

04 September 2023

What to make of the SA government's concerns about higher food prices?

- This past week, the South African government voiced concerns about the higher food prices and instructed the cabinet's economic cluster to implement a food security plan to cushion consumers. We have yet to see the government's strategy and approach. But it is worth highlighting that South Africa's consumer food price inflation has started to decelerate from the high levels of 14,4% we saw in March 2023. In July 2023, consumer food inflation was recorded at 10,0%, from 11,1% in the previous month. The product prices underpinning this deceleration in recent months are primarily bread and cereals; meat; fish; and oils and fats, which are crucial for low-income households.
- Notably, as the cabinet's economic cluster prepares to start its work, it is vital to have a common understanding of the key drivers of food prices in recent years and an appreciation that this is a global challenge, not unique to South Africa. For example, two primary drivers of global food prices existed before the covid-19 pandemic. First, the drought in South America in the 2019/20 season reduced the harvest notably, primarily in Brazil and Argentina. These countries collectively account for 14% and 50% of global maize and soybean production. The drought has spread for roughly three seasons since 2019/20, further exacerbating the grain price increases from 2020 to the end of 2022. Secondly, China's continuous imports of grains and oilseed as the country was rebuilding its pork industry after a devastating African Swine Fever also added to the surge in demand at a period when global stocks were tight. China's growing demand had a consequential impact on global grain prices because of its share size of imports — for example, the country imports about 60% of globally traded soybeans.
- As covid-19 spread in early 2020, several major grain producers, such as India, Kazakhstan and Vietnam, worsened global price increases by temporarily banning exports. As this unfolded, shipping costs soared, increasing global grain prices. In sum, a combination of trade policy actions by other countries, logistics and weather conditions placed upward pressure on food prices.
- These all-important fundamentals challenge food supplies, further worsened by the Russia-Ukraine war. Russia and Ukraine are substantial players in the grains and oilseeds market. The former produces about 10% of global wheat, while Ukraine accounts for 4%. Together, the two countries account for a quarter of global wheat exports. Moreover, Russia and Ukraine are notable players in maize, responsible for 4% of production combined. However, their contribution is even more significant in exports, accounting for an average of 14%. Both countries are also among the leading producers and exporters of sunflower oil. Pre-war, Ukraine's global product exports accounted for 40%, with Russia accounting for 18%. Thus, the war led to a surge in grains and oilseeds prices for much of 2022.

- As a small, open economy, South Africa, interlinked with the world, was not insulated from these agricultural and food price shocks. Admittedly, South Africa was in a reasonably better place, with abundant supplies, as the La Niña weather event brought good rains across the country and supported agricultural activity. Still, the prices did not reflect the increased domestic supplies as the global shocks mainly underpinned them.
- These were the first round of shocks in global food prices. Fortunately, by the end of 2022, as the grain trade resumed in the Black Sea region following the Black Sea Grain Deal initiative that started in July 2022 and allowed for exports of grain from Ukraine without military attacks by Russia, the global agricultural prices came off the record levels seen months after the invasion of Ukraine. The global agricultural prices continued to decline throughout 2023 and remained at reasonably lower levels even with the Black Sea Grain Deal initiative having been terminated by Russia. For example, in July 2023, the Food and Agricultural Organization of the United Nations (FAO) Global Food Price Index was at 126 points, down 12% year-on-year (although having increased by 1% month-on-month). We also see this reality in South Africa at the farm level and, most recently, at the retail level of some products (although not to the same extent).
- The vital consideration one should consider when looking at the FAO's Global Food Price Index is that it mainly measures the monthly change in international prices of a basket of food or agricultural commodities. This means one should assume some lag between these prices and what consumers pay at the retail level.
- Over this period of higher global commodity prices, the food producers and processors had to deal with higher agricultural commodity prices and process such commodities further to produce the food products available at the retail level. The activities between the producer (or importing country) and retailer do not happen without costs. The food value chain first depends on expansive logistical systems and networks, while processing involves labour, energy, packaging and finance costs. Once the food is processed, it must be distributed to retail outlets, bearing these costs. On top of that, we can add inflation-related wage increases and the dramatic costs of load-shedding and crime.
- If food processors and retailers accounted for all these cost increases across the value chain, consumers would face a much sharper price increase. But this was not the case in South Africa. Food prices increased at a moderate pace, having averaged 9,5% in 2022, compared with 6,5% year on year in 2021 and 4,8% in 2020. Countries such as the US, Kenya and Brazil, and those in the EU, saw much higher consumer food price inflation rates than South Africa.
- This meant food processors and retailers, if anything, absorbed the costs and didn't pass them entirely on to the consumer. Their strategy is understandable, considering this country's economic environment and unemployment.
- These are all fundamental realities that need to be appreciated as the cabinet looks into the food price issues in South Africa. Importantly, any policy response should be on the consumer side. From the producer or retailer perspective, the cost burden of delivering food to the consumer is evident, as outlined in this note. Notably, the pressures of elevated food prices are now softening, and we expect the moderation seen in July 2023 to continue in the coming months.

Exhibit I: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research

WEEKLY HIGHLIGHT

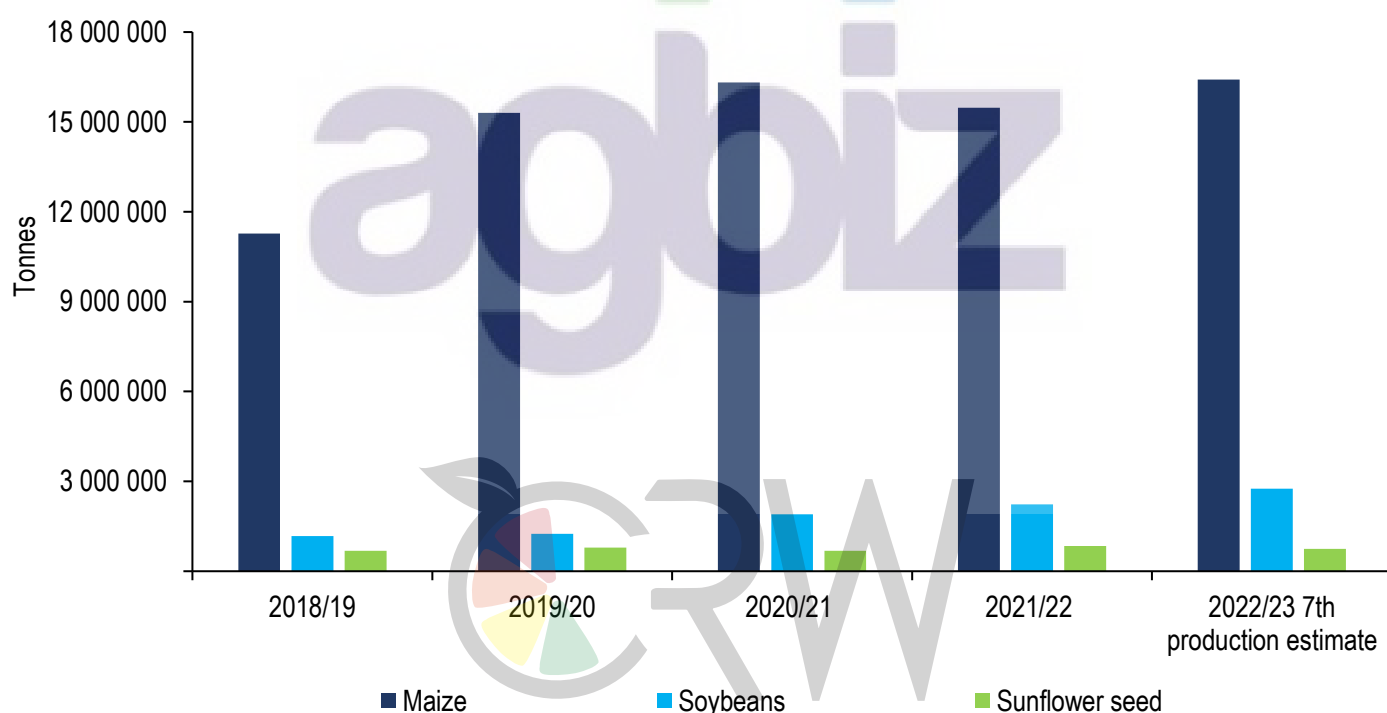
South Africa has a robust summer and winter crop harvest

- The data released this past week by South Africa's Crop Estimates Committee (CEC) paints a positive picture of the 2022/23 summer crop season and the 2023/24 winter crop season. Regarding the summer crops, we have the seventh 2022/23 summer crop production estimates, and these data are unlikely to change in the following three updates for the season.
- If we focus on a few major summer crops, the CEC forecasts South Africa's 2022/23 maize crop estimate at 16,4 million tonnes, up mildly from last month (up 0,3% m/m). This crop is 6% more than the 2021/22 season and the second-largest harvest on record. The expected ample harvest is primarily on the back of large yields, as the area planted is slightly down from the 2021/22 season. A crop of 16,4 million tonnes implies South Africa will have sufficient supplies to meet domestic maize needs of roughly 11,4 million tonnes and have over 3,2 million tonnes for export markets in the 2023/24 marketing year (this marketing year corresponds with the 2022/23 production season).
- Moreover, the soybeans harvest was unchanged from July's record estimate of 2,8 million tonnes (up 24% y/y). The annual crop improvement is due to an expansion in the area planted and higher yields. The ample soybeans harvest means South Africa could meet its domestic demand and remain with about 350 000 tonnes of soybeans for export markets. The sunflower seed production estimate was lowered by 2% from July estimates to 743 610 tonnes (down 12% y/y). The general decline in the sunflower seed production forecast mirrors the reduced planted area in some areas.

Winter crops

- We received the first production estimates for winter crops, with the 2023/24 wheat production at 2,1 million tonnes (up 2% y/y). This is primarily due to an expected large harvest in the Western Cape and Limpopo. With a wheat harvest of this size, South Africa will likely need to import about 1.5 million tonnes of wheat to meet domestic consumption in the 2023/24 season (down from 1.6 million tonnes in the previous season).
- Moreover, the 2023/24 barley production is estimated at 380 020 tonnes (up 26% y/y). This will be the largest crop in four years and will mainly be supported by an expansion in the area planted and the anticipated better yields. The 2023/24 canola crop is estimated at a record 243 950 tonnes (up 16% y/y), also on the back of increased plantings and expected better yields.
- Overall, the winter crop is in good condition, and we will keep a close eye on weather conditions in the coming months. Regarding the summer crop, the focus will soon shift to the new 2023/24 production season that starts in October. The current season is towards completion.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

WEEK AHEAD

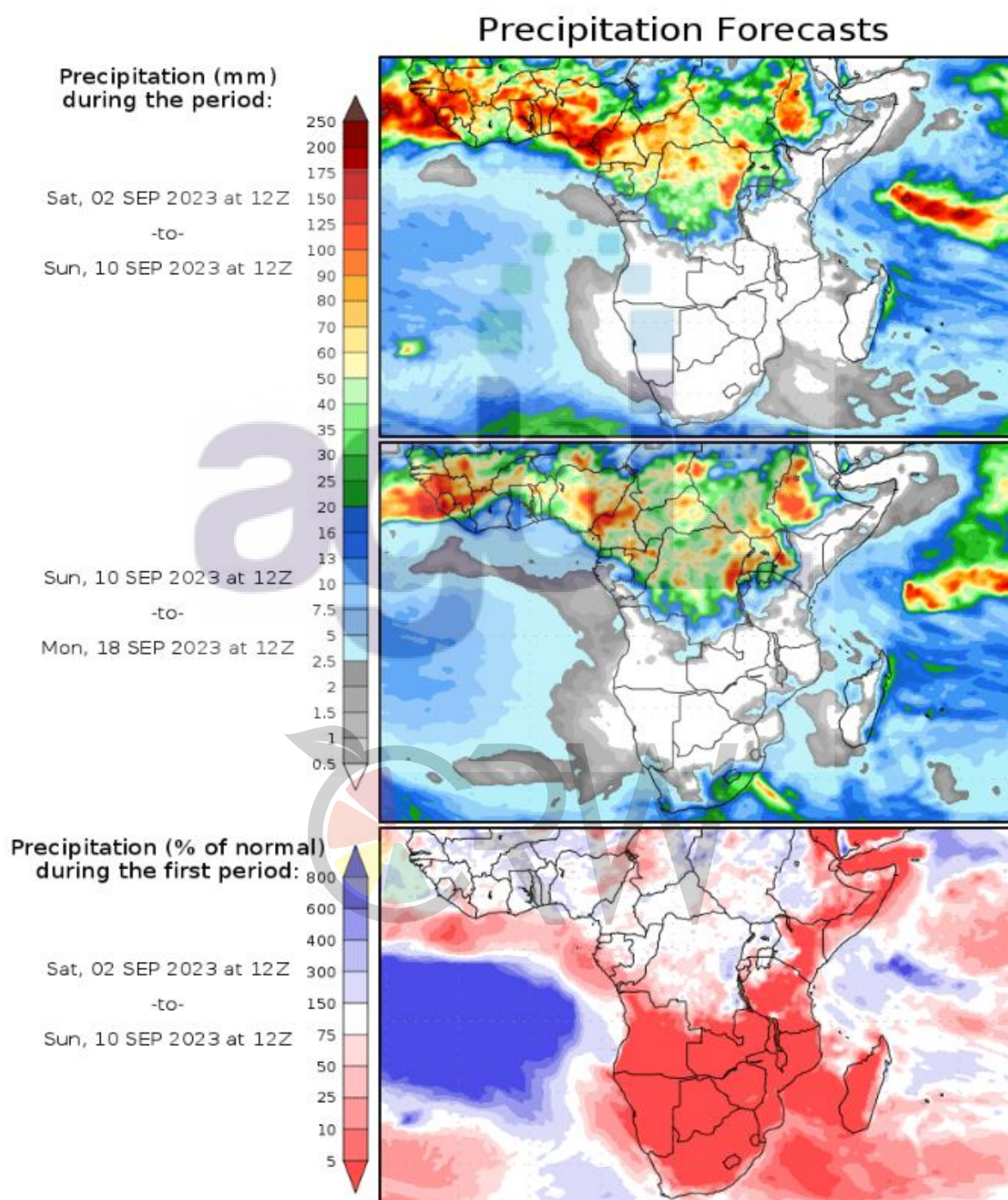
What we are watching this week

- We start the week with a global focus, and on Tuesday, the USDA will release its weekly update of the **US Crop Progress Report**. The US crop growing conditions have improved somewhat from excessive heat. On 27 August, about 56% of the planted maize crop was rated good/excellent, slightly above 54% in the same week in 2022. In addition, about 58% of the soybean crop was rated good/excellent, also slightly above the 57% rating in the same week in August 2022. The USDA will release its weekly US Grains and Oilseeds Exports data on Friday.
- On the domestic front, Statistics South Africa will release **Gross Domestic Product (GDP)** data for the second quarter of 2023 on Tuesday. Our focus on this data will be on the agricultural sector. We expect a recovery in agriculture gross value added after a sharp contraction of -12,3% quarter-on-quarter (seasonally adjusted).
- There are a few elements that explain the first quarter's sharp contraction. First, the field crops had a tough start to the season because of excessive rains, which disrupted and delayed plantings by over a month in some areas. Second, the cattle industry still feels the adverse effects of foot and mouth disease, leading to a decline in slaughtering activity. We saw similar issues of animal disease challenges in the pork industry. Lastly, one can not underestimate the impact of load-shedding disruptions on poultry production.
- On Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for 01 September 2023. In the previous release on 25 August, South Africa's 2023/24 maize producer deliveries were about 160 297 tonnes. This placed the 2023/24 deliveries at 13,8 million tonnes out of the expected harvest of 16,4 million.
- The soybean deliveries on 25 August were about 2,6 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 712 529 tonnes out of the expected harvest of 743 610 tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for 01 September 2023. In the previous release on 25 August, the 17th week of the 2023/24 marketing year, South Africa exported 90 395 tonnes of maize. Of this volume, about 36% was exported to South Korea, 22% to Japan, 9% to Taiwan, and the balance was to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 1,61 million tonnes out of the seasonal export forecast of 3,22 million tonnes.
- South Africa is a net wheat importer, and 25 August was the 47th week of the 2022/23 marketing year, with a weekly import volume of 88 747 tonnes from Australia, the Czech Republic, Lithuania, Poland, and Russia. This placed South Africa's 2022/23 wheat imports at 1,46 million tonnes. The seasonal import forecast is 1,60 million tonnes, roughly unchanged from the previous season.

South Africa's Precipitation forecast

- There are clear skies over most regions of South Africa this week, with prospects of rainfall in the central, eastern and western areas next week. If the rain materializes, it will benefit the winter crops and help slightly improve soil moisture ahead of the 2023/24 summer crop season.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)