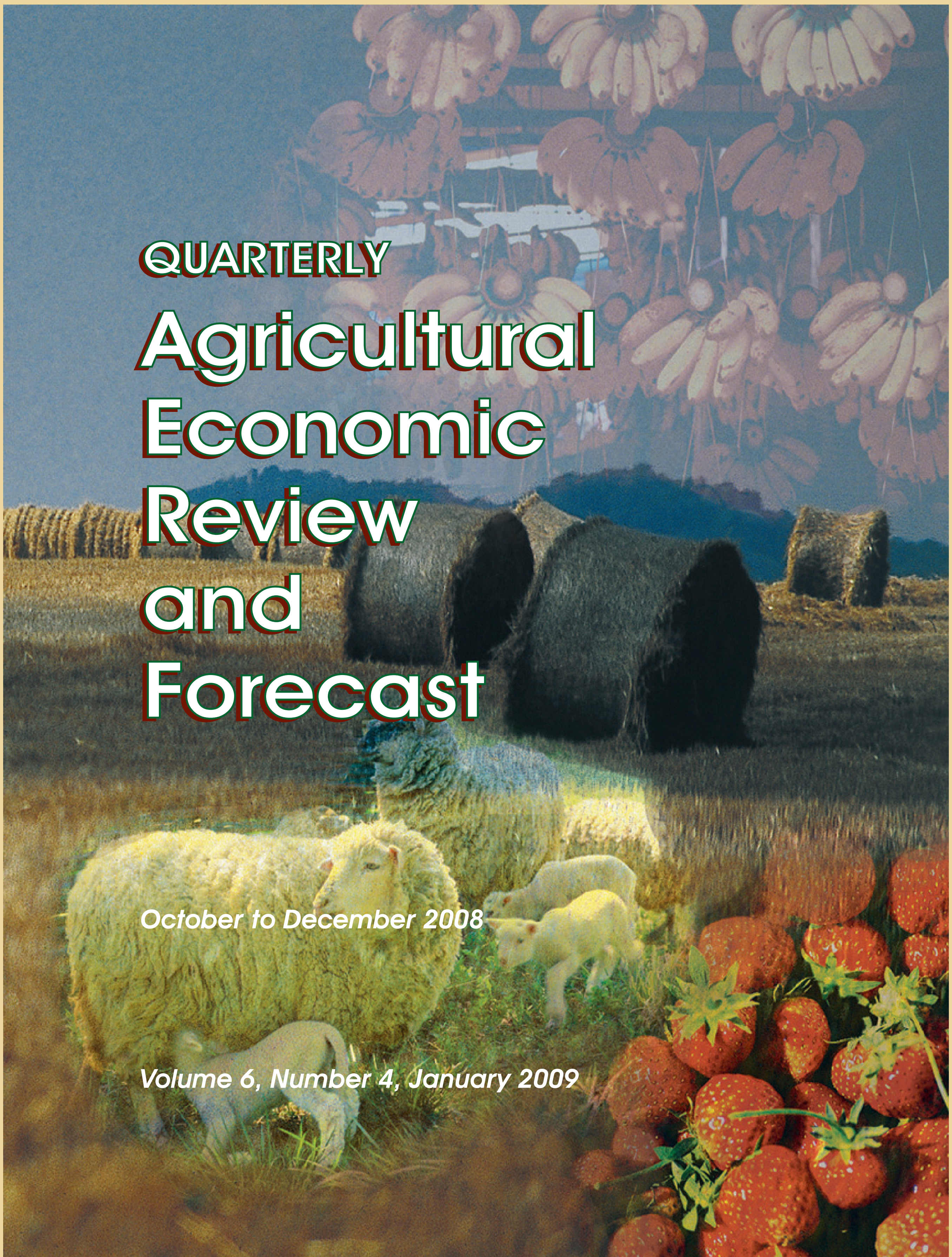

QUARTERLY

Agricultural Economic Review and Forecast

October to December 2008

Volume 6, Number 4, January 2009

agriculture

Department:
Agriculture
REPUBLIC OF SOUTH AFRICA

PREFACE

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

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

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

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

Mr D. du Toit
Acting Director: Economic Services
January 2009
Pretoria

Compiled by Economic Research Unit
In consultation with Acting Director

Directorate Economic Services
2nd Floor – Maize Board
503 Belvedere Street, Arcadia, South Africa

All correspondence can be addressed to:
The Director: Economic Services
Private Bag X416, Pretoria 0001, South Africa

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1. WORLD ECONOMY

Since the collapse of the US sub-prime mortgage market towards the later stages of 2007, global economic fortunes have continued to deteriorate. This culminated in almost unprecedented panic during September and October 2008 when exposure to sub-prime mortgages and the weakening US house market resulted in severe financial difficulties for the **global economy**. Financial conditions continued to present serious downside risks, however the forceful policy responses in many countries have contained the risks of a systemic financial meltdown. Nonetheless, there are many reasons to remain concerned about the potential impact of the financial crisis. The process of deleveraging could be more intense and prolonged than factored into the International Monetary Fund projections. Intense deleveraging could also increase the risks of substantial capital flow reversals and disorderly exchange rate depreciations for many emerging economies. Another downside risk relates to growing risks for deflationary conditions in advanced economies, although these are still small given well-anchored inflation expectations. In the current setting, upside risks are limited. Nonetheless, it is possible that the financial sector policy measures, once fully specified and implemented, foster a more rapid-than-expected improvement in financial conditions. In the meantime, the relatively strong balance sheets of non-financial corporations might help prevent a major cutback of investment. Under such conditions, confidence could also recover rapidly and spending by households and firms might quickly reaccelerate. Prospects for global growth have deteriorated over recent months, as financial sector deleveraging continued while producer and consumer confidence fell. Accordingly, world output is expected to expand by only 2,2 percent in 2009. In advanced economies, output is expected to contract on a full-year basis in 2009, the first such fall in the post-war period. In emerging economies, growth is projected to slow markedly but still reach 5 percent in 2009. However, global action to support financial markets and provide further fiscal stimulus and monetary easing can help limit the decline in world growth. In the **euro-area,** the European Commission reduced its forecast outlook for the region amid the worst financial crisis since World War II and the economy is expected to contract in 2009 for the first time since the currency was introduced a decade ago. The economy of the 16 countries sharing the euro will shrink 1,9 percent in 2009, the Brussels-based commission said, revising a November estimate for growth of 0,1 percent. Economic activity has taken a

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

Countries	2007	2008	2009	Countries	2007	2008	2009
World[1]	5,0	3,7	2,2	China	11,9	9,7	8,5
USA	2,0	1,4	0,7	India	9,3	7,8	6,3
Japan	2,1	0,5	-0,2	Latin America	5,6	4,6	3,2
Euroland[2]	2,6	1,2	-0,5	East-central Europe	5,7	4,2	2,5
ASEAN-4[3]	6,3	5,4	4,2	Sub-Saharan Africa	6,8	5,5	5,1

Source: IMF [1] PPP [2] The 11 Euro countries [3] Indonesia, Thailand, Philippines and Malaysia sharp turn downwards in the advanced economies during the last six months. GDP is estimated to have fallen by about 5% in the US during the fourth quarter of 2008. The Euro area fared as badly, while the contraction in Japan is estimated to have been even larger. Global manufacturing production fell by almost 20% in the same quarter (on an annualised basis), while global trade and cargo volumes have also slumped. **Inflation:** The combination of stabilizing commodity prices and increasing economic slack will help to contain inflation pressures. In the advanced economies, headline inflation should decline to below 1 percent by the end of 2009. In emerging economies, inflation is also expected to moderate more gradually. However, in a number of these countries, inflation risks will still manifest, as higher commodity prices and continued pressure on local supply conditions have affected wage demands and inflation expectations. Although consumer price inflation in the developed world is expected to abate in 2009/2010 - given weaker commodity prices and slowing domestic demand - the threat of inflation is not fully banished. Lower commodity prices will help to ease inflationary pressures, but many emerging markets, Latin America included, face a risk of importing higher inflation through weaker exchange rates. Currencies appreciated sharply in recent years on the back of a boom in export earnings, foreign direct investment inflows and workers' remittances. However, the prospect of lower capital inflows has started to put pressure on currencies, with sharp devaluations taking place in October and November as nervous investors sold off local currencies and found safety in the US dollar. (IMF, November 2008) **News events that influenced the world economy**: Democratic senator Barrack Obama was elected as the first black president of the United States of America in November, prompting celebration across the country. Markets reacted positively to the US team assembled by President Barrack Obama to tackle the US economic crisis. OECD said the world's largest economies need further interest rates reduction and tax cuts to limit the impact of the recession. Japan's economy – the world second largest – entered its first recession since 2001 and conditions are expected to get worse. The G20 leaders – representing 90% of the world economy – have laid out regulatory proposals of cutting interest rates, fiscal stimulus and tougher accounting rules as a response to prevent a recurrence of the financial crisis during their meeting in November. News of the passing of a $700bn rescue package for financial institutions, funded by taxpayers, is expected to bring some relief to the ailing US financial markets – however analysts feel more is needed to ease illiquid credit markets. Finance leaders from the IMF's 185 member countries endorsed a plan by major economies to chart a course out of the credit crises, hoping that the broader support will calm markets. (Price Watch, 2008)

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2007	2008	2009	2010
Growth	6,3	5,5	3,7	5,0
Consumer Inflation	6,4	12,4	8,2	7,1
External Debt[1]	162,5	168,3	170,7	176,9
Current Account[1]	-17,8	-11,4	-47,0	-39,7

Source: EIU [1]US$ Billion

Following six years of strong average real GDP growth of 6% per year, Sub-Saharan Africa is expected to experience a marked slowdown in 2009-2010; primarily as a consequence of the global downturn, falling commodity prices and reduced capital inflows. Recessions in Africa's key markets, the US and the EU, combined with a marked deceleration in Asian growth, will hit the region's terms of trade hard. Declines in demand in key export markets will hit the region's exports, and the contribution of trade to GDP growth is forecast to be negative in 2009. Tight global financial markets will potentially lead to a marked fall in capital inflows. The increased demand on a restricted pool of financing will severely restrict the availability of funds for the emerging world, including borrowers in Africa. The combination of a relatively strong first half of 2008 and a much weaker second half is expected to cause real **GDP growth** to slow from 6,3% in 2007 to 5,5% in 2008, and to fall sharply to 3,7% in 2009, before recovering to 5% in 2010. The range of growth among individual countries will vary widely by anything from a negative 1% in Seychelles in 2009 to a growth decline of 13,2% in 2008 and 8,2% in 2009 in Angola. The increased risk of a further sharp decline in commodity prices amid recessionary global economic conditions represents another significant risk to the forecast and could lead to further downward revisions for the region's growth for 2009-2010. Moreover, a sharp and prolonged deceleration in growth would have significant consequences for poverty reduction in Africa. Any modest gains made in recent years will be wiped out very quickly over the forecast period. Growth will be lowest in the **SADC**, at 2,7% in 2009, recovering to 4,6% in 2010. According to EIU, growth in South Africa, which accounts for just over one-third of regional GDP, is projected to more than halve in 2009, to 1,2% (from 3,2% in 2008), before a tepid recovery (to 3,6%) takes place in 2010. Household demand, the key growth driver in recent years, will remain subdued until interest rates start to subside though this will not have an immediate impact. Growth in 2009 (as in 2008) will continue to be supported by public investment in infrastructure and by selected private investments. Manufacturing will gain from a weaker rand but suffer from a global economic downturn and continuing power constraints. Electricity supplies will remain tight in 2009-2010 owing to the long lead times in commissioning new plants, which will continue to constrain energy-intensive industries, and mining in particular. The danger of South Africa losing the right to stage the World Cup in 2010 because of inadequate preparation seems remote, although some transport and power bottlenecks will persist (and crime may deter tourists). Investment inflows into South Africa are expected to fall as a result of the global financial crisis as Foreign Direct Investment (FDI), as well as direct and portfolio investment all experience a downturn. The slowdown in FDI and portfolio inflows is a cause for concern because of South Africa's reliance on capital inflows to finance the current-account deficit. It is expected that other economies in the region will also post weaker average growth rates over the next two years.

Central and West Africa: The downturn in growth will be driven largely by the expected cut in growth in the Nigerian economy, which slowed in 2008 because of ongoing problems with oil production in the Niger Delta. Despite increased production from new offshore fields, no solution to the troubles of the region is in sight and the rebel militias are likely to continue their violent campaign targeting oil production facilities and pipelines. As a result, economic growth in Nigeria will come to depend on the performance of the non-oil sector, as has been the case in the past three years. Although growth in this sector should remain comparatively robust, it is likely to slow markedly in 2009 as Nigeria suffers some of the fallout from the global financial crisis. Reduced access to financing will restrict investment and constrain previously buoyant sectors such as construction. Growth in Nigeria's resurgent banking sector is also likely to slow: although not directly exposed to toxic assets, the country's financial institutions will suffer from worsening investor sentiment and lower consumer confidence. In addition, the poor business operating environment will remain a constraint, as will consumer concerns about mounting inflation. The government has ambitious plans to tackle the main operating impediment to business—insufficient electricity supply. However, progress is likely to be slower than anticipated by the government, owing to the complexities involved and possible difficulties in sourcing the necessary finance. Overall, real GDP growth is expected to fall to 4,6% in 2009, before recovering to 5,4% in 2010 in line with the global economy. Growth is expected to be strongest in **East Africa;** it is now expected that sub-regional growth will dip to 5,4% in 2009 and rise to 6,2% in 2010. Growth is expected to fall to between 5% and 6% in the other larger economies in the region, notably Uganda, Rwanda and Madagascar. Meanwhile, the main brake on growth in the region will continue to be the smaller island economies, Seychelles and Comoros, where growth will continue to suffer, constrained by their physical isolation and poor policy. It is expected that Seychelles's real GDP will contract by 1% in 2009 as tourism suffers a setback because of adverse global economic conditions. Although some of the many planned projects will go ahead, others are likely to be scaled down or suspended. Activity in manufacturing will continue to be hampered by shortages of foreign exchange, while high inflation, devaluation and fiscal tightening will damage purchasing power and constrain domestic demand. The outlook for 2010 is brighter, and the economy is expected to expand by 5% as tourism picks up again in line with the global rebound and Seychelles' improved competitiveness. Growth in the **Franc Zone** is expected to remain unspectacular, at 3,5% in 2009 and 4% in 2010. In part, this reflects the ongoing economic problems in the largest economy in the region, Côte d'Ivoire, which in turn reflects the continuing political crisis in the country. Although the prospects for a political settlement to the crisis have improved in recent months, there are still substantial risks that the presidential poll may not solve the political impasse. However, assuming that elections pass off peacefully and that a stable government is formed thereafter, economic prospects are expected to improve substantially. Increased donor support and a boost in oil production as the silting of wells in the Baobab oilfield is offset by new drilling will allow real GDP growth to rise from 3,6% in 2009 to 4,5% in 2010. **External debt:** The debt stock in Sub-Saharan Africa will continue to rise in 2009-2010, to end the forecast period at $176,9bn. This reflects a number of trends. First, a sharp rise in the region's external financing requirement in 2009-2010 is a major source for concern in view of a substantial deterioration in global borrowing conditions, which will last well into 2009-2010. A sharp deterioration in the current-account deficit and a need to roll over still-substantial maturing foreign debt will result in a sharp increase in Africa's external financing requirement. At a time of highly straitened international credit conditions, the region will be forced to cut back on external medium- and long-term borrowing, increasing strains on domestic financial markets. Secondly, new borrowing will remain relatively high, especially from the multilateral lenders led by the World Bank and new bilateral lenders such as China. Finally, a considerable number of countries will see their debt stock rise as they continue to accumulate arrears (interest arrears are added to the short-term debt stock). **African governance**: Small states, island states, Botswana and South Africa are the best governed countries in sub-Saharan Africa according to this year's Index of African Governance released by researchers at the Kennedy School of Government, Harvard University. Mauritius, Indian Ocean island-state, tops the list of well-governed territories for the second year, with the Seychelles coming second, Cape Verde third, Botswana fourth, and South Africa fifth. The remaining five top-ranking states are Namibia, Ghana, Gabon, São Tomé and Príncipe (another island state), and Senegal. The bottom ten - the worst governed states this year - are Nigeria, Guinea, Eritrea, Côte d'Ivoire, Central African Republic, Angola, Sudan, Chad, the Democratic Republic of the Congo, and Somalia. Most of these states have been convulsed by civil wars. Many are also very poor - despite being oil producers. The Index is based on fifty-seven indicators, such as deaths in war, crime rates, literacy, child mortality, educational opportunity, and gross domestic product, and sums the results for each African country according to five over-arching categories of safety and security; rule of law, transparency, and corruption; participation and human rights; economic opportunity; and human development. Each country is ranked fifty-seven ways and then five ways, and the overall final report card emerges from a combination of all of the scores. This year, two low ranking post-conflict countries, Liberia and Burundi, emerged as most improved over last year, showing decisive progress. Overall, the Index results also show that governance across sub-Saharan Africa is improving. **Consumer inflation:** Inflation started falling markedly since September 2008 owing to declining commodity prices. However, the worsening external financing conditions pose serious risks to some currencies in the region, which were hard hit in October and November. Renewed currency depreciation would raise inflation, curbing domestic demand and potentially hitting confidence and export competitiveness. It is assumed that weaker domestic demand and continued adherence to inflation-targeting regimes across most of the region will help to reduce inflation in 2009-2010. However, although food prices will be lower in 2009 than in 2008, this will be scant comfort for the majority of the region's countries, which are becoming increasingly reliant on imported food. In addition, it also reflects the good performance of the agricultural sector in many countries in the sub-region in recent years. In nearly all Sub-Saharan African countries, food prices form the major component of the consumer price index. Inflation is expected to be considerably higher in East Africa, but to fall from 22,7% in 2008 to 8,8% in 2009 and 7,5% in 2010. It is worth noting that, in general, the inflation rate in the East Africa region is the most volatile of the subcontinent. This reflects that food accounts for a substantial component of the consumer price basket of goods in most countries in the sub-region, further reflecting the high level of susceptibility to drought for a number of major economies in the sub-region. For instance, inflation in Ethiopia and Kenya is estimated to have soared to 46% and 26% respectively in 2008 owing to the sustained rise in food and energy prices, but will subside in 2009-2010 assuming no new oil- or food-price shocks and the maintenance of political normality. **Current-account:** Although there are only a limited number of oil-exporting countries in Sub-Saharan Africa, they tend to have a major impact on the trade and current-account forecast. This is because these countries have highly volatile trade balances that are largely determined by the price of oil. In general, when oil prices are high, the large trade surpluses run by oil exporters tend to outweigh the modest trade deficits that are run by other countries. However, Sub-Saharan Africa runs an invisible trade deficit owing to its high level of dependence on imported services (notably its heavy dependence on foreign transport operators to ship its exports and imports) and the structural deficit on the income account (due to multinational profit remittances and external debt-service payments), as a result of which it still runs a current-account deficit. (EIU, Q3 2008) **News events that influenced the SSA economy**: NGO’s predict that the cholera outbreak in Zimbabwe will reach 60 000 while World Health Organisation reported that 9908 infections have been confirmed with 412 deaths. Rupiah Banda was hastily sworn in as Zambia’s President after a narrow election win, but the main opposition party said it will challenge the results. Zimbabwe’s power sharing deal is teetering on the brink of collapse after MDC negotiators walked out of a critical meeting with ZANU – PF in October as dispute over ministerial posts intensified. President of the Economic Community of West African States (ECOWAS) Commission, Mohammed IBN Chambas, warned the leaders on the dangers of being indifferent to global events of energy and food crises. In his address to the ECOWAS summit held in Abuja, capital of Nigeria, he said the current and still unfolding financial meltdown is already having severe effects on the sub-region. (Price Watch, 2008)

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2007	2008	2009	2010
Growth	4,9	3,3	1,9	4,9
Consumer Inflation X	6,2	11,5	6,6	5,4
Exchange rate[1]	7,10	10,52	9,70	9,75
Interest rate (Prime)[2]	13,2	15,30	12,50	12,50

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

South Africa's economic growth is slowing sharply, while the rand appears vulnerable to further devaluation. The dramatic deterioration in the world economic conditions is expected to put further pressure on the SA economy, which is already in the midst of a cyclical slowdown. However, the picture isn't entirely gloomy as inflation appears to have peaked, but nervousness about the political situation could intensify the slowdown. South Africa's annual CPIX **inflation** rate eased to 12,1% in November from 12,4% in October. The CPIX measure, which excludes interest rates on mortgage interest payments, was at its lowest level in five months. Food prices (which hold the largest weighting in the consumer price index) rose by 16,9% year-on-year, slightly down from the 17,2% gain seen in October. Transport price inflation also slowed to a nine-month low of 13,3% as petrol prices eased (petrol prices dropped by 4,6% month-on-month). The recent decline in inflation was mainly due to falling global commodity prices. According to BER, CPIX inflation will average 11,5% in 2009 and is expected to slow to an average of 6,6% in 2009 and 5,4% in 2010, owing mainly to more stable food and oil prices and also due to the planned introduction of a new re-weighted consumer price index in January 2009 (BER Q4 2008). The South African Reserve Bank (SARB) cut its benchmark **interest rate** on December 11th - the first rate cut since April 2005 - to 11,5%. The move reflects the SARB's concerns about the weakening economy (GDP growth hit a decade-low of 0,2% in the third quarter according to annualised data). The Economist Intelligence Unit expects that the SARB will lower interest rates by 50 basis points at each of its bi-monthly monetary policy meetings in 2009, taking them down by a total of 300 basis points in 2009. There could even be a case for deeper cuts in the first half of the year, should the global and domestic climate worsen further. However, a pre-election cut of over 50 basis points may be controversial, probably ruling out such a move in February. Real **GDP growth** is expected to fall further to 1,9% in 2009, from an estimated 3,3% in 2008—after four consecutive years of 5% average growth during 2003-2007—owing to a combination of weak household demand (stemming from high interest rates) and a global economic downturn. Household demand, the key growth driver in recent years, will remain subdued until interest rates start to subside. This could happen as early as the first quarter of 2009, although it will not have an immediate impact, as many consumers (and some corporate) will remain debt-stressed throughout 2009. It is positive that the authorities have a lot of room to manoeuvre with interest rates, with the benchmark currently at 12%. **Consumer spending:** Slower employment growth, high inflation, tighter credit conditions, high debt servicing costs and low consumer confidence are all weighing on consumer spending. The outlook for consumer spending in 2009 is gloomy, as current recession conditions are expected to intensify. Spending on durable goods is expected to contract by 6,6% in 2008 and by a further 4,3% in 2009, before increasing by 6,3% in 2010. For non-durable goods, spending will slow from 2,2% in 2008 and 1,9% in 2009, before recovering to 3,2% in 2010. Semi durable goods real spending of 6,4% and 1,9% is expected for 2008 and 2009 respectively, with a recovery of 4,6% in 2010. The total real household consumption growth is expected to slow from 2,6% in 2008 to 1,5% in 2009, before recovering to 3,9%in 2010. **Current account deficit:** Rising demand from 2010 onwards and high commodity prices will help boost exports but owing to rising imports, the current account is expected to remain in deficit over the forecast period. However, the overall deficit is expected to narrow steadily, from 8,1% of GDP in 2009 to 5,5% of GDP in 2013. (EIU,Q4 2008). The **Rand** has fallen sharply since mid-September, owing to the deteriorating global economic outlook, weaker domestic growth prospects and the large current-account deficit. The rand plunged to a recent low of R11,47 towards the end of October - in line with the global turmoil, the slump in commodity prices and a loss of confidence in emerging-market assets - although it has subsequently settled down into the R9,60-10,60 range. The rand averaged R9,77 in October, and close to R10,10 in November (50% weaker year-on-year). The rand will continue to be volatile and large daily swings will remain commonplace, as the currency is widely traded and its value is market-determined. However, a modest recovery in the exchange rate is expected, helped by relatively healthy levels of foreign-exchange reserves and official assurances about policy continuity. Currently it is expected that the rand will average R10,52 in 2008 before declining to R9,70 in 2009 and R9,75 in 2010. (BER, Q4 2008) **News events that influence the SA economy:** The SARB's monetary policy committee cut the repo rate by 50 basis points to 11,5% in December, citing an improved inflation outlook. Data from Statssa showed that employment rose by 0,4% compared to the second quarter amid gloom as job cuts in the manufacturing and retail sectors were offset by job growth in finance and social services. South Africa's trade deficit widened on increased imports of mineral products in October, with a shortfall soaring to R9,8 billion from previous month's R7,1 billion, pointing to continued pressure on the current account and the rand. According to Senwes, maize farmers are expected to make good profits in 2009 following recent good rains, despite higher input costs that would reduce profit margins. The number of SA homeowners who have defaulted on their home loan repayments have rocketed to nearly 100 000 since June 2008. The Crop Estimates Committee of the Department of Agriculture has issued a downward revision of 2008's wheat production forecast due to adverse weather conditions in the Free State – down to 2,106 million tons from its previous assessment of 2,187 million tons, a drop of 3,7%. As global recession causes more and more job losses globally, data released by statssa indicate that 70 000 jobs were lost in SA during the third quarter of 2008. Finance minister, Trevor Manuel warned of danger of leftward policy shift that would dampen economic growth and drive away desperately needed foreign investment. The JSE suffered its biggest slump since the 1980s at the beginning October and experts have warned that collapsing share prices on the JSE could drive the key BEE deals to the brink of failure. South Africa's demands for greater flexibility on tariff liberalisation in the Doha multilateral trade round have been flatly refused by the US and EU during industrial market access talks in December citing spill over effects on other developing countries - the request in the text on industrial goods outlined a demand for 16% of tariff lines to take only a half –formula cut and 3% of tariffs exempted from tariff liberalisation. (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	11,2	8,2
	Standard Bank	11,3	7,8
	Absa	11,3	6,2
	Average	11,3	7,4

BER - Bureau for Economic Research

Recent trends: Consumer inflation finally developed some downward momentum during the last quarter of 2008, easing for the first time in September after 17 months of upward movement. The **CPIX inflation** rate surprised on the downside, moderating for the first time in September to 13,0% after reaching a 13,6% peak in August. It further eased to 12,4% and 12,1% in October and November respectively and continued to drift lower in December, falling to an annual 10,3%. Though inflation eased off for three consecutive months, food prices which went up by 0,9% m-o-m in November continued to rise, putting pressure on inflation. Higher prices for grain, meat, dairy products as well as fruits were the main contributors to the increase in inflation. However these pressures were offset by lower fuel costs. The **headline CPI** annual inflation rate also came down to 13,1% y-o-y in September, moderating further to 12,1% and 11,8% in October and November, respectively, before diving more steeply to 9,5% in December 2008. **PPI** inflation dropped sharply in October to 14,5%, coming out below market expectations of a 14,8% y-o-y increase. PPI eased further in November to 12,6% y-o-y before falling by a substantial 1,1% m-o-m, pulling the annual rate of change in PPI inflation down to 11,0% y-o-y in December. The decline in PPI during December was mainly due to a decline in oil and refined petroleum prices. **Forecast:** Fourth quarter inflation figures provides evidence that the worst part of inflation has passed, with the peak having been reached in August. Although the inflation outlook has significantly improved due to a recent plunge in global oil prices, the substantially weaker rand has now become the key inflation risk factor. However, price pressures are likely to ease since oil prices have fallen at a faster rate than the rand has fallen. The Reserve Bank expects inflation to drop significantly in the first quarter of 2009 mainly due to the rebasing and the reweighting of the CPI basket. The CPIX is expected to return within the target range of 3-6% by the 2nd quarter of 2010. On average, inflation is expected to reach 11,3% during 2008 and decline to 7,4% during 2009. **Impact on agriculture:** With inflation showing a downward trend, material inputs costs which increase faster than the prices farmers receive for their products during inflationary period – resulting in the deterioration of terms of trade – will come down. Also, farmers' rate of return which declined as a result of an influx of competitive imports during inflationary period will rise.

4.2 Growth

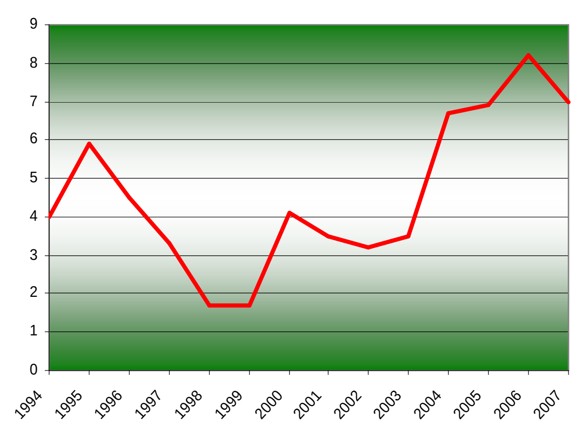
TABLE 5: Annual real GDP growth rates

2007		2008	2009
5,1	BER	3,3	1,9
	Standard Bank	3,5	2,7
	ABSA	3,1	0,7
	Average	3,3	1,8

BER - Bureau for Economic Research

Recent Trends: The South African economy slowed sharply in the third quarter, hitting a decade-low seasonally adjusted and annualised growth of 0,2% q-on-q after rebounding to 5,1% q/q in the second quarter. The economy grew by only 2,9% y-o-y, lower than the 4,4% growth experienced in the second quarter. The main contributors to the low growth in economic activity were mining and the manufacturing sectors which contracted by 8% q/q and 6,9% (its steepest fall in 17 years) q/q respectively. The decline in these sectors highlights the impact of the ongoing constraints on electricity supply and the reduction in global demand. There has been reports of project closures, job losses as well as poor investments coming from these sectors. Overall, the non-farming sector contracted marginally while the agricultural output went up by 16%. Investment spending, which grew by more than 16% in 2007 expanded in the first nine months of the year but at a lower rate of 10%.

Fig. 1 Private consumption expenditure (% change YoY)



Source: Statssa

Households' consumption spending, which has been the major driver of growth in recent years, slowed considerably due to a sharp fall in spending power faced by households confronted by erosion in purchasing power caused by inflation and high debt service costs due to high interest rates. **Forecast**: The dramatic deterioration in global economic conditions is expected to put further pressure on the South African economy which is already facing a cyclical slowdown through less international demand for domestically produced goods and commodities. According to BER, the adverse impact of high food and petrol prices, as well as higher interest rates - though not necessarily evident in the GDP figures - already started to weigh on domestic business and consumer confidence from early 2007. The South African business confidence slumped to a five-and-half-year low in December as global recession deepened, curbing export demand. Business is expected to remain tight in 2009 and indications are that both global and domestic economies would only begin to recover towards the end of 2009. The BER projects economic slowdown to worsen, predicting a slowdown of 3,3% in 2008 from 5,1% in 2007, and further deterioration of 1,9% in 2009. Absa's projections for 2009 are pessimistic showing a dramatic decline in growth of 0,7% while Standard bank expects 2,7% in economic growth during the same period.

Impact on agriculture: Even though the agricultural sector grew by an impressive 16,1% in the 3rd quarter, a prolonged global economic slowdown may affect agricultural exports and markets as international commodity prices continue to suffer downward pressure caused by the economic downturn.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2007		2008	2009
7,05	BER	8,26	10,26
	Standard Bank	8,26	8,40
	Absa	8,26	10,09
	Average	8,26	9,58

BER - Bureau for Economic Research

Recent trends: The rand remained under dramatic pressure during the last quarter of 2008 as the global economic turmoil takes its toll. Investor's risk aversion towards emerging markets intensified during the quarter as investors moved their finances from risky emerging markets, further putting the currency under enormous pressure. Because of the large current account deficit, South Africa became exposed to increased global risk aversion which resulted in investors selling a staggering R70bn worth of local equities and bonds since September. In reaction to a reduction in capital inflows and stronger dollar during October the rand depreciated by more than 10% against most currencies – depreciating gradually from the first week of October to reach a six-year worst level against the US dollar of R11,47 in the third week. From the last week of October, the rand regained strength, moving back to below R10/$ level and remained within that level throughout November and December. **Forecast:** The rand is expected to remain under pressure in the medium term as commodity prices stabilise at the lower levels. The US dollar will continue to benefit from its safe-haven as investors continue to repatriate funds to developed economies from risky emerging markets. According to BER report, the rand may move back to firmer levels of around R9,50/$ towards the end of 2009 as commodity prices move higher in reaction to improved global growth prospects. The dollar may also start to weaken once again as investors return back to investing in markets with higher growth potential when the global outlook improves. The currency is expected to average R9,58/ dollar in 2009, after averaging R8,26/ dollar in 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	15,1	13,5
	Standard Bank	15,1	14,5
	Absa	15,1	13,6
	Average	15,3	15,5

BER - Bureau for Economic Research

Recent trends: After consideration of the weakening economy and the easing of inflation, the South African Reserve Bank decided to cut the repo rate by 50 basis points to 11,5% during the December MPC meeting – the first repo rate cut since April 2005. This came despite dashing hopes that inflation expectations and wage growth do not track lower as aggressively as inflation itself. The bank has highlighted the currency as the major threat to the inflation outlook. **Forecast:** It is expected that the current depreciation of the rand, the large current account deficit, poor capital inflows and the extreme risk aversion would limit the ability of the SARB to significantly cut interest rates further. However the deficit on the current account is expected to moderate as domestic growth slows further, the weaker rand prevents households to buy more imported goods and SA's oil import bill falls. The current account constraints may also be alleviated through government borrowing, paving the way for more rate cuts. The BER expects the current account deficit to decline from 8% in 2008 to 6,9% in 2009. **Impact on agriculture:** A rate cut will reduce borrowing costs and interest payments due on loans, making it attractive for farmers to access credit to finance growth prospects.

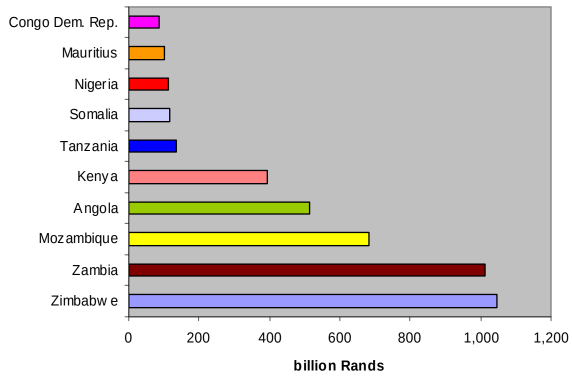
4.5 Employment

Though employment in the third quarter remained stable, South Africa's unemployment rate is the highest among 61 countries monitored by Bloomberg (Monthly Economic Report, 2008). Unemployment rose slightly from 23,1% to 23,2% in October as the domestic economy starts to feel the pinch of the global economic slowdown. The number of people out of work increased to 4,12 million from 4,11 million. Employment in the mining sector dropped by 9,2% while transport industry employment grew by 0,6%. Jobs in the construction and agriculture sectors contracted by 3,2% and 2,9% respectively in October. The trade industry generated the highest number of jobs with a 2,3% rise. A very wide disparity in employment levels between males and females is still noticeable – with the level of unemployment amongst men at 20,6% while that amongst women stands at 26,3%. According to the Labour Force survey, during the quarter ending September 2008, 74 000 people lost their jobs. The lagged impact of the most recent interest rate hikes and the generally weak growth environment weighed heavily on the business sector – this resulted in most businesses reducing investment in machinery and equipment and having to cut on production. With the worst of global woes not yet over, employment outlook for 2009 is not promising with BER forecasting only a 0,7% increase in formal sector employment in 2009. Recent reports estimate job losses which started six months ago to reach the 300 000 mark by the end of 2nd quarter 2009. Retrenchment numbers for the 4th quarter of 2008 are expected to be around 100 000. However, employment conditions are expected to improve as growth in fixed investment expansion worth R600bn planned for the next three years is expected to cushion the negative impacts as well as provide the base for further job creation.

5. INTERACTION BETWEEN SA AND AFRICA

The turmoil in global financial markets and a slowdown in demand from major consuming economies weighed heavily on trade across the region during the fourth quarter of 2008. The impact of the slowdown has been evidenced more on falling commodity prices of energy, metals as well as agriculture. In reaction to the falling commodity prices, producers started to cut production in order to curb supplies which resulted in most companies retrenching staff during the last six months of 2008. South African mines employ approximately 460 000 workers – 40% of them from neighbouring African countries such as Zimbabwe, Mozambique etc. – and shutting down operations has already affected the incomes of casual workers. The South African economy is the most influential in the region and any contraction could have a ripple effect on neighbouring countries. According to SARS November Trade data, overall South Africa trade with the rest of the world indicates a decline in imports of 12,6%. This decline was mainly due to decreased values of trade in goods such as crude oil, mineral oils and fuels, and original equipment components for motor vehicles. November exports declined by 17,9% as compared to October, reflecting decreases in precious metals, base metals, vegetable products and mineral products while vehicle exports increased by 22%. South Africa's trade surplus with Africa increased from R3,1 billion in October to R4,3 billion in November. During the third quarter 0f 2008, South Africa's exports to the rest of Africa increased by a remarkable 86,6% to R4,9 billion from R2,6 billion in the 2nd quarter. Majority of South African agricultural products in the 3rd quarter were destined for Zimbabwe [up by R521 million (99%)], Zambia [up by R782 million (335%)] and Mozambique [up by R165 million (31,8%)].

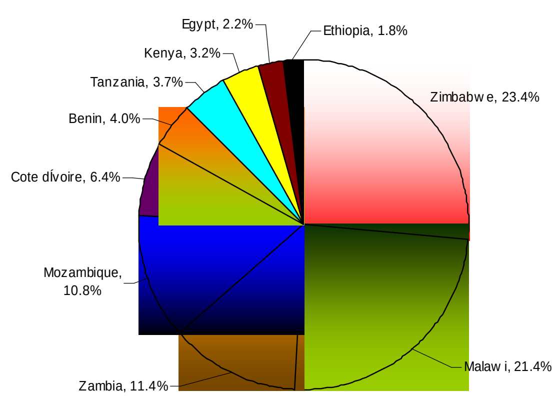
Figure 2: Top Destinations of SA agriculture exports to Africa, 3rd quarter 2008



Source: DOA (Directorate, International Trade)

Agricultural imports from Africa contracted by approximately 10,5% with a significant decline of 26,4% in imports from Tanzania. This can be attributed to export bans imposed by various countries such as Tanzania, Malawi and Zambia through raised transaction costs. Imports from Zimbabwe also declined in the 3rd quarter probably due to deteriorating agriculture conditions in the country.

Figure 3: Top sources of SA agriculture imports from Africa, 3rd quarter 2008



Zimbabwe alone accounted for 23,4% of the total imports from Africa, while Malawi and Zambia accounted for 21,4% and 11,4% respectively.

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

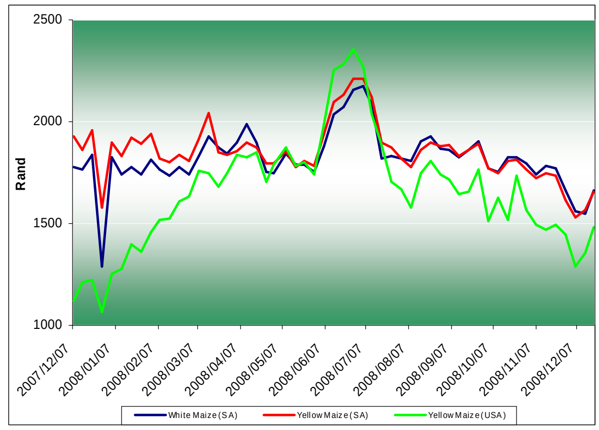
TABLE 8: Price of maize and wheat per ton

	End Dec 2007	End Dec 2008
White Maize price	R1 842	R1 835
Yellow Maize price	R1 966	R1 743
Wheat price	R2 950	R2 670
Sunflower price	R4 475	R3 690
Soya price	*R3 781*	R3 480

Source: Safex

The weaker global demand and the declining energy prices have had a great effect on the prices of goods. According to a research by Investec, food prices at the agricultural level continued on a declining path in line with international agricultural commodities, decreasing by 10,4% year on year(y/y). All domestic grains recorded price declines at the end of December 2008, due to demand pressures. **Wheat prices** continued the downward movement recorded in November through to December 2008. Record exportable supplies of wheat in Ukraine and Russia have contributed to the decline of wheat prices, with the Russian government intervening by purchasing wheat stocks and also considering direct export subsidies to improve their competitiveness. The domestic price of wheat came down significantly ending the month at a price of R2 670, a 9,5% decline compared to last year the same period. **Sunflower** prices showed the biggest decline when a rally in oilseed and oilseed products came to a halt from June 2008. The price fall was caused by poor demand for oilseed, oilseed products and excellent production prospects for the new 2008/09 season. Sunflower prices declined by 17,5% compared to last year the same period, to end the month at price of R3 690 compared to 31 December 2007's high of R4 475. **Soybeans prices** also came down significantly in contrast to the correlation they have shown to crude oil price increases. The demand for biodiesel has declined as a result the demand for food oil and supply considerations are driving the soybeans prices. Soybeans prices declined by 7,9% compared to the same period last year. The SA currency remained under pressure during the 4th quarter declining by 28,5% against the dollar. SA exports were unable to benefit from the weaker Rand due to weaker global finances and the macroeconomic fundamentals of demand and supply. SA white and yellow maize prices remained resistant amid commodity price declines as recession hit markets, locked largely within the R1 500 and R2 000 price range just like in the third quarter. **White maize** traded 0,7% above the third quarter price, but was 0,4% below the end of the fourth quarter in 2007, while **yellow maize** declined significantly by 11,3%. US maize traded below the R1 500 price range from the beginning of November 2008 till December. US maize export prices averaged $146 per ton in the first week of December compared with $176 in the first week of November. The less forward buying by major importers; abundant grain supplies; the continued strength of the dollar against the Euro and the ongoing global financial market uncertainty contributed to price pressures.

Figure: 4 Domestic and US maize prices



Source: Safex

Wheat prices have fallen over 50% according to the US Department of Agriculture(USDA) due to near record harvests in virtually all northern hemisphere exporting countries.

6.2 Crop production and estimates

Table 9 summarises the preliminary estimates for the area planted for the 2008/09 season, and the actual production and area planted in 2007/08 season for the most important summer crops, 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 final production for both **White and yellow** maize for the 2007/08 season was 7,480 and 5,220 million tons respectively, while the area planted remained the same for both white and yellow maize. **The preliminary estimate** for the 2008/09 season maize planting area is 2,596 million hectares(ha) which is 7,3% ha less than the 2,799 million

TABLE 9: Final production estimate and area planted of summer crops for the: 2007/08 Season

Crop	Area Planted 2008/09 Ha	Area Planted 2007/08 Ha	% Change in Area Planted 2008/09 vs 2007/08 %	Final Crop Production Tons
White maize	**1 598 500**	1 737 000	-8,0	7 480 000
Yellow maize	**997 500**	1 062 000	-6,1	5 220 000
Maize	**2 596 000**	2 799 000	-7,3	12 700 000
Sunflower seed	**600 000**	564 300	+6,3	872 000
Soya-beans	**198 000**	165 400	+19,7	282 000
Groundnuts	**50 450**	54 200	-6,9	88 800
Sorghum	**86 600**	86 800	-0,2	255 000
Dry beans	**46 200**	43 800	+5,5	58 975
TOTAL	**3 577 250**	**3 713 500**	**-3,7**	**14 256 775**

Source: Directorate Agricultural Statistics

planted for the previous season, and 1,3% more than the intentions to plant. The area estimate for white maize is 1,598 million ha, which is 8,0% ha less than the 1,737 million ha planted for the last season. The area estimate for yellow maize is 997 500 ha, 6,1% less than 1,062 mill ha planted last season. The majority of SA's maize is planted in the Free State, North West and Mpumalanga Provinces. The expected plantings of maize in the Free State in 2008/09 are 1,086 million ha, a 7,2% decrease compared to 1,170 million ha in 2007/08. The expected plantings of maize in North West also decreased by 9,0% from 780 000 ha to 710 000 ha, and in Mpumalanga by 4,4% from 518 000 ha to 495 000 ha compared to 2007/08. The FAO (Food and Agricultural Organization) stated that SA white maize exports are forecasted to reach around 2,4 million tons in the 2008/09 marketing year, although a farmers' planting intentions survey indicates that the maize area could decrease by about 8,5% to 2,6 million hectares, discouraged by current declining trend of the SAFEX and international prices. Final **Sunflower** production in 2007/08 was below estimates, recording a 1,6% change from the estimated production figure of 885 560 tons, to an actual production total of 872 000 tons, the area planted for sunflower seed during 2007/08 remains the same at 564 300 hectares**.** The preliminary area estimate for sunflower seed in the 2008/09 season is 600 000 ha, which is 6,3% more than the 564 000 ha planted the previous season. Actual **Soybeans** production in 2007/08 was also below the estimated figure, ending at 282 000 compared to an estimated production figure of 308

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

Crop	Final crop 2007	Area Planted 2008	5th forecast 2008	6th forecast 2008	Change
	Tons (A)	Ha (B)	Tons (C)	Tons (D)	% (D) ÷ (C)
Wheat	1 905 000	748 000	2 022 000	2 079 925	+2,9
Malting barley	222 500	68 245	188 799	194 399	+3,0
Canola	38 150	34 000	34 000	32 300	-5,0
TOTAL	**2 165 650**	**850 245**	**2 244 799**	**2 306 624**	**+2,8**

Source: Directorate Agricultural Statistics

295 tons. The area planted also remains the same at 165 400 ha. It is estimated that 198 000 ha have been planted to soybeans in 2008/09, which represents an increase of 19,7% compared to the 165 400 ha planted last season. Global oilseed production is expected to reach 416,3 million tons in 2008/09, down 2 million from last month, according to the World Outlook Agricultural Board of the USDA (United States Department of Agriculture).The reduction in Soybean is due to dry weather in soybean planting areas in Argentina, Uruguay and Bolivia - in Paraguay unusual dry and hot weather has reduced yield potential. **Groundnuts** final production stood at 88 800 tons in 2007/08 compared to 85 360 tons estimated, while the area planted remains the same. The 2008/09 preliminary area estimate for groundnuts is 50 450 ha, which is 6,9% less than the 54 200 ha planted fthe previous season. **Final sorghum** production was 255 000 in 2007/08, whilst the area planted remained the same. The 2008/09 Preliminary area estimate for sorghum decreased slightly by 0,2%, from 86 800 ha to 86 600 ha against the previous season. The preliminary area estimate for **dry beans** is 46 200 ha or 5,5% more than the 43 800 ha planted the previous season. The area planted is 54 200 ha. **Table 10** summarises the most important winter crops for the 2008 production season. The production forecast for **wheat** is 2, 080 mill tons, which is 2,9% more than the 2,022 mill tons of the previous forecast, with an expected yield of 2,87 tons per hectare. Most of the crop has already been harvested, thus some of the provincial yields were adjusted to reflect the actual production. The area planted to wheat remained unchanged at 748 000 ha. An estimated 350 000 ha or 47% is planted in the Western Cape, 280 000 ha or 37% in the Free State and 50 000 ha or 7% in the Northern Cape. USDA has projected World wheat output to set an all time record at 682,9 million tons, a 12% increase over the previous year's 610,2 million. The main reason for the projected historic records is the favourable weather conditions in the European Union, former Soviet Union, and Canada, another reason is an almost 3% increase in world wheat area. World wheat use in 2008/09 is projected down 2,1 million tons in January 2009 to 653,9 million tons, due to other countries using less wheat for animal feed than expected, instead using more manioc and corn distiller's dried grains. World wheat trade in 2008/09 is projected to reach 125,2 million tons, up 1,5 million this month. The EU-27 imports were adjusted upward from 1,0 million tons to 6 million tons, wheat prices have been priced relatively attractive for feed users in Southern Europe by Russia and Ukraine. The production forecast for **malting barley** is 194 399 tons, which is 3,0% or 5 600 tons more than the 188 799 tons of the previous forecast. The area planted to malting barley remained unchanged at 68 245 ha ton, while the expected yield is 2,85 t/ha. The expected **Canola Crop** was decreased by 1 700 tons to 32 300 tons, compared to the previous forecast of 34 000, with an expected yield of 0,95 t/ha.

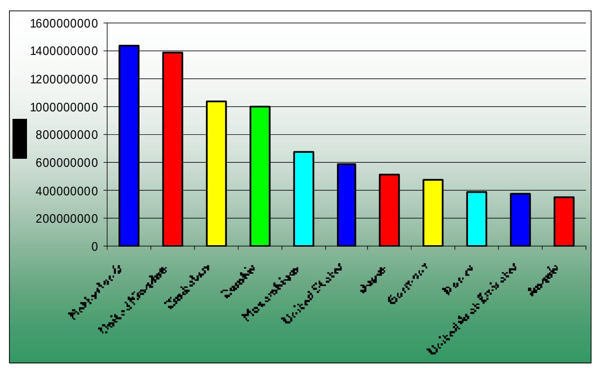
6.3 Climatic and other conditions

Generally, patches of rain were experienced during October whereas in November most of the country received normal to above normal rainfall continuing into December but drying out over the western regions of the summer rainfall areas. **Level of dams:** The levels of dams are higher as compared to last year same time except Eastern Cape, Kwazulu-Natal and Free State. **Crop conditions:** Farmers have planted summer crops but some planted late due to the late rainfalls. **Veld and Livestock condition:** During October and November the veld and livestock were in poor to fair condition but began recovering in most provinces due to the rains experienced in December. A number of livestock diseases have been reported and controlled in some provinces, i.e. Gauteng and Northern Cape etc. **Forecast of rainfall and temperature:** Favourable rainfall conditions are likely over the larger part of the summer rainfall regions. The larger part of the interior is expected to experience below-normal daytime temperatures. **SADC:** According to FEWS NET, good rains were experienced in most crop growing areas of the region in November. However, notable exceptions include central Mozambique, parts of eastern Zimbabwe and southern Malawi where farmers are still waiting for good rains to start planting. A dry spell at the end of November in southern Mozambique could meanwhile put recently planted crops at risk or reduce germination rates. Although inputs are reported to be available in most countries, except Zimbabwe, high prices are currently constraining the amounts that farmers can access and this will ultimately reduce harvests.

6.4 The effects of the global financial crisis on the agricultural sector

Internationally traded food prices rose sharply in 2007/08 and the rise in agricultural prices could be pointed to the energy market (including biofuel production), income, and population growth. The collapse of major financial institutions in 2008, as the global financial crisis intensified, has had a tremendous effect on the global economy, putting the breaks on the rising global food prices and thus agricultural income. Demand shrank globally as major countries entered a recession simultaneously - the worst since World War 2 - despite swift actions by central banks and governments to try and aid ailing markets. Falling company earnings and demand woes continued globally with the US losing approximately 2,5 million jobs in 2008, compounding the demand crisis. Markets collapsed, oil prices hit record lows and fertilizer prices - another impetus to food price increases which rose in sympathy to oil prices - also declined, easing agricultural prices. Investment in agriculture has become scarce, as farmers who used the proceeds from high food prices to invest in expansions may now find themselves unable to pay off their debts because of falling output prices; in SA the amount of loans for agricultural purposes at the Land Bank has been growing at a negative rate of -1,89% month-on-month during 2008, as farmers seem to struggle under the strict monetary policy as financial institutions are becoming more cautious on lending due to the current global turmoil. The declined investment in agriculture also threatens food security as agricultural production may be affected. South Africa, besides being exposed to the derivative markets because of the financialization of markets, also felt the pressure as most of the country's major trading partners are in a recession. According to SA Chamber of Commerce's trade activity index, trade remains weaker dipping by 36 points in December after a record low of 38 points in November, and locally the consumer sector seems to be heading for a recession, with household expenditure declining in 2008. On a quarterly basis the country's manufacturing sector fell 8%, mining and quarrying fell 8% while trade, hotels and restaurants dropped 6,9%. The Agricultural sector remained resistant recording an increase in output of 16,1% year on year despite food inflation slowing further by 17,2% y/y from 17,9%. Food is a necessity, thus consumers are forced to rather suspend the purchase of durable goods, as high interest rates and the high debts continue to take their toll. Food retailers recorded a good festive season trade although research by Investec showed that processed food prices increased by 22,0% y/y. Food retailer, Pick n Pay, said it was happy with the festive season sales, despite a dreary picture presented for sales last year December 2008. Agricultural exports rose by 28% in the third quarter of 2008 compared to the second quarter with citrus fruits, maize, wine of grapes as well as unfortified wine, apples, pears and wheat being the best performers in terms of exports. Imports declined in the second quarter of 2008 by 35% compared to the first quarter and then picked up in the third quarter recording a 26,1% increase compared to the second quarter. The most notable is the destination of SA exports during the financial crisis period (Figure1). SA exports in the third quarter were mostly destined to Netherlands, UK, Zimbabwe, Zambia, Mozambique, US, Japan, Germany, Kenya and the UAE (United Arab Emirates). Although Netherlands and the UK remain the major destination for SA agricultural exports, comparing the first, second and 3rd quarter shows that since the global crisis intensified, a number of developing countries are overtaking the developed countries as destinations for SA's agricultural exports.

Figure 5: Destination of SA Agricultural Exports Q3



Source: Directorate Agricultural Statistics

Zambia, Zimbabwe, Mozambique, Kenya and the UAE, have become major trading partners for SA agricultural exports. Although a number of factors could explain the growth of SA agricultural exports to these countries. The global financial downturn presents SA with an opportunity to establish or strengthen its market in emerging or developing countries.

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