



DEPARTMENT: AGRICULTURE
REPUBLIC OF SOUTH AFRICA

Quarterly Agricultural Economic Review and Forecast January to March 2005

Volume 3 • Number 1

April 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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April 2005
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1 WORLD ECONOMY

During the first quarter of this year (2005) the world economy showed that it will continue to expand. The economy grew by 5,1% in 2004, being the fastest economic growth experienced in a quarter of a century. Much of the growth rate was contributed by the developing countries. In 2004, growth in most of the main developing countries were in the region of 5-6% compared to less than 3,5% in the developed countries, except in the USA which managed to achieve 4,4% growth. Europe and Japan did not perform better towards the end of the year (2004). The economic growth performance for Japan was 2,9% in 2004 and is expected to decline to 1,5% in 2005. The Euroland economy grew by 1,8% in 2004 and is expected to grow by 1,9% in 2005. The United States economy grew by

4,4% in 2004 and is expected to grow by 3,7% in 2005. Strong and sustained growth above 8% in China has also been an important factor for the rest of the world. The Dollar is expected to gain power later this year. The US current account trade deficit grew in February to a record of \$61bn from \$58bn in January. This was driven by surging oil prices and imports of Chinese textiles. The world economic growth is expected to be moderate at 4,3% in 2005, 0,8 percentage points lower than 2004 and expected to remain at that level in 2006. Table 1 below indicates the World economic outlook in real GDP growth.

2 SUB-SAHARAN ECONOMY

According to the Bureau for Economic Research (BER) and the Economist Intelligence Unit (EIU) the real GDP growth in the

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	2.8	China	9.3	8.2	8.5
USA	4.4	3.7	3.4	India	6.0	6.5	7.0
Japan	2.9	1.5	2.1	Latin America	5.9	3.9	3.6
Euroland ¹	1.8	1.9	2.2	Emerging Europe ²	6.6	4.9	4.7
UK	3.1	2.5	2.5	Sub-Saharan Africa	4.6	5.8	n/a
Germany	1.2	1.5	1.8				

¹ The 11 Euro countries

² Bulgaria, Czech Republic, Hungary, Poland, Slovak Republic, Russia, Turkey

Source: *Economic prospects, First quarter 2005*

Sub-Saharan Africa was 4,6% in 2004 and they also forecast that the real GDP growth in the area will be 5,8% in 2005 (see Table 1). This shows that the real GDP will grow by about 1,2% more than the real GDP recorded in the previous year (2004). But the oil producing countries in the Sub-Saharan Africa will achieve growth of about 8% because export earnings increase as a result. The Inflation rate was 6,5% in 2004, expected to drop to 5,8% in 2005 and expected to remain stable at that level in 2006 due to expected rapidly rising oil production in response to higher oil prices. In the past year the Sub-Saharan countries experienced a trade surplus of US\$33bn due to higher oil prices. EIU forecasts that the region will have a current account deficit of US\$14,3bn in 2006 if oil prices start to decline. The Franc region achieved 5,4% real GDP growth in 2004 and is forecasted to slow down to reach the level of 4,8% in 2005. The South African Development Community's real GDP grew by 4,3% in 2004, and is expected to grow by 4,8% in 2005. East Africa's real GDP grew by 5% in 2004 and is expected to remain at the level of 5% in 2005, while Central and West Africa achieved growth of 4,9% in 2004 and is expected to decline slightly to 4,5% in 2005.

3 SOUTH AFRICAN ECONOMY

Sound economic policies (fiscal and monetary policies) that were adopted in the post apartheid era are beginning to pay divi-

dends to the South African economy. There was an average real economic growth around 3,4% over the past five years, and there are more probabilities of significant growth in years to come. If interest rates are to be increased later this year, growth will slightly slow to 3,6% from the forecasted growth of approximately 4,1% in 2005/06. Foreign direct investments are also expected to be boosted by a lucrative deal like that of Barclays and ABSA in 2005. The South African Current Account deficit has increased to the worst condition in more than 20 years. The current account deficit jumped to 3,2% of GDP and not to 2,3% as predicted earlier. This is unfortunate for the SA currency because the country will need more US dollars to finance the surge in imports. Over the past months there were strong growth in the tourism sector which contribute 7,1% to South African GDP. Real domestic consumption is expected to continue to grow by 6% this year and then to decline next year to 4,3%. According to EIU the unemployment rate in 2004 was 27% and is expected to decline in 2005 to 24,6% and 23,4% in 2006.

4 MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

Recent trends: The consumer price index less mortgage bond cost (CPIX) has been within the inflation target (3-6%) for more than a year and half now. In January the CPIX declined further to 3,6%, and to 3,1%

in February. Despite this there is an expectation that inflation will rise later this year but will still be within the inflation target range (see Table 2). The low levels experienced recently have largely been accredited to the resilience of the rand, which kept the costs of imports down and protected South Africa from the negative impact of higher international oil prices. The inflation figures started to rise in March due to the continued rise in oil prices.

Forecast: Inflation is expected to rise to around 5% towards the end of the year. The rise will be a combination of the depreciation of the rand against the US dollar and higher oil prices in the international market. To counter this trend interest rates is expected to rise. The Bureau for Economic Research (BER) and Business Monitor International (BMI) forecast that the inflation for the year 2005 and 2006 will still be within the SARB inflation target (between 3 and 6%). The BER forecasts that average inflation will

TABLE 2: Annual CPIX inflation rates

	2004	2005	2006
BER	4.3	4.5	5.4
BMI	4.3	5.5	5.0
CONSENSUS	4.5	4.6	

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,

be 4,5% in 2005 while BMI forecasts that the average inflation rate will be 5,5% in 2005.

Impact on agriculture: Inflation that remains within the target range implies that interest rates will stay low. Low interest rate is positive for farmers who utilise credit in their operations. Low inflation makes long term planning easier and it decrease the time gap between production costs and market prices.

4.2 Growth

Recent trends: Real economic activity in South Africa continued to improve in 2004 reflecting buoyant conditions in real domestic final demand. Real gross domestic product increased by 3,7% in 2004. According to the SARB quarterly bulletin, the South African balance of payments current account has reached a deficit of R44,4 bn or 3,2% of gross domestic product in 2004. This has been the worst condition on the balance of payments over a three year period for almost a quarter of a century. In the past year the tourism industry experienced a growth of 2,2%. Statistics South Africa (StatsSA) also indicated that the economy did not grow significantly in the primary and secondary sectors which has the 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.)

Forecast: The South African economy is expected to grow by 4% this year which translates into an average growth of 3,5% over a period of three years. The BER forecasts that

the economy will grow by 4,1% in 2005 and slow down to 3,6 % in 2006 (see Table 3). The Economist Intelligence Unit forecasts a current account deficit of 3% of GDP in 2005, falling to 2,7% of GDP in 2006 (there will be more exports than imports). Total real household consumption is forecasted to grow by 4,4% this year.

Impact on agriculture: The expected expansion of the economy will have a positive impact on the agricultural sector. Income per head will increase and influence

power in February this year when interest rates in the United States started to rise and when the dollar started to regain its value. Factors that could support the strengthening of the rand in 2005 are the future foreign indirect investment inflows (e.g. capital inflow for the take over of ABSA by Barclays Bank, higher international metal prices and also the ratings upgrade by Fitch ratings from stable to positive late in 2004). In a period of three months (December to February), the average weighted exchange rate of the rand has decreased by 1,2 percent.

TABLE 3: Annual real GDP growth rates

	2005	2006
BER	4.1	3.6
BMI	3.8	3.6
Consensus	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

domestic demand and private consumption. More agricultural products will be demanded due to more available disposable income to consumers.

4.3 Exchange rates

Recent trends: Against expectations, the exchange rate of the South African currency (Rand) to other foreign currencies like the US dollar and Euro, remained fairly strong in 2004. The South African rand started to loose some of its purchasing

Forecast: According to Business Monitor International (BMI) the rand is expected to depreciate gradually against the dollar to R6,67 by the end of 2005 (see Table 4). High international metal prices and the takeover of ABSA by Barclays Bank and the Goldfields-Norilsk deal will help boost South Africa’s foreign reserves. This should help to support the domestic currency to remain stable over the forecasted period. The following are some factors that could affect the volatility of our currency: international crude oil price, US interest rate movements and South Africa’s rising overall 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 R6,76 and R7,61 in 2005 and 2006 respectively.

Impact on agriculture: The real effective exchange rate of the rand appreciated by

4,3% from December 2003 to December 2004. The impact of exchange rate on the agricultural sector is twofold. Depreciation of the rand against the dollar can have a

TABLE 4: Annual average R/\$ exchange rates

	2004	2005	2006
BER	6.10	6.76	7.61
BMI	5.85	6.67	8.15
Consensus	6.00	6,40	

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

negative impact to the farmer as it will be expensive for them when buying farming equipment and materials with a total on high import content. Depreciation of the rand has also a positive impact on the country's exports. More of our products will be exported since international buyers will pay less for the same quantity of products they use to buy.

4.4 Interest rates

Recent trends: During the first quarter of 2005, the SARB monetary policy committee (MPC) met, and decided not to change the repurchase rate (repo rate), leaving it to remain at the 7,5% level. This is the lowest repo rate in almost a quarter of a century. The commercial banks then also left the prime overdraft rates at 11% which is 3,5 percentage points more than the repo rate.

Forecast: The Bureau for Economic Research (BER) expects that the monetary policy will be tightened towards the end of the year and during 2006 as inflation re-accelerates, the current account deficit will continue to increase further causing the rand to depreciate. If the balance of payments current account deficit remains under control the rise in interest rates will be moderate.

Impact on agriculture: With the repo and prime interest rate remaining at the same relative low level, the benefit to the agricultural sector continues because farmers are still taking advantage of this lower interest rate and make more capital investment which could be financed by loans from financial institutions.

5 OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

5.1 Climatic conditions

Background: The Limpopo Province has been dry during the period from January to March 2005. The remainder of the country received good rains during January which continued diminishing in February and March, leading to dry spells over certain areas. Hot temperatures prevailed during this period. *Levels of dams:* Generally the levels of dams are still low in the country because of the below normal rainfall conditions experienced during February and

March. *Crop conditions:* During the month of February, moderate to significant rains were received over most of the maize growing areas of South Africa. However, the extreme northern parts experienced prolonged drought conditions which resulted in crops experiencing severe moisture stress, leading to permanent wilting. However, some isolated pockets in the central part of the Free State, eastern Gauteng and Mpumalanga continued to experience prolonged dry spells. The main maize growing areas over the central part of the country, however, received good rains.

Livestock conditions: The livestock is in a fair to good condition in most provinces. Due to some rains that fell in January, grazing conditions had improved markedly although the absence of good rain during February and March might result in a cumulative grazing deficiency as winter sets in.

SADC: The prolonged dry spell which persisted during February and March over most of the region developed into a drought affecting most of the countries in the south. The food security prospects at both national and regional level remains uncertain as the drought continues. Analyses of satellite-derived rainfall estimates shows that significant rains have been received during the second part of February over most of SADC. Vegetation Index images suggest normal vegetation development, except for most areas in the DRC, south central Mozambique, parts of South Africa, Swaziland, Zambia and Zimbabwe. *Conclusion:* Grazing conditions over the country have improved somewhat due to the rains re-

ceived, albeit inconsistently. The drought conditions remain virtually unabated as most of the rains received during February and March were below the long-term mean and these conditions might result in a resurgence of moisture stress as winter sets in. With the seasonal forecasts indicating an improvement in the rainfall prospects for KwaZulu-Natal and Eastern Cape, spreading to the Western Cape, these areas are likely to be unaffected by drought while the remainder of the country continues having drier conditions.

5.2 Crop production and estimates

Table 5 summarises the estimated plantings and second production forecast of the most important summer crops for the 2004/05 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 2004/05 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 11,136 million tons, which is 17,4 % more than the 9,482 million tons of the previous season. The ratio of white to yellow maize plantings is 63:37 as against the previous season's 65:35. The expected white maize plantings are 1,845 million ha, up 0,16% from the previous season's plantings of 1,842 million ha, while yellow maize plantings are 1,085 million ha, up 8,3% from 1,001 million ha. The majority of South Africa's maize is planted in the Free State, Mpumalanga and North West Provinces. Plantings of

maize in Mpumalanga is 579 000 ha - an increase of 4% in comparison with 557 000 ha in 2003/04. The expected 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 the previous season. The production forecast of white maize is 6,629 million tons, which is 14,2% more than the 5,805 million tons last season. The yield for white maize is 3,59 t/ha as against 3,15 t/ha the previous season. In the case of yellow maize the production forecast is 4,508 million tons, which is 22,6% more than the 3,677 million tons last season. The yield for yellow maize is 4,16 t/ha against 3,67 t/ha the previous season. The increase in expected yields is mainly because of current favourable weather conditions, together with the optimum use of inputs and improved varieties.

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 654 510 tons, which is 1% more than the 648 000 tons of the previous season. The area planted to sunflower seed is 497 100 ha, which is 6,2 % less than the 530 000 ha planted last season. The expected yield is 1,32 t/ha as against 1,22 t/ha the previous season. The production forecast for sorghum is 293 350 tons – 21,4% lower than the 373 000 tons the previous season. The area planted to sorghum is 103 200 ha, which is 20,6% ha less than the 130 000 ha planted last season. The expected yield is 2,84 t/ha. The estimated area of sorghum under irrigation is 1 515 ha, or 1,4% of the total area of

TABLE 5: Estimated plantings and second production forecast of summer crops for the 2004/05 season

Crop	Estimated plantings for the 2004/05 season	Change from the 2003/04 season		Second 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	11 136 200	1 654 200	17,45
White maize	1 845 000	3 000	0,16	6 628 500	823 500	14,19
Yellow maize	1 084 500	83 200	8,31	4 507 700	830 700	22,59
Sorghum	103 200	(26 800)	(20,62)	293 350	(79 650)	(21,35)
Groundnuts	42 800	(28 700)	(40,14)	74 388	(40 613)	(35,32)
Sunflower seed	497 100	(32 900)	(6,21)	654 510	6 510	1,00
Soya-beans	152 640	17 640	13,07	276 620	56 620	25,74
Dry beans	49 300	(6 900)	(12,28)	69 820	(10 180)	(12,73)

Source: Directorate Agricultural Statistics

sorghum plantings. The expected groundnut crop is 74 388 tons, which is 35,3% 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 1,74 t/ha as against 1,61 t/ha last season. The estimated area of groundnuts under irrigation is 22,0% of the total or 9 416 ha. The production forecast for soya-beans is 276 620 tons, which is 25,7% 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 1,81 t/ha as against 1,63 t/ha last season. In the case of dry beans the production forecast is 69 820 – 12,8% 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 6 summarises the first intentions to plant winter crops for the 2005 season. The survey by the Department of Agriculture shows that producers intend to plant 59 100 ha (7,1%) less wheat than in 2004. The main producing areas are within the Western Cape with 330 000 ha (42,9%) – 7,3% down

against the previous season, followed by the Free State with 325 000 ha (42,2%) – 7,1% 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 barley shows an increase of 2 350 ha (2,8%), from 82 650 the previous season to 85 000 ha for the current season. The intention to plant canola is expected to decrease by 12,1% to 40 000 ha and sweet lupines to increase by 23,9% to 8 800 ha.

5.3 Agricultural products heading to Far East and SADC countries

The Department of Agriculture announced that South Africa will reduce its “over reliance” on exporting its agricultural products to Europe and will now increase exports to Far East and SADC countries. The idea is to diversify more and move away from the EU to minimize the risk of exporting too much to one single trading partner. In 1988 61% of South Africa’s agricultural products were exported to the European Union whilst only 10% went to Africa. In 2001, the amount of

TABLE 6: First intention to plant winter crops for the 2005 production season

Crop	Area planted 2004	First intentions as at the end of February 2005	2005 vs 2004
	Ha	Ha	%
Wheat	829 200	770 100	(7,13)
Malting barley	82 650	85 000	2,84
Canola	45 500	40 000	(12,09)
Sweet lupines	7 100	8 800	23,94

Source: Directorate Agricultural Statistics

South Africa's agricultural exports to the European Union declined to 38% and increased to 25% to Africa. Agricultural exports to the USA had also increased from 1% to about 8% over the same period. The department further asserts that a substantial reduction in the subsidies paid to farmers in the developed world are a target for South Africa and the only way this could be achieved is through negotiation with individual countries and multilateral bargaining in forums such as World Trade Organization (WTO).

5.4 Some highlights of the 1993 and 2002 agricultural censuses

According to the 2002 Census of Agriculture there were 45 818 active commercial farming units in South Africa, a decrease of about 21% when compared with the results of the 1993 Census of Agriculture. The formal agricultural sector generated a gross farming income of R53 billion. Animals and animal products contributed 39,8% (vs. 49,8% in 1993) of agricultural output, fol-

lowed by field crops with 30,9% (vs. 25,5% in 1993) and horticultural products with 26,7% (vs. 24% in 1993). The number of paid workers employed by the formal agricultural sector decreased by 152 445 (13,9%) from 1 093 265 in 1993 to 940 815 in 2002 (table 7). Nearly half of the employees were casual and seasonal workers. This sector paid about R6 billion in salaries and wages for the year ended 28 February 2002 (table 7). Farming debt in the commercial agricultural sector amounted to more than R30 billion compared to the value of assets of about R98 billion. The Free State has the worst debt ratio of 40,6% and the Western Cape the best ratio of 28,4%. In 2002 commercial farmers paid interest on loans of R2 958 million. Compared to 1993 it can be concluded that the commercial agricultural sector experienced a significant increase in productivity, coupled with a decrease in employment creation.

TABLE 7: Total employment and employee remuneration by province

Province	Total Paid employees	Total paid employee remuneration
	Number	R1 000
Western Cape	211 808	1 682 857
Free State	123 429	638 671
Mpumalanga	120 065	765 342
KwaZulu-Natal	117 207	924 106
Northern Cape	107 266	486 282
North West	84 658	453 359
Limpopo	75 890	468 224
Eastern Cape	69 946	410 225
Gauteng	30 546	386 517
SOUTH AFRICA	940 815	6 215 583

Source: Directorate Agricultural Statistics

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