The COVID-19 health crisis has resulted in a corresponding economic crisis, with 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.

In March 2020, alongside enforcement action against price gouging, the Commission began to monitor essential food prices more broadly - including upstream food commodity and fresh produce markets - in order to understand the effect of the pandemic, the preventative measures of government and the economic crisis on food markets. The economic context has the potential to amplify the effect of certain market features, pointing to underlying competition and structural problems in these markets that also warrant closer scrutiny. The Commission’s work in food price monitoring also aims to identify these features and investigate their impact.

The Commission has thus far released two quarterly reports. In these reports, a number of observations regarding the impact of Covid-19 and the food markets more broadly have been made. The onset of the Covid-19 health crisis and the associated lockdowns saw panic buying behaviour in both wholesale and retail markets. In terms of wholesale fresh produce markets, initially price increases were observed in key vegetables such as carrots, onions, and tomatoes. In commodity markets for grains, price increases were observed initially due to exchange rate movements as well as the actions of various governments such as limiting exports to ensure food security. However, the second quarterly report revealed that these wholesale markets had appeared to normalise such that there were no ongoing concerns regarding pricing at a wholesale level. In this quarter the Rand has also appreciated to pre-Covid levels to bring relief to imported food commodities.

However, the pricing dynamics in retail markets are cause for greater concern for the Commission. The previous food price monitoring reports identified price impacts over the initial Covid-19 and lockdown period, likely driven by panic buying behaviour. The report found that pricing at the retail level is quick to respond to
cost increases and slower to respond to cost decreases. Most importantly prices had not returned to normal levels following the initial spike in prices, with the pricing spread between wholesale and retail still higher than prior to the onset of the pandemic.

This constitutes the third quarterly essential food price monitoring report. Given the observations above, our focus is on retail prices as well as the spread between wholesale and retail prices. We also analyse other essential products that we have not yet covered, specifically dairy and meat. It is laid out as follows. Firstly, we analyse the dairy market looking at both margins over time and the impact of the initial lockdown period. Secondly, we consider the meat market and the impact of Covid-19. Thirdly, we present an analysis of the financial results of the major retailers and food processors or manufacturing firms in order to understand the impact of Covid-19 and the lockdown on margins and volumes at a firm level. Finally, we update the analysis of the wholesale-retail price spread for certain products covered in the second quarterly report.

Pricing outcomes in dairy markets

Milk is an essential food product, as it forms an important part of the consumer basket and is also one of the top ten food expenditure items for low income households in South Africa.1 The Commission has received, particularly during the initial lockdown phase, a number of complaints from farmers and industry regarding higher retail prices despite downward pressure on prices for farmers. The Commission has also been active in enforcement activities and merger investigations in the industry during lockdown. More broadly, the Milk Producers Organisation (MPO) itself has noted an increasing spread between farmer prices (raw milk) and retail prices over time.

Thus we consider the milk and dairy market here in more detail looking at, firstly, longer term trends and, secondly, the impact of the pandemic and initial lockdown. In order to do so, the Commission sourced data from various industry stakeholders such as the MPO, the South African Milk Producers Organisation (SAMPRO) as well as data from Statistics South Africa (Stats SA).

We start by considering the spread between retail prices and farmer prices over the long term. The figure below shows these two prices over time, from January 2012 onwards. It shows that the retail price for milk has seen a greater increase than the underlying increase in producer prices (raw milk purchased from farmers) which have risen more slowly. This has resulted in the farm to retail price spread displaying a steady increasing trend between 2012 and 2020, with a mean annual growth rate of around 7.38% over this period which is higher than average annual inflation of around 5% over the period). The producer price of raw milk has gone up by just under R2/litre from R3.20/litre in January 2012 to R5.13/litre in September 2020, whereas the retail price has increased by over R6/litre from R8.35/litre to R14.73/litre, with the price spread growing from about R5 to almost R10. This is consistent with the findings of the MPO.

What is evident from the data is that the increases in the pricing spread seem to be driven by three periods. Firstly, in 2014, retail prices increase substantially with much more limited increases in raw milk prices. Over six months, the spread moves from R6.04/litre (March 2014) to R7.44/litre (September 2014). Then again in 2016, retail prices increase substantially more than farmer prices, with the spread moving from R7.02/litre (February 2016) to R8.48/litre (August 2016). Thirdly, in 2018 and 2019 we see drops in the farmer price, but without any accordant decrease in retail prices. We understand the sharp decrease in farmer prices in 2018 was driven by higher levels of supply/production. However, despite larger volumes and lower prices, these savings do not appear to have been passed on by either the processors or the retailers. The spread moves from R7.79/litre in January 2018 to R9.01/litre in September 2018. What this shows is that on a number of occasions retail prices were able to move up significantly without a similar increase in farmer prices, or able to remain constant when farmer prices were falling.

1 BFAP Covid 19 Brief. See: https://www.grainsa.co.za/upload/files/2020.03.23%20BFAP%20COVID%2019%20Brief%20%2520How%20%2520south%20%2520Africans%20%20spend%20%20other%20%20food%20%20budgets.pdf

An important question is what is driving this increase in the pricing spreads. Raw milk is sold to processors who process the milk and then sell it to retailers. Below we consider processor and retailer margins from 2016 to 2020.2 The figure below divides the margin into what is considered processor margin and retailer margins from 2016 to 2020. The figure below divides the margin into what is captured by each party and what is captured by processors. What is interesting is that besides the early part of the period in the figure where processors capture additional margin, there is little movement in the processor portion of the margin over the period, with retailers seemingly taking a larger share of the margin over 2019 and 2020.

What the data also suggests is the historical increases in the spread between farmgate and retail prices must have been driven by processors as retailers were taking little margin in early 2016. Thus industry concerns regarding the margin potentially being driven by processors seems to have some merit when considering the earlier years i.e. up until mid-2016. This may point to some exercise of bargaining power by the processors, which is a concentrated layer of the value chain. However, from mid-2016 to just before the onset of the pandemic, processor margins increase to a degree, while the retailers’ margins increase even more, particularly in 2019.

2 Processor prices from Stats SA only available from January 2016
Then, as the pandemic arrives, margins for processors in fact decrease, while retailer margins increase. Retailer margins increase from R1.00 in March 2020 to R1.77 in April 2020, a near doubling of margins for retailers, driven both by an increase in retail prices in April 2020 and a decrease in the wholesale price paid to processors. The data suggests that retailers have managed during this time to keep processors in check while taking additional margin themselves. As of September 2020, the elevated retail price for fresh milk and seemingly depressed wholesale price that took place in the first month of lockdown appear to have persisted without any correction thus far. This again points to a concern with the conduct of retailers, both during the Covid-19 crisis but also more generally.

Interestingly, a less severe Covid effect occurred for long-life milk prices as the retail price for long-life milk only increased by 0.5% from March to April 2020 † while the fresh milk retail price increased by over 5% during this time. This is contrary to an expectation that panic buying behaviour may have affected long-life milk to a greater degree. This may point to panic buying being targeted at more short-term consumption behaviour, or potentially larger stocks of long-life milk that allowed a quicker supply response.

The movement in margins captured by retailers is also illustrated in the following figure. It shows the increasing margin captured at the retail level relative to the price of raw milk received by farmers. This illustrates the role of retailers in driving price increases at the retail level in 2020.

Dairy farmers have also voiced concerns about rising input costs as they have seen increases in the levels of prices for feed concentrates in the dairy industry. The figure below shows that the concentrates portion of feed costs (approximated by the SAFEX prices of yellow maize and soya) has been rising since mid-2017 while the farmer prices have not shown an equivalent increase.

This suggests that in recent years, farmers have been subjected to a margin squeeze with feed costs increasing but the raw milk price not keeping pace at all. This issue has been communicated by farmers and it is a concern for policy makers and competition authorities. Ultimately what this means is decreasing profitability and the exit of smaller farmers who are not able to achieve the necessary scale to decrease costs and increase profitability.4

In the national lockdown period, it is noticeable (as with other essential products like potatoes and onions) that retailers were able extract more margin which is not seen for milk processors during Covid-19. Since then, it is apparent that the margins have not decreased since the lockdown and the retailers continue to do well.

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3 Average retail prices for long-life full cream milk as published by Stats SA

4 The evidence shows a sharp decrease in the number of dairy farmers from 3,551 in 2009 (source: https://milksa.co.za/sites/default/files/2018-09/LAC003%20March%202017.pdf, p.21) to 1,164 in 2019 (source: https://milksa.co.za/sites/default/files/2020-05/LAC005%20Lacto%20Data%20SASA%20May%202020.pdf, p.21) and a sharp decrease in the share of production from smaller herds. The need for scale to achieve profitability has also been noted previously (source: https://www.foodformzansi.co.za/food-for-thought-mzansi-dairy-industry-not-a-dry-why-state/).
Pricing outcomes in meat markets

In this edition, we also assess movements in wholesale and retail meat prices. For this assessment, wholesale meat prices are the prices used by Stats SA to construct the Producer Price Index (PPI) as well as wholesale abattoir prices received from ABSA Agribusiness (henceforth referred to as ABSA). Retail prices are prices used by Stats SA to construct the Consumer Producer Index (CPI).

We are interested in movements in meat prices especially upstream prices as movements in upstream meat prices have an impact on the ultimate meat prices paid by consumers. Meats are an essential product and an important part of the consumer basket used by Stats SA in deriving the CPI. We also want to understand the impact of the Covid-19 pandemic and the economic crisis on meat markets and prices.

The previous editions showed that during the Covid-19 pandemic, prices were affected particularly at the retail level. Furthermore, the previous editions showed that retailers benefitted from the demand and supply disruptions in that retail prices increased, and we want to ascertain if this was the case in the retail of meats.

An assessment of data over the long-term period (prior to January 2019) showed that broadly there was a strong correlation between wholesale and retail prices. Considering this, our analysis below focuses on the impact of Covid-19 and the lockdown period to understand to what extent this disrupted the market and the relationships between wholesale and retail prices.

In this regard, we review meat prices movements of beef, pork, lamb, chicken, and fish.

**Beef prices movements**

Using abattoir / slaughterhouse data provided by ABSA, below we show weekly movements of Class A beef prices from the first week of January 2018 up to the week ended on the 23rd of October 2020, the latest data available. It appears that the pandemic did not cause significant changes to Class A slaughter prices. As shown below the prices of Class A slaughter beef have largely been stable around R45/kg throughout the period of analysis. There was however a slight decrease in prices around February 2019, but prices rebounded soon thereafter. It is also evident that there were no significant increases when the national lockdown was introduced in March 2020 as prices remained stable around R45/kg during that period and the subsequent months. This is likely to be because increased retail demand was offset by a collapse in food service demand.

While we are only able at this stage to observe the wholesale price (the price charged by abattoirs), the lack of movement in the wholesale price suggests that farmgate prices possibly did not show any short term increases over the lockdown period. We however observe slight steady increases in prices towards the end of the analysis period (starting end of August 2020) culminating in the price reaching around R50/kg in the week ended 23 October 2020. According to ABSA’s Agri Trends: Livestock and Hide Report dated 18 September 2020, “Demand for beef products remained strong while a limited supply provided support for prices.” This increase is unlikely to be related to the lockdown or the pandemic.

Considering this, we also assess beef carcasses prices collected by Stats SA for the purpose of deriving PPI against the retail prices used for calculating CPI by Stats SA.
SA. As shown below, beef carcasses prices sourced from Stats SA show similar price trends as the wholesale carcasses prices for Class A beef sourced from ABSA. Prior to the lockdown period, prices have largely followed the same trend showing a high correlation between wholesale and retail prices. This picture however changed after the introduction of the lockdown as we now observe changes in the trends across all retail products. Stewing beef prices show the biggest change as they have been increasing steadily peaking at R112/kg in October 2020 from a low level of around R80/kg in January 2020. Similarly, the spread between stewing beef and wholesale carcasses prices has been increasing since the lockdown peaking at around R62/kg in October 2020. This shows that beef retail prices were adversely affected by the pandemic, but this was unrelated to wholesale prices.

picture however changed once the national lockdown was introduced as we observe changes in retail prices across all the retail products. Pork fillet shows the largest change in prices as the per kg pork fillet price increased from around R107/kg in April 2020 to around R119/kg in May 2020. There were other episodes of pork fillet price fluctuations culminating in prices rebounding to pre-lockdown levels in October 2020. The spread between pork fillet retail and the wholesale price also increased during the lockdown period peaking at around R100/kg in May 2020 and thereafter decreasing to around R93/kg in October 2020. This increase in spread was also driven by decreasing wholesale prices, which were actually lowest in May 2020. These savings were certainly not passed through to ultimate consumers.

While it is not clear why stewing beef in particular was affected by the Covid-19 pandemic and lockdown, this does not appear to be driven by data collection concerns given the sustained high price in October 2020. It does however appear that much like other products, the greatest beneficiary of the change in buying behaviour was the retailers themselves.

Pork price movements
For pork prices, because the PPI data from Stats SA has missing data for key months, we use wholesale Baconers® prices from ABSA® as this type of pig accounts for the biggest portion of all slaughter pigs. Prior to the lockdown period, we also largely observe a high correlation in pork wholesale and retail prices. This

Source: ABSA and Statistics South Africa
Note: Data for May and June 2020 missing

Price movements in lamb/ mutton
Similarly, we assess wholesale and retail lamb/ mutton prices using Stats SA data used for the purpose of deriving the PPI against the retail prices used for calculating CPI by Stats SA. The impact on market dynamics and pricing of the pandemic and lockdown is clearly evident in the sale of mutton/ lamb. Firstly, there was a slight increase in carcasses prices, and this resulted in all listed retail products prices increasing initially. However, with the onset of the pandemic, there is clear disruption in the retail market but not the wholesale market. Mutton/lamb loin chop prices have subsequently decreased to around R177/kg in October 2020, but this is still higher than pre-lockdown levels. The spread between these retail

Pigs that weigh 66-85kg
9 ABSA provided weekly prices. The Commission thus derived average monthly prices from these weekly prices

Source: Statistics South Africa
Note: Certain data for May and June 2020 missing

Source: ABSA and Statistics South Africa
Note: Data for May and June 2020 missing
while the wholesale prices have largely remained flat barring slight price changes in March and August 2020. The per kg price of chicken portions, which has a higher weighting in the CPI basket than whole chicken, peaked in June 2020 when its per kg price increased by around R6.20/kg from around R76/kg to around R82/kg. Chicken portions prices have subsequently decreased to around R74/kg in October 2020, but this is still higher than pre-lockdown levels. Similarly, the spread between chicken portions and wholesale fresh and chilled prices was the highest in June 2020 at around R50/kg but it has decreased to around R42/kg in October 2020, relatively higher than pre-lockdown levels.

As chicken can be regarded as a staple source of protein, the retail prices suggest panic buying and disrupted market dynamics with retailers able to benefit from increased prices.

Likewise, movement in prices for frozen wholesale and retail chicken have largely followed the same pattern prior to the national lockdown. This however changed with the introduction of the lockdown as we observe increases in retail prices around this time, although there has been a subsequent decrease in prices to pre-lockdown levels. Frozen chicken portions - non IQF again sharply increased in April 2020 from around R48/kg in March 2020 to around R60/kg in April 2020. Frozen chicken portions - non IQF prices have subsequently reduced to the pre-lockdown levels. The spread between frozen chicken portions - non IQF and the wholesale equivalent was the highest in April 2020 at around R37/kg and the spread has subsequently decreased to around R26/kg in October 2020, in line with the pre-lockdown levels.

Price movements in chicken
There are two parts to the poultry price movements assessment. Firstly, we analyse fresh chicken wholesale and retail prices and thereafter we analyse frozen chicken wholesale and retail prices.

It is evident from the data that there were clear increases in retail prices of chickens during the lockdown period.

10 Chicken giblets (neck, gizzards, hearts, etc) are not categorized as either fresh or frozen, and have been included in the assessment of frozen chicken assessment.
The lack of a strong effect on frozen chicken prices relative to fresh chicken is unexpected. Given the ability to store frozen chicken for longer, one may have expected greater demand for frozen chicken. What may have also driven the additional demand is consumers switching from eating out to home cooking given the lockdown restrictions. As will be shown below, the performance reports of retailers suggest large increases in volumes overall, which is consistent with this.

**Fish price movements**

With respect to fish prices movements, we analyse fresh fish wholesale and retail prices from January 2019 to October 2020. For fresh fish, it appears that the pandemic and the lockdown period largely had no effect on the wholesale and retail prices as these prices have largely remained flat. Frozen hake prices however saw a slight decrease around the period when the national lockdown was introduced but prices have subsequently been on an increasing trend. This saw the frozen hake price sharply increasing in October 2020 from around R159/kg to around R188/kg. The spread between wholesale and retail prices was also the highest in October 2020 as it increased from around R110/kg in September 2020 to around R139/kg.

**Overall observations from meat prices**

Barring some exceptions, across the different meats wholesale prices have largely remained stable even with the introduction of the national lockdown while there were increases in retail prices entering into lockdown, especially for chicken, beef, pork and lamb/mutton. Prices have subsequently reduced to pre-lockdown levels in most instances. This is most likely due to increased retail demand as consumers go out less, exploited by retailers, whilst at the wholesale level this is offset by reduced food service demand. This is consistent with results in other essential products analysed in the previous report such as potatoes and onions and again the concern is pointed squarely at the retail market and the behaviour of the retailers.

**Financial performance of retailers and food manufacturers/processors**

The introduction of the national lockdown saw panic buying behaviour and a switching of consumption from restaurants and other food services prohibited under lockdown to home prepared food. This would be expected to result in increased demand at the retail level given the shift in consumption patterns which would in turn see increased volume at both the retail and wholesale levels. An increase in demand from food retailers is consistent with the increased prices observed in this, and previous, food price monitoring reports. Thus, the implication of the analysis thus far is that...
retailers in particular have benefitted financially from the lockdown period. The analysis conducted above is at an aggregated level and in this section, we review the financial results of specific grocery retailers and food wholesalers/processors covering the pandemic and lockdown period.

We firstly review the retailers reporting and thereafter we review the performance of manufacturers/processors.

As summarised below, apart from the Massmart Group of stores, all retailers either reported increased sales volumes growth or sales revenue growth (and both in some instances) in their latest financial statements. The effects may be even more pronounced than what is presented in the financial statements as sales reporting is typically aggregated, consisting of all grocery items rather than food alone. Woolworths reported that their Food division saw an increased sales revenue growth of 10.7% for the whole year and 13.3% revenue growth in the second half of their financial year. The second half of the financial period coincides with the pandemic and lockdown period and the fact that Woolworths saw a higher revenue growth in this period is consistent with the view that the lockdown resulted in increased volumes at the retail level given the shift in consumption patterns.

Apart from Pick n Pay, all retailers including Massmart (Massmart reported an overall loss13) reported increased gross profit margins. The reported increased margins range from 50 basis points14 (or a 2% increase in margins) to 220 basis points (or a 9% increase in margins). As highlighted above, these might be even more pronounced for food given that these results are usually aggregated with other business units. Woolworths however reported that their Food gross profit margin only increased marginally from last year.

The metrics provided by retailers in their financial statements relating to price changes are average internal price inflation or product inflation15 in some instances. These measures (price inflation and product inflation) provide an indication of average price increases across different retailers. These are between 3% and 6.5%. Although these measures are aggregated, this is consistent with the increased prices observed in this, and previous, food price monitoring reports.

12 Although no specific reasons were given in the six month interim results reporting for the incurred loss, Massmart stated in their Integrated Annual Report for the year ended December 2019 that last year was one of the most difficult in Massmart's history culminating in its first loss of R661.0 million since listing on the JSE twenty years ago. The reasons provided in last year's report was the challenging operating environment, with hand pressed consumers impacted by slow wage growth and rising fuel costs, opting to spend on non-durable goods rather than durable goods. This, together with the impact of food-salading and service protest action, severely impacted Massmart sales performance, which totalled R93.7 billion in 2019 compared to R90.9 billion in 2018. This amounts to a growth in sales of just 3.0%, which was exceeded by Massmart expense growth of 10.2% during the same period. It therefore appears that the incurred loss (at least last year’s loss) was not specifically related to food products but rather more generally to expenses growing at a higher rate than sales. Massmart has also previously announced a turnaround plan, and this saw the Group closing 23 DionWired stores during the current lockdown period.

13 From 23.4% to 23.9%.

14 From 23.3% to 25.5%.

15 Our understanding is that this is similar to internal selling price inflation / product inflation measures described above.

We firstly review the retailers reporting and thereafter we tabulate the summary of sales reporting below.

Table 1: Summary of retailers’ financial reporting

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Reporting period</th>
<th>Sales reporting</th>
<th>Margin reporting</th>
<th>Internal selling food inflation reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick n Pay</td>
<td>The six months ended 30 August 2020</td>
<td>South Africa core food and grocery turnover is up by 9.9%. Real volume growth of 4.2% in core food and grocery.16</td>
<td>Group profit increased 1.0% to R8.6 billion, with a 0.2%-point reduction in gross profit margin to 19.6% of turnover.18</td>
<td>Internal selling food inflation in South Africa was contained at 3.4% over the period, against CPI Food inflation of 4.3%.19</td>
</tr>
<tr>
<td>Shoprite</td>
<td>The year ended 28 June 2020</td>
<td>Group’s core business20</td>
<td>Gross profit of 8.9% year on year to R37.5 billion resulted in a gross margin of 23.4% for the Group, this was an increase of 50 basis points compared to last year’s 23.4%. One of the three reasons stated by Shoprite for this increase was a 10.3% increase in Supermarkets RSA gross profit.21</td>
<td></td>
</tr>
<tr>
<td>Spar</td>
<td>The year ended 30 September 2020</td>
<td>Spar Southern Africa saw a growth of 8.5% in retail sales.24</td>
<td>Margins increased by 59 bps to 9.4%.25</td>
<td>Internally calculated26 food inflation was 3.9% up from 3.1%.22</td>
</tr>
<tr>
<td>Massmart Group</td>
<td>The Massmart Group reported a net loss of R1.2 billion for the period, compared to a loss of R0.8 billion during the same period in 2019.23 Gross margin increased by 90bps to 20.1% from June 2019.24</td>
<td>Product inflation for these two retailers was 6.5%.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Game (part of Massmart)</td>
<td>The six months ended 28 June 2020</td>
<td>South African stores decreased by 10.6% (in revenue terms).21</td>
<td>Gross margin improved by 220bps to 25.5%.22</td>
<td>Product inflation was 4.6%.21</td>
</tr>
<tr>
<td>Cash and Carry (part of Massmart)</td>
<td></td>
<td>Improved margins of 80bps to 10.9% compared to June 2019.24</td>
<td>Product inflation was 6.5%.26</td>
<td></td>
</tr>
<tr>
<td>Makro (part of Massmart)</td>
<td></td>
<td>Margins improved by 70bps to 18.2% compared to June 2019.24</td>
<td>Product inflation was 3.6%.26</td>
<td></td>
</tr>
<tr>
<td>Woolworths Food</td>
<td>The year ended 28 June 2020</td>
<td>Woolworths Food turnover and concessions sales increased by 10.7% for the year with second-half growth of 13.3%. Food benefited from the changes in customer buying behaviour in the second half.21</td>
<td>Food business gross profit margin of 24.9% was marginally higher than the prior year.27</td>
<td>Not reported</td>
</tr>
</tbody>
</table>

20 The Group’s core business is food retailing.
24 Slide 38 of Spar FY20 Results presentation for year ended 30 September 2020
25 Slide 17 of Spar FY20 Results presentation for year ended 30 September 2020.
26 Our understanding is that this is similar to internal selling price inflation / product inflation measures described above.
27 Slide 38 of Spar FY20 Results presentation for year ended 30 September 2020
28 Page 2 of Massmart Interim Results as of 28 June 2020.
29 Page 2 of Massmart Interim Results as of 28 June 2020.
30 Page 9 of Massmart Interim Results as at 28 June 2020.
31 Page 3 of Massmart Interim Results as at 28 June 2020.
32 Page 8 of Massmart Interim Results as at 28 June 2020.
33 Page 8 of Massmart Interim Results as at 28 June 2020.
34 Page 10 of Massmart Interim Results as at 28 June 2020.
35 Page 10 of Massmart Interim Results as at 28 June 2020.
36 Page 10 of Massmart Interim Results as at 28 June 2020.
37 Page 10 of Massmart Interim Results as at 28 June 2020.
38 Page 50 of Woolworths 2020 Integrated Annual Report as at 28 June 2020
39 Page 63 of Woolworths 2020 Integrated Annual Report as at 28 June 2020

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In the table below, we present a summary of financial results for food manufacturers and/or processors. It shows that some food companies at this level also appear to have benefitted from the crisis, with increases in revenue that appear to be driven by increased demand from retail customers, rather than any pricing impacts at the wholesale level. This is consistent with the more general analysis of Stats SA data where pricing impacts are more prominent at the retail level and the view that the lockdown caused a shift in consumption patterns and thus caused an increase in the sales of grocery food items. These volume effects would naturally be observed at both levels.

In terms of the margin performance of various food items, the results are mixed - most reported increases in margins, while others reported decreased margins. Some food manufacturers/processors have reported separate price increases of food in some instances with the highest reported increase of 7.8%. We note that the annual CPI between March 2020 and August 2020 was between 2.1% and 4.6% while the average CPI for 2019 was 4.1%. Below we summarise these results.

### Table 2: Summary of manufacturers/processors’ financial results

<table>
<thead>
<tr>
<th>Processor/wholesaler</th>
<th>Reporting period</th>
<th>Brands owned</th>
<th>Sales reporting</th>
<th>Margin reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCL Foods</td>
<td>The year ended 30 June 2020</td>
<td>Rainbow chicken, Rainbow Simply Chicken, Duma rusk, Nola mayonnaise, 5 Star maize meal, Sunbake bread, etc.</td>
<td>Strong volume growth in chicken, sugar, rusk, bread, maize flour and pet food categories helped RCL achieve its largest turnover month in history in June 2020. RCL achieved 16% growth in retail and wholesale channel in partnership with major customers. Chicken revenue of R813.6 million was up 2.1% on the prior year, driven by higher volumes.</td>
<td>Not reported</td>
</tr>
<tr>
<td>Astral Foods</td>
<td>The year ended 30 September 2020</td>
<td>Goldi chicken, Country Fair to R1 billion, Festive chicken, Mountain Valley chicken, etc.</td>
<td>Revenue reported for the year ended 30 September 2020 was R14.1 billion, an increase of 4.6% compared to the prior year at R13.5 billion. The increase in revenue of R619 million was primarily attributable to the broiler operations in the poultry division contributing R384 million, which was as a result of a 3.8% increase in broiler sales.</td>
<td>Gross profit increased by 5.9% to R2.8 billion (2019: R2.6 billion) resulting in the gross profit margin improving from 19.5% (2019) to 19.7%. Operating profit for the poultry division decreased by 20.5% to R295 million (2019: R371 million).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processor/wholesaler</th>
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<th>Brands owned</th>
<th>Sales reporting</th>
<th>Margin reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tiger Brands</td>
<td>The year ended 30 September 2020</td>
<td>Albany Bakeries, Koo beans, Jungle Oats, Ace maize meal, Crosse &amp; Blackwell mayonnaise, Fatti’s &amp; Moni’s pasta, etc.</td>
<td>Volume decreased by 2%. Grocery profitability increased on increased volumes and rigid cost control. The grocery division saw a volume growth driven by spreads and canned vegetables. “Jam &amp; peanut butter volumes benefiting significantly from at-home consumption”. With respect to Beverages, Covid-19 restriction in H2 offsets reasonable H1 growth. Gross margins (including from continuing operations) were down by 180bps to 30.0%. Group revenue in increased by 4% to R29.8 billion. Profit for the period decreased by 73% from R3.8 billion to R1 billion. Groceries operating margins remained the same at 6.4%. Beverages operating margin decreased by 387bps to 15.3%. Pricing was up 6%.</td>
<td>Not reported</td>
</tr>
<tr>
<td>AVI</td>
<td>The year ended 30 June 2020</td>
<td>Five Roses, Freshpak, Cro, Frisco, Trinco, House of Coffee, Bakars, I&amp;J, Willards, etc.</td>
<td>From April to June 2020, Tea volumes increased by 17.7%, Coffee increased by 4.3%, Creamer increased by 20.1%, Ciro decreased by 68.8%, Biscuits increased by 20.7%, Snacks increased by 22.3%, I&amp;J domestic decreased by 8.8% while I&amp;J abalone decreased by 40.8%. Entice Beverages (Five Roses, Freshpak, Frisco, etc.) operating profit margin increased by 0.5%. Snackworks (Bakers, Willards, Provita and Baumann’s) operating profit margin increased by 12.4%. I&amp;J operating profit margin decreased by 37.4%.</td>
<td>Not reported</td>
</tr>
</tbody>
</table>

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40 Page 47, 49 and 67 of RCL Abridged Integrated Annual Report for the year ended June 2020
41 Page 65, 66, 67 and 98 of RCL Abridged Integrated Annual Report for the year ended June 2020
42 Page 1 of Astral Consolidated Results for the year ended 30 September 2020
43 Page 1 of Astral Consolidated Results for the year ended 30 September 2020
44 Slide 8 of Tiger Brands’ F20 results presentation for the year ended 20 November 2020
45 Slide 18 of Tiger Brands’ F20 results presentation for the year ended 20 November 2020
46 Slide 20 of Tiger Brands’ F20 results presentation for the year ended 20 November 2020
47 Slide 8 and 9 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
48 Slide 18 and 20 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
49 Slide 8 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
50 Page 7 of AVI Limited Results Booklet: 30 June 2020
51 Page 29 of AVI Limited Results Booklet: 30 June 2020
52 Page 36 of AVI Limited Results Booklet: 30 June 2020
53 Page 40 of AVI Limited Results Booklet: 30 June 2020
54 Page 29 of AVI Limited Results Booklet: 30 June 2020
55 Page 36 of AVI Limited Results Booklet: 30 June 2020
56 Page 36 of AVI Limited Results Booklet: 30 June 2020
57 Page 17 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
58 Page 17 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
59 Page 17 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
60 Page 17 of Tiger Brands’ F20 results presentation for the year ended 30 September 2020
Thus the analysis of individual food companies at the retail and wholesale level are broadly consistent with the more general observations that have been made based on Stats SA and other industry level data. Retailers have realised growth in their gross margins and the increased demand over lockdown is also seen in sales volume and sales revenue growth. The effects specific to food may be even more pronounced where the aggregation across different product categories in the financial statement. This is supported by Woolworths’ results, which specifically report that their Food division saw an overall sales revenue growth and a higher revenue growth in the second half of their financial year than in the first half, coinciding with the pandemic and lockdown period.

With respect to the manufacturers and/or processors, the results show that some food companies at this level also appear to have benefited from the crisis, with increases in revenue that appear to be driven by increased demand from retail customers, rather than any pricing impacts at the wholesale level. Thus pricing effects are not as evident at the wholesale level, which is consistent with other analysis thus far.

Monitoring of wholesale-retail margins

In the previous food reports, the Commission stated it would continue to monitor the margins between producer and retailer prices, at least for the more essential products like potatoes and onions. The updated producer and retailer prices for potatoes and onions, as seen in the figures below, show that the wholesale-retail margins have on the whole come down again since April and May 2020. While the decrease in the spread for potatoes appears to be more driven by increases in wholesale prices, as retail prices are higher than pre-lockdown levels, retailers have not passed all of this through to customers. With respect to onions, retail prices have fallen back to pre-lockdown levels. The suggestion is that, for these products at least, there may not be any continuing effects from the pandemic and lockdown.

When considering other essential food products based on data provided by Stats SA, the results are mixed in terms of price increases over the lockdown period but there is a clear Covid price effect in products like cooking oil, eggs and spices where the difference between producer and retailer prices shows an increase in April 2020 mainly due to a retailer price rise. As an example, this price effect can clearly be seen in the price movements for eggs below, although in eggs the increase in the spread between wholesale and retail has been sustained.

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57 Brait has a 98.5% shareholding in Premier
58 Page 30 and 87 of Brait Unaudited Interim Results Booklet
59 Page 87 of Brait Unaudited Interim Results Booklet
60 Slide 35 of Sea Harvest Unaudited Interim Results for the six months ended 30 June 2020
61 Slide 35 of Sea Harvest Unaudited Interim Results for the six months ended 30 June 2020
62 Slide 34 of Sea Harvest Unaudited Interim Results for the six months ended 30 June 2020
63 Slide 34 of Sea Harvest Unaudited Interim Results for the six months ended 30 June 2020
64 Slide 35 of Sea Harvest Unaudited Interim Results for the six months ended 30 June 2020
65 Retail price for eggs, from Stats SA, converted to a price per dozen as average producer prices are provided per dozen (by Stats SA to the Commission).
Closing remarks

It is clear from the analysis in this third quarterly food price monitoring report that concerns around conduct of retailers over the lockdown period continue to persist. While some markets such as onions and potatoes suggest an easing of concerns, the assessment of meats, an essential category of food, shows that concerns remain. The assessment of meats shows that the pandemic and lockdown had a significant effect with clear market disruption evident. Retail prices and wholesale-retail spreads for a number of products are yet to return to pre-lockdown levels.

The examination of the financial performance of retail companies shows that on the whole both margins and volumes have increased relative to prior periods which is consistent with the analysis done by the Commission previously using the general Stats SA data.

Results for food manufacturers/processors are more mixed with varying results in terms of margins compared to previous periods. However, overall profitability is by and large higher than previous periods, driven by greater sales volumes following greater demand at the retail level. This is consistent with the view that panic buying and changes in consumption patterns from eating out to in-home cooking and eating occurred.

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