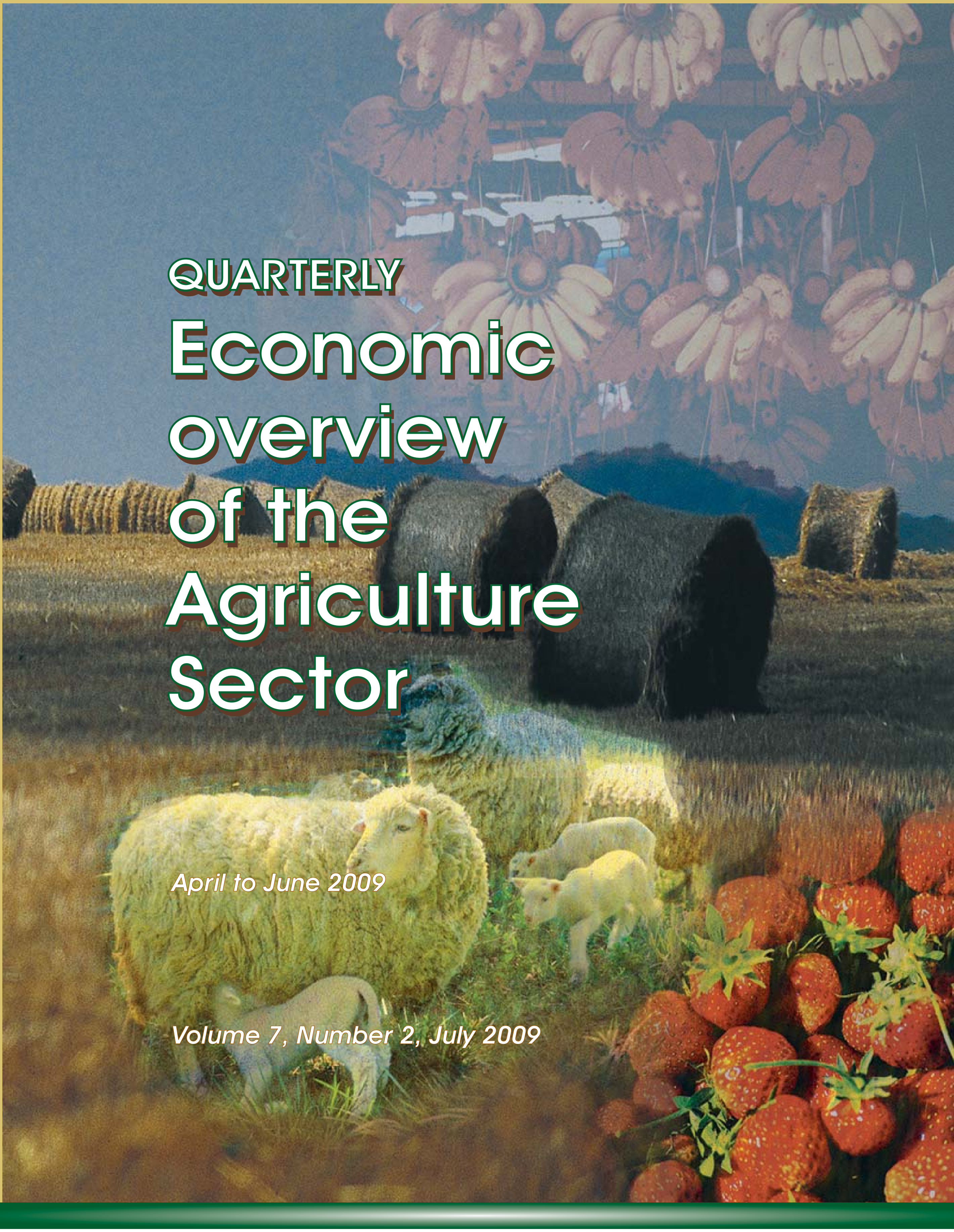

QUARTERLY

Economic overview of the Agriculture Sector

April to June 2009

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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 agriculture economic information and advice for sound decision-making on the South African (SA) agriculture sector. To support this important task the division (Economic Research) concentrates on the economic analysis of the performance of and external impact on the agriculture sector and its industries.

This publication, previously called the Quarterly Agricultural Economic Review and Forecast, developed from a need within the Department of Agriculture, Forestry and Fisheries (DAFF) to be regularly informed on developments and expected economic trends in the agriculture 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 has also been published for outside consumption to add value to a number of existing regular economic publications on the agriculture sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agriculture sector.

In this issue we are going to look at the developments and expected economic trends in the SA agriculture sector given the slowdown in the domestic economy triggered by the global economic slowdown.

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

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1. WORLD ECONOMY

Globally, most economies are in a recession and world GDP is estimated to have contracted at a 6% annualised pace during the fourth quarter of 2008. According to the International Monetary Fund's latest forecast, the global economy is beginning to pull out of the recession. However, full recovery is expected to be sluggish. Advanced economies are still projected not to show a sustained increase in activity until the second half of 2010. According to the World Economic Outlook update, global activity is forecast to contract by 1,5% in 2009, then expand by 2,5% in 2010, while GDP in the advanced economies is expected to decline by 3,8% in 2009 before growing by 0,6% in 2010. Even though the worst of the global economic recession appears to be behind us, real economic indicators such as spending and unemployment will continue to worsen for some time. Recovery of financial institutions is expected to be slow as the system is still weak and credit intermediation has severely been impaired. On the other hand, support from public policies will gradually diminish, and households in countries that suffered asset price bursts will rebuild savings. According to the International Monetary Fund (IMF) report on Global Financial Stability, financial conditions have also improved, with a forceful policy intervention proven to have reduced the risk of a systemic collapse, and this has somewhat restored market confidence. **Inflation:** The return to low interest rates, strong fiscal stimulus and quantitative easing by most major central banks, have sparked inflation concerns. Consumer prices are expected to contract in most developed economies over the short term. The weighted G7 countries Consumer Price Index (CPI) inflation is forecast at -0,4% for 2009 and is expected to return to moderate inflation in 2010 as economic recovery takes hold. There is a high risk of deflation in developed markets, except for the Euro area which is expected to escape deflation. Commodity prices declined sharply since the middle of 2008 and are only expected to recover moderately in 2010. **News events that influenced the world economy**: In its latest set of forecasts for global economic growth, the Organisation for Economic Cooperation and Development (OECD) issued a bleak outlook for 2009, a warning that was even more severe than the World Trade Organisation's already dramatic estimate of a 9% fall. The OECD said world trade is in free fall and should decline by 13,2% in 2009 as the economic crisis cuts demand across the globe, also indicating that the world economy

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

Countries	2008	2009	2010	Countries	2008	2009	2010
World[1]	3,1	-1,5	2,5	China	9,0	7,5	8,5
USA	1,1	-2,6	0,8	India	7,3	5,4	6,5
Japan	-0,7	-6,0	1,7	Latin America	4,6	3,2	7,9
Euroland[2]	0,8	-4,8	-0,3	East-central Europe	3,0	-5,0	1,0
ASEAN-5[3]	4,8	-0,3	3,7	Sub-Saharan Africa	5,5	1,5	4,1

Source: IMF
[1] *PPP*
[2] *The 11 Euro countries*
[3] *Indonesia, Thailand, Philippines and Malaysia*

will shrink at a faster pace than originally expected this year. The unemployment rate in the US is expected to average 8,9% this year, climbing further to 10,1% next year. Recession in the US, Europe and Japan has slashed demand for commodities, undermining growth in countries such as Zambia - Africa's biggest copper producer - and SA, the world's largest producer of platinum. The European services sector shrank at its lowest pace in six months during April. The region's economy came under spotlight following news that retail sales in the 16 countries using the Euro fell by 0,6% in March, down a record 4,2% year-on-year (y/y), prompting the European Central Bank to pump cash into the system to counter recession. Sales of new cars in Europe fell for the twelfth month running in April, taking the drop in the first four months of the year to 15,9% according to the trade data.

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub-Saharan Africa – Economic Outlook

	2007	2008	2009	2010
Growth	6,6	5,5	1,5	4,1
Consumer Inflation[1]	6,4	12,4	8,6	6,5
External Debt[2]	162,3	162,6	163,7	170,7
Current Account[2]	-23,9	-18,3	-50,6	-43,5

Source: EIU
[1] *Excluding Angola, DRC and Zimbabwe*
[2] *US$ Billion*

Economic prospects in Sub-Saharan Africa (SSA) have deteriorated in recent months and it is projected that a downgraded projection for world economic growth and trade will hit Africa hard, since its positive growth in recent years was largely attributed to buoyant demand for exports. A sharp deterioration in GDP is forecast for the region, with growth expected to slow substantially from an estimated 5,5% in 2008 to 1,5% in 2009. Growth in the Southern African Development Community **(SADC)** region is anticipated to decelerate sharply as compared to the rest of SSA. A negative 1,9% is expected in 2009, before recovering to 3,9% in 2010. South Africa, which is the region's economic hub, has suffered economic consequences of the global financial crisis, which saw economic growth shrinking for two consecutive quarters thereby pushing the economy into a technical recession. The SA economy suffered its sharpest contraction in 25 years with GDP declining by an annualised 6,4% during the first quarter of 2009. The sectors which have been hard hit are the manufacturing and mining sectors, which reacted by shedding jobs, thus exacerbating the already low consumer demand. More strain has been evident in the motor industry, which reported sales drop of about 34,7% y/y in May. The economy is now forecast to contract by 1,6% in 2009, before posting a recovery in 2010 as the world economy begins to recover and the Soccer World Cup is held. Further afield, Zimbabwe's real GDP is estimated to have contracted by 17% as growth continues to be blurred by the 2008 election violence and subsequent political deadlock. Even though some mines have been reopening and manufacturing of output has slightly recovered, the government of national unity is facing a huge task in turning things around, even with substantial donor support. Resurgence of agriculture in the country is constrained by displaced farmers, lack of inputs and the scourge of HIV/

AIDS. On the business front, many are likely to remain cautious - this is signalled by the scaling back of operations by others to survive the difficult operating environment, and expansion of operations is expected only after the economy has recovered. However, as with most conflict states, the country is expected to recover and growth is projected to be positive in 2010, for the first time since 1999. Meanwhile, Angola's crude oil output is expected to fall as a result of OPEC cuts, which will likely drive the economy to contract in 2009, with real GDP growth forecast to average -2,3%. Real GDP growth in **Central and West Africa** is expected to fall to 2,9% in 2009 and to rise marginally to 3,8% in 2010. The downturn in growth will be driven largely by the expected cut in growth in the Nigerian economy. Continued insurgents fighting for resource control and greater autonomy in Nigeria's oil producing areas are likely to depress oil production throughout the forecast period (2009 – 2012). The country's financial institutions will suffer from worsening investor sentiment and lower consumer confidence, while some banks, due to their high exposure to the Nigerian Stock Exchange which declined dramatically in recent months, will suffer. Overall, real GDP growth is expected to fall to 2,2% in 2009, before recovering modestly to 3,7% in 2010 in line with the global economy. In the DRC, agriculture will be the main source of growth in 2009 as construction, mining and telecommunications falter. Ghana's economy will slow to 4,7% in 2009 as lower prices for its main exports act as a brake on growth. In **East Africa,** growth is expected to dip from 7% in 2008 to 3,6% in 2009 and to rise to 5,4% in 2010. This reflects the expected slowdown in the largest economy in the region, Kenya, where real GDP growth is set to slow further in 2009, to 1,8%, as a result of the global economic downturn and weak commodity prices. Kenya's tourism sector, which was adversely affected by post-election violence, saw the number of tourists coming into the country fall by 34% y/y in the first eleven months of 2008. The struggle in the sector is set to persist as the severe downturn in key European markets that account for the bulk of tourists continues. Inflows from remittances and FDI are expected to decline due to the global slump, and in addition, agriculture will remain subdued as a result of the current very dry weather. Meanwhile, Tanzania's economic growth rate for 2009/10 is expected to slowdown through trade, tourism and FDI sectors. However, the overall economic growth is expected to remain reasonable, underpinned by strong domestic demand as the construction, mining and services sector continue to perform well. The construction sector growth will largely be driven by infrastructure development, notably in road-building and the power sector, funded by international donors. Despite good harvest expected in October to December due to good rainfalls, Ethiopia's economy is threatened by serious electricity shortages due to very low water levels in dams, despite the government commissioning emergency power generators. Growth in Rwanda, Uganda and Madagascar is expected to fall to between 3% and 5%, while Seychelles and Comoros will put more brakes on growth as their tourism sectors continue to endure economic, poor policy and location consequences. However, the outlook for 2010 is brighter and the economy is expected to expand by 5% as tourism picks up again in response to the expected global recovery. Growth in the **Franc Zone** is expected to remain depressed, at 1,5% in 2009 and 3,9% in 2010. The political unrest in the subregion's largest economy, Côte d'Ivoire, in part, contributes to the subregion's slowdown in economic growth. The economic prospects are expected to improve, should the country's elections in late 2009 be held peacefully. However, this can prolong since donors may withhold large amounts of aid until the elected government has been peacefully established, and investors will be cautious for some time to make sure that a lasting peace has been achieved. In addition, the global economic crisis has compounding economic consequences to the already struggling economy as the country experiences reduced demand for some of its commodities, and cocoa production is expected to fall owing to marketing problems and the spread of black-pod disease. Nevertheless, expected donor support – especially in 2010 - is expected to boost growth in the construction sector, and oil production is forecast to rise as the silting of wells in the country's oilfields is offset by drilling. **External debt:** The region's external borrowing is expected to remain high over the forecast period. Meanwhile, sentiments in capital markets remain vulnerable as banks cut on lending in order to de-leverage their balance sheets. Only few creditworthy emerging markets such as Nigeria, Ghana and South Africa will be able to borrow from international capital markets, while others are faced with a risk of more onerous terms if they manage to raise external finance. Locally, businesses across the region will face cash-flow problems as a result of tighter credit conditions and rising debts compounded by interest arrears. In addition, recent and continuing currency depreciations will also place pressure on companies heavily financed in foreign currency. However, global liquidity is expected to improve from 2010 onwards as trade balances improve. **Consumer price inflation**, which has been falling in many countries on the back of weakening demand and sharp falls in commodity prices, is expected to moderate further in 2009. However, the worsening external financing condition is a risk to some currencies within the region. In the medium term, renewed currency depreciation would raise inflation again, curbing domestic demand and negatively affecting export competitiveness. However, in 2009-10 inflation is expected to fall owing to weaker domestic demand and continued adherence to inflation-targeting regimes. Although food price increases are expected to slow down in 2009, this will be light comfort for the majority of the region's countries due to lower agricultural productivity in the region. The continent is becoming increasingly reliant on imported food, and food insecurity remains a significant problem in many African countries. SSA inflation (excluding Angola, the DRC and Zimbabwe) is expected to fall from a high 12,4% in 2008 to 8,6% in 2009 and 6,5% in 2010. Within the four subregions, inflation is expected to be the lowest in the Franc Zone due to the positive effects of the fixed exchange-rate regime, which help to curb imported inflation. In East Africa, inflation will remain considerably higher, however, it is expected to fall to 13,4% in 2009 and 7,6% in 2010. **Current-account:** The current account deficit is set to widen from US$18,3bn in 2008 to US$50,6bn in 2009. A fall in the import bill due to a fall in domestic demand, and a restriction on import capacity due to weaker exchange rates, have fairly curbed an expected surge in the widening of the current account deficit. Both invisible and transfer inflows are also forecast to fall owing to reduced receipts from tourism and remittance flows. **News events that influenced the SSA economy**: According to the International Monetary Fund (IMF), Africa's growth will fall to its lowest levels since 1993, the continent's growth rate is expected to be 2% down from the 3,4% estimated in January. Nigeria's insurgents fighting for resource control and greater autonomy in Nigerian oil producing areas have left consumers faced with fuel scarcity for almost a month in May, as fuel marketers halt fuel importation citing unclear government policy on deregulation and huge debt arising from unpaid fuel subsidies as the reason for their action.

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2007	2008	2009	2010
Growth	5,1	3,1	-2,0	2,5
Consumer Inflation	7,1	11,5	7,4	5,8
Exchange rate[1]	7,05	8,26	8,66	8,65
Interest rate (Prime)[2]	13,16	15,14	12,08	11,00

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

South Africa's CPI **inflation** proved to be sticky in the second quarter of 2009, falling less than expected to 8% in May, from 8,4% in April, mainly due to increases in the prices of food, cars and household goods. International food prices continued to rise, which to some extent explains domestic increases in food prices recorded over the past few months. Vehicle prices have been on the rise, despite the collapse in demand for new vehicles from late last year. The price of vehicles, which makes up 11,3% of the CPI total basket, rose by 1,4% month-on-month (m/m), taking the annual increase to 4,7% from 3,1% in the previous month. Over the coming months, the inflation outlook will be largely dependent on the rand, energy prices, food prices, and services costs. According to the BER forecast, inflation is expected to average 7,4% in 2009, and is expected to move back within the Reserve Bank's target range, averaging 5,8% in 2010. Following two consecutive months of interest rate cuts of 100 basis points each in April and May, the South African Reserve Bank (SARB) decided to leave its benchmark **repo rate** unchanged at 7,5% in June, which most analysts deemed as a pause rather than the end of the cycle. Although the SARB remains upbeat about meeting next year's target, it raised concerns over the downside risks associated with the widening output gap and weak demand being increasingly offset by various cost-push and exogenous factors such as electricity tariffs and wage cost pressures. Since the cutting cycle started in December 2008, the repo rate has fallen by a total of 450 basis points. According to the EIU, additional rate cuts are likely this year as the government attempts to promote recovery, although the reductions will be of smaller magnitude. Real **GDP growth** slowed from an annualised rate of -1,8% in the fourth quarter of 2008 to -6,4% in the first quarter of 2009, which was significantly worse than a market consensus of -3,9%. This is the first time since 1992 that two consecutive quarters of contraction have been recorded, confirmation that the local economy is in a recession. The manufacturing sector has been leading on the grim performance, with volumes shrinking by a further 25% on an annualised basis. Export industries of iron ore and motor manufacturers were hardest hit as the consequences of the global economic slowdown unfold. The mining sector was also hard hit, responding to the crisis through the shedding of more jobs and inventory cutbacks. According to the Bureau for Economic Research (BER) forecast, the outlook for economic growth and employment creation is very grim. Real GDP is forecast to decline by 2,0% in 2009, recovering moderately to a growth rate of 2,5% in 2010. Employment, which tends to slow output growth, is expected to reflect similar trends, declining by 2,2% in 2009, recovering marginally by 0,7% in 2010. **Consumer spending:** Growth in consumer spending declined sharply during 2008, from 4,2% y/y in the first quarter to 0,1% in the fourth quarter, signalling an end to the consumer spending boom in the South African economy which lasted from 2004 to 2007. Soaring food and fuel prices, high interest rates and the implementation of the National Credit Act in June 2007, as well as declining consumer confidence levels, began to exert pressure on consumer spending by the end of 2007. The slowdown was most prevalent in durable goods, which declined by 10,5% y/y in the fourth quarter, followed by non-durable goods which declined by 1%. Semi-durable goods and services still showed a positive growth of 4,3% and 2,6% respectively, in the fourth quarter. However, information from a BER qualitative survey suggests that semi-durable goods and services declined sharply in the first quarter of 2009, while consumer spending on durables probably deteriorated further. In the case of non-durables, retailer confidence increased sharply, suggesting improved trading conditions. Consumer spending is expected to be determined by both positive and negative factors. On the positive side, the expected further declines in inflation and interest rates should boost consumption expenditure; whereas the expected sharp decline in employment and lower wage rate increases will result in a further slowdown in real disposable income which, in turn, will decelerate consumer spending. Forecast survey from the Economic Intelligence Unit (EIU) suggests consumer expenditure will fall in all spending categories in 2009 and into 2010, before recovering at an increasing pace during the remainder of the forecast period (2011 to 2013) as conditions improve. Due to the almost synchronised collapse in trade volumes and a further deterioration in global economic activity in emerging-market economies, current account balances deteriorated. **Current account deficit** deteriorated from 5,8% of GDP in the fourth quarter of 2008 to 7% in the first quarter of 2009. The volume of merchandise exports in the first quarter of 2009 were severely affected by the decline in real production in the economies such as USA, Europe and Japan which are

South Africa's major trading partners. At the same time, due to a slowdown in domestic demand, import volumes also shrank, though at a lesser extent. As a result, the deficit on the trade account widened from R19,6 billion in the fourth quarter of 2008 to R53,4 billion in the first quarter of 2009. The **Rand** exchange rate remained remarkably firm against trading partner currencies driven by positive investor sentiment globally, on the back of signs that the global economic recession is past its worst phase. The strength of the Rand proved to be unshaken by any poor economic data from South Africa, but rather it has been driven more by the positive sentiment globally. Risk aversion has also slacked as data on emerging market bond index (a measure of risk aversion) shows a decline of around 200 basis points since March. Economic risks seem to have diminished as some lead indicators suggest risks associated with economic and financial stress have diminished. However, the IMF has raised concerns over uncertainties, as worries that policy action may be insufficient to arrest the negative feedback between deteriorating financial conditions and weakening economies mounts. On the positive side, signs of a recovery in the global economy could spur a rise in commodity prices which will be positive for the rand. Current account deficit remains a major risk in the medium-term. **News events that influenced the SA economy:** The National Treasury has announced that South Africa collected slightly less revenue than forecasted in 2008/2009 after a weaker economy cut tax revenue, leading to a budget deficit of 1,2% of GDP. Meanwhile, the trade deficit narrowed much more sharply than expected to R57 million in February after ballooning to R17,4 billion in January. Mr Jacob Zuma took the oath of office in May to become the fourth President since South Africa became a democratic country. According to experts, South Africa's food inflation is consistently higher compared with the inflation rates of similar countries and the country may export less grain this year as higher input costs crimp plantings. Furthermore, economic analysts estimate that white and yellow maize shipments, combined, might drop to about 1,5 million tons from 2,16 million tons, over the next 12 months. More bad news continued to define the economy as the recession deepen with data showing an unemployment rate rise of 23,5% in the first quarter of 2009 from 21,9% in the previous quarter, while, new vehicle sales showed deteriorating levels of about 34,7% y/y and 43% in May and April, respectively, compared to a fall of 30,3% y/y in March. The Reserve Bank governor, Mr Tito Mboweni stirred anxiety and confusion among the banking sector when he appealed to them for more competition on their prime rate spreads relative to the repo rate. Currently there is a 3,5% differential between the repo rate and the prime rate. South Africa could experience sharp water price increases in the medium to long term as the costs of brining clean water to consumers rose – a situation which could have serious implications for the economy. South Africa was ranked 123 out of 144 countries surveyed by the Institute for Economics and Peace this year with crime being the major factor contributing to its negative peace ranking, however, Botswana, Malawi and Gabon ranked as the most peaceful countries in Africa. The tax revenue is forecast to be R8 billion lower than the R659 billion target, suggesting the government may have to borrow to meet the shortfall.

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPI inflation rate

2008		2009	2010
11,5	BER	7,4	5,8
	Standard Bank	7,5	6,4
	Absa	7,4	6,0
	Average	7,4	6,1

Sources: BER, Standard Bank, ABSA

Recent trends: South Africa's consumer price inflation slowed less than expected in May, slightly above the 7,9% market forecast. **The headline CPI** in May 2009 was 8,0%, which is 0,4% lower than the corresponding annual rate of 8,4% in April 2009. On average, prices increased by 0,4% between April 2009 and May 2009. Upward pressures came from food and non-alcoholic beverages (the index increased by 0,5%). The transport index increased by 0,8%, mainly due to a 1,4% increase in the price of vehicles. **Producer Price Index (PPI):** The annual percentage change in the PPI was lower at 3,0% y/y in May 2009. According to the BER, the inflation outlook remains positive with a slowdown in prices becoming probable given the lack of demand and the strengthening of the rand. The BER forecast inflation to decline at a slow pace to below 6% in Quarter 3 (Q3) of 2009, averaging 7,4% in 2009 and 6,1% during 2010. The PPI is expected to dip to 2,6% in 2009 Q3 and average 6,4% in 2009. Risks to the inflation outlook will emanate from Eskom's proposed 34% annual price hike, fuel price increase and the wage increase demands, which may delay the inflation rate returning to the target range by the end of quarter 4 of 2009. **Impact on Agriculture:** Input prices are increasing at a faster rate than the prices received for outputs: the price index of machinery trucks and implements increased by 32,9% for the year ended March 2009 compared to 15% the previous year; with prices of fertilizers showing the biggest increase of 103,6 %. Farmers' terms of trade for the year ended March 2009 have declined by 18,4%, as inputs prices continue their upward trajectory. Expenditure on intermediate goods and services increased by 31,7% for the year ended 31 March 2009, with expenditure on fuel showing a sharp increase of 103,3%. The Bureau of Food and Agricultural Policy (BFAP) estimates that input costs will decrease by 3% in 2009, before increasing at an annual average rate of over 5% from 2010 onwards, as a result farmers are faced with the challenge of increasing production with minimal cost (reduced costs). Falling price pressures due to the recession and rising input prices requires investment in management skills to minimize risk and reduce costs if farmers are to increase profitability.

4.2 Growth

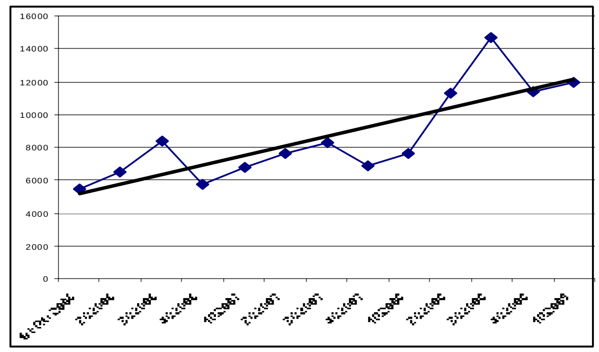
TABLE 5: Annual real GDP growth rates

2008		2009	2010
3,1	BER	-2,0	2,7
	Standard Bank	-1,3	3,0
	ABSA	-1,9	2,3
	Average	-1,7	2,7

Sources: BER, Standard Bank, ABSA

Recent Trends: The 6,4% GDP contraction in the SA economy during the first quarter of 2009 was mainly due to decreases in the manufacturing industry, the mining and quarrying industry; the finance, real estate and business services industry etc. Investment by the public sector boosted the economy from what could have been the worst decline, due to infrastructural development and construction related to the 2010 Soccer World Cup. **Forecast**: The SA Treasury expects a budget deficit of about 4% of GDP for the current fiscal year, with most forecasting models expecting the deficit to range between 4,5% and 5% of GDP. Government spending in SA is expected to boost the economy, preventing a sharper decline - with ambitious targets of creating 500 thousand job opportunities meaning there will be increased government spending on public works projects. The BER forecast that the economy will contract further by 1,7% for the remainder of 2009. Although quarter 2 will undoubtedly deliver another negative growth, the contraction is expected to be less severe, as the fiscal and monetary stimuli start to have an effect on the real economy, according to Standard Bank Research. The rand appreciation due to portfolio inflows has diverted the country's export competitiveness implying that the current account which widened to 7,0% of GDP in quarter 1 of 2009 will still remain at these levels.

Figure1: SA Agricultural exports



Implications on Agriculture: SA Agricultural production is still increasing, and agricultural exports are still displaying an upward trend but the prolonged global recession, the Rand appreciation as well as declined per capita income have an effect on the production and sales of other agricultural commodities. Agricultural products like dairy products and wine are finding it difficult to find markets due to the global economic recession as consumers switch to less expensive staples. The reduction in interest rates brought some relief although consumers are currently using the lower interest rates to pay off their debts. The declining employment globally as well as locally continues to have an effect on demand. Signs of recovery are starting to show in other countries for e.g. China, India etc, and the resumption of global growth would re-establish world demand for agricultural products.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2008		2009	2010
8,26	BER	8,66	8,65
	Standard Bank	8,86	8,35
	Absa	8,56	8,21
	Average	8,69	8,40

Source: BER, Standard Bank and ABSA

Recent trends: According to the Monetary Policy Committee (MPC) of the Reserve Bank, South Africa continued to record capital inflows on the financial account of the balance of payments (BOP) in Q1 2009, although it is at a slower pace than before. The increase in capital inflows boosted the Rand appreciation, - on a trade weighted basis the Rand appreciated by 17,3% since March 2009. Foreign investors have been buying emerging market equities due to higher returns in these economies. In April 2009, the Rand appreciated due to confidence returning in SA as investors felt democracy is strengthening following the smooth running of the elections. Retaining of Trevor Manuel in a higher role and the appointment of Pravin Gordon as Finance Minister also boosted confidence in SA. **Forecast:** The continuing weakness of the dollar is expected to boost the Rand. Signs of recovery in the global economy will spur commodity prices which will be positive for the Rand while concerns that the global economy will take longer to recover than previously thought may also affect demand for currencies. It remains difficult to forecast currency movements with investors still cautious, any domestic risk factor such as strikes, policy changes, etc, is likely to see an outflow of funds, especially with the World Bank report suggesting that SA's policy could be out of step with mainstream thinking on economic development approaches. **Implications on Agriculture**: The continuing strength of the Rand will render SA agricultural exports unattractive on the international markets. South African Grain Information Service (Sagis) exports data of maize and wheat have declined by 53,3% and 58,8% respectively, in April 2009 compared to March 2009 due to, among other things, the strengthening Rand since March 2009.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rates

2008		2009	2010
15,4	BER	12,08	11,00
	Standard Bank	11,00	12,50
	Absa	11,0	11,50
	Average	11,4	11,7

Sources: BER, Standard Bank, ABSA

Recent trends: The Reserve Bank began loosening its monetary policy stance in December 2008 and has since cut rates by 450 basis points. The monetary policy committee decided to keep interest rates unchanged in June 2009, with inflation worries again taking centre stage on the SARB's worries. Growth in private sector credit extension (PSCE) declined sharply from 8,5% y/y in April to 5,7% y/y in May 2009. Other loans and advances (OLA) which includes spending on credit cards as well as cooperates take up of credit declined from 3% y/y in April to -1,9% y/y in May 2009. **Forecast:** Human Consumption expenditure is expected to contract by 1,9% this year - household debt has risen by 5,9% quarter-on-quarter (q/q) in Q1 2009 from 4,7%

q/q in Q4 2008. Job losses have compounded the low purchasing power in the economy, increased debt defaults, and tightened bank rules on credit extensions. The retail sector continued its downward trajectory and business confidence in the manufacturing sector is at its lowest level. BER expects no change in business conditions in Q3 compared to Q2 2009. On the positive side, the stronger rand has given the MPC a passage to make further interest rate cuts, though expected to be of lower basis points as the inflation rate is declining at a slower pace than anticipated. Interest rate cuts alone will not boost the economy but with the aggressive fiscus in place, expectations are that there is increasing pressure on the MPC to effect further cuts especially with influential allies of the ANC, pushing for policies supporting growth. The BER forecast a further 50 basis points cut before the end of the year. **Impact on agriculture**: Debt at the agricultural level is still increasing, having previously increased by 1,0% in the six months between June 2008 and December 2008. Interest payments increased by 15,0 % for the year ended March 2009, because of higher interest rates. The number of defaults at the Land Bank by emerging farmers are speculated to be at 1,2 billion Rands, although commercial banks insisted that there are no bad debts in their books and that loan extensions to farmers haven't changed but credit extensions have declined as tight regulation persist regarding credit extensions. With defaults increasing at institutions for development like the Land Bank, credit extension at the agricultural level will continue to tighten. Credit extension has also been affected by the global economic environment with most trading partners in a recession.

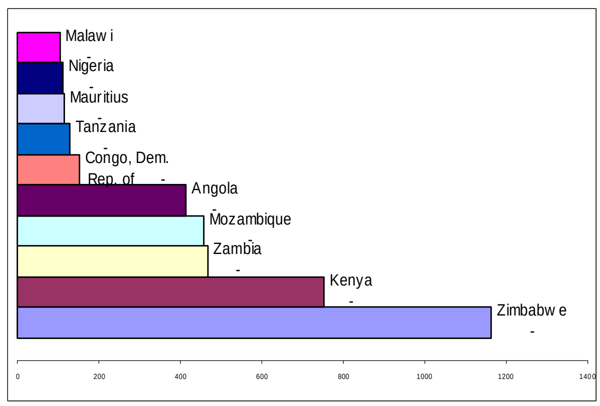
4.5 Employment

The OECD stated that the unemployment rate for the OECD area was 8,3 per cent in May 2009 - 0,3 percentage point higher than the previous month and 2,4 percentage points higher than a year earlier. The majority of nations in the elite club are in recession in the wake of the financial turmoil; as a result, many companies in these countries have resorted to layoffs as part of efforts to reduce costs and expenses. In the Euro area the unemployment rate stood at 9,5 per cent in May 2009 while the United States' unemployment rate for June 2009 was 9,5 per cent, 0,1 percentage point higher than the previous month. In SA, the March 2009 Quarterly Employment Statistics (QES) survey showed that the number of people employed in the formal non-agricultural business sector of the South African economy decreased by about 179 000 persons from December 2008 to March 2009. Employment declined locally from 21,9% in 2008 Q4 to 23,5% in Q1 of 2009, which has a bearing on local consumption. During the period March 2008 compared to March 2009, the following prevailed: the mining and quarrying industry reported an annual decrease of 8 000 employees, the manufacturing industry reported an annual decrease of 66 000 employees, the construction industry reported an annual decrease of 13 000 employees, the wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants industries reported an annual decrease of 58 000 employees. The financial intermediation, insurance, real estate and business services industry reported an annual decrease of 12 000 employees. The agriculture sector continues to be under pressure from the global economic slowdown recording its first negative contribution to GDP; as a result, the number of people employed in the agricultural sector is also expected to decline.

5. INTERACTION BETWEEN SA, AFRICA AND THE WORLD

According to the director general of the WTO, the global economic downturn is far from over although financial markets are showing signs of regaining stability. The economic outlook for the 30-nation OECD area improved in May and there are signs that the downturn in Canada, Britain, the United States, China and India has reached a bottom. The indicator for the major economies in the Group of Seven climbed to 93,3 from 92,5 in April. OECD composite leading indicators for May 2009 point to tangible signs of improvement in the outlook of most OECD economies. There were also encouraging signs in France, Italy, China and India. Current data shows signs of SA agricultural exports re-establishing themselves in developed economies. Most SA agricultural exports in the first quarter were destined to the Netherlands, followed by the UK, Zimbabwe, Kenya and Germany, with developed countries starting to take their grip as SA agricultural export destinations than in the previous quarters since the global economic crisis intensified. It seems as if SA agricultural exports are recovering lost grounds in developed countries as positive signs start to emerge. Most of SA agricultural imports were form Argentina, Brazil, Thailand, China and Malaysia. Imports from Argentina and Brazil to Southern Africa are increasing at a faster rate surpassing SA agricultural exports to Southern Africa because of these countries' competitiveness in the agricultural sector. The main African destinations for SA agricultural exports in quarter 1 of 2009 remained Zimbabwe, followed by Kenya, Zambia, Mozambique and Angola.

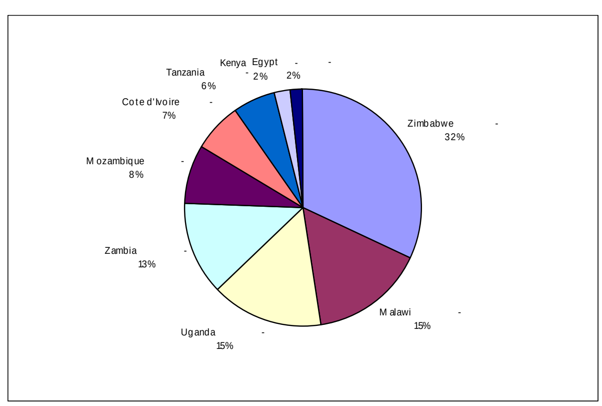
Figure 2: SA agricultural exports to Africa



Source: Directorate International Trade

SA still remains an important market for Zimbabwe's agricultural products, followed by Malawi, Uganda, Zambia and Mozambique.

Figure3: SA agricultural imports from Africa.



Source: Directorate International Trade

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

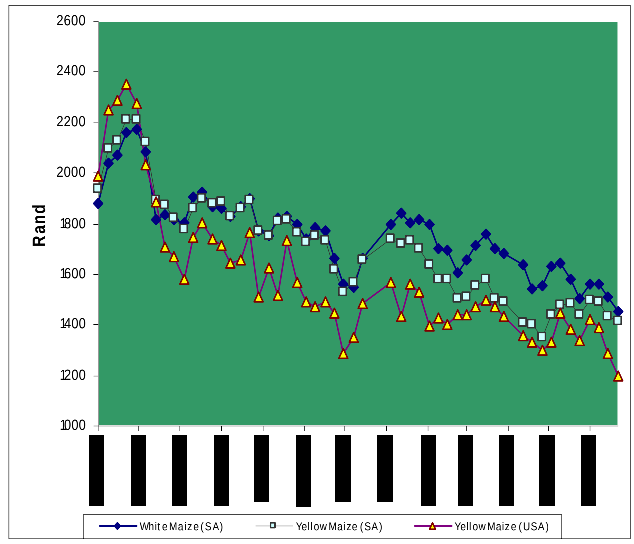
TABLE 8: Prices of major grains per ton

	End Jun 2008	End Jun 2009
White Maize price	R2 200	R1 442
Yellow Maize price	R2 256	R1 392
Wheat price	R4 030	R2 568
Sunflower price	R5 316	R3 165
Soya price	*R4 702*	R3 385

Source: Safex

Domestically, both white and yellow maize were below the R1 500 per ton price range. According to the SAGIS monthly bulletin released in June, the human consumption of **white maize** for the 2008/09 marketing season was 4,2 million tons, which is significantly higher (18,2%) than the previous marketing season. With reference to **yellow maize**, the usage of yellow maize in the animal or industrial sector for the season was 3,4 million tons, which is 11,1% more than the previous marketing season. Considering the total maize exports of 2,2 million tons for the season that ended April 2009, it was interesting to note that white maize exports which amounted to 1,9 million tons in the 2008/09 marketing season exceeded that of the 2005/06 season (1,8 million tons) and is therefore the highest figure in recent history. The price of white maize and wheat decreased by 34,5% and 36,3% at the end of June 2009 compared to the end of June 2008.

Figure 4: Domestic and US maize prices



Source: Safex

According to the Food and Agriculture Organisation (FAO), the global economic downturn combined with persisting high food prices in developing countries have increased world hunger to a record high in 2009 despite adequate food supplies. The number of undernourished people in the world has increased by about 100 million to 1,02 billion this year. In the mid-June statement, FAO outlined that 642 million undernourished people are in Asia and the Pacific - 10,5% more than in 2008 - while 265 million are in SSA followed by 53 million in Latin America and Caribbean with a total of only 15 million found in developed countries. The problem of lower incomes due to the economic crisis and persisting high food prices has proved to be a devastating combination for the world's most vulnerable populations. Although FAO estimates that the 2009 world cereal harvest will be the second largest ever - and only slightly less than last year's record farm output - the economic crisis has reduced incomes of the urban and rural poor while food prices remain high in developing countries. By the end of 2008, staple food costs in real terms were 24% higher than in 2006. Poor households respond to reduced incomes and high food prices by lowering food intake and substituting nutritious, expensive food for cheaper, less nutritious staples. Field surveys in Bangladesh have found the poor eating less, buying less nutritious and cheaper food, cutting down health expenditures and being forced into debt. **Wheat prices:** According to the United States Department of Agriculture (USDA), China's 2009/10 soybean production is estimated at 15,6 million tons, unchanged from last month but down 0,4 million or 2,5 percent from last year. Soybean area is estimated at 9,1 million hectares, unchanged from last month but down 0,4 million from last year. Area planted dropped in 2009/10 in response to poor profits and stronger government support for other crops. The estimated yield of 1,71 tons per hectare is slightly higher than last year and equal to the 5-year average. In eastern China, the weather was generally favourable for planting. Excessive rainfall was reported in parts of central and southern China during May and early June, but the impact on soybeans was likely to be insignificant. Chinese officials reported that April crop conditions were better than expected and production prospects had improved over time. The most sensitive period for winter wheat development is at the end of April and beginning of May, when the crop is in the critical flowering stage and moisture demands are highest. **Soybeans:** In June 2009 the US oilseed supply and use projections for 2009/10 showed reductions in beginning and ending stocks. Lower beginning stocks reflect higher export and crush projections for 2008/09. Soybean exports for 2008/09 are raised to a record 1,25 billion bushels reflecting record sales and increased projected imports for China and reduced soybean exports from Argentina. Projected soybean exports for Argentina for 2008/09 are down by 2 million tons to 5,4 million, the lowest in 9 years. U.S. soybean crush is raised mainly due to higher projected soybean meal exports. Soybean ending stocks for 2008/09 are projected at 110 million bushels, down 20 million from last month. Ending stocks for 2009/10 are also reduced 20 million bushels to 210 million. Other changes this month include reduced soybean oil used for biodiesel production for 2008/09 and increased soybean oil exports for both 2008/09 and 2009/10. Higher soybean oil exports reflect lower projected exports from Brazil due to increased biodiesel production and use. Brazil's soybean area for 2009/10 is forecast at 22,0 million hectares, up 0,6 million or 3% from 2008/09. Production is forecast at 60,0 million tons, up 3,0 million tons from the estimated 2008/08 output of 57,0 million tons. The 2009/10 forecast yield is 2,73 tons per hectare, slightly above the 10-year trend of 2,70 tons per hectare.

6.2 Crop production and estimates

Table 9 summarises the estimated area planted and sixth production forecast of summer crops for the 2008/09 production season as well as the area planted and final crop for the 2007/08 season for certain summer crops. The final production of white and yellow maize for the 2007/08 season was 7,5 and 5,2 million tons respectively, with a combined total of 12,7 million tons of maize. The area planted to **white and yellow maize** is 1,7 and 1,1 million hectares, respectively. **The preliminary estimate** for maize area planting in the 2008/09 season is 2,4 million hectares, which is 13,3% ha less than the 2,8 million ha planted for the previous season. The area estimate for white maize is 1,5 million ha, which is 14,3% less than the 1,7 million ha planted in the previous season. The area estimate for yellow maize is 938 500 ha, 11,7% less than the 1,1 million ha planted last season. The production of both white maize and yellow maize remained unchanged at 6,8 million tons and 4,8 million tons from the previous forecast. Hence the total production forecast of maize crop remained unchanged at 11,6 million tons from the previous forecast. The majority of SA maize is still planted in the Free State, North West and Mpumalanga Provinces. The expected plantings of maize in the Free State for the 2008/09 season remain unchanged at 955 000 ha, a decrease of 18,4% from 1,2 million ha in 2007/08. The expected plantings of maize in North West decreased by 10,9% from 780 000 ha last season to 695 000 ha this season, while Mpumalanga plantings are forecast to decrease by 7,9% from 518 000 ha to 477 000 ha. The production forecast for **sunflower** seed for 2008/09 is 843 530 tons, which is 31 750 tons lower than the previous forecast of 875 280 tons. The preliminary area estimate for sunflower seed remained unchanged at 635 800 ha for the 2008/09 season. The production forecast for **soya-beans** is 506 595 tons, which is 16 460 tons higher than the previous forecast of 490 135 tons and the estimated area planted to soya-beans for the 2008/09 season is 237 750 ha. The expected **groundnut** crop is 96 060 tons, unchanged from the previous forecast, while the area estimate also remained unchanged at 54 550 ha. **Table 10** summarises the most important winter crops for the 2008 and 2009 production

TABLE 9: Area planted estimate and sixth production forecast of Summer Crops for the: 2008/09 production season

Crop	Area planted estimate 2008/09	Actual area Planted 2007/08	Final crop 2007/08	5th production forecast 2008/09	6th production forecast 2008/09
	Ha	Ha	Tons	Tons	Tons
White maize	1 489 000	1 737 000	7 480 000	6 799 550	6 799 550
Yellow maize	938 500	1 062 000	5 220 000	4 803 850	4 803 850
Total Maize	2 427 500	2 799 000	12 700 000	11 603 400	11 603 400
Sunflower seed	635 800	564 300	872 000	875 280	843 530
Soya-beans	237 750	165 400	282 000	490 135	506 595
Groundnuts	54 550	54 200	88 800	96 060	96 060
Sorghum	85 500	86 800	255 000	261 900	261 075
Dry beans	43 800	43 800	58 975	63 230	63 230
TOTAL	**3 484 900**	**3 713 500**	**14 256 775**	**13 390 005**	**13 373 890**

Source: Crop Estimates Committee

seasons. The preliminary estimate of area planted for wheat is 653 000 ha, which is 12,7% less than the 748 000 ha planted the previous season. According to producers, the decrease in the expected planting of wheat can be due to relatively lower prices compared to the high input cost. The main producing areas are within the Western Cape with 310 000 ha, which is 40 000 ha less than the 350 000 ha planted the previous season. Followed by the Free State with 235 000 ha, which is 45 000 ha less than the 280 000 ha planted in 2008 and Northern Cape with 44 000 ha, 6000 ha less than the 50 000 ha previously planted. The wheat final production estimate for 2008 is 2,1 million tons, which is 1,9% or 40 225 tons more than the 2,1 million tons of the previous estimate. The area planted to **malting barley** is 72 850 ha, which shows an increase of 6,7% or 4 605 ha compared to the 68 245 ha of the previous year. The area planted to **Canola** is 36 050 ha, which is 2 050 ha more than the 34 000 ha planted in 2008.

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