

Market Country Profile: South Africa

Market Overview

Euromonitor reports that the South African economy witnessed a slowdown in 2022, impacted by record power blackouts, resulting in load shedding and major business losses. A slowdown in industrial production weighed on exports, while the energy shortage raised import bills and exacerbated the trade balance. Looking forward, exports are expected to pick up due to the implementation of the regional trade agreements, while inflationary pressure is expected to ease, impacted by tightening monetary policy.

- Following real growth of 1.9% in 2022, South Africa's economic growth was expected to slow down to an average annual real gross domestic product (GDP) growth rate of 0.6% in 2023 and 1.4% in 2024.
- Inflation in South Africa is forecast to slow down to 5.5% in 2023 from 6.9% in 2022, impacted by tightening monetary policy.
- While South Africa's merchandise exports increased by 0.1% and imports rose by 18.6% during 2022, the country remained a net exporter of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 14.0% of GDP.
- The public debt-to-GDP ratio in South Africa fell to 67.9% in 2022, yet remained above the regional average of 54.5%

Following an expansion of 4.9% in 2021, supported by the post-pandemic recovery dynamics, South Africa's real GDP slowed to 1.9% in 2022, underperforming the average growth of 3.6% in Sub-Saharan Africa. Among the major economic constraints were the record power blackouts induced by ageing infrastructure, lack of maintenance, and insufficient investment in new power generation capacity. According to South Africa's central bank, there were more than 200 days of power rationing in 2022, resulting in lost productivity and hindering businesses from achieving their maximum growth capacity.

As the electricity, mining, and utilities sector was responsible for more than a quarter of total gross value added (GVA) in South Africa in 2022, it helped shield the economy from larger economic losses, capitalizing on the high commodity prices. Yet according to the Minerals Council, South Africa's mining companies' representative body, due to the electricity crisis, total mining volumes were already down by 6%, or USD1.8 billion, in 2022. The slowdown in public consumption growth (to 2.7% in real terms, compared to 5.6% in 2021) was also among the major bottlenecks for the economy, impacted by increased inflation, which eroded real income gains for the consumers.

South Africa's current population is estimated to be 62 million people. About 27% of the population is younger than 15 years old and do not have much purchasing power. The populations aged between 35-49 years old have the greatest purchasing power due to their current working status. High youth unemployment (estimated at around 60%), has many people over the age of 60 support unemployed younger members of their extended family. South Africa has a shrinking middle class, currently accounting for about 30% of

the population, as individuals need to earn \$14,857 to \$28,571 to be considered middle class. South Africa has one of the highest rates of income inequality in the world.

USDA's Office of Agricultural Affairs in Pretoria or FAS Post Pretoria states that South Africa is an important market for agricultural products from the United States. The country is a favorable site for enterprises due to its developing market, which facilitates the effective transportation of both imported and domestically produced agricultural products to major urban centers and the greater Southern Africa region.

South Africa's commercial agriculture business is extremely diversified and self-sufficient in most basic products, apart from wheat, rice, and poultry, although the country remains open for imports from the U.S. South African consumers' willingness to try new products and rising demand for imported goods because of changes in health-conscious eating and drinking habits have created opportunities for U.S. agricultural exports in specialized food and beverage categories, but American exporters face challenges such as local suppliers with trade partnerships with other countries and the volatile exchange rate.

Market Opportunities and Key Issues for U.S. Processed Food Exporters in the South African Market

Market Opportunities:

- Expanding online retail food platforms and increasing proliferation of rapid delivery services, including for temperature-sensitive products.
- Well-developed infrastructure and modern retail chains with established food and beverage import and distribution networks.
- Importers and distributors are capable of increasing brand loyalty.
- South African consumers are interested in new and different foods, especially in the snack food, prepared food, health food, halal, and beverage categories.
- Retailers are expanding the variety of private label or store label products targeted for various consumer groups.
- Importers are interested in expanding the array of U.S. products available in the market.
- South Africa has extensive distribution linkages to other African countries, which provide multiple channels to diversify distribution in the region.
- Retail chains offer larger format stores to accommodate one-stop shopping, including a larger selection of imported and private-label food and beverage product lines.
- Young consumers tend to prefer processed and easy-to-prepare foods, including brands that they have seen on social media and in movies and TV series.

Key Issues:

- Internet service and cellular data is expensive in South Africa, limiting the option of online shopping for some consumers.
- Electricity outages due to load shedding have increased costs and reduced store hours for some retailers. Consumers may not have access to online sales platforms during load shedding. Water outages are also creating issues in terms of service delivery.

- Consumers and retailers with limited knowledge of available U.S. products.
- European and BRICS countries have preferential market access or free trade agreements with South Africa, while U.S. products face high import tariffs.
- Differences in consumer classes, with a large portion of the population priced out of the market for imported foods.
- Rampant food price inflation has eroded consumers' disposable income and hampered spending.
- The rand-dollar exchange rates can complicate planning, especially for smaller or new-to-market firms. Interest rates tend to be higher than in United States and other developed markets.
- Food safety and phytosanitary restrictions may limit the importation of certain foods, while labeling requirements may make small shipments cost prohibitive.

South Africa has long been the top market for U.S. processed food exports in Sub-Saharan Africa. Exports reached US\$118.7 million in 2022, growth of 8% and a record high level. Year to date (YTD) November of 2023 U.S. processed food exports to South Africa dropped 14% to US\$91.7 million. That equates to a loss of US\$15 million which adds to the U.S. trade deficit in food and agricultural products.

Top U.S. processed food exports to South Africa in 2023 included:

- Food Preparations and Ingredients – down 23%.
- Alcoholic Beverages – down 10%.
- Syrups and Sweeteners – down 73%.
- Condiments, Sauces, Jams and Jellies – down 25%.
- Fats and Oils – up 55%.
- Chocolate and Confectionery – down 3%.

Retail Sector Highlights:

According to Euromonitor retail sales of packaged food in South Africa was forecasted to reach US\$18.5 billion in 2023, making it the largest market in Sub-Saharan Africa. That represents growth of 37.4% and a U.S. dollar equivalent of US\$5 billion from 2019. By 2028 Euromonitor forecasts that retail sales of packaged food in South Africa will reach US\$28.4 billion. This represents growth of 40.4% and a US dollar equivalent of US\$8.1 billion from 2024.

High growth products in the forecast include:

- Processed Meat, Seafood and Alternatives to Meat
- Soups
- Sweet Spreads
- Rice, Pasta, and Noodles
- Cheese
- Meals and Soups
- Sweet Biscuits, Snack Bars and Fruit Snacks

FAS Post Pretoria reports that the South African retail food market is highly concentrated among the five largest companies, including Shoprite Holdings Ltd, Pick n Pay Retailers Pty Ltd, Spar Group Ltd, Massmart (Walmart-owned), and Woolworths Holdings Ltd. Together, they account for about 80% of all retail sales, with the remaining 20% largely coming from the informal retail sector.

In 2022, South African retail food sales amounted to US\$38 billion. South African imports of consumer-oriented agricultural products totaled US\$3.2 billion in 2022, up from US\$3.1 billion in 2021. Retail trade sales represent close to 20% of South Africa's GDP. Key trends in the South African retail foods sector include continued growth in ecommerce and home delivery services, sustained demand for healthier offerings in the fresh food and wellness niches, increasing interest in plant-based and meat-alternative products, and growing consumer demand for halal offerings.

Inflation, especially rampant food price inflation, has caused South African retailers to change tactics to market to consumers who must stretch their money to pay for basic needs. Food prices surged to a 14-year high in March 2023, and the South African Reserve Bank (SARB) has raised interest rates multiple times to try to tame inflation. These hikes have left consumers with less disposable income for purchases beyond basic food staples.

Additionally, frequent electricity outages (called "load shedding") have surged prices for cold chain products and made consumers think twice about limiting their fresh purchases due to food safety concerns. Many households were forced to cut items like fresh milk and frozen meat from their grocery lists due to the higher-than-normal prices on these goods and concerns about spoilage due to unreliable refrigeration at home. While there are signs that food price inflation has slowed in recent months, many consumers are still cautious about their spending. FAS contacts report that they have seen an uptick in bulk purchases of staple items, as consumers have combined their budgets with family and friends to save through economies of scale.

Euromonitor reports that Pick 'n' Pay unveiled its Ekuseni strategy in May 2022, a 4-year plan to transform its business model with the aim of gaining share over the early part of the forecast period (2028). Initially represented in supermarkets under a single banner, the player has now adopted a multi-brand strategy to help differentiate its offerings. According to the new proposal, 40% of Pick 'n' Pay's stores will be rebranded to Qualisave, a grocery store concept targeting low- to mid-income households, through a value proposition across 8,000 SKUs and a particular focus on fresh food and essentials. On the other hand, the remaining outlets will remain under Pick 'n' Pay banners, while differentiating their offering with an extended range of 18,000 SKUs targeting mid-income and aspirational consumers and offering an improved in-store experience.

Alongside the new positioning, Pick n Pay also launched its first premium private label offering under Crafted Collection, an assortment of healthy packaged food that complements existing ranges such as Live Well. The Ekuseni strategy also aimed to accelerate digital integration, with a planned ZAR400 million investment in the channel.

Furthermore, the retailer also boosted its on-demand delivery service by partnering with Mr D Food, one of the leading on-demand food delivery services in South Africa, supported by over 2.5 million mobile app users. The agreement aims to improve the player's competitiveness in the field by complementing the Pick n Pay ASAP! app, which it relaunched in 2021.

According to Euromonitor, after exiting various African markets in 2021, including Nigeria and Kenya, Shoprite accelerated its investment in South Africa. The move translated into aggressive outlet expansion and a further diversified portfolio. In line with this strategy, the player opened another 15 supermarkets in 2022 to total 775, of which 68 stores cater for price-sensitive consumers.

The retailer also introduced six Checker Foods outlets in 2022, with an average selling space of 1,200 sq m, with this supermarket banner located in proximity to mid- and high-income neighborhoods. These locations differentiate by including ready-to-eat corners offering sushi and Starbucks concessions. Adding Checker Foods aligns with Shoprite's expansion plans in premium formats. The player also converted approximately 60 existing Shoprite Supermarkets into its FreshX store concept, a premium format introduced in 2018 to attract affluent consumers.

U.S. exports to South Africa face competition from domestic producers in in the country, as well as countries in the Southern African Customs Union (SACU), which have duty-free access to the market (Botswana, Eswatini, Lesotho, and Namibia). Additionally, countries in Brazil, Russia, India, China South Africa trade bloc (BRICS), the European Union, (EU), and South American Common Market (MERCOSUR) have favorable market access arrangements with South Africa. South Africa is also negotiating tariff schedules and preferential trade conditions for implementation of the African Continental Free Trade Area (AfCFTA).

Best Product Prospects:

FAS Post Pretoria reports that South Africa presents market opportunities for U.S. exports in several categories, including beef and beef offal, pork, tree nuts (especially almonds), condiments and sauces, distilled spirits, non-alcoholic beverages, snack foods, and chocolate and confectionary products. Opportunities exist for new U.S. products in the South African food and beverage market, including beef and beef products, fish and seafood products, tree nuts, frozen foods, pet food, snacks and prepared foods, condiments and sauces, seasonings and spice blends, and fruit and vegetable juices.

Foodservice Sector Highlights:

FAS Post Pretoria report that the hotel, restaurant, and institutional (HRI) sector in South Africa is gradually beginning to recover from the COVID-19 pandemic, but challenges remain due to frequent power outages, known as load shedding, and rampant food price inflation. In 2022, the South African foodservice industry brought in US\$4.3 billion, an increase of over 20% from the previous year. FAS Post Pretoria contacts note a growing trend towards convenience foods, fast service restaurants, and takeaways. Also evident in the sector is the move towards providing healthier choices. The South African fast-food

industry is highly developed and dominated by companies with many domestic and international outlets, supported by well-established and competitive franchising models and a well-developed network of industry associations. FAS Post Pretoria sees numerous market opportunities for American exports to the South African HRI sector.

The South African hotel, restaurant, and institutional (HRI) industry is made up of chain stores, including well-known franchises and independent food businesses. FAS contacts noted a growing trend towards convenience foods, fast service restaurants, and takeaways, which was aided by the increased delivery capacity of many outlets during the pandemic. In 2022, consumers reverted to sit down and takeaway orders. However, takeaway and restaurant food sales have been steadily dropping since July 2022. Power outages have caused substantial losses due to food spoiling, service interruptions, shortened business hours, and the inability to serve certain foods and beverages.

Also evident in the sector is the move towards providing healthier choices. FAS contacts have advised that they are seeing more intuitive decision making even in the fast-food sector in terms of healthy choices. According to Statistics South Africa (StatsSA), the industry recorded sales of US\$4.3 billion in 2022, an upsurge of almost 20% from the US\$3.5 billion seen in 2021. The challenges that the country currently faces such as the constant power outages as well as increasing costs associated with fuel price hikes and inflation have stifled the full recovery of the foodservice and hotel sectors in terms of earnings.

Restaurants and Coffee Shops: According to StatsSA, restaurants and coffee shops revenues topped US\$1.9 billion in 2022, up 27% from the previous year. Many restaurants continued to trade by means of take-away and home delivery services to supplement in-house dining for this period. The sector also saw steady growth in online deliveries during this period.

Takeaway and Fast-Food Outlets: According to StatsSA, this category is defined as enterprises involved in the sale of meals and drinks ordered from a menu, prepared on the premises for takeaway purposes in a packaged format, at a location with or without seating. This sector recorded a 40% surge in revenues from 2021 to 2022 as patrons returned to purchasing fast-food and take-away meals as pandemic conditions eased in the country.

The fast food and restaurant industries are fiercely competitive. Compared to small eateries, big businesses and fast-food chains are better able to control rising expenses. According to a dominant brand in the market, there are not many new rival companies coming on the scene, and the battle is fierce. Additionally, there is fierce internal competition between brands in the big franchising organizations, as well as increased competitiveness amongst franchises, particularly chicken franchises.

Catering Services: Catering services registered a 40% increase in food and beverage revenue in 2022, which can be attributed to more events taking place in the post-pandemic era. According to StatsSA, in addition to event catering and institutional

kitchens that service schools, businesses, and prisons, this category also includes bars, taverns, and ice cream parlors.

South Africa saw a number of new hotels open recently as tourism once again started to grow in the country. Industry contacts have reported that although there is an influx of foreign tourists, many are still deterred by the political fragility of the country as well as South Africa's current energy issues. While establishments have taken measures to ensure they can keep the lights on, this comes at a greater price and lower occupancy rates due to higher costs.

Best Product Prospects:

FAS Post Pretoria advises that unique and innovative U.S. products have the best prospects in the South African HRI sector, although price competitiveness is also a major factor for many importers. South Africa presents market opportunities for U.S. exports of chicken cuts and edible offal, almonds, prepared foods, craft beer, and distilled spirits.

Food Processing Sector Highlights:

FAS Post Pretoria reports that South Africa is a middle-income emerging market with a well-developed agribusiness and food sector that plays a significant role in job creation and economic growth. Although largely self-sufficient in agricultural production, South Africa is a net importer of food ingredients. The country has an advanced food processing sector with more than 1,800 firms, which drives strong demand for food ingredients, an estimated 90% of which must be imported. The 10 largest firms account for more than 80% of the sector's revenue. The U.S. is already a reputable exporter of food ingredients to South Africa, and diverse opportunities exist to expand U.S. food ingredients exports in a wide range of categories.

Food manufacturing now employs over 198,522 people, making it the largest manufacturing industry in South Africa, though still with less employees than the agriculture, retail, and foodservice sectors. Employment in the milling, sugar, dairy, oils, and bakery products subsectors is steadily rising.

In 2022, U.S. exports of food preparations and ingredients to South Africa totaled US\$27 million, down from US\$29 million in 2021. Leading product categories include beverage bases; protein concentrate; baking inputs, mixes and doughs, flavorings, and thickeners. The primary characteristics of the South African food processing sector are high production rates and small profit margins. Faced with rising commodity prices and economic uncertainty, food manufacturers in South Africa are looking to optimize their manufacturing processes and enter new markets with a variety of new products.

U.S. food ingredient exports to South Africa are very competitive, considering the large demand by food processors and manufacturers. However, American suppliers face competition from local producers in South Africa, as well as imports from countries in the Southern African Development Community (SADC), the EU, and MERCOSUR trade blocs. South Africa has free trade agreements with SADC and the EU, and a preferential trade agreement with MERCOSUR. The country is also in discussions to negotiate the

tariff schedules related to preferential trade within the African Continental Free Trade Area (AfCFTA).

Best Product Prospects:

FAS Post Pretoria reports that U.S. products with good sales potential in the South African food processing market include chicken cuts and edible offal; almonds; enzymes; essential oils; distilled spirits; chocolate and cocoa; dairy products' (lactose, whey proteins), condiments and sauces, chocolate and cocoa products and non-alcohol beverages.