

Expected meat price rise may be overplayed

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16 Aug 2010

As CPI inflation faces upside risks from higher wheat prices, the threat of high meat prices eating into consumers' pockets may be a little overplayed.

Wheat prices are continuing to rally amid drought conditions in Europe - prices of raw materials have gone up by around 24% in the past six weeks and are certain to be inflationary later in the year.

An analyst says the impact on South African consumers will likely be felt in early October.

And chief economist at Econometrix Dr Azar Jammie cautions that CPI inflation in SA is set to break above the 6% target in 2011 off current low levels of 4.2%. He sees it at 6.5% next year.

Price increase in theory

A theory doing the rounds is that high meat prices would need to be added to the inflationary mix as good rains have led to better grazing and hence farmers keeping herds longer than usual to build them up which would lead to less supply and thus higher prices.

However, Pieter Cornelius, livestock manager at Agrimark Trends, says while grazing is going to be better in the coming months, the three-year average price line shows a turning point in July after which monthly prices tend to increase to December each year.

"This should be accepted as a normal seasonal trend in beef prices," he told *BusinessLive*.

Abnormal increase

He notes that from January to April the trend for 2010 was quite normal, but instead of the normal decline from April to July, the average price of class A2/A3 beef continue to increase up to June.

This increase was not normal and should be linked to the additional demand for beef that was created during the World Soccer Cup during the second half of June till the first half of July.

"The expectation at present is that June will in 2010 be the peak price month and that it will slowly decline to November/December," he adds.

"Farmers will only grow their herds in 2010 if they were forced in the previous year to liquidate their herds due to drought.

"The year 2009 was actually a normal year, which means that there is not a reason for herd building in 2010.

"The better grazing during the present winter will only ensure that the animals that will be ready for the market in the rest of 2010 will be of good quality.

"It should also be mentioned that Class A2/A3 meat can only be produced in feedlots and not from the natural grazing itself."

Index decrease

The food and non-alcoholic beverages index decreased by 0.4% between May 2010 and June 2010. The annual rate decreased to 0.7% in June 2010 from 0.8% in May 2010.

The monthly decrease in the food and non-alcoholic beverages index was largely driven by monthly decreases in fruit (-5.4%), sugar, sweets and desserts (-1.2%), bread and cereals (-0.7%), meat (-0.6%), other food (-0.4%), cold beverages (-0.3%), hot beverages (-0.2%) and milk, eggs and cheese (-0.1%). These decreases were counteracted by monthly increases in vegetables (1.7%) and fish (0.5%).

CPI for food and non-alcoholic beverages makes up 15.68% of the CPI basket and total CPI dipped to 4.2% in June, its lowest level in four years.

Increases in this component tend to hit the poor hardest as food and other necessities make up the bulk of their budgets.

Yet higher salaried individuals have been running at higher CPI rates of 4.6% than the 2.7% for the lowest quintile (up to R14,564 expenditure). This picture will swing dramatically if higher food prices do set in, as has been the case historically.

Raw material price rise

A miller, who prefers to remain anonymous, says prices of raw materials have gone up by around 24% in the past six weeks since the dry weather conditions hit wheat crops in Russia, Ukraine and Kazakhstan - the Black Sea area.

"Because of the two month time lag, consumers can expect an increase in the retail prices of bread and other food commodities.

"However, we should not overstate the situation because wheat prices are still well below the 2008 peak," he said.

Speculation a driving force

A local food analyst says the spike in wheat prices is driven more by speculators than by the fundamentals.

"While the drought conditions in Russia remain a concern, given that Russia is one of the world's biggest wheat producers, the sharp rises in prices do not represent the true reflection of the situation on the ground.

"The Russian situation does not pose a threat to the world running short of the crop." He added the world still has sufficient crop in ending stocks.

Russia said on Thursday, 12 August 2010, that about one quarter of its crops have been lost due a record wave.

High wage settlements and administered prices are seen by analysts as the likely culprits adding to the rise in CPI in 2011, but it is generally not expected that interest rates will be ratcheted up and a long period of flat rates is forecast.

Small solace may be that meat prices will not add significantly to the pressure to come from wheat prices.

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