OPINION / COLUMNISTS

NEVA MAKGETLA: Longer-term measures needed to reduce prices of staple foods

BL PREMIUM

07 FEBRUARY 2023 - 05:00

Following two consecutive months of decline, retail sales increased marginally by 0.4% year on year in November 2022, assisted by Black Friday shopping activity, says FNB. Picture: 123RF/ASAWIN KLABMA

For most South Africans the 2022 spike in meal, flour and bread prices increased the cost of living as much as the rise in electricity tariffs and taxi fares combined. But higher food prices did not result from a jump in production costs or new dependence on imports.

International markets drive the price of staple foods even when they are produced locally. As a result, volatile global grain prices brought a 30% price increase for maize meal and flour in the year to

December, while bread climbed nearly 20%. Local production costs rose a fraction as fast. These trends meant already impoverished people ended up paying economic rents to companies in the grain value chains.

Food accounts for over a quarter of all expenditure for the lowest-income 60% of households. These families survive mostly from poorly paid, often precarious employment and self-employment, supplemented by social grants. Nearly a fifth of their food budget goes on just three items: maize meal, bread and flour. Quick-frozen chicken pieces, stewing beef, sugar, cooking oil and vegetables make up most of the rest.

The poorest 60% spend almost a tenth of total expenditure on maize and wheat products, compared to 2% for the seventh to ninth decile — essentially the formal working class — and 0.2% for the richest 10% of households. This difference in consumption patterns between rich and poor mean the consumer price index systematically understates the impact of staple food increases on working people.

In a competitive market skyrocketing prices should reflect higher costs or lower supply. However, in the past two years SA has seen near-record harvests without extraordinary increases in production costs. Rather, the problem is that domestic prices track international markets, irrespective of local conditions. In 2022 speculative swings in international grain prices followed the brutal Russian invasion of Ukraine.

In rand terms, in December 2022 the export parity price for maize was 30% higher than at the start of the year. Still, it was sharply off from the previous month, when prices had risen to almost twice the January 2022 price. For wheat, import parity prices ended the year much where they started. However, from April to June and September to November they were 30%-50% higher than in January.

Escalating maize and wheat prices benefit about 15,000 commercial maize and wheat farms, a handful of dominant trading and milling firms, and the retail chains. Together, they employ about half-a-million workers, many on a seasonal basis. While production costs for these enterprises rose somewhat in 2022, notably for diesel and fertiliser, they did not approach the growth in sales revenues. The losers, above all, are working people and the poor — the 40-million individuals who live in the poorest 60% of SA households.

It is easy to understand why maize tracks the export parity price. SA is usually at least self-sufficient in maize. In theory, if the local price fell below international levels farmers could just export more, driving it up to parity. In contrast, SA imports half its wheat, making it less obvious why market forces do not align prices more closely to production costs. The underlying problem seems to be that information systems centre on international prices while traders and millers exercise considerable market power.

A more competitive market for grains should ensure that in the long run domestic prices reflect domestic costs, decoupled from international trends. In the short term, an export tax on maize, at least during price surges, would help. In addition, a windfall profit tax on producers could generate revenues to cushion low-income households from the effects of higher prices, for instance through a matching increase in social grants.

In the medium term, the Competition Commission should undertake a market inquiry as the basis for longer-term measures to reduce the rents on staple foods.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.

Stock Watch - 16 Jan 2022

26:12

Next video

9:19

WATCH: Political parties threaten protests against

7:15

WATCH: Treasury weighs $1bn World Bank loan

7:04

Market Report - 16 Jan 2023

Market Report - 2022