# FNB predicts stable coffee price

Despite fears that local coffee prices will drastically increase due to a shortage of beans from Brazil, coupled with the entrance of Starbucks into the local market, prices will remain stable and steadily increase at realistic levels.




Because South Africa is a nett importer of coffee, the severe drought that affected Brazil last year, the largest coffee producer in the world, heightened fears that prices would increase due to global supply shortages. Brazil has since had a fair share of rain and is set to produce its largest harvest for the 2016/17 season, which will lead to lower coffee prices globally.

Dawie Maree, head of information and marketing of FNB Business, Agriculture says that South Africa has not yet experienced supply challenges as we import most of our coffee beans from East African countries, which continue to increase yields and produce quality crops.

Maree cautions that lower global prices will not necessarily translate to coffee prices dropping in the country as there are a number of factors that affect the prices that retailers currently charge.

## Prices low and affordable

He says that the competitive local coffee market has managed to keep prices low and affordable for a number of years. However, the industry is now faced with a double whammy when it comes to setting realistic coffee prices that consumers can afford and maintaining profit margins.

Food price inflation, high input costs, low disposable incomes of consumers, coupled with the weak rand, which increases the price of imports, is threatening the profit margins of local coffee retailers.

The entrance of coffee giant Starbucks, which is anticipated to charge slightly higher prices, is also creating uncertainty amongst some local coffee retailers, which are already considering whether to review the prices they charge for a cup of coffee.

## The milk price

To make matters worse, if dairy farmers - who are currently struggling to feed animals - start running into production shortages, this may also increase the price of milk, leading to coffee retailers paying even more for input costs.

Moreover, the tax on sugar-sweetened beverages, which the government intends to introduce in April next year, will add further strain to local coffee businesses leaving them with no choice but to increase the price of coffee in the long term.

Regardless of the current challenges, any attempts by the local coffee industry to increase prices in the short term will likely be met by resistance from consumers who are already struggling to make ends meet in this tough economic environment. As a result, the coffee industry will have no choice but to absorb costs in the short term and gradually factor in increases, in order to remain relevant to consumers.