculations

- **Maize:** Due to data limitations for the monitoring of an average retail price for special maize meal (5kg) by Statistics South Africa (Stats SA) and thus exclusion from the basket in March 2022, this section will only include the spread for maize meal (5kg).

Figure 6 shows that the real farm value share of maize meal (5kg) decreased by 12.25% from 56.77% in May 2023 to 49.81% in July 2023. While the real FTRPS of maize meal (converted to a price per ton) increased from R4 757.24/ton in May 2023 to R5 414.61/ton in July 2023, representing a 13.82% increase. From July 2022 to July 2023, year-on-year, the farm value share decreased by 9.56%, while the real FTRPS increased by 20.63.

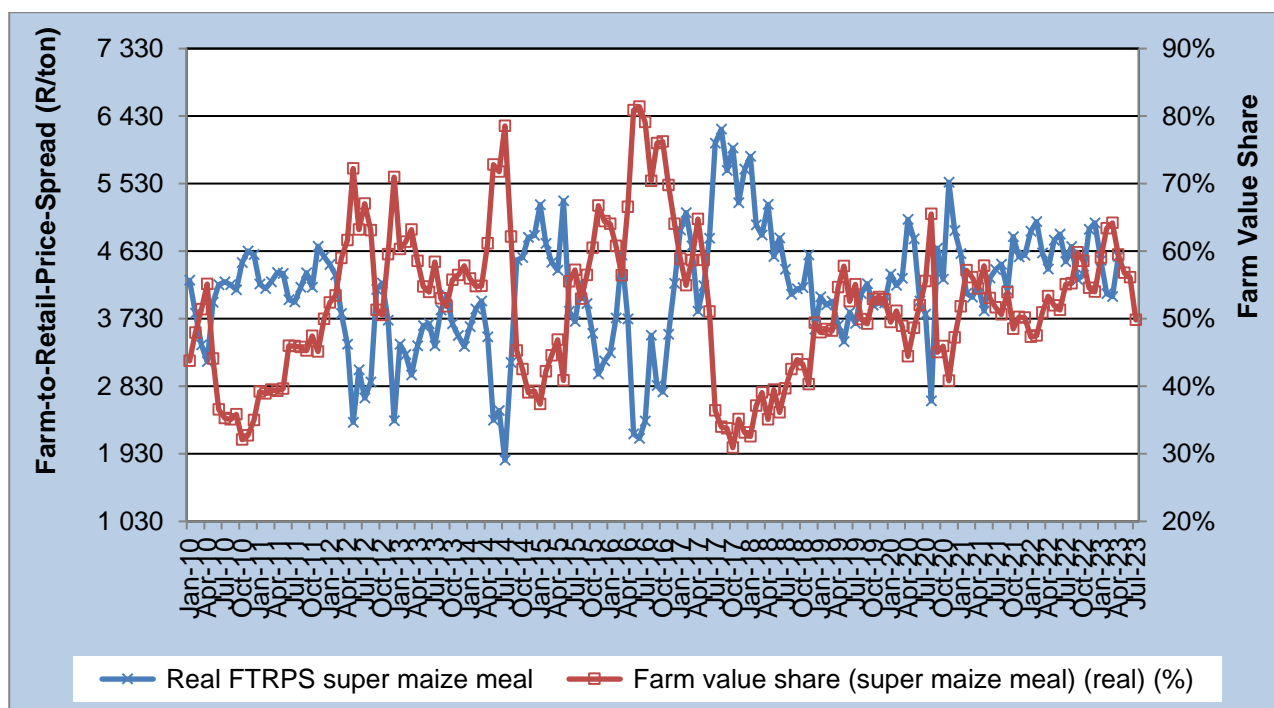


Figure 6: Real farm-to-retail-price-spread and farm value share of maize meal 5kg

Source: Stats SA, 2023 and own calculations

- Wheat:** Figure 7 shows that in July 2023, the real FTRPS for white bread (converted to a price per ton) reached R29 132.93/ton of flour, with brown bread reaching R28 653.64/ton of flour, whilst the real farm value share for white and brown bread reached 19.45% and 18.72%, respectively. From July 2022 to July 2023 real FTRPS for white and brown bread increased by 3.78% and 6.85%, respectively. South Africa is a net importer of wheat in a free-market environment and the local wheat price usually follows the overall trend of the 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 United States (US) Dollar as well as the fluctuations in transport costs and to a lesser extent by changes in local production.

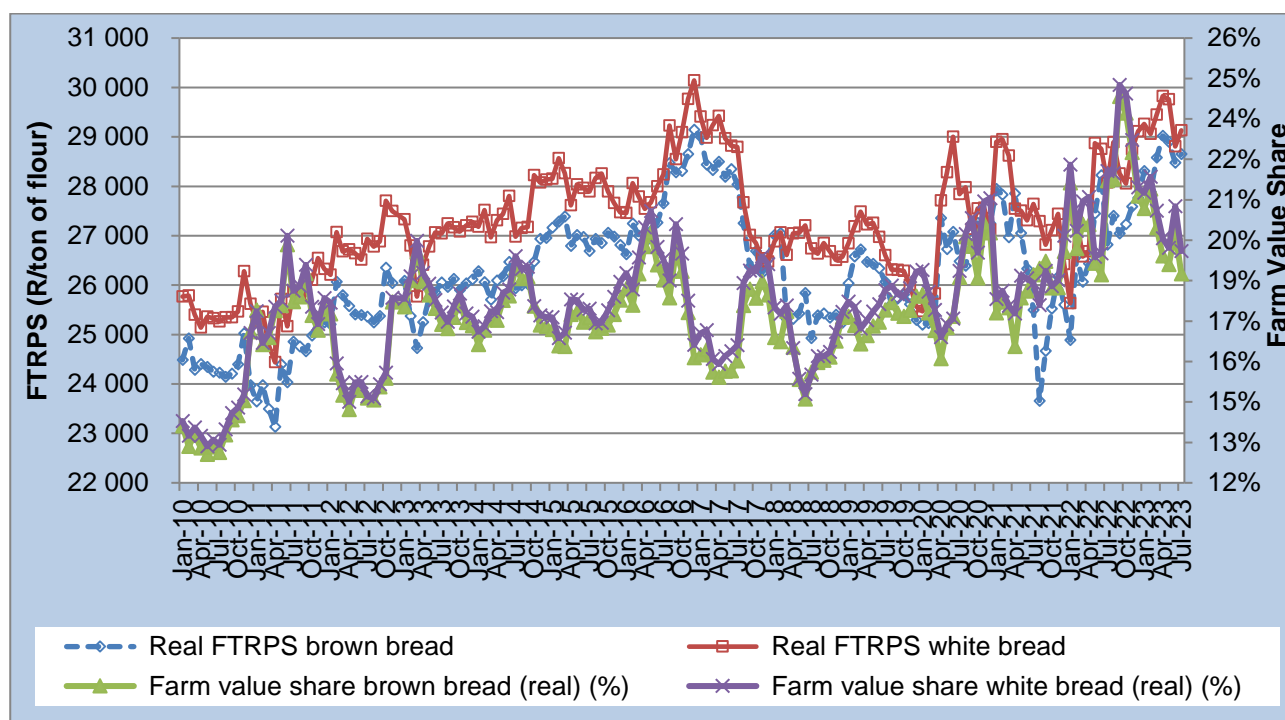


Figure 7: Real farm-to-retail-price-spread and farm value share of wheat and the derived products

Source: Stats SA, 2023 and own calculations

Conclusion

This publication provides highlights of margins (farm values and farm-to-retail price spreads) of selected 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 between May 2023 and July 2023. This could be driven by several factors such as openness of international trade, level of competition in the food supply chain, and increased levels of food processing, among others. Further in-depth study on selected commodities is recommended to provide a better understanding of the factors influencing these fluctuations.

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