

## 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 yearly informed on South African and world economic trends in the agricultural sector. The Annual Economic Review has now been established as a yearly feature in the Directorate's work plan. Since the beginning of 2006 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.

Any comments on the content of this annual review series are most welcome.

Mr D. du Toit

Acting Director: Production and Resource Economics

March 2008

Pretoria

Compiled by Economic Research Unit  
In consultation with the Acting Director

Directorate Production and Resource Economics  
2<sup>nd</sup> Floor – Maize Board  
503 Belvedere Street, Arcadia, South Africa

All correspondence can be addressed to:  
The Director: Production and Resource Economics  
Private Bag X416, Pretoria 0001, South Africa

Tel: +27 (12) 319 8457

Fax: +27 (12) 319 8093

e-mail: [dpre@nda.agric.za](mailto:dpre@nda.agric.za)

This publication is also available on the Internet at:  
<http://www.nda.agric.za>

## CONTENTS

1.	INTRODUCTION .....	4
2.	WORLD ECONOMY .....	4
2.1.	ECONOMIC OUTPUT .....	4
2.2.	OUTLOOK INDICATORS .....	5
2.3.	DEVELOPMENT INDICATORS .....	6
2.4.	WORLD AGRICULTURE .....	7
2.5.	NEWS EVENTS .....	9
3.	SOUTH AFRICAN ECONOMY .....	10
3.1.	GROSS DOMESTIC PRODUCT .....	10
3.2.	EXPORTS AND IMPORTS .....	10
3.3.	INFLATION AND INTEREST RATES .....	11
3.4.	EXCHANGE RATES .....	12
3.5.	AGRICULTURE .....	13
3.5.1	SIZE OF AGRICULTURE .....	13
3.5.2	AGRICULTURAL PRODUCTION .....	14
3.5.3	AGRICULTURAL CAPITAL AND DEBT .....	16
3.6.	NEWS EVENTS .....	17
4.	CONCLUSION .....	17

## LIST OF FIGURES

Figure 1: GDP Growth, 2007 .....	4
Figure 2: GDP per Capita (PPP), 2007 .....	5
Figure 3: Inflation, 2007 .....	5
Figure 4: Lending Interest Rates, 2007 .....	5
Figure 5: Real Interest Rates, 2007 .....	6
Figure 6: Human Dev. Index, 2005 .....	7
Figure 7: Unemployment Rates, 2007 .....	7
Figure 8: World Agricultural Output, 2007.....	8
Figure 9: Agriculture as % of GDP, 2007.....	8
Figure 10: Agric Output per Capita, 2007 .....	9
Figure 11: SA Real Gross Domestic Product, 2007.....	10
Figure 12: SA vs World GDP Growth.....	10
Figure 13: SA Trade: Exports and Imports .....	11
Figure 14: SA Consumer Inflation .....	11
Figure 15: Price Indices of Selected Products.....	12
Figure 16: Rand per US Dollar, 2007 .....	12
Figure 17: Agricultural Output, 2007R .....	13
Figure 18: Agriculture as % of GDP .....	13
Figure 19: Net Farm Income, 2007R.....	13
Figure 20: Annual Profit per Farmer, 2007R.....	14
Figure 21: Farm Worker Monthly Salary, 2007R.....	14
Figure 22: Field Crops Indices.....	14
Figure 23: Maize Production.....	15
Figure 24: Horticultural Indices .....	15
Figure 25: Animal Products Indices.....	16
Figure 26: Composition of Agricultural Capital.....	16
Figure 27: Farming Debt, 2007R .....	16

## 1. INTRODUCTION

The South African economy was faced with various economic challenges during 2007 though the economy was able to withstand most of the pressures. Apart from domestic challenges such as high inflation rates, subsequent high interest rates, power shortages and political influences, a number of global issues such as the US sub-prime crisis and the subsequent financial markets crisis also played a role in the South African economy. This report aims to take a review of the South African macro economy during 2007; and since the South African economy does not operate in isolation, the report will also look at the performance of the global economy.

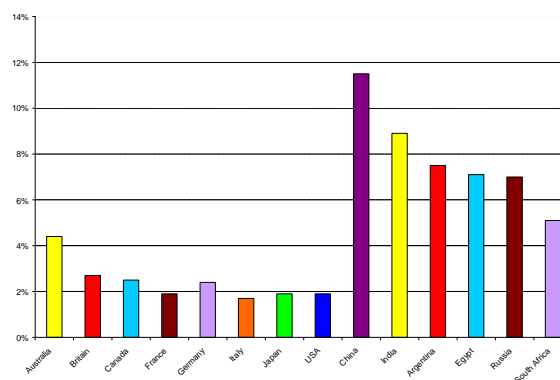
## 2. WORLD ECONOMY

### 2.1 Economic Output

According to the IMF, global economic growth expanded satisfactorily in the first three quarters of 2007 but slowed markedly in the final quarter. Global growth in 2007 is estimated at 4,9% – a slowdown from 5,4% in 2006 – and is projected to decelerate further to 4,1% in 2008. The slowdown is in response to continuing financial markets strains originating from the US subprime crisis which has negatively affected most advanced economies whereas most emerging markets and developing economies are reported to have remained resilient so far. However, emerging markets still face the risk of spill-over challenges in the medium-term, with growth in emerging market economies which

are heavily dependant on capital inflows likely to be particularly affected.

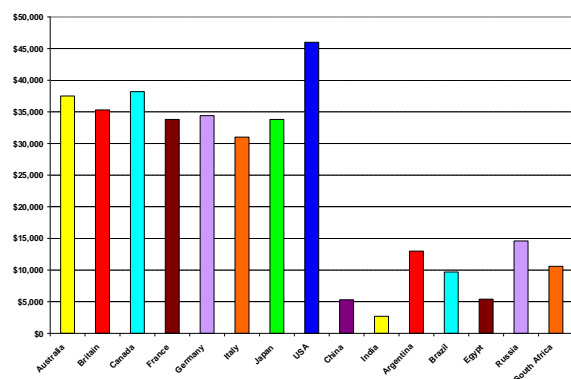
Figure 1: GDP Growth, 2007



Source: IMF, 2007

Economic growth in the US slowed notably in the fourth quarter of 2007, with indicators showing a weakening of the manufacturing and housing sector activity, employment and consumption. GDP growth in the Euro area declined slightly from 2,8% in 2006 to 2,6% in 2007. Japan's GDP growth decelerated notably from 2,4% in 2006 to 1,9% in 2007, dampened by a tightening in building standards while consumer and business sentiments have also weakened. Despite some slowing of export growth, emerging markets and developing economies are reported to have expanded strongly so far, led by China and India. Growth in emerging markets and developing economies is estimated at 7,8% in 2007, projected to ease to 6,9% in 2008. China's GDP growth is estimated at 11,4% in 2007 from 11,1% in 2006, but is projected to ease to 10% in 2008. Despite concerns of a slowing economy due to high interest rates prompted by high inflation rates, South Africa's GDP growth in 2007 was better than expected – though at a much slower pace compared to other emerging economies – at 5,1% from a revised 5,4% in 2006.

Figure 2: GDP per Capita (PPP), 2007



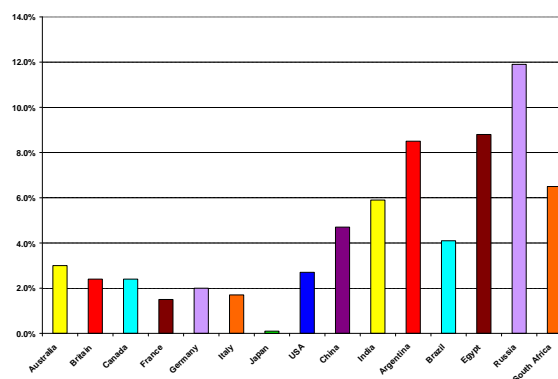
Source: IMF, 2008

Per capita GDP generally reflects the participation of the inhabitants of a country in the country's economy and thus, advanced economies usually have higher GDP per capita as they are characterised by a relatively lower population and higher GDP output. The USA – the world's largest economy – has the highest GDP per capita. Though India and China have much higher GDP figures than South Africa, their GDP per capita is less than that of South Africa due to their very large populations. South Africa's GDP per capita (Purchasing Power Parity) is above \$10 000 which is on par with countries like Brazil, Argentina and Russia.

## 2.2 Outlook Indicators

According to the IMF, headline inflation has increased since mid-2007 in both advanced and emerging markets. Central banks have been tightening monetary policies in many emerging market economies where food and energy represent a higher share of consumption baskets and overheating is more of a concern. In order to avoid overheating the economy, China has imposed price controls on staples such as meat, eggs and noodles as food costs soars; and energy prices have been temporarily frozen.

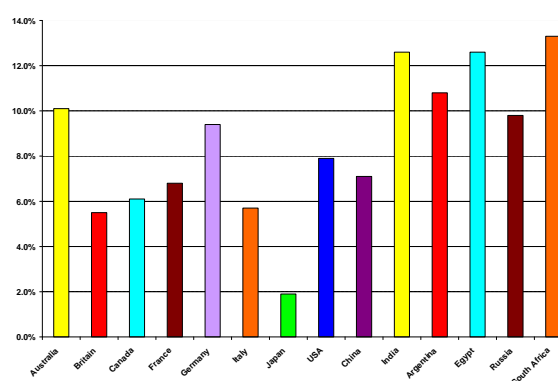
Figure 3: Inflation, 2007



Source: CIA World Factbook, 2008

Japan's deflation has not yet been decisively beaten despite four years of robust growth. After a period of rising consumer prices, the year-on-year changes in the headline and core CPI remain modestly negative although land prices are reported to be rising. Inflation in most advanced economies remained relatively stable – though there has been a somewhat increase – as their economies are less prone to the risk of overheating. Buoyed by soaring food prices and high energy prices, consumer inflation in South Africa remained above the Reserve Bank's target range (3%-6%) since April 2007, averaging 6,5% in 2007.

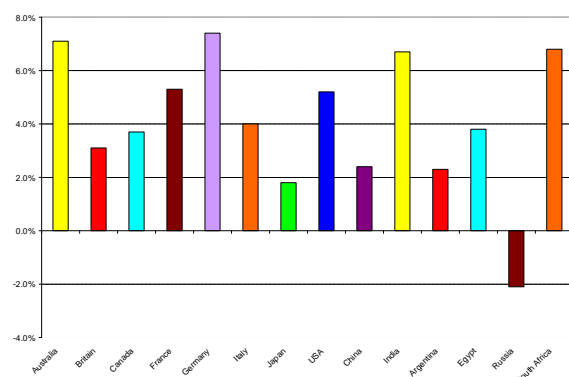
Figure 4: Lending Interest Rates, 2007



Source: TheDti, 2008

Interest rates are generally used as a monetary policy tool to control inflation and as a result, countries with low inflation rates also have lower interest rates, though there are some exceptions. Brazil, for example, recorded severely high (44,5%) lending rates in 2007, though the country's inflation rate was very low (4,1%). In line with a very low inflation rate in Japan, the country also recorded the lowest interest rate of 1,9% in 2007, slightly up from 1,5% in 2006. Most countries recorded a rise in interest rates in 2007 compared to 2006 against the background of higher inflation rates globally. South Africa's interest rate averaged 13,3% in 2007, up from 11,2% in 2006 as the Reserve Bank battled to bring consumer inflation back within the target range. The lending rate in the USA ended slightly lower in 2007 (7,9%) compared to 2006 (8,3%) as the US Federal Reserve began cutting the rate in September 2007 as one of the measures to contain the risks to its broader economy created by the financial market crisis and the housing market downturn.

Figure 5: Real Interest Rates, 2007



Source: Derived from the Dti, 2007

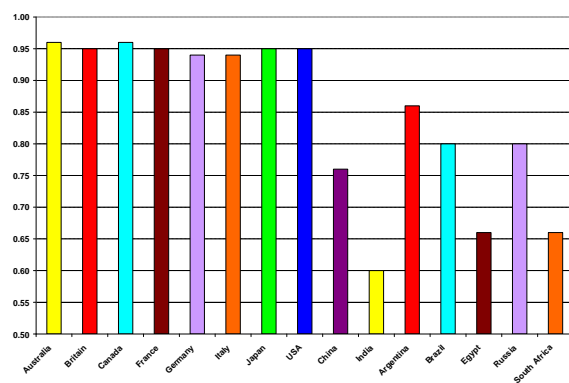
A country's real interest rate takes into account inflation adjustments. International capital generally moves to markets that offer higher real

rates of interest from markets that offer low/negative real rates of interest. Thus, countries with high real interest rates attract international investments as they offer a good return on investments. Argentina's real interest rate picked up from -2,4% in 2006 to 2,3% in 2007 due to a significant drop in its inflation rate in 2007. On the other hand, Russia recorded a negative real interest rate due to a considerable increase in the inflation rate during 2007. South Africa showed a healthy real interest rate (6,8%) in 2007 which is on par with that of countries such as Australia, Germany and India.

### 2.3 Development Indicators

Human development has become a global concern hence the eight Millennium Development Goals (MDGs) – which include halving extreme poverty, halting the spread of HIV/AIDS and providing universal primary education by 2015 – agreed to by all the world's countries and all the world's leading development institutions. One of the measures used to determine the development of a country is the Human Development Index (HDI) which is a normalised measure of life expectancy, literacy, education, standard of living and GDP per Capita for countries worldwide. The HDI below 0.5 is considered to represent low development while the HDI of 0.8 or more is considered to represent high development. Figure 2.7 depicts the HDI levels for selected countries in 2007.

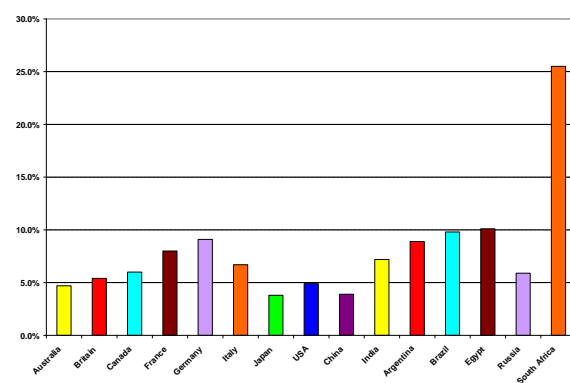
Figure 6: Human Dev. Index, 2005



Source: United Nations, 2007/08

Advanced economies are in the high development group as their HDI levels are above 0.8. Brazil and Russia are some of the seven countries promoted from the medium development group to the high development group in 2007 – based on 2005 economic data – indicating positive development in those countries. Only three countries in the African continent – Seychelles, Libya and Mauritius – are in the high development group whereas all 22 countries in the low development group are based in Africa. South Africa is ranked 121<sup>st</sup> in the world and 9<sup>th</sup> in Africa with an HDI score of 0.67 in 2005, slightly up from 0.65 in 2004. Nine countries departed from the low development group to the medium development group which is a positive improvement towards achieving the MDGs. According to the 2007 UN Millennium Development Goals Report: the proportion of people living in extreme poverty fell from nearly a third to less than one fifth between 1990 and 2004; the number of extremely poor people in sub-Saharan Africa has levelled off and the poverty rate has declined by nearly six percentage points since 2000 though the region is unlikely to reach the goal of reducing poverty by half by 2015.

Figure 7: Unemployment Rates, 2007



Source: CIA World Factbook, 2008

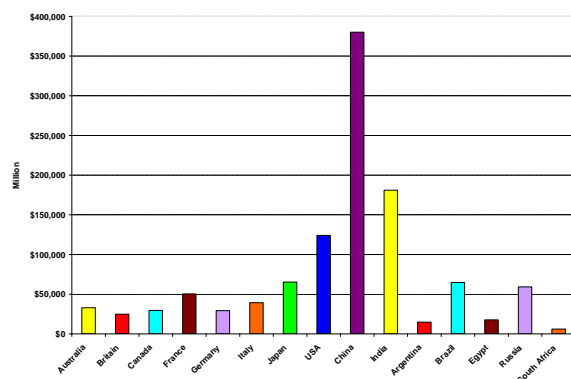
China and India's unemployment rates are very low, even better than most advanced economies, which is an indication that the rapid growth in these countries is benefiting the majority of the population. South Africa's unemployment rate remains the highest of the fifteen countries under review. Though South Africa – Africa's largest economy – is in the middle development category in terms of the United Nations' HDIs, its unemployment rate is higher than most countries in that category which indicates the disparities in the distribution of the country's income.

## 2.4 World Agriculture

According to the International Crops Research Institute, the world is facing an agricultural crisis due to climate change that could jeopardise global food supplies, with South Asia and Africa expected to be the hardest hit. The International Food Policy Research Institute reported that the world is consuming more than it produces and food prices may increase for years because of expansion of farming for fuel and climate change, risking social unrest. Agricultural commodity prices have been rising throughout the world and the FAO food price

index rose by 23% year-on-year in 2007, after rising by just 9% in 2006 (FAO, 2008). The surge in global prices was led by dairy products, which on average increased by nearly 80%, followed by oils with nearly 50% and grains with 42%. Figure 2.10 depicts agricultural output for selected countries during 2007.

Figure 8: Agricultural Output, 2007

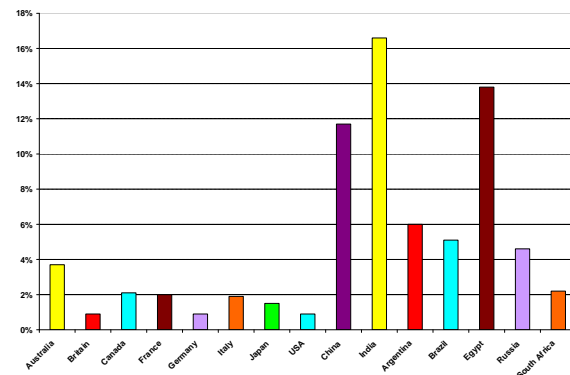


Source: Derived from IMF, CIA World Fact Book, 2008

China's agricultural output remained the highest in 2007, increasing by 21.5% from \$313 billion in 2006 to \$380 billion in 2007. The agricultural output in China was boosted by increased area planted in winter wheat crops due to the incentive of high wheat prices and continued government support for grain production. Though most of the countries recorded increases in agricultural output in 2007, Argentina recorded the highest decline (27.1%) in output following scarce precipitations and high temperatures due to "La Niña" meteorological phenomenon which affected maize crops at flowering stage while additional crop losses were also due to a late spring frost. Brazil experienced the second highest drop in agricultural output in 2007 compared to 2006, though wheat production recovered following a sharp decline in 2006 due to a reduction in planted area as a result of

adverse weather conditions along the growing season (FAO, 2008). South Africa's agricultural output is estimated to have increased by 8% in 2007.

Figure 9: Agriculture as % of GDP, 2007

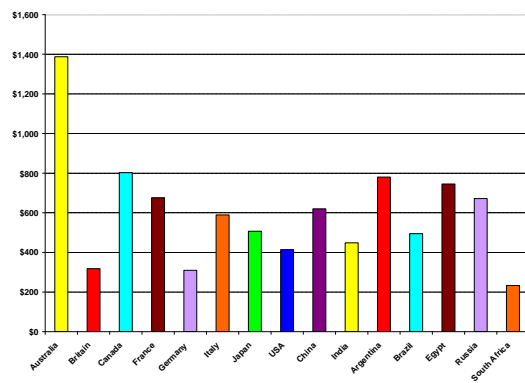


Source: CIA World Fact Book, 2008

As countries become more developed, the contribution of agriculture to total economic output declines as they become more industrialised. Also, most advanced economies are characterised by a general shift of the population from rural areas to urban areas which negatively impacts on the agricultural sector. The contribution of agriculture to the countries' total economic output remained relatively flat for most advanced economies whilst developing countries are showing a declining trend. The agricultural contribution in China – the world's fastest growing economy – dropped to 11.7% in 2007 from 11.9% in 2006 and 13.8% in 2005. Though India's agricultural contribution remains the highest, it has been declining considerably in recent years – from 23.6% in 2005, to 19.9% in 2006 and 16.6% in 2007. The agricultural contribution in South Africa has remained relatively flat, averaging 2.2% in the past three years, which is in line with most advanced economies.



Figure 10: Agric Output per Capita, 2007



Source: Derived from IMF, CIA World Fact Book, 2008

Agriculture output per capita can be used as an indication of the level of food security in a country. South Africa's agric output per capita remains the lowest of the 15 countries under review, though it has increased by 97% from \$118 in 2006 to \$233 in 2007. Most advanced economies have higher agric output per capita than developing countries and one of the contributing factors is the relatively low population in developed countries. Most advanced economies recorded a decline in agric output per capita in 2007 compared to 2006 whilst developing countries recorded an increase in agric output per capita during the same period.

## 2.5 News Events

The world economy is also shaped by events that take place internationally – be it economic, social or political events – as they have an influence on the economic conditions. The following are some of the events that took place in 2007 which had an impact on the global economy: Global central and commercial banks have been frantically trying to contain the financial repercussions of the global financial markets turmoil sparked by the US subprime mortgage crisis. The International Energy

Agency (IEA) announced the reduction in oil production by oil producers outside OPEC during 2007. In open defiance of the United Nations, Iran was reported to be steadily expanding its efforts to enrich uranium. European Union governments backed a deal with the United States aimed at boosting the number of people flying across the Atlantic by opening up restricted routes to new rivals. The United States was reported to have quietly poured weapons and military advisers into Ethiopia, whose recent invasion into Somalia opened a new front in the Bush administration's war on terrorism. China successfully destroyed a satellite with a ballistic missile, the first space test of such military technology by any nation in over 20 years. The Chinese premier, Hu Jintao, indicated that he wants Africa to process more of its raw materials that it sells to China. Australia was faced with a severe drought in the first half of 2007 which threatened the country's water supply. Former UK Prime Minister, Tony Blair, resigned after 10 years in service. World Bank President, Paul D. Wolfowitz, resigned to end the ethics controversy that has consumed the institution. China reported its plans to remove or reduce tax rebates on nearly 3000 export categories. The outbreak of foot and mouth disease in Britain led to an export ban on British meat and livestock by the European Union, which was later removed. Experts at a medical conference warned that global warming is likely to lead to an increase in infectious diseases around the world as viruses, microbes and the agents that spread them flourish. According to the head of United Nation's environmental programme, Africa's coastal infrastructure faces increasing danger of erosion from rising

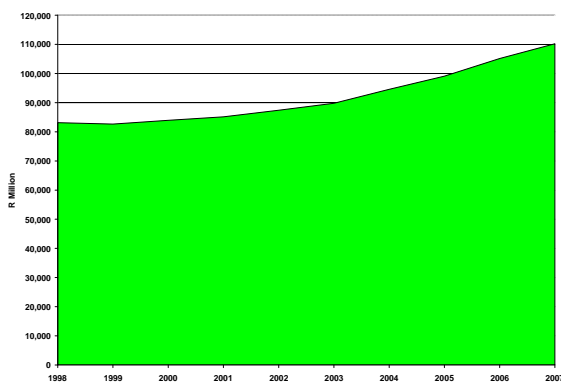
sea levels caused by climate change.

### 3. SOUTH AFRICAN ECONOMY

#### 3.1 Gross Domestic Product

A country's Gross Domestic Product (GDP) is generally regarded as a measure of the size of its economy. South Africa remains the largest economy in the African continent due to its high GDP output, followed by Egypt. Bold macroeconomic reforms which have opened South Africa up to the world markets, boosting competitiveness and growing the economy have resulted in a steady growth in SA's GDP in recent years.

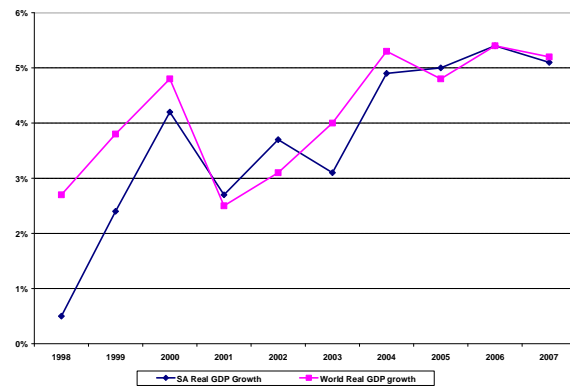
Figure 11: Real Gross Domestic Product



Source: Statistics SA, 2008

As seen in Fig. 3.1, SA's real GDP has been steadily increasing though up to 2001 the increase has been relatively flat, picking up pace from 2002. Real annual GDP at market prices for 2007 is estimated at R1 236 billion, a 30,4% increase from R947 billion in 2001. South Africa's economy has been growing at an average of 5% for the fourth consecutive time during 2007.

Figure 12: SA vs World GDP growth



Source: IMF, Statistics SA, 2008

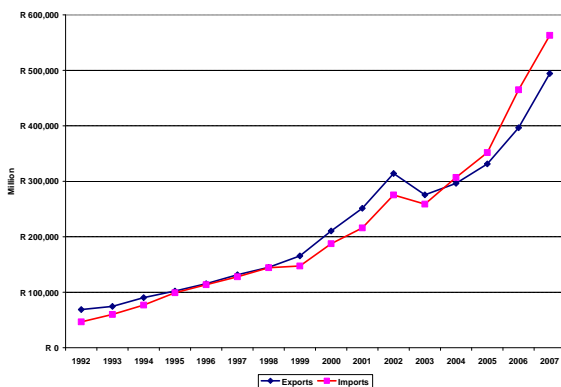
As illustrated in Fig 3.2, South Africa's economic growth trend is mostly in line with the world growth pattern, which indicates that the performance of the global economy has – to some extent – an influence on the performance of the SA economy. Despite the challenges faced by the SA economy during 2007, the real GDP growth for 2007 was better than expected at 5,1% – though down from the highest economic growth since 1981 of 5,4% in 2006. Economic growth lost some steam at the beginning of 2007 as CPIX inflation broke through the 6% target ceiling resulting in interest rate hikes which ultimately reduced consumer spending though consumers remained resilient for quite some time. The finance, real estate and business sector – which has been the main economic growth driver – was also affected by high interest rates. However, in the fourth quarter of 2007, SA recorded its 33<sup>rd</sup> quarter of uninterrupted expansion in real GDP since September 1999 – the longest economic upswing in the country's history.

#### 3.2 Exports and Imports

Until 1994, half of South Africa's trading exports where from the mining sector; however, since

1995 the largest percentage of SA exports is from the manufacturing sector. Mining exports have declined from 54% of the SA trading exports in 1992 to 33% in 2006 while manufacturing exports have increased from around 40% in 1992 to 64% in 2006. Agriculture's share of exports has remained relatively flat at around 4% in the past fifteen years. In terms of imports, manufacturing still accounts for the largest share at 82% in 2006 with mining exports at just 16%.

Figure 13: SA Trade: Exports and Imports



Source: Dti, 2008

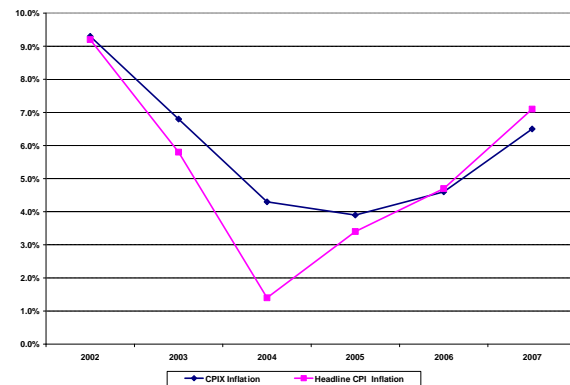
South Africa's trade balance remained positive until 2003; however, from 2004 it turned negative as the country began to import more than it exported. As seen in fig 3.4, the gap between exports and imports has been steadily widening since 2004.

### 3.3 Inflation and Interest Rates

The adjustment of interest rates is one of the monetary policy tools used by most central banks to maintain a delicate balance in the economy. Interest rates directly affect the credit market as higher interest rates make borrowing more costly. By changing interest rates, central banks try to achieve maximum em-

ployment, stable prices and a good level of economic growth. As interest rates drop, consumer spending increases which in turn stimulates economic growth.

Figure 14: Consumer Inflation

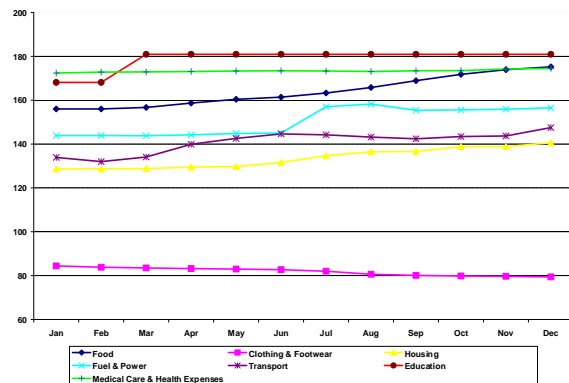


Source: SARB, 2008

Fig 7.1 illustrates the yearly average CPIX inflation (excluding interest rates on mortgage bonds) trend since the inflation target range of 3% - 6% was introduced in 2002, as well as the headline consumer inflation trend. Both the CPIX and headline inflation show a similar trend in the past six years. CPIX inflation averaged 9,3% in 2002, after which it started declining reaching the lowest average of 3,9% in 2005. It then started picking up during 2006, ultimately breaching the target ceiling in April 2007 and has remained above the 6% ceiling until the end of 2007. Headline inflation also started at a similar rate of 9,2% in 2002 reaching its lowest average of 1,4% in 2004 after which it started picking up. The main factors behind rising inflation in recent months has been the rising food prices – both locally and internationally – as well as rising housing prices. The annual rate of increase in food prices for the historical metropolitan areas was 13,5% at December 2007 while the food price increase rate in rural areas

was 15,4%. Food price inflation was mainly driven by increases in the prices of grain products, meat, milk as well as cheese and eggs. CPIX inflation remained higher than the headline all items consumer inflation until 2006 when property prices started to escalate.

Figure 15: Price Indices of Selected Products



Source: StatsSA, 2008

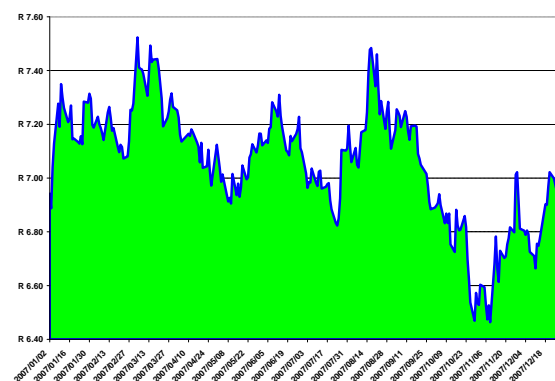
As depicted in fig 7.2 the average prices of food items have been increasing steadily since March 2007 while the average prices of fuel and power remained relatively flat for the first six months of 2007 before increasing sharply in July and August. Housing and transport prices also show an upward trend while education as well as medical care and health expenses remained relatively stable though very high. Clothing and footwear prices showed a slowly declining trend from May until the end of 2007. The North West province recorded the highest all items consumer inflation of 10,9% in December 2007 compared to December 2006 whereas the Northern Cape experienced the lowest consumer inflation during the same period. High inflation usually implies high interest rates as the central bank consequently increases interest rates to stabilise prices. In its bid to bring the inflation rate within the target

range, the SARB hiked its repo rate four consecutive times in 2007 after the CPIX inflation broke through the target ceiling in April. The repo rate remained unchanged at 9% for the first half of 2007 after which it increased by a collective 200 basis points to end the year at 11%. Responding to the Reserve Bank adjustment, commercial banks also increased their prime overdraft rate by a combined 200 basis points during 2007, with the prime overdraft rate ending the year at 14,5% from 12,5% at the beginning of the year.

### 3.4 Exchange Rate

The exchange rate remains one of the most volatile variables influenced by a wide variety of factors. Though the global financial market jitters sparked by the US sub-prime crisis has impacted negatively on the rand, high commodity prices – especially gold and platinum prices – boosted the rand value cushioning it from severe depreciation.

Figure 16: Rand per US dollar, 2007



Source: Derived from SARB, 2008

As depicted in fig 7.5, the rand reached its lowest level against the US dollar during March, after which it swiftly appreciated worsening again in August before reaching its strongest level for

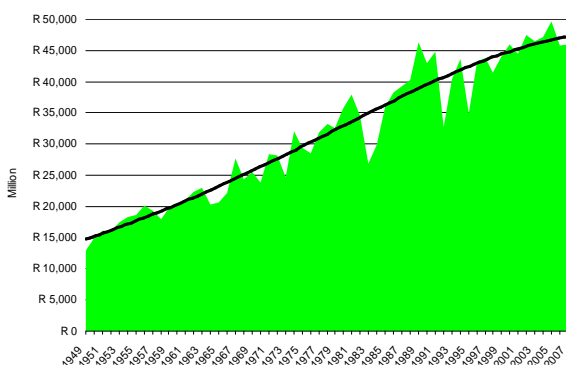
2007 during November. Huge capital inflows injected into the country as well as the weak dollar – which hit record lows against the Euro – also played a role in supporting the rand. The worsening current account deficit poses a threat to the exchange rate as it may lead to the devaluation of the rand.

### 3.5 Agriculture

#### 3.5.1 Size of Agriculture

From 1950 to 1987 agricultural output grew at an average annual rate of 2,5%, before it declined by an average annual rate of 2,1% between 1987 and 1995. Between 1997 and 2007 output increased at an average annual rate of 1%. Succeeding a 13% contraction in agriculture output during 2006, the agricultural sector picked from its low base, increasing slightly by 0,3% during 2007. The pick in output was mainly due to good weather prospects, persistent high prices and the overall economic upswing.

Figure 17: Agri Output, 2007R

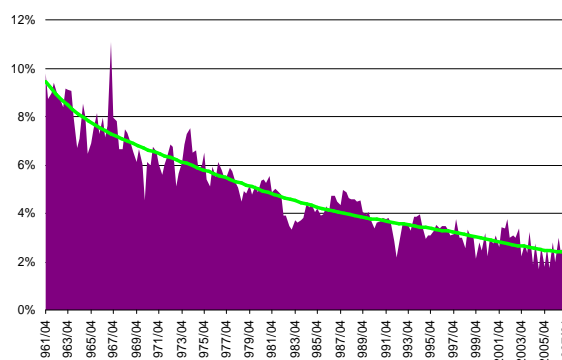


Source: Derived from SARB, 2008

The agricultural sector's share of GDP declined from 9,1% during 1960 to 2,4% during 2007. According to the reserve bank, this can mainly be ascribed to the deterioration in the terms of trade (i.e. output prices relative to input prices)

of the agricultural sector.

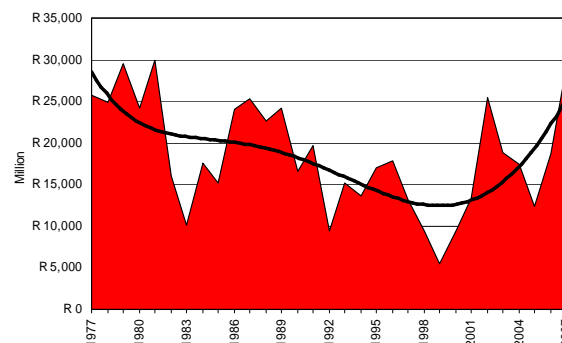
Figure 18: Agriculture as % of GDP



Source: Derived from SARB, 2008

The real net farm income rose sharply by 55,3% to R 29 025 million during 2007 from R18 693 million in 2006. This remarkable increase can be attributed to high commodity prices observed during 2007. Prices for a number of major commodities rose throughout 2007, and attained unexpected high levels.

Figure 19: Net Farm Income, 2007R

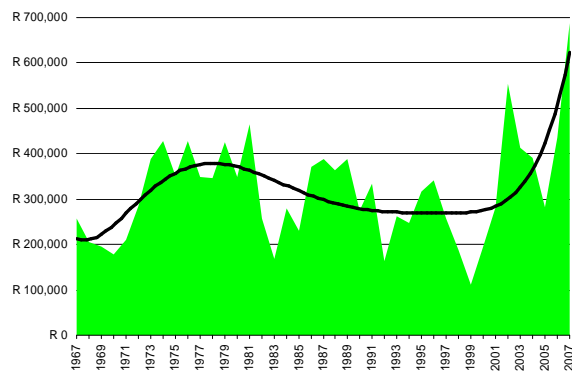


Source: Department of Agriculture, 2008

The profit per farmer increased by approximately 58% from R434 970 in 2006 to R687 827 in 2007. The annual profit per farmer is very volatile from year to year, but is still on an acceptable long run level. The middle 1970s was the most profitable period. In 2001 and 2002 farmers had

high returns as a result of a weak exchange rate.

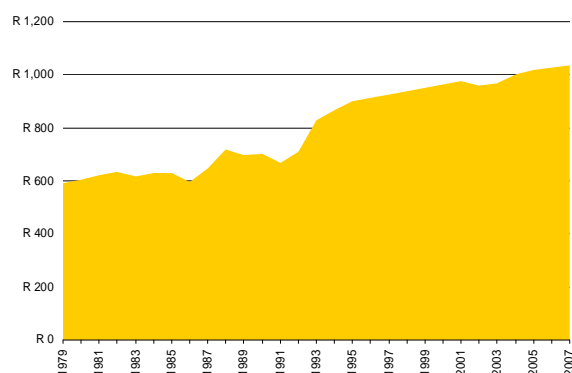
Figure 20: Annual Profit per Farmer, 2007R



Source: Department of Agriculture, 2008

The monthly salary of farm workers is much more stable than the annual profit of farmers. Salaries increased slightly from R1 025 per month in 2006 to R1 036 per month in 2007. In 1978 the average farm worker salary was only around R543 per month, a 76% increase in 28 years. This is much higher than the 28% salary increase in the general economy over the same time span. In 1993 farm salaries had its largest annual increase so far.

Figure 21: Farm Worker Monthly Salary, 2007R

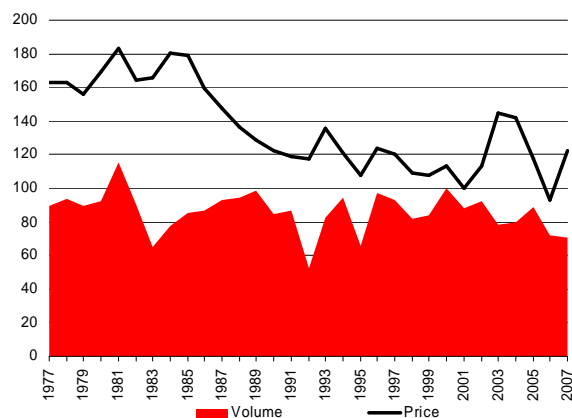


Source: Department of Agriculture, 2008

### 3.5.2 Agricultural Production

Total agricultural production during 2007 was estimated at 0,6% lower than in 2006. The volume of crop production declined by 7,8%, due to below average rainfall that occurred during 2007 as a result of the El Nino phenomenon. Despite technological advances, weather will always be a key factor in agricultural productivity, thus, the effect of global warming will influence production in the agricultural sector.

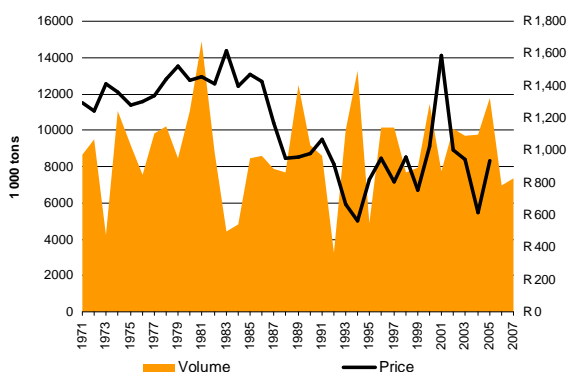
Figure 22: Field Crop Indexes



Source: Department of Agriculture, 2008

The field crops rose by 41,9% in 2007 compared to a 32,4% increase in 2006, this was due to a 44,7% increase in the price of summer grains as well as the increase in prices of winter cereals and dry beans. Field crops production increased to 24,3 billion tons in 2006/07 from 18,1 billion tons in 2005/06.

Figure 23: Maize Production



Source: Department of Agriculture, 2008

Maize is the most important grain crop in our country and is produced throughout the country under diverse environments. White maize is grown mainly for human consumption, with about 5 million tons being required annually. Yellow maize on the other hand is primarily used for feeding animals. Maize stock in South Africa at the end of September 2007 was at its lowest levels in the last eight years. This was due to the reduction in the area planted in 2006/07 season. However, total production for maize increase from 6,9 million tons in 2006 to 7,3 million tons in 2007.

Table1: Production forecast for this season

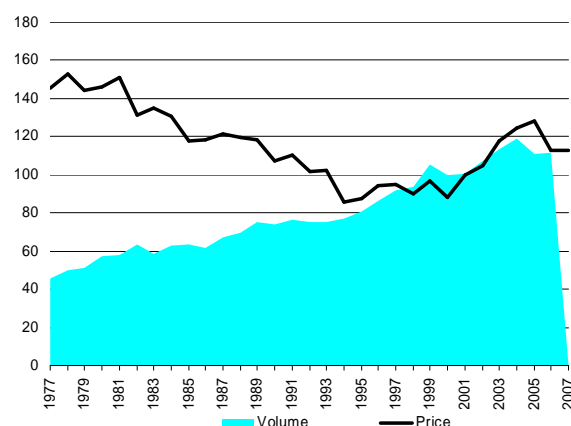
Crop	1st Forecast 2007/08	2007/08 vs. 2006/07
	Tons	%
Total maize	10 580 850	48,50
White maize	6 303 850	46,09
Yellow maize	4 277 000	52,21
Sunflower seed	686 920	128,97
Soybeans	280 970	37,06
Groundnuts	78 560	35,45
Sorghum	235 360	33,73
Dry beans	57 065	44,30

Source: Department of Agriculture, 2008

The crop production is expected to increase sharply in the 2007/08 season. Maize production

is estimated at 10,6 million tons which is 48,5% higher than the previous season. This is due to the fact that, productive areas of South Africa had received enough rains and are likely to have above average crop performance this season. The production forecast of white maize is 6,3 million tons for 2008 compared to 4,3 million tons previous season. Yellow maize production forecast is 4,3 million tons more than the 2,8 million tons last season. Therefore, both white and yellow maize forest have increased significantly in 2008, 46,1% and 52,2% respectively.

Figure 24: Horticultural Indexes

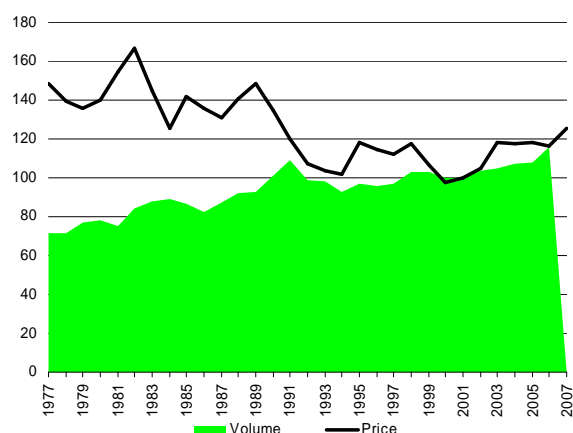


Source: Department of Agriculture, 2008

Although some producers grow fruit for both canning and fresh consumption, it is estimated that in South Africa there are about 2 254 producers of fruit for fresh consumption, 1 174 for stone fruit, 954 producers of dry and table grapes and 700 producers of pome fruit. The production in the horticultural sector increased from 19, 9 billion tons in 2006 to 22, 7 billion tons in 2007. Producer prices of horticultural products increased by 20,6% in 2007. Prices of vegetables also rose by 20,6% during 2007, while prices of fresh fruit increased by 27,7%.



Figure 25: Animal Product Indexes



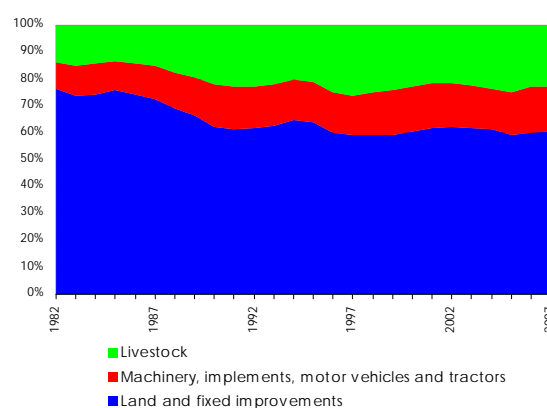
Source: Department of Agriculture, 2008

Livestock are farmed in various parts of South Africa. Numbers of livestock in various regions differ due to weather conditions and environmental conditions. Producer prices of animal products were 14,5% higher in 2007 than in 2006. South Africa normally produce 85% of its meat requirements, while 15% is imported from countries such as Botswana, Namibia, Swaziland, Australia, New Zealand and European countries. According to Rainbow, consumer spending on chicken in 2007 was expected to remain positive. Animal production increased significantly from 37, 2 billion in 2006 to 44, 7 billion in 2007.

### 3.5.3 Agricultural Capital and Debt

The value of capital assets increased in 2007 to a total value of 174, 4 billion from 151, 3 billion in 2006, with land and fixed improvements recording the highest value of 105, 2 billion in 2007. The value of both livestock and machinery have also increased to 40, 5 billion and 28, 7 billion respectively in 2007, from 32, 7 billion and 23, 9 billion respectively in 2006.

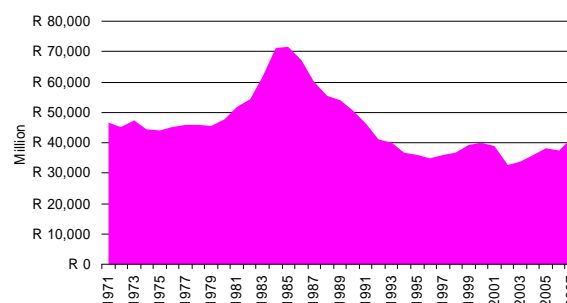
Figure 26: Composition of Agric Capital



Source: Department of Agriculture, 2008

Rising crop values can result in a higher potential income and will likely result in increased real estate loan demand. Agricultural loan demand is driven by investment in machinery, equipment and grain storage facilities. Therefore, high crop prices and increasing crop production may lead to increase in loans as producers boost production expenses to maximise yield. The total farming debt in 2007 was R41, 4 billion, an increase from 37, 8 billion in 2006. Farming expenses in 2007 were higher than in 2006, due to high increases in prices of some important inputs such as fertilisers, building and fencing materials and farm services.

Figure 27: Farming Debt, 2007R



Source: Department of Agriculture, 2008



### 3.6 News Events

The Coega Industrial Development Zone (IDZ) in Port Elizabeth secured R70 million to invest in a biomass fuel project. Rising steel and grain prices caused some US companies to withdraw their support to Ethanol Africa causing the company to turn to local investors for support. The OECD offered South Africa enhanced engagement with a view to possible membership. Agriculture and Land Affairs Minister, Lulu Xingwana handed over the largest piece of land in the history of SA's land restitution process to four communities in the Malelane district in Mpumalanga. The investigation by the competition commission uncovered bread price fixing activities over the past 12 years within the SA bread and milling industry – in which four major role players control more than 90% of the wheat milling activities and a significant percentage of SA's bread baking activities. Manufacturing output fell 1,4% in September – its first annual contraction in three and a half years – mainly due to the strike within the vehicle industry as well as a slowdown in consumer demand following interest rate hikes. The South African Institute of Race Relations reported that the deaths of young adults have increased by 213% since 1997 and this could be attributed to the HIV/AIDS pandemic. In what is regarded as the biggest foreign investment in post apartheid SA to date, the state controlled Industrial and Commercial Bank of China (ICBC) bought 20% stake in Standard Bank for R36,7 billion. First National Bank (FNB) and USAID announced a R300 million guarantee scheme to support lending to black emerging farmers and agribusinesses over the next seven years. Limited power supply resulted in power rationing around the country

as Eskom indicated that they do not have the capacity to generate enough power to meet the current high demand. The National Energy Regulator of SA approved a 14,2% electricity tariff hike for 2008, warning consumers of similar high price hikes at least for the next ten years to support the development of Eskom's infrastructure. Former ANC deputy president, Jacob Zuma, was elected the new ANC president at the 52<sup>nd</sup> ANC National Conference – bringing Thabo Mbeki's ten year term as party president to an end.

## 3. CONCLUSION

The South African economy grew at a better than expected rate (5,1%) in 2007 despite high inflation, high interest rates and a slowing global economy. Huge capital inflows as well as escalating gold and platinum prices are some of the factors that boosted SA's economic growth in 2007. As food and oil prices continue to soar, high inflation remains a serious concern and the widening current account deficit is another concern as the country continues to import more than it exports. Agricultural crop production is expected to rise sharply during the 2007/08 season compared to 2006/07 due to good rains. Overall, the South African economy performed much better than expected during 2007 though economic growth is expected to slowdown in 2008 in line with the expected global economic slowdown.

#### 4. BIBLIOGRAPHY

IMF, World Economic Outlook Database, 2008

CIA World Fact Book, 2008

UN, Human Development Report, 2007.

Statistics South Africa, 2008

Department Agriculture, *Directorate: Agricultural Statistics*, 2008

Department of Agriculture, *Quarterly Economic Review and Forecast*, 2007

South African Reserve Bank, *Historical Data*, 2008

Food and Agricultural Organisation, [www.foa.org](http://www.foa.org), 2008

Department of Trade and Industry, 2008

International Crops Research Institute

Department Agriculture, *Weekly Price Watch Reports*, 2007