

COMMENT

'Sugar tax' drives food inflation in April 2018

CONSUMERS are in for a tough time as both headline consumer inflation and food inflation recorded increases in April 2018.

This is largely due to price hikes in product groupings that attracted specific taxes, namely alcohol, fuel and sugary drinks during the period.

Headline inflation rose to 4.5% year-on-year (y/y) in April 2018, after reaching a seven-year low of 3.8% y/y in March 2018.

The inflation rate for food and non-alcoholic beverages has also increased for the first time in almost a year, this after a persistent deceleration from July 2017.

It rose 3.9% y/y in April 2018, from 3.5% y/y in March 2018, largely due to an increase in the inflation rate of cold beverages as a result of the new Health Promotion levy or "sugar tax" on sugary drinks (see Table 1 below). Cold beverages inflation accelerated by a whopping 6.1% y/y in April 2018, from 2.1% y/y in March 2018.

Milk, eggs and cheese products price inflation rate continued to accelerate, coming in at 5.3% y/y in April 2018, compared to 4.2% y/y in the previous month as a result of continued egg shortages.

Egg prices have seen a sustained upward trend supported by stable demand and shortages due to the outbreak

of the avian influenza in July 2017.

It is estimated that about 4.6 million birds have been culled since the outbreak of avian flu in June 2017, the majority of which were egg layers.

This had a knock-on effect on the availability of eggs in both South Africa and neighbouring countries.

Inflation on meat products continued to decelerate in April 2018, easing to single digits for the first time in 13 months.

It decelerated to 9% y/y in April 2018, from 10% y/y in March 2018 on the back of lower pork prices following the outbreak of listeriosis as well as improvements in monthly slaughtering activity.

The impact of the listeriosis outbreak sent pork prices tumbling and created a supply glut that the industry is still struggling to recover from.

Porker and baconer prices fell by approximately 21% and 22% month-on-month in April 2018 respectively, with porker prices declining from R26.33 per kg in March 2018 to R20.79 per kg in April 2018. Baconer prices declined from R24.05 per kg to R18.70 per kg during the same period.

The CPI inflation rate for fruits improved further in April 2018, from negative 5.5% y/y in March 2018 to negative 8.2% y/y in April 2018.

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Time to
tighten
our
belts



SUGAR TAX: Promotion of good health has increased the price of cold drinks.
PICTURE: MATT ROURKE/AP

This is surprising given the reduction in production of deciduous fruits mainly due to drought in the Western Cape, which is the country's key growing area.

It could be explained by the fact that the decrease in production in the Western Cape was offset by fruits produced in other regions of the country, such as Limpopo and Mpumalanga.

Headline inflation is likely to rise after the one percentage point increase in value added tax (VAT) at the beginning of April 2018.

This increase is expected to add about 0.6 percentage points to the headline inflation trajectory over the next four quarters, the impact of which is likely to be felt from the second quarter of 2018 and marginal second-round effects persisting into subsequent quarters.

Along with increased VAT, another big risk to inflation is the possibility of large electricity tariff increases by Eskom, which is seeking to recover R67 billion in higher-than-forecast operating costs.

In addition, a further petrol and diesel price increase of around 74 cents and 81 cents a litre respectively, is predicted to take effect during June 2018, and could result in further acceleration of headline inflation.

According to the South African Reserve Bank, headline inflation is expected to

average at 4.9% in the second quarter of 2018.

However, there is some respite for consumers to offset the expected fuel price increases in the next month that have a severe effect on consumers' disposable income. Although the introduction of new taxes on sugary drinks puts pressure on food inflation, the consensus is that food inflation should continue to remain somewhat low in the coming months.

This is on the back of the expected good harvest in the summer crop growing areas and the expected increase in livestock slaughtering activity.

The National Treasury recently appointed a panel to review items that can be exempted from VAT in an effort to mitigate the impact of price increase on the poor.

Should the panel decide to include food items such as white bread, poultry meat and wheat flour to the list of VAT exempted products, amongst others, food inflation is likely to decelerate in the coming months to the benefit of already stretched consumers.

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