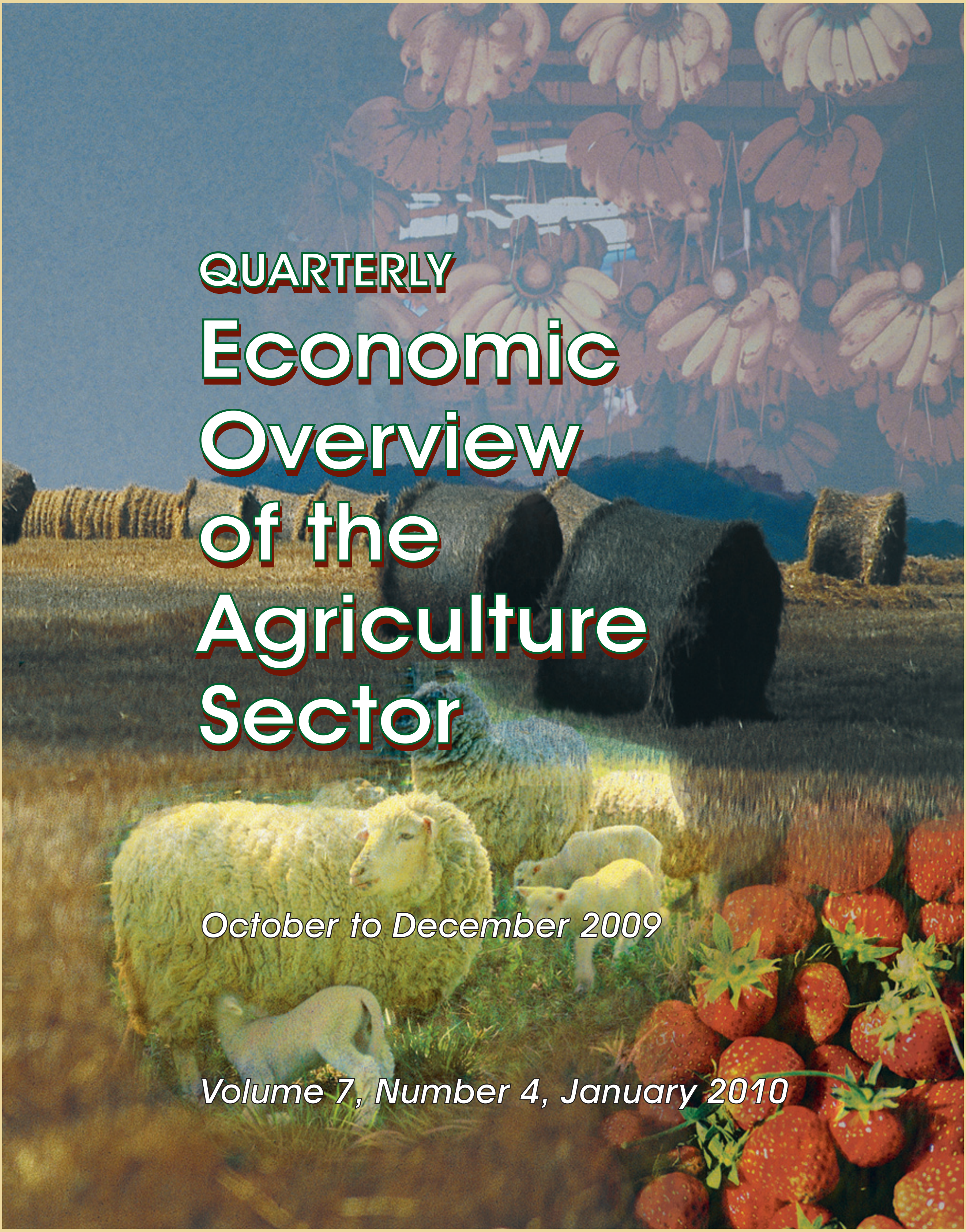

QUARTERLY

# Economic Overview of the Agriculture Sector

October to December 2009

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Agriculture, Forestry and Fisheries
**REPUBLIC OF SOUTH AFRICA**

## PREFACE

The core business of the Directorate: Economic Services is to undertake analysis of national-level trends in order to produce agricultural economic information and to render advice for sound decision making on the South African (SA) agriculture sector. To support this important task the Economic Research division/unit concentrates on the economic analysis of the performance of and external impact on the agriculture sector and its industries.

This publication, previously called the Quarterly Agricultural Economic Review and Forecast, developed from a need within the Department of Agriculture, Forestry and Fisheries (DAFF) to be regularly informed on developments and expected economic trends in the agriculture 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 has also been published for outside consumption to add value to a number of existing regular economic publications on the agriculture sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agriculture sector.

This issue looks at the developments and expected economic trends in the SA agriculture sector as the domestic and global economies begin to recover from the global economic recession.

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

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January 2010
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## 1. WORLD ECONOMY

There is generally a consensus among most analysts that the global economic recovery has started and global financial conditions are improving. According to the International Monetary Fund's World Economic Outlook, January 2010 (IMF WEO, 2010), the **global recovery** is off stronger than earlier anticipated but is proceeding at different speeds in various regions. Emerging and developing economies have been reported to be further ahead on the road to recovery, led by the resurgence in Asia. However, in most advanced economies, the recovery is expected to remain sluggish whereas in many emerging and developing economies, economic activity is expected to be relatively vigorous.

**World output** is expected to rise significantly by 4% in 2010, after contracting by an estimated 0.8% in 2009 (IMF WEO, 2010). Driving the global rebound has been the extraordinary amount of policy stimulus by various countries. Monetary policy has been highly expansionary, with interest rates down to record lows in most advanced and in many emerging economies. Real GDP in **advanced economies** is expected to rise by 2.1% in 2010, after contracting by 3.2% in 2009; led by an impressive recovery in the US economy with an expected growth rate of 2.7% in 2010, following a 2.5% contraction in 2009 (IMF WEO, 2010). However, the outlook for **employment** in advanced economies is still expected to take some time before showing any significant improvements; and high unemployment rates, public debt and lower household disposable income still present further challenges to the recovery of these economies.

GDP growth in **emerging and developing economies** is expected to rise to about 6% in 2010, following a modest 2.1% increase in 2009 (IMF WEO, 2010). Table 1 presents the GDP growth outlook for the world and selected countries and regions. Stronger economic frameworks and swift policy responses have helped many emerging economies to cushion the impact of the unprecedented external shock and quickly re-attract capital flows. However, growth performance is expected to vary considerably across countries and regions, based on initial conditions, external shocks and policy responses. The rebound of commodity prices is helping to support growth in commodity producers in all regions. According to the IMF, many developing countries in the Sub-Saharan Africa (SSA) region that experienced only a mild slowdown in 2009 are well placed to recover in 2010. However, **poverty** could increase significantly

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

| Countries | 2008 | 2009 | 2010 | Countries | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| World[1] | 3.0 | -0.8 | 3.9 | China | 9.6 | 8.7 | 10.0 |
| USA | 0.4 | -2.5 | 2.7 | India | 7.3 | 5.6 | 7.7 |
| Japan | -1.2 | -5.3 | 1.7 | Latin America | 4.6 | 3.2 | 7.9 |
| Euro area | 0.6 | -3.9 | 1.0 | East-central Europe | 3.1 | -4.3 | 2.0 |
| ASEAN-5[2] | 4.7 | 1.3 | 4.7 | Sub-Saharan Africa | 5.6 | 1.6 | 4.3 |

*Source: IMF*

[1] *PPP* [2] *Indonesia, Thailand, Philippines, Malaysia and Vietnam*

in a number of developing economies where real GDP per capita contracted in 2009 for the first time in a decade (IMF WEO, 2010). Rising unemployment and setbacks to progress in poverty reduction pose social challenges that must also be addressed.

**Global activity** and trade remain far below pre-crisis levels following its steepest drop since World War II. The IMF projects global activity to expand by about 3% in 2010 following a 1% contraction in 2009. Achieving sustained healthy growth over the medium-term will depend critically on addressing the supply disruptions generated by the economic crisis and rebalancing the global pattern of demand (IMF WEO, 2010). In the medium-term, demand is likely to be dampened by the need in many advanced economies to rebuild savings. Regarding **monetary policy**, many central banks are expected to maintain low interest rates in 2010, as underlying inflation is expected to remain low and unemployment high for some time. Headline **inflation** in advanced economies is expected to pick up from zero in 2009 to 1.25% in 2010. In emerging and developing economies, inflation is expected to edge up to 6.25% in 2010 (IMF WEO, 2010).

**Global food prices** enjoyed a broad-based, albeit modest, recovery on signs of improving global economic and financial conditions in the first half of 2009 (IMF WEO, 2009). However, recent commodity-specific factors such as stabilising weather conditions and expanded area planted in some major crop producers, have led to a wide divergence in price changes across the major global crops. According to the IMF, the overall food price index increased by 15% through the first seven months of 2009, but maize prices declined by 5% while soybean prices rose 20%. Maize has been largely affected by declining demand for industrial usage, including ethanol, while projected harvests for 2009/10 are higher. Global food prices are expected to rise only gradually throughout the global economic recovery. Demand for food is relatively insensitive to the business cycle compared with other commodities, and future harvests are expected to be fairly abundant although there is the prospect that the El Niño weather pattern may affect production of some crops, particularly soybeans, through 2010.

## 2. SUB-SAHARAN AFRICAN ECONOMY

Economic growth in Sub-Saharan Africa (SSA) has slowed considerably in 2009 driven down by the lingering effects of the global financial crisis and the subsequent economic recession. Most African countries are now believed to be entering a period of recovery. However, in the short-term, weaker economic growth and the persistence of higher risk aversion among international investors and financial institutions are expected to negatively affect the SSA region as many African countries still rely on foreign investment to boost their economies. With GDP growth in the African continent expected to decline from an average of 6% in 2004-08 to around 1.8% in 2009 and 4% in 2010, GDP **growth in SSA** is estimated at just 1.6% in 2009 and is forecast to rise to 4.4% in 2010.

An important factor behind the recovery is that many governments have been able to use fiscal balances as shock absorbers, thereby sustaining domestic demand and helping contain employment losses. Three quarters of SSA countries are expected to increase their fiscal deficit (excluding grants) or decrease their projected surplus in 2009, and two-thirds have lowered one or more policy interest rates since the crisis began (Economist Intelligence Unit (EIU), 2009). The IMF estimates that SSA will experience an overall deficit of 4.75% of GDP in terms of fiscal balance in 2009, compared with a surplus of 1.75% of GDP over the period 2004-08.

The global economic slowdown has greatly reduced the demand for African exports (commodities as well as manufactured and processed goods) and curtailed capital flows to the region. However, Asian and Western countries' pursuit of Africa's strategic mineral resources is helping to boost inflows of foreign direct investment (FDI). Also, the competition between **India and China** for African markets and resources as well as the struggle for influence between the two Asian giants is expected to benefit African suppliers. In the case of South Africa, there is expected to be a gradual shift in the origin of FDI from OECD to non-OECD sources (led by China and India) over the next two years (EIU, 2009). **Trade ties with china** have strengthened rapidly in recent years, to the extent that China is currently SA's largest single market for exports and its largest single supplier of imports, overtaking the US and Germany, respectively, in 2009 (EIU, 2009).

Looking at the four sub-regions into which SSA is divided, drought in **East Africa** during 2009 has been the worst since 2000, and possibly since 1991, and this together with erratic rains, high global food prices and several years of conflict in the region, has presented many East African governments with the significant challenge of feeding a large share of their population. Despite this, the EIU forecasts that, of the four regions in SSA, growth will be strongest in East Africa, expected to pick up from 4.1% in 2009 to 5.1% in 2010, rising further to 6.2% in 2011. This reflects a recovery in the largest economy in the region, Kenya, where real GDP growth is expected to recover to 2.9% in 2010 and 5.2% in 2011.

Sub-regional growth for **Central and West Africa** is expected to rise from 4.3% in 2009 to 5.2% in 2010 and 6.1% in 2011. This is mainly due to the Nigerian economy expected to be buoyed by moderate oil sector growth and more robust performance in the non-oil sector, leading to the real GDP growth rising from an estimated 4.5% in 2009 to 5.3% in 2010 and 5.5% in 2011 (EIU, 2009). The main obstacle to Nigerian oil production growth during the forecast period is expected to be its OPEC quota currently estimated at 1.6m barrels/day, rather than political unrest in the Niger Delta.

Of the four sub-regions, growth is expected to be lowest in **Southern Africa**, at a negative 1.4% in 2009, recovering to 4.1% in 2010 and 4.5% in 2011 (EIU, 2009). Real GDP growth in South Africa, the region's largest economy, is expected to recover to 3.5% in 2010 and 3.7% in 2011 in line with the strengthening global demand and a recovery in domestic demand – following a sharp decline in interest rates in 2009.

In the **Franc Zone**, growth is also forecast to edge upwards, at 4% in 2010 and 4.2% in 2011, following an estimated growth of 1.4% in 2009. This, in part, reflects the ongoing economic malaise in the region's largest economy, Cồte d'Ivoire, which in turn reflects the continuing political crisis in the country. The country's economic forecast for 2010-11 remains heavily dependant on the political outlook, and real GDP growth is forecast at 4% in 2010, from 3.4% in 2009, expected to rise to 4.8% in 2011 as reconstruction work speeds up and agricultural production recovers. Table 2 presents selected economic indicators for the SSA region.

**TABLE 2: Sub-Saharan Africa – Economic Outlook**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Growth | 6.5 | 5.5 | 0.6 | 4.1 |
| Consumer Inflation | 6.4 | 12.6 | 8.8 | 6.7 |
| External Debt[1] | 168.7 | 175.3 | 180.7 | 190.9 |
| Current Account[1] | -23.1 | -19.1 | -41.5 | -33.2 |

*Source: EIU* [1]*US$ Billion*

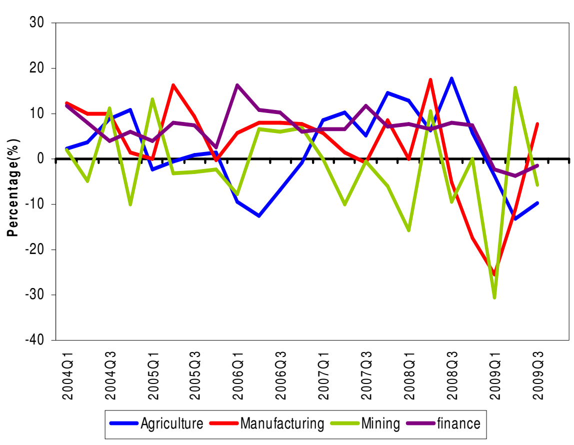
**Inflation**, which has fallen in most African countries in 2009 on the back of weakening demand and lower commodity prices, is expected to moderate further in 2010 and 2011. Inflation is expected to remain lowest in the Franc Zone, and is likely to bottom out in high single digits in many SSA countries, especially should another good harvest fail to materialise in 2010, and given the anticipated recovery in economic growth and continued high levels of government spending (EIU, 2009).

Fifteen of the 26 SSA economies rated in the World Economic Forum (WEF)'s **Global Competitiveness Report** 2009/10, have improved their international competitiveness rankings compared to last year, but the region's competitiveness compared to all other regions remains weak. South Africa remains top of the regional league table, in 45th position, although its overall ranking is held back by weaknesses such as labour market efficiency challenges, low university enrolment ratio, business costs of crime and violence as well as poor health conditions.

## 3. SOUTH AFRICAN ECONOMY

The era of severe recession has now been transcended, with the third quarter data confirming that the economy, although not completely out of the woods, has passed the critical stage. The South African economy is expected to grow at 3.5% in 2010; nonetheless, employment and credit conditions are expected to remain strained. The revised and rebased GDP statistics during the third quarter of 2009 revealed that the economy has rebounded, with ten sectors expanding relative to only five sectors in the second quarter. The economy advanced by 0.9% quarter-on-quarter (q-o-q) seasonally adjusted and annualised (s.a.a) in the third quarter of 2009, following three consecutive quarters of contraction. The manufacturing, general government, construction, personal services, utilities and transport sectors powered the economy into positive territory in the quarter, contributing 1.1%, 0.7%, 0.2%, 0.2%, 0.1% and 0.1%, respectively to the quarter-on-quarter advance. In turn, due to weak household demand, the broader trade and finance sectors remained in contraction; however, they posted slower declines in the third quarter of 2009 as compared to the second quarter. The mining and broader financial sectors were the biggest drags on growth, followed by the agricultural and trade sectors. Figure 1 below depicts the trend of some of the economic sectors in recent quarters.

***Fig 1: GDP growth of selected sectors***

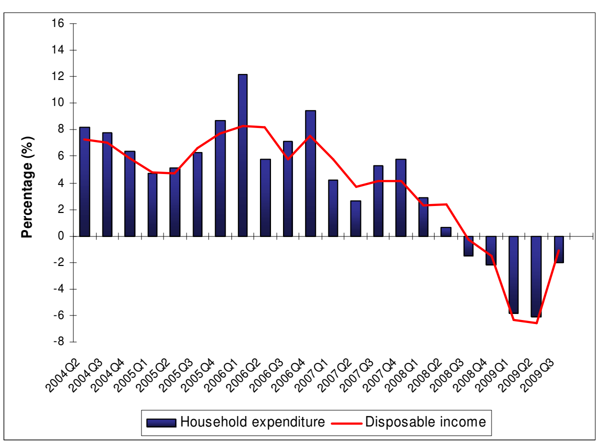



***Source: StatsSA***

Encouragingly, the current account deficit, as a percentage of GDP, narrowed to -3.2% of GDP in the third quarter of 2009, from -3.4% of GDP in the second quarter and from a high of -8,8% of GDP in the first quarter of 2008. This is as a result of evident stabilisation of economic growth and stronger financial markets that are beginning to surface. Another indicator of a turnaround in South Africa's economic situation has been a rise in foreign capital inflows which stand at R68 billion in October 2009, as compared to -R33 billion in October 2008. These were motivated by the decline in risk aversion of foreign investors as the international crisis calms. As a result, the Rand exchange rate appreciated from a level of R9.90 to the dollar in January 2009 to the levels of R7.30 in December 2009, making the Rand one of the strongest currencies in 2009.

The pace of formal sector job losses accelerated in the third quarter of 2009, distinctively in lower skilled professions which weighed on sentiments. According to the third quarter Labour Force Survey, a total of 484 000 jobs were lost in the formal and informal non-agricultural sectors of the economy as compared to a loss of 267 000 jobs in the second quarter of 2009. These were typically in the lower skilled professions or low income earning categories. The unemployment rate increased to 24.5% in the third quarter of 2009 from 23.6% in the second quarter. The rise in unemployment was exacerbated by a fall in employment, with 510 000 either discouraged and/ or merging into the non-economically active population. Evidently, job losses were widespread, affecting most industries. However, the overall labour productivity improved slightly despite a steeper decline in jobs. This is observed in the manufacturing sector which recorded an increase of 0.7% month-on-month (m-o-m) seasonally adjusted in output in November 2009 and -4.7% year-on-year from -9.6% y-o-y in October. Whilst the data show the recovery in factory production is intact, given its high exposure to the global economy, the vigour of its advance will largely depend on the strength of external demand. Similarly, the agricultural sector reported steeper declines in employment relative to the second quarter of 2009, amounting to 57 000 in the third quarter of 2009 as compared to 28 000 in the second quarter. The manufacturing sector shed 150 000 jobs while employment declined by 110 000 in the retail sector. As a result, confidence levels remain relatively weak. Household expenditure growth remains negative, but has improved when compared to the second quarter of 2009. Real household consumption expenditure fell by 2% quarter-on-quarter (s.a.a) in the third quarter of 2009, from a revised -5.5% quarter-on-quarter in the second quarter. Figure 2 below depicts the household expenditure and disposable income trends in SA since the second quarter of 2004.

***Fig.2: Household expenditure vs disposable income***




***Source: SARB***

While business conditions improved for new motor vehicle dealers, building contractors and manufacturers, overall business confidence weakened in the third quarter of 2009 as a result of depleted profits among retailers and wholesalers. Meanwhile, the challenge of the financial crisis has led to huge fiscal stimulus packages which played havoc with the national budget, pushing up budget deficit to unprecedented levels. The budget deficit widened to between 7% and 8% of GDP for 2009/10 projected tax revenues. Interestingly, SA consumer inflation dropped back into the target range during October 2009 for the first time in more than 30 months, falling to 5.9% before moderating further to 5.8% in November. This is mainly due to the moderation in food inflation which declined by 0.1% m-o-m in November. The Rand's strength has also played a significant role in helping to push inflation down in the second half of the year and has dampened the impact of higher international food and fuel prices. Meanwhile, producer price inflation fell less than the market expectations in November, due to higher commodity and agricultural prices.

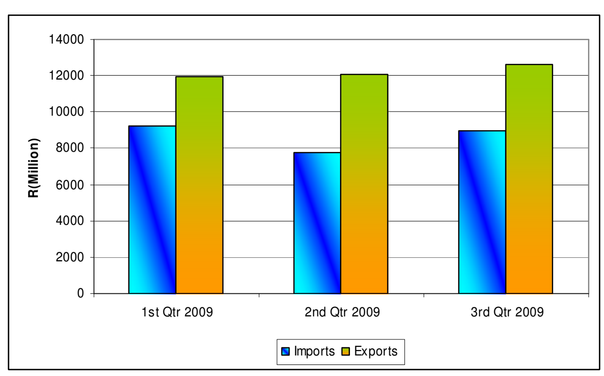
The South African Reserve Bank decided to leave the repo rate unchanged at 7% in January 2010 citing improved inflation outlook and more positive growth expectations from 2010 and beyond. After recording a surplus of R3.871 billion in September 2009, the trade balance went back to a deficit of R2.5 billion in November 2009 following a deficit of R6.7 billion in October. Exports rose by 4% m-o-m to R45.9 billion supported by firmer demand for precious metals and vehicles, while imports declined by 4.9% m-o-m to R48.3 billion due to a decline in oil mineral products, following a massive spike in October.

## 4. INTERACTION BETWEEN SA, AFRICA AND THE WORLD

The export sector, which had a fair share of destruction since the international crisis, is showing signs of recovery. However, feeble recoveries in South Africa's major trading partners are inhibiting a return to pre-recession export levels. Consumers in the US, Japan and Germany, where about 30% of South Africa's exports are destined, are still under pressure. The stronger Rand also poses an immediate threat to exports recovery. The Rand pulled back strongly from heavily undervalued territory as markets started to factor in an economic recovery and investors started bargain hunting after showing weakness and vulnerability in January and February 2009.

Supporting factors were South Africa's flexible policies of cutting interest rates from very high levels and also ramping up fiscal stimulus. The Rand rose by 22.8% against the trade-weighted basket and by 26.2% against the US dollar. South Africa recorded a trade deficit of R2.474-billion for its trade with non-Southern African Customs Union trading partners in November after a deficit of R6.709-billion in October. According to Nedbank Group's economic unit, an improvement in exports and lower imports helped to narrow the trade deficit. However, the improvement was mainly due to a collapse in imports on the back of weakening economic conditions for most of the year. In November, exports were boosted by precious or semi-precious stones (up 20.7% m-o-m and 21.1% y-o-y) as well as vehicles and equipment (up 36.8% m-o-m but down 28.4% y-o-y), while exports of mineral products fell by 15.4% m-o-m and 32.9% y-o-y. Imports were dragged down by mineral products (down 21.2% m-o-m and -10.9% y-o-y) and chemical products (down 11.1% m-o-m and 21% y-o-y), while imports of vehicles and equipment rose by 23.1% m-o-m and 10.6% y-o-y. Exports to SADC countries rose by 8% in the third quarter as compared to the second quarter of 2009. Exports to China fell by 15.6% while exports to EU 27 and United States rose sharply by 4% and 16.3% respectively. Meanwhile, imports from SADC rose by 21.7%, from EU 27 and China by 5.8% and 4.7%, respectively, while imports from United States declined significantly by 10.4%. The agricultural sector maintained a positive trade balance in the three consecutive quarters of 2009 mainly due to an increase in the market share of primary agricultural goods. Figure 3 below show trends in agriculture trade balance for the first three quarters of 2009.

***Fig.3: Agriculture Trade Balance***




***Source: DAFF***

Even though exports to EU declined by 6.8% in the third quarter of 2009, it remained South

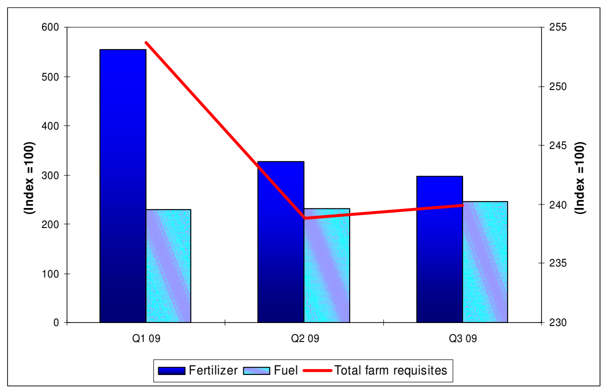
Africa's largest export destination for its agricultural products, with South African wine and citrus being the main products in the export basket. Exports of agricultural products to SADC and the United States rose by 5.4% and 49.7%, respectively. Major exported products to SADC were sugar cane, beef and sunflower; while, citrus, wine and sugar cane were destined mainly to USA. Meanwhile, agricultural imports from EU, SADC, and the United States increased significantly by 32.7%, 22.3%, and 27.1%, respectively in the third quarter of 2009 as compared to the second quarter.

## 5. MACROECONOMIC VARIABLES AND THEIR IMPACT ON AGRICULTURE

### 5.1 Inflation

South Africa's inflation moderated further in November to 5.8% from 5.9% in October 2009. Surprisingly, input costs have declined moderately during the third quarter of 2009 as compared to the previous two quarters. The overall costs of intermediate goods have declined by 8.1% in the third quarter of 2009 as compared to the same quarter of 2008. Fertiliser prices which rose steeply by 12.9% quarter-on-quarter in the first quarter of 2009 have declined significantly by 8.8% in the third quarter as compared to the second quarter of 2009. However, costs of other production inputs such as seeds, packaging material and feeds have remained persistently high in the third quarter 2009 as compared to the same period in 2008. Despite a slight improvement in the overall costs of production inputs, prices of major grains remained low and second quarter 2009 figures shows that the agricultural growth rate has declined by 17.3%. The beef industry has been mostly affected mainly due to persistently high costs of animal feed and packaging. Figure 4 below shows changes in input prices of selected products.

***Fig. 4: Input prices of selected products***




***Source: DAFF***

Food prices at the primary agricultural level fell by -1.2% y-o-y in November 2009, following a 3.3% y-o-y fall in the previous month, due to higher prices for sugar and oil seeds.

### 5.2 Growth

Real gross domestic product at market prices increased by 0.9% in the third quarter of 2009 compared to the second quarter of 2009, (s.a.a). Agriculture contributed 2.3% in the third quarter of 2009 from a revised -0.4% in the second quarter of 2009 (Statistics South Africa, 2009). Table 3 below shows the forecasted GDP figures over the next two years.

**TABLE 3: Annual real GDP growth rates**

| 2008 | | 2009 | 2010 |
|---|---|---|---|
| 3.1 | BER | -1.7 | 2.7 |
| | Standard Bank | -1.8 | 2.6 |
| | ABSA | -2.1 | 2.3 |
| | Average | -1.8 | 2.5 |

*Sources: BER, Standard Bank, ABSA*

According to Standard Bank, food and beverage sales have seen a negative growth for the last three months. The FAO has indicated that the agricultural production outlook is at more comfortable levels than in 2007/08, but the balance of world supply and demand is not even across all commodities.

**Some of the factors that may affect the contribution of agriculture to GDP:**

The preliminary area estimate for local **maize** production during the 2009/10 season is 2,627 million hectares (ha) which is 8.2% more than the hectares planted last season. The area planted to **sunflower seed** is 32.9% less than the previous year. Global sunflower oil stocks are anticipated to fall this year due to falling trade volumes. Hectares planted to **soybeans** have increased by 15.6% compared to the previous season and this is the highest area planted in recent history. Soybeans remained in big demand in spite of the global recession, resulting in lower inventory levels (FAO, 2009). In the 2009/10 season, supplies are expected to be plenty compared to the previous season but prices are expected to remain vulnerable. The production forecast for **wheat** was reduced by 1.7% compared to the previous forecast; the area under plantation was reduced by 10 000 ha. SA wheat producers are finding it hard to compete with lower international prices. Globally, wheat trade is expected to decline by as much as 16%. International wheat prices were low during the early months of 2009 which boosted purchases by other countries. Bumper crops in North Africa and good harvests in leading wheat importing countries will also put pressure on prices. Trade is expected to remain well below the previous seasons.

**Animal production** is expected to increase slightly in 2009 compared to the 2008. FAO has revised downwards its estimate of world meat production in 2009 to 282 million tonnes, which is marginally above the 2008 figures. Global trade in meat products is now expected to drop by 6 percent, due to the current economic environment (FAO, 2009). The FAO Food Price Index, a measure of the monthly change in international prices of a food basket composed of cereals, oilseeds, dairy, meat and sugar, has risen uninterruptedly since August 2009.

The economic recovery in certain Asian countries and oil exporting countries may be regarded as drivers behind high food prices currently. The Standard Bank research division predicts that the South African economy is on track for a sub-par recovery this year and that real income gains and normalised working hours will translate into firmer spending from the second quarter of 2009 onwards. This bodes well for farmers who had a rough year due to declining income as agricultural prices fell sharply from their record highs in 2008 and demand remained subdued.

### 5.3 Exchange rates

The Rand traded at an average of R7.48 to the US dollar in the fourth quarter of 2009 from an average of R7.70 to the US dollar in the third quarter of 2009 and R9.81 in the fourth quarter of 2008. The Rand's strength was driven mostly by the US dollar weakness, with the Rand ending the year stronger than most forecasts. There is still uncertainty about the global economic recovery path, which remains a risk for the Rand. The BER forecasts expect the Rand to depreciate in the first quarter of 2010 averaging R8.02 to the dollar. Table 4 below provides a forecast of the R/$ exchange rate over the next two years.

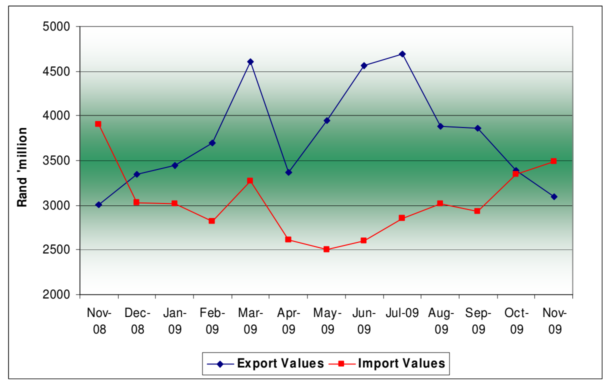
**TABLE 4: End of year R/$ exchange rates**

| 2009 | | 2010 | 2011 |
|---|---|---|---|
| 8.44 | BER | 8.28 | 8.65 |
| | Standard Bank | 7.54 | 7.63 |
| | Absa | 7.70 | 8.39 |
| | Average | 7.84 | 8.22 |

*Source: BER, Standard Bank and ABSA*

The Rand remained strong during the third quarter of 2009, rendering SA agricultural exports expensive. SA agricultural exports are finding it hard to compete globally due to a slowdown in demand and the stronger Rand. There has been a steady growth in agricultural exports since May 2009 until November 2009. SA agricultural exports declined by 2.9% in November 2009 compared to October 2009. The Rand was weaker earlier in 2009 but strengthened towards the end of the third quarter of 2009. As depicted on the figure 5 below, imports outstripped exports in November 2009 and given the current economic environment, countries are competing in terms of price rather than quality.

***Fig. 5: SA agricultural imports and exports***




**Source: DAFF**

### 5.4 Interest rates

SA retail sales fell for the 10th consecutive month in November as job losses curbed consumer spending (DAFF, 2009). Table 5 below presents the projected average prime lending rates for 2010 and 2011.

**TABLE 5: Average yearly Prime interest rates**

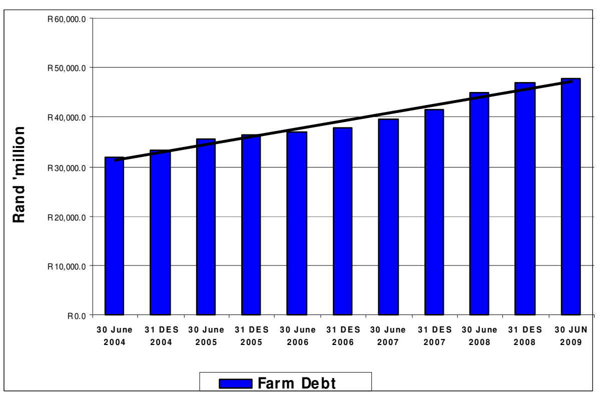
| 2009 | | 2010 | 2011 |
|---|---|---|---|
| 10.50 | BER | 10.5 | 11.25 |
| | Standard Bank | 11.5 | 12.5 |
| | Absa | 10.9 | 11.5 |
| | Average | 10.9 | 11.75 |

*Sources: BER, Standard Bank, ABSA*

The current repo and prime overdraft rates are 7% and 10.5% respectively. The 500 basis cut in the interest rate that began in 2008 is still to work itself within the economy, evident by the large negative retail sales data in November 2009. Retail sales declined by 6.6% in November 2009, after falling by a revised 6.1% in October 2009. Household consumption expenditure declined by 2% in the third quarter of 2009 (SA Reserve Bank, 2009). Real final consumption has contracted on a quarter on quarter basis since the third quarter of 2008.

Household growth in private sector credit extension contracted further in November 2009 by -1.6% y-o-y from 0.4% y-o-y in October 2009, as consumers and banks avoid debts. The number of civil judgments issued for debt shot up 8.1% y-o-y in November (Statistics SA, 2009). Figure 6 below shows that debt at farm level started rising sharply since 2008 as the global economic crisis intensified.

***Fig. 6: Agricultural Farm Debt***




**Source: DAFF**

Debt at the agricultural level continues to grow, increasing by 6.5% in June 2009 compare to June 2008. Expenditure on intermediate goods and services in agriculture decreased by 21.7% in 2009 compared to 2008. The reduction in expenditure and the increase in debt are due to the low incomes farmers received for their produce due to the high input costs and reduced demand. Net farm income declined by 25.4% in the third quarter of 2009 compared to the second quarter of 2009.

**5.5 Unemployment**

The number of persons in the labour force decreased by 418 000 from 17.5 million in the second quarter of 2009 to 17.1 million in the third quarter of 2009. Employment decreased significantly by 3.6% between the second quarter and the third quarter of 2009. Most of the job losses were in manufacturing, which accounted for 150 000 of the job losses, followed by trade (110 000), construction (60 000) and agriculture (57 000). The year-on-year comparisons also show that job losses were experienced in all industries except finance as well as community and social services. Even if growth is achieved in the economy, employment is a lagging indicator and as a result, a return to employment growth is expected later in the year.

## 6. CONCLUSION

Both the domestic and global economies have entered a period of economic recovery following the worst global economic recession since World War II. The recovery is expected to be relatively vigorous in emerging and developing countries, led by China and India, while economic recovery in most advanced economies is expected to be slow. However, global unemployment rates are expected to remain high in the medium-term and this poses a great threat to poverty-stricken countries, mainly in Africa. The South African economy is also expected to recover in 2010, with China emerging as a major trading partner for the country's goods and services. Interest rates are expected to remain fairly low in the medium-term as governments try to revive household spending which declined sharply during the economic downturn. Unemployment in South Africa remains a major concern as more and more jobs continue to be lost, and this has greatly reduced households' disposable income which may result in severe social challenges for the country. Though the demand for food is relatively insensitive to the business cycle compared to other commodities, the agricultural sector has also been negatively affected by the declining demand for goods and services globally, due to declining income.

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