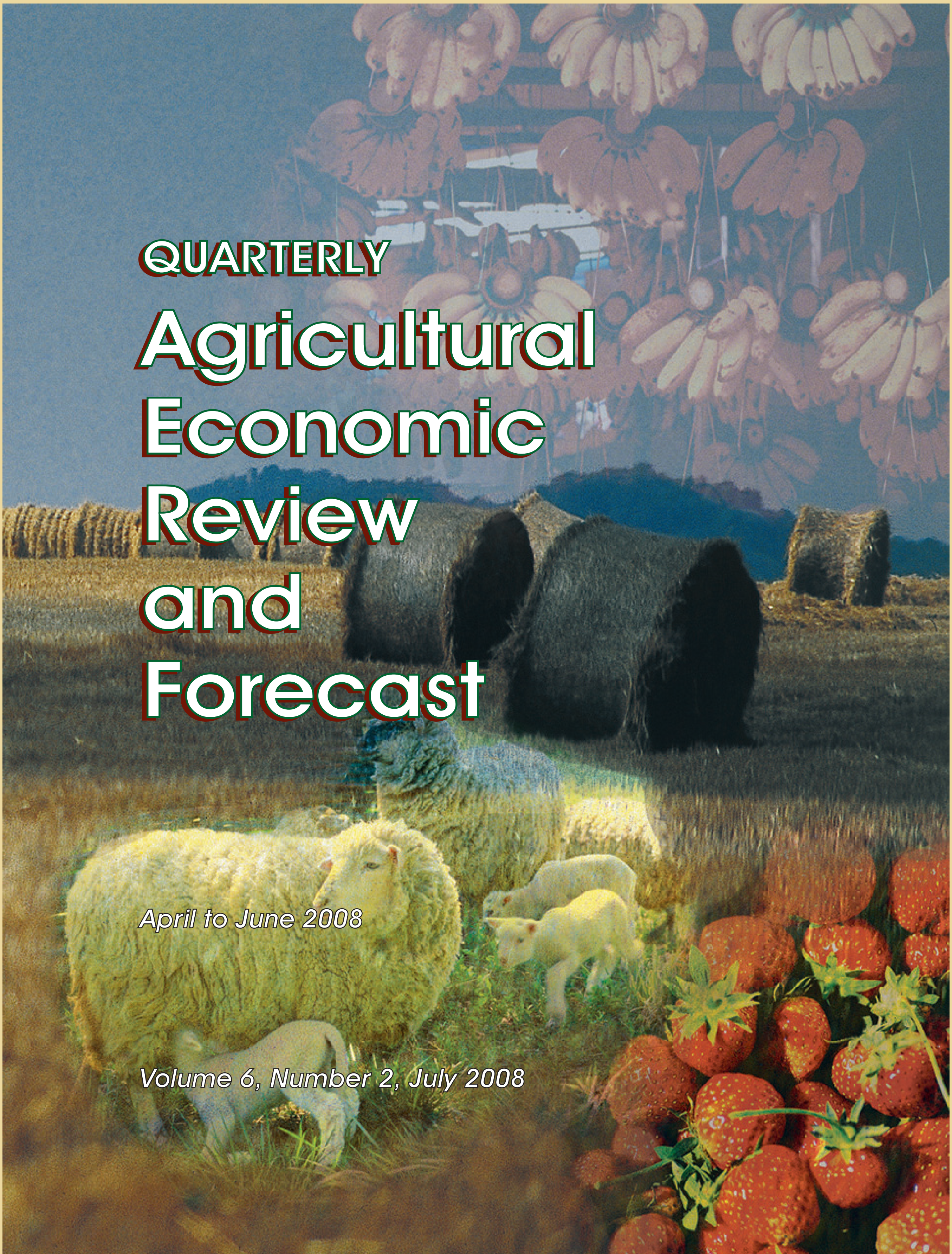

QUARTERLY

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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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CONTENTS

1. WORLD ECONOMY

The global economy has entered a period of slower growth following a historically long upswing since the end of 2001. The slowdown is driven by the US economy kindled by the housing slump and the associated sub prime financial crisis. The housing slump in the US has proceeded to a point where average house prices are falling 10-15% year-on-year, where unsold home inventories are close to a year's supply. The decline in the housing market is having a devastating impact on consumers – US consumer confidence fell to its lowest level in more than 25 years in early April, diving deeper into recessionary territory on heightened worries over inflation. Emerging economies have so far benefited from strong domestic demand, favourable capital inflows and sound economic fundamentals, which all tend to shield them from the impact of slower growth in major industrial countries. Asian emerging economies have strong export links with OECD countries, with strong investment spending in their export sectors and the wages earned in export industries being an important driver of growth. World growth is expected to remain low at 3,7% in 2008. The euro area has also been impacted by the US slowdown and the sub-prime fallout in some countries such as Spain and Ireland, where property markets have become embroiled in declines. The region has been impacted by tighter credit conditions, while exports are affected by reduced US demand and a strong euro in turn impacting negatively on fixed investment spending. Higher food and energy prices are taking an additional toll. However, European households are not as heavily indebted as their US counterparts. European growth is expected to slow to 1% during 2008/09 while inflation is expected to come close to 3% in 2008 which is above the 2% target. Inflation: Global inflation has edged up notably during the past year. IMF forecasts estimate that consumer prices in advanced economies will increase from 2,2% in 2007 to 2,6% in 2008, whilst the corresponding figures for emerging and developing economies are 6,4% and 7,4% respectively. The main drivers of global inflation remain the sharp increases in commodity prices in general, but prices of food and energy in particular. Core driving factors behind price escalations are amongst others, robust demand emanating from resource intensive emerging economies, constrained supply side reactions and a sharply weaker dollar. In the case of emerging and developing economies, the inflationary effect of these price rises is more pronounced on account of the fact that

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

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

Source: EIU [1] PPP [2] The 11 Euro countries [3] Indonesia, Thailand, Philippines and Malaysia the weight of food features more prominently in the headline inflation basket compared to the advanced economies(IMF, April 2008). News events that influenced the world economy: The Reserve Bank of India increased the repo rate by half a percentage point in June to 8,5% and adjusted the cash reserve ratio by a similar margin to 8,75%. Inflation in Britain is reported to have hit a 16-year high in May as global inflation persists. According to the United Nations report, global food prices surged 57% in March and the IMF report indicates that world food prices are expected to remain comparatively high until at least 2015. In a report released by World Trade in April, world trade is expected to slow to 4,5% in 2008 from 5,5% in 2007 and 8,5% in 2006. Trade talks on agriculture at World Trade Organisation were tough as trade diplomats disagree on the size of the tariff cuts. The UN Secretary General Ban Ki-moon, announced in April that the UN is to set up a top level task force to tackle the global food crisis. The European Union's senior agricultural official defended the bloc's push for bio-fuel and said bio-fuel crops were being unfairly blamed for soaring food prices around the world. According to premier Wen Jiabao, the earthquake that devastated Sichuan in China has created new economic uncertainties, but inflation remains the country's most pressing economic problem. French service sector growth eased unexpectedly to its lowest pace in almost five years in May as costs rose while firms hesitate to pass on price increases to consumers. *(Price Watch, 2008)*

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2006	2007	2008	2009
Growth	5,6	6,2	6,5	5,9
Consumer Inflation	11,8	13,0	8,9	6,9
External Debt[1]	146,7	155,0	167,1	172,1
Current Account[1]	-0,6	6,2	15,0	15,1

Source: EIU [1]US$ Billion

The Global slowdown in activities is expected to result in more difficult external conditions for the Sub-Saharan African region. The oil producers of the region, particularly Angola and Nigeria, are expected to be the fastest-growing Sub-Saharan economies, especially in 2008, although "recovery" economies like the Democratic Republic of Congo, Ethiopia, Mozambique and Tanzania will also perform strongly. Supported by strong commodity prices and improved economic policies, Sub-Saharan Africa's real GDP growth is expected to increase by 6,5% in 2008, before falling slowly to 5,9% in 2009. Growth is forecasted to remain the strongest in the SADC region at 7,1% in 2008. The SADC economy continues to be driven by two largest economies in the sub-region, Angola and South Africa. Growth in Central and West Africa is expected to increase by 6,6% in 2008 driven by the expected pick–up in growth in the Nigerian economy. The political settlement in East Africa means that growth is likely to be fairly buoyant in 2008, spurred by transport and communications, wholesale and retail trade, manufacturing, construction, and financial services. Growth in this areas will partly depend on the final status of the main rains (mid-March to June), which started late but are now under way. In 2009 real GDP growth is expected to rise to 5,5% as the economy recovers from this year's traumas. Public-sector investment in capital projects will rise, but constraints such as infrastructure bottlenecks and weak governance (including corruption) will remain. Growth will remain robust between 5% and 6% in larger economies in the region, notably Uganda, Rwanda and Madagascar. Meanwhile, growth will continue to be low in smaller island economies, Seychelles and Comoros, constrained by their physical isolation and poor policies. Franc Zone: Although the political developments in Côte d'Ivoire have clearly been a constraint to growth in the Franc Zone in recent years, political problems are not the only issue as growth has been slower for those countries classified as having a fixed exchange-rate regime. Countries in this region may have also seen their export competitiveness undermined by the appreciation of the euro against the US dollar. Growth will continue to remain the lowest in the Franc Zone, at an estimated 5,1% in 2008 and 4,8% in 2009. It is expected that the external debt in Sub-Saharan Africa will rise in 2008-09, to end the forecast period at US$172,1bn. This reflects a number of trends: Firstly, the ongoing impact of currency revaluations due to the weakness of the US dollar on global currency markets will cause the debt stock to rise. Since a significant portion of the external debt of many Sub-Saharan African countries is denominated in Euros and other currencies, the weakness of the US dollar means that in US-dollar terms the stock gets pushed up. Second, new borrowing has remained relatively high, especially from the multilateral lenders led by the World Bank and new bilateral lenders such as China. Finally, a considerable number of countries will see their debt stock rise as they continue to accumulate arrears (interest arrears are added to the short-term debt stock). In particular, arrears will continue to mount substantially in countries such as Côte d'Ivoire and Zimbabwe. What has also become clear is that, despite the debt write-offs delivered to date, the need for further high levels of financing for African countries will remain pressing in the coming years. African governance: The World Bank is optimistic about the progress in African governance and the fight against corruption. This year's updated version of the Worldwide Governance Indicators (WGI) compiled by World Bank researcher's shows that many developing countries are making important gains in control of corruption and some of them are matching the rich country's performance in overall governance measures. Daniel Kaufmann, co-author of the report and director of governance at the World Bank Institute argued that, some countries are making rapid progress in good governance, including in Africa, showing that a measure of 'Afro-optimism' is called for. He acknowledged, however, that the data also shows large variation in performance across countries, and even among neighbours within each continent. Progress reflects reforms in those countries where political leaders, policymakers, civil society and the private sector view good governance and corruption control as crucial for sustained and shared growth. Consumer inflation: Although it is a global phenomenon, the impact of food-price inflation is likely to be particularly severe in Sub-Saharan Africa, since food accounts for about 50% of the consumer price inflation basket for a large number of the region's economies. Overall, Africa's expenditure on cereal imports is expected to rise by more than 50% this year, as against an average of 35% in low-income countries. Obviously, countries that are highly dependent on imported staple foods will be particularly vulnerable. Senegal, Nigeria and Côte d'Ivoire are among the world's top ten rice importers, and rice price increases are likely to hit Senegal hard, since imported rice—notably from South-east Asia, which is also suffering shortages and high prices—is one of the staples nationally, and the main staple in urban areas. The situation is being worsened by the continued strength of oil prices, since this is boosting transport and utility prices. Inflation fuelled by rising food and energy prices is also hitting other countries in the West African Franc Zone, and the regional central bank has called for co-ordinated action to improve the food supply throughout the region. Thus, with the risks to oil and soft commodity price forecasts mostly on the upside, inflation in Sub-Saharan Africa (excluding Angola, the Democratic Republic of Congo and Zimbabwe) is now expected to rise to around 8,9% in 2008, falling to 6,9% in 2009. Current account: Although there are only a limited number of oil-exporting countries in Sub-Saharan Africa, they tend to have a major impact on the trade and current-account forecasts. This is because these countries have highly volatile trade balances that are largely determined by the price of oil. In general, when oil prices are high, the large trade surpluses run by oil exporters tend to outweigh the modest trade deficits that are run by other countries. As the price of oil is expected to average a high $106,5/b in 2008-09, it is expected that the oil exporters of the region will continue to run large trade surpluses. In fact, the increase in price, coupled with rising production, is expected to push the overall trade surplus up from an estimated $47,3bn in 2007 to a massive $105,3bn in 2008 and to $107,5bn in 2009. The trade pattern of recent years shows a rising visible trade surplus offsetting the invisible trade deficit and leading to a steady improvement in the overall current account. Although it is expected that both the regional import costs and trade-related costs will continue to rise (for oil-consuming countries, particularly South Africa), the region's overall current account is expected to post a surplus in 2008-09. With the exception of East Africa, the other sub-regions are expected to post a surplus in the overall current account in 2008-09. The Central and West Africa sub region, with exceptionally high oil prices continuing in 2008-09, combined with rising oil production, is expected to continue to run large trade and overall current-account surpluses over the forecast period. (EIU, Q2 2008) News events that influenced the SSA economy: One month after elections the Zimbabwean Electoral Commission finally released the much awaited election results indicating Tsvangirai winning by 47,9% votes and Mugabe by 43,2% prompting a Presidential run-off election. Despite the calls from various African and other world leaders for Zimbabwe's one candidate presidential run off to be halted, the election went ahead guaranteeing Robert Mugabe a sixth term in office. The study by the World Bank has shown that poor transport qualities and poor utilisation of trucks in Sub-Saharan Africa result in high variable costs and compromises the competitiveness of landlocked countries. Recent studies have cautioned that non-tariff barriers such as long queues at the border post, custom clearance procedures, as well as toll roads costs continue to add to trade costs throughout SADC. According to the Reserve Bank governor Tito Mboweni, inflationary pressures pose a greater challenge to southern Africa than the global financial turmoil, highlighting the importance of regional economies to continue to pursuing price stability through appropriate monetary policies. *(Price Watch, 2008)*

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008	2009
Growth	5,0	4,9	3,9	4,4
Consumer Inflation X	4,6	6,2	9,6	6,2
Exchange rate[1]	6,97	7,10	7,90	8,20
Interest rate (Prime)[2]	11,5	13,2	14,7	13,5

Source:BER [1] *End of year* [2] *Yearly Average*

Following the period of robust growth between 2004-2007, with real GDP growth average 5,1% per annum, the domestic economy became engulfed in what can be described as a perfect storm. The economy is still faced with three central challenges; the first one is pertaining to the global economic slowdown triggered by the US sub-prime financial crisis. The second challenge pertains to the local electricity supply problem. Households, industry and commerce are facing steep increases in electricity prices. Another challenge is the return of political uncertainty after the ANC leadership was changed. Arguably the most potent force in the current slowdown in economic growth has been the cyclical downturn arising from the steady increase in inflation and interest rates since the middle of 2006. South African inflation, as measured by CPIX, soared to 10,4 in April, the highest level for more than five and half years and the thirteenth consecutive month in which the government's 3-6% target range has been breached. Food prices (the largest single component of CPIX, with almost a one-quarter share) and oil prices will continue to drive inflation, although second-round effects are spreading throughout the wider economy, especially as industries are operating at high capacity. Inflation is likely to rise higher, as global oil prices hit new peaks—and despite a likely decline in food and oil price inflation in 2009, it now seems likely that the 6% mark will not be attained again until 2010. An average annual inflation is expected to climb to 9,6% in 2008 (90 basis points higher than the previous projection), before edging down to 6,2% in 2009. After leaving the repo rate unchanged in the first quarter of 2008, the Monetary Policy Committee (MPC) decided that further tightening of monetary policy was warranted. The MPC increased the Interest rates by 50 basis points to 12% per annum in the second quarter of 2008, taking the prime overdraft rate to 15,5% the highest in five years. From the beginning of the monetary policy tightening cycle in June 2006, the repo rate has been raised by cumulative 500 basis points. However, the SARB remains committed to bringing inflation back to the target range over a reasonable period of time. The Real Gross Domestic product is expected to subside to 3,9% in 2008 from 5,1% in 2007, owing to a combination of persistent electricity shortages, weaker household demand stemming from higher interest rates and the currently uncertain global business environment. Household demand, the key growth driver in recent years, is likely to be subdued throughout most of 2008, especially as interest rates are likely to rise further. However, growth in 2008 will be supported by strong public investment in infrastructure, selected private investment and buoyant commodity prices. Manufacturing is likely to benefit from a weaker rand but to suffer from power shortages. Electricity supply will remain a key variable in the growth equation, but the scale of this year's shortfall will depend on several unpredictable factors, including the weather and mechanical breakdowns, making it hard to assess the final impact. Real GDP growth is expected to recover modestly, to 4,4%, in 2009 as preparations for the 2010 soccer World Cup gather momentum and new infrastructure projects are undertaken or brought on stream. The foreign trade balance will continue to be a drag on growth throughout the forecast period, as South African demand for imported goods and services will continue to outstrip the country's capacity to sell to the rest of the world, despite strong growth in the export sector. Consumer spending: Just a year ago South African consumers were riding a wave of confidence as the promise of sustained economic growth and prosperity were being realised. The downward side of that scenario was an expansion of credit and household debt that together with the global inflationary pressures has resulted in the Reserve Bank taking strong action as inflation moved out of the target range and into double figures. The series of interest rate hikes that have taken the prime lending rate from 10,5 percent to 15,5 percent since June 2006 have added further pressure to the cost of living for consumers. The result is that private buyers who were very active in the market in recent boom years are now carefully considering their purchasing options. Naamsa has stated that the slump in the new car market had worsened further during June 2008, as a result of the current tight monetary conditions that continue to weigh on consumer spending. During June 2008, new car sales were reported at 22 861 units, reflecting a sizeable decline of 7 964 units or 25,8 percent compared to the 30 825 new cars sold during June 2007. Current account deficit: The deficit on the services and income accounts will persist in 2008-09, as rising service outflows, coupled with higher dividend payments abroad (especially to portfolio investors), are likely to offset growing receipts from tourism and profits earned by South African firms abroad. The deficit on the current transfers account will remain significant in 2008-09 because of outflows from South Africa to other members of the Southern African Customs Union. Overall, it is expected that the current-account deficit will increase to 8% in the second of 2008, from 7,8% of GDP in the first quarter of 2008. (EIU, Q2 2008). The exchange rate has resumed its characteristic volatility in the first quarter of 2008 - after a relatively stable 2007 - and has fallen on a trade-weighted basis owing to the uncertain global economic outlook, weaker domestic growth prospects and the large current-account deficit. The rand slid from R6,80 in December 2007 to R8,00 in March, before edging back up to R7,60 in May (9% weaker year-on-year). The rand is expected to remain in the R7,60-R8,10 range in the coming months, and further significant slippages are not anticipated against the relatively weak US dollar. However, volatility will persist on a daily basis (especially as the currency is widely traded) and the rand will weaken to an average of R7,90 in 2008. The currency will be supported by healthy levels of foreign-exchange reserves (a record $30,6bn at the end of March) and robust global commodity prices, although worries about financing the current-account deficit will remain. It is expected that the rand will slide further, to R8,20, in 2009, although a faster rate of decline is possible(EIU, Q2 2008). News events: According to Statistic South Africa, CPI-X inflation rose to 10,9% in May from 10,4% in April. Prices of goods leaving factories, mines, and farms surged by a shocking 16,4% in May marking the biggest annual rise in 19 years – further worsening the inflation outlook and prompting speculation that SA may face two or more interest rate hikes this year. Reserve Bank Governor Tito Mboweni increased the repo rate by 50 basis points in June, marking the 10th increase in two years, taking the prime overdraft rate to 15,5% - the highest in five years. Data released by the National Association of Automobile Manufactures of SA in May showed that new vehicle sales dropped 23,4% this quarter compared with the same period last year, the biggest drop in more than five years. According to the Chamber of Commerce and Industry, SA business confidence fell to the lowest in more than four and half years in May, as slower economic growth and accelerating inflation hurt sentiments. The Bureau for Economic Research has revised downwards is economic growth forecasts for this year and next year on account of global slowdown, electricity shortages and political uncertainties, projecting a 3,4% growth in 2008 rebounding to 3,8% in 2009. According to a team of international expects, SA's economic growth will decline significantly this year because the 5% economic growth in the past three years was unsustainable as it was driven by domestic demand. Car repossessions in SA doubled to more than 1000 a month in the second half of 2007 as consumers come under financial pressure due to rising interest rates. In what could be a blow to the roll out of independent power producers (IPPs), the mineral and energy department has terminated a R5 billion contract with a consortium led by US power producer to build two open cycle gas turbines. According to Grain SA chairperson Neels Ferreira, maize imports from highly subsidised EU and US farmers continue to pose a serious threat to local farmers and this may result in a drop in local maize production. *(Price Watch, 2008)*

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPIX inflation rate

2007		2008	2009
6,5	BER	11,4	8,2
	Standard Bank	11,8	9,1
	Absa	10,9	7,8
	Average	11,4	8,4

BER - Bureau for Economic Research

Recent trends: The CPIX continued to accelerate more than anticipated during the second quarter of 2008. In May 2008, the CPIX inflation was 10,9%, (0,5% higher) as compared to 10,4% recorded in April 2008. This is the highest level in 5 years, the 5th increase this year and the 14th successive increase outside the government target to keep it between 3%-6%. The headline CPI annual inflation for May 2008 was 11,7%, which is 0,6% higher than the 11,1% recorded in April 2008. The main contributors to the annual increase in the CPI during May were food (+4,2%), transport (+2,5%) housing (+2,3%), household operation (+0,6%), education (+0,4%), fuel and power (+0,3%) and medical care and health expenses (+0,5%). Food prices rose 16,5% year-on-year in May while sharp hikes in petrol prices continued to dominate monthly increases in the CPIX. A surge in agricultural commodity prices which accelerated to 29,6% year-on-year and higher meat prices are also culprits to the monthly increase of the CPIX. The PPI increased to 16,4% in May from 12,4% in April which represents a 4% increase. This increase was fuelled by an annual increase in basic metals, mining and quarrying, products of petroleum and coal, metal products, non-electrical machinery and other manufactures. The PPI for exported commodities rose to 23% in May, from 21,2% in April, while PPI for imported commodities rose from 6% to 6,5%. Forecast: Given that electricity prices will rise by 35% in the next quarter, and more sharp hikes in petrol prices are in the cards, most analysts expects the inflation outlook to worsen during 2008. The BER projects CPIX to rise to 11,4% in 2008, as compared to 6,5% in 2007, before gaining some momentum in 2009. The Standard bank projections for 2008 are 11,8% and 9,1% in 2009. Absa inflation outlook for 2008 is in line with the current CPIX inflation at 10,9%. Impact on agriculture: High inflation triggers hikes in interest rates, and high interest rates is bad for farmers who are highly indebted. The current inflation will continue to rise input costs for farmers which will ultimately be passed on to consumers.

4.2 Growth

TABLE 5: Annual real GDP growth rates

2007		2008	2009
5,1	BER	3,2	3,0
	Standard Bank	3,0	3,2
	ABSA	5,2	3,7
	Average	3,8	3,3

BER - Bureau for Economic Research

Recent trends: Following a period of robust economic growth between 2004 and 2007 - with real GDP averaging 5,1% per annum - real GDP growth at market prices slowed to 2,2% during the first quarter of 2008. The recent electricity crisis and sharp increases in inflation which necessitated a more restrictive monetary policy were the driving forces to a decline in economic growth during the first quarter of 2008. The mining sector was hard hit by the electricity crisis which contributed to a sharp decline in mining sector production, and this is evidenced by a 22% quarter-on-quarter drop in output from the mining sector. Following 8% contraction during 2006, the agriculture, forestry and fishing industry showed more resilience during the 1st quarter of 2008, with the sector growing 12,5% (compared with 10,4% in 4th quarter 2007). This can be attributed to better commodity prices and increasing activity in the sector driven by the emergence of bio-fuel industry. Forecast: Growth is expected to decelerate sharply on account of a slowdown in consumer spending, downturn in the building sector as a result of tighter credit regulations and high interest rates, and infrastructure constraints such as current electricity crisis.

However, the agricultural sector is expected to remain resilient throughout 2008 boosted by strong commodity prices. GDP is expected to slowdown to 3,8% in 2008, from 5,1% in 2007, before it further accelerate to 3,3 in 2009. The ABSA forecasts a vibrant growth with real GDP growth at 5,2% in 2008, slowing to 3,7% in 2009. The BER and Standard Bank forecasts are projected at around 3% for the 2008 and 2009 year. Impact on agriculture: The rebound in agriculture evidenced during the final quarter of 2007 and 1st quarter of 2008 may assist in rural poverty reduction – growth manifests itself as a means for fighting against poverty. Strong commodity prices boosted profitability of the sector and this triggered investment growth (evidenced by recent technological investment in the sector which rose by 17,5% in June from 14,8% in May 2008) . The sector could also be geared for higher levels of productivity as a result of the precedent increase on machinery investment.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2007		2008	2009
R7,05	BER	7,97	8,67
	Standard Bank	7,85	7,80
	Absa	7,95	8,37
	Average	7,92	8,28

BER - Bureau for Economic Research

Recent trends: The rand has been relatively volatile throughout the 2nd quarter of 2008, justified by fluctuations of the US dollar against other major currencies, commodity price movements and prospects over expected monetary policy change. The rand weakened sharply, reaching the highest peak of R8,07 during the first half of June, after the announcement by the Reserve Bank to hike interest rates by 50 basis points, before appreciating (below the R8/$ mark) during the 2nd half of June. Forecast: The rand is expected to remain volatile over the short term, on account of volatility of global financial markets and it is set to remain under some pressure in view of rising commodity prices and widening current account deficit. According to BER projections, the rand is expected to depreciate, on average, by 5,8% per annum over the period 2008-2113. Standard Bank forecast is more optimistic, expecting the rand to remain below R8/$ mark for 2008 and 2009. The BER is very pessimistic about the exchange rate outlook, expecting that the currency will trade around the R8,50/$ level towards the end of 2008. The rand, on average, is expected to trade at R7,92 in 2008 before it depreciates to R8,28 in 2009. Impact on agriculture: Agriculture exports will remain competitive in world markets in the medium term, and this will boost the sector's profitability. However, in the long term, a high demand for SA rand induced by high domestic interest rates can strengthen the rand, causing exports to be less competitive.

4.4 Interest rates

TABLE 7 : Average yearly Prime interest rate

2007		2008	2009
13,1	BER	15,33	15,71
	Standard Bank	16,00	14,50
	Absa	15,3	15,1
	Average	15,54	15,10

BER - Bureau for Economic Research

Recent trends: The monetary policy committee hiked the repo rate by 50 basis points to 12% during their latest meeting in June 2008 from 11,5% during April 2008. This was the 10th interest rate hike since mid-2006. The latest hike was due to a continuing deterioration in inflation outlook. Following the Reserve Bank's repo rate increase, commercial banks did the same and surged their prime rate with the same 50 basis points, bringing their prime lending rate to 15,5% in June 2008 from 15,0% in April 2008. Consumer spending has already slowed down as a result of current high interest rates and the impact is seen in the retail sector and in motor car sales, and this is detrimental to economic growth. Consumer confidence dropped to a new 4-year low; recording a total decline of 28 index points this year due to high inflation and high interest rate. Forecast: The BER and ABSA decided to relax their forecasts, projecting only 30 basis points increase in interest rates in 2008. According to standard bank forecast, interest rates are expected to rise to 16% in 2008, before declining to 14,5% in 2009. Impact on agriculture: High interest rates could affect the financial performance of farmers. For farmers who carry high levels of debt, high interest rates can have a substantial impact on their ability to service debt and to meet their general living expenses. Also, high interest rates could raise the cost of inventory investment causing stocks to be run down.

4.5 Employment

According to the Quarterly Employment Statistics (QES) report, South Africa's employment in the non-agricultural sector recorded an increase of 0,1% between December 2007 and March 2008, as opposed to a 0,8% increase recorded between September to December 2007. Employment increased from 8 410 000 in December 2007 to 8 418 000 employees when compared with March 2008 – which means only 8000 jobs were created within the non-agricultural sector between December 2007 and March 2008. The manufacturing industry reported an annual decrease of 11 000 employees at March 2008 as compared to March 2007, with a quarterly decrease of 4 000 employees. The wholesale and retail trade, hotel and restaurant industries were the most hard hit during March, experiencing a loss in employment of about 30 000 employees as compared to December 2007. This may be due to a slowdown in consumer spending, as consumer felt the pinch after subsequent hikes in interest rates. The construction industry recorded a quarterly increase of 2000 employees at March 2008 as compared to December 2008. The community, social and personal sector was the largest employer at March 2008, recording a quarterly increase of 24 000 employees as compared with December 2007.

5. INTERACTION BETWEEN SA AND AFRICA

South Africa has long recognised that its economic success is integrally linked to the economic success and growth of our neighbouring countries and to the prosperity of the African continent. This view has seen SA put a huge emphasis on growing regional trade and economic cooperation between countries in the SADC region. It has also seen SA being an active participant in the African Union and the NEPAD programme. The importance of regional trade as a contributor to higher levels of economic growth can be seen across the world, for example in Asia, Europe and both

North and South America. It is therefore necessary that the African continent find ways to increasingly grow regional trade and the economies in the region. South Africa as the strongest economy in the region must take responsibility in ensuring that there are greater levels of imports from the SADC region to match the increase in its exports to the region. It must also ensure that levels of private sector investment are increased. Livestock are farmed in most parts of South Africa and numbers vary according to climatic conditions. Stock breeders concentrate mainly on the development of breeds that are well-adapted to diverse climatic and environmental conditions. The estimated cattle population in 2005 stood at 13,91 million and sheep at 25,32 million. South Africa produces around 85 percent of its meat requirements while the other 15 percent is imported from Namibia, Botswana and Swaziland. The country plays a significant role in supplying energy, relief aid, transport, communications and outward investment on the continent. SA was the largest investor into the rest of Africa between 1990 and 2000, according to a 2003 report by Liquid Africa Research, with investment averaging around $1,4-billion, amounting to some $12,5-billion over the decade. South Africa is also a dynamic force within the 14-member South African Development Community (SADC), and has been a key player in the development of the New Partnership for Africa's Development (Nepad), the socio-economic renewal programme of the African Union.

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

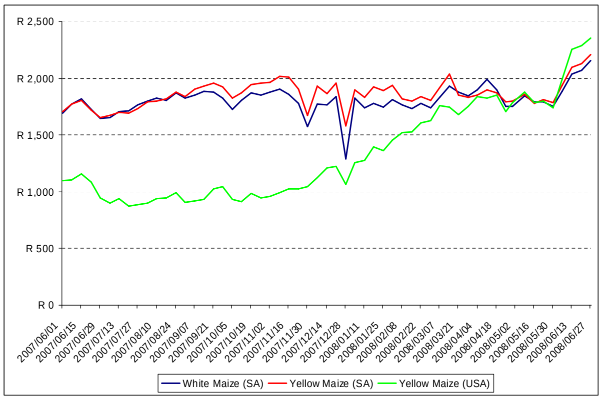
TABLE 8: Price of maize and wheat per ton

	End June 2007	End June 2008
White Maize price	R1 670	R2 157
Yellow Maize price	R1 689	R2 212
Wheat price	R2 475	R4 081
Sunflower price	R3 210	R5 320

Source: Safex

Domestic prices of major crops rose sharply during the second quarter of 2008 - reaching historic highs of more than 60% above levels just a year ago. Factors that have contributed to high local commodity prices include world demand for bio fuels, feedstock and adverse weather conditions experienced in 2006 and 2007 in some major commodity producing areas, as well as increasing costs of agricultural production. Sunflower prices shot by 68% to above R5 000 per ton at the end of June 2008 as compared to end of June 2007. Local wheat prices reflected sharp declines followed by sharp increases throughout the second quarter of 2008. During the month of May, wheat prices fell by 3% to below R3 900 per ton as compared to the previous month before rising again to reach a peak of R4 155 by mid-June. The price of wheat increased by 65% at the end of June 2008 as compared to end of June 2007. At the end of June 2008, market prices for white and yellow maize rose sharply to historic highs of more than R2 000 per ton above levels a year ago.

Figure 1: Domestic and USA maize prices



Source: Safex

Figure 1 illustrates the weekly price trends of domestic and US maize prices for the year to end of June 2008. Prices of local maize depicts short term increases and decreases throughout April and May, locked within R1 500/ ton and R2 000/ ton, before rising significantly by 14,7% in June reaching above R2 000 per ton month-on-month. USA yellow maize prices recorded a historic increase of 111,4% at the end of June 2008 as compared to end of June 2007. There appeared to be a gap opening up between local maize prices and US yellow maize prices throughout 2007, the gap narrowed down from the beginning of 2008 driven by rapid rise in world maize prices as demand for grains for bio-fuel production surges. US yellow maize price trend became on par with local price trend in May, before shooting sharply above the local maize price trend in June 2008. US wheat prices strengthened by 52%, from R1 616,27 at end of June 2007 to R2 692,31 at the end of June 2008. The US price of soybean increased significantly by 95% from R2 143,84 at the end of June 2007, to R4 586,79 at the end of June 2008.

6.2 Crop production and estimates

Table 9 summarises the final production estimates of 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. Area planted of commercial maize is estimated at 2,786 million ha for the 2007/08 season, up by 9,7% from the previous season's estimate of 2,556 million ha. The area estimate of white maize is 1,74 million ha, an increase of 6,9% as compared to the 1,623 ha planted last season. Area estimate of yellow maize increased by 14,6% as compared to 1,062 ha planted the previous season. The ration of white to yellow maize plantings is 62:38 compared to the previous season's 64:36. Free State, North West and Mpumalanga provinces are the major producers of maize in South Af-

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

Crop	Area planted 2007/08	Area planted 2006/07	2007/08 vs. 2006/07
	Ha	Ha	%
Total maize	2 799 000	2 551 800	9,68
White maize	1 737 000	1 624 800	6,91
Yellow maize	1 062 000	927 000	14,56
Sunflower seed	564 300	316 350	78,37
Soybeans	174 400	183 000	-4,70
Groundnuts	54 200	40 770	32,94
Sorghum	89 800	69 000	30,14
Dry beans	43 800	50 725	-13,65

Source: Directorate Agricultural Statistics rica. For the period 2007/08 season, Free State area estimate of maize plantings increased by 14,7% from 1,020 million ha to 1,170 million ha. The expected plantings of maize in North west increased by 1,3% to 780 000 ha from 770 000 ha, while area estimate for Mpumalanga improved by 90,7%, from 470 000 ha to 518 000 ha. The preliminary estimate for sunflower seed area of production is 564 300 ha, which represents an increase of 78,4% compared to 316 350 ha planted the previous season. Area planted to soybeans, has declined by 4,7%, from 183 000 ha in the previous season to 174 400 ha currently. It is estimated that 54 200 ha has been planted to groundnut crop, which is 32,9% higher than the 40 770 ha planted the previous season while 89 800 ha are expected to sorghum plantings, a 30,1% increase in plantings as compared to 69 000 ha planted in the previous season. In the case of dry beans the preliminary area estimate is 43 800 ha – 13,7% lower than the 50 725 ha planted of dry beans the previous season. Table 10 summarises the final results of the plantings and production forecast of the most important winter crops for the 2007 production season. The expected winter wheat crop is 1,715 million tons, which is 18,5% or 390 050 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 planted the previous season. The expected yield is 2,71 t/ha as against 2,75 t/ha of the previous season. The expected production forecast for the Western Cape is 780 000 tons, with an expected yield of 2,40 t/ha and for the Free State it is 430 000 tons, with an expected yield of 2,00 t/ha. The production forecast for malting barley is 195 910 tons, with the area planted estimated at 73 200 ha and the yield at 2,68 t/ha. The production forecast for canola is 33 200 tons, while the area planted to canola is also 33 200 ha and therefore the yield is 1,00 t/ha. The 2007 production estimate for sweet lupines is 11 200 tons, which is a decrease of 22,2% from the previous season. The area planted to sweet lupines is 14 000 ha and the yield is 0,80 t/ha.

6.3 Climatic and other conditions

Dry conditions persisted in the central and western parts of the country in April. These dry conditions were replaced by good rainfalls in May. However, dry conditions were still experienced in the southeast and extreme northeastern parts of the country in May. Normal to above-normal rainfall conditions were experienced over most of the country except in Limpopo and northern Mpumalanga for the month of June. Levels of dams: Levels of dams have improved in most areas as compared to last year this time. This is due to good rains re-

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

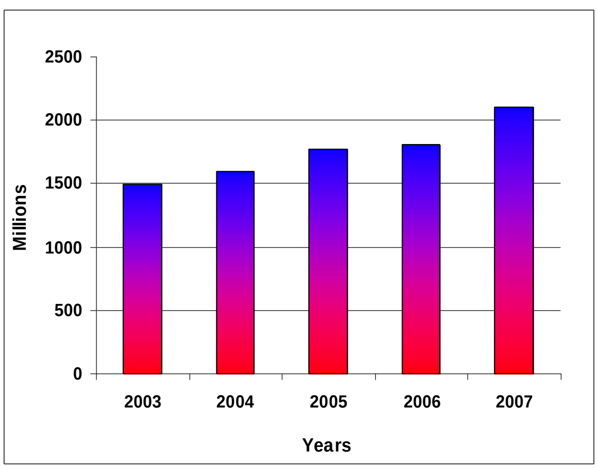
Crop	Final area planted 2007 season	Change from the 2006 season		Final production forecast for the 2007 season	Change from the 2006 season	
	Ha	Ha	%	Tons	Tons	%
Wheat	632 000	-132 800	-17,36	1 905 000	-200 000	-9,50
Malting barley	73 600	-16 180	-18,02	225 500	-10 500	-4,45
Canola	33 200	1 200	3,75	38 150	-1 650	4,52
Sweet lupines	14 000	-2 000	-12,50	13 300	-1 100	-8,27

Source: Directorate Agricultural Statistics ceived over the country in June with the exception of the northern parts. However, ground water level is still a concern in some areas. Crop conditions: Although dry spells were experienced in the north-western part of the country during midsummer, estimated yield for summer crops showed improvement as compared to the previous season due to favourable growing conditions in most areas (CEC, June). Livestock condition: Although the veld is gradually deteriorating, livestock is still in reasonable condition in most areas. Farmers were advised to provide fodder for livestock to avoid mortalities. Farmers were also advised to maintain stock numbers to suit carrying capacity of camps. Few incidences of veld fires were reported in Gauteng. Forecast of rainfall and temperature: Wet conditions are expected over the southern provinces as well as KwaZulu-Natal during the second half of winter. Temperatures will remain below normal except in the southwest. SADC: According to FEWS NET, food security conditions are generally satisfactory, but particularly favourable in those parts which experienced normal to above normal rainfall conditions. Countries anticipating average to above average harvests include Malawi, Mozambique, Tanzania, South Africa and Zambia. This is despite the unfavourable conditions which occurred in December/ January which affected some parts in most countries.

6.4 Implications of high fuel prices on agriculture

The recent high fuel prices pose new challenges for the South African economy, the African region and the global economy as a whole. High fuel prices have caused a lot of concern among people, businesses and farmers regarding its impact on production cost. The biggest challenge that farmers are facing is how to absorb those costs in operations that are already running. According to the Financial Mail April 2008, farmer's input costs, which are often singled out as a major contributor to the high prices of agricultural products were 9,6% higher at R46,7 billion. The single largest expenditure item was feed which accounted for 28,8% of inputs costs while fertiliser costs rose by 24,4%. In April, petrol prices increased by 68 cents a litre and diesel increased by R1,30 cents a litre and as a result, other input costs are also expected to rise. Higher prices result in higher inflation which ultimately results in higher interest rates, and the whole chain reaction has a negative effect on agriculture. Farmers have warned that the recent fuel price hikes will add to the financial burden of grain, crops and livestock farmers. Western Cape grain farmers in the Overberg District are anticipating a slight increase of about 4% in wheat planting this season. Despite the high prices of wheat, farmers say it is increasingly difficult to sustain wheat production due to increasing input costs. According to Grain SA, inputs costs rose by 63% since the previous season due to rising prices of fuel and fertilisers. Recently the agricultural sector heard that a massive agricultural machinery price hike was underway caused by the devaluation of the rand. The prices of tractors, combine harvesters, balers and other agricultural equipment mostly imported from Europe or US have increased by up to 20%. According to Agriculture Northern Cape President, Wessel van der Merwe, the farming community is worried about the price hikes on fuel; farmers are aware that it is good for export if the rand is weaker, but on the other hand if a farmer is not on the export market but on the local market then the local market must absorb the cost, especially the consumers of agricultural commodities. According to IMF, high fuel prices result in high food prices and this has a significant effect on people in poor countries because food represent a larger share of what poor consumers buy. The IMF has urged countries to avoid measures that distort markets, including price controls, which could cause food shortages.

Fig 2: Expenditure on Fuel



For the past five years the expenditure on fuel has been increasing. During 2003 and 2004 the expenditure on fuel was R1,4 billion and R1,5 billion respectively while in 2005 and 2006, fuel expenditure increased further to R1,7 billion and R1,8 billion respectively. Fuel expenditure increased significantly during 2007 amounting to R2,1 billion. The increase in expenditure on fuel has been mainly attributed to fuel price hikes and not necessarily on the increase in fuel usage.

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8. ACKNOWLEDEMENT OF INTERNAL (DOA) CONTRIBUTORS

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