How agricultural sector will help tame food inflation in 2017

16 January 2017: The current rains are a welcome relief to farmers; they are the proverbial silver lining in what has been a gloomy season.

“The past year has been testing for the industry; the drought has had an impact on the economy with South Africa’s gross domestic product (GDP) decelerating in 2016. We anticipate that prices will moderate now in 2017 as the new season production outlook improves with the rains across the producing areas,” said Paul Makube, Senior Agricultural Economist at FNB

Makube shared an outlook on how crops, grains and meats are most likely to perform in 2017:

White and yellow maize - While the spot prices remain relatively strong, reports that South African authorities approved the importation of the genetically modified maize (GM) from the US has added further pressure on the market due to expectations of an increased competition from imports early in 2017.The maize crop is however expected to rebound by almost 60% to just over 12 million tons during the 2016/17 production season.

Wheat – It’s shown significant recovery with production already 6% higher year-on-year (y/y) at 1.88 million tons. This together with the abundant global supply outlook, with production and stocks of 749 and stocks of 235 million tons respectively, will maintain downward pressure on domestic prices as South Africa remains the net importer of wheat. The import forecast dropped by 0.5 million y/y from 2 million for 2015/16 to 1.5 million for 2016/17 according to the South African Grain & Oilseed Supply & Demand Estimates Committee (S&DEC) in its Nov 2016 update.

Sugar and horticulture - Production is expected to increase on the back of the improved conditions due to the recent rains. This will boost the availability of the exportable produce, particularly fruit. Although the local sugar cane production improved somewhat in the latest updates, poor quality and subsequent sugar recoveries have reportedly cut the export availability for 2016/17. Globally, the outlook is bullish with a surplus expected for 2016/17 due to increases in Thailand, India and the EU. The implications are the renewed downward price pressures on international sugar prices.

Red meat - Prices trended mostly sideways to stronger for red meat during the last quarter of 2016 as slaughtering increased due to the delayed onset of the summer rains.

Weaner market - This saw a rebound in prices with calves selling just over R21/kg as producers began holding on to their stock due to the improved production conditions, this as a result of the summer rains.

Beef - We expect beef prices to remain elevated owing to supply constraints due to herd rebuilding in 2017.

Pork and Poultry - Producer margins are expected to improve due to the declining feed prices especially in the second half of 2017. However, import competition will continue to limit price gains despite elevated red meat prices. Poultry in particular has seen significant pressure from imports which are forcing local producers to cut back on production and defer expansion plans. Nonetheless, poultry and pork meat remain the cheapest source of animal protein and the demand remains resilient.

While the improved domestic and international agricultural production outlook bode well for food inflation, the prospects of a weaker exchange rate might offset this benefit given that pricing for most grain commodities is based on import parity. Though the rand currently remains at its best level at around R13.60 vs R15.75/ US dollar last year this time, it faces increased volatility in the medium to longer term due to among others the renewed interest rate tightening by the US Federal Reserve Bank (US Fed) and weak domestic growth prospects.

“Overall, 2017 has started off well, with good rainfall in some parts of the country. The year ahead will still be trying, but the silver lining is that we are starting to see a little relief from the recent rains and the sector is slowly stabilizing. ," concludes Makube.

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