



DEPARTMENT: AGRICULTURE  
REPUBLIC OF SOUTH AFRICA

# Quarterly Agricultural Economic Review and Forecast April to June 2005

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## PREFACE

The core business of this directorate is to do analysis on national level in order to produce agricultural economic information and advice for sound decision-making on the South African (SA) agricultural sector. To support this important task the division (Economic Research) concentrates on economic analysis of performance of and external impact on the agricultural sector and its industries.

This publication developed from a need within the Department of Agriculture (DoA) to be regularly informed on developments and expected economic trends in the agricultural sector. The quarterly report has now been established as a regular feature in the Directorate's work plan. Since the beginning of 2004 the report is also published for outside consumption to add value to a number of existing regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agricultural sector.

At this stage most of the content is based on sources outside the DoA. In time we hope to incorporate more departmental generated material. Any comments on the content of this quarterly report series are most welcome.

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Senior Manager: Economic Analysis  
July 2005  
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## 1. WORLD ECONOMY

**Global economic growth** accelerated during the first months of 2005 following the economic upswing in 2004, which resulted in a relatively strong growth rate of about 5.1%. Developing countries have been the major contributors in maintaining relative high levels of global economic growth whilst the giant of global economy, the USA, has been facing an economic slowdown due to the dollar volatility as well as its burgeoning current account and fiscal deficits. Though the **US economic growth** continued at a robust pace during the first quarter of 2005, high oil prices and interest rate hikes are likely to slow the momentum. The US Real GDP growth is projected to slowdown from 4.4% in 2004 to 3.8% in 2005 and 3.3% in 2006. Economic growth in the Euro area and Japan is expected to rebound, following a slowdown during the second half of last year, and to play a more important role in ensuring global economic growth over the short term. **Economic**

**growth in China**, which has been an important contributor to the global economy, is still expected to remain above the 8% mark. Although high oil prices as well as the volatility of the US dollar and interest rates have dampened the growth prospects, the global outlook remains relatively positive following a surprisingly strong economic growth during the first quarter of the year. The world economic growth is expected to subside to about 4.3% in 2005 and then rise slightly to 4.4% in 2006. Table 1 below indicates the World economic outlook in real GDP growth.

## 2. SUB-SAHARAN ECONOMY

A real GDP growth of about 4.7% is forecasted for the Sub-Saharan Africa region in 2005, according to the Economist Intelligence Unit (EIU). This is a slight drop from the 4.8% growth in 2004, which was the highest growth rate in eight years. A further drop to 4.5% is expected in 2006. The re-

**TABLE 1: The World Economic Outlook-Real GDP growth**

Industrial countries	2004	2005	2006	Developing countries	2004	2005	2006
Major seven	3.2	2.6	2.7	Emerging Asia <sup>2</sup>	5.7	4.6	5.0
USA	4.4	3.8	3.3	China	9.5	8.5	8.5
Japan	2.6	1.2	2.0	India	6.5	7.0	7.0
Euroland <sup>1</sup>	1.8	1.6	2.2	Latin America	6.2	4.4	3.7
UK	3.1	2.7	2.5	Emerging Europe <sup>3</sup>	6.4	4.9	4.8
Germany	1.0	1.0	1.8				

<sup>1</sup> The 11 Euro countries

<sup>2</sup> Taiwan, Hong Kong SAR, Singapore, South Korea, Malaysia, Indonesia, Thailand and Philippines

<sup>3</sup> Bulgaria, Czech Republic, Hungary, Poland, Slovak Republic, Russia, Turkey

Source: *Economic prospects, second quarter 2005*

gional inflation rate rose to 6,7% in 2004 and is expected to fall to the level of 6% in 2005 and 2006. The growth rate in the **Franc zone** reached 6,5% in 2004 and is expected to slowdown to 5,2% in 2005, declining further to 4,1% in 2006. **Central and West Africa's** growth is expected to fall from 4,9% in 2004 to 4,7% and 4,5% in 2005 and 2006, respectively. **East Africa**, whose economies are more dependent on the agricultural sector compared to those in other parts of the Sub-Saharan Africa, has a more volatile economy as growth and inflation rates vary substantially owing to variations in the harvest and weather conditions from year to year. Economic growth in East Africa is expected to drop from 5,2% in 2004 to 4,7% and then pick up slightly to 5% in 2006. In contrast, growth in the **Southern African Development Community (SADC)** is forecast to pick up from 4,2% in 2004 to 4,6% in both 2005 and 2006. This is largely due to the expected 3,7% growth in South Africa during 2005 and 2006. Oil-exporting countries (Angola) are expected to enjoy the strongest growth, as production continues to expand, whereas growth in non-oil producing countries is expected to be affected by the slowdown in non-oil commodity prices. The volatility of the US dollar is also expected to weaken non-oil exports of the franc zone countries due to their increasing dependence on dollar-zone markets (US and Asia).

### 3. SOUTH AFRICAN ECONOMY

**Real economic growth** of South Africa slowed to its lowest level in five months reaching 3,5% in the first quarter of 2005. This was mainly attributed to the rapid appreciation of the Rand the two years before which affected the competitiveness of the manufacturing sector on export markets (China's controlled currency undervaluation making them more competitive), resulting in a 1,9% decline for the sector. Assuming a stable Rand and the narrowing of the current account deficit, a rise in real growth is forecasted to nearly 3,7% in 2005 and above 3,5% over the medium term. With a stable **Rand** which is required to play an important role in restricting inflation, further interest rate cuts are not expected for the remainder of the year. The South African economy has been experiencing strong domestic demand, which has been mainly fuelled by low interest rates and the wealth effects of booming assets prices, particularly house prices. The earlier widening of the **Current Account deficit** (due to strong domestic demand and the appreciation of the Rand), has shrunk to 3% of GDP in the first quarter of 2005, compared to 4,2% in the fourth quarter of 2004. This current account improvement is mainly attributed to steady increases in exports since February 2005, reaching a monthly increase of 7,1% in April.

## 4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

### 4.1 Inflation

**Recent trends:** The CPIX (consumer inflation excluding mortgage costs), which is the targeted inflation measure, indicated an upward trend in the earlier part of this quarter. Year-on-year CPIX inflation rose from 3,8% in April to 3,9% in May. Perpetual increases in oil prices, mainly attributed to surging demand for oil in Asia's emerging economies, has been cited as the main factor influencing the inflation upsurge.

**Forecast:** Although inflation is still expected to rise during the remaining months of 2005, the outlook is still generally favourable with a projected increase to around 5% towards the end of the year. This positive outlook was strengthened by the May inflation rate which was well below the market consensus forecast of 4,1%. As depicted in Table 2 below, inflation forecasts for 2005 by the Bureau for Economic Research (BER) and Business Monitor International (BMI) are still

within the SARB's inflation target (3-6%) which has been consistently maintained over the past 21 months. The BER, however, forecasts that CPIX inflation could breach the target ceiling, reaching 6% early in 2006. This rise is mainly attributed to the tight supply of oil, expected in the medium term, which will push oil prices higher. This setback is, nonetheless, expected to be of a temporary nature provided the currency depreciation occurs moderately. **Impact on agriculture:** Inflation impacts indirectly on agriculture through interest rates. Stable inflation also implies better planning and budgeting for farmers, minimising their risks. An expected rise in inflation may have higher interest rates as a result, making capital investment more expensive to farmers.

### 4.2 Growth

**Recent trends:** Real economic activity in South Africa continued to improve during the first quarter of 2005 with real gross domestic product growing by 3,5% during the quarter. South Africa's current account, according to the South Africa Reserve Bank, has reached a deficit of R10,8 billion or 3% of gross domestic product, in the first quarter of 2005. In comparison with the same quarter of previous years, this has been the worst condition on the balance of payments since 1982. During the first quarter, the agricultural industry experienced a growth of 2,7%. Statistics South Africa (StatsSA) also indicated that the economy did not grow significantly in the primary and secondary sectors (1,7%) which has the

**TABLE 2: Annual CPIX inflation rates**

2004		2005	2006
4.4	BER	5.4	6.0
	BMI	5.5	5.0
	CONSENSUS	4.2	5.1

Bureau for Economic Research (BER); Business Monitor International (BMI); Consensus between ABN Amro, ABSA bank, Deutsche Bank, Goldman Sachs, IMF, ING, JP Morgan, Lehman Brothers, Merrill Lynch, Nedcor Bank, Standard Bank, West LB Asset Management

greatest potential to create more jobs. They indicated that the growth in the past was consumer driven as the greatest contribution to the economy was from the trading business (wholesale, retail, hotels and restaurants, finance, real estate and business services.) The number of people formally employed increased by 3,5% during the same period. **Forecast:** For 2005 forecast vary between 3,7% and 4,3%, with more agreement for 2006 around 3,7%. According to the consensus forecast, the South African economy is expected to

economy will have a positive impact on the agricultural sector. Income per head will increase and influence domestic demand and private consumption. More agricultural products could be demanded due to more available disposable income to consumers and more people formally employed.

### 4.3 Exchange rates

**Recent trends:** The exchange rate of South Africa (the Rand) has depreciated by 13% against the US Dollar since the start of 2005. The Rand started to loose some of its purchasing power in February when interest rates in the United States started to rise and when the Dollar started to regain some of its value, as well as domestic interest rates which was lowered in April. Factors that can support the Rand in 2005 are foreign indirect investment inflows (e.g. capital inflow for the take over of ABSA by Barclays Bank) and higher international metal prices. In a period of three months (March to June), the average weighted exchange rate of the Rand has decreased by 6,5%.

**Forecast:** According to Business Monitor International (BMI) the Rand is expected to appreciate gradually against the dollar to R6,31 by the end of 2005 (see Table 4), compared to the R6,70 at the end of the second quarter. Relative high real interest rates and the takeover of ABSA by Barclays Bank deal will help to boost South Africa's foreign reserves. This should support the domestic currency to remain stable over the forecasted period. The following are some factors that could affect the volatility

**TABLE 3: Annual real GDP growth rates**

2004		2005	2006
3.7	BER	4.3	3.8
	BMI	4.1	3.6
	Consensus	3.7	3.7

Bureau for Economic Research (BER); Business Monitor International (BMI); Consensus between ABN Amro, ABSA bank, Deutsche Bank, Goldman Sachs, IMF, ING, JP Morgan, Lehman Brothers, Merrill Lynch, Nedcor Bank, Standard Bank, West LB Asset Management

grow by 3,7% in 2005 which translates into an average growth of 3,5% over a period of three years. The BER forecasts that the economy will grow by 4,3% in 2005 and slow down to 3,8 % in 2006 (see Table 3). The concensus forecast expects a current account deficit of 3,1% of GDP in 2005 and remaining on that level of GDP in 2006 (there will be more exports than imports). Total real household consumption is forecasted to grow by 5,3% this year. **Impact on agriculture:** The expected expansion of the

of the Rand: international crude oil price (some expect \$80 per barrel by the end of

**TABLE 4: End of year R/\$ exchange rates**

2004		2005	2006
5.73	BER	6.60	7.50
	BMI	6.31	6.70
	Consensus	6.70	6.70

Bureau for Economic Research (BER); Consensus between ABN Amro, ABSA bank, Deutsche Bank, Goldman Sachs, IMF, ING, JP Morgan, Lehman Brothers, Merrill Lynch, Nedcor Bank, Standard Bank, West LB Asset Management

2005), US interest rate movements and South Africa's high current account deficit, particularly the role of short term speculative inflows in the capital account. BER forecasts that the Rand Dollar exchange rate will be R6,60 and R7,50 by the end of 2005 and 2006 respectively. **Impact on agriculture:** The impact of exchange rate on the agricultural sector is twofold. A depreciation of the Rand may have a negative impact on farmers as it will be more expensive for them to purchase farming equipment and materials (e.g. tractors which are imported). Yet, a depreciation of the Rand is also having a positive impact on the country's agricultural exports, such as wine, fruit and wool. More of the farmers' products will be exported since prices will be lower to international buyers in terms of their own currency.

**4.4 Interest rates**

**Recent trends:** In April 2005, the SARB monetary policy committee (MPC) decided to lower the repurchase rate (repo rate) from

the 7,5% level to 7%. Consequently, banks have lowered their prime interest rate to 10,5% (compared to 6% in the US and 3% in the EU), the lowest rate since September 1975 (30 years). As a result real interest rates are also on a lower level, closing the interest rate gap between South Africa and the first world. This may cause the Rand to depreciate as foreign investment decrease due to lower returns in South Africa. **Forecast:** The Bureau for Economic Research (BER) expects that monetary policy will be tightened towards the end of the year and during 2006 as inflation re-accelerates and the current account deficit continues to rise. They forecasted a prime interest rate of 11% for 2005 and 13% for 2006. This may counter inflation and assist the Rand to appreciate. **Impact on agriculture:** With the repo and prime interest rate on their lowest level in three decades, the benefit to the agricultural sector continues as farming debt will be more affordable. Farmers will also be able to make capital investments to expand their productive capacity. Low interest rates is eventually reflected in higher land prices, now costing twice as much compared to farm prices in 2003.

**4.5 Public Finance**

**Recent trends:** The Minister of finance tabled Government's budget in parliament in February. Total expenditure by the general government is expected to reach R435 billion for 2005/06, an 11% increase on the R391 billion of 2004/05. R53 billion will be to pay interest on state debt, 12% of the total



expenditure. Agriculture, forestry and fishing receive R9,8 billion (2,3% of the total).

**Forecast:** The MTEF budget for agriculture, forestry and fishing is expected to rise by 18,7% per annum until 2007/08. This is the highest expected increase of all government's functions, which reflects that agriculture is a high priority for the country. **Impact on agriculture:** A rise in the allocation to agriculture implies that more money will be available for land reform, which is needed to speed up the process. This may ease political pressure and allow government to pay more market related prices for redistributed farms.

## 5. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

### 5.1 Agri-market indicators

From Table 5 it can be seen that the price of white maize have decreased by 38% in one year, from R924 to R572. Yellow maize costs R605 per ton, compared to the R687 per ton in the USA. The price of wheat have increased slightly to R1 600 per ton, compared to R1000 per ton in the USA. The price of sunflower seed have remained

**TABLE 5: Price of maize and wheat per ton**

	End June 2004	End June 2005
<b>White Maize price</b>	R924	R572
<b>Yellow Maize price</b>	R947	R605
<b>Wheat price</b>	R1 437	R1 600
<b>Sunflower price</b>	R1 810	R1 712

Source: Safex

relatively constant. The low maize price is a result of surplus production, which have moved the agricultural unions to discourage farmers to produce maize, or to find alternative uses for maize such as the production of ethanol. Crop estimations show that 25% more maize could be harvested this season. This may result in the low price situation to remain, even more so since the Rand is forecasted to remain relatively stable on its current level between R6.50 to R6.70.

### 5.2 Climatic conditions

**Background:** After some good rains over most of the country in April, it started drying out from the north-east until rains were confined to the winter rainfall regions by June 2005. Warm temperatures prevailed over the country during this winter thus far and are likely to continue though somewhat cooler temperatures can be expected over the winter rainfall regions. The NDVI map for the 1<sup>st</sup> dekad of June 2005 shows a very low amount of vegetation activity in the Limpopo province where extremely dry conditions are being experienced. Other areas with low vegetation activity of note are KwaZulu-Natal and large areas in the central region. **Levels of dams:** Generally the levels of dams are still low in the country because of the below normal rainfall conditions experienced but have since improved over the winter rainfall regions due to rains received. **Crop conditions:** Maize harvesting is nearing its end, with a bumper harvest in the maize growing areas of the country, following a good stint of rain. With

the exception of the winter rainfall regions and a few other areas, most of the provinces are finding it hard to plant winter crops due to low dam- and underground water table levels. **Livestock conditions:** The livestock is in fair to good conditions in most provinces due to additional feeds. Due to good rains over the winter rainfall areas, grazing conditions have improved markedly although there are still drought-stricken areas where farmers are feeding their livestock with fodder. **Forecast of rainfall and temperature -July to November 2005:** For the latter part of winter good rains are likely to continue over the winter rainfall regions. Dry conditions are expected to continue over the rest of the country. Warmer daytime temperatures are expected though slightly cooler in the south and west. It might be very cold on some days, though. A change is expected during early summer when near-normal rainfall conditions are expected over the central and southeastern parts of the country, gradually spreading northeastwards. **SADC:** Rainfall performance over the 2004/05 summer season has been poor across much of the central part of Southern Africa, reducing harvest expectations in many areas, according to a FEWSNET report. The first half of the season was marked by an erratic start, followed by prolonged dry spells over many parts of the region. Areas that were adversely affected include much of Mozambique and Zimbabwe, southern and central Malawi, northern South Africa (Limpopo Province), southern Zambia, northern Namibia and southern Angola. However, the productive

central areas of South Africa had good rains, and produced a bumper harvest.

**Conclusions:** The drought conditions over most of the country including a few drought-stricken spots over the northern parts of the winter rainfall areas remain virtually unabated as dry and warm winter conditions continue. However the likelihood of near-normal rainfall conditions over the central and southeastern parts of the country in early summer might undoubtedly bring relief to the current drought conditions over the country. The other problem will be the resurgence of dry conditions over the winter rainfall regions during summer after a brief period of good rains.

### 5.3 Livestock numbers

Cattle, pig and goat numbers increased by 3,17%, 1,33% and 0,08%, respectively from August 2004 to February 2005. Sheep numbers decreased by 0,81% over the same period. **Cattle:** The number of cattle in the RSA at the end of February 2005 is estimated at 13,941 million. On a provincial basis, 3,122 million (22%) are in the Eastern Cape, 2,868 million (21%) in KwaZulu-Natal and 2,315 million (17%) in the Free State. The remaining provinces represent 40% (5,636 million) of the total cattle population in South Africa. **Sheep:** The total number of sheep at the end February 2005 is estimated at 25,153 million. The provincial distribution of sheep is as follows: 7,677 million (31%) are found in the Eastern Cape, 6,354 million (25%) in the Northern Cape, 5,156 million (20%) in the Free State, and 5,966 million (24%) in the remaining provinces.

**Pigs:** The number of pigs in the RSA at the end of February 2005 is estimated at 1,674 million. Most of South Africa's pig population are in the Limpopo Province with a population of 398 000 (24%). The North West Province follows with 304 000 (18%) and the Western Cape with 185 000 (11%). The remaining provinces represent approximately 47% (787 000) of the total pig population.

**Goats:** Goat numbers at the end of February 2005 are estimated at 6,377 million of which the most goats are found in the Eastern Cape, namely 2,528 million (40%), followed by the Limpopo Province with 1,032 million (16%).

#### 5.4 Crop production and estimates

Table 6 summarises the estimated plantings and fifth production forecast of the most important summer crops for the 2004/05 production season. In spite of the current low maize prices, which are mainly due to

an unexpected high carry-over stock, the South African farmers have planted 2,93 million ha of maize for the current season. This is 3,0% up from the 2,843 million ha planted to **maize** in the previous season. The expected commercial maize crop is 11,883 million tons, which is 25,3% more than the 9,482 million tons of the previous season. The ratio of white to yellow maize plantings is 63:37 compared to the previous season's 65:35. The estimated white maize plantings are 1,845 million ha, up by 0,16% from the previous season's plantings of 1,842 million ha, while yellow maize plantings are 1,084 million ha, up by 8,3% from 1,001 million ha. The bulk of **South Africa's maize** is planted in the Free State, North West and Mpumalanga provinces. The estimated plantings of maize in the Free State increased by 5,9% from 1,01 million ha to 1,07 million ha, and in North West by 0,8%, from 952 000 ha to 960 000 ha, compared to the plantings in

**TABLE 6: Estimated plantings and fifth production forecast of summer crops for the 2004/05 season**

Crop	Estimated plantings for the 2004/05 season	Change from the 2003/04 season		Fifth production forecast for the 2004/05 season	Change from the 2003/04 season	
	Ha	Ha	%	Tons	Tons	%
Total maize	2 929 500	86 200	3,03	11 883 100	2 401 100	25,32
White maize	1 845 000	3 000	0,16	7 063 500	1 258 500	21,68
Yellow maize	1 084 500	83 200	8,31	4 819 600	1 142 600	31,07
Sorghum	103 240	(26 760)	(20,58)	313 740	(59 260)	(15,89)
Groundnuts	42 800	(28 700)	(40,14)	76 288	(38 712)	(33,66)
Sunflower seed	497 100	(32 900)	(6,21)	669 260	21 260	3,28
Soya-beans	152 640	17 640	13,07	277 370	57 370	26,08
Dry beans	49 300	(6 900)	(12,28)	69 820	(10 180)	(12,72)

Source: Directorate Agricultural Statistics

the previous season. Plantings of maize in Mpumalanga is 579 000 ha - an increase of 3,9% in comparison with 557 000 ha in 2003/04. The production **forecast** of white maize is 7,064 million tons, which is 21,7% more than the 5,805 million tons last season. The yield for white maize is estimated at 3,83 t/ha compared to 3,15 t/ha the previous season. In the case of yellow maize the production forecast is 4,820 million tons, which is 31,1% more than the 3,677 million tons last season. The yield for yellow maize is estimated at 4,44 t/ha compared to 3,67 t/ha the previous season. The larger crop is a result of good rains received in January together with good follow-up rains in February. Frost damage also did not occur which resulted in the maize plants developing to their full potential. **Historical trends** show that if good rains are received in January then the chances for a good maize crop increases. The favourable weather conditions, together with the optimum use of inputs and improved varieties therefore resulted in the increase in expected yields. The estimated area of white maize under irrigation is 70 110 ha, or 3,8%

of the total area of white maize plantings, and the estimated area of yellow maize under irrigation is 119 295 ha, or approximately 11% of the total area of yellow maize plantings. The expected **sunflower** seed crop is 669 260 tons, which is 3,3% more than the 648 000 tons of the previous season. The area planted to sunflower seed is estimated at 497 100 ha, which is 6,2% less than the 530 000 ha planted last season. The expected yield is 1,35 t/ha compared to 1,22 t/ha the previous season. The production forecast for **sorghum** is 313 740 tons - 15,9% lower than the 373 000 tons the previous season. The area planted to sorghum is 103 240 ha, which is 20,6% less than the 130 000 ha planted last season. The expected yield is 3,04 t/ha. The estimated area of sorghum under irrigation is 1 515 ha, or 1,4% of the total area of sorghum plantings. The expected **groundnut** crop is 76 288 tons, which is 33,7% lower than the 115 000 tons last season. For groundnuts the area estimate is 42 800 ha, which is 40,1% less than the 71 500 ha planted last season. The expected yield is 1,78 t/ha compared to 1,61 t/ha last season. The estimated area

**TABLE 7: Revised intentions to plant winter crops for the 2005 production season**

Crop	Revised intentions as at the end of April 2005	Area planted 2004	2005 vs 2004
	Ha	Ha	%
Wheat	779 400	830 000	(6,10)
Malting barley	88 000	83 200	5,77
Canola	40 500	44 250	(8,47)
Sweet lupines	8 700	7 100	22,54

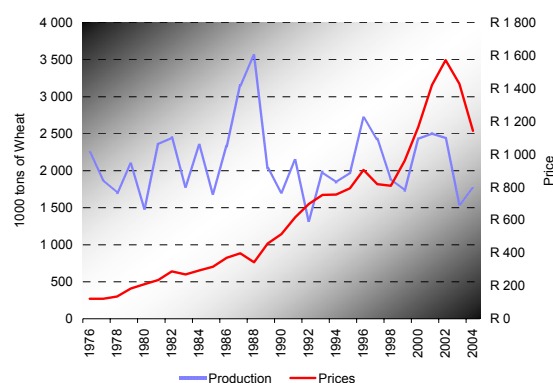
Source: Directorate Agricultural Statistics

of groundnuts under irrigation is 22,0% of the total or 9 416 ha. The production forecast for **soya-beans** is 277 370 tons, which is 26,1% more than the 220 000 tons the previous season. The estimated area planted to soya-beans is 152 640 ha, which is 13,1% more than the 135 000 ha planted last season. The expected yield is 1,82 t/ha compared to 1,63 t/ha last season. In the case of **dry beans** the production forecast is 69 820 – 12,7% lower than the 80 000 tons the previous season. The estimated area planted is 49 300 ha, or 12,3% less than the 56 200 ha planted last season. The expected yield is 1,42 t/ha. Table 7 summarises the revised intentions to plant winter crops for the 2005 season. The survey by the Department of Agriculture shows that producers intend to plant 779 400 ha of **wheat**, 50 600 ha (6,1%) less than in 2004. The main producing areas are within the Free State with 336 000 ha (43,1%) – 4,7% down against the previous season, followed by the Western Cape with 330 000 ha (42,3%) – 6,8% down against the previous season. The producers indicated that the decrease in the expected planting of wheat could mainly be ascribed to the low prices and dry conditions in some areas. The expected area to be planted to **malting barley** shows an increase of 4 800 ha (5,8%), from 83 200 the previous season to 88 000 ha for the current season. The intention to plant **canola** is expected to decrease by 8,5% to 40 500 ha and **sweet lupines** to increase by 22,5% to 8 700 ha.

## 5.5 A short overview of Wheat

After maize, wheat is the **second largest** produced cereal crop in South Africa. It is widely cultivated as a cash crop as it produces a good yield per unit area. Wheat is mainly produced in the Western Cape, Free State and Northern Cape according to the 2002 census of agriculture. It contributed 6,2% to gross farm income in 2002. Wheat **production** increased by 9,09% between the 2003/04 and 2004/05 seasons. Wheat prices experienced a steady rise until 1999, with a faster increase until 2002.

**Figure 1: Price and production of wheat**



Source: Agricultural Statistics Directorate

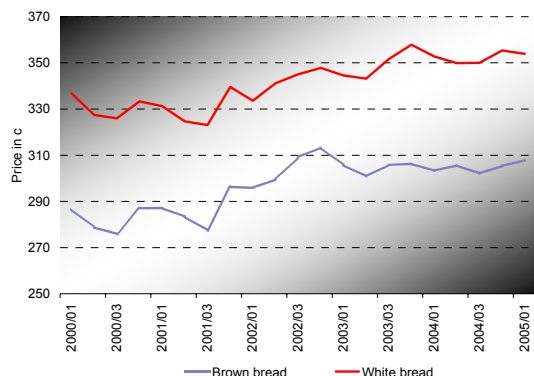
Since then the wheat price has decreased sharply (see Figure 1). GrainSA is concerned about the influx of cheap subsidized wheat into the South African market, which it claims is hurting local producers. On the other hand, the National Chamber of Milling argues that South Africa consumes 2,5 million tons of wheat per year but only produces 1,7 million tons, making South Africa a net importer of wheat. The 2002/03 and 2003/04 seasons had low production levels due to late rains which were below normal in the wheat planting areas. As a result,

wheat farmers, through GrainSA, have appealed to the Internal Trade Administration Commission (**ITAC**) to impose a 34,39% duty on imported wheat. It is believed that the decision will be made after considering the following factors:

1. Domestic and global production.
2. Consumption patterns.
3. Shortages in the domestic market.
4. International competition.
5. Inflationary effects on consumers if prices of wheat based products increase.

Flour is produced from wheat which is further processed to produce **bread** and fine cakes. Brown bread is widely consumed by the South African population. Both average prices of white and brown bread had significant increase in the first quarter of 2002 (see Figure 2), despite the drop in the average price of wheat during the same period. In the first quarter of 2005, the price of white bread decreased slightly as apposed to the small increase in the price of brown bread.

**Figure 2: Price of white- and brown bread**



Source: Statistics South Africa

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South African Reserve Bank (SARB), June 2005.

## 7. ACKNOWLEDEMENT OF INTERNAL (DOA) CONTRIBUTORS

Directorate: Risk Management: Climatic Conditions

Directorate: Agricultural Statistics: Livestock numbers and Crop Production and Estimates