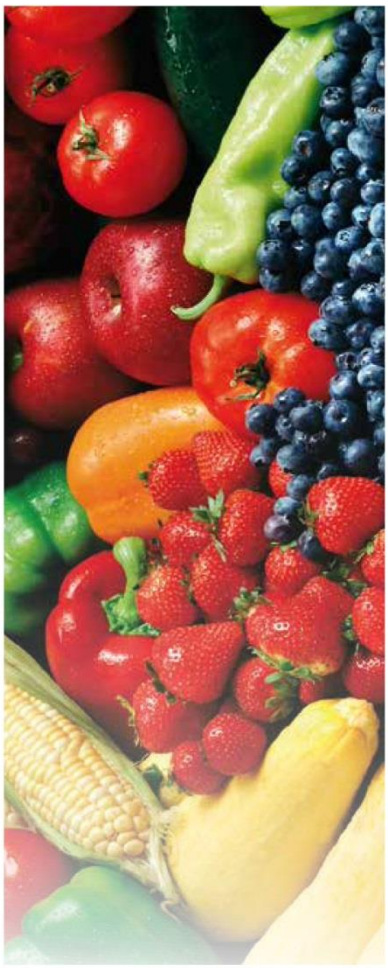


Quarterly Economic Overview

OF THE AGRICULTURE, FORESTRY AND FISHERIES SECTOR



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PREFACE

The core business of the Directorate: Statistics and Economic Analysis is to provide economic and statistical services to monitor the economic performance of the agriculture, forestry and fisheries (AFF) sector. To support this important task, the Economic and Statistical Research Unit conducts economic analyses of the performance of the AFF sector, as well as the external impact on the AFF sector and its industries.

This publication, the *Quarterly Economic Overview of the Agriculture, Forestry and Fisheries Sector*, was developed because of a need within the Department of Agriculture, Forestry and Fisheries (DAFF) to be regularly informed on developments and expected economic trends in the agricultural sector. The quarterly report has been established as a regular feature in the directorate's workplan. Since the beginning of 2004, the report has also been published for outside use to add value to a number of regular economic publications about the agricultural sector. It is our vision to maintain it as an indispensable reading for everyone interested in developments in the AFF and the South African AFF sector.

This issue looks at the economic developments in the second quarter of 2017, as well as the expected economic trends in the South African AFF sector as the domestic and global economies continue to face economic uncertainties.

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EXECUTIVE SUMMARY

Global growth prospects: In the advanced economies, Quarterly Real GDP Growth Rates, 2017: Q2 of the following countries: Canada, France, Germany, Italy, Japan, the United Kingdom and United States has increased by 1,1%, 0,5%, 0,6%, 0,4%, 0,6%, 0,3% and 3%, respectively. Emerging and developing economies continue to account for most of global growth. Their economic activity has accelerated due to rebound in commodity prices and increasing global demand indicates that in the emerging markets and developing economies in 2017: Q2, the Quarterly Real GDP Growth Rates increased in the following countries, Brazil, China, India, Indonesia, Malaysia, the Philippines, South Africa, Nigeria and Russia by 0,2%, 6,9%, 5,7%, 5%, 5,8%, 6,5%, 2,5%, 0,6% and 2,5%, respectively, as compared to the 2016: Q2 figures.

Global grain supply forecast: The global grain supply forecast indicates a total grain increase of 3%, from 3 078,4 million metric tons in 2016: Q2 to 3 171,6 million metric tons in 2017: Q2. Global supply projections for 2017: Q2 of wheat, coarse grains, rice milled, oil seeds, oil meals and vegetable oils increased by 3,1%, 3,1%, 2,8%, 8,1%, 6% and 4,2%, respectively, whereas cotton declined by 2,2%, as compared to 2016: Q1.

South Africa GDP: South Africa's real gross domestic product (measured by production) increased by 2,5% in 2017: Q2 from a revised negative growth rate of 0,6% reported in the first quarter. The year-on-year figure for 2017: Q2 indicates a growth of 1,1%, compared to 1,0% in the previous quarter. The agriculture, forestry and fisheries industry was the largest contributor to GDP growth in 2017: Q2. The industry increased by 33,6% and contributed 0,7% to the GDP growth. The growth in the industry is attributed to the increase in the production of field crops and horticulture products.

Inflation: The annual average CPI for food over the 12 month period (June 2016-June 2017) was estimated at 10%, lower compared to 11% for the period between March 2016-March 2017. The CPI for food averaged 6,8% in 2017: Q2, from 10,2% in 2017: Q1, which represents a decline of 32,8%.

Employment: The unemployment rate for 2017: Q2 has remained unchanged at 27,7% quarter-to-quarter, but increased by 1,1 percentage points year-on-year, according to Statistics South Africa (Stats SA). The results of the Quarterly Labour Force Survey (QLFS) indicated that employment in 2017: Q2 declined by 113 000 to approximately 16,1 million, which was driven by six of the ten industries. The largest decreases were recorded in construction and agriculture. However, employment gains were observed in trade, finance, manufacturing and utilities.

The grain market review section: It reflects on quarterly price trends (domestic and international) and supply and demand of the following major products produced in South Africa: maize, wheat, soya bean, sorghum, sunflower, groundnuts and dry beans as well as the **Fruit and vegetable** and **Meat industry review**

Trade: In 2017: Q2, exports of agricultural products decreased by 7% compared to 2016: Q2, from R34,57 billion in 2016: Q2 to R32,19 billion in 2017: Q2. During the same period, imports of agricultural products decreased by 14%, from R22,24 billion in 2016: Q2 to R19,12 billion in 2017: Q2.

1 GLOBAL OVERVIEW OF THE AGRICULTURE, FORESTRY AND FISHERIES ECONOMY

1.1 Global Real GDP Growth Rates

According to Euromonitor International, the global economy gained speed in 2016: Q4 and expanded by 3,3% year-on-year. The growth momentum is anticipated to persist throughout the year of 2017. It is expected that world GDP growth would pick up from 3,2% in 2016 to 3,5% in 2017 and 3,6% in 2018. In advanced economies, consumer confidence has increased notably in the second half of 2016 and early 2017. Financial markets and business sentiment have also improved. The US and Eurozone seem to be entering a more robust recovery from the 2008 global financial crisis and the 2011 Eurozone crisis. However, aging population and feeble productivity growth will keep constraining the outlook of advanced economies over the medium term and GDP growth is forecast to stay around 1,8% over 2017-2018. Overall global macroeconomic risks have declined since February 2017. However, advanced economies remain exposed to the risk of economic stagnation due to slow labour productivity growth and higher political uncertainty. Quarterly Real GDP Growth Rates in 2017: Q2 in the advanced economies of the following countries: Canada, France, Germany, Italy, Japan, the United Kingdom and United States increased by 1,1%, 0,5%, 0,6%, 0,4%, 0,6%, 0,3% and 3%, respectively, as compared to 2016: Q2. See Figure 1 below.

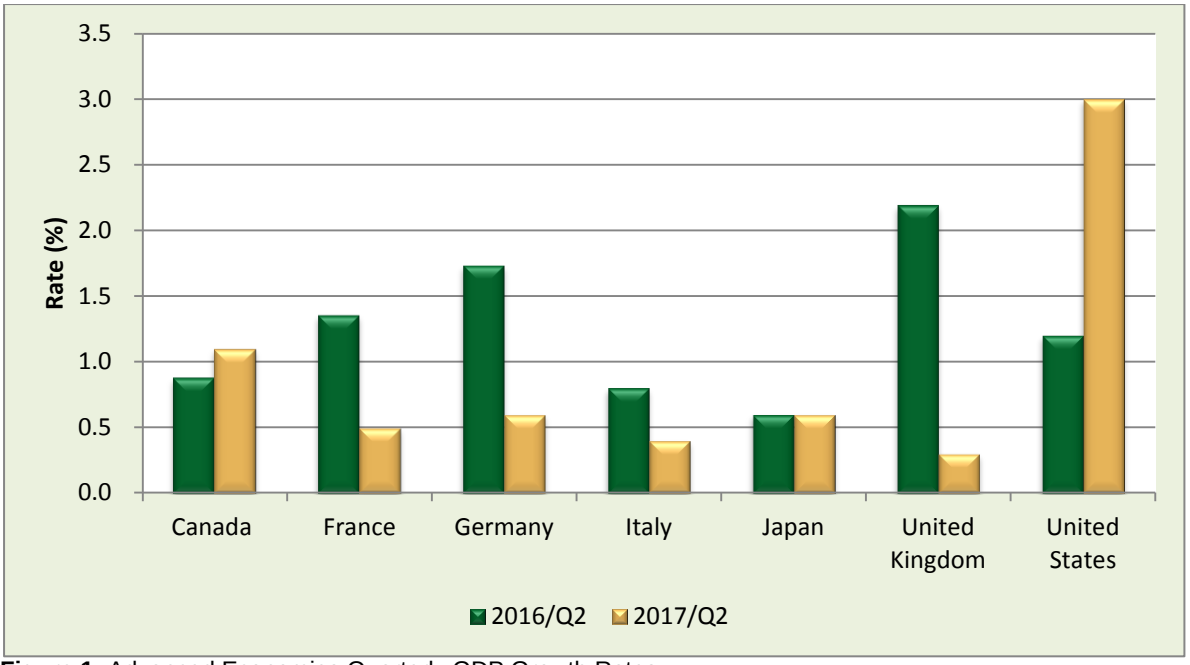

Figure 1: Advanced Economies Quarterly GDP Growth Rates
Source: Various Sources

Euromonitor International further indicated that emerging and developing economies continue to account for most of global growth. Their economic activity has accelerated due to rebound in commodity prices and increasing global demand. The GDP growth in emerging and developing economies is expected to gradually rise from 4,4% in 2016 to 5% in 2018 on the back of higher commodity prices and recovery in commodity exporters like Brazil and Russia. Emerging markets remain vulnerable to tighter global financing conditions and China continues to face the risk of the credit downturn as a result of slow progress on controlling financial risks. Figure 2 indicates that in the emerging markets and developing economies in 2017: Q2, the Quarterly Real GDP Growth Rates increased in the following countries, Brazil, China, India, Indonesia, Malaysia, the Philippines, South Africa, Nigeria and Russia by 0,2%, 6,9%, 5,7%, 5%, 5,8%, 6,5%, 2,5%, 0,6% and 2,5%, respectively, as compared to 2016: Q2 figures.

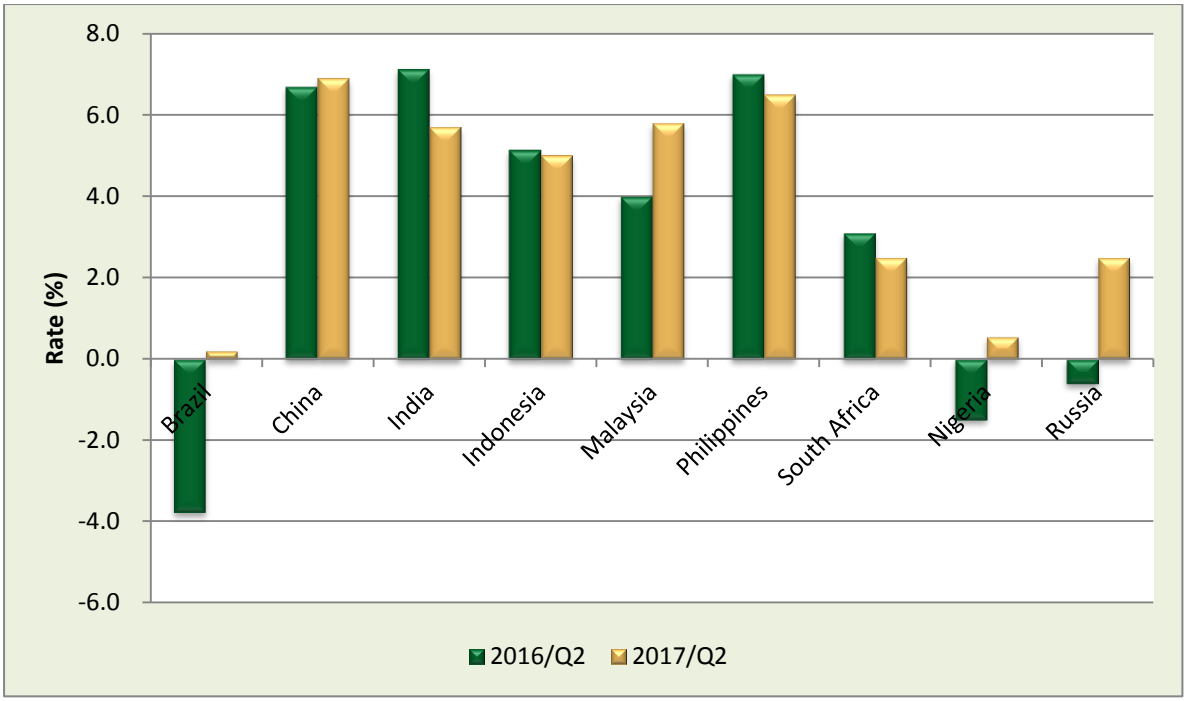

Figure 2: Emerging Markets and Developing Economies Quarterly GDP Growth Rates
Source: Various Sources

1.2 Global Grain Forecast

According to the International Grains Council report (2017), total global grains (wheat and coarse grains) production in 2017/18 was predicted to fall, although large opening inventories were seen limiting the drop in overall supplies. With contractions in the major exporters and China, world carryover stocks were projected to decline for the first time in five years, but still potentially the third largest ever. The volume of trade was projected to be second only to the previous season's record. Global rice output in 2017/18 was seen at a new high on area gains in leading Asian producers. While overall stocks were expected to remain steady, those in the major exporters were likely to fall, with Thailand's reserves at a nine-year low. Trade was forecast to stay elevated. World soya bean output in 2017/18 was predicted to be close to the previous year's high and, due to big carry-ins, supplies would be at peak levels. However, with total use expanding further, carryovers were expected to retreat on a drawdown in some exporters, albeit still well above average. Import demand was anticipated to reach a new peak, mainly on shipments to Asia. The global grain supply forecast indicates a total grain increase of 3%, from 3 078.4 million metric tons in 2016: Q2 to 3 171.6 million metric tons in 2017: Q2. Global supply projections for 2017: Q2 of wheat, coarse grains, rice milled, oil seeds, oil meals and vegetable

oils increased by 3,1%, 3,1%, 2,8%, 8,1%, 6% and 4,2%, respectively, whereas cotton declined by 2,2%, as compared to 2016: Q1, see Figure 3.

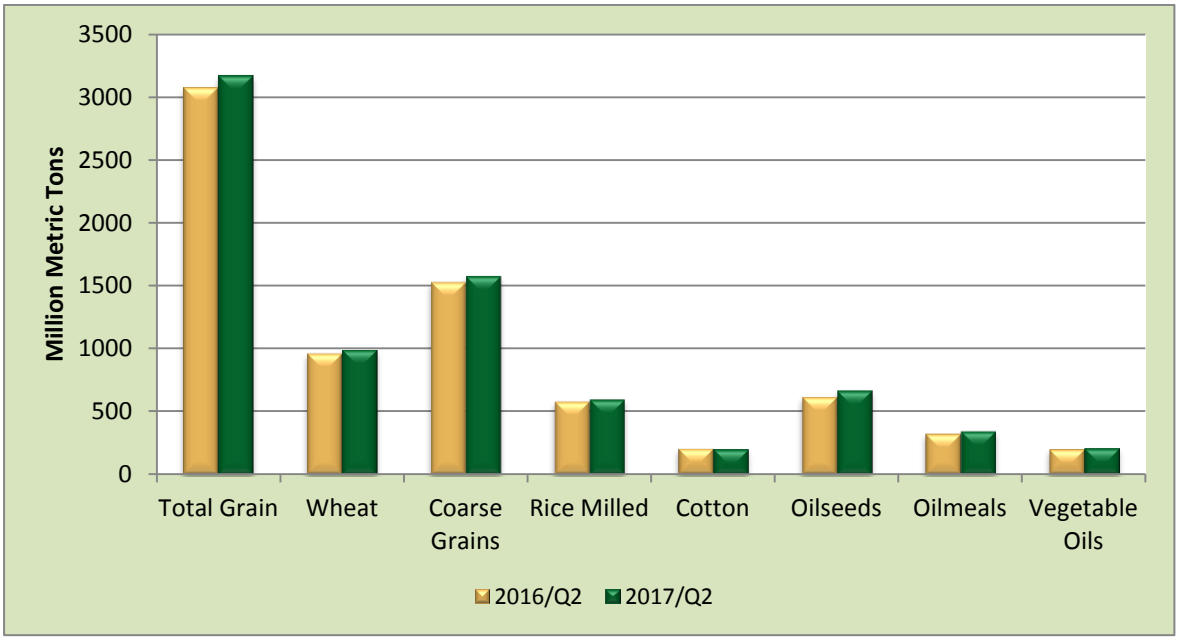

Figure 3: Quarterly global grain supply forecast
Source: USDA

1.3 Global Food Prices

According to the Food and Agriculture Organization's (FAO, 2017) latest bulletin for second quarter (Q2) report, it had revealed that due to bumper harvests in the southern hemisphere, supplies are ample and markets are expected to remain calm. The report further highlighted that despite increases in 2017, especially recently, prices are still at low levels thanks to abundant world supplies. Globally in 2017: Q2, some major countries were paying more than 9,4% on food purchases compared to 2016: Q2. The following global food products price indices in 2017: Q2, meat, dairy and oil reflect a steady increase by 12%, 48,9% and 0.1%, while prices for cereals and sugar indices declined by 2,4% and 11%, respectively, see Figure 4.

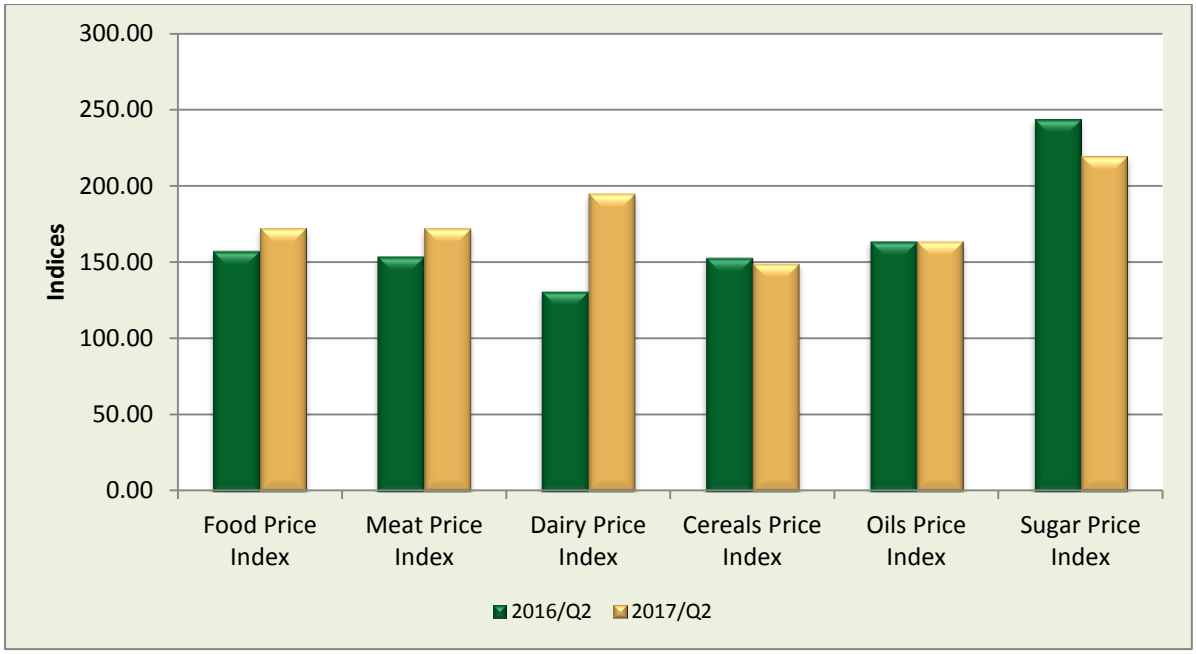

Figure 4: Quarterly global food price indices
Data Source: FAO

2 THE STATE OF THE DOMESTIC ECONOMY IN AGRICULTURE, FORESTRY AND FISHERIES

2.1 Growth

Statistics South Africa released the country's economic figures for 2017: Q2. The data present a bright future for the country, especially in the agricultural sector, which experienced drought in the previous seasons. According to Stats SA figures, South Africa's real gross domestic product (measured by production) increased by 2,5% in 2017: Q2 from a revised negative growth rate of 0,6% reported in the first quarter. The year-on-year figure for 2017: Q2 indicates a growth of 1,1% compared to 1,0% in the previous quarter. The agriculture, forestry and fisheries industry was the largest contributor to GDP growth in 2017: Q2. The industry increased by 33,6% and contributed 0,7% to the GDP growth. The growth in the industry is attributed to the increase in the production of field crops and horticulture products, amongst others, due to a good rainy season. The mining and quarrying industry was the

second contributor to GDP growth. Mining and quarrying increased by 3,9% and contributed 0,3% to the GDP. Statistics South Africa reported growth in mining and quarrying industry is largely due to higher production of coal, gold and other mining and quarrying, including diamonds.

In the secondary sector, the electricity, gas and water industry was the largest contributor to GDP growth, which grew by 8,8% and contributed 0,2% to the GDP. The growth is due to an increase in electricity consumption and production of water. The manufacturing industry increased by 1,5% in 2017: Q2 while the construction industry decreased by 0,5%. The decrease in the construction industry was recorded for residential and non-residential building. The tertiary sector performed better in 2017: Q2. The trade, catering and accommodation industry and the transport, storage and communication industry both increased by 0,6% and 2,2%, respectively.

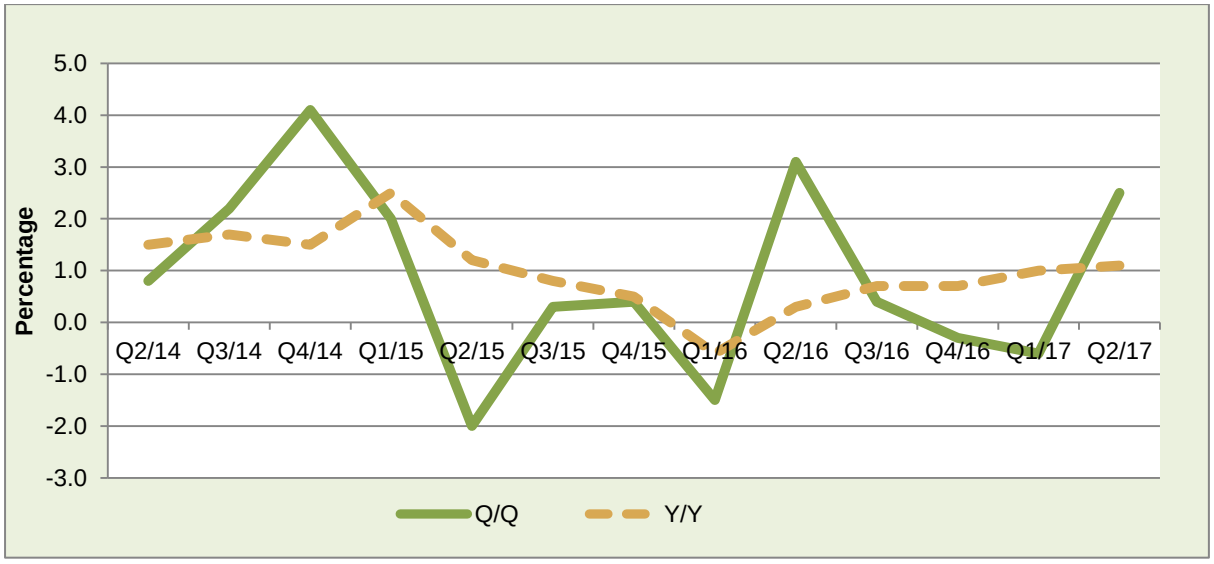

Figure 5: Domestic Real GDP Growth
Source: Stats SA

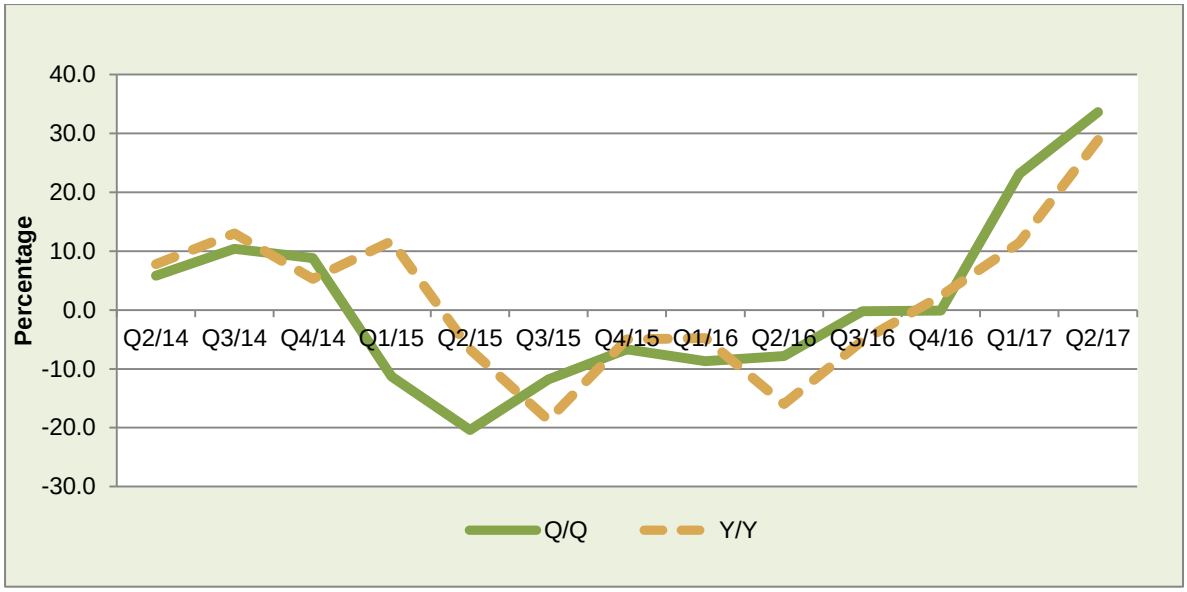

Figure 6: Agriculture, forestry and fishing sector growth rates
Source: Stats SA

2.2 Inflation

South Africa's annual headline CPI and the food inflation from 2015: Q2 to 2017: Q2 is represented in Figure 7 below. From the figure, it can be observed that food inflation is generally higher than headline inflation. The country's average headline CPI for 2017: Q2 was estimated at 5,3% lower compared to 6,3% growth in 2017: Q1, which represents a decline of 16,3% on a quarter-to-quarter basis. On the other hand, average food inflation for 2017: Q2 was estimated at 6,8%, which is also lower compared to 10,3% in 2017: Q1. The decline in both headline CPI and food inflation is a huge relief to consumers at large. The annual consumer price inflation for June 2017 was 5,1%, lower compared to 5,4% in May 2017. The consumer price index increased by 0,2% month-on-month in June 2017. Contributors to the headline annual consumer price inflation in June 2017 are clothing and footwear, transport and restaurants and the hotel indusrty. Clothing and footwear and transport and restaurant both decreased from 0,2% in May 2017 to 0,1% in June 2017, while transport decreased from 0,8% in May 2017 to 0,5% in June 2017. The monthly contributors to consumer price inflation was housing and utilities, which contributed 0,2% in June 2017. The housing and utilities index decreased by 0,9% month-on-month.

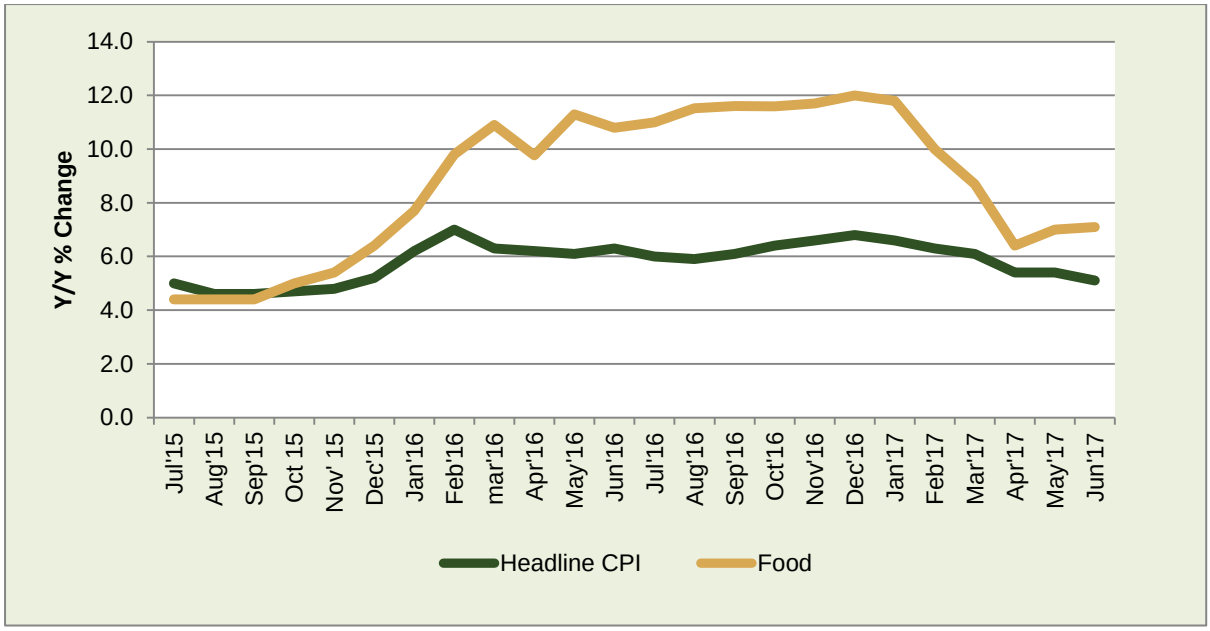

Figure 7: SA headline CPI and CPI for food
Source: Stats SA

Figure 8 illustrates consumer trends of selected food items from 2015: Q2 to 2017: Q2. According to Figure 7, food inflation for the selected food items is on a downward trend with the exception of meat. The decline in food inflation for the majority of food items implies that consumers will have more money at their disposal to afford other items. The annual average CPI for food over the 12 month period (June 2016 – June 2017) was estimated at 10%, lower compared to 11% for the period between March 2016 – March 2017. The CPI for food averaged at 6,8% in the 2017: Q2 from 10,2% in 2017: Q1, which represents a decline of 32,8%. Based on the data, we can conclude that consumers paid more for food in 2017: Q1 than in 2017: Q2 by approximately 32,8%.

Data for selected food items further revealed that meat, fish and milk and eggs and cheese remained the most expensive food items amongst the selected food items. The CPI for meat, fish and milk and eggs and cheese for 2017: Q2 was estimated at 12%, 7,6% and 5,2%, respectively. On a quarterly basis, the CPI for meat increased by 25% between 2017: Q1 and 2017: Q2 while the CPI of other selected food items declined. The CPI for fish, milk, eggs and cheese; bread and cereals and fruit decreased by 22,6%, 50,2%, 68,7% and 69,9% between 2017: Q1and 2017: Q2.

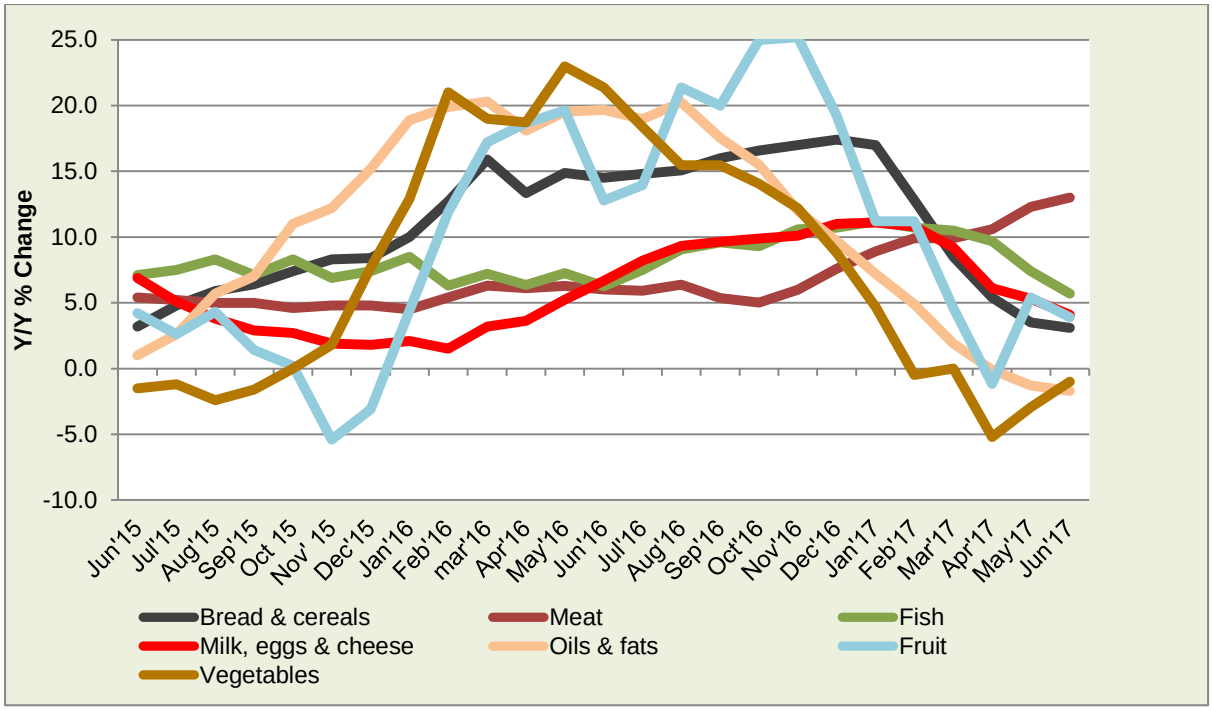

Figure 8: CPI for selected food items
Source: Stats SA

2.3 Employment

The unemployment rate for 2017: Q2 has remained unchanged at 27,7% quarter-to-quarter, but increased by 1,1 percentage points year-on-year, according to Statistics South Africa (Stats SA). The results of the Quarterly Labour Force Survey (QLFS) indicated that employment in 2017: Q2 declined by 113 000 to approximately 16,1 million. However, the number of job seekers also declined by 37 000 to approximately 6,2 million, resulting in the unemployment rate remaining unchanged. Stats SA said the net quarterly employment decline of 113 000 in the second quarter was driven by six of the ten industries, with the largest decreases recorded in construction and agriculture. However, employment gains were observed in trade, finance, manufacturing and utilities.

The number of employed persons decreased in five of the nine provinces between the first and second quarters, with the largest employment losses recorded in Gauteng and the Eastern Cape, while Limpopo and KwaZulu-Natal recorded employment gains of 32 000 and 29 000, respectively. The QLFS indicate that young people aged 15 to 24 remained vulnerable in the labour market with an

unemployment rate of almost 56% and absorption rate of 12%. Among those in this age group, 32,3% were not in employment, education or training—this is approximately 3,3 million young people. The expanded unemployment rate which includes an extra 3,1 million persons who were available to work but did not look for work during the reference period increased by 0,2 of a percentage point to 36,6%. Stats SA said this was approximately 9,3 million people aged 15 to 64 who wanted to work and were available to work but their labour was not utilised. The unemployment crisis is expected to worsen in the third quarter as more companies have issued section 189 notices to employees, according to labour federation Cosatu.

In terms of sub-sector performance, the reduction in employment were in field crops and horticulture, forestry and aquaculture. Meanwhile, the other sub-sectors, such as the livestock, game farming, as well as mixed farming, showed job gains. Overall, agriculture's share of total employment remained at 5% in the second quarter of this year due to a reduction in total employment. The sector's share is still above sectors such as mining and almost at par with the transport industry.

Going forward in the third quarter of this year could show a rebound in line with seasonal trends. The boost will most likely come from the horticulture industry, particularly seasonal labour participation. Moreover, the incoming data from the South African Weather Service indicates that the south-western parts of South Africa could receive above normal rainfall between August and October this year. This could bring much-needed relief in the Western Cape and, in turn, lead to increased agricultural activity.

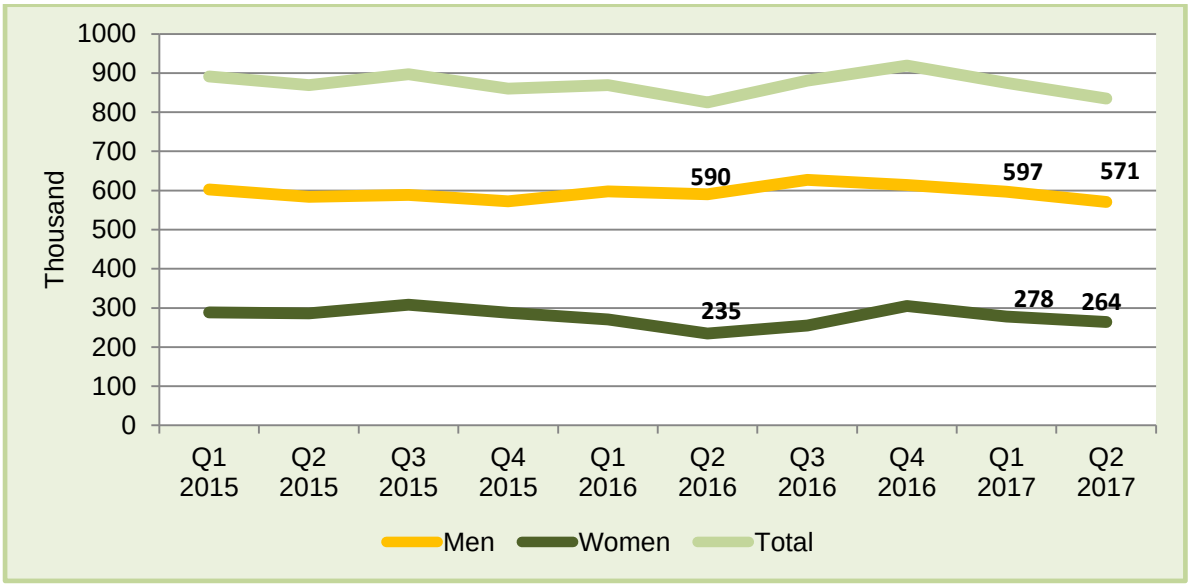

Figure 9: Total number of people employed in the agriculture sector between 2015 and 2017.
Source: DAFF

The total number of people employed in the agriculture sector decreased for two consecutive quarters and it decreased by 4,6% in 2017: Q2, from 875 000 persons in 2017: Q1 to 835 000 persons in 2017: Q2. After cutting 44 000 jobs in 2017: Q1, the sector further lost 40 000 jobs in the second quarter resulting in 84 000 job losses in the first half of 2017. However, it is worth noting that this is in line with the season's trend due to reduced horticultural activity in the second quarter. Of the 40 000 job losses by the sector in 2017: Q2, 14 000 jobs were lost by women while 26 000 jobs were lost by men. In total, the agricultural sector comprised of 264 000 women and 571 000 men in 2017: Q2 compared to 278 000 women and 597 000 men in the first quarter therefore putting the total number of labour force at 835 000 jobs in 2017: Q2. Compared to a year ago, the sector created 1,2%, which is 10 000 job opportunities.

Figure 10 shows that between 2017: Q1 and 2017: Q2, provincial agriculture employment increased slightly in five provinces, while it decreased in the other four provinces. Though there was a decrease but compared to other provinces the Western Cape had the highest employment rate of 180 000 in agriculture, a 16,3% decrease between the two quarters. During the same period agriculture employment in the Northern Cape, KwaZulu-Natal and Gauteng decreased by 23,5%, 12,6% and 4,1%, respectively. Meanwhile, agriculture employment in the Free State,

Mpumalanga, North West, the Eastern Cape and Limpopo increased by 13,5%, 6,9%, 6,7%, 3,1% and 2,8%, respectively between the two quarters.

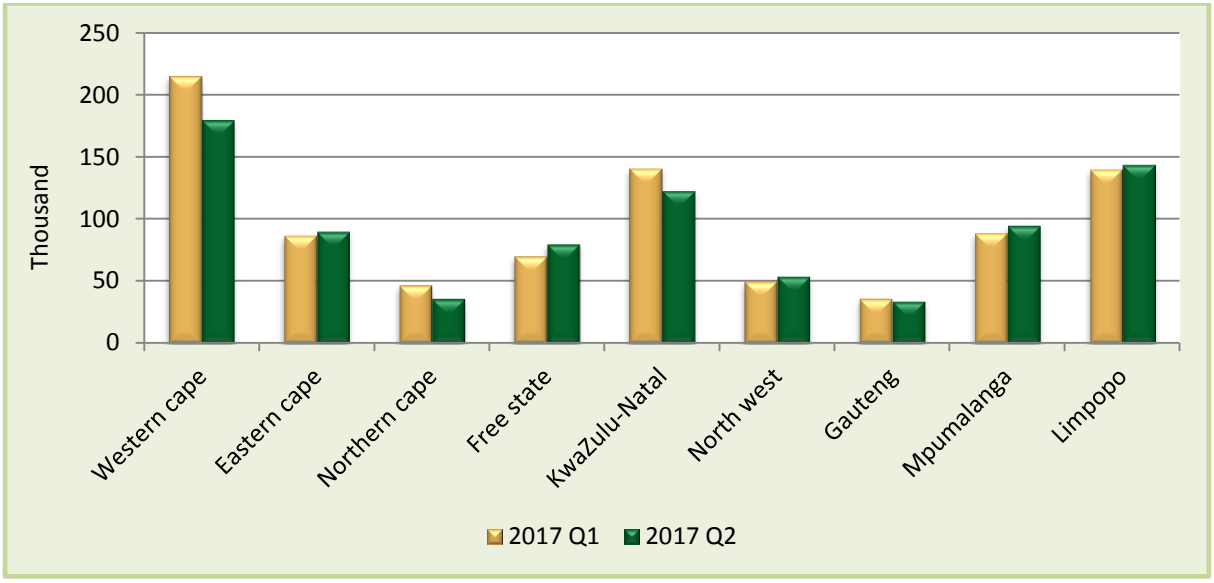

Figure 10: Provincial agriculture employment between first quarter of 2017 and second quarter of 2017.
Source: DAFF

The 2017 second quarter (QLFS) also indicated that 1,9 million people were involved in subsistence farming in 2017: Q2 compared to 2,1 million people in the previous quarter, an increase of 8,3%. Figure 11 below illustrates the number of people involved in subsistence farming in all provinces in 2017: Q2 compared to the first quarter. KwaZulu-Natal had the highest number (868 000) people involved in subsistence farming compared to 880 000 in the previous quarter, a decrease of 1,4%. Meanwhile, the Eastern Cape had 507 000 people involved in subsistence farming compared to 553 000 in the previous quarter, a decrease of 8,3%. During the same period, Limpopo had 178 000 people involved in subsistence farming compared to 271 000 people, a decrease of 34,3%, Mpumalanga had 159 000 people involved in subsistence farming compared to 179 000 people. The number of people involved in subsistence farming in the Free State increased from 97 000 2017: Q1 to 113 000 people in 2017: Q2. The number of people involved in subsistence farming in the Western Cape increased from 3 000 in 2017: Q1 to 6 000 in 2017: Q2. The number of people involved in subsistence farming in the Northern Cape decreased to 22 000 in the second quarter compared to 23 000 in 2017: Q1. The number of people involved in subsistence farming in Gauteng decreased from

21 000 to 14 000 during the same period, while the number of people involved in subsistence farming in North West also decreased from 57 000 to 43 000 between the two quarters.

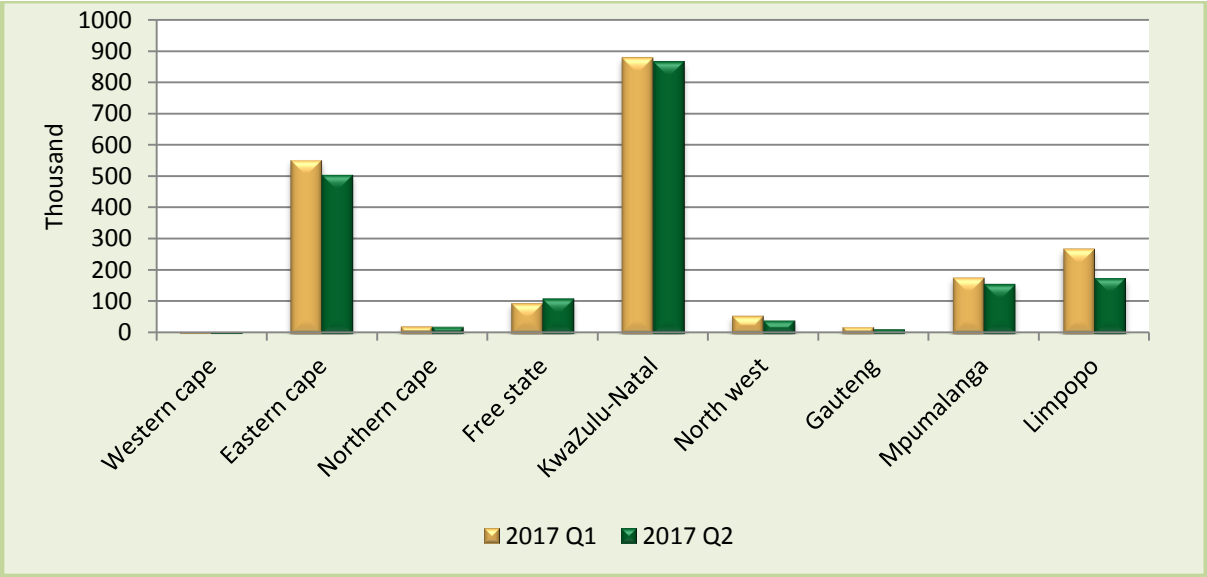

Figure 11: Provincial number of people involved in subsistence farming between 2017: Q1 and 2017: Q2
Source: DAFF

2.4 Expenditure on intermediate goods and services by the agricultural sector

The total expenditure on intermediate goods and services was reported at R34,8 billion in 2017: Q2 compared to R31,6 billion in the previous quarter, an increase of 8,9%. Compared to a year ago, the total expenditure on intermediate goods and services increased by 5,68%, from R32,8 billion in 2016: Q2 to 346,8 billion in 2017: Q2.

Figure 12 shows comparison of the total expenditure on fuel, farm feeds, fertilisers, seeds and plants as well as farm services in 2017: Q2 compared to the previous quarter. The increase in total expenditure was attributed to the increase in expenditure on farm services by 33,33% and fuel by 11,59%, while the expenditure on fertiliser decreased by 4,55% and farm feeds by 4,17% compared to the previous quarter.

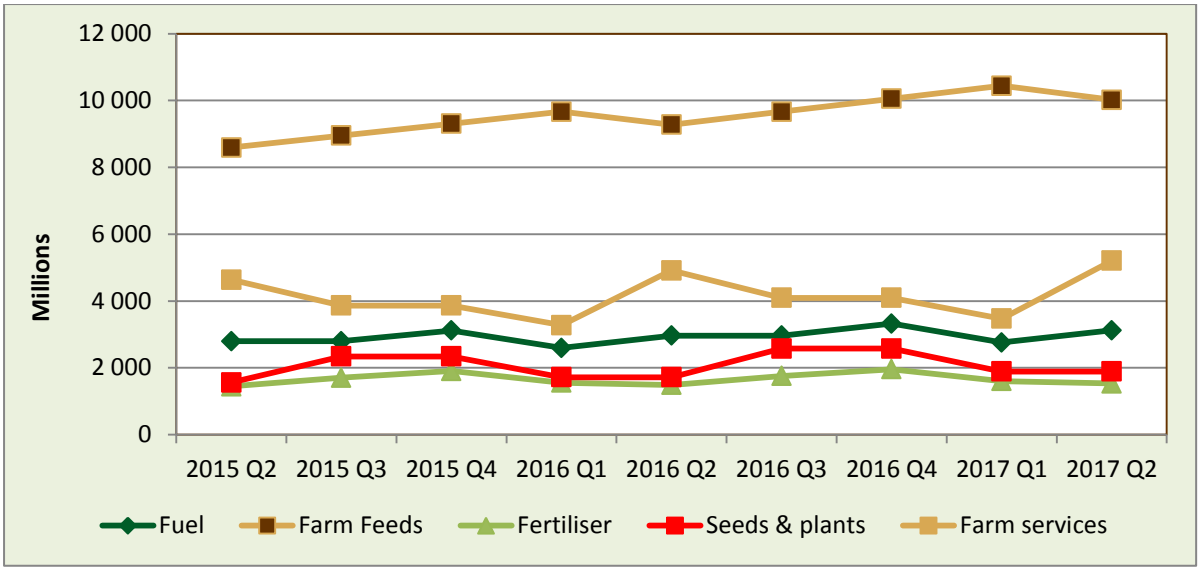

Figure 12: Trends in the expenditure on fuel, farm feeds, fertilisers, seeds and plants and farm services between 2015: Q1 and 2017: Q1.
Source: DAFF

2.5 South African fertiliser market review

Fertiliser usage in South Africa represents about 0,5% of the total global application and as such, the local fertiliser industry is a price taker (DAFF, 2016). The South African fertiliser industry is fully exposed to world market forces and operates in a totally deregulated environment with no import tariffs or government sponsored support measures. In this deregulated market environment, fertiliser prices are strongly influenced by international prices, currency exchange rates (R/US$) and shipping costs. For this reason it is important to study the international fertiliser supply and demand balances and other factors which influence this market as they have a direct impact on the domestic market.

Maize accounts for 41% of total fertiliser application while the second largest fertiliser consumer is sugar cane at 18%. The horticultural and fruit crop sectors account for 20% of fertiliser use but their contribution to the total value of crop production is much greater (DAFF, 2016). The South African fertiliser market is very competitive, with a handful of national and regional operators. Competition is driven through price incentives, product differentiation and specialised services such as individual agronomic advice, custom blending and application.

2.5.1 International fertiliser prices

The average prices of all four international fertilisers show an increasing trend from January 2017 to June 2017. The average price in Rand in terms of ammonia increased by 12,2% between 2017: Q1 and 2017: Q2, from R3 804,97 to R4 267,11 per ton. Average prices of urea also increased by 33,58% between 2017: Q1 and 2017: Q2, from R3 194,39 to R4 267,11 per ton. Similarly, the average price of diammonium phosphate (DAP) and potassium chloride, Muriate of Potash (MOP), between the period under review increased by 1,26% and 2,92%, respectively. The trends of these prices is illustrated in Figure 13 below.

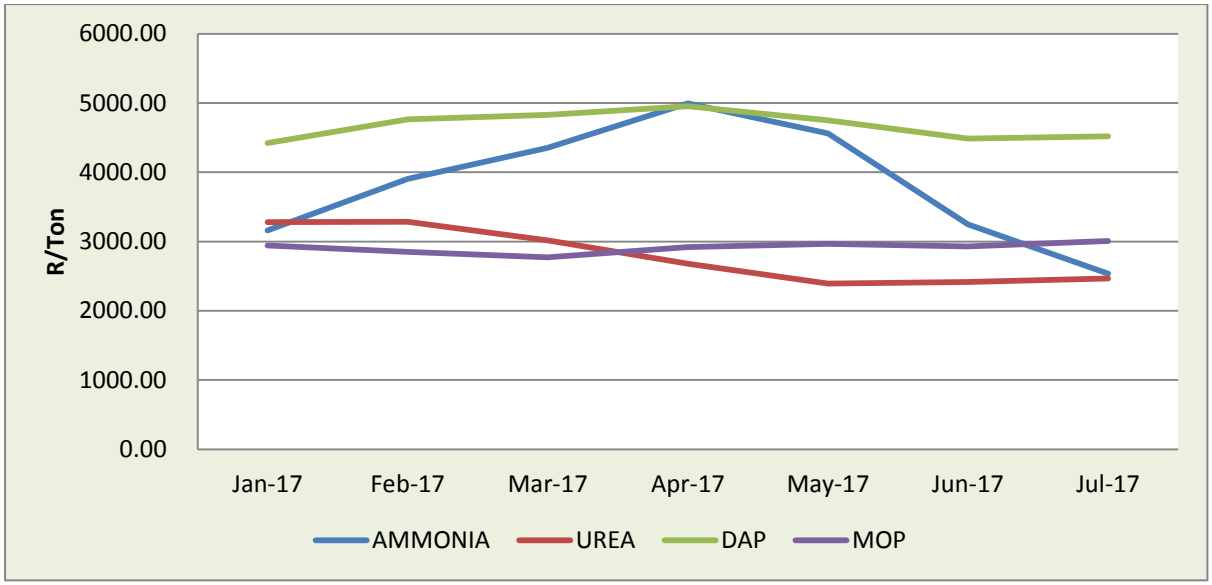

Figure 13: Average monthly prices of international fertilisers in Rand terms
Source: GrainSA

2.5.2 South African fertiliser expenditure

South African expenditure on fertiliser shows a fluctuating trend from January 2016 to June 2017. The fluctuation results from changes in the area planted and the seasonality of the agricultural crops. The expenditure on fertiliser in 2016: Q1 was R1 554,518 million while in 2017: Q1 it was R1 757,281 million, this represent 3% increase on fertiliser expenditure. Similarly, fertiliser expenditure increased by 3% between 2016: Q2 and 2017: Q2, from R1 486,93 million to R1 531,538 million, see Figure 14.

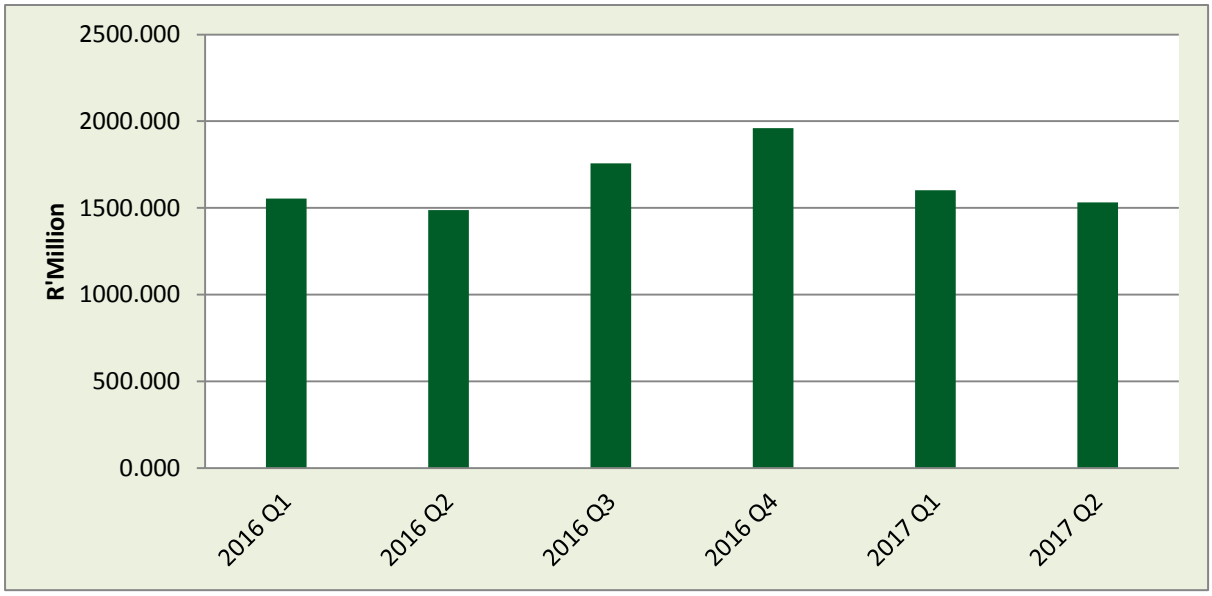

Figure 14: Expenditure of South African fertiliser from 2016: Q1 to 2017: Q2
Source: DAFF

2.5.3 Local fertiliser prices

Figure 15 shows average fertiliser prices in South Africa from January to June 2017. Average fertiliser prices of monoammonium phosphate (MAP) increased by 0,38%, from R8 859 to R8 892 per ton in the second quarter. There has also been a slight increase of 0,01% in the average price of potassium chloride, the price increased from R6 478 in the first quarter to R6 479 in 2017: Q2. On the other hand, the average prices of lime ammonium nitrate (LAN) decreased between 2017 Q1: and 2017: Q2 by 3,15%, from R5 627 per ton to R5 450. There has also been a decline of 4,58% in the average price of Urea 46, from R6 192 in the first quarter to R5 908 per ton in 2017: Q2.

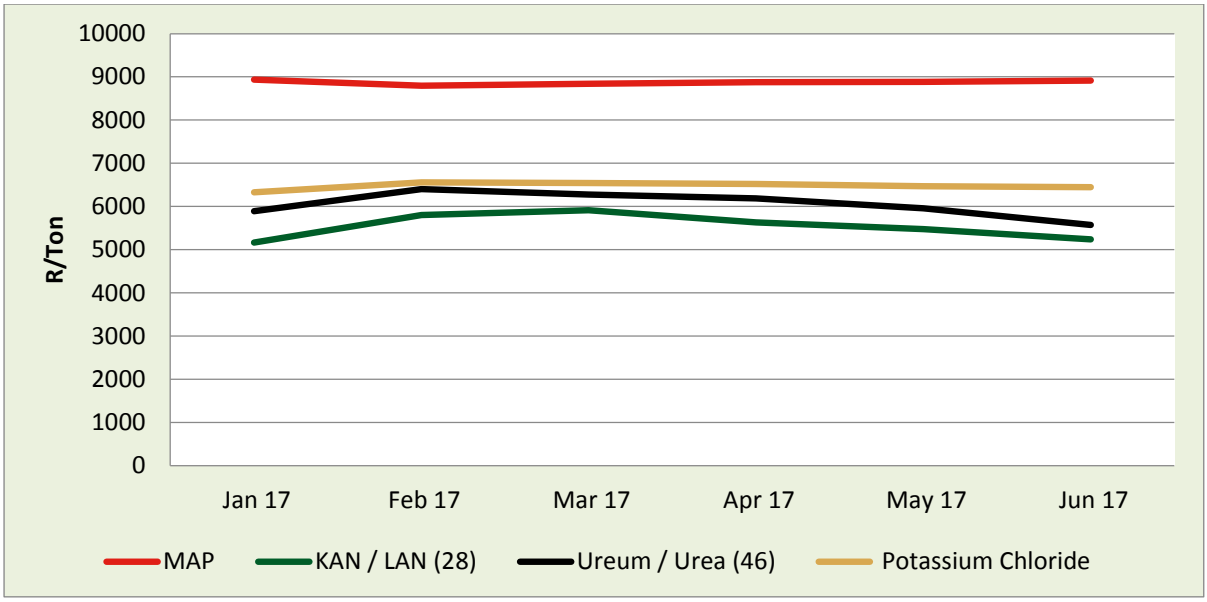

Figure 15: Average monthly prices of local fertilizers
Source: GrainSA

2.6 Nominal gross farm income and net farm income from agricultural products

The nominal real gross income from all agricultural products increased significantly, from R55,1 billion in 2017: Q1 to R84,3 billion in 2017: Q2, an increase of 53,0%. This was largely supported by a huge increase of 533,7% in income from field crops, while income from horticulture and animal products also increased by 15,9% and 1,6%, respectively between the two quarters. The significant increase in income from field crops is attributed to the huge increase in income from groundnuts, grain sorghum, dry beans, cotton, soya beans, sugar cane and sunflower seed. The increase of 15,9% in income from horticulture was supported by an increase in income from citrus fruit, subtropical fruit as well as flowers and bulbs. During the same period, the increase of 1,6% in income from animal products was due to an increase in income from sheep, goats and pigs slaughtered, as well as cattle and calves slaughtered. Compared to a year ago, real gross farm income from all agricultural products increased by 9,6% in 2017: Q2 compared to the same quarter in 2016. During this period, the increase was largely supported by an increase in income from field crops and animal products, which increased by 19,7% and 15,2%, respectively, while income from horticulture decreased by 8,2%, see Figure 16.

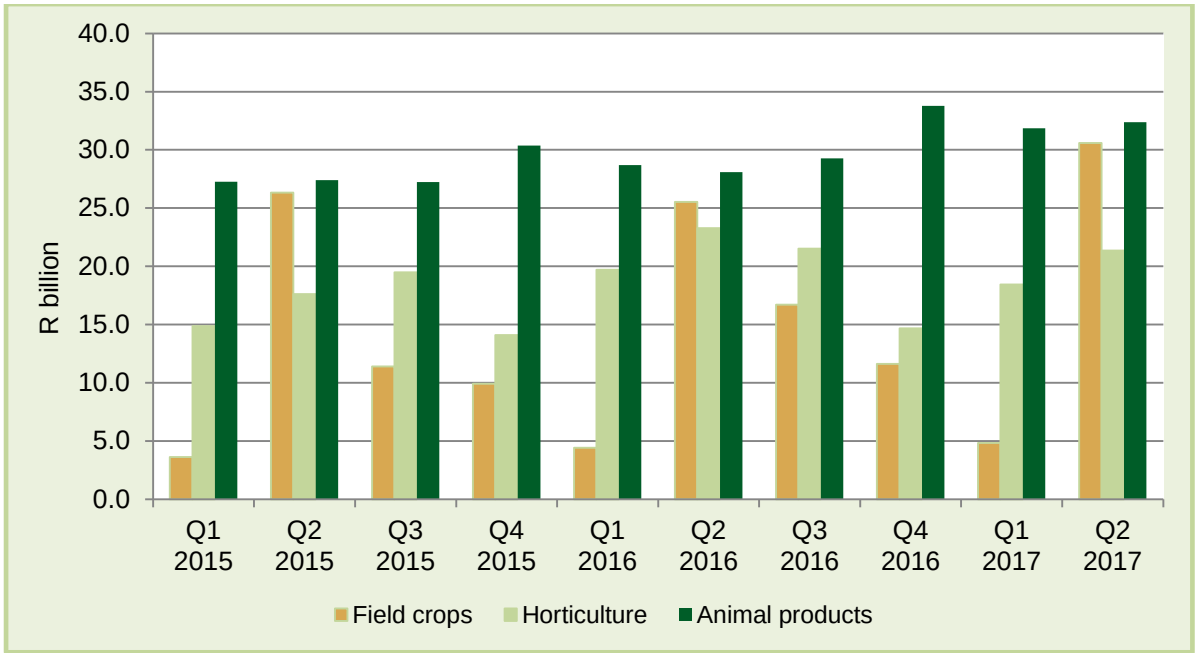

Figure 16: Trends in nominal gross farm income between 2015 and 2017.
Source: DAFF

2.7 The net farm income

Figure 17 illustrates the net farm income trends between 2015 and 2017. The net farm income is estimated at R42,2 billion in 2017: Q2, compared to R36,7 billion in the same quarter of 2016, an increase of 14,7%. The increase in net farm income was largely supported by an increase in income from field crops and animal products, which increased by 19,7% and 15,2%, respectively.

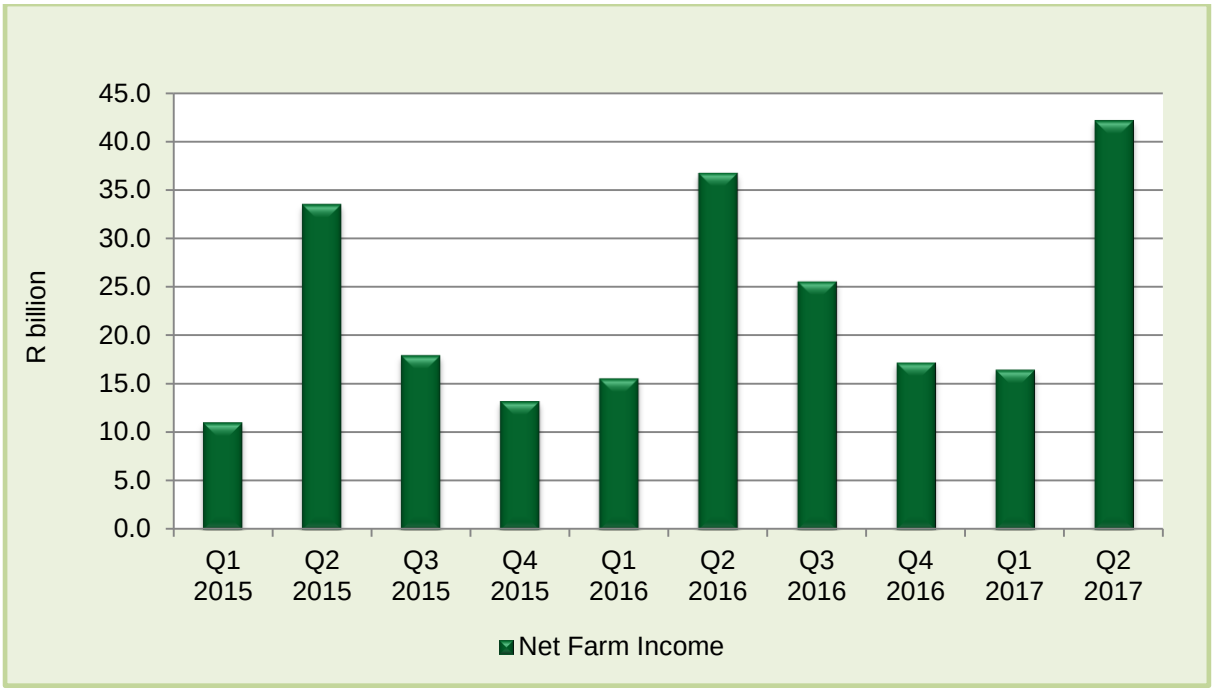

Figure 17: Trends in the net farm income between 2015 and 2017.
Source: DAFF

2.8 Private consumption expenditure on agricultural products

Figure 18 shows that private consumption expenditure on food increased in 2017: Q2 to R158,4 billion from R155,0 billion in the previous quarter, an increase of 2,2%. Compared to a year ago, total private consumption expenditure on food increased to R158,4 billion reported in 2017: Q2, compared to R153,8 billion in the same quarter of 2016, an increase of 3,0%. During the same period, the main expenditure items were oils and fats, which increased by 29,3%. The expenditure on bread and grain also increased by 3,2% between the two quarters. The expenditure on meat also increased by 3,8%. Meanwhile, the expenditure on potatoes decreased by 4,5% during the same period. The expenditure on fruit and vegetables also decreased by 1,6% in 2017: Q2, compared to the same quarter of 2016.

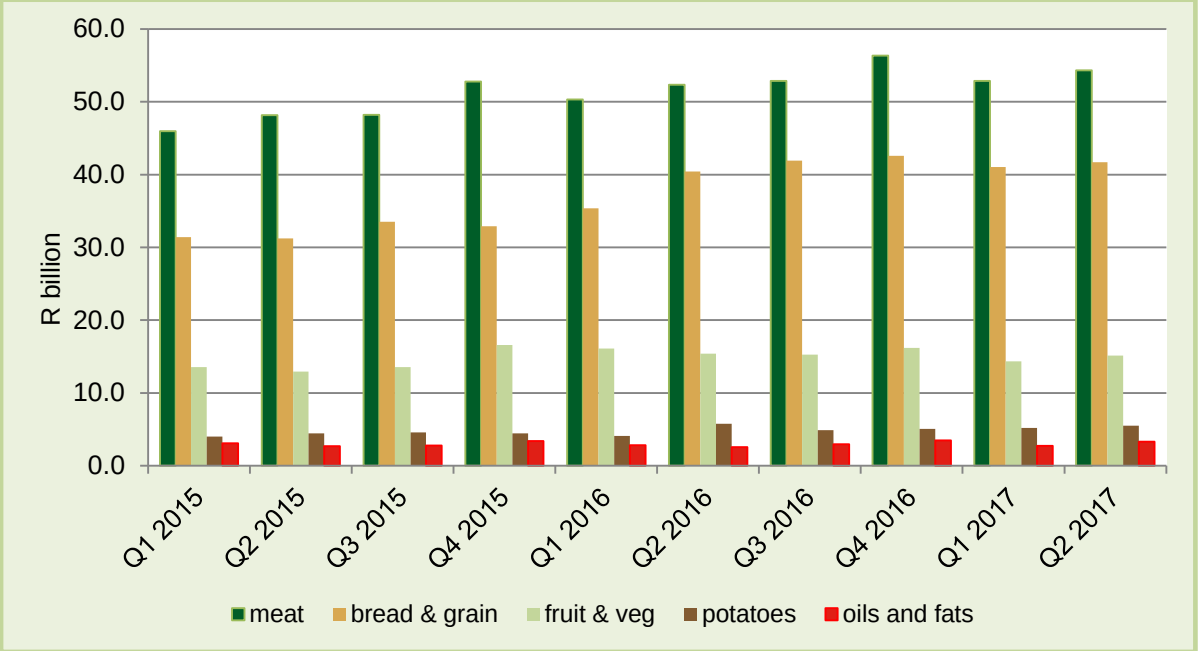

Figure 18: Trends in private consumption expenditure between 2015 and 2017
Source: DAFF

3. Review of Agricultural Markets

3.1 Grain market review

3.1.1 White and yellow maize

South Africa's price trends of white and yellow maize spot prices, as well as the international maize prices (import parity price and export parity price) is illustrated in Figure 19. Import parity price reflects the price buyers pay or can expect to pay for imported goods while export price is the price that a producer gets or expects for its exported price. In 2017: Q2, South African white maize prices traded between import and export parity prices. However, in the previous quarter white maize traded way above the import parity prices while yellow maize prices traded closer to import parity prices. As we move into the third and fourth quarter of 2017, we anticipate white maize to continue trading between the export and import parity price since the weather condition has normalised. We also expect the yellow maize prices to trade closer to import parity price since South Africa is a net import of yellow maize. Import parity price for maize during 2017: Q2 traded at R2 969/ton, lower compared to R3 035/ton in 2017: Q1. Consumers of yellow maize, who import yellow maize from the international market, will pay 2,18% less for a ton of yellow maize during this quarter compared to the previous quarter. The export parity price was R1 840 in the second quarter, also lower compared to R1 931/ton in 2017: Q1. Producers can expect to

receive 4,71% less on their export maize this quarter compared to the previous quarter.

On the domestic market, the white maize price for the second quarter was estimated at R1 858/ton compared to R2 824//ton in the first quarter, while yellow maize was R2 730/ton in the first quarter and R1 840/ton in 2017: Q2. The prices of both white maize and yellow maize have declined significantly by 32,24% and 32,58%, respectively, quarter-to-quarter end of June 2017. The year-on-year prices of white maize reveals that prices have also decreased drastically, which is good news for maize consumers. White maize prices have declined by 60,64%, while yellow maize have decreased by 46,07%. Domestic prices of white maize are significantly lower when compared to the international prices, holding other things constant; we anticipate domestic demand of white maize to increase during the next quarter rather than abroad.

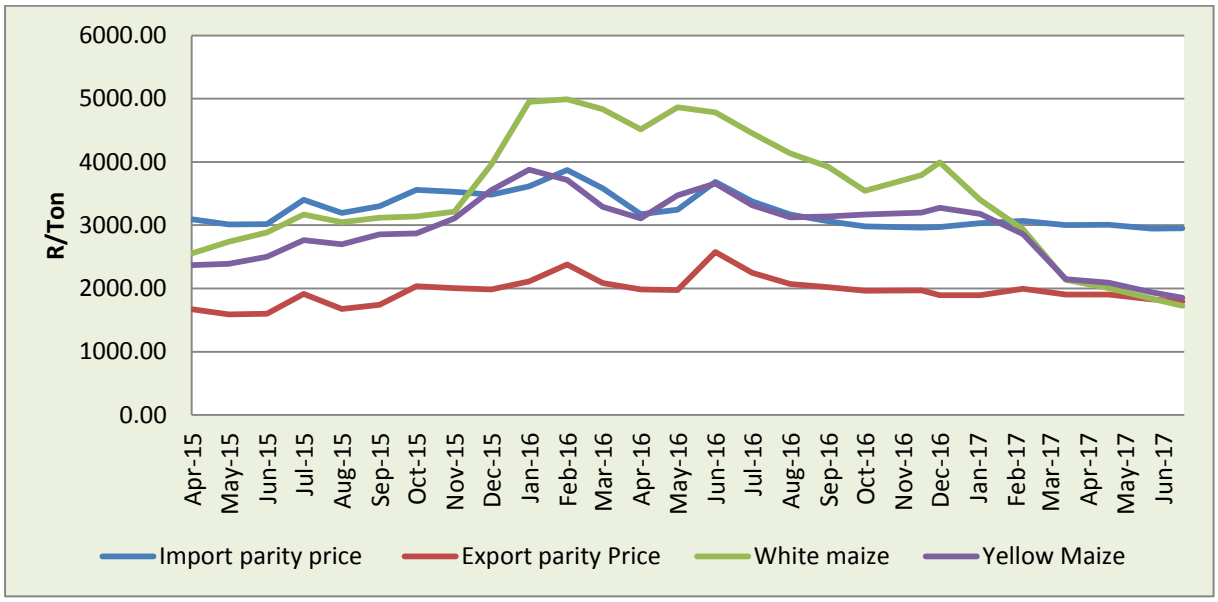

Figure 19: White maize price
Source: Sagis

The maize seed price is depicted in Figure 20 against the retail prices from 2015: Q3 to 2017: Q2. The price of maize seed has declined (for six consecutive quarters) since 2016: Q3 with a spike in 2016: Q4. The average quarterly price of maize seed prices for 2017: Q2 was estimated at R1 858/ton, which is 34,24% lower compared

to R2 824/ton in 2017: Q1. As indicated above, the decline in maize seed price consumers attribute to, among others, favourable weather conditions during the planting season. Consumers will most likely benefit from lower prices in the coming months, especially on maize seed by-products.

There is a positive correlation between maize seed price and its by-products. Maize seed prices declined in the previous quarter, which has resulted in a downward trend of maize by-products (see Figure 20). A further decline in maize seed prices in 2017: Q1 will ease the price of maize by-products further in the third and fourth quarter of 2017. The quarter-to-quarter price of super maize 1kg, super maize 2kg, (super maize) mealie meal/maize flour 5kg, (special maize) mealie meal/maize flour 1kg and (special maize) mealie meal/maize flour 2.5kg has declined by 4,99%, 6,87%, 10,38%, 4,38% and 4,47%, respectively, in 2017: Q2 compared to 2017: Q1. However, the year-on-year prices indicated that only (special maize) mealie meal/maize flour 2.5kg prices have declined by 5,09% while other maize by-products have increased. The prices of super maize 1kg, super maize 2.5kg, (special maize) mealie meal/maize flour 1kg and (special maize) mealie meal/maize flour 2.5kg increased by 3,75%, 0,19%, 5,41% and 3,55%, compared to the same period last year.

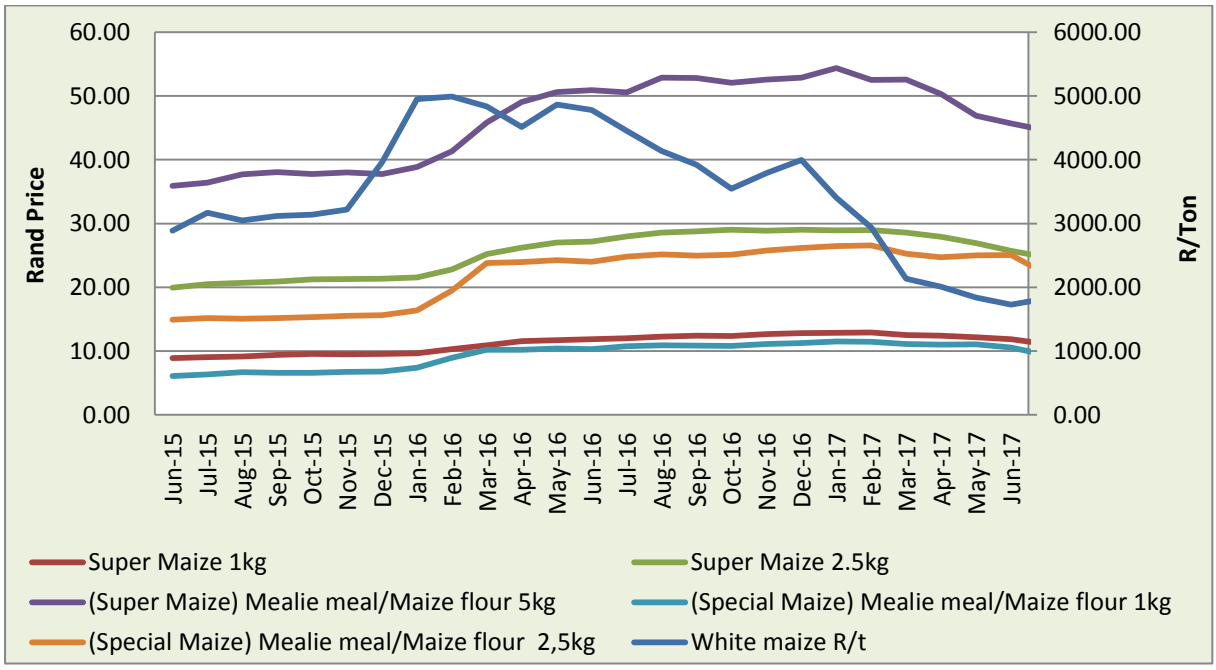

Figure 20: Retail prices vs white maize seed prices
Source: Safex/Stats SA

Figure 21 represents the supply and demand of white maize from 2015: Q2 to 2017: Q2. From the figure, it can be observed that producer deliveries skyrocketed in 2017: Q2 compared to the previous quarters. Producer deliveries in 2017: Q2 increased dramatically from 416 000 tons in 2017: Q1 to 4,8 million tons in 2017: Q2, which represent 1 064,82%. An increase in production is good news for the country since it will result in lower prices for maize and its by-products. Exports of white maize also increased in 2017: Q2, from 18% in the first quarter to 59,29% in 2017: Q2. However, maize surplus has declined for the fourth consecutive quarter since 2016: Q3. Maize surplus declined by 49% and 76,69% during the first and second quarter of 2017, respectively. Local demand for white maize rebounded by 25,45% in 2017: Q2 from a contraction of 2% growth in 2017: Q1.

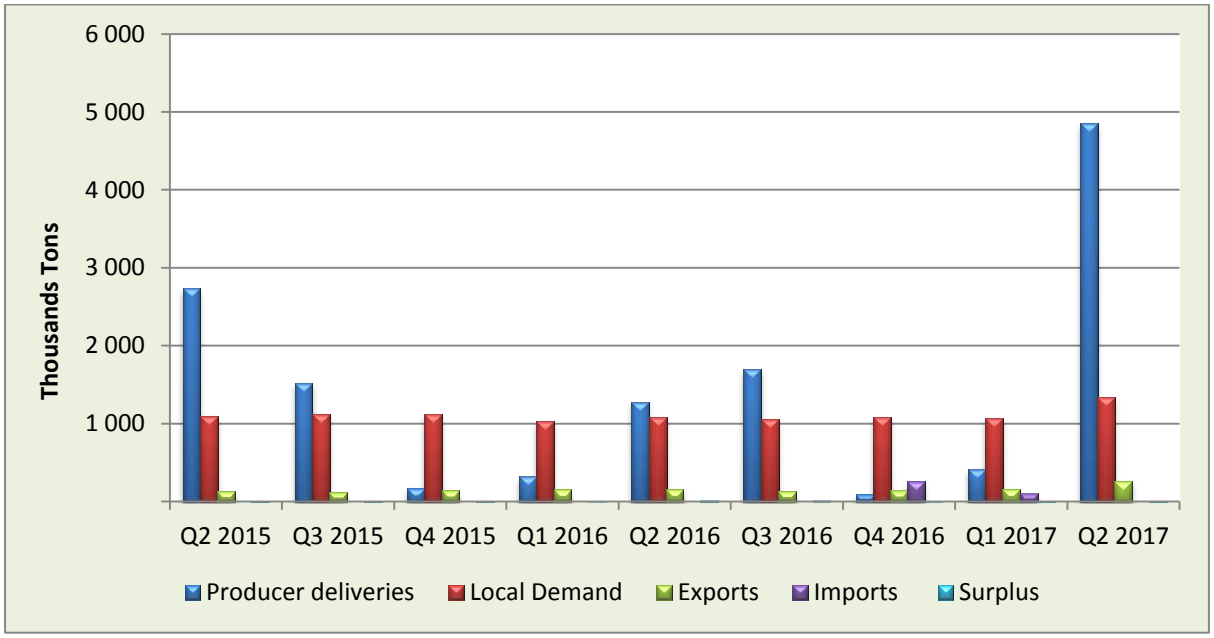

Figure 21: Supply and demand of white maize
Source: Sagis

Figure 22 shows the supply and demand of yellow maize from 2015: Q2 to 2017: Q2. Yellow maize data for 2017: Q2 indicated that producer deliveries increased significantly by 75,67%, from 213 000 tons in the first quarter to 3,9 million tons in 2017: Q2. Yellow maize in the country is mainly used for animal feed. South African livestock farmers will benefit directly from an increase in production. Consumers may also benefit from the lower meat prices as a result of lower feeding costs. Exports of yellow maize increased significantly by 155,47% in 2017: Q2 from a negative growth

of 24,43% in 2017: Q1. On the other hand, the local demand of yellow maize decelerated by 3,22% in the second quarter from a contraction of 6,61% in 2017: Q1.

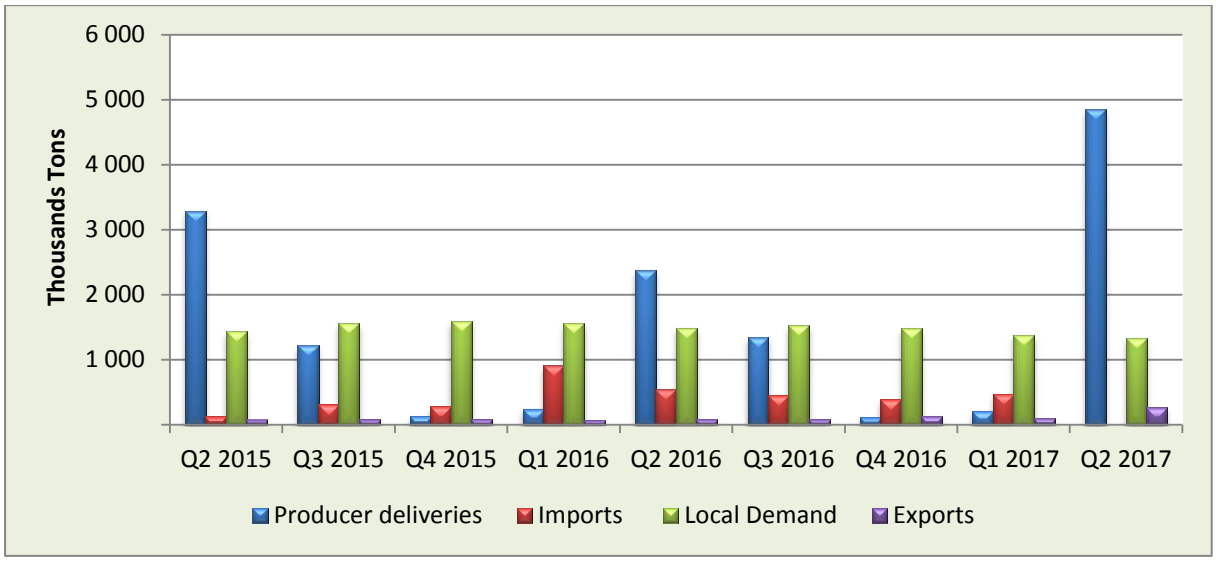

Figure 22: Supply and demand of yellow maize
Source: Sagis

3.1.2 Wheat

According to the USDA (2017), global production of wheat in 2017/18 is projected at 738 million tons, down by 15 million from the 2016/17 record, but still the second highest on record. Production among the major exporting countries is down a net 29 million tons. The projected gains in Argentina and the EU are not enough to offset declines in Australia, Canada, Kazakhstan, Russia, Ukraine and the United States; with EU forecasted to return as the world's largest exporter after last year's weather-stricken crop; however, this will limit the market share for the United States, which is expected to be the leading exporter in 2016/17. Global trade is projected above last year's record due to large carrying supplies and it is expected that competition for market share would intensify in 2017/18. On the other hand, changing diets in Bangladesh and Indonesia are expected to drive up demand. Wheat imports in the US went up by 200 000 tons to 3,5 million tons in June, while in SA imports also went up to 1,8 million tons based on a smaller expected crop. Wheat exports in Argentina increased by 500 000 tons to 11,5 million tons due to improved crop prospects; the EU exports went down by 500 000 tons to 30,5 million tons due to the smaller crop in Germany.

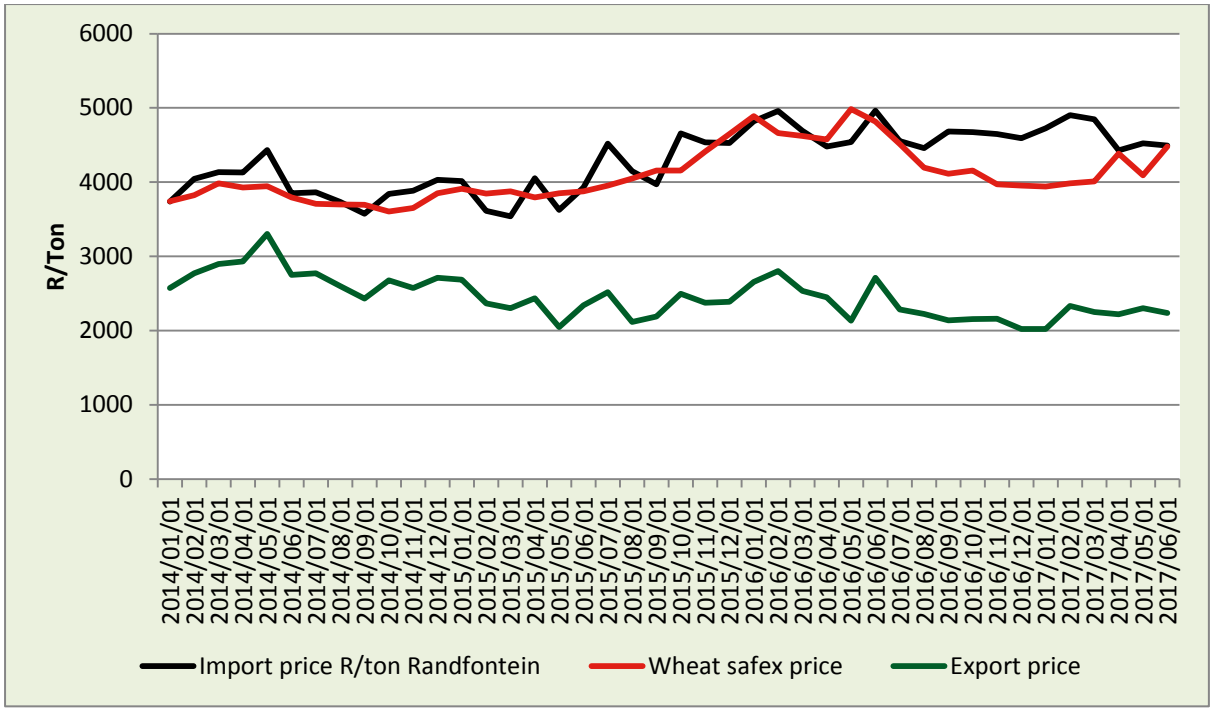

Figure 23: Wheat safex price, Export price and Import price
Source: Sagis/Safex

Figure 23 illustrates the Safex wheat prices, export price and import price from January 2014 to June 2017. In 2017: Q2, the rand was stronger compared to the dollar; however, the strong rand impacted negatively on import parity. As mentioned before, wheat is globally in ample supply and remains at record highs; therefore, favourable production and high carry out stocks keep international prices low but because South Africa is a very small player, it means South African wheat prices are determined by global market and as a result of that, domestic supply and demand factors have less effect on global prices. South Africa is not self-sufficient in the production of wheat, therefore, approximately 60% of our local consumption is imported. In 2017: Q2, the import price (R/ton), the price of wheat and export price all went up, but import price was selling above the Safex wheat price and export price.

As presented in Figure 25 below, when comparing 2016: Q2 with 2017: Q2, the price of bread rose by 4,99% and 4,90% for both 700 grams of brown and white bread, respectively; that is from R11,61 to R12,19 for brown bread and R12,31 to R13,41 for white bread. On the other hand, the price of brown bread (600 grams) also went up by 2,69% and cake flour and bread flour prices increased by 3,66% and 3,14%, respectively, as shown graphically in Figure 24 below. An increase in the bread

prices could have been attributed from the costs incurred by producers down the value chain; factors amongst others such as energy, transport costs, packaging and labour costs are the largest contributors in terms of costs within bread production and can contribute to the increase in bread processing.

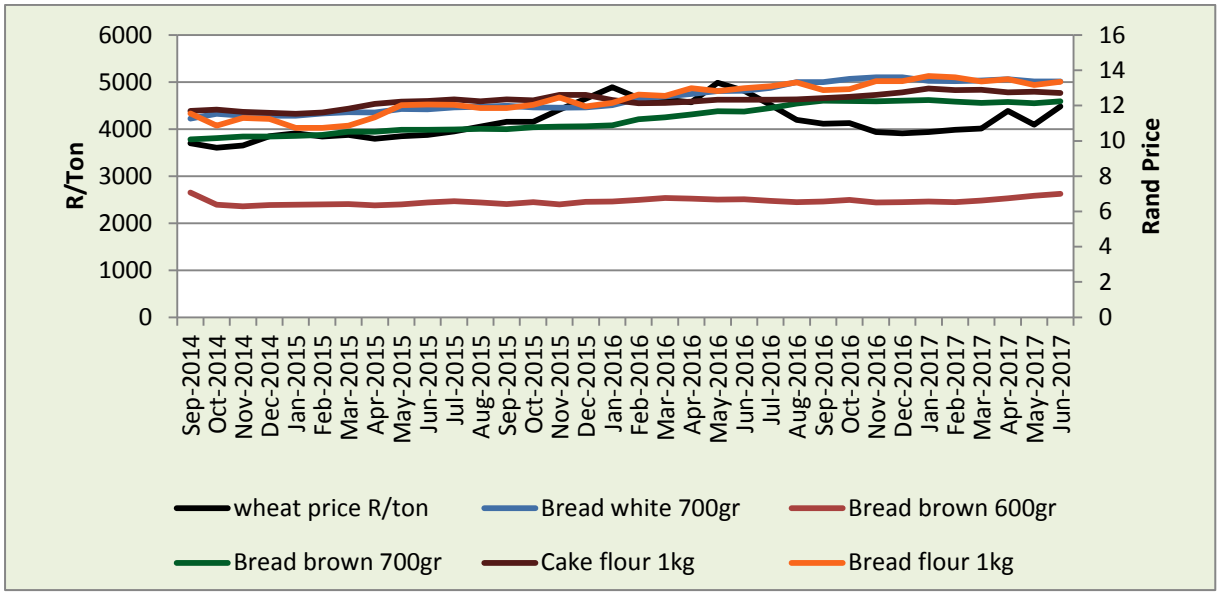

Figure 24: Retail bread price vs wheat import price
Source: Stats SA & Safex

According to USDA (2017), the current wheat market prospects paint a good picture in comparison to the previous season. With an increased export demand and overall good harvests, 2017 is off to a good start. In the Western Cape Province, which is one of the largest wheat producers in South Africa, the April-May rainfall were generally below the average. FAS/USDA (2017) said “wheat production area in the 2016/17 marketing year increased by 5% in South Africa, driven mainly by drought conditions in the summer grain producing area that led farmers to plant wheat instead of other crops. But with weather conditions expected to improve in 2017 to 2018, expectations are for wheat planting trends to return back to steady declines that have transpired over the past 20 years.” As illustrated in Figure 25, the producer deliveries of wheat in 2017: Q2 went up by 24,82% compared to the same quarter in 2016. On the other hand, SA wheat imports decreased by 195 679 tons in 2017: Q2, while local demand increased by 0,09% and exports increased by 34 731 tons compared to 2016: Q2.

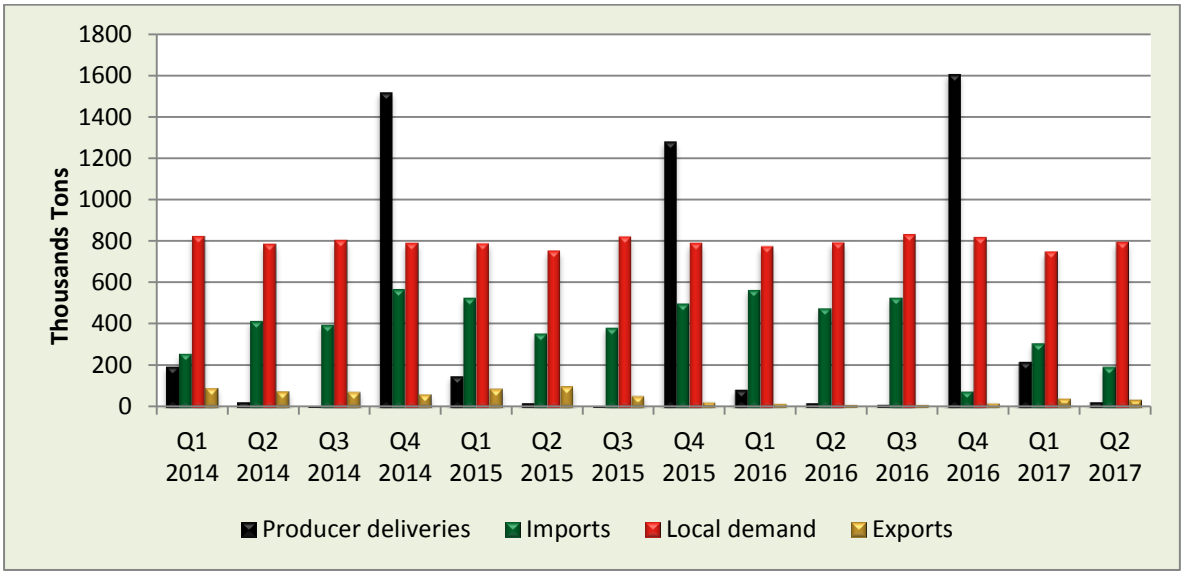

Figure 25: Wheat deliveries, Imports, Exports and local demand
Source: Stats SA & Safex

3.1.3 Soya beans

The price of soya beans continued their downward trend in 2017. Prices decreased by 28% year-on-year and by 17% quarter-on-quarter basis. The decline in local prices is due to the 77% rebound in soya beans production after poor drought-induced production in 2016. Again, international prices are trending lower as AMIS Market Monitor estimates world soya beans production to be at near record levels for 2017/18. World production was raised by 5,2 million tons following upward revisions for Brazil and the US. The South African soya beans price is currently trading below the import price at Randfontein; although international prices are trending downward, some of the reasons for the local price trending below the import prices are the rise in discharging costs and transport costs, see Figure 26.

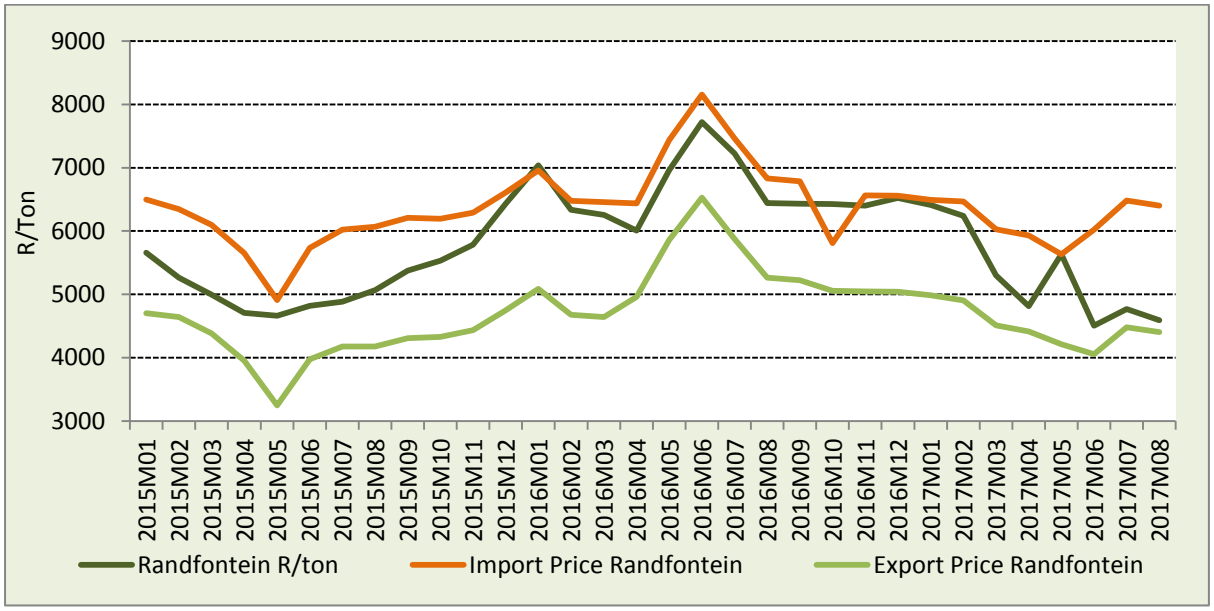

Figure 26: Soya beans local price vs Import Price
Source: Safex/Sagis/USDA/World Bank

The rise in local production is expected to lead to imports declining by 95% and exports are expected to rise by 300%. Local consumption is expected to rise as well, boosted by the declining prices as shown in Table 1 below.

Table 1: Soya bean projections for 2017

	2011	2012	2013	2014	2015	2016	2017
Beginning Stock	46200	225800	68639	61806	63704	89128	84792
Production	710000	650000	784500	948000	1 070 000	742 000	1 316 370
Imports	1539	976	4489	103704	124981	271098	15000
Total Supply	757739	876776	857628	1113510	1 258 685	1102226	1 416 162
Local Consumption	484739	655278	780432	1049230	1164880	1010689	1163800
Exports	47200	152616	15390	576	4677	6745	30000
Closing Stocks	225800	68882	61806	63704	89128	84792	222362
Total Demand	757739	876776	857628	1113510	1258685	1102226	1193800

Source: DAFF/ NAMC/Sagis

3.1.4 Sunflower

ABSA Agribusiness trend report (5 June 2017) highlighted that the production of the seed oil is expected to reduce by nearly $50 in 2017/18, because of the expected growth in palm oil and sunflower oil. The previous season's weather conditions caused the occurrence of Sclerotinia and Alternaria in sunflowers, resulting in average yields in growing regions. On 2 June 2017, sunflower seed prices (July 2017) decreased week on week by $1 from R4 680/ton to R4 632/ton. The price of sunflower seed has decreased by 8,1% during 2017: Q2 as compared to the same period last year, which is 9% lower than it was in the previous quarter of 2017.

The local sunflower seed price in 2017: Q2 traded at 21,8%, lower than the import price compared to trading at 17,8% below the import price in 2017: Q1. The prices of sunflower oil 2L in 2017: Q2 traded lower by 11,2%, while the price of sunflower 750ml in 2017: Q2 traded 1,9% lower as compared to the same period in 2016 (Q2). The price of sunflower oil 2L in 2017: Q2 decreased by 8,4%, while the price of sunflower oil 750ml in 2017: Q2 declined by 1,3% as compared to 2017: Q1, see Figure 27.

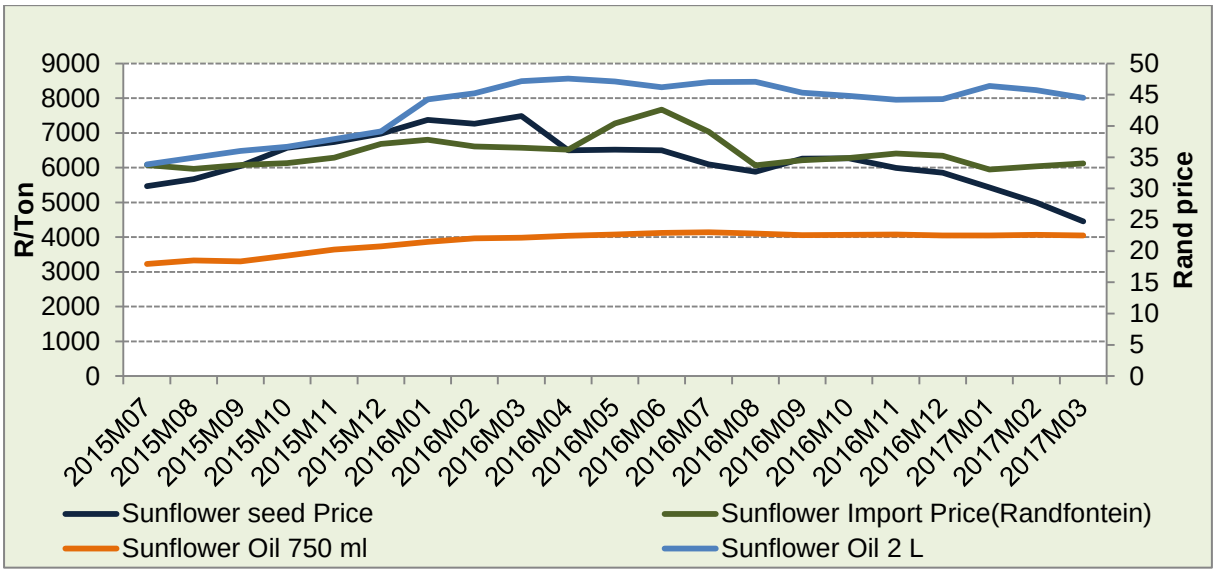

Figure 27: Sunflower local seed; import price (Randfontein) and Sunflower retail price
Source: Safex; USDA; Sagis; and Own calculations

According to Agribusiness Chamber (Agbiz) highlights on the agricultural commodity market, the CEC left the sunflower seed production estimate unchanged from the previous one – at 853 470 tons, which is 13% higher than the previous season.

Harvest is underway in many parts of the country, with yields reported at levels of 1,4 tons per hectare in certain areas of North West Province, which is relatively above South Africa's average sunflower seed yield of 1,2 tons per hectare. If this production forecast materialises, South Africa might not need any sunflower seed imports this season, which will be a notable improvement from the 2016/17 season's imports of 70 643 tons. The country could be a net exporter of 200 tons. South Africa exported 7 tons of sunflower seed to Botswana in April 2017. This brought South Africa's 2017/18 sunflower seed exports to 50 tons. About 70% went to Swaziland, 16% to Namibia and 14% to Botswana. South Africa's sunflower seed consumption (crushed oil and cake) dropped by 39% in April 2017 to 37 309 tons, with most crushers/processors favouring soya beans due to improved profitability.

Also worth noting is that South Africa's sunflower seed ending stocks were recorded at 339 464 tons in April 2017, up by 48% from the previous month and up four-fold from the corresponding period last year (April 2016) due to a large crop.

Producer deliveries in 2017: Q2 (Q2) increased with a greater margin by 374,9% as compared to the previous quarter of 2017 (Q1), while also sunflower seed imports decreased by 99,2% in the same quarter. Local sunflower seed consumption in 2017: Q2 was 20,4% lower than it was in the previous quarter of 2017 (Q1). Taking note of the fact that in May 2017 the report of the Crop Estimates Committee (CEC) maintain the production forecast for sunflower seed unchanged at 853 470 tons and the area estimate for sunflower seed is 635 750 ha, while the expected yield is 1,34 t/ha. Local consumption in 2017: Q2 is expected to be 3,1% higher than it was in the same quarter of 2016 (Q2), see Figure 28.

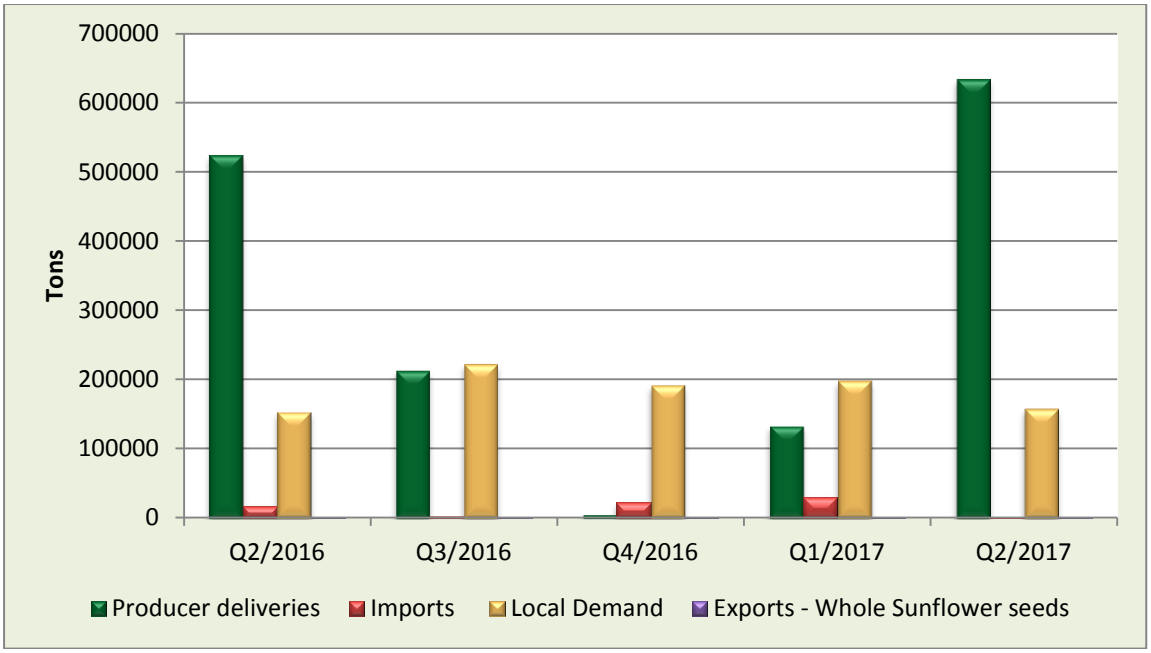

Figure 28: Sunflower seed deliveries; local demand and trade
Source: Sagis

3.1.5 Sorghum

The price of local sorghum shown in Figure 29 has come down from their highs since June 2015. In 2017: Q2, the prices were 22% lower on a quarter-on-quarter basis; while compared to the previous quarter, prices were 17% lower. Sorghum prices are currently trading below the import price. The price of local sorghum has come down as the tons expected in 2017 are expected to be 115% higher than the tons produced in 2016, from 70 000 tons to 151 335 tons as shown in Table 2 below.

Other contributing factors to the rise in the sorghum import price are the rise in international prices as the world sorghum outlook is expected to be 3% lower in 2017/18 than it was in 2016/17. Also, the rise in local port and transport charges in May 2017 pushed up the price of imports.

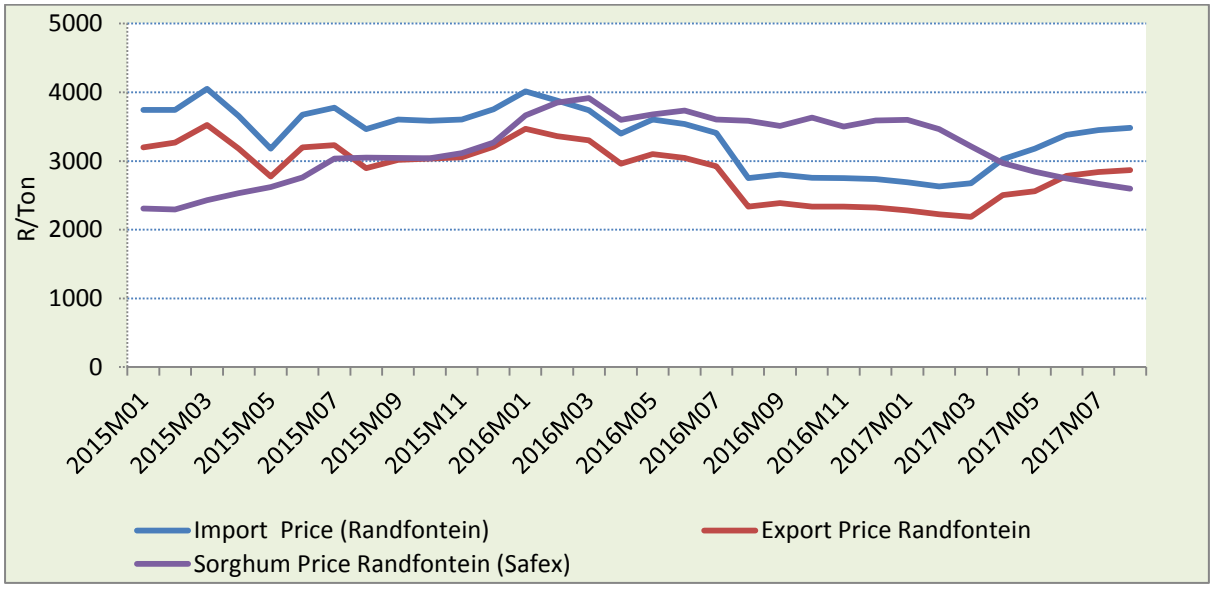

Figure 29: Sorghum Parity Price
Source: Safex, Sagis

As shown in Table 2, imports are expected to decline by 20% and exports are expected to rise by 50%. Local consumption is expected to rise slightly by a percentage point compared to last year.

Table 2: Production & Use Table

	2011	2012	2013	2014	2015	2016	2017
Production	155 000	135 500	147 200	265 000	120 500	70 500	151 335
Imports	57 800	54 800	50 033	8 725	34 316	74 957	60 000
Total Supply	286 200	252 800	253 233	323 794	276 628	228 599	246 573
Local Consumption	203 500	175 000	178 890	167 342	165 532	178 790	180 550
Exports	24 800	19 000	19 550	26 169	29 039	12 649	19 000
Ending Stocks	62 500	56 000	50 069	121 812	83 142	35 238	44 523

Source: DAFF/ NAMC/Sagis

3.1.6 Groundnuts

Though groundnut production experienced hard times due to the drought, farmers showed keen interest in planting in the 2016/17 production season with 56 000 hectares planted this season compared to 22 600 planted during the 2015/16 season, an increase of 168% in hectares planted. According to the Crop Estimate Committee, new projections of groundnut production indicate that about 90 550 tons

is expected this season compared with a mere 18 850 tons harvested during the 2015/16 production season. The chairperson of the South African Groundnut Forum (SAGF) believes that with stable and adequate supply, the groundnut market will be regained again since South African exporters are renowned for quality and reliability under normal circumstances, see Figure 30.

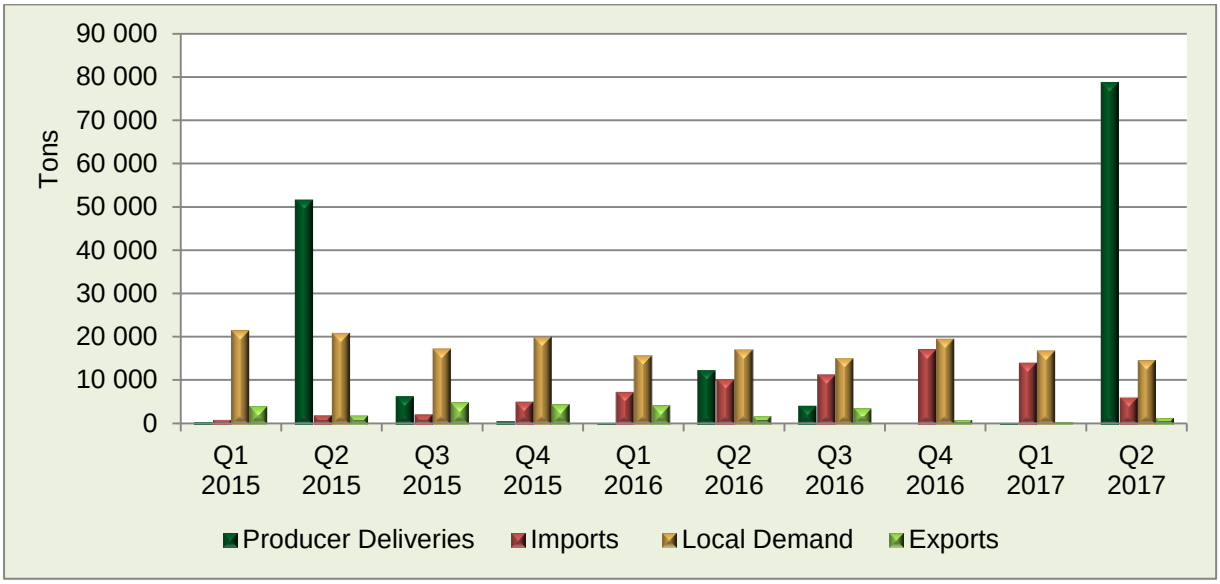

Figure 30: Supply and demand of Groundnuts
Source: Sagis

Producer deliveries of groundnut increased considerably in 2017: Q2, from 12 589 tons in 2016: Q2 to 78 863 tons in 2017: Q2, an increase of 526% in producer deliveries. Climatic conditions remain favourable with groundnut production expected to improve this season. Local demand of groundnuts is not easy, especially since groundnuts cannot be planted late. With rain arriving late each year, some producers have opted for maize instead.

In 2017: Q2, local demand for groundnut decreased by 14%, from 17 120 tons in 2016: Q2 to 14 677 tons in 2017: Q2. In South Africa, production of groundnuts is usually higher than consumption and therefore in an average year, around a quarter of the groundnut crop is exported. In 2017: Q2, exports of groundnuts decreased by 21%, from 1 946 tons in 2016: Q2 to 1 528 tons in 2017: Q2. Despite the decrease in supply, which negatively affected the export market, South Africa still exports to countries such as Japan and Europe, with a focus on the higher-income sectors of

these countries. Furthermore, the South African Groundnut Forum is very optimistic about the export market.

Imports of groundnuts decreased by 40% in 2017: Q2, from 10 384 tons in 2016: Q2 to 6 247 tons in 2017: Q2. Groundnut production is expected to improve this season, however, South Africa is still lacking behind compared to major groundnut exporting countries on cultivar development. Consequently, there is not enough seed available to supply the total demand. According to the South African Groundnut Forum (SAGF), South African groundnut producers can earn a healthy premium from locally produced groundnut if local production can be stimulated to levels where it meets local demand.

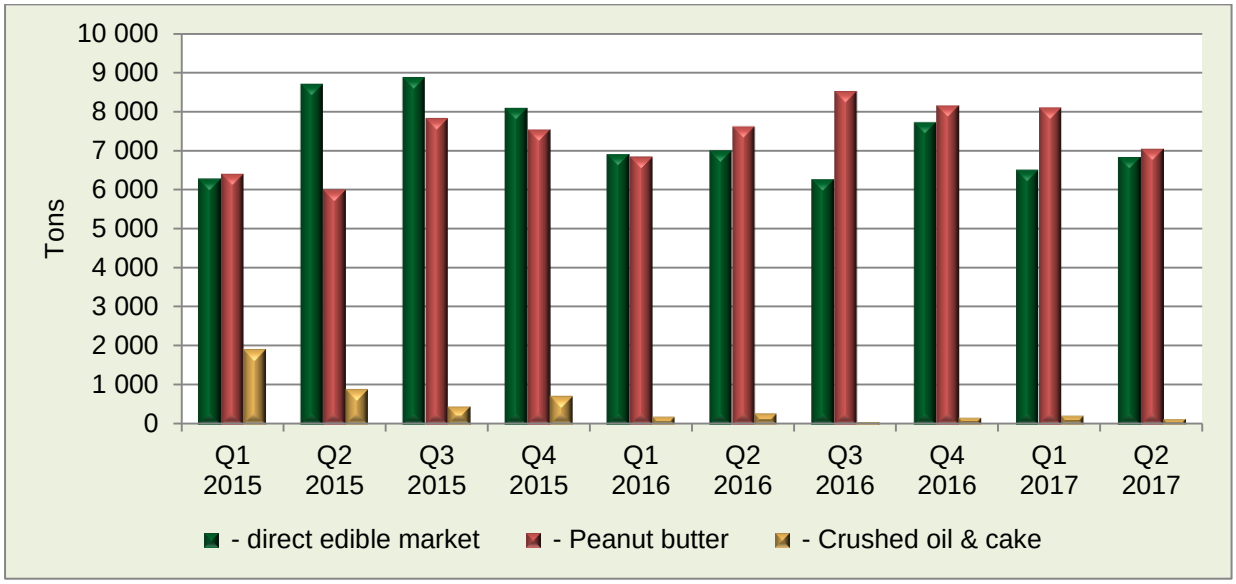

Figure 31: Groundnuts consumption
Source: Sagis

Consumption levels in the edible groundnut market remained volatile over the period 2015: Q1 and 2017: Q2, decreasing by 2% in 2017: Q2, from 7 007 tons in 2016: Q2 to 6 832 tons in 2017: Q2. The local consumption requirements for groundnuts is around 63 000 tons per year, of which 37% of this is consumed as peanuts. The rest is processed into peanut butter, oil and other products. Consumption levels of peanut butter remained volatile between 2015: Q1 and 2017: Q2, but peaked in 2016: Q3. In 2017: Q2, consumptions levels of groundnuts decreased by 8%, from 7 634 tons in

2016: Q2 to 7 052 tons in 2017: Q2. Over the same period, consumption levels of crushed oil and cake has been decreasing over time, decreasing by 49% in 2017: Q2, from 288 tons in 2016: Q2 to 144 tons in 2017: Q2. The crushing of groundnuts results in approximately equal amounts of oil and oil-cake. The oil-cake obtained from crushing is used in peanut butter, prepared baby food and animal feedstuff. Figure 32 shows retail prices of oilseed products between January 2015 and June 2017.

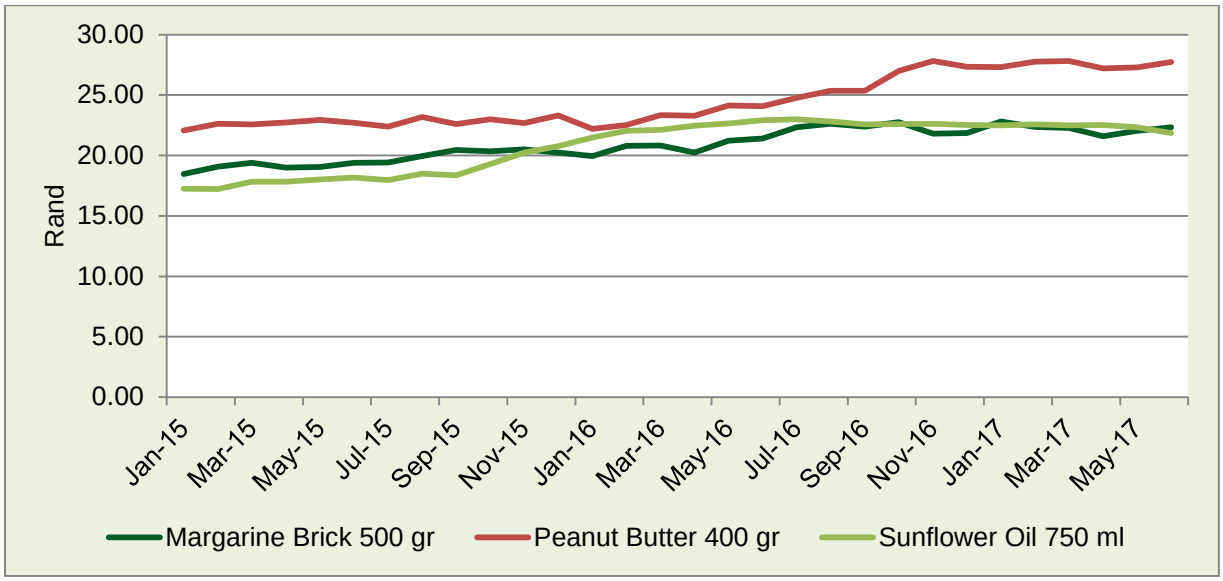

Figure 32: Oilseed products
Source: Stats SA

Between January 2015 and June 2017, market prices for peanut butter remained volatile but displayed an increasing trend over the period. In November 2016 and March 2017, market prices of 400 gram peanut butter peaked at R27,82 and decreased to R27,74 per 400 gram in June 2017. On a quarterly basis, the average price per 400 gram peanut butter decreased by 2% in 2017: Q2, from R22,68 in 2016: Q2 to R22,24 in 2017: Q2. South Africa's peanut market might need to rely on imports which could reach about 30 000 tons in the 2016/17 season, which is double the volume imported last season and a record import level stretching as far back as 1998. Prices have reacted to this shortfall and analysts expect that they will remain supported in the near future.

3.1.7 Dry beans

Figure 33 shows value of exports has exceeded the value of dry bean imports for the first time in many quarters. The top three destinations for the South African dry beans (0713- Dried leguminous vegetables, shelled, whether or not skinned or split) in 2017: Q2 are the United Arab Emirates, Lesotho and Turkey, representating 23%, 17% and 15% of the world market share, respectively. South Africa's top three main suppliers (imports) of dry beans in 2017: Q2 are from Canada, Ethopia and China, representing 12,4%, 12% and 11%, respectively, of the market share. The Dry Bean Producer Organisation recently adopted an electronic internet system which is simpler than a paper system for trading dry beans. The system is known as Beanex. Beanex acts as a reliable brokerage in the interest of both dry bean producers and buyers. Producers benefit from Beanex because of guaranteed payments. Buyers benefit because of the quality assurance that Beanex brings.

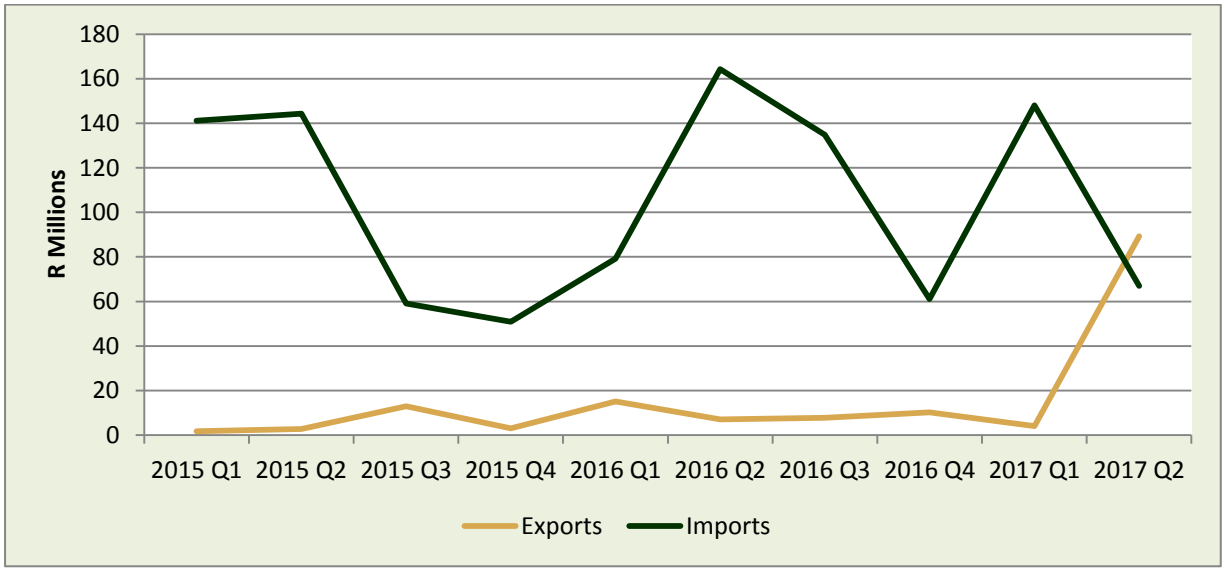

Figure 33 : SA Imports & Exports of Dry beans

Source : ITC

3.2 Fruit and vegetable market review

This section looks at the average prices and quantities of fruit and vegetables supplied at the fresh produce markets (FPMs) between 2016: Q2 and 2017: Q2. The focus of this report in terms of fruit is apples, avocados, bananas, oranges, pears and mangoes. The following vegetables will be reviewed, carrots, onions, potatoes, tomatoes and cabbage. This report is of significant importance because fruit and

vegetables provide abundant, affordable sources of fibre, several vitamins and minerals and play a crucial part in economic development of the country as whole.

Due to poor rainfall and extremely low dam levels, as well as a hot and dry summer season, our need to continuously save water has increased. The Western Cape Province has put level 5 water restrictions which include, amongst others, no hosing down of paved surfaces, no irrigation/watering and no washing of vehicles and boats with municipal water. Meanwhile, the collective fresh produce industry will continue to be affected by the drought if large quantities of substantial rain are not received in the coming months. Fruit and vegetables shortages and higher prices are expected in the next coming months.

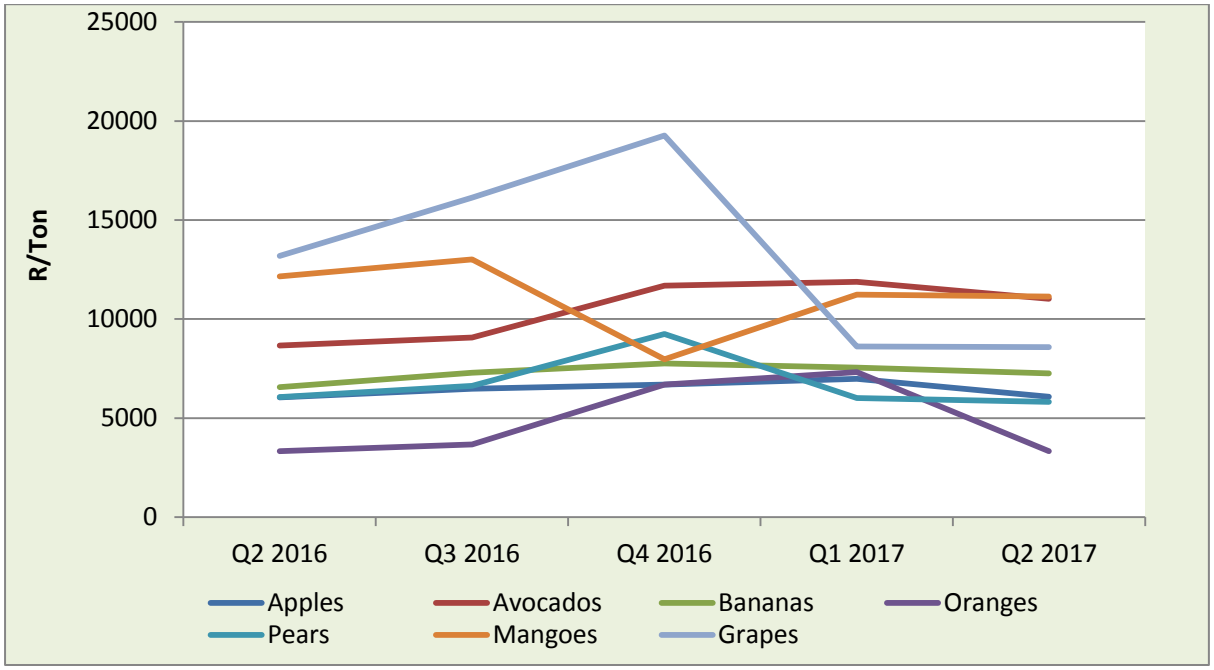

Figure 34: Average price trends of various fruits traded at Fresh Produce Markets (FPMs)
Source: Daff

Figure 34 illustrates the average prices of various fruit traded at fresh produce markets. The average prices of apples, avocados and bananas increased by 27%, 10% and 2%, respectively in 2017: Q2 compared to 2016: Q2. The average quarterly price of oranges remains unchanged between 2016: Q2 and 2017. There was a reduction of 8% in the average price of pears, from R12 164/ton in 2016: Q2 to R11 141/ton in 2017: Q2. The average prices of mangoes also decreased by 29%, from R13 196/ton in 2016: Q2 to R8 587/ton in 2017: Q2.

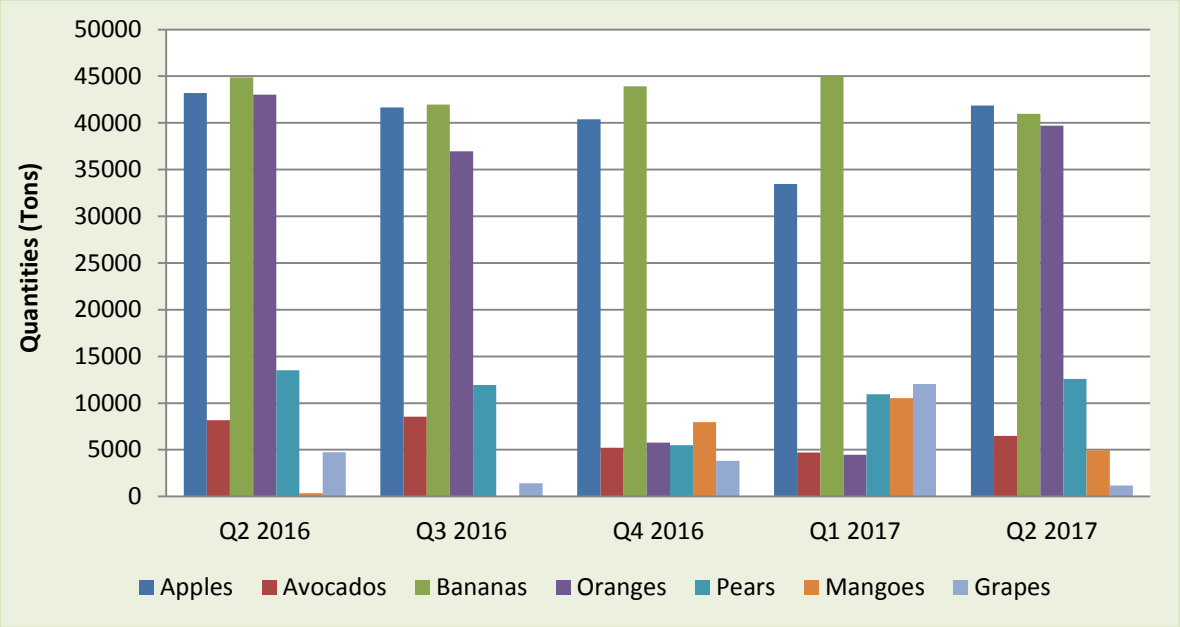

Figure 35: Quantities of various fruits traded at Fresh Produce Markets (FPMs)
Source: Daff

Figure 35 above indicates the various quantities of fruit traded at fresh produce markets within the depicted period. Supplies of most fruit have dropped with less fruit available across fresh produce markets due to non-consistent monitoring of any developments that may provide more clarity on the current expectations for the coming seasons. There has been a decrease in the supply of apples by 3%, oranges by 8%, 9% for bananas, 7% for pears, 20% for avocados and a major decrease of 75% for grapes in comparison with the same period last year. South Africa's quantities traded for mangoes improved, from R352/ton to R4 938/ton in 2017: Q2 as compared to 2016: Q2.

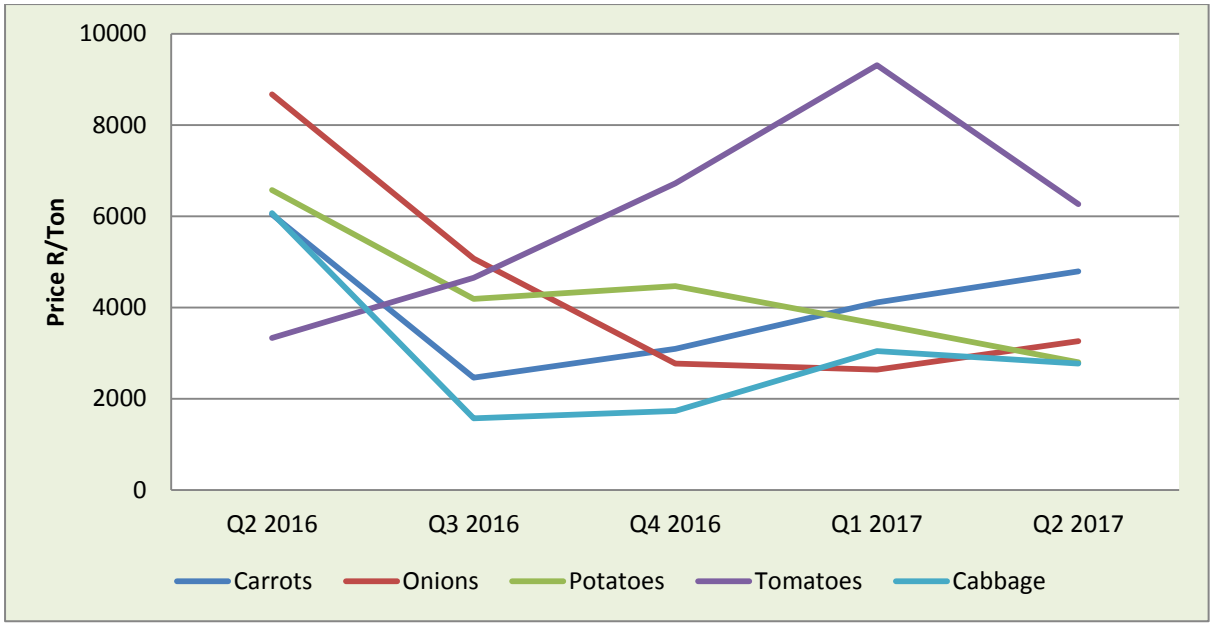

Figure 36: Average prices of various vegetables traded at Fresh Produce Markets (FPMs)
Source: Daff

Between 2016: Q2 and 2017: Q2, there has been a decline in the average price of most of the various vegetables traded at the fresh produce markets as illustrated by Figure 36 above. The average prices of carrots, onions, potatoes and cabbage declined by 21%, 62%, 57% and 54%, respectively, where else the price of tomatoes increased by a major 88% in comparison with the prices in 2016.

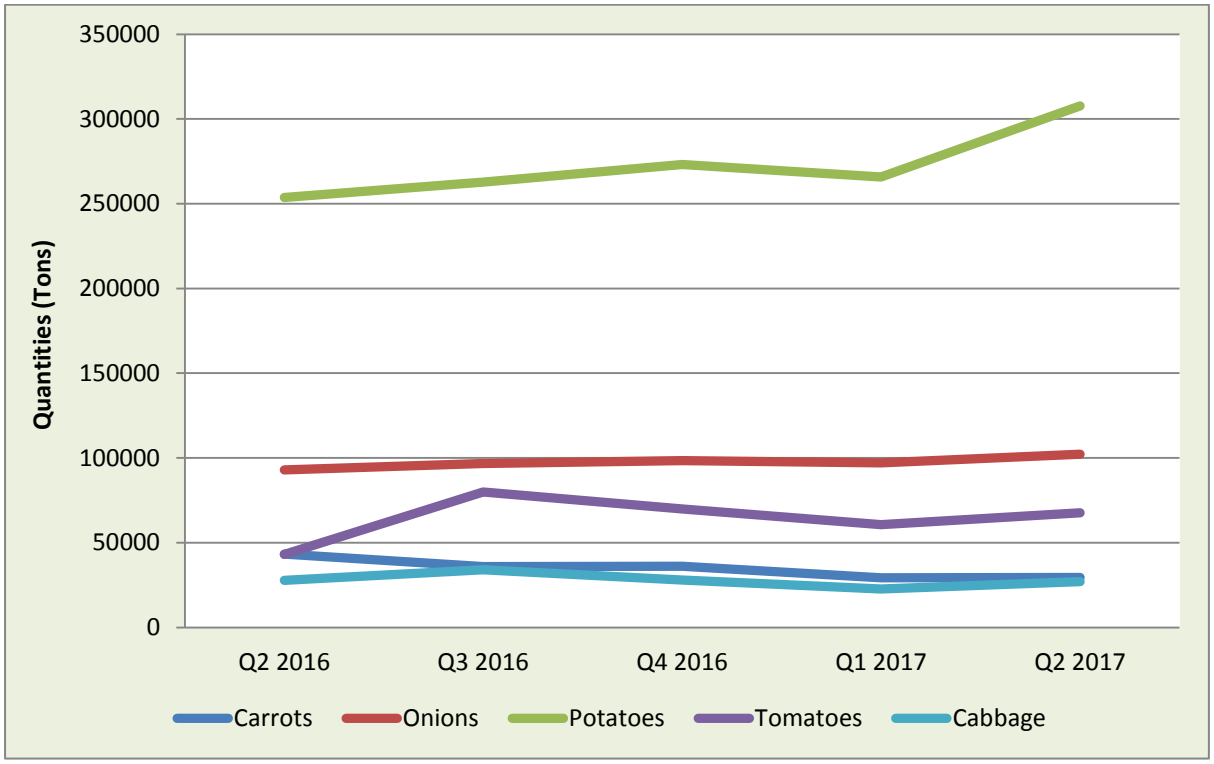

Figure 37: Quantities of various vegetables traded at Fresh Produce Markets (FPMs)
Source: Daff

Figure 37 indicates the quantities of various vegetables traded at fresh produce markets in South Africa. Due to reduced planting and water restrictions, marketable produce was affected while both fruit and vegetable volumes were severely affected by the drought. Between 2016: Q2 and 2017: Q2, quantities of vegetables decreased by 32% and 2% for both carrots and cabbage, respectively. The quantities of onions and potatoes traded increased by 10% and 21%, respectively. Moreover, the quantities of tomatoes sold at fresh produce markets increased by 57% as compared to 2016: Q2.

3.3 Meat industry review

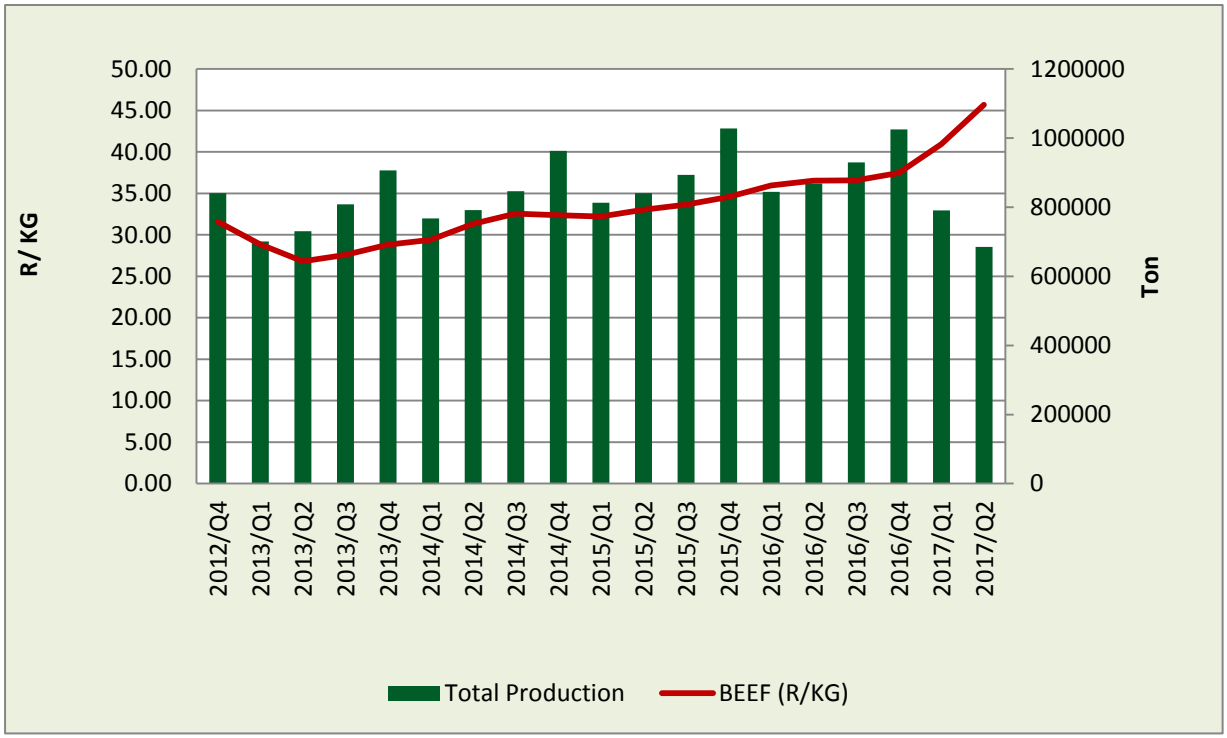

Figure 38: Beef production
Source: Daff

The US Department of Agriculture released its World Agricultural Supply and Demand Estimate Report (WASDE) on 09 June 2017; beef production forecast was lower to approximately 50 million tons (100.1 billion lb) due to sharply lower carcass weights. Alternatively, beef exports are projected to increase by about 7% year-on-year with Brazil, India, Australia and the US as the top four exporting countries projected to account for 73% of those total exports, while beef imports are projected to decline by about 12%. New Zealand and South Africa, amongst other countries, are experiencing reduced production and herd rebuilding, which is expected to restrict total beef exports in 2017, but New Zealand is working on expanding its market share in China with a new agreement that allows for chilled beef exports in addition to frozen beef exports to China.

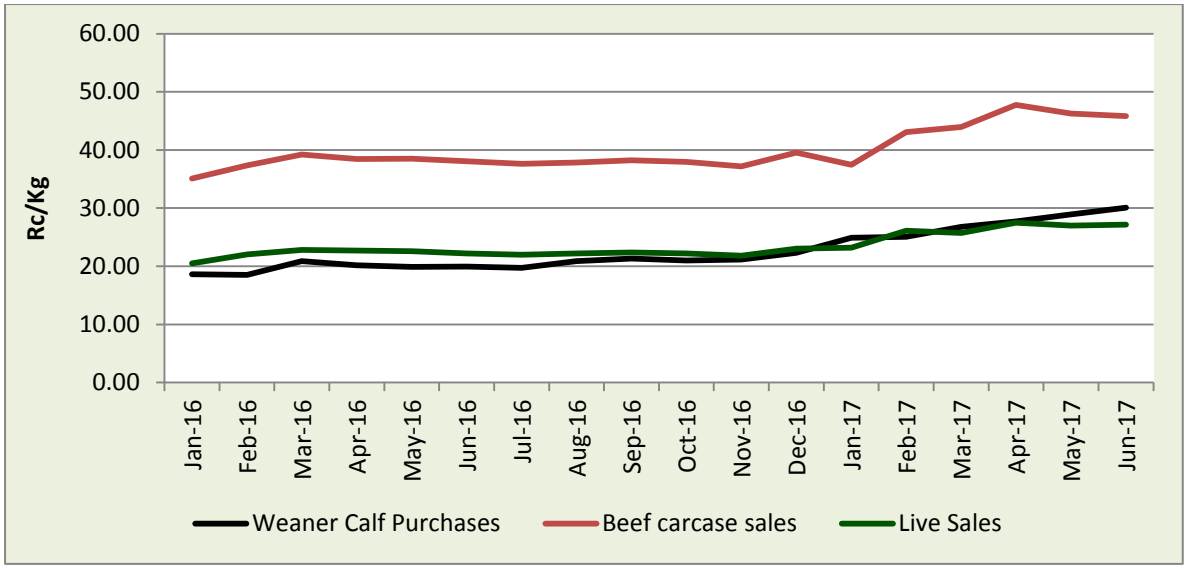

Figure 39: SA weaner calf purchases, beef carcase sales and live sales
Source: SA feedlot

Figure 39 represents total number of beef slaughtered and their rands and cents per value. As shown graphically above, from January 2016 up to June 2017, the number of beef slaughtered has been volatile. Compared to 2016: Q1, total beef slaughtering declined by 21,1% in 2017: Q2 and it is expected that slaughtering will continue to decline until 2018, as herd rebuilding continues to recover after good rains and improved grazing conditions, but meat prices could remain high throughout and beyond 2017; this comes after slaughtering rates doubled in 2016. South African beef prices have experienced a significant increase in the first quarter and 2017: Q2. In 2017: Q2, as shown in Figure 39, weaner calf purchases, beef carcase sales and live sales increased by 44,6%, 21,6% and 20,8%, respectively, compared to the same quarter in 2016. Looking ahead, weaner calf prices are expected to increase substantially as producers are rebuilding herds supported by lower maize prices and improved feedlot margins support growing demand for calves.

3.4 Poultry industry review

Poultry production in the second quarter of 2017 has increased by 4% on a quarter-on-quarter basis, while on a year-on-year basis, production has increased by 3%. Production is expected to decline in the second quarter due to the reduction of animals as a result of the avian influenza. According to SAPA, ird flu is estimated to cost the Western Cape poultry industry at least R800 million in immediate production losses. Two million birds have been culled in the province since the outbreak in

June. Thirty-six cases have been confirmed across the Western Cape. The total number of poultry killed as a measure to contain the outbreak will be finalised in the next coming quarter.

The poultry price per ton has declined by 1,4% on a quarter-on-quarter basis, while on a year-on-year basis, prices are 21% higher, as shown in Figure 40.

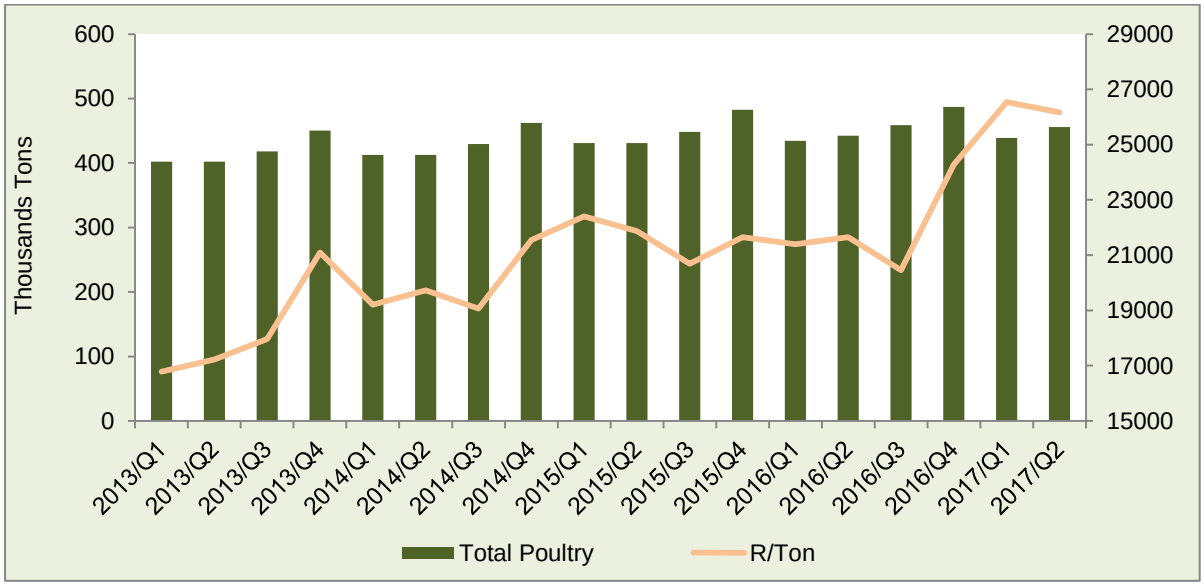

Figure 40: Poultry Production
Source: DAFF

The price of yellow maize as a proxy for broiler feed prices has decreased by 37% on year-on-year basis, while on a quarter-on-quarter basis; the price has decreased by 28%. The retail prices for whole chicken and chicken portions are also beginning to stabilise as shown in Figure 40 due to the eased feed prices. Although other effects like the avian influenza is expected to affect profitability in the sector.

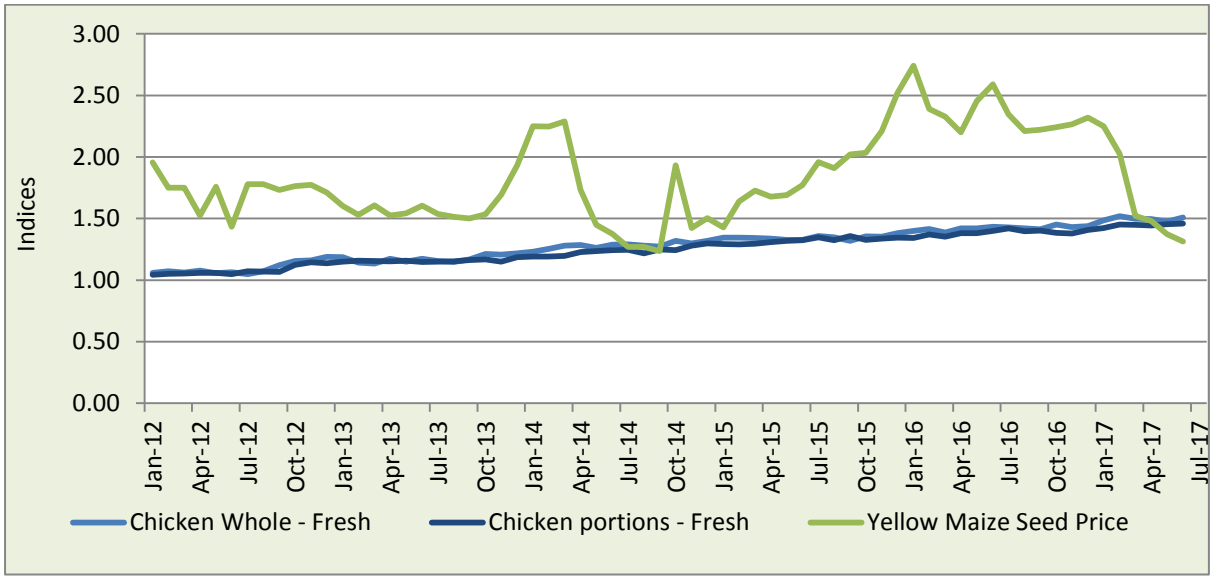

Figure 41: Poultry feed vs Retail prices
Source: SAPA, STATTSA & Safex

Various strains of the virus have spread globally over the past two years, creating concerns among scientists about the next pandemic. The poultry industry worldwide faces another year of trade disruptions and challenges as 2017 continues. Locally, despite speculation on the media, the market has not reacted negatively to the outbreak. Early indications show that poultry sales remained healthy. According to SAPA (2017), the strain of the virus in South Africa is not dangerous to humans and due to vigorous checks, it is unlikely that chickens already on shelves would be infected.

Meanwhile, countries such as Namibia, Botswana, Zimbabwe, Mozambique and Zambia have all halted imports of poultry products from South Africa. The local poultry industry fears that this ban could further hurt the struggling local poultry sector, which has shed hundreds of jobs in the past months due to cheap imports from the EU. According to SAPA (2017), if the bird flu spread, it can have a major impact on availability and pricing of poultry products in the local market.

In 2017: Q2, the total production of eggs totalled at 188,2 million dozen, a 2,8% decrease in production compared to 193,6 million dozen produced in 2016: Q2, see Figure 42. On a quarterly basis, the total production of eggs in 2017: Q2 increased by 0,6%, from 187 million tons in 2017: Q1 to 188,2 million tons in 2017: Q2. Local

demand for eggs improved slightly in 2017: Q2 compared with 2017: Q1 as farmers attempt to increase production to meet local demand. Eggs remain the cheapest and most complete form of animal protein due to its increasing popularity of high protein/high fat diets which has fuelled a resurgence in the consumption of eggs elsewhere in the world. Furthermore, as competing protein sources have increased in price, there has been a migration to the consumption of eggs, exacerbating the increase in demand.

The average price per dozen of eggs increased by 3,7% in 2017: Q2, from R11,89 per dozen in 2016: Q2 to R12,33 per dozen in 2017: Q2. On a quarterly basis, the average price per dozen of eggs increased by 1,8%, from R12,11 per dozen in 2017: Q1 to R12,33 per dozen in 2017: Q2. In the meantime, the South African Poultry Association has warned consumers to brace themselves for an increase in the price of eggs for 2017. According to SAPA, the past year was a difficult year for most egg producers in the country as local farmers saw the feed price increase by a minimum of R1 000 per ton between January and August 2016 due to the drought. Consequently, farmers struggled to cope with high feed prices and low market prices for eggs. Farmers were unable to recover any losses suffered as a result of increases in the price of feed. This has resulted in many small-scale farmers exiting, especially those with 5 000 and 40 000 capacity. Moreover, there has been a shortage of eggs in the market. Consumers can therefore expect an increase in egg prices. Indications are that prices will likely increase on average between 7% to 8% and this scenario will likely persist while farmers attempt to increase production to meet the market demand.

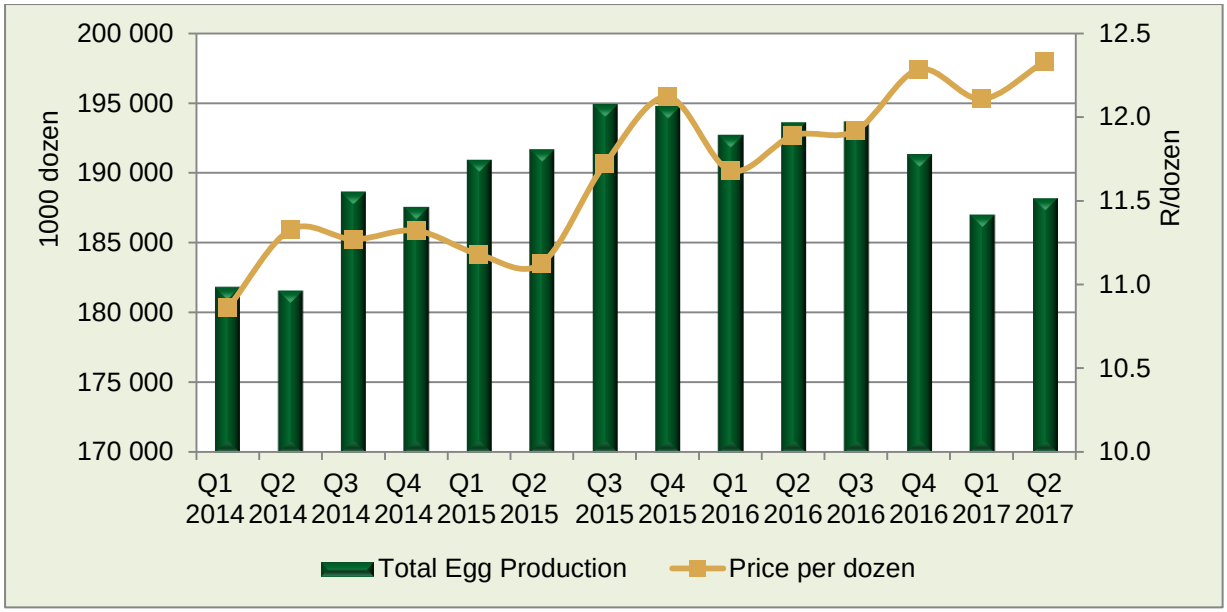

Figure 42: Trends in total egg production and average price per dozen of eggs.
Source: DAFF

South Africa remains a net exporter of bird eggs (in shell, fresh, preserved or cooked) between 2014: Q1 and 2017: Q2 as exports exceed imports in most of the quarters. In 2017: Q2, South Africa exported a total of 3 925,6 tons of birds eggs, 9% more than 3 600,2 tons exported in 2016: Q2. On a quarterly basis, South Africa's exports of bird eggs increased by 13% in 2017: Q2, from 3 472.7,tons in 2017: Q1 to 3 925.6 tons in 2017: Q2. Prospects for South African egg producers look brighter in 2017 while good rains in the maize growing areas will likely support a bumper harvest this season. Additionally, while global soya bean prices remain under pressure, animal feed cost is expected to drop gradually from last year's highs.

Meanwhile, imports of bird eggs (in shell, fresh, preserved or cooked) have been volatile, however, it displayed a downward trend between 2014: Q1 and 2017: Q2. In 2017: Q2, South Africa's imports of bird eggs decreased by 98%, from 0,07 tons in 2016: Q2 to 0,001 tons in 2017: Q2. Between 2017: Q1 and 2017: Q2, imports of bird eggs decreased 100%, from 0,71 tons in 2017: Q1 to 0,001 tons in 2017: Q2. SAPA believes that local egg producers will likely have an easier 2017 and have the potential to increase domestic consumption and production drastically. It's important though to note that egg producers still face challenges as 2017 continues.

Figure 43: Trends in imports and exports of Birds' Eggs, In Shell, Fresh, Preserved Or Cooked
Source: GTA, 2017

3.5 Milk industry overview

Total milk production in 2017: Q2 came in 2,4% higher than in 2016: Q2, increasing from 771,48 million litres in 2016: Q2 to 790,1 million litres in 2017: Q2. More favourable grain prices are expected in 2017, which may result in faster production growth after winter.

Furthermore, it's important to note that milk production is determined by a combination of factors such as biological, environmental and economic factors, therefore, milk production does not react directly to changes in prices (MPO, 2017).

The average producer price per litre of milk increased by 7,5% in 2017: Q2, from R4,51/ℓ in 2016: Q2 to R4,85/ℓ in 2017: Q2. Producer price increases were announced from February 2016 onwards while some major milk processors announced price increases from February 2017 and will again announce from June/July 2017 (MPO, 2017).

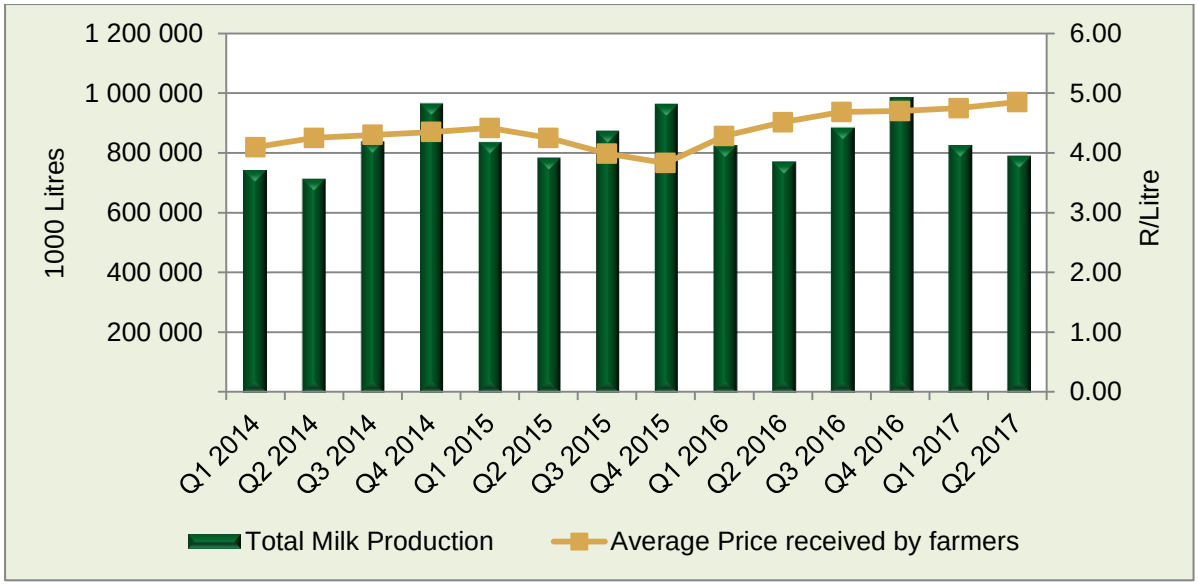

Figure 44: Trends in total production and average price of milk
Source: DAFF

Exports of milk and cream (not concentrated nor containing added sweetening) were 20% less in 2017: Q2, compared with the second quarter of 2016: Q2, exporting a total of 16,77 million litres of milk and cream in 2017: Q2, compared with 21,03 million litres exported in 2016: Q2. Between first quarter and 2017: Q2, exports of milk and cream (not concentrated nor containing added sweetening) decreased by 14% from 19,55 million litres in the first quarter to 16,77 million litres in 2016: Q1. The weaker currency is expected to bring about opportunities for the growing export market.

Imports of milk and cream increased significantly in 2017: Q2 compared with 2016: Q2, from 1,34 million litres in 2016: Q2 to 13,79 million litres in 2017: Q2. Between the first quarter and 2017: Q2, imports of milk and cream increased by 79%, from 7,72 million litres in 2017: Q1 to 13,79 million litres in 2017: Q2, see Figure 45. According to MPO (2017), the flow of milk in the coming months will largely be determined by climate, timing, as well as the quantity of rain in pasture-production areas. Roughage supplies remain scarce and expensive while higher beef prices encourage farmers to cull less productive animals.

Figure 45: Trends in imports and exports of milk and cream, not concentrated nor containing added sweetening
Source: GTA, 2017

3.6 Trade of agricultural, forestry and fisheries

South Africa emerged from a recession in 2017: Q2 as agriculture helped the economy expand more than expected, strengthening the rand and bonds. The second quarter agricultural GDP figures confirmed that the sector grew by 33,6% quarter-on-quarter in 2017: Q2 compared to 22,2% quarter-on-quarter in 2017: Q1. This is in line with the sentiment shared that a rebound of domestic production is expected in 2017 that will likely boost agricultural exports going forward.

However, while expectations paint an encouraging picture of increased activity in the overall agricultural sector, exports of agricultural products decreased by 7% in 2017: Q2 compared with 2016: Q2, from R34,57 billion in 2016: Q2 to R32,19 billion in 2017: Q2. During the same period, imports of agricultural products decreased by 14%, from R22,24 billion in 2016: Q2 to R19,12 billion in 2017: Q2, see Figure 46.

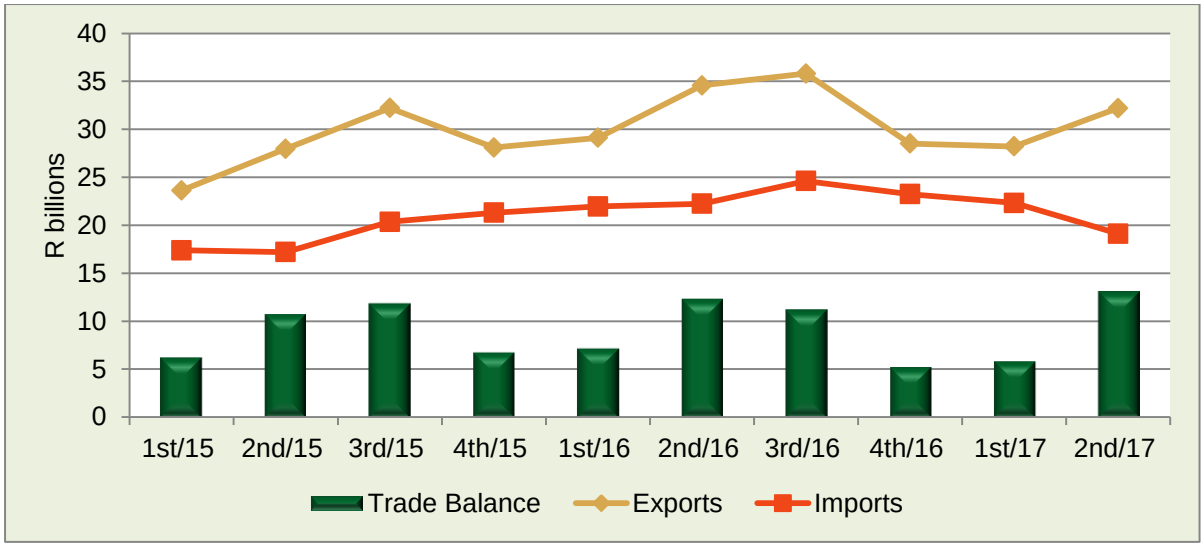

Figure 46: Trade balance of agricultural products
Source: GTA, 2017

Figure 47 illustrates South Africa gained most of its agricultural export revenue from products exported to the Netherlands, which was the leading export destination, followed by Namibia and the United Kingdom.

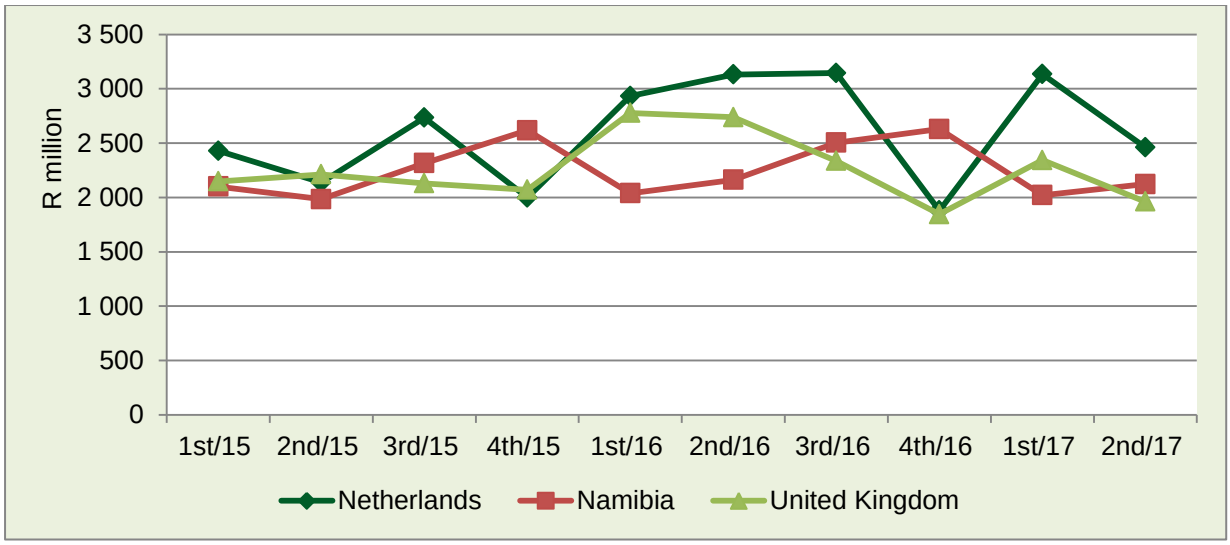

Figure 47: Top Three markets of agricultural products exported by SA
Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to the total export value in 2017: Q2 include fresh or dried lemons and limes (7%), fresh apples (6%) and fresh oranges (5%), respectively, see Figure 48.

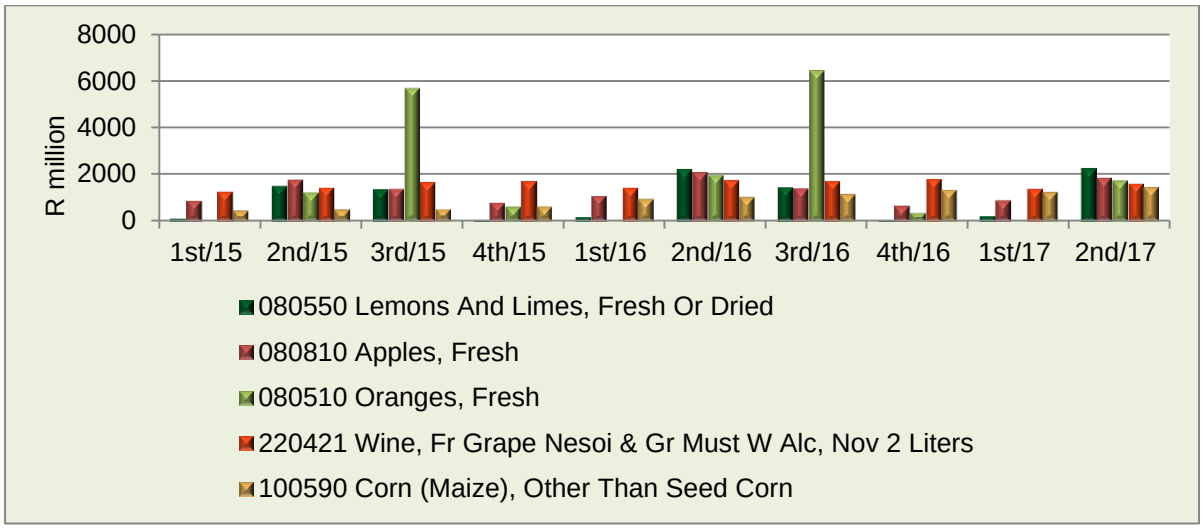

Figure 48: Top five agricultural products exported by SA
Source: GTA, 2017

Although positive growth is expected throughout the year, sustained by robust agricultural output in the summer producing areas, a number of factors could be attributed to the decrease in the imports of agricultural products, including expectations of South Africa retaining to surplus production as well economic and political woes which are creating an environment of uncertainty and risk. In 2017: Q2, the total import value of agricultural products decreased by 14%, from R21,24 billion in 2016: Q2 to R19,12 billion in 2017: Q2. The top three suppliers of agricultural products to the total import value were Brazil, Namibia and Thailand, see Figure 49.

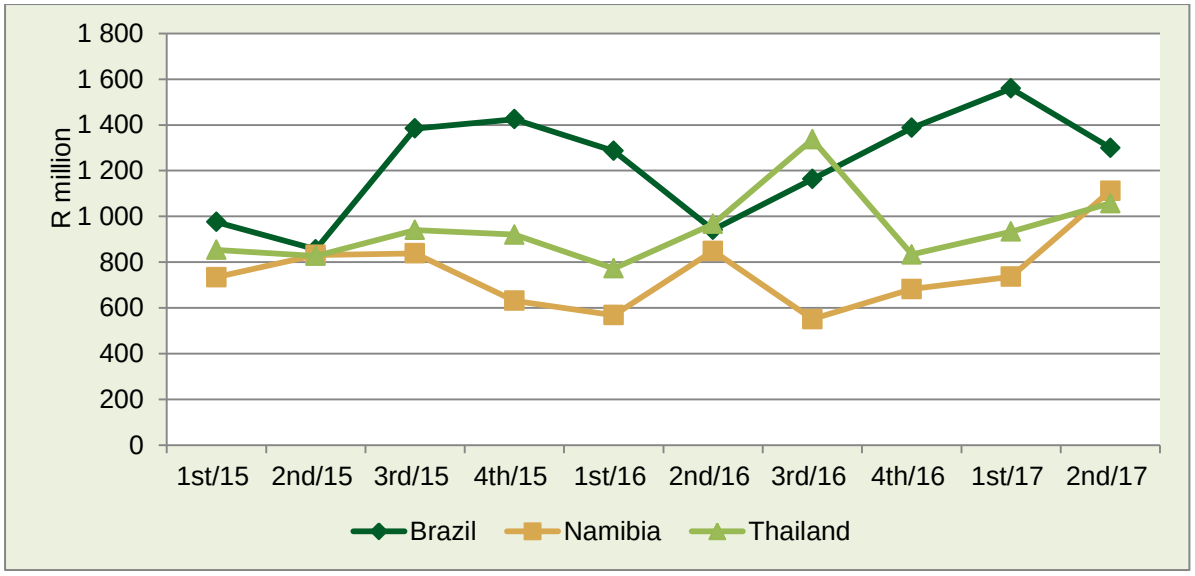

Figure 49: Top three market suppliers of agricultural products to SA
Source: GTA, 2017

The top three agricultural products which contributed a considerable amount to the total agricultural import value include rice (7%), chicken cuts and edible offal (6%) and palm oil (5%), see Figure 50.

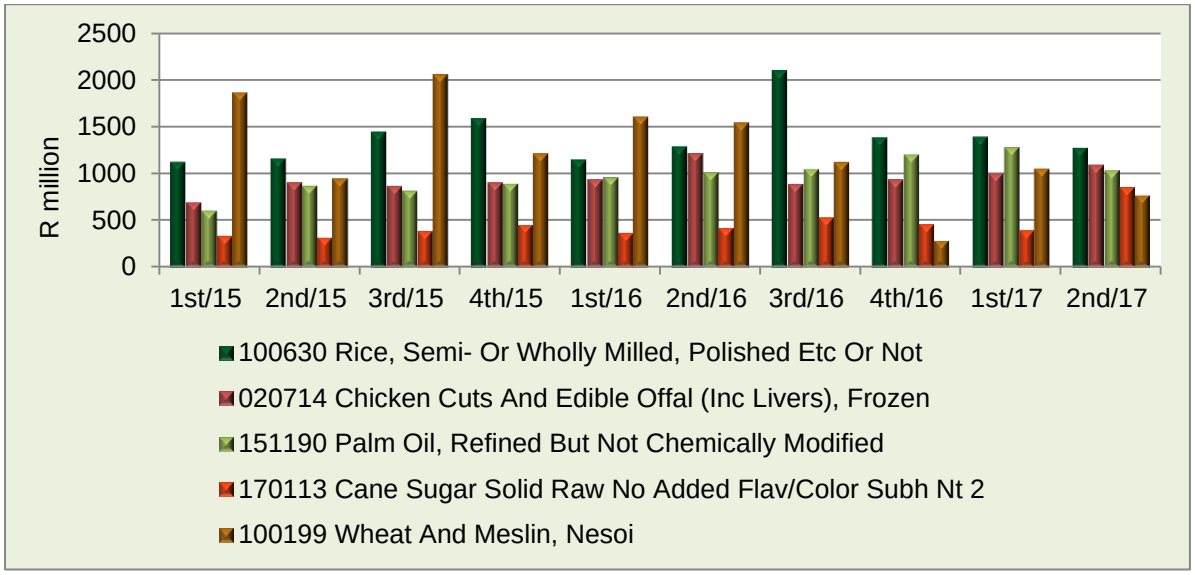

Figure 50: Top five agricultural products imported by SA
Source: GTA, 2017

3.6.1 Fisheries trade

In 2017: Q2, supply of fisheries products declined by 29%, a significant improvement compared to the 43% decrease in 2017: Q1, attributed to a rapid decline in capture

fisheries production that contrasts with the rapidly expanding aquaculture sector (FAO, 2017).

Figure 51 illustrates that in 2017: Q2, exports of fisheries products decreased by 29%, from R1,82 billion in 2016: Q2 to R1,28 billion in 2017: Q2. During the same period, imports of fisheries products decreased by 4%, from R1,40 billion in 2016: Q2 to R1,35 billion in 2017: Q2. The trade balance for fisheries products improved slightly in 2017: Q2 compared to 2017: Q1, however, remained in negative territory as in 2017: Q1, see Figure 51.

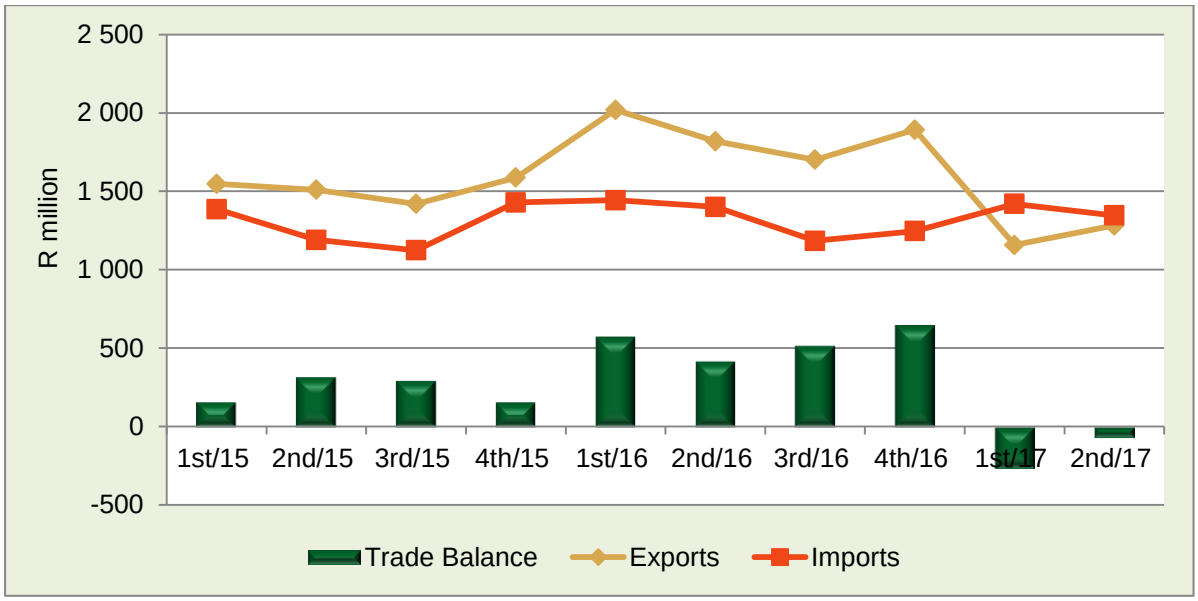

Figure 51: Trade balance of SA fisheries products
Source: GTA, 2017

The top three imported fisheries products in 2017: Q2 include sardines/sardinella/brisling or sprats (frozen), sardines/sardinella/brisling (prepared, preserved and not minced) and frozen shrimps and prawns, each accounting for 15%, 13% and 12% of the total import value, see Figure 52. Developing countries continue to play a significant role in the international supply of fish.

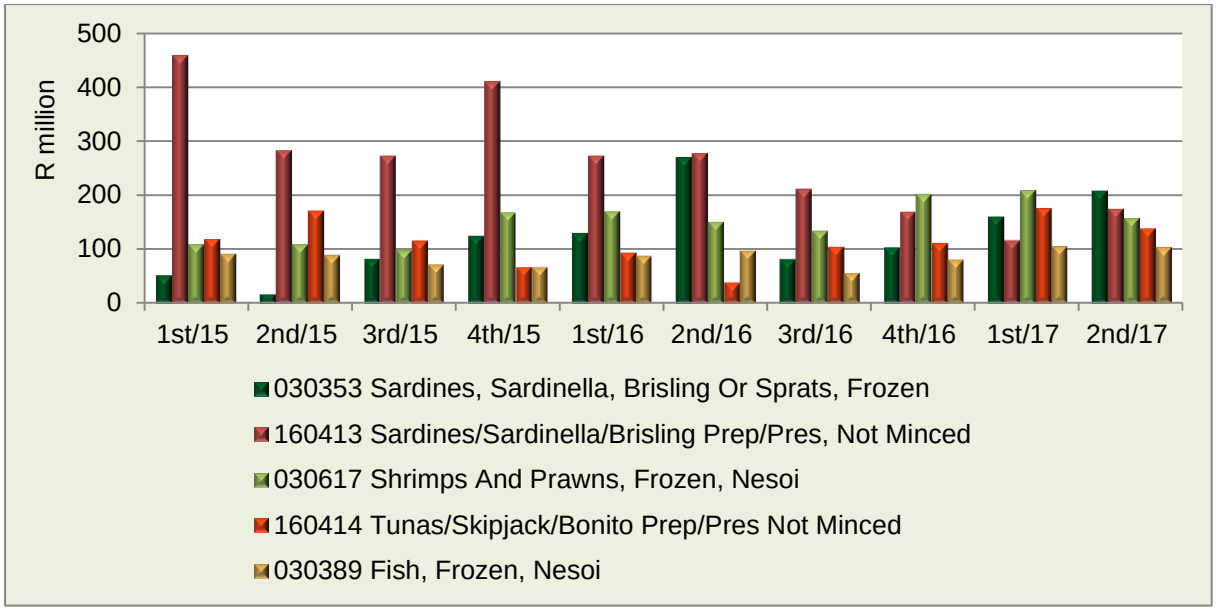

Figure 52: SA top five imported fisheries products
Source: GTA, 2017

Figure 53 presents the top three fisheries products exported by SA in 2017: Q2. Frozen hake fillets were the main exported seafood product in 2017: Q2, followed by frozen hake and frozen fish, NESOI. Frozen hake fillets, frozen hake and frozen fish, NESOI each accounted for 29%, 12% and 11%, respectively of the total export value of fisheries products in 2017: Q2. Meanwhile, deep-water hake remains depleted, however, its status is improving while shallow-water hake is considered optimal to abundant (DAFF, 2017).

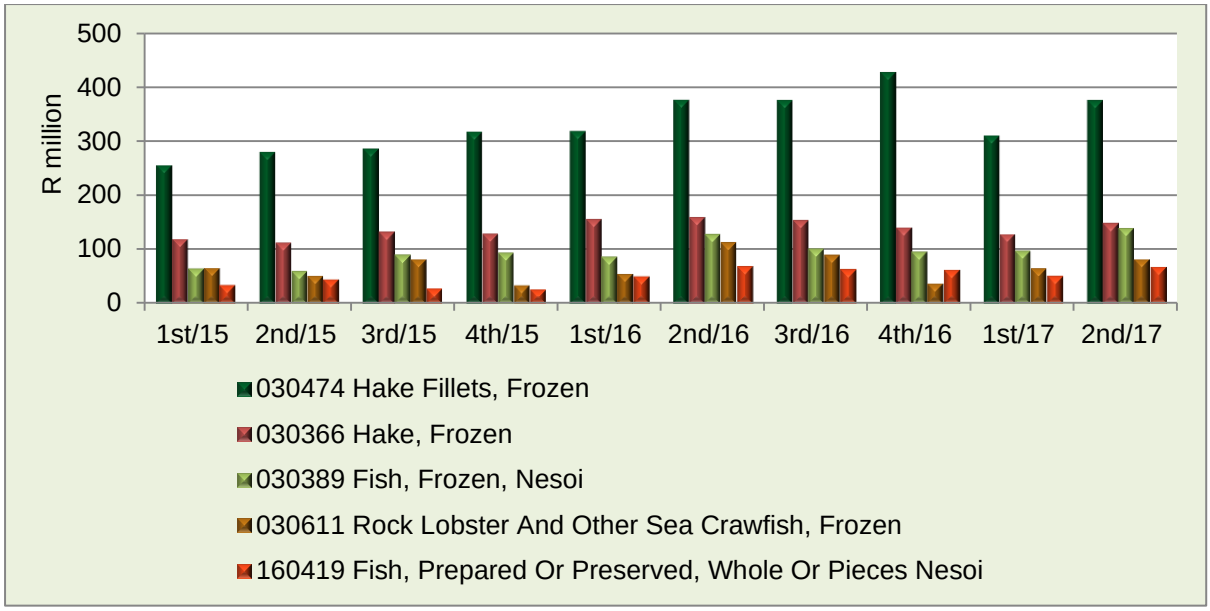

Figure 53: SA top five exports of fisheries products
Source: GTA, 2017

3.6.2 Forestry trade

Despite some volatility within the forestry sector due to its dependence on global markets, the trade balance of forestry products remained in positive territory since 2015: Q1 and has been volatile yet gradually increasing between 2015: Q1 and 2017: Q2. However, a downturn is observed in 2017: Q2, attributed to slow demand, rising utility and tax costs as well as constrained energy supplies.

Figure 54 shows the trade balance of South African forestry products from 2015: Q1 to 2017: Q2. In 2017: Q2, exports of forestry products decreased by 11%, while imports decreased by 21% compared with 2016: Q2.

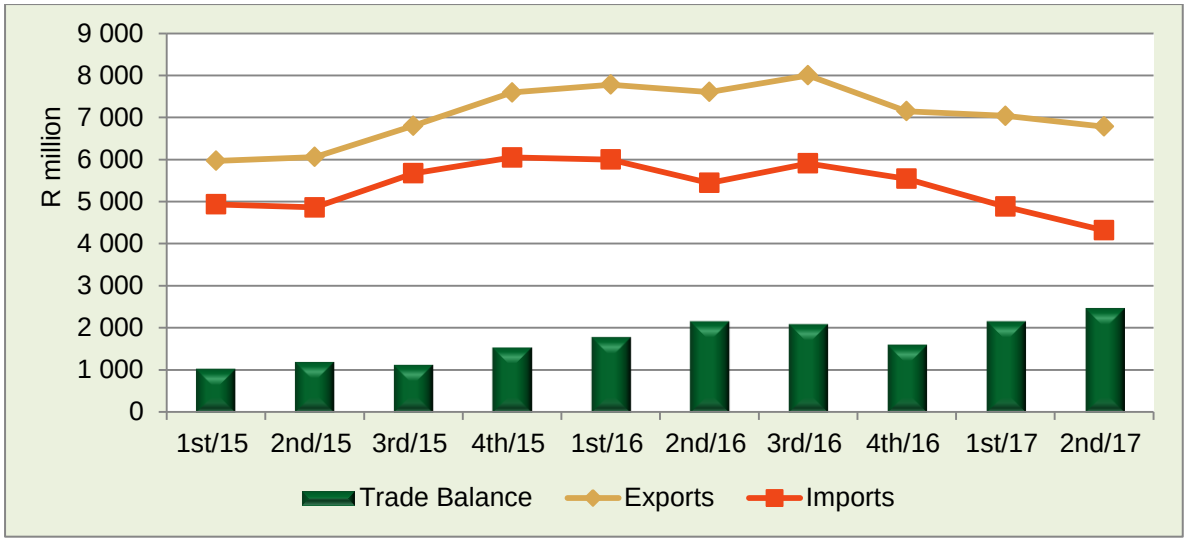

Figure 54: Trade balance of SA forestry products
Source: GTA, 2017

The total export value of forestry products decreased by 11%, from R7,60 billion in 2016: Q2 to R6,79 billion in 2017: Q2. The top three forestry products exported in 2017: Q2 include chemical woodpulp (dissolving grades), wood in chips or particles (non-coniferous) and kraftliner (uncoated, bleached, in rolls or sheets), see Figure 55.

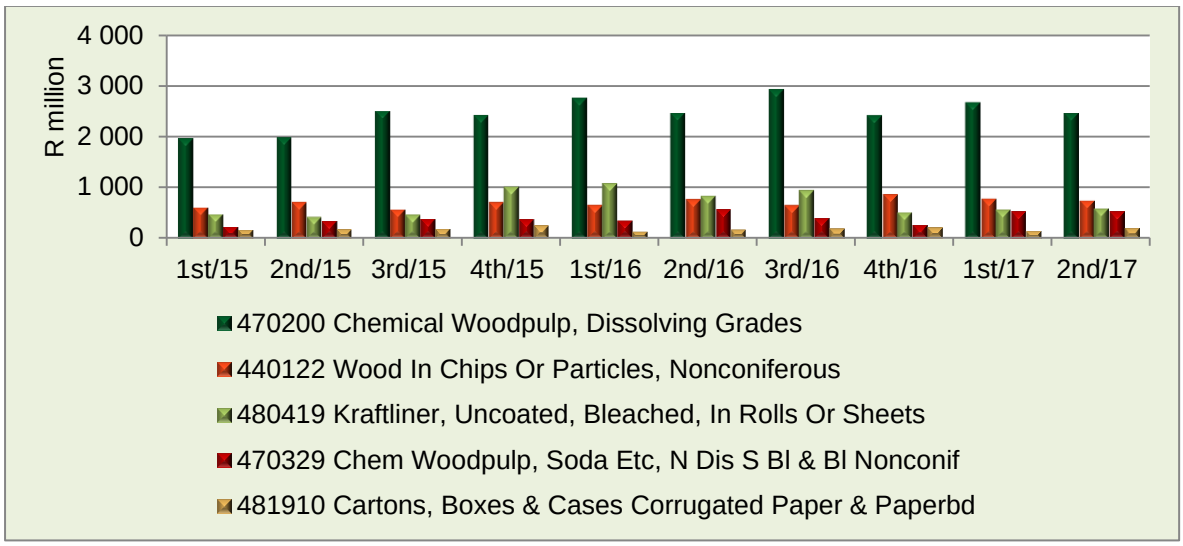

Figure 55: SA top five exports of forestry products
Source: GTA, 2017

The total import value of forestry products in 2017: Q2 decreased by 21%, from R5,44 billion in 2016: Q2 to R4,32 billion in 2017: Q2. SA's top three imported forestry products in 2017: Q2 include printed books, brochures, etc, paper or

paperboard and gummed/adhesive paper and paperboard (pressure-sensitive), see Figure 56.

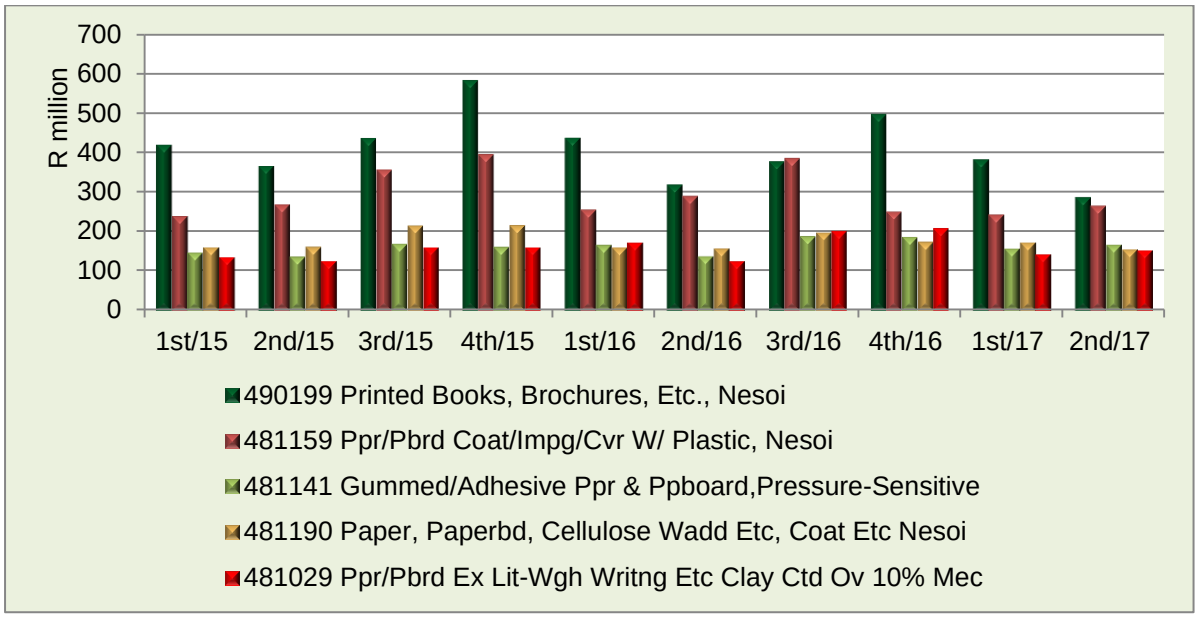

Figure 56: SA top five imports of forestry products
Source: GTA, 2017

4. CONCLUSION

Projected global growth rates for 2017/18, though higher than the 3,2% estimated for 2016, are below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies. In the advanced economies, Quarterly Real GDP Growth Rates for 2017: Q2 increased for the following countries: Canada, France, Germany, Italy, Japan, the United Kingdom and United States, which increased by 1,1%, 0,5%, 0,6%, 0,4%, 0,6%, 0,3% and 3%, respectively. However, emerging and developing economies continue to account for most of global growth with Quarterly Real GDP Growth Rates that increased in the following countries: Brazil, China, India, Indonesia, Malaysia, the Philippines, South Africa, Nigeria and Russia by 0,2%, 6,9%, 5,7%, 5%, 5,8%, 6,5%, 2,5%, 0,6% and 2,5%, respectively, as compared to 2016: Q2.

South Africa emerged from a recession in 2017: Q2 as agriculture helped the economy expand more than expected, strengthening the rand and bonds. The second quarter agricultural GDP figures confirmed that the sector grew by 33,6% quarter-on-quarter in 2017: Q2 compared to 22,2% quarter-on-quarter in 2017: Q1. The growth in the industry is attributed to the increase in the production of field crops and horticulture products. The CPI for food averaged at 6,8% in 2017: Q2, from 10,2% in 2017: Q1, which represents a decline of 32.8%. The unemployment rate for 2017: Q2 has remained unchanged at 27,7% quarter-to-quarter. Trade balance remains positive with exports of agricultural products decreased by 7% in 2017: Q2 and imports of agricultural products decreased by 14%.

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