



Quarterly Economic Overview

OF THE AGRICULTURE, FORESTRY AND FISHERIES 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 the third quarter of 2017, 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 : The third-quarter print marked the strongest growth in nearly four past years, according to the revised estimates by Focus Economics global economy expanded 3.3% annually in Q3, overshooting the 3.2% growth in Q2, . Quarterly Real GDP growth Rates, 2017 (Q3) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States increased by 0.4%, 0.5%, 0.8%, 0.4%, 0.3%, 0.4% and 0.8% respectively, as compared to 2016 (Q3). In the emerging markets and developing economies, 2017 (Q3) the Quarterly Real GDP growth rates increased in the following countries, Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia by 1.4%, 6.8%, 6.3%, 5.1%, 6.2%, 6.9%, 2%, 1.4% and 1.8% respectively, as compared to the (Q3) of 2016.

Global grain supply forecast: The global grain supply forecast indicates a total grain increase of 1.4%, from 3135.4 million metric tons in 2016 (Q3) to 3180.3 million metric tons in 2017 (Q3). Global supply projections for 2017 (Q3) of wheat, coarse grains, rice milled, oil seeds, oil meals and vegetable oils increased by 1.5%, 1.2%, 1.9%, 9.4%, 5.3% and 3.6% respectively. Whereas cotton decreased by 18.1%, as compared to (Q3) of 2016.

South Africa GDP: Statistics South Africa (Stats SA) indicated that South Africa's real gross domestic product (measured by production) increased by 2.0% in the third quarter of 2017 from a revised growth rate of 2.8% reported in the second quarter of 2017. Agriculture, Forestry and Fisheries industry was the largest contributor to GDP growth for the second quarter in a row. The industry increased by 44.2% and contributed 0.9% to the GDP in (Q3) of 2017.

Inflation: The annual average headline CPI for the third quarter of 2017 was estimated at 4.8% which is also lower compared to 5.3% in the third quarter of 2017.

On the other hand; annual average consumer price inflation for food for the same period was estimated at 6.8%. The consumer price index for food decreased by 5.45% while headline CPI increased by 6.17% month-on-month in September 2017. The decline in CPI for food is a huge relief to consumers at large.

Employment: unemployment rate in South Africa was stable at 27.7% for the third quarter, although still at record high levels last seen in 2003.. The results of the Quarterly Labour Force Survey (QLFS) indicated that employment in 2017: Q3 showed a growth of 92 000 in employment, but the number was offset by 33 000 extra job seekers during the period. The biggest contributors to job growth were in the finance and other business sectors (68 000) and the community, social and personal services sectors (56 000). However, altogether 105 000 jobs were shed in the manufacturing, construction and agriculture sectors.

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 review**

Trade: South Africa's overall agricultural trade balance grew by 14.8% in Q3:2017 compared with Q3:2016. The export value of agricultural products increased by 3.0% in Q3:2017, from R 35,80 billion in Q3:2016 to R 36,87 billion in Q3:2017. While the import value of agricultural products decreased by 2.4%, from R24,60 billion in Q3:2016 to R24,01 billion in Q3:2017.

1 GLOBAL OVERVIEW OF THE AGRICULTURE, FORESTRY AND FISHERIES ECONOMY

1.1 Global Real GDP Growth Rates

The global economy expanded 3.3% annually in Q3, overshooting the 3.2% growth in Q2, according to the revised estimates by Focus Economics. Analysts expect the global economy to grow 3.2% in 2018, which is unchanged from last month's projection. The International Monetary Fund (IMF) believes that the latest improvement in global growth is mostly due to cyclical factors that might fade in coming quarters if the stimulus from economic policy is reversed. However, the IMF acknowledges that the underlying growth rate in the advanced economies may have improved in the past 2 years, reversing a small part of the disappointments seen in the supply side of the world economy since the Great Financial Crash (GFC). Economic momentum is largely holding up in the world's largest economies, the effects of which are reverberating across the globe. The global economy is benefiting from a combination of loose financial conditions, more supportive fiscal policies in some key countries following years of harsh fiscal consolidation, low inflation and strong global trade.

The third-quarter print marked the strongest growth in nearly four years. Quarterly Real GDP growth Rates, 2017 (Q3) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States increased by 0.4%, 0.5%, 0.8%, 0.4%, 0.3%, 0.4% and 0.8% respectively, as compared to 2016 (Q3). See figure 1 below.

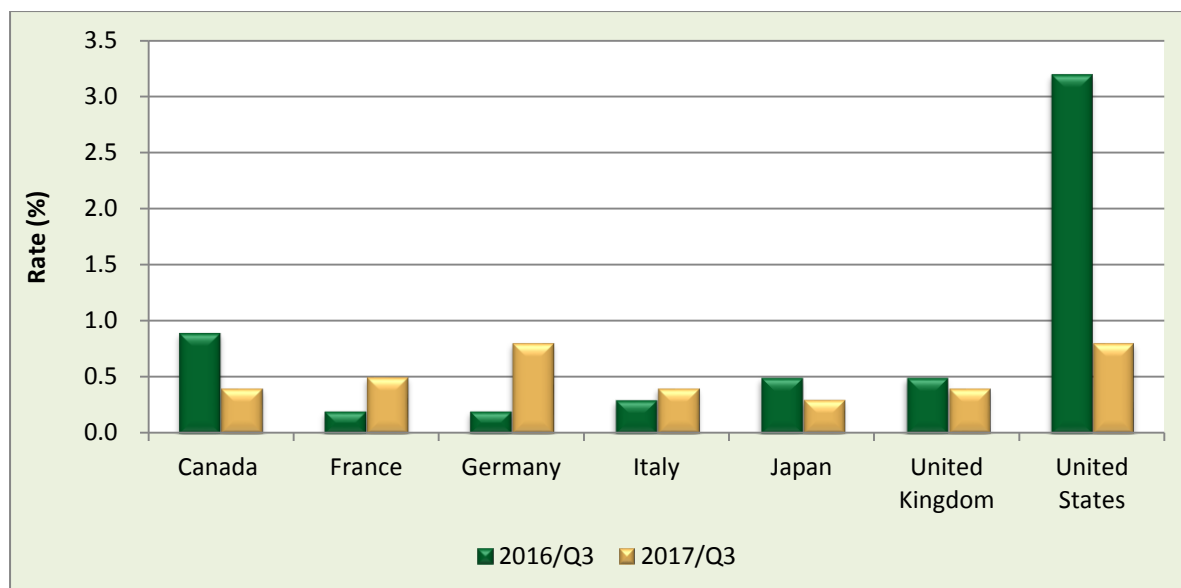


Figure 1: Advanced Economies Quarterly GDP Growth Rates
 Source: Various Sources

The global economy will continue to benefit from loose financial conditions and supportive fiscal policies next year. The strengthening is expected to be broad-based and extend to both developed and emerging economies. Among developing nations, an improved economic outlook for India and resilient growth projections for China continue to shore up panelists' view on the Asia (ex-Japan) region. Eastern Europe recovers in a sweet spot as Russia's economy, while the Euro area is firing on all cylinders. Although higher commodity prices are supporting the outlook for the Middle East and North Africa economies, ongoing political unrest is putting a dent in any sharp economic improvement.

Sub-Saharan Africa's economic outlook remains jeopardized by security threats and domestic imbalances. Figure 2, Indicates that in the emerging markets and developing economies, 2017 (Q3) the Quarterly Real GDP growth rates increased in the following countries, Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia by 1.4%, 6.8%, 6.3%, 5.1%, 6.2%, 6.9%, 2%, 1.4% and 1.8% respectively, as compared to the (Q3) of 2016, see figures 2.

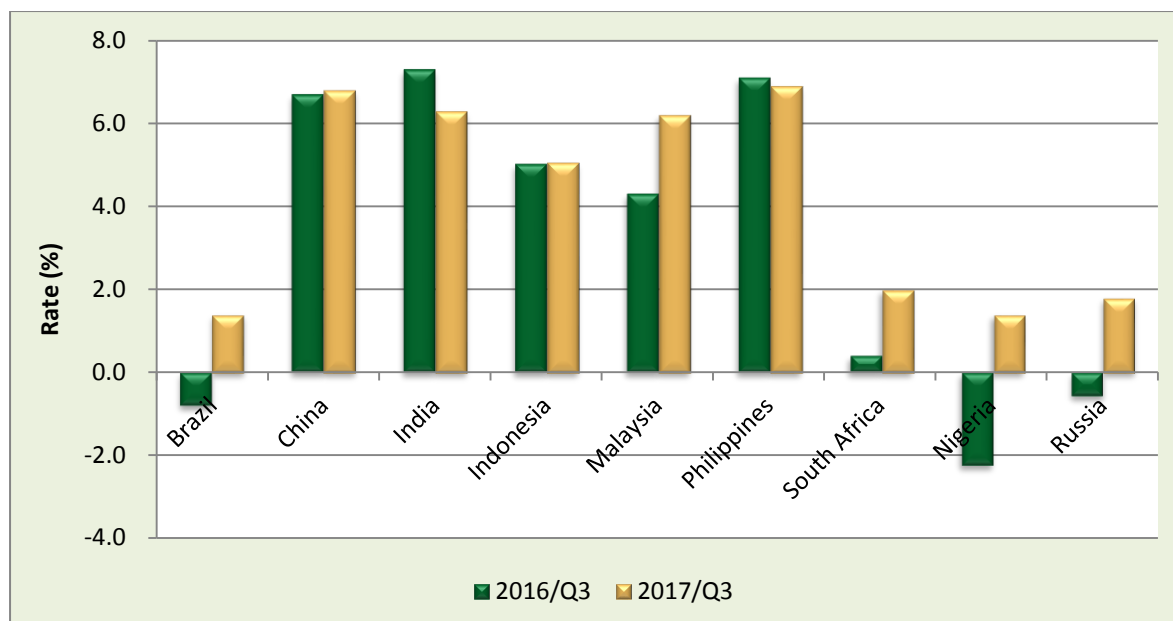


Figure 2: Emerging Markets and Developing Economies Quarterly GDP Growth Rates
Source: Various Sources

1.2 Global Grain Forecast

According to a new report from Technavio, the global whole grain foods market is expected to grow at a compound annual growth rate of 6.71% from 2017-2021. The report finds that sprouted grains are an especially popular trend, and suggests that one of the major drivers for this market growth is the significance of the health benefits of whole grain foods. The report warns that identifying whole grain foods may be a challenge for the market all the more reason for makers of whole grain foods to utilize the Whole Grain Stamp. The global grain supply forecast indicates a total grain increase of 1.4%, from 3135.4 million metric tons in 2016 (Q3) to 3180.3 million metric tons in 2017 (Q3). Global supply projections for 2017 (Q3) of wheat, coarse grains, rice milled, oil seeds, oil meals and vegetable oils increased by 1.5%, 1.2%, 1.9%, 9.4%, 5.3% and 3.6% respectively. Whereas cotton decreased by 18.1%, as compared to (Q3) of 2016, see figure 3.

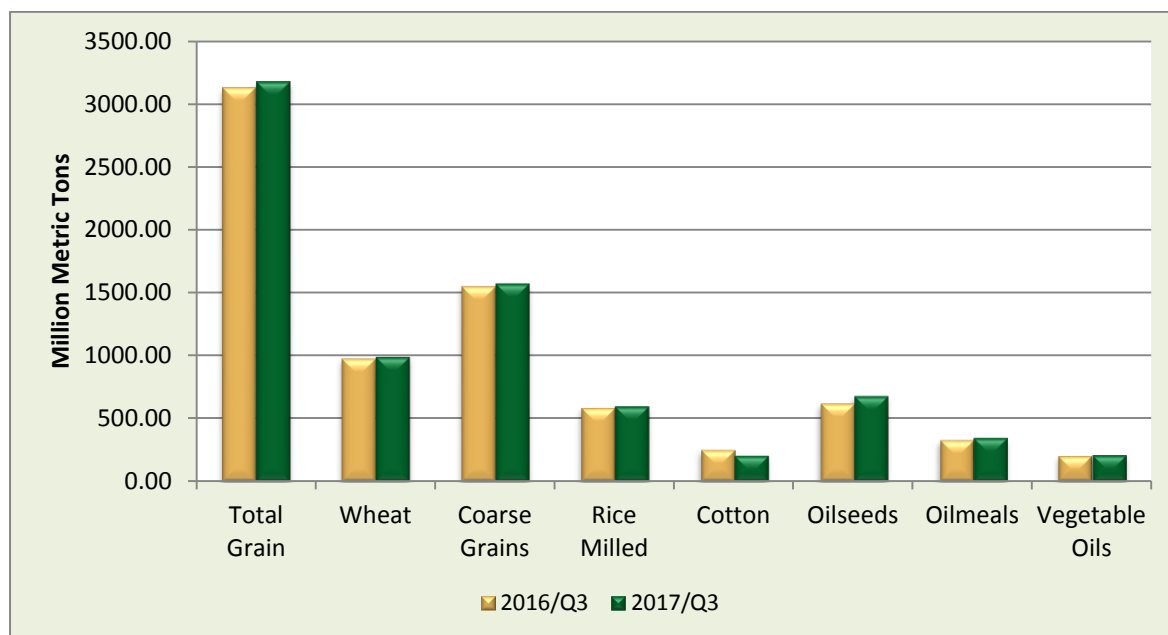


Figure 3: Quarterly global grain supply forecast
Source: USDA

1.3 Global Food Prices

According to the Food and Agriculture Organisation’s (FAO, 2017) latest bulletin for third quarter (Q3) report, it highlights that the FAO Food Price Index (FFPI) averaged 175.8 points in November 2017, down fractionally (0.5 percent) from October but still almost 4 points (2.3 percent) above the corresponding period last year. A sharp rise in sugar and vegetable oil quotations was largely offset by a fall in dairy values while international prices of cereals and meat products remained relatively muted. The Cereal price index averaged 153.1 points in November, nearly unchanged from October but up almost 12 points (8.3 percent) from November 2016. The Index has remained largely steady since August, generally reflecting an overall balanced supply and demand situation, especially with regard to wheat and maize markets. The vegetable Oil price index averaged 172.2 points in November, up 2.1 points (or 1.2 percent) from October and marking a 9-month high.

The dairy price index averaged 204.2 points in November, down 10.6 points (4.9 percent) from October, representing the second consecutive month of a sharp decline. However, the index is still 9.6 percent higher than November 2016. The meat price index averaged 173.2 points in November, almost unchanged from its slightly revised October value. The sugar price index averaged 212.7 points in

November, up 9.2 points (4.5 percent) from October but still as much as 26 percent below the corresponding month last year. International sugar prices rose in November, mostly supported by a drop in exports from Brazil and concerns over firmer oil prices encouraging greater switch of cane crush to produce ethanol than sugar. Globally in 2017 (Q3) some major countries were paying more by 6.9% on food purchases compared to 2016 (Q3). The following global food products price indices in 2017 (Q3), meat, dairy and cereals reflect a steady increase by 6.5%, 39.7% and 8%. Whilst price for oil and sugar indices declined by 0.3% and 29.2%, respectively, as compared to (Q3) of 2016, see figure 4.

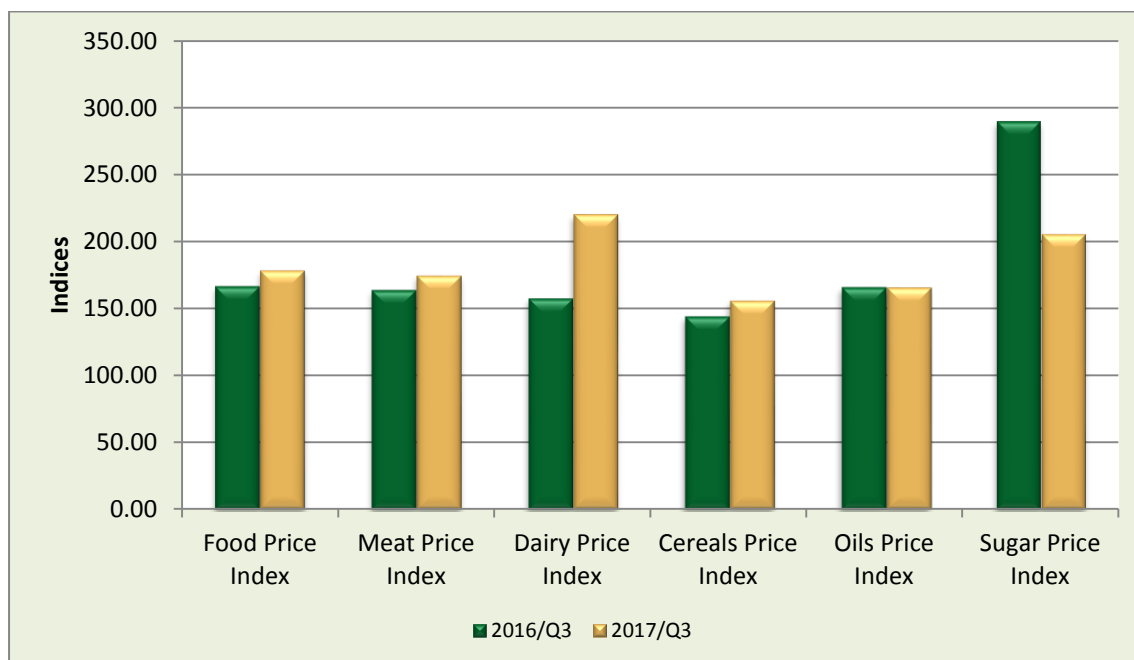


Figure 4: Quarterly global food price indices
Data Source: FAO

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

2.1 Growth

The latest economic data for the third quarter of 2017 paint a bright picture for the country, especially for the agricultural sector which experienced drought in the previous seasons. The data released by Statistics South Africa (Stats SA) indicated that South Africa's real gross domestic product (measured by production) increased by 2.0% in the third quarter of 2017 from a revised growth rate of 2.8% reported in the second quarter of 2017. Agriculture, Forestry and Fisheries industry was the largest contributor to GDP growth for the second quarter in a row. The industry increased by 33.6% and contributed 0.7% to the GDP growth in the second quarter of 2017. During the third quarter of 2017, the industry increased by 44.2% and contributed 0.9% to the GDP. The growth in the industry is attributed to the increase in the production of field crops and horticulture products amongst others due to good rainy season, see figure 6. However, there is a lot that still needs to be done for the country to address social ill such as unemployment, which is currently hovering at 27.1% in the third quarter of 2017. The agriculture sector alone has shed approximately 71 000 jobs between the third quarter of 2016 and third quarter of 2017. The mining and quarrying industry was the second contributor to GDP growth. Mining and quarrying increased by 6.6% and contributed 0.5% to the GDP. The Statistics South Africa reported that growth in mining and quarrying industry is largely due to higher production of coal, gold and other mining and quarrying including diamonds.

In the secondary sector, the manufacturing industry recorded a significant increase of 4.3%, while the electricity, gas and water industry; and the construction industry decreased by 5.5% and 1.1% respectively in the third quarter of 2017. Stats SA report cited that decreased activities in residential and non-residential buildings and construction works contributed to a lower contribution to GDP. Similarly, low electricity consumption and produced and water availability for distribution contributed to decreased contribution to GDP by the electricity, gas and water industry. In the tertiary sector; trade, catering and accommodation industry

decreased by 0.4% while the transport, storage and communication industry increased by 0.6%. In general, the tertiary sector and the secondary sector recorded smaller growth of 2.1% and 0.3% respectively during the third quarter of 2017 while the primary sector recorded the highest growth of 14.9%.

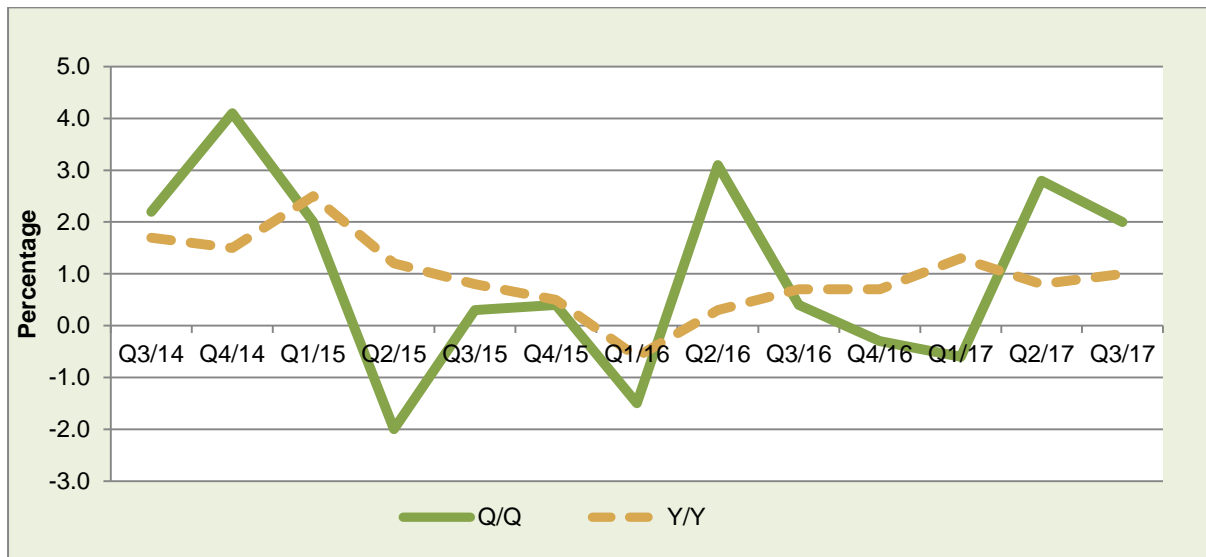


Figure 5: Domestic Real GDP Growth
Source: Stats SA

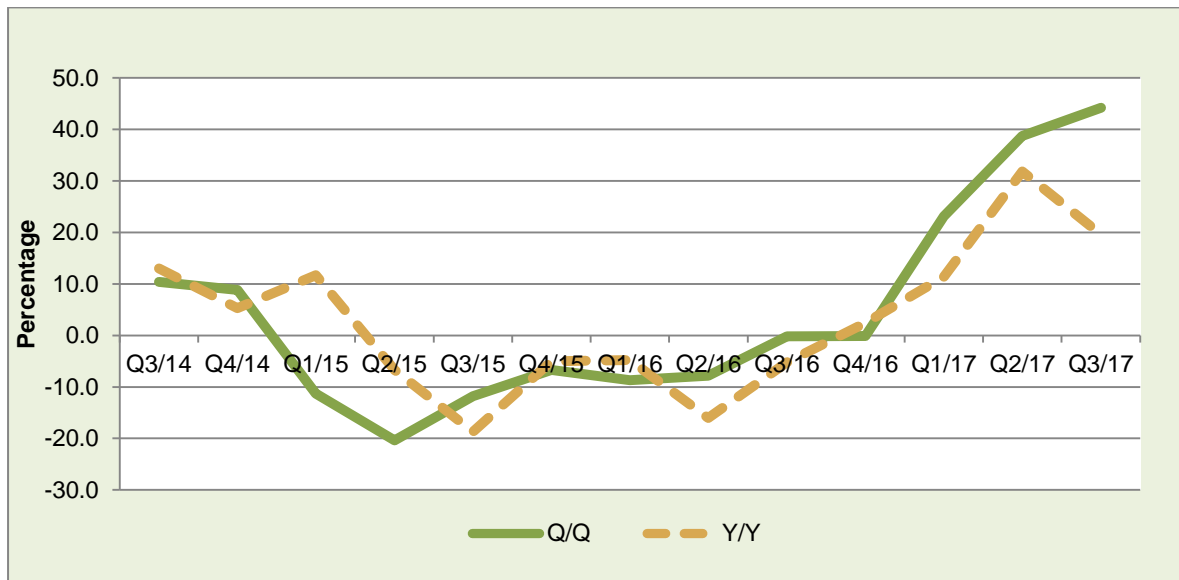


Figure 6: Agriculture, forestry and fishing sector growth rates
Source: Stats SA

2.2 Inflation

Figure 7 illustrates South Africa’s annual headline CPI and the food inflation from the third 2015 to the third quarter of 2017. The figure shows that food inflation was generally higher when compared to headline CPI since the fourth quarter of 2015. This implies that consumers pay more for a basket of food compared to what they pay for general services. However; towards the third quarter of 2017 food inflation was slightly in-line with headline CPI. The annual average headline CPI for the third quarter of 2017 was estimated at 4.8% which is also lower compared to 5.3% in the third quarter of 2017. On the other hand; annual average consumer price inflation for food for the same period was estimated at 6.8%. The consumer price index for food decreased by 5.45% while and headline CPI increased by 6.17% month-on-month in September 2017. The decline in CPI for food is a huge relief to consumers at large.

The annual consumer price inflation was 5.1% in September 2017 which is has increased by 0.5% month-on-month in September 2017. The main contributors to the headline annual consumer price inflation are housing and utilities which increased from 1.1% in August to 1.2% in September 2017. Transport and miscellaneous goods and services increased by 0.6% and 1.1% respectively, and contributed 1.2% and 0.8% month-on-month in September 2017 respectively, while food and non-alcoholic beverages decreased from 1% in August to 0.9% in September 2017.

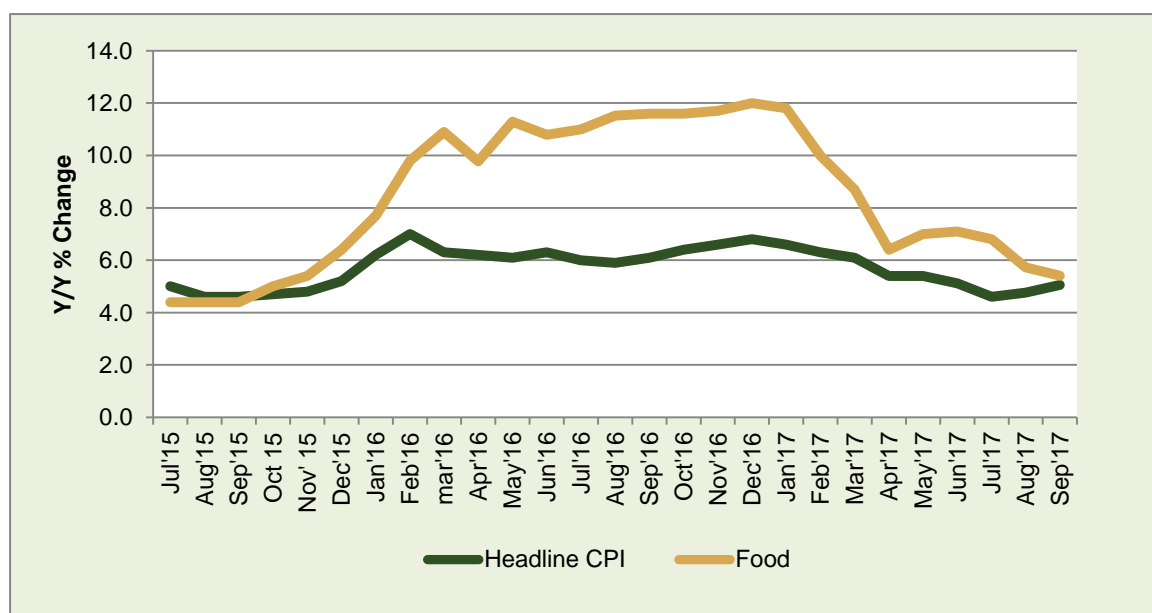


Figure 7: SA headline CPI and CPI for food

Source: Stats SA

Figure 8 illustrates consumer trends of selected food items from the third quarter of 2015 to the third quarter of 2017. From the figure, it can be observed that CPI for all selected food items was on a downward trend except CPI for meat. Consumers generally benefit from a lower CPI. The annual average CPI for food over 12 month's period (Sep 2016-Sep 2017) is estimated at 8.9% while the CPI for food in September 2017 is estimated at 5.4%. Amongst the selected food items, CPI for meat was the most expensive, followed fish; and milk, eggs & cheese with averages of 15%, 4.4%, and 3% respectively in September 2017.

The least expensive were bread and cereals; and vegetables with CPI of -0.7% and -1.1 while oils and fats; and fruit where the cheapest with CPI of -3.3% and -3.4% in September 2017.

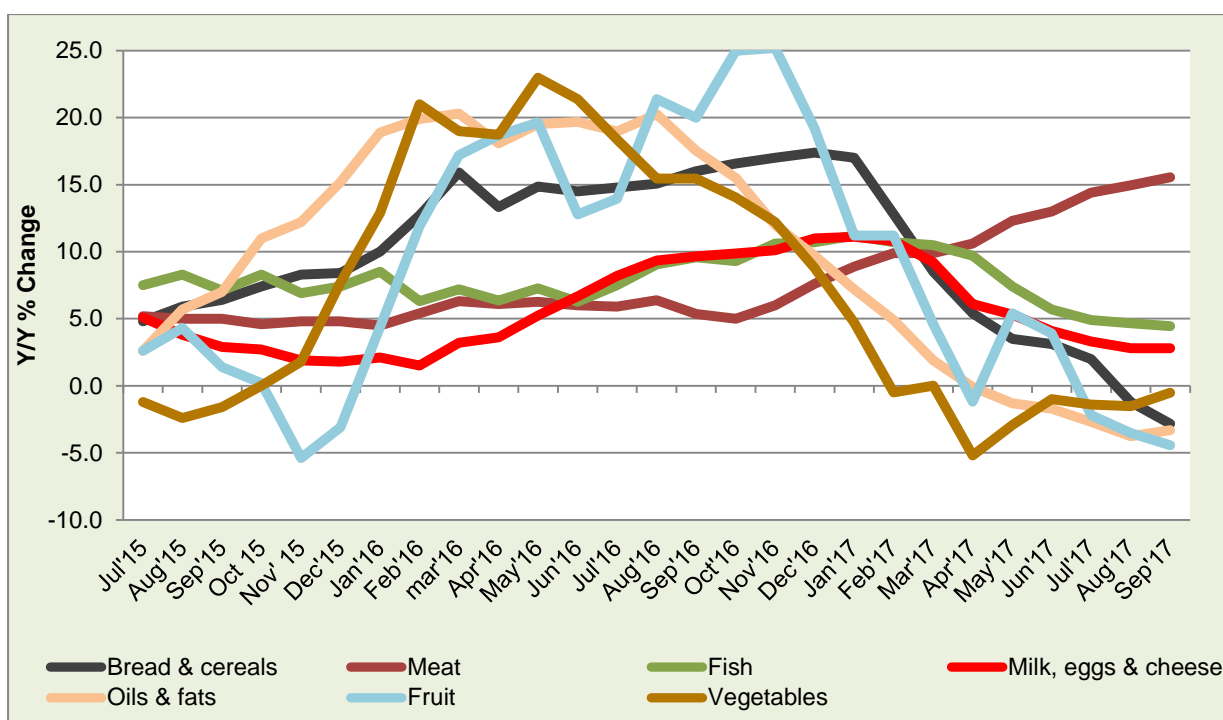


Figure 8: CPI for selected food items
Source: Stats SA

2.3 Employment

Unemployment levels are set to skyrocket as the economy weakens fuelling fears of another credit rating downgrade. Unemployment remained at 27.7% for the three consecutive quarters, Statistics SA reported in its Quarterly Labour Force Survey. It is 0.6 of a percentage point higher than the same period in 2016. High unemployment rate has consistently been raised by credit ratings agencies as a major obstacle to the country's economic growth prospects. The statistics provide further evidence that general economic conditions in the country remain subdued and that the economy is struggling to create jobs. The outlook for the job market remains uncertain in the short term due to policy uncertainty, political environment and the threat of further credit rating downgrade will depress business confidence. This might cause the private sector to delay major investment plans and capacity expansion.

The unemployment rate in South Africa was stable at 27.7% for the third quarter, although still at record high levels last seen in 2003. According to Statistics South Africa, the quarterly labour force survey results showed that there were 92 000 growth in employment in the third quarter, but the number was offset by 33 000 extra job seekers during the period. The expanded unemployment rate which include those who wanted to work but stopped looking for jobs increased by 0.2 of a percentage point to 36.8% in the same quarter. This number now stands at 9.4 million people and represents a 118 000 increase from the second quarter of this year. The latest figures show that 6.2 million South Africans are currently without work. Of the current 15 million non-economically active people in the country, 2.4 million were discouraged work seekers, a 75 000 increase from the second quarter of 2017. The biggest contributors to job growth were in the finance and other business sectors (68 000) and the community, social and personal services sectors (56 000). However, altogether 105 000 jobs were shed in the manufacturing, construction and agriculture sectors.

Compared to the same quarter last year, employment increased by 358 000 or 2,3% while unemployment grew by 337 000 or 5,7%. This led to an increase in the unemployment rate by 0,6 of a percentage point to 27,7% in the third quarter of

2017. Between the third quarter of 2016 and the third quarter of 2017, the number of discouraged work seekers grew by 145 000 or 6,3% to 2,4 million persons.

Finance Minister Malusi Gigaba’s medium-term budget policy statement has been received badly by both investors and ratings agencies. Moody’s Investor Service, which still has SA rated one notch above junk, has made it all but certain that the country will be downgraded in November as the government departs from its policy of fiscal consolidation. Fitch Ratings also released commentary critical of the budget in which it wrote that the change in the direction of policy making away from a focus on fiscal consolidation that was anticipated as a consequence of March’s Cabinet reshuffle is under way and occurring faster than had expected. Labour analyst Tony Healy expects unemployment to snowball and increase drastically in coming quarters. For the past 20 years, unemployment had remained high, If anything, unemployment is going to go higher. If the country drop another credit rating notch, debt and funding will become more expensive and S.A become less of an investment destination. It’s more likely that the unemployment levels are going to touch the 30% level.

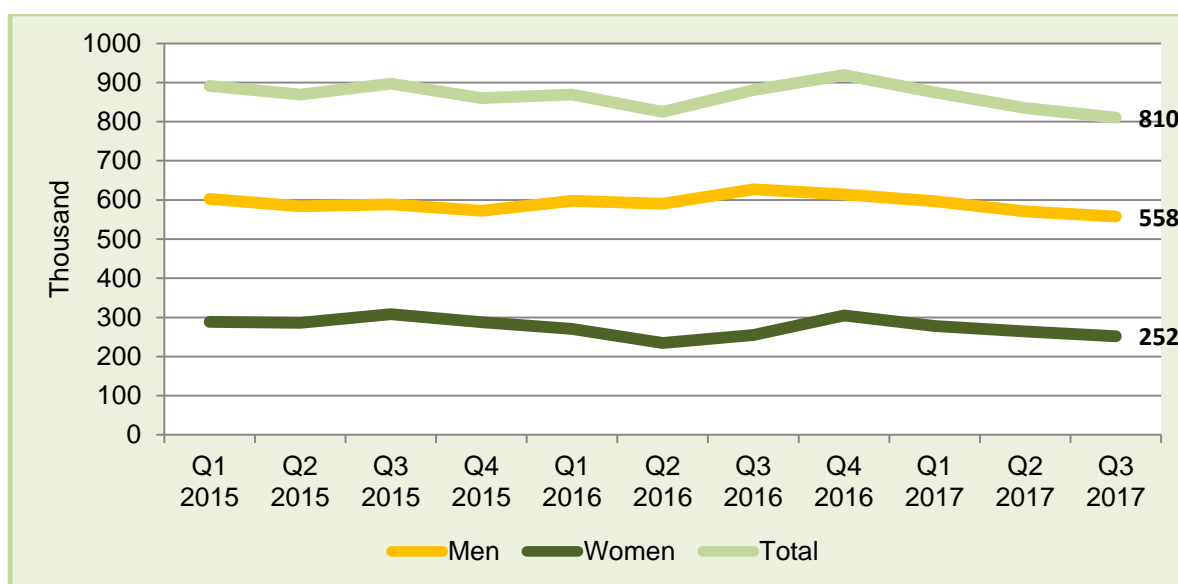


Figure 9: Total number of people employed in the agriculture sector between 2015 and 2017.
Source: DAFF

The number of people employed in agriculture sector decreased by 3.0% in the third quarter of 2017, from 835 000 persons in the second quarter of 2017 to 810 000

persons in the third quarter of 2017. Of the 25 000 job losses by the sector in the third quarter of 2017 12 000 jobs were lost by women meanwhile 13 000 jobs were lost by men. In total, the agricultural sector comprised of 252 000 women and 558 000 men in the third quarter of 2017 compared to 264 000 women and 571 000 men the previous quarter. Compared to a year ago the sector only decreased by 8.0%, which is 71 000 job losses .

Figure 10 below shows that between the second quarter of 2017 and the third quarter of 2017, provincial agriculture employment increased slightly in three provinces, whilst decreased in other six provinces. Though there was a decrease in Western Cape but compared to other provinces it had the highest employment of 159 000 in agriculture, a 11.4% decrease between the two quarters. During the same period agriculture employment in Eastern Cape, Free State, KwaZulu-Natal, North West and Limpopo also decreased by 4.6%, 5.6%, 1.5%, 8.3% and 4.1% respectively. Meanwhile agriculture employment in Gauteng, Mpumalanga and Northern Cape increased by 28.8%, 4.5% and 6.7% respectively between the two quarters.

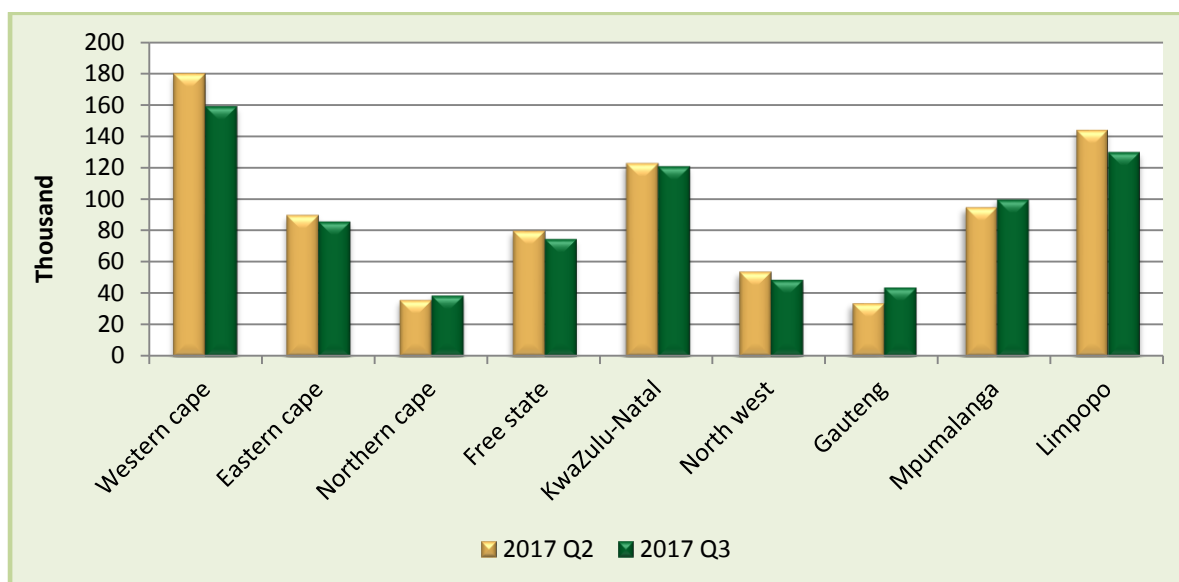


Figure 10: Provincial agriculture employment between first quarter of 2017 and second quarter of 2017. Source: DAFF

The 2017 third quarter (QLFS) also indicated that 1.7 million people were involved in subsistence farming in the third quarter of 2017 compared to 1.9 million people in the previous quarter, a decrease of 9.7%. Figure 11 below illustrate the number of people involved in subsistence farming in all provinces in the third quarter of 2017

compared to the second quarter. KwaZulu-Natal had the highest number (788 000) people involved in subsistence farming compared to (868 000) in the previous quarter, a decrease of 9.2%. Meanwhile, Eastern Cape had (440 000) people involved in subsistence farming compared to (507 000) in the previous quarter, a decrease of 13.2%. During the same period Limpopo had (183 000) people involved in subsistence farming compared to (178 000) people, an increase of 3.2%, Mpumalanga had (110 000) people involved in subsistence farming compared to (159 000) people. The number of people involved in subsistence farming in Free State decreased from (113 000) in the second quarter of 2017 to (106 000) people in the third quarter of 2017. The number of people involved in subsistence farming in North West increased from (43 000) to (52 000) during the same period, while the number of people involved in subsistence farming in Gauteng also increased from (14 000) to (18 000) between the two quarters. The number of people involved in subsistence farming in Northern Cape decreased to (21 000) in the third quarter compared to (22 000) in the second quarter of 2017. The number of people involved in subsistence farming in Western Cape decreased from (6 000) in the second quarter of 2017 to (4 000) in the third quarter of 2017.

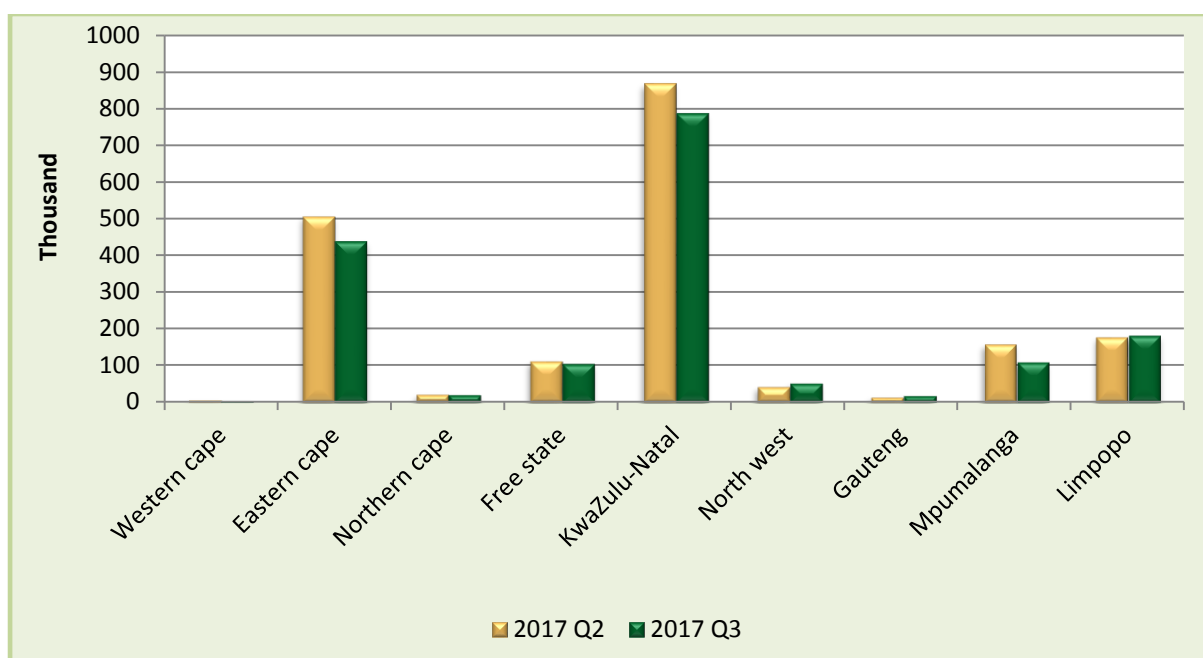


Figure 11: Provincial number of people involved in subsistence farming between 2017: Q1 and 2017: Q2
Source: DAFF

2.4 Expenditure on intermediate goods and services by the agricultural sector

The total expenditure on intermediate goods and services was reported at R37.1 billion in the third quarter of 2017 compared to R34.7 billion in the previous quarter, an increase of 6.5%. Compared to a year ago the total expenditure on intermediate goods and services increased by 6.94% from R34.7 billion in the third quarter of 2016 to 37.1 billion in the third quarter of 2017.

Figure 12 shows comparison of the total expenditure on seed and plants, fertilizers, farm feeds, farm services and fuel in the third quarter of 2017 compared to the previous quarter. The increase in total expenditure was attributed to the increase in expenditure on seed and plants by 50.00%, fertilizer by 18.18% and farm feeds by 4.17%. While the expenditure on farm services decreased by 16.67% fuel by 1.00% compared to the previous quarter.

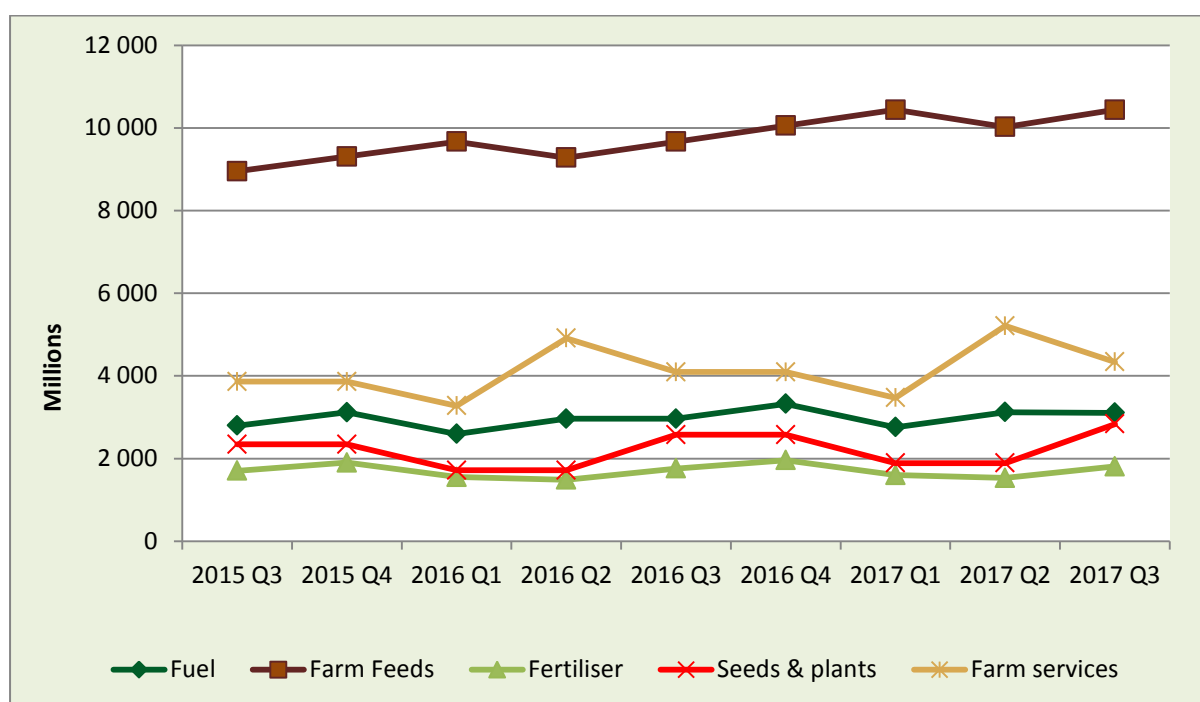


Figure 12: Trends in the expenditure on fuel, farm feeds, fertilisers, seeds and plants and farm services between 2016: Q3 and 2017: Q3.
Source: DAFF

2.5 South African fertiliser market review

Looking at the international fertilizer market, Qatar is the top country by fertilizer consumption in the world. As of 2014, fertilizer consumption in Qatar was 12,111.5 kilograms per hectare. The top 5 countries include Malaysia, Hong Kong, New

Zealand, and Bahrain. South Africa is ranked 96 out of 161 countries with consumption of 60.6 Kilograms per hectare of arable land.

The South African fertilizer industry is fully exposed to world market forces and operates in a totally deregulated environment with no import tariffs or government sponsored support measures. In this deregulated market environment, fertilizer prices are strongly influenced by international prices, currency exchange rates (R/US\$) and shipping costs. For this reason it is important to study the international fertilizer supply and demand balances and other factors which influence fertilizer market as they have a direct impact on the domestic market.

2.5.1 International fertiliser prices

The average prices of three international fertilisers show an decreasing trend from July 2017 to September 2017 period. The average price in Rand terms of Ammonia decreased by 32.78% between quarter 2 and quarter 3 of 2017 from R3 267.11 to R 2 868.27 per ton. Average prices of Urea also decreased by 35.56% between the second and the third quarter of 2017 from R 4 267.11 to R 2 749.53 per ton. Similarly the average price of Di- Ammonium Phosphate (DAP) between the period under review decreased by 5.19% from an average price of R4 767.11 in quarter 2 to R 4 484.36 in quarter three of 2017. On the other hand Muriate of Potash (MOP) between the period under review increased by 4.44% between quarter two and quarter three of 2017. The trends of these prices is illustrated in Figure 13 below.

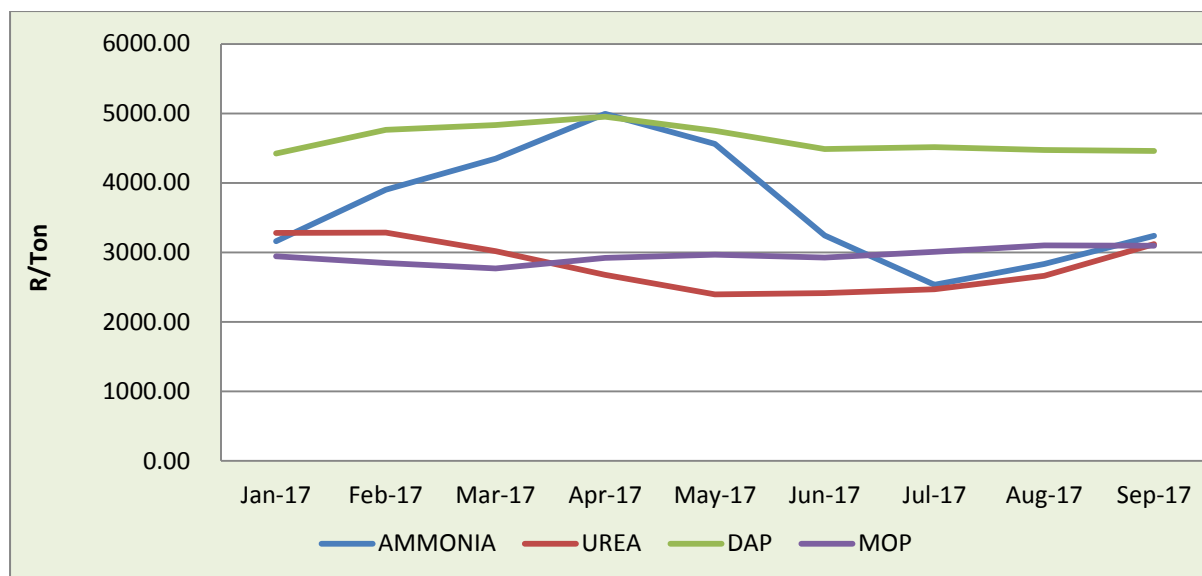


Figure 13: Average monthly prices of international fertilisers in Rand terms
Source: GrainSA

2.5.2 South African fertiliser

South Africa average fertilizer prices for the four main local fertilizers decreased under the review period between quarter two and quarter three of 2017; Mono-Ammonium Phosphate (MAP) decreased by 4.42% from R 8 892 per ton to R8 499 in the third quarter of 2017; Potassium Chloride, the price decreased by 1.41% from R 6 479 in the second quarter of 2017 to R6 387 per ton in the third quarter . The average prices of Lime Ammonium Nitrates (LAN) decreased between quarter two and quarter three by 6.54% from R 5 450 per ton to in the second quarter of 2017 to R5 093 per ton in the third quarter of 2017. There has also been a decline of 10.18% in the average price of Urea 46 from R5 908 in the second quarter to R 5 307 per ton in the third quarter of 2017, see Figure 14.

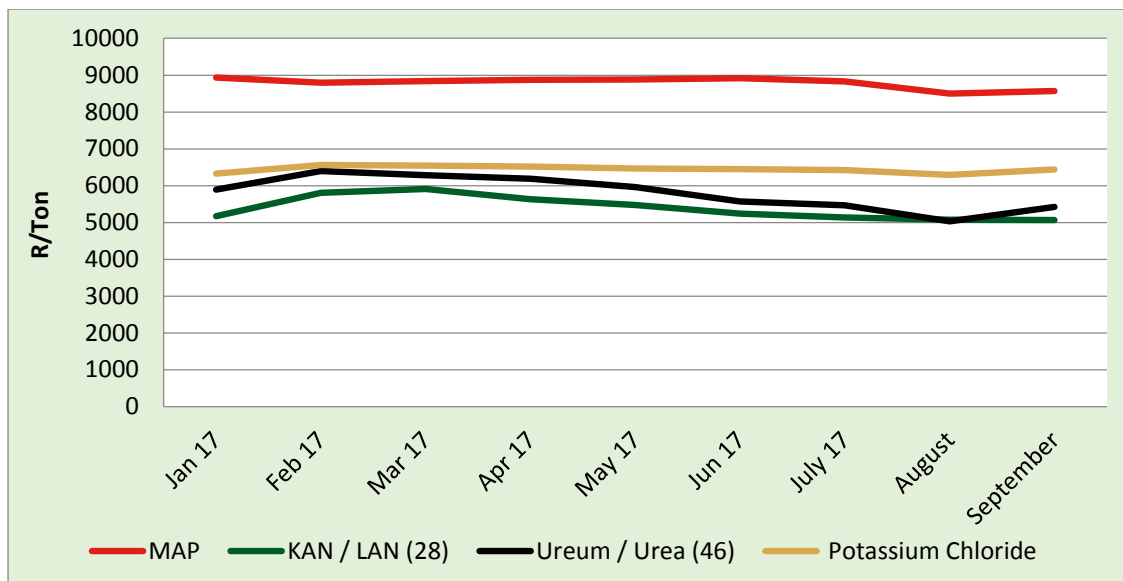


Figure : 14 South Africa average fertilizer prices

Source: GrainSA

2.5.2.1 South African fertilizer expenditure

South African expenditure on fertilizer shows a fluctuating trend from January 2016 to September 2017. The fluctuation is as the results of changes in the area planted and the seasonality of the agricultural crops. The expenditure on fertilizer in quarter two of 2017 was R 1 531.538 million whilst in quarter three of 2017 it was R 1 810.000 million, this represent 18.18% increase on fertilizer expenditure.

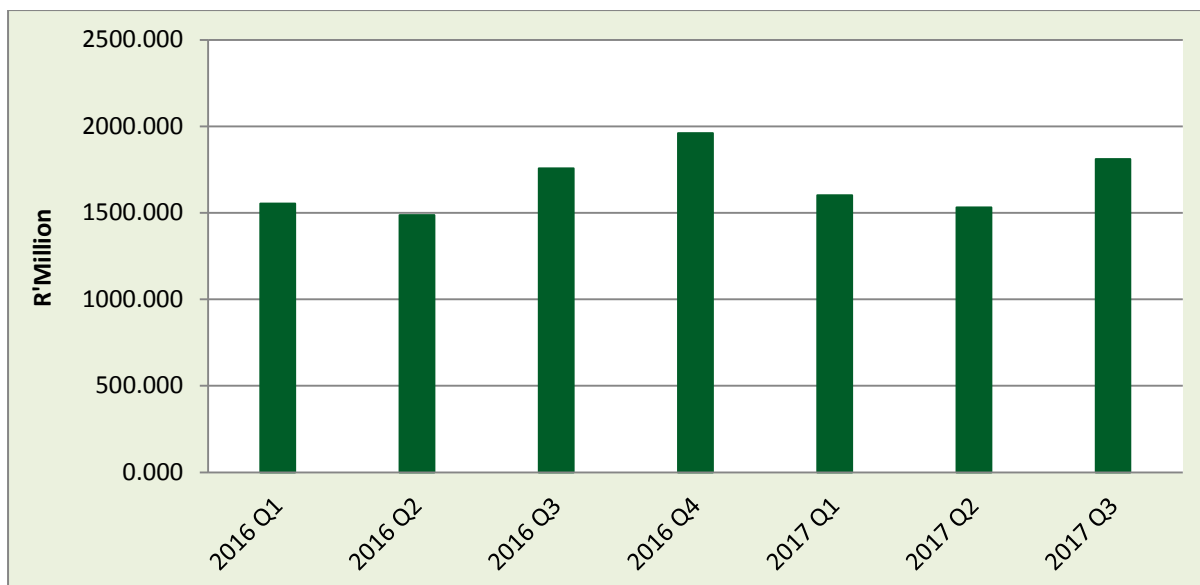


Figure 15: Expenditure of South African fertiliser from 2016: Q3 to 2017: Q3

Source: DAFF

2.5.2.2 South African fertilizer consumption by crop

Fertiliser consumption is determined by mainly two factors. The first is the total area planted to fertiliser using crops and the second is the amount of fertiliser these crops use per hectare. Maize and sugar cane are the two biggest users of fertiliser in South Africa, while fruit, wheat and vegetables are the other important users. Maize consumes 36 % while sugar cane, wheat, fruit, and vegetables consume 19.5 %, 6.7 %, 15 % and 7.3 % respectively. Figure 16 shows the consumption of fertilizer by crop in South Africa.

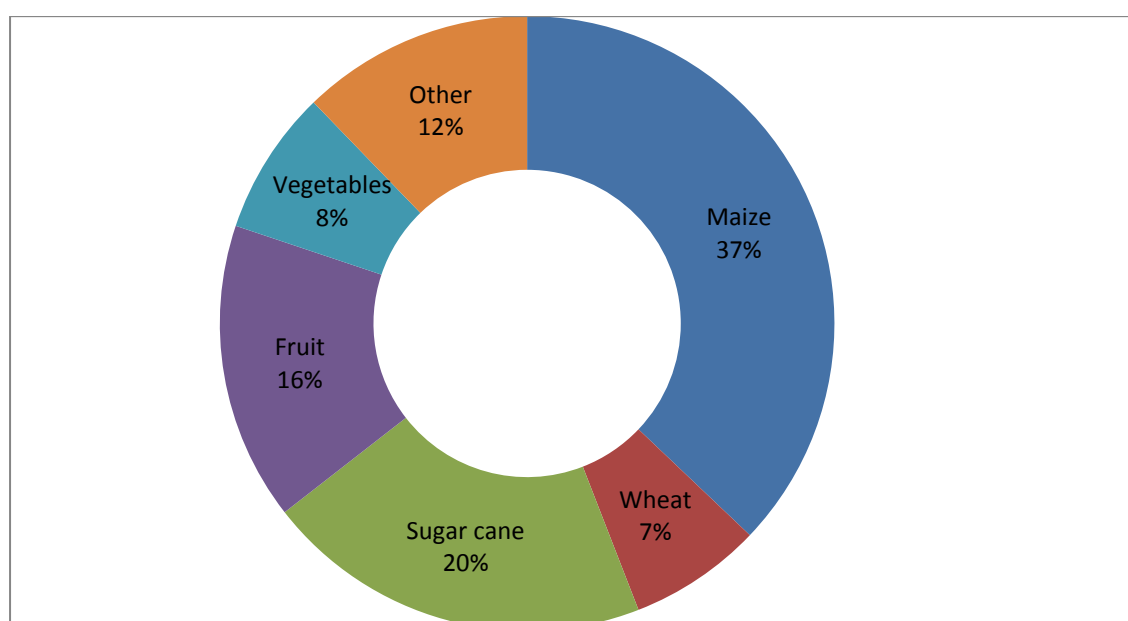


Figure 16 : South African Fertilizer consumption by crop

Source: GrainSA

2.5.2.3 The share of fertilizer as a production cost input

Fertiliser as production input contributes on average between 30 % and 50 % to a grain and oilseed producer`s variable production costs in South Africa. For this reason, the price that grain and oilseed producers pay for fertiliser is a vitally important determinant of the profitability of grain and oilseed production in South Africa. As South Africa`s agricultural industry operates in a free market, primary producers are price takers and cannot pass high fertiliser prices on to the next user

of their produce. This in turn could make grain production unprofitable in South Africa, which in the long run could lead to food insecurity in the country.

According to the production cost, fertiliser cost contributes approximately 30 % to direct allocated production costs of grains. This is the highest contribution to production costs relative to any other production input; and, therefore, a vitally important determinant in whether grain and oilseed farming in South Africa is profitable. The figure 17 shows the percentage share of all production input in grain production.

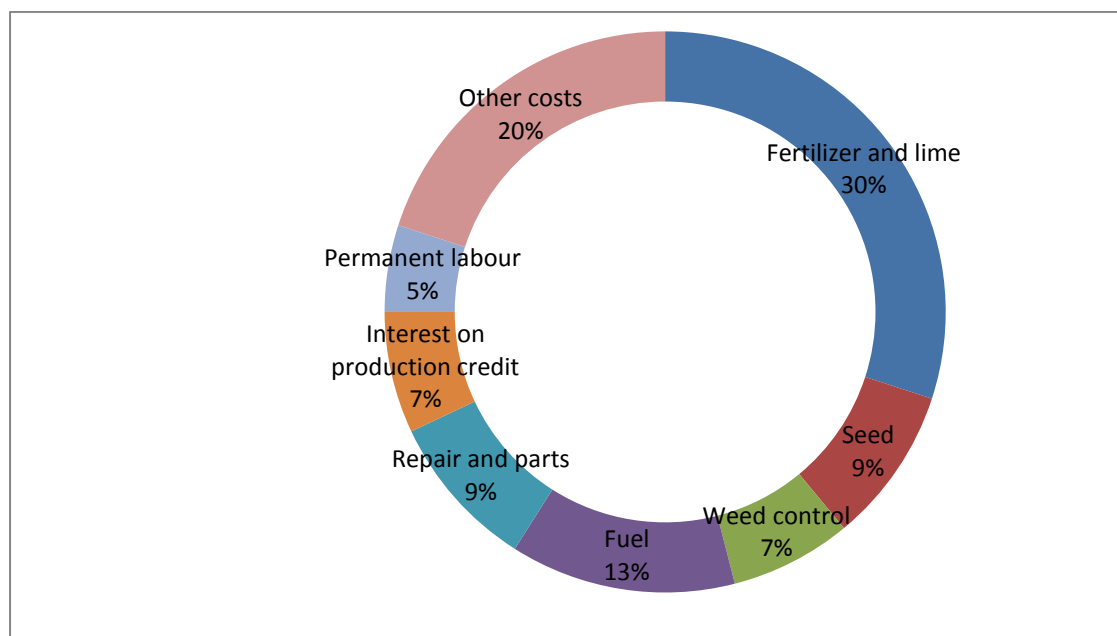


Figure 17: The share of fertilizer as a production cost input

Source: GrainSA

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

The nominal real gross income from all agricultural products decreased from R83.0 billion in the second quarter of 2017 to R72.7 billion in the third quarter of 2017, a decrease of 12.4%. This was largely supported by a huge decrease of 47.9% in income from field crops, while income from horticulture and animal products increased by 11.1% and 6.7% respectively between the two quarters. The significant decrease in income from field crops is attributed to the huge decrease in income from wattle, soya beans, sunflower, groundnuts, cotton, tobacco, chicory root, maize,

wheat, barley, canola, grain sorghum hay, lucerne and dry beans. While the increased of 11.1% in income from horticulture was supported by an increase in income from nuts, vegetables, other horticultural products as well as flowers and bulbs. During the same period the increase of 6.7% in income from animal product was due to an increase in income from sheep slaughtered, goat slaughtered, poultry meat, other livestock products, ostrich feathers and products as well as cattle and calves slaughtered. Compared to a year ago real gross farm income from all agricultural products increased by 8.8% in the third quarter of 2017 compared to same quarter of 2016. During this period, the increase was largely supported by an increase in income from animal products and horticulture which increased by 16.4% and 9.3% respectively, while income from field crops decreased by 5.0%., see Figure 18.

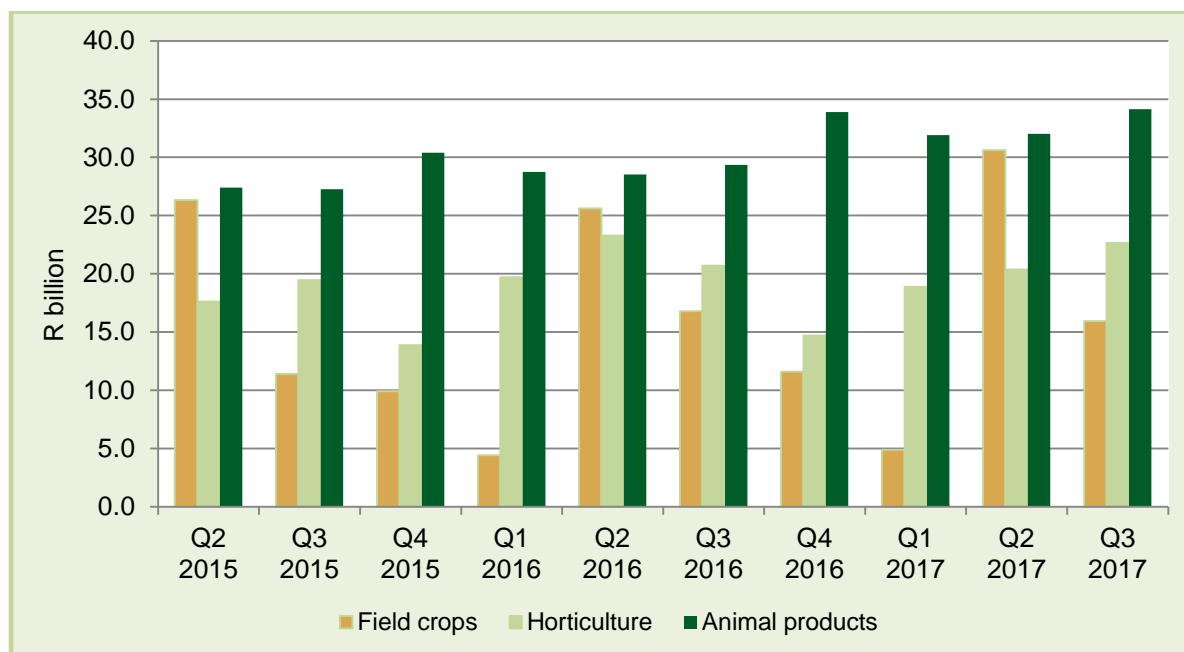


Figure 18: Trends in nominal gross farm income between 2015 and 2017.
Source: DAFF

2.7 The net farm income

Figure 19 illustrates the net farm income trends between 2015 and 2017. The net farm income is estimated at R27.8 billion in the third quarter of 2017 compared to R24.5 billion in the same quarter of 2016, an increase of 13.2%. The increase in net farm income was largely supported by an increase in income from animal products and horticulture which increased by 16.4% and 9.3% respectively.

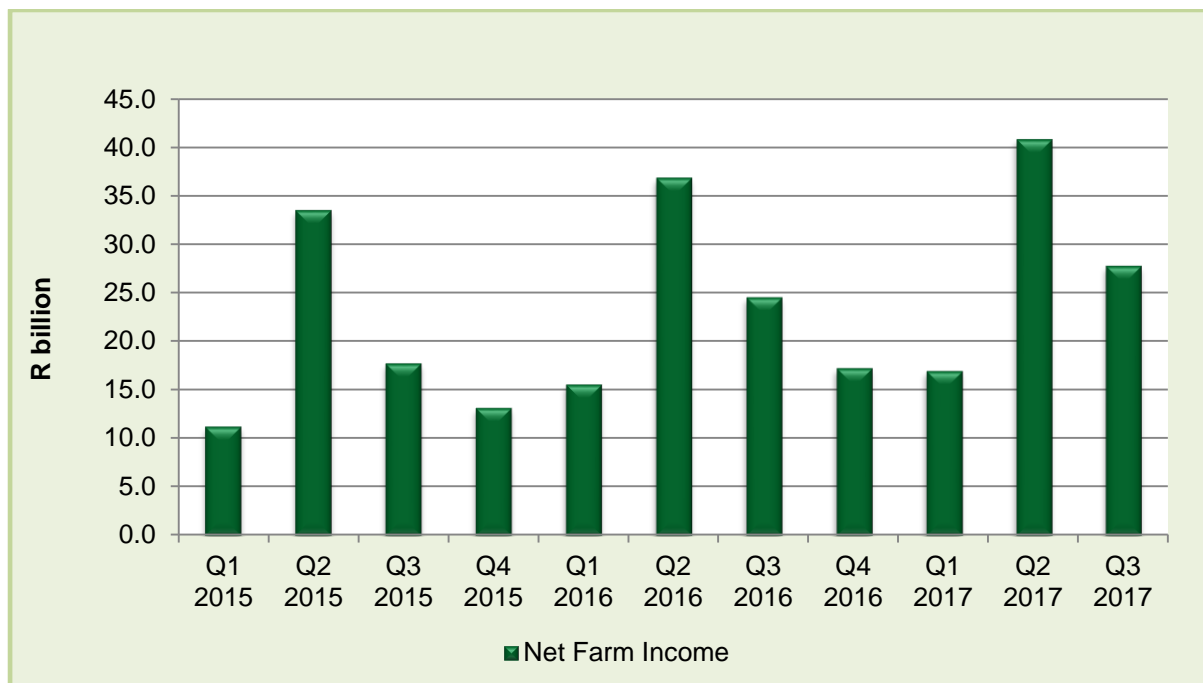


Figure 19: Trends in the net farm income between 2015 and 2017.
Source: DAFF

2.8 Private consumption expenditure on agricultural products

Figure 20 shows private consumption expenditure on food increased in the third quarter of 2017 to R159.7 billion from R155.3 billion in the previous quarter, an increase of 2.8%. Compared to a year ago, total private consumption expenditure on food increased to R159.7 billion reported in the third quarter of 2017 compared to R157.7 billion in same quarter of 2016, an increase of 1.3%. During this period the main expenditure items were oils and fats which increased by 4.7%. The expenditure on potatoes and meat also increased by 4.2% and 4.0% respectively. While the expenditure on fruit and vegetables decrease by 2.1% in the third quarter of 2017 compared to the same quarter of 2016. The expenditure on bread and grain also decreased by 3.9% between the two quarters.

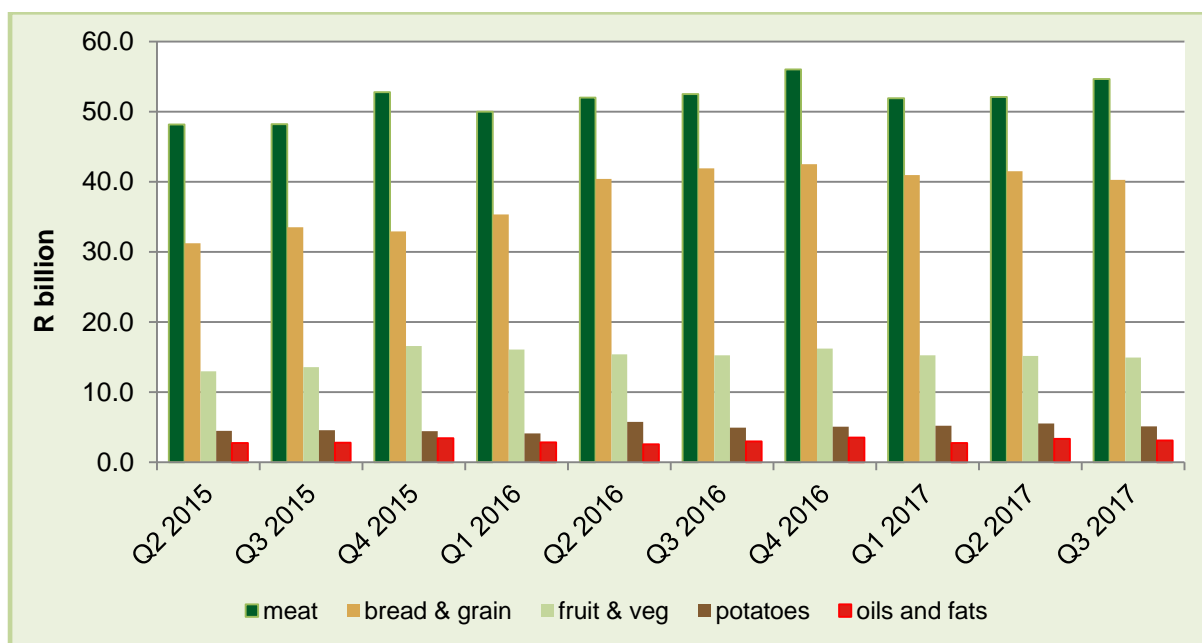


Figure 20: Trends in private consumption expenditure between 2015 and 2017
Source: DAFF

2.9 Review of South Africa’s water dams levels

South Africa receives an annual rainfall of 492 millimetres whereas the rest of the earth receives 985 millimetres. This is nearly half the earth’s average. Thus South Africa is classified as a water-stressed country. There is also uneven distribution of rainfall across South Africa. The eastern half of the country is much wetter than the western half due to the nature of the weather conditions. South Africa also experiences alternating periods of droughts and floods which affects the amount of water across South Africa. In addition, hot dry conditions result in a high evaporation rate. Scientists predict that with global warming, South Africa will experience much wetter wet seasons and much drier dry seasons, resulting in an increase in floods and droughts.

There are a large number of dams all over South Africa that store this precious water. There are also a number of water transfer schemes that move water from one catchment via pumps, pipes and canals into another catchment. Gauteng is supplied with water from the Vaal Dam catchment, which includes the Vaal River, Wilge River and all their tributaries. There are two water transfer schemes that feed into the Vaal Dam catchment, namely the Lesotho Highlands Water Project, which obtains water

from the mountains of Lesotho, and the Thukela-Vaal Water Transfer Scheme, which obtains water from Kwa-Zulu Natal and is released into the Vaal Dam catchment when needed(DWS, 2017).

In the past couple of years South Africa has been experiencing low rainfalls due to draught. Over the past two years matters have been escalating especially in the Western Cape and currently we see dams at record low levels for this time of the year, after our usual winter rainfall.

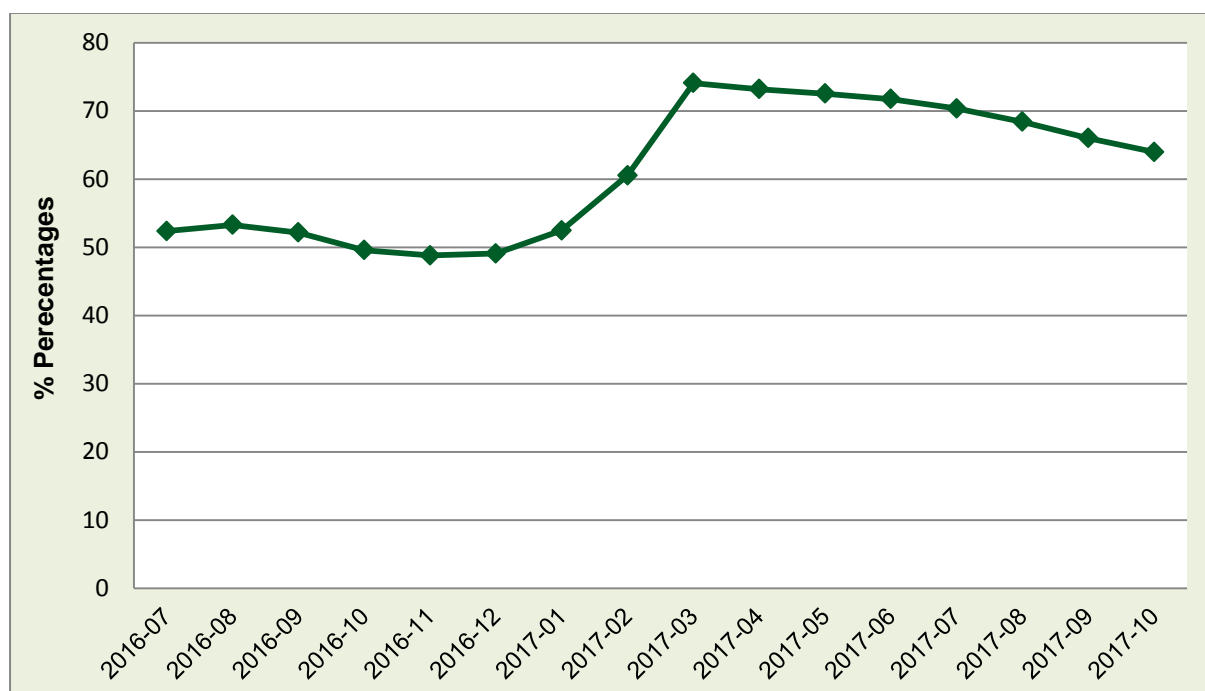


Figure 21: Total dam levels in Quarter 3 of 2017
 Source: Department of Water & Sanitation (DWS)

The current national overall dam levels are higher than the same time last year when they were at 53.2% at the height of the El Nino driven drought. South Africa’s dam level shows an increase of 63.8% as compared to the same time last year. The comparison in dam levels between the third quarter of 2016 and the third quarter of 2017. Compared to a year ago, the total dam levels increased from 52.6% in the third quarter of 2016 to 68.3% in the third quarter of 2017, indicating a significant increase of 15.5%.

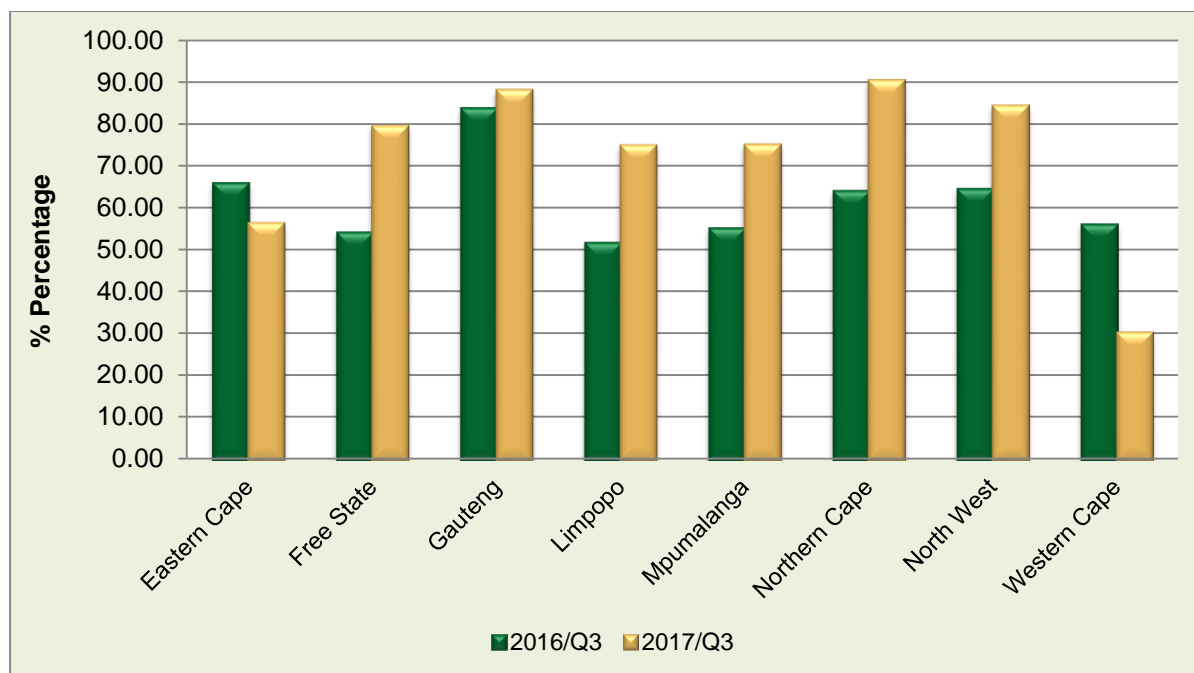


Figure 22: Average dam levels in quarter 3 of 2017
 Source: Department of water and sanitation (DWS)

There has been a significant increase of the average dam levels in most parts of the country between the third quarter of 2016 and the third quarter of 2017. Free State, Gauteng, Limpopo, Mpumalanga, Northern Cape and North West provinces experienced an increase in dam levels of 25.36%, 4.43%, 23.29%, 19.99%, 26.44% and 19.93% respectively. The North West boasts dams such as Elandskuil, Klipdrift and Potchefstroom which are all above 100%. Also, Limpopo’s dams including Magoebaskloof, Hans Merensky, Vergelegen and Ebenezer are all above 100% full. Meanwhile recent rain in the Eastern Cape has not had a significant influence on dam levels declining by 9.47% and the DWS is still encouraging residents to adhere to the water restrictions implemented by municipalities to avoid running out of water in the province. Dam levels in the Western Cape continue on a downward trend showing a decline in the volume of available water in the provinces and 25.67% for the Western Cape. The South African Weather Service also indicated that there was no prediction of increased rainfall activities would occur during the September-October-November season for the south-western parts of the country, and further recommends that the current drought measures .

3. Review of Agricultural Markets

3.1 Grain market review

3.1.1 White and yellow maize

Figure 23 below depicts South Africa's price trends of white and yellow maize spot prices, as well as the international maize prices (import parity price and export parity price). South Africa's white maize prices are influenced by the development in the international market while yellow maize prices are largely determined by the largest producers. South Africa is the largest producer of white maize and net exporter of white maize. It is also a net importer of yellow maize. Yellow maize prices are determined by the USA which is the largest producer of yellow maize while South Africa has an influence in the price of white maize. In the last three quarters from January 2017, South African maize prices were consistent with economic theory and traded between the import and export parity prices. However, prior to the first quarter of 2017, white maize prices were higher and traded above the import parity prices .

Import parity price for white maize for the third quarter of 2017 traded at R3005/ton slightly higher compared to R2969/ton in the second quarter of 2017. The export parity price was estimated at R1570/ton in the third quarter of 2017, lower compared to R1841/ton in the second quarter of 2017. Producers can expect to receive 14.72% less on their export maize this quarter compared to the previous quarter. On the other hand, consumers of yellow maize who import yellow maize from the international markets can expect to pay 1.21% less for a ton of yellow maize during this quarter compared to the previous quarter.

In the domestic market, white maize price for the third quarter was estimated R1825/ton compared to R1856//ton in the second quarter, while yellow maize was R1944/ton in the third quarter and 1963/ton in the second quarter of 2017. The domestic prices of both of white maize and yellow maize have declined slightly by 1.78% and 0.95% respectively, quarter to quarter end of September 2017. The year-on-year prices of white maize reveals that prices have also decreased drastically, which is good news for maize consumers. White maize prices have declined by 56.26%, while yellow maize has decreased by 39.09%.

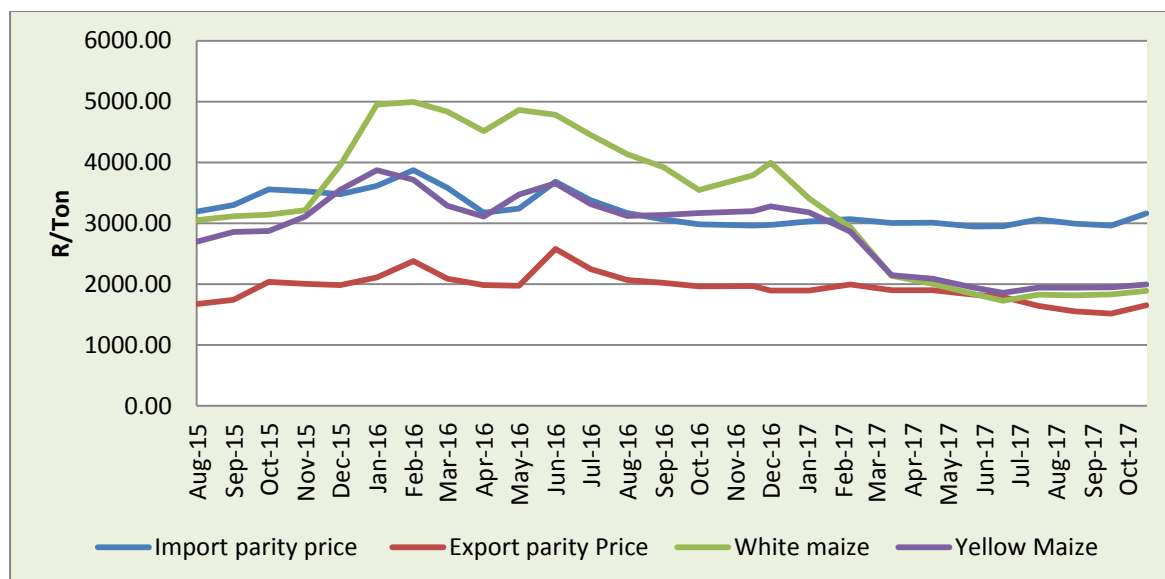


Figure 23: White maize price
Source: Sagis

The maize seed price is depicted in figure 24 below against the retail prices from the third quarter of 2015 to the third quarter of 2017. It can be seen from the figure 17 that maize seed price has declined (for six consecutive quarters) since the third quarter of 2016 with a notable spike in the last quarter of 2016. The price continued to decline until the second quarter of 2017. The average quarterly price of maize seed prices stabilized during the third quarter of 2017 was at R1825/ton which is 1.78% lower compared to R1858/ton in the second quarter of 2017. The gradual decline in maize seed price is attributed to, among others, favourable weather condition during the planting season which resulted in bumper crop during harvesting.

There is a positive relationship between maize seed price and its by-products. A gradual decline in maize seed price will most likely have a decline in the prices of by-products in the fourth quarter of 2017. Following a decline in maize seed price, it is interesting to note that the prices of all maize by-products have also declined. Even though maize seed price has declined by approximately 2% between quarter two and quarter three, maize seed by-products prices have declined by more than 10%. The quarter to quarter price of super maize 1kg, Super maize 2kg, (super maize) mealie meal/maize flour 5kg, (special maize) mealie meal/maize flour 1kg and (special maize) mealie meal/maize flour 2.5kg has declined by 9.51%, 9.82%, 9.50%, 16.22%, and 16.04% respectively in the third quarter of 2017 compared to the

second quarter of 2017. The year-on-year prices indicated that only (special maize) mealie meal/maize flour 1kg and (special maize) mealie meal/maize flour 2.5kg prices have both declined by 16% while prices of super maize 1kg, super maize 2.5kg and (special maize) mealie meal/maize flour 5kg have also decreased by 10.16%,14.91% and 17.21%when compared to the same period last year.

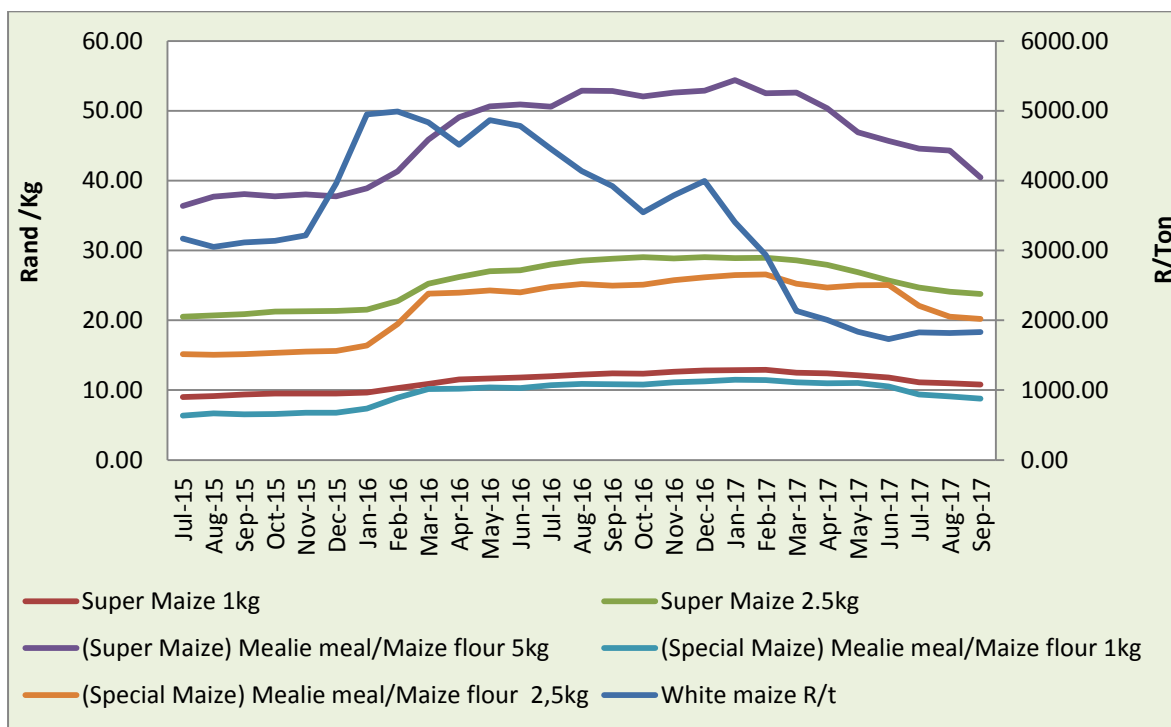


Figure 24: Retail prices vs white maize seed prices

Source: Safex/Stats SA

Figure 25 shows the supply and demand of white maize from the third quarter of 2015 to the third quarter of 2017. During the third quarter of 2017, producer deliveries shrunk to 24.08% from an all-time high of 1064.82% in the second quarter of 2017. South Africa’s exports of white maize and local demand for white maize also declined. Exports of white maize during the third quarter of 2017 were 39.60% lower when compared to 59.29% recorded in the second quarter, while local demand of white maize were also lower at 18.97% in the third quarter of 2017 compared to 25.45% in the second quarter of 2017. However, maize surplus grew significantly by 61.87% during the third quarter of 2017 after a fourth consecutive quarter of decline since the third quarter of 2016.

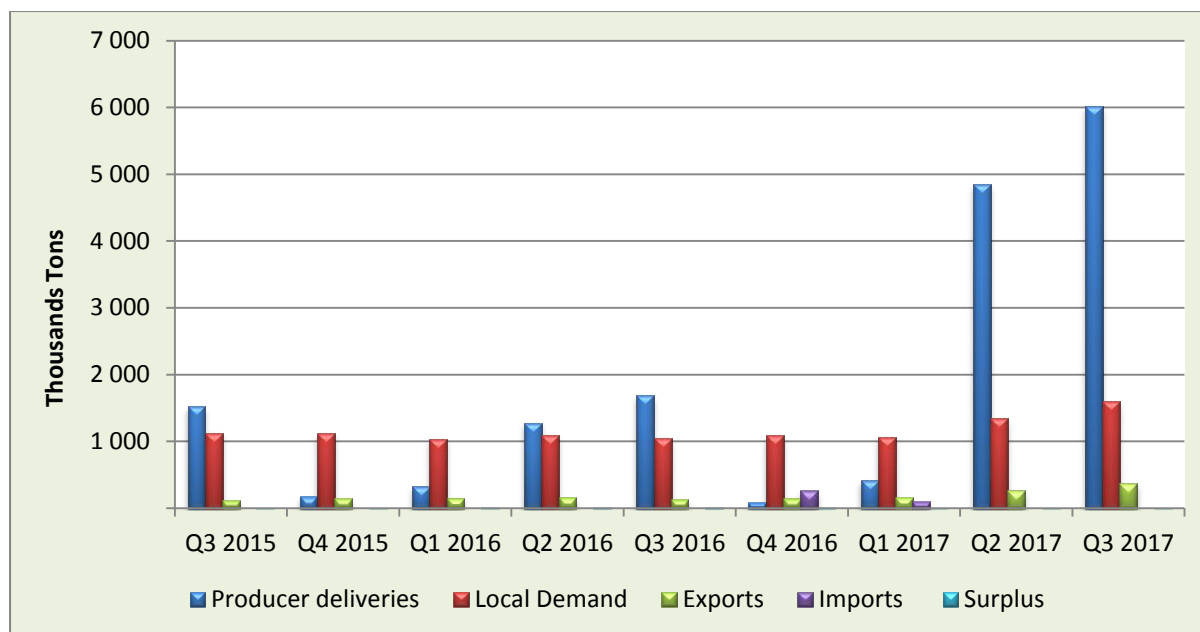


Figure 25: Supply and demand of white maize
Source: Sagis

Figure 26 illustrates the supply and demand of yellow maize from the third quarter of 2015 to the third quarter of 2017. The figure shows that producer deliveries fell in the third quarter of 2017 when compared to the previous quarter. Producer deliveries of yellow maize fell by 45.41% in the third quarter of 2017 to 2.1 mil tons from 3.9 mil tons in the second quarter of 2017. Yellow maize forms a major feed component in animal feeds; therefore the decline in producer deliveries will most likely have a negative impact on feeding costs. Livestock farmers may pass the cost of feeds to consumers, which may be in the form of higher meat prices in the near future. Local demand of yellow maize declined significantly from a negative growth of 3.22 in the second quarter to 23.74 in the third quarter of 2017. However, exports of yellow maize increased marginally compared to the previous quarter from a positive growth of 155.47% in the second quarter of 2017 to a growth of 142.52% in the third quarter of 2017.

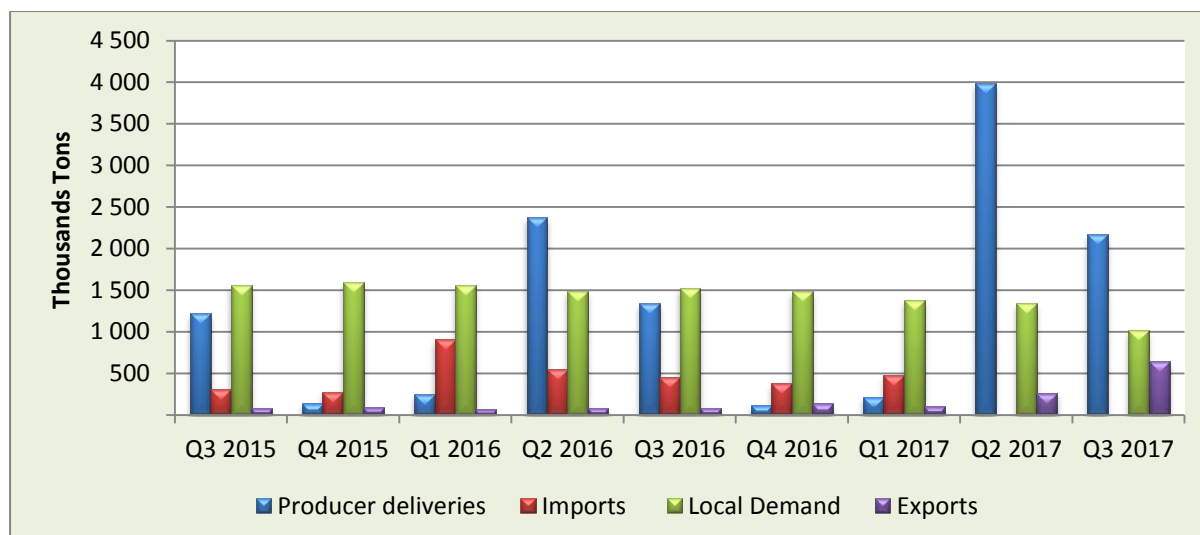


Figure 26: Supply and demand of yellow maize
Source: Sagis

3.1.2 Wheat

According to (WASDE, 2017) global production of wheat in 2017/18 is projected at 0.8 million tons up; which is led by a 1.0 million tons increase for Russia and a 0.5 million tons increase for the EU on updated harvest results; with partly offset in Pakistan by 0.5 million tons down. Global trade is up despite reductions in South Africa and Bangladesh. Wheat exports went up by 0.7 million tons in the United States and 0.5 million tons in Russia but in Australia exports went down by 0.5 million tons. Russia has been a growing force in the export market over the past 5 years; with a record crop and massive carrying stocks; Russia is forecast to be the world’s leading exporter for 2017/18, setting a new record for its exports surpassing the EU and the United states; this is derived from the improved yields and expanded wheat area. In addition, export competitiveness has improved with investments in infrastructure, specifically efforts to expand port capacity.

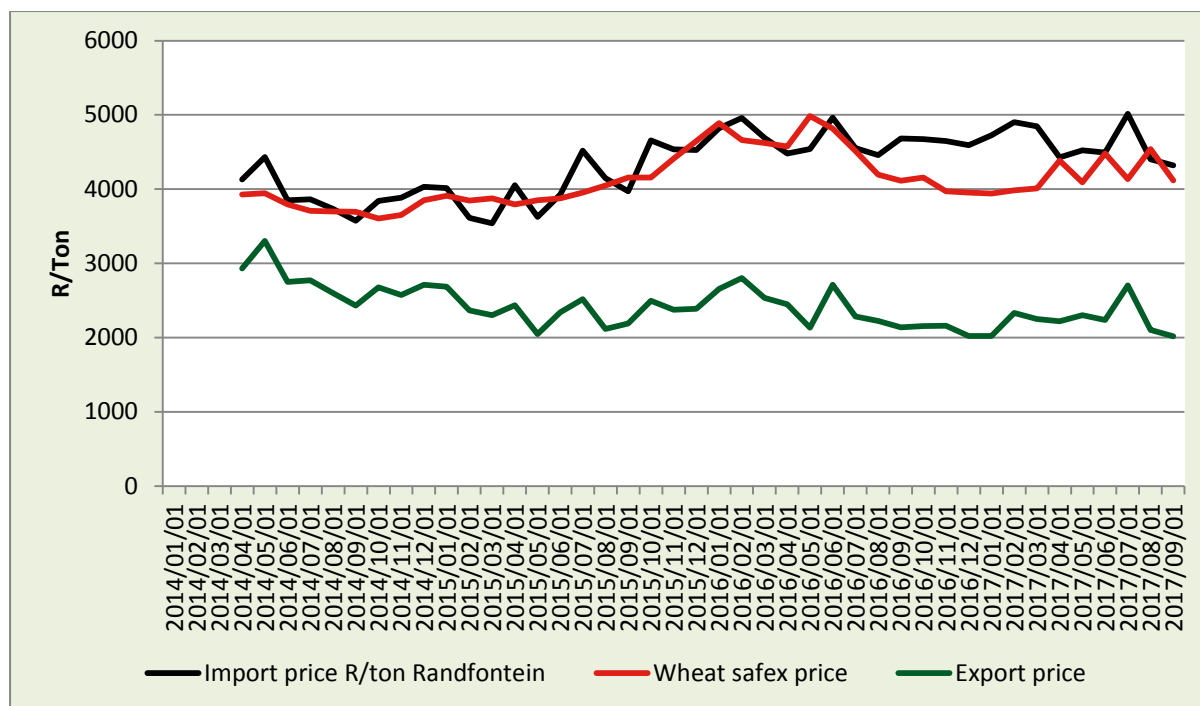


Figure 27: Wheat safex price, Export price and Import price
Source: Sagis/Safex

Figure 28 illustrates the wheat safex prices, exports price and import price seen from January 2014 to September 2017. In the third quarter of 2017, the rand was stronger compared to the dollar; however the strong rand impact negatively on import parity. Globally, wheat is in ample supply and remains at record high; therefore favourable production and high carry out stocks keep international prices low; but because South Africa is a very small player; that means- South African wheat prices are determined by global market; as a result of that domestic supply and demand factors have less effect on global prices. South Africa is not self-sufficient in the production of wheat; mean whilst wheat in South Africa is considered as one of the primary staple foods with an annual consumption of 3.2 million tons; nonetheless, with an estimated 1.87 million tons being produced locally, South Africa has to import large quantities of wheat at a cost of approximately R6.5 billion. In the third quarter of 2017, Import price (R/ton) and export price all went up by 0.37% and 2.26% respectively compared to the same quarter of 2016, whilst wheat safex price went down by 0.25% , but import price was selling above the wheat safex price and export price.

As presented in figure 28, comparing third quarter of 2016 with third quarter of 2017; the price of bread fell by 0.08% and 0.28% for both 700 grams of (white and brown

bread) respectively; that is from R13.23 to R13.22 bread white and R12.08 to R12.05 bread brown. On the other hand also the price of bread brown (600gr) went up by 6.19%; cake flour and bread flour prices increased by 2.18% and 0.28% respectively as shown graphically on figure 28. A decline in the bread prices could have been attributed from the costs incurred by producers down the value chain; factors amongst others such as energy, transport costs, packaging and labour costs are the largest contributors in terms of costs within bread production and can contribute to the increase in bread process.

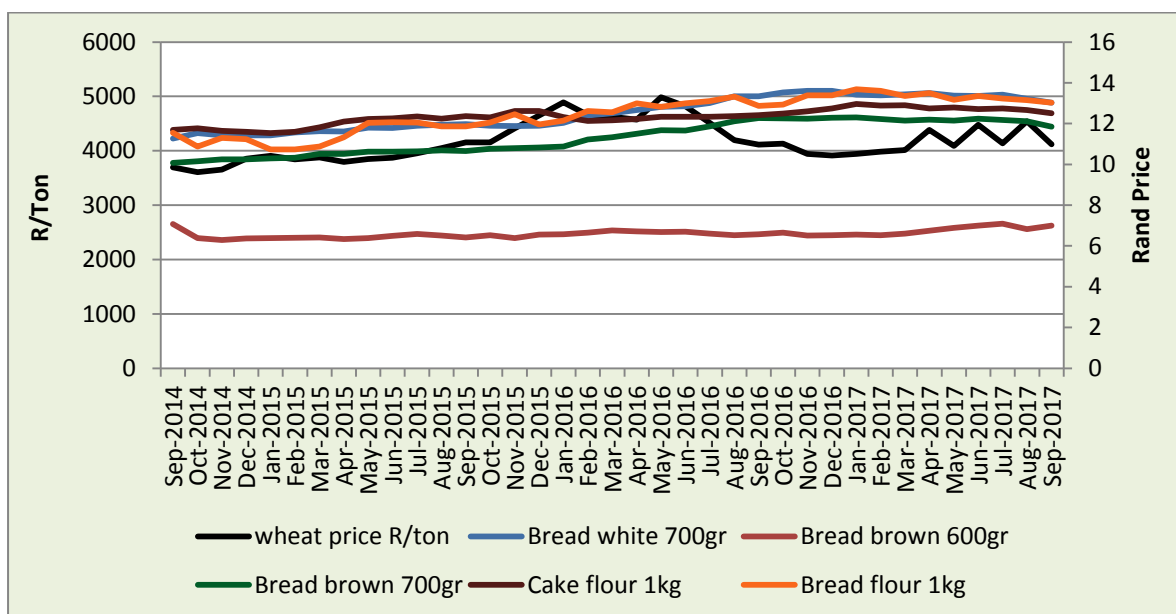


Figure 28: Retail bread price vs wheat import price
Source: Stats SA & Safex

According to USDA (2017) globally, the current wheat market prospects paint a good picture in comparison to the previous season, with increased export demand and overall good harvest, 2017 is off to a good start. In the Western Cape Province; which is one of the largest wheat producers in South Africa, April- May rainfall were generally below the average, this might affect wheat production in the country – as producers might switch to more profitable cash crops, with the latest CEC report estimates that “South African farmers reduced their area planted under wheat by 1.87% (9,515 ha less than the 508,365 ha planted the previous season)” ; however other than drought, high input costs and low wheat prices are some of the limiting factors that contribute to a reduction in wheat production in the Western Cape. Therefore as a solution, it is important to look for other alternatives that will make

wheat production more profitable in the Western Cape, like releasing of higher yielding wheat cultivars. As illustrated in figure 30 the producer deliveries of wheat in the third quarter of 2017 declined by 17.42% compared to the same quarter in 2016. On the other hand local demand increased by 1.0% during the third quarter of 2017 compared to the same quarter in 2016; SA wheat imports decreased by 33.29% in the third quarter of 2017, while exports also decreased by 28.79% compared to the third quarter of 2016.

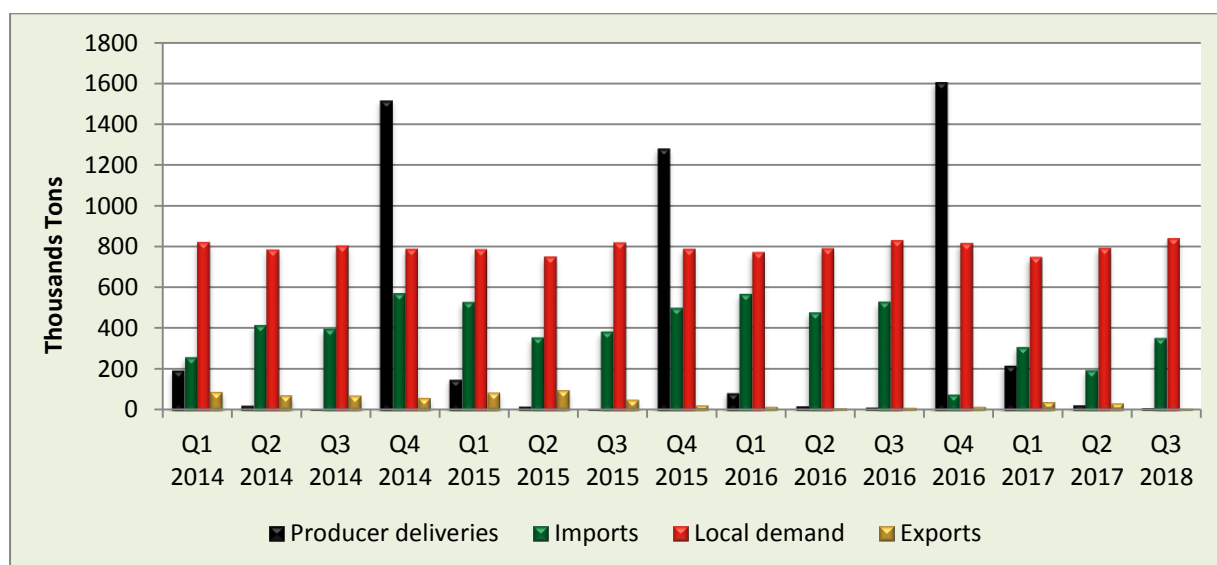


Figure 29: Wheat deliveries, Imports, Exports and local demand
Source: Stats SA & Safex

3.1.3 Soya beans

During the 3rd quarter of 2017, locals soybean prices were 6% lower on a quarter on quarter basis, whilst y/y prices declined by 30%. The decline in prices is due to the high local soybeans output which is estimated to be 77% higher than it was in 2016 rising from 742 thousand tons to 1,3 million tons as shown on table 1 below. The ending stock is expected to be higher which is expected to result in lower prices going in to the next season.

Local prices are trading 20% below the import price during the quarter. The lower local prices relative to the import price is expected to make exports relative to imports attractive (Table1). SA soybean price trades above the import price

highlighting the lack of competitiveness of the local soybeans market relative to the major producers.

World prices have edged higher in the quarter compared to the previous quarter as forecast indicate that global soybeans stock might tighten and demand is expected to rise by 4% mainly in China(FAO, 2017). World production is slightly shorter than the 2015/16 record levels., see Figure 30.

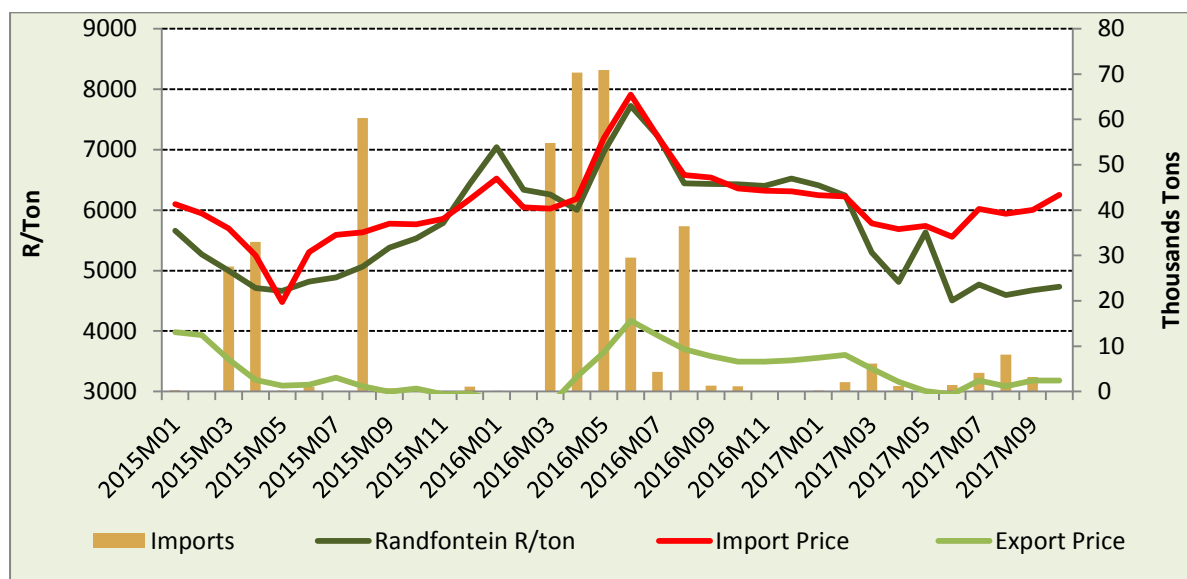


Figure 30: Soya beans local price vs Import Price
Source: Safex/Sagis/USDA/World Bank

Table 1: South African Soybeans Production & Use Table

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|--------|--------|--------|---------|-----------|---------|-----------|
| Beginning Stock | 46200 | 225800 | 68639 | 61806 | 63704 | 89128 | 84792 |
| Production | 710000 | 650000 | 784500 | 948000 | 1 070 000 | 742 000 | 1 316 370 |
| Imports | 1539 | 976 | 4489 | 103704 | 124981 | 271098 | 28000 |
| Total Supply | 757739 | 876776 | 857628 | 1113510 | 1 258 685 | 1102226 | 1 429 162 |
| Local Consumption | 484739 | 655278 | 780432 | 1049230 | 1164880 | 1010689 | 1110700 |
| Exports | 47200 | 152616 | 15390 | 576 | 4677 | 6745 | 30000 |
| Closing Stocks | 225800 | 68882 | 61806 | 63704 | 89128 | 84792 | 288462 |
| Total Demand | 757739 | 876776 | 857628 | 1113510 | 1258685 | 1102226 | 1140700 |

Source: DAFF/ NAMC/Sagis

3.1.4 Sunflower

ABSA Agribusiness trends report (October 2017) highlighted that Sunflower seed prices decreased week on week by \$0.8 (R35) from R4620/ton to R4585/ton while

soybean prices increased marginally by \$1.2 from R4830/ton to R4889/ton. Sunflower seed prices fared lower than soybean prices for all future contract deliveries. The positive crushing margin for sunflower seed and consequent local demand support sunflower seed prices. The weather conditions in South America, causing crop damage and lowering yields. Lower international production will carry on supporting local prices.

The price of sunflower seed has increased by 3.4% during the third quarter of 2017 (Q3) as compared to the same period last year, which is 8% lower than it was in the previous quarter of 2017 (Q2). The local sunflower seed price in the third quarter of 2017 (Q3) traded at 18.7% lower than the import price, compared to trading at 21.8% below the import price in the second quarter of 2017 (Q2). The prices of sunflower oil 2L in the third quarter 2017 (Q3) traded lower by 13.5% and whilst the price of sunflower 750ml in the third quarter of 2017 (Q3) traded 4.2% lower as compared to the same period in 2016 (Q3). The price of sunflower oil 2L in 2017 (Q3) decreased by 3.6% and whilst the price of sunflower oil 750ml in 2017 (Q3) declined by 1.8% as compared to the previous quarter in 2017 (Q2).

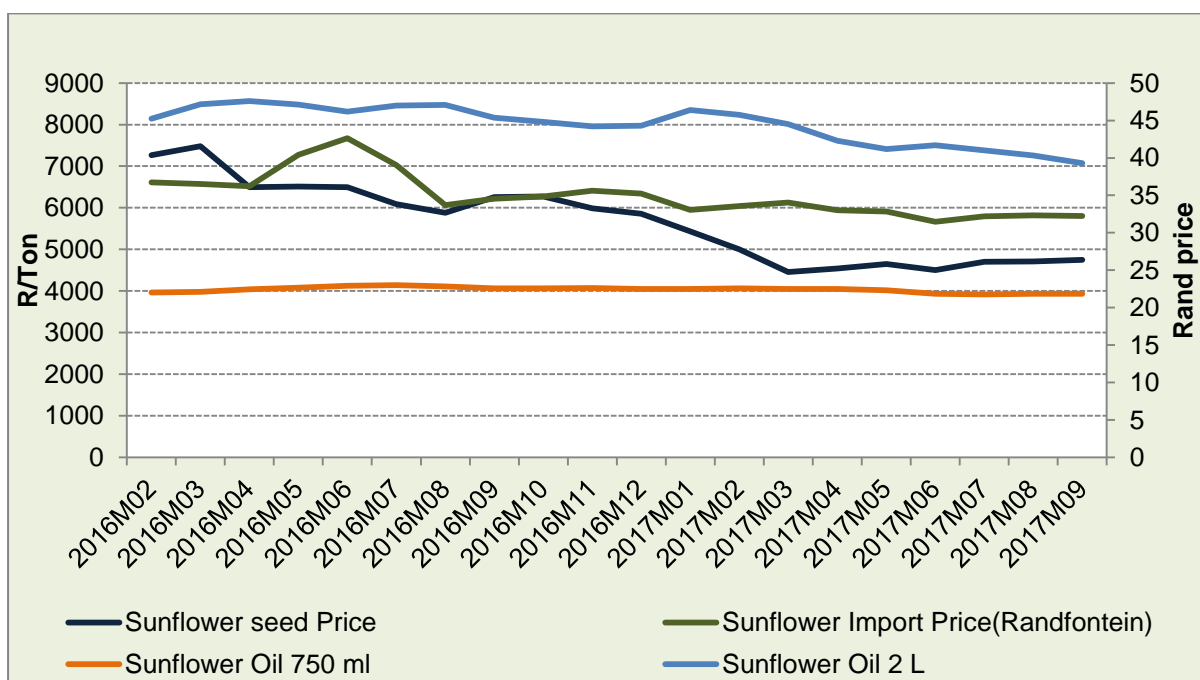


Figure 31: Sunflower local seed; import price (Randfontein) and Sunflower retail price
 Source: Safex; USDA; Sagis; and Own calculations

According to the ABSA Agri trends report (October 2017), world sunflower seed production lowered to 48.4 million tons (down by 1.3 million tons). This may result into lower production and export supplies of sunflower oil and sunflower meal. The adverse weather conditions in the Commonwealth of Independent States (CIS) countries, causing many uncertainties on the supply side of sunflower seed. Downward revisions have been made in the Russian sunflower seed area to be harvested. Ukraine harvest results also poor. The reduced production is still in its initial phase, the risk of further crop declines is still there.

In the EU sunflower seed production is expected to be higher than initial forecast. This increase was supported by crop increments in France and Spain. Due to potential lower Turkish import demand, EU sunflower seed exports are likely to recover in 2017/18. World sunflower seed processing will likely remain high or even increase, from the record carry-over stocks and the new crushing sunflower seed capacity coming, from the Black Sea region. Producer deliveries in the third quarter of 2017 (Q3) decreased by 83.7% as compared to the previous quarter of 2017 (Q2), whilst also sunflower seed imports increased by 9.5% in the same quarter. Local sunflower seed consumption in the third quarter of 2017 (Q3) was 65.6% higher than it was in the previous quarter of 2017 (Q2). Local consumption in the third quarter of 2017 (Q3) is expected to be 17.7% higher than it was in the same quarter of 2016 (Q3)., see Figure 32.

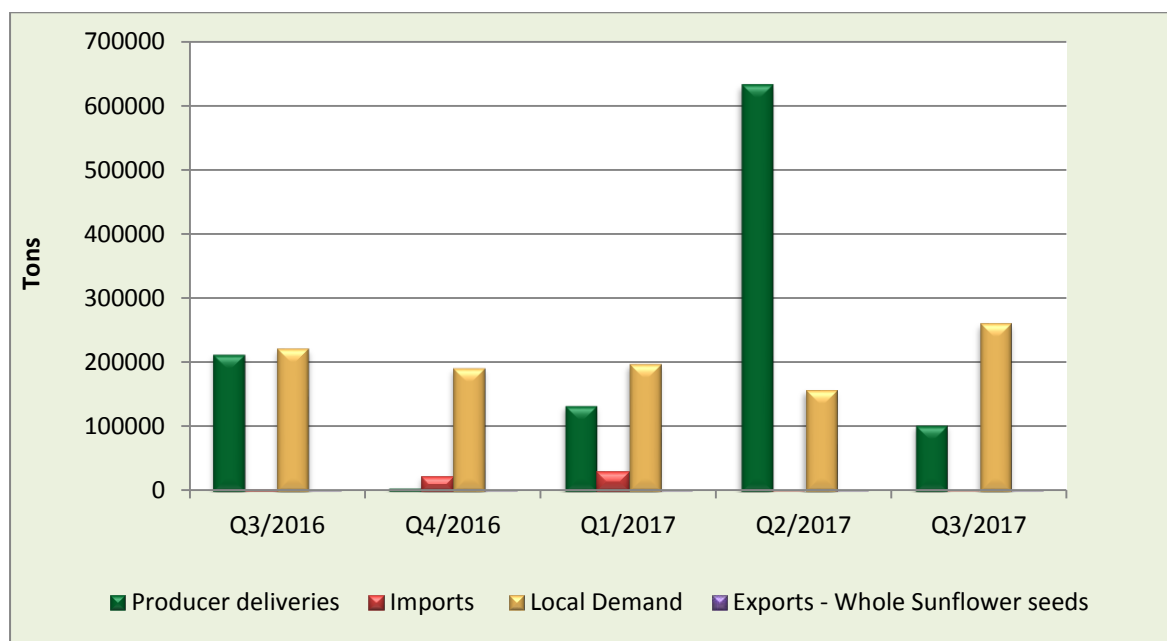


Figure 32: Sunflower seed deliveries; local demand and trade
Source: Sagis

3.1.5 Sorghum

The price of sorghum has declined by 9% on a quarter on quarter basis in the 3rd quarter of 2017, whilst on a year-on-year the price has declined by 27%. The decline in local prices is due to the high Sorghum output in 2017. The final sorghum production is estimated to be 115% higher than it was in 2016 from 70 500 tons in 2016 to 151 335 tons as shown on table 2 below. The ending stock is expected to be higher thus prices are expected to be lower going in to the following year assuming normal weather in 2018.

Local prices are trading at 27% lower than the import price whilst last year price were 19% above the import price. The SA sorghum price trades at 46% above the export price even though production is at the highest in 2017 locally.

World sorghum prices have risen during the quarter due to the reduction in the sorghum production outlook, although the fall was outweighed by the rise in maize outlook considering the high correlation between maize and sorghum.

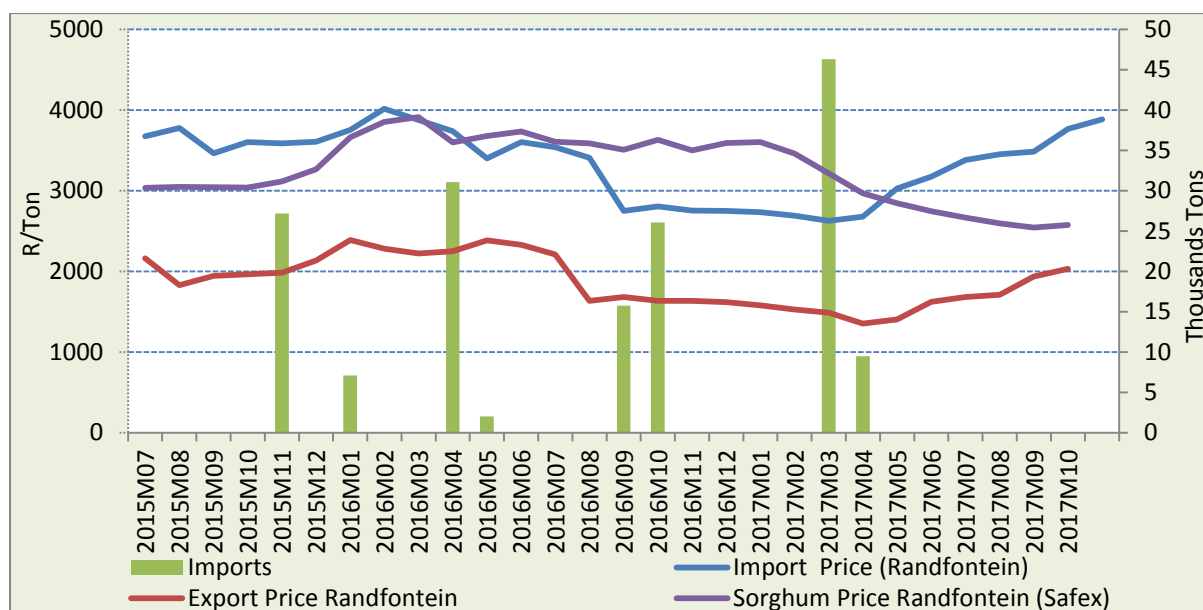


Figure 33: Sorghum Parity Price

Source: Safex, Sagis

Table 2: Production & Use Table

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Opening stock | 112400 | 73400 | 62500 | 56015 | 50069 | 121812 | 83142 | 35238 |
| Production | 196500 | 155000 | 135500 | 147200 | 265000 | 114700 | 70 500 | 151335 |
| Imports | 0 | 57800 | 54800 | 50033 | 8725 | 34316 | 74957 | 57500 |
| Total Supply | 308600 | 290800 | 250300 | 251652 | 320301 | 277713 | 226677 | 244073 |
| Local demand | 206900 | 203500 | 175300 | 182033 | 172320 | 165532 | 178790 | 176000 |
| Exports | 28300 | 24800 | 19000 | 19550 | 26169 | 29039 | 12649 | 14000 |
| Total Demand | 235200 | 228300 | 194300 | 201583 | 198489 | 194571 | 191439 | 190000 |
| Ending Stock | 73400 | 62500 | 56000 | 50069 | 121812 | 83142 | 35238 | 54073 |

Source: DAFF/ NAMC/Sagis

3.1.6 Groundnuts

The National Crop Estimate Committee revised groundnut production estimate up by 2% to 92 050 tons, from the previous 90 550 tons. Favourable summer rainfall, higher yields and an increase in area plantings are key drivers to the rebound. The current harvest looks promising and analysts expect this year's groundnut production to show better profits than most crops. Adri Botha, chairperson of the groundnut forum of South Africa (SAGF) believes that with stable and adequate supply of

grounds, the market can be regained again since South African exporters are renowned for quality and reliability under normal circumstances, see Figure 34..

Producer deliveries of groundnut more than doubled in Q3:2017 compared with Q3:2016, from 4 415 tons to 9 129 tons. This increase could be attributed to an increase in area planted in 2017, from 22 600 hectares in 2015/16 to 56 000 hectares planted in 2016/17.

Local demand of groundnut increased by 10% in Q3: 2017 compared with Q3:2016, from 15 214 tons to 16 779 tons in Q3: 2017. Producers are usually contracted and therefore with demand on the increase, the local industry is unable to meet local demand.

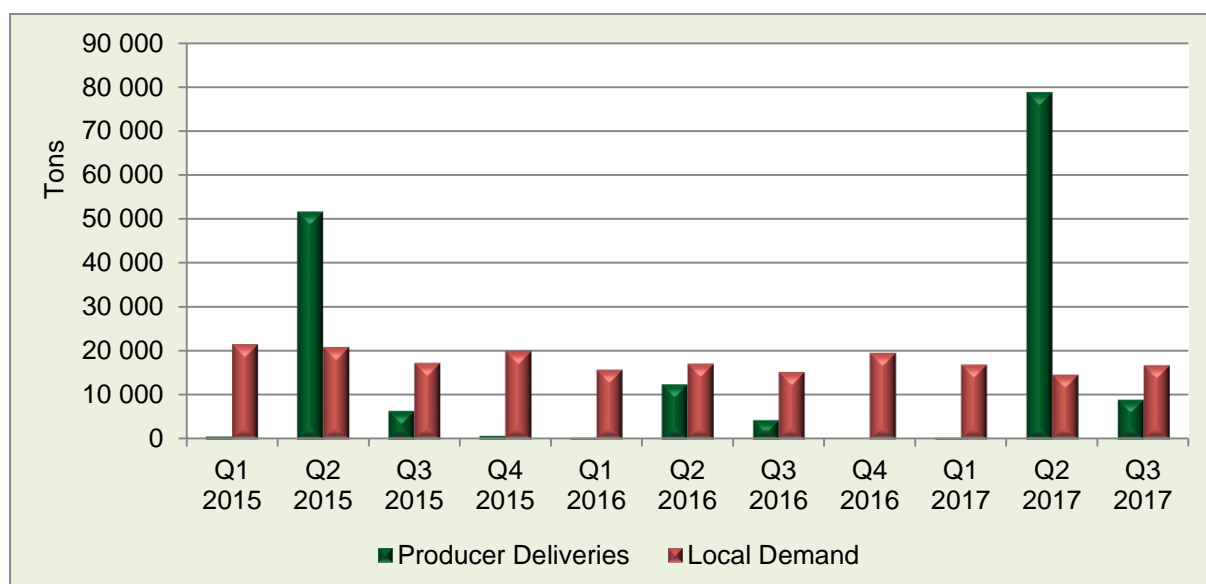


Figure 34: Supply and demand of Groundnuts
Source: Sagis

Figure 35 shows retail prices of oilseed products between January 2015 and September 2017. In South Africa, groundnuts are traded for three main functions: for edible peanuts and peanut butter, for oil and oilcake and then for seed. In Q3:2017, consumption in the edible market increased by 12%, from 6 267 tons in Q3:2016 to 7 022 tons Q3:2017. The local consumption requirements for groundnuts is around 63 000 tons per year of which 37% of this is consumed as peanuts and then the rest is processed into peanut butter, oil and other products. Consumption of peanut butter increased by 10% in Q3:2017 compared with Q3:2016, from 8 523 tons to 9 392

tons. Consumption levels of peanut butter improved in Q3:2017 despite slight increases in the domestic peanut butter prices during the same period. Consumption levels of crushed oil & cake have been volatile but increased massively in Q3:2017 compared with Q3: 2016, from 65 tons to 369 tons. The crushing of groundnuts results in approximately equal amounts of oil and oil-cake. The oil-cake obtained from crushing is used in peanut butter, prepared baby food and animal feedstuff.

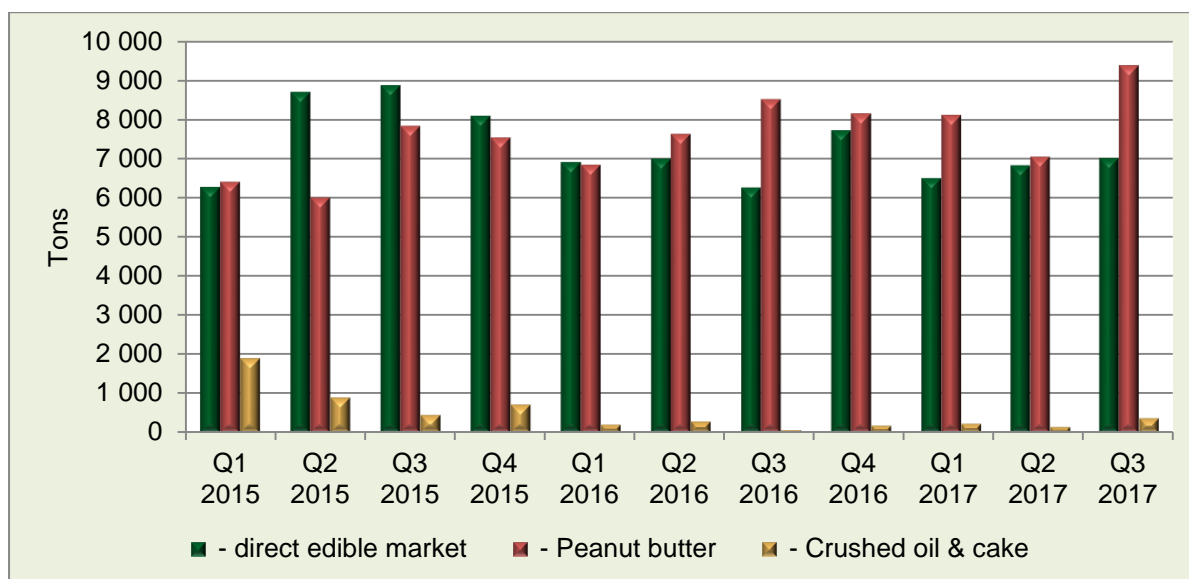


Figure 35: Groundnuts consumption
Source: Sagis

Figure 36 shows oil seeds products between January 2015 and September 2017, market prices for 400 gram peanut butter remained volatile however, displayed an increasing trend over the period. In July 2017, the market price per 400 gram peanut butter peaked at R28.23, the highest price ever reached since January 2015. In August 2017, the market price per 400 gram peanut butter decreased to R27.56 per 400 gram and further decreased to R27.33/400 gram in September 2017. The decrease could be attributed to the overall decrease in food inflation from 5.7% in August to 5.4% in September 2017. Overall, the risk remains that oil prices will be higher and petrol prices are expected to increase with a further increase in the region of 70 cents per litre expected in December 2017.

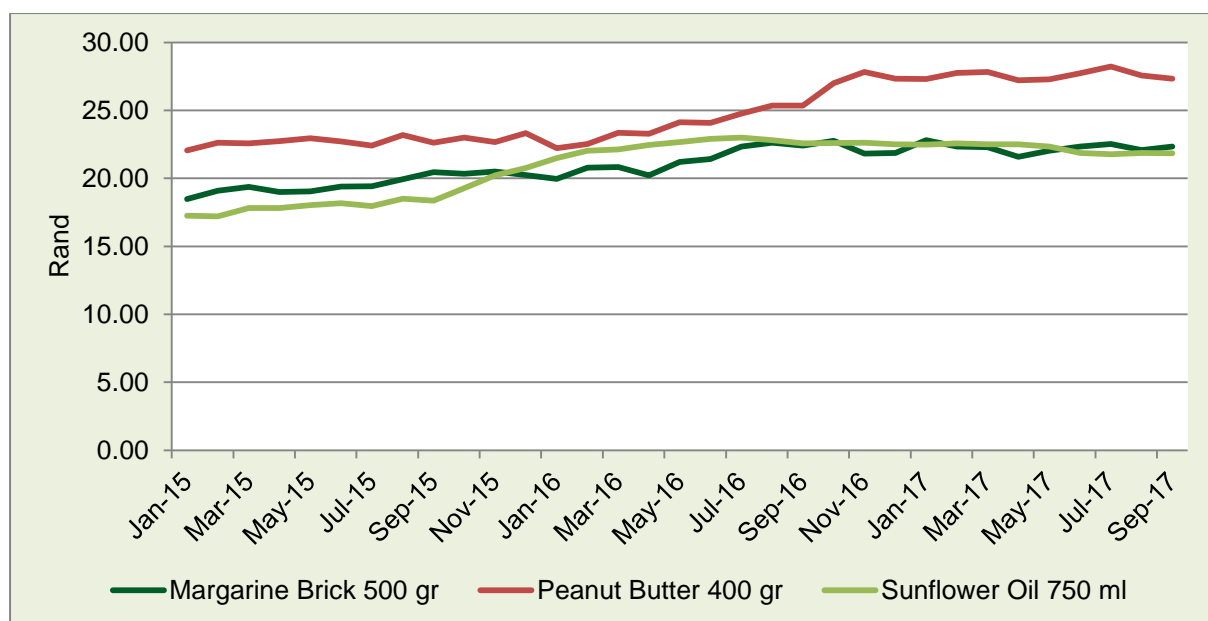


Figure 36: Oilseed products
Source: Stats SA

Figure 37 shows exports of groundnuts increased by 17% in Q3:2017, from 3 668 tons in Q3:2016 to 4 306 tons in Q3:2017. The leading South African export markets in Q3:2017 were Mozambique, Japan, Zimbabwe, Zambia and Netherlands. According to the chairperson of the South African groundnut forum (SAGF), new possibilities exist for groundnut producers in the export market. Nonetheless, due to a changing and declining supply, South Africa has over the years lost some of its standing export markets particularly in Europe and Japan. However, the groundnut forum of South Africa believes markets are still there to be regained and expanded if the broader industry commits to consistent supply of high quality products. Imports of groundnuts decreased by a massive 76% in Q3:2017 compared with Q3:2016, from 11 458 tons to 2 790 tons. Leading suppliers of groundnuts in Q3:2017 were Argentina, Brazil, China, Mozambique and Malawi. The South African Groundnut Forum (SAGF) believes South Africa is still lacking behind compared to major groundnut exporting countries on cultivar development. The challenge is identifying cultivars that will produce higher yields. According to SAGF, there is a serious need of accessing cultivars that will deliver higher yields which will assist in cutting down on costs and deliver more affordable product to the market. Nevertheless, there is hope for the South African groundnut industry given that agriculture has proven to be economically competitive in world markets. The South African Groundnut Forum

believes if the local groundnut industry can become more efficient in eliminating some of its hindrances, the industry has the ability to compete globally.

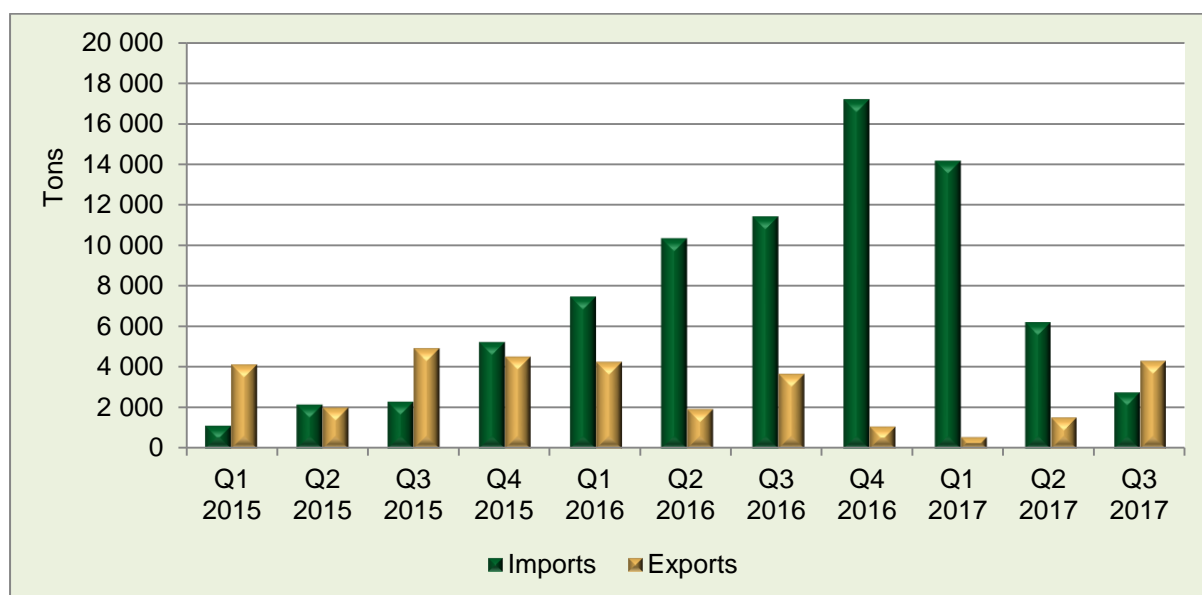


Figure 37: Exports and Imports of groundnuts

Source: Sagis

In conclusion, the South African groundnut industry needs to access cultivars that will deliver higher yields which will assist in cutting down on costs and deliver more affordable product to the market. If South Africa’s groundnut producers can consistently supply high quality products, they can regain their position on the export market and the industry could experience a turnaround.

3.2 Fruit and vegetable market review

This section looks at the average prices and quantities of fruit and vegetables supplied at the fresh produce markets (FPMs) between 2016: Q3 and 2017: Q3. The focus of this report in terms of fruit is apples, avocados, bananas, oranges, pears and mangoes. The following vegetables will be reviewed, carrots, onions, potatoes, tomatoes and cabbage.

Figure 38 illustrates the average prices of various fruit traded at fresh produce markets. The average prices of Apples remained dormant whilst the average prices of avocados, Pears and grapes increased by 33%, 2%, and 31% respectively. The

average prices of Bananas, Oranges and Mangoes declined by 17%, 10% and 28% respectively.

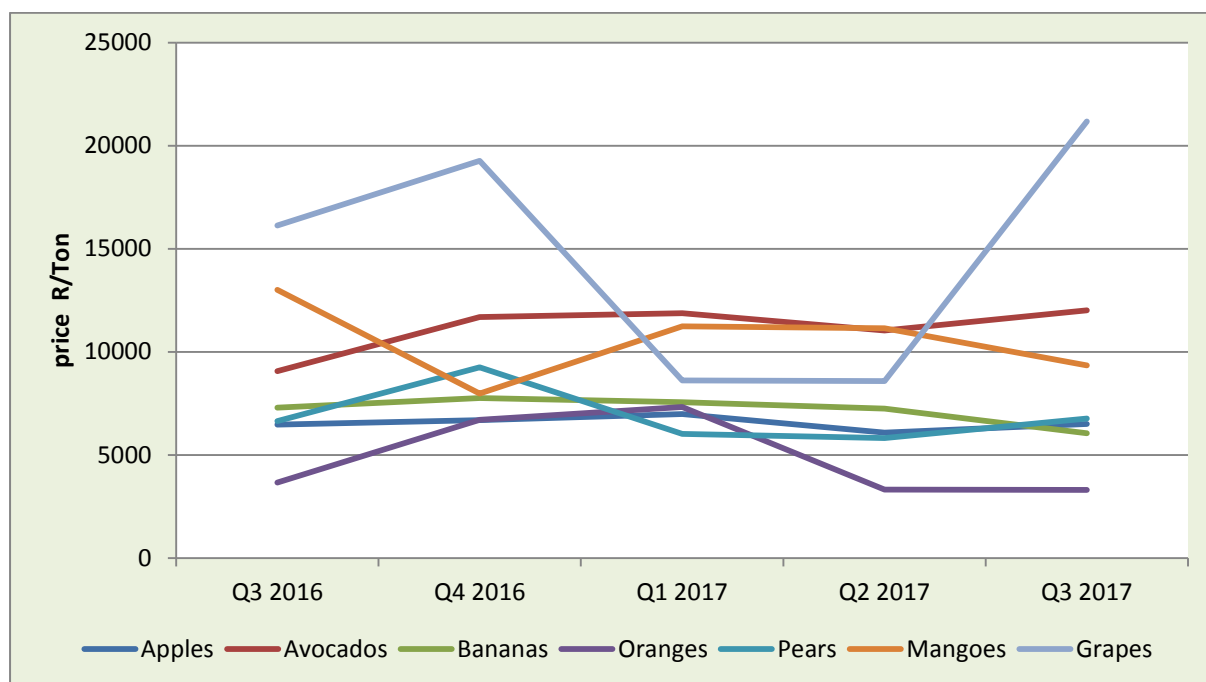


Figure 38: Average price trends of various fruits traded at Fresh Produce Markets (FPMs)
Source: Daff

Figure 39 above indicates the various quantities of fruit traded at fresh produce markets within the depicted period. Comparing the third quarter 2016 and third quarter 2017 quantities of Avocados, Oranges, Pears and Grapes decreased by 25%, 6%, 6% and 4% respectively for third quarter of 2017 as opposed to the third quarter of 2016 while quantities of Apples, Bananas and Mangoes increased by 2%, 31% and 43% respectively comparing the same periods under consideration.

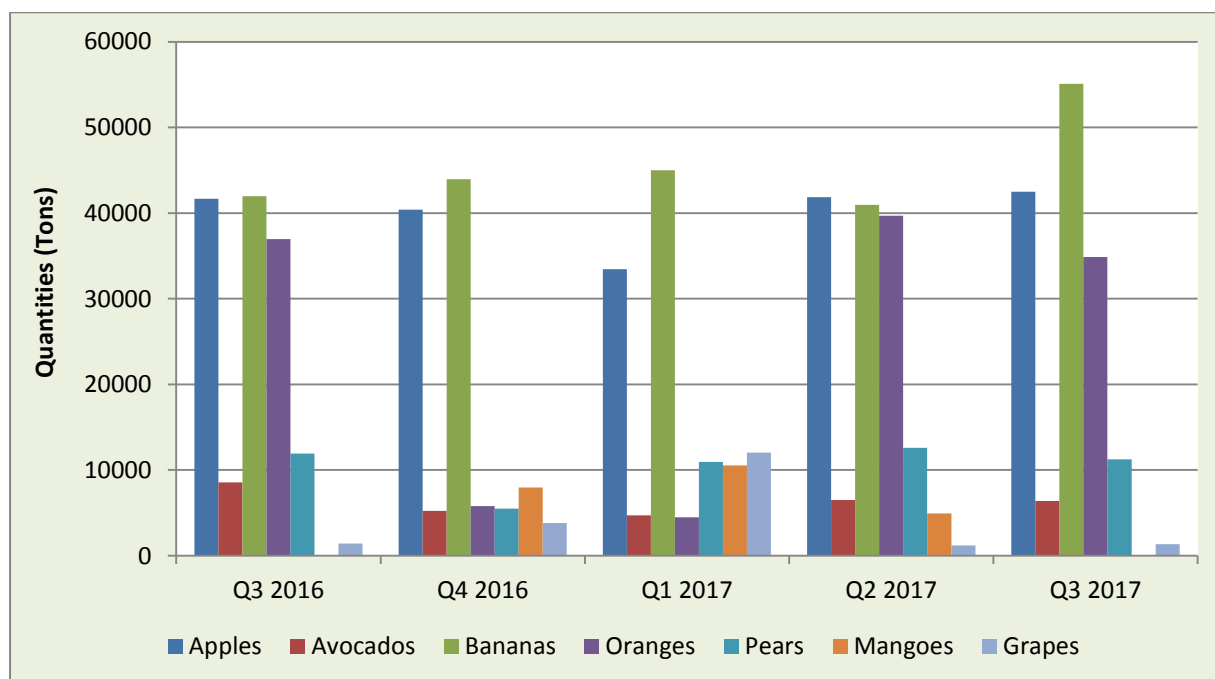


Figure 39: Quantities of various fruits traded at Fresh Produce Markets (FPMs)
Source: Daff

Between 2016: Q3 and 2017: Q3, there has been a decline in the average price of most of the various vegetables traded at the fresh produce markets as illustrated by Figure 40. The average price of Onions and Potatoes decreased by 47% and 24% respectively, across all fresh produce markets whilst the prices of Carrots, Tomatoes and Cabbages increased by 20%, 9% and 31% respectively comparing the third quarter of 2017 and third quarter of 2016.

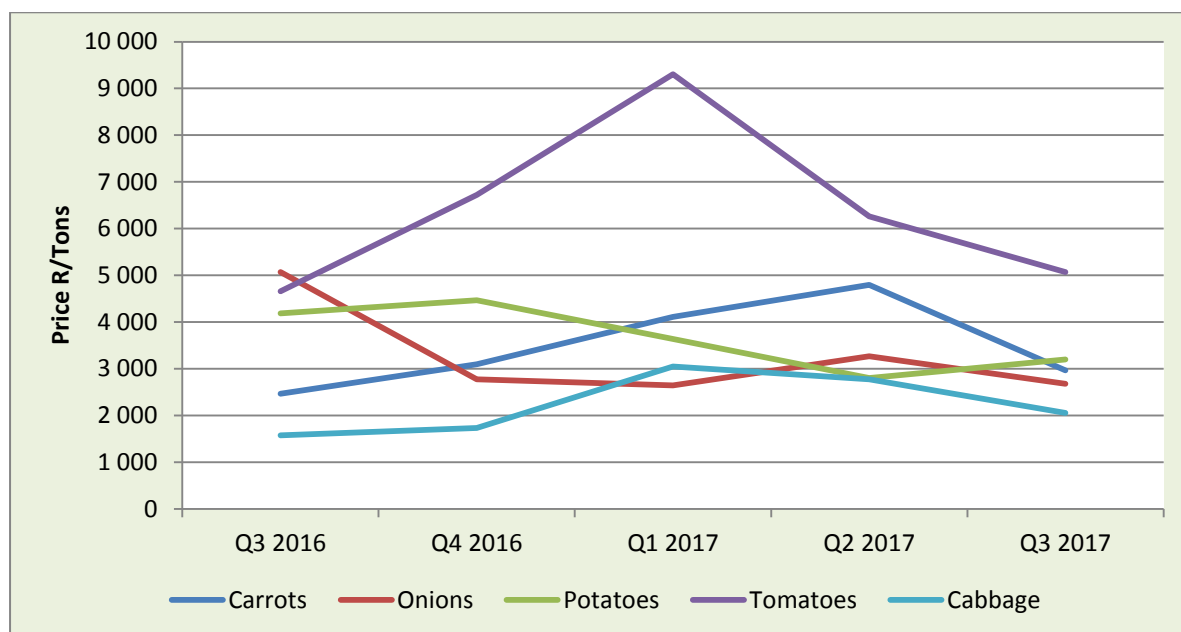


Figure 40: Average prices of various vegetables traded at Fresh Produce Markets (FPMs)
Source: Daff

Figure 41 indicates the quantities of various vegetables traded at fresh produce markets in South Africa. Comparing the third quarter of 2016 and the third quarter of 2017, quantities of Onions and Potatoes increased by 9% and 16% respectively, while quantities of Carrots, Tomatoes and Cabbage decreased by 1%, 2% and 5% respectively in the third quarter of 2017 as compared to third quarter of 2016.

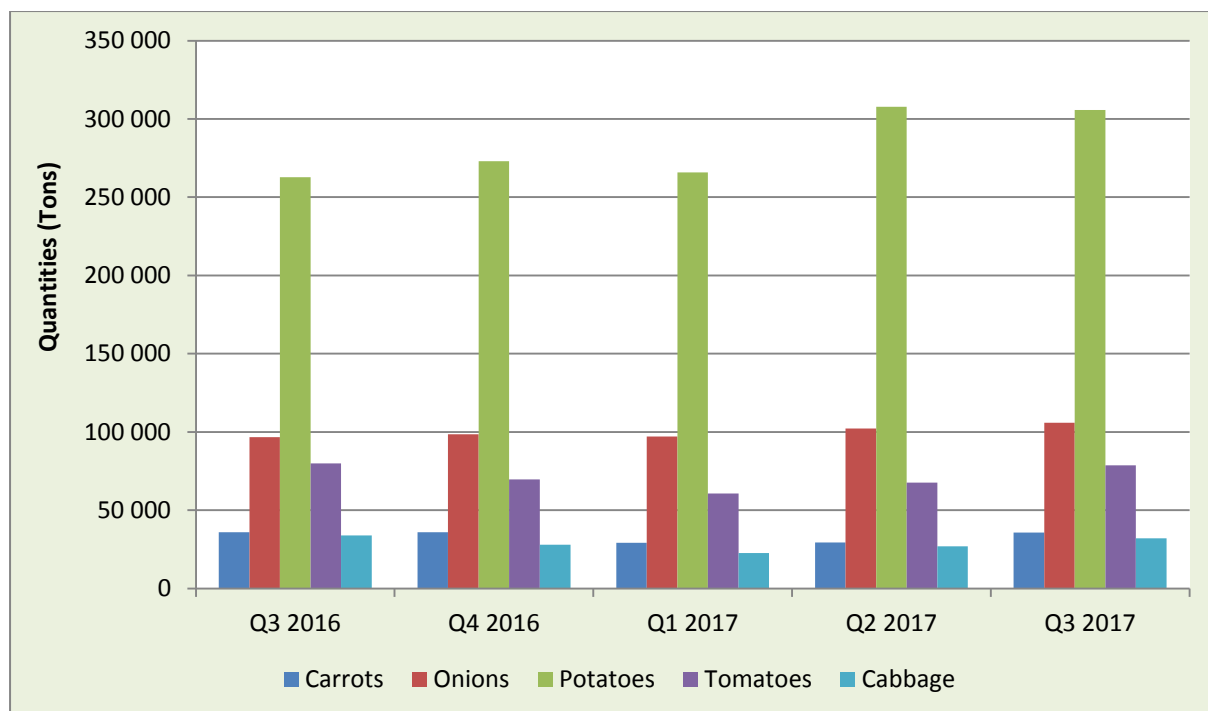


Figure 41: Quantities of various vegetables traded at Fresh Produce Markets (FPMs)
Source: Daff

3.3 Meat industry review

Globally, beef production is forecast to grow less than 2% in 2017 to nearly 62 million tons, largely from gains in the United States, Brazil, and Argentina. Beef production for 2017 is forecast lower primarily on lighter carcass weights which more than offsets higher expected slaughter in the later part of 2017; with Brazil's growth driven by higher exports to Asia and moderate expansion in domestic demand as the Brazilian economy recovers; meanwhile cattle price forecast is lowered for 2017 but for 2018 cattle price forecasts kept unchanged. However, Beef production will decline most in South Africa and Australia as herds are rebuilt after drought-induced liquidation of stocks. On the other hand production in New Zealand will also fall moderately as producers retain cows and heifers for herd rebuilding (USDA, 2017). According to WASDE (2017) in 2017 global exports are forecast 2% higher to 9.6 million tons. Shipments from South America, India, and the United States will more than offset declining exports from Australia and New Zealand, both hampered by lower supplies.

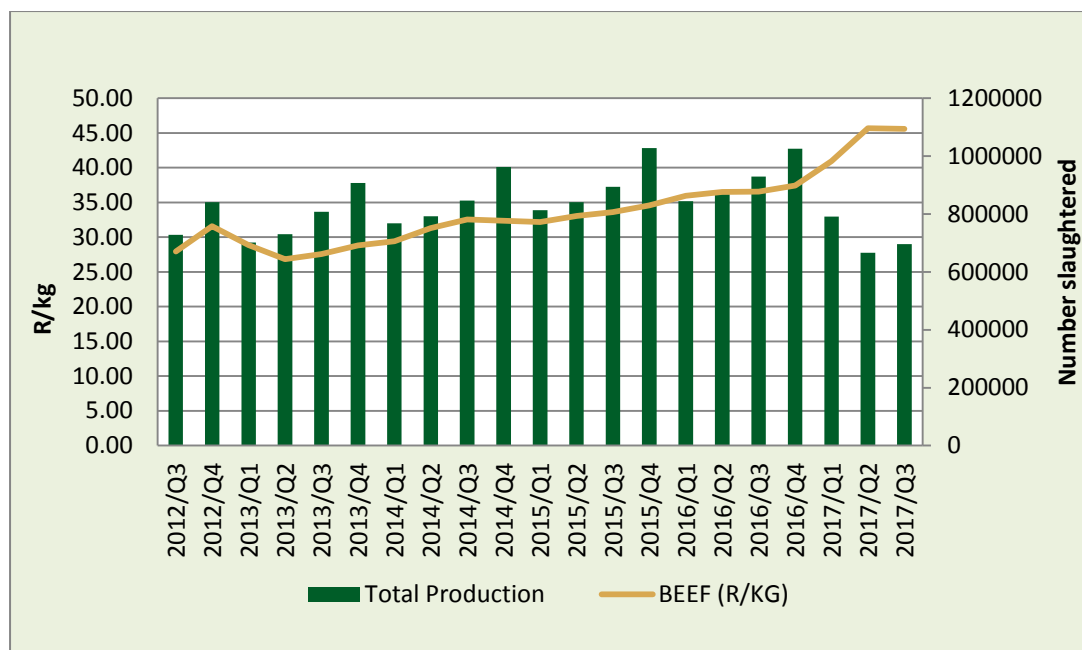


Figure 42: SA weaner calf purchases, beef carcass sales and live sales
Source: SA feedlot

Figure 42 represents total number of beef slaughtered and their rands and cents per value. As shown graphically above, from the third quarter of 2012 up to the third quarter of 2017, number of beef slaughtered has been volatile. Compared to the third quarter of 2016 total beef slaughtering declined by 25.1% in the third quarter of 2017, and it is expected that slaughtering will continue to decline until 2018 as herd rebuilding continues after the recovery of good rains and improved grazing conditions.

In the third quarter of 2017 as shown in figure 43, weaner calf purchases, beef carcasses sales and live sales increased by 54.2%, 20.9% and 21.1% compared to the same quarter in 2016. Looking ahead, weaner calf prices are expected to increase substantially as producers are rebuilding herds supported by lower maize prices; also both the demand of and supply for calves tend to be influenced by maize prices; and improved feedlot margins support growing demand for calves.

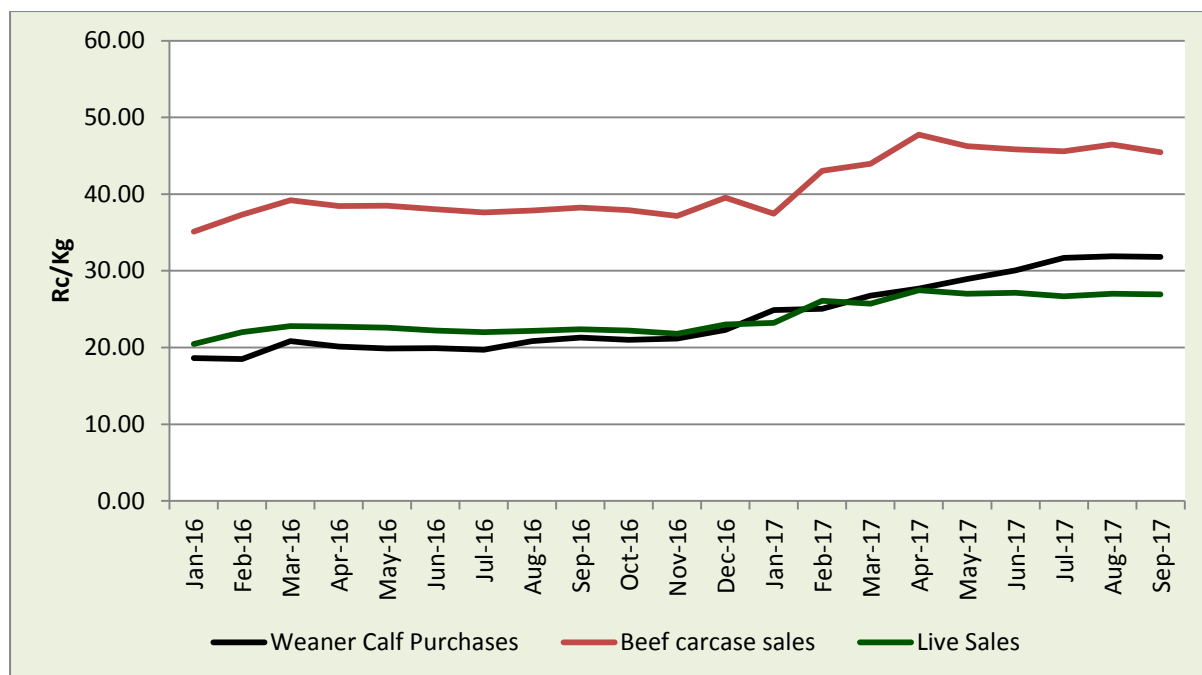


Figure 43: Beef production
Source: Daff

3.4 Poultry industry review

poultry production has increased by 3% in quarter 3 of 2017 compared to the previous quarter(q/q) ; whilst on year-on-year(y/y) basis production has decreased by 8%. The local poultry production cycle will be affected in the long run as the avian(HPAI H5N8 virus) flu resulted in an estimate of more than 3 million birds being culled to contain the spread of the disease mostly in the broiler breeder and egg laying hens industries.

as shown in Figure 44.

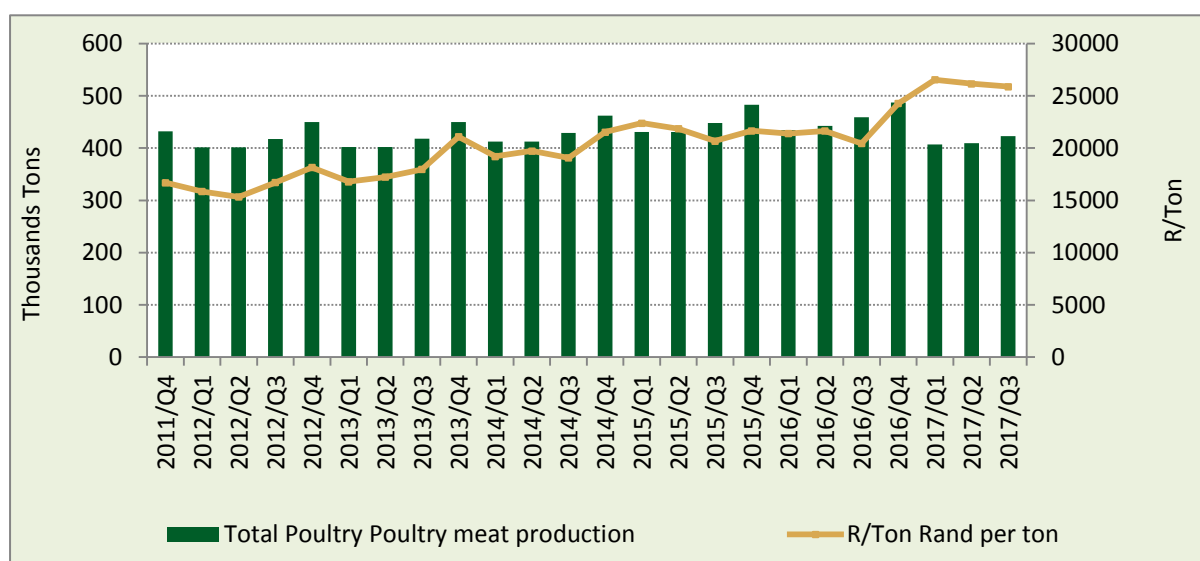


Figure 44: Poultry Production
Source: DAFF

The Price of poultry per ton has decreased by a percentage point on quarter on quarter basis; whilst year-on-year the price is 27% higher. The decline in prices could be attributed to inter-alia; the ability of other retailers being able to contain costs in the in the short term and again due to the availability of imports . The USDA expects the broiler meat production to grow by a percentage point in 2018 to 91.3 million tons. The growth in production is expected from the United States, Brazil, India, and the European Union.

At the retail level; the whole chicken and chicken portion index increased by 0.05% and 1.14% respectively on a q/q basis and by 5.1% and 4% respectively on a y/y basis as shown on figure 45.

While yellow maize as a proxy for poultry feed index decreased by 0.9% on a q/q and 39% y/y respectively. The decline in poultry feeds usually take approximately 4-5 months to be fully felt at the production level thus translating into lower prices; although the avian flu outbreak remains the downside risk.

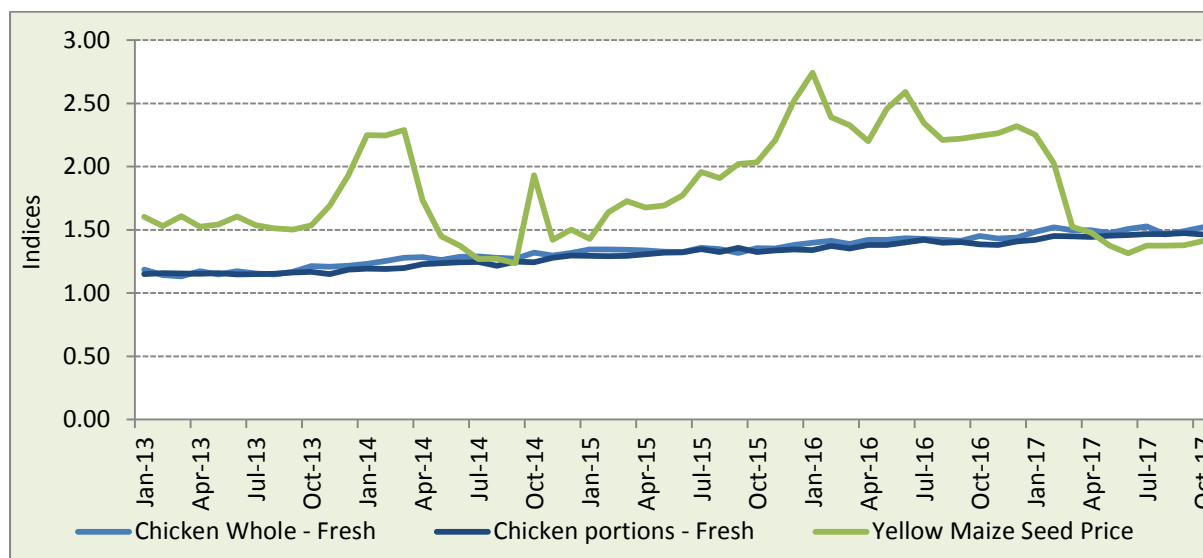


Figure 45: Poultry feed vs Retail prices
 Source: SAPA, STATTSA & Safex

3.5 Egg industry review

The South African Poultry Association (SAPA) reported that commercial egg production per day dropped to 17 million from 20.4 million, after an outbreak of the H5N8 virus was detected in June 2017. According to analysts, there is definitely a shortage looming. SAPA reported that SA's egg production per day plummeted by 17% while over 1000 jobs have been lost in the wake of the Avian flu outbreak. Overall, there is a sense that things are likely to get worse before they get better. The impact of the virus on the poultry industry also poses a risk for food price inflation. The Poultry Association reported that some retailers may already be struggling with egg supply. The Financial Mail also reported that although some big retailers appear to be fairly stoic at this point, egg shortages on shelves are looming. Already in the Western Cape, reduced stock levels are popping up. The general shortage in the Western Cape has affected Massmart, which has been trying to procure eggs from other provinces.

For producers, relief of any kind is hard to see as there is no insurance for a disease of this kind. The Western Cape MEC for Economic Opportunities reported that many farmers have been proactive with testing their flocks for early detection of the avian influenza and culling them speedily in response to positive tests. Some farmers have put up lime around their properties to try and prevent the virus from spreading.

The debate on whether poultry should be vaccinated against the virus looks like it has reached a deadlock situation. Agriculture Minister Senzeni Zokwana highlighted that vaccination of birds would create an "endemic situation", affect surveillance efforts and affect SA's export certification.

In Q3:2017, the total production of eggs totaled 181,0 million dozens, a 6.5% decrease in production compared with 193,7 million dozens produced in Q3:2016. Between Q2:2017 and Q3:2016, the total production of eggs decreased by 3.8%, from 188,2 million dozens to 181,0 million dozens. Analysts highlighted that there is a definite egg shortage looming while financial mail reported that the chronic egg shortage shows no sign of easing with a potential 3.7 million eggs a day out of circulation.

The average price per dozen of eggs increased by 8.0% in Q3:2017, from R 11,92 per dozen in Q3:2016 to R12.88 per dozen in Q3:2017. When comparing the Q2:2017 with Q3:2017, the average price per dozen of eggs increased by 3.2%, from R12,48 per dozen to R12,88 per dozen. Wessel Lemmer, Senior Agricultural Economist at Absa reported that producers will have to carry additional costs of the losses and measures of biosecurity which could push the price per dozen of eggs up by R2 to R3. The situation is devastating and does not auger well for the fight against poverty. Food prices have been unreasonably high and the current situation within the poultry industry will likely contribute to an already crisis situation.

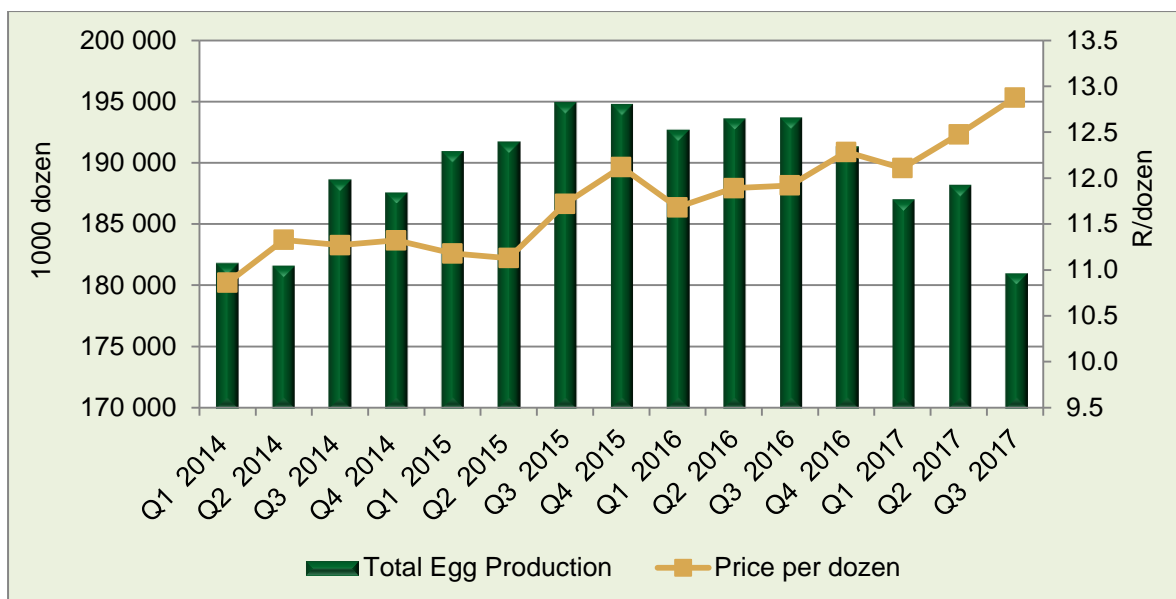


Figure 46: Trends in total egg production and average price per dozen of eggs.
Source: DAFF

SA's exports of bird eggs (in shell, fresh, preserved or cooked) have been volatile between Q3:2016 and Q3:2017, increasing by 6% in Q3:2017, from 3 170 tons in Q3:2016 to 3 361 tons in Q3:2017. When comparing Q2:17 with Q3:2017, South Africa's exports of bird eggs decreased by 14% while measures have been put in place within the South African egg industry to ensure establishments are not hit hard by the egg shortage caused by the avian flu outbreak. Prospects for the South African egg industry are concerning while this egg shortage not only poses a risk for food-price inflation because of rising costs, but jobs have been lost as a consequence thereof.

Imports of bird eggs (in shell, fresh, preserved or cooked) have not been smooth between Q3:2016 and Q3:2017. In Q3:2016, imports of bird eggs reached 0.044 tons while in Q3:2017, there was literally no indications of imported bird eggs (in shell, fresh, preserved or cooked). Between Q2:2017 and Q3:2017, imports to bird eggs decreased by 100% from 0.001 tons to nil. Meanwhile, the poultry industry requested permission to import fertile eggs to close the supply gap as a result of culled birds. Stringent quarantine measures have been put in place on arrival of the hatching eggs and on countries where the eggs will come from. DAFF Minister, Senzeni Zokwana, reported that those countries where the eggs will be imported from will need to be certified to be free of specified diseases.



Figure 47: Trends in imports and exports of Birds' Eggs, In Shell, Fresh, Preserved Or Cooked
Source: GTA, 2017

3.5 Milk industry overview

Total milk production came in 5.3% higher in Q3:2017 than in Q3:2016, increasing from 885.01 million litres in Q3:2016 to 931.77 million litres in Q3:2017. According to Milk SA, total milk intake during the first nine months of 2017 was 1.8% higher compared with the same period in 2016. An estimated 304 million litres of milk was delivered to dairies in September 2017 which was 6.2% higher than in September 2016. The increase in SA's milk intake in the first nine months of 2017 can be attributed to lower grain prices, fewer incidents of disease and a tendency among seasonal producers towards earlier calvings.

The average producer price per litre of milk increased by 6.1% in Q3:2017, from R4, 69/ℓ in Q3:2016 to R4, 97/ℓ in Q3:2017. Climatic conditions play an important role in determining agricultural product prices. Favourable climatic conditions in some areas have already resulted in lower grain prices and this year's record crop will ensure grain prices remain relatively low. The exchange rate will also influence dairy product prices, especially products that will be imported. Meanwhile, 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 selfsufficiency in the dairy industry and the extent of regulation or deregulation in the industry.

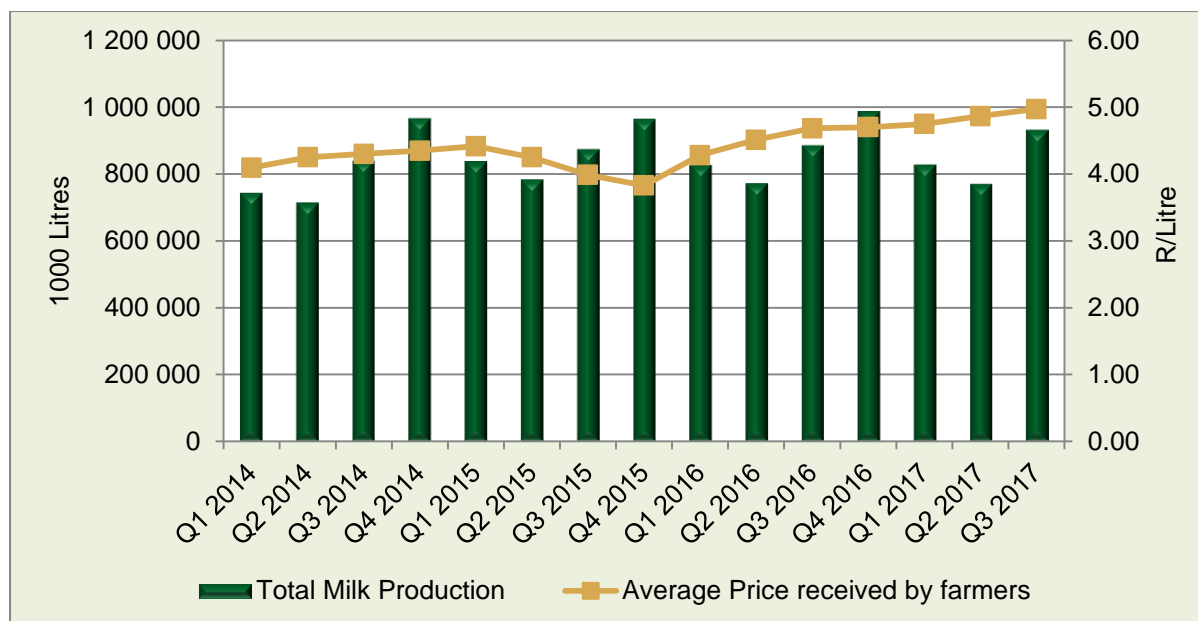


Figure 48: Trends in total production and average price of milk
Source: DAFF

Figure 49 Exports of milk and cream (not concentrated nor containing added sweetening) were 2.2% higher in Q3:2017 compared with Q3:2016, exporting a total of 18,41 million litres of milk and cream in Q3:2017 compared with 18,01 million litres exported in Q3:2016. Between Q2:2017 and Q3:2017, exports of milk and cream (not concentrated or containing added sweetening) increased by 9.7%, from 16,77 million litres in Q2:2017 to 18,41 million litres in Q3:2017. International dairy product prices remain highly volatile and lower milk production in major exporting countries has been the main driver for the slight increase in SA's milk exports.

Imports of milk and cream increased by 21.7% in Q3:2017, from 7,43 million litres in Q3:2016 to 9,05 million litres in Q3:2017. When comparing Q2:2017 with Q3:2017, imports of milk and cream decreased by 34.4%, from 13,79 million litres in the Q2:2017 to 9,05 million litres in Q3:2017. With the current rise in SA's milk intake in the first nine months of 2017, OECD-FAO predicts that population growth, increasing income and dietary changes will continue to push consumption growth.



Figure 49: Trends in imports and exports of milk and cream, not concentrated nor containing added sweetening
Source: GTA, 2017

3.6 Trade of agricultural, forestry and fisheries

South Africa's overall agricultural trade balance grew by 14.8% in Q3:2017 compared with Q3:2016. Despite reflecting an increase between Q3:2016 and Q3:2017, South Africa's agricultural trade balance decreased by 1.7% in Q3:2017 compared with Q2:2017. There are several factors impacting on the industry such as land reform concerns, volatile exchange rate and ongoing weather concerns. Moreover, overall weakness is manifesting strongly on the demand side of the economy. Income growth is slowing, job gains are likely weak, bank lending to households remains subdued and household wealth has stopped growing. Contributing widely to the prevalent economic uncertainty and variances in supply and demand of critical agricultural products is the enduring drought in the Western Cape and preliminary forecasts for a drier summer production season in 2017/18 (KLK Landbou, 2017).

The export value of agricultural products increased by 3.0% in Q3:2017, from R 35,80 billion in Q3:2016 to R 36,87 billion in Q3:2017. During the same period, the import value of agricultural products decreased by 2.4%, from R24,60 billion in

Q3:2016 to R24,01 billion in Q3:2017. Absa reported that record harvests for summer crops will only partially offset widespread weakness elsewhere in the economy.

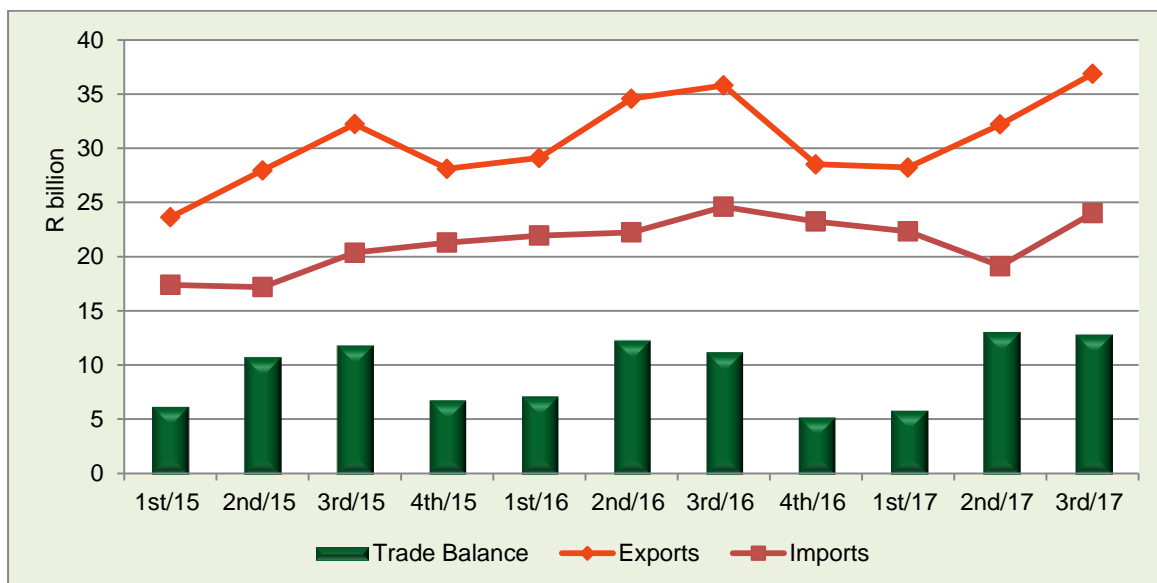


Figure 50: Trade balance of agricultural products

Source: GTA, 2017

Figure 51 illustrates South Africa gained most of its agricultural export revenue from products exported to Netherlands, which was the leading export destination, followed by Namibia and United Kingdom.

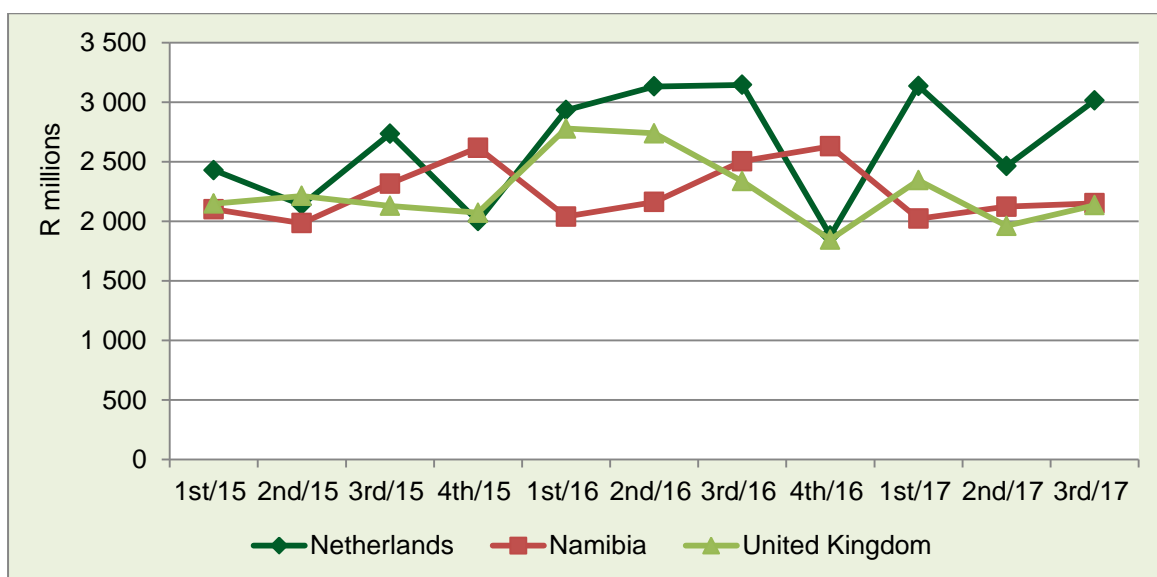


Figure 51: Top Three markets of agricultural products exported by SA

Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to the total export value in Q3:2017 include fresh oranges (20%), corn/maize (6%) and wine (4%) respectively, see Figure 52.

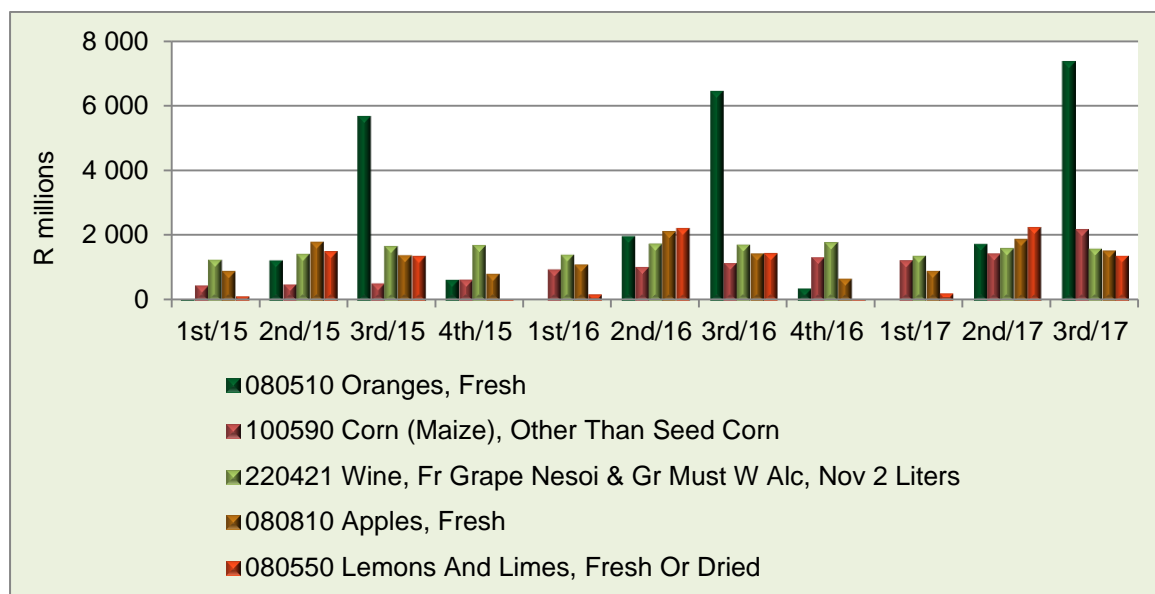


Figure 52: Top five agricultural products exported by SA

Source: GTA, 2017

Although positive growth is expected throughout the year, sustained by robust agricultural output in the summer producing areas, Absa reported that record harvests for summer crops will only partially offset widespread weakness elsewhere in the economy. Growth has faltered materially as political tensions have ratcheted up and overall weakness is manifesting strongly in the demand side of the economy. Moreover, there is little evidence that things will turn around for the consumer any time soon (Absa, 2017).

In Q3:2017, total import value of agricultural products decreased by 2.4%, from R24,60 billion in Q3:2016 to R24,01 billion in Q3:2017. The top three suppliers of agricultural products to the total import value in Q3:2017 were Brazil, Thailand and Namibia, see Figure 53.

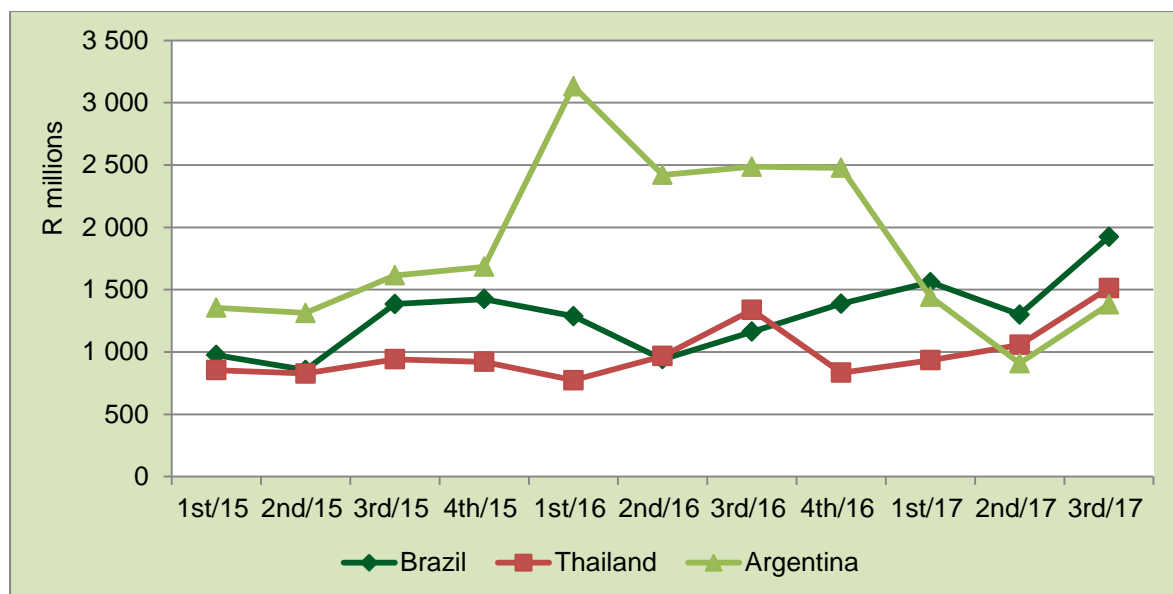


Figure 53: Top three market suppliers of agricultural products to SA

Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to the total agricultural import value in Q3:2017 include wheat (9%), rice (7%) and palm oil (5%), see Figure 54.

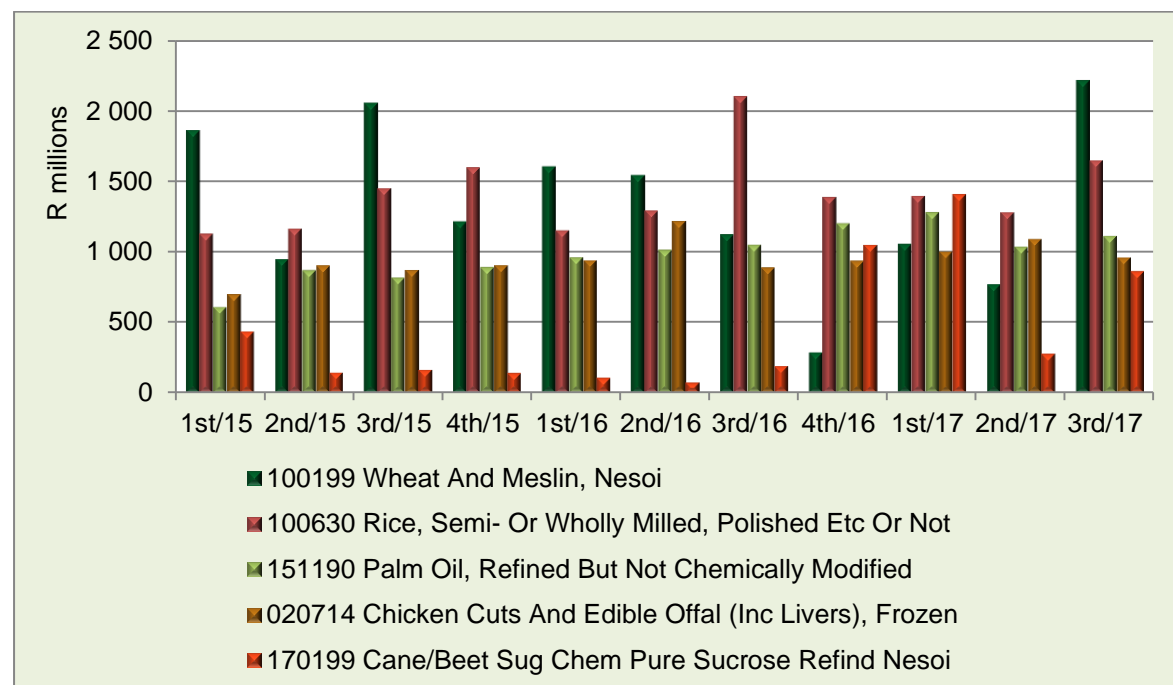


Figure 54: Top five agricultural products imported by SA

Source: GTA, 2017

3.6.1 Fisheries trade

Fisheries trade expanded considerably in recent decades, fuelled by growing production driven by high demand and the sector operating in an increasingly globalised environment. In Q3:2017, due to sluggish economic performance and environmental issues such as over-exploitation of fish stocks, environment degradation and habitat destruction, bio-security, disease outbreaks and climate change dynamics, fisheries trade balance remained in negative territory. Fisheries trade balance entered negative territory in Q1:2017 and has remained in negative territory even in Q3:2017. Supply of fisheries products remained subdued in Q3:2017 while the aquaculture sector continues to expand. According to the OECD-FAO projections, the aquaculture sector will soon become the world's primary source of fish for all purposes in the next five years. In Q3:2017, fisheries trade balance decreased massively, from R 517.88 million in Q3:2016 to a negative R 133,64 million in Q3:2017.

Figure 55 illustrates that in Q3:2017, exports of fisheries products decreased by 30.7%, from R 1.70 billion in Q3:2016 to R 1.18 billion in Q3:2017. During the same period, imports of fisheries products increased by 10.9%, from R1.18 billion in Q:2016 to R1.31 billion in Q3:2017.

According to FAO (2017), seafood demand is highly sensitive to increases in income, and thus it is these economic trends, combined with population growth rates that will be the major determinants of future trade flows and consumption patterns.

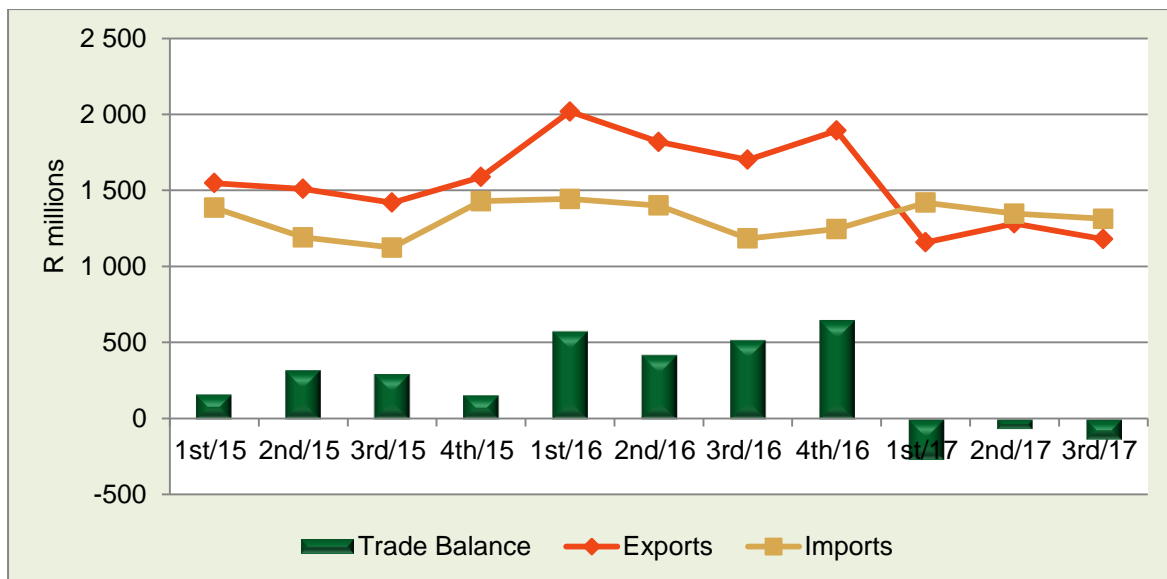


Figure 55: Trade balance of SA fisheries products

Source: GTA, 2017

The top three imported fisheries products in Q3:2017 include sardines/sardinella/brisling (prepared, preserved and not minced), tunas/skipjack/bonito (prepared, preserved and not minced) and hake fillets (frozen) each accounting for 23%, 13% and 9% of the total import value, see figure 56. Developing countries continue to play a significant role in the international supply of fish and fish products.

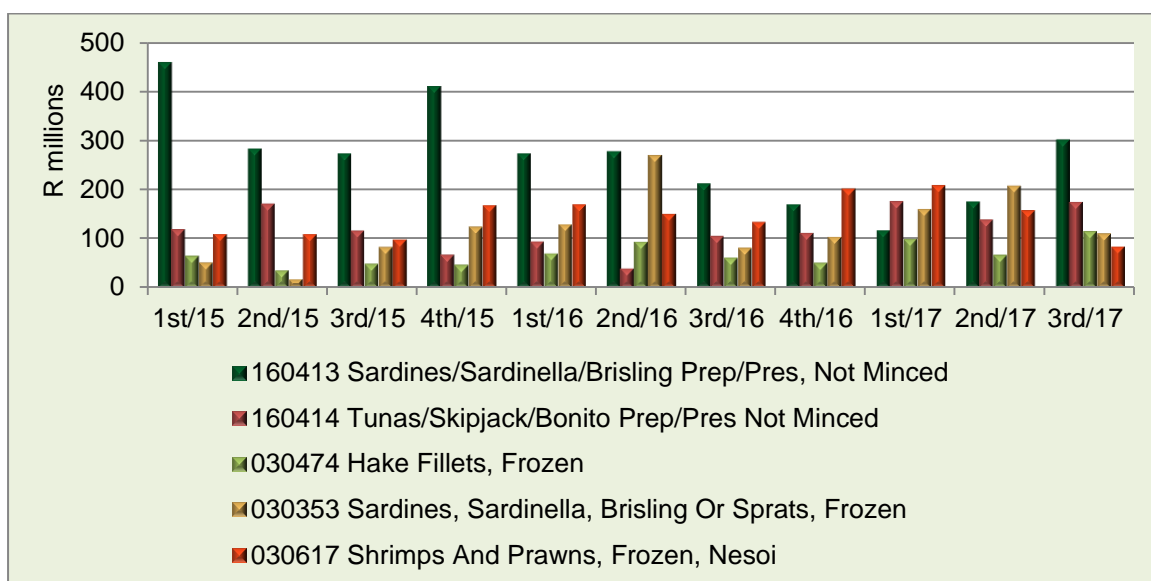


Figure 56: SA top five imported fisheries products

Source: GTA, 2017

Figure 57 presents the top three fisheries products exported by SA in Q3:2017. Hake fillets (frozen) were the main exported seafood products in Q3:2017, followed by fish (frozen) and hake (frozen), see figure 52. When comparing exports of fish products in Q3:2016 with Q3:2017, exports of hake fillets (frozen) and hake (frozen) decreased by 16% and 19% respectively while exports of fish (frozen) increased by 35% during the same period. Deep-water hake remains depleted however; its status is improving while shallow-water hake is considered most optimal to abundant (DAFF, 2017).

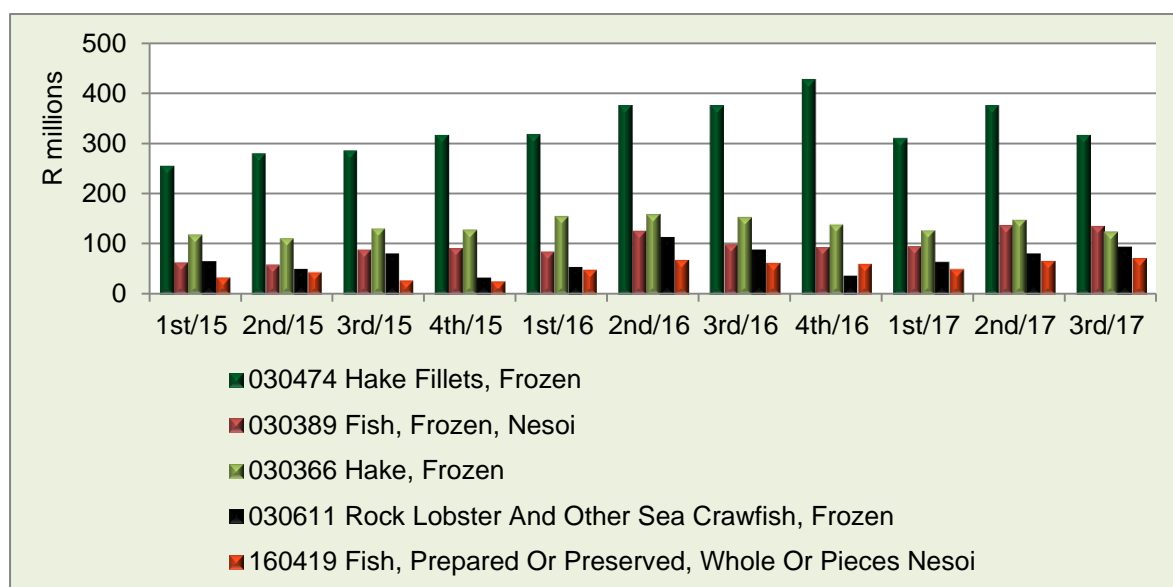


Figure 57: SA top five exports of fisheries products

Source: GTA, 2017

3.6.2 Forestry trade

Forestry products are a subset of the global commodities market and directly influenced by international as well as local trends. The volatile currency, failing infrastructure and services, loss of key strategic, high value skills as well as high unemployment continue to plague the South African forestry sector.

Figure 58 shows the trade balance of South African forestry products from Q1:2015 to Q3:2017. Comparing Q3:2016 with Q3:2017, the trade balance of forestry products was rather volatile over the period, decreasing by 14.2% in Q3:2017, from R 2,09 billion to R 1.80 billion. Between Q2:2017 and Q3:2017, a sharp downturn is

observed in forestry's trade balance in Q3:2017, decreasing by 27.3% over the period, from R 2,47 billion to R 1,80 billion, see figure 53. The export value of forestry products decreased by 17.1% in Q3:2017 compared with Q3:2016 while the import value of forestry products decreased by 18.1% during the same period.

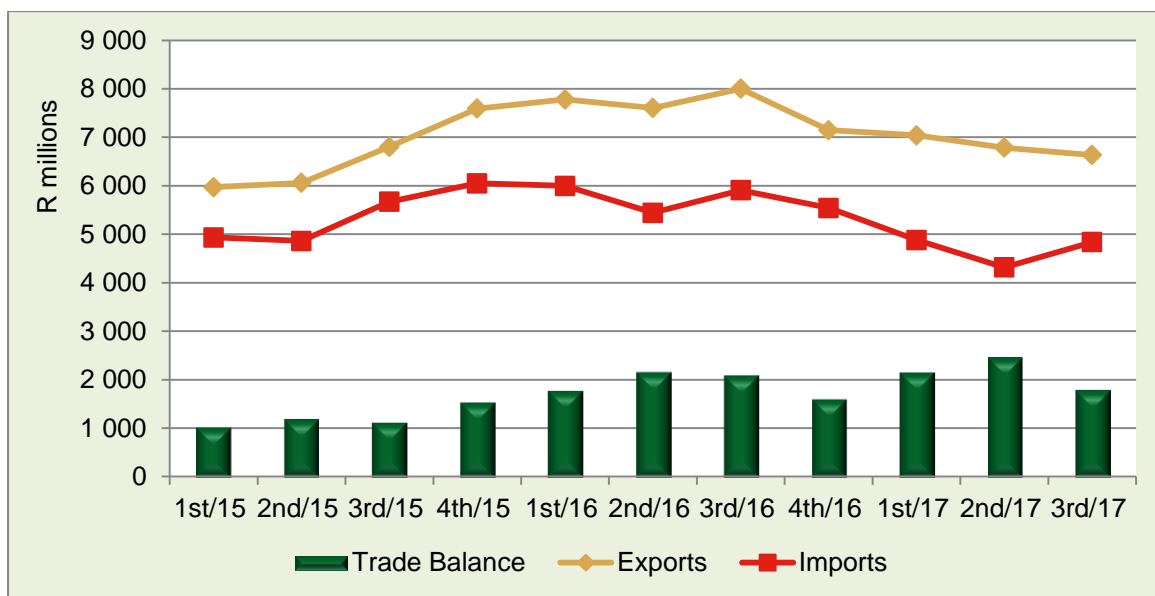


Figure 58: Trade balance of SA forestry products

Source: GTA, 2017

The total export value of forestry products decreased by 17.1% in Q3:2017, from R 8,00 billion in Q3:2016 to R 6,64 billion in Q3:2017. The top three forestry products exported in Q3:2017 include chemical woodpulp (dissolving grades), wood in chips or particles (non-coniferous) and kraftliner (uncoated, bleached, in rolls or sheets), see figure 59.

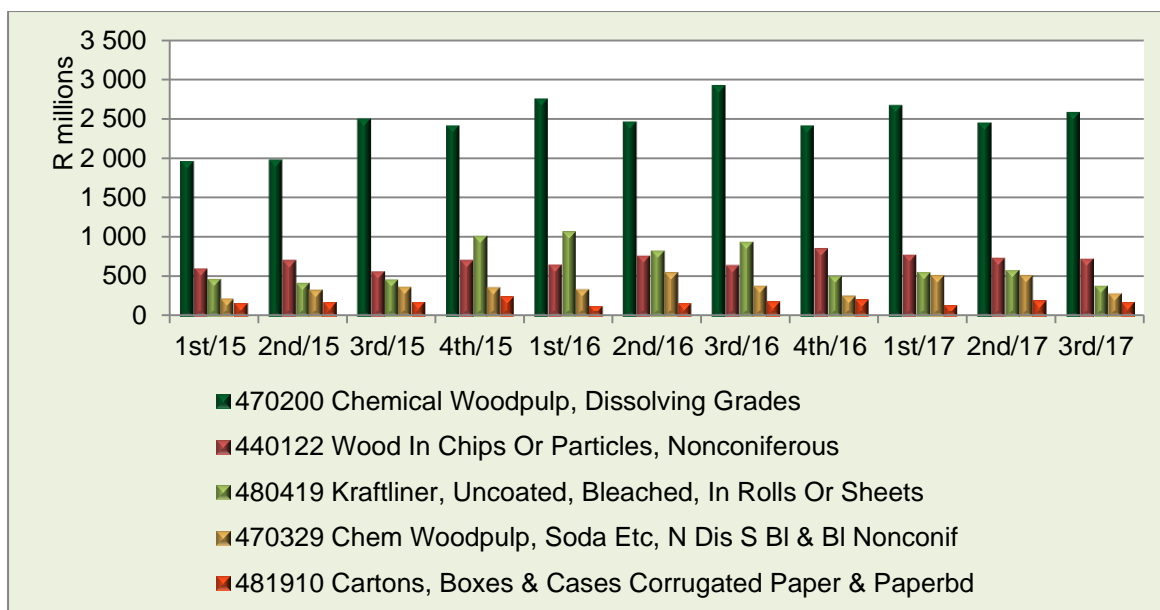


Figure 59: SA top five exports of forestry products

Source: GTA, 2017

The total import value of forestry products decreased by 18.1% in Q3:2017 compared with Q3:2016, from R 5.91 billion to R 4.84 billion. SA’s top three imported forestry products in Q3:2017 Q3 include printed books, brochures etc, paper or paperboard (Coat/Impg/CvrW/Plastic Nesoi)and chemical woodpulp (Soda Etc. N Dis S BI & BI Conif), see Figure 60.

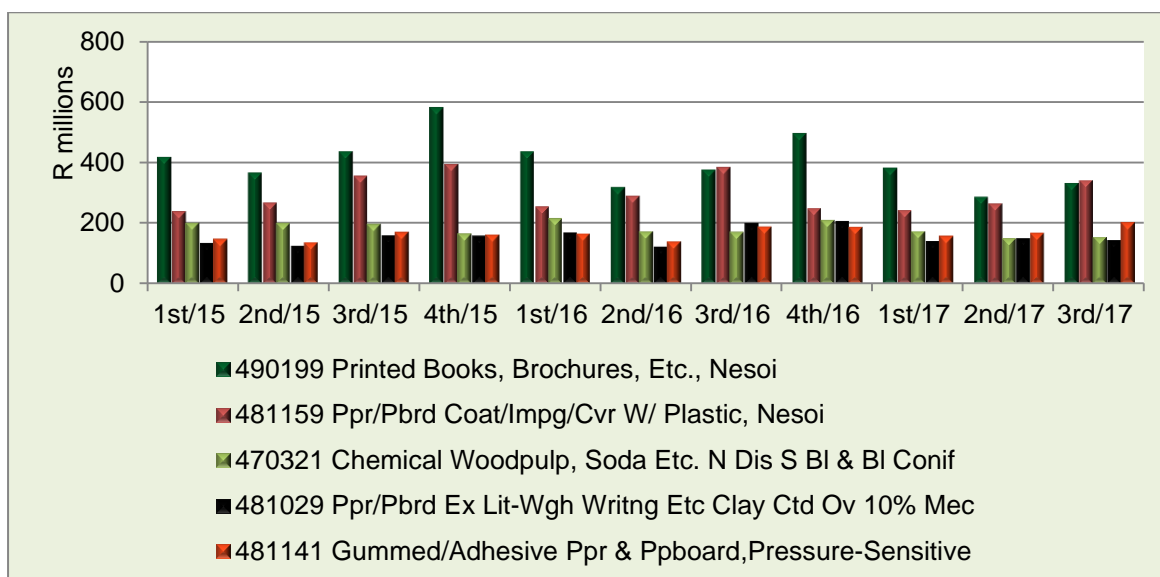


Figure 60: SA top five imports of forestry products

Source: GTA, 2017

4. CONCLUSION

Global economy is expected to grow 3.2% in 2018. Growth is mostly attributed to cyclical factors that might fade in coming quarters if the stimulus from economic policy is reversed. The global economy is benefiting from a combination of loose financial conditions, more supportive fiscal policies in some key countries following years of harsh fiscal consolidation, low inflation and strong global trade. The third-quarter marked the strongest growth in the Quarterly Real GDP growth Rates, 2017 (Q3) in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, United Kingdom and United States.

In the Sub-Saharan Africa's economic outlook remains jeopardized by security threats and domestic imbalances. The emerging markets and developing economies, 2017 (Q3) the Quarterly Real GDP growth rates increased in the following countries, Brazil, China, India, Indonesia, Malaysia, Philippines, South Africa, Nigeria and Russia.

South Africa's real gross domestic product increased by 2.0% in the third quarter of 2017 from a revised growth rate of 2.8% reported in the second quarter of 2017. Agriculture, Forestry and Fisheries industry was the largest contributor to GDP growth for the second quarter in a row. The industry increased by 44.2% and contributed 0.9% to the GDP. The growth in the industry is attributed to the increase in the production of field crops and horticulture products amongst others due to good rainy season. The annual average headline CPI for the third quarter of 2017 was estimated at 4.8% and the consumer price index for food decreased by 5.45%. The decline in CPI for food is a huge relief to consumers at large.

South Africa's overall agricultural trade balance grew by 14.8% in Q3:2017 compared with Q3:2016. The export value of agricultural products increased by 3.0% and import value of agricultural products decreased by 2.4%, in Q3:2017.

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