

PREFACE

The core business of this directorate is to do analysis on national level in order to produce agricultural economic information and advice for sound decision-making on the South African (SA) agricultural sector. To support this important task the Division Economic Research concentrates on economic analysis of performance of and external impact on the agricultural sector and its industries.

This publication developed from a need within the Department of Agriculture (DoA) to be regularly informed on developments and expected economic trends in the agricultural sector and the macro economic environment that impacts on its performance. This quarterly report has now been established as a new feature in the Directorate's work plan. From the end of 2006 this report will also published for outside consumption to add value to a number of existing regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agricultural sector.

At this stage most of the content is based on sources inside the DoA. However, progress is being made to incorporate more external generated material.

Any new comments on the content of this quarterly report series are most welcome.

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1. CONSUMER EXPENDITURE ON AGRICULTURE

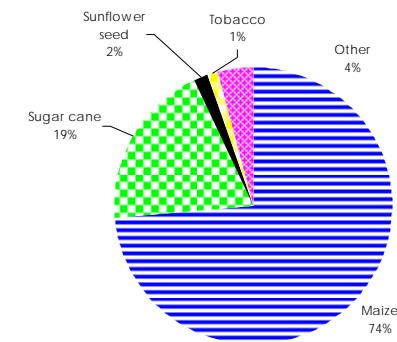
Expenditure on secondary agricultural products by households recorded an improvement of 5% to approach R4,6 billion in the third quarter (July - Sept 2006), from R4,4 billion during the same period in the previous year. Household expenditure on red meat advanced by 14,3% from R1,1 billion in the corresponding quarter of 2005. Expenditure on fruits and vegetables realized a 9,2% hike in the third quarter of 2006 to R0,54 billion from R0,50 billion in the same period of 2005. Although expenditure on agricultural commodities has improved slightly, the pace of growth has lost momentum. Given that the quarterly first and second half performance were limited to 7,5% and 5,7% respectively. Despite strong credit growth, the cumulative effect of successive rate hikes is becoming evident in domestic expenditure levels. Positive growth on agricultural expenditure by consumers is anticipated, with the current levels of interest rates moderating such growth.

2. FARM INCOME

Total **field crops revenue** advanced by 15% to R6,97 billion in the third quarter of 2006, from R6,05 billion in the previous third quarter. High prices of maize and wheat ensured an impressive performance for total field crops. The major contributor to revenue expansion was maize, it realized a 16,6% growth. Maize accounts for 70% of total field crops revenue. The second biggest contributor; sugar cane which

accounts for 21% achieved a modest 3,5% quarter to quarter increase in revenue.

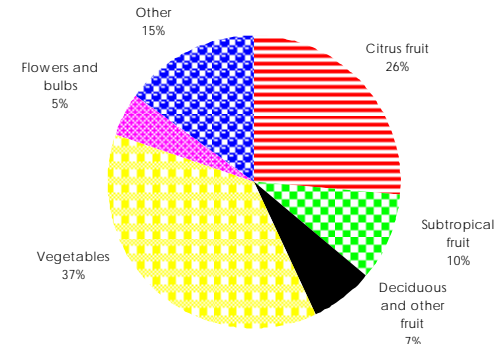
Figure 1: Revenue from Field Crops



Source: Agricultural Statistics 2006

Total **horticultural revenue** improved by a steady 7% in the third quarter of 2006 to R4,81 billion from R4,49 billion in the similar quarter of 2005. Vegetables which accounted for 33% of total horticultural revenues expanded by 20% to R1,79 billion contributing massively to revenue improvements in horticultural products.

Figure 2: Revenue from Horticultural Products

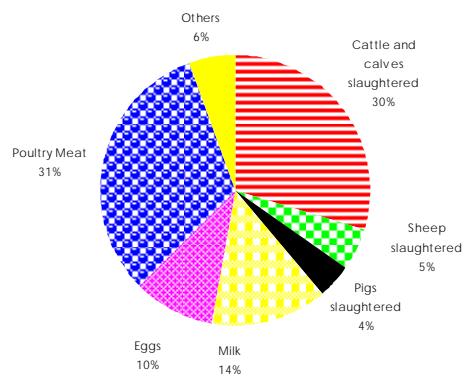


Source: Agricultural Statistics 2006

More income can be expected from vegetables, as a hailstorm in November destroyed about 30% of onion output in the Northern Cape. The resulting shortages are expected to increase prices by between 30% – 100%, in the

first two quarters of 2007. Total **animal products revenue** accelerated to R9,1 billion in quarter three of 2006, a 14% improvement from R8,05 billion in the previous year’s corresponding quarter. Double digit revenue growth was assisted by 38,6% growth in cattle and calves slaughtered to R2,73 billion, with strong prices for red meat being the main catalyst of overall revenue advance. Poultry revenue also recorded a solid quarter to quarter growth of 8,8% to approach R2,93 billion in 2006.

Figure 3: Revenue from Animal products



Source: Agricultural Statistics 2006

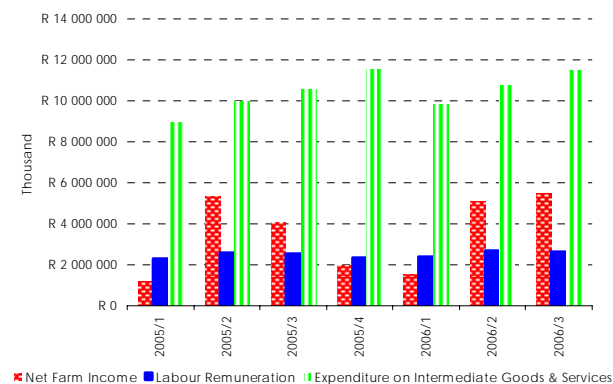
Poultry performance is a result of stronger international prices and a substitution effect as red meat is becoming expensive. High beef prices are expected to prevail, given the weaker currency which will give rise to uncompetitive imports. Increased livestock supply which may relieve price pressures can be expected towards the end of 2007.

3. AGRIC-INPUT EXPENDITURE

Expenditure on intermediate goods and services rose to R11,4 billion in the third quarter of

2006, a 8,2% improvement from 10,6 billion attained in the previous third quarter. The above inflation increase reflects strong inflationary pressures prevalent on imported inflation and services during the period.

Figure 4: Expenditure on Agricultural inputs



Source: Agricultural Statistics 2006

Labour remuneration rose by 4% to reach R2,6 billion in the third quarter of 2006 increasing from R2,5 billion in the corresponding quarter of 2005. In real terms this decreased, indicating fewer workers employed by agriculture (since salaries are administered). **Interest** paid by farmers advanced to R0,938 billion in quarter three of 2006, a 1% increase from the 2005 third quarter level of R0,928 billion. The marginal increase demonstrates the effects of tightening rates, as debt financing has progressively become expensive. Net farm income leaped by 36% to R5,47 billion in the third quarter of 2006 from R4,03 billion in the same quarter of the previous year. The staggering increase indicate an exceptional price performance of commodities especially meat and grains in the third quarter, as revenue increase outstripped moderate input cost in-

crements in spite of persistent upward pressure on inflation during the period.

4. PRICES

Consumer price index grew by 5,1% in the third quarter of 2006 to 135,6 compared to the previous year's corresponding quarter level of 129. During the same period of comparison food price index advanced by 7,9% from 137,7 to 148,7 in 2006. Food price growth exceeded the official inflation target, resulting in the overall inflation rate that is uncomfortably close to 6%. The major cause of the surge in the CPI, was the 16,7% hike in the meat index to 165,8 in the third quarter of 2006 from 142,1 in the previous year's third quarter. Vegetable index advanced by 9,5% which was outside the inflation target range. Consumer price index was mainly influenced by food inflation. Meat, grain and vegetable prices were major contributors to the high food inflation environment in the third quarter. According to the reserve bank consumer inflation is expected to increase in the first half before it stabilizes. Firm prices for grain products are anticipated in the short term. **Producer price index** for agricultural commodities expanded from 137,2 in quarter three of 2005 to 169,6 in the following corresponding quarter, a 23% escalation in prices at farm gate level. High oil prices coupled with a weakening currency conspired to put an upward pressure on prices. Notable contributors to the acceleration were slaughtered stock, vegetables and summer grains which advanced by 26%, 28% and 91% re-

spectively. The Reserve Bank singled out agricultural products as one of the categories that exhibited a higher rate of increase in the PPI. However decreasing oil prices, are expected to positively impact input costs and imported inflation, which should relieve pressure on prices of agricultural commodities, thus its impact on the PPI.

5. SOUTH AFRICA AGRI-MARKET INDICATORS

TABLE 1: Domestic prices of selected crops per ton

	End Dec 2005	End Dec 2006
White Maize price	R 1105	R 1 287
Yellow Maize price	R 905	R 1 580
Wheat price	R 1 403	R 1 750
Sunflower price	R 2 410	R 2 410

Source: Safex

After breaching R1300/ton level at the beginning of the second half of the year, local **white maize** prices retreated just above R1100/ton in October 2006. In the middle of October the price rebounded and exceeded the R1400/ton level. Crop reduction due to the surplus of the previous financial year resulted in a tight supply situation for 2006, which was exacerbated by excessive rains. Bumper crops can be expected later in 2007 which may ease the upward pressure on prices. However export demand may limit the relief offered by higher supplies. Maize prices in the futures markets are pointing to sustained higher prices for local maize at R1372/ton.After the beginning of the second half of 2006, local yellow maize price fell from just above R1300/ton to below R1 200/ton. From October the price trended upward to breach R1, 500/ton. During

the same month the price rebounded, it breached R1500/ton by December 2006. **Yellow maize** price performance was inspired by the stronger international market, uncertainty regarding the expected output and a weaker rand. The above performance is likely to result in a considerably higher output in 2007. July futures for yellow maize are pointing towards a gradual softening in the price, the futures price stands at R1381/ton. Local **wheat** price has ranged between R1500/ton and R1900/ton in the second half of 2006. The R1900/ton level was breached briefly in October. The price was strongly supported by the international price and a weaker local currency. An increase in crops expected in 2007 is likely to compensate for reduced exports. Wheat futures are pointing at a higher price for 2007 as July futures are trading at R1800/ton. Currency movements and the general rally in grain crops will also be influential in the price performance of wheat. At the beginning of July **Soybeans** traded around R1900/ton by November it peaked at around R2400/ton. It has steadily retreated to R2300/ton at the beginning of the year. Soybean's futures are pointing to a level of R2300/ton in the short term, which suggest the persistence of strong prices in the first three quarters of 2007. High maize prices may induce less planting for Soya thus restricting supply, which will necessitates an upward adjustment in prices. **Sunflower** traded between R2100/ton in August 2006 and stabilized around R2380/ton towards the end of the year. The futures market is pointing to a level of R2500/ton. The above price has factored in a 17,5% output reduction as estimated by the

crop estimation committee and supply tightness in the international market.

6. WORLD AGRI-MARKET INDICATORS

In 2006 the US (largest producer, consumer and exporter of maize) experienced a sharp cut in output due to unusually dry conditions in **maize** producing regions.

TABLE 2: US prices of selected crops per ton		
	End Dec 2005	End Dec 2006
Yellow Maize price	83,07	85,11
Soybean price	219,58	224,50
Wheat price	123,90	126,91

Source: Safex

Furthermore high maize demand for feed, industrial use and exports prevailed. Argentina suspended exports due to concerns over domestic supply, while China also signalled less participation in exports markets owing to tight local supplies. The US maize export price increased by 70% to \$164/ton compared to November of 2005. Maize futures on the Chicago Board of Trade (CBT) surged to a 10 year high on the expectation of further tightening. Strong maize prices in the world markets are likely to induce huge increases in maize area planted, thus restricting **soybean** output in the process. International maize prices are expected to remain at high levels in the near term, given the rapid rise of biofuels in the US and the expected higher demand for feed, due to falling oil prices. In 2005/06 international **wheat** prices were on an upward trend, as crops prospects of major producing counties

in the Southern Hemisphere deteriorated. Ukraine also introduced export quotas lending further support to rising prices. In November 2006 the US export price rose by 31% to \$ 219 compared to the same period the previous year, with the weaker dollar further supporting higher prices. Higher prices allowed the European Union (EU) to export heavily despite their stronger currency. The rally in the maize market and strong purchases by hedge funds further cemented the exceptional price performance for wheat in 2006. However the FAO expects wheat international prices to moderate in 2007, as the focus on expected crops shifts from the southern to the northern hemisphere. In 2006 world **oilseed** prices trended upward in anticipation of lower growth in output. The rise was biased towards meal/cake prices, influenced by the rally in the meat and grain markets. FOA forecast an inventory drawdown for oil/fats as production lags demand in 2007. On the other hand excess supply for meal/cakes is forecasted resulting in the reversal of price gains due to oils/fats shortage. Eventually higher demand for feed grain would tip the scale in favour of elevated prices for oilseeds in 2007. Tightness in the feed grain market is expected to support oilseed prices in 2007.

7. MAIN EXTERNAL SOURCES CONSULTED

Business Report June - September 2006
www.busrep.co.za

United States Department of Agriculture, World Agricultural Supply and Demand Estimates, 12 October 2006.

www.usda.gov/oce/commodity/wasde/latest

Food and agricultural organization of the United Nations

www.fao.org

8. ACKNOWLEDGEMENT OF INTERNAL (DOA) CONTRIBUTORS

Directorate: Agricultural Statistics: Livestock numbers and Crop Production and Estimates