agriculture, forestry & fisheries

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Purpose of the Economic commentary

This publication is meant to inform internal stakeholders of the department about the impact of the macro economic indicators and related issues on the overall performance of the Agriculture, Forestry and Fisheries (AFF) sector. National announcements are frequently pronounced on macro economic issues; therefore the intension of the economic commentary is to digest the implication of the indicators and recommend actions that could be taken into account to cushion the performance and image of the AFF sector.

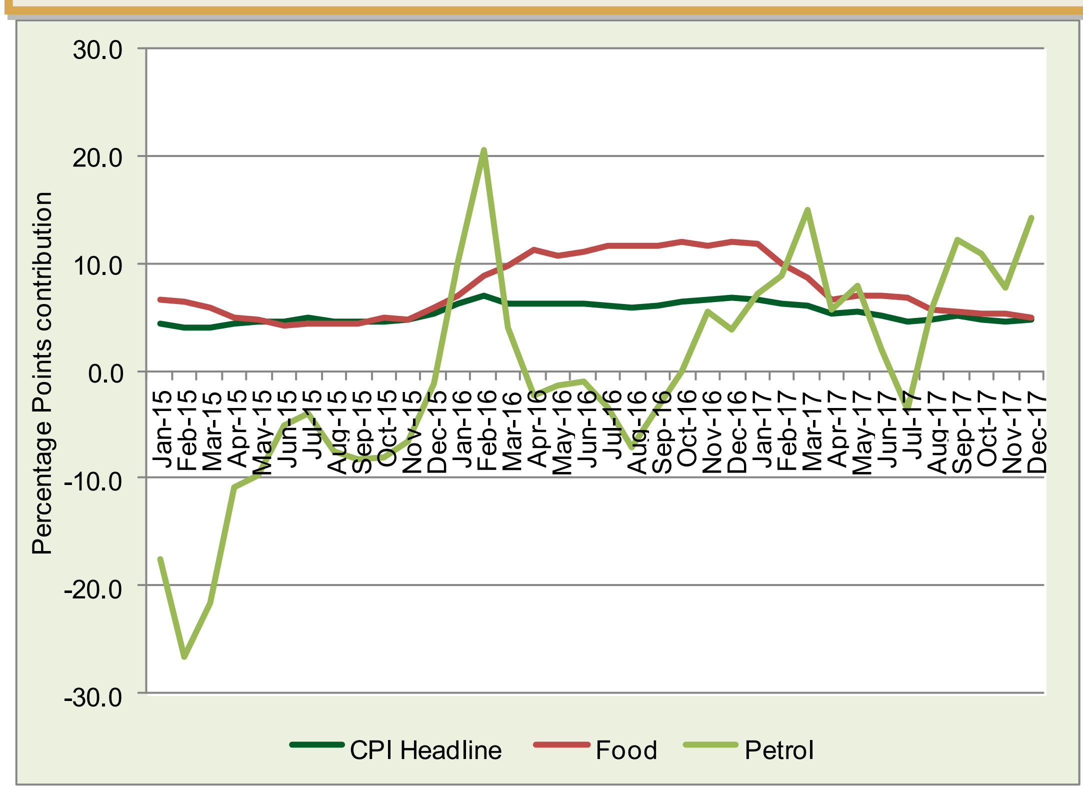
SOUTH AFRICA'S ECONOMIC INDICATORS

This publication discusses the following economic indicators which include : SA's economic performance, Consumer Price Index, food and Petrol inflation, SA's trade balance, Agriculture's trade balance, FNB/BER's Consumer Confidence and the water crisis that threatens SA's economy. The International Monetary Fund (IMF) cut SA's economic growth forecast to 0,9% in 2018, down from 1,1% forecast earlier. Political uncertainty dented investor confidence. However, with the political turnaround, the World Bank expects SA's economic growth to recover to 1,1% in 2018. Inflation accelerated to 4,7% (y/y) in December 2017, up from 4,6% (y/y) in November while food price inflation moderated to 4,9% (y/y) in December from 5,2% (y/y) in November 2017. Petrol price inflation accelerated to 14,2% in December 2017, from 7,9% in November. Motorist can expect some relief with the price of fuel expected to decrease in February 2018. Meanwhile, SA's trade surplus widened to R15,7 billion from a revised surplus of R13,1 billion in November while agriculture's trade balance decreased by 23.9% in Q4: 2017, to R9.09 billion from R12,86 billion in Q3:2017. The disparity in rainfall across South Africa is a key factor behind production trends

1. SA'S ECONOMIC PERFORMANCE

The International Monetary Fund (IMF) cut South Africa's economic growth forecast to 0.9% in 2018, down from 1.1% given in October and 0.9% in 2019, down from 1.6% given earlier. According to the International Monetary Fund, political uncertainty dented investor confidence while the ongoing corruption allegations in South Africa are hurting investor confidence. However, with the political turnaround and the recent positive policy moves, Standard Bank forecast growth of 1.5% for 2018. Meanwhile, the World Bank expects South Africa's economic growth to recover to 1.1% in 2018 and 1.7% in 2019, from 0.8% in 2017. The upgrade in economic prospects is due to improving business sentiment, which supports a modest rise in investment. Nevertheless, the World Bank raised concerns on excessive external borrowing, in the absence of forward-looking budget management which could worsen debt dynamics and hurt growth in many African countries. Government debt in South Africa increased excessively owing to fiscal slippages which prompted Standard & Poor to downgrade SA's currency debt to a subinvestment grade in 2017. From the production side of national accounts, most of the growth has been driven by the primary sector. Agricultural production posted a marked recovery from the drought, with record maize and other summer crop harvests in 2017. Total agricultural production rose by 44.2% quarter-on-quarter in Q3: 2017, contributing 0.9 percentage points to the 2.0% quarter-on-quarter GDP growth rate.

1. Consumer Price Index, Food and Petrol inflation



Source: Stats SA

Figure 1 indicates that CPI inflation came in at 4,7% (y/y) in December 2017, up from 4,6% (y/y) in November. Food price inflation moderated marginally to 4,9% (y/y) in December, from 5,2% (y/y) in November 2017. Within the food basket, meat price inflation moderated to 14,0% (y/y) in December from 14,9% (y/y) in November but is being offset by milk, eggs and cheese price inflation which accelerated to 4,8% (y/y) in December from 4,4% (y/y) in November. Petrol price inflation accelerated to 14,2 % (y/y) in December from 7,9% (y/y) in November. Motorists can however expect good news at the pumps with the price of fuel expected to decrease in February amid a stronger local currency against the US dollar. Furthermore, Standard bank predicts there could be scope for the Monetary Policy Committee to cut interest rates modestly in 2018. Meanwhile, the Reserve Bank Monetary Policy Committee is more concerned with the CPI inflation outlook 12-18 months ahead.

3. SA's Trade Balance

The South African trade surplus for December 2017 widened to R 15,7 billion, from a revised surplus of R 13,1 billion in November, above market expectations. December marked the eleventh consecutive monthly surplus, the longest winning streak in 20 years. Over the period January to December 2017, exports went up by 7,9% while imports rose by 0,7% during the same period. This increased SA's trade surplus to R 80 billion over the period January to December 2017 from R1,05 billion in 2016 during the same period. According to NKC Africa Economics analyst, strong trade performance in 2017 provided much-needed underlying support for the rand exchange rate and also contributed to improving the current account deficit. Furthermore, with the global economy expected to continue its strong synchronised recovery in 2018, while commodity prices are trending higher, export growth is expected to continue to perform well in 2018. However, Standard Bank expects that commodity prices may retreat in the medium term from unsustainably high levels.

4. SA's Agricultural Trade Balance

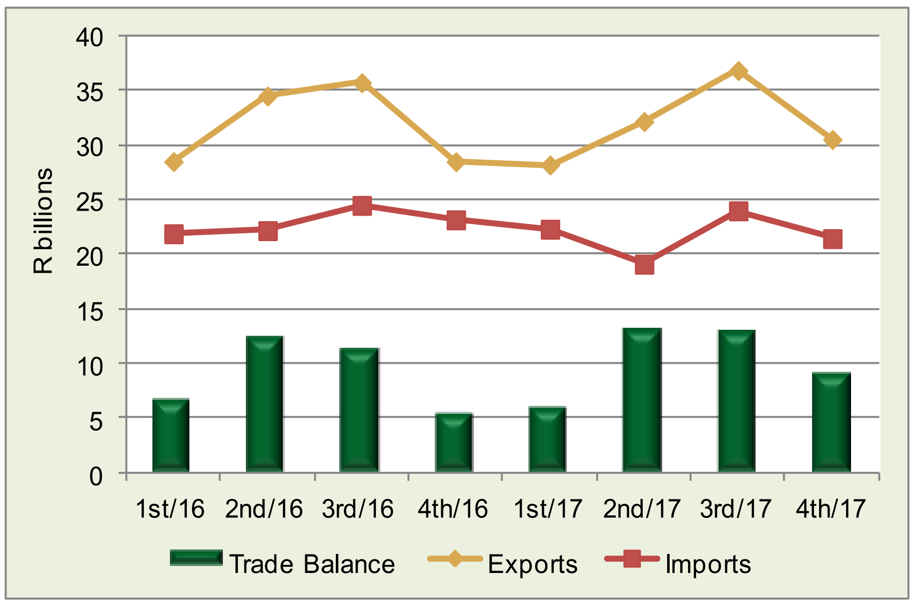


Fig 2: Trade Balance of agricultural products
Source: DAFF, 2017

The disparity in the rainfall across South Africa is a key factor behind production trends. The Western areas experienced persistent dryness in the last few weeks of 2017 and the beginning of 2018, explaining the decline in area plantings. Meanwhile, Agriculture's trade balance decreased by 23.9% in Q4: 2017, to R 9.09 billion from R 12.86 billion in Q3: 2017. This comes after agriculture's trade balance grew significantly between Q1 and Q2: 2017, from R5,89 billion in Q1:17 to R13,08 billion in Q2:17. While the domestic political sentiment has generally improved since December 2017, day to day political developments continue to weigh on markets. Agricultural exports decreased by 17.1% in Q4:2017, to R 30.56 billion from R36.87 billion in Q3:2017. Q3: 2017. During the same period, agricultural imports decreased by 10,6%, from R 24,01 billion in Q3: 2017 to R12,86 billion in Q4:2017.

4. FNB/BER's Consumer Confidence

The FNB/Bureau for Economic Research's consumer confidence index remained in negative territory in Q4: 2017 to –8 points while there was no reading for Q3: 2017. Consumer confidence deteriorated to -9 pts in Q2:17, from -5 pts in Q1:17, reflecting that consumers were more pessimistic about the SA economy. However, with the recent positive political momentum, this might change. BER notes that low-income households in particular experienced great financial strain towards the end of 2017,on the back of very high food prices recorded in 2016 and 2017, record high unemployment rates and soaring fuel prices during the second half of 2017. However, since the recent appointment of the president of ANC, the rand strengthened, appreciating to R 11.80/USD in 2018 from R16.97/USD in early 2016. South Africa also saw huge petrol price increases of 71c/litre in December 2017 now set to be unwound on rand-appreciation-led petrol price cuts in January and February 2018. Expectations are that this would establish a lower outcome for CPI inflation in the second half of 2018. Furthermore, substantial political and policy certainty will likely feed through into 2018 confidence measures, lifting investment, expenditure and GDP growth. BER anticipated that the BER's consumer confidence index could move into positive territory in 2018 with household expenditure likely to improve in 2018. BER also expects the rand to move toward R10/USD should Ramaphosa become President of South Africa. Rand strength would cause meaningful additional fuel price cuts, and place downward pressure on CPI inflation and interest rates, bolstering consumers purchasing power.

4. Water Crisis threatens SA's economy

The Eastern and Western Cape's water crisis is likely to have far reaching consequences, not only for the local economy, but on the national GDP. According to analysts, the water crisis threatens further downgrades from ratings agencies, hampering much needed investment. Moody's Investor Services indicated that the water crisis poses a credit risk for Cape Town's debt rating, which is currently at the lowest level of investment grade while in the Eastern Cape, two farming towns might have their Day Zero sooner than Cape Town. The only dam supplying water in the area is at a critical level, while the process of sinking boreholes is being hampered by a rocky and mountainous terrain. The Western Cape accounts for approximately 13% of the national GDP. Economic Strategist at Old Mutual Investment Group explained that a 1% reduction in the Western Cape GDP equated to a 0.13% reduction in national GDP. Therefore if the rest of the economy grows by 1.5% in 2018 and Western Cape grows by 0%, the national GDP will be up by only 1.3%. Analysts heighted that it is important to acknowledge the knock-on-effect the Western Cape water crisis is likely to have on SA's overall growth in 2018.

REFERENCES :

- Global Trade Atlas Information Services (GTA): Available online at http://www.worldtradestatistics.com/gta/
- Bureau for Economic Research (BER): FNB/BER Consumer Confidence Index 2017Q4. Available online at https://www.ber.ac.za
- Statistics South Africa (Stats SA) (2017): Consumer Price Index (CPI), December 2017: Available online at http://www.statssa.gov.za

FREQUENCY

The publication will be released on the 1st and the 15th of every month covering events taking place on the period concerned. The dissemination will take place through emails to all SMS and professionals in the Department including provinces.

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