agriculture,
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Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

# Economic Commentary: Issue No. 11

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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.

## CONSUMER PRICE INDEX

The month of February began with the state of the nation address 'The theme for SoNA 2017 was "The Year of Oliver Reginald Tambo: Unity in Action Together Moving South Africa Forward." followed by the budget speech which was presented by Minister of Finance Pravin Gordhan. This publication discuss the following economic variables which include : Inflation, Consumer Price Index, Producer Price Index, Interest Rates, Petrol price and the New Minimum Wage.

Figure 1: Consumer Price Index

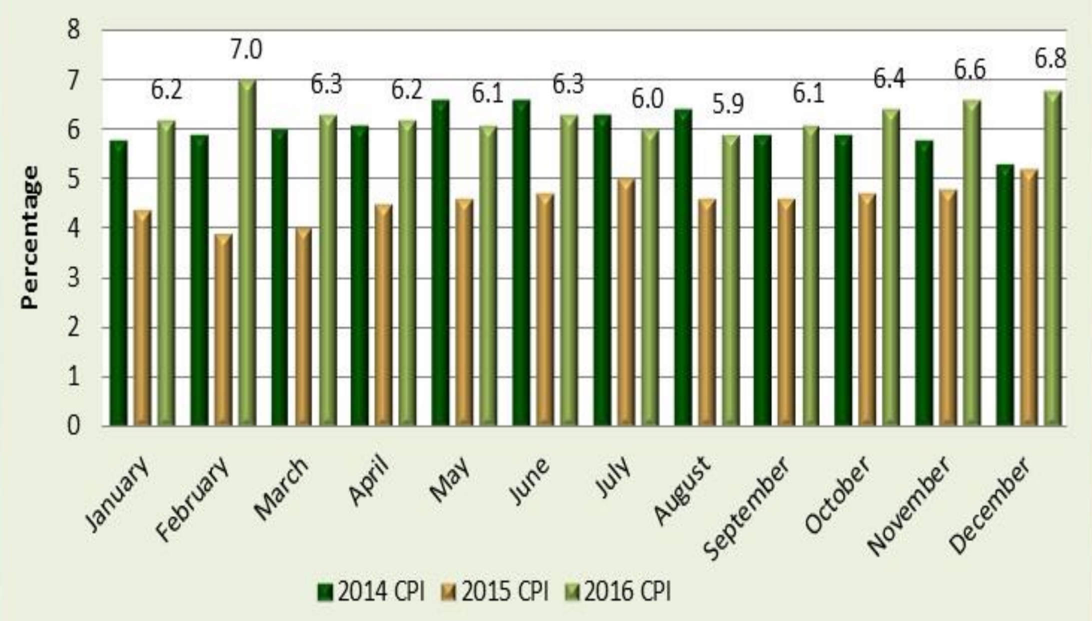


**Figure 1** shows that inflation rise from 6.6% in November to 6.8% in December, the acceleration was above the market expectations. The CPI for 2016 remained stubbornly above the target range of 3%-6% for most of the year and it reached the highest 7% in February. Compared to 2015 where inflation averaged 4.6%, in 2016 inflation averaged 6.3% due to the impact of drought. Among the main contributors will be fuel price hikes, as well as the expectation for Treasury to increase the fuel levy and excise duties . According to the budget speech, the general fuel levy will increase by 30c/litre and 9c/litre in the Road Accident Fund (RAF) levy, the additional 30 cents/l means that motorists will now be paying R3.15 towards the fuel levy for every litre of fuel they put in their vehicles, and additional R1.63/litres for the RAF levy. Inflation is now expected to return within the target range in the final quarter of 2017. While the food price forecast has been adversely affected by higher input costs.

## PRODUCER PRICE INDEX

The annual percentage change in the producer price index (PPI) for final manufactured goods was 5,9% in January 2017 (compared with 7,1% in December 2016). From December 2016 to January 2017 the PPI for final manufactured goods increased by 0,4%. The main contributor to the monthly increase of 0,4% was coke, petroleum, chemical, rubber and plastic products (0,5 of a percentage point).

The annual percentage change in the PPI for intermediate manufactured goods was 6,7% in January 2017 (compared with 7,3% in December 2016). From December 2016 to January 2017 the PPI for intermediate manufactured goods increased by 1,4 %.The main contributor to the monthly increase of 1,4% was chemicals, rubber and plastic products (1,0 percentage point).

The annual percentage change in the PPI for electricity and water was 10,0% in January 2017 (compared with 7,4% in December 2016, an increase of 1,6% ). From December 2016 to January 2017 the PPI for electricity and water increased by 1,6%. The contributor to the monthly increase of 1,6% was electricity (1,6 percentage points)

The annual percentage change in the PPI for agriculture, forestry and fishing was -2,9% in January 2017 (compared with 6,4% in December 2016). From December 2016 to January 2017 the PPI for agriculture, forestry and fishing decreased by 3,1%. The main contributor to the monthly decrease of 3,1% was agriculture (-3,2 percentage points) .

**Source: Statistics SA, 2017**

## Interest Rates

The Monetary Policy Committee (MPC) of the Reserve Bank has left the repo rate unchanged at 7% as widely expected in January, meaning that the prime lending rate remains at 10,5%. Reserve Bank Governor cited concern about the increase in consumer inflation, he also noted the fact that central bank has to take weak economic growth into account. MPC remains concerned that inflation trajectory is uncomfortably close to the upper end of the 3-6 target range. The MPC felt that near-term inflation outlook has deteriorated since the last meeting, hurt by elevated food prices despite good rainfall and higher global oil prices. However, the longer-term outlook remains unchanged. The Committee views the risks to the inflation outlook to be moderately on the upside. The Reserve Bank made a slight downward adjustment to its growth forecast for 2017 to 1,1% from 1,2% previously, but left its forecast for 2018 unchanged at 1,6%. Although growth will remain below potential, the MPC deemed the risk to the forecast to be broadly balanced. The tone of the statement was relatively hawkish ( A hawk generally favours relatively high interest rates in order to keep inflation in check) .The MPC's main problem is the unpredictability of the rand. Nevertheless it remain vulnerable to both domestic and external shocks. Barring any excitement from the domestic and external shocks interest rates are likely to have peaked with gradual declines starting in the second half and into 2018. However, a number of outcomes for the year ahead are still possible. Therefore, Reserve Bank kept its benchmark repo rate unchanged at 7%, saying the near-term outlook of inflation has deteriorated while the domestic growth outlook remained constrained. However, worries over the impact of US President Donald Trump's protectionist trade stance weighed on the dollar, helping lure investors to emerging markets.

## Petrol price

The Energy Department has announced 2% increase in the price of petrol in South Africa from 01 February, the price of wholesale diesel went up by 1.85%.The price of 95 octane petrol increased by 29 cents to R13.62 per litre and 93 octane increase by the same amount to R13.38 in Gauteng. Diesel also increased by 21 cents to R11.63 per litre. The increase was attribute to the latest increases to higher prices of crude oil due to production restraint by OPEC members. The increase was also caused by rand volatility mainly driven by global factors, including commodity price volatility, particularly in SA's four main exported commodities – gold, coal, platinum and iron ore. Rumours of an imminent Cabinet reshuffle which surfaced in January have caused the rand to fall back. This highlight just how worried the markets are about local politics. Petrol price increases are going to put further strain on consumers that are already feeling a pinch of weakened economic outcomes. This increase reflect the outcome of what is happening in the OPEC countries. Saudi Arabia has also committed to decreasing the supply of oil which is creating upward pressure.

## The New Minimum Wage

Parties to the National Economic Development and Labour Council (Nedlac) excluding the Congress of South African Trade Unions signed the agreement on the national minimum wage and labour market stability. The national minimum wage of R20 per hour or R3500 for a 40-hour week would take effect from no later than May next year. However, it could take up to two years for domestic and agriculture workers after the minimum wage to come into effect next year to benefit from the minimum wage. Current statistics show that 6.2 million workers or 47.3% of the workforce currently earn below the proposed minimum wage of R3500 per month. These include 90.7% of domestic workers, 84.5% of agricultural workers, 54.6% of the workers in the construction sector and 48.2% of wholesale and retail workers. Statistics from Stats SA, in its report on Labour Market Dynamics in 2014, also show that 60% of workers in the clothing, textile, leather and furniture manufacturing sectors earned below R3500 per month. A small proportion of workers in the electricity, gas and water supply industry and in mining currently earn below the proposed minimum wage. The social partners in Nedlac have agreed that when the national minimum wage is introduced domestic workers will be paid 75% of the minimum wage and agricultural workers will be paid 90% of the minimum wage. The wages to be paid by the domestic workers are currently set by the Department of Labour. For the 2016/17 year, the department has set the wages to be paid by employers from between R2205 and R2422 per month for employees who work more than 27 hours a week. It is proposed that the domestic and agricultural sector workers will be brought up to 100% of the national minimum wage level within two years pending research by the National Minimum Wage Commission on this timeframe. By May 2018, all workers in South Africa will have to earn a minimum of R3500 a month. The newly signed national minimum wage agreement provides for workers to be paid at least R20 an hour. Government believe while there are concerns that jobs will be lost in the process, the move will fight poverty and restore the dignity of lowly paid workers.

**REFERENCES :**


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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 dissemination will take place through emails to all SMS and professionals in the Department including provinces.


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