

17 February 2016



Dear Minister Gordhan

Re: Budget 2016 submission: Inflation on food baskets of low-income households projected to be higher than 15% in 2016 - implications will be devastating for South Africa.

Minister Gordhan, the Pietermaritzburg Agency for Community Social Action (PACSA) tracks food prices, specifically on the food baskets of low-income households. We have been tracking food prices since 2006. We track the foods low-income households buy, in the quantities they buy them in, and from the supermarkets they buy from. Our data is able to show the impact of food price inflation on low-income households. Our latest data is showing substantial increases in food price inflation over the last 3 months. It suggests that food price inflation will be higher than 15% for 2016. Our projections correlate with those of STATS SA's of an 11% increase in food price inflation towards the end of 2016. Our research indicates that the impact of such extreme price hikes will be devastating for households.

In order to mitigate some of the harshest effects of these massive food price hikes PACSA submits the following for your consideration:

- Increasing low-level baseline wages in the public sector and social grant's in line with projected estimates of food price inflation of 15%, and with municipal and public service tariff projections.
- Substantially increasing the Child Support Grant (currently at R330 per month) to a rand value which allows households to feed a small child a basic but nutritional diet – our January 2016 figures cost this monthly diet at R528.25 per month.
- Intervene immediately to turndown price increases which exceed affordability thresholds e.g. Eskom's current application before NERSA for a 16.6% increase in electricity tariffs; whilst ensuring local municipalities implement stepped tariffs for cross-subsidisation to ensure low-volumes are affordable for low-income households.

We understand that increasing baseline wages and social grants under our current economic constraints presents great difficulties for you; however it must be done. Satisfying macro-economic demands by not doing so, a very short term measure, will be quickly undone when the base of society ruptures. Increasing baseline wages and social grants must be seen as an immediate intervention to avert disaster but also a long-term visionary intervention to ensure that South Africa remains on the path towards the vision it still has aspirations to achieve.

We base our submission on the following:

We are starting to see substantial increases in the month-on-month inflation on the food baskets of low-income households.¹ Prices increased by 4.01% month-on-month from Nov 2015 to Dec 2015; and 4.8% from Dec 2015 to January 2016. Over the last three months the food basket increased by 9% (R148.94), moving the total cost of the food basket from R1 648.10 in November 2015 to R1 797.04 in January 2016. Compared to the data of the same period last year – from November 2014 to January 2015 – the 3 month increase totalled 0.7% (R10.62).

The hikes over the last month have increased the year-on-year food price inflation on the basket by 14.6% -from R1 568.25 in January 2015 to R1797.04 in January 2016, an increase of R228.79. The year-on-year price for a 25kg bag of maize meal is already 21.2% (R179.14), rice (10kgs) is 16.1% (R76.99), flour (10kg) is 10.6% (R80.15), samp (5kg) is 36.2% (R37.66), white sugar (10kg) is 9.2% (R108.92), sugar beans (5kg) is 16.6% (R84.32), cooking oil (4kg) is 38.8% (R87.14), cabbage (2 heads) is 59.1% (R28.55), potatoes (10kg) is 120% (R73.32), onions (10kg) is 30% (R45.33), chicken necks (6kg) is 18% (R91.95) and beef (1kg) is 16.3% (R58.33).

Our food price monitoring data suggests that food prices will continue to accelerate upwards as the effects of the drought and weak exchange rate have yet to be fully felt. Projections are that these effects will continue escalating over the next few months, with a peak arriving towards the second part of the year. Food prices will be driven higher when the next electricity price hike ($\pm 16.6\%$) comes into play and will increase the costs of all goods and services across the value chains and the cost of electricity in homes.

Our research suggests that low-income households will not be able to absorb future price shocks because already they are not coping. Low incomes and low grant levels do not sufficiently buffer households; incomes are too low to be able to absorb shocks by spending more money. Instead, low-income households are absorbing shocks by cutting back expenditure and taking on higher levels of mostly unsecured credit to cover food shortfalls. Many households are thus reaching a critical point where even the strategy of cutting back or taking on increasing levels of more

expensive debt is having serious negative implications for health, nutritional status, childhood development, productivity levels and household debt levels.

Baseline wages and social grants are not high enough to allow households to absorb the price increases. Households on low incomes prioritise food expenditure last because it is one of the few expenditures households can control. Massive food price hikes together with higher than headline inflation increases on other goods and services and the higher costs of servicing debt mean that households will not be able to afford sufficient, nutritious food. We are expecting a massive crisis to emerge in the households of low-income families this year. This crisis will explode across all of our developmental outcomes and render it almost impossible to recover because it will wipe out any buffer that households still have to deal with shocks. We are asking that you seriously consider this submission to you; because there are still options available to you to mitigate (short-term) and eliminate (long-term) what may be South Africa's tipping point.

Our research already shows that households underspend on nutritious food by 55.6%. Household struggles to afford sufficient nutritious food are being reflected as a double burden of under and over-nutrition. South Africa's stunting levels are equivalent to those of Gambia and Gabonⁱⁱ - a third of children under the age of five are severely undernourished.ⁱⁱⁱ Nearly two-thirds of women^{iv} and nearly a third of men are either overweight or obese.^v South Africa's mortality statistics show that the leading causes of death for women aged between 45-64 are non-communicable diseases (diabetes, hypertension and heart disease).^{vi}

As a longer term intervention, we would request the Treasury to consider:

- The food affordability crisis will be felt in our public health care sector. We ask that an intergovernmental forum be convened which includes Treasury, the DoH, DSD and DAFF to discuss how the DoH can put steps in place to deal with increased numbers relying on the public sector and how Treasury, DSD and DAFF can intervene to address and arrest the causes of these effects.
- Consider changes to the CPI to more accurately measure the inflation on goods and services for low-income households. Here looking at increasing the weighting of food in the CPI basket to better reflect the consumption patterns and priority items of low-income households; and more accurately approximating the expenditure of low-income households. The current approximation of R12 900.00 does not reflect low-income household expenditure levels.
- Increasing the baseline wages of low-income workers, using the National Minimum Wage framework, to a level which provides the possibility of a living wage. Inflation-linked increases in this context would then make sense as it would then allow households to live at a level of dignity from one year to the next.
- Substantially increasing social grants to build the economic base of households and provide them with the possibility of absorbing price hikes, whilst also allowing households the possibility of investing in their livelihoods.
- Re-imagining a different type of economic paradigm which will assist us to move beyond crisis management but which would actually transform the economy to be able, not only to absorb crises, but which would actually prevent them without just causing another crisis in another form. A different type of thinking is required to ensure that our social base is built. The framework of cost recovery in a context which does not support it; is not working. We need to find ways to ensure households are able to support themselves – building a social base is one way to do this. There are many possibilities – we would welcome a discussion to explore what such a new paradigm would look like.

We would like our input to be considered as you develop Budget 2016 and for future consideration. We would be open to having a conversation with you, beyond the upcoming budget processes, should you feel that this would be useful. We further attach our latest food price data, in an appendix, for your perusal.

Yours sincerely



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ⁱ The Pietermaritzburg Agency for Community Social Action (PACSA) tracks the food price inflation on the food baskets of low-income households. We track the prices of 36 basic foods across 6 supermarkets which service the lower-income market in Pietermaritzburg; we have been monitoring food prices every month, since 2006.

ⁱⁱ Interview with Julian May (2014). Director of Centre of Excellence in Food Security. University of Western Cape.

ⁱⁱⁱ Human Sciences Research Council (2014). South African National Health and Nutrition Examination Survey (SANHANES-1), 2013. 2014 Edition. The Health and Nutritional Status of the Nation. HSRC Press. Cape Town, South Africa.

^{iv} Mothers eat last and therefore eat the least diversity of foods.

^v South African National Health and Nutrition Examination Survey. SANHANES-1 Media Release 6 August 2013. Human Sciences Research Council. Cape Town, South Africa. p11.

^{vi} See STATSSA's latest report (2014): Mortality and causes of death in South Africa, 2013: Findings from death notification. Statistics South Africa. Pretoria: Statistics South Africa. p90.

Appendix 1: PACSA Food Price Data – January 2016 (showing 3 months and year-on-year).

Foods tracked	Quantity tracked	Jan_2015	Nov_2015	Dec_2015	Jan_2016	Nov 2015 to Jan 2016 (R)	Nov 2015 to Jan 2016 (%)	Jan 2015 to Jan 2016 (R)	Jan 2015 to Jan 2016 (%)
Maize meal	25kg	R 147.82	R 181.81	R 181.81	R 179.14	-R 2.67	-1.5%	R 31.33	21.2%
Rice	10kg	R 66.32	R 68.82	R 68.32	R 76.99	R 8.17	11.9%	R 10.67	16.1%
Cake Flour	10kg	R 72.48	R 72.65	R 74.66	R 80.15	R 7.50	10.3%	R 7.67	10.6%
White Bread	8 loaves	R 83.09	R 82.03	R 84.83	R 84.84	R 2.81	3.4%	R 1.75	2.1%
Brown Bread	4 loaves	R 37.49	R 37.30	R 38.24	R 38.57	R 1.27	3.4%	R 1.09	2.9%
Samp	5kg	R 27.66	R 33.99	R 37.32	R 37.66	R 3.67	10.8%	R 10.00	36.2%
Pasta	1kg	R 20.47	R 21.82	R 21.75	R 22.15	R 0.33	1.5%	R 1.68	8.2%
White Sugar	10kg	R 99.65	R 103.65	R 102.49	R 108.82	R 5.17	5.0%	R 9.17	9.2%
Sugar Beans	5kg	R 72.32	R 75.33	R 80.49	R 84.32	R 9.00	11.9%	R 12.00	16.6%
Canned Beans	3 cans	R 23.45	R 23.37	R 23.72	R 24.47	R 1.10	4.7%	R 1.02	4.3%
Cooking Oil	4L	R 62.80	R 70.66	R 78.49	R 87.14	R 16.49	23.3%	R 24.34	38.8%
Margarine	1kg	R 33.32	R 32.15	R 31.65	R 31.65	-R 0.50	-1.6%	-R 1.67	-5.0%
Fresh Milk	2L	R 24.98	R 23.48	R 23.99	R 23.65	R 0.17	0.7%	-R 1.33	-5.3%
Maas	2L	R 26.74	R 23.65	R 24.66	R 25.15	R 1.50	6.3%	-R 1.59	-6.0%
Eggs	30 eggs	R 38.15	R 36.82	R 38.49	R 38.99	R 2.17	5.9%	R 0.84	2.2%
Canned Fish	4 cans	R 57.27	R 57.29	R 57.96	R 59.29	R 2.00	3.5%	R 2.03	3.5%
Frozen Chicken Portion	6kg	R 140.95	R 133.47	R 134.47	R 131.97	-R 1.50	-1.1%	-R 8.98	-6.4%
Chicken Feet	4kg	R 65.28	R 67.28	R 58.63	R 61.95	-R 5.33	-7.9%	-R 3.33	-5.1%
Chicken Necks	6kg	R 77.94	R 98.95	R 105.95	R 91.95	-R 7.00	-7.1%	R 14.01	18.0%
Beef (1kg)	1kg	R 50.15	R 53.66	R 57.33	R 58.33	R 4.67	8.7%	R 8.18	16.3%
Polony	2.5kg	R 34.22	R 38.48	R 38.98	R 38.98	R 0.50	1.3%	R 4.76	13.9%
Carrots	2kg	R 11.48	R 14.30	R 15.63	R 16.97	R 2.67	18.6%	R 5.48	47.8%
Spinach	4 bunches	R 16.23	R 21.92	R 23.80	R 40.00	R 18.08	82.5%	R 23.77	146.5%
Apples	1.5kg	R 15.58	R 14.48	R 14.15	R 20.98	R 6.50	44.9%	R 5.41	34.7%
Cabbage	2 heads	R 17.95	R 15.97	R 20.72	R 28.55	R 12.58	78.8%	R 10.60	59.1%
Onions	10kg	R 34.87	R 27.33	R 33.16	R 45.33	R 18.00	65.9%	R 10.47	30.0%
Tomatoes	3kg	R 32.50	R 39.50	R 48.16	R 31.32	-R 8.18	-20.7%	-R 1.18	-3.6%
Potatoes	10kg	R 33.33	R 35.00	R 49.71	R 73.32	R 38.32	109.5%	R 39.99	120.0%
Salt	1kg	R 10.68	R 10.65	R 10.65	R 10.65	R 0.00	0.0%	-R 0.04	-0.3%
Yeast	4 X 7g pkts	R 12.12	R 12.15	R 12.15	R 12.15	R 0.00	0.0%	R 0.03	0.3%
Beef Stock	240g	R 14.48	R 13.49	R 13.99	R 15.82	R 2.33	17.2%	R 1.33	9.2%
Soup	600g	R 20.95	R 20.54	R 21.04	R 22.54	R 1.99	9.7%	R 1.58	7.6%
Curry Powder	200g	R 19.32	R 18.15	R 19.48	R 23.32	R 5.17	28.5%	R 3.99	20.7%
Rooibos Tea Bags	200g	R 15.57	R 15.49	R 15.32	R 16.64	R 1.15	7.4%	R 1.08	6.9%
Coffee	100g	R 15.99	R 15.66	R 15.66	R 15.99	R 0.33	2.1%	R 0.00	0.0%
Cremora	1kg	R 34.65	R 36.82	R 36.32	R 37.31	R 0.49	1.3%	R 2.66	7.7%
Monthly cost of PACSA food basket		R 1 568.25	R 1 648.10	R 1 714.18	R 1 797.04	R 148.94	9.0%	R 228.79	14.6%