



Economic Commentary: Issue No. 13

15 May 2017

Directorate: Statistics & Economic Analysis

Sub-directorate: Economic Analysis

Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

THE IMPLICATION OF INFLATION ON FOOD RETAIL PRICES: A CONSUMER'S PERSPECTIVE.

Retailers may have been cushioning consumers against the worst food price increases in recent months. Analysts believe retail companies have been holding the line against passing on the full effect of food price increases to already stressed consumers. The unprecedented rise in food prices has prompted households to make adjustments on their consumption patterns as real income declines while volatile commodity prices continue to threaten the livelihoods of the poor.

According to the Stats SA community survey (2016), approximately 13,3% (2,2 million) of households in South Africa reported they had skipped a meal during their 2016 survey period. Eastern Cape reported the largest proportion of households with 17,6% of household that skipped a meal, followed by Northern Cape (17,5%) and North West Province (17,4%). Other Provinces which also experienced a greater proportion of households that skipped a meal during the survey period were Free State (15,7%), Kwa-Zulu-Natal (14,8%), Mpumalanga (14,8%), Limpopo (12,9%), and Gauteng (10,8%). The Western Cape had the lowest proportion of households that skipped a meal at 8,4% during the survey period.

FAO's latest Food Price Index (FFPI) averaged nearly 171 points in March 2017, down approximately 5 points (2,8 percent) from February, but still 20 points (13,4 percent) above last year's level. Locally, SA's consumer price inflation of the overall food basket was 8,7% in March, see **figure 1**. Therefore the purpose of this section is to assess the impact of inflation on food price using the consumer price index data for analysis. The Consumer Price Index is in line with most equivalent measures around the world and is based on the total expenditure of all South African consumers.

HEADLINE CPI AND FOOD CPI

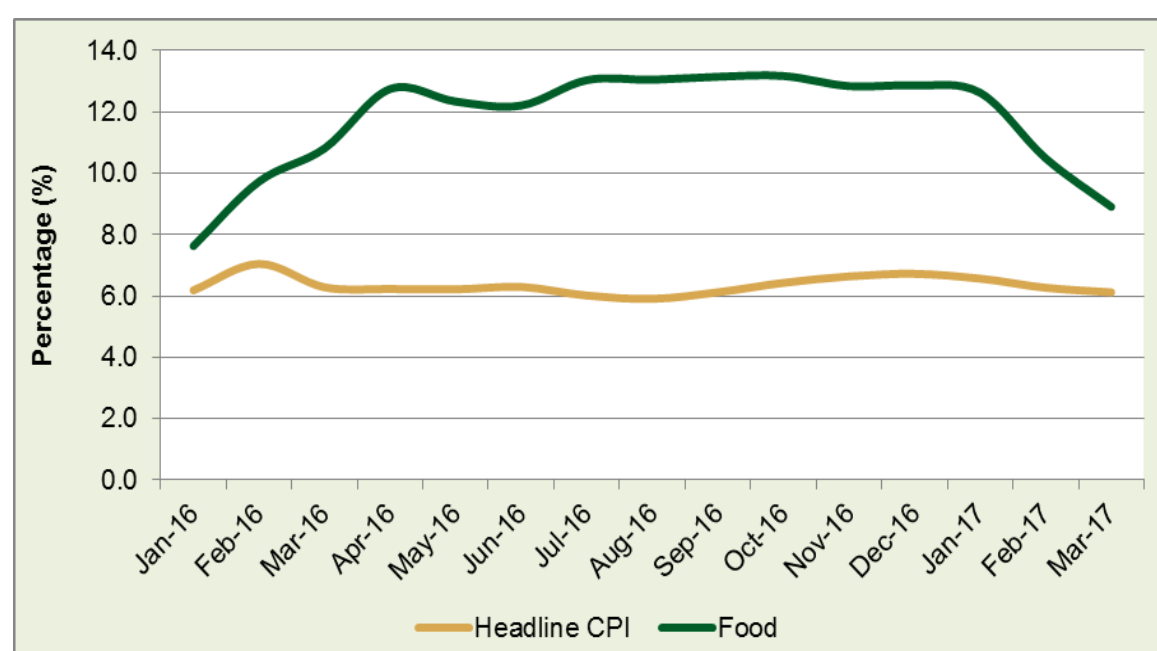


Figure 1: Headline CPI and Food CPI,

Source: Stats SA

Figure 1: On a month-on-month basis, SA's consumer price index for the overall food basket increased by 0,5% in March 2017 while the poor continue to experience greater variability in inflation. Meanwhile, South Africa's labour market is under scrutiny in the face of more than 8 million people unemployed and more than 500 000 matriculates in search for their space in the market. South Africa's credit ratings downgrade will adversely affect agricultural production in the country and potentially food security, with much higher unemployment, poverty and the general degeneration of livelihoods .

Overall inflation and food inflation

The headline Consumer Price Index (CPI) for March 2017 came in at 6,1%, down from 6,3% in February and 6,6% in January 2017. The food price indices came in at 8,7% in March, down from 10,0% in February and 11,8% in January 2017, see **figure 1**. Whilst prices have decreased generally since the beginning of 2017 with weather conditions favourable in most parts of the country, **figure 1** indicates that food inflation tends to be higher than the general price level (CPI) of all items. Consequently, when food prices rise more rapidly than the "official" rate of inflation (which sets wage and social grant increases), this simply implies that consumers will have less disposable income for basic necessities and may be forced into actually purchasing less food.

Meanwhile, on the optimistic side, South Africa is expected to harvest a total maize crop of about 13,9 million tons, which is 78,9% more than the 2016 crop. At these production levels, expectations are that, there will be exportable surpluses, which will pressure prices towards export parity price levels. Furthermore, the animal feeds industry and intensive livestock industries should use this buying opportunity. Lower maize prices are expected to result in declines in feed costs, which should benefit producing companies and as a result, translate into reduced input costs. It is also expected that lower feed costs and higher meat prices will bode well for the feedlot industry in 2017 while excellent production conditions will likely leads to a recovery in the profitability of a number of industries.

REFERENCES :

- Statistics South Africa (Stats SA), (2017): Consumer Price Index (CPI), March 2017: Available at <http://www.statssa.gov.za>
-

FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

For more information contact: Directorate Statistics & Economic Analysis (SEA) Ms Ellen Matsei at Das@daff.gov.za or 0123198454.