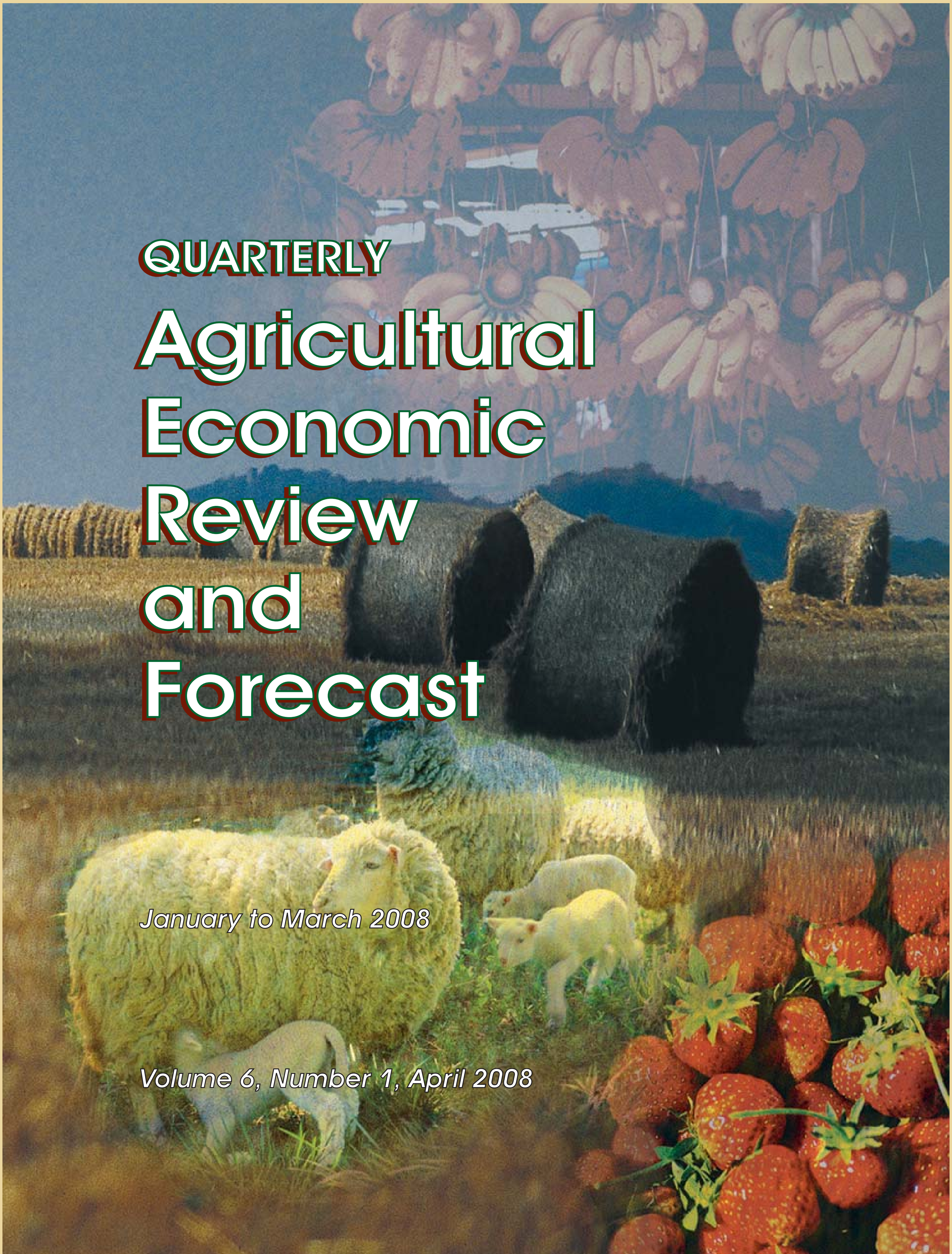

QUARTERLY

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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. The quarterly report has now been established as a regular feature in the Directorate's work plan. Since the beginning of 2004 the report is 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 outside the DoA. However, progress is being made to incorporate more departmental generated material.

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

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1. WORLD ECONOMY

Since a sharp tightening of credit conditions in August 2007, market turbulence has worsened as the US mortgage crisis deepens. Forecasts for 2008 have been revised and the US is expected to get into recession in the first half of 2008 while global growth is expected to slow. However, the global growth slowdown will not be severe because of the much greater weight of rapidly growing emerging economies in the global economy – particularly China and India – and the greater resilience of emerging-market economies. Although growth in the emerging world will slow this year, it will do so much less sharply than during the last US recession in 2001. There are a number of important threats to global economic outlook and the most serious would be a prolonged continuation of the current financial turmoil. This would almost certainly trigger severe fallout in the US and the global real economy. World growth is expected to slow down to 3,7% in 2008 from 4,9% forecasted in 2007. This would hurt the euro area through its close financial and trade links to the US. For the euro area, growth forecasts have been lowered to 1,3 % for 2008, compared to 2,3% during 2007 while annual inflation is expected to be 3,5%. Africa's banking systems are not expected to be directly exposed to the US financial crisis; however, the tightening of global financial conditions resulting from turmoil in developed economies financial markets will impair prospects for FDI into the region. Asian economies are in a relatively strong position to withstand a short US recession; however, a prolonged downturn would clearly have a serious impact. Inflation: Fears that China will push up world inflation to the rest of the world were heightened when Beijing announced the sharpest rise of 7% in the cost of living in 11 years. In other advanced economies, particularly Western Europe, inflation will remain elevated in the first half of 2008 but will moderate gradually thereafter, reflecting the receding impact of recent increases in commodity prices and the emergency of slack in some economies. The impact of inflation of the recent huge oil and food price surges will persist through much of 2008 even without further price increases. (IMF, April 2008) News events that influenced the world economy: The European Commission cut its forecast for economic growth in the euro area to 1,8% in February and predicted the highest inflation of 2,6% since the start of single currency. Fears of US recession sparked massive sell off of stock worldwide in January though economists are confident that the stock market will stabilise before the end of 2008. Agri-

TABLE 1: The World Economic Outlook-Real GDP growth %

Countries	2006	2007	2008	Countries	2006	2007	2008
World[1]	5,4	5,2	3,7	ASEAN-4[3]	5,4	5,6	5,8
USA	3,3	2,0	0,5	China	11,1	11,2	9,3
Japan	2,2	2,6	2,1	India	9,7	9,0	7,9
Euroland[2]	2,8	2,6	1,4	Latin America	5,5	5,0	4,4
OECD	3,2	2,5	2,6	East-central Europe	6,3	5,7	4,4
Non-OECD	8,1	7,7	7,1	Sub-Saharan Africa	5,5	6,9	6,6

Source: EIU [1] PPP [2] The 11 Euro countries [3] Indonesia, Thailand, Philippines and Malaysia cultural negotiations in the World Trade Organisation's Doha round are slowly moving forward, but serious divisions remain on surge protections and goods that will be sheltered from tariff cuts. According to the Gold Survey 2007, China overtook South Africa as the world's biggest gold producer in 2007, a position that South Africa held for 101 years. Despite persistent rise in crude oil prices, OPEC has no intentions to change its decision regarding increasing oil stocks, insisting that the current rising oil prices are beyond their control. India's Tata motors in January unveiled its $2500 car, an ultra cheap price tag that is aimed at bringing car ownership within the reach of ten millions of people, but critics worry the car could overwhelm the country' s roads and create an environmental nightmare. *(Price Watch, 2008)*

2. SUB-SAHARAN ECONOMY

TABLE 2: Sub Sahara Africa – Economic Outlook

	2006	2007	2008	2009
Growth	5,6	6,2	7,1	6,4
Consumer Inflation	11,8	13,0	6,8	6,2
External Debt[1]	146,7	155,0	162,9	167,8
Current Ac-				3,3

Gloomy forecasts for the world economy mostly attributable to the after-shock of the US sub-prime financial crisis have not dented prospects for Sub-Saharan Africa for 2008. Supported by strong commodity prices and improved economic policy, Sub-Saharan Africa's real GDP growth is expected to rise by 7,1% in 2008, before falling slowly to 6,4% in 2009 as global commodity prices fall back. Economic growth across Africa, and the rapid urbanisation of the African population, has led to a surge in demand for electricity that triggered a series of power cuts, which have hit businesses and individuals across many countries and thus affect the real GDP growth of the region. Of the four sub-regions within SSA, growth is estimated to remain the strongest in the SADC region at 7,1% in 2008. SADC's economy remains driven by two largest economies in the sub region, Angola and South Africa. Angola is expected to continue to post strong growth, rising by 21.4% this year, before growth moderates to 10.4% in 2009. Oil production in Angola is expected to grow strongly as more new oilfields come on stream. Diamond production is increasing, and "robust" growth is anticipated in construction and agriculture. Growth in Central and West Africa is expected to increase by 7,1% in 2008. The increase in growth will remain driven by the expected pick–up in growth in the Nigerian economy, which slowed in 2007 because of ongoing problems with oil production in the Niger Delta. However, the impressive performance of the non-oil sector helped to offset the problems in the Delta. As a result, real GDP is estimated to have increased by 5,8% in 2007. This is well below potential, but in 2008 a sharp rise in oil production, led by offshore fields, in particular Chevron's Agbami field, should see growth rebound strongly to 7,3%, especially if the new administration can at least partly resolve the problems in the Delta. Growth should remain robust in Ghana, especially as the government boosts spending in the run-up to the December 2008 elections, while growth rates of around 6% are expected in many of the smaller economies in the sub region, including emerging oil producers such as Mauritania and São Tomé and Príncipe, and those economies recovering from war, such as Sierra Leone and Liberia. In East Africa, sub regional growth is expected to fall to 6,4% in 2008. This reflects an expected slowdown in Kenya – the largest economy in the region. Real GDP growth is forecast to subside to 4,1% in 2008 (from an estimated 6,5% in 2007), due to the violent disruption to the free flow of goods, labour and money that took place in the first two months of the year following the disputed election. The Franc Zone growth will continue to remain lowest in all four regions, at an estimated 4,9% in 2008. Added to this is the fact that growth in Cameroon and Gabon, the other two large economies in the region, is expected to remain relatively low. This is the result of the slow pace of economic reform in both countries, notably the long-overdue structural reforms and the fact that oil production in both countries has remained stagnant in recent years. Although the write-offs that have been agreed in 2006 have helped to push down the external debt stock substantially, the drop is still likely to be only a temporary phenomenon, and we forecast that the debt stock in Sub-Saharan Africa will increase to $162,9 billion in 2008 from $156,7 billion in 2007 and to further increase to $167,8 billion in 2009. This reflects the following trends: the ongoing impact of currency revaluations due to the weakness of the US dollar on global currency markets will cause the debt stock to rise. Since a significant portion of the external debt of many Sub-Saharan African countries is denominated in Euros and other currencies, the weakness of the US dollar means that in US-dollar terms the stock gets pushed up. African governance: The World Bank views the good governance and anti corruption as important tool to deal with the poverty alleviation and underdevelopment. According to Mo Ibrahim of the Mo Ibrahim foundation, Africa's problems stem from bad governance, so why not reward those African countries with good governance. African countries are showing improvement in terms of good governance though there are some countries that continue to demonstrate bad governance. Consumer inflation: recent leading indicators suggest that the gap between global inflation and African inflation has narrowed dramatically since the 1990s, and is now only 2 to 3 percentage points, compared with some 20 percentage points in 1996. There are signs, however, that the gradual decline in the region's inflation rate has started to slow. Several countries in the region have seen inflation pick up in the past year, in line with global trends and in response to a combination of rising food and oil prices and a weaker US dollar, to which most regional currencies are linked. Higher inflation for Africa in 2008 will mean that regional inflation will increase to 6,8% before starting on a downward trend in 2009. However, this is likely to occur gradually and unevenly. The divergent trends in 2008-09 are the result of disparate pressures, including rising energy and food prices, generally stronger exchange rates against the US dollar, and South Africa's large weighting in the index. Current account: in general SADC, Franc Zone and Central and West Africa sub regions are all run relatively large trade surpluses, which are offset by the deficit on the invisible trade account. Whereas East Africa is the only sub region that runs a trade deficit and, in contrast to the other three sub regions, this is offset by high invisible inflows into the sub region, so that the current-account deficit is lower than the trade deficit. This is the result of the following three factors: high tourism earnings, high aid inflows and high levels of remittances. Although we expect both the regional import costs and trade-related costs to continue to rise (for oil-consuming countries, particularly South Africa), the region's overall current account is expected to record a surplus of US$8,3bn in 2008, falling to US$3,3bn in 2009. (EIU, March 2008) News events that influenced the SSA economy: Post election violence in Kenya could harm regional economies which depend on their status as East African businesses – with the violence estimated to have cost the region up to R1 billion. Zimbabwe's annual inflation rate jumped to more than 100 000% in February. In a bid to end post election violence which has claimed more than 1000 lives, the Kenyan president Mwai Kibaki and the opposition leader Raila Odinga signed a power sharing accord in February. The Zimbabwe's presidential elections took place on the 29 March, but the outcomes of the Presidential elections are not yet being released by the Zimbabwean Electoral Commission (ZEC). *(Price Watch, 2008)*

3. SOUTH AFRICAN ECONOMY

During the first quarter of 2008 South African economy was faced with a number of challenges such as a weaker global economy, higher domestic interest rates, developments at the ANC's national conference in Polokwane and electricity crisis.

TABLE 3: South Africa – Economic Outlook

	2006	2007	2008	2009
Growth	5,0	4,9	4,1	4,8
Consumer Inflation X	4,6	6,2	7,4	5,8
Exchange rate[1]	6,97	7,10	8,00	8,40
Interest rate (Prime)[2]	11,5	13,9	14,5	14,7

Source:BER [1] End of year [2] Yearly Average

The power crisis will have a negative impact on GDP growth in 2008 as parts of the economy – including the vital mining sector – came to a virtual standstill for several days. Estimates of the damage so far range from R1,8bn-R2bn ($253m-282m), of which about one-half represents mining losses, and although this equates to a relatively small 0.1% of GDP, the final figure may be much higher, as power shortages persist. The prospective introduction of rationing, forcing business to absorb power cuts of 10% and upwards, will clearly have a direct and almost proportionate impact on output, especially as there is little scope for energy efficiency savings in the short term: 10% less power could mean 10% less activity, hurting firms producing for both local and export markets (the latter being potentially more serious if long-term contracts are lost). The damage will to some extent be offset by the surge in self-generation, although generator sales have risen so quickly that most suppliers have run out of stocks. The power crisis will also add to the existing problems of weaker household demand (stemming from a series of interest-rate rises) and an uncertain global environment. According to BER Consumer inflation is expected to remain above the target level at 9% in March and for the rest of the year. CPIX accelerated further to 8,8% in January 2008 and it is expected to average 7,4% in 2008, before easing to an average 5,8% in 2009. The Monetary Policy Committee (MPC) left the Interest rates unchanged at its meeting in January 2008. The repo rate at which the SARB lend money to other banks was left unchanged at 11% and the prime interest rate was also left unchanged at 14,5%. Real Gross Domestic product is set to slow significantly this year due to various challenges that the economy is faced with and is expected to be closer to 4,1% in 2008, before accelerating to 4,8% in 2009. Consumer spending has slowed as a result of interest rate hikes and this impacted negatively on motor car sales and on the retail sector. Households are the ones that are clearly under pressure and are tightening their belts substantially. Other sectors that are expected to feel the pinch of tight spending are the residential property market and the durable consumer goods market. Current account deficit: Exports and imports demand is expected to remain fairly robust in 2008-09. Exports will benefit from the strength of metal demand and prices (at least in 2008), while sales of higher value-added goods, such as vehicles, chemicals and mining machinery, will gain from a weaker rand although power shortages will impose constraints. Imports will continue to be driven by the growing need for investment goods, industrial raw materials and oil, although the slowdown in GDP growth will moderate the pace of increase. The current-account deficit is expected to rise from 7,3% of GDP in 2007 to 7,8% of GDP in 2008, before edging back to 7,5% of GDP in 2009 as earnings expand(EIU, Q1 2008). The exchange rate has displayed a higher degree of volatility, but nevertheless has remained relatively unchanged. The rand has depreciated in the first quarter, however, the weak dollar, high precious metal prices and a favourable interest rate differential supported the rand. The rand is expected to weaken to an average of R8,00/$ during the fourth quarter of 2008. (EIU, March 2008) News events According to tourism data, the tourism sector has become one of SA's largest contributors to GDP, contributing R222 billion to the SA economy between 2003 and 2006. The SARB left the interest rates unchanged in the first quarter of 2008, signalling increased consideration to the effects of higher interest rates on the economy. The state has called for urgent 10% electricity cut back across all sectors of the economy. SA's energy crises receive attention with treasury allocating R60 billion to Eskom over the next five years. Gold field Ltd, Africa's second biggest gold producer announced that it may eliminate 6 900 jobs or 13% of its South African workforce because of reduced output due to limited power supply. The department of Agriculture in collaboration with veterinary services have intensified measures to deal with a sheep disease known as Johne's disease which has been detected around Eastern and Southern cape. The SA government is set to add about 1 million more children to its social security network by extending its child support grant to all children aged 18 or lower, from the current age limit of 14 years, on the back of mounting pressure to address social inequalities and poverty. In his 2008 state of the nation address, President Thabo Mbeki highlighted that negotiation with the European Union to conclude economic partnership agreement and regional integration in the SADC are some of this year's priority. Though vehicle sales have been hard hit by the high interest rates, the South African Agricultural Machinery Association reported increases in tractor sales by 9,9%. Business confidence plumped to its lowest levels in seven years during the first quarter of 2008, as cyclical economic downturn start to penetrate. SA's trade deficit widened to nearly R10,22 billion in February, exceeding forecast of an R8 billion deficit as the rising cost of oil buoyed imports while power outages curbed output from mining and manufacturing. According to Statistics SA, South Africa's poorest household's income grew sharply in real terms since 2000 as the economy has grown and the social grant system has expanded, but inequalities remain high with the richest 20% earning nearly 70% of the income. Reserve Bank reported that the credit extension to the private sector grew at a rate of 23% year-to-year and the total domestic credit extension had a growth rate of 26% in January. The Department of agriculture has received an additional R130 million from cabinet for the 2008 financial year, allocated for the improvement of extension services in agricultural areas which will be used for re-training of extension officers, new appointments, as well as facilitating training at institutions. The CPIX inflation rose to 9,4% in February from 8,8 in January, increasing the risk of further monetary policy tightening, while the producer price inflation accelerated to 11,2% in February from 10,4% in January 2008.*(Price Watch, 2008)*

4. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

4.1 Inflation

TABLE 4: Annual average CPIX inflation rate

2007		2008	2009
6,4	BER	9,3	6,7
	Standard Bank	8,9	6,3
	Absa	7,0	5,2
	Average	8,4	6,1

BER - Bureau for Economic Research

Recent trends: In February, inflation went above expectations of a 6,5% average projected last year. This is the 11th successive month since inflation broke above the reserve bank's target range of 3-6%. The CPIX inflation almost doubled in January and February surging from 8,8% in January to 9,4% in February. The headline CPI annual inflation rate showed a 5,4% increase from 9,3% in January to 9,8% in February 2008. Apart from all other causes of high inflation, food and transport costs have become the highest inflationary drivers. Annual food inflation rose to 14,3% from 13,6% in January. The increases in prices of staple food such as bread, milk and maize have made them unaffordable for millions of the poor. The 17c/ litre increase in petrol price during February saw a rise in running costs for the transport sector, rising transport inflation by 2% month-on-month. The petrol price increased by 29,5% year-on-year. PPI inflation accelerated to 11,3% year-on-year as compared to 10,4% in January 2008. This increase in producer price inflation was attributed to an increase in fuel prices. Agricultural food prices rose by 23,5% in February, while manufactured food prices rose by 20,9%. Forecast: As a result of a switch to the new weighting system or new methodology introduced by Stats SA, consumer inflation is expected to have an upward bias throughout 2008. Stats SA estimated that the new methodology added about 0,17% points to February's CPI and 0,18% points to CPIX inflation. On average the CPIX inflation is expected to remain above 6% until the end of 2008. The BER projection of CPIX inflation for 2008 is high at 9,3% , decreasing to 6,7% in 2009. PPI inflation is projected to average 11,5% this year, declining to 9,7% in 2009. Impact on agriculture: Rising inflation trend will continue to raise input costs for farmers which will ultimately be passed along to consumers. High inflation also raises interest rates which negatively affects farmers who are financially indebted.

4.2 Growth

TABLE 5: Annual real GDP growth rates

2007		2008	2009
5,1	BER	3,4	3,8
	Standard Bank	3,7	4,6
	ABSA	4,0	4,1
	Average	3,7	4,2

BER - Bureau for Economic Research

Recent Trends: The South African economy experienced the longest economic upswing in history, recording its 33rd quarter of continuing growth in real GDP since August 1999 in the fourth quarter. GDP estimates defied forecasts, growing by a robust 5,3% quarter-on-quarter annualised. This was well above market expectations for an increase of 4,4%. Overall, almost all sectors of the economy contributed positively to the GDP except for the decline in output experienced by the mining and electricity sector. The agricultural sector showed a satisfactory recovery, recording growth of 10,4% annualised rate during the fourth quarter from an annualised rate of 5,4% during the third quarter. The construction industry increased at an annualised rate of 14,2%, while the manufacturing and finance increased by an annualised rate of 8,2% and 8,5% respectively. The wholesale and retail trade, increased at an annualised rate of 2,1% while the transport sector showed an increase at an annualised rate of 3,6%. The mining sector decreased at an annualized rate of 1,7%. Forecast: Even though the economy has shown positive growth in the last quarter, analysts predicts that this growth is unlikely to grow mainly due to a slowdown in consumer spending resulting from higher interest rates and prices. Analysts project that the sectors which will mostly be hit will be domestic trade and accommodation, finance and real estate as well as transport and communications. Again, electricity supply constraints will have adverse effects on most industries. On average, GDP is expected to decelerate from 5,1% in 2007 to 3,7% in 2008, before it increases again to 4,2% in 2009. The BER projects economic slowdown to worsen, showing pessimism in their forecast, predicting a slowdown of 3,4% in 2008 from 5,1% in 2007, before it moderately accelerates to 3,8% in 2009. Standard bank has revised down its 2008 growth forecast to 3,7% from 4,5% expected at their previous forecast. Absa forecasts a 4% growth for 2008.

Impact on agriculture: Even though the agricultural sector recovered well towards the end of 2007, the overall predicted slowdown in the economy might have a causal sequence in the agricultural sector. Severe power supply problems may result in low crop output increasing the demand for imports.

4.3 Exchange rates

TABLE 6: End of year R/$ exchange rates

2007		2008	2009
7,05	BER	8,02	8,58
	Standard Bank	7,80	7,62
	Absa	6,97	7,23
	Average	7,60	7,81

BER - Bureau for Economic Research

Recent trends: During February, the rand slid back above the R7/ dollar level, losing 9,6% against the dollar, ending the month at R7,65/ dollar after starting the year on a relatively good note, trading at R6,76 against the dollar in January. The rand continued its upward trend in March hitting its weakest level in months, ending the month at R8,26/ dollar. At the end of March, the rand showed an average depreciation of 14% against the US dollar. The currency has been affected by various factors including the continuing turmoil in international financial markets, widening of current account deficit perceptions, and the overall concerns over electricity supply which made bleak export and economic growth of the country (SARB). Forecast: The local currency is set to weaken further in 2008 and 2009 on account of a widening current account deficit. Analysts believe that the capital inflows will not be enough to fund the current account deficit, which will result in the country being faced with a weaker currency. Although the rand will not fall dramatically, the BER projects that the rand might put some upward pressure on inflation. In their current forecast, they see the currency weakening to an average of R8,02/ dollar in 2008 and R8,58/ dollar in 2009. Absa bank forecast is more optimistic for 2008, expecting the rand to remain at R6,79/ dollar before it weakens to R7,23/ dollar in 2009. In 2008, the rand is expected to average R7,60 against the US dollar. Impact on agriculture: A weaker currency suggests increased competitiveness of agriculture exports over the period, thus increase in farm profit. However, these gains can be eroded in subsequent years, due to the fact that the weak currency may trigger high food prices due to high import prices, and consequently interest rate hikes.

4.4 Interest rates

TABLE 7: Average yearly Prime interest rate

2007		2008	2009
13,1	BER	14,9	14,4
	Standard Bank	14,4	13,1
	Absa	15,0	14,6
	Average	14,8	14,0

BER - Bureau for Economic Research

Recent trends: The Reserve Bank increased its repurchase rate by 400 basis points at each of its four consecutive meeting during 2007 as a result of a worsening inflation outlook. However, the MPC decided to leave the repurchase rate unchanged during its January 2008 meeting. The interest rates of the private-sector banks adjusted to the four increases in the repurchase rate during 2007. During the first quarter of 2008, the rates remained at 14,5%. Forecast: Most analysts believe that interest rates will remain unchanged in the April MPC meeting due to a ripple effect on inflation as a result of decreased consumer spending. The Standard Bank is very optimistic that interest rates will remain unchanged at 14,4% for 2008, before declining again to 13,1% in 2009, on account of: a dark cloud of reduced investor confidence, slowing global and domestic economic growth, and constraints of new infrastructure developments.

The BER has revised its interest rates projections to 14,9% from its previous lower rate expectations. Absa's forecasts on interest rates are very high, painting the picture of high risk in further monetary tightening. Impact on agriculture: A decision to leave interest rates unchanged by the Reserve Bank during the January MPC meeting comes as a relief to farmers who are financially indebted.

4.5 Employment

South Africa's employment rate has increased due to a surge in jobs for community workers and domestic help. The latest labour force survey by Statistics SA – conducted in September 2007 – shows that the unemployment rate decreased to 23% in the third quarter of 2007 from 25,5% in 2006, a record low since the inception of the survey in 2001. The total number of employed South Africans in September last year was approximately 13,2 million, a net gain of 433,000 jobs. The most number of jobs were created in the formal sector amounting to 610,000. Major contributing industries were the private households – which refer mainly to domestic workers – with employment figures up by 137,000 jobs, as well as the community and personal services up by 132,000 jobs. Economic growth has been the driving force of job creation recently. In six years the economy has added a net 2,1 million jobs. The construction boom has also fuelled growth as government spend more on rail, power and stadiums in preparation for hosting the 2010 FIFA world cup. The biggest increase in employment was seen in Gauteng and KwaZulu Natal whereas Western Cape showed the lowest improvement. According to Statistics SA, the female unemployment rate dropped to 26,7% in September 2007 from 30,7% in September 2006, indicating that women contributed significantly to the rise in employment.

5. INTERACTION BETWEEN SA AND AFRICA

South Africa has rich mineral resources and it is the world's largest producer and exporter of gold and platinum, also exporting a significant amount of coal. Exports reached 29,1% of GDP in 2007, from 11,5% a decade ago. South Africa's major trading partners include the United Kingdom, United States, Germany, Italy, Belgium and Japan. SA's trade with other Sub-Saharan African countries, particularly those in Southern Africa region, has increased substantially. Trade relations with African states are politically important and are of growing economic importance to SA. In 2002 around 16% of South Africa's exports went to Africa. SA participates in a number of preferential trade relationships both regionally and bilaterally. South Africa is a member of Southern African Customs Union (SACU) which consists of countries such as Botswana, Lesotho, Namibia and Swaziland. With few exceptions, free and unimpeded trade takes place among the SACU members. Recently, several SACU organs were created, such as Sacu council of Ministers – made up of finance and trade ministers – to enhance economic development, diversification, industrialisation and competitiveness of member states. The agreements provide deeper economic integration through the development of common policies on industry, investment, agriculture and competition as well as harmonisation of policies on unfair trade practices. South Africa also became a member of the Southern African Development Community (SADC) in 1994. The other members are Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia, The DRC, Seychelles and Zimbabwe. The key objective is to strengthen trade and investment linkages between South Africa and other SADC countries. In 2000 the SADC protocol on trade was implemented, which includes the establishment of a SADC free trade area that came into effect as from the beginning of 2008. This means that most goods produced in the region can now enter member countries free of customs duty. SA's trade with SADC countries was 16 billion in 1998 coming to 32 billion in 2002. Besides interacting with SACU and SADC, South Africa also has relationships with other countries, such as Nigeria, Kenya and Ghana. South Africa has bilateral and multilateral relations with Nigeria, which are strategically important in forums such as New Partnership for Africa's Development (NEPAD) and African Union (AU). South African companies have been successful in several sectors in Nigeria including Hospitality, Financial services, Communications and Energy sectors. Nigeria accounted for some R2,5 billion of local exports from SA and R2,7 billion of imports from Nigeria in 2003. South African trade balance with Kenya is relatively equitable. Exports to Kenya amounted to R2,2 billion and imports R2,1 billion in 2003. Exports to Ghana were R1,1 billion but imports were only R52 million in 2002. Over the years South Africa has consistently had a trade surplus with Africa. South Africa's trade balance rose sharply, ten years in succession reaching a peak of R35 billion in 2002, before it started to take in a declining trend between 2002 and 2006. The decline suggests that imports from Africa grew slightly faster than exports to Africa over the period. This reflects greater integration with the world markets and benefits of trade liberalisation. The movement of the rand has always been influential to South Africa's trade with Africa and the rest of the world. For instance, a sharp decline in the local currency at the end of 2001 evidenced large increases in exports which saw South Africa's trade balance narrowing. Through 2003, the rand started to strengthen, which led to substantial decline in exports during the corresponding period. South Africa's major exports to Africa are quite diverse, from primary to secondary commodities. However, South Africa's relative comparative advantage with Africa is predominantly on minerals, vehicles and motor parts, base metals, chemicals, plastics as well as food and beverages. Table 8 reflects top 10 imported commodities by Africa from South Africa.

TABLE 8: Ten major SA exports to Africa - 2006

SECTION 23	PRODUCTS BY ORDER OF IMPORTANCE	R MILLION
C16	Machinery	9,771
C15	Base Metals	8,560
C05	Mineral Products	7,486
C06	Chemical products	6,328
C17	Transport Equipment	6,139
C04	Food, beverages, tobacco	3,764
C07	Plastic products	3,310
C10	Paper products	2,142
C02	Vegetable products	1,930
C20	Misc manufactured articles	801

Source:SADC Trade Database

Of the top 10 major exports to Africa in 2006, machinery is the main export product followed by base metals, mineral products and chemical products. The share of South Africa's exports of resources such as precious metals and some agricultural goods is small, most likely because other SADC countries have a comparative advantage in resources and some agricultural goods. The transport industry recorded the highest export growth rate of 61% during 2006. The sector has been mainly boosted by the Motor Industry Development Plan (MIDP), which provides a system of imports credit for motor industry exports. The food, beverage& tobacco (35,4%) and machinery (32,5%) also experienced higher growth rate during 2006.

TABLE 9: 10 Major importers of SA's commodities - 2006

COUNTRY/ REGION	R MILLION
Africa	53,448
SADC	35,892
Zambia	7,788
Zimbabwe	7,410
Mozambique	6,240
Angola	4,739
Nigeria	4,001
Kenya	3,244
Tanzania	2,765
Congo (Democratic Rep.)	2,554
Mauritius	1,995
Ghana	1,737

Source:SADC Trade Database

Table 9 depicts 10 major African importers of South African goods in 2006. Zambia is South Africa's largest importing country with a share of 15% to total exports, followed by Zimbabwe (14,6%), Mozambique (11,7%), Angola (8,9%), Nigeria (7,5%) and Kenya (6,1%). South Africa appears to be obtaining more benefit from the relationship with SADC, with the region having a share of approximately 67% of South Africa's total exports to Africa.

6. OTHER FACTORS IMPACTING ON AND RELATED TO AGRICULTURE

6.1 Agri-market indicators

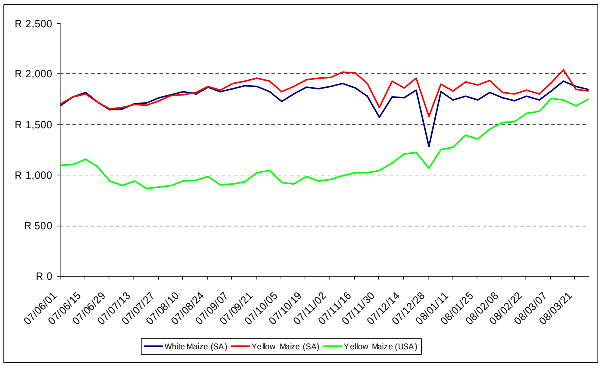
TABLE 10: Price of maize and wheat per ton

	End March 2007	End March 2008
White Maize price	R1 825	R1 890
Yellow Maize price	R1 800	R1 877
Wheat price	R2 161	R4 049
Sunflower price	R2 740	R4 665

Source: Safex

Domestic prices of maize have been volatile showing an upward trend, increasing to R1884/ ton as compared to R1692/ ton in December 2007 – due to the depreciation of the exchange rate which worsened considerably since last year. Between March 2007 and March 2008 maize crop grew by approximately 0,17%. The Crop Estimate Committee raised its estimate for the past season's maize crop by 3,13% to 10,7 million tons, the largest in three years. Due to increase in maize crop estimates, prices of maize are expected to move closer to export parity prices, offering short term relief to consumers. Prices of white and yellow maize increased by 3,6% and 4,3% respectively at the end of March 2008, as compared to end of March 2007. Sunflower prices moved sideways between the R4 000 and R5 000 price range during the first quarter, showing short term upward movements. It reached a peak of R5 136/ ton soaring above the R5 000 level during the first week of March, before it declined back within the R4 000 and R5 000 price range. Wheat prices strengthened throughout the fourth quarter showing an upward trend, breaking through a R4 000 price level during the third month. Prices of sunflower strengthened by 70,8% as compared to March 2007, ending the quarter at R4 680/ ton. Wheat prices strengthened by 91,3% at the end of March 2008, as compared to the same period last year.

Figure 1: Domestic and USA maize prices



Source: Safex

Figure 1 illustrates the weekly price trends of domestic and US maize. Local white and yellow maize prices moved in the same direction throughout the year demonstrating a sharp decline during the last week of December 2007, and rose again to stabilise within R1500 and R2000 price range. USA yellow maize prices stayed within R1000 price range, rising steadily throughout the year, declining moderately during the last week of December, and gaining momentum during the first quarter of 2008 as international demand for maize increased. The US maize ended the quarter at R1749/ ton.

6.2 Climatic and other conditions

2008 started with abundant rainfall over the country. Farmers were even tempted to ignore government drought and veld fires assistance that was made available end of last year. By end of January, most of the central and eastern parts of the country were in the grip of mid-summer dry spell that continued till around mid March. This largely affected subsistence farming since the Crop Estimates Committee's first harvest estimates forecasted a 48,5% increase in maize production from last season's harvest. There have been isolated incidences of flooding along the southern coastal areas of the Eastern Cape. Levels of dams: Levels of dams are gradually declining although no reports on domestic water restrictions were received and the situation over the country has not reached critical proportions. Crop conditions: A lengthy dry spell over the central and eastern regions is developing into a problem that may cause a reduction in yields due to crops suffering from significant water deficits, and ultimately, wilting, especially for subsistence farmers in the eastern parts where cropping is a major agricultural activity, depending also on the timing of the planting. This has had negligible effects on the main maize growing areas of the country as expected production levels are higher than last year's. Veld and livestock conditions: The condition of veld and livestock remained good to reasonable in most areas despite the prolonged dry spell. Some provinces have started implementing the Drought and Fires Relief Scheme. Farmers were advised to maintain stock numbers to suit carrying capacity of camps. Few incidences of veld fires were reported in some areas in the south-west. Forecast of rainfall and temperature: Wet and cool conditions are expected over the country with a likelihood of early winter rains in the south-west. This is likely to usher early winter conditions over the remainder of the country. Frost is expected to delay. SADC: SADC FANR Directorate reported that with the exception of Tanzania which received above-normal rains during February, most of the SADC countries were affected by the dry spell where far-below-normal rainfall was received during the month. These areas include northern DRC, north-western parts of Angola, eastern Botswana, southern Malawi, southern Mozambique, eastern Swaziland, central Zambia, Zimbabwe and north-eastern parts of South Africa. Overall, the reduced rains were beneficial in some areas such as parts of Madagascar, where they allowed water levels to recede in areas that had been affected by flooding after Tropical Cyclone Ivan struck the area. In a number of areas across the region however, the dryness is developing into a problem that may cause a reduction in yields due to crops suffering from significant water deficits, and ultimately, wilting. Areas where these extended dry spells are already having an impact include southern Malawi, southern Mozambique, eastern Swaziland, a few parts of Zambia and most of Zimbabwe. The extent and severity of the impacts of the dry spell are yet to be determined in some areas.

6.3 Implications of random power cuts and subsequent tariff increases

South Africa is currently facing a power crisis due to a shortage of supply capacity, which has attracted lot of attention nationally and internationally. This crisis has led to Eskom – which generates about 95% of South Africa and other African countries' electricity – to introduce load shedding as an emergency measure in order to prevent a collapse of the national electricity supply system. This has become a serious concern for various stakeholders such as business, agricultural, mining and political sectors. Many business operations have been shut following unplanned power cuts across the country. The small business sector has also been hit hard by these power failures, with dozens forced to shut down and more closures expected. This comes as Eskom announced its inability to meet demand, and requested its largest industrial customers to reduce electricity consumption by 20%. South Africa has seen significant levels of growth in electricity consumption and the level of demand. The agricultural sector has also been affected by the power crisis, which saw some of the farming operations being stopped. The stakeholders from the agricultural sector raised a concern that unscheduled power cuts could result in the loss of total yields of specific crops. The wine and fruit industries in the Western Cape, which produces between 55% and 60% of South Africa's agricultural exports, were seriously affected by unscheduled power cuts. These industries have seen cellars, cooling facilities, irrigation pumps and sorting machines coming to a halt. Random power cuts affect the harvesting process and this implies a delay in production which results in a loss in income. Reports have indicated that should the problem persist, about 2 000 farm workers could loose their jobs. Energy has been shown to be equally important as other factors of production such as labour, land, and capital because of its significance to economic growth (European Commission, 1993). It has been further recognised that an increase in electricity use translate to improvement in productivity in developed countries (Energy Policy 33, 2005). In 2007 demand for energy rose by 4,3% as compared to 2006. Growth in peak demand from 2006 and 2007 was 4,9% (www.info.gov.za). During 2004, industrial usage of electricity increased by 22% as compared to 2003, with agricultural sector showing the highest rate of consumption (+19,8%), followed by commerce (+18,56), and transport (+13,2%) (Energy Digest, 2006). Strong demand of electricity caused by robust economic and population growth has seen a sharp decline in electricity reserve margin which cater for emergencies. The current crisis resulted in NERSA (National Electricity Regulator of South Africa) raising prices by 14,2% in order to fund capacity expansion projects. Reports have indicated that further price hikes are likely, with consumers having to face 20% annual price increases. Recent power cuts have enraged the public and raised questions over future investment in Africa's biggest economy. The power cuts and consequent tariff increases have serious implications for the economy. South Africa aims to accelerate growth by 6% and halve unemployment and poverty by 2014. In order to attain a 6% growth, relatively, electricity demand is set to rise by 4% per year. But in the face of power shortages resulting from constrained supply, analysts and various stakeholders believe that the current crisis will put more constraints on growth rate, with global slowdown already predicted for 2008. South Africa is looking to attract local and foreign investment and improve the performance of the manufacturing sector. However the current situation is likely to discourage new investments and capital expansion programmes and also reduce business confidence. Rising tariffs may push poor households to alternative energy sources such as wood and cow dung especially for heating purposes. Increased use of such is associated with environmental externalities such as air pollution and deforestation. Further rise in tariffs is consequently expected to push production costs up which will ultimately be passed along to consumers. Expenditure on intermediate goods and service in the agricultural sector shows that electricity expenditure increased by 11% in 2007. Further electricity price hikes will likely move prices on intermediate goods and services up, which imply higher production costs. As higher production costs are likely to be passed on to consumers, this might push food prices – which are already driving inflation up – even further up. Theft of electricity either by illegal connections or by tampering with the meter is another possibility, which may result in mounted costs for the electricity industry as well as further cuts due to maintenance. Increases in electricity tariffs are likely to substantially raise costs for government, with government facing huge costs of compensating the poor for the welfare loss due to tariff increases (Poverty and Social Impact Analysis (PSIA) final, 2002).

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8. ACKNOWLEDEMENT OF INTERNAL (DOA) CONTRIBUTORS

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