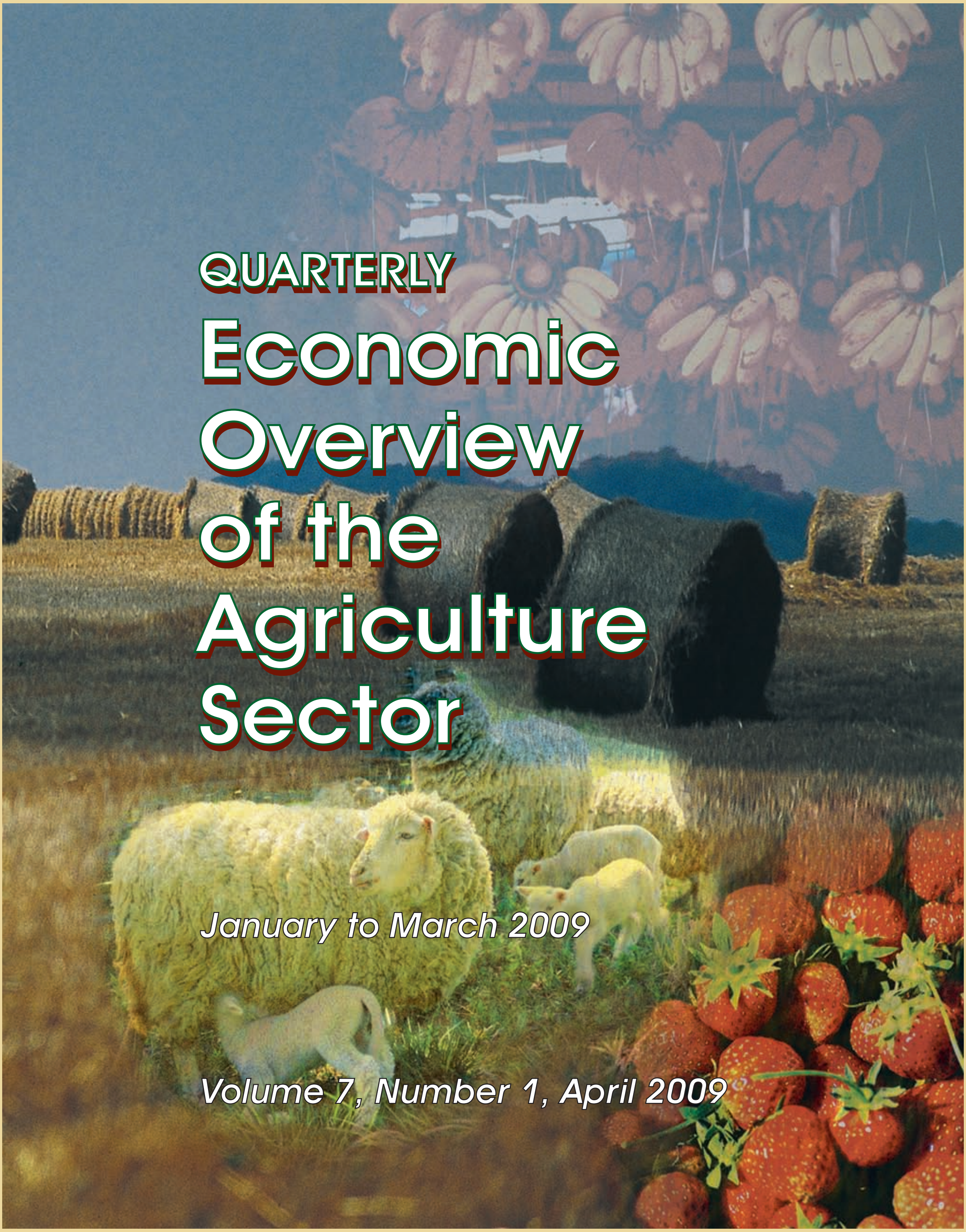

QUARTERLY

Economic Overview of the Agriculture Sector

January to March 2009

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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 (DoA) 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.

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

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1. WORLD ECONOMY

As the global financial crisis intensifies, a number of countries which have suffered negative economic growth for two consecutive quarters find themselves in recession, prompting the IMF to forecast only 0,5% **growth** for the global economy in 2009 - the weakest global economic growth since World War II. The UK economy contracted by 1,5% during the fourth quarter of 2008 – its biggest quarterly fall since 1980, while the US economy plunged by a massive 6,3% – its biggest drop since the fist quarter of 1982. The global commodity prices also plummeted owing to a marked slowdown in global demand. World trade volumes declined sharply as a number of countries experienced a plunge in exports. The IMF forecast that the **world trade** in goods and services will decline by almost 3% in 2009. International oil prices also followed cues from what was happening in the markets, trading around $40/bbl despite huge OPEC supply cuts and the Russia/ Ukraine gas dispute. According to BER, global oil demand will fall by 500 000 barrels per day in 2009 as global economic activity slows. However, oil may recover fast if demand returns - posing a risk of sharp oil price increases - but growth which is expected to remain at low levels for some time will prevent oil from re-testing the record highs seen in mid-2008 anytime soon. **Inflation:** Commodity prices fell sharply from 2008 mid-year highs, while at the same time; rising economic slowdown has curbed wage increases and eroded profit margins. As a result, the 12-month headline inflation in the advanced economies fell below 1 percent in February 2009, although core inflation remained in the 1 and half to 2 percent range with the notable exception of Japan. Inflation has also moderated significantly across the emerging economies, although in some cases weak currencies have moderated the downward momentum. The IMF has warned that even though measures of inflation expectations still remain in the 1-2 percent range, sustained high rates of excess capacity together with sharp falls in house and equity prices threaten continued declines in consumer prices that could eventually lead to entrenched expectations of price deflation. (IMF, April 2009). **News events that influenced the world economy**: Excitement was high across the US and the world as the Democratic senator Barrack Obama was sworn in as the nation's first black president in January. WTO trade head cited he believed that a global deal was possible this year, which would be a relatively easy way to help ease

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

Countries	2007	2008	2009	Countries	2007	2008	2009
World[1]	5,2	3,2	0,5	China	13,0	9,0	6,5
USA	2,0	1,1	-2,8	India	9,3	7,3	4,5
Japan	2,4	-0,6	-6,2	Latin America	5,6	4,6	3,2
Euroland[2]	2,7	0,9	-4,2	East-central Europe	5,4	2,9	-3,7
ASEAN-5[3]	6,3	4,9	0,0	Sub-Saharan Africa	6,9	5,5	1,7

Source: IMF [1] PPP [2] The 11 Euro countries [3] Indonesia, Thailand, Philippines and Malaysia the global crisis. Meanwhile, the IMF has cut its global economic growth forecast for 2009 to a slight 0,5%, warning that deflation risks were rising and saying toxic assets need to be removed from the banking system. The US economy shrank at a 6,2% annual pace in the fourth quarter of 2008 – its biggest contraction since 1982. The WTO has warned that world trade could contract by 8% (more than $1 trillion) and global job threats are set to rise, if all WTO members would continue to impose import tariffs in a protectionist response to the global economic crisis. The US treasury had announced details of a planned $1 trillion buyout of bank's distressed assets. (Price Watch, 2008)

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub-Saharan Africa – Economic Outlook

	2007	2008	2009	2010
Growth	6,3	5,5	1,1	4,2
Consumer Inflation	6,4	12,4	7,7	6,5
External Debt[1]	162,5	169,0	163,6	170,7
Current Account[1]	-23,7	-19,5	-57,9	-47,3

Source: EIU [1]US$ Billion

With economic prospects in the sub-Saharan Africa (SSA) having deteriorated significantly in recent months, **regional real GDP** is expected to slowdown to 1,1% in 2009, before accelerating to 4,2% in 2010. More marked forecast deceleration in Asian growth will have a serious impact on countries in the region which are major exporters of commodities to Asia. Overall, weakening domestic demand will define the contraction in regional GDP growth in 2009. Domestic demand in some economies will also be affected by weakening inflows of remittances from the US and the EU, mainly due to the slowdown in the US and the EU economies and the tighter immigration control in both countries. Growth in the **SADC** region is anticipated to decelerate sharply as compared to the rest of SSA, a 1,3% contraction is expected in 2009, before recovering to 3,8% growth in 2010. The economic outlook for South Africa, which is the most influential economy in the region, remains bleak. The country's growth is expected to continue its slowdown in the first half of 2009 – this will mark the country's third contraction since the 3rd quarter of 2008, thereby pushing the economy into a technical recession. The manufacturing, retail and mining sectors will remain hard hit with serious job losses and a sharp decline in consumer spending is expected. According to EIU, growth in South Africa is projected to contract by 1,6% in 2009, before recovering in 2010 boosted by the Soccer World Cup event. South Africa may enter a deeper than forecasted recession should consumer and business confidence deteriorate further. Further afield, Angola's economy will be mostly driven by developments in the oil sector. Crude output is predicted to fall from an estimated average of 1,91 million barrels/day in 2008 to 1,78 million barrels/day in 2009 owing to OPEC cuts, before recovering to 1,9 million barrels/day in 2010. Meanwhile, real GDP in **Central and West Africa** is expected to fall to 3,1% in 2009 before rising marginally to 4,6% in 2010. The decline in sub-regional growth will be largely due to growth cuts in the Nigerian economy owing to depressed oil production as a consequence of ongoing riots from rebel militias, which have intensified since April 2008. In addition, the OPEC quota cut introduced in December 2008 will force Nigerian authorities to cut down its oil production. Overall, real GDP growth is forecast to fall to 2,7% in 2009, before recovering modestly to 4,4% in 2010 in line with the global economy. Meanwhile, in the DRC, agriculture is expected to remain the main source of growth in 2009 as other sectors of the economy slow down. A 3-5% real GDP growth is expected in 2009/10 with investment in the mining sector expected to move slower than previously expected, with some companies expected to abandon their plans altogether. On the other hand, Ghana's economy will slow to 5,2% in 2009 as a decline in international commodity prices affects its export industry. However, with oil production plans in the pipeline for 2010, greater activity in the oil sector is expected to boost the economic growth. Growth in **East Africa** is expected to slowdown from 6,9% in 2008 to 3,9% in 2009 before accelerating to 5,6% in 2010. This reflects an immediate slowdown in Kenya's economy which is the largest in the sub-region. The tourism sector, which was adversely affected by post-election violence, will remain under pressure as the downswing in key European markets that account for the bulk of tourists continues to persist. The agricultural sector will remain subdued as a result of the current adverse dry weather conditions and the ripple effect from post-election disruptions. Meanwhile, Tanzania's economy is expected to slowdown and this will be evident in foreign investment, trade and tourism. However, the strong growth in construction, mining and services sector will keep the expected growth sound. Growth is also expected to fall to between 3% and 5% in Uganda, Rwanda and Madagascar. Growth in Seychelles and Comoros, the region's smaller island economies, will continue to suffer, restricted by their physical isolation and poor economic policies. Due to a slowdown in the tourism sector in Seychelles, economic growth was approximately zero in 2008 and it is expected to contract steeply by 10% owing to an increasing decline in the number of tourists in the country. Growth in the **Franc Zone** is expected to remain depressed, at 2,4% in 2009 and 3,7% in 2010. The political unrest in the sub-region's largest economy, Côte d'Ivoire, in part, contributes to the sub-region's slowdown in economic growth. The economic prospects in the sub-region will be largely dependent on measures taken by the country to stabilise its political convulsions - hence the food crops and services sector are expected to get the boost from the peace dividend, while the construction sector will benefit from increased donor support in 2010. **External debt:** Although a number of countries have benefited from the external debt write-offs under the Multilateral Debt Relief Initiative by helping push down the external debt stock substantially, the region must remain cautious on external medium- and long-term borrowing as the global financial turmoil persists, increasing strains on domestic financial markets. Under the current conditions, 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**: Good governance underpins sustainable development and poverty reduction. The recent findings of the 2nd annual Index of African Governance reveal that governance in Africa has improved somewhat. The Index reveals that 34 of 48 governments have begun delivering improved services to their citizens. Multiparty systems have now become a convention in Africa; leaders in most countries are given two terms to rule and thereafter a successor is chosen in a democratic election. Most economies have been opened, and transparency levels have increased through the increased use of internet. Notably, the Index shows that Liberia, the most improved country in Africa, moved up in rankings from 44th to 38th place since last year, largely due to the leadership of President Ellen Johnson-Sirleaf, Africa's first woman head of state, and also due to her efforts towards post-conflict reconstruction. The top performers were the countries that have been well managed since their achievement of independence from colonial rule; Mauritius, the Seychelles, Cape Verde, Botswana, South Africa, Namibia, Gabon, Ghana, Sao Tome and Senegal. Characteristics of each of these countries are commitment to solid rule of law, performance with moderate corruption, wealth and literacy, and with the exception of SA, secure or safe environments with moderate crime. However, with the current world economy at the brink of a melt down, African governance and conflict will be put to the test. Given the severity of the current crisis, experts believe it may have unprecedented regional governance and political consequences, and may eventually fuel governance reform turnarounds, reasoning out that poor governance and conflicts are likely to hold back growth recovery and vulnerable groups are the most exposed. **Consumer inflation** is expected to moderate further in 2009, owing to weakening demand and sharp falls in commodity prices. 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. During 2009/10 inflation is expected to fall, owing to weaker domestic demand and continued adherence to inflation-targeting regimes. However, although food prices will be lower in 2009, this will be light comfort for the majority of the region's countries due to lower agricultural productivity in the region. According to the EIU, the region's agricultural productivity is lower than anywhere else in the world, at US$337 per worker, or just 39% of the global average. Nine of the ten countries with the world's lowest cereal yield per hectare are in SSA; with Libya in the tenth place. Farm output has been growing at just 2,5% annually since 1960, which is below population growth rates and has resulted in lower per capita food production. Regional inflation (excluding Angola, the DRC and Zimbabwe) is expected to fall from a high 12,4% in 2008 to 7,7% in 2009 and 6,5% in 2010. Inflation is expected to be considerably higher in East Africa, but to fall from 22,5% in 2008 to 9,8% in 2009 and 7,3% in 2010. This is due to the fact that inflation in the sub-region is the most volatile, with food accounting for a substantial component of the CPI basket of goods in most countries within the sub-region and also, the susceptibility of most economies to drought. Inflation in the Franc zone will continue to remain the lowest of all the four sub-regions owing to the fixed exchange-rate regimes, which helps to curb imported inflation. **Current-account:** Although there are only a limited number of oil-exporting countries in SSA, they tend to have a major impact on the trade and current-account forecasts. This is because these countries have highly volatile trade balances that are largely determined by the oil price. 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, SSA 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) and as a result the region still runs a current-account deficit. (EIU, Q4 2008) **News events that influenced the SSA economy**: One of the most notable outcomes of the Group of 20 (G-20) meeting in London on 2 April 2009, was the proposed share of emerging markets and developing economies of the US$1,0 billion stimulus package. This package included the financial support to boost IMF lending capacity, in order to assist distressed economies by mitigating the global recession and reviving global trade. Furthermore, most notably for Africa, a proposal to double concessional loans to low income countries was tabled. Despite an extremely open-handed offer extended by the EU to SA in December – which proposes to outline EPA with SA's existing trade arrangement with the former – SA, Namibia and Angola have written a letter of concern to the EU contending the exclusion of the MFN principle in the deal and the fact that it hampers regional integration as EPA was negotiated under different configurations. After months of tough power sharing talks brokered by regional leaders, the country's economy and its people got a breakthrough as Zimbabwe's opposition, Morgan Tsvangirai was finally sworn in as Prime Minister in February giving the people a hope for political and economic stability. The Libyan leader, Muammar Gaddaffi was elected chairman of the AU during the opening session of the 12th AU summit in Ethiopia in February – succeeding Tanzanian President, Jakaya Kikwete (Price Watch, 2008)

3. SOUTH AFRICAN ECONOMY

TABLE 3: South Africa – Economic Outlook

	2007	2008	2009	2010
Growth	4,9	3,1	-0,8	2,5
Consumer Inflation X	6,2	11,5	6,8	5,3
Exchange rate[1]	7,10	8,26	10,01	9,67
Interest rate (Prime)[2]	13,2	15,14	11,92	10,50

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

South Africa's new benchmark CPI **inflation** which replaces the CPIX rose by 1,2% m-o-m in February; taking the annual rate up to 8,6% from 8,1% in January. Services inflation, now having a much larger weighting in the new inflation basket, re-accelerated sharply from 5,8% y-o-y in December to 8,2% in January – causing it to remain the main culprit in February's inflation rise. Unlike in most months of the past year, food and petrol accounted for a small portion of the 1,2% m-o-m increase. Food prices at the retail level declined by 0,1% m-o-m and are expected to ease to a single digit by year end. In the services sector, insurance and medical costs rose by 6,4% and 6,2% respectively, over the month. According to BER, CPI inflation is expected to moderate sharply to an average of 6,8% in 2009, and is expected to dip below the upper 6% band of the Reserve Bank's target towards the end of 2009 and will remain within the 3% to 6% target range throughout 2010. The South African Reserve Bank (SARB) cut its benchmark **repo rate** by a further 100 basis points in March after another 100 basis points cut in February 2009, bringing the total easing since December 2008 to 250 basis points as the medium-term inflation outlook improved. The Economist Intelligence Unit (EIU) forecasts further rate cuts over the remainder of 2009 influenced more by easing price pressures, before a recovery in demand propels a slightly tighter monetary stance in the second half of 2010. Real **GDP growth** slowed from an annualised rate of 5% in quarter 2 of 2008 to 0,2% in quarter 3 of 2008 and -1,8% in quarter 4 of 2008. The fourth quarter GDP figure represents the first contraction since 1998. The BER is of the view that the economy still has to undergo a serious adjustment to the current situation before a recovery sets in. The SA economy was under a lot of pressure during 2008 and some of the challenges have been sharp declines in consumer demand in reaction to higher inflation and interest rates. This was emphasized by plunging new vehicle sales, which declined by more than 20% for 2008 as a whole. Another challenge has been the constrained production side of the economy actuated by weakening global demand and Eskom's electricity supply problem. The weak domestic demand coupled with the almost unprecedented global economic weakness are expected to impact the SA economy mainly through exports, with the BER projecting a 2,7% decline in exports during 2009. Also, due to the fact that SA's major export industries are labour intensive, the export concern may also affect employment in the sectors. The net effect of job losses will suffice in a further decline in consumer spending. According to BER, growth is expected to pick up steam to 2,5% during 2010, but before that, growth is forecasted at -0,8% in 2009 from 1,9% at the end of 2008. **Consumer spending:** Domestic spending remained under enormous pressure in the last quarter of 2008 as consumer spending continued to decline. 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. Total real consumer spending slowed dramatically to only 1,8% y-o-y during the third quarter of 2008 – this represents the weakest growth in real consumer spending since the second half of 1998. According to SARB, demand for durable goods in the fourth quarter of 2008 fell by a massive 20,1% following the 7,6% contraction in the previous quarter. Spending on non-durables also fell for the second successive quarter, down by 2,3% following a 3,2% decline in the third quarter. The outlook for consumer spending in 2009 is bleak as current recessionary conditions are expected to intensify during the months ahead. Much of consumer spending will be affected by projected employment losses. There is a real risk that retrenchments in 2009 could turn out to be more severe than forecast. According to BER, growth in real consumer spending on non-durable goods will slow from 5,5% in 2007 to 1,7% during 2008, and edge up to 1,9% in 2009, before recovering to 2,9% in 2010. Real consumer spending on durable goods is expected to contract by a further 5,1% in 2009, before increasing by 5,6% in 2010. For the semi-durable goods category, real spending growth of 2,1% and 3,8% is forecasted for 2009 and 2010, respectively. The **current account deficit** narrowed to 5,8% of GDP in the fourth quarter of 2008 from 7,8% in the third quarter as the **trade deficit** narrowed. The trade deficit dropped to a seasonally adjusted and annualised R19,6 billion from R36,7 billion in the 3rd quarter. A sharper decline in imports compared with exports was reflected in the figures. The current account deficit is expected to grow to 8% of GDP in 2008, owing to the shortfall in merchandise trade and a far larger gap on non-merchandise trade. Exports are expected to remain under pressure as the global slowdown persists, while domestic demand and subdued international commodity prices should keep imports under pressure too. The **Rand** remained volatile and traded in a wide range during the 1st quarter of 2009. Rising risk aversion was reflected in the rand's movements as concern about global banking losses, poor results from top US companies and news that the UK economy shrank by 1,5% in the 4th quarter of 2008 increased the level of uncertainty in the market. Notably, during the last month of the quarter, the rand's performance proved to be more dependent on global sentiments rather than local events. These events have made it clear that the overriding issue for the ZAR is how the US$ responds. Besides the international woes, other forces at play involve current account funding difficulties as a result of low foreign currency inflows and low commodity prices. The BER expects that the rand will average R10,11/US$ during the first six months of 2009. This would imply that the currency would be 14% weaker than the level prevailing in the second half of 2008. **News events that influenced the SA economy:** Annual average house price growth in the middle segment of the housing market slowed to below 4% in 2008. Following significant oil price cuts during November and December 2008, the petrol price was hiked in February and March 2009. In February, the petrol price increased by 61c/ litre bringing the inland price to R6,43/l while the diesel price dropped slightly by 6c/litre. On the other hand, March saw a petrol price hike of 45c/ litre while diesel and paraffin prices declined by 38c/l and 26c/l, respectively. As one of the measures to minimise the impact of the global economic crisis on the country's growth and employment prospects, the then acting President, Kgalema Motlanthe, announced during the January State of the Nation Address a four-point stimulus plan which will:- ensure that public investment projects are implemented; focus on intensifying and expanding public sector employment programmes; develop mitigating strategies to counteract slowing investment in the private sector; and sustain and expand social expenditure. The country's budget was tabled in parliament during February by the minister of Finance, Trevor Manuel. In his speech, the Minister announced a budget deficit of 3,9% of GDP to allow spending on infrastructure and continued support for the poor despite a worsening economic climate and shrinking tax revenue. SA's trade deficit swelled to a record R17,4bn in January as exports dropped sharply by 25%, an indication that the global recession is beginning to take a heavy toll on the country's economy. According to South African Wine Industry and Systems (SAWIS), wine grape forecast has been cut by 1,6% to 1,3 million tons from an estimate done in January, and harvests are expected to fall by 8,5% from last year's record as the yield in the Orange River region is expected to drop by 36%. Agriculture experts are proposing radical ways of kicking speculators out of the food market in order to stabilise prices; experts at the International Food Policy Research Institute (IFPRI) said the goal is to establish a mechanism that will – through market transactions – minimise any speculative attack on food commodity markets to avoid price spikes in the future. Since the Reserve Bank's announcement that it would meet every month for the rest of the year, except July, due to the rapidly deteriorating state of the economy, the first monthly meeting which was held in March saw the cut in the interest rate by 100 basis points, bringing the total rate cut to 250 basis points since December 2008. (Price Watch, 2008).

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPI inflation rate

2008		2009	2010
11,3	BER	6,8	5,3
	Standard Bank	6,9	5,6
	Absa	6,0	5,4
	Average	6,6	5,5

Sources: :BER, Standard Bank, ABSA

Recent trends: The South African Reserve Bank switched to a new measure of inflation; the **Consumer Price Inflation (CPI)**, which replaced the CPIX as a new measure of inflation targeting. The new CPI basket is considered by Statistics SA as an up-to-date reflection of current prices in South Africa and includes inflation on things such as minibus taxi fares, restaurant and take-away meals, funeral costs, hotel rooms, sports event tickets, DVD players and internet costs. SA inflation rate has improved in recent months although it still remains high - the inflation rate has been above the targeted range for over 21 consecutive months. Earlier in the year, upward pressures came from food and services, but the fall of R1,34 per litre in the petrol price provided some relief. CPI inflation was higher than expected in February at 8,6% - from 8,1% in January - driven by insurance premium increases, alcoholic beverages and tobacco as well as health services, which have increased significantly mainly due to their new weighting in the overall inflation rate. **Producer Price Index (PPI)** - Producer inflation declined by an annual rate of 7,3% in February 2009, which is 1,9% lower than the January 2009 annual rate. The decline in PPI is due to the global recession which has resulted in lower demand. Downward pressures came from basic metals, non electrical machinery and equipment, fishing, metal products, food at manufacturing, chemicals and chemical products, agricultural products, and also mining and quarrying. **Forecast**: The Reserve Bank forecasts inflation to average 8,1% in quarter 1 of 2009, before declining to below 6% in the third quarter of 2009, however, as a result of technical basing effects, inflation is expected to exceed the target range before returning to the target range in the second quarter of 2010. The BER project CPI to average 6,8% in 2009. The rand appreciation is expected to boost the downward pressures on inflation, while the fall in commodity prices led by the negative economic environment, is playing an important role in shaping SA's inflation outlook. The CPI and PPI are forecast to moderate sharply during 2009, although forecasts are subject to a high level of uncertainty due to the volatile risks presented by the global economic downturn. Other risks to the inflation outlook will emanate from cost push factors like the electricity tariff hikes and the fuel price hike effective from April, but the lower weighing of petrol in the new measure of inflation is expected to reduce its effect on total inflation. BER forecast CPI to decline below 6% in the third quarter of the year, with ABSA estimating the CPI to be around the 5% range in the medium to long term. **Impact on Agriculture**: Domestic food prices have been coming down since the beginning of 2009 with the CPI on food declining from 16,1% in January 2009 to 15,8% in February and 14,9% in March. The global financial crisis has led to the easing of agricultural prices, which have soared since petrol and fertilizer prices rose sharply in 2008 - leading to an increase in input costs such as seed and feed costs. The easing input prices are expected to result in a decline in farm input costs, which have risen by 26,5% in December 2008 compared to December 2007. Petrol and fertilizer prices were the biggest drivers of intermediate costs with prices rising by 78,0% and 76,8% for fuels and fertilizers, respectively. Expenditure on farm feeds, fuels and fertilizers were the biggest expenditure items in 2008. Prices of farming requisites increased by 33,0% in 2008 compared to a rise of 11,5 % in the previous year. Petrol and fertilizer prices -which had an upward pressure on the inflation rate - came down significantly. Expectations are that with food prices starting to come down, the income of farmers will decline from their record highs in 2008. Much of the decline in prices will also depend on the good rainfalls and positive developments that might contribute to agricultural output.

4.2 Growth

TABLE 5: Annual real GDP growth rates

2008		2009	2010
3,1	BER	-0,8	2,5
	Standard Bank	0,2	3,0
	ABSA	0,7	3,3
	Average	0,03	2,9

Sources: BER, Standard Bank, ABSA

Recent Trends: South Africa may be heading towards a recession for the first time in 17 years after recording a negative growth rate of 1,8% in the fourth quarter of 2008. This contraction was mainly due to declines in the manufacturing sector and it seems as if the worst is not over yet as the demand side continues to be under pressure. The SARB MPC announced that domestic demand is expected to remain under pressure as a result of declining disposable income, tighter credit extension and negative wealth effects. The local economy's poor showing is incited by the worsened global economy, with the IMF and the World Bank revising their global growth forecast downward to between 1% and 2%. Forecasts were also of a 2,1% decline in global export volumes this year - the first drop since 1982 - which could worsen to 8% if protectionist policies are introduced according to the World Trade Organization (WTO). Manufacturing, one of the biggest contributors to GDP in SA, fell by 15% on an annual basis in February 2009 from a revised -12,9% y/y in January 2009, with the retail sector declining by 4,5% in February. Although other sectors like the agriculture sector were positive towards growth, they could not offset the negative growth by the key sectors. **Forecast**: According to BER, key sectors are already in a recession or heading to two successive quarters of contractions. The data available for February continues to be negative on the state of the local economy. Although growth is still positive in sectors like Construction, Agriculture, Communications, Business Services and General Government they represent approximately 50% of the economy and as a result are not expected to off-set the contraction in key sectors. Standard Bank argued that the weighing of local employment concerns, high level of household and debt levelling costs, stubbornly high inflation in selected items as well as low levels of business and consumer confidence are seen as factors likely to negatively impact growth in 2009, but in due course low inflation plus low interest rates will stimulate sales. BER expects growth to average -0,8% for 2009, although it announced that there is a potential that it could fall between 0% and 0,5%. **Implications for Agriculture**: The decline in income in SA and major importers of SA agricultural products might have a negative effect on certain agricultural products as farmers are likely to produce products that are price inelastic. Consumption patterns might start changing from agricultural products consumed when income is high-for example the consumption of beef has declined for the first time since 2001, declining significantly by 6,10% in 2008 compared to 2007.There has also been a decline in the consumption of goat meat and mutton, as well as a slight decrease in the number of cows slaughtered in 2008 compared to 2007 ceteris paribus (holding other factors constant).

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2008		2009	2010
8,26	BER	10,01	9,67
	Standard Bank	10,10	8,92
	Absa	10,09	9,91
	Average	10,06	9,5

Source: BER, Standard Bank and ABSA

Recent trends: The forex market has been affected by the worsened global events leading to unexpected policies in developed countries and the persistent level of uncertainty in markets. The Rand began 2009 under pressure as risk aversion prompted to move away from emerging markets. The Rand was bid above the R10 dollar mark in January as investors moved to safe haven currencies, mostly the dollar and the yen. Fears of imminent nationalization of large US banks, news of widened SA trade deficit, job cuts, firmer dollar and other uncertainties still prevalent in markets since the global crisis began resulted in the Rand trading above the R10 to the dollar level in January, appreciating in the first week of February, but subsequently depreciating by 6% against the dollar. In March, foreigners were net purchasers of SA equities resulting in the Rand appreciating against major currencies. According to Sanlam Research, the Rand strengthened by 5% against the dollar and 3,9% against the pound, while it remained flat against the Euro during March. The Rand also strengthened against the background of the US dollar's weakness after news of the US spending plan to kick-start the economy stunned investors worldwide, also raising fears of a surge in inflation. The Rand ended the month of March at R9,63 to the dollar. **Forecast**: According to BER, currency swings make it difficult to predict future Rand movements. International news flows, the country's widened current account deficit and the elections will be closely watched by markets. Although the current account improved from -7,8% to -5,8% as a result of lower import demand, it is still expected to be higher, which might raise negative sentiments. BER forecast the Rand to average R10,01 against the US dollar in 2009 before strengthening to R9,67 in 2010, and is expected to range between R13 to R13,30 to the Euro; although they believe it could be weaker than expected. **Implications for Agriculture:** A volatile currency has a negative effect on trade. The depreciation of the Rand boosts exporting sectors of the economy, leading to a wide perception that the currency is overvalued. The Cape Wool Report stated in March 2009 that the sharp fall in the Rand as a result of the current economic conditions has boosted the price of wool. The sharp decline in the value of the Rand boosted wool prices and Cape Wools' Merino indicator rose 6,3% compared with the previous sale, meaning that the indicator has risen by almost 10% in just two weeks since the Rand depreciated in the last half of February 2009. Holding other factors constant, exports of major grains increased significantly by 62,09% in January 2009 compared to December 2008, as the Rand weakened, trading above R10 to the dollar, however, exports declined by 0,84% in February 2009 as the Rand strengthened in the first half of February, due to volatility returning to the markets. Most analysts say it is not the stronger Rand or weaker Rand, but a stable currency that will help boost the economy, as most manufacturing items are imported.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rates

2008		2009	2010
15,14	BER	11,92	10,50
	Standard Bank	10,50	12,50
	Absa	13,6	12,5
	Average	12.0	11,83

Sources: BER, Standard Bank, ABSA

Recent trends: The high interest rates, new credit regulations and the worsened global financial crisis have contributed to the decline in credit demand and credit extensions. The Reserve Bank's MPC cut the Repo rate by 50 basis points in December 2008, before implementing further cuts in February and March after taking into consideration the slowing global and domestic economy as well as the improved inflation outlook. Pressure continues on local demand as a result of declining disposable income, tighter credit conditions, with the private sector feeling the brunt as credit extension continues on the downward trend. The number of liquidations recorded for February 2009 increased by 70% compared to February 2008. The total number of insolvencies recorded for the three months ending January 2009 increased by 9,4% compared with the three months ended January 2008. **Forecast**: The Reserve Bank's MPC decision to meet every month except for the month of July is because of the Reserve Bank's acknowledgement that the SA economy is worsening after being resilient longer than expected because of the deepening global economic crisis. Most expectations are for the MPC to continue with an accommodative policy. ABSA expects credit extension to be under pressure in 2009 dipping by 7%, before picking up by 9,7% in 2010. BER expects the prime overdraft rate to average 10,50% in the 4th quarter this year, meaning the Reserve Bank will effect a further 250 basis points cuts in the Repo rate before the end of the year. **Impact on agriculture**: Investment in agriculture rose in 2008 compared to 2007, as proceeds from high food prices, inter-alia, led to increased investment in production capacity. Investment in machinery, implements and vehicles rose sharply by 58,8% in 2008 compared to 2007. The decreasing agricultural output prices since 2008 might lead to an increase in the number of credit defaults as farm income falls. Debt at the agricultural level increased by 13,69% in 2008, with interest payments increasing by 14,4% compared to 2007. The interest rate cut in December 2008 had little impact as much debt had already been accumulated, but the decision by the MPC to cut interest rates further by 200 basis points between February and March seem to have provided some relief. Data at the Land Bank shows that arrears at the Bank are decreasing - in February 2009 arrears declined by 53% and in March by 57% compared to February 2008. Despite the positive performances of the agriculture sector during the global crisis, credit extensions by banks to farmers continue to slow down. Loans approved by the Land Bank in 2009 continue to grow at a negative rate due to tightened credit regulations.

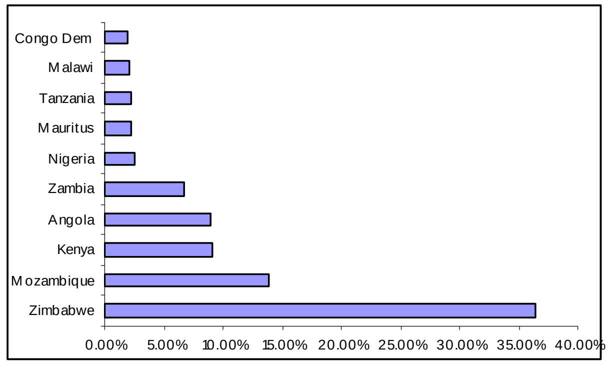
4.5 Employment

The International Labour Organization warned that more than 20 million people globally will lose their jobs by the end of 2009 as global employment remains under pressure. Grant Thornton's International Business reported that a shortage of orders is now the biggest barrier to business growth, with 49% of businesses ranking this as their biggest challenge. The unemployment rate for the OECD area was 7,3% in February 2009, 0,3 percentage point higher than the previous month. In the Euro area, the unemployment rate was 8,5% in February 2009 - 0,2 percentage point higher than the previous month. The unemployment rate for the United States in March 2009 was 8,5% - 0,4 percentage point higher than the previous month. The declining employment trends highlight the crisis in major economies, which will extend to the developing world as demand shrinks. Unemployment in SA fell by 6% and employment increased by 1,4% in the last quarter of 2008, due to jobs being created in the construction sector as the 2010 FIFA construction takes precedence. Although employment increased in the manufacturing sector in the 4th quarter of 2008 it was not statistically significant (liable to errors), as the manufacturing and the retail sectors continue to suffer pressure from a decline in demand. A sector analysis by Grant Thornton reveals that 25% of the retail sector and 13% of the manufacturing sector increased employee numbers compared with 37% for the construction sector and 40% for the services sector. Employment in the agricultural sector also declined by 0,39% in Q4 of 2008 compared to Q3 of 2008, although the data is statistically insignificant (www.statssa.gov.za). SA growth and trade globally have taken a dip meaning job creation will be a challenge this year. Only 29% of SA private businesses expect to increase their staff in the next 12 months. The availability of skilled workforce remains a challenge in SA with 41% of businesses confirming that this is their biggest constraint to growth. The number of skilled workers in the agricultural sector increased by 10,1% in Q4 compared to Q3 of 2008.

5. INTERACTION BETWEEN SA, AFRICA AND THE WORLD

According to the OECD, the downward trend in world trade growth experienced since the last quarter of last year turned negative in February 2009 for the first time since August 2002. The IMF has warned that the world economy is in a severe recession, expecting the Euro Zone to contract by 4,4% falling further to 0,4% in 2010. China's growth has been trimmed to between 6,5% and 6,7%. Konrad Reuss of Standard & Poor's said that projected GDP growth for many African countries is around 3,8% from an average of between 5% and 6% over the last five years. Unemployment in advanced economies is expected to jump above 10% in late 2009, which will compound the demand crisis. The OECD expects world trade to shrink by 13,2% in 2009 which is worse than the 9% fall estimated by the WTO. South African Chamber of Commerce and Industry (SACCI) trade index has dropped to 38 points in March from 41 points in February 2009. South Africa continues to feel the effects of the slowdown in trade with the manufacturing, mining and the retail sectors feeling most of the brunt. Wholesale trade sales, at constant (2000) prices, for the three months ended February 2009, decreased by 1,9% compared with the three months ended February 2008 and retail trade sales by 1,0%. SA agricultural trade continues to prosper, although there are signs of deceleration in major export destinations. South African agricultural exports to the world have decreased by 22,4% in quarter 4 of 2008 from a 29,6% increase in quarter 3 of 2008. South Africa's agricultural exports destinations have changed dramatically. Zimbabwe has become the top destination for SA agricultural products with exports increasing by 86% in quarter 4 compared to quarter 3 of 2008, followed by the United Kingdom (-32,1%), Netherlands (-47,7%), Mozambique (9,7%) and Kenya (23,3%). SA exports to Zimbabwe have grown due to the deteriorating agricultural position in Zimbabwe, the formation of the unity government and also the usage of other countries' currencies, due to the fall in the Zimbabwean dollar. A significant decline in exports occurred to Zambia (-64,8%) one of the major destinations for SA agricultural products, with agricultural production seemingly improving in the country. Agricultural imports increased by 8,2% in quarter 4 of 2008 from 23,4% in quarter 3 and most of SA imports were from Argentina, Thailand, Brazil, United Kingdom and China. Agricultural exports to Africa increased by 9,7% in quarter 4 compared to the 87,2% increase in quarter 3 of 2008. Exports increased by 86,9% to Zimbabwe in the 4th quarter compared to Q3 of 2008. Another significant increase has been in exports to Malawi, which have increased by 58,1% compared to Q3 of 2008. There has been a decline in exports to Zambia, Tanzania and Angola during the 4th quarter of 2008.

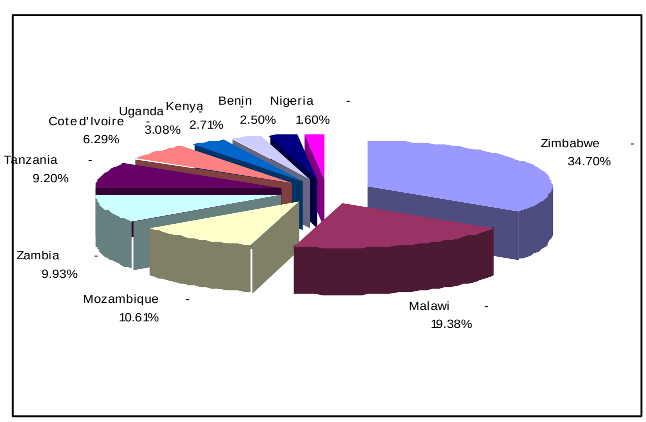
Figure: 1 SA agricultural exports to Africa (Quarter 4, 2008)



Source: Directorate Agricultural Statistics

SA agricultural imports from Africa increased by 36,3% in quarter 4 of 2008 from a decline of 10,3% in quarter three of 2008. Most of SA agricultural imports from Africa were from Southern Africa. 31,5% of agricultural imports to SA in the 4th quarter of 2008 were from Zimbabwe – with tobacco constituting 48% of imports from Zimbabwe – followed by Malawi at 17,6%, Mozambique at 9,6% and Zambia at 9,0%.

Figure 2: SA agricultural imports from Africa (Quarter 4, 2008)



Source: Directorate Agricultural Statistics

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

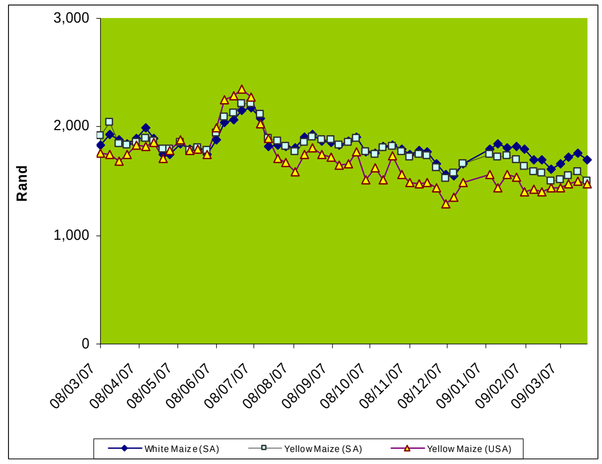
TABLE 8: Prices of major grains per ton

	End Mar 2008	End Mar 2009
White Maize price	R1 890	R1 697
Yellow Maize price	R1 877	R1 510
Wheat price	R4 049	R2 625
Sunflower price	R4 665	R2 784
Soya price	*R4 355*	R3 090

Source: Safex

The world grain situation in 2008 was characterized by high prices brought on by a growing demand for grains in general as there was a strong demand for their use in producing alternative fuels, especially in the United States where government policies mandate the use of biofuels and encourage ethanol production. In addition, rising incomes in China, India and other developing countries brought about increasing demand for many commodities, including petroleum. This resulted in higher energy prices and increased incentives for biofuel production. Added to this was increased activity by institutional investors such as retirement and hedge funds in commodity markets, including grain futures markets. **Wheat prices:** The recent decline in agricultural commodity prices is welcome news for processors, after paying record high prices for corn, wheat and soybeans a year earlier. The same factors that pushed prices to record levels in 2008 are now driving the decline. The result for wheat buyers is that there is a reliable supply of excellent quality US wheat available at a good value. Russia produced a record 63,0 million tons of wheat in 2008/09 following outstanding harvests for both winter and spring wheat. Planting-progress reports indicate that the planted winter-grain area in Russia increased by roughly one-half million hectares from last year despite declining domestic prices for all major grains. Wheat typically accounts for about 80 percent of winter grain area, and winter wheat comprises 50 to 60 percent of Russia's total wheat production. China produced a bumper crop of 113,0 million tons of wheat from 24,0 million hectares in 2008/09, with winter wheat accounting for more than 90 percent of total area and output. According to Chinese government planting reports, winter wheat planted area for 2009/10 increased by an estimated 100 000 hectares (up less than 1 percent). According to data from Ukraine's State Statistical Committee, 6,5 million hectares of winter wheat were sown for 2009/10, against 6,7 million ha last year. Winter wheat typically accounts for about 95 percent of Ukraine's total wheat output. Ukraine produced an estimated 25,5 million tons of wheat in 2008/09 (the highest harvest since 1990/91), but average output for the past five years is about 18 million tons. Declining domestic prices – a result of the bumper 2008/09 crop combined with substantial carryover stocks from the 2007/08 harvest – contributed to the reduction in planted area for 2009/10, but it should be noted that the planted area remains above the five-year average. Planting and establishment conditions for the current crop were generally favourable. The domestic price of wheat declined to end the quarter at a price of R1 697 per ton, a decline of 10,2% compared to the same period last year. **Sunflower:** Oilseed prices in SA declined by 20% since the local industry got wind of the 70 000 tons of sunflower seeds being imported from Russia by family owned business, Willowton Oil. Currently there is between 150 000 and 200 000 tons of surplus oilseed in SA and 2009 production is estimated at 850 000 tons, meaning the price will be coming down further. Sunflower product prices increased by 43,6 percent, while the price of sunflower seed declined significantly by 40,3% ending the quarter at R2 784 per ton, compared to R4 665 per ton at the end of the 1st quarter of the previous year. **Soybeans:** US soybean ending stocks for 2008/09 are projected at 185 million tons, down 25 million tons as increased soybean exports are only partly offset by lower crush. US soybean exports increased by 35 million to 1,185 billion, reflecting record sales to China and reduced export competition from Argentina. Local soybeans prices declined significantly by 29,0% ending the quarter at R3 090 per ton, compared to R4 355 per ton during the same period last year. Domestically, both white and yellow maize remained resistant and locked within the R1 500 and R2 000 per ton price range, same as in the previous quarter. According to the South African Grain Information Service (SAGIS), SA's weekly **white maize** exports dropped to 23,241 tons the week to March 20 from 102,179 tons in the previous week. The maize crop in Southern African countries is doing well as adequate rainfalls were received in South Africa, Malawi and Zambia. Consequently, preliminary production estimates indicate that a good crop is expected from the Southern African countries, with the exception of Zimbabwe.

Figure 3: Domestic and US maize prices



Source: Safex

It is expected that South Africa will produce another bumper harvest compared to the previous production year. In South Africa - the region's main exporting country - the March 2009 price (Randfontein spot price) was 4 percent lower than at the beginning of the marketing year in May 2008, while during the same period a year earlier, prices increased by 13 percent. **Yellow maize:** A domestic surplus (before pipeline requirements) of 1,032 million tons is expected at the end of April 2009. The total domestic supply is estimated at 5,789 million tons, while the total domestic consumption is projected at 4,444 million tons. Anticipated exports during the 2008/09 marketing season are seen at 340 000 tons. The SAGIS export data up to 27 March 2009 indicates that 1,941 million tons of maize was exported. The maize exports for the 2008/09 marketing season are projected at 2,190 million tons. Both white and yellow maize prices declined by 10,2% and 19,5%, respectively, compared to the same period last year.

6.2 Crop production and estimates

Table 9 summarises the estimated area planted and production forecast of summer crops for the 2008/09 production season as well as the final 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 7,480 and 5,220 million tons respectively, with a combined total of 12,700 million tons of maize. The final area planted to white and yellow maize during the same period is 1,737 and 1,062 million hectares, respectively. **The preliminary estimate** for total maize area planting in the 2008/09 season is 2,427 million hectares, which is 13,3% less than the 2,799 million ha planted for the previous season. The area estimate for white maize is 1,489 million ha, which is 14,3% less than the 1,737 million ha planted in the previous season, while the current area estimate for yellow maize is 11,7% less than the 1,062 million ha planted in 2007/08. The production forecast of white maize is 6,735 million tons, up by 2,9% from the previous forecast, while the yellow maize production forecast is 2,6% more than the 4,659 million tons previously estimated. The majority of SA maize is planted in the Free State, North West and Mpumalanga Provinces. The expected plantings of maize in the Free State for the 2008/09 season is 955 000 ha, a decrease of 18,4% from 1,170 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. **Table 10** summarises the most important winter crops for the 2008 and 2009 production seasons. Producers intend to plant 646 400 ha of **wheat** for the 2009 production season. This is 101 600 ha or 13,6% less area planted

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

Crop	Area planted 2008/09	Area Planted 2007/08	Final crop 2007/08	3rd production forecast 2008/09	4th production forecast 2008/09
	Ha	Ha	Tons	Tons	Tons
White maize	1 489 000	1 737 000	7 480 000	6 542 200	6 735 300
Yellow maize	938 500	1 062 000	5 220 000	4 659 300	4 778 650
Total Maize	2 427 500	2 799 000	12 700 000	11 201 500	11 513 950
Sunflower seed	635 800	564 300	872 000	875 280	875 280
Soya-beans	229 750	165 400	282 000	405 035	429 860
Groundnuts	54 550	54 200	88 800	96 060	96 060
Sorghum	85 500	86 800	255 000	260 250	261 900
Dry beans	43 800	43 800	58 975	63 780	63 230
TOTAL	**3 476 900**	**3 713 500**	**14 256 775**	**12 901 905**	**13 240 280**

Source: Crop Estimates Committee

than in 2008. This is also the second smallest area planted to wheat since the early 1900's. The main wheat producing areas are within the Western Cape with 312 000 ha (48%), followed by the Free State with 230 000 ha (36%) and the Northern Cape with 41 000 ha (6%). According to producers, the decrease in the expected planting of wheat can mainly be attributed to large carry-over stocks from last season, lower prices, relatively high input costs and insufficient soil moisture in most of the production areas. However, various factors can still influence these intentions up until planting time. The final wheat crop for 2008 is 2,130 million tons, which is 1,9% or 40 225 tons more than the 2,090 million tons previously estimated. The expected area planted to **malting barley** for 2009 is 73 050 ha, an increase of 4 805 ha compared to the 68 245 ha planted in the previous year. The area planted to **Canola** in 2009 is expected to increase by 20,6% from the 34 000 ha planted in 2008 to 41 000 ha in 2009.

6.3 Climatic and other conditions

Generally, normal to above normal rainfall was received over most of the country in January and February, dissipating in March. Many regions of the country received normal rainfall during the period July 2008 to March 2009, but significantly below normal over the extreme eastern parts of the country, southern Free State and southern parts of the Northern Cape. **Crop conditions:** Most provinces reported that crops are in good condition due to the good rains received and as a result high yields are anticipated. **Veld and Livestock condition:** Vegetation conditions were normal throughout most of the summer rainfall region in January, but lower in the north eastern region of Limpopo, the north-eastern North West Province, most parts of the Eastern Cape and northern KwaZulu-Natal. At the end of March the conditions had remained somewhat the same with improvement in the eastern North West and northern KwaZulu-Natal, but lower over the Western Cape. **Forecast of rainfall and temperature:** During the winter season, the rainfall regions are forecasted to receive above-normal rainfall totals. The Eastern Cape Province seems likely to receive above-normal rainfall totals throughout. Except over the north-eastern parts, the larger part of the country may experience above normal minimum tempera-

TABLE 10: Final area planted and final crop for the 2008 season and intentions to plant for the 2009 season

Crop	Intentions to plant 2009 (A)	Area planted 2008 (B)	Final crop 2008 (C)	Change % (B) / (A)
	Ha	Ha	Tons	Ha
Wheat	646 400	748 000	2 130 000	-13,58
Malting barley	73 050	68 245	192 000	+7,04
Canola	41 000	34 000	30 800	+20,59
TOTAL	**760 450**	**850 245**	**2 352 800**	**-10,56**

Source: Crop Estimates Committee

tures. Predominantly above-normal maximum temperatures are likely to occur. **SADC:** According to the SOUTHERN AFRICA Food Security Update March 2009 by FEWS NET, the hunger season is gradually coming to an end as the availability of early maize harvests and other seasonal crops increases on farm level as well as on the local markets across most parts of the region. However, food prices remain higher than normal for this time of the year, a situation that will continue to pose a threat to food security for poorer households in urban and rural areas that have experienced poor crop growing conditions. By the end of March, early planted maize was already being harvested (as green maize), and this, together with other available seasonal food crops, is contributing to a gradual improvement in food security conditions, especially for those households dependent on crop production as a primary food and income source. Field reports confirm that such improvements currently prevail in most parts of the region, including those areas where planting had been delayed due to the late onset of rains, or where the start of season was a bit erratic. Food aid distributions and other humanitarian interventions targeted at vulnerable populations facing food shortages have nonetheless contributed significantly to stabilize food security conditions in localized areas facing reduced harvests from last season, as well as those affected by the recent (February/March) flooding.

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