agriculture, forestry & fisheries

Department: Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Economic Commentary: Issue No. 17

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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 : Inflation, Consumer Price Index, food and Petrol inflation, SAFEX Maize Prices, and the effect of the proposed electricity tariff on agriculture. Inflation accelerated to 5,1% in September 2017, from 4,8% in August, marking the second consecutive month of an increase. Fuel inflation increased to 12,2% in September 2017 from 5,7% in August 2017 while meat inflation increased to 15,6% in September 2017 from 15% in August. This is according to data released by Statistics South Africa. Despite the rise in meat inflation, other food categories countered rising meat inflation. Food inflation decreased by 5,4% in September 2017 from 5,7% in August. Overall, the risk remains that oil prices will be higher and rand weaker. Meanwhile, markets are more convinced that the South African Reserve Bank will hold cutting interest rates again this year.

1. Consumer Price Index, Food and Petrol inflation

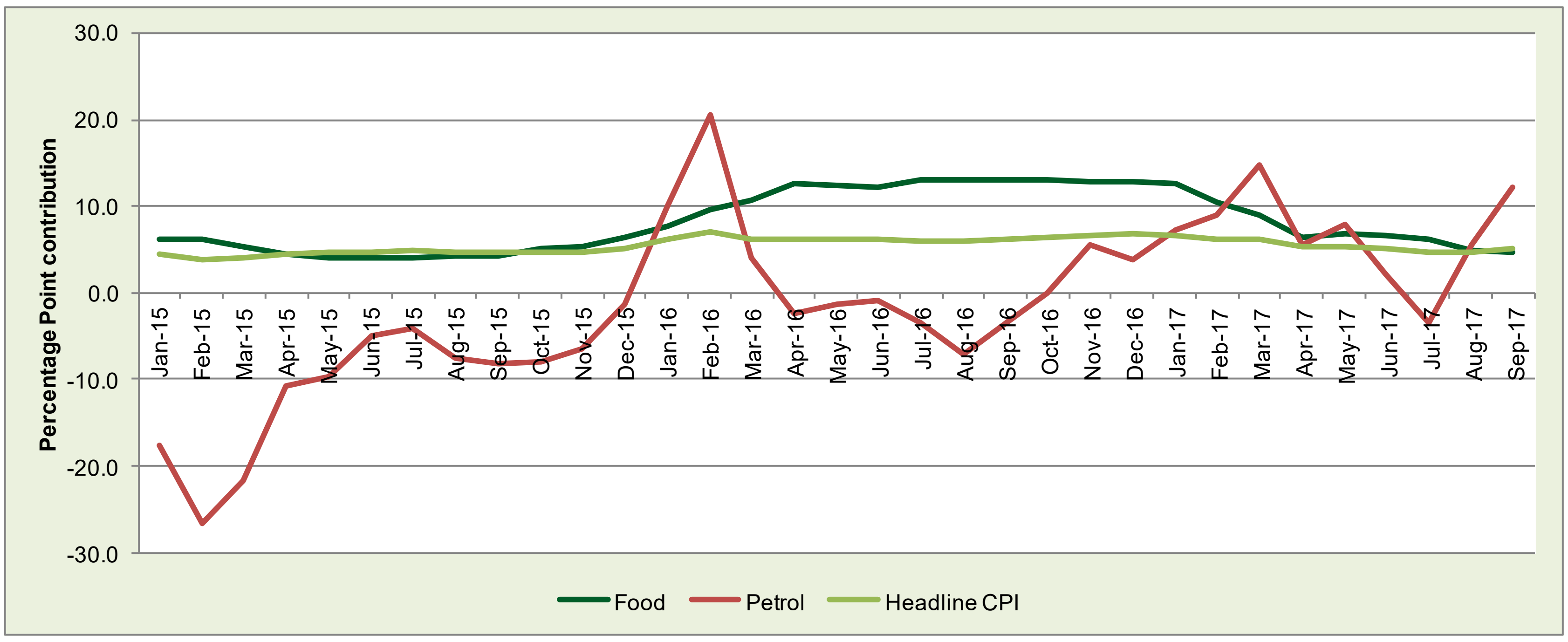

Figure 1: Consumer Price Index, Food and Petrol inflation

Source: Stats SA

Figure 1 indicates that CPI inflation rose for the second consecutive month to 5,1% year-on-year (y/y) in September 2017 from 4,8% (y/y) in August and 4,6% (y/y) in July. The increase in the CPI inflation in both August and September was mainly on account of the transport component. Transport inflation rose to 5,6% (y/y) in September 2017 from 3,96% (y/y) in August. The increase in transport inflation stemmed from the petrol and diesel price hikes of 67 cents/litre and 44 cents/litre respectively in the month of September. These upward fuel price pressures should abate in October with the Department of Energy currently estimating a petrol price increase of only 1,4 cents/litre. The effect of the fuel price component on headline CPI was partly countered by the continued moderation in food price inflation to 5,4% y/y in September from 5,7% (y/y) in August. Favourable grain supply situation and the consequent steep decline in grain prices contributed to the contraction in bread and cereals to 2,8% (y/y) and the slow down in dairy inflation to 2,8% (y/y) in September. These price dynamics outweighed the effect of persistent meat price inflation of 15,6% (y/y) in September compared to prior 14,9% (y/y) in August. Avian influenza and other factors influenced meat price inflation. In addition, following the temporary lift in CPI inflation in August and September, the downward trend on fuel price pressures should resume into year end. Although the Reserve Bank's forecast show inflation remaining within the target band, a number of inflation risks have become pronounced to the inflation outlook and the rand remains the key one. Meanwhile, markets are more convinced that the South African Reserve Bank will hold cutting interest rates again this year.

3. SAFEX Maize Prices

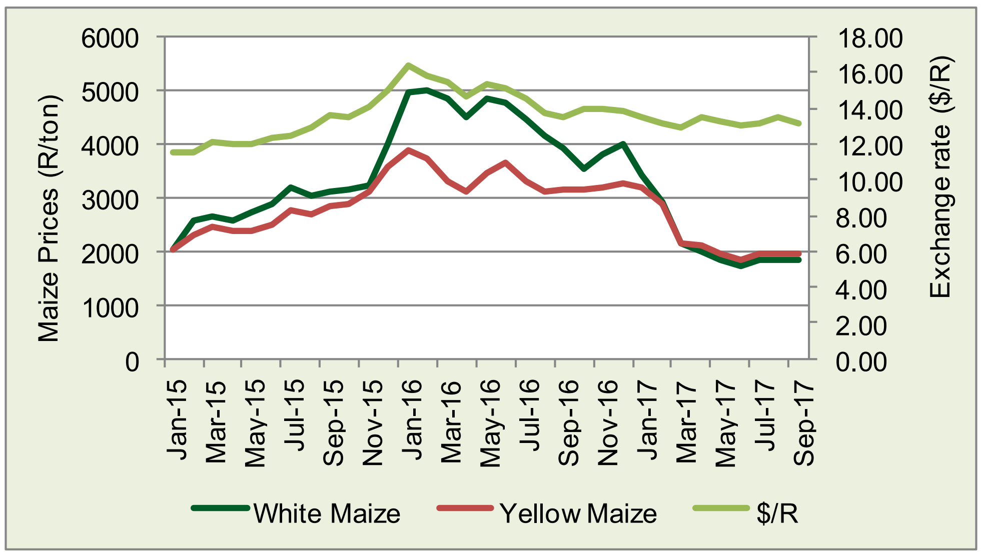

Figure 2: SAFEX Maize Prices, Source: Safex 2017

Figure 2 indicates that local maize prices traded sideways since mid 2017 with a resistance around R 1 940. The weaker rand has been mitigating the impact of the record crop harvest. The maize harvest is estimated at 16,41 million tons, 111% more than the previous year's harvest. Average to above average rainfall is expected this season after a weak La Nińa, which could see maize prices remain around the current levels. The agricultural sector has been making a slow recovery following the severe drought and the strength or weakness of the rand will influence agriculture's contribution to the economy in terms of import parity prices and export revenues. Meanwhile, from a maize perspective, the current maize prices bode well for food inflation.

4. Effect of the proposed electricity tariff increase on agriculture

Agricultural production consumes large amounts of energy, either directly through combustion of fossil fuels, or indirectly through use of energy-intensive inputs, especially fertilizer. Eskom aims to hike power prices by 19,9% for 2018/19 of which if approved, could negatively affect the agricultural sector that is already struggling to keep up with high power costs. Higher energy-related production costs would generally lower agricultural output, raise prices of agricultural products, and reduce farm income in the short run. Furthermore, higher energy-related expenses also affect livestock producers. Although livestock producers direct energy costs are lower than that of crop production, livestock producers would face higher feed costs. Furthermore, increased agricultural commodity prices affect consumer food prices and hence, a steep increase in electricity prices will put upward pressure on inflation, which has been so far in 2017. In the current environment and changing economic conditions, producers might position themselves to avoid losses in profitability by passing on the cost onto consumers except if a producer is a price taker and is almost impossible to pass on the costs. They may initiate energy conserva-tion methods or increase the use of alternative self generation of energy. Producers may also consider cutting costs in production (eg labour) or resort to using mechanisation. The increase in electricity prices may therefore result in lower price competitiveness in the short and medium term and production for export may therefore be limited during low price periods. However, at some point, a decision can be made to close down the operation, due to reach-ing a "tipping point". Tipping point events are often cited to explain the reasons why industries would close down their operations due to non-economical operations (e.g as a result of too high major input price levels).

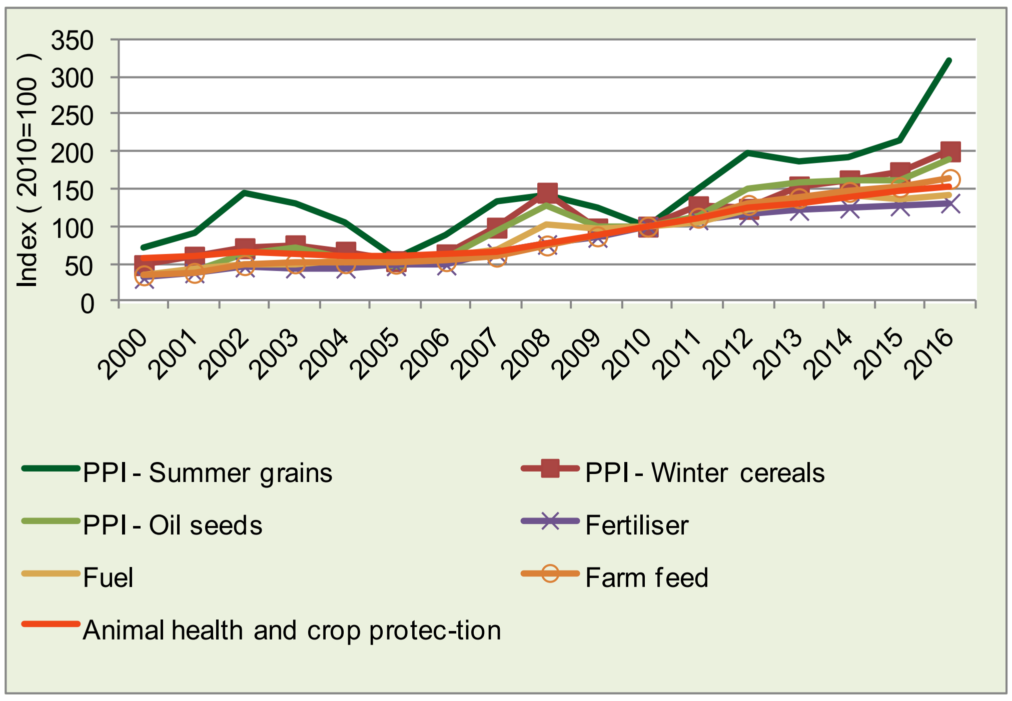

Figure 3: Comparison of various price indices, 2000 to 2016

Source: DAFF 2017

Figure 3 shows trends in the Producer Price Indices for summer grains, winter grains, oilseeds and selected intermediate inputs between 2000 and 2016. Over the period, all the indices displayed an increasing trend however, the producer price indices for summer grains, winter grains and oilseeds showed more variability than all the other intermediate inputs. Therefore the increased electricity tariff will weigh heavily on agricultural production, increasing production costs therefore making in difficult for most producers to maintain healthy profitability levels. Measures to meas-ure the return on investment include the net farm income and returns on investment should outperform inflation for the money to grow in real terms. Therefore the combined sharp increase in the fuel price, labour and electricity will weigh heavily on farmers of which most are price takers and cannot pass on the inflated costs to consumers . Sharp increases in costs will have a tremendous impact on the sustainability of agriculture and food security.

REFERENCES :

- Statistics South Africa (Stats SA), (2017): Consumer Price Index (CPI), September 2017: Available at http://www.statssa.gov.za
- Department of Agriculture, forestry and fisheries (DAFF) (2017): Abstract of Agricultural Statistics (2017) Available at http://www.gov.za
- South African Futures Exchange (SAFEX), (2017): Spot months on all grain products: Available at http://www.jse.co.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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