

The background image is a composite of agricultural scenes. At the top, bunches of bananas hang from a wooden structure. Below, there are large hay bales in a field. In the foreground, a large white sheep stands with several smaller lambs. To the right, there is a close-up of fresh strawberries.

QUARTERLY
Agricultural
Economic
Review
and
Forecast

October to December 2007

Volume 5, Number 4, January 2008



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.

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January 2008

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1. WORLD ECONOMY

The fourth quarter of 2007 was characterised by global economic uncertainties following the global financial markets turmoil sparked by the US sub-prime mortgage crisis during the third quarter. As a result global central and commercial banks have been frantically trying to contain the financial repercussions and this has led to lower interest rates in the US (sparkling depreciation of the US dollar) and interest rate hikes by other major central banks. Although the world economy remained strong in the first three quarters of 2007, prospects for 2008 have been affected by the sub-prime crisis. Global economic growth forecast remain unchanged at 5,2% in 2007, while slowing down to 4,8% in 2008 due to the repercussions of the financial market turmoil and surging oil price (BER December 2007). Real GDP growth in US is estimated to be below 2% in 2007. However, the low contribution by major industrial countries is expected to be counter-balanced by continued strong economic performances by emerging markets, led by China, India and Russia (currently China and India each contribute a larger share to global growth than any of the other countries such as US, Euro area and Japanese economies). China recorded the highest real growth output, the largest contribution to global output

measured on both market and purchasing power parity exchange rate, followed by India, Russia and other countries. Economic growth in Euro area was stable during the second quarter, while in the third quarter there was a rebound in economic activities. With the supply driven inflation pressure in the euro area, combination of higher interest rates and currency strength sent German business confidence in tailspin. Germany leads the economic growth in the euro area. Inflation: Another global concern is the rising core inflation caused by high food prices, oil price and raw material prices. The fourth quarter saw the oil price reach a record \$100 a barrel as Middle East tensions aggravated the oil price pressures. In US, core inflation has decreased in the beginning of the year but increased sharply towards the end of the year in September and October. In the euro area inflation was contained during the course of the year, but in September it exceeded the European Central Bank target of below but close to 2%, whereas, inflation in emerging market economies continue to increase. (SARB Bulletin Q4 2007). News events that influenced the world economy: The European Central Bank (ECB) left interest rates unchanged in October as the rising Euro and US housing slump threatened to curb economic growth. The International Food Policy Research Institute reported that the world is consuming more than it produces and food prices may increase for years

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

Countries	2006	2007	2008	Countries	2006	2007	2008
World ¹	5,4	5,2	4,8	ASEAN-4 ³	5,4	5,6	5,6
USA	3,3	1,9	1,9	China	11,1	11,5	10,0
Japan	2,2	2,0	1,7	India	9,7	8,9	8,4
Euroland ²	2,8	2,5	2,1	Latin America	5,5	5,0	4,4
OECD	3,2	2,5	2,6	East-central Europe	6,3	5,8	5,2
Non-OECD	8,1	7,7	7,1	Sub-Saharan Africa	5,5	6,1	6,8

Source: EIU ¹ PPP ² The 11 Euro countries ³ Indonesia, Thailand, Philippines and Malaysia

because of expansion of farming for fuel and climate change, risking social unrest. According to the International Crops Research Institute, the world is facing an agricultural crisis due to climate change that could jeopardise global food supplies, with South Asia and Africa expected to be the hardest hit. (*Price Watch, 2007*).

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2006	2007	2008
Growth	5,6	6,1	7,1
Consumer Inflation	11,8	6,5	6,6
External Debt ¹	146,7	156,7	162,9
Current Account ¹	-0,6	-4,0	8,3

Source: EIU ¹US\$ Billion

According to the Economist Intelligence Unit (EIU) the Real GDP growth rate for Sub-Saharan Africa forecast in 2008 will be higher than the previous estimate in August 2007. It is now estimated that real GDP in Sub-Saharan Africa will rise by 6.1% in 2007, picking up sharply, to 7.1%, in 2008. According to IMF, growth in the oil exporting countries should accelerate to about 7,5% in 2007 and is projected to rise to more than 10,6% in 2008 supported by surging oil prices. One of the region's primary challenges is to sustain the growth, and sustaining it will depend on each country's ability to use higher income to accelerate socioeconomic development. Growth in the middle income economies is estimated to average 4,2% in 2008 and this is the lowest growth group in SSA. However, the oil importers are expected to do better than the middle income economies in GDP growth. In Southern African Development Community (SADC) growth is estimated at

6.7% in 2007. Growth in SADC region will be supported by strong growth of about 7% in the fast growing, reform oriented economies such as Mozambique. Increases in oil production, coupled with growth in agriculture, manufacturing and construction will drive Angola's real GDP growth of 21.4% in 2008. The South African economy—which accounts for over two-fifths of the region's output—is expected to remain strong, although real GDP growth is estimated to be just under 5% in 2007 due to the interest-rate hikes since mid-2006. East Africa and the Central and West Africa: In East Africa growth is estimated at between 6% and 7% in the larger economies such as Kenya, Ethiopia, Uganda, Rwanda and Madagascar. In smaller islands like Seychelles and Comoros, growth is expected to continue to be low because of physical isolation and poor policies. However, in the Franc Zone, growth will continue to remain the lowest, from an estimated 3.7% in 2007 to 4.9% in 2008. External debt: The profile of SSA has changed significantly since 2006 due to two factors: firstly, the implementation of a once-off deal between Nigeria and Paris club official creditors which reduced Nigeria's external debt to \$6 billion at the end of 2006 from \$35 billion at the end of the fourth quarter of 2004 and secondly, the implementation of Multilateral Debt Relief Initiative (MDRI) agreed at G8 summit which benefited 15 SSA countries. African governance: The increase in criminal networks in the SSA will make the region face various threats to its stability. An equal serious threat to the stability of Africa came from International criminal networks that opened new drug trafficking routes through West Africa that are also involved in money laundering. Political instability and ris-

ing tensions in some countries in the region could lead to civil conflicts. The best performer according to the Ibrahim index of African governance is Mauritius followed by Seychelles and Botswana while the worst performer is Somalia, a country which has not had a functioning government since the overthrow of Siad Barre in 1991, followed by the DRC, Chad and Sudan. Consumer inflation: With the strong GDP that SSA is experiencing, inflation is, however, expected to continue to increase in 2008 according to EIU. Zimbabwe's inflation problems continued to be out of control throughout 2007. Food and foreign exchange shortages, currency depreciation and ballooning money supply drove inflation to a record 7600% in July. The introduction of price controls and freezing of wages by government worsened the situation in Zimbabwe and inflation reached 8000% in September. With the exclusion of Angola, DRC and Zimbabwe the inflation rate in SSA is estimated at 6,5% in 2007 and 6,6% in 2008. Most countries in SSA have kept inflation between 6% and 9% despite higher commodity prices. Average inflation is expected to drop further in oil exporting countries while in middle income countries, inflation is expected to accelerate to about 6,5% in 2007 but decline to 6% in 2008. In most low income countries, inflationary pressures are expected to decrease. Trade surpluses: Oil exporting countries in SSA tend to have major impact on the current account forecast, due to high volatile trade balances that are largely determine by oil prices. According to EIU, oil exporters in SSA will continue to run large trade surpluses due to high oil prices that are estimated to average \$73,3/barrel in 2007 and expected to rise to \$78/barrel in 2008. The in-

crease in oil prices is expected to push overall trade surpluses to \$76,4 billion in 2008 from \$56,4billion in 2007. News events that influenced the SSA economy: In October the South African Reserve Bank governor warned against the creation of an African Central bank (ACB) and a common currency for the African continent – recently approved by AU – before the necessary structural changes are effected in most African economies. According to the head of UN Environmental Programme, Africa's coastal infrastructure faces increasing danger of erosion from rising sea level caused by climate change. SA and Mozambique signed a treaty for the establishment of a Joint Permanent Commission on Defence and Security. Zimbabwe's finance minister reported that food imports into the country are expected to grow from \$178m last year to \$405m million in 2007 as the country is facing chronic food shortages due to the drought and disruptions to agriculture. EU – Africa Summit held in December ended with the signing of an eight part agreement setting out how participants should cooperate on issues such as free trade and democracy. Zimbabwe's Central Bank put aside plans to introduce a new currency in November 2007 (*Price Watch*, 2007).

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008
Growth	5,0	5,1	4,4
Consumer Inflation X	4,6	6,5	6,5
Exchange rate ¹	6,97	6,79	7,65
Interest rate (Prime) ²	11,5	13,9	13,6

Source:BER Statssa ¹ End of year ²Yearly Average

The CPIX jumped the target range for nine months in a row reaching 8,6% in December 2007 mainly due to high food prices (since food is the largest single component of the consumer price index) and high oil prices. It is expected that the CPIX will stay above the target ceiling until the fourth quarter of 2008 (BER Fourth Quarter 2007). The SARB raised the Interest rates by a further 50 basis points to 11% in December – its fourth repo rate increase during 2007 – in response to inflationary pressures. Although credit growth has slowed somewhat in response to the rise in lending rates over the past 18 months, food and fuel prices continue to drive inflation higher. Despite high inflation rates and subsequent higher interest rates, the BER forecasts Real Gross Domestic Product to average 5,1% in 2007 induced by strong public and private investment in infrastructure as preparations for the 2010 Soccer World Cup gather momentum and then drop to 4,4% in 2008 in line with the global economic slowdown (BER December 2007). Consumer demand is likely to fall in the first half of 2008 but it may recover in the second half if interest rates start to fall and because of employment opportunities (partly linked to the World Cup projects). The ongoing emergence of a black middle class will fuel additional consumer demand, and manufacturing is likely to benefit from a weaker rand. Consumer spending: According to BER, consumer confidence increased by four index points to +22 during the fourth quarter of 2007 from +18 in the third quarter of 2007. The consumer confidence increase was unexpected because of various occurrences within the economy, such as increase in interest rates, higher inflation and the introduction of the

New National credit Act. The current account deficit increased to a record of R162,6 billion in the third quarter of 2007, equal to 8,1% of gross domestic product. On average, the balance on the current account as a percentage of gross domestic product amounted to 7,1% in the first three quarters of 2007 compared with 6,0% in the corresponding period during 2006 (SARB Q4 bulletin 2007). The exchange rate fluctuated within a fairly narrow range this year. Overall, the rand was 6% weaker in the first ten months of 2007, at R7.11 to the US dollar compared with the same period in 2006, but it was relatively firm against the US dollar since mid-year and it is expected to be strong because of the weaker dollar, high commodity prices and rising interest rates. The rand ended the year at R6,79 per US dollar in 2007 and BER expect it to end stronger R7,65/US\$1 in 2008. News events that influenced the SA economy: In what is regarded as the biggest foreign investment in post apartheid SA to date, the state controlled Industrial and Commercial bank of China (ICBC) bought 20% stake in Standard Bank for R36,7 billion. In his medium-term budget speech, the Minister of Finance Trevor Manuel highlighted the need for SA to introduce unilateral trade reforms to boost growth in SA's economy given the slow pace at which the multilateral trade negotiations are going. First National Bank (FNB) and USAID have announced a R300 million guarantee scheme to support lending to black emerging farmers and agribusinesses over the next seven years. The investigation by the Competition Commission uncovered bread fixing activities over the past 12 years within the bread and milling industry – in which four major role players control more than 90% of

wheat milling activities and a significant percentage of SA's bread baking activities. Limited power supply is expected to affect production as Eskom's planned maintenance shutdowns at various power stations resulted in power rationing around the country. The national Energy Regulator of SA has approved a 14,2% electricity tariff hike for next year, warning consumers of similar high price hikes at least for the next ten years. Former ANC deputy president Jacob Zuma was elected the new ANC president at the 52nd ANC National Conference, bringing Thabo Mbeki's ten year term as party president to an end. (*Price Watch, 2007*).

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPIX inflation rate

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

BER - Bureau for Economic Research

Recent trends: As previously forecasted, CPIX inflation in South Africa hit the 7% mark during the fourth quarter of 2007 – remaining above the 3% - 6% target range for nine consecutive months. The CPIX reached 7,3% in October, ending the quarter at 8,6% in December from 7,9% in November. According to Statistics South Africa (Statssa), the average CPIX inflation for 2007 was 6,5%, slightly higher than 6,4% and 6,2% forecasted by BER and Absa respectively. The headline CPI annual inflation rate

was 9% in December from 8,4% in November and 7,9% in October 2007. The momentum of inflation was fuelled by food (+3,1%), housing (+2%), transport (+1,9%), medical care and health expenses (+0,5%), household operation (+0,4%), education (+0,4%) and fuel and power (+0,3%). Food prices were much higher than expected, increasing by 13,5% in December 2007, as compared to an increase of 13,4% in the previous month. The increase in food prices was fuelled by increases in the prices of grain products, vegetables, meat, eggs, milk, cheese, other food products, fats and oils, fruit and nuts, fish and other seafood, coffee, tea and cocoa and sugar. Wage settlements also edged higher in the course of 2007. PPI accelerated above market expectations to 10% in December 2007 after a 9,1% increase during November 2007. The increase in producer prices during December was augmented by annual increases in the price indices for locally produced goods, which rose by 7,5% and for imported commodities which rose by 2,8%. Import inflation soared to 11,3% year-on-year in December from an 18-month low of 7,3% year on year in November (Standard Bank). Food prices at the manufacturing level rose by 18,9% during December, from 18,6% in November 2007. Agricultural prices recovered somewhat in December, after falling briefly in November. Prices from petroleum and coal products increased substantially from 16,2% year-on-year during November to 26,8% during December 2007. This was mainly due to increase in the diesel price by 7,6% month-on-month. Forecast: On average the CPIX inflation is expected to remain above 6% until the end of 2008. The BER projects CPIX inflation of 6,5% in 2008, decreasing to 5,5% in

2009. PPI inflation is projected to average 10% this year and decline to 7,9% in 2008 and 6,2% in 2009. Impact on agriculture: High inflation will increase farm production costs which will ultimately be passed along to consumers. Inflation also raises interest rates which affect farmers who have debts.

4.2 Growth

TABLE 5: Annual real GDP growth rates

2006		2007	2008
5,0	BER	5,1	4,4
	Standard Bank	5,1	4,5
	ABSA	4,7	3,9
	Average	5,0	4,3

BER - Bureau for Economic Research

Recent Trends: Revised GDP estimates results indicate that economic growth remains resilient and that the economy thrived more than it was forecasted. The country's third quarter GDP growth showed an increase of 4,7%, compared with a downwardly revised 4,4% in the second quarter of 2007. The main contributors to overall GDP growth in the third quarter of 2007 were the finance, real estate and business services industry (2,5 percentage points); the wholesale, retail and motor trade, hotels and restaurants industry (0,6 percentage point); construction industry (0,5 percentage point); and the transport, storage and communication industry and general government sector (0,4 percentage point).

Forecast: The third quarter was characterised by continued deterioration in domestic inflation outlook, hikes in interest rates during August and October 2007 as well as sharp declines in business confidence (declined by 8 index points) which signals slower economic growth. The BER projects economic slowdown to be of moderate extent, given the current economic developments. However, with results showing improved fixed investment

spending, and associated employment creation, consumer spending is likely to be resilient; and further export growth could boost economic growth. On average, GDP is expected to remain at 5% in 2007, and decelerates to 4,3% in 2008, before it accelerates again in 2009. Standard bank predicts a 5,1% economic growth for 2007, slowing to 4,5% in 2008 then rising to 4,8% in 2009. Absa forecasts are more pessimistic at 4,7% for 2007, a slowdown of 3,9% in 2008, before it accelerates to 4,4% in 2009. Impact on agriculture: Although the agricultural sector experienced a moderate slowdown in economic growth in the third quarter of 2007, intentions to plant maize continue to surprise on the upside supported by recent good rains and persistent high prices. This implies that local crop output is more likely to increase in large proportions reducing the demand for imports. On the other hand, government's drive to boost infrastructure investment might benefit the capital formation activities in the agricultural sector.

4.3 Exchange rates

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

2006		2007	2008
6,97	BER	7,90	7,65
	Standard Bank	7,05	6,79
	Absa	7,08	7,03
	Average	7,34	7,15

BER - Bureau for Economic Research

Recent trends: The exchange rate held steady against the US dollar during the last six months of 2007. The rand reached a peak of R6, 98 against the US dollar towards the end of July before sliding back above the R7/ dollar level in August and September, and then recovered swiftly back to below the R7/ dollar level during the fourth quarter of 2007. The relative

strength of the rand has been underpinned by sustained capital inflows used to finance current account deficit in the third quarter of 2007(South African Reserve Bank). Strong commodity prices, current interest rate regime and the weakness of the US dollar also contributed to the rand's appreciation. Forecast: Although the rand will continue to be supported by strong capital inflows and high commodity prices, it will remain vulnerable to swings in investor speculations or any widening current account deficit. The BER expects the rand to depreciate down the line, reaching above R7,50/ US dollar towards the end of 2008 and weaken further to R8,15/ US dollar in 2009 due to balance of payments and competitiveness pressures. Standard bank's forecast is more optimistic for 2008, expecting the rand to end at R6,79/ dollar before it weakens to R7,24/ dollar in 2009. In 2008, the rand is expected to average R7,15 against the US dollar. Impact on agriculture: The strong currency implies that domestic agriculture prices will lose competitiveness in the international markets forcing farmers to subsequently increase prices in order to pass along cost increases to consumers.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rate

2006		2007	2008
11,5	BER	14,5	14,5
	Standard Bank	14,5	13,5
	Absa	13,1	14,4
	Average	14,0	14,1

BER - Bureau for Economic Research

Recent trends: With heed to preventing imbalances impacting on inflation and ultimately on economic growth, the South African Reserve

Bank raised its repo rate by 50 basis points to 11% during the first week of December, bringing the prime rate to 14,5% - the fourth increase in 2007. The repo rate has now increased by a total of 400 basis points in this cycle. Local government bonds performed well on the back of the stronger rand, interest rate hikes and the negative surprises on CPIX inflation during the fourth quarter. Forecast: Upward pressure of food and energy prices on inflation dampens expectations for an end to the persistent increase in interest rate and the timing of subsequent decline in interest rates. With inflation already above the target range of 3-6%, further increases on inflation will delay the easing of monetary policy by the South African Reserve Bank. However, sufficient signs of slowing consumer spending are likely to keep interest rates on hold at 11% when the MPC meets at the end of January 2008. Impact on agriculture: The cost of servicing debt was estimated at 7,2% of disposable income in 2006 before it rose to 10,5% during the third quarter of 2007. Analysts project it rising at an alarming 11,5% rate in the first quarter of 2008. Higher interest expenses resulting from high interest rates reduce profitability of farms and discourage investment. Increases in interest rates translate into greater financial burden for farmers who hold a variable rate loans. High interest rates also imply farmers will spend more on storage costs.

5. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

5.1 Agri-market indicators

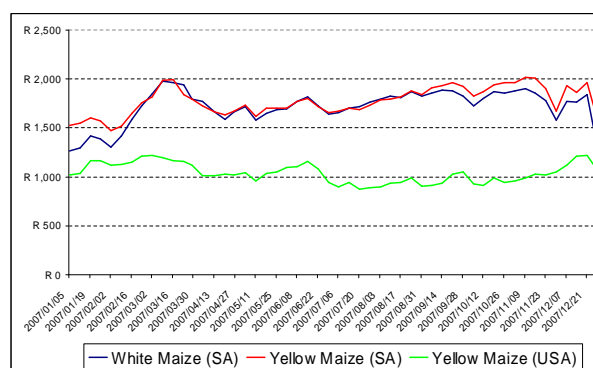
TABLE 8: Price of maize and wheat per ton

	End December 2006	End December 2007
White Maize price	R1 287	R1 842
Yellow Maize price	R1 580	R1 966
Wheat price	R1 750	R2 950
Sunflower price	R2 410	R4 475

Source: Safex

Domestic prices of maize declined to an average R1692/ ton in December 2007, due to good early summer rains which saw higher crop plantings by farmers. The Crop Estimates Committee raised its estimate for the past season’s maize crop by 3,13% to 7,125 million tons during December (Weekly price Watch, 06 Dec 2007). Prices of white and yellow maize declined by 4,1% and 4,6% respectively during December. Sunflower prices moved sideways during the fourth quarter showing short term upward movements whilst wheat prices strengthened throughout the fourth quarter supported by dwindling world supplies and strong international wheat markets. Price per ton of sunflower stood at R4 475 at the end of December 2007, which is 85,7% above last year this time. Prices of wheat strengthened by 68,6% at the end of December 2007, as compared to the same period last year. On average, prices of wheat increased by 2,6% during December 2007. Figure 1 illustrates the weekly price trends of domestic and US maize prices for the year to end of December 2007. Local white and yellow maize prices moved in the same direction throughout the year demonstrating a peak during March 2007, thereafter they fell within the R1 500 – R2 000 range.

Figure 1: Domestic and USA maize prices



Source: Safex

During the fourth quarter, prices of maize were characterised by persistent falls ending the year at R1 287 for white maize and R1 580 for yellow maize. USA yellow maize prices stayed within R1000/ ton – R1 500/ ton range in the first two quarters of 2007 before it fell below R1 000/ ton during July and August 2007. Prices stabilised during October and started to rise above R1 000/ ton in November. During the third week of December prices rose sharply by 19% week-on-week as compared to the third week of November 2007, before they could decline by 12,6% to R1 067,31/ ton from R1 220,56/ ton the previous week. US wheat prices recorded the highest increase (77,3%) from R1 293,11 at the end of December 2006 to R2 292,88 at the end of December 2007, while soybeans was 75% above last year this time.

5.2 Climatic and other conditions

Rains that continued over the country, although associated with hailstorms and strong damaging winds in some areas, brought relief to drought stricken areas except the Central Karoo. These rains resulted in flooding in some areas while temperatures remained high in most areas. Levels of dams: According to the

report by the Department of Water Affairs and Forestry, levels of dams are improving in most areas following good rains although still lower than last year this time in some areas. Crop conditions: The planted summer crops are in good condition although diseases and pests associated with wet conditions have been reported in some areas. Crops in certain areas were destroyed by hail storms and farmers are advised to be on the lookout for daily extreme warnings and to take the necessary precautions. Veld and livestock conditions: The condition of veld and livestock improved in most areas though still recovering in overgrazed areas, however, farmers are advised to utilize additional fodder to allow the veld to recover especially in the overgrazed areas. Pests and diseases associated with wet conditions are reported in some areas and farmers were advised to regularly apply control measures. Forecast of rainfall and temperature: Wet and cool conditions are expected over the country with higher probability of wet conditions expected over the central parts. These wet conditions are expected to persist until the end of this summer season which enhances probability of floods. SADC: According to FEWSNET, current reports indicate a general tightening of food supplies throughout the region as the hunger season sets in. However, food security conditions continued to be mixed with the situation remaining generally stable in surplus producing countries whilst deteriorating further in deficit countries. VAC assessments indicated that from July 2007 until March 2008, countries that face shortages are Lesotho, Swaziland, southern Mozambique and Zimbabwe. However, humanitarian interventions in these countries stabilized the food

insecurity situation. Food security remains satisfactory in Malawi, Tanzania, Zambia and northern Mozambique. Significant rainfall was experienced mainly in the northern and southern parts of the sub-region, with central parts receiving little rain. Conclusions: Good yields for winter crops have been realized although the quality is not very good in some areas due to wet conditions towards harvesting. Planted maize is in good condition although regular scouting for pests and diseases is necessary due to wet conditions in most parts of the country. Veld and livestock condition improved drastically in some areas although still recovering in overgrazed parts. However, farmers were advised to continuously keep stock that suit the size of camps and utilize additional fodder from drought relief scheme. Levels of dams continued to improve in most areas following good rains but still lower than last year this time in some areas. Levels of dams remained high in the Western Cape and low towards the east. Rains that occurred over the country caused flooding in some areas and these rains are expected to continue until the end of this summer season and contingency plans for flooding need to be in place.

5.3 Crop production and estimates

Table 9 summarises the preliminary area planted to the most important summer crops for the 2007/08 production season. The preliminary area forecast is based on inputs from the Department of Agriculture's sample of producers; the Provincial Departments of Agriculture representatives; and the Grain silo owners. The preliminary area estimate for commercial maize is 2,786 million ha, which is

TABLE 9: Preliminary area planted estimate of summer crops for the 2007/08 production season

Crop	Area planted 2007/08	Area planted 2006/07	2007/08 vs. 2006/07
	Ha	Ha	%
Total maize	2 785 800	2 551 800	9,17
White maize	1 714 200	1 624 800	5,50
Yellow maize	1 071 600	927 000	15,60
Sunflower seed	482 250	316 350	52,44
Soybeans	165 000	183 000	-9,84
Groundnuts	47 100	40 770	15,53
Sorghum	82 200	69 000	19,13
Dry beans	45 900	50 725	-9,51

Source: Directorate Agricultural Statistics

9,2% more than the 2,552 million ha planted for the previous season. The area estimate for white maize is 1,714 million ha, which represents an increase of 5,5% compared to the 1,625 million ha planted last season. In the case of yellow maize the area estimate is 1,072 million ha or approximately 15,6% more than the 927 000 ha planted last season. The ratio of white to yellow maize plantings is 62:38 as against the previous seasons' 64:36. The majority of South Africa's maize is planted in the Free State, North West and Mpumalanga Provinces. Plantings of maize in the Free State are 1,115 million ha - an increase of 9,3% in comparison with 1,020 million ha in 2006/07. The expected plantings of maize in North West increased by 5,8%, from 770 000 ha to 815 000 ha, and in Mpumalanga by 13,8%, from 470 000 ha to 535 000 ha, compared to the plantings in the 2006/07 season. The preliminary area estimate for sunflower seed is

482 250 ha, which is about 52,4% more than the 316 350 ha planted the previous season. It is estimated that 165 000 ha have been planted to soya-beans, which represents a decrease of 9,8% compared to the 183 000 ha planted last season. For groundnuts the area estimate is 47 100 ha, which is 15,5% more than the 40 770 ha planted for the previous season. The area estimate for sorghum increased by 19,1%, from 69 000 ha to 82 200 ha against the previous season. In the case of dry beans the area estimate is 45 900 ha or 9,5% less than the 50 725 ha planted the previous season. Table 10 summarises the estimated plantings and sixth production forecast of the most important winter crops for the 2007 production season. The expected winter wheat crop is 1,812 million tons, which is 13,9% or 293 350 tons less than the 2,105 million tons of the previous season. The estimated area planted to wheat is 632 000 ha, which is 17,4% less than 764 800 ha

TABLE 10: Estimated plantings and sixth production forecast of winter crops for the 2007 season

Crop	Estimated plantings for the 2007 season	Change from the 2006 season		Sixth production forecast for the 2007 season	Change from the 2006 season	
	Ha	Ha	%	Tons	Tons	%
Wheat	632 000	-132 800	-17,36	1 811 650	-293 350	-13,94
Malting barley	73 360	-16 420	-18,29	213 224	-22 776	-9,65
Canola	33 200	1 200	3,75	39 840	3 340	9,15
Sweet lupines	14 000	-2 000	-12,50	13 300	-1 100	-7,64

Source: Directorate Agricultural Statistics

planted the previous season. The expected yield is 2,87 t/ha as against 2,75 t/ha of the previous season. The expected production forecast for the Western Cape is 812 500 tons, with an expected yield of 2,50 t/ha and for the Free State it is 483 750 tons, with an expected yield of 2,25 t/ha. The production forecast for malting barley is 213 224 tons, with the area planted estimated at 73 360 ha and the yield at 2,91 t/ha. The production forecast for canola is 39 840 tons, while the area planted to canola is 33 200 ha and the yield is 1,20 t/ha. The 2007 production estimate for sweet lupines is 13 300 tons, which is a decrease of 7,6% from the previous season. The area planted to sweet lupines is 14 000 ha and the yield is 0,95 t/ha.

5.4 Implications of random power cuts and consequent increase in tariffs

South Africa is currently facing a power crisis as a result of increased demand, which has attracted lot of attention nationally and internationally. This crisis has led to Eskom – which generates about 95% of South Africa and other African countries' electricity – to introduce load shedding as an emergency measure for shortage of supply capacity, in order to prevent a collapse of the national electricity supply system. This has become a serious concern for various stakeholders such as business, agricultural, mining and political sectors. Many business operations have been shut following unplanned power cuts across the country. The small business sector has also been hit hard by these power failures, with dozens forced to shut down and more closures expected. This comes as Eskom announced its inability to

meet demand, and requested its largest industrial customers to reduce electricity consumption by 20%. South Africa has seen significant levels of growth in electricity consumption and the level of demand. The agricultural sector has also been affected by the power crisis, which saw some of the farming operations being stopped. The stakeholders from the agricultural sector raised a concern that unscheduled power cuts could result in the loss of total yields of specific crops. The wine and fruit industries in the Western Cape, which produces between 55% and 60% of South Africa's agricultural exports, were seriously affected by unscheduled power cuts. These industries have seen cellars, cooling facilities, irrigation pumps and sorting machines coming to a halt. Reports have indicated that should the problem persist, about 2 000 farm workers could loose their jobs. Energy has been shown to be equally important as other factors of production such as labour, land, and capital because of its significance to economic growth (European Commission, 1993). It has been further recognised that an increase in electricity use translate to improvement in productivity in developed countries (Energy Policy 33, 2005). In 2007 demand for energy rose by 4,3% as compared to 2006. Growth in peak demand from 2006 and 2007 was 4,9% (www.info.gov.za). During 2004, industrial usage of electricity increased by 22% as compared to 2003, with agricultural sector showing the highest rate of consumption (+19,8%), followed by commerce (+18,56), and transport (+13,2%) (Energy Digest, 2006). Strong demand of electricity caused by a robust economic and population growth has seen a sharp decline in electricity reserve margin which cater

for emergencies. The current crisis resulted in NERSA (National Electricity Regulator of South Africa) raising prices by 14,2% in order to fund capacity expansion projects. Reports have indicated that further price hikes are likely, with consumers having to face 20% annual price increases. Recent power cuts have enraged the public and raised questions over future investment in Africa's biggest economy. The power cuts and consequent tariff increases have serious implications for the economy. South Africa aims to accelerate growth by 6% and halve unemployment and poverty by 2014. In order to attain a 6% growth, relatively, electricity demand is set to rise by 4% per year. But in the face of power shortages resulting from constrained supply, analysts and various stakeholders believe that the current crisis will put more constraints on growth rate, with global slowdown already predicted for 2008. Random power cuts affect the harvesting process and this implies a delay in production which results in a loss in income. South Africa is looking to attract local and foreign investment and improve the performance of the manufacturing sector. However the current situation is likely to discourage new investments and capital expansion programmes and also reduce business confidence. Rising tariffs may push poor households to alternative energy sources such as wood and cow dung especially for heating purposes. Increased use of such is associated with environmental externalities such as air pollution and deforestation. Further rise in tariffs is consequently expected to push production costs up which will ultimately be passed along to consumers. Expenditure on intermediate goods and service in the agricultural sector shows that electricity

expenditure increased by 11% in 2007. Further electricity price hikes will likely move prices on intermediate goods and services up, which imply higher production costs. As higher production costs are likely to be passed on to consumers, this might push food prices – which are already driving inflation up – even further up. Theft of electricity either by illegal connections or by tampering with the meter is another possibility, which may result in mounted costs for the electricity industry as well as further cuts due to maintenance. Increases in electricity tariffs are likely to substantially raise costs for government, with government facing huge costs of compensating the poor for the welfare loss due to tariff increases (Poverty and Social Impact Analysis (PSIA) final, 2002).

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