agriculture, forestry & fisheries

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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.

EMPLOYMENT IN THE AGRICULTURAL SECTOR

The unemployment rate fell to 26,7% in the last quarter of 2017, after remaining steady at 27.7% in the previous two quarters. Results of the Quarterly Labour Force Survey (QLFS) released by Statistics South Africa shows a decrease of 351 000 in the labour force in Q4: 2017 with both the number of employed and unemployed people decreasing by 21 000 and 330 000 respectively in Q4: 2017. Unemployment rate improvement in the fourth quarter was expected for a quarter that usually brings a temporary hiring boost due to the holiday season. Furthermore, the decline in the unemployment rate was observed across all age groups. Compared to adults, the unemployment rate was the highest among the youth irrespective of educational level with approximately 3.1 million (29.7%) of the 10.3 million young persons (15-24 years) not in employment, education or training. The data came at a time when South Africa is seeking new direction under new leadership to drive economic growth.

The highest number of job losses in Q4: 2017 were lost in the financial sector (91 000), followed by trade (45 000), private households (43 000) and mining (35 000) respectively. Community and social services sector created the highest number of jobs, where employment increased by 75 000. Employment growth was also recorded in manufacturing, construction and transport industries, as well as in the agricultural sector, with agriculture adding 39 000 jobs, as the recovery from drought continues.

Provincially, the largest decline in the unemployment rate was recorded in Northern Cape (down by 2,8 percentage points), Western Cape (down by 2,4 percentage points) and North West (down by 2,3 percentage points). Formal sector employment fell by 135 000, mainly due to job losses in the financial, trade, mining as well as private households industries. However, employment in the informal sector increased by 119 000. The outlook for the job market remains uncertain, but prospects have improved. The political landscape is improving, while global economic growth and commodity prices are forecast to increase in 2018. Expectations are that this will support business confidence, which should ultimately encourage fixed investment activity and employment creation by the private sector. However, public sector employment growth will be restricted by the need for fiscal consolidation.

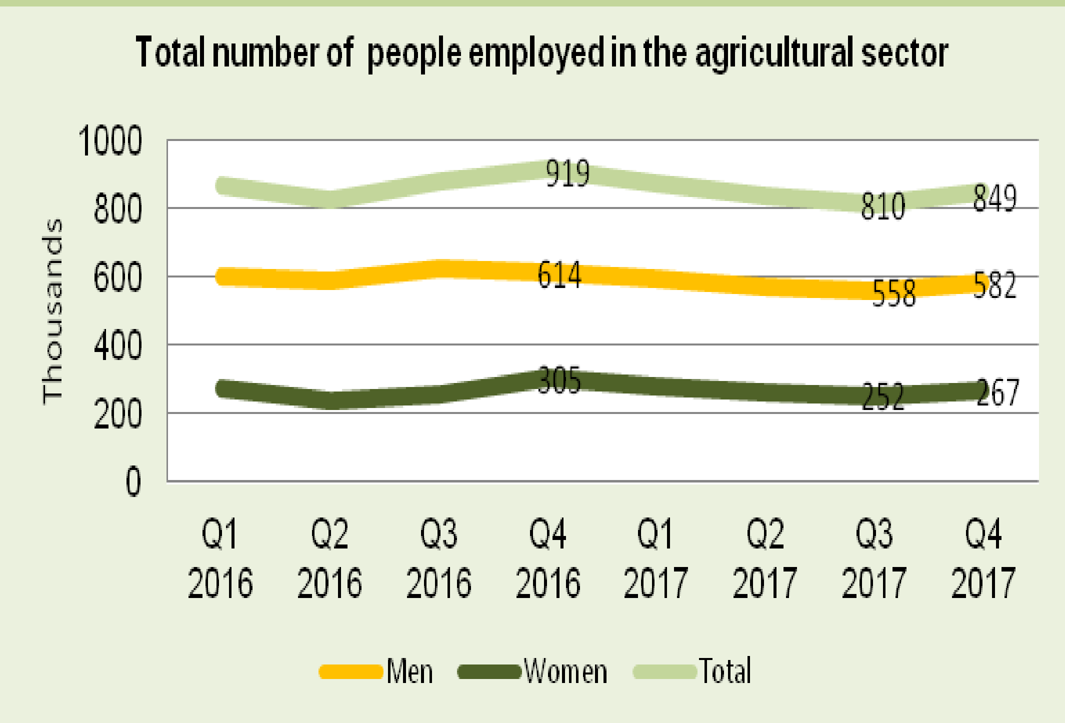

Figure 1: Source Stats SA

Figure 1 shows employment trends in agricultural sector since 2016. The number of people employed in agricultural sector increased by 5% in the fourth quarter of 2017, from 810 000 persons in the third quarter of 2017 to 849 000 persons in the fourth quarter of 2017. Of the 39 000 employment gains by the sector, 15 000 jobs were gained by women meanwhile 24 000 jobs were gained by men. In total, the agricultural sector comprised of 267 000 women and 582 000 men in the fourth quarter of 2017 compared to 252 000 women and 558 000 men the previous quarter. This quarterly increase was mainly in field crops, horticulture and livestock sub-sectors.

Provinces driving the employment rate were Western Cape, Eastern Cape and KwaZulu Natal. Overall, while the quarterly uptick is encouraging, employment in the agricultural sector is still down when compared to the corresponding period the previous year. Moreover, the current drought in the Western Cape Province reduced planting in the summer crop growing areas of the country and crucially the minimum wage introduction at a period when farm incomes are fairly down could potentially lead to a reduction in employment in the coming quarters of 2018.

ELECTRICITY TARIFF at 5.23%

The National Energy Regulator of South Africa (Nersa) granted Eskom an approval of R 190, 34 billion for the 2018/19 financial year, which will result in an average percentage increase of 5.2%. This comes after Eskom had applied for an average percentage increase of 19.9% in the electricity tariff for 2018/19, which would have resulted in total allowable revenue of R219.5 billion.

Nersa's decision to decline the 19.9% electricity tariff increase saved the economy as in the long-run, this would have had serious consequences for the economy. Electricity is a major part of the running costs of nearly all companies. Many would have suffered and start to retrench workers. Moreover, fewer new businesses would have been established which would have slowed economic growth and had a catastrophic impact on an already limping economy with high levels of unemployment.

On the other hand, refusal of the 19.9% tariff increase by the National Energy Regulator of South Africa (Nersa) put Eskom under enormous pressure. Its situation is dire and needs R20-billion to keep the lights on until March, confirmed by Eskom's deputy spokesperson. Eskom might have to approach the Finance Minister for the R20-billion, just to keep the lights on until March of which should this happen, will affect the economy.

IMPLEMENTATION OF SUGAR TAX

The National Council of Provinces (NCOP) passed the tax on sugary drinks, which is part of the Rates and Monetary Amounts and Revenue Law Amendment Bill. The tax, is due to be implemented on 1 April 2018, which will see the price of a can of Coca Cola increase by 11%. The current tax will levy 2.1 cents per gram of sugar on all sweetened drinks, with the first 4g of sugar per 100ml exempt as an incentive to encourage industry to reformulate its drinks to reduce their sugar content.

Implementation of this tax is seen to have a positive impact on the health of millions of South Africans and reverse the alarming number of diabetes cases and other health threatening diseases associated with obesity. South Africans are among the top 10 consumers of sugary drinks in the world and research has shown that drinking just one sugary fizzy drink a day increases ones' chance of being overweight by 27% for adults and 55% for children.

On the other hand, implementation of the sugar tax will have huge implications to SA's economy, as the non-alcoholic beverage industry in South Africa has a direct economic impact of more than R62 billion, provides nearly 240 000 jobs and helps support hundreds of thousands who depend on beverage sales for their livelihood. Implementation of the sugar tax will also affect non-alcoholic beverage companies and their employees, firms and employees indirectly employed by the industry which provides a tax revenue of about R13.6 billion. In addition, both producers and distributers and those directly employed, contribute nearly R1.6 billion to charitable causes in communities across the country as stated by the Beverage Association of South Africa (BevSA).

The South African Sugar Association (SASA) commissioned a study through the Bureau for Food and Agricultural Policy (BFAP) to investigate the socio-economic impact the levy will have on the sugar industry. Based on an assumption that the Health Promotion Levy will result in a 200 000 ton reduction in demand for sugar, BFAP concluded that there would be 13 200 hectare loss in cane production with an estimated 3129 jobs being lost. The cane area reduction will take place mainly in the Coastal production regions with small-scale growers and small commercial growers going out of production first. The reduction in production will result in an increase in the price of sugar which will affect consumers especially since there is no substitute for sugar.

Furthermore, the low world price for sugar, inadequate tariff protection and rising input costs added to a bleak outlook. With the additional impact of the levy, this will result in an increase in quantity (tons) of sugar imported in the country. Consequently, sugar mills would have to close in the Coastal production regions, resulting in a loss of over 20 000 direct jobs (farm and mill) in the next five to seven years. This is anticipated to negatively affect the livelihoods of over 90 000 people.

SASA also holds the view that the sugar industry would be adversely affected by the tax as there is no alternative use of sugar in South Africa, apart from consumption. The duty paid on imported sugar is minimal and offers little protection from the import of cheap sugar. This displaces the demand for sugar produced in South Africa. Curbing imports of sugar into the country will significantly reduce the impact of the tax.

REPO RATE REMAINS UNCHANGED

The South African Reserve Bank (SARB) kept the repo rate steady at 6.75 percent in their Monetary Policy Committee meeting (MPC) in January 2018. Due to the bank's decision, the prime lending rate also remained unchanged at 10.25%. According to Overberg Asset Management (OAM), expectations are that the Reserve Bank will cut the repo rates in the coming months. OAM pointed to a strengthening rand, a lower inflation forecast and SARB's decision to leave the repo rate unchanged as possible indicators of an impending rate cut. Meanwhile, SARB's inflation forecasts are lower and rate hikes forecast by the SARB's Quarterly Projection Model are marginal. However, SARB highlighted event risk around growth and the Budget as well as the conclusion of the Moody's rating review after the Budget. Expectations are that SARB's inflation forecasts may have to be lowered further to compel the Monetary Policy Committee to cut interest rates. Critically, this would depend on the inflation trajectory of which key risk to that, is the rand exchange rate. From a farming perspective, should there by another rate cut as anticipated by analysts, this would come as good news to farmers as it encourages farmers to make large equipment purchases due to the low cost of borrowing. Eventually, this will create a situation where output and productivity increases.

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- National Energy Regulator of South Africa (2017): Eskom Electricity Tariff. Available at www.nersa.org.za
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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 concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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