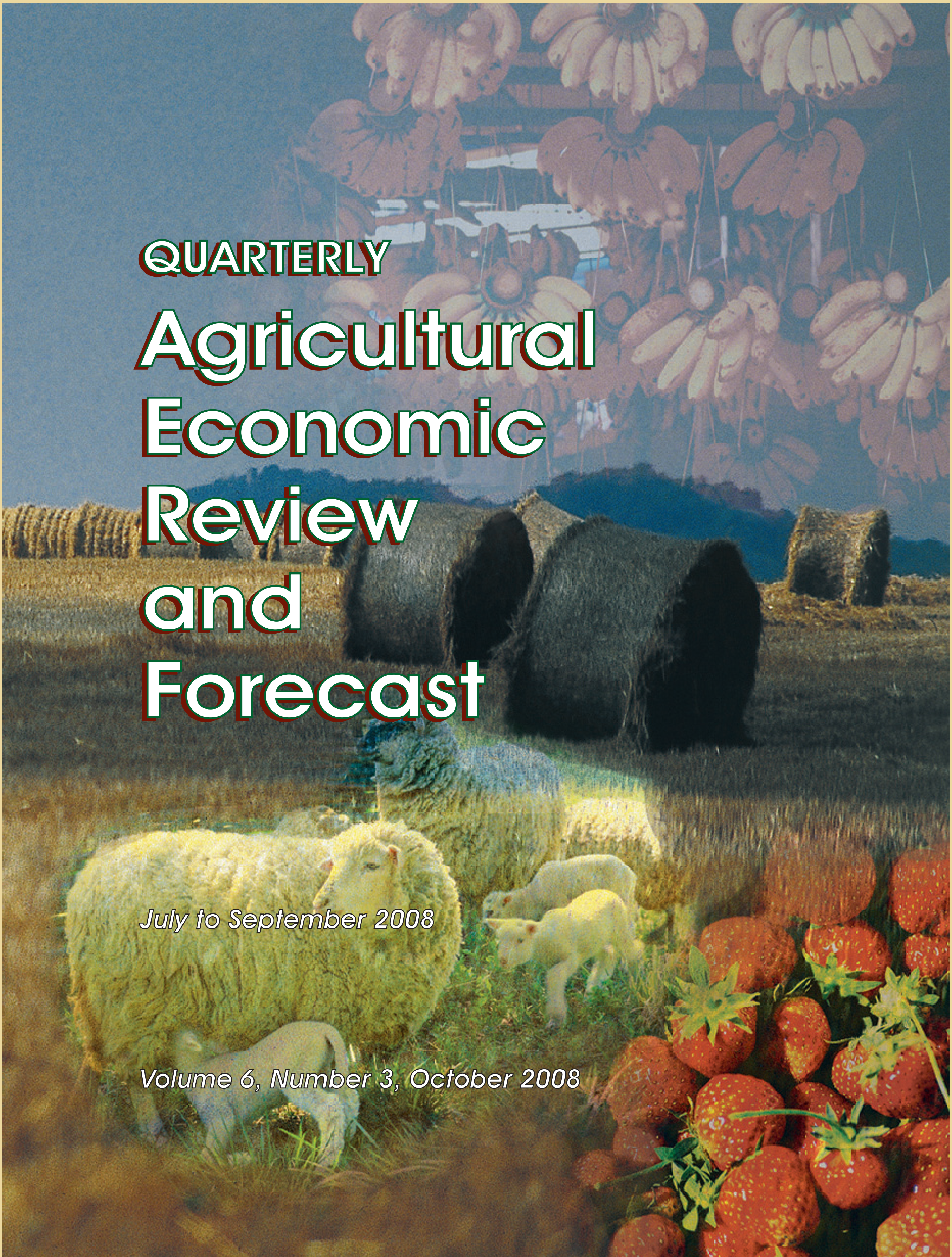

QUARTERLY

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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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1. WORLD ECONOMY

The **global economy** is set to slow significantly and the downside risks to the world economic outlook remain elevated. This reflects not just continued problems in the US and European financial sectors but also higher global inflationary pressures, which are eroding corporate competitiveness, cramping consumers' spending power and casting a shadow over growth prospects in many countries. Parts of emerging Asia, the Middle East and Eastern Europe look particularly vulnerable in this regard. Factors exerting upward pressure on prices include rising oil and food prices as well as spillovers from liquidity in the emerging economies, where foreign-exchange reserves continue to rise rapidly. After years of strong growth, the world economy is decelerating quickly. Global activity is being slowed by an extraordinary financial shock and by high energy and other commodity prices. Many advanced economies are close to or moving into a recession, while growth in emerging economies is also weakening. The financial crisis that first erupted with the US subprime mortgage collapse in August 2007 has deepened further in the past six months, entering into a tumultuous new phase in September. The impact has been felt across the global financial system, including the emerging markets to an increasing extent. Intensifying solvency concerns have led to emergency resolutions of major US and European financial institutions and have badly shaken business confidence. In response, the US and European authorities have taken extraordinary measures aimed at stabilizing markets, including massive liquidity provision, prompt intervention to resolve weak institutions, extension of deposit insurance, and recent US legislation to use public funds to purchase troubled assets from banks. However, the situation remains highly uncertain. Against this backdrop, the baseline growth projections have been marked down significantly relative to the July 2008 World Economic Outlook Update. On an average annual basis, global growth is expected to moderate from 5,0 percent in 2007 to 3,9 percent in 2008 and 3,0 percent in 2009, its slowest pace since 2002. The advanced economies would be in or close to recession towards the end of 2008 and early 2009, and the anticipated recovery later in 2009 will be exceptionally gradual. Growth in most emerging and developing economies would decelerate. Growth in the **Euro area** is also expected to moderate over the short term, largely as a result of financial stress and the adverse impact of trade spillovers taking effect. In both 2008 and 2009, output growth is expected to remain sluggish, but a moderate recovery is expected thereafter with GDP growth moving back to a trend like pace of 2%

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

Countries	2007	2008	2009	Countries	2007	2008	2009
World[1]	5,0	3,9	3,0	China	11,9	9,7	9,3
USA	2,0	1,6	0,1	India	9,3	7,9	6,9
Japan	2,1	0,7	0,5	Latin America	5,6	4,6	3,2
Euroland[2]	2,6	1,3	0,2	East-central Europe	5,7	4,5	3,4
ASEAN-4[3]	6,3	5,5	4,9	Sub-Saharan Africa	6,9	6,1	6,3

Source: IMF [1] PPP [2] The 11 Euro countries [3] Indonesia, Thailand, Philippines and Malaysia over the remainder of the forecast period. In 2008-09, the US, the euro zone and Japan are all expected to under-perform. Over the next 12 months the US economy is expected to experience a recession (in terms of the official definition of the National Bureau for Economic Research, which does not require two consecutive quarters of GDP contraction), and to recover only slowly in 2009, with expansion averaging just over 1% over the two years. The downturn in the housing market has much further to run and house prices will continue falling steeply. The negative impact of tighter credit conditions has elevated household debt-service ratios, and weaker confidence will also lead to a rise in the US household savings rate ensuring that private consumption remains a drag on growth in the short term. The acceleration in **inflation** poses a dilemma for policymakers globally, with many countries already being forced to keep monetary policy tighter than they would prefer against a background of slowing global growth. It is expected that the inflationary scare will fade over the next year as oil prices decline, but central banks will remain on the alert for fear that the earlier rise might still feed through to second-round effects. This concern is justified even if, as expected, commodity prices have peaked, as past commodity price rises may still feed through into inflationary expectations and wage inflation, particularly in emerging markets with weaker monetary policy credibility. There is an expectation of rate cuts in the euro zone in the second quarter of 2009. Contrary to market expectations, it is expected that the Federal Reserve (Fed, the US central bank) will cut interest rates by 50 basis points, with one 25-basis-point cut in the fourth quarter of 2008 and a further 25-basis-point cut in the first quarter of 2009(IMF, October 2008). **News events** that influenced the world economy: The world teetered on the brink of a stock market crash in September as news of collapsed Wall Street firms Lehman Brothers and Merrill Lynch filtered through, causing major losses at bourses around the world. The agricultural negotiation talks resumed at the World Trade Organisation (WTO) after they collapsed in July 2008 on a disagreement over developed countries Special Safeguard Mechanism (SSM)- a measure to protect farmers if they are faced with sudden surges of cheap farm imports. The Bank of England had its two day rate setting meeting in August against the backdrop of yet more statistics showing that Britain's economy was heading for a significant slowdown or even a recession. The G8 countries called for an effort to cool sizzling oil prices, warning that soaring fuel and food cost are a threat to world economic growth. Russia and China in July vetoed a western backed UN Security Council resolution to impose sanctions on Zimbabwe for holding a violent presidential poll that was boycotted by the opposition candidate Morgan Tsvangarai. Ahead of the critical WTO meeting on the 21st of July, pressure was mounting on developing countries as more focus has been given to Non – Agriculture Market Access (NAMA) commitments while developing countries feel that agriculture should be in the forefront of the agenda. Developing countries have been asked to make firm commitments before they have any clarity on the outcomes of the agricultural negotiations. European company investment, consumer spending and exports declined, painting an even bleaker picture for the domestic economy. *(Price Watch, 2008))*

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub-Saharan Africa – Economic Outlook

	2006	2007	2008	2009
Growth	6,6	6,9	6,1	5,3
Consumer Inflation	7,3	7,1	11,9	9,5
External Debt[1]	146,7	155,0	169,1	174,9
Current Account[2]	-0,3	3,0	-0,7	-2,4

Source: IMF [1]US $ billion [2]Percentage of GDP

Economic growth in sub-Saharan Africa (SSA) is expected to moderate in the face of the global financial turmoil and high energy and food prices, even though many SSA countries are benefiting from terms-of-trade gains resulting from the surge in other commodity prices. Overall, growth is expected to decline from near 7 percent in 2007 to just over 6 percent in 2008–09. Despite a weakening external environment, economic expansion in oil-exporting countries is expected to soften only moderately in 2008–09, with growth declining to about 7 percent from near 8 percent in 2007- owing to a near 75 percent improvement in the terms of trade in 2008. For oil importers, the terms of trade would remain broadly stable in 2008, with higher oil prices offset by higher export prices for metals, coffee, cocoa, and cotton. However, ten oil importers stand to benefit from higher prices for metals (Botswana, Ghana, Guinea, Kenya, Mozambique, Senegal, South Africa, Togo, Uganda, and Zambia), while Benin, The Gambia, Kenya, Madagascar, Rwanda, and Sierra Leone are projected to experience 15–20 percent deterioration in the terms of trade. **Real GDP growth** in Sub-Saharan Africa is expected to slow to 6,1% in 2008, compared to the 6,9% in 2007. IMF expects growth to slow further to 5,3% in 2009 as the impact of recent monetary policy tightening and the effects of slower growth in the US and the rest of the world take their full toll on Asia's export-orientated economies. However, given the current problems facing the world economy - including the slowdown in growth across the industrialised nations, the fallout from the sub-prime lending crisis and higher inflation - this would represent a very respectable performance. Unsurprisingly, the oil producers in the region - Angola, Equatorial Guinea and Nigeria - are expected to be the fastest-growing Sub-Saharan economies, especially in 2008 (although "recovery" economies like the DRC, Ethiopia, Mozambique and Tanzania will also perform strongly). The range of growth among individual countries will vary widely by 'between' 5% to 22%. In the Southern African Development Community **(SADC)** region, growth is expected to reach a low average of 5,4% in 2008 and 4,9% in 2009, following growth of 6,6% in 2007. Of the four sub-regions in the sub-Saharan Africa, growth is expected to be stronger in **Central and West Africa,** at 6,3% in 2008 and 6,6% in 2009. In the case of **East Africa**, it is expected that sub regional growth will dip to 5,9% in 2008, picking up slightly to 6% in 2009. This reflects an expected slowdown in Kenya - the largest economy in the region - where real GDP growth is expected to subside to 4,1% in 2008 from 7% in 2007. **Franc Zone**: Growth continues to remain lowest in the Franc Zone, at 4,7% in 2008, declining to 4,5% in 2009. Growth in Cameroon and Gabon – two of the largest economies in the region – is forecasted to remain relatively low. Despite the sharp rise in commodity prices, Cameroon's real GDP has grown only by an average of 2,6% in the past three years, owing to increased competition from low-cost Asian manufacturing producers, under-execution of the investment budget and a difficult business operating environment. **External debt:** Despite the debt write-offs delivered in late 2006, the need for further high levels of financing for African countries will remain pressing in the coming years, and the debt stock in Sub-Saharan Africa will rise in 2008-09, to end the forecast period at $174,9bn. **African governance**: Countries in the modern world are responsible for the delivery of essential political goods to their inhabitants. The essential political goods can be summarized and gathered under five categories: Safety and Security, Rule of Law, Transparency and Corruption, Participation and Human Rights, Sustainable Economic Opportunity and Human Development. Together, these five categories of political goods epitomize the performance of any government at any level. No one - whether looking to his/her village, municipality, province, state or nation - willingly wants to be victimized by crime or to live in a society without laws, freedom and the chance to prosper, or access to decent schools, well-run hospitals, and well-maintained roads. The 2008 Index shows clearly that Liberia is the "most improved" in terms of governance performance over the last two index years (2005 and 2006), as shown by a more than 10 point improvement in its score. This is largely due to its dramatic improvement in the area of Participation and Human Rights, as well as modest improvements in Security, Sustainable Economic Opportunity and Human Development. Burundi is the second most-improved country, thanks to improvements in all categories and especially in Participation and Human Rights. Uganda, Guinea-Bissau, Madagascar, the Comoros, Burkina Faso, Swaziland, and Djibouti, among others, have also demonstrated upward gains in their overall scores. Mauritania, followed by Chad, has notably slipped the most in terms of their scores. Using the difference between 2002 and the latest index year (2006) as a measure; Burundi, Liberia, Angola, and Rwanda were the most improved while Mauritania and Chad were the worst performers. **Consumer inflation:** Over the past 20 months the world economy has been hit by two huge shocks: the global credit crunch and the rapid rise in commodity prices. So far, at least, Sub-Saharan Africa has escaped the worst effects of the former. However, the impact of rising commodity prices (notably of oil and food) has been much more serious, leading to a rapid rise in inflation and in turn resulting in weaker exchange rates in a number of countries which has further aggravated inflationary pressures. Rapidly accelerating consumer price inflation is now the biggest economic concern facing the region. The problem could hardly have come at a worse time for economic policymakers, amid fears over the extent and impact of the global slowdown on Africa's export-dependent economies. Rising inflationary pressures are reflected in the latest forecasts, which show average inflation for sub-Saharan Africa - once again excluding Angola, the DRC and Zimbabwe - reaching a high of 10,3% in 2008 compared with 6,4% in 2007, before falling to 7,4% in 2009. Within the four sub-regions, inflation continues to remain the lowest in the Franc Zone. In some ways this is the positive side of the fixed exchange-rate regime and the appreciation of the euro against the US dollar, which has helped to suppress imported inflation, notably the cost of petroleum imports at a time of high global oil prices. In addition, it also reflects the good performance of the agricultural sector in many countries in the sub region in recent years. As with nearly all Sub-Saharan African countries, food prices form the major component of the consumer price index. A **current-account** surplus, capital inflows and a sharp rise in reserves will help the region to strengthen its external accounts in 2008. However, falling commodity prices and the global economic slowdown will return the current account to a deficit in 2009, and the financing requirement will remain a source of concern (EIU, Q3 2008). **News events** that influenced the SSA economy**:** President Robert Mugabe and opposition rivals deadlocked on the allocation of ministers that would pave the way for cabinet appointments. The plan to merge 26 Eastern and Southern African states into a single trading bloc has been completed, ready for heads of states to sign. The SADC launched a free trade area in August as part of ongoing efforts to deepen long-term regional integration and members will be exempted from 85% tariffs, with the aim of launching a 100% free trade area by 2012. Angola - one of the only two OPEC members from sub-Saharan Africa - is set to export a record 1,98 million barrels of crude oil per day in October as production from established oil field stabilised. The Zambian government has promised to maintain its prudent macroeconomic policies following the death of the country's president Levy Mwanawasa. *(Price Watch, 2008)*

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008*	2009*
Growth	5,0	4,9	3,2	3,0
Consumer Inflation[1]	4,6	6,5	11,4	8,1
Exchange rate[2]	6,97	7,10	8,45	8,75
Interest rate (Prime)[3]	11,5	13,2	16,00	15,08

Source: BER [1] CPIX [2] *End of year* [3] *Yearly Average*

Despite the recent spate of industrial action, worse than expected inflation figures and higher interest rates, the Bureau for Economic Research (BER) came out with an upbeat economic forecast for the third quarter. Upgrading its forecast for South Africa's real gross domestic product (GDP) growth over the short term, the BER projected strong fixed investment growth, robust exports and continued employment growth in the third quarter. South Africa's **inflation rate** continued to rise in the third quarter of 2008, owing to higher food and oil prices as well as the rise in electricity tariffs, reaching a new high of 13,6% year-on- year in August. However, inflation is said to be at or near its peak and is likely to decline gently during the remainder of 2008, helped by weaker global oil prices. The current projection for average inflation in 2008 is 11,4%. Inflation is set to ease gradually to 8,1% in 2009, helped by more stable food and oil prices and by the planned introduction of a new, re-weighted consumer price index in January 2009. The new benchmark (no longer to be called CPIX) allots a smaller share to food and energy prices and may lead to lower inflation, although there are many uncertain variables. Inflation is expected to drop below the official 6% threshold some time between mid-2009 and mid-2010. The South African Reserve Bank has opted not to change the **repo rate** (the rate at which it lends money to commercial banks) in their monetary policy meeting in August. Accordingly, the repo rate remained unchanged at 12 percent per annum. According to the governor, the committee had considered recent developments in the South African economy and the risks to the inflation outlook against the backdrop of conditions prevailing in the international financial markets. Developments in the international markets have already had a negative impact on growth in a number of regions, and global growth forecasts are being revised further down, particularly in the Organization for Economic Co-operation and Developing (OECD) countries. The continuing crisis has led to a generally more accommodative monetary policy stance in a number of countries, with some governments and central banks taking unprecedented steps to help stabilize the situation. The slowing world economy was also likely to have an adverse effect on domestic growth prospects. At this stage it is unclear how the crisis will unfold, but heightened risk and uncertainty are likely to persist for some time. **Economic growth** is expected to slow to 3,0% in 2009, from a projected 3,2% in 2008 owing to power shortages, weak household demand and a global downturn, before rebounding to 5,3% in 2010, helped by the hosting of the soccer World Cup. Manufacturing will gain from a weaker rand but suffer from slowing global growth and power constraints. Electricity supplies are likely to remain tight in 2009-10 owing to the long lead times in commissioning new plants, which will continue to constrain energy-intensive industries and mining in particular. Employment opportunities are likely to expand and, in conjunction with declining interest rates, will give a boost to household consumption. The danger of South Africa losing the staging of the World Cup for not being ready seems remote, although some transport and power bottlenecks will persist and crime may deter tourists. **Consumer spending:** South Africa's retail sales fell 4,6% year-on-year in July, due to continued pressure on consumer spending from interest rate hikes. According to Statistics South Africa, the annual drop in sales followed a 1,5% fall in June, bringing the annualised decline for the past three months to 3,4%. Year-on-year sales have dropped for three consecutive months. Consumer spending has cooled sharply in 2008, weighed down by a series of interest rate hikes since June 2006 as the central bank tried to tame inflation. The repo rate rose five percentage points over two years, but was left steady at 12% this quarter, partly because of concerns about easing demand. Analysts believed that the data showed consumers were struggling and that there was little scope for further monetary policy tightening. According to Nedbank economist, Nicky Weimar, the credit numbers, the defaults in the banking system and the combined effects of high prices, high interest rates and fairly high levels of debt tell the story of pressure on the consumers. South Africa's central bank has been caught between record high consumer inflation and slowing demand, highlighted by tumbling new vehicle and falling retail sales. **Current account deficit:** It is expected that export and import growth will be fairly robust in 2008, based on first-half data, but the shortfall on merchandise trade and the far larger gap on non-merchandise (invisible) trade, will push the current-account deficit to 7,7% of GDP. Exports and imports are likely to retreat in 2009, at least in US-dollar terms, because of the depreciation of the rand. Exports will also suffer from faltering demand in key export markets as rich-country economies edge near recession, although the weaker rand will offer some help. Imports will be constrained by the slowdown in GDP growth, but demand for investment goods will remain strong. Slippage in key commodity prices (gold and platinum for exports, and oil for imports) will serve as an additional dampener. Exports and imports are likely to resume growing in 2010, in line with the pick-up in global and domestic growth. The deficit on the services and income accounts will persist, as service outflows and income payments abroad (especially to portfolio investors) continue to offset receipts from tourism and earnings by South African investors in external markets. Nevertheless, tourism inflows will gain a significant boost from the 2010 World Cup. The deficit on the current transfers account will remain significant and the overall current-account deficit is expected to widen to 8,1% of GDP in 2009, before edging down to 7,9% of GDP in 2010(EIU, Q3 2008). The **rand** has been characteristically volatile in 2008 within the context of a depreciating trend, owing to the uncertain global economic outlook, weaker domestic growth prospects and the large current-account deficit, and this is likely to be repeated in 2009. The rand slipped to R8,03 against the dollar in September (13% weaker year-on-year), in line with the global turmoil and declining confidence in emerging-market assets. Official assurances over policy continuity and relatively solid fundamentals (including near-record levels of foreign exchange reserves) should preclude major instability, although sharp daily swings will remain common, as the rand is widely traded and influenced by many factors. The rand is expected to stay close to the current level, on a monthly basis, for the remainder of 2008 and to average R8,45 to the dollar for the full year. Further depreciation is expected in 2009-10, and the rand is expected to average R8,75 to the dollar in 2009 and R8,55 to the dollar in 2010 (EIU, Q3 2008). **News events:** The SARB governor said SA’s inflation outlook remains disappointing and the central bank will consider the necessary steps to bring it within the target range. SA’s current account deficit narrowed to 7,3% of GDP partly due to the second quarter rebound of portfolio inflows following the first quarter outflows. SA has signed an agreement with Venezuela - the biggest oil exporter in the western hemisphere - to increase energy cooperation, as the two countries strengthen ties. According to the latest survey by the Bureau for Economic Research (BER), confidence levels in the manufacturing sector fell to a nine year low during the third quarter of 2008. Kgalema Motlanthe was sworn in as SA's interim president on the 25th of September, declaring that he would not change government policies, following President Thabo Mbeki's resignation. The Eastern Cape Department of Agriculture reported that Queenstown has been hit by an outbreak of Newcastle poultry disease. The chamber of mines said COSATU's national strike against rising food, fuel and electricity prices was counter productive and economists warned that the mass action would damage SA's image. Toyota, the world's second largest car maker, reported the biggest drop in profit in five years as US sales of sport utility vehicles and bakkies plunged. The SARB's monetary policy committee decided to leave the repo rate unchanged during its August meeting, however, Tito Mboweni warned consumers not to be complacent as inflation is still outside the target range. Reports indicate that SA banks are feeling the effects of previous repo rate increases over the past two years as the number of defaults have increased substantially – ABSA announced its bad debts had increased by 129% to R3 billion, forecasting that the figures will worsen to around R4 – R5 billion. In July, President Thabo Mbeki strongly defended his administration's economic policies, crediting SA's budget surplus and inflation targeting with having cushioned the economy from the worst of the financial turbulence that has caused havoc around the world. *(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	8,1
	Standard Bank	11,6	7,8
	Absa	10,9	7,8
	Average	11,3	7,9

BER - Bureau for Economic Research

Recent trends: Inflation surprised on the upside again in August coming in higher than expected at 13,6% - this is the 17th month running that targeted inflation rate has been above the 6% upper limit of the target range. The **CPIX inflation** rate surged to 13,6% in August from 13% in July driven mainly by food and electricity prices. Food prices rose by 19,2% year-on-year in August from 18,5% year-on-year in July as prices of grains, meat, and vegetables continued their upward trend. Local grain price inflation increased by 36,5% year-on-year while meat price inflation rose to 11,8% year-on-year. During August, electricity prices increased by 4% month-on-month following the announcement of a 27,5% increase in electricity tariffs by NERSA in July. The **headline CPI** annual inflation also continued to rise, increasing to 13,7% year-on-year in August from 13,4% year-on-year in July. **PPI** inflation accelerated to 19,1% year-on-year from 18,9% y/y in July - this represents a 0,5% month-on-month increase. The main contributors to the 0,5% increase were basic metals, electricity prices, prices of chemicals and chemical products, non-metallic mineral products, transport, and beverages. **Forecast:** CPIX inflation is likely to average 11,3% for 2008. Due to a slowdown in consumer spending, falling fuel prices, and the introduction of the new inflation methodology, most analysts expect the inflation rate to decline in the next few months. However, rising rental costs may drive up inflation next year as expensive mortgages and tighter credit conditions increase the demand for rental accommodation. The SARB has indicated in their August MPC meeting that it expected CPIX inflation to return within the target range in the third quarter of 2009 depending on the re-weighting and rebasing of the inflation target. The BER projects CPIX inflation to average 11,4% in 2008, decreasing to 8,1% in 2009. Absa and Standard Bank projections for CPIX inflation for 2008 are 10,9% and 11,6% respectively, both with expectations that the 2009 CPIX inflation will slow down to 7,8%. **Impact on agriculture:** The upward inflation trend will continue to raise input costs for farmers which will ultimately be passed along to consumers. High inflation may also pose a risk for further interest rate hikes which negatively affect farmers who are financially indebted. However, high inflation has a good side for farmers who own the land, since it increases their wealth. With rising food prices being one of the driving forces behind rising inflation, farmers have so far benefited from high food prices though the benefit might not be sustained in the log-term as input prices escalate.

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	3,5	3,9
	Average	3,2	3,4

BER - Bureau for Economic Research

Recent Trends: The South African economy bounced back strongly in the second quarter defying most forecasts. GDP rose by 4,9% quarter-on-quarter, up from a sluggish 2,1% evidenced in the first quarter. Further momentum to GDP growth was added by strong growth in the agriculture, construction and transport industries. The agricultural sector grew up by an impressive 19,6% quarter-on-quarter as compared to the first quarter mainly on the back of a strong harvest of field crops. The construction sector growth was driven by strong fixed investment activity, dominated mainly by major infrastructure and capacity expansion projects of Eskom, Transnet and government. The transport and communication sectors also made a meaningful contribution to growth in land transport and communication services. In sharp contrast, the wholesale, retail and hotel as well as the finance and real estate sectors declined, mainly due to consumers' curb on spending as a reaction to rising prices and interest rates. **Forecast**: Growth is expected to slowdown in the second half of 2008 as industries servicing consumer markets such as trade and accommodation, finance and real estate and other parts of manufacturing continue to feel the effects of weak household demand. Most households are expected to further cut back on spending as their finances remain under pressure from high prices, interest rates and debt burdens. The financial, real estate and business services sector - South Africa's largest contributor to GDP - slowed sharply during the quarter, up only a sluggish 2,3%. Following domestic developments in 2008 which included the electricity crisis, xenophobia attacks on foreigners, political uncertainty, the Zimbabwe crisis, etc., business confidence index declined by a further 3 index points in the second quarter – the decline may suggest deterioration in growth to the first quarter level. Exports are also expected to perform badly this year as the global economic environment continues to deteriorate. On account of the above, BER expect GDP growth to slowdown from 5,1% in 2007 to 3,2% in 2008, before slowing further to 3% in 2009. On average, GDP is expected to decelerate from 5,1% in 2007 to 3,2% in 2008, before increasing again to 3,4% in 2009. **Impact on agriculture:** Even though the agricultural sector grew by an impressive 19,6% in the 2nd quarter, a prolonged global economic slowdown may affect agricultural exports and markets as international commodity prices continue to suffer downward pressures caused by the economic downturn. Again, a decline in oil prices will put a downward pressure on commodity prices which may have an unfavourable consequence for agriculture terms of trade.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2007		2008	2009
7,05	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: As a result of the uncertainties in the international financial markets, falling commodity prices and the strengthening of the US dollar, the South African rand has lost significant ground against major currencies, reaching a low of R10,03/ dollar during the 2nd week of October, its lowest level in more than five years. Concerns over global growth have led to investors becoming more risk averse, avoiding the rand. Before the onset of the current round of global financial market volatility, the rand was firm trading at an average of R7,64 and R7,62 against the US dollar in July and August respectively, before losing more of its value in September and October. **Forecast:** The local currency is set to weaken against the US dollar but to strengthen against the euro as the dollar rebounded from its lowest levels. Furthermore, analysts are speculating that capital inflows will not be enough to fund the current account deficit – this may cause the rand to depreciate even further. The currency is expected to average R7,97/ dollar in 2008, and R8,67/ dollar in 2009 according to BER forecasts. Forecasts from Standard bank indicates that the rand will average R7,85/ dollar for 2008, before it appreciates moderately to R7,80 in 2009 while ABSA forecasts a further depreciation of 4,5% to R8,28 in 2009 as compared to

2008. **Impact on agriculture:** A weaker currency reflects increased competitiveness of agricultural exports over the period, however, the current slowdown in global demand may counteract exports competitiveness in the medium-term resulting in market oversupply and declining commodity prices.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rate

2007		2008	2009
13,1	BER	15,3	15,7
	Standard Bank	15,3	15,6
	Absa	15,3	15,1
	Average	15,3	15,5

BER - Bureau for Economic Research

Recent trends: The South African Reserve Bank left interest rates unchanged during the October meeting despite record inflation and the threatening global credit crisis – this is the second consecutive meeting the decision was taken to leave interest rate unchanged. The repo rate remained at 12% while the prime overdraft rate also remained unchanged at 15,5%. The SARB did not join a round of rate cuts by central banks globally to try and ease the impact of the financial turmoil, with Reserve Bank Governor, Tito Mboweni, saying South Africa's financial system remained relatively stable. **Forecast:** The South African Reserve Bank's decision to leave interest rates unchanged was in line with most forecasts. At the October meeting, the MPC was upbeat about the inflation outlook pointing to a moderate improvement since the last meeting, although the peak was now slightly higher. On average, interest rates are expected to be around 15,3% in 2008 and 15,5% in 2009. **Impact on agriculture:** The decision to leave interest rates unchanged come as a relief in the short term for farmers who are battling with repaying their debts.

4.5 Employment

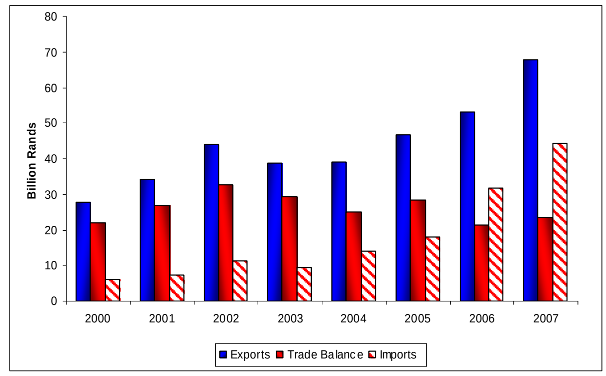
South Africa's unemployment rate declined from 23,5% in the first quarter to 23,1% in the second quarter of 2008. The number of people out of work dropped to 4,11 million from 4,19 million. Private sector employment which constitutes 79% of formal non-agricultural employment increased at 0,8% (an increase of 106 thousand – from 13,6 million to 13,7 million) higher than in the first quarter with the largest number of jobs created by the community and social services. This was largely on account of an expansion in formal sector employment from 9,3 million in the first quarter to 9,4 million in the second quarter of 2008. Sectors which added to an increase in the private sector employment were the construction, mining, financial, trade catering and accommodation services. Construction employment has been boosted by increasing activities in the sector as investment expenditure rose in recent quarters stimulating employment to an increase of 2,8% q-o-q in the second quarter. The mining sector benefited from the boom in commodity prices during the past few years, rising at 3,9% in q-o-q in employment. The transport sector recorded gains in employment of 0,7% q-o-q on account of larger investments in the sector as preparations for 2010 World Cup get underway, while employment in the community and social services, catering and accommodation services sector also remained robust, rising at 2,8%.

The utility sector recorded meaningful gains in employment with a rise of 6,7% q-o-q. The manufacturing sector experienced significant job losses largely in the informal sector, with employment declining by 7,8% q-o-q while no change in employment was recorded in the formal sector. Employment in the informal sector (non-agriculture) rose by 21 000 (0,9%). The number of people employed in the agricultural sector declined to 790 000 from 799 000 – a 9000 decrease. However, this decline is accompanied by growth in the percentage of workers within the sector who are more skilled – from 2,1% in 2002 to 5,5% in 2007. This shift in employment focus by farmers is an indication that farmers are spending their money on fewer workers who are presumably more highly skilled and on casual workers who account for a small portion of the agricultural wage bill.

5. INTERACTION BETWEEN SA AND AFRICA

African development and the promotion of economic and political integration of the continent have become major focal points of South African global economic strategy – this is demonstrated not only in the goals of NEPAD which include eradicating poverty and achieving sustainable growth and development on the continent, but also in increased trade flows between South Africa and its African partners. The value of total merchandise traded between South Africa and Africa increased from 27,9 billion in 2000 to 67,8 billion in 2007. This represent a nominal growth of 10,8% per annum over the period. Growth in South African imports from Africa also strengthened between 2000 and 2007, accelerating by an average of 31,7% annually (in nominal terms)

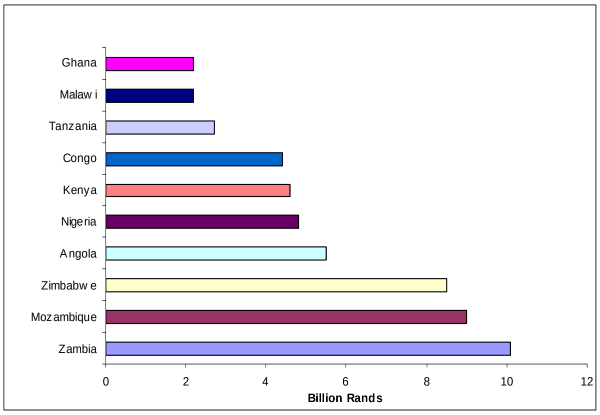
Figure 1: SA – Africa Trade



Source: Directorate, International Trade

over the period, to total more than R44 billion in 2007, from R6 billion in 2000. After a decline in South African exports to the region between 2003 and 2004, exports gained momentum, growing at an annual rate of 20,6% between 2005 and 2007. South Africa also succeeded in maintaining a fairly large trade surplus with the region. The largest trade surplus was experienced during 2002, however, after that the trade balance continued to contract as South African imports from Africa grew slightly faster than exports to Africa between 2003 and 2007. This reflects South Africa's greater integration with the African markets and benefits of trade liberalisation in the continent. South Africa's trade with Africa is more biased towards SADC countries, with more than 50% of the average value of South African imports from Africa originating from within SADC while approximately 66% of the total value of merchandise exports from South Africa is destined for SADC.

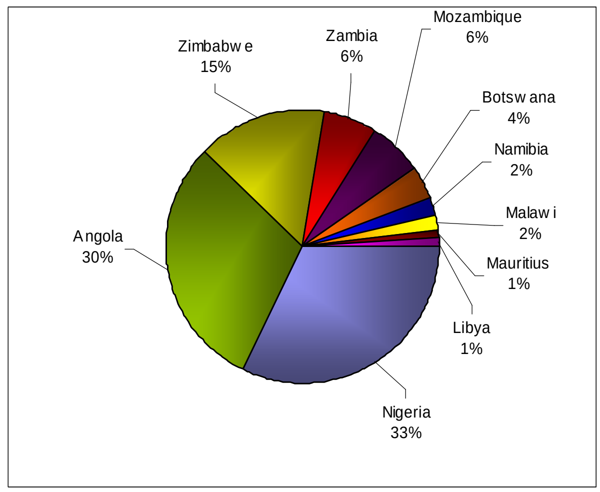
Figure 2: Top Destinations of SA Exports to Africa, 2007



Source: Directorate, International Trade

Approximately 60% of South African exports to Africa were destined to five countries: Zambia, Mozambique, Zimbabwe, Angola and Nigeria in 2007. Zambia alone accounted for almost 15% of the total African export value in 2007, while Mozambique and Zimbabwe accounted for 13,3% and 12,5% respectively. The largest sources of SA imports in 2007 were Nigeria, Angola, Zimbabwe, constituting 33%, 30%, and 15% of the total value of imports from Africa respectively. Increases in SA imports from Nigeria and Angola were due to increased crude oil imports from those countries. The movement of the rand has always been influential to South Africa's trade with Africa and the rest of the world. A sharp decline in the local currency experienced at the end of 2001 led to large increases in exports which saw South Africa's trade balance narrowing. Through 2003, the rand started to strengthen, which led to substantial decline in exports during the corresponding period. Like in any other country, the fluctuation of the local currency has a disruptive impact on trade flows and may also deter investment decisions associated with such trade flows. The South African Rand has an effect on external competitiveness of most African countries. This is based on the fact that some African currencies track the rand - any volatility in the SA rand has a contagion effect in their values against the major currency.

Figure 3: Top sources of South African Imports from Africa, 2007



Source: Directorate, International Trade

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

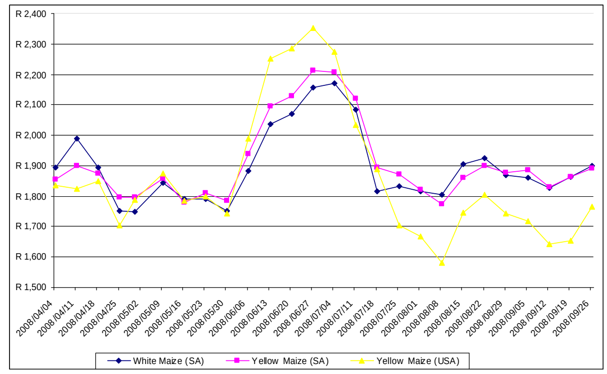
TABLE 8: Price of maize and wheat per ton

	End Sept 2007	End Sept 2008
White Maize price	R1 825	R1 822
Yellow Maize price	R1 926	R1 816
Wheat price	R3 320	R3 080
Sunflower price	R4 280	R3 960
Soybeans price	*R3 285*	R3 790

Source: Safex

Domestic grain prices have shown an average decline of 1,5% at the end of the third quarter 2008 compared to end of third quarter last year, only soybeans recorded a significant price increase of 15,4%. The global financial crisis has reduced speculative behaviour and demand for commodities, thus contributing to lower prices of food stuff, while declining oil prices have also contributed to the food price decline. The domestic price of **white maize** declined by 0,16% at the end of the third quarter 2008 compared to the same period last year, ending the quarter at R1 822/ton while the **yellow maize** price declined by 5,7% during the same period. Sagis expects an increase in exports of a bumper crop this year as more maize - than the annual domestic consumption of about 8 million - has already been harvested. **Wheat** prices also declined by 7,2% at the end of September 2008 compared to the same period last year, ending the quarter at R3 080/ton. **Soybeans** prices showed the best performance this quarter, due to tight global supplies, ending the quarter at R3 790/ton from last year's price of R3 285/ton. Domestic grains have been highly affected by the rand volatility. Risk aversion increased in the third quarter, resulting in an outflow of funds from SA's equity and bond markets. The collapse of major US banks increased uncertainty in the markets, leading to investors moving away from risky emerging markets. Domestically, the current political uncertainties rattled investors who are moving away from risky emerging markets causing further declines of the rand against major currencies.

Figure 4: Domestic and USA maize prices



Source: Safex

SA **white** and **yellow maize** prices followed the same trend locked largely within the R1 500 and R2 000 price range during the third quarter of 2008. Domestic grain prices declined for five consecutive weeks in the first half of the quarter, as the rand strengthened against the US dollar. Domestic maize prices fluctuated in the last half of the quarter, when the US dollar gained ground (following a downturn in the economy in July 2008). Floods in the US drove international maize prices upward, as crops were damaged in major maize and soybean growing areas putting pressure on supplies. The price of US **yellow maize** increased by 32,7% compared to last year, ending the third quarter at R1 679,20 per ton. The price of US **Soybeans** soared by 984,2% compared to end of third quarter last year due to tight supplies. US **Wheat** prices declined in the third quarter as wheat production and exports increased globally, worsened by falling oil prices and declining demand due to global economic slowdown. US Wheat prices declined by 28,4% quarter-on-quarter, ending at R2 040,70 end of September 2008.

6.2 Crop production and estimates

Table 9 summarises the final production estimates for the most important summer crops for the 2007/08 season. The estimates are based on inputs from the Department of Agriculture's sample of producers; the provincial Departments of Agriculture and the Grain Silo owners. The **total summer crop** estimation is 13,6 million tons, a 3% increase from the previous estimate of 13,2 million tons and a hefty 72,3% increase from last season's final crop. The area planted to **total maize** remained unchanged from the previous forecast at 2,8 million ha, with an expected yield of 4,29 tons/ha; however, compared to the previous season, the area planted to maize increased by 9,7% during the 2007/08 season. The final maize production estimate for 2007/08 is 12,0 million tons which is 3,7% higher than the previous forecast of 11,6 million tons and a robust 68,7% more than the 2006/07 final crop – mainly due to expected higher yields this season. The area planted to **white maize** is 1,737 million ha and for **yellow maize** is 1,062 million ha for the 2007/08 season. The production estimate for white maize for the 2007/08 season is 7,1 million tons, a 64,5% increase from the previous season, while the estimate for yellow maize is 4,9 million tons, an increase of 75,5% from 2006/07. **Sunflower seed** recorded the best performance this season with the area planted estimated at 564 300ha (a 78,4% increase from 316 350ha during 2006/07) and with the 2007/08 final production estimate nearly tripling at 885 560 tons (a 195,2% increase from 300 000 tons last season). The final **soybeans** production is estimated is 308 295 tons - a downward adjustment of 4,5% from 322 995 in the previous forecast - after consideration was taken of SAGIS producer retentions and on-farm consumption (producer deliveries). Despite the 13,7% and 9,6% declines in area planted to dry beans and soybeans, respectively, during the 2007/08 season compared to the 2006/07 season, dry beans and soybean production is expected to increase by 49,1% and 50,4% respectively, this season – implying a much improved yield per hectare compared to the previous season. The USDA estimates are

TABLE 9: Area and final production estimate of summer crops for the: 2007/08 Season

Crop	Area planted 2007/08	Area planted 2006/07	% Change	Final Estimate 2007/08	Final Crop 2006/07	% Change
	Ha	Ha		Tons	Tons	
White maize	1 737 000	1 624 800	6,9	7 098 250	4 315 000	64,5
Yellow maize	1 062 000	927 000	14,6	4 922 900	2 810 000	75,2
Maize	2 799 000	2 551 800	9,7	12 021 150	7 125 000	68,7
Sunflower seed	564 300	316 350	78,4	885 560	300 000	195,2
Soya-beans	165 400	183 000	-9,6	308 295	205 000	50,4
Groundnuts	54 200	40 770	32,9	85 360	58 000	47,2
Sorghum	86 800	69 000	25,8	260 425	176 000	48,0
Dry beans	43 800	50 725	-13,7	58 975	39 545	49,1
TOTAL	**3 713 500**	**3 211 645**	**15,6**	**13 619 765**	**7 903 545**	**72,3**

Source: Directorate Agricultural Statistics

that South Africa will have 2,1 million tons of maize available for exports, during the 2008/09 marketing year. Based on the bumper crop in South Africa, FAO estimates a lower cereal import requirement for the sub-region as a whole in the 2008/09 marketing year compared to 2007/08. Production budget estimates for the coming maize production season, starting in October 2008 indicate that production costs will increase by at least 50 percent. According to the Crop Estimates Committee, the area planted to maize in the **subsistence agricultural sector** is estimated at 497 980 ha, which represents an increase of 44,2% compared to the 345 266 ha in the previous season. **Table 10** summarises the important winter crops for the 2008 production season. The production estimate for wheat is 2,106 million tons - 3,7% lower than the previous forecast of 2,187 million tons and 10,6% higher than the 2007 final crop. The expected wheat production increased by 2,2% from 805 000 tons in the previous forecast for the Western Cape province, while the production forecast for the Free State declined by 13,7% from the previous forecast of 714 000 tons. The production forecasts for the other provinces remained unchanged. The production forecast for **malting barley and canola** increased by 10,5% and 5% respectively, from the previous estimates. The area estimate for canola was adjusted downward to 34 000 ha, with an expected yield of 1,0 t/ha.

6.3 Climatic and other conditions

The winter rainfall areas received normal to above-normal rainfall in July and maintained the near normal trend in August including parts of the Eastern Cape, while the remainder of the country was dry. The winter rainfall areas continued to experience good falls in September. In general, the western part of the country received good rainfall during the second half of winter season. **Levels of dams**: The levels of dams declined as compared to last quarter but still higher than last year this time in most summer rainfall areas. The dams over most winter rainfall areas continued to increase due to good rains received. **Crop conditions:** Above-normal rainfall conditions which were experienced in most winter rainfall areas led to favourable production conditions for wheat in the major producing areas of the Western Cape. Although unfavourable production conditions were experienced in the southern Cape and the inland wheat producing areas, the total expected yield for wheat crop is higher as compared to the previous

TABLE 10: Estimated plantings and third production forecast of winter crops for the 2008 season

Crop	Final crop 2007	Area Planted 2008	2nd forecast 2008	3rd forecast 2008	Change
	Tons (A)	Ha (B)	Tons (C)	Tons (D)	% (D) ÷ (C)
Wheat	1 905 000	748 000	2 186 500	2 106 000	-3,7
Malting barley	222 500	68 245	170 924	188 799	10,46
Canola	38 150	34 000	34 000	35 700	5,0
TOTAL	**2 165 650**	**850 245**	**2 391 424**	**2 330 499**	**-2,5**

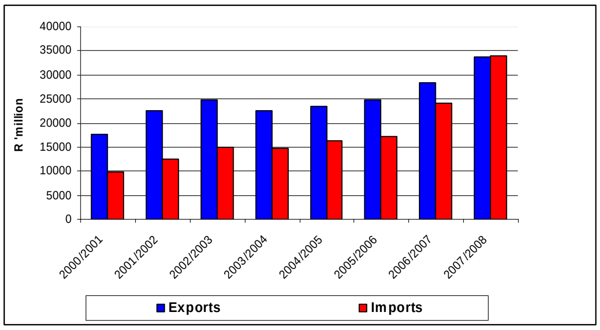
Source: Directorate Agricultural Statistics

season (Crop Estimate Committee media release, September). **Veld and Livestock condition:** Vegetation conditions are normal to below-normal throughout the country with much lower vegetation activity in the southern parts of the Western and Eastern Cape Provinces. Veldfires which were experienced in the summer rainfall areas worsened these conditions. These led to poor livestock conditions with reported mortalities in some areas. However, livestock is generally fair to good where additional fodder is supplied. **Forecast of rainfall and temperature:** Favourable rainfall conditions are most likely only over the Northern Cape Province whereas north-eastern and central parts are most likely to be dry in the first half of 2008/09 rainfall season. Wet conditions are only expected over the larger part of the country in the early 2009. Maximum temperatures are likely to become gradually lower towards early 2009. **SADC:** According to FEWS NET, food security conditions are generally satisfactory except in those areas of the region where crop production was compromised by unfavourable crop growing conditions. In general, and excluding Zimbabwe, many of the region's households still have adequate food stocks from this season's harvest. Food security and vulnerability assessments undertaken recently have confirmed that the majority of households will have adequate food over this consumption season mainly on account of the average to above average harvests realised. At the regional level, the current food security conditions are comparable to last year at the same time when the region's food crop production was also largely favourable. However, some localised areas have populations that are currently food insecure and require assistance.

6.4 Is South Africa becoming a net importer of food?

Since 2002 the South African economy has been recording a current account deficit, however, the current account's negative performance has been characterized by mixed results. During the first quarter of 2008, the current account deficit widened to 8,9% of GDP then fell back to 7,3% in the second quarter - standing at a near-record R14,3bn in July. In his 2008 budget speech, the Minister of Finance said "SA's greatest vulnerability is the widening gap between what the country exports and imports". The premise is that a large current account deficit may lead to a reliance on capital inflows, which may cause volatility in the exchange rate and an unstable pricing environment. The widening current account has been exacerbated by the electricity crisis, leading to declining output in mineral products - including gold, diamond and platinum - and also by the agricultural sector's declining export dominance (figure 5). Agriculture is one of the important earners of the country's foreign revenue, even though agriculture's contribution to SA's export earnings has declined from about 10% to an average of 8% recently. Agriculture's share of GDP declined from 7,1% in 1965 to 3,2% in 2007. Although agricultural contribution to GDP has been declining, SA remained a net exporter of agricultural products. However, for the first time in 20 years, agriculture registered a trade deficit of R353 million during 2007/08 from a R4,2 billion trade surplus the previous year - despite the escalation in income and value of agricultural exports compared to the previous years.

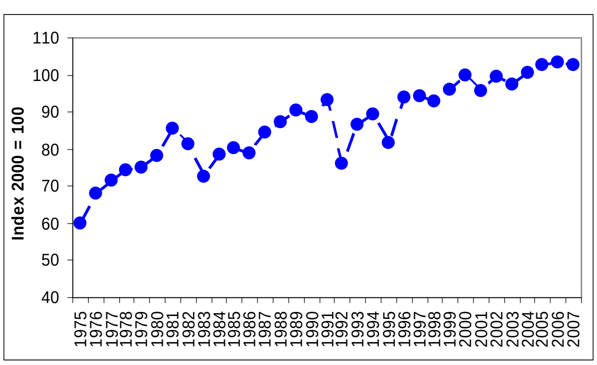
Figure 5: Agricultural trade values



Source: Directorate, Agricultural statistics

According to Sandrey R, 2007, agricultural imports in SA have grown faster than agricultural exports - more than doubling their share of total imports of goods and services into the country from 2,6% to 5,4% over the past two decades. Imports of agricultural products recorded a 16,1% growth rate compared to a 7% growth in export between 2000/01 and 2007/08. Although exports have declined relative to imports during 2007/08, agricultural production did not slow down in South Africa.

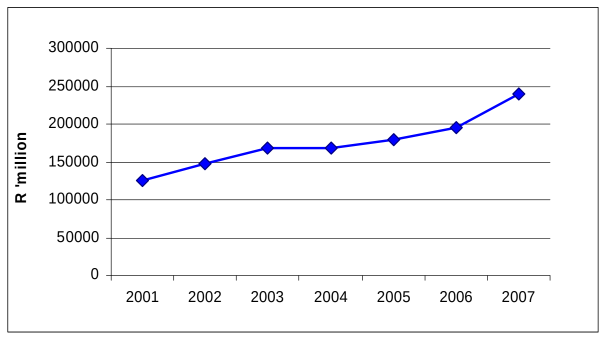
Figure 6: Volume of agricultural production



Source: Directorate, Agricultural statistics

Production has been growing at a rate of 1,93% during the period 1998 to 2007 and the estimated volume of agricultural production in 2007/08 was 8,2% higher than in 2006/2007. The increased imports have been driven by many factors, amongst others; increasing consumption levels. Consumption expenditure on food increased by 22% in 2007 compared to 2006, with an annual average growth rate of 11,5% between 2002 and 2007 (figure 7).

Figure 7: Consumptions expenditure on food



Source: Directorate, Agricultural statistics

Although rising food prices contributed to sharp increases in expenditure on food, the increase in consumption was also accelerated by the population growth, with the population estimated at approximately 48,7 million by mid-2008. Foreign nationals staying in SA have also increased, with the number of illegal immigrants now estimated at between 3 million and 5 million (Sidiropoulos E, 2008). These factors put a strain on domestic food supplies, leading to an increase in imports. There have also been reports of an increase in unrecorded trade between South Africa and Zimbabwe – due to food shortages in the latter – as Zimbabweans buy food stuffs in SA to take back to their home country. Imports of cereals, fats and oils, beverages, meat as well as food waste have accelerated in the country. Cereals have been the major contributor in terms of import value, contributing approximately 18% to the total value of imports - showing a 153,3% increase in cereal imports during 2007 compared to 2006. Fats and oil imports have also increased vastly by 167,8% compared to 2006, while imports of meat and beverages increased by 119,5% and 151,6% respectively, during 2007. Cereals have been driven mostly by wheat imports, with quantities of wheat imported increasing at a rate of 23,15% between 2001 and 2007. SA has a self sufficiency index of between 80% and 85% in wheat, and the shortfall is imported. However, wheat imports have increased by 13,7% in 2007/08 compared to 2006/2007. SA used to produce a surplus of wheat before 1990, but the area planted has steadily decreased and for the past three years SA has imported between 830 000 to 1,35 million tons of wheat per year. Large quantities of live animals are also reaching SA's shores due to increasing household income which has resulted in changes in consumer preferences. Sugar exports to the world have also recorded an average annual declining rate of 14,25% between 2001 and 2007. Cane growers' annual audited cost surveys illustrate that since 2003, they have incurred a shortfall between gross income and total cost which is expected to affect sugar production. Although the agricultural sector did not perform well in terms of exports during 2007/08, the USDA expects that SA will have more crop exports in the 2008/09 season. Interest has also been shown by investors from the Middle East, India and China in the SA farming industry which is expected to produce record crops this year - though there are other constraints to SA's agricultural export performance, which include subsidies offered by other countries and increased intermediate costs. There is a need to increase investment in agriculture and to maintain macroeconomic stability as agricultural trade is largely affected by the exchange rate. These, amongst other factors, might help the sector regain its strength as a net exporter.

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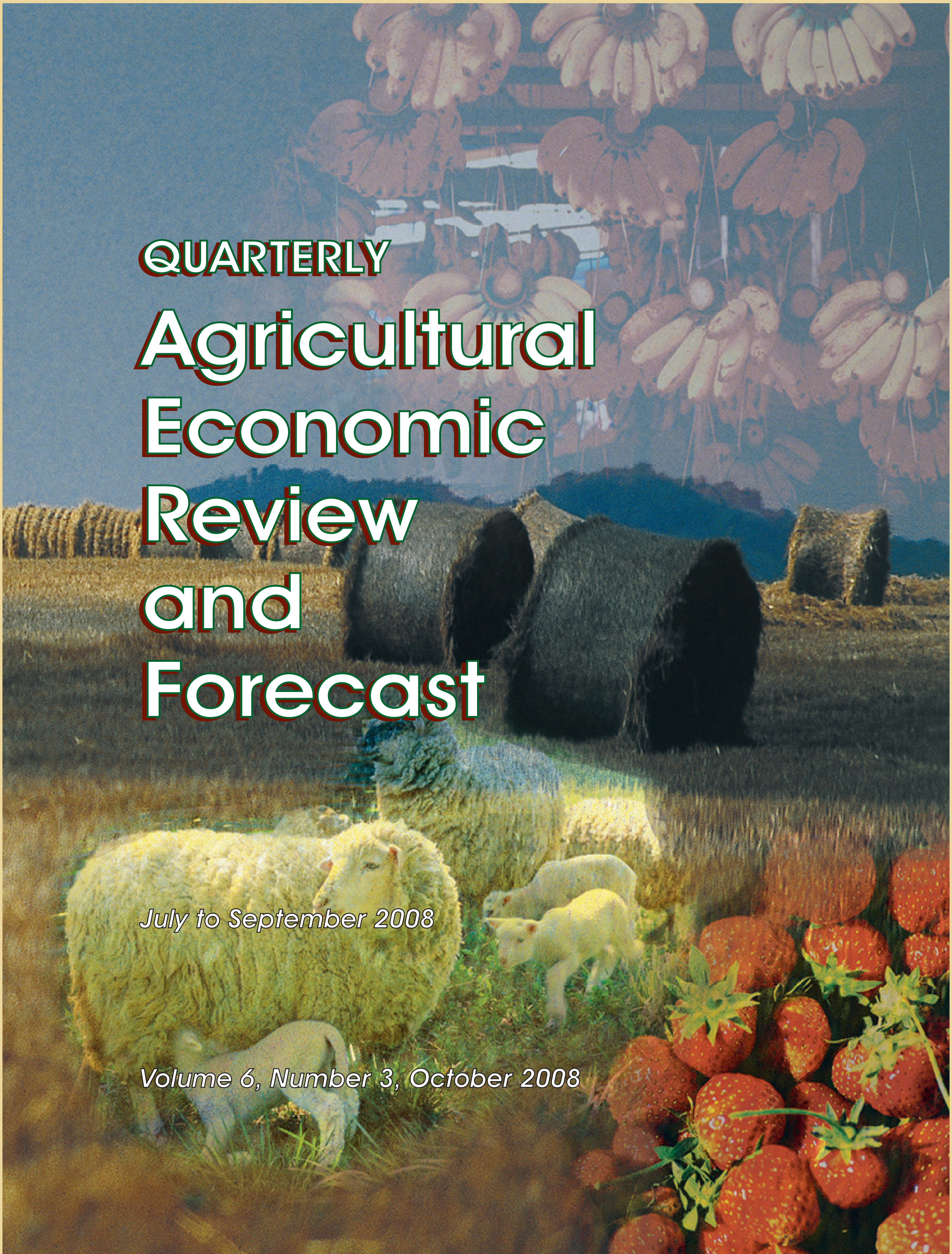
8. ACKNOWLEDEMENT OF INTERNAL (DOA) CONTRIBUTORS

Directorate: Risk Management: Climatic Conditions



QUARTERLY

Agricultural Economic Review and Forecast

July to September 2008

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REPUBLIC OF SOUTH AFRICA

PREFACE

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

This publication developed from a need within the Department of Agriculture (DoA) to be regularly informed on developments and expected economic trends in the agricultural sector. The quarterly report has now been established as a regular feature in the Directorate's work plan. Since the beginning of 2004 the report is also published for outside consumption to add value to a number of existing regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agricultural sector.

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

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

Mr D. du Toit
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October 2008
Pretoria

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1. WORLD ECONOMY

The **global economy** is set to slow significantly and the downside risks to the world economic outlook remain elevated. This reflects not just continued problems in the US and European financial sectors but also higher global inflationary pressures, which are eroding corporate competitiveness, cramping consumers' spending power and casting a shadow over growth prospects in many countries. Parts of emerging Asia, the Middle East and Eastern Europe look particularly vulnerable in this regard. Factors exerting upward pressure on prices include rising oil and food prices as well as spillovers from liquidity in the emerging economies, where foreign-exchange reserves continue to rise rapidly. After years of strong growth, the world economy is decelerating quickly. Global activity is being slowed by an extraordinary financial shock and by high energy and other commodity prices. Many advanced economies are close to or moving into a recession, while growth in emerging economies is also weakening. The financial crisis that first erupted with the US subprime mortgage collapse in August 2007 has deepened further in the past six months, entering into a tumultuous new phase in September. The impact has been felt across the global financial system, including the emerging markets to an increasing extent. Intensifying solvency concerns have led to emergency resolutions of major US and European financial institutions and have badly shaken business confidence. In response, the US and European authorities have taken extraordinary measures aimed at stabilizing markets, including massive liquidity provision, prompt intervention to resolve weak institutions, extension of deposit insurance, and recent US legislation to use public funds to purchase troubled assets from banks. However, the situation remains highly uncertain. Against this backdrop, the baseline growth projections have been marked down significantly relative to the July 2008 World Economic Outlook Update. On an average annual basis, global growth is expected to moderate from 5,0 percent in 2007 to 3,9 percent in 2008 and 3,0 percent in 2009, its slowest pace since 2002. The advanced economies would be in or close to recession towards the end of 2008 and early 2009, and the anticipated recovery later in 2009 will be exceptionally gradual. Growth in most emerging and developing economies would decelerate. Growth in the **Euro area** is also expected to moderate over the short term, largely as a result of financial stress and the adverse impact of trade spillovers taking effect. In both 2008 and 2009, output growth is expected to remain sluggish, but a moderate recovery is expected thereafter with GDP growth moving back to a trend like pace of 2%

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

Countries	2007	2008	2009	Countries	2007	2008	2009
World[1]	5,0	3,9	3,0	China	11,9	9,7	9,3
USA	2,0	1,6	0,1	India	9,3	7,9	6,9
Japan	2,1	0,7	0,5	Latin America	5,6	4,6	3,2
Euroland[2]	2,6	1,3	0,2	East-central Europe	5,7	4,5	3,4
ASEAN-4[3]	6,3	5,5	4,9	Sub-Saharan Africa	6,9	6,1	6,3

Source: IMF [1] *PPP* [2] *The 11 Euro countries* [3] *Indonesia, Thailand, Philippines and Malaysia* over the remainder of the forecast period. In 2008-09, the US, the euro zone and Japan are all expected to under-perform. Over the next 12 months the US economy is expected to experience a recession (in terms of the official definition of the National Bureau for Economic Research, which does not require two consecutive quarters of GDP contraction), and to recover only slowly in 2009, with expansion averaging just over 1% over the two years. The downturn in the housing market has much further to run and house prices will continue falling steeply. The negative impact of tighter credit conditions has elevated household debt-service ratios, and weaker confidence will also lead to a rise in the US household savings rate ensuring that private consumption remains a drag on growth in the short term. The acceleration in **inflation** poses a dilemma for policymakers globally, with many countries already being forced to keep monetary policy tighter than they would prefer against a background of slowing global growth. It is expected that the inflationary scare will fade over the next year as oil prices decline, but central banks will remain on the alert for fear that the earlier rise might still feed through to second-round effects. This concern is justified even if, as expected, commodity prices have peaked, as past commodity price rises may still feed through into inflationary expectations and wage inflation, particularly in emerging markets with weaker monetary policy credibility. There is an expectation of rate cuts in the euro zone in the second quarter of 2009. Contrary to market expectations, it is expected that the Federal Reserve (Fed, the US central bank) will cut interest rates by 50 basis points, with one 25-basis-point cut in the fourth quarter of 2008 and a further 25-basis-point cut in the first quarter of 2009(IMF, October 2008). **News events** that influenced the world economy: The world teetered on the brink of a stock market crash in September as news of collapsed Wall Street firms Lehman Brothers and Merrill Lynch filtered through, causing major losses at bourses around the world. The agricultural negotiation talks resumed at the World Trade Organisation (WTO) after they collapsed in July 2008 on a disagreement over developed countries Special Safeguard Mechanism (SSM)- a measure to protect farmers if they are faced with sudden surges of cheap farm imports. The Bank of England had its two day rate setting meeting in August against the backdrop of yet more statistics showing that Britain's economy was heading for a significant slowdown or even a recession. The G8 countries called for an effort to cool sizzling oil prices, warning that soaring fuel and food cost are a threat to world economic growth. Russia and China in July vetoed a western backed UN Security Council resolution to impose sanctions on Zimbabwe for holding a violent presidential poll that was boycotted by the opposition candidate Morgan Tsvangarai. Ahead of the critical WTO meeting on the 21st of July, pressure was mounting on developing countries as more focus has been given to Non – Agriculture Market Access (NAMA) commitments while developing countries feel that agriculture should be in the forefront of the agenda. Developing countries have been asked to make firm commitments before they have any clarity on the outcomes of the agricultural negotiations. European company investment, consumer spending and exports declined, painting an even bleaker picture for the domestic economy. *(Price Watch, 2008))*

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub-Saharan Africa – Economic Outlook

	2006	2007	2008	2009
Growth	6,6	6,9	6,1	5,3
Consumer Inflation	7,3	7,1	11,9	9,5
External Debt[1]	146,7	155,0	169,1	174,9
Current Account[2]	-0,3	3,0	-0,7	-2,4

Source: IMF [1]US $ billion [2]Percentage of GDP

Economic growth in sub-Saharan Africa (SSA) is expected to moderate in the face of the global financial turmoil and high energy and food prices, even though many SSA countries are benefiting from terms-of-trade gains resulting from the surge in other commodity prices. Overall, growth is expected to decline from near 7 percent in 2007 to just over 6 percent in 2008–09. Despite a weakening external environment, economic expansion in oil-exporting countries is expected to soften only moderately in 2008–09, with growth declining to about 7 percent from near 8 percent in 2007- owing to a near 75 percent improvement in the terms of trade in 2008. For oil importers, the terms of trade would remain broadly stable in 2008, with higher oil prices offset by higher export prices for metals, coffee, cocoa, and cotton. However, ten oil importers stand to benefit from higher prices for metals (Botswana, Ghana, Guinea, Kenya, Mozambique, Senegal, South Africa, Togo, Uganda, and Zambia), while Benin, The Gambia, Kenya, Madagascar, Rwanda, and Sierra Leone are projected to experience 15–20 percent deterioration in the terms of trade. **Real GDP growth** in Sub-Saharan Africa is expected to slow to 6,1% in 2008, compared to the 6,9% in 2007. IMF expects growth to slow further to 5,3% in 2009 as the impact of recent monetary policy tightening and the effects of slower growth in the US and the rest of the world take their full toll on Asia's export-orientated economies. However, given the current problems facing the world economy - including the slowdown in growth across the industrialised nations, the fallout from the sub-prime lending crisis and higher inflation - this would represent a very respectable performance. Unsurprisingly, the oil producers in the region - Angola, Equatorial Guinea and Nigeria - are expected to be the fastest-growing Sub-Saharan economies, especially in 2008 (although "recovery" economies like the DRC, Ethiopia, Mozambique and Tanzania will also perform strongly). The range of growth among individual countries will vary widely by 'between' 5% to 22%. In the Southern African Development Community **(SADC**) region, growth is expected to reach a low average of 5,4% in 2008 and 4,9% in 2009, following growth of 6,6% in 2007. Of the four sub-regions in the sub-Saharan Africa, growth is expected to be stronger in **Central and West Africa,** at 6,3% in 2008 and 6,6% in 2009. In the case of **East Africa**, it is expected that sub regional growth will dip to 5,9% in 2008, picking up slightly to 6% in 2009. This reflects an expected slowdown in Kenya - the largest economy in the region - where real GDP growth is expected to subside to 4,1% in 2008 from 7% in 2007. **Franc Zone**: Growth continues to remain lowest in the Franc Zone, at 4,7% in 2008, declining to 4,5% in 2009. Growth in Cameroon and Gabon – two of the largest economies in the region – is forecasted to remain relatively low. Despite the sharp rise in commodity prices, Cameroon's real GDP has grown only by an average of 2,6% in the past three years, owing to increased competition from low-cost Asian manufacturing producers, under-execution of the investment budget and a difficult business operating environment. **External debt:** Despite the debt write-offs delivered in late 2006, the need for further high levels of financing for African countries will remain pressing in the coming years, and the debt stock in Sub-Saharan Africa will rise in 2008-09, to end the forecast period at $174,9bn. **African governance**: Countries in the modern world are responsible for the delivery of essential political goods to their inhabitants. The essential political goods can be summarized and gathered under five categories: Safety and Security, Rule of Law, Transparency and Corruption, Participation and Human Rights, Sustainable Economic Opportunity and Human Development. Together, these five categories of political goods epitomize the performance of any government at any level. No one - whether looking to his/her village, municipality, province, state or nation - willingly wants to be victimized by crime or to live in a society without laws, freedom and the chance to prosper, or access to decent schools, well-run hospitals, and well-maintained roads. The 2008 Index shows clearly that Liberia is the "most improved" in terms of governance performance over the last two index years (2005 and 2006), as shown by a more than 10 point improvement in its score. This is largely due to its dramatic improvement in the area of Participation and Human Rights, as well as modest improvements in Security, Sustainable Economic Opportunity and Human Development. Burundi is the second most-improved country, thanks to improvements in all categories and especially in Participation and Human Rights. Uganda, Guinea-Bissau, Madagascar, the Comoros, Burkina Faso, Swaziland, and Djibouti, among others, have also demonstrated upward gains in their overall scores. Mauritania, followed by Chad, has notably slipped the most in terms of their scores. Using the difference between 2002 and the latest index year (2006) as a measure; Burundi, Liberia, Angola, and Rwanda were the most improved while Mauritania and Chad were the worst performers. **Consumer inflation:** Over the past 20 months the world economy has been hit by two huge shocks: the global credit crunch and the rapid rise in commodity prices. So far, at least, Sub-Saharan Africa has escaped the worst effects of the former. However, the impact of rising commodity prices (notably of oil and food) has been much more serious, leading to a rapid rise in inflation and in turn resulting in weaker exchange rates in a number of countries which has further aggravated inflationary pressures. Rapidly accelerating consumer price inflation is now the biggest economic concern facing the region. The problem could hardly have come at a worse time for economic policymakers, amid fears over the extent and impact of the global slow-down on Africa's export-dependent economies. Rising inflationary pressures are reflected in the latest forecasts, which show average inflation for sub-Saharan Africa - once again excluding Angola, the DRC and Zimbabwe - reaching a high of 10,3% in 2008 compared with 6,4% in 2007, before falling to 7,4% in 2009. Within the four sub-regions, inflation continues to remain the lowest in the Franc Zone. In some ways this is the positive side of the fixed exchange-rate regime and the appreciation of the euro against the US dollar, which has helped to suppress imported inflation, notably the cost of petroleum imports at a time of high global oil prices. In addition, it also reflects the good performance of the agricultural sector in many countries in the sub region in recent years. As with nearly all Sub-Saharan African countries, food prices form the major component of the consumer price index. A **current-account** surplus, capital inflows and a sharp rise in reserves will help the region to strengthen its external accounts in 2008. However, falling commodity prices and the global economic slowdown will return the current account to a deficit in 2009, and the financing requirement will remain a source of concern (EIU, Q3 2008). **News events** that influenced the SSA economy**:** President Robert Mugabe and opposition rivals deadlocked on the allocation of ministers that would pave the way for cabinet appointments. The plan to merge 26 Eastern and Southern African states into a single trading bloc has been completed, ready for heads of states to sign. The SADC launched a free trade area in August as part of ongoing efforts to deepen long-term regional integration and members will be exempted from 85% tariffs, with the aim of launching a 100% free trade area by 2012. Angola - one of the only two OPEC members from sub-Saharan Africa - is set to export a record 1,98 million barrels of crude oil per day in October as production from established oil field stabilised. The Zambian government has promised to maintain its prudent macroeconomic policies following the death of the country's president Levy Mwanawasa. *(Price Watch, 2008)*

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008*	2009*
Growth	5,0	4,9	3,2	3,0
Consumer Inflation[1]	4,6	6,5	11,4	8,1
Exchange rate[2]	6,97	7,10	8,45	8,75
Interest rate (Prime)[3]	11,5	13,2	16,00	15,08

Source: BER [1] CPIX [2] *End of year* [3] *Yearly Average*

Despite the recent spate of industrial action, worse than expected inflation figures and higher interest rates, the Bureau for Economic Research (BER) came out with an upbeat economic forecast for the third quarter. Upgrading its forecast for South Africa's real gross domestic product (GDP) growth over the short term, the BER projected strong fixed investment growth, robust exports and continued employment growth in the third quarter. South Africa's **inflation rate** continued to rise in the third quarter of 2008, owing to higher food and oil prices as well as the rise in electricity tariffs, reaching a new high of 13,6% year-on- year in August. However, inflation is said to be at or near its peak and is likely to decline gently during the remainder of 2008, helped by weaker global oil prices. The current projection for average inflation in 2008 is 11,4%. Inflation is set to ease gradually to 8,1% in 2009, helped by more stable food and oil prices and by the planned introduction of a new, re-weighted consumer price index in January 2009. The new benchmark (no longer to be called CPIX) allots a smaller share to food and energy prices and may lead to lower inflation, although there are many uncertain variables. Inflation is expected to drop below the official 6% threshold some time between mid-2009 and mid-2010. The South African Reserve Bank has opted not to change the **repo rate** (the rate at which it lends money to commercial banks) in their monetary policy meeting in August. Accordingly, the repo rate remained unchanged at 12 percent per annum. According to the governor, the committee had considered recent developments in the South African economy and the risks to the inflation outlook against the backdrop of conditions prevailing in the international financial markets. Developments in the international markets have already had a negative impact on growth in a number of regions, and global growth forecasts are being revised further down, particularly in the Organization for Economic Co-operation and Developing (OECD) countries. The continuing crisis has led to a generally more accommodative monetary policy stance in a number of countries, with some governments and central banks taking unprecedented steps to help stabilize the situation. The slowing world economy was also likely to have an adverse effect on domestic growth prospects. At this stage it is unclear how the crisis will unfold, but heightened risk and uncertainty are likely to persist for some time. **Economic growth** is expected to slow to 3,0% in 2009, from a projected 3,2% in 2008 owing to power shortages, weak household demand and a global downturn, before rebounding to 5,3% in 2010, helped by the hosting of the soccer World Cup. Manufacturing will gain from a weaker rand but suffer from slowing global growth and power constraints. Electricity supplies are likely to remain tight in 2009-10 owing to the long lead times in commissioning new plants, which will continue to constrain energy-intensive industries and mining in particular. Employment opportunities are likely to expand and, in conjunction with declining interest rates, will give a boost to household consumption. The danger of South Africa losing the staging of the World Cup for not being ready seems remote, although some transport and power bottlenecks will persist and crime may deter tourists. **Consumer spending:** South Africa's retail sales fell 4,6% year-on-year in July, due to continued pressure on consumer spending from interest rate hikes. According to Statistics South Africa, the annual drop in sales followed a 1,5% fall in June, bringing the annualised decline for the past three months to 3,4%. Year-on-year sales have dropped for three consecutive months. Consumer spending has cooled sharply in 2008, weighed down by a series of interest rate hikes since June 2006 as the central bank tried to tame inflation. The repo rate rose five percentage points over two years, but was left steady at 12% this quarter, partly because of concerns about easing demand. Analysts believed that the data showed consumers were struggling and that there was little scope for further monetary policy tightening. According to Nedbank economist, Nicky Weimar, the credit numbers, the defaults in the banking system and the combined effects of high prices, high interest rates and fairly high levels of debt tell the story of pressure on the consumers. South Africa's central bank has been caught between record high consumer inflation and slowing demand, highlighted by tumbling new vehicle and falling retail sales. **Current account deficit:** It is expected that export and import growth will be fairly robust in 2008, based on first-half data, but the shortfall on merchandise trade and the far larger gap on non-merchandise (invisible) trade, will push the current-account deficit to 7,7% of GDP. Exports and imports are likely to retreat in 2009, at least in US-dollar terms, because of the depreciation of the rand. Exports will also suffer from faltering demand in key export markets as rich-country economies edge near recession, although the weaker rand will offer some help. Imports will be constrained by the slowdown in GDP growth, but demand for investment goods will remain strong. Slippage in key commodity prices (gold and platinum for exports, and oil for imports) will serve as an additional dampener. Exports and imports are likely to resume growing in 2010, in line with the pick-up in global and domestic growth. The deficit on the services and income accounts will persist, as service outflows and income payments abroad (especially to portfolio investors) continue to offset receipts from tourism and earnings by South African investors in external markets. Nevertheless, tourism inflows will gain a significant boost from the 2010 World Cup. The deficit on the current transfers account will remain significant and the overall current-account deficit is expected to widen to 8,1% of GDP in 2009, before edging down to 7,9% of GDP in 2010(EIU, Q3 2008). The **rand** has been characteristically volatile in 2008 within the context of a depreciating trend, owing to the uncertain global economic outlook, weaker domestic growth prospects and the large current-account deficit, and this is likely to be repeated in 2009. The rand slipped to R8,03 against the dollar in September (13% weaker year-on-year), in line with the global turmoil and declining confidence in emerging-market assets. Official assurances over policy continuity and relatively solid fundamentals (including near-record levels of foreign exchange reserves) should preclude major instability, although sharp daily swings will remain common, as the rand is widely traded and influenced by many factors. The rand is expected to stay close to the current level, on a monthly basis, for the remainder of 2008 and to average R8,45 to the dollar for the full year. Further depreciation is expected in 2009-10, and the rand is expected to average R8,75 to the dollar in 2009 and R8,55 to the dollar in 2010 (EIU, Q3 2008). **News events:** The SARB governor said SA's inflation outlook remains disappointing and the central bank will consider the necessary steps to bring it within the target range. SA's current account deficit narrowed to 7,3% of GDP partly due to the second quarter rebound of portfolio inflows following the first quarter outflows. SA has signed an agreement with Venezuela - the biggest oil exporter in the western hemisphere - to increase energy cooperation, as the two countries strengthen ties. According to the latest survey by the Bureau for Economic Research (BER), confidence levels in the manufacturing sector fell to a nine year low during the third quarter of 2008. Kgalema Motlanthe was sworn in as SA's interim president on the 25th of September, declaring that he would not change government policies, following President Thabo Mbeki's resignation. The Eastern Cape Department of Agriculture reported that Queenstown has been hit by an outbreak of Newcastle poultry disease. The chamber of mines said COSATU's national strike against rising food, fuel and electricity prices was counter productive and economists warned that the mass action would damage SA's image. Toyota, the world's second largest car maker, reported the biggest drop in profit in five years as US sales of sport utility vehicles and bakkies plunged. The SARB's monetary policy committee decided to leave the repo rate unchanged during its August meeting, however, Tito Mboweni warned consumers not to be complacent as inflation is still outside the target range. Reports indicate that SA banks are feeling the effects of previous repo rate increases over the past two years as the number of defaults have increased substantially – ABSA announced its bad debts had increased by 129% to R3 billion, forecasting that the figures will worsen to around R4 – R5 billion. In July, President Thabo Mbeki strongly defended his administration's economic policies, crediting SA's budget surplus and inflation targeting with having cushioned the economy from the worst of the financial turbulence that has caused havoc around the world. *(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	8,1
	Standard Bank	11,6	7,8
	Absa	10,9	7,8
	Average	11,3	7,9

BER - Bureau for Economic Research

Recent trends: Inflation surprised on the upside again in August coming in higher than expected at 13,6% - this is the 17th month running that targeted inflation rate has been above the 6% upper limit of the target range. The **CPIX inflation** rate surged to 13,6% in August from 13% in July driven mainly by food and electricity prices. Food prices rose by 19,2% year-on-year in August from 18,5% year-on-year in July as prices of grains, meat, and vegetables continued their upward trend. Local grain price inflation increased by 36,5% year-on-year while meat price inflation rose to 11,8% year-on-year. During August, electricity prices increased by 4% month-on-month following the announcement of a 27,5% increase in electricity tariffs by NERSA in July. The **headline CPI** annual inflation also continued to rise, increasing to 13,7% year-on-year in August from 13,4% year-on-year in July. **PPI** inflation accelerated to 19,1% year-on-year from 18,9% y/y in July - this represents a 0,5% month-on-month increase. The main contributors to the 0,5% increase were basic metals, electricity prices, prices of chemicals and chemical products, non-metallic mineral products, transport, and beverages. **Forecast:** CPIX inflation is likely to average 11,3% for 2008. Due to a slowdown in consumer spending, falling fuel prices, and the introduction of the new inflation methodology, most analysts expect the inflation rate to decline in the next few months. However, rising rental costs may drive up inflation next year as expensive mortgages and tighter credit conditions increase the demand for rental accommodation. The SARB has indicated in their August MPC meeting that it expected CPIX inflation to return within the target range in the third quarter of 2009 depending on the re-weighting and rebasing of the inflation target. The BER projects CPIX inflation to average 11,4% in 2008, decreasing to 8,1% in 2009. Absa and Standard Bank projections for CPIX inflation for 2008 are 10,9% and 11,6% respectively, both with expectations that the 2009 CPIX inflation will slow down to 7,8%. **Impact on agriculture:** The upward inflation trend will continue to raise input costs for farmers which will ultimately be passed along to consumers. High inflation may also pose a risk for further interest rate hikes which negatively affect farmers who are financially indebted. However, high inflation has a good side for farmers who own the land, since it increases their wealth. With rising food prices being one of the driving forces behind rising inflation, farmers have so far benefited from high food prices though the benefit might not be sustained in the log-term as input prices escalate.

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	3,5	3,9
	Average	3,2	3,4

BER - Bureau for Economic Research

Recent Trends: The South African economy bounced back strongly in the second quarter defying most forecasts. GDP rose by 4,9% quarter-on-quarter, up from a sluggish 2,1% evidenced in the first quarter. Further momentum to GDP growth was added by strong growth in the agriculture, construction and transport industries. The agricultural sector grew up by an impressive 19,6% quarter-on-quarter as compared to the first quarter mainly on the back of a strong harvest of field crops. The construction sector growth was driven by strong fixed investment activity, dominated mainly by major infrastructure and capacity expansion projects of Eskom, Transnet and government. The transport and communication sectors also made a meaningful contribution to growth in land transport and communication services. In sharp contrast, the wholesale, retail and hotel as well as the finance and real estate sectors declined, mainly due to consumers' curb on spending as a reaction to rising prices and interest rates. **Forecast**: Growth is expected to slowdown in the second half of 2008 as industries servicing consumer markets such as trade and accommodation, finance and real estate and other parts of manufacturing continue to feel the effects of weak household demand. Most households are expected to further cut back on spending as their finances remain under pressure from high prices, interest rates and debt burdens. The financial, real estate and business services sector - South Africa's largest contributor to GDP - slowed sharply during the quarter, up only a sluggish 2,3%. Following domestic developments in 2008 which included the electricity crisis, xenophobia attacks on foreigners, political uncertainty, the Zimbabwe crisis, etc., business confidence index declined by a further 3 index points in the second quarter – the decline may suggest deterioration in growth to the first quarter level. Exports are also expected to perform badly this year as the global economic environment continues to deteriorate. On account of the above, BER expect GDP growth to slowdown from 5,1% in 2007 to 3,2% in 2008, before slowing further to 3% in 2009. On average, GDP is expected to decelerate from 5,1% in 2007 to 3,2% in 2008, before increasing again to 3,4% in 2009. **Impact on agriculture:** Even though the agricultural sector grew by an impressive 19,6% in the 2nd quarter, a prolonged global economic slowdown may affect agricultural exports and markets as international commodity prices continue to suffer downward pressures caused by the economic downturn. Again, a decline in oil prices will put a downward pressure on commodity prices which may have an unfavourable consequence for agriculture terms of trade.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2007		2008	2009
7,05	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: As a result of the uncertainties in the international financial markets, falling commodity prices and the strengthening of the US dollar, the South African rand has lost significant ground against major currencies, reaching a low of R10,03/ dollar during the 2nd week of October, its lowest level in more than five years. Concerns over global growth have led to investors becoming more risk averse, avoiding the rand. Before the onset of the current round of global financial market volatility, the rand was firm trading at an average of R7,64 and R7,62 against the US dollar in July and August respectively, before losing more of its value in September and October. **Forecast:** The local currency is set to weaken against the US dollar but to strengthen against the euro as the dollar rebounded from its lowest levels. Furthermore, analysts are speculating that capital inflows will not be enough to fund the current account deficit – this may cause the rand to depreciate even further. The currency is expected to average R7,97/ dollar in 2008, and R8,67/ dollar in 2009 according to BER forecasts. Forecasts from Standard bank indicates that the rand will average R7,85/ dollar for 2008, before it appreciates moderately to R7,80 in 2009 while ABSA forecasts a further depreciation of 4,5% to R8,28 in 2009 as compared to

2008. **Impact on agriculture:** A weaker currency reflects increased competitiveness of agricultural exports over the period, however, the current slowdown in global demand may counteract exports competitiveness in the medium-term resulting in market oversupply and declining commodity prices.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rate

2007		2008	2009
13,1	BER	15,3	15,7
	Standard Bank	15,3	15,6
	Absa	15,3	15,1
	Average	15,3	15,5

BER - Bureau for Economic Research

Recent trends: The South African Reserve Bank left interest rates unchanged during the October meeting despite record inflation and the threatening global credit crisis – this is the second consecutive meeting the decision was taken to leave interest rate unchanged. The repo rate remained at 12% while the prime overdraft rate also remained unchanged at 15,5%. The SARB did not join a round of rate cuts by central banks globally to try and ease the impact of the financial turmoil, with Reserve Bank Governor, Tito Mboweni, saying South Africa's financial system remained relatively stable. **Forecast:** The South African Reserve Bank's decision to leave interest rates unchanged was in line with most forecasts. At the October meeting, the MPC was upbeat about the inflation outlook pointing to a moderate improvement since the last meeting, although the peak was now slightly higher. On average, interest rates are expected to be around 15,3% in 2008 and 15,5% in 2009. **Impact on agriculture:** The decision to leave interest rates unchanged come as a relief in the short term for farmers who are battling with repaying their debts.

4.5 Employment

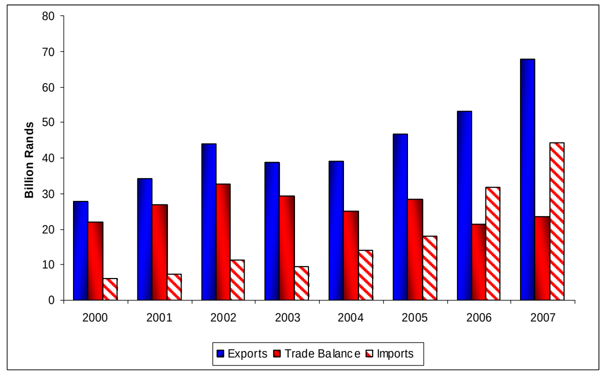
South Africa's unemployment rate declined from 23,5% in the first quarter to 23,1% in the second quarter of 2008. The number of people out of work dropped to 4,11 million from 4,19 million. Private sector employment which constitutes 79% of formal non-agricultural employment increased at 0,8% (an increase of 106 thousand – from 13,6 million to 13,7 million) higher than in the first quarter with the largest number of jobs created by the community and social services. This was largely on account of an expansion in formal sector employment from 9,3 million in the first quarter to 9,4 million in the second quarter of 2008. Sectors which added to an increase in the private sector employment were the construction, mining, financial, trade catering and accommodation services. Construction employment has been boosted by increasing activities in the sector as investment expenditure rose in recent quarters stimulating employment to an increase of 2,8% q-o-q in the second quarter. The mining sector benefited from the boom in commodity prices during the past few years, rising at 3,9% in q-o-q in employment. The transport sector recorded gains in employment of 0,7% q-o-q on account of larger investments in the sector as preparations for 2010 World Cup get underway, while employment in the community and social services, catering and accommodation services sector also remained robust, rising at 2,8%.

The utility sector recorded meaningful gains in employment with a rise of 6,7% q-o-q. The manufacturing sector experienced significant job losses largely in the informal sector, with employment declining by 7,8% q-o-q while no change in employment was recorded in the formal sector. Employment in the informal sector (non-agriculture) rose by 21 000 (0,9%). The number of people employed in the agricultural sector declined to 790 000 from 799 000 – a 9000 decrease. However, this decline is accompanied by growth in the percentage of workers within the sector who are more skilled – from 2,1% in 2002 to 5,5% in 2007. This shift in employment focus by farmers is an indication that farmers are spending their money on fewer workers who are presumably more highly skilled and on casual workers who account for a small portion of the agricultural wage bill.

5. INTERACTION BETWEEN SA AND AFRICA

African development and the promotion of economic and political integration of the continent have become major focal points of South African global economic strategy – this is demonstrated not only in the goals of NEPAD which include eradicating poverty and achieving sustainable growth and development on the continent, but also in increased trade flows between South Africa and its African partners. The value of total merchandise traded between South Africa and Africa increased from 27,9 billion in 2000 to 67,8 billion in 2007. This represent a nominal growth of 10,8% per annum over the period. Growth in South African imports from Africa also strengthened between 2000 and 2007, accelerating by an average of 31,7% annually (in nominal terms)

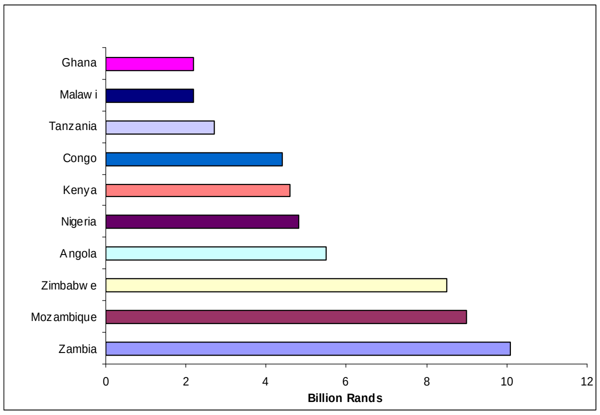
Figure 1: SA – Africa Trade



Source: Directorate, International Trade

over the period, to total more than R44 billion in 2007, from R6 billion in 2000. After a decline in South African exports to the region between 2003 and 2004, exports gained momentum, growing at an annual rate of 20,6% between 2005 and 2007. South Africa also succeeded in maintaining a fairly large trade surplus with the region. The largest trade surplus was experienced during 2002, however, after that the trade balance continued to contract as South African imports from Africa grew slightly faster than exports to Africa between 2003 and 2007. This reflects South Africa's greater integration with the African markets and benefits of trade liberalisation in the continent. South Africa's trade with Africa is more biased towards SADC countries, with more than 50% of the average value of South African imports from Africa originating from within SADC while approximately 66% of the total value of merchandise exports from South Africa is destined for SADC.

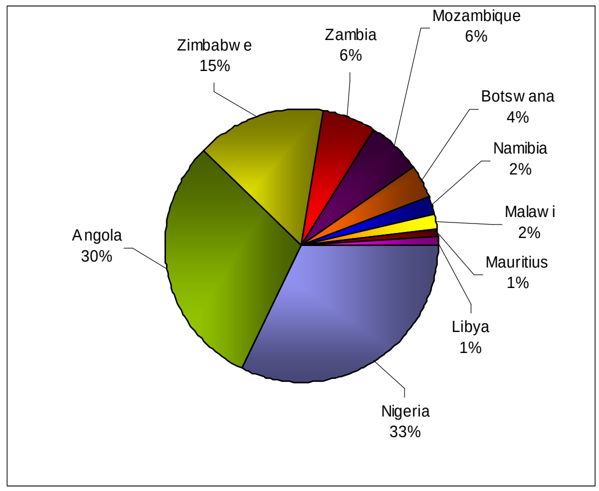
Figure 2: Top Destinations of SA Exports to Africa, 2007



Source: Directorate, International Trade

Approximately 60% of South African exports to Africa were destined to five countries: Zambia, Mozambique, Zimbabwe, Angola and Nigeria in 2007. Zambia alone accounted for almost 15% of the total African export value in 2007, while Mozambique and Zimbabwe accounted for 13,3% and 12,5% respectively. The largest sources of SA imports in 2007 were Nigeria, Angola, Zimbabwe, constituting 33%, 30%, and 15% of the total value of imports from Africa respectively. Increases in SA imports from Nigeria and Angola were due to increased crude oil imports from those countries. The movement of the rand has always been influential to South Africa's trade with Africa and the rest of the world. A sharp decline in the local currency experienced at the end of 2001 led to large increases in exports which saw South Africa's trade balance narrowing. Through 2003, the rand started to strengthen, which led to substantial decline in exports during the corresponding period. Like in any other country, the fluctuation of the local currency has a disruptive impact on trade flows and may also deter investment decisions associated with such trade flows. The South African Rand has an effect on external competitiveness of most African countries. This is based on the fact that some African currencies track the rand - any volatility in the SA rand has a contagion effect in their values against the major currency.

Figure 3: Top sources of South African Imports from Africa, 2007



Source: Directorate, International Trade

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

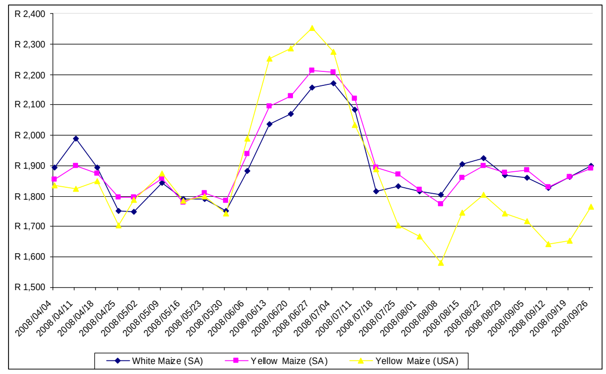
TABLE 8: Price of maize and wheat per ton

	End Sept 2007	End Sept 2008
White Maize price	R1 825	R1 822
Yellow Maize price	R1 926	R1 816
Wheat price	R3 320	R3 080
Sunflower price	R4 280	R3 960
Soybeans price	*R3 285*	R3 790

Source: Safex

Domestic grain prices have shown an average decline of 1,5% at the end of the third quarter 2008 compared to end of third quarter last year, only soybeans recorded a significant price increase of 15,4%. The global financial crisis has reduced speculative behaviour and demand for commodities, thus contributing to lower prices of food stuff, while declining oil prices have also contributed to the food price decline. The domestic price of **white maize** declined by 0,16% at the end of the third quarter 2008 compared to the same period last year, ending the quarter at R1 822/ton while the **yellow maize** price declined by 5,7% during the same period. Sagis expects an increase in exports of a bumper crop this year as more maize - than the annual domestic consumption of about 8 million - has already been harvested. **Wheat** prices also declined by 7,2% at the end of September 2008 compared to the same period last year, ending the quarter at R3 080/ton. **Soybeans** prices showed the best performance this quarter, due to tight global supplies, ending the quarter at R3 790/ton from last year's price of R3 285/ton. Domestic grains have been highly affected by the rand volatility. Risk aversion increased in the third quarter, resulting in an outflow of funds from SA's equity and bond markets. The collapse of major US banks increased uncertainty in the markets, leading to investors moving away from risky emerging markets. Domestically, the current political uncertainties rattled investors who are moving away from risky emerging markets causing further declines of the rand against major currencies.

Figure 4: Domestic and USA maize prices



Source: Safex

SA **white** and **yellow maize** prices followed the same trend locked largely within the R1 500 and R2 000 price range during the third quarter of 2008. Domestic grain prices declined for five consecutive weeks in the first half of the quarter, as the rand strengthened against the US dollar. Domestic maize prices fluctuated in the last half of the quarter, when the US dollar gained ground (following a downturn in the economy in July 2008). Floods in the US drove international maize prices upward, as crops were damaged in major maize and soybean growing areas putting pressure on supplies. The price of US **yellow maize** increased by 32,7% compared to last year, ending the third quarter at R1 679,20 per ton. The price of US **Soybeans** soared by 984,2% compared to end of third quarter last year due to tight supplies. US **Wheat** prices declined in the third quarter as wheat production and exports increased globally, worsened by falling oil prices and declining demand due to global economic slowdown. US Wheat prices declined by 28,4% quarter-on-quarter, ending at R2 040,70 end of September 2008.

6.2 Crop production and estimates

Table 9 summarises the final production estimates for the most important summer crops for the 2007/08 season. The estimates are based on inputs from the Department of Agriculture's sample of producers; the provincial Departments of Agriculture and the Grain Silo owners. The **total summer crop** estimation is 13,6 million tons, a 3% increase from the previous estimate of 13,2 million tons and a hefty 72,3% increase from last season's final crop. The area planted to **total maize** remained unchanged from the previous forecast at 2,8 million ha, with an expected yield of 4,29 tons/ha; however, compared to the previous season, the area planted to maize increased by 9,7% during the 2007/08 season. The final maize production estimate for 2007/08 is 12,0 million tons which is 3,7% higher than the previous forecast of 11,6 million tons and a robust 68,7% more than the 2006/07 final crop – mainly due to expected higher yields this season. The area planted to **white maize** is 1,737 million ha and for **yellow maize** is 1,062 million ha for the 2007/08 season. The production estimate for white maize for the 2007/08 season is 7,1 million tons, a 64,5% increase from the previous season, while the estimate for yellow maize is 4,9 million tons, an increase of 75,5% from 2006/07. **Sunflower seed** recorded the best performance this season with the area planted estimated at 564 300ha (a 78,4% increase from 316 350ha during 2006/07) and with the 2007/08 final production estimate nearly tripling at 885 560 tons (a 195,2% increase from 300 000 tons last season). The final **soybeans** production is estimated is 308 295 tons - a downward adjustment of 4,5% from 322 995 in the previous forecast - after consideration was taken of SAGIS producer retentions and on-farm consumption (producer deliveries). Despite the 13,7% and 9,6% declines in area planted to dry beans and soybeans, respectively, during the 2007/08 season compared to the 2006/07 season, dry beans and soybean production is expected to increase by 49,1% and 50,4% respectively, this season – implying a much improved yield per hectare compared to the previous season. The USDA estimates are

TABLE 9: Area and final production estimate of summer crops for the: 2007/08 Season

Crop	Area planted 2007/08	Area planted 2006/07	% Change	Final Estimate 2007/08	Final Crop 2006/07	% Change
	Ha	Ha		Tons	Tons	
White maize	1 737 000	1 624 800	6,9	7 098 250	4 315 000	64,5
Yellow maize	1 062 000	927 000	14,6	4 922 900	2 810 000	75,2
Maize	2 799 000	2 551 800	9,7	12 021 150	7 125 000	68,7
Sunflower seed	564 300	316 350	78,4	885 560	300 000	195,2
Soya-beans	165 400	183 000	-9,6	308 295	205 000	50,4
Groundnuts	54 200	40 770	32,9	85 360	58 000	47,2
Sorghum	86 800	69 000	25,8	260 425	176 000	48,0
Dry beans	43 800	50 725	-13,7	58 975	39 545	49,1
TOTAL	**3 713 500**	**3 211 645**	**15,6**	**13 619 765**	**7 903 545**	**72,3**

Source: Directorate Agricultural Statistics

that South Africa will have 2,1 million tons of maize available for exports, during the 2008/09 marketing year. Based on the bumper crop in South Africa, FAO estimates a lower cereal import requirement for the sub-region as a whole in the 2008/09 marketing year compared to 2007/08. Production budget estimates for the coming maize production season, starting in October 2008 indicate that production costs will increase by at least 50 percent. According to the Crop Estimates Committee, the area planted to maize in the **subsistence agricultural sector** is estimated at 497 980 ha, which represents an increase of 44,2% compared to the 345 266 ha in the previous season. **Table 10** summarises the important winter crops for the 2008 production season. The production estimate for wheat is 2,106 million tons - 3,7% lower than the previous forecast of 2,187 million tons and 10,6% higher than the 2007 final crop. The expected wheat production increased by 2,2% from 805 000 tons in the previous forecast for the Western Cape province, while the production forecast for the Free State declined by 13,7% from the previous forecast of 714 000 tons. The production forecasts for the other provinces remained unchanged. The production forecast for **malting barley and canola** increased by 10,5% and 5% respectively, from the previous estimates. The area estimate for canola was adjusted downward to 34 000 ha, with an expected yield of 1,0 t/ha.

6.3 Climatic and other conditions

The winter rainfall areas received normal to above-normal rainfall in July and maintained the near normal trend in August including parts of the Eastern Cape, while the remainder of the country was dry. The winter rainfall areas continued to experience good falls in September. In general, the western part of the country received good rainfall during the second half of winter season. **Levels of dams**: The levels of dams declined as compared to last quarter but still higher than last year this time in most summer rainfall areas. The dams over most winter rainfall areas continued to increase due to good rains received. **Crop conditions:** Above-normal rainfall conditions which were experienced in most winter rainfall areas led to favourable production conditions for wheat in the major producing areas of the Western Cape. Although unfavourable production conditions were experienced in the southern Cape and the inland wheat producing areas, the total expected yield for wheat crop is higher as compared to the previous

TABLE 10: Estimated plantings and third production forecast of winter crops for the 2008 season

Crop	Final crop 2007	Area Planted 2008	2nd forecast 2008	3rd forecast 2008	Change
	Tons (A)	Ha (B)	Tons (C)	Tons (D)	% (D) ÷ (C)
Wheat	1 905 000	748 000	2 186 500	2 106 000	-3,7
Malting barley	222 500	68 245	170 924	188 799	10,46
Canola	38 150	34 000	34 000	35 700	5,0
TOTAL	**2 165 650**	**850 245**	**2 391 424**	**2 330 499**	**-2,5**

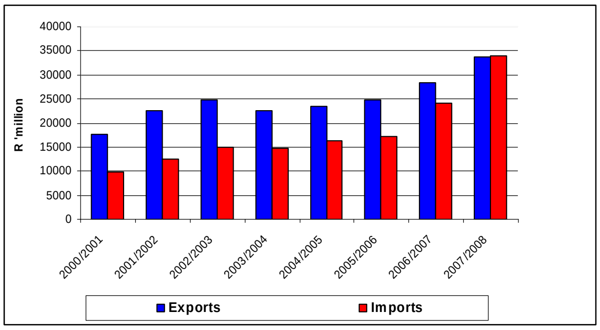
Source: Directorate Agricultural Statistics

season (Crop Estimate Committee media release, September). **Veld and Livestock condition:** Vegetation conditions are normal to below-normal throughout the country with much lower vegetation activity in the southern parts of the Western and Eastern Cape Provinces. Veldfires which were experienced in the summer rainfall areas worsened these conditions. These led to poor livestock conditions with reported mortalities in some areas. However, livestock is generally fair to good where additional fodder is supplied. **Forecast of rainfall and temperature:** Favourable rainfall conditions are most likely only over the Northern Cape Province whereas north-eastern and central parts are most likely to be dry in the first half of 2008/09 rainfall season. Wet conditions are only expected over the larger part of the country in the early 2009. Maximum temperatures are likely to become gradually lower towards early 2009. **SADC:** According to FEWS NET, food security conditions are generally satisfactory except in those areas of the region where crop production was compromised by unfavourable crop growing conditions. In general, and excluding Zimbabwe, many of the region's households still have adequate food stocks from this season's harvest. Food security and vulnerability assessments undertaken recently have confirmed that the majority of households will have adequate food over this consumption season mainly on account of the average to above average harvests realised. At the regional level, the current food security conditions are comparable to last year at the same time when the region's food crop production was also largely favourable. However, some localised areas have populations that are currently food insecure and require assistance.

6.4 Is South Africa becoming a net importer of food?

Since 2002 the South African economy has been recording a current account deficit, however, the current account's negative performance has been characterized by mixed results. During the first quarter of 2008, the current account deficit widened to 8,9% of GDP then fell back to 7,3% in the second quarter - standing at a near-record R14,3bn in July. In his 2008 budget speech, the Minister of Finance said "SA's greatest vulnerability is the widening gap between what the country exports and imports". The premise is that a large current account deficit may lead to a reliance on capital inflows, which may cause volatility in the exchange rate and an unstable pricing environment. The widening current account has been exacerbated by the electricity crisis, leading to declining output in mineral products - including gold, diamond and platinum - and also by the agricultural sector's declining export dominance (figure 5). Agriculture is one of the important earners of the country's foreign revenue, even though agriculture's contribution to SA's export earnings has declined from about 10% to an average of 8% recently. Agriculture's share of GDP declined from 7,1% in 1965 to 3,2% in 2007. Although agricultural contribution to GDP has been declining, SA remained a net exporter of agricultural products. However, for the first time in 20 years, agriculture registered a trade deficit of R353 million during 2007/08 from a R4,2 billion trade surplus the previous year - despite the escalation in income and value of agricultural exports compared to the previous years.

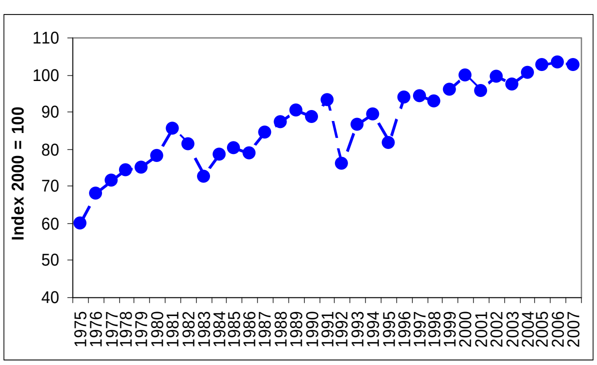
Figure 5: Agricultural trade values



Source: Directorate, Agricultural statistics

According to Sandrey R, 2007, agricultural imports in SA have grown faster than agricultural exports - more than doubling their share of total imports of goods and services into the country from 2,6% to 5,4% over the past two decades. Imports of agricultural products recorded a 16,1% growth rate compared to a 7% growth in export between 2000/01 and 2007/08. Although exports have declined relative to imports during 2007/08, agricultural production did not slow down in South Africa.

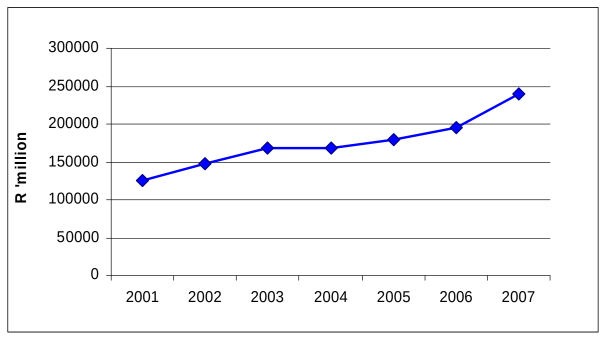
Figure 6: Volume of agricultural production



Source: Directorate, Agricultural statistics

Production has been growing at a rate of 1,93% during the period 1998 to 2007 and the estimated volume of agricultural production in 2007/08 was 8,2% higher than in 2006/2007. The increased imports have been driven by many factors, amongst others; increasing consumption levels. Consumption expenditure on food increased by 22% in 2007 compared to 2006, with an annual average growth rate of 11,5% between 2002 and 2007 (figure 7).

Figure 7: Consumptions expenditure on food



Source: Directorate, Agricultural statistics

Although rising food prices contributed to sharp increases in expenditure on food, the increase in consumption was also accelerated by the population growth, with the population estimated at approximately 48,7 million by mid-2008. Foreign nationals staying in SA have also increased, with the number of illegal immigrants now estimated at between 3 million and 5 million (Sidiropoulos E, 2008). These factors put a strain on domestic food supplies, leading to an increase in imports. There have also been reports of an increase in unrecorded trade between South Africa and Zimbabwe – due to food shortages in the latter – as Zimbabweans buy food stuffs in SA to take back to their home country. Imports of cereals, fats and oils, beverages, meat as well as food waste have accelerated in the country. Cereals have been the major contributor in terms of import value, contributing approximately 18% to the total value of imports - showing a 153,3% increase in cereal imports during 2007 compared to 2006. Fats and oil imports have also increased vastly by 167,8% compared to 2006, while imports of meat and beverages increased by 119,5% and 151,6% respectively, during 2007. Cereals have been driven mostly by wheat imports, with quantities of wheat imported increasing at a rate of 23,15% between 2001 and 2007. SA has a self sufficiency index of between 80% and 85% in wheat, and the shortfall is imported. However, wheat imports have increased by 13,7% in 2007/08 compared to 2006/2007. SA used to produce a surplus of wheat before 1990, but the area planted has steadily decreased and for the past three years SA has imported between 830 000 to 1,35 million tons of wheat per year. Large quantities of live animals are also reaching SA's shores due to increasing household income which has resulted in changes in consumer preferences. Sugar exports to the world have also recorded an average annual declining rate of 14,25% between 2001 and 2007. Cane growers' annual audited cost surveys illustrate that since 2003, they have incurred a shortfall between gross income and total cost which is expected to affect sugar production. Although the agricultural sector did not perform well in terms of exports during 2007/08, the USDA expects that SA will have more crop exports in the 2008/09 season. Interest has also been shown by investors from the Middle East, India and China in the SA farming industry which is expected to produce record crops this year - though there are other constraints to SA's agricultural export performance, which include subsidies offered by other countries and increased intermediate costs. There is a need to increase investment in agriculture and to maintain macroeconomic stability as agricultural trade is largely affected by the exchange rate. These, amongst other factors, might help the sector regain its strength as a net exporter.

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