

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 and the macro economic environment that impacts on its performance. This quarterly report has now been established as a new feature in the Directorate's work plan. From the end of 2006 this report will 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 inside the DoA. However, progress is being made to incorporate more external generated material.

Any new comments on the content of this quarterly report series are most welcome.

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July 2006
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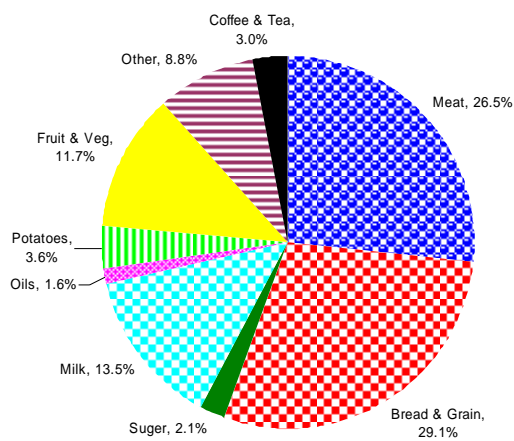
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1. CONSUMER EXPENDITURE ON AGRICULTURE

Expenditure on secondary agricultural products by **households** recorded a quarter to quarter improvement of 7,5% to reach R4,3 billion in the first quarter (January – March) of 2006, from 4 billion during the same period in the previous year. Buoyant domestic trading conditions mitigated the impact of restrained exports performance resulting from currency strength. Meat, bread and other grain products constituted about 55% of spending on secondary agricultural products. The performance of both markets (grain and meat) has a significant effect on agricultural expenditure trends.

Figure 1.1: Expenditure on food types



Source: Agricultural Statistics, 2006

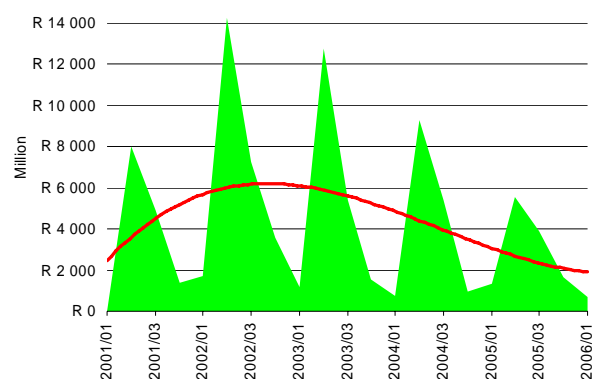
According to the latest crop and markets **estimations**, commercial maize crop production is forecasted to decrease by 47 %. The reduction is likely to stimulate the maize price. Therefore expenditure on secondary agricultural products is expected to range between the level of R4 and R5 billion rand in the remaining

quarters.

2. FARM INCOME

Strong revenue growth of 23% was recorded for **field crops** in the first quarter of 2006, revenue improved from R685 million in the first quarter 2005 to R843 million. Sugar cane and wheat revenue expanded by a staggering 61% and 38 %, respectively. The increase was mainly due to strong price performance in the respective industries, Revenue from **horticultural** products remained stable, growing only by a modest 0,9% from R5 billion in the first quarter of 2005 to R5,1 billion in the current year's first quarter. Quarterly income of R8,4 billion from **animal products** was 6,2% higher in the first quarter of 2006, compared to R7,9 billion achieved during the similar period last year. A 19,4% growth in cattle and calves slaughtered from R1,7 billion in the 2005 first quarter to R2,1 billion contributed significantly to revenue improvements.

Figure 2.1: Net Farm Income



Source: Agricultural Statistics, 2006

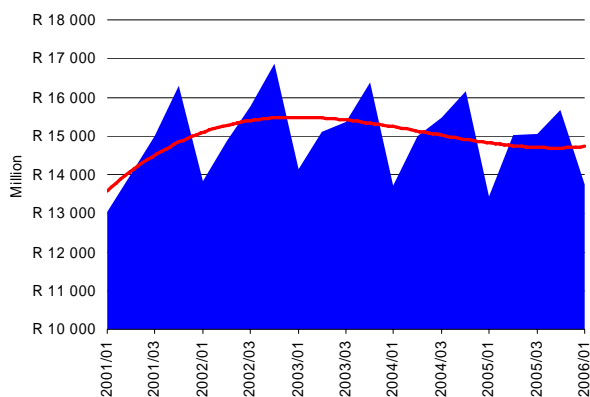
The effect of input costs growing more than gross income resulted in a 40% decrease in **net**

farm income for the first quarter of 2006 to R0,7 billion from R1,2 billion in the previous first quarter. The increase in the livestock **inventory** in the first quarter of 2006 (by R1,8 million) was 98% lower compared to R156 million of the first quarter of 2005.

3. AGRIC-INPUT EXPENDITURE

The first quarter of 2006 saw expenditure on **intermediary** goods rising by 10,5% to reach R9,8 billion from R8,9 billion in 2005, as price pressures at producer levels started to take effect.

Figure 3.1: Total Agric-Input Expenditure



Source: *Agricultural Statistics, 2006*

Labour remuneration grew by 4% in line with the CPIX, while **interest** paid by farmers dipped by 0,5% to R1,012 billion in the first quarter of 2006 from R1,017 billion in the same quarter of 2005. This is consistent with lower interest rates that prevailed in the economy during 2005, with strong demand condition further reducing the need for credit finance. For net farm income a clear downward trend is evident, while expenditure on intermediate goods displays an underlying upward trend. The above

patterns of behaviour are expected to continue as the interest paid by farmers is expected to track its long term pattern, fluctuating between R950 million and R1,1 billion. In the next two quarters it is expected to rise to R1,1 billion before it tails off.

4. PRICES

Consumer prices for agricultural commodities was up by 10% in 2006, as grain, fruit and meat experienced an increase of 27%, 23% and 11% respectively (compared to the first quarter of 2005). Imported inflation was limited to 6% during the same period given the strong level of the currency that prevailed. Grain and meat contributed heavily to an upward price trend recording a 21,9% and 13,2% increase from the first quarter of 2005 to quarter one of 2006. Further escalation in the grain price is expected given the size of the forecasted maize and wheat harvest. A weaker currency will also force an upward movement in imported inflation, negatively affecting the overall inflation for agricultural commodities. **Producer prices** for agricultural commodities, consumed in South Africa rose by 11,2% in the first quarter of 2005 to 2006. The first quarter of 2006 saw the production price index for petroleum products and coal rising by a massive 34% from 2005 as the oil price stubbornly remained close to \$65 during the year. The cost of fertilizer was 7,6% higher in the first quarter of 2006 compared to the first quarter of 2005. Transport and accessories producers price index rose by a modest 5,5%, in the year to quarter one of 2006. With the exception of petroleum

products, both fertilizers and transport parts and accessories confirmed the low inflation environment prevalent in 2005. Input prices are expected to increase in the coming quarters as high energy cost accompanied by elevated imported inflation levels, start to negatively affect inputs costs.

5. SOUTH AFRICA AGRI-MARKET INDICATORS

TABLE 5: Domestic prices of selected crops per ton

	End June 2005	End June 2006
White Maize price	R572	R1 361
Yellow Maize price	R605	R1 235
Wheat price	R1 600	R1 652
Sunflower price	R1 712	R2 261

Source: Safex

The price of **maize**, South Africa's largest crop, remained significantly higher during the second quarter of 2006 compared to the second quarter of 2005, when very low prices prevailed. The price of white maize increased by 138% at the end of June 2006 compared to end of June 2005, whilst the price of yellow maize increased by 104% during the same period (table 5). This was mainly due to low acreage planted and expected lower yields during the next harvest period after low maize prices last year, and also due to heavy rains which damaged some of the plants early this year. The rand, which has been in the declining phase against the US dollar during the second quarter of 2006, has also contributed to the current rise in maize prices as a weaker rand increases the international demand for SA crops. **Wheat** prices remained relatively constant, increasing slightly by 3,1%. Following a year-on-year decline in **sunflower** prices dur-

ing the first quarter of 2006, sunflower prices increased by 32,1% during the second quarter of 2006 and this may be due to a drop in sunflower yields resulting from wet and cooler weather conditions at the beginning of the year. The increase in crop prices is also in line with rising food prices (with agricultural food products rising by 15,5% in April) which has been cited as one of the factors behind the rise in producer prices in South Africa.

6. WORLD AGRI-MARKET INDICATORS

TABLE 6: US prices of selected crops per ton

	End June 2005	End June 2006
Yellow Maize price	R570	R641
Soybean price	R1 652	R1 524
Wheat price	R807	R1 020

Source: Safex

World **total grains** (incl. wheat, coarse grains and rice) production declined by 1,7% from 2 044 million metric tons during the 2004/05 season to 2 009 million metric tons in the 2005/06 season, according to the United States Department of Agriculture (USDA). On the other hand, world **oilseeds** (incl. soybean, cottonseed, peanut, sunflower seed and rapeseed) production increased by 2,3%, from 381 million metric tons during 2004/05 to 390 million metric tons in 2005/06. South Africa contributed 0,5% to world total grains production and 0,3% to world oilseeds production during 2005/06. World maize production declined by 2,8% (from 712 million metric tons during the 2004/05 season to 692 million metric tons during 2005/06) which is one of the factors contributing to an increase in international maize prices during that period, supported by a

higher ethanol demand and improved export demand. Yellow **maize** price in the US (where maize production declined by 5,9% during 2005/06) increased by 12,5% in the second quarter of 2006 compared to the same quarter in 2005 (table 6). With world maize production expected to decline further by 1,5% during the 2006/07 season, international maize prices are expected to remain relatively high. According to the USDA, South Africa contributed 1,6% to world maize production during the 2004/05 season. World **wheat** production declined by 1,1% during the 2005/06 season and is projected to decrease further by 3,5% during the 2006/07 season. Wheat production in the US declined by 2,5% during the 2005/06 season, which is one of the factors contributing to a 26,4% increase in US wheat prices during the period under review. According to the FAO, wheat prices are likely to remain generally high and volatile in the coming season given a drop in world production and unexpected weather problems. South Africa contributed 1,1% to world wheat production during the 2004/05 season, and a 13,9% increase in SA wheat production during the 2005/06 season is one of the factors that resulted in a relatively constant domestic wheat price during the second quarter of 2006. **Soybean** prices in the US decreased by 7,7% during the second quarter of 2005, in line with the 27,3% increase in soybean production during the 2004/05 season.

7. MAIN EXTERNAL SOURCES CONSULTED

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8. ACKNOWLEDGEMENT OF INTERNAL (DOA) CONTRIBUTORS

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