

Source: STAR

Date: 27-Jan-2004

Topic: 19

Ref No: 438



1

ID: 03041492-01 Source Page: 5

## Food prices not likely to rise, say analysts

**VERNON WESSELS  
AND NICKY SMITH**

Johannesburg - The risks of a sharp rise in food prices were "somewhat overstated" as food retailers would not be able to pass higher prices to consumers, Nazmeera Moola, an economist at Merrill Lynch, said in a research report released yesterday.

The country's drought and rising global food prices have sparked fears that domestic inflation will be fuelled by a spike in maize and wheat prices.

The risk of higher food prices on the Reserve Bank's targeted measure of inflation - CPIX, headline consumer inflation less mortgage costs - has led economists to put on hold their expectations of an interest rate cut next month.

Moola expects annual CPIX to average 4.4 percent this year, slightly more optimistic than the average 4.8 percent expected by 10 economists polled by Business Report last week. Consumer data will be released by Statistics SA later today.

Higher oil prices and the volatile rand are other threats, although Moola forecasts the rand to end the year at R6.90 a dollar while Merrill Lynch expects the oil price, which may go as high as \$34 a barrel, to pull back to average \$25 this year.

Maize futures traded on the SA Futures Exchange had been on the climb since bottoming in March last year and most traders had already factored in crop shortages, Moola said.

Manufacturing and consumer food prices had been slow to follow falling agricultural prices, she said, which might allow them to absorb margin pressure.

The pain of higher food prices on low-income earners would

mean food retailers would not see the type of volume growth experienced by appliance and furniture sellers, which benefited from rate cuts last year, Moola said.

"It is not unfeasible that if producer food prices begin moving up this will be slow to impact on consumer prices," Moola said.

Nick Vink, a professor of agricultural economics at Stellenbosch University, said drought concerns were overdone, as only 5 percent of agricultural production would be affected by it.

One observer noted that while maize farmers were encouraged to plant less maize by Grain SA, the same group was crying over the small size of the maize crop.

Vink said maize plantings over the years had varied by as much as 80 percent and a crop of 6 million tons was no crisis.

Professor Johann Kirsten, the head of agricultural economics at the University of Pretoria, said 7 million tons was enough for the country's needs, while there was also carry-over stock from the previous season.

Kirsten, who chaired the Food Price Monitoring Committee last year, said it was unlikely food prices would spike as they did in 2001 and 2002, mainly because the rand had held up against the dollar.