Food inflation decelerates to a 25-month low

By Paul Makube

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Headline inflation accelerated faster to 5.6% year-on-year (y/y) in February from 5.3% in January 2024, which is slightly above market expectations of 5.5% y/y. The monthly headline inflation outcome was 1% month-on-month (m/m). However, food inflation decelerated faster to the lowest level in 25 months at 6% y/y in February from 7% y/y in January. Except for the sugar, sweets and deserts which remained flat, the rest of the food subcategories decelerated with oils and fats extending their trend in negative territory. Oils and fats inflation has been trending negatively for the past 10 months which is inline with the trend on the international market.

Image source: Kampus Production from Pexels

The global oils inflation as measured by the United Nations' Food and Agriculture Organization (FAO) showed a decline of 11% y/y in February and has remained in negative territory over the last 19 months. South Africa is net importer of vegetable oils such as palm oil and the downtrend on the international market bodes well for food inflation.

Fruit and veg

A combination of subdued demand conditions and supply pressure weighed heavily on prices, which saw the fruit and vegetable inflation pulling back to single-digit levels. Consequently, fruit inflation decelerated to a five month low of 5.9% y/y and decreasing by 2.7% m/m.

A drill-down into the fruit inflation data shows a sharp deceleration from an increase of 29.6% y/y in January to just 2.9% y/y in February for avocados at R19.6/kg. Bananas followed closely from an increase of 21.2% y/y in January to 4.8% y/y in February at R18.02/kg. Oranges remained sticky on the upside and increased further by 51% y/y in February from 43.7% y/y in January 2024.

In the vegetable category, prices decelerated faster by 3.2ppt from the previous month to 9.4% y/y and monthly plunged by 1.7% m/m in February. Vegetable inflation has for the first time in 18 months fallen back to single-digit level which indicates normalisation of production despite the current weather challenge.

Of the big-ticket vegetable items, potatoes posted the biggest deceleration of 11ppts after coming in 32.2% higher y/y and a monthly decrease of 4.2% m/m at R21.68/kg. Tomatoes decelerated by 10.8ppts from the previous month to R27.98/kg which is down 0.4% y/y and 1.4% m/m.

Headline inflation cools but food remains sticky on the upside
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Meat

Good news for meat lovers is that inflation decelerated for the fifth consecutive month, coming in at 1.5% y/y and falling by 0.5% m/m. The seasonal downturn in demand early in the New Year as well as an improvement in supplies continued to place meat prices on the backfoot.

This trend is likely to continue in the medium term on the back of increased supplies due to the dryness that reduced feed availability for overwintering. The mooted implementation of certain rebates on imported poultry following the recommendation by the International Trade Administration Commission of South Africa (ITAC) to the Minister of Trade and Industry.

Major concerns

Of big concern currently is the raging heat wave and the resultant dryness across the country especially for the summer crops. Consequently, the National Crop Estimates Committee (CEC) slashed the maize harvest estimate by 12.6% y/y which has negative implications for the bread and cereals inflation given the massive price response on the upside. In the oilseed category, sunflower and soybean crop estimates were down by 6.8% and 22.8% y/y respectively which might place upward pressure on the oils and fats inflation.

A further concern is the further increases in fuel prices over the past few months with the latest update from the Central Energy fund indicating an under recovery of 19c/L for 95 petrol and 18c/L for 93 grade petrol (19 March 2023). However, diesel is positive with an over recovery of 29c/L and 34c/L for the two grades of diesel (0.05% and 0.005% sulphur), respectively.

Return of La Nina

While the domestic situational outlook paints a tightening supply outlook and a threat to the inflation trajectory, the good news is that the El Nino weather pattern is tapering off and La Nina is back in the forecasts which means a potentially good season lies ahead reminiscent of the past two years ago.

Further, the global grain and oilseed production remains robust and has curtailed price growth in international prices which continued to filter through to the domestic market. This bodes well for overall food inflation into 2024 if there are no shocks to the system such as exchange rate crash.

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