



Economic Commentary: Issue No. 4

30 October 2016

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.

IMPLICATION OF THE LINGERING DROUGHT AND INFLATION ON FOOD RETAIL PRICE: A CONSUMER'S PERSPECTIVE.

South Africa is feeling the effects of the drought as maize harvests are expected to be significantly lower and abattoirs full as farmers have been sending off animals for slaughter of which they have been struggling to feed. Consequently, the domino effect of the drought coupled with hikes in fuel and electricity prices poses a risk to food security. The unprecedented rise in food prices prompted households to make adjustments on their consumption patterns as real income declines while volatile commodity prices continue to threaten food security, survival, nutritional status, and livelihoods of the poor. In SA, food make up more than 40% of the poor's overall expenses, a greater proportion than any other income group. Therefore, any rise in food prices will affect the poor's living standards. According to the latest FAO Food Price Index, in June 2016, global food prices showed the largest monthly increase over the past four years and was the fifth consecutive monthly increase since the beginning of the year. Locally, SA's annual consumer price inflation was 5.9% in August 2016, down from 6.0% in July 2016. Despite the 0.1% month-on-month decrease in August 2016, the poor experience greater variability in inflation while high inflation periods lead to more financial stress.

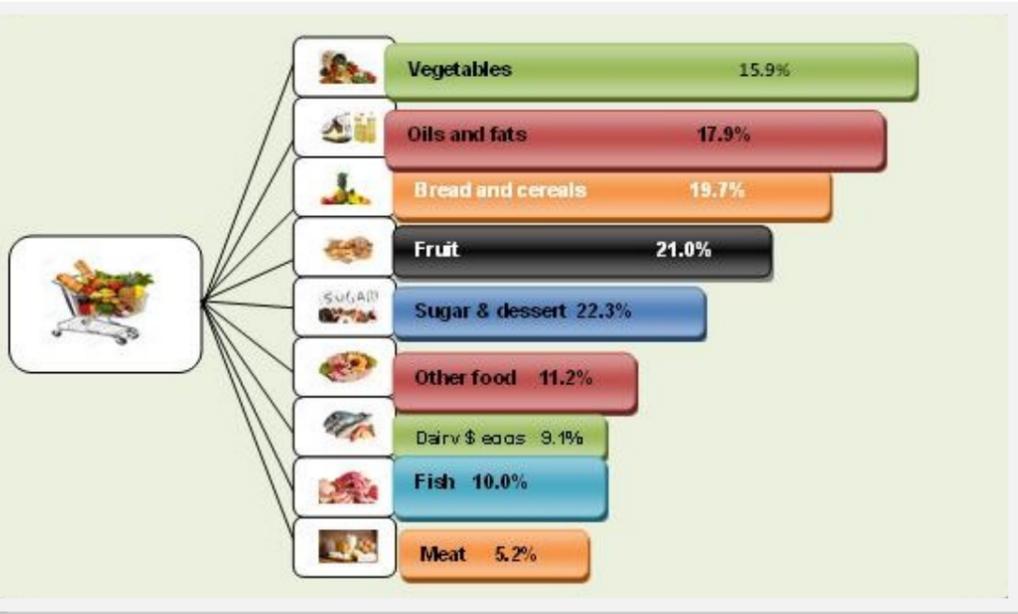


Figure 1 shows the percentage share of the food groups items which unpack the SA food basket, to examine which items are contributing to the rising grocery bill. The top three food groups with the highest share are; Sugar and dessert, followed by fruits and bread and cereals with 22.3%, 21% and 19.7% share respectively during the month of August .

Figure 1: The percentage share of SA's specified food groups comparing August 2015 and August 2016

Source: Stats SA

FOOD PRICE AND CONSUMER PRICE INDEX (CPI) TRENDS

Inflation effects are felt throughout the economy across different income groups and has a lacerating effect on the low income earners' ability to protect their income and make the most of the little money they have. 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.

Therefore this section assess the impact of inflation on food price using the consumer price index, reflecting on the following regions ; namely primary urban areas, secondary urban areas and primary rural areas.

Figure 2 presents consumers spending in the primary urban, secondary urban and rural areas. All consumers across the country are affected by food price increases.

In primary urban areas consumers are hit the hardest, with food items recording high inflation in fruit (25%), sugar (21%), bread and cereals (18.0%), oils and fats (17.8%), vegetables (16.8%), fish (12%) and other food (11.7%). The least affected items such as meat prices between August 2015 and August 2016 is as a result of an increase in supplies at abattoirs as most farmers have been sending off their animals to be slaughtered which they have been struggling to feed due to drought.

In secondary urban areas the overall food price increase was 6.1% between August 2015 and August 2016. During the period under review, selected food items which recorded the highest price increases were fruit (29.9%), sugar, sweets and deserts (21.7%), bread and cereals (18.0%), oils and fats (17.8%), vegetables (16.8%), food (12.3%), fish (12.2%) and other food (11.7%) respectively. Oils and fats and meat prices were the least affected, recording price increases of 8% and 4.6% respectively.

In rural areas selected food items that were mostly affected by food price increases were fruit (26.0%), sugar, sweets and deserts (25.3%), bread and cereals (25.3%), oils and fats (18.4%), vegetables (17.0%), food (16.4%) and fish (11.4%). Food items that were least affected by food price increases were dairy and eggs (7.2%) as well as meat (5.1%). The South African government had declared disaster areas in nine of 11 districts in KwaZulu-Natal, where more than 80% of the nation's sugar was produced. The sector's influence on the upstream and downstream sectors of the economy can never be understated hence seeing sugar, sweets and deserts prices at alarming highs. For those in rural areas, the smallest food price increase will be more severe as rising food prices erode household income.

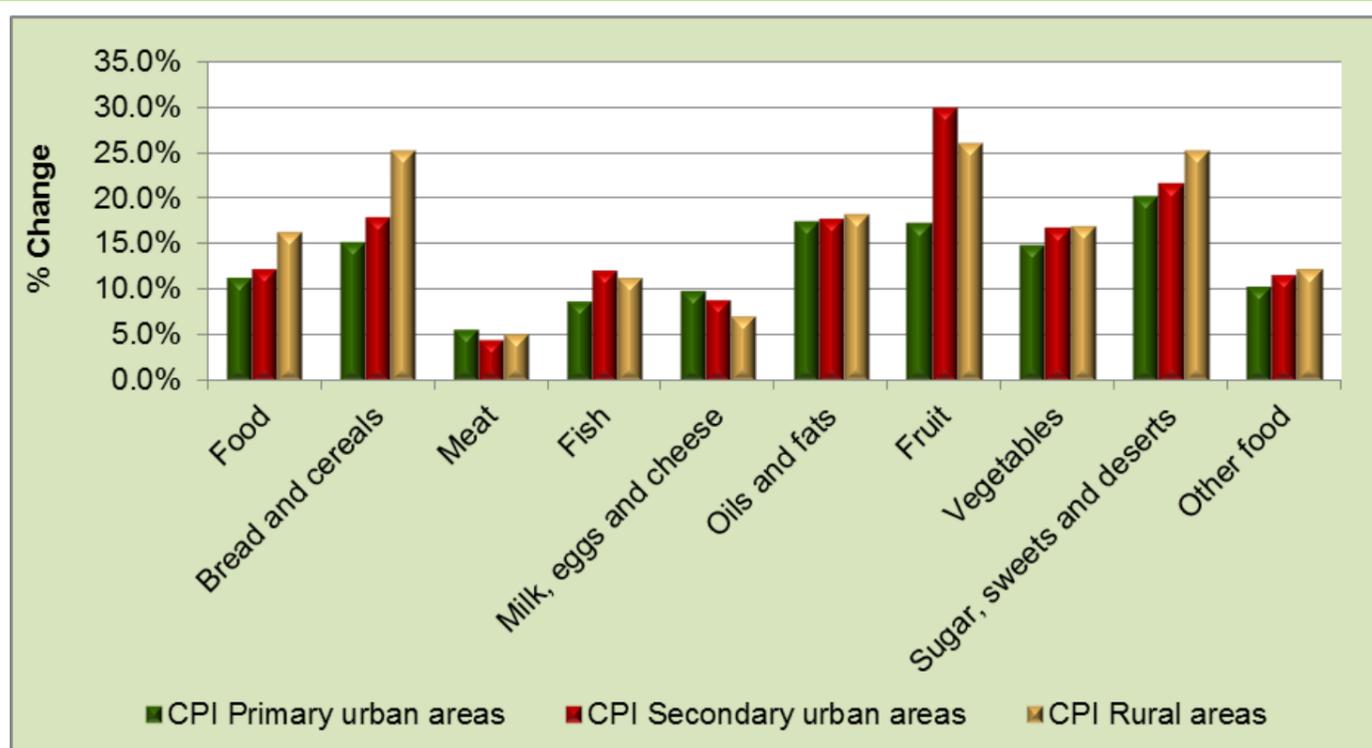


Figure 2: Annual percentage change of CPI according to regions from August 2015 to August 2016

Source: Stats SA

Conclusive remarks

The current drought is burning a hole on consumers' pockets. The poor experienced higher overall inflation than the middle class consumer. Inflation of the poor's food basket increases more rapidly than that of all other groups. The poor experience greater variability in inflation because as income shrinks and consumers have less buying power therefore suggesting that short term relief efforts are needed during these high inflation periods. The agricultural sector is severely affected by drought as the country's agricultural productivity capacity declined significantly. The emerging and informal farmers were the most vulnerable since they have no insurance nor savings, hence took on the full knock with no resources to reboot themselves. The knock-on effect of crop failure could be seen in the population drift from rural areas into the cities, farm labour lay-offs and farm closures as well as an increasing indebtedness in the agricultural sector.

REFERENCES :

- Statistics South Africa (Stats SA), (2016): Consumer Price Index (CPI), July 2016: Available at <http://www.statssa.gov.za>
- Food and Agriculture Organization, (2016): FAO Food Price Index posts biggest monthly jump in four years. Available online: <http://www.fao.org/news/story/en/item/423102/icode?>
- Available online: <http://city-press.news24.com/News/drought-as-farmers-wait-for-gordhan-agri-sa-warns-of-job-losses-influx-of-migrants-20160223>.

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.

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