agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Economic Commentary: Issue No. 25

October 2018

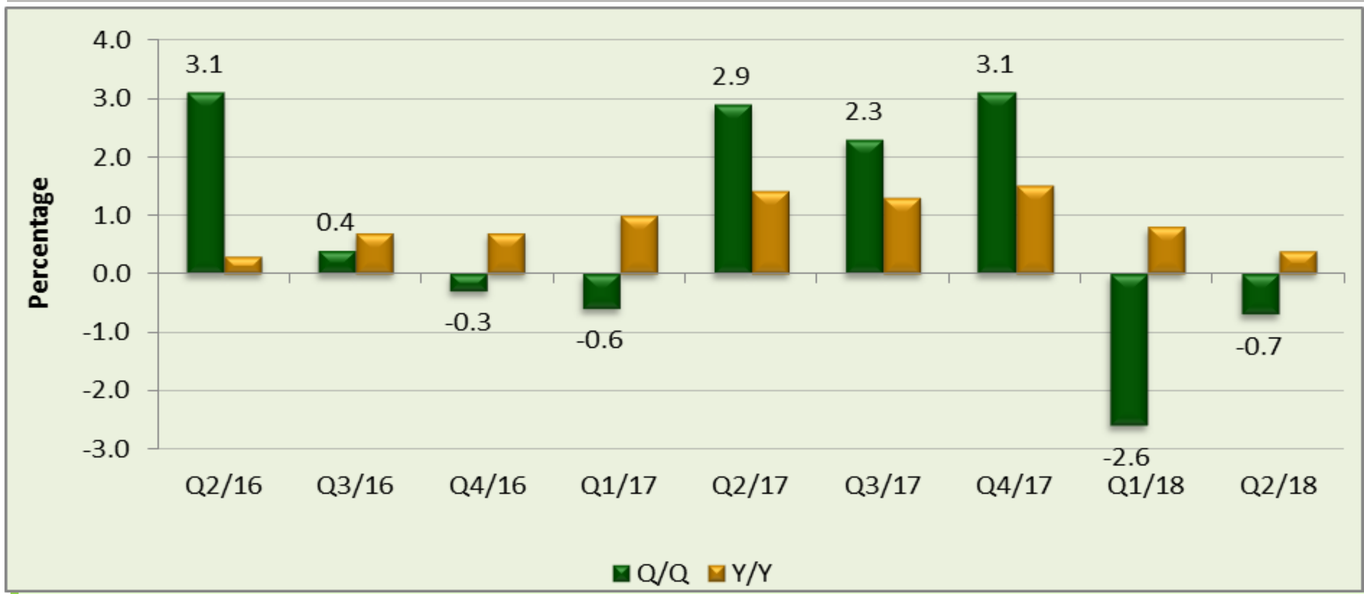
Directorate: Statistics & Economic Analysis

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.

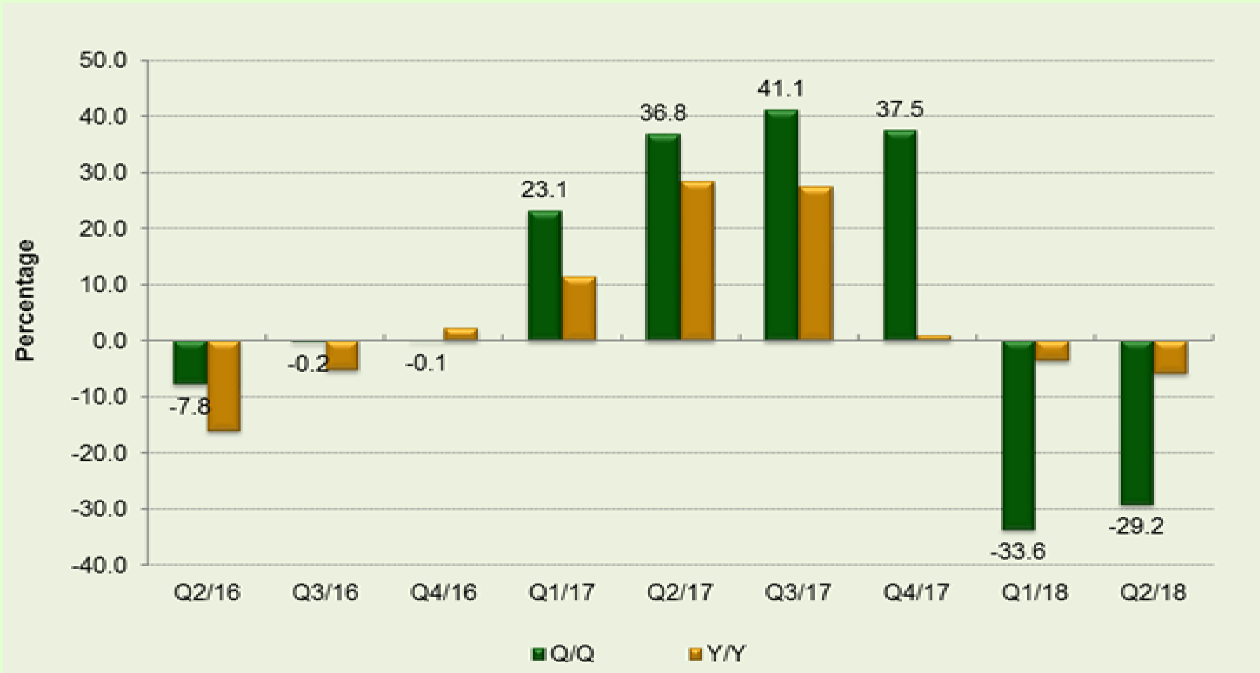
1. SA's REAL GDP GROWTH



South Africans are faced with hard times ahead following the disappointing figures which put the country in a first technical recession since the global financial crisis of 2008/09. South Africa's GDP contracted by 0,7% during the second quarter of 2018, from a downwardly revised negative growth of 2,6% in the first quarter of 2018.

This is despite expectations of many economists that SA would narrowly miss a recession. The 0,7% downturn in the GDP growth in second quarter of 2018 was a result of a fall-off in activity in the agriculture, transport, trade, government and manufacturing industries. The South African Reserve Bank forecast the country to grow by 1,2% in 2018, down from the projected 1,7% in May while consensus expected South Africa's economy to grow by 0,6% on a quarterly basis. A deterioration in the terms of trade, policy uncertainty, a less benign global backdrop, and possibly significant underspending by the SA government are other factors that might have contributed to the 0,7% contraction in SA's GDP growth. According to Standard bank, delayed government wage settlement (which should encourage consumer spending), a recovery in agricultural production as well as no further slippage in the terms of trade should aid growth in the second half of 2018.

2. AGRICULTURE, FORESTRY AND FISHING SECTOR GROWTH

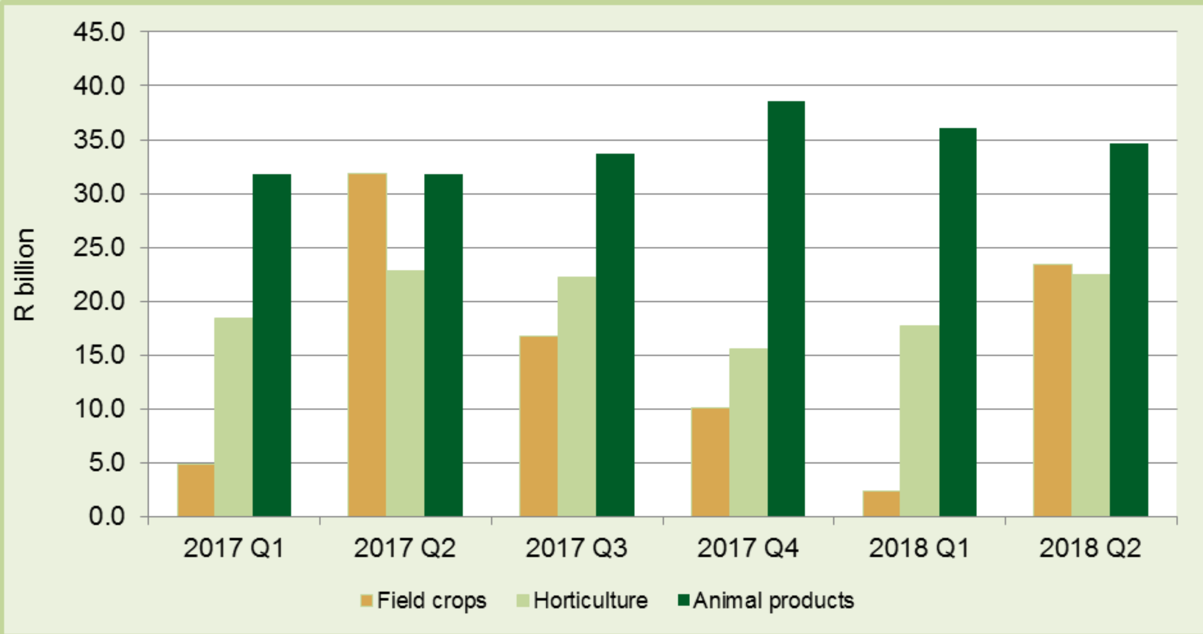


The agricultural sector, which had a prolific year in 2017, also entered into a technical recession with an improved contraction of 29,2% in the second quarter of 2018, from a negative growth of 33,6% in the first quarter of 2018. The sector contributed negative 0,8% to the GDP during the second quarter of 2018 compared to negative 1,0% in the first quarter of 2018. According to Stats SA, the decrease in the agricultural sector contribution to the GDP is attributed to the drop in production of field crops and horticulture products.

In contrast, the mining and quarrying industry reported a positive growth of 4,9% in the second quarter following a contraction of 10,3% in the first quarter of 2018. According to Standard bank, a very brisk growth would be required in the second half of the year to underpin even moderate full-year growth in 2018.

Source: Stats SA

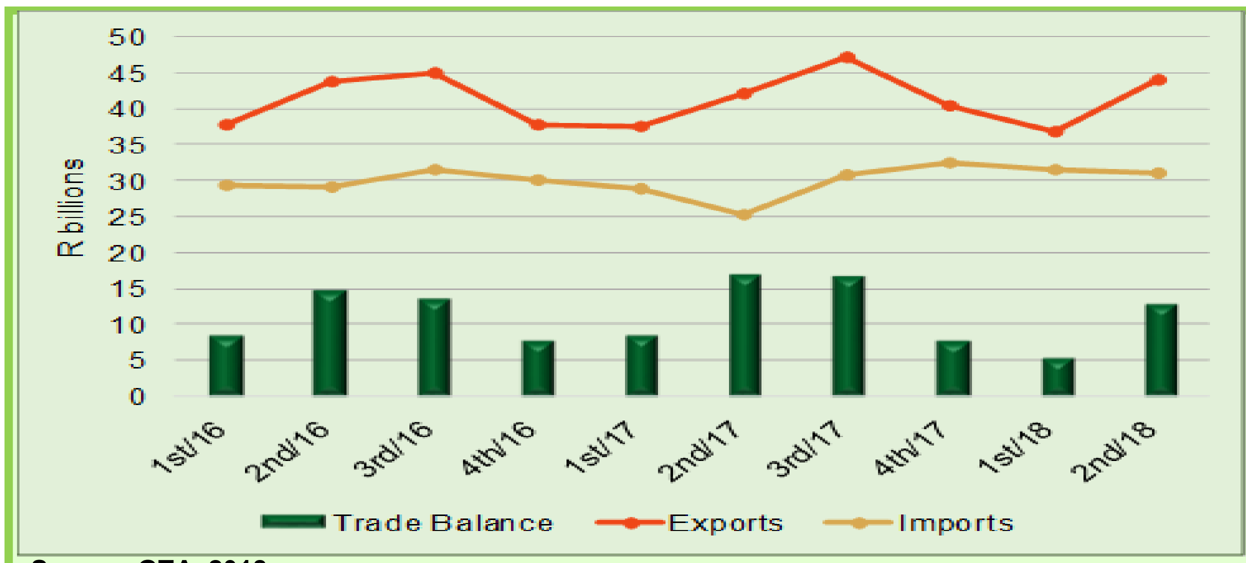
3. TRENDS IN GROSS FARMING INCOME BETWEEN 2017: Q1 AND 2018: Q2



Source: DAFF, 2018

Agricultural gross farm income for all agricultural products decreased by 6,8% to R 80,6 billion in Q2 2018, from R86.5 billion in Q2 2017. During this period, the decrease was largely supported by a significant decrease of 26,6% in income from field crops and a slight decrease of 1,4% in income from horticultural products while income from animal products increased by 9,1% over the period. The message is clear; the agricultural sector experienced little growth in the second quarter of 2018, dampened by the economy being in a technical recession. With the economy reflecting softer economic activities and soft household consumption, there has been less spending with consumers likely to part with their income. Furthermore, real agricultural GDP declined by 5,8% in Q2 2018 relative to Q2 2017. The record harvest in 2017 left SA with substantial carryover stock in 2018 while the decline in the summer crop harvest will also affect Q3 2018. The gross value of horticultural production declined by 1,4% in Q2 2018 relative to Q2 2017 influenced by the lasting effects of the 2017 drought in the Western Cape, which reduced production volumes. Conversely, the gross value of animal products conversely increased by 9,1% in Q2 2018 relative to Q2 2017, due to higher than expected livestock prices.

4. TRADE PERFORMANCE OF AGRICULTURE, FORESTRY AND FISHERIES SECTOR



Source: GTA, 2018

South Africa's overall trade balance for agriculture, forestry and fisheries decreased by 23,9% in Q2 2018 relative to Q2 2017. Agriculture's seasonal nature, volatility related to weather conditions, fractious labour relations environment, slower productivity growth and upside risks to inflation with higher food and fuel prices, pose downside risks to growth. The export value of agriculture, forestry and fisheries products increased by 4,5% in Q2 2018 relative to Q2 2017 while the import value of agriculture, forestry and fisheries products increased by 23,5% during the same period. Trade performance of the agriculture, forestry and fishing sector contributed to the second successive quarterly decline in agriculture in 2018. Uncertainty in the land policy environment also had an impact on investment decisions and hence the current decline in GDP is attributed to such factors. Moreover, subdued domestic demand is expected to weigh on import demand as well as the delayed impact of the rand weakness to support export demand. The overall weakness in the economy is a key risk to the fiscal and in turn credit ratings outlook.

5. SA CONSUMER SPENDING

According to Standard Bank, consumer spending in 2018 has been facing higher fuel costs, a stagnant labour market, and higher taxes reflected in the consumer confidence data from the Bureau for Economic Research (BER). The Reserve Bank's quarterly bulletin revealed that household consumption slipped in the second quarter of 2018 as people adjusted their spending habits following the VAT hike and fuel price increases. Standard bank revealed that since 2011, consumer sentiment has been very subdued due to slow economic growth and pervasive political uncertainty. Nielson reported indicated that consumers are dropping categories from their basket as they are forced to spend more on basic essentials. In addition, they seeking value for money brands, including private label. The initial optimism felt at the beginning of the year has subsided and consumers have become cautious.

REFERENCES :

- Department of Agriculture, Forestry and Fisheries (DAFF): Available online at https://www.absa.co.za
- Bureau for Food and Agricultural Policy (BFAP) 2018: Perspective on agriculture's performance as South Africa enters a technical recession. Available online at http:// www.sagis.org.za/BFAP_Baseline_2017.pdfstatssa.gov.za
- Global Trade Atlas (GTA); https://www.gtis.com/gta/
- Nielson 2018: Consumer Confidence Declines As South Africans Wait For Economic Turnaround. Available online: https://www.nielsen.com/za/en/press-room/2018/consumer-confidence-index-south-africa-q2-2018.html

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.