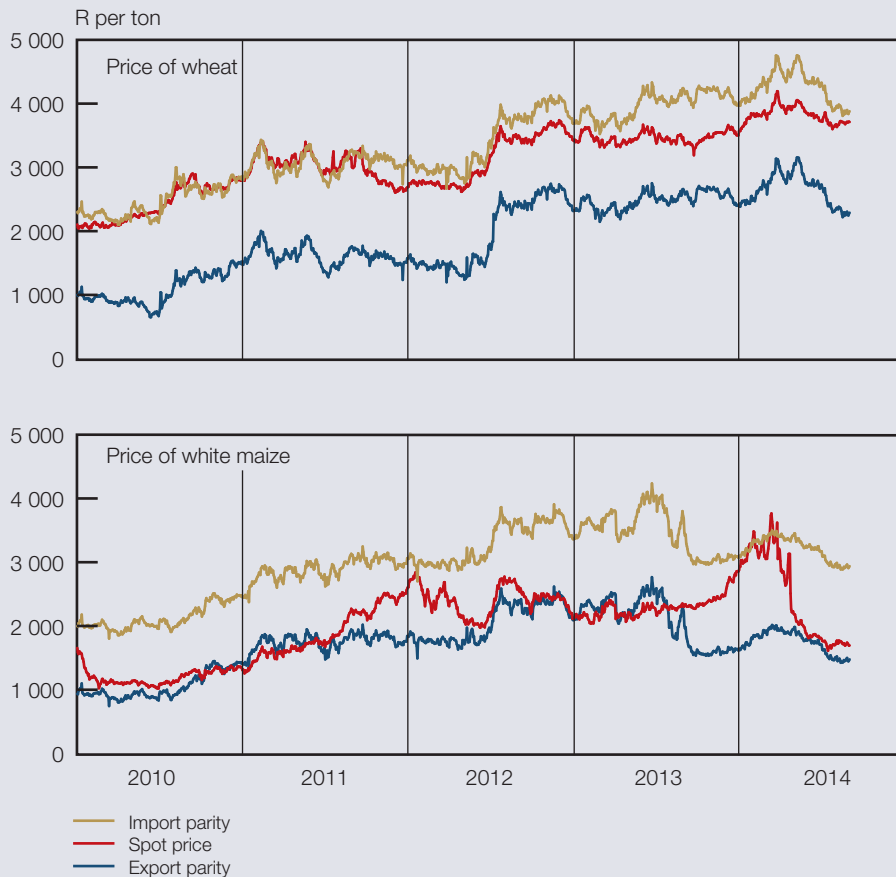


Box 2: Recent maize and wheat price dynamics and their effect on expected food price inflation outcomes

Changes in domestic food prices have often been one of the principle drivers of South African inflation outcomes, not least due to food's fairly large weighting of 14,20 per cent in the overall consumer price index. The two main subcategories within the consumer food price basket are meat as well as bread and cereals, together accounting for 57 per cent of the overall consumer food price basket, with weightings of 4,56 per cent and 3,55 per cent respectively. In turn, within the bread and cereals subcategory, bread products have a fairly large weighting of 1,75 per cent while that of maize meal amounts to only 0,68 per cent. Thus, since wheat is the main ingredient in the production of bread products, changes in wheat prices have a larger impact on the outcome of measured consumer price inflation than maize prices do, given the higher weight of bread products relative to maize products in the consumer food price basket.

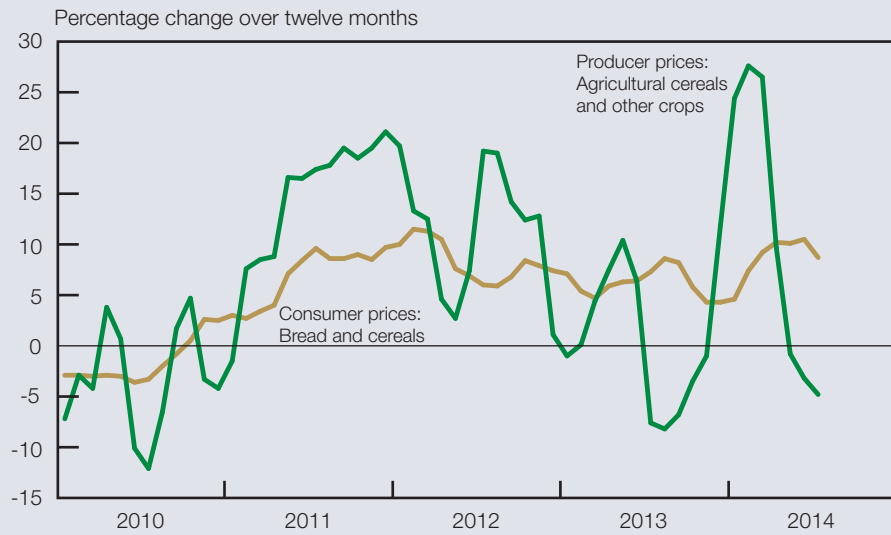
Price of wheat and white maize



In South Africa, white maize is generally used for the production of maize meal for human consumption while yellow maize is primarily used as animal feed. Domestic maize prices are determined by a combination of factors, including international maize prices and the size of the domestic maize crop. While international maize prices receded during the latter half of 2013, the spot price of domestic white maize increased markedly from R2 163 per ton on 2 July 2013 to R3 765 per ton on 11 March 2014 – an increase of 74 per cent – on account of drought conditions in the North West Province. The domestic spot price of wheat followed international wheat prices higher, increasing from R3 301 per ton on 23 September 2013 to R4 195 per ton on 24 March 2014 – an increase of 27 per cent. The rise in domestic maize and wheat prices resulted in a marked acceleration in agricultural producer price inflation for cereals and other crops, from -8,2 per cent in August 2013 to 27,6 per cent in February 2014. These price increases were passed on to consumers, with consumer price inflation for bread and cereals subsequently quickening from 4,3 per cent in December 2013 to 10,5 per cent in June 2014.

Fortunately, concerns related to the initial expectation of a poor 2014 domestic maize crop following drought conditions were allayed by repeated increases in crop forecasts for both white and yellow maize by the Department of Agriculture's Crop Estimates Committee between the first estimate in February 2014 and the sixth estimate in July. According to the Committee's latest forecast, the domestic maize crop in 2014 is expected to be around 14,017 million tons, that is 18,7 per cent more than the final crop in 2013 of 11,811 million tons. Consequently, the spot price of domestic white maize declined notably, by around 55 per cent, to roughly R1 700 per ton in August 2014. In addition, international wheat prices receded in recent months as initial fears of possible wheat supply disruptions from Ukraine subsided. Although the spot price of domestic wheat followed suit, it decreased only by around 13 per cent but continued to approximate the import parity price level, reflecting the fact that South Africa remains a net importer of wheat, a situation that is expected by industry experts to become more acute in coming years. On 29 July 2014, the Committee announced that the preliminary estimate for the area cultivated for wheat was 484 000 hectares, the smallest area planted to wheat on record.

Producer and consumer food price inflation



The decrease in the spot price of domestic maize and wheat in recent months resulted in a marked deceleration in agricultural producer price inflation for cereals and other crops: to -4,8 per cent in July 2014. The benefits of the decrease in agricultural commodity prices are expected to be passed on to consumers in the months ahead. However, given the relatively large weight of wheat products relative to maize products in the bread and cereals category of the consumer food price basket, coupled with the fact that the domestic wheat price should remain close to its import parity price level in the months ahead, the moderation in consumer food price inflation is expected to be less pronounced than that in agricultural producer food price inflation.