

September headline inflation remains unchanged, while food inflation surprisingly goes up



By Tebogo Mashabela

South Africa's headline consumer inflation remained unchanged at 4.9% year-on-year (y/y) in September 2018, compared with August 2018. Many had hoped for a slight deceleration in the inflation rate in September 2018 as fuel prices remained relatively stable during this period, having been artificially repressed by the Ministry of Energy. On account of the decision by Government to curb the increase in fuel prices in September when a more substantial increase should have taken place, it was expected that inflation would decelerate in September 2018.

An acceleration of public transport and food inflation prevented headline inflation from declining in September. The CPI for public transport accelerated significantly to 7.1% y/y in September 2018, from 3% in August 2018. Given that public transport has a weighting of 2.3% within the overall CPI, this acceleration of public transport inflation on its own brought an upward pressure on the overall headline inflation rate.

Food inflation (excluding non-alcoholic beverages) came in slightly higher than expected, rising to 3.4% in September 2018, from 2.9% in August 2018. This was by far the biggest increase in food inflation in more than two years. Given that food has a weighting of 15.48% of overall CPI, this increase added almost a further 0.1% to the overall CPI inflation.

The acceleration in food inflation in September 2018 was largely driven by an increase in inflation of all food products within the food basket, except meat and fruits as well as unprocessed food that remained unchanged.

Though the bread and cereals price is in deflation, the rate of decline has narrowed. The inflation rate of bread rose quite strongly from -2.2% in August 2018 to -0.6% in September 2018. This is as a result of the recovery in commodity prices, with white and yellow maize estimated to be up by more than 20% from last year. Furthermore, wheat prices are also estimated to be up by more than 5% compared with last year's prices.

The inflation rate on milk, eggs and cheese accelerated to 4.2% y/y in September 2018, from 3.7% in August 2018. This is due to the tail-end effects of avian influenza in the case of eggs, which affected the South Africa egg layers flock last year. The egg industry is normalizing from the avian influenza that negatively affected egg-laying flocks late last year into early 2018. From a milk perspective, this was more of a seasonality issue, hence it is expected that milk prices will soften as the summer season approaches and milk production increases.

Vegetable inflation accelerated slightly to 9.0% in September 2018, from 8.9% in August 2018. As is the case with milk, the acceleration of vegetable inflation is underpinned by the seasonality factor. It is therefore expected that vegetable prices should somewhat decelerate in the months to follow when production resumes in most parts of the country, given that early summer rainfall has already started.

Sugar, sweets and deserts inflation rose significantly to -1% in September 2018, from -5.8% in August 2018. In addition, inflation rate of non-alcoholic beverages rose for the sixth consecutive month to 8.4% in September 2018, from 8.1% in August 2018. As was the case in August 2018, the increase in non-alcoholic beverages could be as a result of a shortage of fruits that are used by the beverage industry in the production of fruit juices, largely because of the drought that impacted the fruit industry in the Western Cape. The inflation rate of oils and fats rose quite sharply to 1.5% in September 2018, from -0.6% in August 2018. This is the first positive inflation rate for this product category in 18 months.

The food products categories that showed a downward inflation trend included meat and fruits, with unprocessed food remaining unchanged compared with August 2018. Fruits inflation decelerated to -4.9% in September 2018, compared with -3.3% in August 2018. Meat inflation continued to decline, dropping to 4.7% in September 2018, from 5.3% in August 2018. This is on the back of lower pork prices and a recovery in cattle slaughtering activity, amongst other factors which point to a normalisation in the pricing of meat.

Headline inflation is expected to increase in October 2018, with some analysts expecting it to be above 5% during this period on account of the steep R1.00 and R1.24 per litre increase in the price of petrol and diesel, respectively that month. Food inflation is also expected to gradually

start picking up again with the beneficial impacts of the end of the drought gradually fading away. The prospects of a weak El Niño system later in summer remains a key upside risk to food inflation, although it is expected that it will not be as drastic as 2015 and 2016.

Poor consumers not greatly affected by the recent food inflation acceleration.....

It is interesting to note from the above analysis that the primary driver of an acceleration in food inflation was not most of the staple foodstuffs, but specifically a fairly sudden and dramatic increase in the cost of sugar and sweets. Although the rate of bread and cereals deflation has narrowed in September, inflation for this product group is still fairly low and affordable to most consumers. The continued deceleration of meat inflation will mostly be welcomed by consumers who continue to struggle to make ends meet.

Earlier this year, a panel of experts was commissioned by Government to investigate mitigating the effect of the VAT rate increase on low-income households. The Medium Term Budget Policy Statement (MTBPS) presented this week proposed to zero-rate an additional three items, two of which fall within the food basket, namely bread flour and cake flour with effect from 1 April 2019. Once this is implemented, consumers will benefit a great deal as inflation on bread and cereals will likely decline. It is worth noting that poor households spend around 33.9% of their income mainly on starch or bread and cereals, and as such, zero-rated bread and cake flours is welcomed.

Tebogo Mashabela is an Agricultural Economist currently serving as a Research Analyst at Land Bank. He writes in his personal capacity and the views expressed in this article are his own and do not necessarily represent policy positions of Land Bank.

<https://www.voices360.com/inflation-remains-unchanged-while-food-inflation-surprisingly-goes-up/>