

## PREFACE

The core business of this directorate is to do analysis on national level in order to produce agricultural economic information and advice for sound decision-making on the South African (SA) agricultural sector. To support this important task the Division Economic Research concentrates on economic analysis of performance of and external impact on the agricultural sector and its industries.

This publication developed from a need within the Department of Agriculture (DoA) to be regularly informed on developments and expected economic trends in the agricultural sector and the macro economic environment that impacts on its performance. This quarterly report has now been established as a new feature in the Directorate's work plan. From the end of 2006 this report will also published for outside consumption to add value to a number of existing regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agricultural sector.

At this stage most of the content is based on sources inside the DoA. However, progress is being made to incorporate more external generated material.

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

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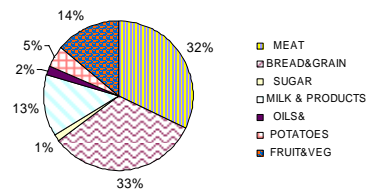
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## 1. CONSUMER EXPENDITURE ON AGRICULTURE

**Household** expenditure on secondary agricultural products rose to R45 billion in the first quarter of 2007, a 4,7% increment from R43 billion level in the corresponding quarter of 2006. Consumer demand resilience defied a tightening monetary stance ensuring a steady improvement in agricultural expenditure.

Fig 1.1

Consumer Expenditure on Food - First Quarter 2007



Source: Agricultural Statistics 2007

Prevailing high commodity prices are expected to continue ensuring a modest rise in agricultural expenditure by consumers. Tightness in maize supplies worldwide is likely to have a spill over effect on other complementary agricultural commodities like beef and dairy.

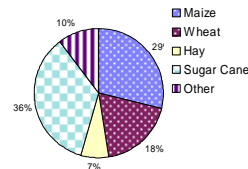
## 2. FARM INCOME

Total **field crops** income escalated to R1,7 billion in the first three months of 2007, a staggering 105% improvement from R0,8 billion in the same quarter of 2006. Inflationary environ-

ment mainly driven by a bullish grain market accounted for the phenomenal growth, with

Fig 2.1

Revenue From Field Crops - First Quarter 2007

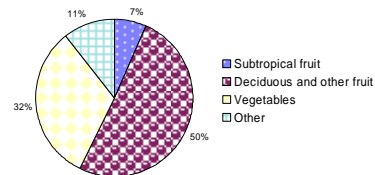


Source: Agricultural Statistics 2007

revenue from maize and wheat advancing by a massive 430% and 83% respectively during the period. Revenue from **horticultural crops**

Fig 2.2

Revenue From Horticultural Crops - First Quarter 2007

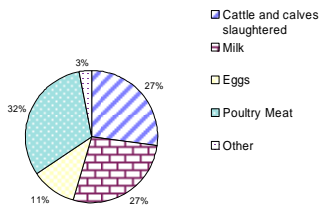


Source: Agricultural Statistics 2007

rose by 28% in the current year's first quarter from R4,7 billion during the same period in 2006, growth was underpinned by 19% and 4% earnings improvements in citrus fruits and vegetables respectively. Quarter to quarter revenue performance of **animal products** was 20% higher in the first quarter of 2007 from R9 billion in the previous year's initial quarter, with

**Fig 2.3**

Revenue From Animal Products - First Quarter 2007



Source: Agricultural Statistics 2007

cattle and poultry meat recording an increase of 23% and 15% respectively. Drought induced supply tightness in the red meat market has kept prices at elevated levels, with the substitution effect shifting the demand for poultry higher thus improving margins in that market. Despite strong demand conditions and higher consumption levels in the economy, earnings from milk recorded a nominal 3% rise during the period. Low prices received by farmers from retailers have reduced output as a result farmers are closing shop due to financial unsustainability of diary operations. Income from field crops is expected to come under pressure in the coming quarters as currency strength negatively impact exports profitability. However an positive growth in overall earnings is more likely due to the prevailing maize price strength which is expected to persist.

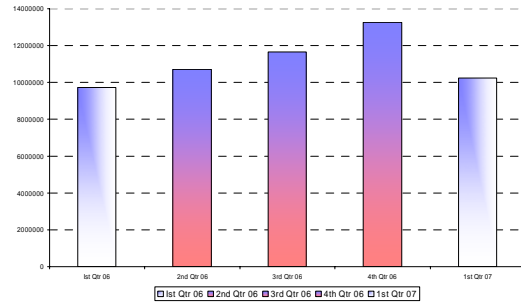
### 3. AGRIC-INPUT EXPENDITURE

**Gross income** for farmers advanced by 28% to approach R18,7 billion in the first quarter of 2007 from R14,7 billion in 2006, strong price performance of most agricultural commodities

was responsible for the above average display.

**Fig 3.1**

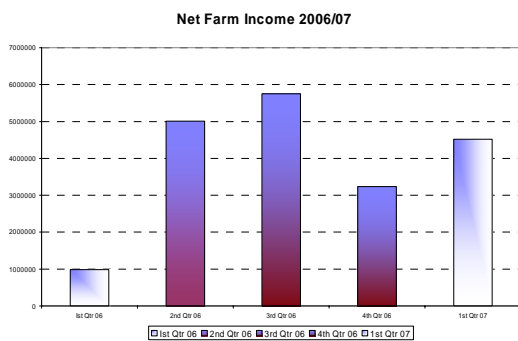
Expenditure on Intermediate Goods and Services 2006/07



Source: Agricultural Statistics 2007

Expenditure on **intermediate goods** amounted to R10,2 billion in quarter one of 2007, a 5% advance from the previous year's corresponding quarter figure of R9,7 billion, with stronger currency during the period assisting the farmers in achieving below inflation escalation of imported machinery. **Labour** remuneration rose by 4% to R2,4 billion from the previous year's first quarter level of R2,3 billion. Steady growth in wages reflects the high level of mechanisation in farming operations and further confirms a decreasing ability of farms to employ unskilled and semi skilled labour as the proportion of employees required per hectare continue to decrease.

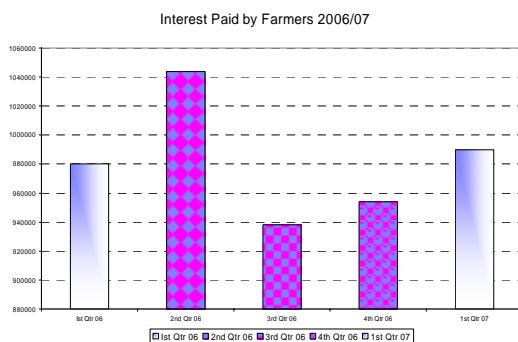
**Fig 3.2**



Source: Agricultural Statistics 2007

**Interest paid** by farmers was almost unchanged during the first quarters of both 2006 and 2007 recording a 1% growth to R0,389 billion in 2007. The static growth is evidence to a tightening monetary policy which discourages credit utilisation by farmers.

**Fig 3.3**



Source: Agricultural Statistics 2007

## 4. PRICES

**CPI** for food recorded a 8,5 % advance from the previous year's first quarter level of 143,8, the acceleration is consistent with strong inflationary pressures prevalent in the economy due to high food and fuel cost. During the same period agricultural **PPI** shot up by 18,6 %

to approach 160,4 in the first quarter of 2007. The main contributor to the acute increase is the rate of increase in the grain price index which stood at 45% during the period in question. The view that high food prices will become a permanent or long lasting structural feature of general inflation as opposed to a volatile component is gaining currency. This is due to a long term structural change in world food fundamentals, brought about by the interdependency among main agricultural commodities especially maize. High maize prices tend to impact strongly on the supply of other commodities e.g. meat and milk. Furthermore increased industrial use for maize has an effect of reducing the land used to plant other commodities inducing tight markets in other commodities. High demand for agricultural commodities from countries like China has seen some countries fully or partially restricting food exports in order to maintain food security as India and Argentina have done respectively. Such actions results in reduced world stocks and exert an upward pressure on prices. The other recent observable trend in most economies is the tendency for food inflation to outpace general inflation, signalling fundamental changes in the overall inflation structure.

## 5. SOUTH AFRICA AGRI-MARKET INDICATORS

At the beginning of 2007 **white maize** traded around R1300/ton, towards the end of the first quarter the price peaked close to R2000/ton level, as lower than expected yields were reported while the local currency was also un-

der pressure. The rising tide was restrained by late winter rains and improved yield forecasts

**TABLE 5: Domestic prices of selected crops per ton**

	End Mar 2006	End Mar 2007
White Maize price	R 1 123	R 1 825
Yellow Maize price	R 1 003	R1 800
Wheat price	R 1 413	R 2 161
Sunflower price	R 1 685	R 2 740

bringing the price between the R1700/ton to R1750/ton range. June saw further rise in white maize price as the grain market experienced supply tightness; maize was trading around R1800/ton. Failed crops in neighbouring countries and lower local yields due to drought are likely to exert an upward momentum on the white maize market in near future. In January **yellow maize** traded around R1500/ton, by March it had breached R1900/ton level buoyed by yield uncertainty in the US and strong demand for feed and industrial use. Unfavourable weather patterns in maize growing areas of the US fuelled the bullish sentiment. However continuously improving crop estimates in the US brought calm into the local market, by May yellow maize was trading around R1 700/ton. With higher oil prices ensuring profitable ethanol production, the yellow maize price had approached R1 800/ton by June. Movements in oil price and level of government subsidies on ethanol will be influential in the magnitude of upside pressures on yellow maize market during the remainder of the year. Local **wheat** price started the year at around R1 700/ton, breaching the R2 100/ton level in March. The breach was supported by strong international prices as

concerns about freeze damage in the US and droughts in some major producing countries mounted. Between May and June the price of wheat rose from R2 300/ton to approach R2500/ton on supply tightness concerns. As the extent of freeze damage and drought becomes clearer, the price is expected to respond accordingly. Good rains have already been reported in Australia which might restore calm and stability in the wheat market going forward. In the first quarter Soybean ranged between R2 200/ton and R2 500/ton. By June the price was hovering around R2 700/ton with strong international prices for oilseeds and a tentative currency accounting for the upward momentum. High oil prices and tight supplies are expected to sustain the upward trend throughout the year, with December futures pointing to a level of R2 800/ton. **Sunflower** has improved from 2 300/ton recorded during the first quarter to approach a level of R3 100/ton by mid June. According to the futures market sunflower market has peaked as December futures stands at R3 100/ton with developments in the international markets expected to determine volatility around that level.

## 6. WORLD AGRI-MARKET INDICATORS

**TABLE 6: US prices of selected crops per ton**

	End Mar 2006	End Mar 2007
Yellow Maize price	89,60	155,27
Soybean price	215,90	285,93
Wheat price	126,54	169,39

US **yellow maize** price averaged \$159/ton in May \$48/ton higher than the corresponding period last year. Record crops from Brazil and Argentina had an effect of dampening the upward march in prices at the beginning of the year. This was not sustainable as the overall demand for maize remained robust. In Many the CBOT December futures stood at \$145/ton \$35/ton higher compared to the end of 2006. According to the FOA global maize production is expected to approach a record 770 million tons. Increased plantings in South America produced bumper yields as countries responded to strong ethanol demand and favourable growing conditions. Southern African countries are expected to import a significant portion of their maize requirements due to adverse weather conditions. The US has completed its largest maize planting since 1944 responding to strong demand for maize based ethanol production which is expected to reduce exports to the world market. High maize price is expected to reduce its use for feed, however increased industrial use for maize will over compensate for the curtailed feed use thus maintaining strong maize demand given the modest rise in demand for human consumption especially in developing countries. Global supply prospects of **wheat** are improving, as higher than expected output from major producing countries is forecasted. Prices remain strong in the meantime as a result of low stocks and weather problems have attracted speculative buying thus exerting an upward pressure on prices. US wheat futures have escalated sharply from \$110/ton level in 2006 to approach \$220/ton in 2007. Drought in North Africa is expected to

curtail wheat output in Morocco by 50%, developments in the food for fuel sector have contributed to the steep ascension of prices. High wheat prices can be expected to moderate as newly harvested supplies reach the market in the coming months. The above average harvest from India and Pakistan is expected to offset lower output anticipated from China, while output from the US remain uncertain as the assessment of frost damage has been found to be overstated. World prices for oilseeds have continued to rise from the previous season's 2005/06. During April and May 2007 **oilseeds, oil and meals** prices have touched their 3, 13, and 20 year highs respectively. US soybean prices have shot up by 41% compared to June 2006. It has to be noted that Soybean output in 2006/07 outperformed expectations, therefore according to the fundamentals of oilseeds the price should be trending to the opposite direction. Developments in the feed grain market where maize planting has proved lucrative have exerted and upward pressure on soybean prices, as substitution of Soya for maize becomes inevitable in 2007/08. Steady increase in vegetable oil demand combined with its use as fuel and bio diesel feed stock has served to sustain the upward trend in the oilseed market. Given the above factors it becomes difficult to conceive the reversal of the trend during the remainder of the year.

## 7. MAIN EXTERNAL SOURCES CONSULTED

Business Report Jan - June 2007

[www.busrep.co.za](http://www.busrep.co.za)

United States Department of Agriculture, World  
Agricultural Supply and Demand Estimates,  
May 2007.

[www.usda.gov/oce/commodity/wasde/latest](http://www.usda.gov/oce/commodity/wasde/latest)

Food and agricultural organization of the  
United Nations

[www.fao.org](http://www.fao.org)

## 8. ACKNOWLEDGEMENT OF INTERNAL (DOA) CONTRIBUTORS

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