

Will the avian influenza fuel food inflation?

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The avian flu currently spreading across South Africa has raised concerns about the potential uptick in food inflation. However, it may be too early for such fears, and it is not clear how long or widespread this effect will be. Moreover, the various interventions being considered by government could lessen the impact on both consumers and the domestic poultry industry.

Introduction

The most dominant strains of the avian influenza in South Africa are the highly pathogenic H5 and H7. The most affected provinces so far are Gauteng, Mpumalanga, Free State, Limpopo, and North West.

More than 100 mostly commercial facilities have reported avian influenza cases so far. Notably, there are reported losses in parental stock for breeders of layers and in broilers. For this reason, there are now constraints to egg supplies, as evident in various retail shelves across South Africa.

Recent developments

Over the past few weeks, the Department of Agriculture, Land Reform and Rural Development (DALRRD) convened two critical meetings to address this challenge. Firstly, it met with the retailers. The aim was to assess the severity of the egg supplies at the retail level and assess various response measures. Second, it met with the poultry industry to receive an update on the spread of the disease and to allow the industry to obtain insights into the state's veterinary services.

The significant steps following these engagements are the containment measures currently being implemented by industry and government to control the spread of the disease.

Regarding the egg supply constraints, the stakeholders and government agreed to assess the possibility of importing fertilized eggs to rebuild the parental stock lost from this disease, as well as importing table eggs (powder and liquid eggs) that would help in the baking process and free the whole eggs for human consumption.

These processes will take a few weeks because of the logistics they involve. Moreover, individual businesses are likely to want to make decisions without the government interfering with their business strategies. Thus, in the short term, it is likely that constraints on the supply of eggs at retail level will persist.

Beyond these interventions, there are also discussions about possible vaccinations to curb the spread of the disease. According to informal discussions with officials from the DALRRD, this issue is being considered, as well as protocols that will guide vaccination should these be agreed upon by industry and regulators. The regulators

are likely to assess the efficacy, quality, and safety of such vaccines before providing a view on the path forward.

Furthermore, Ministers Ebrahim Patel of Trade Industry and Competition, and Thoko Didiza of Agriculture, Land Reform and Rural Development are discussing with the International Trade Administration Commission of South Africa (ITAC) a possible review of a rebate for imports of poultry products.

ITAC will communicate a view on this matter in the coming weeks. The intention is to have measures in place to increase poultry imports in case of domestic supply constraints and to avoid possible significant price pressures to consumers.

Notably, such trade measures must be considered with an appreciation that the South African poultry industry has endured challenging years of higher feed costs (maize and soybeans), combined with intense load-shedding, which has increased production costs and constrained businesses. The current avian influenza is an additional challenge to an industry that has been under financial pressure for some time. Thus, any trade policy instrument will have to maintain a balance between consumer welfare and the sustainability of the domestic poultry industry.

Inflation dynamics

In terms of price pressures on consumers, there is anecdotal evidence that various retailers have adjusted egg prices significantly to manage the demand. Such price adjustments in a short period have raised concerns about the possible impact of the current avian influenza on food inflation.

What will matter is the duration of these higher prices. However, it is unlikely they will persist for a long period if key interventions, such as allowing more imports and controlling the spread of the disease, are successful. The current increases could be a temporary blip, which will likely show on one-monthly inflation figures. But the overall trend would then continue on the expected path we were on before, which is deceleration or sideways.

Also worth noting is that eggs have a lower weighting within the food inflation basket, at 0.4%, which means its impact may not be as pronounced in an overall inflation figure. Poultry products, which have a slightly higher weighting of 2,09%, have not increased at the retail level as significantly as eggs. Given that the poultry products supply is still relatively good and there are various trade measures under consideration, there should not be supply constraints over the foreseeable future.

Conclusion

Ultimately, this is a challenging time for the South African poultry sector, and the exact financial impact of these dominant, highly pathogenic strains -- H5 and H7 -- will be evident over the coming weeks. Consumers will continue to see a constrained supply of eggs in the near term.

But the various interventions under evaluation will make a positive impact and that the current price levels of eggs at multiple retailers will not be for the long term and could adjust downwards as the supplies become more available.

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