

## 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.

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  
2<sup>nd</sup> Floor – Maize Board  
503 Belvedere Street, Arcadia, South Africa

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

Tel: +27 (12) 319 8457

Fax: +27 (12) 319 8093

e-mail: [pa.dpre@nda.agric.za](mailto:pa.dpre@nda.agric.za)

This publication is also available on the Internet at:  
<http://www.nda.agric.za>

## CONTENTS

1.	Consumer Expenditure on Agriculture .....	3
2.	Farm Income .....	3
3.	Agric-Input Expenditure.....	4
4.	Prices .....	5
5.	South Africa Agri-market indicators.....	5
6.	World Agri-market indicators.....	6
7.	Main External Sources Consulted .....	7
8.	Acknowledgement of internal (DoA) Contributors.....	7

## 1. CONSUMER EXPENDITURE ON AGRICULTURE

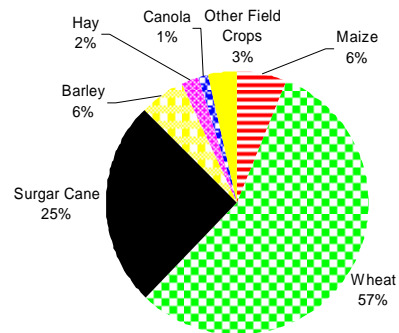
Expenditure on secondary agricultural products by households recorded a quarter to quarter improvement of 8,6% to approach R5,1 billion in the fourth quarter of 2006 from R4,7 billion during the same period in the previous quarter. High food inflation and easy access to credit boosted the performance, while tightening monetary policy limited further upward potential on expenditure during the traditionally strong festive season period. Meat, bread and other grains, which constituted about 60% of total expenditure in the fourth quarter, rose by 12% and 8% respectively. The surge in both markets is mainly attributed to strong price performance as opposed to higher demand. Given the improved outlook in maize yields, price pressures on both meat and grain markets are expected to moderate towards the end of 2007. Therefore expenditure on secondary agricultural products should remain at around R5 billion in the first two quarters of 2007, and eventually revert back to an average of R4,5 billion towards the end of the year.

## 2. FARM INCOME

Total **field crops** displayed an exceptional revenue growth of 39% from R3,49 billion in the last quarter of 2005 to R4,85 billion in the fourth quarter of 2006. The robust performance was underpinned by 59% and 19% revenue surge in maize and sugar cane respectively being the major contributors to field crops revenue.

Healthy price performance by the above crops is expected to persist in the short term, thus supporting overall growth in field crops revenue

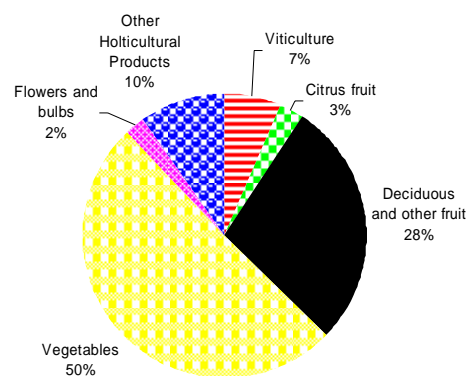
Figure 1: Revenue from Field Crops



Source: Agricultural Statistics 2006

Quarter to quarter performance for **horticulture** crops showed a 3% improvement in the fourth quarter of 2006, from R4,1 billion in 2005 to R4,2 billion in the following year's corresponding quarter. The modest improvement should be understood in the context of a 1% growth in vegetables (biggest contributor in horticultural crops) revenue neutralizing the 32% increase in citrus fruits.

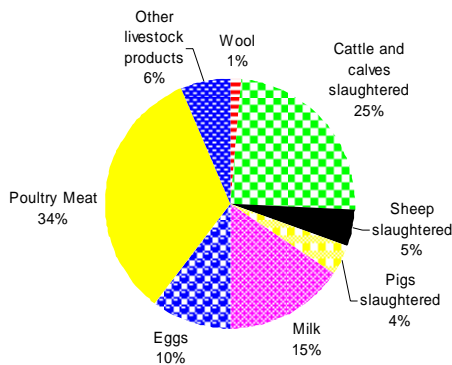
Figure 2: Revenue from Horticultural Products



Source: Agricultural Statistics 2006

**Animal** products revenue recorded a 19% growth in the fourth quarter of 2006 as it attained a R10,8 billion level from R9,0 billion achieved in 2005. The revenue display was driven by a 39% expansion in cattle and calves revenue to approach R3,42 billion in 2006. Poultry also realized a 10% growth in revenue from R2,6 billion in the fourth quarter of 2005.

**Figure 3: Revenue from Animal products**



Source: Agricultural Statistics 2006

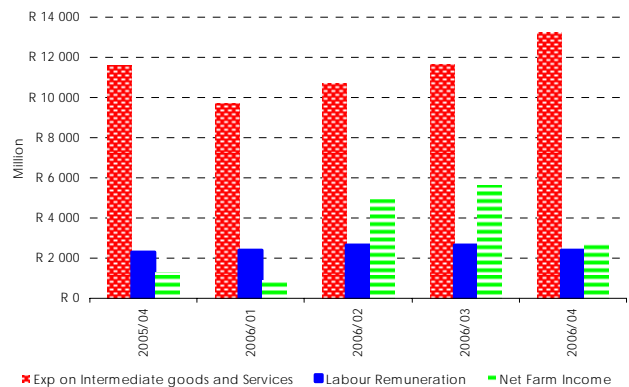
Local beef prices are expected to assume a weakening bias in the medium term as dry conditions and high maize prices force farmers to liquidate their stocks. However in the short term strong price levels are likely as pre Easter holiday demand is expected to support prices.

### 3. AGRIC-INPUT EXPENDITURE

Fourth quarter **expenditure** on intermediate goods was up 14% from the 2005 level of R11,5 billion to R13,2, billion in the corresponding quarter of 2006. Falling local currency, resulting in expensive imported capital goods and a generally stronger expenditure in the economy explains the advance. Fourth quarter **la-**

**bour** remuneration in 2006 rose by 4% to approach R2,4 billion, consistent with the prevailing inflation rate. A Higher cost of debt finance were reflected in a 1% growth **on interest** paid by farmers in the last quarter of 2006, from R0,94 billion in the same period of 2005 to R0,95 billion in 2006. Farmers are becoming reluctant to assume more debt in an environment of rising inflation and a tightening monetary cycle.

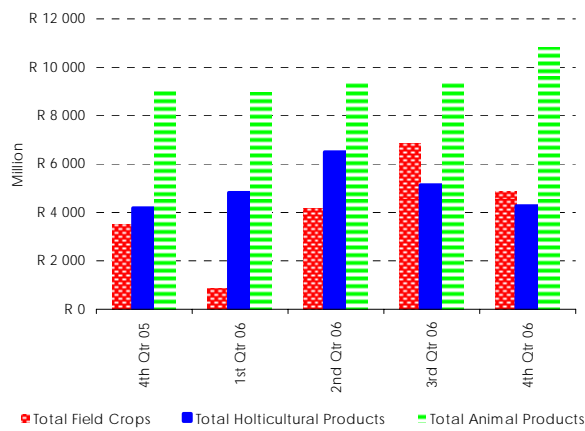
**Figure 4: Expenditure on Agricultural inputs**



Source: Agricultural Statistics 2006

**Net farm income** in the last quarter of 2006 advanced by a staggering 118% to R2,7 billion from the previous fourth quarter level of R1,2 billion. Strong performance for field crops and animal products powered the exceptional increase in agricultural income.

**Figure 5: Gross Income from Agriculture**



Source: Agricultural Statistics 2006

The highest GDP growth in 20 years and a disproportional contribution of agricultural produce to inflation ensured elevated levels on net income realized in the fourth quarter.

## 4. PRICES

Fourth quarter food **consumer price index** leaped by 9% in 2006 to 152 from 140 in the previous corresponding quarter. During the same period the meat component of the food CPI reached 175, a 19% escalation from 147 achieved in 2005. The effect of grain to food inflation was limited to a 6% growth, which was not reflective of rising maize prices during the period, as they had not filtered down to the consumer level. A relief from steep red meat price is expected in the medium term. However, strong international poultry prices and concerns over bird flu outbreak might combine to neutralise expected reprieve. **PPI** in agricultural products rose by 17% in the fourth quarter of 2006 from 132 in the last quarter of 2005. High fuel and feed costs were the main catalysts to firm input costs resulting

in expensive produce at the farm gate levels. PPI for imports and fertilizers both escalated by 9%. The above inflation increases contributed to the deteriorating cost structure faced by farmers in the fourth quarter of 2006.

## 5. SOUTH AFRICA AGRI-MARKET INDICATORS

**TABLE 1: Domestic prices of selected crops per ton**

	End March 2006	End March 2007
<b>White Maize price</b>	R 1 139	R 1 792
<b>Yellow Maize price</b>	R 1 022	R 1 791
<b>Wheat price</b>	R 1 421	R 2 116
<b>Sunflower price</b>	R 1 722	R 2 725

Source: Safex

In the first three quarters of 2006, **white maize** traded below R1 300/ton. The above level was exceeded in October resulting in a consolidation around that price for the remainder of the year. In the first two months of 2007, white maize price trended up steeply surpassing the R1 900/ton level. By March, the maize futures had reached a five year high of R1 979/ton, as concerns over the lack of rain from the country's main maize producing provinces mounted. Fears of drastically reduced maize yields and a robust demand locally and regionally assisted in maintaining the firm tone on prices, as evidenced in the December futures which are pointing to a level above R1 900, reflecting the persistence of supply concerns and currency weakness. **Yellow maize** traded around R1300/ton towards the end of 2006. By February 2007, it has risen sharply to R1 800/ton which was a record high. Strong international prices and a faltering domestic

currency drove the sharp upswing. Dry weather conditions further contributed to the bullish performance. Yellow maize prices are expected to remain strong given the expected currency performance, and tight supply conditions evident in the local market. In 2006 wheat traded in a R1 700 – R1 900/ton range. However in the second half of the year a resistance level at R1 800/ton developed, it was only breached in February 2007. After breaking through the resistance level the price rose steadily to around R2 000/ton. December **wheat** futures are pointing towards softer levels of R1 900/ton, reflecting improved expected local production. However in the short term a spill over effect of the strength of other crops will ensure an upside potential. Towards the end of 2006 **sunflower** prices traded around R2 400/ton. The beginning of 2007 saw a brief upswing with prices approaching R2 500 in February, within two weeks prices surrendered their gains reaching a four month low of R2 300/ton. The lowest level above proved to be a consolidation point, as the price rebounded sharply exceeding the previous high to hit R2 600/ton at the beginning of March. Strong international prices induced by higher oil prices are likely to keep sunflower at current levels. July futures are currently at R1 800/ton reflecting stronger fundamentals underpinning the current performance. **Soybeans** traded just above R2 200/ton towards the end of 2006. By March it has shot up to R2 500/ton, with December futures pointing to R2 600/ton, the possibility for an uptrend is high as the fortunes of soybeans are tied to those of sunflower.

## 6. WORLD AGRI-MARKET INDICATORS

TABLE 2: US prices of selected crops per ton

	End March 2006	End March 2007
<b>Yellow Maize price</b>	\$87,48	\$152,91
<b>Soybean price</b>	\$213,62	\$283,14
<b>Wheat price</b>	\$167,76	\$167,76

Source: Safex

At the beginning of 2007, **maize** futures in the US shrugged of the prospects of a larger crop in the US and South America, due to speculation demand. A long term bullish outlook for biofuels and higher than expected projected export sales were behind the positive sentiment. With prospects of favourable weather in Argentina and Brazil promising, chances of an increased world output looks more likely. A higher crop outlook should be contrasted with increased industrial use of maize, as the Grain Market Report estimates a 21 million ton increase in maize industrial application. Lower grain yields in South Africa and Australia are likely to offset improved South American (Brazil and Argentina) output. World maize market fundamentals looks balanced, however a deficit bias is evident. High oil prices and adverse weather conditions in the Southern hemisphere are likely to weigh in on prices. Therefore strong prices for maize are expected to prevail in the short term. The response of producers to higher prices in terms of higher output, and the pace of biofuels growth will be crucial for the medium term outlook. A fall in Australian **wheat** supplies which was prompted by higher Asian buying at the beginning of 2007, led to a firming of wheat

prices. Wheat also saw larger than expected supplies from Russia, while the US and EU export sales were below expectations. Higher than expected harvests from the EU, CIS, North and South America, India and Australia contributed positively to the stable world output. However, lower plantings in China may result in reduced overall wheat crops. Bullish sentiment in other grains especially maize is supporting the wheat price, given the uncertain output outlook in the world wheat market. In 2007 **oilseeds** prices in the US were positively affected by maize outlook which is expected to reduce soybeans plantings. However in the EU rapeseed prices were negatively affected by changes in the fuel tax regime, resulting in a sharp fall in rapeseed values. Good growing conditions in the US southern states which were negatively affected by drought in the last three seasons are likely to increase output, thus neutralizing the effect of lower plantings elsewhere. As a result soybeans prices are seen as being stable in the short term, with a downward bias in the medium term.

## 7. MAIN EXTERNAL SOURCES CONSULTED

Business Report June - September 2006  
[www.busrep.co.za](http://www.busrep.co.za)

United States Department of Agriculture, *World Agricultural Supply and Demand Estimates*, 12 October 2006.

United Nations, Food and Agricultural Organization, [www.fao.org](http://www.fao.org)

## 8. ACKNOWLEDGEMENT OF INTERNAL (DOA) CONTRIBUTORS

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