



Economic Commentary: Issue No. 4

15 October 2016

Directorate: Statistics & Economic Analysis

Sub-directorate: Economic Analysis

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.

SOUTH AFRICA'S INFLATION

According to the Bureau For Economic Research survey (BER) average inflation expectations for 2017 declined to 6% in the third quarter of 2016 from 6.2% in the second quarter. Both analysts and business people lowered their forecasts, while trade unions left their forecast unchanged. While analysts forecast inflation to moderate further from 5.7% in 2017 to 5.3% in 2018, business people expect it to remain unchanged at 6.1% and trade unions expect only a marginal decline to 6.2%, from 6.3% in 2017. Business people lowered their five-year forecast from 6.3% to 6%. This is the lowest number ever recorded since they were first surveyed in the third quarter of 2011.

In September eyes were on inflation and the South African Reserve Bank's (SARB) decision to keep rates on hold. With fuel prices falling and food prices still rising fast, consumer price inflation (CPI) slowed to just inside the Reserve Bank's 3%-6% target range in August.

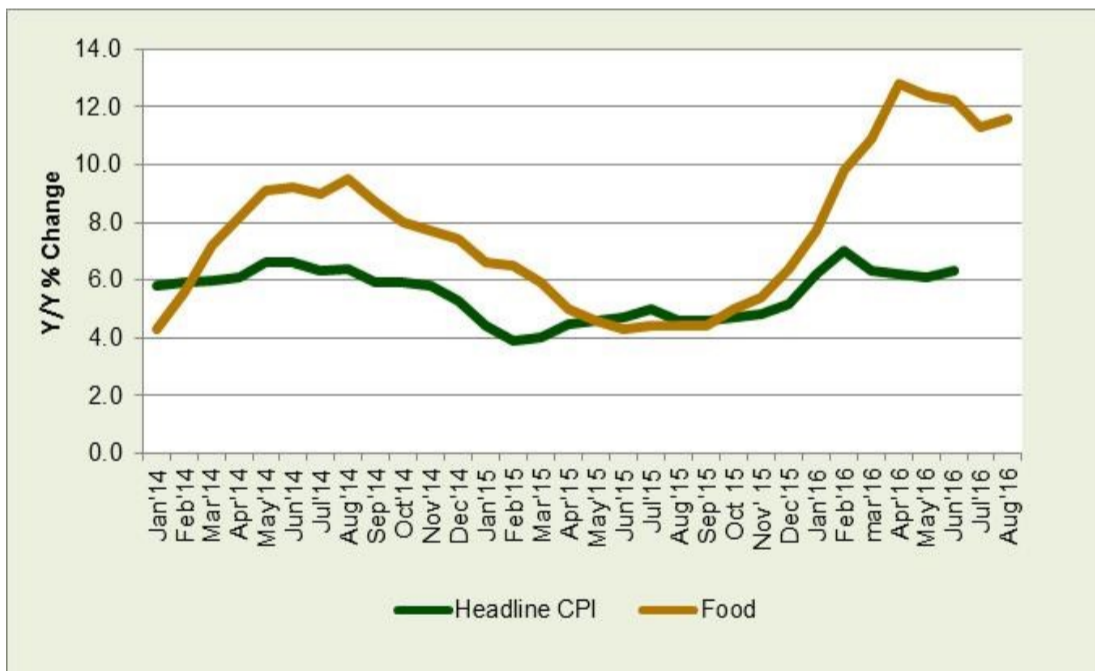


Figure 1: shows the headline inflation and food inflation trend. Headline inflation in line with market expectations was at 5.9% in August, down from July's 6%. Food inflation remains the dominant driver, rising 11.6% y/y from 11.3% in July. The deceleration in meat, fruit and vegetable prices was offset by a notable pickup in bread and cereal prices, and the SARB now expects food CPI to peak at 12.3% in the last quarter. With annual meat price inflation slowing to 7.8% but this is expected to increase later in 2016 due to cattle herds being depleted because of drought. Housing and utilities, which rose 5.8% y/y as well as miscellaneous goods and services (up 6.9% y/y) were the other main contributors to the rise in inflation. Transport prices declined 0.3% during the month, driven by the 99c/l cut in fuel prices, and that brought the annual transport inflation rate down to 2%, helping to counter the effects of rising food prices.

Figure 1: South Africa Headline CPI and Food inflation trend

Source: Stats SA

SOUTH AFRICA'S INTEREST RATE

The Reserve Bank unanimously left interest rates unchanged, as was widely expected when its monetary policy committee (MPC) concluded its three-day meeting in September. Although the Bank raise its forecast for economic growth which it pegged at 0% for 2016 at its last meeting in July it was widely expected to stay its hand on interest rates. The Bank weigh high inflation against sluggish economic growth — repeatedly flagged as one of the key concerns of international rating agencies as they consider whether to downgrade SA to junk status later this year.

Gross domestic product (GDP) growth prospects

SARB raised its growth forecast, domestic economic growth prospects appear more favourable following the positive surprise in the second quarter of this year, the outlook remains constrained against a backdrop of weak domestic fixed investment and low levels of business and consumer confidence. Gross domestic product (GDP) growth of 0.4% for 2016 was now expected, from the previous forecast of zero growth. For 2017, Growth is expected to accelerate to 1.2% in 2017. The forecast for 2018 was also raised by 0.1 percentage point, to 1.6% from 1.5% forecast in July. The Bank has raised rates by 75 basis points since the start of the year and by 200 basis points since January 2014. The last rate increase was 25 basis points in March 2016 following a 50-point hike in January. The central bank warned that it is nearing the end of the hiking cycle. The Governor also acknowledged that the chance of avoiding a sovereign downgrade had improved but remain vulnerable to local political risks that could derail fiscal consolidation as well as the inflation trajectory. The Bureau For Economic Research survey (BER) expect that the prime overdraft rate will be lowered by only 25 basis points (bps) to 10.25% before the end of 2016, compared to an expectation for a 50 bps reduction before year-end in the second quarter.

SOUTH AFRICAN BUSINESS CONFIDENCE INDEX



Figure 2: The RMB/BER Business Confidence Index in South Africa surged to 42 in the third quarter of 2016 from 32 in the previous period and reaching the highest since the second quarter of 2015. It was the first improvement in seven quarters, but still BCI remained below 50, signalling the lack of optimism among entrepreneurs. Also it is important to note that most respondents completed the questionnaire after the local elections, but before the onset of the most recent flare-up in political uncertainty connected with the future of the Minister of Finance.

FUEL PRICES

The retail price of petrol (93 octane) increased by 44 cents per litre and that of 95 octane by 43c per litre. The wholesale price of diesel (0.05% sulphur and 0.005% sulphur) will increase by 23c per litre, while the wholesale price of illuminating paraffin will increase by 22c per litre. The single maximum national retail price of illuminating paraffin (SMNRP) will increase by 30c per litre and the maximum retail price for LPGAS will go up by 58c per kilogramme. According to the department of energy, the economic factors which impacted fuel prices in September included an increase in the average international product prices of petrol, diesel and illuminating paraffin. The petrol price increase come at a time when farmers are still trying to deal with the aftermath of the drought. Farmers have cash flow challenges and at the same time are struggling to repay their loans. The increase will also affect farmers as diesel, paraffin and petrol costs account for a significant part of their input costs during the production season.

REFERENCES :

- <http://www.tradingeconomics.com/south-africa/business-confidence>
- Statistics South Africa (Stats SA), (2016): Gross Domestic Product (GDP), Quarter 2, 2016: Available at <http://www.statssa.gov.za>
- Statistics South Africa (Stats SA), (2016): Consumer Price Index (CPI), August 2016: Available at <http://www.statssa.gov.za>
- South African Reserve Bank (SARB), (2016): Monetary Policy Committee (MPC), September 2016: Available at <http://www.resbank.co.za>

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.

For more information contact: Directorate Statistics & Economic Analysis (SEA) Ms Ellen Matsei at Das@daff.gov.za or 0123198454.