

What is a wheat farmer's percentage share of retail white bread?

22 October 2015

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Bread is an important staple food in South Africa and plays an integral role to ensure national food security. Consumers for the most part do not buy food directly from farmers and the price consumers pay for food is exceedingly higher than what farmers receive for the raw commodity.

In this article, we highlight the share contribution of wheat farmers to the price of a loaf of white bread sold at retail stores. The wheat farmer's share in the retail price of white bread will be examined to demystify a common misconception that farmers are responsible for high bread prices.

Background on the wheat price

The price of wheat for a South African buyer is normally determined by the international wheat price, the exchange rate and the local supply and demand for wheat. South Africa is not self-sufficient in the production of wheat and therefore approximately 51% of its local consumption is imported.

South Africa's dependency on imported wheat increased over time and hence the domestic price for wheat, as reported by Safex, tends to be close to import parity. These imports contribute to higher bread prices than would be the case if all South African demand could be locally produced.

How much wheat in a loaf of white bread?

In order to calculate the difference between the real farm value and real retail value, the following assumptions were made – to bake a 700 g loaf of white bread; an average of 480 g of flour is needed. Again, in order to mill that 480 g of flour, 588 g of wheat is required. Thus, approximately 1 700 loaves of white bread can be produced from 1 ton of wheat.

The price consumers pay for bread versus the price farmers receive for wheat

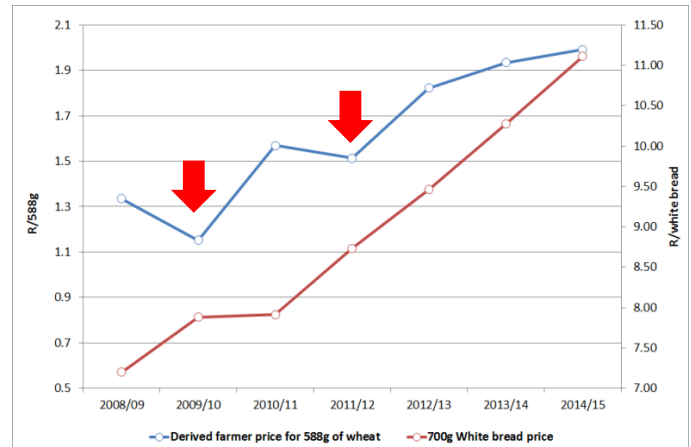
Graph 1 presents a derived wheat farmer price required to produce 588 g of wheat for one loaf of white bread.

The derived farmer price is calculated by the average annual Safex price for each marketing year and deducting the relevant costs, such as the location differential as well as handling and storage costs for grade B2 wheat.

The graph compares the derived farmer price for 588 g of wheat against the annual average price of a 700 g loaf of white bread in a retail store. During the seven year period, wheat farmer prices declined twice, but bread prices continued to increase, indicating that farmers did not fully share in higher retail prices. This is particularly true for the 2009/10 season where the producer price of wheat (588 g) decreased from R1,34 in 2008 to R1,15 in 2009 (down 14%), while the price of a 700 g loaf of white bread increased by 9% from R7,20 to R7,88 over the same period.

This again happened during 2011/12 where producer prices decreased by 3%, while the bread price increased by 10%. In general,

farmer price increases were in many instances not the main contributing factor to the increase in the bread price. Over the past 5-years, bread prices have increased exponentially, by 40% from R7,91 to R11,11. In the same period, wheat prices increased by 27%.



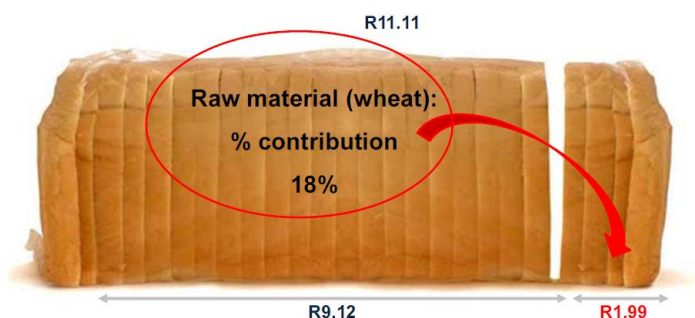
Graph 1: Derived farmer price vs bread price

Source: Grain SA and Stats SA

Wheat producer's percentage share of retail white bread price

While input prices increased both for farmers and retailers; the farmer's share of the consumer's rand remained relatively stable or even decreased in some years. Between 2008 and 2015, a wheat farmer's share of a 700 g loaf of white bread fluctuated between 15% and 20%.

This implies that when a consumer bought a loaf of white bread, the raw material (wheat) simply costs R1,99 in comparison to the total bread loaf price of R11,11. For example if the loaf consists out of 21 slices, the farmer's cost for that bread is only 4 slices while the rest of the wheat-to-bread value chain is responsible for the additional cost (Graph 2).



Graph 2: Wheat producer's percentage share of the retail white bread price (2014/15)

Conclusion

Consumers must be sensitized on the pricing of bread and that the increase is not necessarily linked to the wheat farmer being paid more but can be attributed to costs further down the value chain.

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