



## Food price outlook for Quarter 2 2020 and beyond.

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### Introduction

The crystal ball has just become more opaque than ever: as with every other aspect of social and economic life in the time of COVID-19, food inflation projections for the second quarter of 2020 and beyond have just become much more difficult. In an attempt to contain the spread of the virus, many countries have gone into lock-down, which is having a major influence not only on world trade, but also on food consumption patterns, which may turn out not to be permanently affected, but that will be with us at least for the next two quarters. To add to the complexity of the matter, the cut in South Africa's credit rating to junk status has contributed to a rapid depreciation of the South African Rand. The combined effect of the depreciation as well as the current disruptions in the supply of and demand for food will be the main drivers affecting food prices for the rest of 2020.

In this brief we draw on current and historical insights to provide a clearer picture of the expected trend in food price inflation. This is followed by an exploration of the cost of healthy eating relative to selected income sources in order to gauge the possible gap between the incomes of poor consumers and the cost of healthy eating. The report ends with an analysis of price dynamics for critical food products.

### What we know

1. Since the beginning of March, the Rand has depreciated by 17% against the USD: the annual depreciation from March 2019 shows a depreciation of 29%<sup>1</sup>.
2. Food inflation increases in times of rapid exchange rate depreciation.
3. Empirical work suggests that it takes roughly 2 months for exchange rate shocks to manifest in higher food inflation (Louw, 2017) and that a 10% depreciation in the

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<sup>1</sup> Based on the ZAR/USD exchange rate level of R18.49 on 2 April 2020. Significant further depreciation strengthens the views expressed in this brief.

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ZAR/USD exchange rate typically leads to an increase in consumer food inflation index of 3.1. However, these relationships were estimated over a longer period and in the absence of the massive supply and demand disruptions that we are currently facing, so the true extent of the increase is uncertain.

At food inflation rates for February 2020, this presents a possible scenario where food inflation could reach levels close to 10% over the coming months. However, there are some caveats:

- Consumer confidence is at its lowest since Ramaphoria (BER, 2020).
- Consumers have been indicating low levels of confidence since 2015 and the current lockdown is putting further strain through an overall downturn of the economy and looming job losses.

The latter point is shown in Figure 1. Consumers find themselves under persistent pressure, which could ultimately translate into a limited capacity to absorb significant future price increases. Thus, it is unlikely that the full effect of the depreciation of the Rand can be passed through to consumers. This seems to be confirmed by Table 1, which shows changes in household spending patterns for groceries and food per income group in 2019 (Old Mutual, 2019). Here, 71% of the respondents indicated that they are following some sort of strategy to cut back on food expenditure even before the downgrade and the lockdown implemented in the third week of March 2020. Both these events will have a considerable negative effect on consumer confidence.

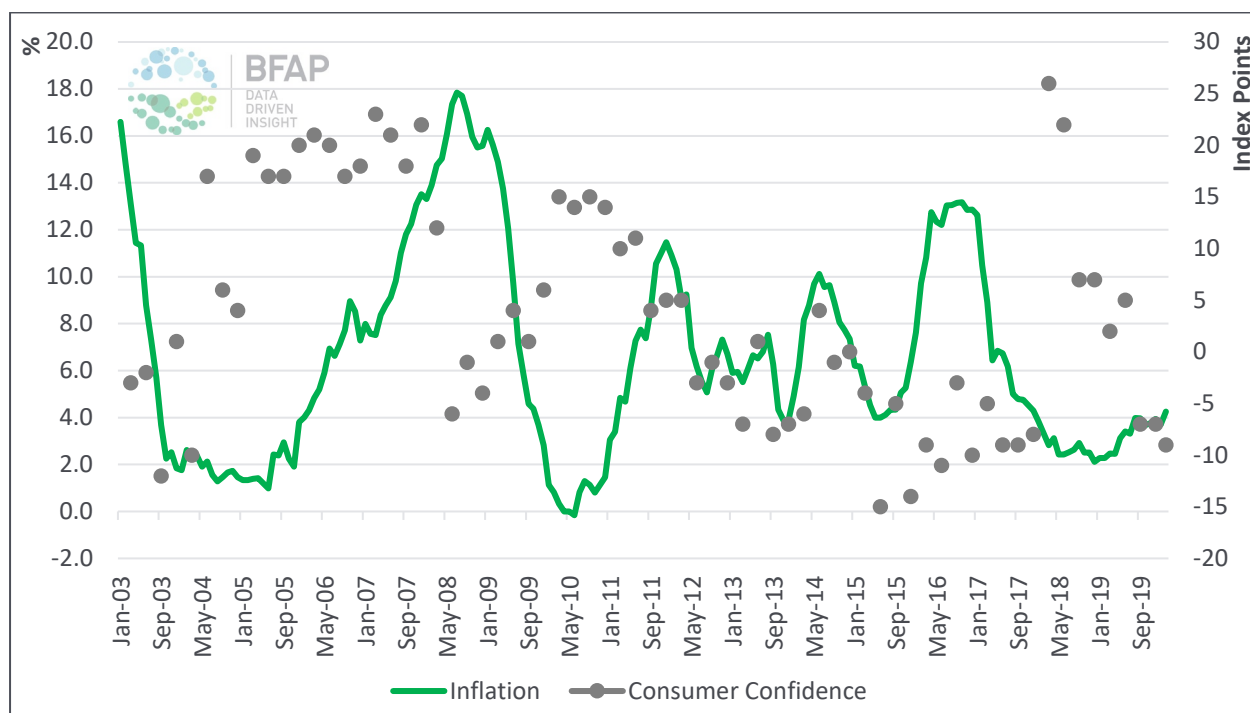
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**Figure 1: CPI Food inflation and the BER consumer confidence index (CCI)**

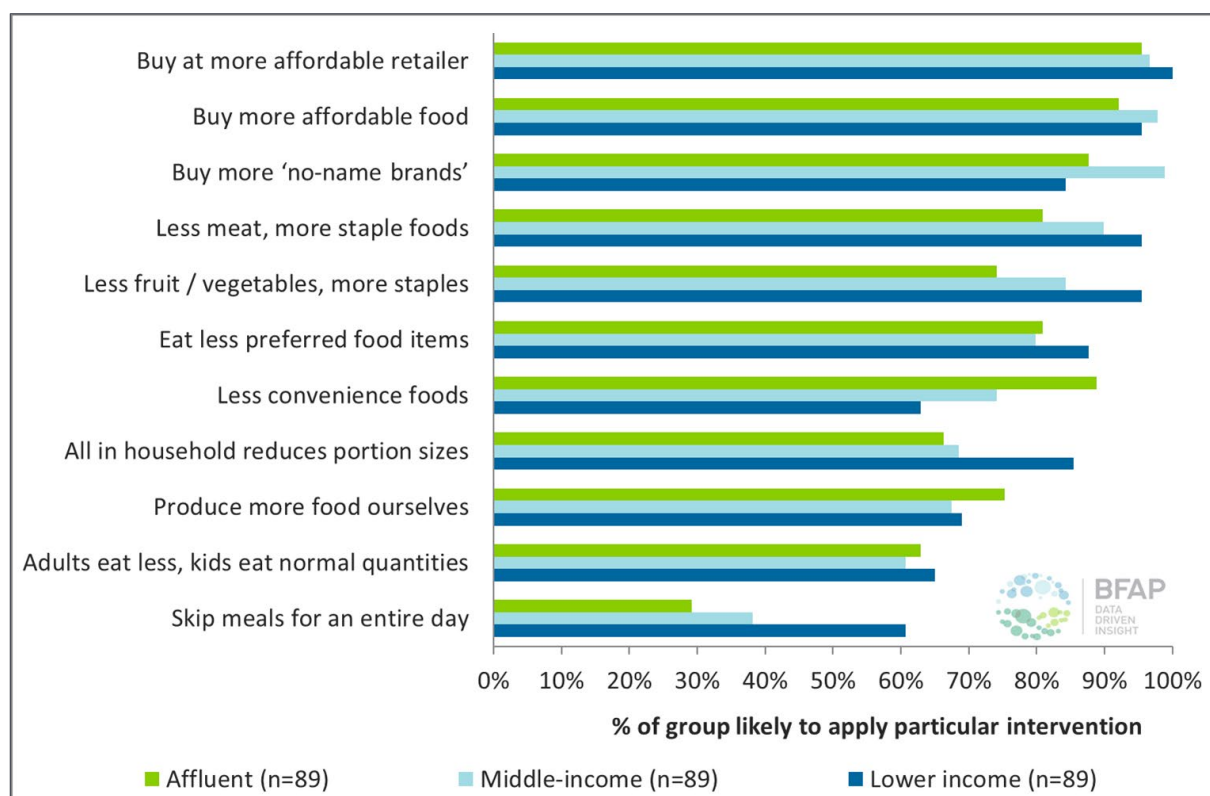
Source: Compiled from StatsSA inflation data and BER CCI data.

**Table 1: Changes in household spending patterns on food and groceries in 2019**

	Total	Less than R6000	R6 000- R13 999	R14 000- R19 999	R20 000- R40 000
Unchanged	29%	18%	25%	34%	36%
Cheaper options/ Cutting Back/ Cutting Out	46%	55%	45%	38%	42%
Do not Incur	0%	0%	0%	2%	1%
Already Cut Back as much as I can	25%	27%	30%	26%	21%

Source: Old Mutual, 2019

It is therefore to be expected that consumers will progressively rely on food coping strategies to mitigate household income pressure. BFAPs own consumer research in Gauteng indicates that the dominant strategies of households across the socio-economic spectrum involved switching to more affordable retailers, buying more affordable food, buying more 'no-name brand' food, and decreasing dietary diversity (eating less fresh produce and meat and more staple foods) (Figure 2).



**Figure 2: Potential strategies of households to cope with food affordability challenges**

Source: BFAP survey data, 2017

The main concern is that the lower income consumers are more likely to buy a less diverse food basket and to reduce portion sizes – the group that can least afford to do so from a health perspective. The tendency to eat less “convenience foods” increased with socio-economic status.

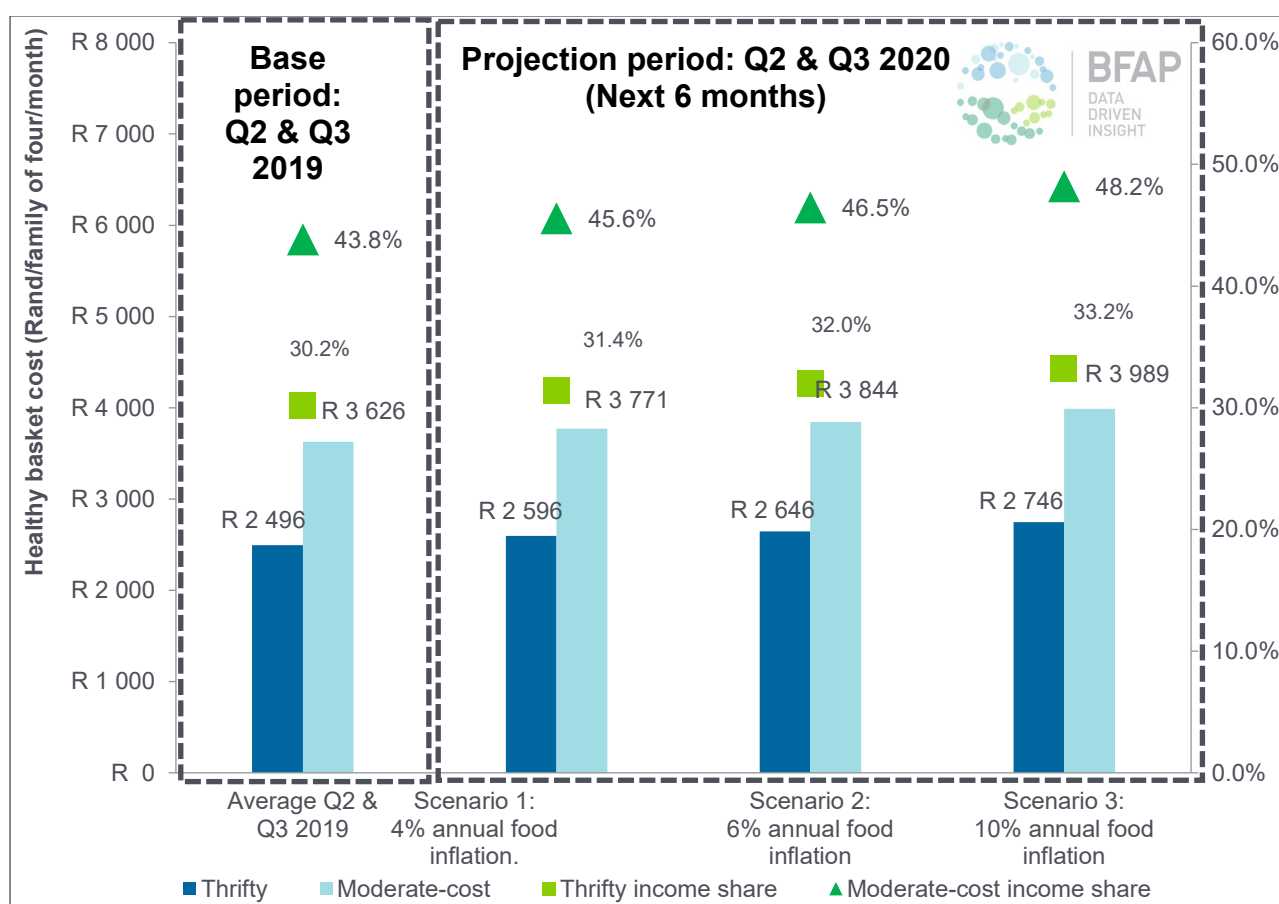
## The cost of healthy eating

In order to gauge the actual cost of healthy eating over the coming months, three inflationary scenarios were explored to calculate the change in the cost of the BFAP Thrifty Healthy Food basket<sup>2</sup>, which amounted to R2 496 per month for the reference

<sup>2</sup> The BFAP Thrifty Healthy Food Basket models the cost of basic, nutritionally balanced eating in South Africa for a reference household consisting of an adult male, an adult female and two children. Based on national nutritional guidelines, the basket contains 26 food items from all food groups. Basket costing is based on the official urban food retail prices monitored by Statistics South Africa.



family of four. In Scenario 1, a food inflation rate of 4% was applied, which is in line with the inflation rate on food prevalent in February 2020. Scenario 2 assumed a food inflation rate of 6%, whilst Scenario 3 assumed a food inflation rate of 10%. Scenario 3 could result in a Thrifty Healthy Food Basket that is R250 more expensive than in January/February 2020.



**Figure 3: Six month projection on the cost of healthy eating**

Source: BFAP calculations

## Current and future price dynamics of staple food products

Given the severe depreciation of the exchange rate, certain products, typically those where South Africa is well integrated with global markets, will exhibit significant cost-push price increases. This, combined with export restrictions for commodities such as rice that have been introduced in the past week by leading global exporters such as Vietnam, could result in notable changes in prices and consumption dynamics.

In this regard, the staples complex in South Africa (maize, wheat, rice) might exhibit inflation rates in excess of the general inflation rates. Based on the increase in the world rice price and the depreciation of the exchange rate over the past month, for example, the South African import parity price for rice has increased by more than 30%<sup>3</sup>.

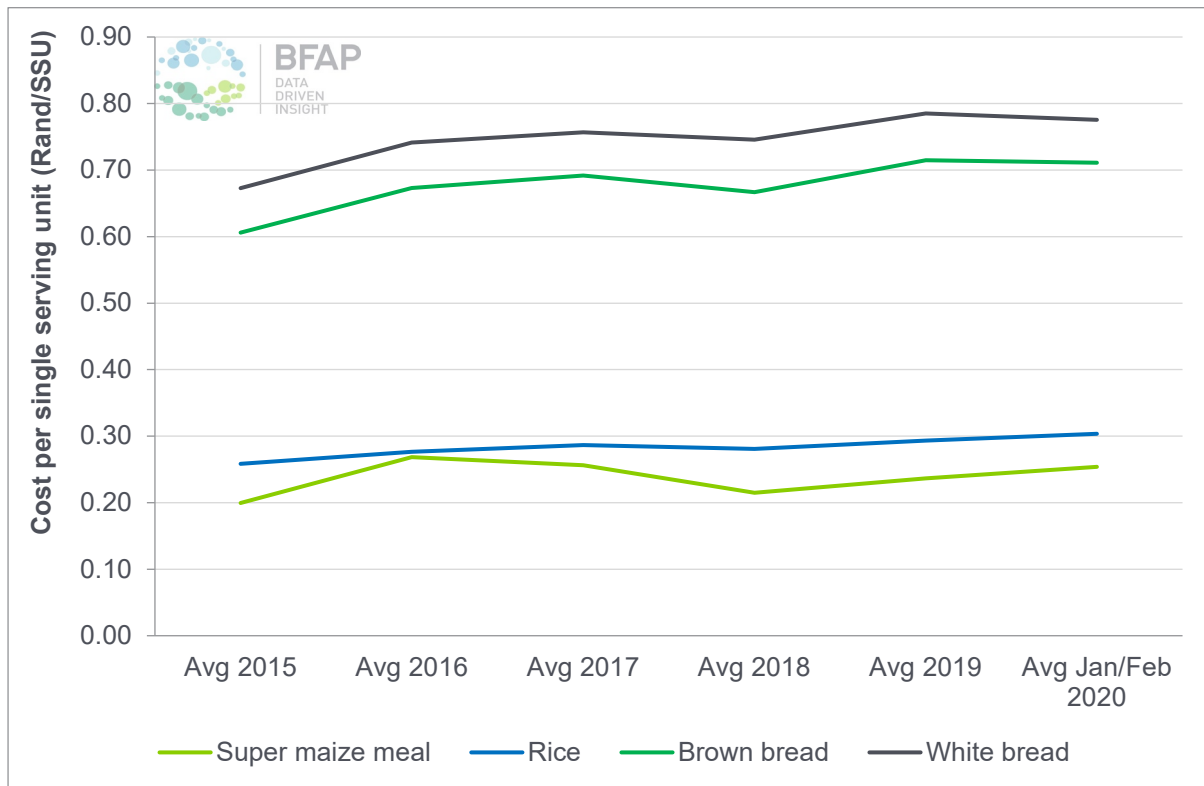
Maize meal prices, in turn, are also expected to increase over the coming months. Average white maize prices increased by 22%, in absolute terms, between 2 March and 2 April 2020, and this is expected to result in maize meal price increases of around 12% over the next four months. Similarly, wheat prices were also influenced by the exchange rate depreciation, with prices between 2 March and 2 April 2020 increasing by slightly more than 11% in absolute terms. Given the relatively small cost equivalent share of wheat in bread, cost pressures on bread prices are expected to be smaller compared to cost pressures experienced in other staple value chains. Bread prices are expected to increase between 2% and 3% over the coming months based on the wheat price movements experienced up until 2 April.

Figure 4 provides an overview of the average cost per single serving unit (SSU<sup>4</sup>) for super maize meal, rice, brown bread and white bread from 2015 to January/February 2020. In the first two months of 2020, the SSU price levels of most staples were comparable to peak values observed in 2016/2017 due to the severe drought at that time. Anticipated price increases in bread and rice in particular, would most likely enlarge the affordability gap between maize meal and alternative staples over the next few months. In coming months the appeal of maize meal as the most affordable staple will most likely increase when faced with high rice prices in particular.

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<sup>3</sup> See the BFAP brief on food security here: <https://covid19.ivis.africa/food-security/value-chain>

<sup>4</sup> A SSU refers to a single unit of a particular food within a particular food group providing a similar amount of energy as other units within the same group.



**Figure 4: Single Service Cost of Staple Products in South Africa over time**  
 Source: BFAP calculations based on monthly Stats SA Urban Food Retail prices

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