The COVID-19 health crisis has resulted in a corresponding economic crisis, with necessary lockdown measures and a global recession resulting in declining levels of economic activity. Low income households have borne the brunt of the economic crisis, being the subject of job losses and lacking the safety net provided by personal savings. In this context, ensuring prices for essential food products do not escalate is critically important to the welfare of most citizens, especially lower income households. Essential food items make up just over 30% of the expenditure of the bottom three income deciles.

Following the President’s announcement of a State of Disaster on 15 March 2020, there were widespread media reports and complaints in relation to price gouging by retailers on essential food and hygiene products following panic buying by consumers. This resulted in the Customer Protection and National Disaster Regulations and Directions (“Regulations”) being issued on 19 March by Minister Patel which specifically empowered the Competition Commission (“Commission”) and National Consumer Commission (“NCC”) to intervene in circumstances where prices have increased materially without any cost justifications for the increase. Of the 1600 complaints received under the Regulations by the end of June, 307 (or 19%) relate to basic food products, second only to face masks & hand sanitiser which had 320 complaints combined.

At the same time, prices in upstream food commodity and fresh produce markets also started to increase rapidly, resulting in concerns of material food price inflation outside of specific cases of price gouging. The Commission immediately started monitoring these markets to detect any material upward price movements and fresh produce marketplaces to ensure compliance with the Regulations and the containment of price increases for key essential products. The monitoring has resulted in advocacy with large food companies and fresh produce marketplaces to ensure price increases for key essential products are reasonable and fair. This has also been used to understand if issues exist in certain markets that may exacerbate food price inflation.

ESSENTIAL FOOD PRICING MONITORING JULY 2020

competition commission for a growing and inclusive economy
The initial monitoring identified that many food commodities were experiencing price inflation in part due to the weakening of the Rand, and in some cases due to export restrictions being introduced in other markets. Similarly, the initial panic buying of essential food items may have contributed to upward pricing pressure in fresh produce markets. However, price gouging was also evident in some cases and the crisis has exacerbated certain market features that raise competition issues that warrant further investigation. For instance, the disparity between farm prices and retail prices raises serious questions as to the distribution of risk and profits in the value chain; small fresh produce markets also lack the same liquidity as larger markets making them more vulnerable to price volatility and manipulation; and the practice by some suppliers and retailers of immediately pricing up to expected cost increases despite lower cost product in stock is both questionable and inflationary.

The monitoring effort has identified that most upstream food commodity and fresh produce prices are now on the decline, with the potential to ease consumer pressure if passed through into lower retail prices. However, that outcome is not necessarily certain as it is oft observed that food prices are quick to go up and slow to come down, if at all. This too may be a market feature that warrants more investigation. However, in the meantime the Commission will continue to use the Regulations to ensure upstream food costs reductions feed through to lower retail prices, as prior price increases resulting from initial food inflation can no longer be justified by costs if such costs have come down.

**Basic Food Commodities: Maize, wheat and rice**

Rice and wheat are both priced at import parity given that South Africa is a net importer of these products. As a result, their prices in Rand terms are driven by global markets and the Rand/Dollar exchange rate. Maize is currently priced around export parity as production exceeds domestic demand, but export price levels are also influenced by the exchange rate and global markets.

The c.25% depreciation of the Rand in March (from c.R15.30 to the dollar on 2 March to c.R19.10 on 2 April) has been the main driver of increased pricing across all these markets in the early stages of the crisis. Wheat prices did fluctuate in a narrow band around $220-$240 (US No. 2 HRW fob Gulf) whilst par-boiled rice prices from SE Asia experienced some increase due to drought in Thailand, compounding the price inflation caused by Rand depreciation. The result was that wheat futures increased from c.R4500/ton to R5500/ton on SAFEX, with rice imports increasing from c.R6000/ton to R9000/ton.

These initial price increases did not necessarily result in immediate retail price increases because food companies had stock in store and on sea that was paid for using dollars purchased at a better Rand exchange rate when the order was confirmed. In addition, in response to advocacy efforts by the Commission and DTIC, the major food companies agreed to hold prices during lockdown level 5 and absorb the cost. However, these cost increases started coming through the supply chain in May, with further increases announced for July.

The Commission will continue to engage these companies to ensure there is no price gouging.

Since the end of April, the Rand has appreciated by c.10% to around R17.20 to the dollar, aided by growing stability in global markets for food commodities. Wheat has stabilised around $220/ton and rice has seen some declines. As a result, the July contracts on SAFEX for wheat have declined to c.R5200/ton and the September contracts are down to c.R5000/ton, or a 10% Rand price decline. This is reflected in the figure below. However, for the same reasons that earlier price hikes did not necessarily feed into retail prices immediately, we can expect that these declines will not stop current price increases, and only temper them. However, we should expect retail price declines within the next few months as new stock comes in at better prices.

Maize experienced a lower initial increase in price due largely to the knowledge that a bumper crop would result in price decreases from May onwards. Stock depletion leading up to the new harvest did result in April future contracts for white maize trading at up to c.R3500/ton, in contrast to May contracts at c.R2800/ton and September contracts at c.R2700/ton. This is reflected in the figure below which shows pricing per contract term. However, limited volumes were traded and the evidence is that maize product prices remained stable through this period. The difference was less stark for yellow maize which traded at c.R2800 regardless of the contract date. The bumper crop is now being harvested and the near term July and September contracts came down to c.R2500/ton for white maize and c.R2600 for yellow maize in June. Given low stock holdings leading into the new harvest, we should expect that these price declines will feed through to lower maize retail prices fairly immediately.
Recent price announcements to retailers by a large food company are in line with expectations given the recent price movements in upstream markets. Price decreases are being announced for maize products from the end of this month and slightly tempered increases for rice and wheat products (bread/flour), with an acknowledgement that these may be reversed later in the year.

**Fresh Produce**

Fresh produce is produced nationally and sold through local fresh produce markets in different cities and towns. The daily pricing of fresh produce will depend on the daily supply and demand at each market, albeit that these markets could also be subject to manipulation, especially smaller ones. The Commission has tracked the top vegetable and fruit fresh produce moving through the Johannesburg Fresh Produce market, the largest market nationally, from the date of lockdown with the starting point the month to date average prices in March. The four figures below provide a time series for the top 10 vegetables by volume, the top 5 fruit by volume and the core spices of garlic, ginger and chilli.

The top 6 vegetables by volume (potatoes, onions, tomatoes, carrots, cabbage, butternut) and sweet potato (at no. 10) all present a similar price trend over the period from pre-lockdown to present. There is first a material increase in prices which continues for the first 10 days and may in part be attributed to panic buying of staples by consumers. This is followed by a decline in prices that continues towards the end of April, before increasing in the first 10 days of May once more. Thereafter, we see a gradual decline in all the top 5 vegetables to around pre-crisis price levels in early June 2020. This decline may be attributed to reduced demand due to the continued closure of restaurants. However, we do observe an uptick in some prices in the last two weeks of June which may be indicative of seasonal price changes and will be monitored closely. The other three vegetables, beetroot and squashes saw similar initial trends but the increases from late April have been sustained, whereas green peppers has largely kept rising.
Fruit is more seasonal and so we do expect more price variation with price reducing as supply expands in the domestic season and then price increases when out of season (and imported from other regions). However, consumers also switch consumption to seasonal fruit in response to price changes across the different fruits.

The top 4 fruits (apples, bananas, oranges and pears) did not see the same initial price increase observed for vegetables, and pricing has largely remained flat or on a downward trajectory. Avocados show a classical seasonal pattern with a large increase in price followed by a similarly large decrease as the market is flooded with volume. Prices increased again in early June but have since stabilised.

For the core spices, garlic had a large and sustained increase through to mid-May but has since been on a steady decline, albeit not to pre-lockdown levels yet. Ginger had an initial increase but after one week into lockdown has seen declines, with a similar bounce in early May.
In light of the lockdown and concerns for possible hikes in retail pricing across a number of essential goods, StatsSA engaged in an exercise of tracking prices for a basket of essential products. It constructed an Essential Product Consumer Price Index (EPCPI) and tracked this on a weekly basis for the duration of April (level 5 of the lockdown) using online sources. The EPCPI comprised a number of broader categories in addition to the Food category – “milk, eggs and cheese” however it must be noted that this category also saw the largest increase in prices in the first week but decreases in the following weeks.

The overall low price inflation despite some of the upstream inflation seen in food commodity and fresh produce at the end of March may in part be a result of deterrence from the Commission’s enforcement effort on food companies and national retailers not to pass through cost increases during lockdown level 5. For instance, the Commission received such commitments from the three largest food companies and Massmart announced a price freeze for lockdown level 5. The implication is that some of these upstream cost pressures were deferred to May and this may be seen in the next table below which shows that the bulk of the increase was from 2 March to 2 April (5.8%) and then a steady easing or decrease in prices after that point. This is also consistent with observations above for wholesale pricing of initial increases in prices before prices again fell. The category with the largest increase in pricing is “milk, eggs and cheese” however it must be noted that this category also saw the largest increase in prices in the first week but decreases in the following weeks.

### Table 1: Weekly movements in EPCPI (April 2020)

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight in Food basket (%)</th>
<th>Index for week ending 2 April (+100)</th>
<th>Index for week ending 9 April</th>
<th>Index for week ending 16 April</th>
<th>Index for week ending 23 April</th>
<th>Index for week ending 30 April</th>
<th>Price change 2 April to 30 April</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread and cereals</td>
<td>20.7</td>
<td>100</td>
<td>100</td>
<td>100.3</td>
<td>100.1</td>
<td>99.5</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Meat</td>
<td>33.7</td>
<td>100</td>
<td>100.6</td>
<td>100.7</td>
<td>100.2</td>
<td>99.9</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Fish</td>
<td>2.8</td>
<td>100</td>
<td>98.6</td>
<td>98.7</td>
<td>98.3</td>
<td>99.1</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Milk, eggs &amp; cheese</td>
<td>15.9</td>
<td>100</td>
<td>104.2</td>
<td>102.9</td>
<td>102.6</td>
<td>102.8</td>
<td>2.8%</td>
</tr>
<tr>
<td>Oils and fats</td>
<td>3.1</td>
<td>100</td>
<td>102.1</td>
<td>102.3</td>
<td>102.4</td>
<td>101.2</td>
<td>1.2%</td>
</tr>
<tr>
<td>Fruit</td>
<td>2.3</td>
<td>100</td>
<td>93.4</td>
<td>90.4</td>
<td>96.3</td>
<td>96.8</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Vegetables</td>
<td>8.3</td>
<td>100</td>
<td>97.7</td>
<td>97.1</td>
<td>95.4</td>
<td>95.4</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Sugar, sweets &amp; deserts</td>
<td>3.5</td>
<td>100</td>
<td>100.0</td>
<td>99.2</td>
<td>99.3</td>
<td>98.1</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Other foods</td>
<td>7.8</td>
<td>100</td>
<td>100.7</td>
<td>100.5</td>
<td>102.2</td>
<td>100.4</td>
<td>0.4%</td>
</tr>
<tr>
<td>FOOD (TOTAL)</td>
<td>100.0</td>
<td>100</td>
<td>100.6</td>
<td>100.4</td>
<td>100.2</td>
<td>99.5</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

Source: StatsSA

Summary remarks

The depreciation of the Rand and initial panic buying which disrupted normal demand patterns provided a basis for some abnormal food price inflation at the beginning of lockdown in food commodity and fresh produce markets. It would appear that some stability has since returned both to the currency and domestic fresh produce markets, providing the basis for price reductions currently being realised in upstream markets. However, the crisis has exposed some market features in food value chains that are of potential concern and which warrant further investigation. These features and practices by market participants may have contributed to greater price inflation than was warranted by the disruption to the markets.

The evidence on the flow through to retail pricing for consumers seems mixed, with the PMBEJD identifying in their store sample that this did impact pricing immediately then flatten, whilst StatsSA has detected a smaller inflationary effect. This may have to do with the samples and the enforcement pressure on national retailers at least to contain price increases in lockdown. However, in the context of price deflation now in upstream markets, it will be important to ensure that this passes through rapidly to consumers in order to offer that relief. The Commission will continue to monitor both upstream and retail food prices to determine if this is happening, and if not take enforcement action. It will also provide further evidence around the functioning of these markets and if closer scrutiny is required to address features that bias towards food price inflation.

ECONOMIC RESEARCH BUREAU