

QUARTERLY
**Agricultural
Economic
Review
and
Forecast**

January to March 2007

Volume 5, Number 1, April 2007



agriculture

Department:
Agriculture
REPUBLIC OF SOUTH AFRICA

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.

Mr B J van Wyk

Director: Production and Resource Economics

April 2007

Pretoria

Compiled by Economic Research Unit
In consultation with Director

Directorate Production and Resource Economics
2nd Floor – Maize Board
503 Belvedere Street, Arcadia, South Africa

All correspondence can be addressed to:
The Director: Production and Resource Economics
Private Bag X416, Pretoria 0001, South Africa

Tel: +27 (12) 319 8457

Fax: +27 (12) 319 8093

e-mail: secsmea@nda.agric.za

This publication is also available on the Internet at:

<http://www.nda.agric.za>

CONTENTS

1.	WORLD ECONOMY	3
2.	SUB-SAHARAN ECONOMY	4
3.	SOUTH AFRICAN ECONOMY	5
4.	MACROECONOMIC VARIABLES and THEIR IMPACT ON AGRICULTURE.....	6
4.1	Inflation	6
4.2	Growth	7
4.3	Exchange rates	7
4.4	Interest rates.....	8
5.	OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE	8
5.1	Agri-market indicators.....	8
5.2	Climatic and other conditions.....	9
5.3	Livestock numbers	10
5.4	Crop production and estimates	10
5.5	An overview of the 2007 national budget.....	12
6.	MAIN EXTERNAL SOURCES CONSULTED.....	13
7.	ACKNOWLEDEMENT OF INTERNAL (DoA) CONTRIBUTORS.....	13

1. WORLD ECONOMY

Industrial production in the United States grew by 2,6% during 2006, compared to China's 14,7% and Indonesia's outstanding 23,4%. In the Euro area industrial production grew by 2,2% during 2006 (*The Economist*, 2007). Growth of the world economy increased from 4,7% in 2005 to 5,2% in 2006. The EIU forecasts world growth to slightly go down to 4,7% in 2007 and to 4,6% in 2008. In general emerging countries (non-OECD) tend to grow much stronger than OECD-countries, with emerging countries expected to grow by 7,3% in 2007 and by 6,9% in 2008 and OECD countries expected to grow by 2,6% in 2007 and by 2,7% in 2008. Sub Sahara Africa, Eastern-central Europe and Latin America are all on par with world growth, as depicted in Table 1 below.. Consumer prices increased by 2% in the US by the end of the fourth quarter 2006, compared to the previous year. In China inflation stood at 2% at the same period and in India it was 6,8%. In Germany, consumer inflation decreased to 1,3% by the end of the fourth quarter 2006, compared to 1,6% in the previous quarter. In Brazil inflation was also low at only 3,1% during the same period. Lending interest rates remained unchanged in the US on 8,3% in Q4. In the Euro Area: Germany, lending interest rates increased from 9,3% to 9,5% in Q4 and in the

UK it increased slightly from 4,8% to 5,0%. Brazilian lending interest rates decreased from 49,4% to 48,2% in Q4. In the stock markets, the Dow Jones Industrial Index on the New York Stock Exchange were trading around 12 354 points by the end of March, 0,9% down from 12 463 points the quarter before. In London the FTSE 100 index increased by 1% from 6 241 to 6 308 in the last quarter, and the Japanese Nikkei 225 increased by 0,3% from 17 228 to 17 288. News events that influenced the world economy: In a survey, citizens across the globe have shown declining optimism about the prospects of a safe and prosperous world for future generations (*Google News*, 2007). The United States has quietly poured weapons and military advisers into Ethiopia, whose recent invasion of Somalia opened a new front in the Bush administration's war on terrorism. China successfully destroyed a satellite with a ballistic missile, the first space test of such military technology by any nation in over 20 years. Oil producers outside Opec will pump less oil than expected this year, the International Energy Agency (IEA) said. Vladimir Putin promised a democratic election for Russia's top job and denied Russia is using economic leverage for political gains. The Chinese premier, Hu Jintao, wants Africa to process more of its raw materials that it sells to China. In open defiance of the United Nations, Iran is steadily expanding its efforts to enrich ura-

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

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

Source: EIU ¹ The 12 Euro countries

nium. European Union governments backed a deal with the United States that should boost the number of people flying across the Atlantic by opening up restricted routes to new rivals.

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2006	2007	2008
Growth	5,3	5,3	5,4
Consumer Inflation	13,9	14,4	9,5
External Debt ¹	23,4	23,1	22,6
Current Account ¹	-1,8	-2,9	1,4

Source: EIU ¹ % of GDP

Economic growth in Sub Sahara Africa was 5,3% 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 5,4% in 2008. Zimbabwe has now experienced eight years of falling real GDP (1999-06). GDP growth in Angola was 18,2% in 2006 on the back of rapidly rising oil production (EIU, 2007). Consumer inflation has been revised upwards by the EIU who now forecast a rate of 14,4% for Sub Sahara Africa in 2007. This partially reflects the impact of high world oil prices in many countries, which have pushed up transport and distribution costs. It also reflects poor harvests in East Africa, although food price inflation has remained low in West Africa. Within the four subregions, inflation continues to remain the lowest in the Franc Zone (EIU, 2007). Erratic weather patterns in southern Africa, ranging from searing droughts to raging floods, have devastated harvest prospects for millions of people and could spell yet another year of widespread food shortages (Standard Bank,

2007). External debt decreased drastically from 35,4% of GDP in 2005 to only 23,4% in 2006 as a result of debt write offs by the World Bank, the IMF and the African Development Bank (following the Multilateral Debt Relief Initiative (MDRI) announced at the G8 summit in July 2005). A small decrease in external debt as % of GDP is expected in 2007 and 2008 as new interest payments will also be lower and economies are larger. The implementation of a one-off deal between the government of Nigeria and the Paris Club of official creditors reduced the country's external debt stock from over US\$35bn in 2004 to just over US\$6bn in 2006 (EIU, 2007). The current account balance of Sub Sahara Africa has been revised downwards for 2007 to -2,9% of GDP, though by 2008 it may slowly rise as commodity exports improve (especially as a result of oil). SADC has set 2008 as the deadline for the introduction of zero tariff rates in accordance with the minimum conditions of a Free Trade Area (FTA). By that date, SADC expects more than 85% of regional trade to be conducted at zero tariff rates. Data from the IMF show that grants flowing into Sub-Saharan Africa are expected to average 2,9% of GDP in 2004-06 (EIU, 2007). Political: Uganda is home to the most harsh tax regime on the mobile phone industry, a new study has shown. Uganda charges VAT of 18% and excise duty of 12%, a combined tax load of 30% (Standard Bank, 2007). President Laurent Gbagbo of the Ivory Coast and New Forces rebel leader Guillaume Soro have signed a peace agreement aimed at ending a more than four-year political impasse. The International Monetary Fund says it is still holding consultations with Tanzanian authorities over the mysterious disappearance of

millions of dollars from the country's central bank. In Uganda MPs and international trade specialists have asked the government not to sign the new Economic Partnership Agreements (EPAs) with the European Union because it would harm the economy. The Zimbabwe government, sensing a rising groundswell of defiance to its rule, has launched an unprecedented assault on the fundamental freedom of all Zimbabweans (*Standard Bank, 2007*).

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008
Growth	5,0	4,5	4,5
Consumer Inflation X	4,6	5,3	5,2
Exchange rate ¹	6,97	7,38	7,63
Interest rate ²	11,5	12,9	11,8

Source:BER ¹ End of year ²Yearly Average

During 2006 the South African economy performed relatively well, on par with world growth, though some emerging economies have done better. Gross Domestic product expanded by 5% (mainly due to increases in the manufacturing industry) and is expected to decline slightly to 4,5% in both 2007 and 2008 (Table 3). Consumer inflation-X reached a peak of 5,3% in January, from where it started to decline to 4,9% in February, (mostly as a result of higher interest rates in 2006). Inflation-X is forecasted to remain below 6% in 2007 and 2008. The Rand weakened slightly from January to March from R7,04/\$ to R7,25/\$ as South Africa had to finance a huge trade deficit which boosted the demand for foreign currency. Interest rates were left unchanged by the MPC meeting at 12,5% prime and it

may hold stable during 2007 as inflation tends to remain below the 6% ceiling set by the Central Bank. News events that influenced the SA economy: South Africa has been ranked as having the second-most attractive environment in Sub-Saharan Africa for developing the tourism industry, according to the 2007 Travel & Tourism Competitiveness Report. Cabinet has approved a Municipal Fiscal Powers Bill for tabling in Parliament which will regulate the authorisation of municipal taxes by the finance minister. Global brewer SABMiller has further strengthened its commitment to the Chinese beer market, announcing it would acquire the remaining 38% interest in 14 breweries based in China's Sichuan province. South African aluminium and sugar firm, Tongaat-Hulett Group, has decided on a R1,3bn expansion of its sugar output in Mozambique to target the European Union. The Coega Industrial Development Zone (IDZ) in Port Elizabeth has secured R70 million to invest in a biomass fuel project. In the single largest injection of foreign private equity money into SA, Boston-based Bain Capital has to put in a R25bn bid for SA's largest retailer, Edcon. In order to meet the growing demand for energy in SA, there is going to be a shift towards increased reliance on nuclear power aimed at reducing SA's dependence on coal-fired power stations which emit greenhouse gases. Authorities have for the first time seized a farm from its owners and intend to confiscate more land as part of an intensified drive to divide it up among rural communities dispossessed by apartheid, ministers said. Rising steel and grain prices have caused some US companies to withdraw their support to Ethanol Africa, and the company has now turned to local inves-

tors for support. A key change in South Africa's budget over the medium term is that South Africa will be spending R13,3 billion on the 2010 Fifa World Cup. Tiger Brands CEO announced that the company might not be able to buy enough white maize locally to meet its milling needs this year because of the drought. Impact on agriculture: The strong emergence of the tourism industry in South Africa is an opportunity which should be utilised by agriculture, especially in the form of game farming and eco-tourism. The withdrawal of US companies from Ethanol Africa poses a serious risk to farmers who invested in the company as well as for the future demand for maize and its consequent price.

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPI-X inflation rate

2006		2007	2008
4,6	BER	5,4	5,1
	Standard Bank	5,0	4,9
	Absa	5,6	5,5
	Average	5,3	5,2

BER - Bureau for Economic Research

Recent trends: By February the official inflation rate was 5,7% (annual increase from the previous Feb), which was 0,3% lower than in January. The corresponding CPI-X inflation was 4,9% in February, down from the 5,3% in January. Currently inflation is mainly due to relatively large annual contributions in the price indices of housing (1,9%), food (1,7%), medical care and health expenses (0,5%), fuel and power (0,3%), household operation (0,3%),

transport (0,3%) and education (0,3%). These annual increases were slightly counteracted by annual decreases in the price indices for clothing and footwear (-0,2%). The price index for food reflects an annual rate of increase of 8% by February, down from 8,6% in January. Annual food price increases occurred in the price indices for meat (15%), fats and oils (9,3%), grain products (9,2%), fish and other seafood (9,1%), sugar (5,6%), milk, cheese and eggs (4,3%), vegetables (4,2%), "other" food products (3,7%), coffee, tea and cocoa (2,8%) and fruit and nuts (-2,9%) (*Statistics South Africa, March 2007*). The annualised PPI decreased from 9,8% in January to 9,5% in February. Higher prices for commodities for consumption in South Africa is mainly due to relatively large annual increases in the price indices for agricultural products (1,7%), food at manufacturing (1,3%), basic metals (0,9%), electrical machinery and apparatus (0,8%) and others (3,3%). Forecast: Inflation expectations have been adjusted downwards again by all three listed forecasters (Table 4.1). This is very positive and indicates that the Reserve Bank's monetary policy is effective. On average the CPI-X is forecasted to stay below the 6% ceiling set by the Reserve Bank, increasing only to 5,3% in 2007. Inflation in 2008 is forecasted to come down slightly as current higher interest rates continues to take effect. Impact on agriculture: The turnaround in inflation as a result of higher interest rates is good news for the suffering agricultural industry. It implies there will be no further need to raise interest rates. The cost of debt to agriculture (as well as the rest of the economy) will not spiral out of control as in 1998 and 2002. This

brings new stability to the general economy which may assist agriculture.

4.2 Growth

TABLE 5: Annual real GDP growth rates

2006		2007	2008
5,0	BER	4,5	4,5
	Standard Bank	4,3	4,2
	ABSA	4,6	4,7
	Average	4,5	4,5

BER - Bureau for Economic Research

Recent trends: Real gross domestic product (GDP) at market prices increased by 5,0% in 2006, following an increase of 5,1% in 2005. During the fourth quarter of 2006 it increased by 5,6%. This was mainly due to increases in the manufacturing industry (1,4%), the finance, real estate and business services industry (1%), the wholesale, retail and motor trade, hotels and restaurants industry (0,8%) and the transport, storage and communication industry (0,5%). The seasonally adjusted real value added by the agriculture, forestry and fishing industry decreased at an annualised rate of 8,4% during the fourth quarter of 2006 and the decrease can be attributed to a lower harvest of field crops. The annual real value added decreased by 13,1% in 2006. Forecast: There continues to be widespread agreement amongst the analyst community that the world economy is set for a slowdown in 2007. The interest rate hikes in the 2nd half of 2006 will slowly bring consumer spending under control. Consumers are the main drive behind the recent growth surge in South Africa, therefore the expectation is that the economy will grow below 5% in 2007. The BER forecasts a growth rate of 4,5%. A surplus in the national budget and huge infrastructure spending for the 2010 Soccer World Cup could stimulate growth. Absa forecasted a growth rate of 4,6% in 2007

whilst Standard Bank forecasted it to be 4,3%. On average the economy is expected to grow by 4,5% in both 2007 and 2008. Impact on agriculture: In 2006 the agricultural sector did not benefit from any economic growth. As consumers tend to spend less and growth is mainly driven by infrastructure spending in 2007, agriculture will not benefit again. Consumption expenditure on food will increase at a lower rate than the rest of the economy as households are forced to prioritise debt repayment due to higher interest rates.

4.3 Exchange rates

TABLE 5: End of year R/\$ exchange rates

2006		2007	2008
R6,97	BER	7,80	8,40
	Standard Bank	7,20	7,11
	Absa	7,14	7,37
	Average	7,38	7,63

BER - Bureau for Economic Research

Recent trends: Following the rand's depreciation by about 12,5% against the dollar in 2006, the rand continued to weaken during the first quarter of 2007, remaining above R7 to the dollar for most part of the quarter. During this period, the rand fluctuated between R6,89 and R7,52 to the US dollar, reaching a two-months low towards the end of the quarter following renewed emerging market jitters which later subsided as emerging markets began to rebound in mid-March. The exchange rate regained some strength at the end of the first quarter supported by high commodity prices (with gold reaching its nine-month high of \$689 at the beginning of March). Forecast: Though exchange rates – especially the rand, due to its volatility – remain one of the most difficult variables to try and forecast, the rand is expected to remain weak in 2007, averag-

ing around R7,80 to the US dollar during the fourth quarter of 2007. Whilst external factors that could influence the rand (such as a weaker dollar and strong commodity prices) may be supportive, domestic related factors – such as interest rates (which are assumed to have reached the peak) and the current account deficit – are expected to be unfavourable. Politics are also expected to play a role in determining the rand’s trend in 2007 as foreigners may become jittery in the lead up to the ANC’s national conference in December. Impact on agriculture: The agricultural sector will continue to experience the double-sided impact of a weak rand in 2007 as exports increase due to the competitiveness of SA products on the international market whilst input costs rise due to more expensive imported raw materials.

4.4 Interest rates

TABLE 6: Average yearly Prime interest rate

2006		2007	2008
11,5	BER	13,0	12,0
	Standard Bank	12,4	11,2
	Absa	12,5	12,1
	Average	12,6	11,8

BER - Bureau for Economic Research

Recent trends: Contrary to most economists’ forecast of an increase in the repo rate during the first quarter of 2007, the Reserve Bank’s Monetary Policy Committee (MPC) decided to keep the interest rate unchanged in its first meeting of 2007 citing an improvement in the inflation outlook. This follows four consecutive increases of 50 basis points each since June 2006, which saw the repo rate increase from a 30-year low of 7% at the beginning of 2006 to 9% at the end of the year, as the Reserve Bank

tried to counteract the deteriorating inflation outlook. Responding to an unchanged repo rate, commercial banks also kept the prime overdraft rate unchanged at 12,5%. Forecast: As the repo rate is used by the Reserve Bank as an inflation targeting tool, its increase or decrease is mainly influenced by the inflation outlook. Although food price inflation still remain a cause for concern, lower oil prices, which resulted in petrol price cuts since September last year, have helped curb the deteriorating inflation outlook. Given this improved inflation outlook for 2007, interest rates are expected to increase at least one more time, after which they are expected to remain unchanged with the possibility of tax cuts early next year. The BER forecasts a 50 basis points rate hike before the end of the year, pushing the repo rate to 9,5% and the prime rate to 13% at the end of 2007. Absa forecasts no further changes in both the repo and prime rates until the end of 2007, whilst Standard Bank’s forecasts are more optimistic, expecting a 50 basis points rate cut in the last quarter of 2007. Impact on agriculture: Current optimistic interest rate forecasts are positive developments for the agricultural sector as it implies lower input costs through reduced debt servicing costs.

5. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

5.1 Agri-market indicators

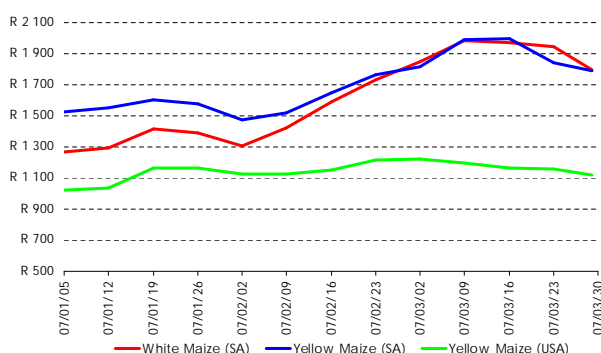
TABLE 6: Price of maize and wheat per ton

	End March 2006	End March 2007
White Maize price	R1 139	R1 792
Yellow Maize price	R1 022	R1 791
Wheat price	R1 421	R2 116
Sunflower price	R1 722	R2 725

Source: Safex

Grain prices remained substantially high in the first quarter of 2007 compared to the same quarter last year due to lack of rain this season, as well as a weak rand which has increased the competitiveness of SA products on the global markets. Domestic prices of white and yellow maize as well as sunflower prices increased by more than 50% in the first quarter of 2007 compared to 2006, with yellow maize leading with an increase of 75% (from R1 022 end of March 2006 to R1 791 end of March 2007). Wheat prices increased by 49% during the same period.

Figure 1: Domestic and USA maize prices



Source: Safex

As depicted in Figure 1, domestic white and maize prices experienced sharp increases since the beginning of February peaking at a four-year high in the beginning of March 2007. This was mainly due to concerns around the unfavourable weather conditions. USA yellow maize prices have also shown an increasing trend since the beginning of 2007, though at a

relatively steady rate. US prices of yellow maize, soy beans and wheat increased by more than 50% in the first quarter of 2007, compared to 2006. The US price of yellow maize more than doubled during the period under review, increasing from just R551,99 in 2006 to R1 119,30 in 2007. International wheat prices increased from R791,08 to R1 227,56 whilst the soy beans price increased from R791,08 to R1 227,56 in the first quarter of 2007 compared to the previous year. The emergence of the bio-ethanol industry has played a major role in pushing global grain prices up (especially yellow maize prices) as demand continues to increase putting pressure on the supply.

5.2 Climatic and other conditions

Apart from showers along the coastal regions, hot to very hot conditions with occasional heat waves persisted over the country throughout the month of February and early March. Whilst a rapid decline in vegetation activity was observed over the most parts of the summer rainfall areas, there are still isolated areas of high vegetation cover over parts of Limpopo and Mpumalanga. Levels of dams: According to the Department of Water Affairs and Forestry report, some dams in the North West, Free State and Limpopo Provinces are already subject to water restrictions, while major dam levels drop everyday. Crop conditions: Most crops failed due to dry and very hot conditions and the crop residues are utilized for animal feeds. Livestock condition: The condition of veld and livestock is poor due to little or no rainfall received, with certain areas reporting drought related mortalities. Early frost has been encountered in the Free State prov-

ince which will further deteriorate the veld conditions. Forecast of rainfall and temperature: Hot and dry conditions are expected to continue through autumn. A warm winter is likely with a late start of the rains over the winter rainfall regions. Early frost is expected especially in the high lying areas. SADC: Reports show that food security is generally stable in most parts of the region reflecting the good 2005/06 harvest. However pockets of food insecurity exist in many countries. Some areas experienced an extended dry spell throughout this period, while others received little scattered rains at this period. Flooding was reported in some areas of Angola, Malawi, Mozambique and Zambia due to heavy falls. Conclusions: Generally, this was not a good agricultural season. The dry and very hot conditions affected the grazing areas which resulted in poor state of livestock in most parts. Parts of the maize producing areas of South Africa have reported severe crop stress and imminent crop failure due to less rain and very high temperatures. Farmers were advised to maintain good farming practices and take precautionary measures for veld fires.

5.3 Livestock numbers

Cattle, sheep, pig and goat numbers increased by 5,88%, 2,28%, 2,03% and 7,08%, respectively from August 2006 to November 2006. Cattle: The number of cattle in the RSA at the end of November 2006 is estimated at 14,328 million. On a provincial basis, 3,280 million (23%) were present in the Eastern Cape, 2,847 million (20%) in KwaZulu-Natal and 2,468 million (17%) in the Free State. The remaining provinces represent 40% (5,733 million) of the total cattle population in South Africa. Sheep:

The total number of sheep at the end of November 2006 is estimated at 25,552 million. The provincial distribution of sheep is as follows: 7,993 million (31%) are found in the Eastern Cape, 6,272 million (25%) in the Northern Cape, 5,190 million (20%) in the Free State and 6,097 million (24%) in the remaining provinces. Pigs: The number of pigs in the RSA at the end of November 2006 is estimated at 1,655 million. Most of South Africa's pig population are present in the Limpopo Province with a population of 421 000 (25%). The North West Province follows with 310 000 (19%) and Gauteng with 180 000 (11%). The remaining provinces represent approximately 43% (712 000) of the total pig population. Goats: Goat numbers at the end of November 2006 are estimated at 6,853 million of which the most goats were present in the Eastern Cape, namely 2,794 million (41%), followed by the Limpopo Province with 1,082 million (16%).

5.4 Crop production and estimates

Table 9 summarises the second production forecast of the most important summer crops for the 2006/07 production season. Production conditions have deteriorated since the previous forecast, made in February 2007 and the rainfall received, was extremely isolated and well below normal in most of the production areas. As a result the commercial maize crop has been set at 6,907 million tons, which is 4,4% more than the 6,618 million tons of the previous season. The production forecast for white maize is 4,063 million tons, which is 3,0% less than the 4,187 million tons of the previous season and the yield for white maize is 2,50 t/ha compared to 4,05 t/ha the previous season. In the case of yellow maize the production fore-

TABLE 9: Area planted and second production forecast of summer crops for the 2006/07 season

Crop	Area planted 2006/07	Change from the 2005/06 season		Second production forecast 2006/07 season	Change from the 2005/06 season	
	Ha	Ha	%	Tons	Tons	%
Total maize	2 546 800	946 600	59,16	6 907 450	289 450	4,37
White maize	1 624 800	591 800	57,29	4 063 400	-124 000	-2,96
Yellow maize	922 000	354 800	62,55	2 844 050	413 450	17,01
Sunflower seed	316 350	-156 130	-33,04	276 780	-243 220	-46,77
Soybeans	183 000	-57 570	-23,93	238 650	-185 350	-43,71
Groundnuts	40 770	-7 780	-16,02	49 400	-24 600	-33,24
Sorghum	69 000	31 850	85,73	141 325	45 325	47,21
Dry beans	50 725	-4 155	-7,57	46 970	-20 280	-30,16

Source: Directorate Agricultural Statistics

cast is 2,844 million tons, which is 17,0% more than the 2,431 million tons produced last season. The yield for yellow maize is 3,08 t/ha compared to 4,29 t/ha the previous season. The total area planted to maize for the 2006/07 season is 2,547 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 922 000 ha, up by 62,6% 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 276 780 tons, which is 46,8% 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 472 480 ha planted the previous season. The yield is 0,87 t/ha compared to 1,10 t/ha the previous season. The production forecast for soybeans is 238 650 tons, which is 43,7% 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 1,30 t/ha compared to 1,76 t/ha the previous

season. The expected groundnut crop is 49 400 tons, which is 33,2% lower than the 74 000 tons 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 1,21 t/ha compared to 1,52 t/ha the previous season. The production forecast for sorghum is 141 325 tons – 47,2% 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 2,05 t/ha compared to 2,58 t/ha the previous season. In the case of dry beans the production estimate is 46 970 tons – 30,2% 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 0,93 t/ha, compared to 1,23 t/ha the previous season. Table 10 summarises the results of the first 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 686 800 ha. The survey undertaken by the Department of Agriculture, shows that producers intent to plant 78 000 ha or 10,2% less wheat than in 2006. The 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 81 800 ha, which is a decrease of 8,8% from the 89 700 ha planted last

the past three years, much faster than the rate of nominal economic growth. The main source of tax revenue was income tax on individuals which accounted for 28,4% of tax revenue in 2006/7, this is a slight drop from 30% in 2005/6 and it was mainly due to personal income tax

TABLE 10: First intentions to plant winter crops for the 2007 production season

Crop	First intentions as at the end of February 2007	Area planted 2006	2007 vs. 2006
	Ha	Ha	%
Wheat	686 800	764 800	-10,20
Malting barley	81 800	89 700	-8,81
Canola	40 000	34 700	15,27
Sweet lupines	18 000	16 000	12,50

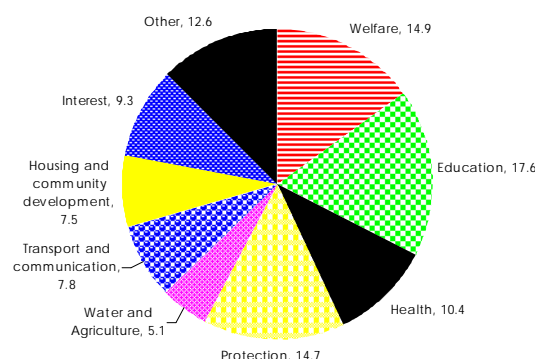
Source: Directorate Agricultural Statistics

season. The area planted to canola and sweet lupines show increases of 15,3% and 12,5% respectively, from the previous season. Various factors can, however, still influence these intentions up until planting time.

5.5 An overview of the 2007 national budget National Treasury continued its fiscal stance of planning for a budget surplus in the 2007/8 fiscal year as has been the case in the past few years. This stance has seen the budget deficit decline from R29,3 billion in 2003/4 to R5,0 billion in 2005/6, whilst a budget surplus of about R5,2 billion and R10,7 billion is estimated for the 2006/7 and 2007/8 fiscal years. Tax revenue for the 2006/7 year is estimated at R489,7 billion (7,2% higher than the budget estimate) whereas expenditure is estimated at R470,6 billion (0,6% less than the budgeted amount). For the 2007/8 fiscal year, tax revenue is expected to increase by 13,7% compared to 2006/7, amounting to R557 billion whilst total expenditure is expected to increase by 13,4% amounting to R534 billion. Tax revenue has grown by a nominal average of 17% a year for

cuts during 2005/6. As always expected “sin tax” also increased this year, with excise tax on cigarettes, beer, wine and spirits increasing. Fuel prices were also increased by 10 cents a litre. For the first time ever, spending over the three years starting 2007/8 will reach almost R2 trillion due to increased spending on infrastructure in preparation for the 2010 World Cup. The Department of Agriculture will receive a budget of R2,281 billion to spend on its operations and activities in 2007/8, an increase of 16,5% from the 2006 budget estimate of R1,958 billion.

Figure 2: Spending by Economic Functionality



Source: National Treasury

Expenditure in the *Land Reform* programme is expected to increase from R1,7 billion in 2007/8 to R3,3 billion in 2009/10. This substantial growth is expected to continue at an average annual rate of 26,8% from 2006/7 to 2008/9, mainly as a result of accelerated delivery in both the restitution and land reform programmes. Tax relief of R8,4 billion will compensate consumers for the relatively high inflation rates prevalent in 2006 and this will sustain demand for agricultural products. On the other hand, a 10 cent fuel levy is likely to dilute benefits derived from the falling oil price on input costs. Tax depreciation allowance for economic wear and tear of commercial buildings and upgrades announced would be welcomed by farmers who invested in fixed capital.

6. MAIN EXTERNAL SOURCES CONSULTED

Bureau for Economic Research (BER), *Economic Prospects*, Vol 22, No1. 1st Quarter 2007.

Standard Bank: *Macroeconomic Forecast*, 28 February 2007

ABSA: *SA Quarterly Macroeconomic Projections*, 1 March 2007

Statistics South Africa, www.statssa.gov.za, 2007

South African Reserve Bank, *Quarterly Bulletin*, December 2006, www.reservebank.co.za

Johannesburg Stock Exchange, www.safex.co.za, 2007

Lycos, www.euroinvestor.co.uk, 2007

National Treasury, March 2007

Weekly Price Watch, Department of Agriculture, January – March 2007.

The Economist Intelligence Unit, eiu.com, March 2007

The EIU, *Sub Sahara Africa, Regional Overview*, February 2007

The Economist, 23 March 2007

Google News, January – March 2007

7. ACKNOWLEDEMENT OF INTERNAL (DOA) CONTRIBUTORS

Directorate: Risk Management: Climatic Conditions

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