agriculture, forestry & fisheries

Department: Agriculture, Forestry and Fisheries
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Economic Commentary: Issue No. 19

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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

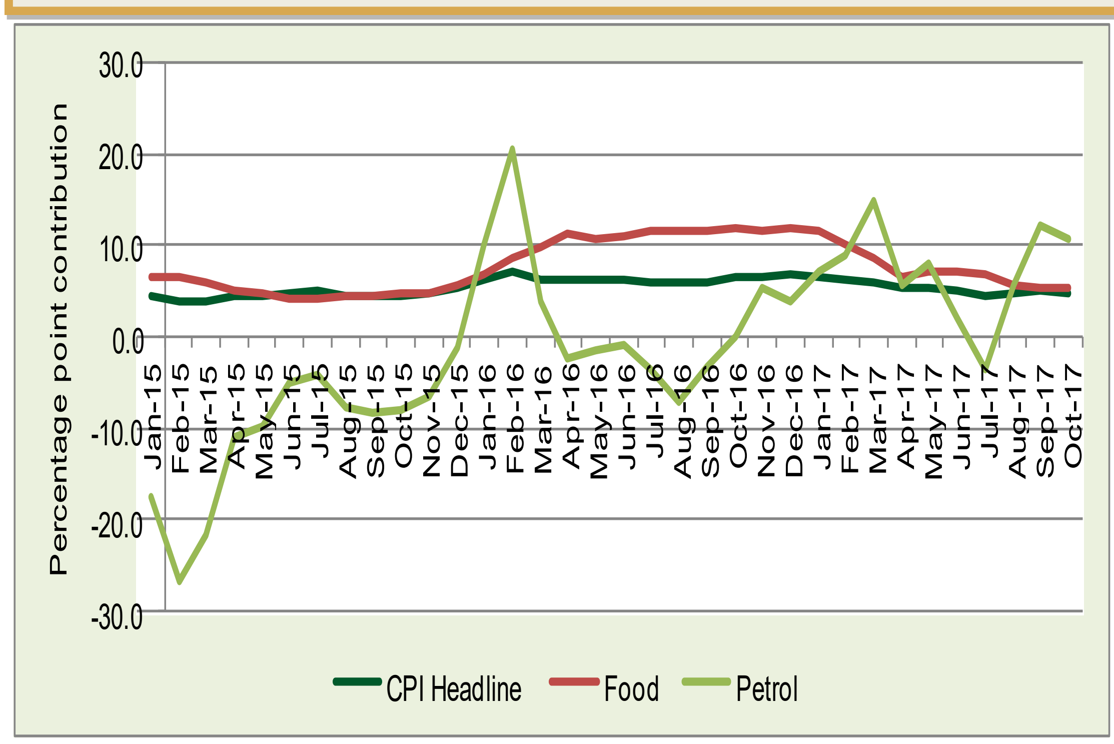
This publication discusses the following economic indicators which include : Interest Rates, Consumer Price Index, food and Petrol inflation, SA's trade balance and drought in the Western Cape threatening to dampen agricultural growth. The South African Reserve Bank kept the repo rate unchanged at 6,75%, in-line with expectations, highlighting key risks threatening the inflation outlook, fiscal deterioration as per Medium Term Budget Policy Statement (MTBPS), as well as risks that are still to play out, such as the ANC December elective conference. Inflation decelerated to 4,8% in October 2017, an improvement from 5,1% in September. The main drivers were food inflation which moderated marginally to 5,3% in October, from 5,4% in September and petrol inflation which came in better than expected, at 10,8% in October, from 12,2% in September. Petrol inflation is expected to be elevated in the coming months due to an expected weaker exchange rate as well as higher oil prices.

1. INTEREST RATES

The South African Reserve Bank kept the repo rate unchanged at 6,75%, in-line with expectations, highlighting key risks threatening the inflation outlook, fiscal deterioration as per Medium Term Budget Policy Statement (MTBPS), as well as risks that are still to play out, such as the ANC December elective conference. According to the Reserve Bank, inflation remains within the Reserve Bank's target range (3% - 6%) and in the light of the degree of uncertainty prevailing in the economy, the balance of risks and the lead-up to the African National Congress national elective conference, the Monetary Policy Committee has decided that it would be prudent to maintain the current stance of monetary policy as the uncertain outcome of the ANC elective conference is also likely to weigh on the currency.

According to the Reserve Bank, the inflation outlook is seen to be increasing in 2018 and 2019 to 5,2% and 5,5% respectively, from 5,1% and 5,4% previously, while the average forecast for 2017 is unchanged at 5,3%. According to Standard Bank, key drivers of higher inflation are a weaker exchange rate, higher oil prices and higher wage growth. Risk to the currency stems from political risk and downgrade risk, against support provided by a narrower current account deficit. Real GDP growth in 2017, 2018 and 2019 is estimated at 0,7%, 1,2% and 1,5% respectively versus 0,6%, 1,3% and 1,7% from the previous estimate. Furthermore, because of the weaker rand and rising oil prices, petrol prices are expected to increase with a further increase in the region of 70 cents per litre expected in December 2017.

1. Consumer Price Index, Food and Petrol inflation



Source: Stats SA

Figure 1 indicates that CPI inflation came in at 4,8% (y/y) in October 2017, an improvement from 5,1% (y/y) in September. The main drivers were food inflation which moderated marginally to 5,3% (y/y) in October, from 5,4% (y/y) in September. Meat inflation remains elevated at 15,5% (y/y) in October, from September's 15,6 (y/y) but is being counter-balanced by the deceleration prevalent in other food categories. Petrol inflation also came in better than expected, at 10,8% (y/y) in October, from 12,2% (y/y) in September. Petrol inflation is expected to be elevated in the coming months due to an expected weaker exchange rate as well as higher oil prices. Furthermore, with an expected increase in petrol of 7,7% (y/y) in November 2017, analysts remain optimistic that inflation will see a further decline to 4,6%. Nevertheless, depending on the ANC succession outcome in December, persistent rand weakness and higher inflation is expected.

3. SA's Trade Balance

The South African trade balance for September recorded a surplus of R 4,0 billion, approximately R 3,0 billion below market expectations. The trade balance has been in surplus for eight consecutive months since January 2017, which has assisted with the narrowing of the current account deficit from 3,3% of the GDP in 2016 to 2,2% of the GDP in the first half of 2017. According to the South African Revenue Services, the narrowing of the surplus was due to a decline in exports which dropped by 1,6% to R 101,7 billion month-on-month against a 0,4% uptick in imports to R 97,7 billion. The surplus was a deterioration year-on-year from R 7,0 billion recorded in September 2016. According to Standard Bank, fundamentally, the trade surplus in 2017 has been supportive of a stronger rand. However, the Medium Term Budget Policy Statement, together with political turmoil ahead of the ANC conference, has seen offshore selling of local bonds put pressure on the rand. Between January and September 2017, the trade surplus of R 47,12 billion is an improvement on the deficit compared to the same period in 2016 which recorded a trade surplus of R 6,66 billion. Exports between January and September 2017 grew by 5,4% while imports decreased by 1,2% over the same period.

4. SA's Agricultural Trade Balance

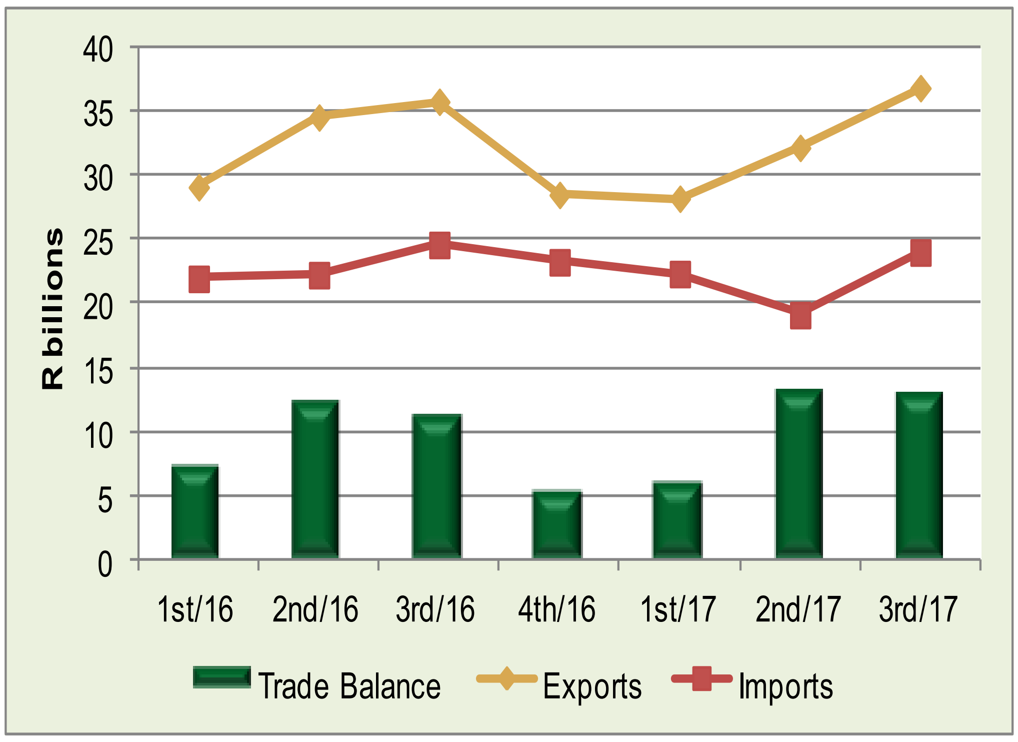


Fig 2: Trade Balance of agricultural products

Source: DAFF, 2017

Despite the negative news associated with the 2015-16 drought, a positive trade balance was realised in agriculture's trade between Q1 and Q3: of 2017, see **figure 2.** Given the recovery in agricultural production in 2017, agriculture's trade balance grew significantly between Q1 and Q2: of 2017, from R5,89 billion in Q1 to R13,08 billion in Q2: 2017. Agriculture's trade balance decreased by 1,7% on account of an increase in agricultural imports in the Q3 of 2017. Agricultural imports grew by 25,6%, from R19,12 billion in Q2 to R 24,01 billion in Q3: 2017. During the same period, agricultural exports grew by 14,5%, from R 19,12 billion in Q2 to R 24,01 billion Q3:2017. A notable growth in the exports of fresh oranges, maize and wine was witnessed in Q3: 2017, each accounting for 20%, 6% and 4% of the total agricultural export value. Agricultural imports in Q3: 2017 were driven by an uptick in wheat, rice and palm oil imports, each accounting for 9%, 7% and 5% of the total agricultural import value.

4. Drought in the Western Cape threatening to dampen agricultural growth

The Western Cape Province experienced below-average rainfall for the past three seasons, which left agriculture to stumble and dams dangerously low. Western Cape accounts for 13,3% of the national GDP and this would likely reduce SA's GDP in 2017 from previous estimates. The drought is likely to negatively affect the nominal trade balance as well as unemployment in the agricultural sector. According to Agri SA chief economist, Hamlet Hlomendlini, production cuts in the Western Cape will result in revenue loss of about R4,9 billion, with exports dropping by about 60%, given that Western Cape fruits accounts for a large chunk of the agricultural export revenue. He further added that Western Cape contribute about 40% of the country's agricultural production and therefore, food prices will feel the knock-on-effect and inflation is expected to rise. According to Standard Bank, reduced agricultural exports and increased wheat imports will likely see the trade balance reduce by as much as R19 billion. Furthermore, over the three quarters of 2017, Western Cape agriculture lost 91 000 jobs, almost half of the formal agriculture's work force. Western Cape Local Government Chief, Graham Paulse warned of possible civil unrest and increased urban migration. According to Paulse, some vegetable crops in the Western Cape have been cut by as much as 80% while fruit farmers are taking desperate measures to keep production losses at 20%. Seasonal workers employed during harvest time are hit the most, particularly by the drop in production. Agri Northern Cape CEO, Henning Myburgh reported that there is a shortage of meat supply as Northern Cape and Eastern Cape farmers see their herds decimated by drought. Myburgh reported that this has resulted in beef prices rising by between 22% and 32% over the past year. He further added that fuel price increases will contribute to inflation, and meat prices will continue to rise.

REFERENCES :

- Global Trade Atlas Information Services (GTA) (2017): Available online at http://www.worldtradestatistics.com/gta/
- Standard Bank (2017): Available online at https://www.standardbank.com/research
- Statistics South Africa (Stats SA), (2017): Consumer Price Index (CPI), October 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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