agriculture,
forestry & fisheries

Department:
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Economic Commentary: Issue No. 23

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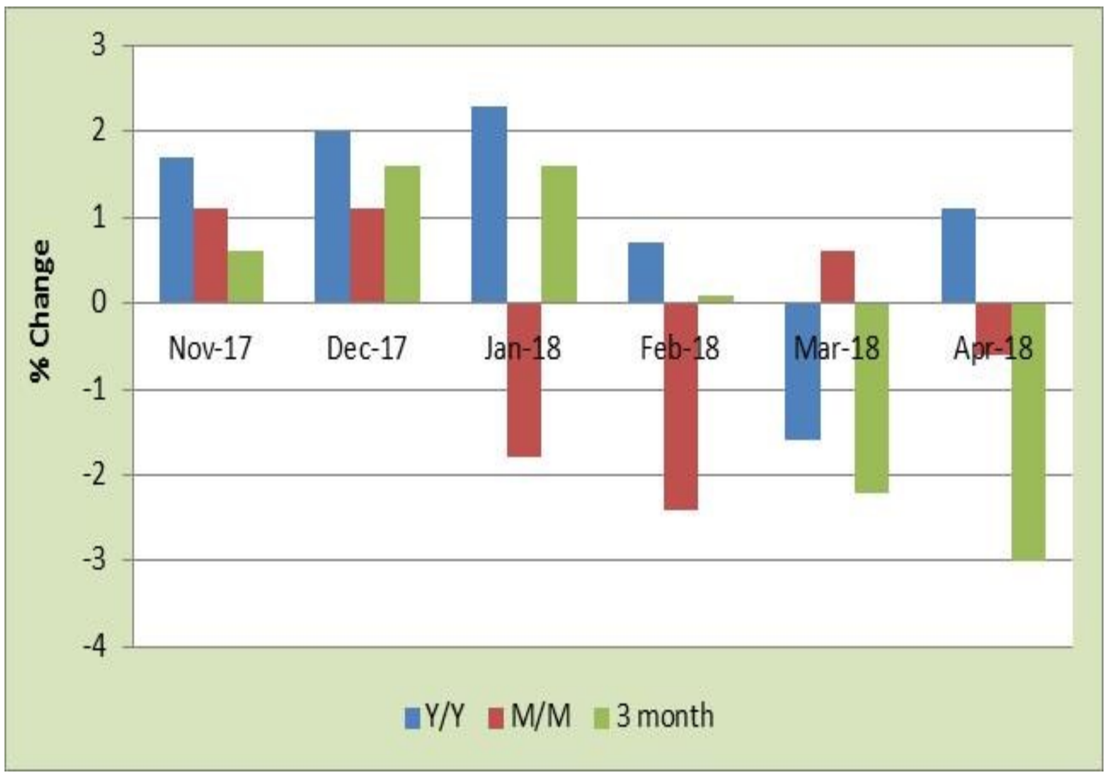
Purpose of the Economic commentary

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.

1. South Africa's economic performance

After growing by 3,1% in the fourth quarter of 2017, the South African economy wobbled in the first quarter of 2018, shrinking by 2,2% quarter-on-quarter. Agriculture, mining and manufacturing were the main contributors to the slowdown, with the electricity, construction and trade industries also recording negative growth. The 2,2% fall is the largest quarter-on-quarter decline since the first quarter of 2009. In that quarter, the economy contracted by 6,1%. After recording four consecutive quarters of robust growth in 2017, the agriculture industry lost ground in the first quarter of 2018, contracting by 24,2%, the largest quarter-on-quarter fall since the second quarter of 2006. Agriculture's relatively strong performance in 2017 is one of the positive factors that helped keep the economy afloat in 2017. This momentum failed to carry through to 2018, with decreased production in field crops and horticultural products contributing to the decline in the first quarter. Mining entered into recession with its second consecutive quarter of economic decline. Production was down 9,9% in the first quarter of 2018, following on from a decrease of 4,4% in the fourth quarter of 2017. Lower production in gold, platinum group metals and iron ore were the main contributors to falling performance. Manufacturing also failed to make a positive contribution to economic growth, falling by 6,4%. The decline was driven largely by a fall in production of petroleum and chemical products, as well as basic iron and steel. The trade, construction and electricity industries also recorded negative growth in the first quarter of 2018 compared with the fourth quarter of 2017. Trade activity fell by 3,1%, on the back of weaker wholesale, retail and motor trade sales and lower activity in catering and accommodation. The construction industry continued to contract, experiencing its fifth consecutive quarter of decline. The industry has lost R1,7 billion in value since the fourth quarter of 2016, falling from R110 billion to R108 billion in the first quarter of 2018. Economic activity in transport, finance, personal services and government increased in the first quarter of 2018. The 1,8% rise in general government was mostly related to increased employment numbers in the public sector.

2. Manufacturing Production



Source: Stats SA

Manufacturing production increased by 1,1% in April 2018 compared with April 2017. The largest positive contributions were made by the following divisions: petroleum, chemical products, rubber and plastic products (4,0% and contributing 1,0 percentage point); and food and beverages (2,6% and contributing 0,7 of a percentage point). The largest negative contributions to the year-on-year growth rate of 1,1% in April 2018 were made by the following divisions: wood and wood products, paper, publishing and printing (-5,1% and contributing -0,6 of a percentage point); and radio, television and communication apparatus and professional equipment (-19,9% and contributing -0,4 of a percentage point). Seasonally adjusted manufacturing production decreased by 0,6% in April 2018 compared with March 2018. This followed month-on-month changes of 0,6% in March 2018 and -2,4% in February 2018. Seasonally adjusted manufacturing production decreased by 3,0% in the three months ended April 2018 compared with the previous three months. Eight of the ten manufacturing divisions reported negative growth rates over this period. The largest contributors to the 3,0% decrease in the three months ended April 2018 were made by the petroleum, chemicals, rubber and plastic products division (-8,1% and contributing -2,0 percentage points) and the basic iron and steel, non-ferrous metal products, metal products and machinery division (-3,0% and contributing -0,6 of a percentage point).

3. Monetary policy

The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) slashed the repurchase rate from 6,75% to 6,50% at its three-day meeting that ended on 28 March. The decision, which marks the first rate cut since July 2017, was expected by markets. The latest monetary decision comes against a backdrop of an improved outlook for both inflation and growth. Inflation reached an almost three-year low of 4,0% in February (January: 4,4%) and remains well within the SARB's target range of 3,0%–6,0%. Despite a VAT increase from 14,0% to 15,0% on 1 April, the SARB left its inflation forecast for 2018 unchanged at 4,9% as a stronger currency will keep a lid on inflation. As of 27 March, the currency had appreciated 5,9% terms against the U.S. dollar in year-to-date largely due to political developments at home following the election of Cyril Ramaphosa as ANC's president on 20 December. The most recent boost to the currency came on 23 March when Moody's affirmed the country's credit rating at Baa3 and improved its outlook from negative to sable. Moody's decision means that a credit rating downgrade to junk status was avoided and thus prevented a sell-off of South African government bonds. As a result, the SARB revised their GDP forecasts for 2018 up to 1,7% whilst it had previously forecasted 1,4% on improved business and consumer confidence as well as on stronger-than-expected quarter-on-quarter and annual economic growth in quarter four. The Bank's forward guidance was very clear, the MPC will adopt a wait-and-see approach and future rate decisions will depend upon incoming economic data. The MPC commented that downside risks to the economic outlook have subsided ever since their last meeting in January, the Committee recognizes that uncertainty remains high and that the current growth trajectory is fragile. The growth forecast remains constrained by high unemployment and the implementation of "credible structural reforms" is necessary to sustain the recovery in consumer and business confidence and thus lead to higher inflation rates.

4. Purchasing Managers Index (PMI)

In April, the Standard Bank Purchasing Managers' Index (PMI) edged down a further 0,5 points to 50,4 points, dipping below the survey's long-run average of 50,7 points but recording a third consecutive month of expansion—the longest streak of private-sector growth in more than a year. April's softer reading was due mostly to a contraction in output which some saw as a consequence of the country's recent listeria outbreak, as well as recent strike actions and the VAT hike (from 14,0% to 15,0%). That said, new orders grew at a faster rate and hiring accelerated at the quickest pace in more than a year. Meanwhile, purchasing activity remained broadly stable as higher new order volumes were offset by weaker output. In turn, delivery times lengthened only marginally, while input and output costs each saw moderate increases in the month. Thanda Sithole, Economist at Standard Bank, alluded that over the near term, the PMI should continue showing signs of improving domestic business conditions supported by the improved domestic political backdrop, looser monetary policy and stable ratings outlook. But also the recent survey has shown significant improvement in domestic consumer confidence. This should also provide further support to the PMI ahead. Focus Economics Consensus Forecast panellists see fixed investment expanding 0,9% in 2018, which is unchanged from the estimates in March. For 2019, the panel expects fixed investment to increase 2,1%.

5. Electricity tariff

Electricity production growth moderated somewhat to 2,0% y/y in February after reaching 2,4% y/y in January. Growth in consumption slowed to 0,4% y/y versus January's 1,2% y/y. On 29 March, Eskom received another downgrade from Moody's, which recognised the positive strides that the new Board and the new Interim Group Chief Executive have made in the two-month period that they have led the organization, but highlighted concerns. These include inadequate tariff increases in the face of flat demand, no tangible government support and a lack of a resilient business strategy that will ensure Eskom's sustainability. Moody's reiterated that Eskom's large debt burden, amounting to ZAR367 billion as of 30 September 2017, could grow to potentially unsustainable levels and will, in any event, continue to weigh on its very weak financial metrics. The Eskom's Interim Group Chief Executive, Phakamani Hadebe has alluded that they have addressed the liquidity issue and other key challenges. The new Board and Eskom leadership are swiftly moving into the second intervention stage by formulating an integrated strategy that will yield favourable results. Additionally, he is confident that Eskom's credit profile will be enhanced going forward. Energy regulator Nersa, is examining Eskom's request for R66 billion pertaining to under-recoveries and overspending over the three preceding years. However Nersa has made it clear that it is not open to steep tariff lifts in the future and that the power utility must look at closing inefficient power stations and cutting its head count and capital spending to tailor its cost base to lower sales volumes. According to the latest quarterly employment statistics survey, employees in the electricity industry are the highest paid within the formal non-agricultural sector. Eskom says it is currently rolling out a plan to manage our employee numbers to optimal levels. Eskom has implemented numerous levels to manage employee costs ranging from not replacing all attrition, efficiently managing variable employee costs, to re prioritising training and development.

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- Statistical release- Manufacturing: Production and sales preliminary April 2018
- Global Trade Atlas Information Services (GTA) (2018): Available online at http://www.worldtradestatistics.com/gta/
- Standard Bank (2018): Available online at https://www.standardbank.com/researchbhbjhb

FREQUENCY

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

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