agriculture, forestry & fisheries

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Economic Commentary: Issue No. 8

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Directorate: Statistics & Economic Analysis

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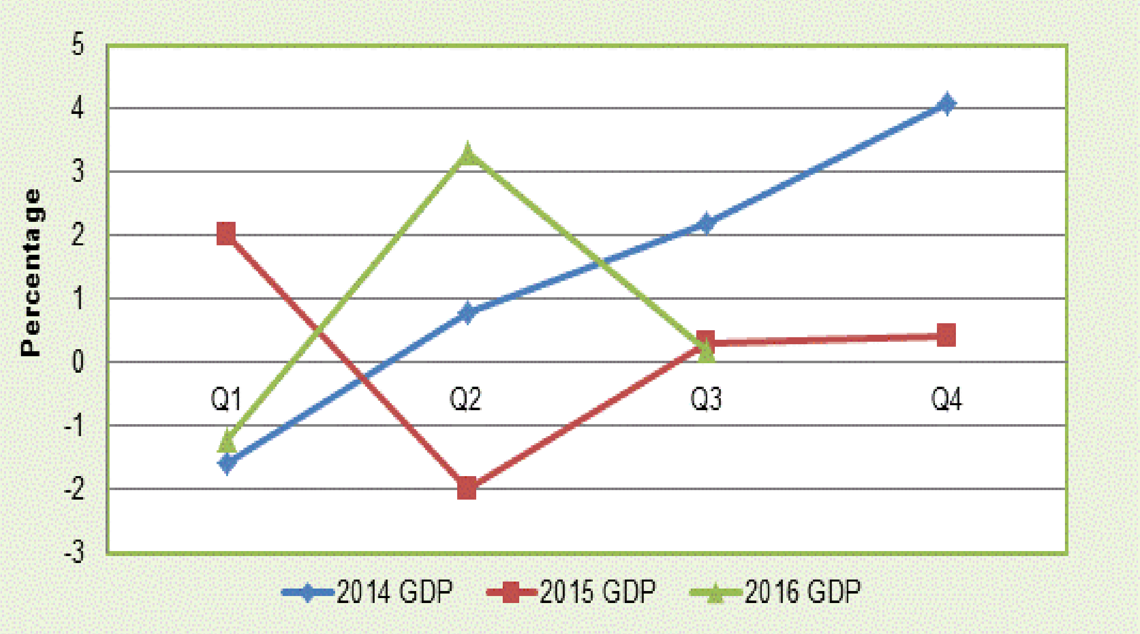
Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

SA GDP GROWTH

South Africa's gross domestic product grew by 0.2% in the third quarter of 2016 as different sectors are being affected negatively by both domestic and international factors. Markets had expected growth of between 0.3% and 0.6% during the third quarter compared to the second quarter. The growth recorded was significantly lower than the previous quarter's 3.3% and 0.1 percentage point lower than the 0.3% recorded in the third quarter of 2015. The main contributors to growth were the mining and quarrying sector, finance, real estate and business services and general government services. The growth in the mining and quarrying sector, which expanded by 5.1%, was attributed to higher production in the mining of particularly iron ore. However four industries which include agriculture sector, manufacturing, electricity, gas and water, and trade, catering and accommodation contracted. Expenditure on GDP grew by 0.5%, the increase was as a result of expenditure in health services, which increased by 10%. Government final consumption expenditure increased by 2.1%, with household consumption expanding by 2.6%. Net exports in the third quarter contributed negatively to total expenditure on GDP, falling by 26.4%, mainly because of lower exports of precious metals and transport equipment. Imports also decreased by 4.9%, mainly because of subdued imports of machinery and electrical equipment.

Figure 1: South Africa GDP Growth between 2014 and 2016.

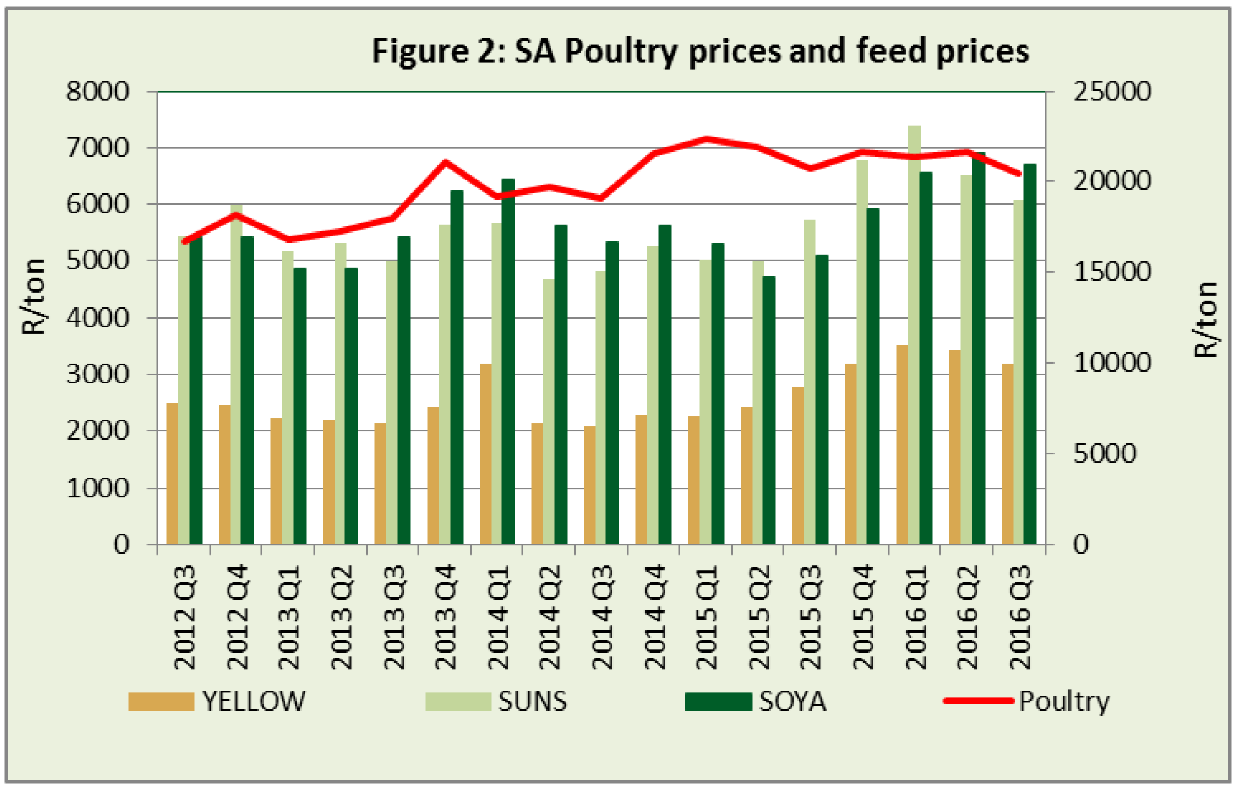


Source: Statistics SA, 2016

Figure 1 shows that GDP growth recorded in the third quarter was significantly lower compared to the previous quarter's 3.3% and 0.1 percentage point lower than the 0.3% percentage point recorded in the same quarter of 2015. This might be due to different sectors being affected negatively by both domestic and international factors. The improved economic growth outlook for 2017 and interest rates not increasing since March provides hope for better consumer spending in the fourth quarter. It is expected that festive season shopping including the recent Black Friday specials will also boost fourth quarter spending. Which in turn will have a positive impact on the last quarter GDP growth figures.

CONTRIBUTION OF THE AGRICULTURE SECTOR TO THE GDP

The decline in agriculture sector come as no surprise as the sector continues to suffer the effects of the drought. Overall, the significant shock came from the field crop production volume for 2015/2016 decreased by 12,7%, mainly as a result of decreases in the production of summer crops (maize and sorghum), winter crops (wheat and canola), as well as oilseed crops (soya beans and groundnuts) and sugar cane. Although other agriculture subsectors, including horticulture, dairy and livestock also felt the impact of the 2015/2016 drought, overall output and export activity from these subsectors had not declined as sharply as with grains and oilseeds. Encouragingly, there are signs of recovery across the sector and summer crop farmers intend to increase the area plantings by 15% year-on-year to 3,75 million hectares slightly below the normal area of 4,1 million hectares. There is growing optimism in the agriculture sector as most local and international weather forecasting agencies are consistently predicting more rainfall prospects for 2016/17 summer season. Overall, weather will be the key determinant of the performance of agriculture sector over the next couple of quarters.



Source: Daff & Safex

South African poultry producers will be facing "tight margins"in 2017 in the mist of competition from low cost imports, higher in feed supplies and the returns of the United states to the export market says Lameez Omarjee.

Figure 2: shows that in the third quarter of 2016, The price of yellow maize, soybeans and sunflower as representation of feed costs in the poultry industry were 41%; 46% and 29% higher in the 2nd quarter of 2016. Although in the 3rd quarter of 2016 the price of grains came down but they are still higher than they were last year the same time. In the 3rd quarter of 2016, the price of yellow maize, sunflower and soybeans were 15%; 31% and 6% higher than they were in the 3rd quarter of 2015. This highlights the sharp rise in feed costs relatively to the 5.5% decline in poultry prices. This highlights the squeeze in margin faced by the poultry sector. The sector is unable to raise its prices because of competition from cheaper EU imports, making it hard for local producers to compete.

Poultry industry is in dire need for government intervention to protect the local industry; the industry threatens to share more jobs. Rainbow Chick-en (RCL Foods) is expected to shed 1 250 jobs by the end of the month. Country Bird which is the third biggest producer, plans to cut 1 500 jobs in the next few months, "In a country where 9 million people are unemployed, one job loss is one too many." reported by FAWU.

Government recently received approval to implement a 13.9% safeguard duty on frozen chicken legs imported from the European Union (EU). This provisional import duty will apply until the 3rd of July 2017. However, FAWU believes this is far too low and that the figure should be close to 40% and that government should implement stricter anti-dumping duties.

In addition Kevin Lovell highlighted that "the potential collapse of the poultry industry holds serious implications for soya bean farmers". Because 90% of their produce is consumed by chicken producers, followed by maize growers, which are second-largest maize consumer after the human market.

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- http://www.fin24.com/Companies/Agribusiness/poultry-producers-to-face-tight-margins-in-2017-20170106.
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FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period con-cerned. The dis-semination will take place through emails to all SMS and professionals in the Department including provinces.

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