



Quartely Economic Overview

AGRICULTURE SECTOR

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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 workplan. Since the beginning of 2004, the report has also been published for outside use to add value to a number of regular economic publications about the agricultural sector. It is our vision to maintain it as an indispensable reading for everyone interested in developments in the AFF and the South African AFF sector.

This issue looks at the economic developments in 2019: Q2, 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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EXECUTIVE SUMMARY

Global growth prospects:

Real GDP growth Rates, 2019 (Q2) in the advanced economies of the following countries: Canada, France, Italy, Japan and United States expanded by 0.9%, 0.3%, 0.1%, 0.3% and 0.5%, respectively, whilst Germany and United Kingdom decreased by 0.1% and 0.2% respectively, when compared to 2018 (Q2).

In the emerging markets and developing economies, 2019 (Q2) Real GDP growth rates increased in the following countries: Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia increased by 0.4%, 6.2%, 5%, 5.05%, 4.9%, 5.5%, 3.1%, 1.94% and 0.9% respectively, whilst when compared to the second quarter of 2018.

Global grain supply forecast: Global supply projections for 2019 (Q2) of wheat, coarse grains, rice milled, oil seeds and vegetable oils increased by 2.5%, 12%, 5.9%, 4.2% and 1.6%, respectively, whilst cotton and oil meals decreased by 3.5% and 0.4% as compared to the second quarter of 2018.

South Africa's GDP:

Africa's economy grew by 3.1% in the second quarter of 2019 from a negative growth of 3.1% in the first quarter of 2019. A routers poll of economists had expected a growth of 2.5% while the South African Reserve Bank expects the economy to grow by just 0.6%. GDP growth 2019: Q2 is attributed to the positive impact of reduced power cuts in mining and manufacturing.

The primary sector, mainly agriculture, forestry and fisheries;sector reported an improved negative growth of 4.2% in the second quarter of 2019 from a revised negative growth of 16.8% reported in the first quarter of 2019; largely owing to poor field crop harvest, as a result of droughts earlier this year

Inflation: The annual average headline CPI for the second quarter 2019 was 4.5%. When compared with the same period last year headline cpi remained unchanged at 4.5%. Food inflation for the second quarter of 2019 was 2.78% which shows an decrease of 0.52% from 3.3% of the second quarter of 2018.

Employment:

The Quarterly Labour Force Survey showed that the unemployment rate increased by 1.4 percentage points from 27.6% in the first quarter of 2019 to 29% in the second quarter of 2019. This is as a result of an increase of 455,000 in the number of people who are unemployed and an increase of 21,000 in employment. The number of employed persons increased in six of the ten industries, with the largest increases recorded in Trade (84 000), Community and social services (48 000), Construction (24 000) and Manufacturing (9 000), Agriculture (5 000) and Utilities (1 000). However, employment losses were recorded in Private households (49 000), Transport (42 000), Mining (36 000) as well as Finance and other business services (21 000).

The grain market review section: It reflects on quarterly price trends (domestic and international) and supply and demand of the following major products produced in South Africa: maize, wheat, soya bean, sorghum, sunflower and groundnuts, as well as the fruit and vegetable and meat industry reviews.

Trade: South Africa's agricultural trade balance is expected to narrow this year, due to animal health and the impact of unfavourable weather conditions. South Africa's agricultural trade balance narrowed by 22.9% in Q2: 2019 compared to Q2: 2018, from R13,9 billion to R10,16 billion, underpinned by lower export volumes of edible fruits, wine and grains. On a quarter-on-quarter basis, South Africa's agricultural trade balance improved by 6% in Q2: 2019 compared with Q1: 2019.

1 GLOBAL OVERVIEW OF THE AGRICULTURE, FORESTRY AND FISHERIES ECONOMY

1.1 Global Real GDP Growth Rates

According International Monetary Fund (IMF) latest report on World Economic Outlook (WEO) Update, July 2019, it indicates that Global growth is projected at 3.2% in 2019, improving to 3.5% in 2020. On the trade front, the forecast reflects the May 2019 increase of US tariffs on \$200 billion of Chinese exports from 10% to 25%, and retaliation by China. The downgrades to the growth forecast for China and emerging Asia are broadly consistent with the simulated impact of intensifying trade tensions and associated confidence effects. Real GDP growth Rates, 2019 (Q2) in the advanced economies of the following countries: Canada, France, Italy, Japan and United States expanded by 0.9%, 0.3%, 0.1%, 0.3% and 0.5%, respectively, whilst Germany and United Kingdom decreased by 0.1% and 0.2% respectively, when compared to 2018 (Q2). See figure 1 below.

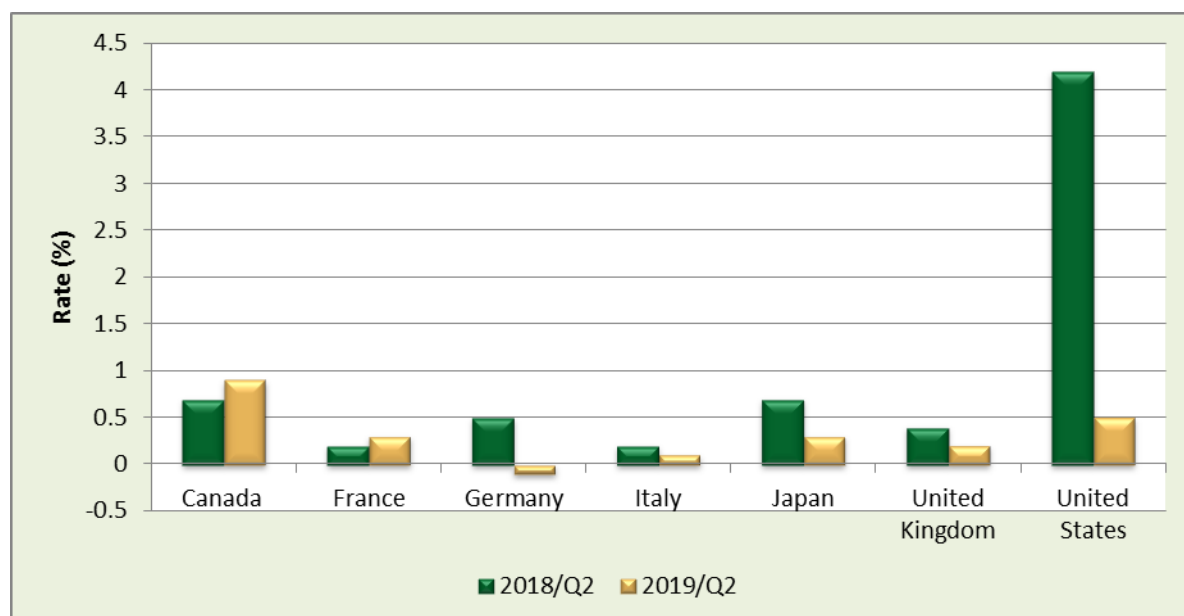


Figure 1: Advanced economies quarterly GDP growth rates

Source: Various Sources

Figure 2, Indicate that in the emerging markets and developing economies, 2019 (Q2) Real GDP growth rates increased in the following countries: Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia increased by 0.4%, 6.2%, 5%, 5.05%, 4.9%, 5.5%, 3.1%, 1.94% and 0.9% respectively, whilst when compared to the second quarter of 2018 figures.

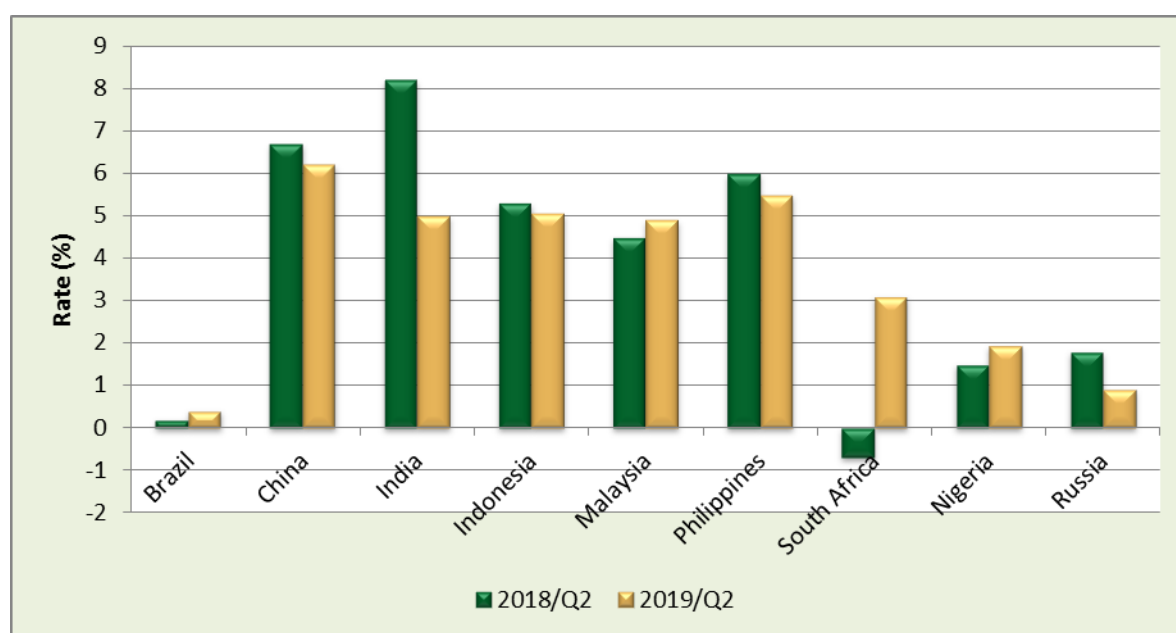


Figure 2: Emerging markets and developing economies quarterly GDP growth rates
Source: Various Sources

1.2 Global Grain Forecast

The global grain supply forecast indicates a total grain increase of 7.8%, from 3.22 million metric tons in 2018 (Q1) to 3.46 million metric tons in 2019 (Q2). Global supply projections for 2019 (Q2) of wheat, coarse grains, rice milled, oil seeds and vegetable oils increased by 2.5%, 12%, 5.9%, 4.2% and 1.6%, respectively, whilst cotton and oil meals decreased by 3.5% and 0.4% as compared to the second quarter of 2018, see figure 3 below.

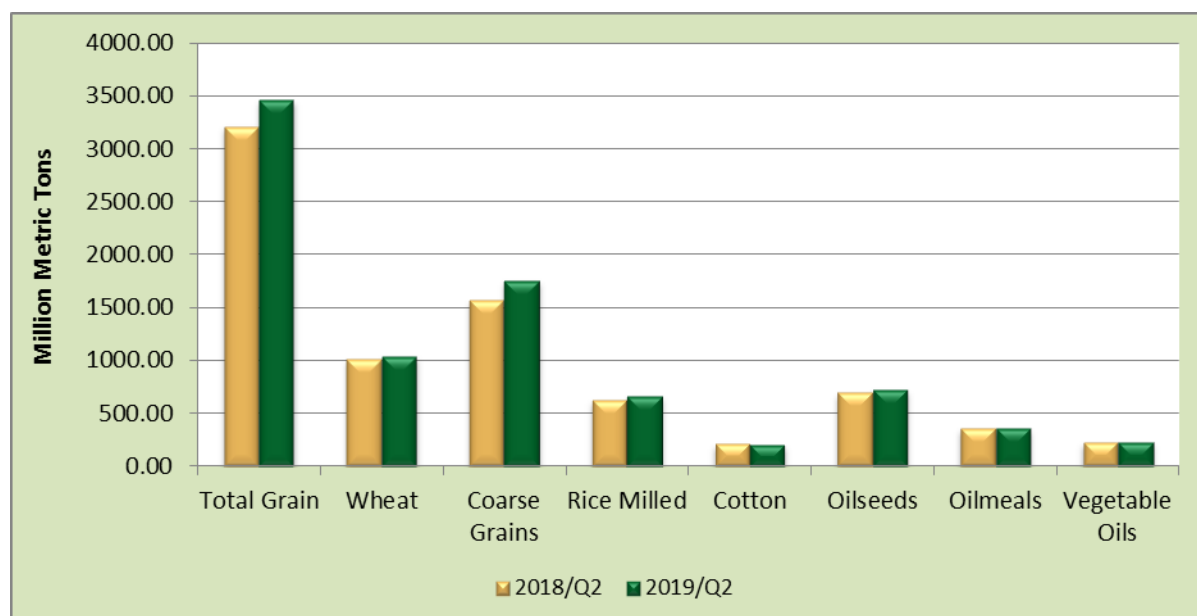


Figure 3: Quarterly global grain supply forecast
Source: USDA

1.3 Global Food Prices

The FAO Food Price Index averaged 172.41 points at the end of the second quarter of 2019; it went up by 2.58% from 169.83 points in the first quarter of 2019. Globally in 2019 (Q2) some major countries were paying slightly less by 2.58% on food purchases compared to 2019 (Q1). According to FAO an increase was the result of a rise in most food purchases dairy, and meat which offset the decline in sugars, oils and cereals.

The decline in price of cereals was driven by lower wheat and maize prices. In wheat markets, despite downward adjustments to production prospects in several countries, large export supplies and continued expectations of record world production this year weighed on international prices. The drop in oil prices could be attributed to the concurrence of seasonal production rises in Southeast Asia and sluggish global import demand continued weighing on palm oil prices.

The increase in the price of meat is as the result of price quotations for ovine meat rose further, boosted by strong import demand from Asia amid supplies from Oceania retreating from their seasonal highs. Asia’s robust import demand for bovine meat also contributed to further gains in bovine prices. However, quotations for pigmeat were down slightly after four months of continued increases, reflecting larger export availabilities from Brazil and the United States. Poultry quotations held firm at

June levels, with markets characterized by generally stable but still strong demand (FAO, 2019).

According to FAO, (2019), the price of sugars globally went down, mainly on expectations for higher sugarcane yields in India, the world’s largest sugar producer, following above average rainfalls in the main sugar producing regions. The decline in world prices was, however, somewhat contained by a strengthening of the Brazilian currency (Real) against the United States Dollar, a move that tends to restrain exports from Brazil, the world’s largest sugar exporter. The figure below illustrates See figure 4.

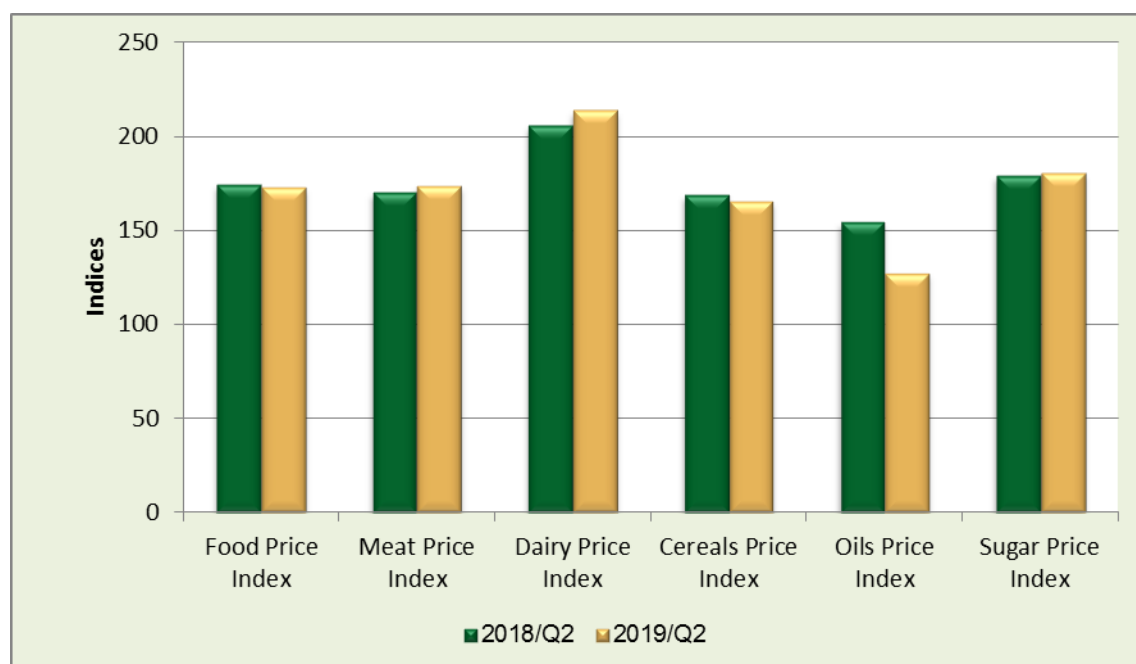


Figure 4: Quarterly global food price indices
Data Source: FAO

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

2.1 Growth

Statistics South Africa's recent data for the second quarter of 2019 that indicates that a technical recession has been avoided, with the economy expanding faster than what economists predicted. This follows a 3.1% growth in the second quarter of 2019 from a negative growth of 3.1% in the first quarter of 2019 (see fig 5 below). A routers poll of economists had expected a growth of 2.5% while the South African Reserve Bank expects the economy to grow by just 0.6%. It was the strongest growth rate since the last quarter of 2017, partly due to low base effects and the positive impact of reduced power cuts in mining and manufacturing. Mining surged 14.4 %, Manufacturing rose 2.1 %, Finance, real estate and business services, the largest industry in the South African economy, grew by 4.1 %.

According to Economists, the growth 3.1% is good news and big relief to the economy, which is due to a recovery from Eskom power cuts, which crippled large parts of the economy in the first quarter of 2019. Fixing Eskom, which supplies more than 90% of the power in South Africa, is one of the biggest challenges the country is faced with. Eskom is regularly cited by ratings agencies as one of the main threats to South Africa's investment-grade credit rating status and economic growth prospects. Analysts are of the view that the economy has not returned to the level needed to tackle unemployment rate which is a thorny issue for the country. Weak business confidence, High unemployment, and a deteriorating global economic environment signal trouble ahead of SA's economy.

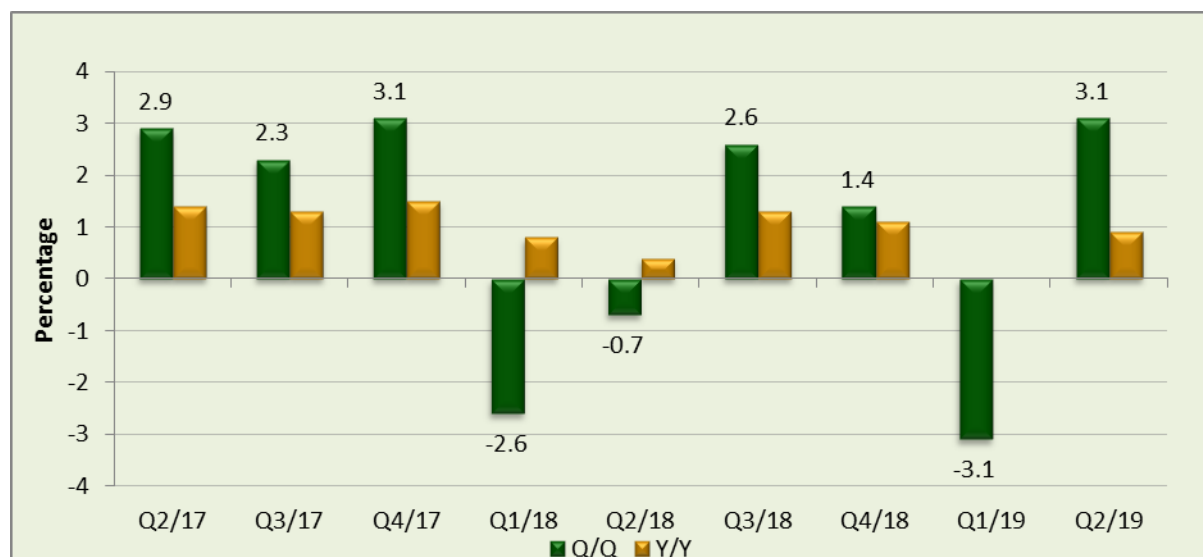


Figure 5: Domestic real GDP growth

Source: Stats SA

The agriculture, forestry and fishery sector; which is one of the sector that has higher levels of labour absorption has underperformed in the second quarter of 2019. Data shows that the sector is in recession with a second consecutive quarter of declined. The sector reported an improved negative growth of 4.2% in the second quarter of 2019 from a revised negative growth of 16.8% reported in the first quarter of 2019; largely owing to poor field crop harvest, as a result of droughts earlier this year. Agbiz reports indicated that poor performance by the sector is attributed to poor production of summer crops during the 2018/19 production season. Maize, Soybeans and sunflower seed production are down by 12% y/y, 21% y/y and 24% y/y to 11.02 million tonnes, 1.17 million tonnes and 680 940 tonnes, respectively. Given this figures, Agbiz economists predict that the sector will contract by approximately 2% y/y this year, due to poor summer grains and oilseed harvest in the 2018/19 production season., see figure 6.

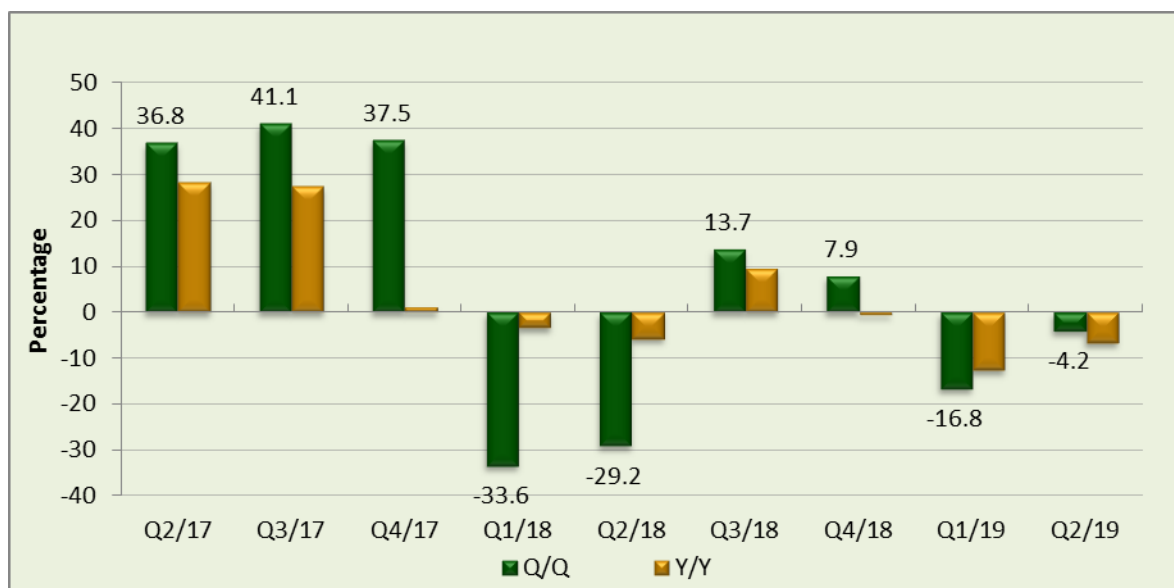


Figure 6: Agriculture, forestry and fisheries sector growth rates
Source: Stats SA

2.2 Inflation

South Africa’s annual headline CPI and the food inflation from the third quarter of 2017 to the second quarter of 2019 is illustrated in figure 5. The annual average headline CPI for the second quarter 2019 was 4.5% .When compared with the same period last year headline cpi remained unchanged at 4.5%. Food inflation for the second quarter of 2019 was 2.78% which shows an decrease of 0.52% from 3.3% of the second quarter of 2018.

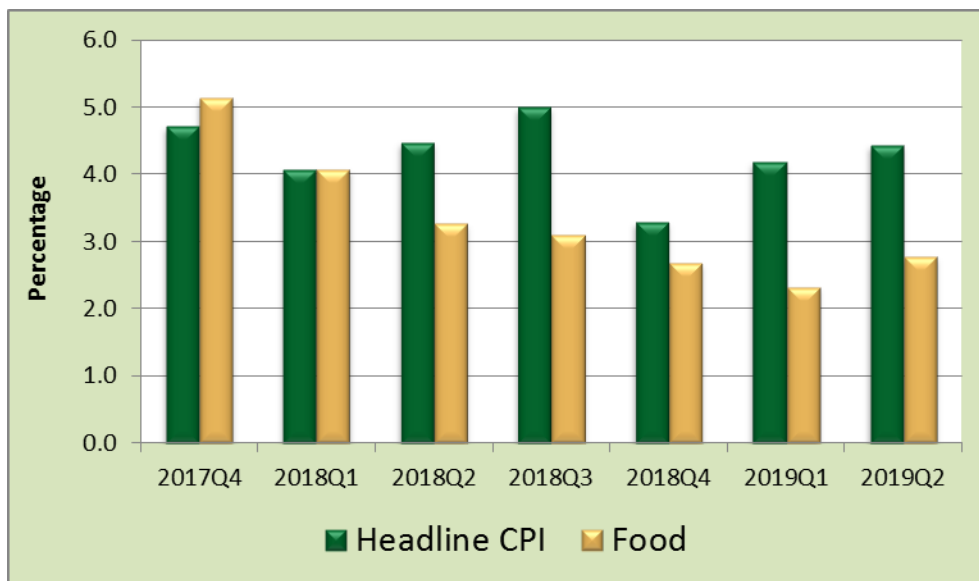


Figure 7: SA headline CPI and CPI for food
Source: Stats SA

Figure 8 illustrates consumer trends of selected food items from the first quarter of 2017 to the second quarter of 2019. Quarter 2 of 2019 data for selected food items show that the CPI for most items were more expensive when compared to the previous quarter, bread & cereals by 2.47%, oils and fats by 1.34%, fruits by 0.85% and milk, egg and cheese increased by 0.56%. In contrast vegetables were less expensive, went down by 1.85% when compared to the previous quarter. The main drivers for increased inflation include pressure from rising petrol prices, more expensive food, housing and utilities as a result of international crude oil prices declining together with the R/\$ exchange rate depreciating on the back of political announcements surrounding the Reserve Bank.

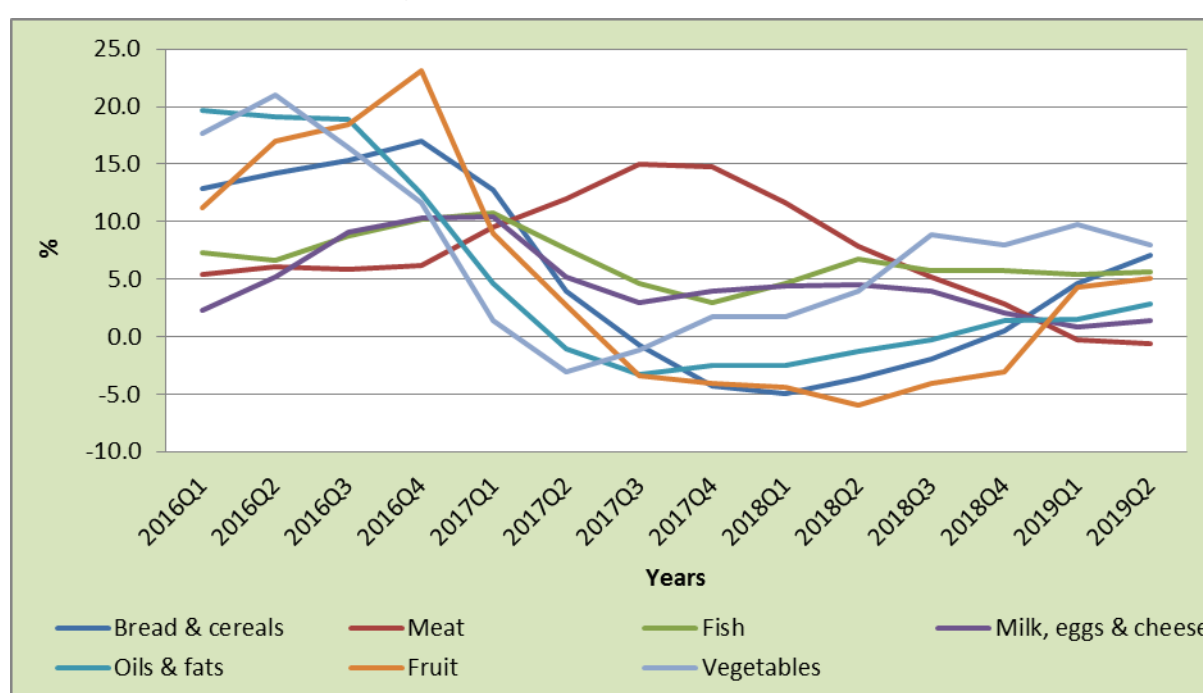


Figure 8: CPI for selected food items

Source: Stats SA

2.3 Employment

South Africa's unemployment rate climbed substantially in second quarter 2019 and this shows that the country's unemployment crisis is deepening. The Quarterly Labour Force Survey showed that the unemployment rate increased by 1.4 percentage points from 27.6% in the first quarter of 2019 to 29% in the second quarter of 2019. This is as a result of an increase of 455,000 in the number of people who are unemployed and an increase of 21,000 in employment. The country's unemployment rate last hit over 28% in 2003. The data shows that shows that of the

6,7 million unemployed persons, 57% had an education level below matric, followed by those with matric at 33,4% in the second quarter of 2019. Only 2,2% of the unemployed persons were graduates while 6,9% had other tertiary qualifications as their highest level of education. By the official count, 6.7-million people are unemployed in South Africa, which is 29% of everybody who could be working. By the expanded definition more than 10 million people are unemployed, or 38.5% of people who could be working.

Figure 9 shows that between the first quarter of 2019 and the second quarter of 2019, the number of employed persons increased in six of the ten industries, with the largest increases recorded in Trade (84 000), Community and social services (48 000), Construction (24 000) and Manufacturing (9 000), Agriculture (5 000) and Utilities (1 000). However, employment losses were recorded in Private households (49 000), Transport (42 000), Mining (36 000) as well as Finance and other business services (21 000).

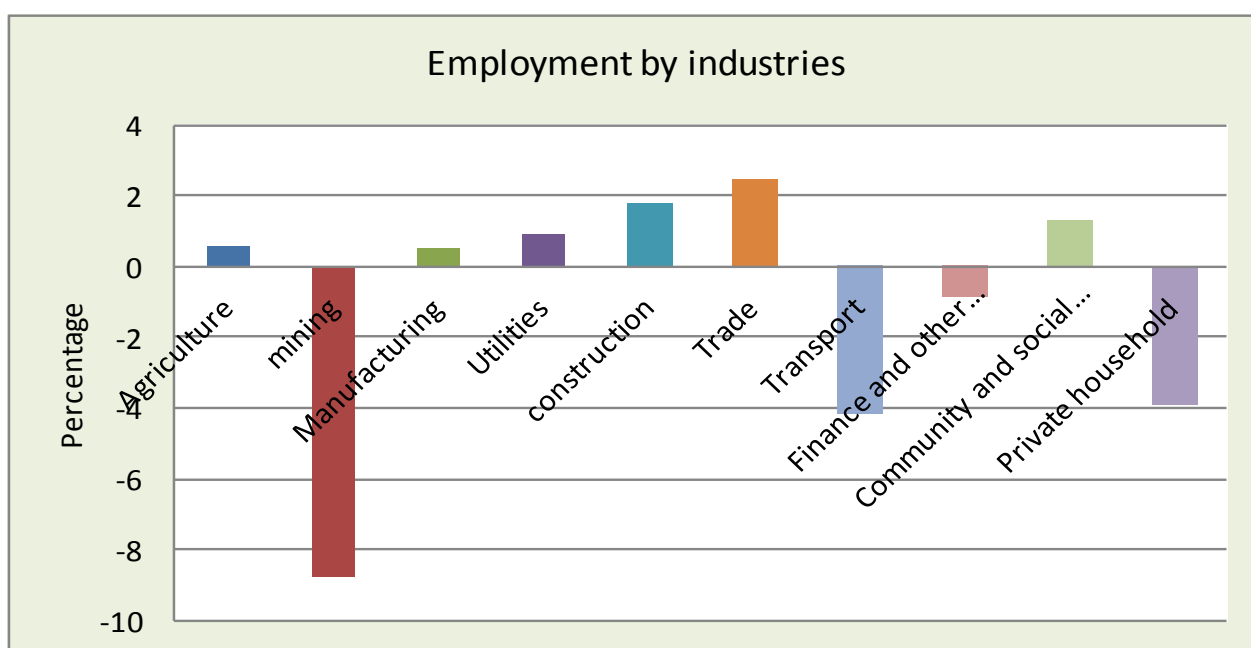


Figure 9: Total number of people employed in the industries sector 2019: Q2
Source: DAFF

Figure 10 below illustrate that the number of people employed in agricultural sector increased slightly by 0.6% in the second quarter of 2019, from 837 000 persons in the first quarter of 2019 to 842 000 persons in the second quarter of 2019. In the 5 000 jobs gained 30 000 jobs were lost by women, while man gained 35000 jobs between the two quarters. In total, the agricultural sector comprised of 248 000 women and 594 000 men in the second quarter of 2019 compared to 278 000 women and 559 000 men in the previous quarter.

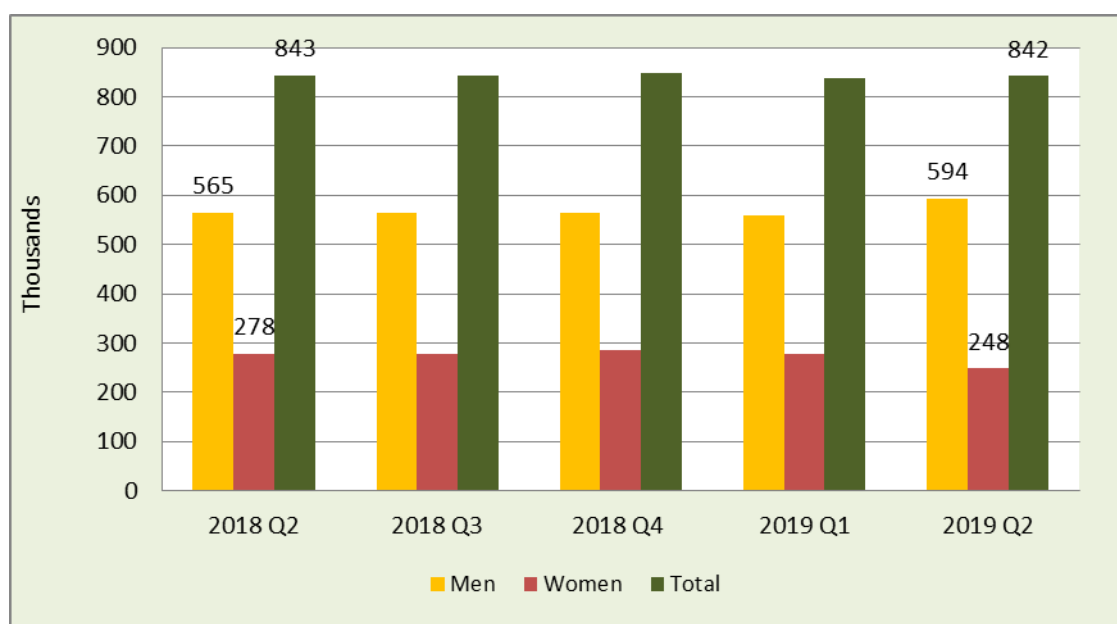


Figure 10: Total number of people employed in the agriculture sector between 2018: Q2 and 2019: Q2.

Source: DAFF

Figure 10 below shows that between the first two quarters of 2019, provincial agriculture employment increased in Eastern Cape, Gauteng, Mpumalanga and Limpopo, whilst remain unchanged in Free State and KwaZulu-Natal. The 2019 second quarter (QLFS) also indicate that 1.9 million people were involved in subsistence farming compared to 2.1 million people in the previous quarter, a decrease of 7.2 %. KwaZulu-Natal and Eastern Cape remained with the highest number of people involved in subsistence farming, followed by Limpopo, Mpumalanga and Free state.

The figure 11 below illustrate that the nominal real gross income from all agricultural products decreased slightly from R82.5 billion in the second quarter of 2018 to R82.2 billion in the second quarter of 2019, a slight decrease of 0.4%. The figure below also illustrate that the net farm income is estimated at R34.6 billion in the second quarter of 2019 compared to R37.5 billion in the same quarter of 2018, a decrease of 7.6%. The decrease in both gross and net farm income was largely supported by a decrease in income from horticulture and animal products which decreased by 1.8%, and 2.9% respectively.

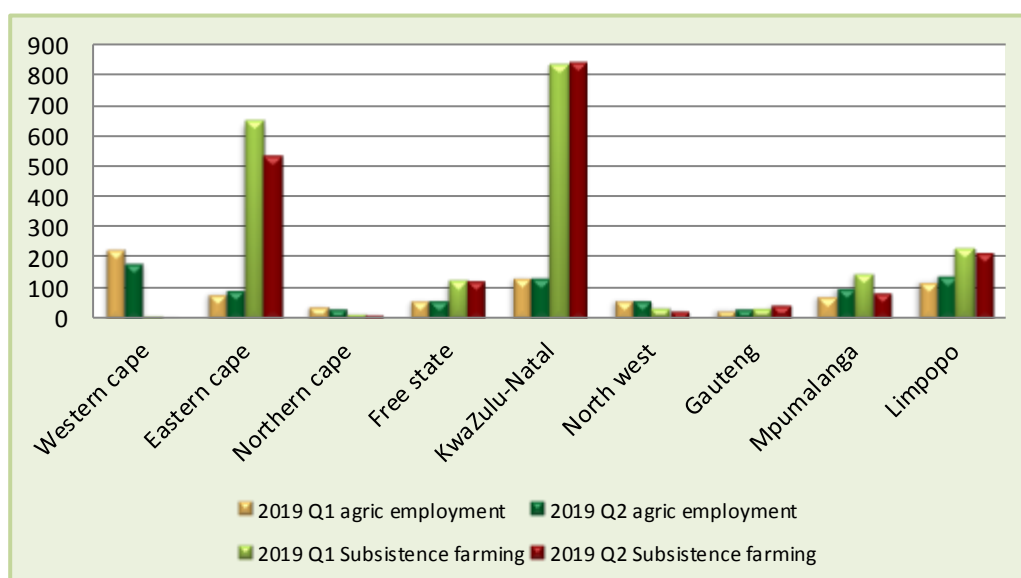


Figure 11: Provincial number of people involved in subsistence farming between 2018: Q2 and 2018: Q3
Source: DAFF

2.4 Expenditure on intermediate goods and services by the agricultural sector

The total expenditure on intermediate goods and services was reported at R39.0 billion in the second quarter of 2019 compared to R35.3 billion in the previous quarter, an increase of 9.6%. Compared to a year ago the total expenditure on intermediate goods and services increased by 5.5% from R37.0 billion in the second quarter of 2018 to R39.0 billion in the second quarter of 2019.

The total expenditure on intermediate goods and services increased by 9.6% from a year (2018 Q2) ago to Q2 2019. The increase was due to increases in Farm

Services (33.3%).and Fuel (7%). Seed and plants are unchanged (0.0%),while fertilizer (-4.55%) and farm feeds (-4.2%) decreased.

Figure 12 shows comparison of the total expenditure on farm services, farm fuel, fertilizers, seeds and plants as well as farm feeds in the second quarter of 2018 compared to the previous quarter. The increase in total expenditure was attributed to the increase in expenditure on seed and plants by 10.0%, farm services 6.0%, and farm fuel by 4.4%, Farm seeds 4.1% and Fertiliser 3%.

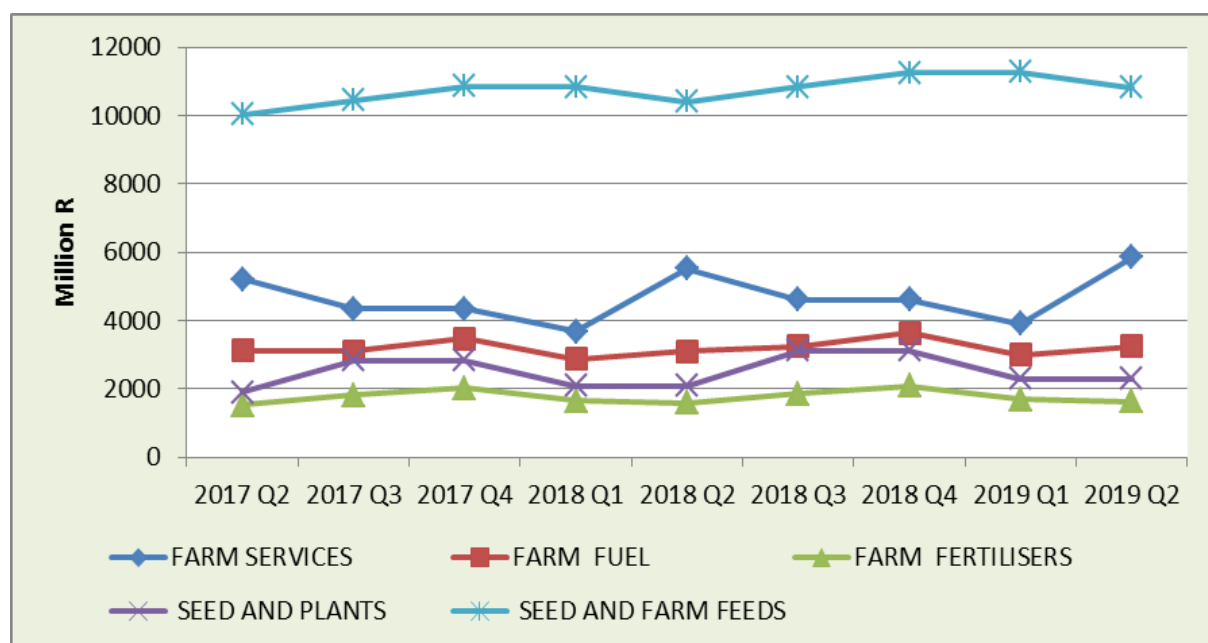


Figure 12: Trends in the expenditure on fuel, farm feeds, fertilizers, seeds and plants and farm services between 2017: Q1 and 2019: Q1
Source: DAFF

2.5 fertilizer market review

2.5.1 International and local fertiliserprices

Figure 13 The average prices for all fertilizers shows a fluctuating trend, following the trend of the Brent crude oil prices. Most of the fertilizers show a decreasing trend between second quarter 2018 and second quarter 2019 with exception to DAP and KCL showing an increase between the two periods. The average price in Rand terms of Ammonia decrease by 33% on year-on-year basis, whilst UREA decreased by 46%. MOP 31%, LAN decreased by 100% respectively between second quarter of

2018 and the second quarter of 2019. Figure below shows the international and local fertilizer prices with brend crude oil average prices.

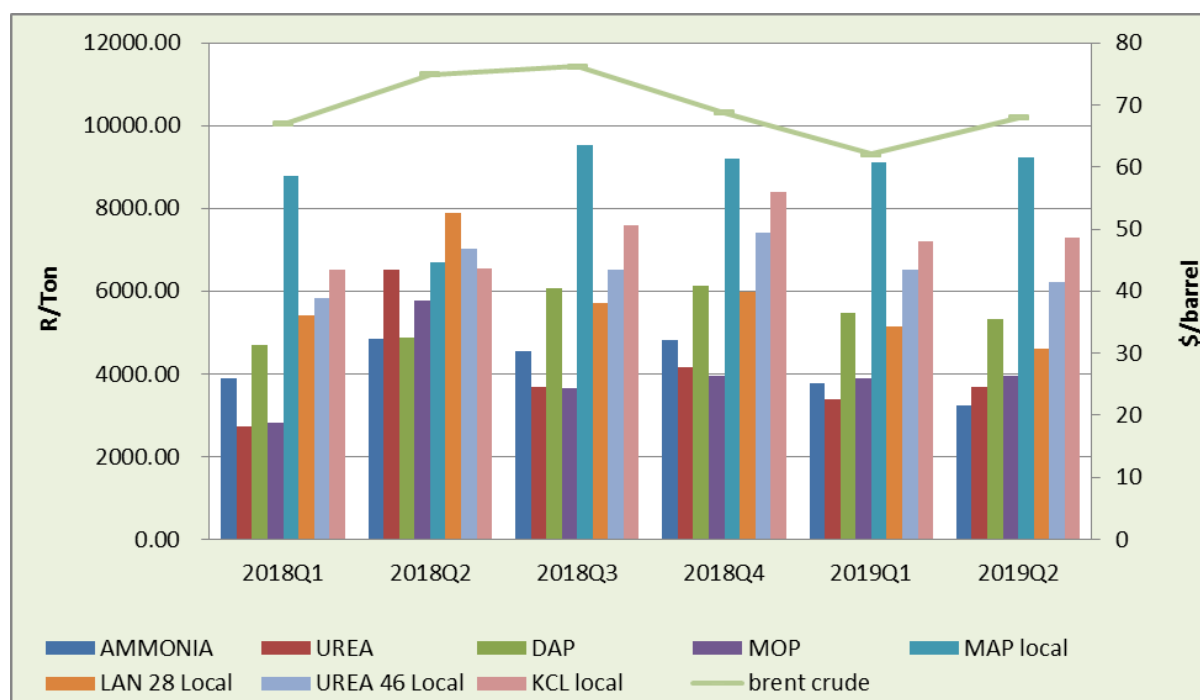


Figure 13: Comparison of International and local fertiliser prices in Rand terms

Source: GrainSA

2.5.2. South African fertiliser expenditure

South African expenditure on fertilizer shows a fluctuating trend from the first quarter of 2016 to the second quarter of 2018. The fluctuation is as the results of changes in the area planted and the seasonality of the agricultural crops. The expenditure on fertilizer in second quarter of 2019 was R 1 624.809, this represent 3% increase on year on year basis. The figure below shows the fluctuation on South African fertilizer expenditure., see Figure 14.

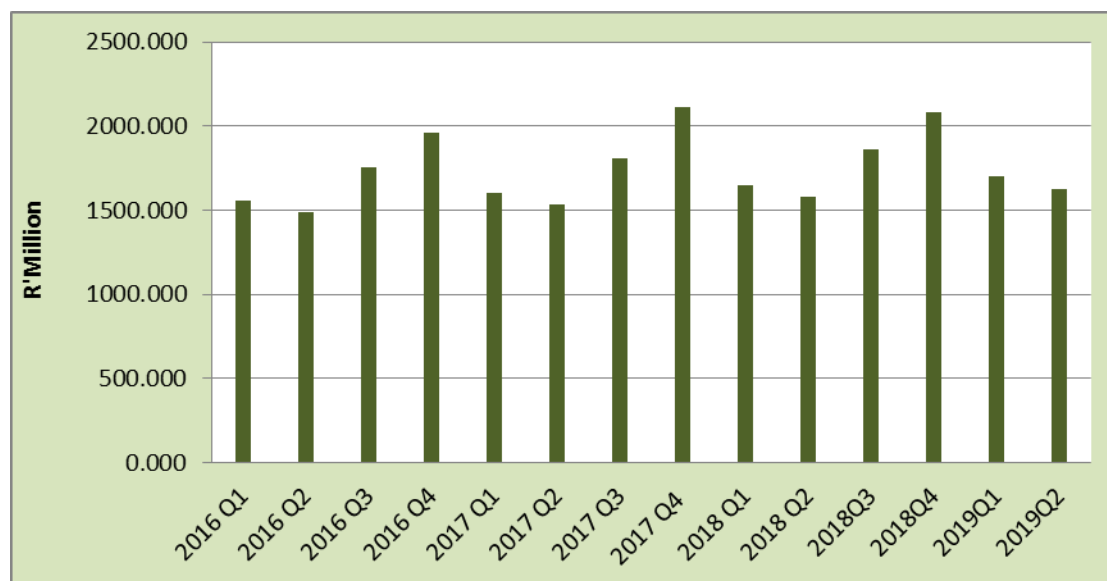


Figure: 14 South Africa fertiliser expenditure

Source: Grain SA

2.6 Nominal gross farm income and net farm income from agricultural products

Figure 15 illustrate that the nominal real gross income from all agricultural products decreased slightly from R82.5 billion in the second quarter of 2018 to R82.2 billion in the second quarter of 2019, a slight decrease of 0.4%. The figure below also illustrate that the net farm income is estimated at R34.6 billion in the second quarter of 2019 compared to R37.5 billion in the same quarter of 2018, a decrease of 7.6%. The decrease in both gross and net farm income was largely supported by a decrease in income from horticulture and animal products which decreased by 1.8%, and 2.9% respectively.

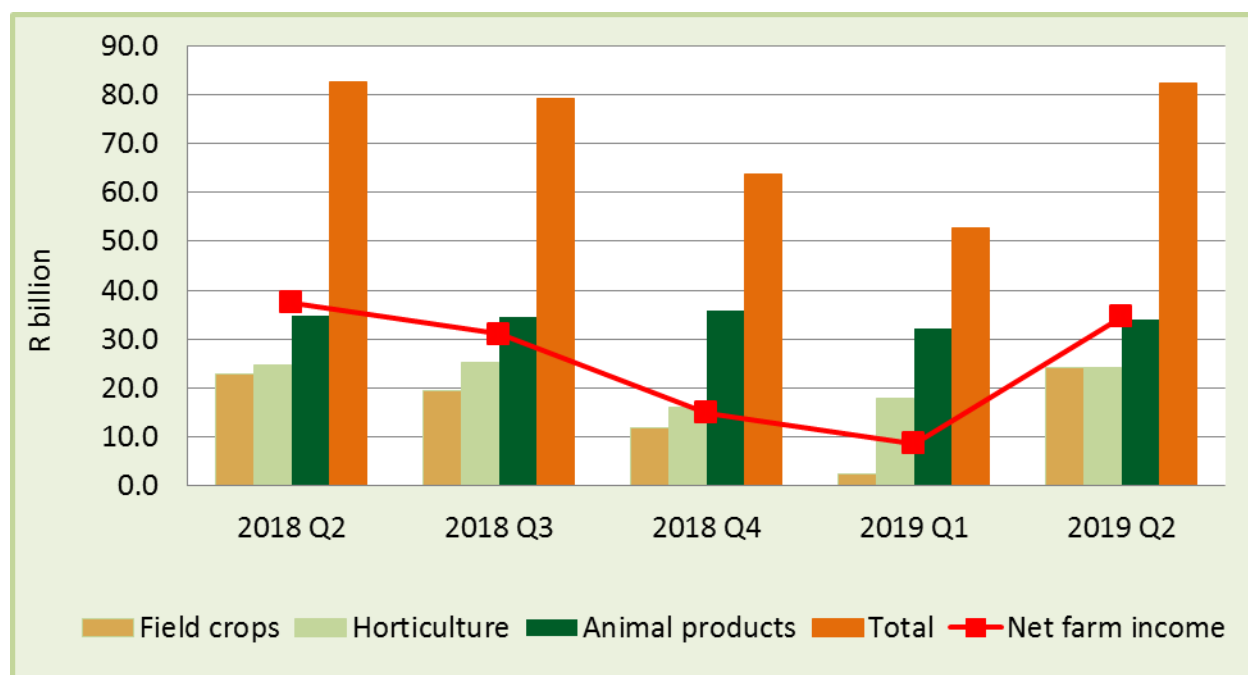


Figure 15: Trends in nominal gross farm income and Net farm income between Q1:2018 and Q1:2019

Source: DAFF

2.9 Reviews of South Africa’s water dam levels

South Africa’s average dam levels have decreased in the second quarter of 2019 as compared to the same period the last year. When comparing y/y the overall South African dam levels decreased by 10% in Q2:2019, from 80% in Q2:2018 to 72% in Q2:2019. Between Q1:2019 and Q2:2019, the average dam water levels have increased by 20% from 60% in Q1:2019 to 72% in Q2:2019. The Department of water and sanitation (DWS) suggests that torrential rains that fell around April in South Africa have increased the average water storage to 23 591.5 cubic metres. The amount of water in reservoirs is considered sufficient enough to sustain the country through the dry winter season provided consumers use water wisely and sparingly., see figure 16.

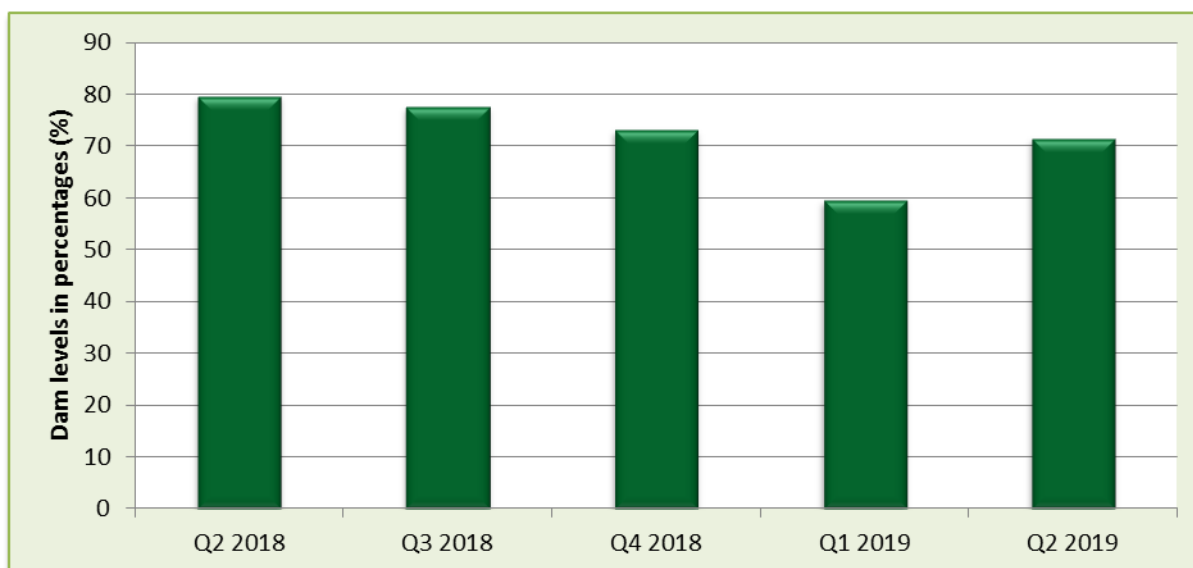


Figure 16: Total dam levels in Q2: 2019
 Source: Department of Water & Sanitation (DWS)

1. Provincial average dam levels

Most of the provinces are showing a decrease in the dam water levels in Q2:2019 as compared to the same period the previous year. When compared year on year Eastern Cape, Free State, Gauteng, Limpopo, Mpumalanga, Northern Cape, Western Cape and Kwa-Zulu Natal provinces experienced a decrease in the average dam levels of 9%, 11%, 5%, 15%, 10%, 15%, 63% and 1% respectively during the reporting period. However, Western Cape had an increase of 63% during the same period; this may be due the province experiencing winter rainfalls.

However, when compared Q/Q, some provinces reflected a decline in average dam water levels, Eastern Cape, Free State, Limpopo and Western Cape reflects a decrease of 15%, 11%, 9% and 40% respectively, when compared to the previous quarter, whilst, Gauteng, Mpumalanga and Northern Cape’s average dam water levels increased significantly by 52%, 10% and 27% respectively. The average dam water levels for Kwa Zulu Natal remain unchanged at 64% during the reporting period.

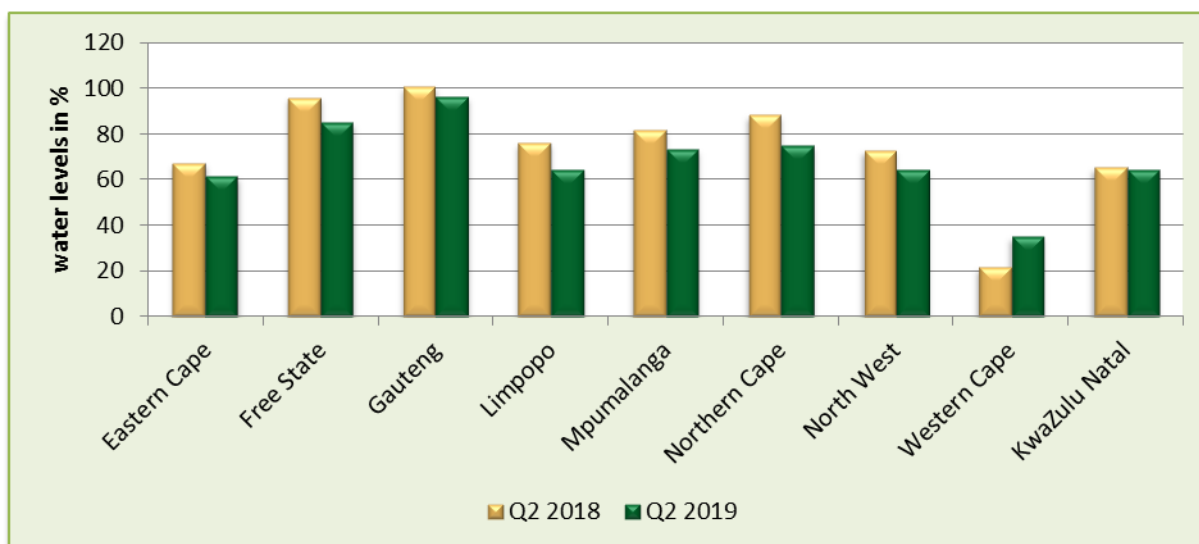


Figure 17: Average dam levels in 2019: Q2

Source: Department of Water and Sanitation (DWS)

3. Review of Agricultural Markets

3.1 Grain market review

3.1.1 White and yellow maize

Figure 18 below illustrates the price trends of white maize, yellow maize and the international parity prices. During 2019: Q2 the domestic price of white and yellow maize prices were consistent, traded between import and export parity prices. Quarter-on-quarter data indicated that white maize and yellow maize prices decreased by 2.7% and 0.1% respectively while import parity prices and export parity prices increased by 6.4% and 11.3% respectively in 2019: Q2 when compared to 2019: Q1. Local white maize price traded at R 2 798/ton while yellow maize prices averaged R 2 670/ton in 2019: Q1.

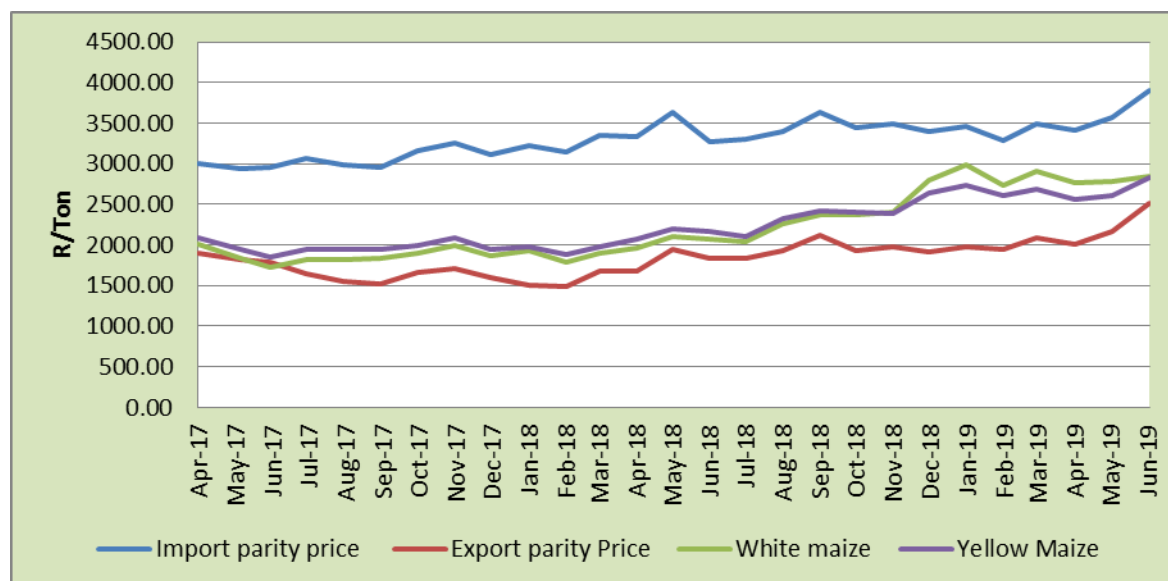


Figure 18: Price trends of white and yellow maize
Source: Sagis

Figure 19 shows the selected retail prices of maize by-products against the maize seed prices. Data for maize seed by-products for 2019: Q2 reveals that prices for all maize by-products have increased in 2019: Q2 even though maize seed prices have decreased by 2.71% quarter-on-quarter. Super Maize 1kg, Super Maize 2.5kg, (Super Maize) Mealie meal/Maize flour 5kg, (Special Maize) Mealie meal/Maize flour 1kg and (Special Maize) Mealie meal/Maize flour 2,5kg prices have increased by 4.3%, 5.9%, 7.2%, 7.7% and 8.2% respectively end of 2019: Q2.

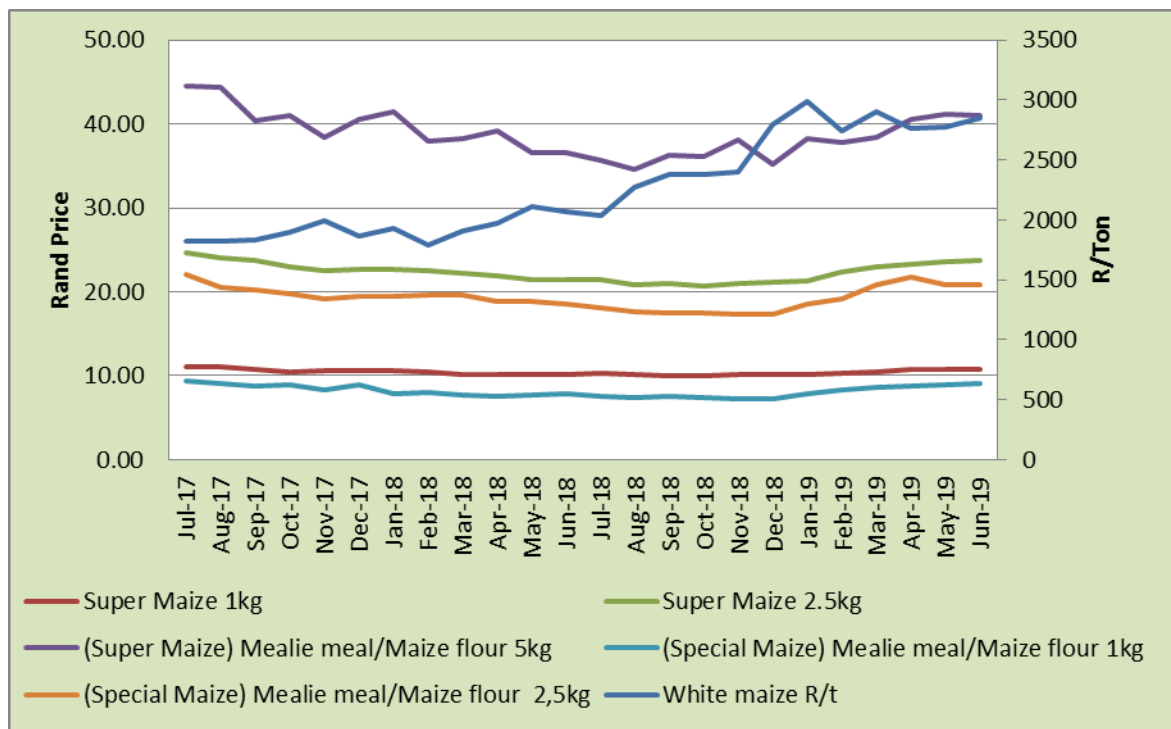


Figure 19: Retail prices vs white maize seed prices
 Source: Safex/Stats SA

Figure 20 illustrates the supply and demand of white maize from 2018: Q2 to 2019: Q2. On a year-on-year basis, local demand of white, producer deliveries of white maize and exports of white maize decreased by 27.9%, 16.7% and 28.3% respectively in 2019: Q1. On quarterly basis, local demand of white maize and exports of white maize also decreased by 2.7% and 19.7% respectively in 2019: Q2.

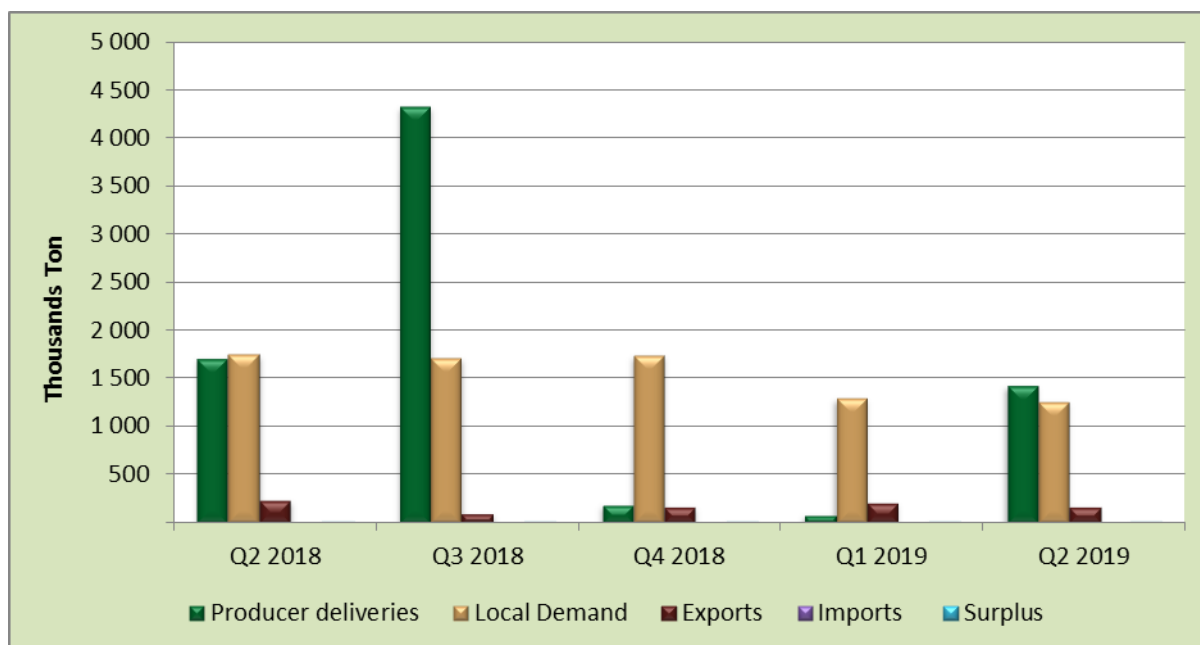


Figure 20: Supply and demand of white maize
Source: Sagis

Figure 21 illustrates the supply and demand of yellow maize for the period 2018: Q2 to 2019: Q2. Quarter-on-quarter data for yellow maize indicates that South Africa's consumption of yellow maize increased by 5.9% while exports declined by 1% respectively end of 2019: Q2. The year-on-year local demand of yellow maize and produce deliveries reported a positive growth of 56.7% and 18.2% respectively during the same period in 2019: Q2.

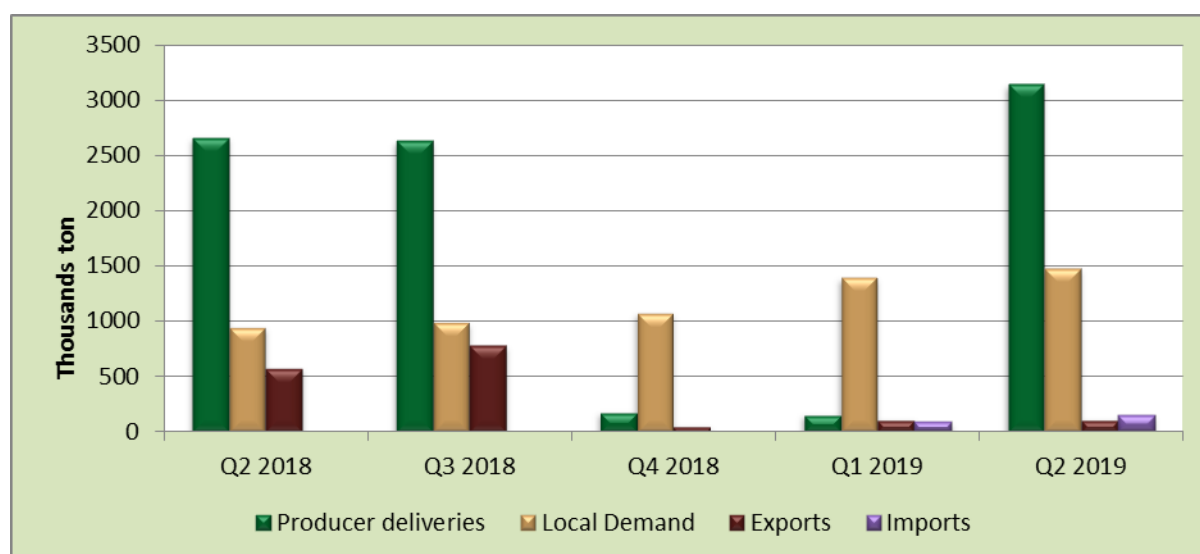


Figure 21: Supply and demand of yellow maize
Source: Sagis

3.1.2 Wheat

According to (USDA, 2019) global wheat production declined for the first time in 2018/19, following five successive years of expansion. The decline is on the back of a third successive reduction in area planted globally, combined with a lower yield relative to the recent past. In recent years,

South Africa's wheat area has stagnated at around 500 000 hectares. This is almost a million hectares less than 20 years ago, before the deregulation of the wheat market. In a free market environment producers prefer to plant more profitable crops such as canola, oats, corn and soybeans. The International Grains Council has just released its monthly update report that placed South Africa's 2018/19 wheat production at 1.8 million tonnes, up by 6% from last month and 20% higher than the

previous season. This is largely on the back of improved weather conditions in the Western Cape and other winter wheat producing areas in the country.

Figure 22 illustrates the wheat safex prices, exports price and import price seen from the first quarter of 2014 to the second quarter 2019. There is a slightly increase in global wheat prices, due to overly wet conditions in the United States; but because South Africa is a net importer of wheat, this would have a limited price impact on wheat markets, as world prices remain below reference level that triggers the variable import tariff. In the second quarter of 2019, Import price (R/ton), export price and safex price all went up by 7.17%, 18.41% and 7.86% respectively compared to the same quarter of 2018, with the import price still selling above the wheat safex price and export price.

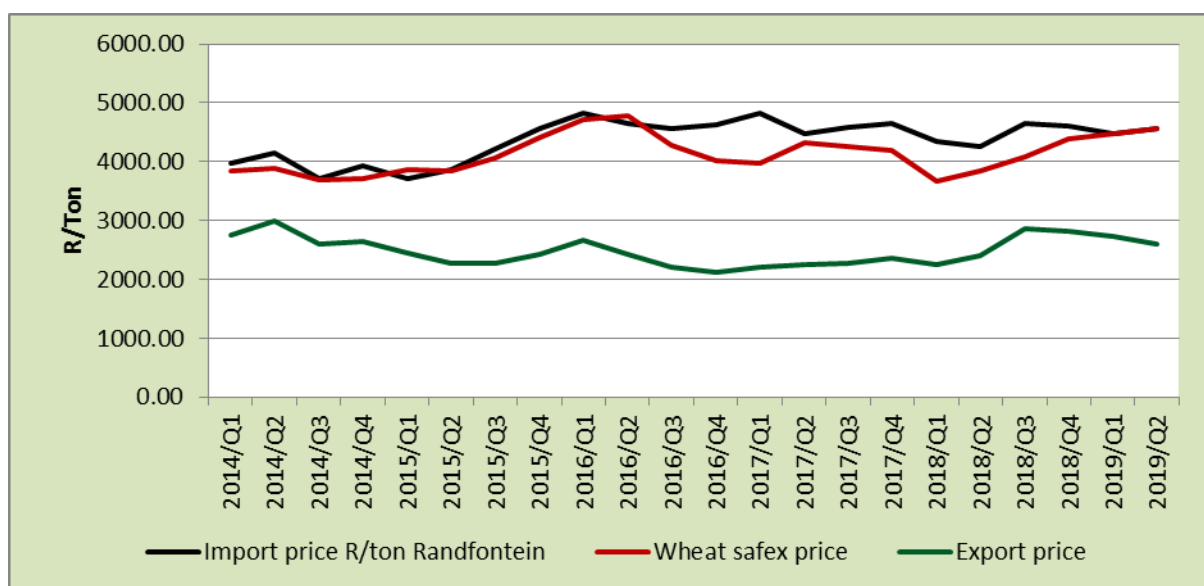


Figure 22: Wheat SAFEX price, export price and import price
Source: Sagis/Safex

As presented in figure 23, comparing second quarter of 2018 with second quarter of 2019; the price of bread increased by 7.14%, and 10.03% for 700 grams (white and brown bread) and also up by 7.27% for 600 grams; that is from R 12.98 to R 13.90 bread white (700g), R 11.46 to R 12.61 bread brown (700g) and R 6.92 to R 7.43 bread brown (600g). On the other hand the cake flour prices went down by 2.63% while bread flour prices also increased by 2% as shown graphically on figure2 below. Despite the relative firmness in international markets, the domestic market

experienced a period of enormous volatility during the reporting quarter, due in large to a combination of domestic weather conditions and exchange rate dynamics.

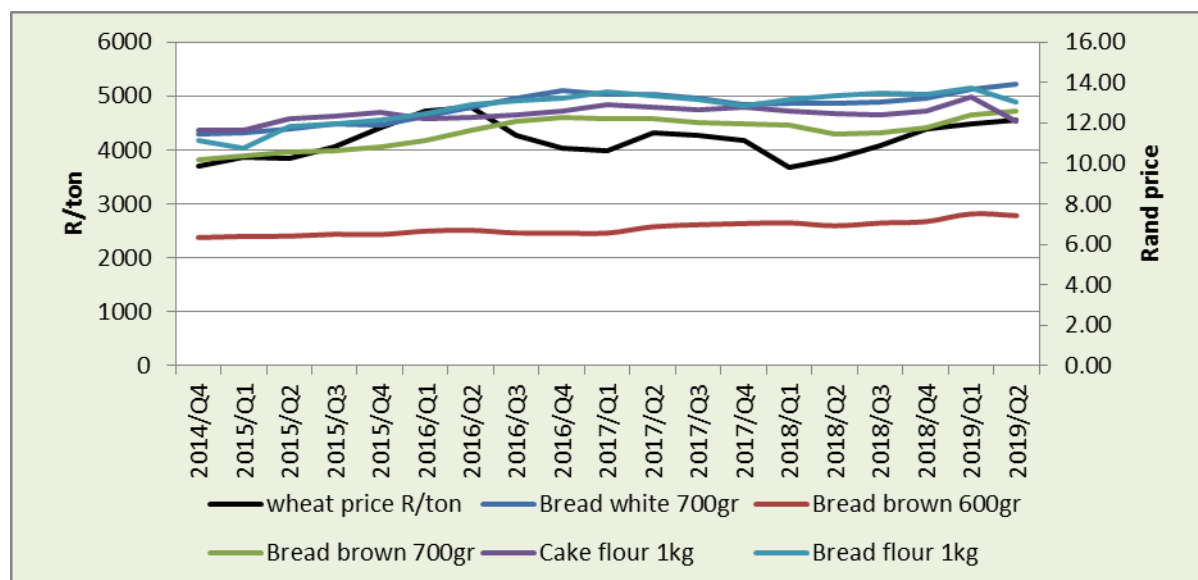


Figure 23: Retail bread price vs wheat import price
Source: Stats SA & Safex

In both the second quarter of 2018 and the second quarter of 2019, the SA safex price has been trading below the import price (Randfontein), with the rand being volatile.

According to several reports released, 2018/19 winter wheat production season will be far better than the 2017/18 season which was characterised by drought and led to lower production of 1.5 million tonnes. This meant that South Africa would import the second highest volume on record in the marketing year that ends in September 2018, that's about 1.9 million tonnes.

Even though imports in South Africa went down (436 605 to 26 tons) on the second quarter of 2019, it is expected that the trend of imports increase may continue until farmers look for other alternatives- like access to better seed technology that is more resilient to changing climate; there are several high-quality wheat cultivars available on the world market, but they are very expensive and availability varies according to climate and economic conditions. However the good news are; South African

government supports wheat producers with technical advice, which includes cultivar choice, production site selection, soil preparation, cultivation practices, pest and disease control measures, harvesting, as well as post-harvest practices.

The producer deliveries of wheat in the second quarter of 2019 decreased massively from 45 341 tons to 832 tons compared to the same quarter in 2018. Local demand went down from 802 855 tons to 17 977 tons during the second quarter of 2019 compared to the same quarter in 2018; mean while exports also decreased from 43 357 tons to 84 tons compared to the second quarter of 2018. It has been noticed that, crops such as soya beans have become more popular than wheat, although farmers require more implements for such a system, see Figure 24.

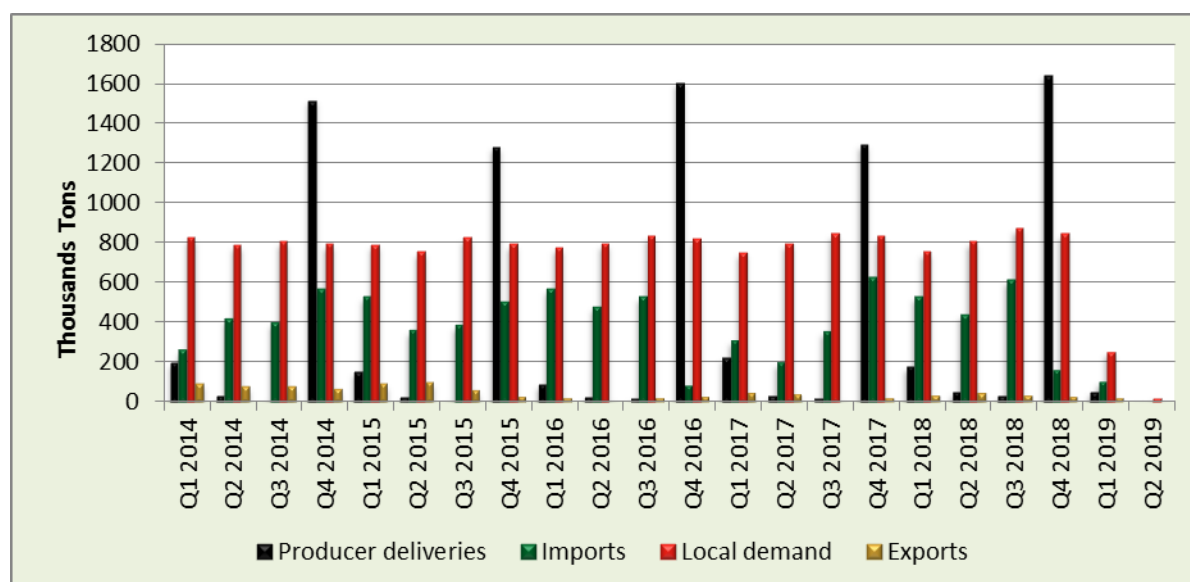


Figure 24: Wheat deliveries, Imports, Exports and local demand
Source: Stats SA & Safex

3.1.3 Soya beans

The price of soybeans during the second quarter of 2019 increased by 8% on a year-on-year basis, whilst on a quarter-on-quarter basis the price was 2.1% higher than it was during the previous quarter as shown on figure 25. The rise in prices could be attributed to the expected 24% decline in local soybeans production in 2019 compared to 2018 as well as the expected decline in World production due to declines in the US and Argentina.

Local soybean prices traded at 22% below the import price making imports expensive. The high import price is due to inter-alia; increased local transport and port charges. Local prices are still not competitive on the international level trading at 15% above the export price.



Figure 25: Soya beans local price vs import price
 Source: Safex/Sagis/USDA/World Bank

Table 1: Soya beans projections for 2017

Table 1 shows the expected decline in soybean production in 2019, which is expected to result in a 17% increase in imports as local demand continues to increase. Local demand is expected to increase by 4% compared to last year, whilst exports are expected to decline based on inter-alia high local and international prices.

Table 1: Soya beans projections for 2019

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|
| Beginning Stock | 225800 | 68639 | 61806 | 63704 | 89128 | 84792 | 330535 | 502 241 |
| Production | 650000 | 784500 | 948000 | 1 070 000 | 742 000 | 1 316 000 | 1 540 000 | 1 170 345 |
| Imports | 976 | 4489 | 103704 | 124981 | 271098 | 28000 | 6000 | 7000 |
| Total Supply | 876776 | 857628 | 1113510 | 1 258 685 | 1102226 | 1 428 792 | 1 876 535 | 1 679 586 |
| Local Consumption | 655278 | 780432 | 1049230 | 1164880 | 1010689 | 1063783 | 1 349 294 | 1418200 |
| Exports | 152616 | 15390 | 576 | 4677 | 6745 | 414 | 25000 | 4 000 |
| Total Demand | 807 894 | 795 822 | 1 049 806 | 1 169 557 | 1 017 434 | 1 098 257 | 1 374 294 | 1422200 |
| Closing Stocks | 68882 | 61806 | 63704 | 89128 | 84792 | 330 535 | 502 241 | 257 386 |

Source: DAFF/ NAMC/Sagis

3.1.4 Sunflower

During the second quarter of 2019, South Africa sunflower seed prices traded below the import parity price at R4894.98/ton compared to R5259.01/ton in the first quarter of 2019, which is a total decrease of 7.1% compared to the previous quarter. The price of sunflower seed has increased by 6% during the second quarter of 2019 as compared to the same period last year, which is 0.2% higher than it was in the previous quarter of 2019. The local sunflower seed price in the second quarter of 2019 traded at 21.3% lower than the import price, compared to trading at 13% below the import price in the first quarter of 2019. The prices of sunflower oil 2L in the second quarter 2019 traded higher by 7.4% and whilst the price of sunflower 750ml in the second quarter of 2019 traded 0.64% lower as compared to the same period in 2018. The price of sunflower oil 2L and 750ml in the second quarter of 2019 decreased by 0.5% and 3.3%, respectively, when compared to the previous quarter in the same year.. see figure 26.

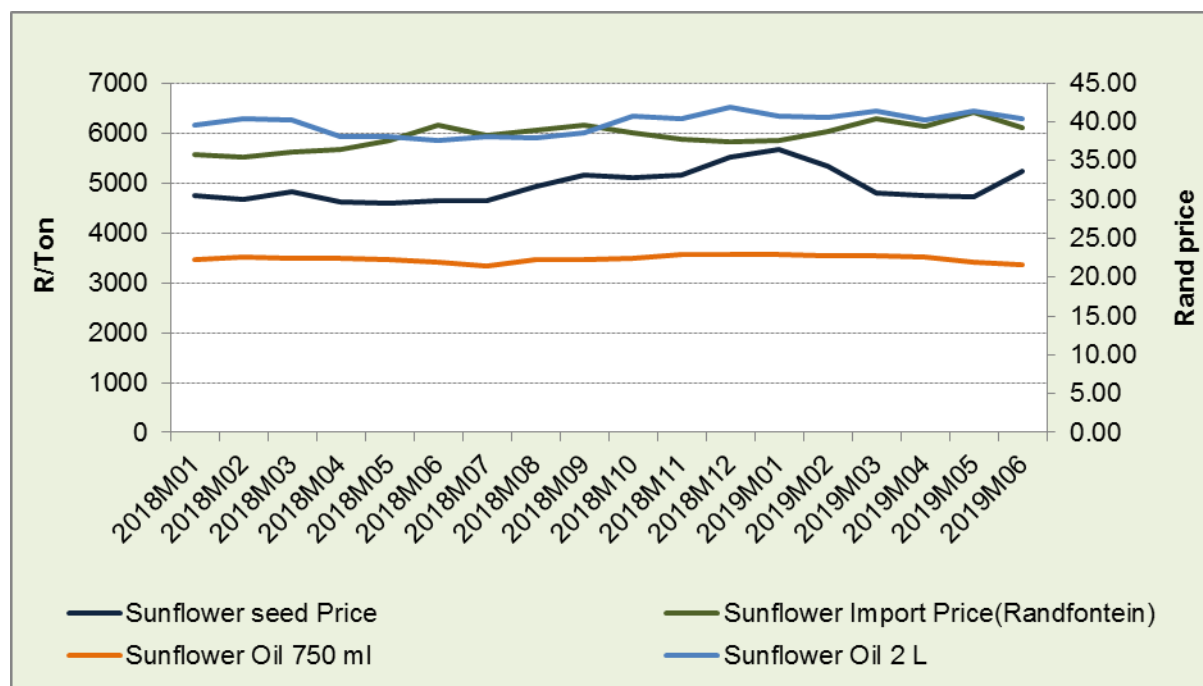


Figure 26: Sunflower local seed; import price (Randfontein) and Sunflower retail price
 Source: Safex; USDA; Sagis; and Own calculations

Figure 27 shows the supply and demand of sunflower seed up to the second quarter of 2019. Producer deliveries in the second quarter of 2019 decreased by 29% as compared to the previous quarter of 2019. South African sunflower seed imports decreased by 136.4% in the second quarter of 2019 as compared to the previous quarter for the same year. Sunflower seed exports also increased by 13.4% in the second quarter of 2019. Local sunflower seed consumption in the second quarter of 2019 was 33.9% lower than it was in the previous quarter of 2019. Local consumption in the second quarter of 2019 is expected to be 49.3% lower than it was in the same quarter of 2018,

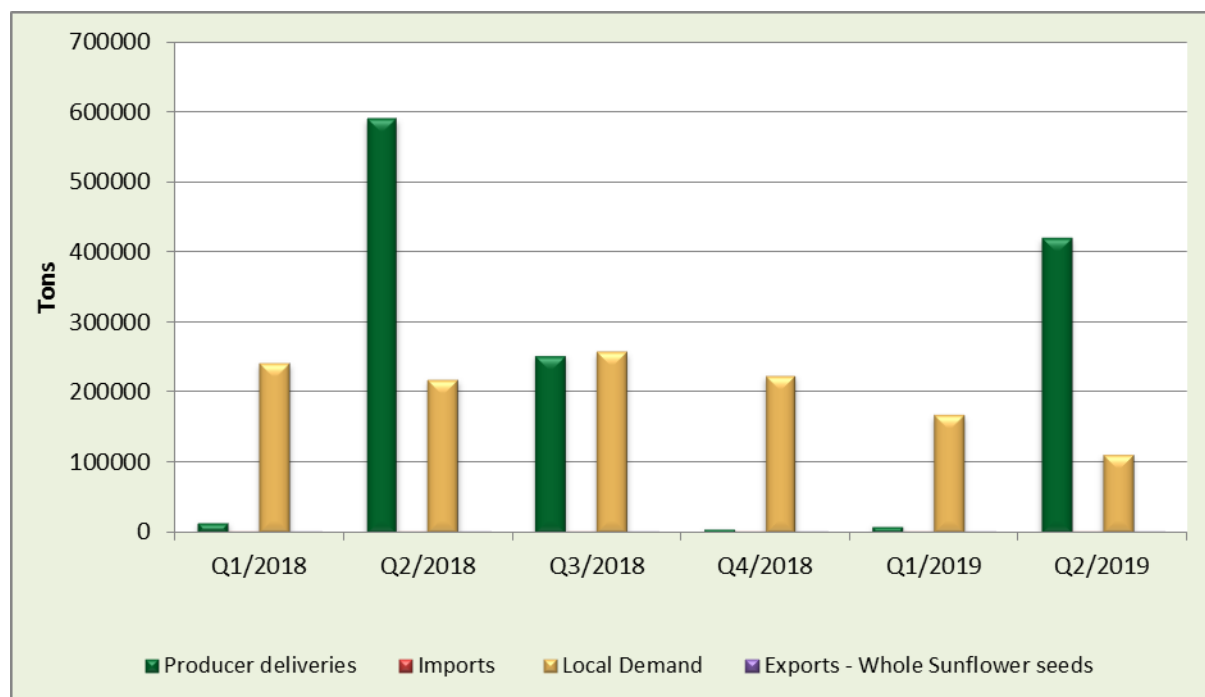


Figure 27: Sunflower seed deliveries, local demand and trade
 Source: Sagis

3.1.5 Sorghum

Local sorghum prices increased by 8% on a year-on-year basis ; whilst on a quarter-on-quarter basis prices decreased by 12%, See Figure 28. Earlier during the year prices were higher following lower production experienced in 2018 but currently prices are coming down due to the 28% expected rise in local production compared to 2018 as shown on table 2 below.



Figure 28: Sorghum Parity Price
Source: Safex, Sagis

Table 2: Sorghum production and use

Table 2 below shows world production has also been adjusted upward with production expected to be 0.2% higher in 2019 than it was in 2018. The local price traded at 6% below the import price whilst the price is still uncompetitive on the international level trading 47% above the export price. Sorghum exports are expected to be 24% lower in 2019 due to inter-alia; higher local prices. Sorghum imports are expected to increase by 24% to compensate for the lower local maize production expected in 2019.

Table 2: Soya beans projections for 2019

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------|--------|--------|--------|--------|--------|---------|--------|---------|
| Opening stock | 62500 | 56015 | 50069 | 121812 | 83142 | 35238 | 59246 | 51860 |
| Production | 135500 | 147200 | 265000 | 114700 | 70 500 | 152 000 | 115000 | 147 300 |
| Imports | 54800 | 50033 | 8725 | 34316 | 74957 | 55824 | 32500 | 40400 |
| Total Supply | 250300 | 251652 | 320301 | 277713 | 226677 | 244073 | 206746 | 239560 |
| Local demand | 175300 | 182033 | 172320 | 165532 | 178790 | 176000 | 166500 | 173950 |
| Exports | 19000 | 19550 | 26169 | 29039 | 12649 | 13800 | 12345 | 9000 |
| Total Demand | 194300 | 201583 | 198489 | 194571 | 191439 | 182783 | 173700 | 182950 |
| Ending Stock | 56000 | 50069 | 121812 | 83142 | 35238 | 59246 | 51 860 | 56610 |

Source: DAFF/ NAMC/Sagis

3.1.6 Groundnuts

Despite decent supplies in the world market, the local groundnut market has been volatile with only 20 050 hectares planted for the 2018/19 production season. The current area planted shows a 64.4% decrease in hectares planted compared with 56 300 hectares planted in 2018. According to BFAP (2019), the current area planted is 141 771 hectares below the 50 year average of 161 821 hectares for the period 1969 to 2018 and 42 248 hectares below the 20 year average of 62 248 hectares from 1999 to 2018. Over a ten year period, the current area planted is 30 402 hectares below the ten year average of 50 435 hectares, from 2009 to 2019. Consequently, this year's harvest will be different with an expected harvest of 18 880 tons, which will likely put upward pressure on prices which will be passed through to consumers.

Figure 29 shows producer deliveries, local demand of groundnuts and imports and exports of groundnuts from Q2:2018 to Q2:2019.

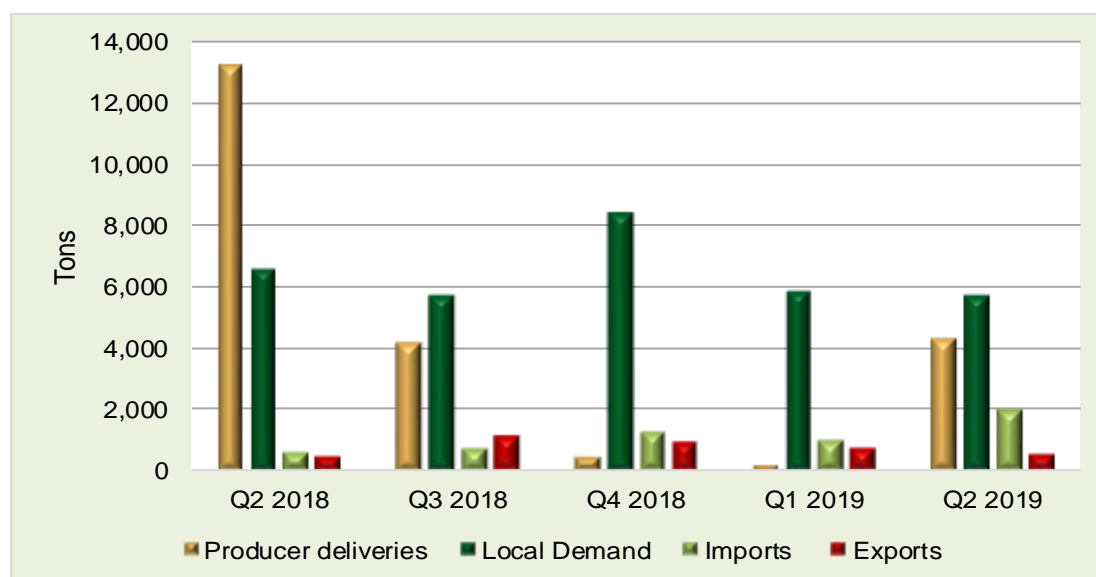


Figure 29: Supply and demand of Groundnuts
Source: Sagis

Producer deliveries of groundnuts decreased by 67% in Q2: 2019 compared to Q2:2018, due to drier weather conditions experienced at the start of planting season. On average, producers delivered 4 313 tons of groundnut in Q2: 2019 compared to 13 193 tons in Q2: 2018. Local demand of groundnuts decreased by 13% in Q2:

2019 compared to Q2: 2018, from an average of 6 560 tons of groundnuts in Q2: 2018 to an average of 5 729 tons in Q2: 2019, see figure 30.

Exports of groundnuts increased by 21% in Q2: 2019 compared to Q2: 2018, from an average of 455 tons in Q2: 2018 to an average of 550 tons in Q2: 2019. South Africa's groundnuts are popular in overseas markets which presents an opportunity for South Africa to cater for niche markets. Imports of groundnuts increased significantly in Q2: 2019 compared to Q2: 2018, from an average of 586 tons in Q2: 2018 to an average of 2 010 tons in Q2: 2019, see figure 30. South Africa imported more groundnuts in Q2: 2018 to satisfy consumption. Furthermore, lower-than-average rainfall in groundnut producing areas in 2017/18 affected production which was below the average long-term peanut production of 62 992 tons per annum.

South Africa's consumption of peanut butter is roughly 81 496 tons per annum and is mainly consumed in two forms, as edible peanuts and as processed peanut butter. During Q2: 2019, consumption levels of edible groundnuts increased by 9%, from an average of 2 524 tons in Q2: 2018 to an average of 2 754 tons in Q2: 2019. However, during the same period, peanut butter consumption levels decreased by 5% to an average of 2 508 tons in Q2: 2019, from an average of 2 636 tons in Q2: 2018. "Consumer sensitivity", which is indicative of the degree to which consumers are affected by the price of a product could have contributed to the decrease in peanut butter consumption in Q2: 2019. Meanwhile, consumption levels of crushed oil & cake decreased significantly in Q2: 2019 compared to Q2: 2018, to an average of 78 tons in Q2: 2019 from an average of 324 tons in Q2: 2018.

In Q2: 2019, the average market price of peanut butter (400 gram) increased by 4%, to R29,06 (400 gram), from R 28,05 (400 gram) in Q2: 2018. The lower 2018/19 harvest will likely put upward pressure on prices, which consequently, will likely be passed down to consumers (Agbiz, 2019).

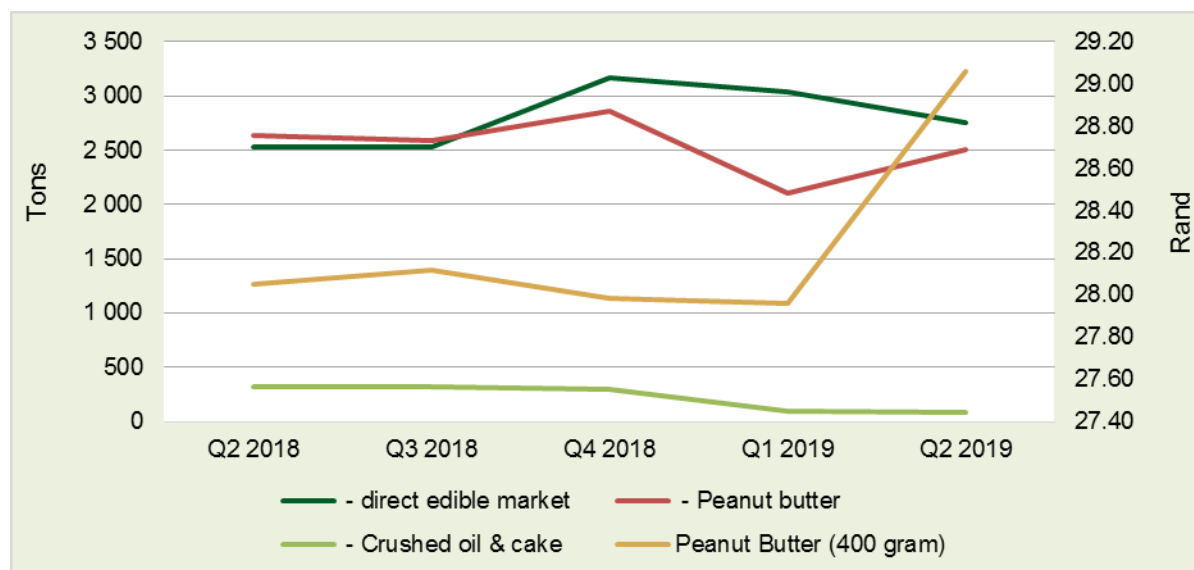


Figure 30: Groundnuts consumption
Source: Sagis

3.2 Fruit and vegetable market review

The following section looks at the average prices of fruits traded at the Fresh Produce Markets (FPMs) between Q2:2018 and Q2:2019.

Although the drought had a marked impact on the volume of summer and winter grains, horticultural production was stable with exports forecast to grow. Comparing the second quarter of 2018 with the second quarter of 2019, the average prices of apples, bananas, oranges, pears and grapes increased by 3%, 24%, 7%, 9% and 27% respectively year-on-year. During the same period, quantities of apples and pears increased by 4% and 9% respectively in the second quarter of 2019 with the second quarter of 2018 notwithstanding the increase in average prices while quantities of bananas, oranges and grapes decreased by 21%, 6% and 11% respectively year-on-year. see Figure 31

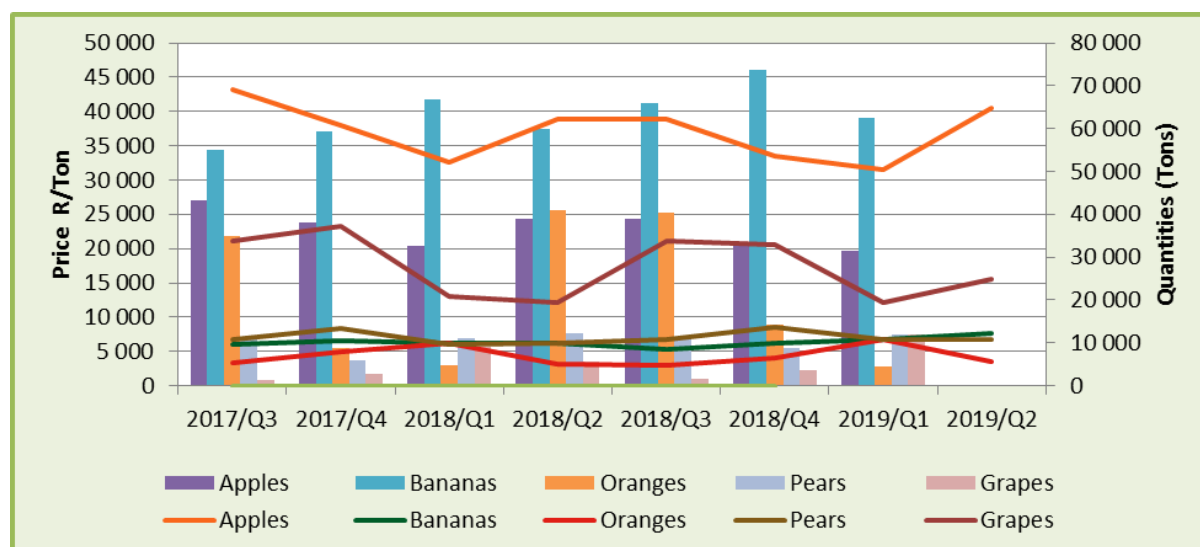


Figure 31: Average price and quantities trends of various fruits traded at fresh produce markets (FPMs)
Source: Daff

Figure 32 indicates that vegetable market remains driven by local demand. Comparing the second quarter of 2018 with the second quarter of 2019, the average prices of onions and cabbage increased by 7% and 22% respectively while the average prices of carrots and potatoes decreased by 7% and 1% respectively year-on-year. Onion volumes were lower in the second quarter of 2019 compared to the second quarter of 2018 which increased prices. Regarding cabbage, despite the higher volumes of cabbage in the second quarter of 2019 compared to the second quarter of 2018, cabbage prices were higher in the second quarter of 2019 amid extreme weather changes (Absa, 2019). Carrot prices decreased in the second quarter of 2019 compared to the second quarter of 2018 as a result of an expected increase in supply. Potato prices decreased marginally during the same period due to the reduced quality in the crop. Tomato average prices increased marginally in the second quarter of 2019 compared to the second quarter of 2018 as a result of shortage in volumes in the second quarter of 2019 due to humid temperatures in the northern region and hail in the Brits area (Absa, 2019).

Figure 32 also indicates quantities of onions, potatoes and tomatoes decreased by 5%, 2% and 5% respectively in the second quarter of 2019 compared to the second quarter of 2018. The debilitating drought resulted in most of SA's fruit growers opting for technologies that would use water efficiently as a means to practice responsible

farming however, the more still needs to be done in navigating the effects of the drought and mitigate against future iterations (Bizcommunity, 2019).

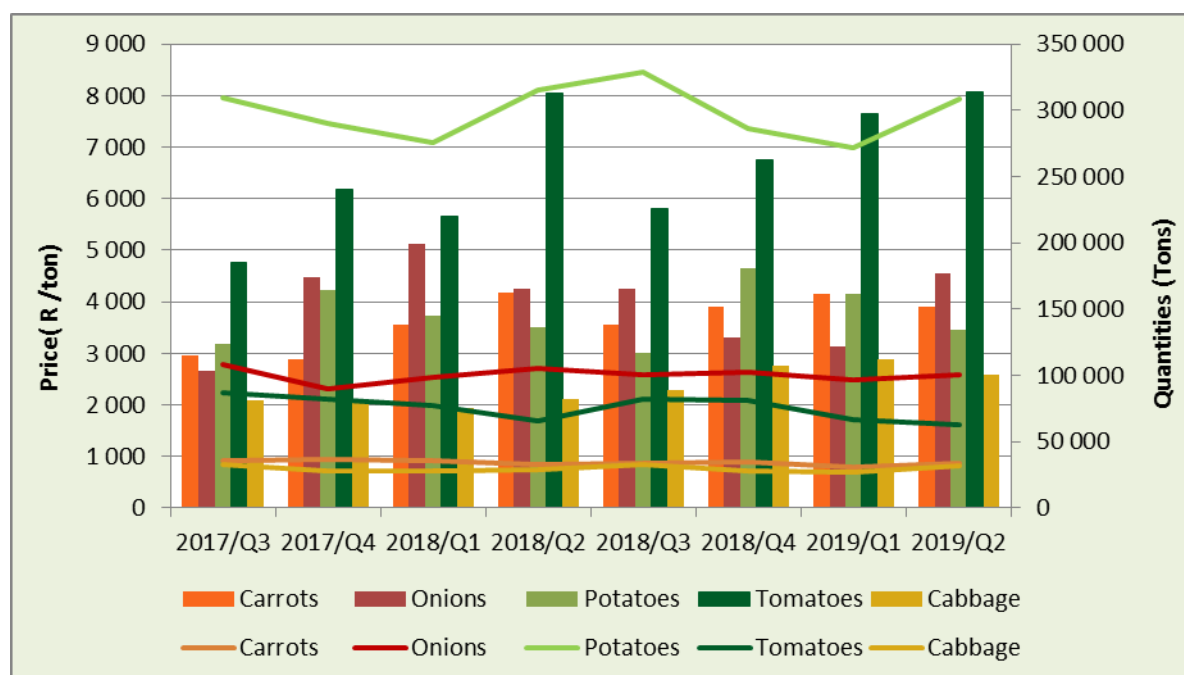


Figure 32: Average price and quantities of various vegetables traded at Fresh Produce Markets (FPMs)
Source: Daff

3.3 Meat industry review

According to BFAP (2019) baseline, over the course of the next 10 years, beef production is projected to increase by an annual average of 2.2%; this could be attributed to the Foot-and-Mouth Disease (FMD) outbreak- (in January 2019, Department of Agriculture Forestry and Fisheries confirmed that laboratory results have tested positive for Foot-and-Mouth disease (FMD) in cattle in the Vhembe District of Limpopo) and high feed costs (dryness occurred in areas producing grain and oilseed in the country led to delays in plantings thus leading to an increase in agricultural commodity prices), maize and soybeans are key inputs in the livestock sector. As illustrated graphically above in figure1, total beef slaughtering increased by 15.38% in second quarter of 2019 compared to the same quarter of 2018.

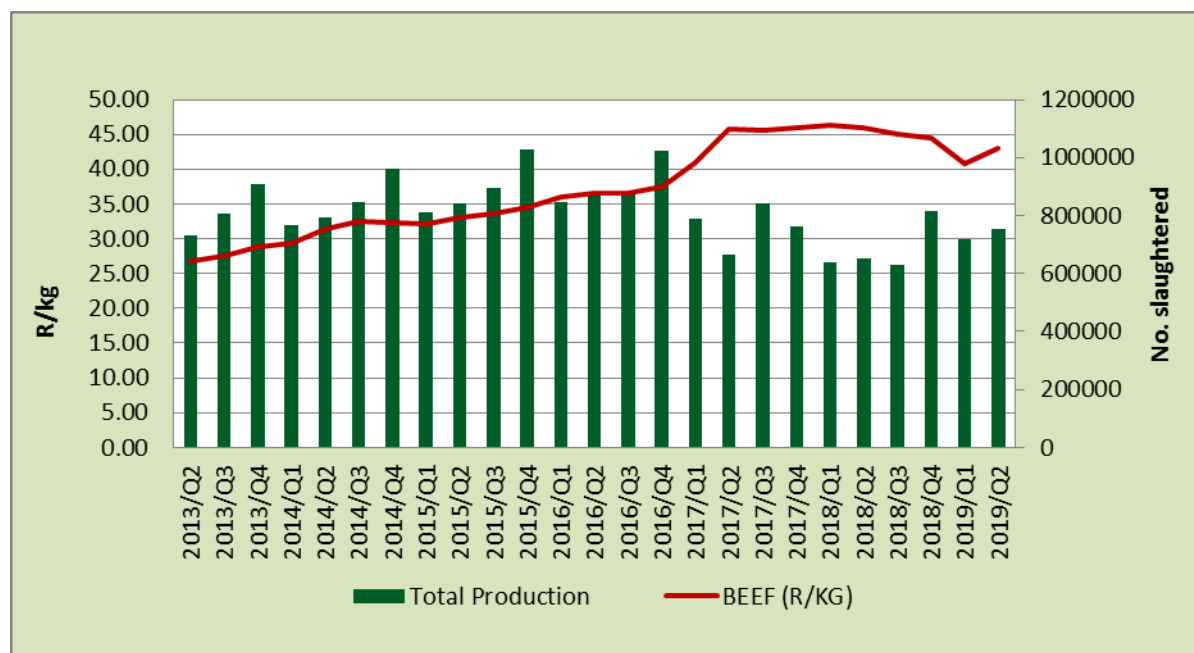


Figure 33: Beef production

Source, Daff 2019

3.4 Poultry industry review

Poultry production increased by 0.8% on a year-on-year basis whilst on a Second quarter (2018) -on- Second quarter(2019) basis production decreased by 2.2%. Poultry prices decreased by 5.6% on year-on year basis whilst on a quarter-on-quarter basis prices increased by 2.1%. During the same time feed costs increased by 24.4% on a year-on-year basis whilst decreasing by 0.1 on a quarter-on-quarter basis. see figure 34.

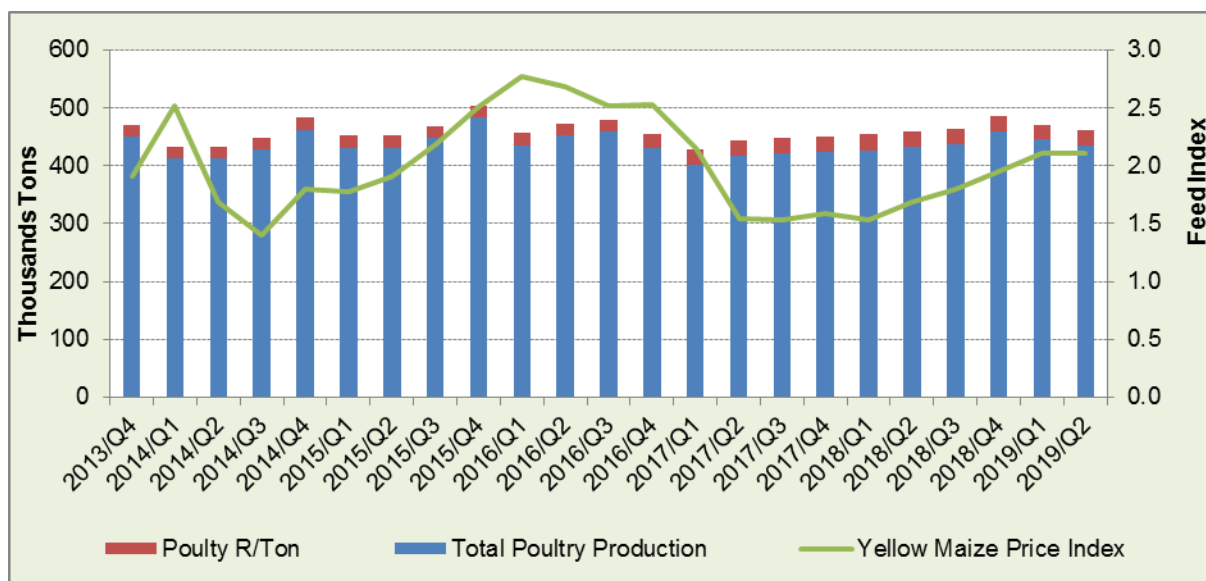


Figure 34: Poultry production

Source: DAFF

The retail price of whole fresh and chicken portions increased by 5.1% and 4.5% per kg respectively on a year-on-year basis. On a Second quarter (2018) on Second quarter (2019) basis prices were stable for fresh whole chicken per kg whilst they increased by 2.1% for a kg of chicken portions, see figure 35.

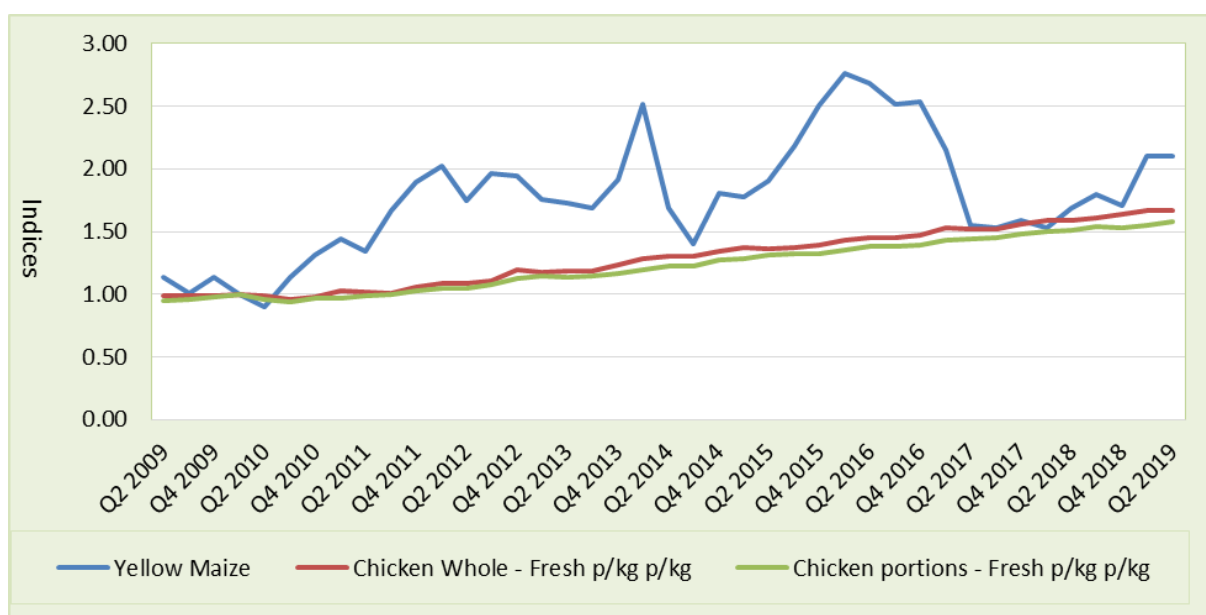


Figure 35: Poultry feed vs Retail prices

Source: SAPA, STATTSA & Safex

3.5 Milk industry overview

Total milk production came in 6.08% higher in Q2:2019 than in Q2:2018, increasing from 808 063 million litres in Q2:2018 to 857 154 million litres in Q2:2019. Between the two quarter milk production decreased by 3.39% from 887 215 million litres in Q1:2019 to 857 154 million litres in Q1:2019. The average producer price per litre of milk increased by 3.11% in Q2:2019, from R4.52/ℓ in Q2:2018 to R5/ℓ in Q2:2019. Comparing Q1:2019 and Q2:2019, the average price per litre of milk increased by 0.68% between the two quarters. Producer prices are indirectly linked to international product prices, depending on various factors such as the extent of openness of the dairy industry to international trade, the level of self-sufficiency in the dairy industry and the extent of regulation or deregulation in the industry, see figure 36 .

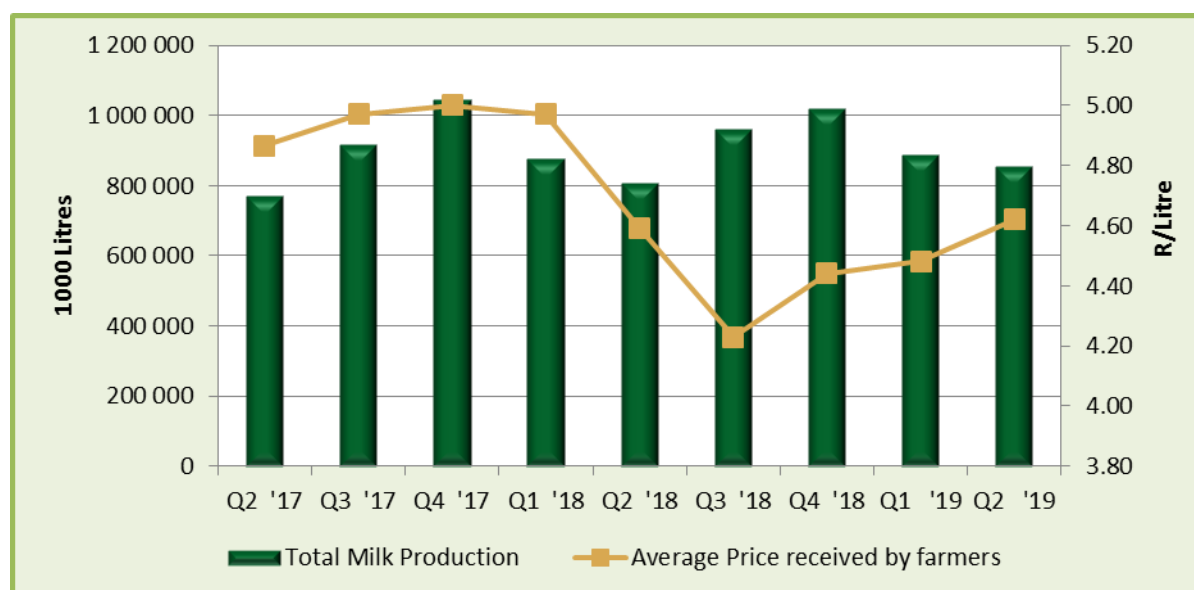


Figure 36: Trends in total production and average price of milk
Source: DAFF

Exports of milk and cream (neither concentrated nor containing added sweetening) decreased by 2% in Q2:2019 compared with Q2:2018, exporting a total of 175 399 493 million litres of milk and cream in Q2:2019 compared to 178 383 237 exported in Q2:2018. Between Q1:2019 and Q2:2019, exports of milk and cream (not concentrated or containing added sweetening) decreased by 7%, from 184 385 982 million litres in Q1:2019 to 175 399 493 million litres in Q2: 2019.

Imports of milk and cream increased by 49% in Q2:2019, importing 67 695 174 million litres in Q2:2019 from 45 347 089 million litres in Q2:2018, This is mainly due to reduced imports of UHT milk due to high levels of milk production in SA and accelerated the depreciation in the value of the rand. When comparing Q1:2019 with Q2:2019, imports of milk and cream decreased by 25%, from 2 626 866 million litres in the Q1:2019 to 67 695 174 million litres in Q2:2019.

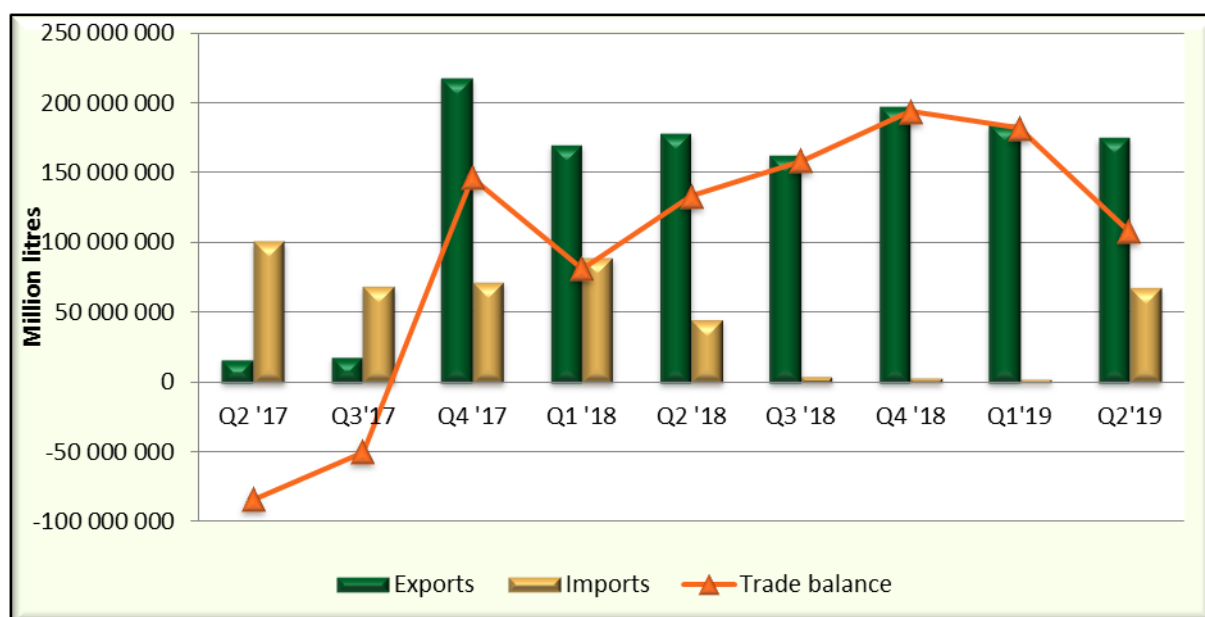


Figure 37: Trends in imports and exports of milk and cream, not concentrated nor containing added sweetening
Source: GTA, 2018

3.6 Trade of agricultural, forestry and fisheries

South Africa's agricultural trade balance narrowed by 22.9% in Q2: 2019 compared to Q2: 2018, from R13,9 billion to R10,16 billion, underpinned by lower export volumes of edible fruits, wine and grains. On a quarter-on-quarter basis, South Africa's agricultural trade balance improved by 6% in Q2: 2019 compared with Q1: 2019. Overall, according to Agbiz (2019), South Africa's agricultural trade balance is expected to narrow this year, due to animal health and the impact of unfavourable weather conditions. However, despite it narrowing, South Africa's agricultural trade balance is expected to remain in positive territory.

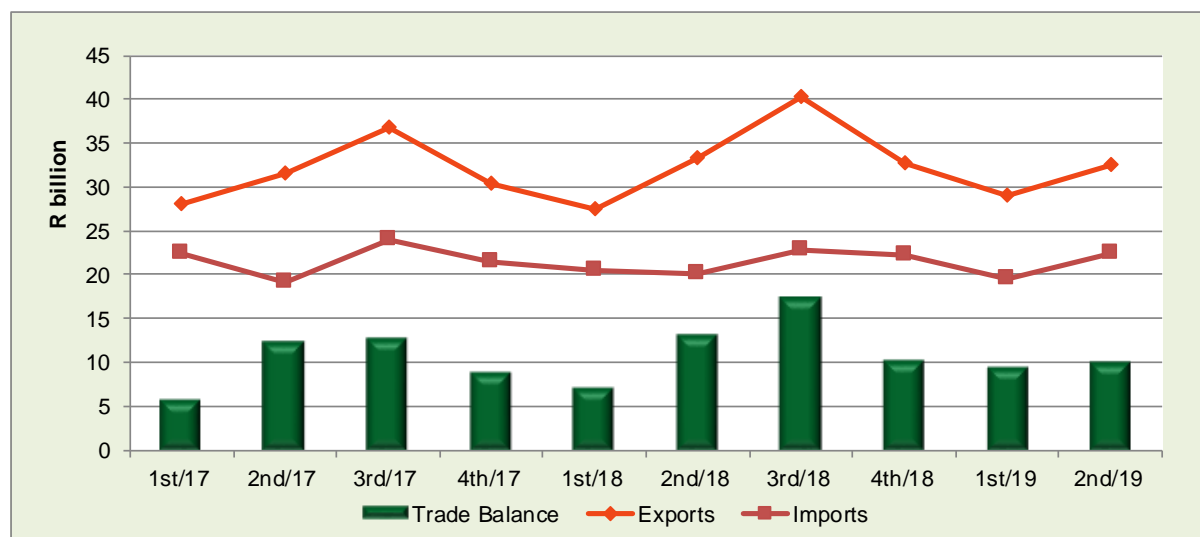


Figure 38: Trade balance of agricultural products
Source: GTA, 2019

Table 3 indicates that South Africa gained most of its agricultural export revenue from products exported to Netherlands, which was the leading export destination followed by Namibia and Botswana. SA’s top three suppliers of agricultural products in Q2: 2019 include Germany, Brazil and Thailand.

Table 3: SA’s top three largest export and import destinations of agricultural products in the 2nd Quarter of 2019.

| Top three markets of agricultural products exported by SA | Value (Billion Rands) 2 nd Quarter 2019 | % Share of total agricultural exports in 2 nd Quarter 2019 | Top three suppliers of agricultural products to SA | Value (Billion Rands) 2 nd Quarter 2019 | % Share of total agricultural imports in 2 nd Quarter 2019 |
|-----------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------|
| Total | R 35,52 | 100 | | R 22,36 | 100 |
| Netherlands | R 2,48 | 7.6 | Argentina | R 1,73 | 7.7 |
| Namibia | R 2,38 | 7.3 | United States | R 1,67 | 7.4 |
| Botswana | R 2,28 | 7.0 | Namibia | R 1,31 | 5.8 |

Source: GTA, 2019

Table 3 indicates that South Africa gained most of its agricultural export revenue from products exported to Netherlands, which was the leading export destination followed by United Kingdom and Botswana. SA's top three suppliers of agricultural products in Q1: 2019 include Argentina, United States and Namibia.

Figure 41 indicates that SA's leading supplier of wheat in Q2: 2019 was Germany while SA's leading supplier of rice in Q2: 2019 was Thailand. SA's leading supplier of frozen chicken cuts and edible offal (including livers) was Brazil while SA's suppliers leading supplier of palm oil and beer made from malt were from other countries other than the top three suppliers of agricultural products in Q2: 2019.

Figure 42 indicates that SA's leading export destination for fresh apples in Q2: 2019 was the Netherlands followed by Malaysia. SA's leading export destination for lemon and limes (fresh or dried) as well as grapefruit (fresh or dried) in Q2: 2019 was the Netherlands. SA's leading export destination for wine and fresh oranges in Q2: 2019 was United Kingdom and China respectively.

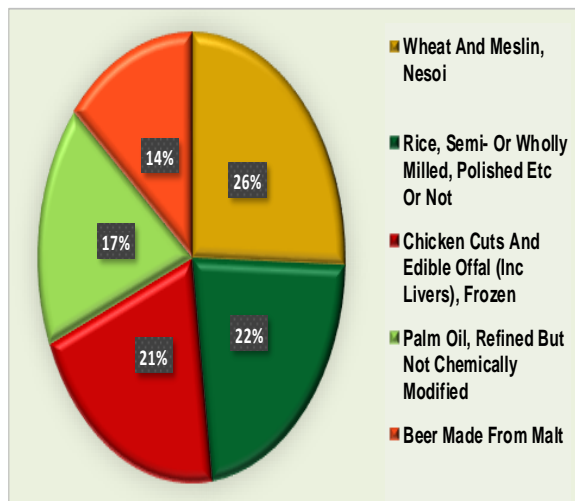


Figure 39: Top five agricultural products imported by SA

Source: GTA, 2019

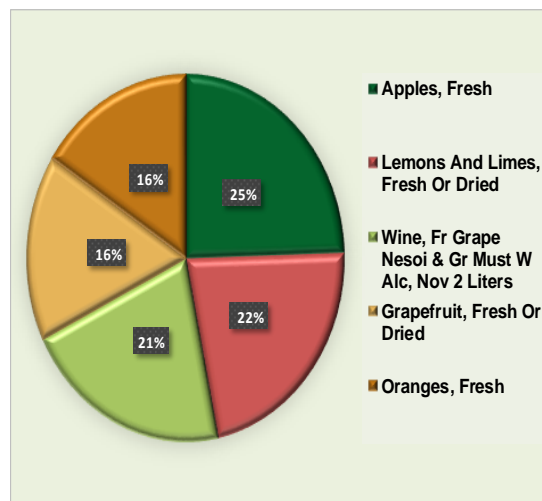


Figure 40: Top five agricultural exported products

Source: GTA, 2019

4. CONCLUSION

World Economic Outlook (WEO) indicates that Global growth is projected at 3.2% in 2019, improving to 3.5% in 2020. Real GDP growth Rates, 2019 (Q2) in the advanced economies of the following countries: Canada, France, Italy, Japan and United States expanded by 0.9%, 0.3%, 0.1%, 0.3% and 0.5%, respectively, whilst Germany and United Kingdom decreased by 0.1% and 0.2% respectively, when compared to 2018 (Q2). In the emerging markets and developing economies, 2019 (Q2) Real GDP growth rates increased in the following countries: Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia increased by 0.4%, 6.2%, 5%, 5.05%, 4.9%, 5.5%, 3.1%, 1.94% and 0.9% respectively, whilst when compared to the second quarter of 2018.

The primary sector, mainly agriculture, forestry and fisheries; sector reported an improved negative growth of 4.2% in the second quarter of 2019 from a revised negative growth of 16.8% reported in the first quarter of 2019; largely owing to poor field crop harvest, as a result of droughts earlier this year. GDP growth 2019: Q2 is attributed to the positive impact of reduced power cuts in mining and manufacturing. Africa's economy grew by 3.1% in the second quarter of 2019 from a negative growth of 3.1% in the first quarter of 2019.

Headline CPI for the second quarter 2019 was 4.5%. When compared with the same period last year headline cpi remained unchanged at 4.5%. Food inflation for the second quarter of 2019 was 2.78% which shows a decrease of 0.52% from 3.3% of the second quarter of 2018. South Africa's agricultural trade balance is expected to narrow this year, due to animal health and the impact of unfavourable weather conditions. South Africa's agricultural trade balance narrowed by 22.9% in Q2: 2019 compared to Q2: 2018, from R13,9 billion to R10,16 billion, underpinned by lower export volumes of edible fruits, wine and grains. On a quarter-on-quarter basis, South Africa's agricultural trade balance improved by 6% in Q2: 2019 compared with Q1: 2019

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