agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Economic Commentary: Issue No. 15

15 June 2017

Directorate: Statistics & Economic Analysis

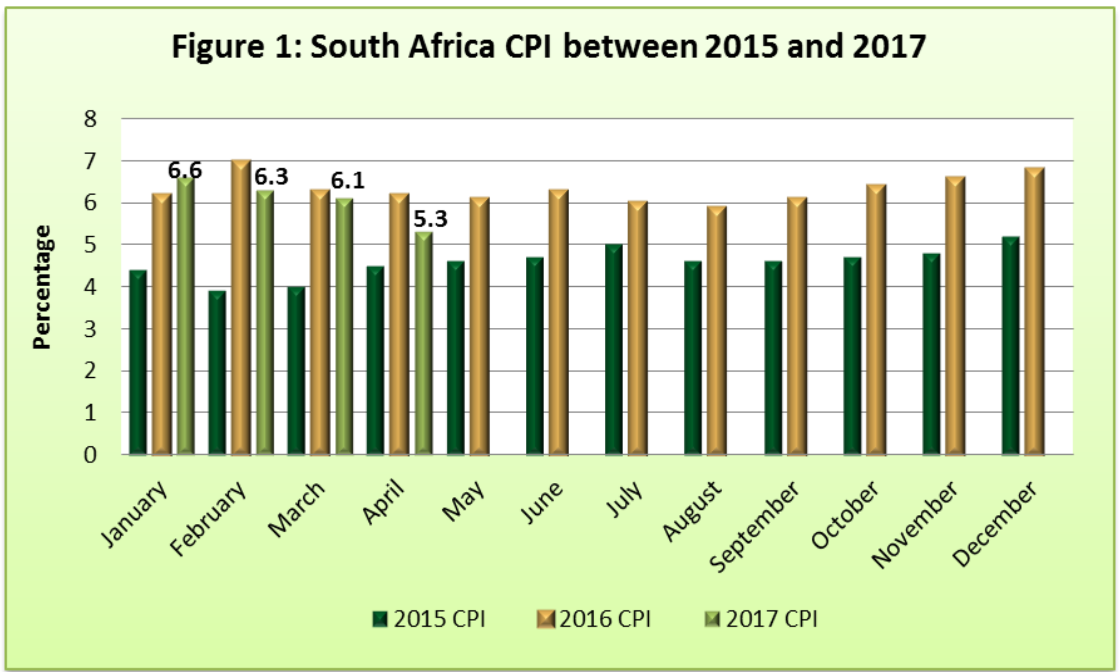
Sub-directorate: Economic Analysis

Purpose of the Economic Commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macroeconomic indicators and related issues on the overall performance of the agriculture, forestry and fisheries (AFF) sector. National announcements are frequently pronounced on macroeconomic 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 ECONOMIC INDICATORS

This publication discuss the following economic indicators, which include: inflation, consumer price index, employment and petrol price. After being outside the Reserve bank target inflation in April decrease to 5,3%, from 6,1% reported in March. The consumer price index increased by 0,1% month-on-month in April 2017. This is according to data released by Statistics South Africa. Food and non-alcoholic beverages decreased from 1,5 percentage points in March to 1,1 percentage points in April. Compared to the previous year, it increased 6,7%. Similarly, transport decreased from 1,1 percentage points in March to 0,7 percentage points in April. However the index increased 4,6% for the year. Miscellaneous goods and services decreased from 1,2 percentage points in March to 1,1 percentage points in April. It increased by 7,3% for the year. The consumer price index for services increased by 5,5% for the year, up from 5,4% reported in March.



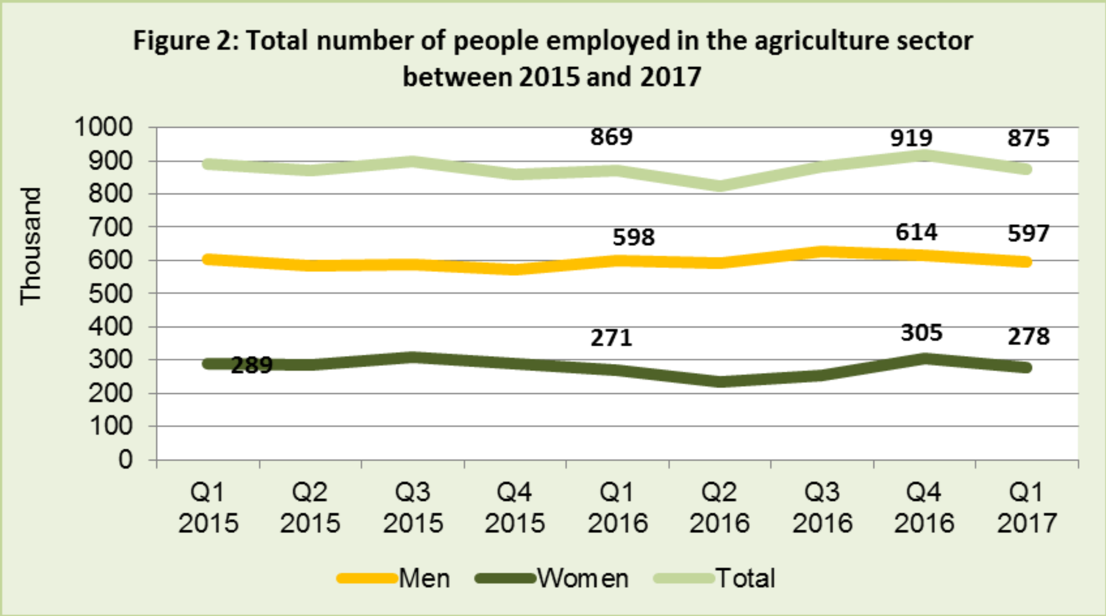
Source: Statistics SA, 2017

Figure 1 depicts that inflation unexpectedly fell from 6,1% in March to 5,3% in April within the target. Inflation also fell compared to a year ago when inflation was 6,2%. The improvement is driven by downward revisions to international oil price and domestic electricity tariff assumptions. A tariff increase of 4,0% with effect from July 2017 is expected , down from 8,0%. These revisions have been offset to some extent by a less appreciated exchange rate assumption and a slower decline in food price inflation. A continued moderation of food prices is expected over the medium term given the favourable agricultural outlook and significant upward revisions of the maize crop estimates. Food price inflation is expected to average 7,7% and 5,4% in 2017 and 2018, respectively, compared with 7,4% and 5,2% previously expected and will remain unchanged at 5,5% in 2019. Reserve Bank expects inflation is to average 5,7% this year compared with 5,9% previously, while the forecast for 2018 has moderated by 0,1 percentage point to 5,3%. The forecast average for 2019 remain unchanged at 5,5%.

INTEREST RATES

The Monetary Policy Committee (MPC) has decided to keep the repurchase rate unchanged at 7,0% per annum. Five members preferred an unchanged stance while one member preferred a 25 basis point reduction. The MPC remains of the view that the current level of the repo rate is appropriate for now. A reduction in rates would be possible should inflation continue to surprise on the downside and the forecast over the policy horizon be sustainably within the target range. However, in the current environment of high levels of uncertainty, the risks to the outlook could easily deteriorate and derail the current favourable assessment. Headline inflation has now returned to within the target range as expected, with outcomes in March and April surprising on the downside. While the inflation outlook has improved over the near term, the longer-term forecast trajectory is unchanged and uncomfortably close to the upper end of the target range. The rand exchange rate and domestic bond yields benefited from increased global capital inflows to emerging markets which largely offset the impact of the sovereign credit ratings downgrade. With further ratings decisions imminent, risks remain for a further depreciation against the backdrop of continued global and domestic political uncertainty. The governor announced that the growth forecast for 2017 was revised down from 1,2% to 1%. The Monetary Policy Committee (MPC) also cut the growth projections for 2018 from 1,7% to 1,5% and for 2019 growth is now projected at 1,7%, down from 2%. Among the reasons are that the output gap has widened and consumer demand has weakened. Elevated political tensions are expected to weigh heavily on consumer and business sentiment in upcoming quarters. As such, growth risks, particularly to household consumption expenditure and gross fixed capital formation, remain tilted to the downside. Ratings agencies have also warned about politically-motivated events detracting from the progress of growth reform and negatively impacting the direction of government policy.

3. Employment



Source: Stats SA, 2017

South Africa's unemployment in the first quarter of 2017 increased by 1,2 of a percentage point to 27,7% from 26,5% in the last quarter of 2016—the highest figure since September 2003. Growth in employment was seen in all industries except agriculture, trade and services. Employment was boosted by growth in the manufacturing sector, which added 62 000 jobs, finance and other business services categories, which added 49 000 employees and mining, which added 26 000 jobs. The youth unemployment rate rose by 1,6 percentage points to 38,6%, with 58% of unemployed people aged between 15 and 34. The agricultural sector shed 44 000 jobs in the period under review, while employment in the trade sector dropped by 15 000.

Figure 2 shows the number of people employed in the agricultural sector decreased by 4,8% in the first quarter of 2017, from 919 000 persons in the fourth quarter of 2016 to 875 000 persons in the first quarter of 2017. Of the 44 000 job losses in the sector in the first quarter of 2017, 27 000 jobs were lost by women whereas 17 000 jobs were lost by men. In total, the agricultural sector comprised of 278 000 women and 597 000 men in the first quarter of 2017, compared to the 305 000 women and 614 000 men the previous quarter. Compared to a year ago, the sector only created 0,7% job opportunities, which is 6 000. The gap between the unemployment rate envisaged in the National Development Plan (NDP) and the current rate is widening. The NDP states unemployment should be 14% by 2020 and it is only two and a half years to that target. The gap to 2020 currently stands at 13,7 percentage points. The NDP argues that agriculture has the potential to create close to one million new jobs by 2030. This can be done by expanding irrigated agriculture. With the sector now losing jobs, it looks difficult to achieve one million jobs.

4. Petrol price

Motorists can expect lower fuel prices in June thanks to a lower crude oil price and a weaker dollar against the local currency. Both of these factors have contributed to the reduction in the fuel price. This would come as a relief to motorists following a 30 cent hike in prices earlier this month, fuelled by a crumbling of the rand against the US dollar in the wake of the cabinet reshuffle by President Jacob Zuma and the subsequent junk status downgrade ratings by global ratings agencies. Farmers are also going to benefit from the fuel price reduction as they are harvesting summer crops and planting winter crops sat the same time. With the release of unaudited month-end fuel price data by the Central Energy Fund, the AA expect that the petrol price will drop by up to 26 cents a litre, with a 20 cent drop for both diesel and illuminating paraffin in June. The Department of Energy will make the official announcement regarding the fuel price at the end of the month. The rand has advanced against the US dollar in May, with further support from retreating international petroleum prices, helping motorists at the petrol pumps next month. OPEC's decision to continue its production cut for another nine months showed that there was concern in oil producing nations about a continued global oversupply of oil. This could mean a period of relative price stability.

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FREQUENCY

This 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 e-mails to all SMS and professionals in the department, including provinces.

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