

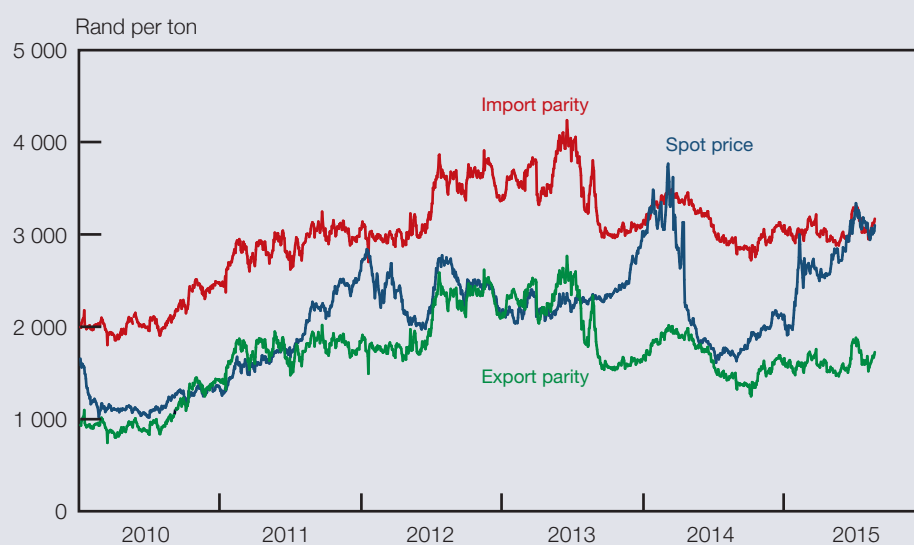
Box 1 The impact of a smaller maize crop on food price inflation

Food prices have often been a key driver of consumer price inflation, not least due to the sensitivity to climate of food production and consequent potentially large swings in the prices of certain food products, along with food's large weight of 14,20 per cent in the overall consumer price index. Bearing in mind that consumers within the lower expenditure quintiles spend a much larger portion of their income on food, an acceleration in food price inflation has a particularly adverse effect on the purchasing power of lower-income households.

Despite the current generally more favourable international outlook for wheat and maize prices due to bumper crops and high inventory levels, domestic maize prices have rallied in the opening months of 2015 on account of the heat wave and drought conditions in the summer rainfall regions of the country, believed to be the worst in more than 20 years, and the accompanying damage to formerly promising crops. By late August 2015, the Crop Estimates Committee of the Department of Agriculture, Forestry and Fishing estimated a 20,7 per cent lower yellow maize crop and a 39,7 per cent lower white maize crop in its seventh production forecast for summer crops in 2015, compared with the final crop for 2014.

As a result, despite being Africa's largest maize producer, South Africa is expected to be a net importer of maize for the first time in seven years in 2015, with the National Agricultural Marketing Council at the end of August 2015 projecting imports of 750 000 metric tons of maize for the 2015/16 marketing season, comprising 650 000 tons of yellow maize used mostly for animal feed and 100 000 tons of white maize used mostly as staple food.

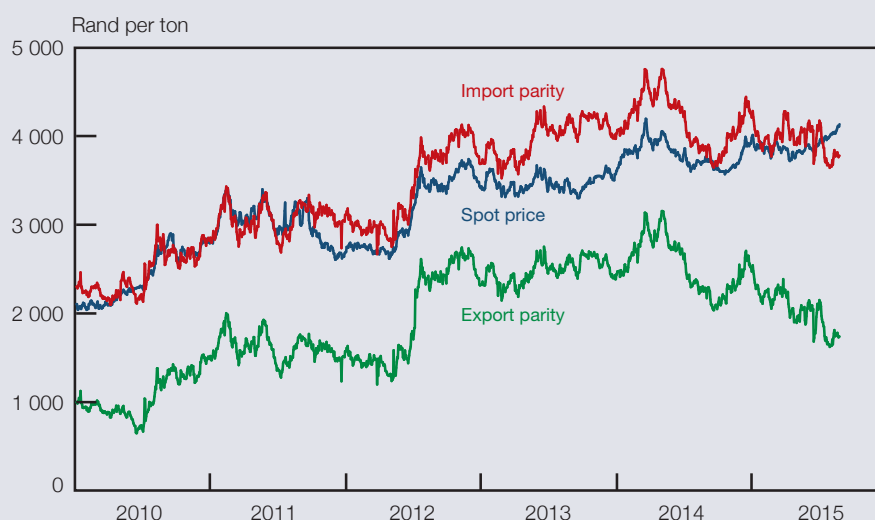
White maize prices



The spot price of white maize has accordingly moved closer to the import parity price since the beginning of 2015, rising from around R1 700 per ton in July 2014 to around R3 170 per ton in July 2015. Given the low base created in the middle of 2014, the year-on-year rate of increase in maize prices accelerated sharply in recent months.

Supported by large global stocks, international wheat prices have receded gradually since the beginning of 2015. Since South Africa does not produce enough wheat to satisfy domestic consumption, the spot price of wheat usually remains fairly close to the import parity price. However, after initially decreasing in line with international wheat prices, the domestic spot price of wheat continued to increase in recent months. Exacerbated by the recent depreciation in the exchange rate of the rand, the domestic spot price of wheat increased from around R3 800 per ton in April 2015 to more than R4 000 per ton in August, with the year-on-year rate of increase accelerating concomitantly. In addition, the international cereal price index of the United Nations Food and Agriculture Organization (FAO) for July 2015 rose for the second consecutive month. Unfavourable weather conditions in North America and Europe caused a surge in the international prices of wheat and major coarse grains during the first half of July, much of which was eroded in the second half of July and in August as weather prospects improved. Subsequently, the year-on-year change in the FAO international cereal price index, expressed in rand terms, accelerated from -10,6 per cent in May 2015 to 2,8 per cent in August.

Wheat prices



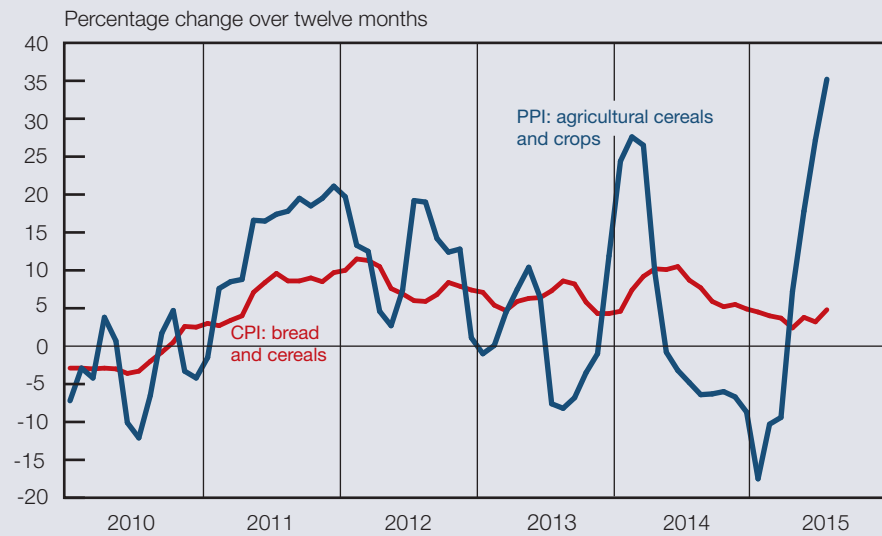
The bread and cereals category within the consumer food price basket accounts for a quarter of the total food price basket, with a weight of 3,55 per cent in the consumer basket against the total food price basket weight of 14,20 per cent. In turn, within the bread and cereals subcategory, bread products have a fairly large weight of 1,75 per cent, constituting almost half of the subindex, while maize meal products have a weight of 0,68 per cent. Given these weights, the marked rise in domestic maize prices, coupled with the recent pickup in domestic wheat prices, is expected to exert upward pressure on the bread and cereals subcategory of consumer food price inflation in the latter months of 2015.

Bread and cereals prices

Percentage change over twelve months

	Weight in overall consumer basket	May 2015	Jun 2015	Jul 2015
Rice.....	0,43 (12%)	0,8	2,4	2,7
Bread	1,75 (49%)	6,4	4,8	5,5
Pasta.....	0,09 (3%)	5,8	5,3	4,4
Cakes.....	0,12 (3%)	4,7	6,3	5,2
Other	1,16 (33%)	0,7	0,5	4,7
Total bread and cereals	3,55 (100%)	3,8	3,2	4,8

Consumer and producer food price inflation



The sharp rise in domestic maize prices was reflected fairly quickly in year-on-year agricultural producer price inflation, which accelerated from a recent low of -3,0 per cent in January 2015 to 7,8 per cent in July, driven largely by a marked acceleration in price inflation for cereals and other crops from -17,5 per cent to 35,2 per cent over the same period. However, bread and cereals price inflation at the consumer level responded with a slight lag and has hitherto remained fairly subdued, accelerating from 2,4 per cent in April 2015 to 4,8 per cent in July.

While white maize is generally used for the production of maize meal for human consumption, yellow maize is primarily used as animal feed. Meat represents the subcategory with the largest weight in the consumer food price basket (constituting 4,56 percentage points of the total 14,20 per cent food weight in overall consumer prices). With domestic yellow maize prices increasing notably since the middle of 2014 and moving closer to import parity, poultry prices – with the largest weight in the consumer meat price basket and strongest dependency on maize as an intermediary input – have been pushed higher.

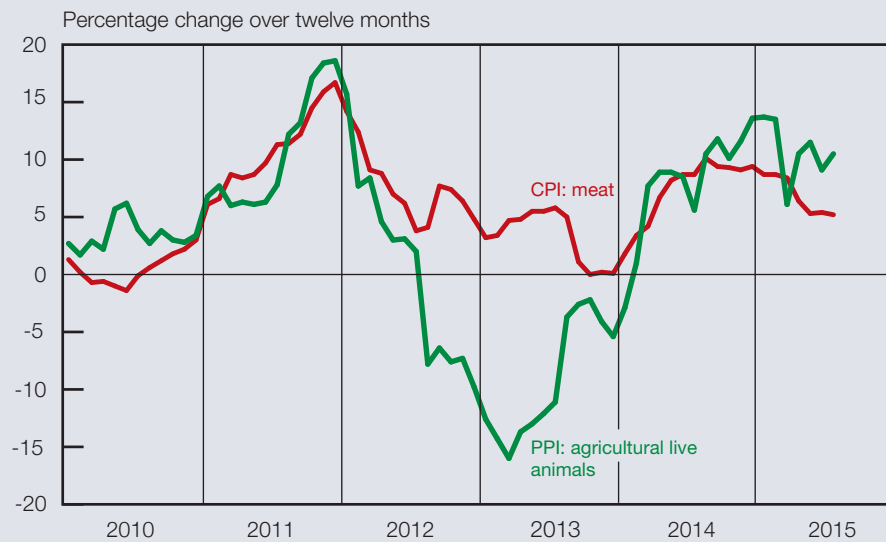
Meat prices

Percentage change over twelve months

	Weight in overall consumer basket		May 2015	Jun 2015	Jul 2015
Beef	1,27 (28%)		2,3	2,8	2,8
Pork	0,17 (4%)		7,9	8,6	7,7
Lamb.....	0,42 (9%)		9,8	9,3	8,5
Poultry.....	1,70 (37%)		8,3	8,4	7,9
Dried, salted or smoked meat	0,92 (20%)		1,8	1,3	2,2
Other preserved or processed meat..	0,08 (2%)		-2,4	-0,7	-1,6
Total meat.....	4,56 (100%)		5,3	5,4	5,2

Meat price inflation has been at fairly elevated levels over the past twelve months as farmers have been stocking their herds. Nevertheless, agricultural producer price inflation for live animals moderated marginally from 13,7 per cent in January 2015 to 10,5 per cent in July. Looking ahead, the persistent dry conditions and the concomitant rise in feed cost, coupled with the high base created over the past twelve months, could mitigate against a further acceleration in agricultural producer meat price inflation and might lead to the culling of herds. Meat price inflation at the consumer level has moderated somewhat in recent months, amounting to 5,2 per cent in July 2015.

Consumer and producer food price inflation



The lower domestic maize crop will impact on consumer food price inflation in 2015 and 2016, primarily via the meat as well as the bread and cereals subcategories, together accounting for 57 per cent of the overall consumer food price basket. The confluence of a smaller crop with a period of weakness in the exchange value of the rand is set to amplify the upward pressure on consumer food price inflation.