agriculture, forestry & fisheries

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Economic Commentary: Issue No.16

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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. Due to the weak economy, businesses are still finding it increasingly difficult to pass any price increases to consumers. Consumers continue to tighten their belts, deferring purchases until sentiment changes, while at the same time running down household debt. 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.

The implication of inflation on food retail prices: A consumer's perspective.

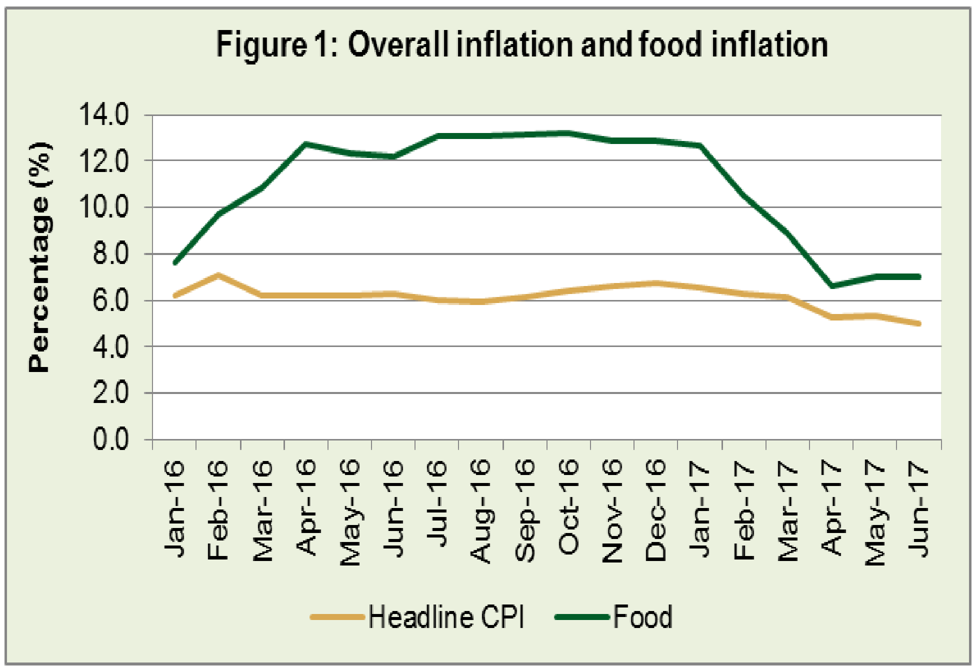
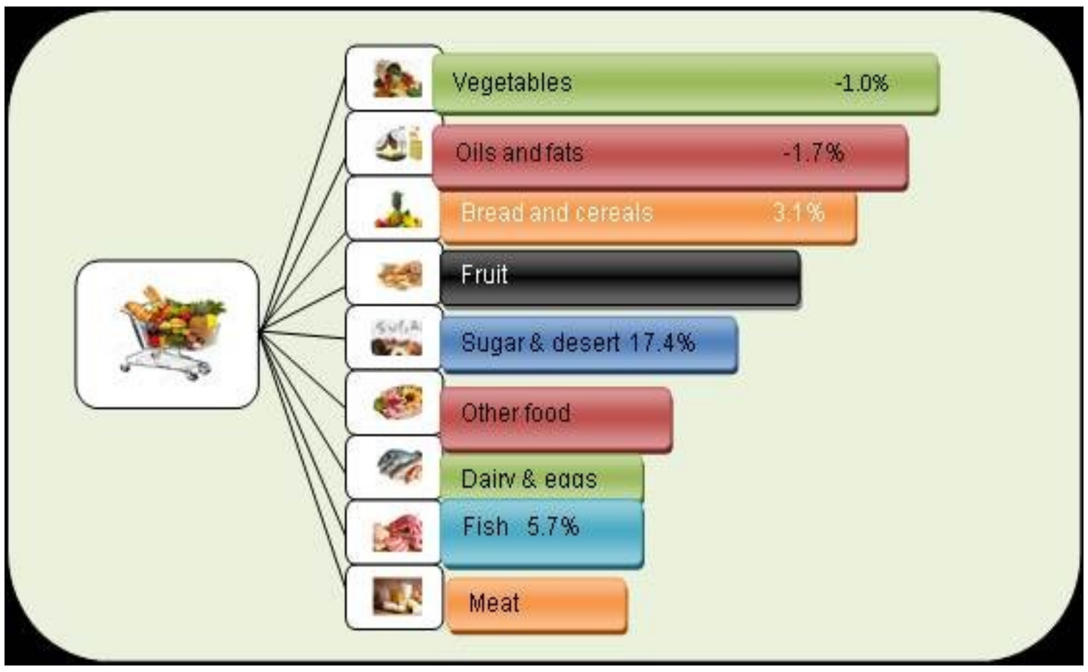


Figure 2: Food price and Consumer Price Index (CPI) trends



The food price inflation rose to 7% year-on-year in May from 6.6% year-on-year in April. The increase in food inflation in June was largely driven by meat, given the ongoing cattle herd restocking process resulting from the recent drought. According to Stats SA, meat price inflation rose to 13% year-on-year in June, from 12.3% year-on-year in May and 10.5% in April 2017. As farmers continue to restock their herds, slaughtering eased which resulted in an increase in meat prices. However, Agbiz believes the normalising beef supply and improving poultry supply signal that meat price inflation will be contained going forward. Meanwhile, MMI Investments and Savings economist expects a further drop in the food price inflation in the coming months. According to MMI Investment, improved weather conditions boded well for bread and cereal prices while the 2017 maize harvest is set to nearly double compared with 2016, consequently this could translate into lower grain prices.

Organization of the Petroleum Exporting Countries (OPEC) and other major producers are expected to cut oil output, tighter measures are expected which will likely push up crude prices and consequently local fuel prices. Nevertheless, despite the tough climate, retailers have been doing their best to continue to cushion the effects of price increase on their customers by improving operational efficiencies, maintaining sources of supply, ensuring that increases from food manufacturers are justified, and by designing pricing promotions that are geared towards helping consumers through difficult times.

The headline Consumer Price Index (CPI) for June 2017 came in at 5.1%, down from 5.4% in May and up from 5.3% in April 2017, see figure 1. Whilst prices have generally decreased since the beginning of 2017 with weather conditions favourable in most parts of the country however, food inflation tends to be higher than the general price level (CPI) of all items. The risk with food prices rising higher than the official rate of inflation simply means retailers have been absorbing some of the costs because of concerns of maintaining their customer base. Passing on of costs in general from retailers to consumers has been the norm however, due to weak consumer demand, the country's retailers have taken advantage of their significant economies of scale to find ways of reducing operational costs to maintain profit margins, yet pass on less inflation than usual to consumers. Furthermore, if consumer's financial standing is weak, the consumer will trade down or switch between retailers should inflation rise too quickly. Given the extent of food price increases and the volatile rand, retailers are forced to pass on slightly more inflation to customers hence consumers will have less disposable income for basic necessities and may be forced into actually purchasing less food. Fuel prices is another factor impacting on consumers disposable income. Brent crude oil has remained volatile over the past several months and declined to approximately $60 a barrel at the end of June 2017. However, with the recent agreements by the Organization of the Petroleum Exporting Countries (OPEC) and other major producers to cut oil output, tighter measures are expected which will likely push up crude prices and consequently local fuel prices.

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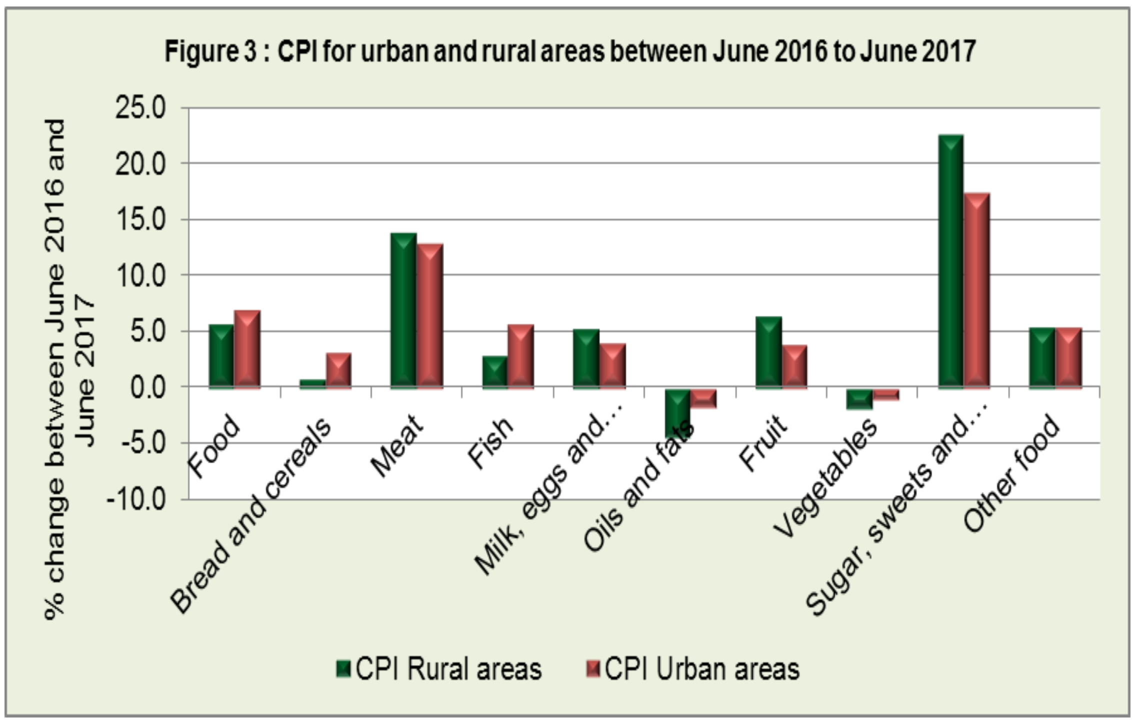
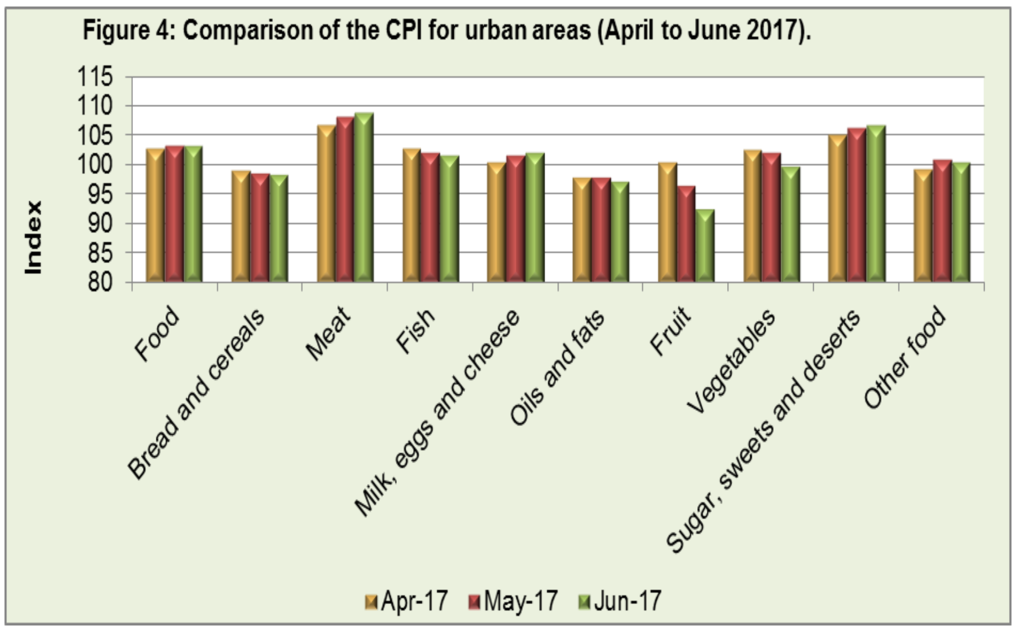
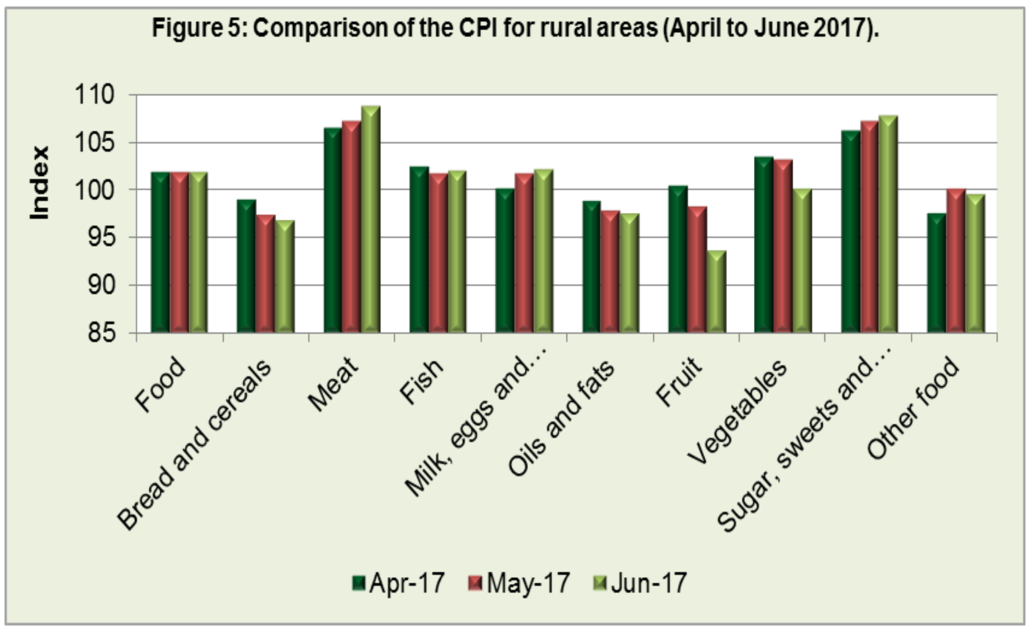
COMPARISON OF THE CPI FOR URBAN AND RURAL AREAS (JUNE 2016 TO JUNE 2017).



A yearly comparison of the overall food basket between June 2016 and June 2017 reveal that consumers in urban areas paid more for some of these food items than their rural counterparts. Prices of food items such as food, bread and cereals, fish and other foods increased by 7.0%, 3.1%, 5.7% and 5.5% respectively year-on-year in June 2017 while oils and fats as well as vegetables decreased marginally compared to their rural counterparts. During the same period, prices of food, bread and cereals, fish and other foods in rural areas increased by 5.7%, 0.8%, 2.9% and 5.4% respectively year-on-year in June 2017 while prices of oils and fats as well as vegetables decreased by 4.4% and 1.9% respectively during the same period, see figure 3.

COMPARISON OF THE CPI FOR URBAN AND RURAL AREAS (APRIL TO JUNE 2017).





Within urban areas, food items that recorded significant price decreased between April and June 2017 were fruit (-7.9%), vegetables (-2.7%) and fish (1.2%). During the same period, food items that recorded marginal yet notable price increased were meat (1.9%), milk, eggs and cheese (1.6%) as well as sugar, sweets and desserts (1.4%), see figure 4.

Within rural areas, food items that recorded notable price increases between April and June 2017 were meat (2.1%), milk, eggs and cheese (2.0%) and other food (1.9%). During the same period, food items that recorded significant price decreases include fruit (-6.7%), vegetables (-3.3%), and bread and cereals (-2.2%), see figure 5.

CONCLUSIVE REMARKS

Based on the analysis, it is evident that that food price inflation slowed between April and June 2017 which comes as good news especially during a period of slow economic growth, high unemployment and political instability. Nevertheless, although it is expected that the overall food price inflation will decelerate further in the coming months, farmers are restocking their cattle herds, which means slaughtering activity could remain depressed, thus leading to a possible increase in beef prices. Furthermore, the recent outbreak of avian influenza in the poultry sector also presents risks.

For the majority of South Africans, a greater share of their income will be needed to acquire the same amount of food products with the poor expected to be affected the most. In the meantime, low income earners will likely have challenges stemming from weak employment creation in 2017 given that a greater portion of their income goes to food.

REFERENCES :

- Statistics South Africa (Stats SA), (2017): Consumer Price Index (CPI), June 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 con-cerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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