Why your breakfast costs are lower this year

By Paul Makube

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Whether you're enjoying a hearty breakfast you fried up yourself or treating yourself to a morning meal at your favourite coffee spot, chances are you will notice that the cost of your breakfast of champions is leaving you feeling like more of a winner these days.

Source: jcomp via Freepik

While there has been an improvement lately, the past few months have been very tough and there is a deeper story behind the volatility in prices of staple foods like milk, eggs, meat, bread and grains. Understanding various price drivers sheds light on the challenges faced by farmers and the extent to which the global economic landscape is impacting these essential food items:

Milk: A decline in dairy farms and growing import competition

Over the past 15 years, South Africa has witnessed a significant decline in the number of dairy farms, leaving only around 1,000 remaining at present. While this hasn't significantly reduced milk production, various other factors have contributed to the steadily increasing price of fresh milk that we have all noticed in our weekly grocery shopping outings.

The most significant of these external pressures has been rising input costs like feeds and fertilisers, which are essential to provide quality grazing for pasture-fed cows. Adding to the challenges for local dairy farmers has been the fact that imports of UHT (long-life) milk have soared, primarily driven by supermarkets.

The lower cost of UHT milk compared to fresh milk has intensified competition and put pressure on dairy producers. Historically, cheese and powdered milk production helped supplement dairy farmers' incomes, but with the decreasing milk availability, these secondary industries have also been impacted.

Consequently, the milk, eggs and cheese consumer price subindex remained elevated at a double-digit level of 14.4% year-on-year (year-on-year) in July 2023 although having accelerated from 1.4% in June to 0.9% month-on-month (month-on-month) in July. In the fresh category, the full cream and low-fat milk were up by 10.7% and 17.9% year-on-year respectively. The long-life full cream and low-fat milk were up by 13.9% and 11.6% year-on-year respectively.

Eggs: A breather after facing rising input costs and avian influenza outbreaks

In recent months, enjoying the luxury of a three-egg omelette or a couple of over-easy eggs to accompany your morning toast was a lot more costly. The price of eggs has risen steadily since the beginning of the year. Once again, the main culprit for this has been increasing input costs, particularly in the form of more expensive feed for the chickens.

Furthermore, periodic avian influenza outbreaks have forced farmers to cull significant portions of their laying stock, reducing the overall supply and pushing prices higher.

However, the situation improved following the decline in grain prices, a proxy for feed, that helped reopen profit margins for producers. Further, the constrained consumer disposable incomes impacted negatively on demand which saw a half-dozen and the 18-egg package price falling by 2.5% and 10% y/y respectively.

Pork: Global trends and feed prices

Pork production in South Africa saw growth of over 9% in 2022. However, despite the increase in production, pork producers still faced significant profit pressure due to high feed prices. As a net importer of pork, South Africa is also affected by international industry trends.

So, the recent increase in the price of European pork due to declining availability, high input costs, and uncertainty surrounding new animal welfare standards served to push up the prices of your pork sausages and favourite cuts of bacon. The bacon and ham prices increased by 10.7% and 8.8% year-on-year respectively in July 2023 according to the latest inflation update.

Grains and cereals: Global climate shifts and currency volatility

In 2022 and the early part of 2023, grain and cereal prices continued to inflate despite record-breaking summer grain yields. This was largely influenced by hot and dry conditions in large parts of the Northern Hemisphere, leading to global price dynamics. The weakening exchange rate of the South African rand, coupled with fears of a global economic slowdown, increased incidences of load shedding, and rising global interest rates, also worked together to add to the inflationary pressure on these staple food items.

Oils and fats: Global economic trends and a weak rand

The price of oils and fats rose by almost 40% in 2022, largely driven by similar factors affecting grains. However, we saw a deceleration since early in 2023 and a further decline in the past three months to July due to the improved availability of products and the spillover weakness from the international market. The oils and fats subindex was in negative territory for the third consecutive month at -12.9% year-on-year in July from -9.5% and -2.4% year-on-year in June and May 2023, respectively.

The good news is that it's not all bad news

Fortunately, when it comes to the price of your breakfast, it's not all doom and gloom. In fact, there are a number of trends that are pointing towards costs of these, and other, food staples normalising and possibly even reducing in the coming months. Typically, the production trends and prices of grains take a few months to filter through to retailers, so consumers can hope to see lower prices for flour, bread, and cereal. The positive impact of the high yields should filter through to your local supermarket in the coming months.

The global prices of fertilisers and other key farming inputs have been gradually declining, and those savings should be passed on to consumers. And when you add to these factors, the more positive outlook for inflation, load-shedding, and the exchange rate, it seems likely that the upward pressure on prices that has been evident in recent months will ease going forward.

So, all things being equal, and assuming that there are no further economic shocks in the second half of 2023, there's a good chance that a Sunday morning fry-up might cost you a little less this coming summer.

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