

# Quarterly Economic overview of Agriculture, Forestry and Fisheries



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## PREFACE

The core business of the Directorate: Statistics and Economic Analysis is to provide economic and statistical services to monitor the economic performance of the agriculture, forestry and fisheries (AFF) sector. To support this important task, the Economic and Statistical Research Unit conducts economic analyses of the performance of the AFF sector, as well as the external impact on the AFF sector and its industries.

This publication, the *Quarterly economic overview of the agriculture, forestry and fisheries sector*, was developed because of a need within the Department of Agriculture, Forestry and Fisheries (DAFF) to be regularly informed on developments and expected economic trends in the agricultural sector. The quarterly report has been established as a regular feature in the directorate's work plan. Since the beginning of 2004, the report has also been published for outside use to add value to a number of regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for everyone interested in developments in the AFF and the South African AFF sector.

This issue looks at the economic developments in the third quarter of 2014, as well as the expected economic trends in the South African AFF sector as the domestic and global economies continue to face economic uncertainties.

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## 1 EXECUTIVE SUMMARY

Global economic growth has been revised downwards and is forecast at 3,1% for 2015 on the economic front, slightly lower than the 3,4% growth in 2014 and is projected to rise slightly to 3,6% in 2016 as global activity is projected to pick up (IMF, 2015). The most notable risk at the start of 2015 was the slowdown of China's economy. Challenges in China were characterised by continued overproduction of oil and saw its price fall over 2015 to record lows of about US\$30 per barrel at the start of 2016. US economic growth cooled down in the third quarter despite a pick-up in consumer spending as a glut on inventory led to businesses cutting back on restocking warehouses. In the third quarter, US Economic growth measure increased at a 1,5% annual rate, a significant drop from the 3,9% annual growth of the second quarter. The main drag came from businesses stockpiling inventory, however, economists expect growth to improve in the fourth quarter.

Globally, mineral prices have also been decreasing, combining to cause balance of payment difficulties and macroeconomic pressures in countries dependent on exports of these such as Nigeria, South Africa, Angola, and Zambia. These low prices will continue to present a significant challenge for resource-based growth in these and other African countries. Another potential cause for weakened currencies and resultant increases in debt levels in some African countries and other emerging economies was an interest rate hike by the US Federal Reserve. The first interest rate hike in a decade was affected in December 2015, with a few more increases expected during 2016. Drought conditions were experienced in most parts of the continent towards the end of 2015 and are likely to threaten the food security and balance of payment positions in other countries reliant on primary agricultural production and export.

The SA economy grew by a seasonally adjusted and annualised 0,7% quarter-on-quarter (q/q) during the third quarter of 2015, averting a technical recession following a 1,3% contraction in the second quarter of 2015. Factors such as low commodity

prices, the weakening currency and the slowdown in the global economy weigh down on the domestic economy. The agriculture, forestry and fishing sector, mining quarrying sector as well as electricity, gas and water sector contributed to the contraction by 12,6%, 9,8%, respectively. The manufacturing sector provided the much needed cushion to save the SA economy from tipping into a technical recession, registering a 6,2% growth in the third quarter of 2015.

The SA headline CPI annual inflation rate averaged 4,7% in the third quarter of 2015, which is a decline from the 6,2% average in the third quarter of 2014.

South Africa's unemployment rate has increased to 25,5% in the third quarter of 2015, which is up by 0,5 of a percentage point from the second quarter rate of 25%, which is a far cry from the 6% that the country wishes to achieve by 2030.

Total expenditure on intermediate goods and services increased by 7,0%, from R303,3 billion in the third quarter of 2014 to R324,4 billion in the third quarter of 2015. Real gross farm income from all agricultural products decreased slightly from R58,2 billion in the third quarter of 2014 to R54,9 billion reported in the same quarter of 2015, a decrease of 5.7%. The decrease was mainly due to a significant decrease of about 30,9% in income from field crops.

Between the third quarter of 2014 and the third quarter of 2015, the average prices of apples, mangoes and grapes decreased by 2%, 19% and 0,2% while average prices for avocados, bananas, oranges and pears increased by 31%, 23%, 16% and 23% respectively. South Africa's agricultural trade balance increased by 2% between the third quarter of 2014 and the third quarter of 2015. Exports grew by 4% while imports increased by 7%.

## 1. GLOBAL OVERVIEW OF THE AGRICULTURE, FORESTRY AND FISHERIES ECONOMY

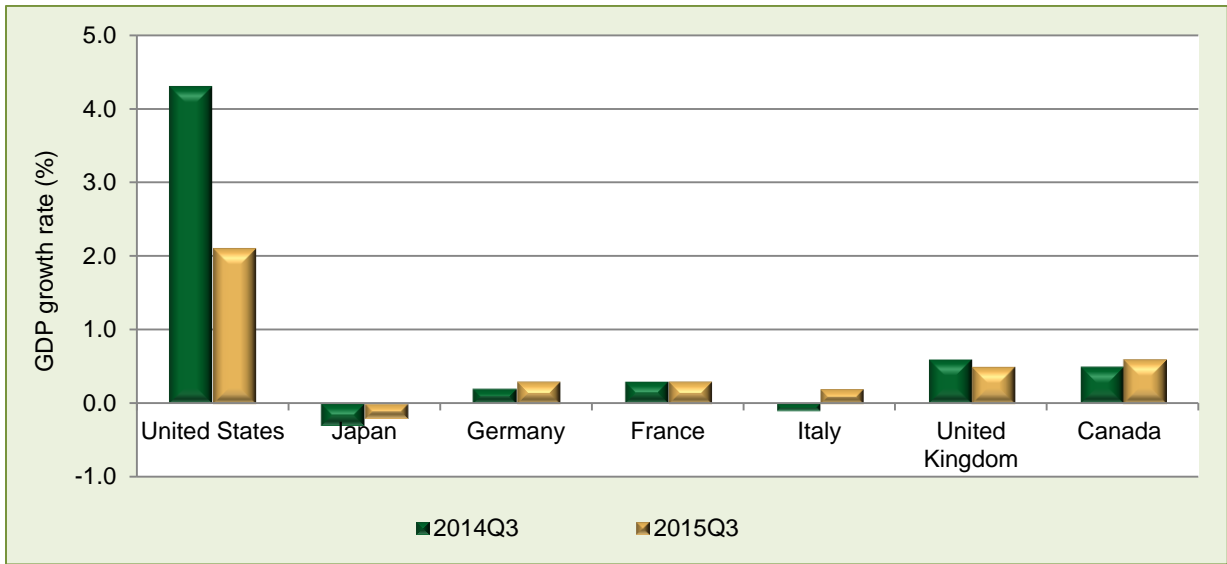
### 1.1 Global growth

Global economic growth remains moderate as the global economy continues to face a number of downside risks resulting in marked down forecasts for short-term growth rates in most economies. Global growth declined in the first half of 2015, reflecting a further slowdown in emerging markets and a weaker recovery in advanced economies. Commodity price declines are adversely affecting a number of economies including a few advanced economies. However, economic recovery in advanced economies is expected to pick up slightly, with the US and the UK leading the recovery process as output increases while unemployment drops in these economies. The euro area and Japan remain a concern although the euro area registered a modest recovery while Japan is forecast to return to positive economic growth.

Economic growth in the US was weaker than expected despite a strong rebound in the second quarter, reflecting setbacks to economic activity in the first quarter. However, the unemployment rate in the US continues to decline despite modest growth. In the United Kingdom, GDP expanded at an annualised rate of 2,25% in the first half of 2015, while the unemployment rate is now back at near its pre-crisis average of about 5,5%. Japan's strong rebound in the first quarter of 2015 was followed by a drop in activity in the second quarter, with consumption and exports falling below expectations in the first half of 2015 (IMF, 2015).

Global economic growth has been revised downwards and is forecast at 3,1% for 2015, slightly lower than the 3,4% growth in 2014 and is projected to rise slightly to 3,6% in 2016 as global activity is projected to pick up (IMF, 2015). **Figure 1** depicts selected advanced economies' GDP rates for the third quarters of 2014 and 2015.





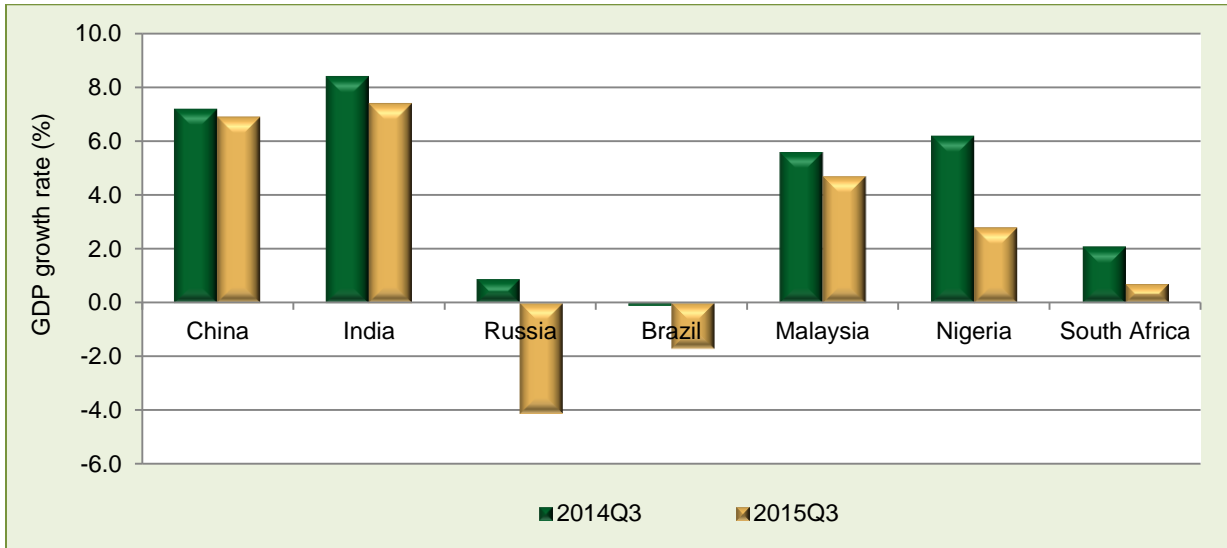
**Figure 1:** Advanced Economies Quarterly GDP Rates

Source: Various Sources

Economic activity in emerging market and developing economies is projected to slow down for the fifth consecutive year, largely reflecting weaker prospects for some large emerging market economies, such as China and oil-exporting low income countries. Downside risks to the outlook for emerging market and developing economies have increased amid declining oil and other commodity prices, reduced capital flows to emerging markets and pressure on their currencies. Growth in emerging market and developing economies is projected to slow from 4,6% in 2014 to 4,0% in 2015 and is forecast to rebound to 4,5% in 2016 (IMF, 2015). **Figure 2** depicts selected emerging market and developing economies’ GDP rates for the third quarters of 2014 and 2015. Although economic growth in the emerging market and developing economies remains weaker, these economies account for a growing share of world output and they still account for a large share of world growth. China’s growth is projected to decelerate to 6,8% in 2015 and to a further 6,3% in 2016 while India’s growth is expected to strengthen from 7,3% this year and last year to 7,5% in 2016.

Economic growth in the sub-Saharan Africa region is expected to slow from 5% in 2014 to 3,8% in 2015, largely reflecting declining commodity prices – particularly oil prices – as well as low demand from China which is the largest single trading partner of sub-Saharan Africa. Among the region’s oil exporters, Nigeria’s growth is now projected at 4% in 2015, a decrease from 6,3% in 2014 while Angola’s growth is

projected to decline from almost 5% in 2014 to 3,5% in 2015 (IMF, 2015). Most oil-importing countries in the region are expected to experience positive growth in 2015 and 2016 although South Africa’s growth is projected to decline from 1,5% in 2014 to 1,4% and 1,3% in 2015 and 2016 respectively, reflecting electricity load-shedding and other supply constraints. Power shortages have also been reported in Nigeria and Ghana which has also affected economic activity in these economies.



**Figure 2:** Emerging Markets and Developing Economies Quarterly GDP Rates

Source: Various Sources

## 1.2 Global grain forecast

Global grain production is expected to be a percentage lower than it was in 2014; while it was 7% higher in the third quarter of 2015 compared to the estimates in Q3 of 2014 showing that estimates could still change.

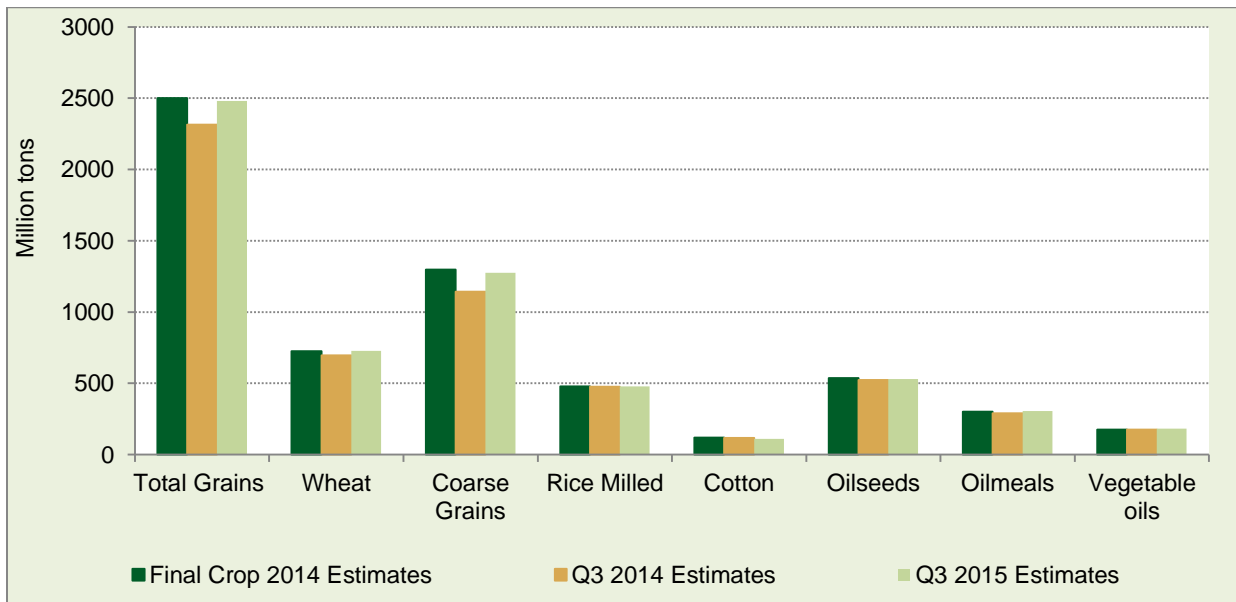
Wheat forecast in the third quarter indicates that wheat outlooks is expected to be stable compared to the 2014 final crop estimates. The third quarter of 2015 compared to the forecast in the same period in 2014 shows that wheat expected was 4% higher compared to the same period in 2014.

Coarse grains forecasts are expected to be 2% lower than they were in 2014. During the third quarter of 2014 coarse grains were 12% lower than they are currently estimated in the third quarter of 2015. Rice milled is expected to be stable in the third quarter estimates of 2015 compared to the same period quarter in 2014.

Cotton output is expected to decline by 8% compared to the same period in 2014, while quarter-on-quarter estimates were 6% lower than they are in the third quarter of 2015.

During the third quarter of 2015, oilseeds production estimates is expected to be a percentage lower than it was in 2014. In the third quarter of 2015; the oilseeds forecast is a percentage higher than it was expected the same period last year.

Oil meals and vegetable oils: the production forecast in the third quarter of 2015 indicates an expected increase by 1% and 3% respectively compared to 2014, but compared to the third quarter 2014, estimates were 5% and 3% higher this year.

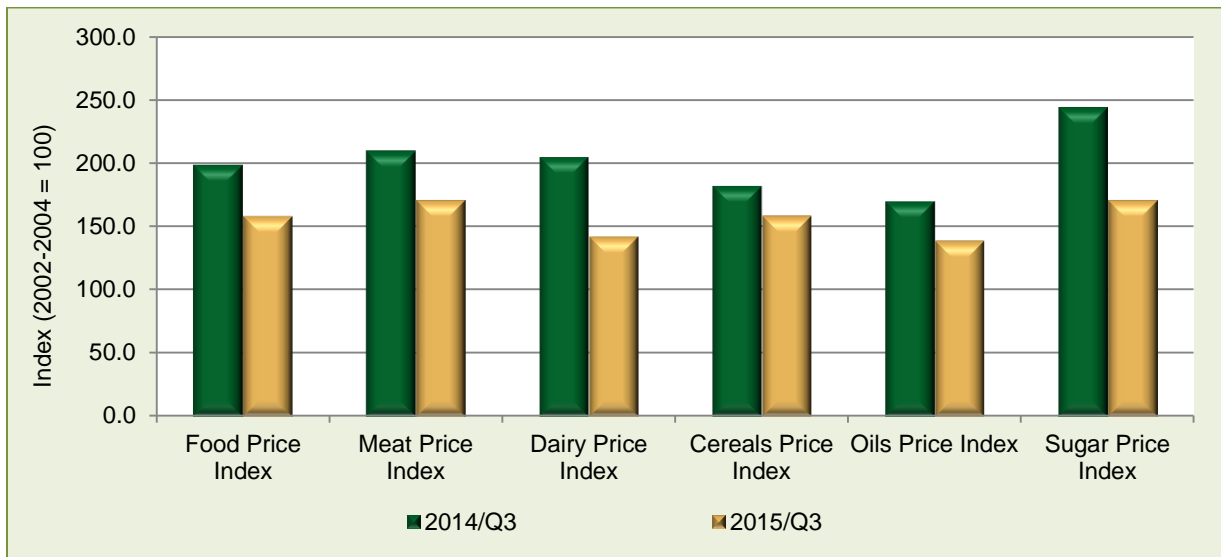


**Figure 3:** Crop production Outlook

Source: USDA

### 1.3 Global food prices

International food commodity prices continued to decline during the third quarter of 2015 as ample supplies, a slump in energy prices and concerns over China's economic slowdown all contributed to the sharpest decrease of the FAO Food Price Index (FFPI) in almost seven years (FAO, 2015). The FFPI averaged 158.4 in the third quarter of 2015, a sharp 20,2% drop from the 198.4 average in the third quarter of 2014. Figure 4 depicts the price indices of five commodity groups.



**Figure 4:** Quarterly Global Food Price Indices

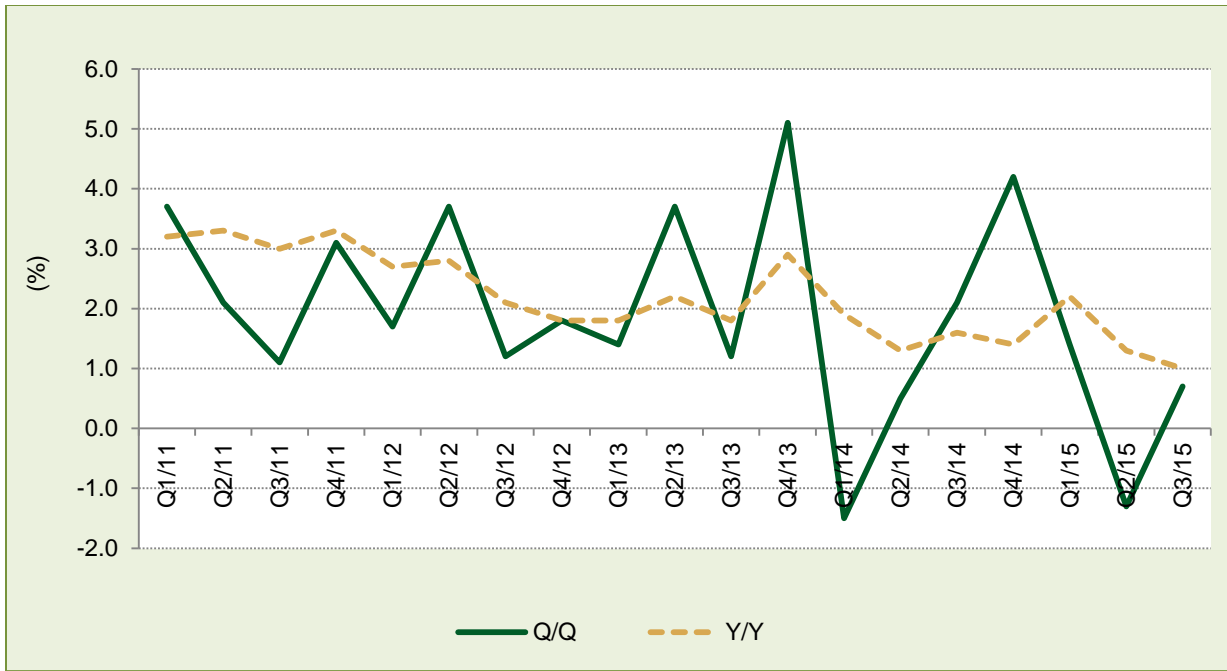
Source: FAO

## 2. THE STATE OF THE DOMESTIC ECONOMY IN AGRICULTURE, FORESTRY AND FISHERIES

### 2.1 Growth

The SA economy grew by a seasonally adjusted and annualised 0,7% quarter-on-quarter (q/q) during the third quarter of 2015, averting a technical recession following a 1,3% contraction in the second quarter of 2015. The domestic economy remains under pressure with factors such as low commodity prices, the weakening currency and the slowdown in the global economy weighing it down. The agriculture, forestry and fisheries sector contracted by 12,6% in the 2015, largely due to the worst drought to hit the country in over thirty years. The 9,8% contraction in the mining and quarrying sector as well as the 8% contraction in the electricity, gas and water sector also contributed to the modest growth. The manufacturing sector provided the much needed cushion to save the SA economy from tipping into a technical recession, registering a 6,2% growth in the third quarter of 2015 following two consecutive sector contractions in the first and second quarters. Figure 5 depicts the SA quarterly GDP growth trend since 2011.

On a year-on-year basis, the SA GDP grew by 1,0% in the third quarter of 2015, which is slightly less than the 1,6% growth recorded in the third quarter of 2014. The agriculture, forestry and fishing (AFF) sector remained the worst performer on a y/y basis, contracting by 16,2% y/y in the third quarter of 2015 while the mining and manufacturing sectors both grew by 1,4% y/y. Looking at the first nine months of 2015 compared to the first nine months of 2014, the SA economy grew by 1,5% with the mining sector recording the largest growth rate of 4,3% y/y.

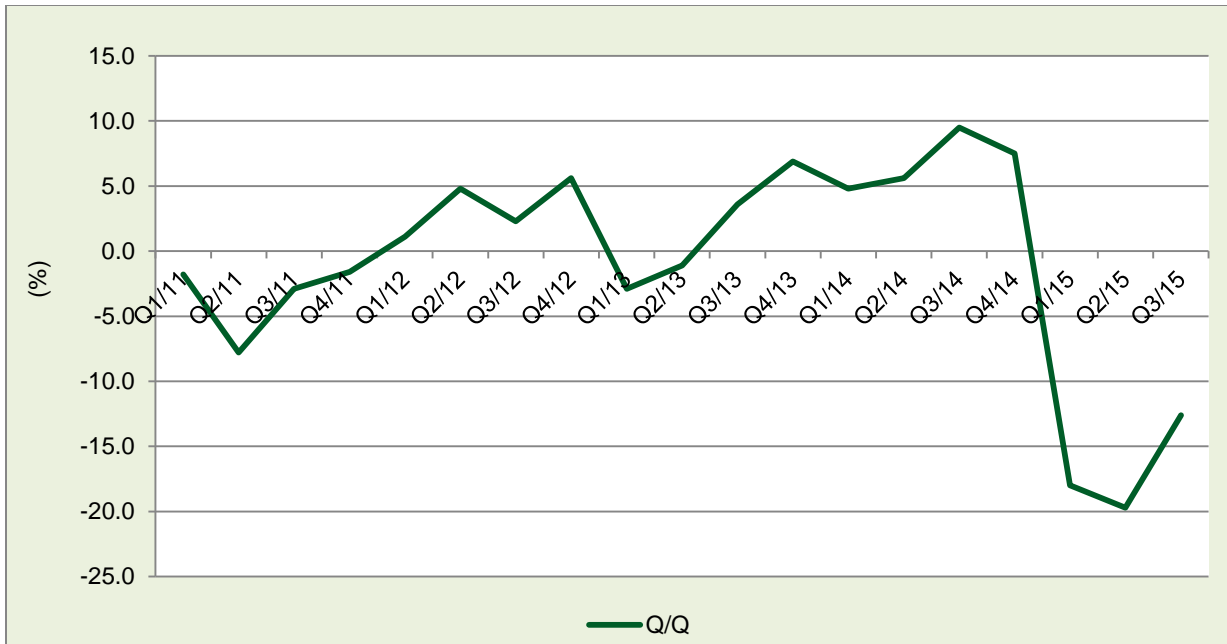


**Figure 5:** Domestic real GDP growth

Source: Stats SA

The AFF sector remained in recession during the third quarter of 2015 following three consecutive contractions as the country continues to battle its worst drought in recent history which has resulted in a number of provinces being declared disaster areas. Field crop production, particularly maize production, was the worst affected by drought resulting in a R5,0 billion (31%) decline in gross income from field crops in the third quarter of 2015 compared to the third quarter of 2014. Gross income from maize declined by R4,6 billion (39%) in the third quarter of 2015 compared to the third quarter of 2014. During the first nine months of 2015, the AFF sector contracted by 7,3% y/y compared to the first nine months of 2014. Figure 6 depicts the agriculture, forestry and fishing sector's quarterly growth trend since the first quarter of 2011.





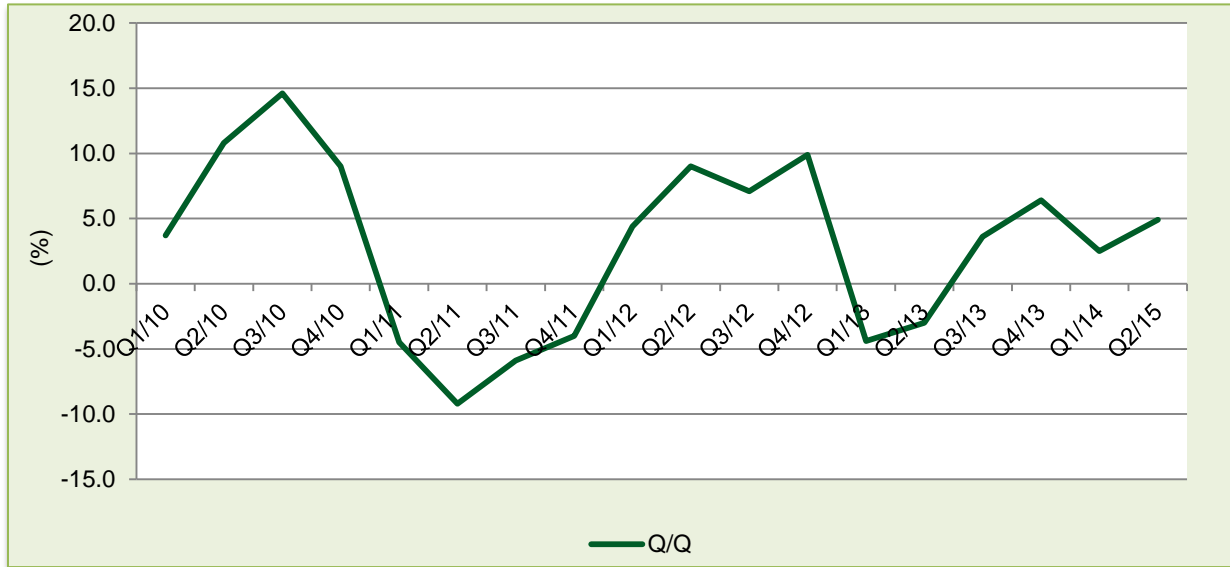
**Figure 6:** Seasonally adjusted and annualised quarterly growth in agriculture, forestry and fishing sector.

Source: Stats SA

## 2.2 Inflation

The SA inflation rate remained within the Reserve Bank’s target range for the past fourteen months in line with the low global inflation rate which has been supported largely by lower commodity prices. The SA headline CPI annual inflation rate averaged 4,7% in the third quarter of 2015, which is a decline from the 6,2% average in the third quarter of 2014. The headline CPI has been rising each month during the second quarter of 2015 but was relatively stable during the third quarter. Lower oil prices and the recent easing off of global food prices have largely contributed to lower headline CPI inflation. Domestic food price inflation remained below the headline CPI inflation since June 2015 although local food prices are expected to go up as a result of drought that continues to adversely affect plantings in many provinces. Figure 7

shows the price trends in the headline CPI as well as the CPI for food since the beginning of 2013.



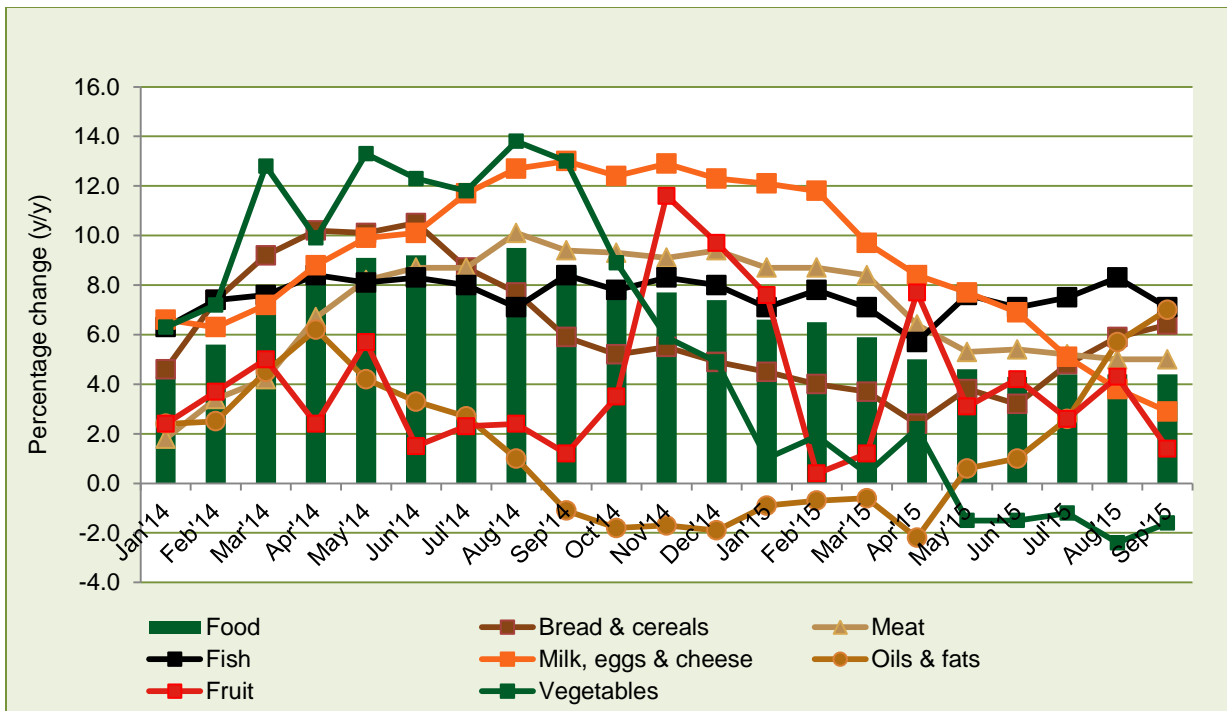
**Figure 7:** SA headline CPI and CPI for food

Source: Stats SA

The annual CPI for food averaged 4,4% y/y in the third quarter of 2015, which is a significant drop from the 9,1% y/y average in the third quarter of 2014. Food price inflation remained flat at 4,4% y/y during July, August and September 2015. Prices of bread and cereals, which have been declining monthly since December 2014, started rising again during the third quarter of 2015, reflecting reduced plantings of field crops due to the drought. The CPI for bread and cereal averaged 5,7% y/y in the third quarter of 2015. The CPI inflation for oils and fats also started rising, averaging 5,1% y/y in the third quarter of 2015, which is a significant rise from the 0,9% y/y average during the third quarter of 2014. The prices of milk, eggs and cheese declined further during the third quarter of 2015, averaging 3,9% y/y, a significant drop from the 12,5% y/y average in the third quarter of 2014 in line with the sharp drop in global dairy prices. However, there are concerns that higher maize prices due to drought may push feed prices up which might also result in rising prices for poultry and eggs. The

CPI for fruit remained relatively low, averaging 2,7% y/y, while the CPI for vegetables remained in negative territory throughout the third quarter of 2015, averaging -1,7% y/y which is a sharp drop from the 12,9% y/y average in the third quarter of 2014. Figure 8 depicts consumer price trends of selected food items since the beginning of 2014.

The producer price inflation remained fairly stable during the first three quarters of 2015, averaging 3,1% in the first quarter and 3,4% in both the second and third quarters of 2015. The PPI for AFF on the other hand raised significantly throughout the first three quarters of 2015, from a 1,0% y/y deflation in the first quarter, to a 4,0% y/y average in the second quarter, increasing further to 6,4% y/y in the third quarter. The main contributor to the rising PPI for AFF was food products which averaged 5,3% y/y in the third quarter of 2015 from 5,2% y/y average in the second quarter. The largest contributors to rising prices for food products were meat and meat products which averaged 7,5% y/y in the third quarter, oils and fats which averaged 7,8% y/y and grain mill products which averaged 7,4% y/y in the third quarter of 2015.



**Figure 8:** CPI for food and selected food items

Source: Stats SA

### 2.3 Employment

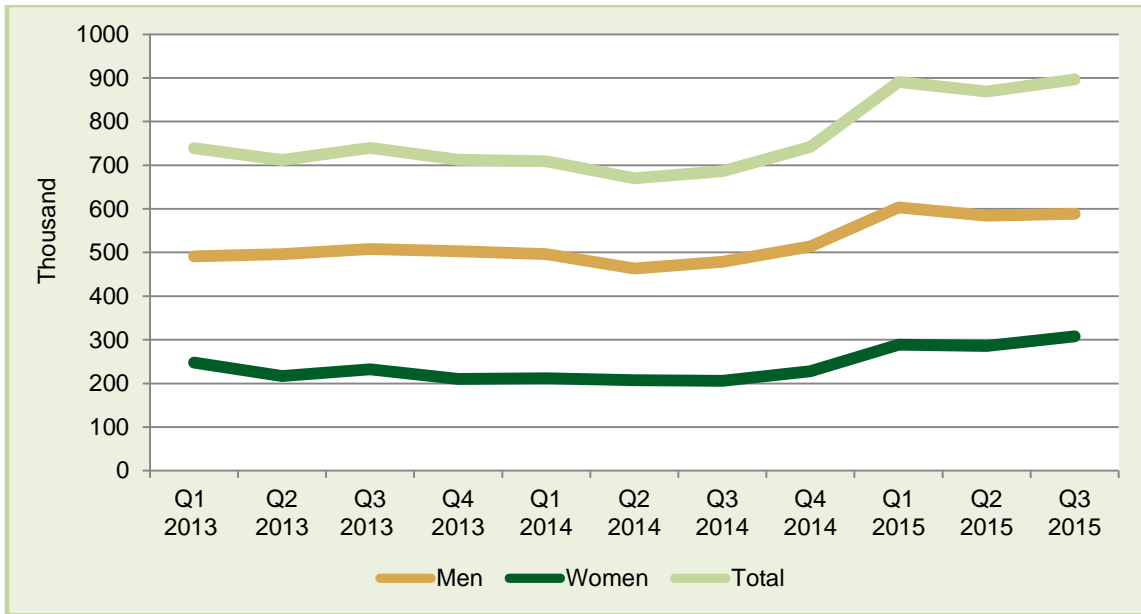
The Quarterly Labour Force Survey (QLFS) by Statistics South Africa (Stats SA) indicate that South Africa's unemployment rate has increased to 25,5% in the third quarter of 2015. This is up by 0,5 of a percentage point from the second quarter rate of 25%, but is still an improvement from the first quarter rate of 26,4%. The number of unemployed people increased by 188 000 in the third quarter, compared to the second quarter. Of the working age population of 36,1 million, 15,8 million were employed while 5,4 million were unemployed and 14,9 million were not economically active, therefore resulting in an unemployment rate of 25,5%, an absorption rate of 43,8% and a labour force participation rate of 58,8%. The formal sector accounted for the

largest share of employment at 69,1%, while agriculture accounted for the lowest share (5,7%). Discouraged work-seekers accounted for 15% of the not economically active population, while the share of other (not economically active) was 85%.

The results for the third quarter of 2015 reflect a quarterly decrease in the not economically active population (200 000) and a quarterly increase in the economically active population (359 000). South Africa's official unemployment rate increased by 0,5 of a percentage point in the third quarter of 2015. The 25,5% unemployment rate is a far cry from the 6% that the country wishes to achieve by 2030, according to the National Development Plan (NDP). The absorption rate is also far off the NDP goal at 43,8%, compared to its aim of 61% absorption rate. In the third quarter, the absorption rate was lowest among youth aged between 15 and 24, while it was highest among adults aged between 34 and 64. The highest share of the employed population with tertiary qualifications is found among the white and Indian population groups. In the third quarter, 48,6% of employed white people and 33,8% employed Indians had a tertiary qualification. More than half of the black African and coloured populations had an educational level of less than matric.

Six of South Africa's nine provinces recorded increases in unemployment. The Northern Cape (2,1%) and Gauteng (1,8%) had the highest increases in unemployment, on a quarter-to-quarter basis. Only the Western Cape (-1,1%), Mpumalanga (-1%) and Limpopo (-0,1%) have recorded decreases in unemployment in the third quarter. The decrease in the Western Cape could be due to the seasonal agricultural activities in the province.

Figure 9 below shows that employment in agriculture sector increased in the third quarter of 2015 compared to the third quarter of 2014.



**Figure 9:** Total number of people employed in the agriculture sector between 2013 and 2015.

Source: DAFF

The number of people employed in the agricultural sector increased by 30,8% in the third quarter of 2015 from 686 000 persons in the third quarter of 2014 to 897 000 persons in the third quarter of 2015. Of the 211 000 jobs created in the agricultural sector in the third quarter of 2015 compared to the same quarter of 2014, 110 000 jobs were created for men while 102 000 jobs were created for women. In total, the agricultural sector comprised of 308 000 women and 589 000 men in the third quarter of 2015 compared to 206 000 women and 479 000 men in the same quarter of 2014.

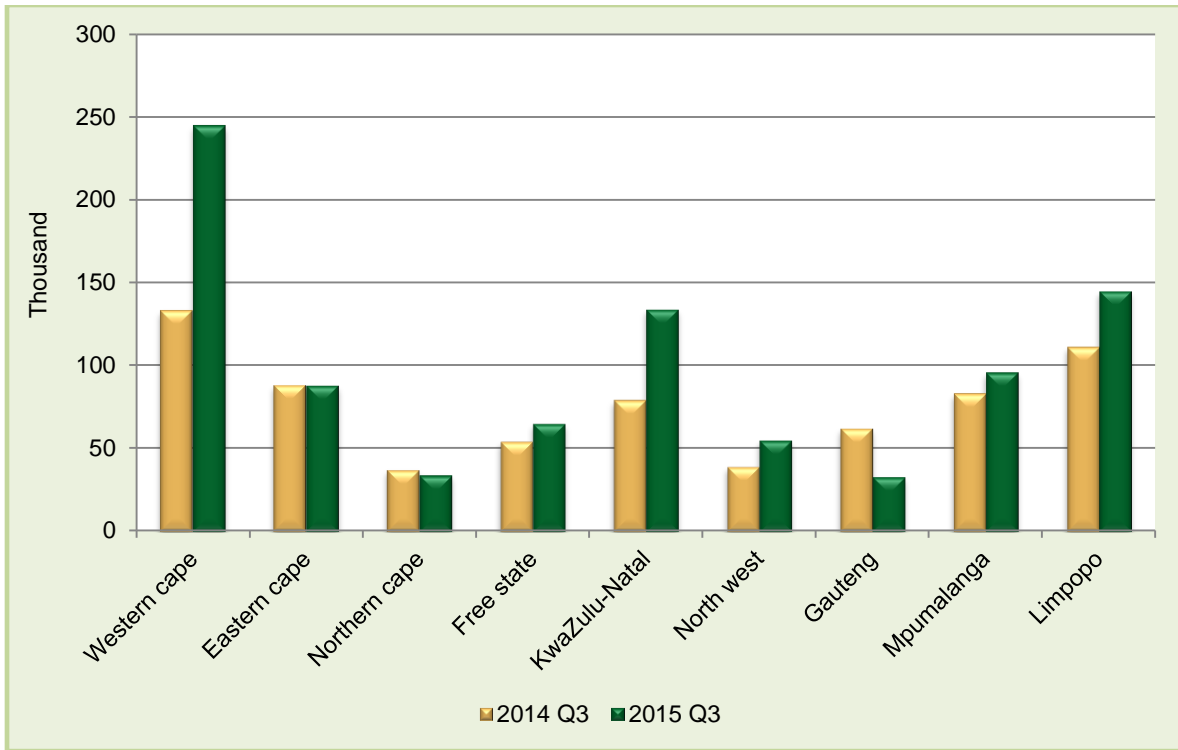
It is important to note that the agricultural sector unexpectedly added a significant number of jobs even after a severe drought earlier this year sharply curbed output. Agriculture added 211 000 jobs between the third quarter of last year and the third quarter of this year (year-on-year), and 28 000 jobs were also added between the second quarter of this year and the third quarter of this year (quarter on quarter). The



increase may be attributed to farmers needing more workers to harvest produce and prepare fields for planting season.

Figure 10 shows that employment increased in six provinces and decreased in other provinces in the third quarter of 2015 compared to the same quarter of 2014. Agriculture employment in the Western Cape, KwaZulu-Natal, North West and Limpopo increased significantly by 83,7%, 70,5%, 43,4% and 30,6% respectively between the two quarters. The Western Cape still remained with the highest agricultural employment compared to other provinces in the third quarter of 2015. During the same period the agriculture employment in the Free State and Mpumalanga also increased by 19,5% and 16,3% respectively. However, agricultural employment in the Eastern Cape was relatively flat between the two quarters, while agricultural employment in Gauteng and the Northern Cape decreased by 46,4% and 6,6% respectively.

The 2015 third (QLFS) also indicated that 1,4 million people were involved in subsistence farming in the third quarter of 2015 compared to 1,3 million in the same quarter of 2014, an increase of 17,6%.

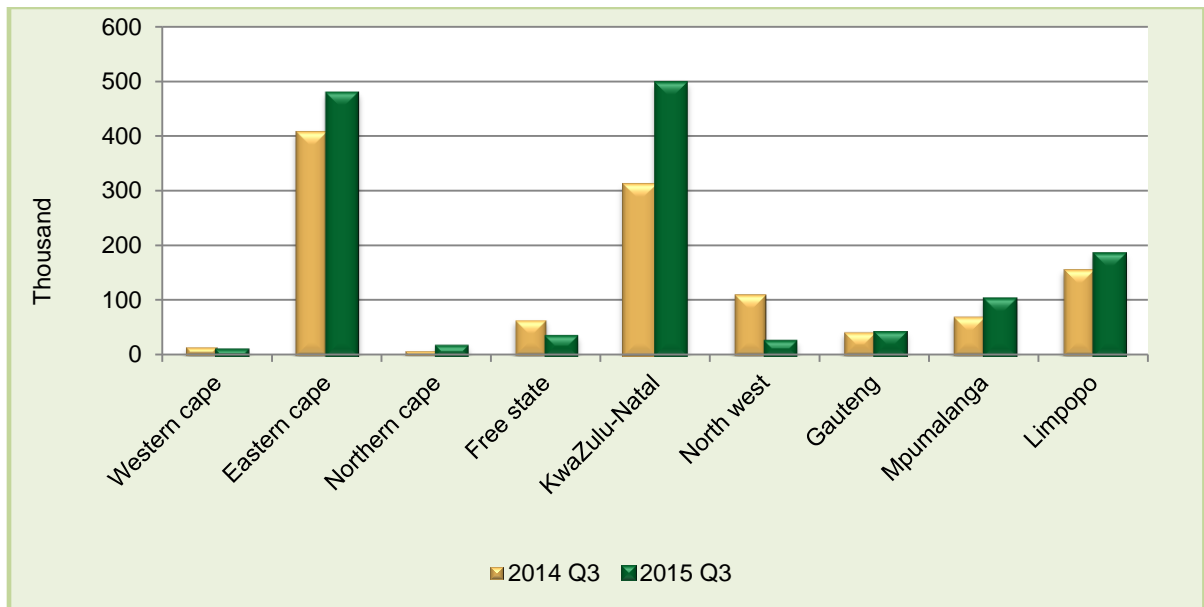


**Figure 10:** Provincial agriculture employment between 2014 and 2015.

Source: DAFF

Figure 11 above shows the number of people involved in subsistence farming in all provinces in the third quarter of 2015 compared to the same quarter of 2014. KwaZulu-Natal had the highest number of (498 000) people involved in subsistence farming in the third quarter of 2015 compared to (310 000) in the third quarter of 2014, an increase of 60,6%, while the Eastern Cape had (479 000) people involved in subsistence farming in the third quarter of 2015 compared to (408 000) in the same quarter of 2014, an increase of 17,4%. During the same period Limpopo had (186 000) people involved in subsistence farming compared to (157 000), an increase of 18,5%, while Mpumalanga had (103 000) people involved in subsistence farming compared to 71 000. The number of people involved in subsistence farming in the

Northern Cape also increased from (8 000) in the third quarter of 2014 to (17 000) in the third quarter of 2015. While the number of people involved in subsistence farming in Gauteng decreased slightly from (43 000) to (42 000) between the two quarters. The number of people involved in subsistence farming in Free State decreased significantly from (65 000) in the third quarter of 2014 to (35 000) in the third quarter of 2015, a decrease of 46,2%. The number of people involved in subsistence farming in North West also decreased significantly by 76,2% in the third quarter of 2015 compared to the same quarter of 2014. During the same period the number people involved in subsistence farming in Western Cape decreased from (15 000) to (10 000).



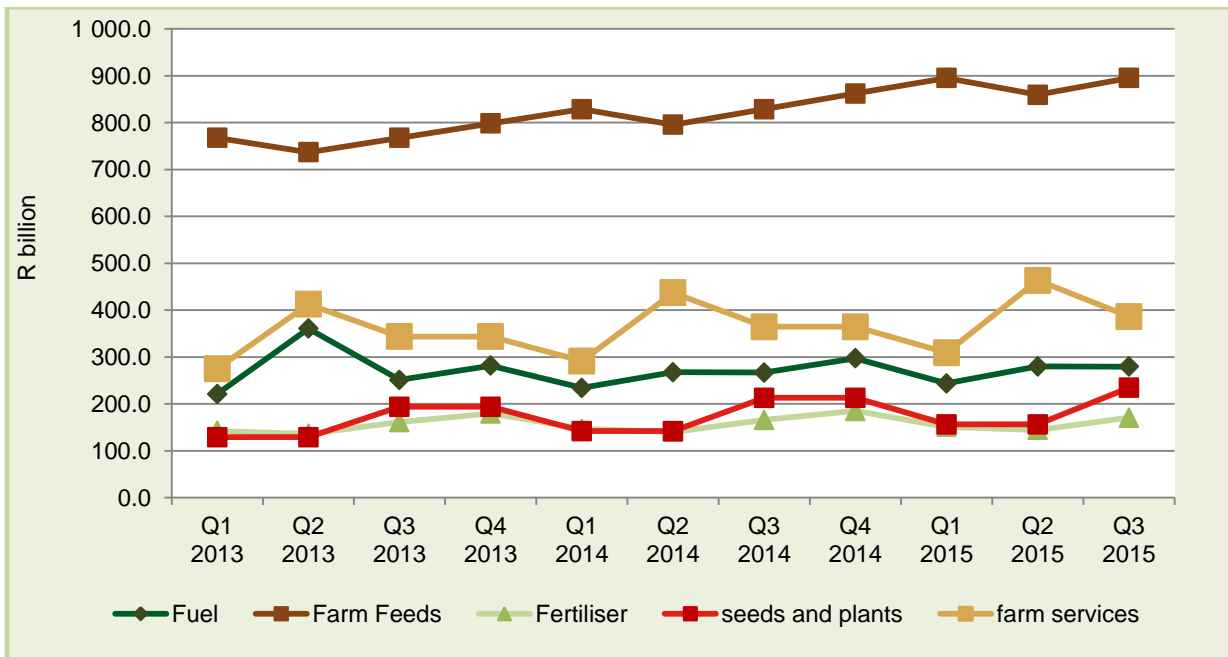
**Figure 11:** Provincial number of people involved in subsistence farming between the Third quarters of 2014 and 2015

Source: DAFF

## 2.4 Expenditure on intermediate goods and services by the agricultural sector

The total expenditure on intermediate goods and services was reported at R324,4 billion in the third quarter of 2015 compared to R306,0 billion in the second quarter of 2015, an increase of 6,0%. Compared to a year ago the total expenditure on intermediate goods and services increased by 7,0% from R303,3 billion in the third quarter of 2014 to R324,4 billion in the third quarter of 2015.

Figure 12 shows the total expenditure on fuel, farm feeds, fertilisers, seeds and plants, as well as farm services. The increase in total expenditure in the third quarter of 2015 was attributed to an increase in expenditure on seeds and plants which increased significantly by (50,0%) compared to the previous quarter. The expenditure on fertiliser and farm feed also increased by (18,2%) and (4,2%) respectively, while the expenditure on farm services and fuel decreased slightly by (16,7%) and (0,1%) respectively.



**Figure 12:** Trends in the expenditure on fuel, farm feeds, fertilisers, seeds & plants and farm services between third quarter of 2014 and 2015

Source: DAFF

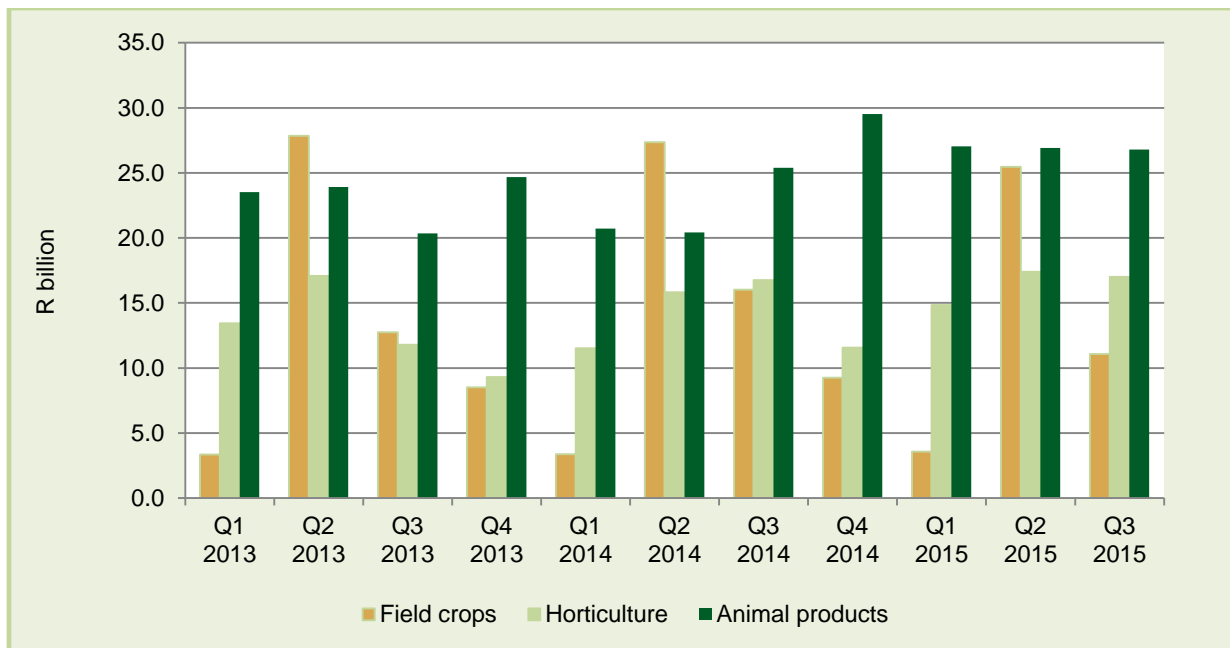
## **2.5 Nominal gross farm income and net farm income from agricultural products**

Figure 13 below shows the gross income from field crops, horticulture and animal products between 2014 and 2015. The nominal real gross income from all agricultural products decrease to R54.9 billion in the third quarter of 2015 from R69.8 billion in the second quarter of 2015, a decrease of 21.4%. This was due to a huge decrease of 56.6% in income from field crops which decreased to R11.1 billion in the third quarter of 2015 from R25.5 billion in the second quarter of 2015. The income from horticulture and animal products also decreased slightly between the two quarters by 2,3% and 0,4% respectively. The huge decrease in income from field crops was due to the significant drop in income from almost all crops such as chicory root, wattle bark, soya beans, Lucerne seed, sunflower seed, cotton, groundnuts, oats, tobacco, grain sorghum, dry beans, barley, wheat and maize which decreased by 100,0%, 95,8%, 95,7%, 95,0%, 94,1%, 94,4%, 86,1%, 85,8%, 76,2%, 73,5%, 69,8%, 61,3%, 57,7% and 49,1% respectively. The income from other field crops also decreased slightly by 13,9%. While gross income from canola, sugar cane and hay increased by 31% and 36.8%, 29,8% and 1,6% respectively.

According to BFAP 2015, South African maize prices increased significantly since the beginning of 2015 as dry and hot weather during the growing season led to well below average yield levels. The 2015 domestic maize crop is expected to reach only 9,8 million tons, which is 31% less than the 14,2 million tons harvested in 2014. The impact of the drought early in 2015 was more severe in the western parts of the maize production regions, where proportionally more white maize is produced compared to

the eastern and irrigation areas, which tend to favour yellow maize. The disappointing yields, together with the reduced area planted to white maize, resulted in a decline of 39% in white maize production reaching merely 4,7 million tons in 2015.

Gross income from horticulture decreased slightly by 2,3% to R17,0 billion from R17,4 billion during the same period. The decrease was largely supported by a decline in income from viticulture, deciduous fruit, dried fruit and tea which declined by 67,6%, 44,4%, 39,2% and 31,8% respectively. Compared to a year ago real gross farm income from all agricultural products decreased slightly from R58,2 billion in the third quarter of 2014 to R54,9 billion reported in the same quarter of 2015, a decrease of 5,7%. During this period the decrease was mainly due to a significant decrease of about 30,9% in income from field crops, while animal and horticulture increased slightly by 5,6% and 1,5% respectively.

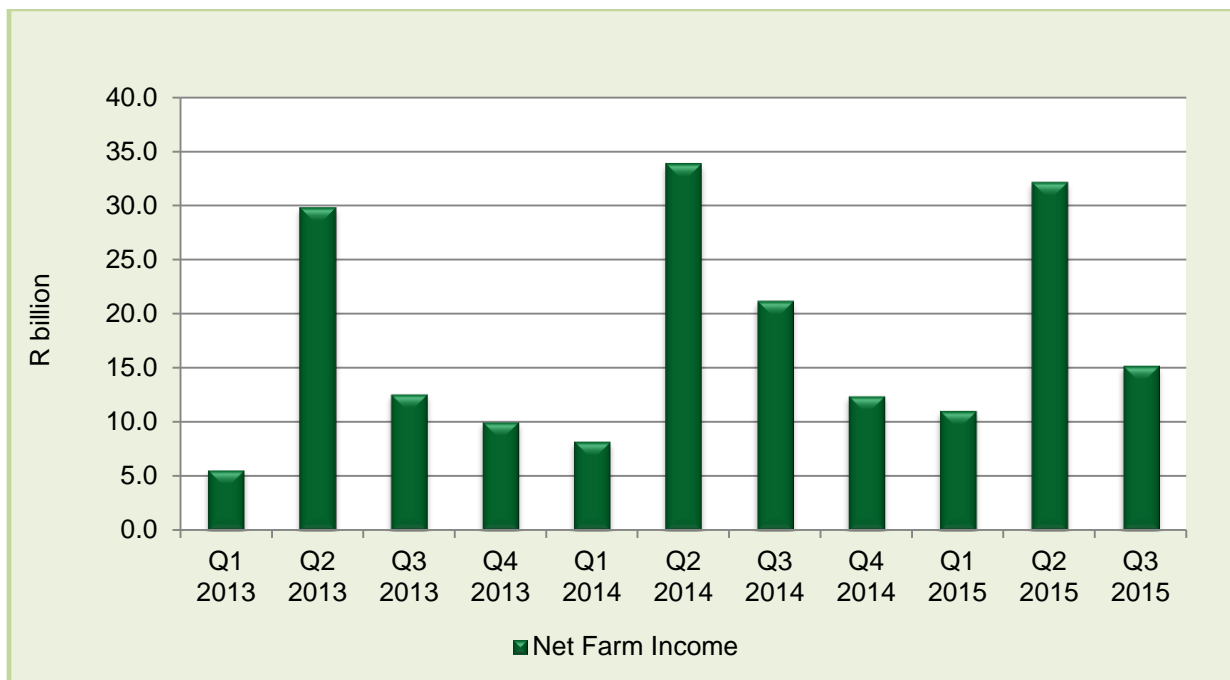


**Figure 13:** Trends in nominal gross farm income between 32014 and 2015.

Source: DAFF



Figure 14 illustrates the net farm income trends between 2014 and 2015. The net farm income is estimated at R15,2 billion in the third quarter of 2015 compared to R21,2 billion in the third quarter of 2014, a decrease of 28,2%. The decrease in net farm income during this period was mainly due to a decrease in income from field crops which decreased by 30,9%. While income from animal products and horticulture increased slightly by 5,6% and 1,5% respectively.

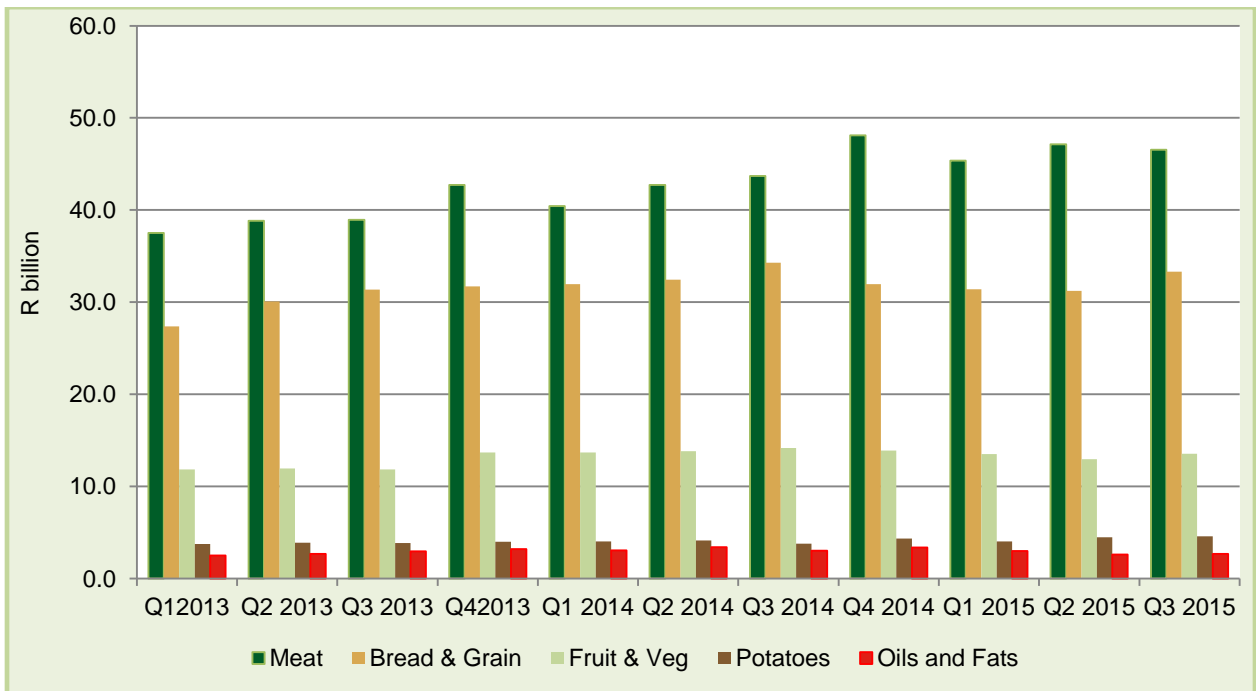


**Figure 14:** Trends in the net farm income between 32014 and 2015.

Source: DAFF

## 2.6 Private consumption expenditure on agricultural products

Private consumption expenditure on food increased in the third quarter of 2015 to R136,8 billion from R131,4 billion in the second quarter of 2015, an increase of 4,1%. Compared to a year ago total private consumption expenditure on food increased to R136,8 billion reported for the third second quarter of 2015 compared to R132,9 billion in same quarter of 2014, an increase of 3,0%. During the same period the main expenditure items were only meat and potatoes which increased by 6,5% and 20,8% respectively, while the expenditure on oils and fats decreased by 11,8%. The expenditure on fruit and vegetables also decreased by 4.4,%. The expenditures on bread and grain also decreased by 2,8%.



**Figure 15:** Trends in private consumption expenditure between 2014 and 2015.

Source: DAFF

### 3 Review of agricultural markets

#### 3.1 Grains market review

The price of white and yellow maize has increased by 81% and 56% respectively. Maize prices remain strong as result of the lack of rain and the weaker rand. The erratic rainfall has delayed planting decisions with the planting period, narrowing for other major producing areas. The price of wheat, sunflower and sorghum increased by 9%, 30% and 24%, while the price of soya beans declined by 2% in the third quarter of 2015 compared to the same period in 2014. The weaker rand and the drought continue to have an upward effect on local prices. Soya beans' prices have decreased due to the rise in area under the crop.

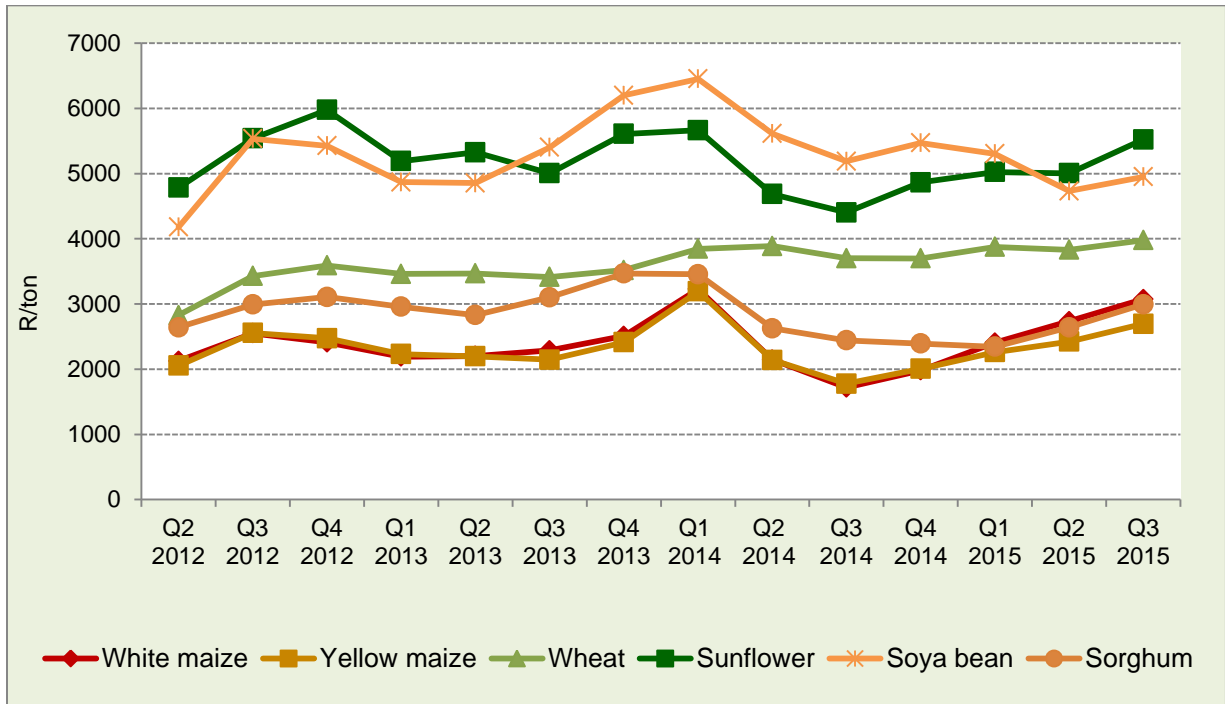
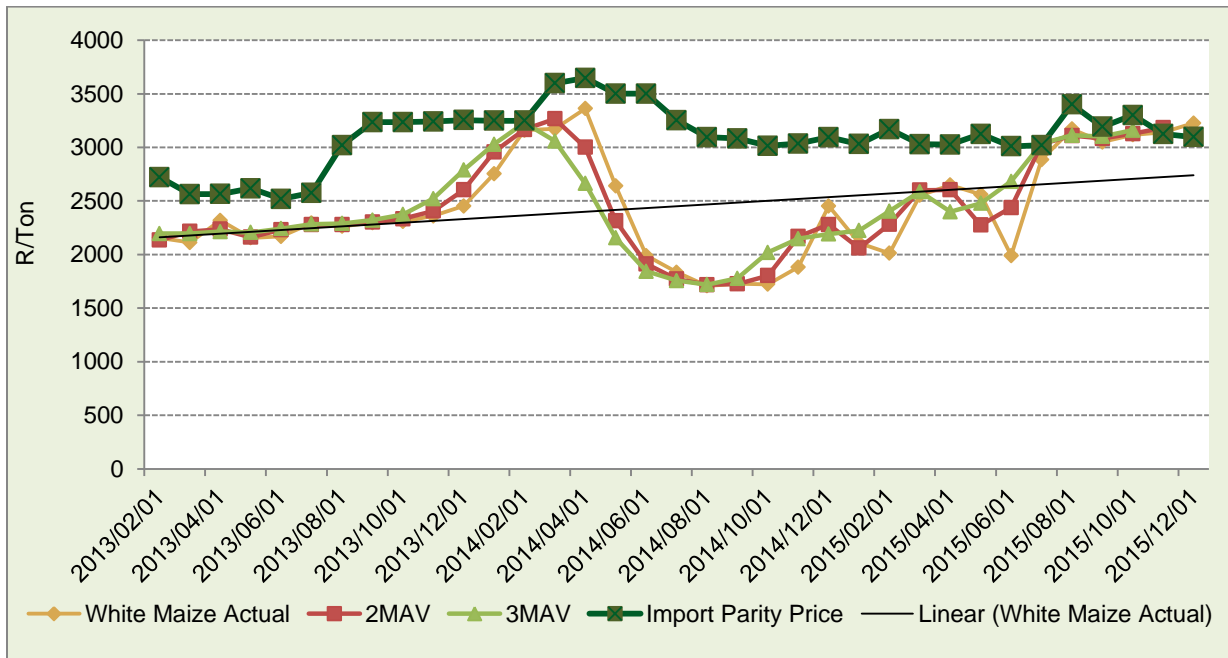


Figure 16: Quarterly grain price trends

Source: Safex

The price of white maize is expected to increase further by 0,6% in the fourth quarter of 2015 compared to the third quarter 2015. White maize is expected to increase by 65% in the fourth quarter 2015 compared to the same period in 2014. The South African white maize price is currently trading above the import parity price with the looming shortages expected in 2016 due to the erratic rainfalls. White maize planted is expected to be 1,3% lower than last year's crop.

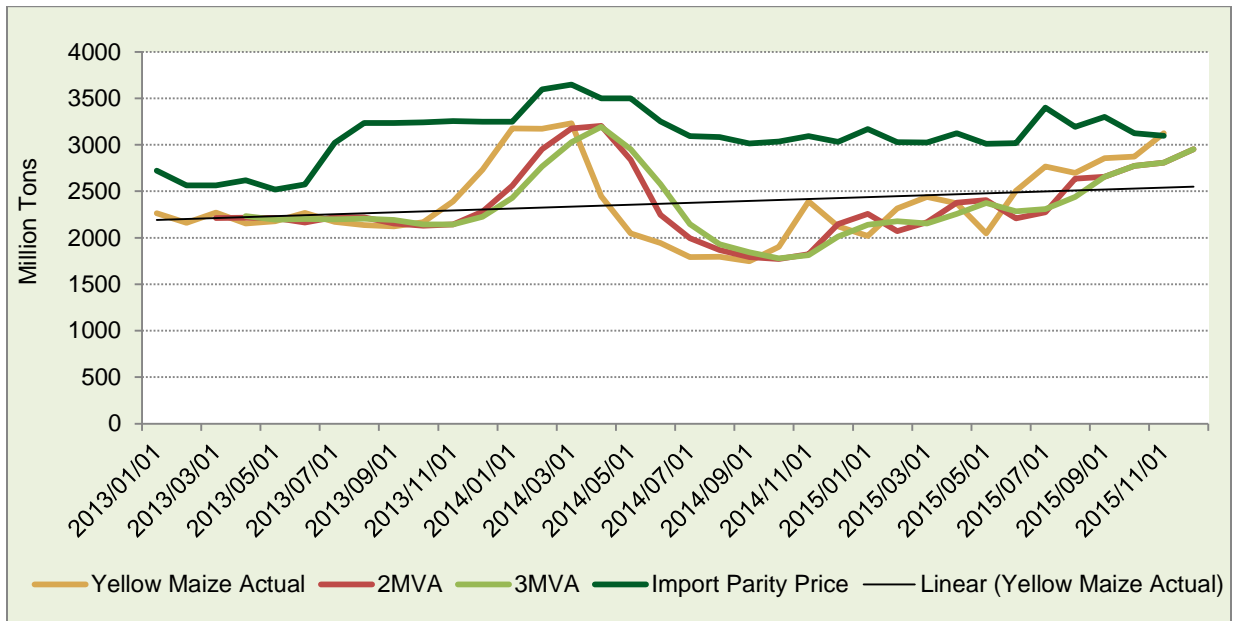


**Figure 17:** White Maize price and Estimate

Source: Safex & Own calculations

The price of yellow maize has increased by 56% in the third quarter of 2015 compared to the same period in 2014; expectations of yellow maize price are increasing by a further 3% in the fourth quarter compared to the third quarter of 2015. The yellow maize is expected to trade at the import parity price due to erratic rainfalls as the planting period narrows and farmers are expected to leave some areas fallow. Yellow

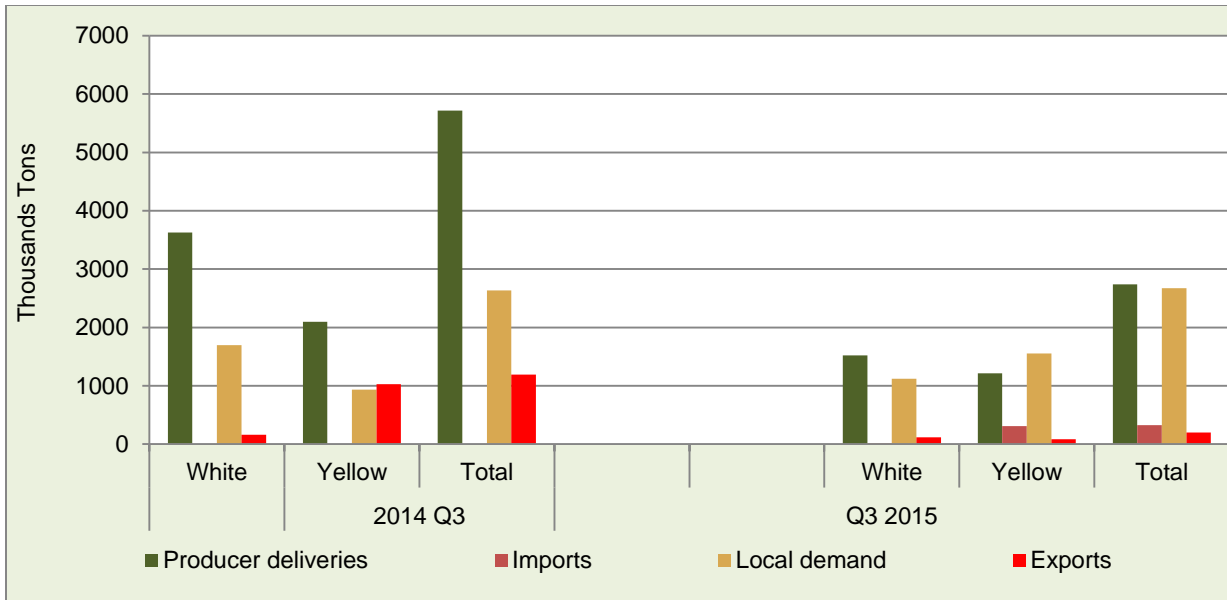
maize planted this year is expected to be 6,3% lower than the last year's crop.



**Figure 18:** Yellow Maize price & Estimate

Source: Safex & Own Calculations

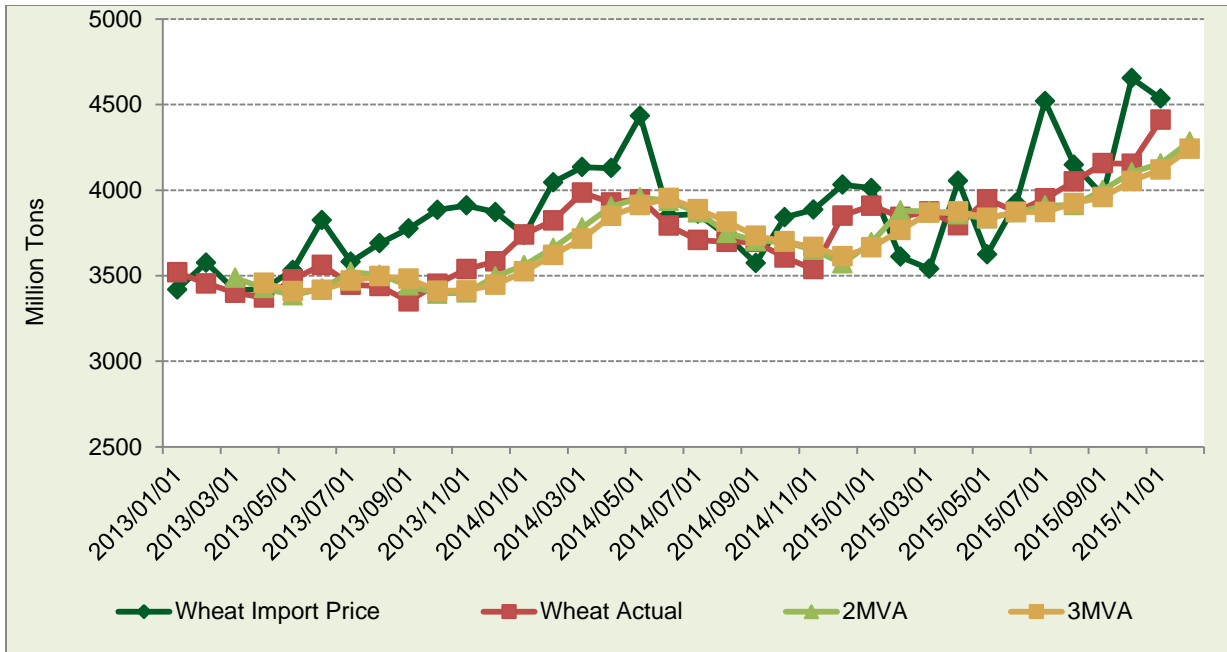
Producer deliveries have decreased by 52% for maize compared to the same period in 2015. White and yellow maize deliveries declined by 42% and 52%. Local demand for white maize decreased by 34%, while it increased by 66% for yellow maize. Maize imports increased by 323 619 tons in the third quarter compared to the same period in 2015. Exports decreased by 28% and 92% for white and yellow maize respectively.



**Figure 19:** Maize futures prices

Source: Safex/Sagis

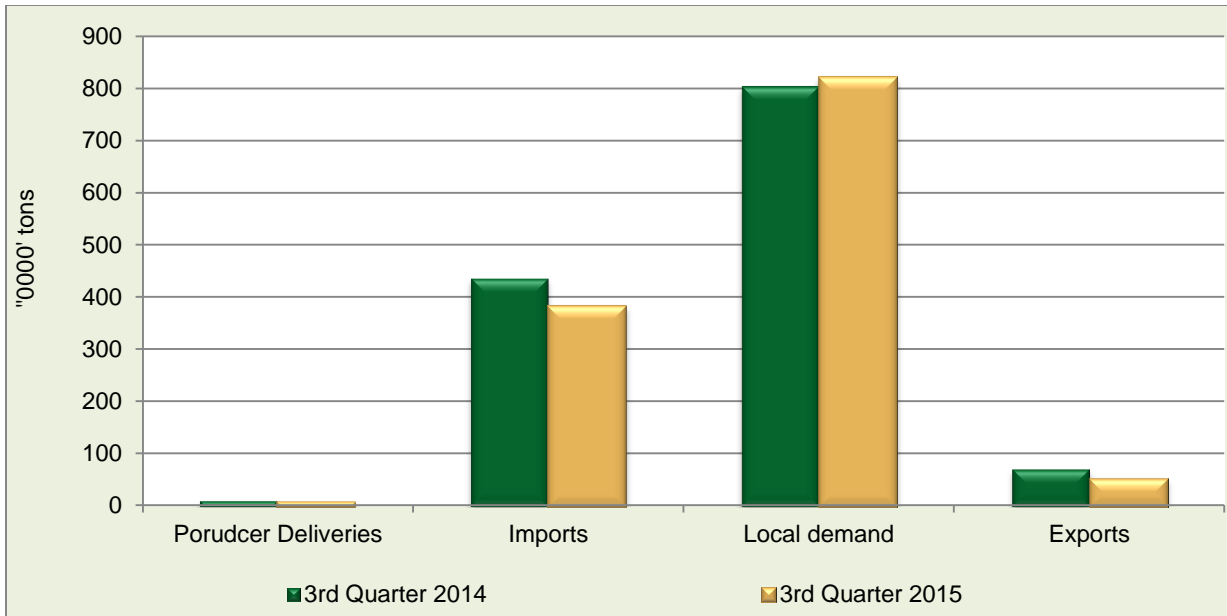
The price of wheat has increased by 9,5% in the Ms. E. Alexander third quarter of 2015 compared to the same period in 2014. The price is expected to increase by 3% in the fourth quarter compared to the third quarter 2015. Year-on-year in the fourth quarter of 2015 the price is expected to be 13% higher.



**Figure 20:** Wheat prices & Estimates

Source: Safex & Own calculations

Wheat deliveries in the third quarter of 2014 were 26% lower than the same period in 2014. Local demand increased by 2%, while imports and exports decreased by 12% and 27% respectively.



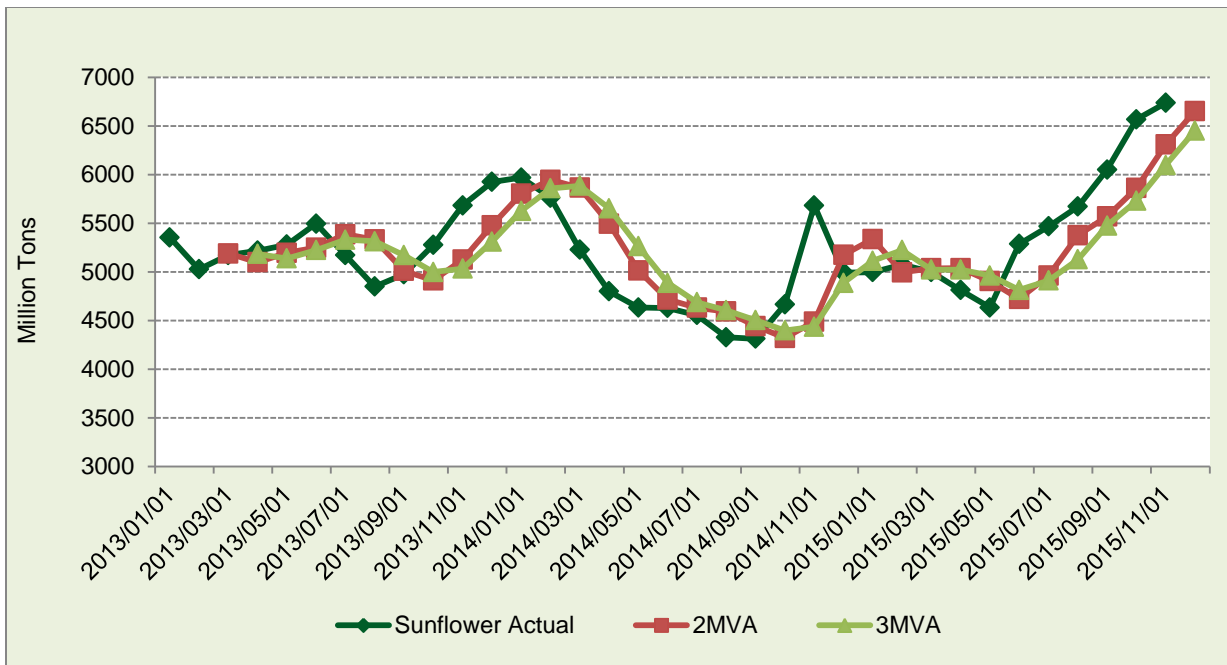
**Figure 21:** Wheat deliveries

Source: Sagis

Sunflower: the price of sunflower increased by 30% in the third quarter of 2015 compared to the same period in 2014. The price is expected to increase further by 9% compared to the third quarter 2015 price increase. Year-on-year in the fourth quarter, it is expected that it will be 34,6% higher than it was in 2014.

Local deliveries increased by 45%, imports 38% and local demand increased by 6,2% compared to the same period in the third quarter of 2014.

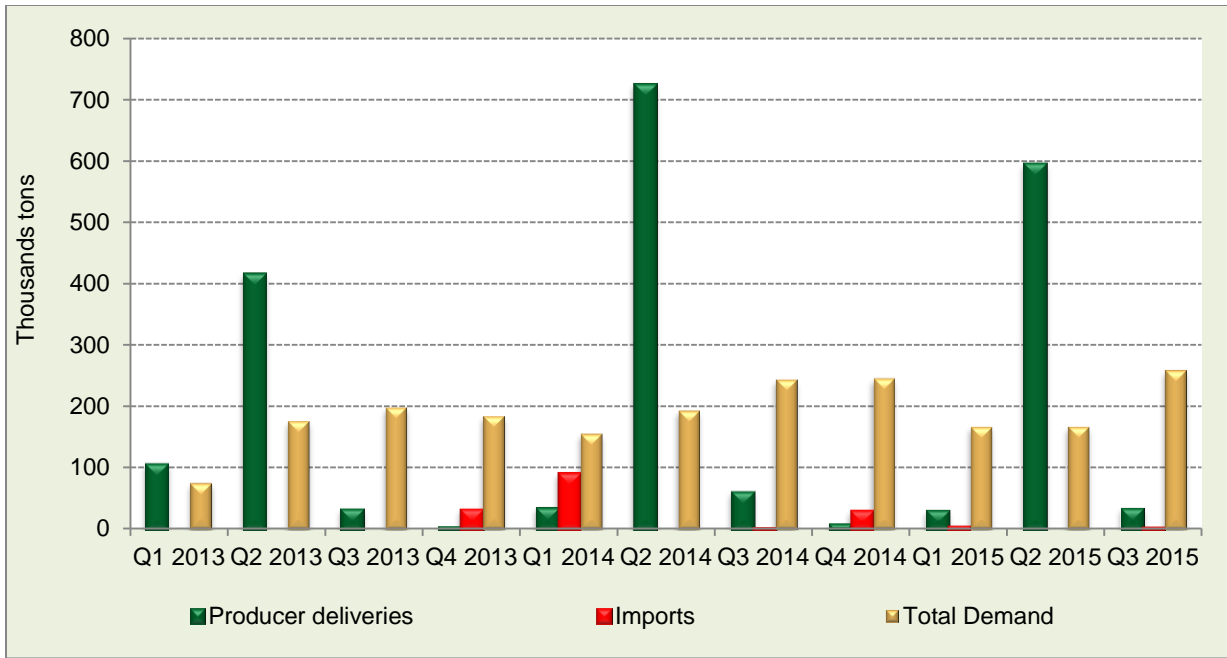




**Figure 22:** Sunflower Price & Estimates

Source: Safex & Own Calculation

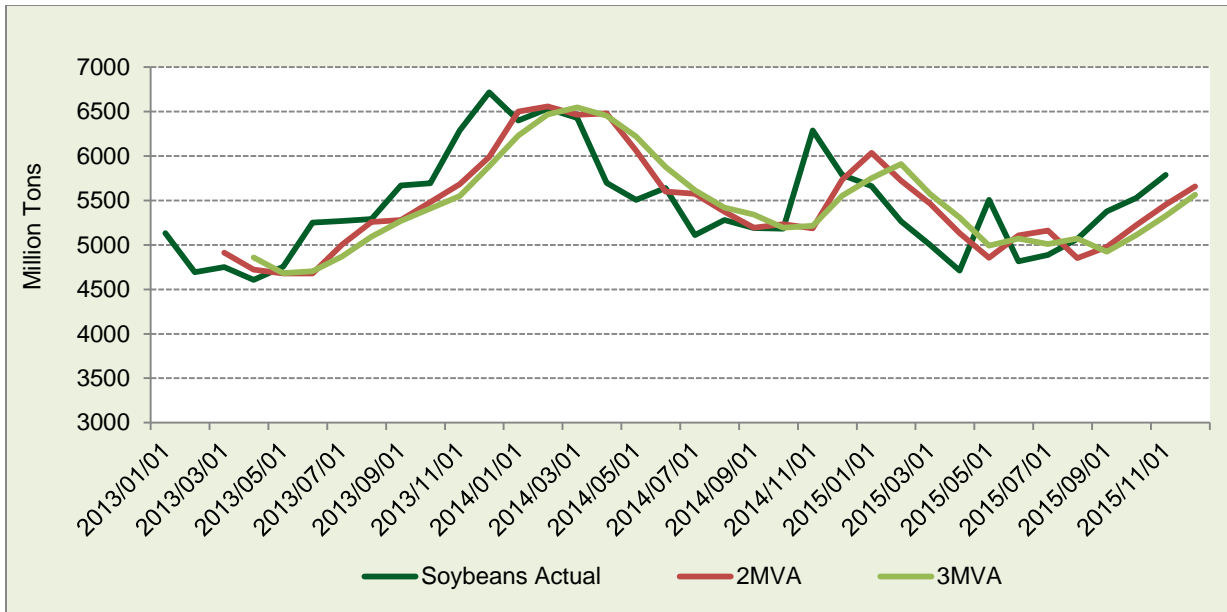
The price of sunflower has decreased by 1,6% in the third quarter of 2015 compared to the same period in 2014.



**Figure 23:** Sunflower Producer Deliveries

Source: Sagis

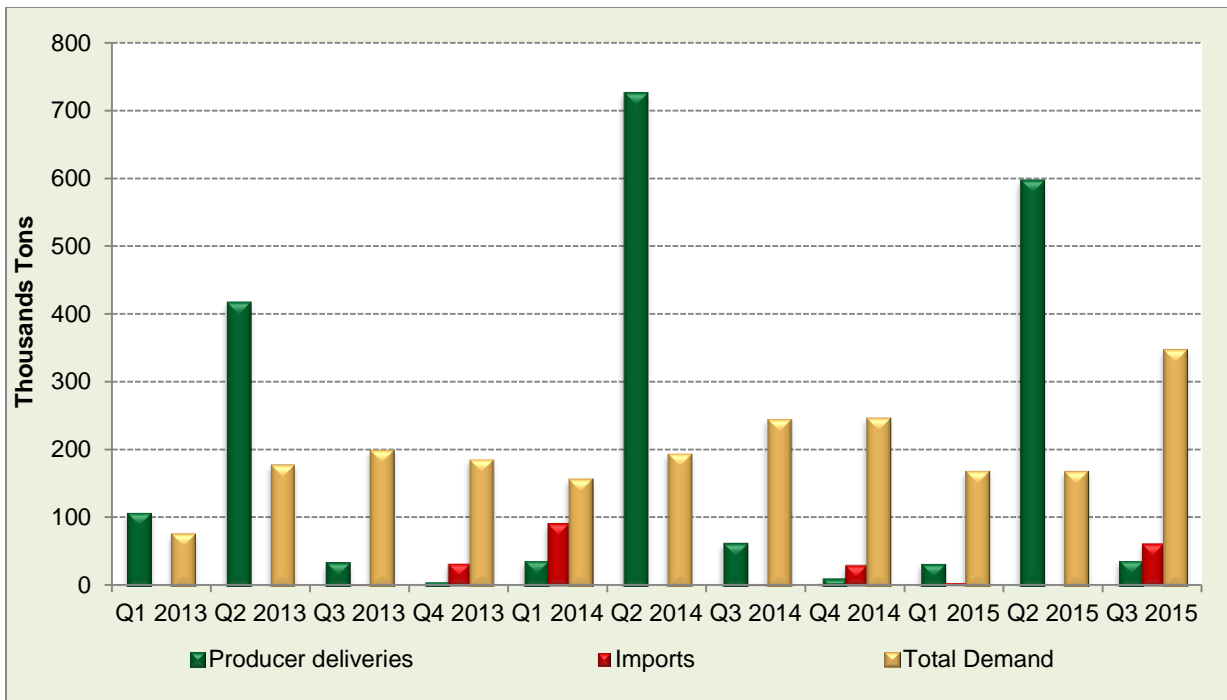
The decrease in the price of soya beans is a result of the expected increase in the soya beans acreage, which is expected to increase by a further 1,3% compared to last year.



**Figure 24:** Soya beans prices

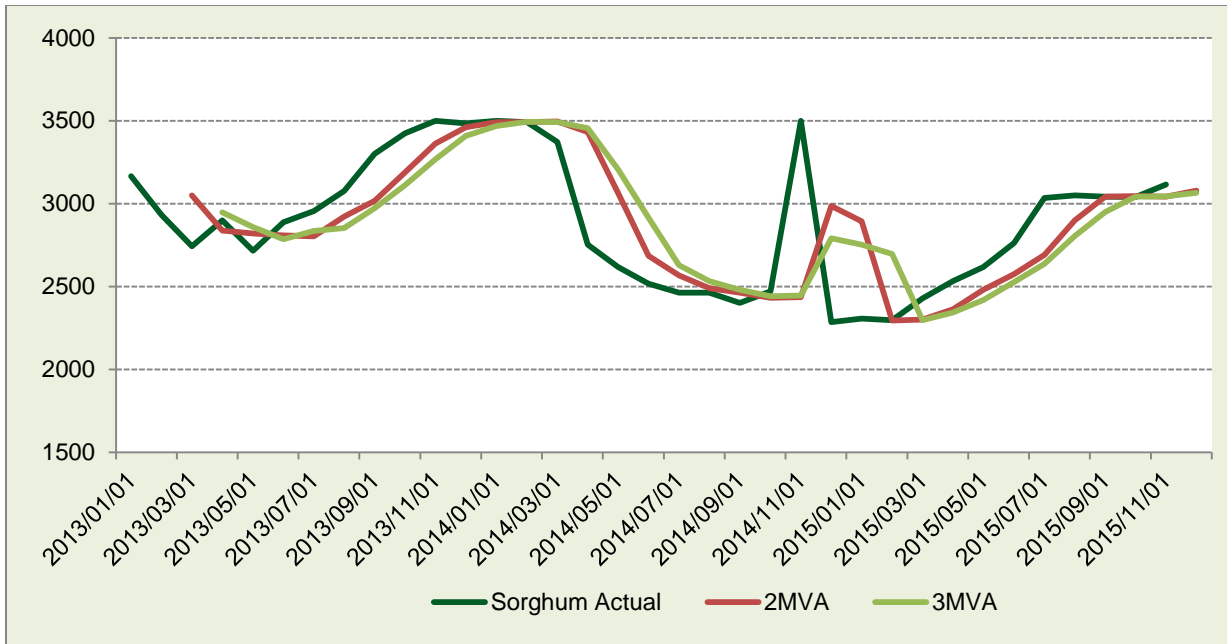
Source: Safex & Own Calculations

Producer deliveries in the third quarter of 2015 have decreased by 42% compared to 2014, while the demand has increased 42%. Imports totalled 61 121 tons compared to 1 892 tons in the same quarter in 2014. Exports were also high during the quarter from zero tons exported during the same period in 2014 to 2 641 tons exported during the third quarter of 2015.



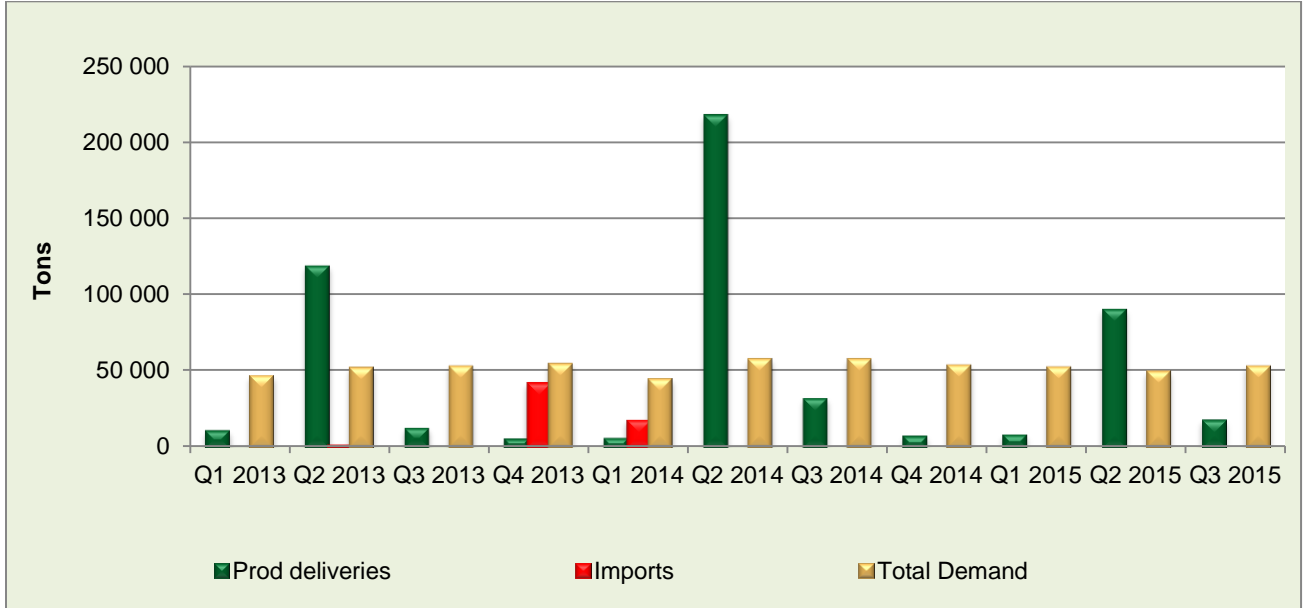
**Figure 25:** Soya beans deliveries have increased  
Source: Sagis

Sorghum: The price of sorghum in the third quarter of 2015 has increased by 24,5% compared to the same period in 2014. The price of sorghum is expected to increase by a further 0,4% in the fourth quarter compared to the third quarter of 2015, while it is expected to be 16,7% higher than it was in 2014.



**Figure 26:** Sorghum prices  
Source: Sagis

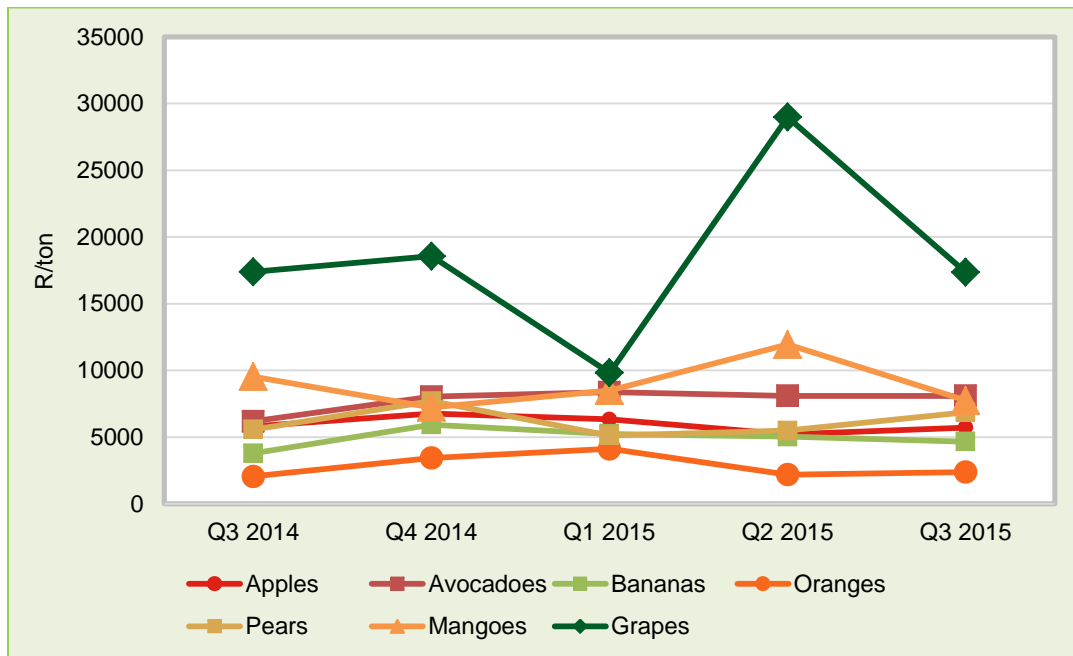
Sorghum deliveries are expected to increase by 52%, while total demand is expected to decrease by 8%.



**Figure 27:** Sorghum deliveries  
Source: Sagis

### 3.2 Fruit and vegetable market review

The drought has had a crucial impact on this year's volume of fruit and vegetable harvest in South Africa. Struggling commercial farmers are closing their businesses while others are downsizing their operations and staff to keep afloat. Food shortages is already starting to impact on prices while the double impact of job losses and the decline in food production may be catastrophic for South Africa (Business Report, 2015). Figure 31 shows price trends of various fruits traded at Fresh Produce Markets (FPMs) for the period third quarters of 2014 and 2015.



**Figure 28:** Average price trends of the various fruit types traded on fresh produce markets (FPMs)  
Source: DAFF

With the current effects of the drought, there has been a slow pace of deliveries from

the fields to markets and most farmers would not want to waste their resources on a harvest that would not meet production costs.

Between the third quarter of 2014 and the third quarter of 2015, the average prices of apples, mangoes and grapes decreased by 2%, 19% and 0,2% respectively, while average prices for avocados, bananas, oranges and pears increased by 31%, 23%, 16% and 23% respectively.

The volume of apples sold at local fresh produce markets has been increasing since the 2008/09 marketing year (DAFF, 2012). South Africa's production of apples, pears and grapes in 2015 is expected to remain flat as the rising costs of production, orchard and vineyard establishment are expected to constrain growth in the area planted (GAIN, 2014). Furthermore, following the unfavourable climatic conditions in the Western Cape in November 2013 that negatively impacted on the 2014 harvest, the effects of severe climatic occurrences remain evident in the 2015 harvest (BFAP, 2015).

South Africa's table grape season commenced in November 2014 and ran until April 2015. Variation in production may be attributed to early-season harvest and better crop yield in the 2014/2015 season which saw the industry by February 2015 having pushed more than 10 million cartons for the export market than 32 million cartons in the previous season (NAMC, February 2015). Meanwhile, total mango production has not been stable over the years and an improvement in production is mainly attributed to favourable weather conditions and measures put in place to control diseases.

South Africa's avocado production has not been stable in past years while total avocado production for the 2014/15 season amounts to 97 000 tons despite some fluctuations in production mainly due to unfavourable weather conditions and

the occurrence of disease in avocado producing regions (NAMC, June 2015).

A serious outbreak of a fungal disease which has been responsible for decimating millions of hectares of banana plantations across the world could now pose a threat to South Africa's R1,5 billion banana industry. The outbreak in northern Mozambique poses a risk to all neighbouring countries and major means of spreading this disease are water, planting material, soil attached to shoes and vehicles from one farm to another. Local banana producers are under threat of competition from their peers in Mozambique as the neighbouring country produces bananas more cheaply (Times Live, 2015).

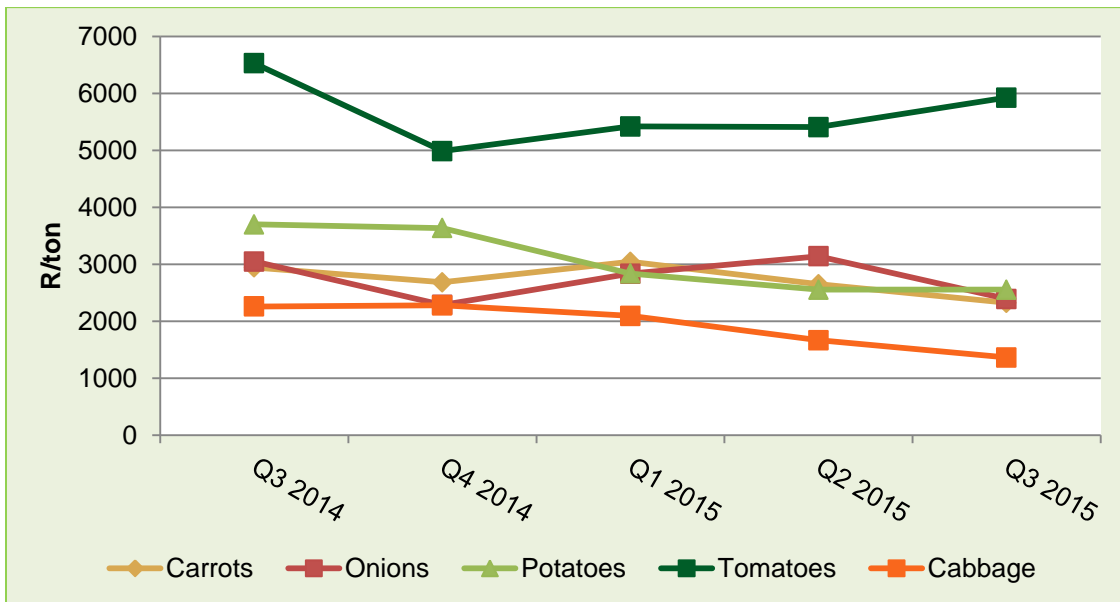
Despite ongoing economic weakness in South Africa, SA's citrus exports to the EU increased by 9,7% for the first nine months of 2015. According to the Citrus Growers Association, production volumes are estimated at 31 577 tons more than in the previous season. Meanwhile, the increase in the production of citrus may be attributed to the application of food safety and quality issues to ensure a risk management system for the black spot disease. Furthermore, about 65% of the total citrus produced is for the export market while 30% is for processing and 5% is for domestic consumption (NAMC, September 2015).

South Africa's 2014/15 forecast for pear production is expected to remain unchanged at 390 000 metric tons and is 6% lower than 413 614 metric tons recorded in 2013/14 (GAIN, May 2015).

South Africa produces a variety of vegetables, namely carrots, onions, potatoes, tomatoes and cabbage being major vegetables produced locally. Supply and demand



influence prices as the bulk of the produce is sold on the fresh produce markets (ARC, 2015). Market prices of vegetables decreased more in the third quarter of 2015 than in the third quarter of 2014 while the impact of the drought is starting to show on food shortages and prices. Figure 32 shows prices of a number of vegetables traded through the FPMs between the third quarter of 2014 and the third quarter of 2015. Between the third quarter of 2014 and the third quarter of 2015, the average prices of carrots and tomatoes decreased by 21% and 9% respectively, due to seasonal supply pressures. During the same period, the average prices of cabbage decreased by 40% on account of weak uptake across most markets while the average prices for onions and potatoes decreased by 22% and 31% respectively, due to abundant supplies across major markets (FNB, 2015).



**Figure 29:** Average price trends of various vegetables traded on fresh produce markets (FPMs)

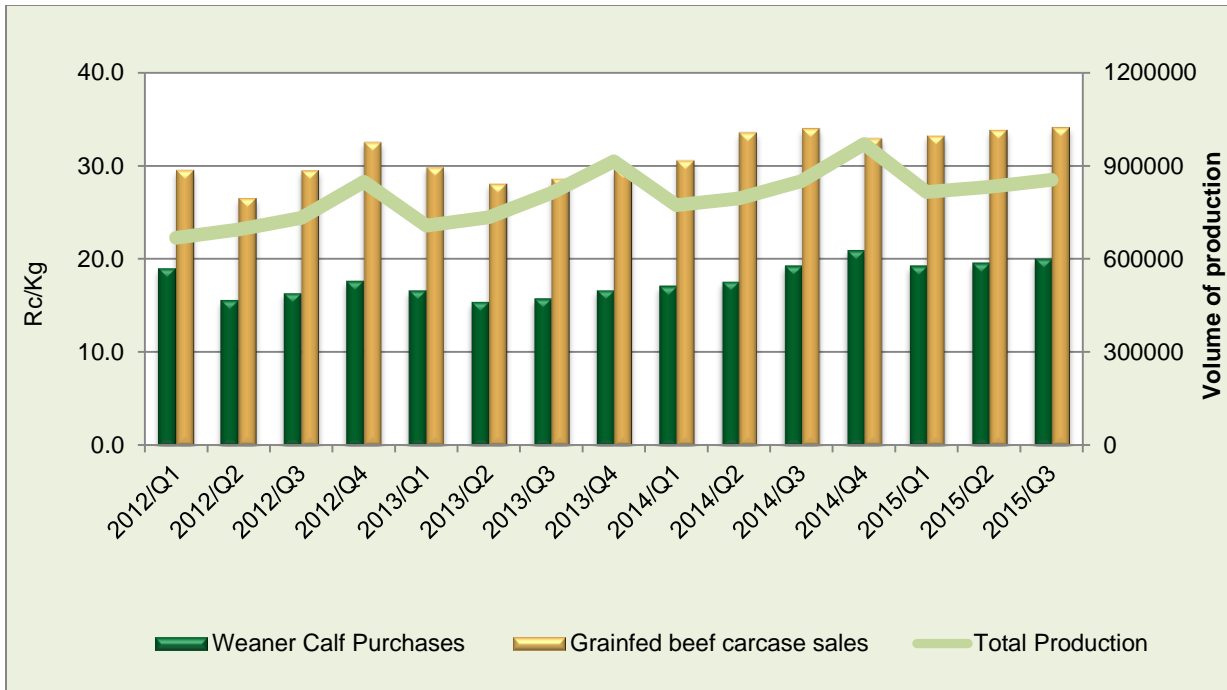
Source: DAFF

### 3.3 Meat industry review

Beef Production has increased by 0.4%, grain-fed beef prices has increased by 0.3% while weaner calf prices have increased by 4.5%. The supply of weaners has increased due to the drought conditions in the country. Five provinces have been declared disaster areas as a result of the water shortages. Five of the country's nine provinces have already been declared disaster areas and government has allocated an estimated R220 million rands to assist farmers.

According to the Red Meat Producers Organisation (RPO). "In KwaZulu-Natal alone, more than 40 000 cattle have died and serious losses of livestock are currently being experienced in the emerging sector country wide. Provision of water for livestock is now in a crisis situation because dams, marshes, springs, fountains, rivers and boreholes are drying up. In the heat conditions cattle are estimated to consume between 40 and 50 litres of water per head per day, which renders the logistics of water supply very difficult."

If the drought persists, further animals will be taken to the abattoirs, therefore leading to an increase in supply in the short term. The number of herds has already diminished following the previous drought also in 2014. The increased emergency animal slaughters will increase production and therefore result in a downward pressure on prices. In the long-term supply will be affected as the country will enter a herd rebuilding face. Already, input costs are high with feed costs rising, the price of maize currently increased by 56% in the quarter; therefore, it will lead to an upward pressure on prices see Figure 30.

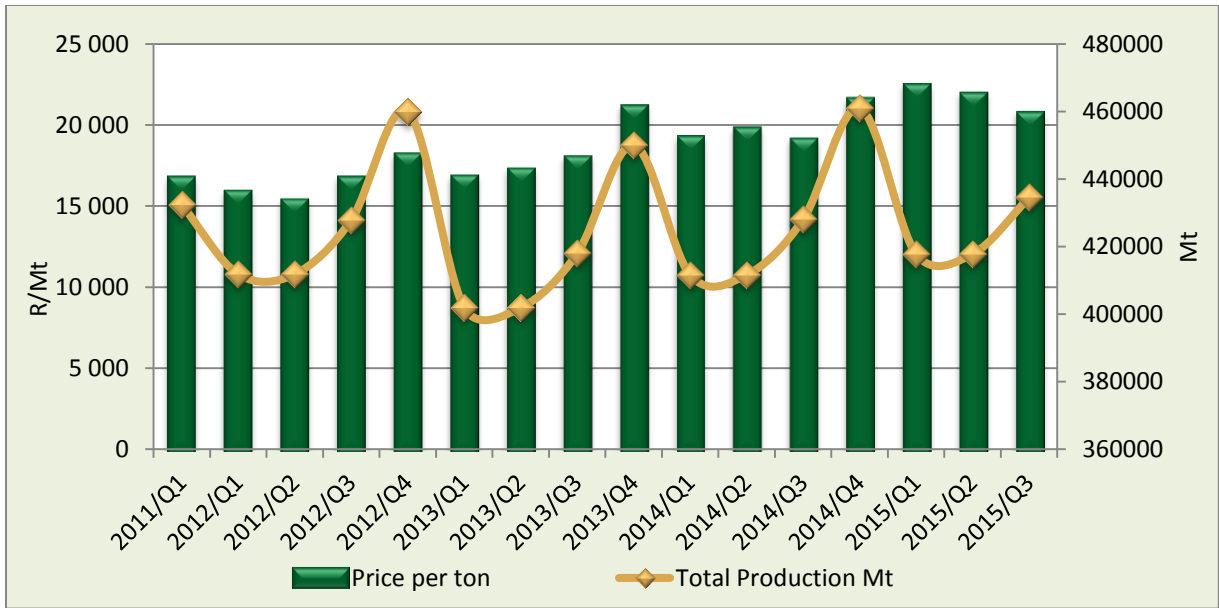


**Figure 30:** Quarterly beef production and prices

Source: DAFF/SA Feedlot Association

### 3.4 Poultry industry review

Poultry production continues to grow slowly, growing by over a percentage compared to the same period in 2014, while prices have increased by 8,5%. The rising feed prices have not resulted in the decline in production, though Poultry SA has stated these will have an effect on producer margins, see Figure 31.



**Figure 31:** Quarterly poultry production and prices

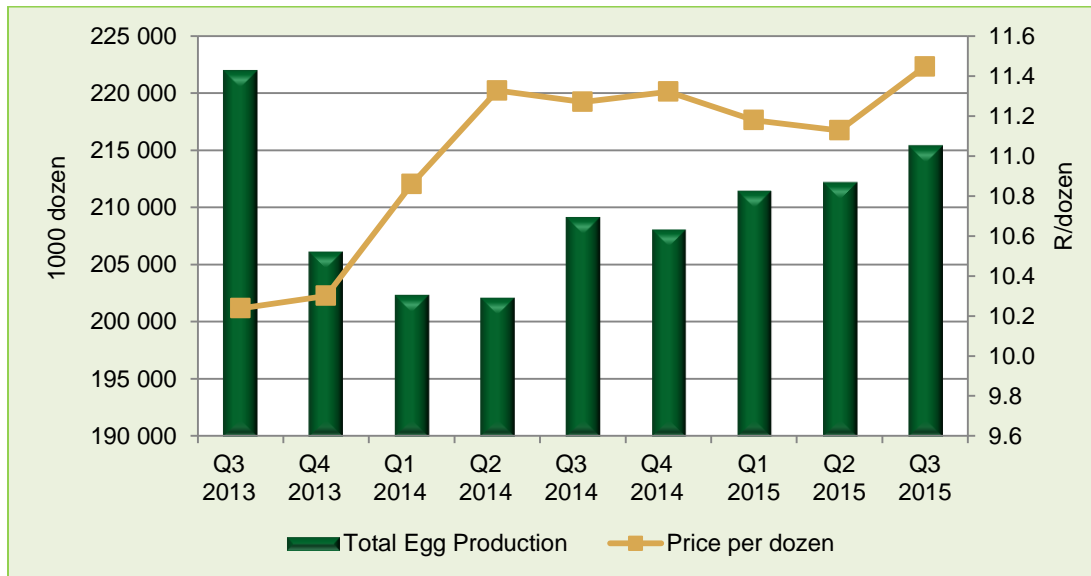
Source: DAFF

### 3.5 Eggs and dairy industry review

The effects of the Avian influenza outbreaks in the US are still felt globally in the egg industry while there is concerns the northern hemisphere autumn could bring along fresh outbreaks and further disruption to markets and livelihoods (SAPA, 2015).

Locally, the market sentiment is generally negative due to the weaker rand. The severe drought experienced in the 2014/15 season continues to push maize prices higher while Grain SA predicts South Africa will have to import 766 000 tons of maize this year despite the weaker rand. Furthermore, the recovery of the local egg industry remains fragile as a result of rising feed costs and rising input cost which includes electricity, fuel and labour. Additionally, due to the weaker rand, oil prices may be pushed up and the cost of imported goods as well as exert inflationary pressure which, in turn, may lead to higher interest rates. Consequently, for local egg producers, this translates to higher input costs and constrained consumer spending (SAPA, 2015).

During the third quarter of 2015, the total production of eggs totalled 215,4 million dozens, a 3% increase in production compared to 209,2 million dozens recorded in the third quarter of 2014. Eggs remain the most affordable source of protein. During the third quarter of 2015, the average price per dozen of eggs increased by 2%, from R11,27 per dozen to R11,45 per dozen between the third quarter of 2014 and the third quarter of 2015, see Figure 32.



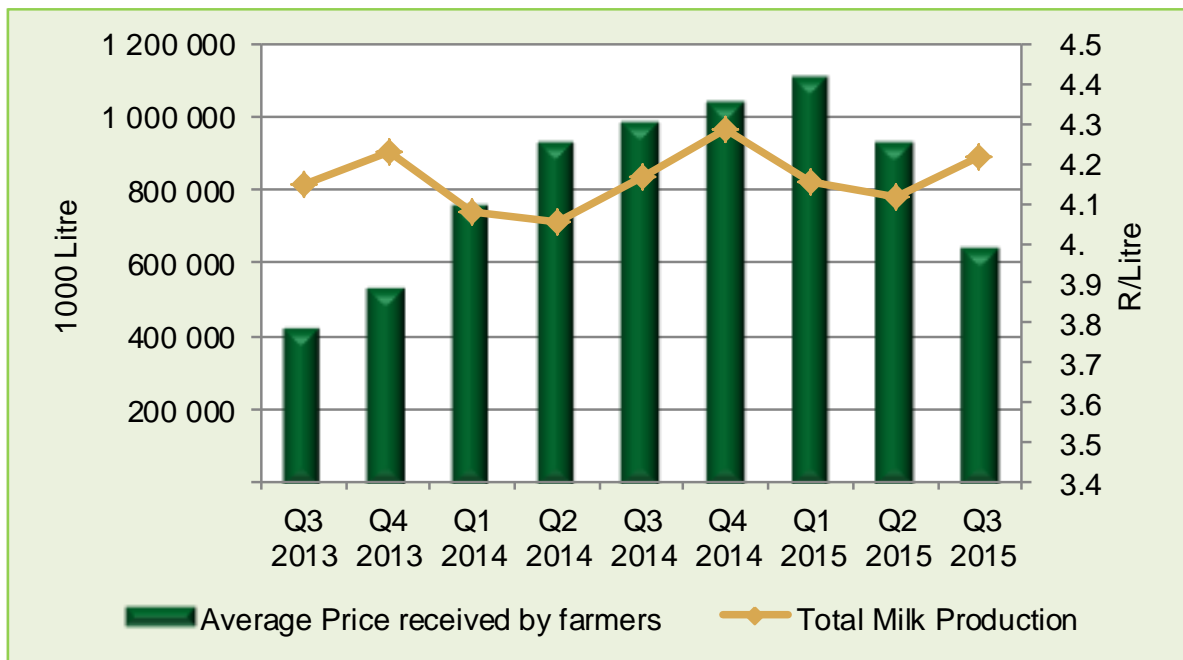
**Figure 32:** Trends in total egg production and average price per dozen of eggs.  
Source: DAFF

Stagnant consumer demand and low international prices combined with challenging climatic conditions is expected to curb milk production in South Africa in 2015. The current drought impinged on the condition of pastures in pasture-based areas across South Africa (FAO, 2015).

South Africa's milk production during the first ten months of 2015 came in 7,7% higher than the same period last year. Exports of milk in September 2015 totalled 300 million

litres which was 5,3% lower than the same period in 2014. According to MPO (2015), higher grain prices, the expected increase in electricity prices, lower quality silage and the decrease in producer price as well as the enforcement of production quotas may contribute to a further slowdown in production during the remaining months of the year.

Between the third quarter of 2014 and the third quarter of 2015, total milk production came in 6,4% higher than in the third quarter of 2014, increasing from 839,4 million to 893,5 million litres between the third quarter of 2014 and the third quarter of 2015. The average price per litre of milk decreased by 7,4%, from R4,30/ℓ to R3,98/ℓ between the third quarter of 2014 and the third quarter of 2015. Figure 36 shows trends in total milk production and the average price of milk see Figure 33.



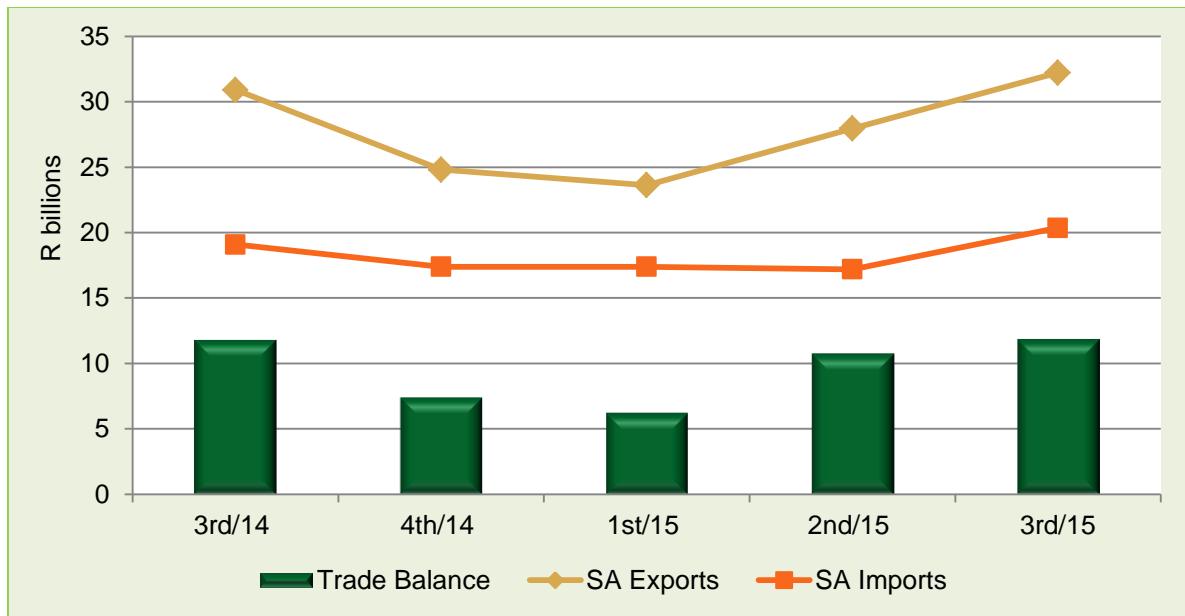
**Figure 33:** Trends in total production and the average price of milk  
Source: DAFF

### **3.6 Trade of agricultural, forestry and fisheries**

Internationally, the year 2014 and 2015 has been volatile for the global economy, with erratic swings in output in many of the world's major economies. The distribution of risks to global economic activity is still tilted to the downside (Absa, 2015). Near-term risks include increased financial market volatility and disruptive asset price shifts. Lower potential output growth remains an important medium-term risk in both advanced and emerging market economies while lower commodity prices poses risks to the outlook in low-income developing economies (WEO, 2015). Furthermore, one particular risk to the global outlook is how policymakers manage divergent monetary policy imperatives in the quarters ahead. As with each year since the onset of the global financial crisis, there are substantial downside risks as economies attempt to address these issues that led to the financial crisis (Absa, 2015).

Domestically, the rand has come under pressure while concerns over its monetary anchor are growing. Agriculture and processed food exports have been impressive, though elsewhere, the country's export performance continues to lag. Electricity and bulk transport constraints are expected to continue to hinder volume growth in other parts of the export economy while import growth has remained stubbornly high (Absa, 2015).

South Africa's agricultural trade balance has increased by 2% between the third quarter of 2014 and the third quarter of 2015. Exports grew by 4% while imports grew by 7%. See Figure 34.

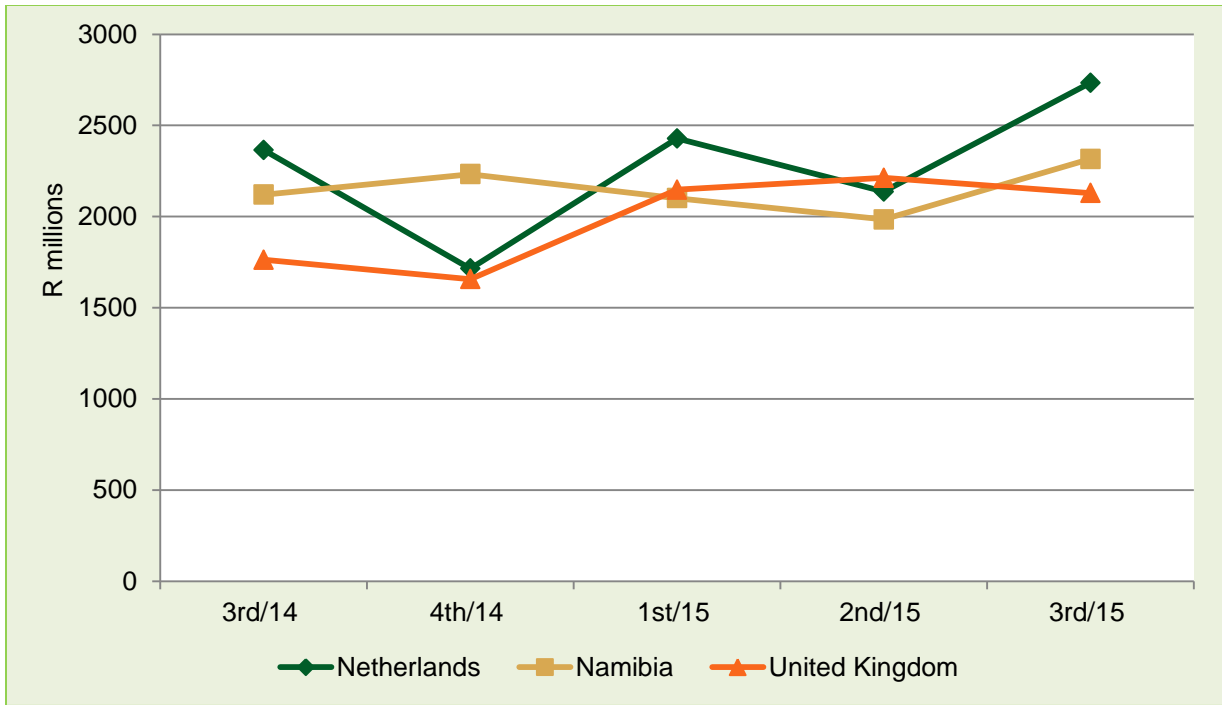


**Figure 34:** Trade balance of primary agricultural products

Source: GTA, 2015.

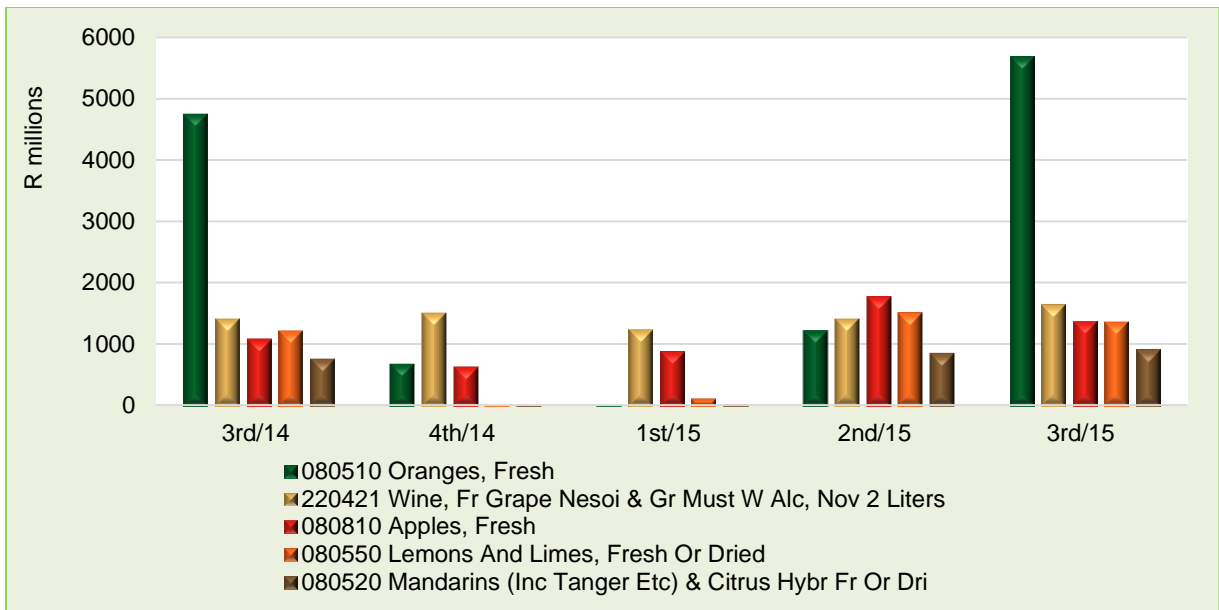
Figure 35 illustrates South Africa gained most of its agricultural export revenue from products exported to the Netherlands, which was the leading export destination, followed by Namibia and the United Kingdom, each accounting for a percentage share of 8%, 7%, and 7% respectively to the total export revenue.





**Figure 35:** Top three markets of primary agricultural products exported by SA  
Source: GTA, 2015

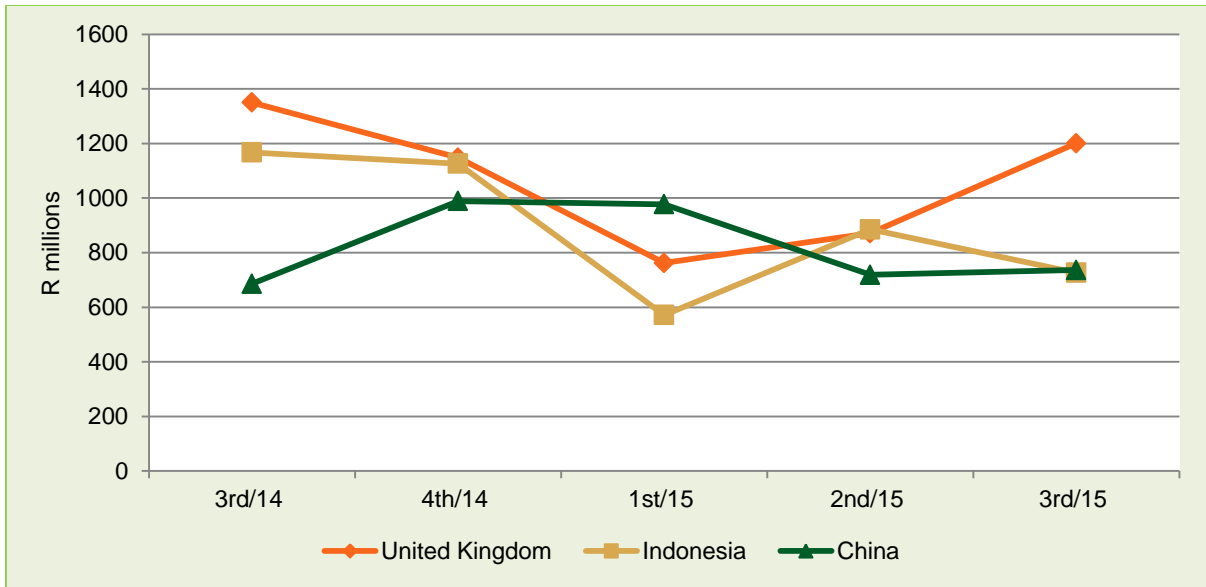
During the same period, the top three agricultural products which contributed a considerable amount to the total export value include fresh oranges (18%), wine (5%) and fresh apples (4%) respectively, see Figure 36.



**Figure 36:** Top five primary agricultural products exported by SA  
Source: GTA, 2015.

South Africa’s import growth continues to remain stubborn while slowing household consumption is starting to filter into the import bill (Absa, 2015).

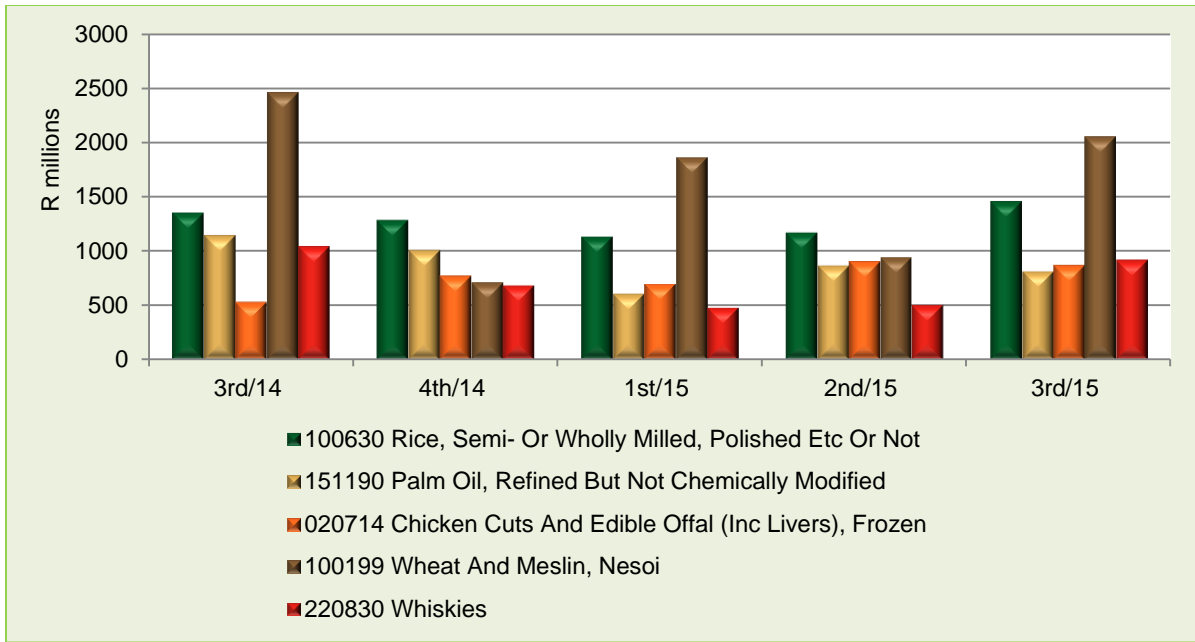
During the third quarter of 2015, the total import value of agricultural products increased by 7% between the third quarter of 2014 and the third quarter of 2015. The top three suppliers of agricultural products were the UK, Indonesia and China, each accounting for a percentage share of 6%, 4% and 4% respectively, to the total import value during the third quarter of 2015, see Figure 37.



**Figure 37:** Top three market suppliers of primary agricultural products to SA

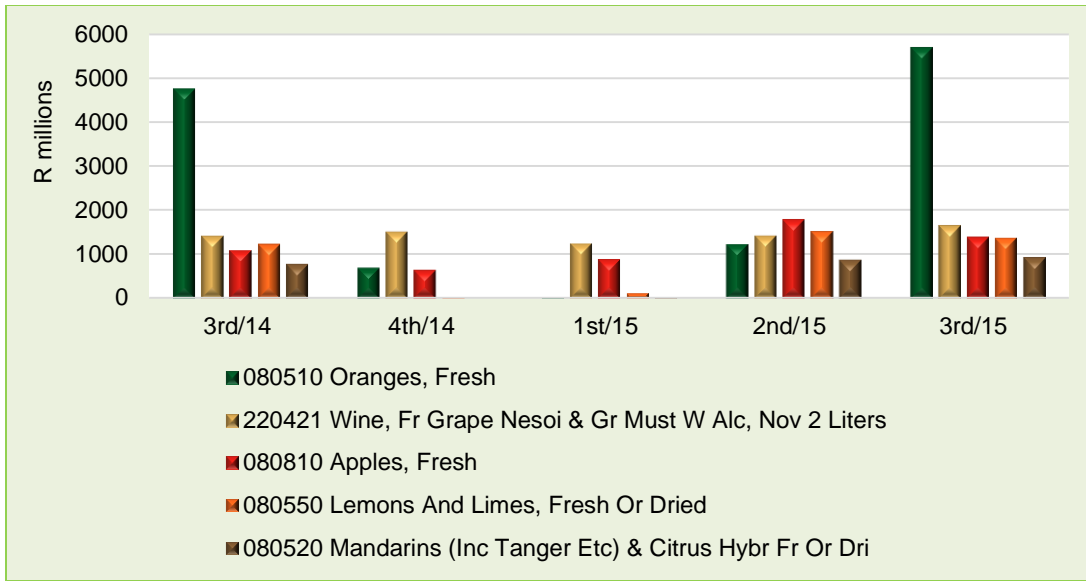
Source: GTA, 2015.

The top three agricultural products which contributed a considerable amount to the total import value included rice (7%), palm oil (4%) and chicken cuts (4%), see Figure 38.



**Figure 38:** Top five primary agricultural products imported by SA  
Source: GTA, 2015

South Africa’s import growth continues to remain stubborn while slowing household consumption is starting to filter into the import bill (Absa, 2015). During the third quarter of 2015, the total import value of agricultural products increased by 7% between the third quarter of 2014 and the third quarter of 2015. The top three suppliers of agricultural products were the UK, Indonesia and China, each accounting for a percentage share of 6%, 4% and 4% respectively, to the total import value during the third quarter of 2015, see Figure 39.



**Figure 39:** Top five primary agricultural products exported by SA  
Source: GTA, 2015.

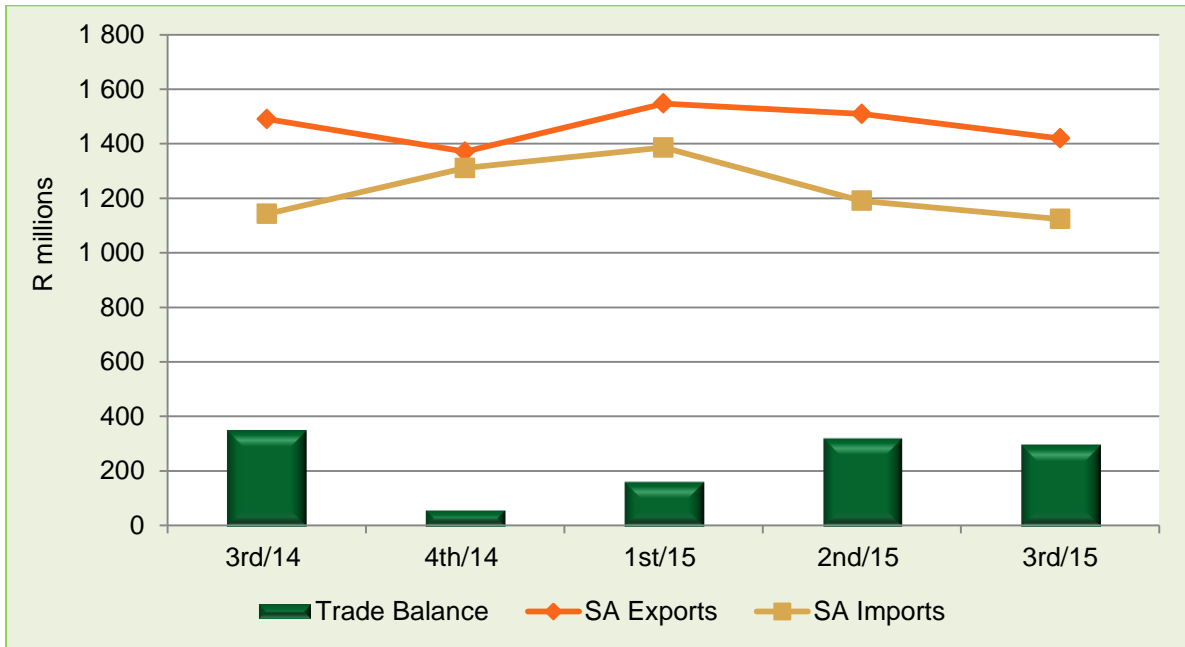
### 3.6.1 Fisheries trade

Growth in global fish production continues to be driven by aquaculture however; El Niño remains a key factor influencing prices of fishmeal and fish oil. The overall outlook for fisheries trade volumes remains positive, though El Niño is expected to influence global fish production levels negatively. Low production levels are expected for some species in specific regions (FAO, 2015).

South Africa has a well-established fishery sector and is a net exporter of fishery products. Historically, South Africa focused on high value species such as abalone, mussels and oysters; however, the South African government has recently identified aquaculture as an area for expansion. It is estimated that South Africa contributes about 21% to global abalone production while in 2008, South Africa's mariculture was comprised of abalone (1 037 tons), oysters (227 tons), mussels (737 tons), prawn (11 tons), finfish (3 tons) and seaweeds (1 834 tons), (WFF, 2011). Sadly, many of SA's

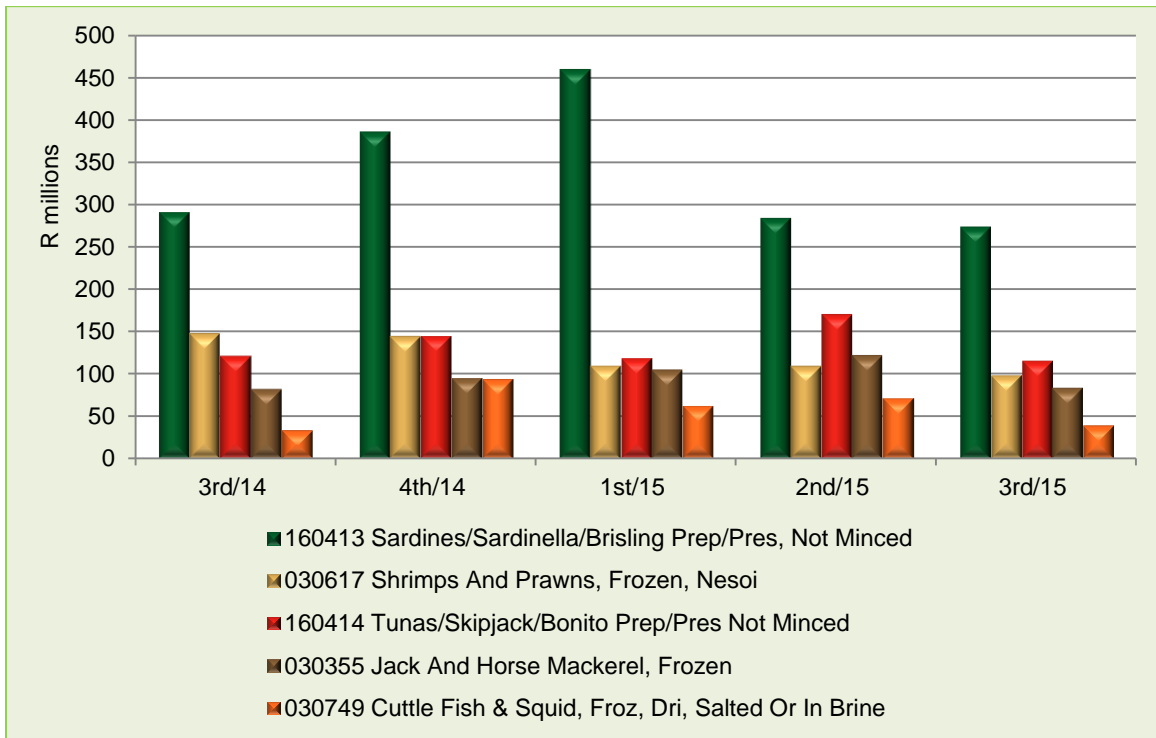
inshore marine resources are considered overexploited or collapsed with a few being fully exploited. This is mainly due to the accessibility of the resources to a wide range of marine user groups, which includes traditional line fishers, recreational fishers, inshore trawl and longline fisheries. Illegal harvesting or poaching, which targets many of the same inshore resources, appear to be on the rise in South Africa and will have dramatic impacts on the economic well-being of traditional, commercial and recreational fishers and on the environment (WWF, 2011)

Figure 40 illustrates that between the third quarter of 2014 and the third quarter of 2015, exports decreased by 5% while imports decreased by 2% and El Niño is expected to influence domestic fish production negatively.



**Figure 40:** Trade balance of SA fisheries products  
Source: GTA, 2014.

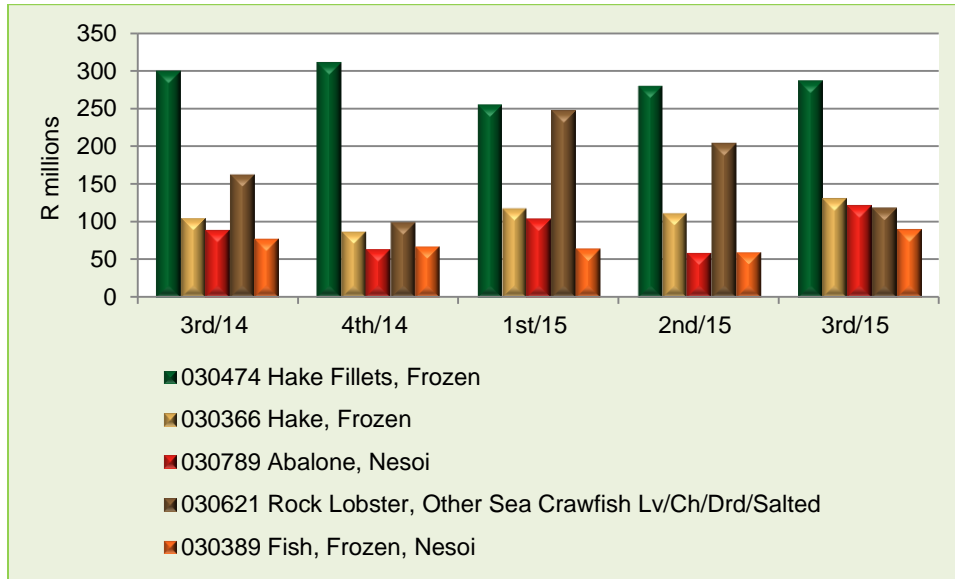
The top three imported fisheries products in the third quarter of 2015 were Sardinella (sardines), shrimps and tunas. Major suppliers of the fisheries products were Namibia, Thailand and India. Furthermore, imports of sardines, shrimp and tuna weakened in the third of 2015 compared to the third quarter of 2014, while reduced purchasing power due to the weaker rand is preventing SA from taking full advantage of lower international prices, see Figure 41.



**Figure 41:** SA top five imported fisheries products  
Source: GTA, 2014.

Figure 42 presents the top three fisheries products exported by SA in the third quarter of 2015. Hake fillets were the main exported products, followed by frozen hake and abalone. The main destinations for SA's fisheries products are Spain, Italy and Hong Kong. Exports of hake fillets have decreased by 4% between the third quarter of 2014 and the third quarter of 2015, while China emerged as the largest supplier of hake fillets to the Russian Federation following the Russian import ban from specific

countries (FAO, 2015).



**Figure 42:** SA top five exports of fisheries products  
Source: GTA, 2014.

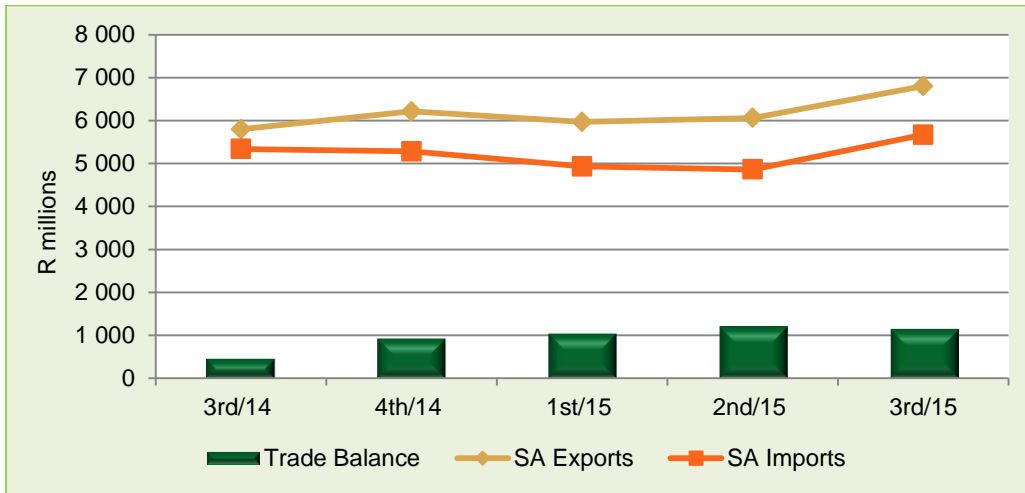
### 3.6.2 Forestry trade

With the low rate of timber establishment and the current shortage of softwood plantations, saw mill and treating plant owners are experiencing a problem with the procurement of plantations. The softwood industry is highly dependent on the housing and building industry, which keeps undergoing cyclical fluctuations. With the current economic instability, this had a disruptive impact on both producers and consumers. Furthermore, the softwood sawn timber sector is expected to face increasing competition from steel and engineered wood products such as laminated veneer timber, strand timber and plastic wood composites. There is also an increasing threat of low cost imports of softwood from South America and higher quality softwood from Europe. Meanwhile, the demand for pulpwood exported from South Africa remained flat while the harder wattle and some eucalyptus species have lately been preferred. The export of treated poles to African and some Eastern markets is on the rise



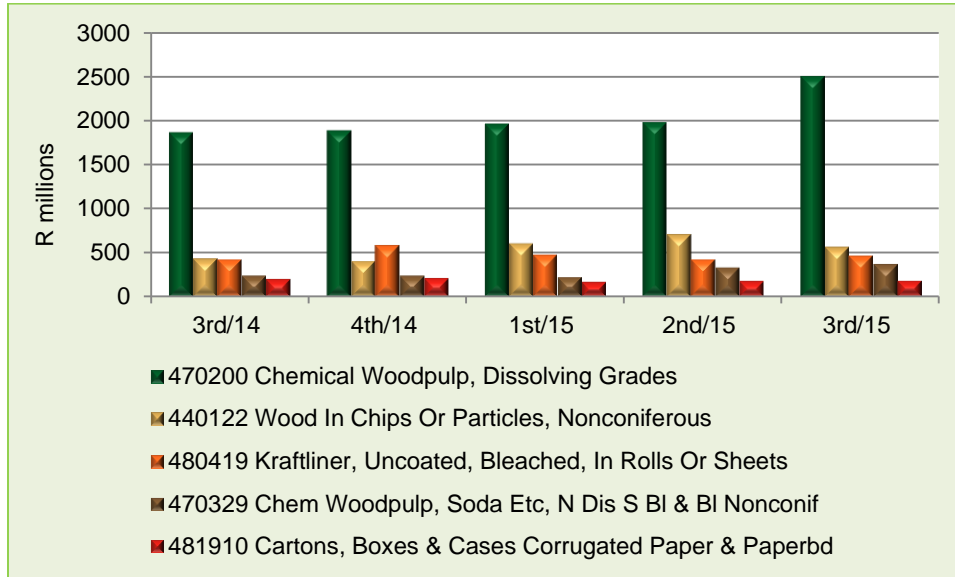
because of developments taking place in these countries. The price paid to primary producers for pulpwood is expected to increase during 2015. The challenge, however, still remains in the sale of adequate volumes. If the demand for pulpwood on the world market increases at the same rate it did in 2014, the development in Africa continues, the economy in the northern hemisphere continues to recover and the global establishment of timber takes place at the current negative rate, it is expected that the South African timber industry will experience a better 2015 than the previous two years supported by the weaker rand (Absa, 2015).

Figure 43 shows the trade balance of South African forestry products. Between the third quarter of 2014 and the third quarter of 2015, exports increased by 17%, while imports increased by 6%.



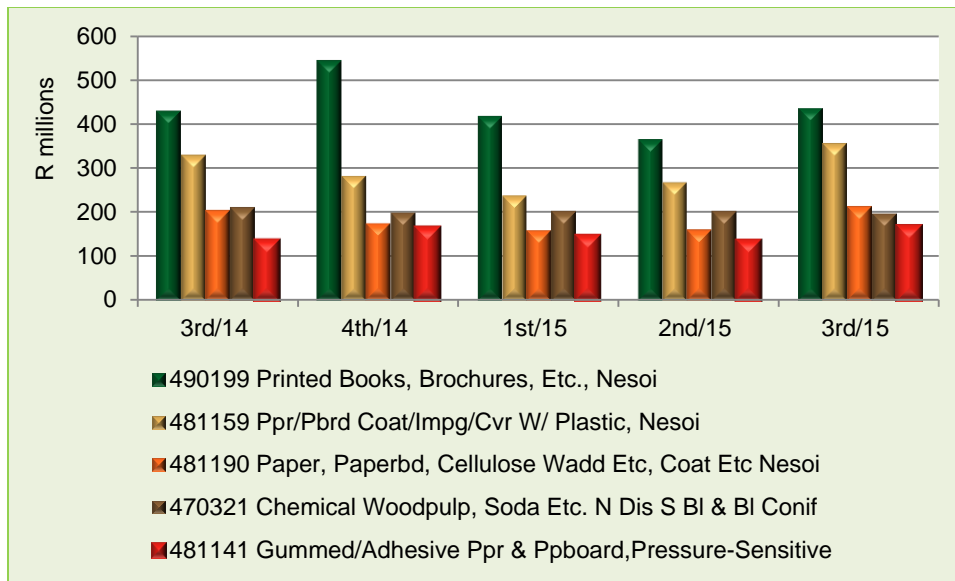
**Figure 43:** Trade balance of SA forestry products  
Source: GTA, 2014.

The top three exported forestry products during the third quarter of 2015 were chemical wood pulp (dissolving grades), wood in chips or particles (non-coniferous) and kraftliner (uncoated, bleached, in rolls or sheets), see Figure 44.



**Figure 44:** SA top five exports of forestry products  
 Source: GTA, 2014.

The total import values of forestry products increased by 6% between the third quarter of 2014 and the third quarter of 2015. SA’s major forestry import suppliers include China, Germany, and the US. The most important forestry products imported in the third quarter of 2015 include printed books, paper or paperboard and paper/paperboard (cellulose wads), see Figure 45.



**Figure 45:** SA top five imports of forestry products  
Source: GTA, 2014.

## 4. CONCLUSION

The global economic growth remains moderate as the global economy continues to face a number of downside risks resulting in marked down forecasts for short-term growth rates in most economies. Commodity price declines are adversely affecting a number of economies including a few advanced economies. However, economic recovery in advanced economies is expected to pick up slightly, with the US and the UK leading the recovery process as output increases while unemployment drops in these economies.

Growth in emerging market and developing economies is projected to slow down from 4,6% in 2014 to 4,0% in 2015 and is forecast to rebound to 4,5% in 2016. Economic growth in the sub-Saharan Africa region is expected to slow from 5% in 2014 to 3,8% in 2015, largely reflecting declining commodity prices—particularly oil prices. The SA economy grew by a seasonally adjusted and annualised 0,7% quarter-on-quarter (q/q) during the third quarter of 2015, averting a technical recession following a 1,3% contraction in the second quarter of 2015. The manufacturing sector provided the much needed cushion to save the SA economy from tipping into a technical recession, registering a 6,2% growth in the third quarter of 2015.

The SA headline CPI annual inflation rate averaged 4,7% in the third quarter of 2015, which is a decline from the 6,2% average in the third quarter of 2014. South Africa's unemployment rate has increased to 25,5% in the third quarter of 2015, which is up by 0,5 of a percentage point from the second quarter rate of 25%, of which is a far cry from the 6% that the country wishes to achieve by 2030. Global grain production is expected to be a percentage lower than they were in 2014; while it was 7% higher in the third quarter of 2015 compared to the estimates in Q3 of 2014 showing that estimates could still change. South Africa's agricultural trade balance has increased by 2% between the third quarter of 2014 and the third quarter of 2015. Exports increased by 4% while imports rose by 7%.

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