

## 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. However, progress is being made to incorporate more departmental generated material.

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

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## 1. WORLD ECONOMY

**Industrial production** in the United States grew by 1,9% in the year to April, compared to China's 17,4% and Singapore's outstanding 18,8%. In the Euro area industrial production grew by 3,7% in the year to March (*The Economist*, 2007). **Growth** of the world economy increased from 4,8% in 2005 to 5,3% in 2006. The EIU forecasts world growth to slightly go down to 4,8% in 2007 and to 4,6% in 2008 (10 basis points higher than the previous forecast). In general emerging countries (non-OECD) tend to grow much stronger than OECD-countries, with emerging countries expected to grow by 7,7% in 2007 and by 7,1% in 2008 and OECD countries expected to grow by 2,5% in 2007 and by 2,6% in 2008. Sub Sahara Africa will tend to outperform world growth while Eastern-central Europe and Latin America will underperform, as depicted in Table 1 below. **Consumer prices** in US increased by 2,6% in the year to April, compared to 3,5% the previous year. In China inflation stood at 3% at the same period and in India it was 6,7%. In Germany, consumer inflation remained constant at 1,9% by the end of the year to April. In Brazil inflation was also low at only 3,2% during the same period. Lending **interest rates** remained unchanged in the US at 8,3% in Q1 2007 from Q4 2006. In the Euro Area: Belgium,

lending interest rates increased from 7,8% to 8,3% in Q1 and in the UK it increased slightly from 4,8% to 5,0%. In Japan lending interest rates increased from 1,6% to 1,7% in Q1. **News events** that influenced the world economy: The United States will take China to court at the World Trade Organization over suspected trade barriers and piracy of books, music, videos and other goods. The head of the United Nations nuclear inspection agency warned that Iran probably can enrich enough uranium to build a nuclear bomb in three to eight years. Australia has warned that it will have to switch off the water supply to the continent's food bowl unless heavy rains break an epic drought. Four earthquakes, the biggest with a magnitude of 6.1, struck between the islands of Okinawa in southwest Japan and Taiwan. Tony Blair said he will resign after 10 years as UK prime minister on June 27. World Bank President Paul D. Wolfowitz resigned to end the ethics controversy that has consumed the institution. Federal Reserve Chief Ben Bernanke voiced hope that America's economy would not be swamped by a lingering housing slump. Senior military officers from the two Koreas began talks on easing tensions, one day after the North test-fired two missiles off its coast. Researchers at MIT have figured out how to transfer power wirelessly, a technology they've dubbed "WiTricity." Out of the 143 cities surveyed, Moscow remains, for the second year

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

Countries	2006	2007	2008	Countries	2006	2007	2008
World <sup>1</sup>	5,3	4,8	4,6	ASEAN	8,1	5,0	4,9
USA	3,3	1,9	2,5	China	10,7	10,3	9,2
Japan	2,2	2,7	2,2	India	9,2	8,5	8,0
Euro zone <sup>2</sup>	2,8	2,5	2,2	Latin America	5,3	4,6	4,1
OECD	3,2	2,5	2,6	East-central Europe	3,2	3,4	3,2
Non-OECD	8,1	7,7	7,1	Sub-Saharan Africa	5,6	5,5	5,9

Source: EIU <sup>1</sup> PPP <sup>2</sup> The 12 Euro countries

in a row, the most expensive city to live in for expatriates. China will remove or reduce tax rebates on nearly 3000 export categories (*Price Watch, 2007*).

## 2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2006	2007	2008
Growth	5,5	5,7	6,0
Consumer Inflation	13,4	19,9	10,8
External Debt <sup>1</sup>	22,4	21,7	22,3
Current Account <sup>1</sup>	0,2	-0,3	0,2

Source: EIU<sup>1</sup> % of GDP

**Economic growth** in Sub Sahara Africa (SSA) has been revised upwards to 5,5% in 2006 (as a result of strong world growth and high commodity prices) and it is expected to remain on that level in 2007, from where it may increase to 6,0% in 2008. Of all the sub regions SADC is showing the strongest growth. (*EIU, 2007*). There is the possibility of a slowdown in the global economy, and this would have an impact on commodity prices, including oil, interest rates and private investor sentiment (*IMF, 2007*). **Consumer inflation** has been revised substantially upwards by the EIU who now forecast a rate of 19,9 % for Sub Sahara Africa in 2007. This partially reflects the impact of dry conditions and poor harvests in East and Southern Africa. Inflation in Zimbabwe has increased from over 1000% in 2006 to more than 4530% in 2007 (*BusinessDay, 2007*). Within the four subregions, inflation continues to remain the lowest in the Franc Zone (*EIU, 2007*). Standard & Poor's (S&P), a credit rating agency, has so far published ratings for 16 African countries. More will follow. The S&P ratings were done in conjunction with the UNDP and launched in 2002. Ten of the countries have

received "B" (or speculative grade) long-term foreign currency ratings. (*Standard Bank, 2007*). **External debt** for African countries are now on a lower level after debt write-offs by international creditors. The impact of debt write-offs is clearly most significant in East Africa and Central and West Africa. In both cases the external debt stock for each subregion is virtually halved. In contrast, the stock is estimated to have fallen only modestly in the SADC and Franc Zone subregions. (*EIU, 2007*). Lower interest payments have now positioned African countries to invest in infrastructure, particularly education and training, and hence human capital. The **current account** balance of Sub Sahara Africa is generally in a very healthy condition. Forecasts for 2007 and 2008 have improved by showing a shift to the trade surplus side from -0,3% of GDP to 0,2% of GDP (*EIU, 2007*). There are now some 800 Chinese companies operating in Africa. Trade has grown significantly since 1990 and China is reported to have a trade deficit with Africa, unlike with the United States. Crude petroleum accounts for 49.2% of Africa's exports, equivalent to 18% of world oil exports (followed by diamonds; and nickel ores and concentrates) (*Standard Bank, 2007*). **News events** that influenced the SSA economy: Cash-strapped Zimbabwe is now forcing all motor-vehicle importers to pay their excise duty in foreign currency. Hundreds of families were fleeing the Somali capital, a day after renewed clashes between Ethiopian forces and Islamist fighters shattered a ceasefire. Zimbabwe Reserve Bank governor announced measures that effectively devalued the Zimbabwe dollar 60-fold in most official transactions. China and Russia are accused of supplying weapons to

Sudan that were used to fuel deadly violence in the Darfur region. Zimbabwe farmers have only planted 10% of the targeted winter wheat-crop hectareage just two weeks before the recommended planting deadline lapses. Africa's biggest trade bloc COMESA approved a common external tariff system. Doctors declared former Zambian president Frederick Chiluba fit to stand trial for alleged embezzlement of about R3,5 million in public funds. Oil giant Royal Dutch Shell says protesters have sabotaged a pipeline hub in southern Nigeria, forcing the company to suspend production of 150 000 barrels per day. The Convention on International Trade in Endangered Species (CITES) gave the go ahead for four Southern African countries to sell stocks of ivory. A general strike over a rise in fuel prices has brought much of Nigeria to a standstill (*Price Watch, 2007*).

### 3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008
Growth	5,0	4,7	4,8
Consumer Inflation X	4,6	5,6	5,4
Exchange rate <sup>1</sup>	6,97		
Interest rate <sup>2</sup>	11,5		

Source: Average <sup>1</sup> End of year <sup>2</sup> Yearly Average

In the first quarter of 2007 the South African economy lost some of its steam in the light of higher inflation as CPI-X broke through the 6% ceiling, interest rates were increased and economic growth decreased. However, expectations remains positive as the average growth forecast were increased. **Gross Domestic product** expanded by 4,7% in the 1<sup>st</sup> quarter (mainly due to increases in the finance, real estate and business services indus-

try) and is expected to remain at 4,7% for the rest of 2007 (Table 3). Consumer **inflation-X** reached a peak of 6,4% in May, breaking through the 6% ceiling in April. The yearly average for inflation-X is forecasted to remain below 6% in 2007 and 2008. **The Rand** strengthened significantly from April to June from R7,25/\$ to R7,08/\$. This will assist South Africa to mitigate the high oil prices. Interest rates were left increased by 50 basis points during the MPC meeting to 13% prime. It may increase further during 2007 as inflation tends to go above the 6% ceiling set by the Central Bank. **News events** that influenced the SA economy: SA could see the total collapse of commercial fishing by the middle of the century unless alternatives such as aquaculture were pursued. The South African pet food industry has halted the importation of gluten products from China after tests of Royal Canin SA's products found that the ingredient was contaminated with melamine. SARS deployed 5 000 officials in 30 cities and towns in a bid to help small businesses to register and apply for the small business tax amnesty. Road accidents have a significant economic impact as they cost the SA economy R43bn annually. South African gold output fell 10,8% in volume terms while overall mineral production declined 2,2% in the year to March. The OECD has offered SA enhanced engagement with a view to possible membership. Consultants estimate the 2010 World Cup will contribute at least R51,1 billion to SA's GDP. Sasol is saying its Oryx gas-to-liquids joint venture plant in Qatar had technical problems and would make only a marginal cash contribution. Eskom has allocated R150 billion to be spent over the next five years to build generating capacity. The

total number of South African liquidations recorded in April 2007 was up 19,2% year-on-year. Agriculture and Land Affairs Minister Lulama Xingwana has handed over the largest parcel of land in the history of SA's land restitution process to four communities in the Malelane district in Mpumalanga. After initial problems, the electronic National Transport Information System (eNatis) was operating well countrywide (*Price Watch, 2007*). **Impact on agriculture:** A ban on pet food imports from China could be a temporary opportunity for the domestic pet food industry. As land restitution gets on track the agri-sector should move towards more stability and increase its safety record. The building plans of Eskom and the 2010 World Cup could see some agri-land being set aside for rezoning and development.

(0,5%), household operation (0,4%), education (0,4%) and fuel and power (0,3%). These increases were slightly counteracted by a decrease in the price index for clothing and footwear (-0,2%). The price index for **food** reflects an annual rate of increase of 8,7% by May, an increase from 8,4% in April. Annual food price increases occurred in the price indices for fats and oils (11,3%), meat (11,1%), grain products (10,9%), fish and other seafood (10,6%), fruit and nuts (9,5%), milk, cheese and eggs (9%), "other" food products (5,6%), sugar (5,4%), coffee, tea and cocoa (3,8%) and vegetables (3,6%), (*Statistics South Africa, June 2007*). The annualised **PPI** increased from 11,1% in April to 11,3% in May. Higher prices for commodities for consumption in South Africa is mainly due to relatively large annual increases in the price indices for agricultural products (2,1%), food at manufacturing (1,7%), mining and quarrying products, (0,9%), products of petroleum and coal (0,8%), basic metals (0,8%) and others (5%). **Forecast:** Inflation expectations have been adjusted upwards by all three listed forecasters (Table 4.1). This is not very positive and indicates that the Reserve Bank's will consider more interest rate hikes in coming months. On average the CPI-X is forecasted to stay below the 6% ceiling set by the Reserve Bank, increasing only to 5,6% in 2007. Inflation in 2008 is forecasted to come down slightly as current higher interest rates continues to take effect. **Impact on agriculture:** As food prices are currently driving higher inflation, the agri-sector may draw unwanted attention from lobby groups and politicians. It also implies that farmers may receive more for their products compared to their costs increases, a posi-

## 4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

### 4.1 Inflation

**TABLE 4: Annual average CPIX inflation rate**

2006		2007	2008
4,6	BER	5,6	5,2
	Standard Bank	5,7	5,5
	Absa	5,6	5,5
	Average	5,6	5,4

*BER - Bureau for Economic Research*

**Recent trends:** The headline CPI annual inflation rate in May 2007 was 6,9% and the CPIX was 6,4%. The **CPI-X** broke through the 6% ceiling for the first time in April. Compared to April the CPI was 0,1% lower and CPI-X was 0,1% higher. Currently inflation is mainly due to relatively large annual contributions in the price indices of food (2%), housing (1,9%), transport (1%), medical care and health expenses

tive development for struggling farmers, especially in the dairy industry.

#### 4.2 Growth

**TABLE 5: Annual real GDP growth rates**

2006		2007	2008
5,0	BER	4,8	5,0
	Standard Bank	4,5	5,0
	ABSA	4,8	4,4
	Average	4,7	4,8

*BER - Bureau for Economic Research*

**Recent trends:** Real gross domestic product (GDP) at market prices increased by 4,7% during the first quarter of 2007, compared with Q4 2006. This was mainly due to increases in the finance, real estate and business services industry (1,1%); manufacturing industry (0,8%); the wholesale, retail and motor trade, hotels and restaurants industry and construction industry (each industry contributing 0,7%); the transport, storage and communication industry (0,6%) and general government sector (0,5%). The seasonally adjusted real value added by the agriculture, forestry and fishing industry increased at an annualised rate of 6,1% during the first quarter of 2007 and the increase can be attributed to a higher harvest of field crops and horticultural products. The annual real value added decreased by 2,9% compared with Q12006. **Forecast:** The average growth forecast for 2007 was revised upwards compared to the previous quarter. The surge in consumer spending, a major factor behind current economic growth, could run out of steam in the light of higher interest rates and the new credit law that came into effect this quarter. Its biggest impact can be on the the finance, real estate and business services industry. As world growth remains buoyant and commodity prices high, domestic growth is forecasted to be 4,7% for 2007, very close to

the 5% of 2006. The BER forecasts a growth rate of 4,8%. Strong exports and fierce fixed investment could stimulate growth. Absa forecasted a growth rate of 4,8% in 2007 whilst Standard Bank forecasted it to be 4,5%. **Impact on agriculture:** the surge in commodity prices worldwide benefitted the agricultural sector. For the first time in a year this sector showed some growth. As the new credit law will prevent consumers from spending on luxury goods, they may tend to channel some of their surplus funds to purchase better food. Demand for red meat and vegetables may thus increase at the cost of white meat and starch.

#### 4.3 Exchange rates

**TABLE 6: End of year R/\$ exchange rates**

2006		2007	2008
R6,97	BER	7,60	8,15
	Standard Bank	7,12	7,26
	Absa	7,10	7,34
	Average	7,27	7,58

*BER - Bureau for Economic Research*

**Recent trends:** Though the value of the rand has been relatively stable this year as compared to 2006, its volatility continued in the second quarter of 2007 at the mercy of foreign investors as well as the performance of the US dollar against other currencies. The rand fluctuated between R7 and R7,35 against the US dollar for most parts of the second quarter, breaking below the R7 mark for a short period in May, mainly as a result of strong capital inflows and the weakening of the US dollar against the Euro. The rand appreciated marginally at the end of June, towards R7,09/US\$ from R7,12/US\$ at the end of both May and April 2007. Though most commodity prices – which also play a significant role in determining the value of the rand – have remained

reasonably strong, the gold price has been on a gradual downward trend this quarter, with month-end quotes declining from \$680/oz in April to \$660/oz in May and \$648/oz in June.

**Forecast:** The rand, which remains one of the most traded emerging-market currencies, is influenced by a vast number of internal and external factors. On the positive side, strong capital inflows (with more private equity deals in the pipeline), are expected to continue supporting the rand while factors such as US interest rate movements, high world oil prices, a widening current-account deficit and capital inflow reversal pose a risk of a sharper depreciation of the rand. The BER forecasts the rand to trade at R7,60 to the US dollar at the end of 2007 while Standard Bank and Absa's forecasts are more optimistic at R7,12 and R7,10 to the US dollar, respectively, at the end of 2007. **Impact on agriculture:** As the agricultural sector is a net-exporter of products, a weaker rand implies increased exports through improved competitiveness on the global market. On the other hand, input costs rise as most production inputs are imported. Though a depreciating rand has mixed impact on the agricultural sector, for the majority of commercial farms with adequate fixed capital investments, the net effect is positive.

#### 4.4 Interest rates

**TABLE 7: Average yearly Prime interest rate**

2006		2007	2008
11,5	BER	12,5	12,2
	Standard Bank	12,8	12,1
	Absa	12,5	12,5
	Average	12,6	12,3

*BER - Bureau for Economic Research*

**Recent trends:** The Reserve Bank adopted a relaxed monetary policy approach in the first

two Monetary Policy Committee (MPC) meetings of 2007 keeping the repo rate unchanged at 9% per annum, despite concerns over a deteriorating inflation outlook. However, as the inflation outlook deteriorated further – with the CPIX inflation rate breaching the 6% ceiling for the first time in 43 months during April 2007 – the MPC increased the repo rate by 50 basis points to 9,5% per annum in its June sitting. In line with the Reserve Bank's decision, commercial banks also increased their prime lending rate by 50 basis points to 13% per annum.

**Forecast:** Given the high food and fuel costs together with the gradual pickup in general price pressures facing the domestic economy at present, most analysts expect the CPIX to remain above the crucial 6% level for some time. The 7,5% salary increase for public sector workers, which is 1,5% basis points above the upper inflation target, together with various salary increase demands in the country may also cloud the inflation outlook. In light of these new developments, the BER forecasts a further repo rate hike by 50 basis points in August, whilst Standard Bank and Absa expect no further changes in the repo rate until the end of 2007. **Impact on agriculture:** The interest rate hike in June meant higher debt servicing costs for farmers, and further hikes could hit farmers very hard as there are already concerns over high input costs fuelled by expensive imported raw materials due to a weaker rand.



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

### 5.1 Agri-market indicators

**TABLE 8: Price of maize and wheat per ton**

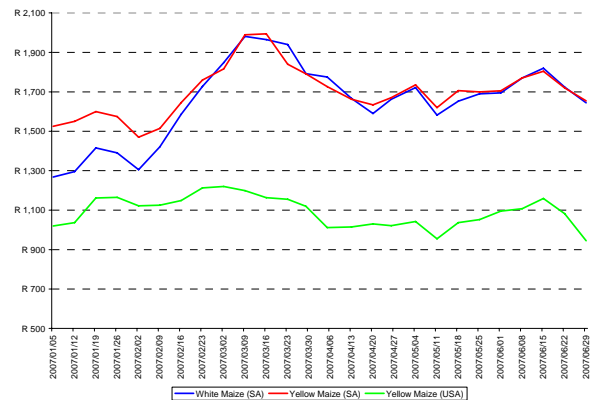
	End June 2006	End June 2007
White Maize price	R1 361	R1 644
Yellow Maize price	R1 235	R1 654
Wheat price	R1 652	R2 505
Sunflower price	R2 261	R3 202

Source: Safex

Local grain markets experienced a slowdown in the second quarter of 2007 as compared to the first quarter of 2007 though prices still remain significantly higher on a year-on-year basis. Domestic prices of all major crops, listed in Table 6, ended lower at the end of the second quarter compared to the first quarter of 2007, with the exception of wheat prices. Domestic white and yellow maize prices increased by 21% and 34%, respectively, in the second quarter of 2007 compared to the second quarter of 2006 (after a year-on-year increase of 57% and 75% in the first quarter of 2007). Year-on-year prices of local wheat increased by 51,6% at the end of the second quarter of 2007, in line with global increase in wheat prices due to poor weather conditions in countries such as Canada which resulted in farmers planting their smallest wheat crop in 37 years (Weekly Price Watch, 2007). Sunflower prices increased by 42% (from R2 261 end of June 2006 to R3 202 end of June 2007). Along with general increases in food prices in South Africa, a weak rand also continue to play a significant role in pushing prices up as the competitiveness of South African products on

the global markets result in increased demand for local products.

**Figure 1: Domestic and USA maize prices per week – Q2 2007**



Source: Safex

Figure 1 illustrates sharp increases in domestic white and yellow maize prices while US yellow maize prices were relatively steady at the beginning of the first quarter of 2007, followed by a decline in both domestic and US maize prices at the beginning of the second quarter, then a relatively steady trend with a second quarter price peak reached around mid-June. US grain prices also experienced a slowdown in the second quarter with yellow maize prices increasing by 47% from R641,13 in the second quarter of 2006 to R945,19 in the second quarter of 2007. International wheat prices increased by 55% from R1 020,37 to R1 582,05 while soya prices increased by 38% from R1 523,68 to R2 103,11 during the period under review.

### 5.2 Climatic and other conditions

The winter rainfall regions received good rains from April to June intercepted with odd cold spells over most of the country. Occasional flooding occurred along coastal areas of Western Cape and Eastern Cape. **Levels of**

**dams:** According to the Department of Water Affairs and Forestry report, Levels of dams are gradually declining with restrictions imposed in some areas. The decline in underground water is a concern in some areas. However, level of dams remained higher than last year this time in Western Cape due to good rains received since the beginning of winter season. **Crop conditions:** Lengthy dry spells and occasional heat waves in the maize producing areas resulted in low yields. The planted winter crops are in good conditions in some areas due to good rains received. Cold and wet conditions in the winter rainfall regions will also be beneficial to deciduous fruit trees. **Livestock condition:** The condition of veld and livestock remained fair to poor in most areas due to drought conditions with reported mortalities in some areas. The situation is aggravated by poor veld management practices. However, farmers were continuously advised to maintain stock numbers to suit carrying capacity of camps. Few incidences of veld fires were reported in some areas. **Forecast of rainfall and temperature:** Wet and warm conditions are expected to continue over winter rainfall areas. However, some cold conditions might be experienced especially in the mornings. **SADC:** According to FEWS NET, southern part of the sub-region experienced erratic and inconsistent rains. Dry spells coupled with hot conditions resulted in below-average harvest estimates in Botswana, Lesotho, Namibia, Swaziland, Zimbabwe, southern Mozambique and South Africa. Food security situation is likely to deteriorate very early in this consumption year. Although many of the affected areas are structurally grain deficit, this year's projected deficits are more severe than normal and will

necessitate outside assistance as national governments may not have capacity to cover the entire import requirement. Some governments requested crop and food supply assessments to help ascertain the impact of poor rainfall to agriculture and livelihoods to be able to suggest necessary interventions for relief and rehabilitation.

**Conclusions:** Low yields were realized over maize producing areas and this will affect market prices. Generally, the winter rainfall regions received good rains which might result in good yields in some areas. Cold spells were experienced in most of the country. The veld and livestock conditions are poor with reported mortalities in some areas. The level of dams continued to decline in most areas except Western Cape. The decline in underground water level is also a concern in some areas. Farmers were advised to maintain good farming practices and take precautionary measures for fires

### 5.3 Livestock numbers

Cattle, pigs and goat numbers have increased by approximately 2,36%, 3,02% and 3,36% respectively for the period of August 2006 and February 2007. However sheep numbers have decreased by approximately 1,97% for the same period. **Cattle:** The number of cattle in the RSA at the end of February 2007 is estimated at 13,852 mil. On a provincial basis, 3,277 mill. (24%) occurred in the Eastern Cape, 2,631 mill. (19%) in KwaZulu-Natal and 2,411 mill. (17%) in the Free State. The remaining provinces represent 40% (5,533 mill.) of the total cattle population in South Africa. **Sheep:** The total number of sheep at the end of February 2007 is estimated at 24,492 mil. The pro-

vincial distribution of sheep is as follows: 7,277 mil. (30%) are found in the Eastern Cape, 6,268 mil. (26%) in the Northern Cape, 4,891 mil. (20%) in the Free State and 6,056 mil. (24%) in the remaining provinces. **Pigs:** The number of pigs in the RSA at the end of February 2007 is estimated at 1,672 mil. Most of South Africa's pig population occurs in the Limpopo Province with a population of 429 000 (26%). The North West Province follows with 340 000 (20%) and Gauteng with 161 000 (10%). The remaining provinces represent approximately 44% (742 000) of the total pig population. **Goats:** Goat numbers at the end of February 2007 are estimated at 6,616 mil. of which the most goats occurred in the Eastern Cape, namely 2,625 mil. (40%), followed by the Limpopo Province with 1,104 mill. (17%).

**5.4 Crop production and estimates**

Table 9 summarises the fourth production forecast of the most important summer crops for the 2006/07 production season. The commercial **maize** crop has been set at 7,050 million tons, which is 6,5% more than the 6,618 million tons of the previous season. The production forecast for white maize is 4,155 million tons, which is 0,8% less than the 4,187 million tons of the previous season and the yield for white maize is 2,56 t/ha compared to 4,05 t/ha the previous season. In the case of yellow

maize the production forecast is 2,895 million tons, which is 19,1% more than the 2,431 million tons produced last season. The yield for yellow maize is 3,12 t/ha compared to 4,29 t/ha the previous season. The total area planted to maize for the 2006/07 season is 2,552 million ha. The ratio of white to yellow maize plantings is 64:36 compared to the previous season's 65:35. The area estimate for white maize is 1,625 million ha, which is 57,3% more than the 1,033 million ha of the previous season, while yellow maize plantings are 927 000 ha, up by 63,4% from the 567 200 ha of the previous season. The bulk of South Africa's maize is planted in the Free State, North West and Mpumalanga provinces. The production forecast for **sunflower seed** for the 2006/07 season is 301 830 tons, which is 42,0% less than the 520 000 tons of the previous season. The area planted to sunflower seed is 316 350 ha, which is 33,0% less than the 47 480 ha planted the previous season. The yield is 0,95 t/ha compared to 1,10 t/ha the previous season. The production forecast for **soybeans** is 218 600 tons, which is 48,4% less than the 424 000 tons the previous season. The area planted to soybeans is 183 000 ha, which is 23,9% less than the 240 570 ha planted the previous season. The yield is 1,19 t/ha compared to 1,76 t/ha the previous season. The expected **groundnut** crop is 49 060 tons, which is 33,7% lower than the 74 000 tons

**TABLE 9: Revised intentions to plant winter crops for the 2007 production season**

Crop	Revised intentions as at the end of April 2007	Area planted 2006	2007 vs. 2006
	Ha	Ha	%
Wheat	655 000	764 800	-14,36
Malting barley	77 700	89 780	-13,46
Canola	41 000	32 000	28,13
Sweet lupines	17 000	16 000	6,25

Source: Directorate Agricultural Statistics

the previous season. For groundnuts the area estimate is 40 770 ha, which is 16,0% less than the 48 550 ha planted the previous season. The yield is 1,20 t/ha compared to 1,52 t/ha the previous season. The production forecast for **sorghum** is 152 875 tons – 59,2% higher than the 96 000 tons of the previous season. The area planted to sorghum is 69 000 ha, which is 85,7% more than the 37 150 ha planted the previous season. The expected yield is 2,22 t/ha compared to 2,58 t/ha the previous season. In the case of **dry beans** the production estimate is 41 570 tons – 38,2% lower than the 67 250 tons the previous season. The estimated area planted is 50 725 ha, or 7,6% less than the 54 880 ha planted last season. The expected yield is 0,82 t/ha, compared to 1,23 t/ha the previous season.

Table 10 summarises the results of the **revised intentions to plant winter crops** for the 2007 season. Based on inputs received from a sample of producers, the expected area planted to wheat for the 2007 production season is 655 000 ha. The survey undertaken by the Department of Agriculture, shows that producers intent to plant 109 800 ha or 14,4% less wheat than in 2006. The South African milk industry producers indicated that the decrease in the expected plantings of wheat could mainly be ascribed to dry conditions in large areas of the Free State and North West provinces. The expected area planted to **malting barley** is 77 700 ha, which is a decrease of 13,5% from the 89 780 ha planted last season. The area planted to **canola** and **sweet lupines** show increases of 28,1% and 6,2% respectively, from the previous season. Various factors can, however, still influence these intentions up until

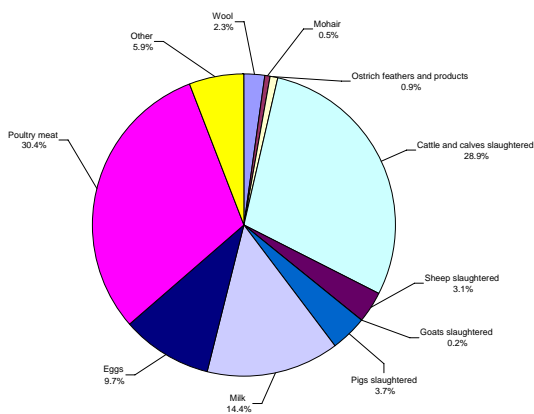
planting time.

### 5.5 A short overview of the South African milk industry

The milk industry is amongst the top contributors to gross income from agricultural products in South Africa. During 2006, the milk industry was the fifth largest contributor to gross income from all agricultural products and the third largest contributor to gross income from animal products. Of the three major agricultural sectors – namely, the field crops, horticulture and animal products sectors – the animal products sector is the main contributor which contributed 50,9% to gross income (R76,9 billion) from agricultural products in 2006, followed by the horticulture sector (27,3%) and the field crops sector (21,9%).

Gross income from milk amounted to R5,6 billion in 2006, third largest contribution to gross income from animal products after poultry meat (R11,9 billion) and beef (R11,3 billion). During 2004/05; 2,7 billion litres of milk were produced, and of these 65% were utilised for fresh consumption (including drinking milk, yoghurt, UHT milk, etc) while 35% were utilised for long life products (cheese, condensed milk and milk powder). It is estimated that South Africans consumed 1,8 million tons of fresh milk in 2004/05, with one person consuming 38 kilograms of fresh milk.

**Figure 2: Contribution to the Gross Income from animal products, 2006.**



Source: Agricultural Statistics

South Africa has been experiencing milk shortages since March 2007 due to a significant increase in demand for milk and dairy products while there has been a drop on the supply side. According to the Milk Producers' Association (MPO), the profitability of milk production came under severe pressure when prices of maize and other grains rose sharply – implying high feed costs – soon after producers dropped the milk price by about 22 cents in 2005. As a result most producers stopped milking, opting to slaughter their cattle to take advantage of favourable meat prices. The drought experienced in some parts of the country also played a role; and shortages were reported to be more prevalent in the highveld, with coastal areas experiencing fewer problems. In line with the global trend, local milk prices have also increased and the MPO has reported that though steps are being taken to increase production, it usually only starts increasing in early September, which means consumers will continue to experience milk shortages for a few more months.

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