

THE REAL ECONOMY BULLETIN

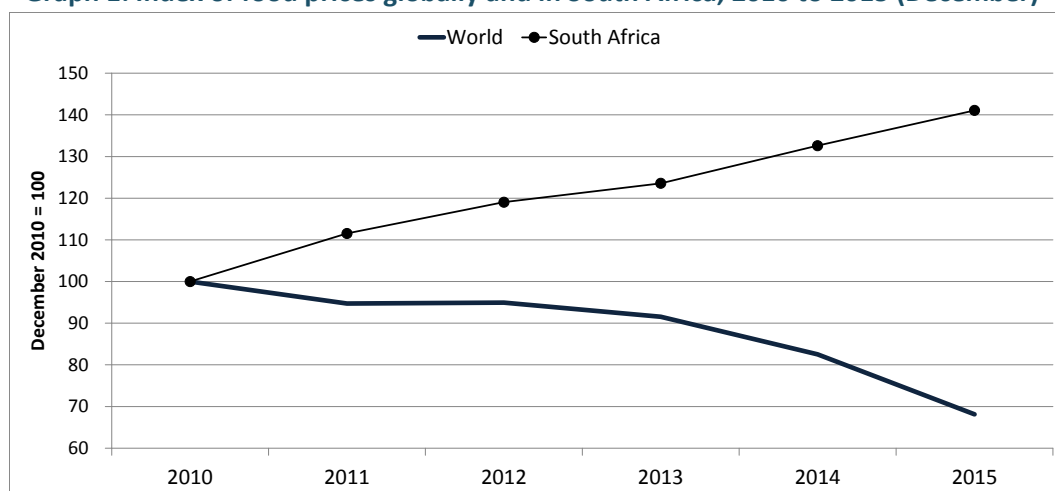
TRENDS, DEVELOPMENTS AND DATA

THIRD QUARTER 2016

Briefing note: Food and inflation

The international Food and Agricultural Organisation (FAO) found that world food prices declined by 17% in 2015 from the previous year, falling to the lowest level since 2009. This trend contrasts sharply with the situation in South Africa, where food prices have surged from 1994. The recent drought has only aggravated the longer-standing problem.

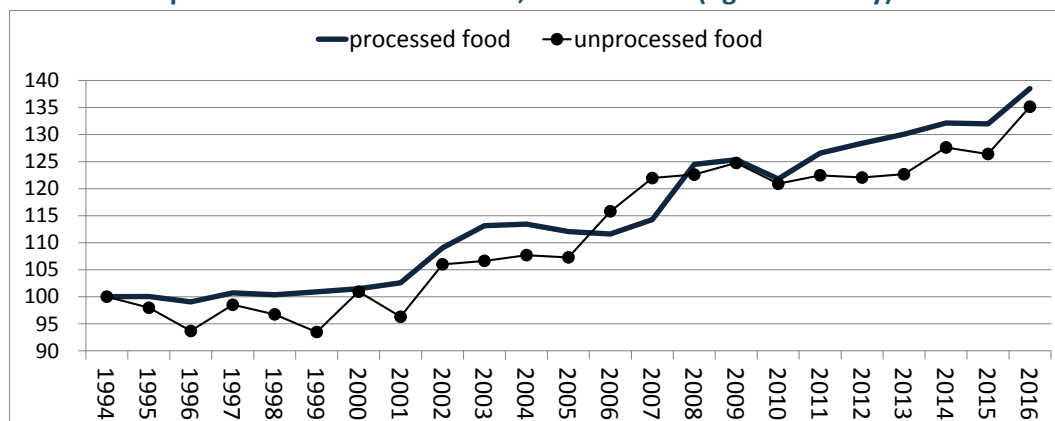
Graph 1: Index of food prices globally and in South Africa, 2010 to 2015 (December)



Source: FAO, 2016; Stats SA 2016

As Graph 2 shows, food price increases have exceeded inflation for most years since 1994.

Graph 2: Index of real food prices for processed and unprocessed food and for other products for the urban areas, 1994 to 2016 (figures for July)

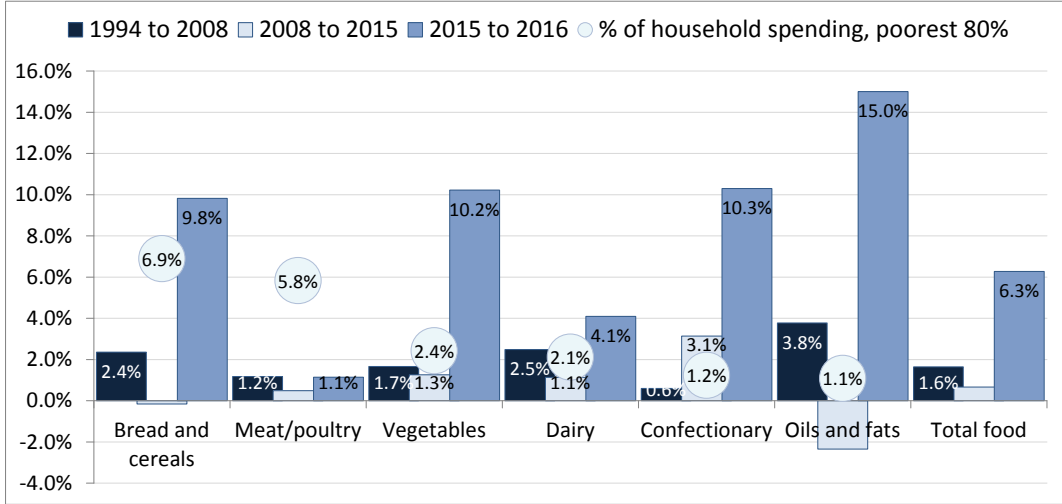


Source: Statistics South Africa, CPI data

Poor households spent a larger share of their budgets on food, and therefore are most burdened by higher prices. In 2011, food absorbed 30% of spending by the poorest 40% of households, around 18% for the next poorest 40%, and just 7% for the richest 20%.

As Graph 3 shows, real changes in food prices differed significantly by product. Bread and cereal prices actually declined from 2008 to 2014 before shooting up by almost 10% as a result of the drought in 2014/15. Virtually every other major type of food increased more than overall inflation from 1994.

Graph 3: Average annual real change in prices of major food groups, 1994 to 2015, year to July



Source: Statistics South Africa, CPI data and Income and Expenditure Survey 2010/11.

Moderate real price increases for meat and poultry were driven primarily by low-cost chicken imports, while beef prices increased much faster than inflation. The unit cost of chicken imports in 2015 was around R7 a kilo for products from Brazil, R14 a kilo for products from Europe, but around R21 a kilo for local producers. Local poultry producers repeatedly called for tariff protection, which would lead to a significant increase in meat prices especially for poor consumers, who were more likely to buy frozen imported chicken.

The high level of concentration in the food value chain contributed to the relatively rapid increase in food prices over the past 20 years. A fairly small number of companies dominated storage, processing and retail, as Table 1 shows. In farming itself, the number of commercial farms dropped by around half from 1994, from 60 000 to the current 30 000, without a decline in production. Commercial farmers accounted for around 95% of formal food sales and two thirds of total food sales.

Table 1: Market structure for major food products

Sector	Commercial farmers	Dominant processing companies
Maize and bread	9000 in maize Under 4000 in wheat	17 silo companies, based on former co-ops, control over 90% of storage; Senwes, Afgri and NWK control 75% Premier, Tiger Brands, Pioneer and Pride account for 75% of maize milling, with around 300 smaller millers also functioning Pioneer, Tiger Brands, Premier and Foodcorp control virtually all wheat milling; Pioneer, Tiger Brands and Premier account for over 85% of bread sales.(a) Estimates suggest over 50 000 smaller formal and informal bakers, including pizza and similar franchises.
Dairy	There were 1 728 formal milk producers in August 2015, down from 3 665 in January 2008 and over 7 000 in 1997 (b)	Market shares: Clover 26%, Parmalat 18%, Unilever 7%, Danone 6%, and Cape Oil and Margarine 6%.
Poultry	Poultry is grown largely by direct subsidiaries of the large companies as well as by farmers contracted to them	Vertically integrated companies, which also produce feed, dominate poultry production, with Astral and Rainbow together controlling around half of total production. (c) Around 400 farmers are considered “emerging” poultry farmers.
Processed fruit and vegetables	Around 8000 farmers grew fruit and vegetables, but only about a third sold for processing	There are around 55 processors but dominant companies are Tiger Brands followed by Rhodes (which took over Del Monte in SA in 2010) – market share varies by product
Confectionary	Sugar company estates produce 7%; 1500 commercial farmers produce 85%; 25 000 small outgrowers	Mondelez, Nestle, Tiger Brands accounted for 68% in 2015; rest largely imported

Notes: (a) Ledger, T. 2016. *Power and Governance in Agri-Food Systems: Key Issues for Policymakers*. TIPS Working Paper. TIPS. Pretoria. March. (b) Food Price Monitoring Committee. 2003. *Final Report*. DAFF. Downloaded www.gov.za in September 2016. p. 201. (c) DAFF. 2012. *A Profile of the South African Broiler Market Value Chain*. Pretoria. P. 7. Source: Information from sector reports by Who Owns Whom, latest version for sector, unless otherwise noted.

In addition to high levels of concentration, the transition to democracy saw a substantial decline in subsidies for commercial farmers. In 2014, the OECD found that farm subsidies in South Africa had fallen from 15% of output in 1995 to 2% in 2014. That compared to a 2014 level of 4% in Brazil, 10% in the United States, and 18% in the European Union.¹

More recently, the 2015/6 drought meant South Africa this year became an importer of maize for the first time since 2004. The drought, the worst recorded for South Africa, appears to be related to climate change, which aggravated the El Nino phenomenon that is associated with low rainfall in South Africa.

Maize imports have a particularly negative impact on food prices. When South Africa imports maize, the price jumps by at least 30% as sellers shift to import-parity prices, which include a mark-up for transport even for local maize. Higher maize costs affect maize meal but also feed prices for poultry and cattle.

The real increase in food prices over the past 20 years has affected the quality of living for most South Africans. In addition, by increasing the cost of living for working people, it adds to the pressure on wages. A critical challenge for industrial policy is to understand the factors behind the long-term rise in real food costs and identify effective measures to promote competitive and affordable production.

¹OECD. Producer and Consumer Support Estimates. Electronic database. Series on Percentage Producer Support Estimate for relevant countries. Downloaded from www.oecd.org in February 2016.