

# ECONOMIC OUTLOOK REPORT XV



***Prepared by the Economic Services Unit:  
Technology Transfer Division***

***September 2013***

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## 1. EXECUTIVE SUMMARY

### Global macroeconomics

The world's macroeconomic situation continues to reflect the effects of a global financial and economic crisis. However it is not all doom and gloom; global growth is projected to recover from slightly above 3% in 2013 to 3¼% in 2014, some ¼% weaker for both years than the April 2013 projections. Improvement was visible in both advanced and emerging economies, and in part reflected sustained policy efforts directed at generating greater traction in economic recovery. While in some parts of the world governments continued to reduce fiscal stimulus, monetary policy in the main advanced economies remained highly expansionary in the first half of 2013 through both low policy interest rate settings and quantitative easing measures. Stronger global growth will require additional action from policymakers everywhere.

### Global agricultural perspective

Expansion of agricultural production is likely to slow slightly, at least in the medium term. However, supply should keep pace with demand at prices that are expected to remain relatively high. Measures to reduce food loss and waste will be important in meeting rising demand, and for increasing productivity. China, with 20% of the world's population is likely to maintain high income growth and a rapidly expanding agri-food sector. Food security has improved as high income and agricultural growth have reduced the number of undernourished people from 21% in 1990 to 12% in 2013. All eyes are on developments unfolding in China. Food price inflation is also closely watched by consumers and governments because of its impact on household expenditure and the cost of living. Food price inflation has however slowed over the past year in both OECD and developing countries. Other factors that will influence demand include energy prices which will have effects on both demand and supply of agricultural products, population growth, and exchange rates as they relate to agricultural trade. Many developing countries continued to invest in agriculture and pursued policies to encourage production. Overall world production growth is projected to slow to 1.6% p.a. during the coming ten years, compared to an average of 2.3% p.a. in the previous decade. It is expected that agricultural trade will increase in response to strong demand in developing countries.

### South African macroeconomics

Real economic activity in SA picked up notably in the second quarter of 2013. Following an annualised growth rate of 0.9% in the first quarter, the pace of expansion in real GDP accelerated to 3% in the second quarter, boosted primarily by improved secondary sector performance. This was in part attributed to base effects and to a lesser extent to better performance in the manufacturing sector. Real output in the primary sector contracted, while growth in the tertiary sector slowed marginally. Despite an increase in economic activity, aggregate real GDP in the second quarter was only 2% higher than in the corresponding period of 2012. Against the backdrop of relatively benign international inflation and subdued global and local output growth, local inflation remained within the target range for 14 consecutive months up to June 2013, before breaching the upper limit in July. Following acceleration in producer food price inflation, consumer food price inflation picked up from 5.9% in March to 7.1% in July. Though household expenditure edged higher in

the 2<sup>nd</sup> quarter, the pace was still lower than the average rate of growth recorded during the past three years. Inflation quickened to 6.7% in February, remained at that rate up to May, slowing to 6.2% in July.

### **South African Agricultural sector perspective**

Depreciation in the exchange rate of the rand contribute to food price pressures intensifying at the producer level, with manufactured food price inflation accelerating steadily from 5.9% in January to 7.5% in July. The acceleration was driven by increases in meat, fish, grain mill products and bakery products. Agricultural producer price inflation also accelerated from -0.2% in March to 2.8% in June, mainly on account of a notable acceleration in producer price inflation of cereals and other crops. Gross agricultural income is expected to grow by 3.3% in 2013. Real intermediate input expenditure is expected to grow by 3.1%. A slight decrease is expected in 2014, due to the projected decline in feed grain prices. Agricultural exports to BRIC countries increased from 2.8% of total agricultural exports to 7.2% during the past ten years. Africa is a net exporting market for South Africa's agricultural products and a positive trade balance has been increasing during the past 10 years. The EU, traditionally a net exporting market for our agricultural products, experienced a sharply declining trade balance since 2008. As rice consumption is set to grow SA will become more reliant on imported rice to meet demand. The area under sugarcane declined by 14% (60 000 ha) over the past decade, due to urbanisation, land claims and unsuccessful land reform projects. However consumption is expected to grow.

### **Field crop outlook**

The South African Grains sector will continue to experience healthy growth. South Africa experienced a bumper soybean harvest which is expected to impact the livestock sector positively. Barley production is expected to increase markedly in the next 10 years given the establishment of a new malting facility in the country. Challenges include drought which have depressed grains output and contributed to growing food insecurity in Zimbabwe and Malawi. As a consequence the Free State and North West saw reduced maize output. Farmers may set aside more land for sunflower production given the crop's drought resistant capabilities. Improved grain technologies continued to significantly drive output. Wheat prices may increase in the next year given a drought in Ukraine and protests in Argentina which saw farmers shunning wheat in favour of soybean.

### **Horticultural outlook**

Against the backdrop of a scramble for Africa's business opportunities, the SA vegetable industry is realizing opportunities in several parts of Africa, in particular Sub-Saharan Africa. High value crops such as peppers and other spices are gradually gaining entry into African markets. An overview of the table grape industry projects a positive outlook in terms of production and price. The area under grapes is expected to increase by 3%, whereas the price per ton is expected to increase at an average rate of 14%, over the next 10 years.

### **Livestock production**

High feed prices, competition from cheap imports as well as rising food prices underpin the reduced growth expectations for poultry, beef and pork consumption in the short term. Since 2010, domestic meat and egg markets have been characterised by exceptional volatility. South Africa's dependence on Argentinian soy bean oil cake as protein source for animal feed means that macroeconomic instability increases the

volatility of producer input costs. The outlook for long-term poultry demand remains positive. The long term projections over the next decade, forecast chicken production to increase by 1.73 million tons, and approximately 839 thousand tons of chicken will be imported. In the five years to 2017, a 16.2% increase in beef and veal consumption is also expected. Declining sheep numbers and rapid population growth in South Africa have led to an increase in demand and subsequent shortages in the supply of mutton. South Africa is projected to remain a net importer of pork. Pork consumption is forecast to grow by 23.9% in the five years to 2017. Over the past decade the dairy industry has expanded by 32%, with total consumption of dairy products increasing from 2.12 million tons in 2002 to 2.8 million tons in 2012. Due to the anticipated depressed economic growth over the next decade, the growth in the demand for dairy products is expected to slow down to an annual average increase of 4.7% per year, compared to 5.6% over the past decade. The consumption of eggs is expected to increase by 33%. South Africa is still the leading mohair producer in the world with 50.4% of the total world production, followed by Lesotho and Argentina.

### **SADC Food Security Outlook**

The food security outlook of the region remained stable during the July to September period, although there were pockets of acute food insecurity in areas that experienced reduced harvests due to mid-season dry spells or flooding. According to the Zimbabwe Vulnerability Assessment Committee's (VAC) food security assessment, 1.5 million people are estimated to be in need of assistance between October and December, and this figure is expected to rise to 2.2 million between January and March 2014. Based on these findings, humanitarian assistance through the Seasonal Targeted Assistance (STA) program is planned to start as early as September/October in most areas, while likely ending in March. Most households will face minimal food security tension between October and March next year, with the exception of some localized areas that will be stressed in four districts.<sup>1</sup>

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<sup>1</sup> [http://www.fews.net/docs/Publications/Zimbabwe\\_FSO\\_07\\_2013.pdf](http://www.fews.net/docs/Publications/Zimbabwe_FSO_07_2013.pdf)

## 2. FOREWORD AND ACKNOWLEDGEMENTS

The Economic Services Unit presents this 15<sup>th</sup> Economic Outlook to the ARC as a planning resource. The document analyses global and domestic trends in economic and agricultural markets and policy, as well as potential impacts on sector performance. Apart from a macroeconomic perspective, it deals with agricultural production, consumption, and price trends. A range of projections are provided, based on assumptions about a set of economic, technological, environmental, political, institutional and social factors. International and local publications form the basis of the Outlook. Projections developed by the OECD, IMF, Global Insight, FAPRI and the World Agricultural Outlook are used. Projections should be interpreted as possible scenarios. The following sources are acknowledged:

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NAMC: South African Supply and Demand Estimates Committee, August, 2013  
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SARB Quarterly Bulletin, September 2013

### **3. MACRO-ECONOMIC INDICATORS**

#### **3.1 Global macroeconomic status**

The IMF World Economic Outlook (WEO) of September 2013 reported global growth to have increased slightly from an annualized rate of 2½ % in the second half of 2012 to 2¾ % in the first quarter of 2013. The underperformance was due to firstly, continuing growth disappointments in major emerging market economies, reflecting, to varying degrees, infrastructure bottlenecks and other capacity constraints, slower external demand growth, lower commodity prices, financial stability concerns, and, in some cases, weaker policy support. Secondly, a deepening recession in the euro area, as low demand, depressed confidence, and weak balance sheets interacted to exacerbate the effects on growth and the impact of tight fiscal and financial conditions. Thirdly, the U.S. economy expanded at a weaker pace, as stronger fiscal contraction weighed on improving private demand. By contrast, growth was stronger than expected in Japan, driven by consumption and net exports. The IMF WEO report further indicated that financial market volatility increased globally in May and June after a period of calm. In advanced economies, longer-term interest rate and financial market volatility have risen. Emerging market economies have generally been hit hardest, as recent increases in advanced economy interest rates and asset price volatility, combined with weaker domestic activity led to capital outflows, equity price declines, rising local yields, and currency depreciation.

It is now projected that, growth in the United States will rise from 1¾ % in 2013 to 2¾ % in 2014. The projections assume that sequestration measures will remain in place until 2014, longer than previously projected, although the pace of fiscal consolidation will still slow. In Japan, growth is expected to average 2% in 2013, moderating to about 1¼% percent in 2014. This somewhat softer forecast for 2014 reflects the weaker global environment. The euro area will remain in recession in 2013, with activity contracting by over a ½%. Growth will rise to just less than 1% in 2014, weaker than previously projected, due to base effects from the delayed recovery in 2013.

At 5% in 2013 and about 5½% in 2014, growth in emerging/developing economies is now expected to evolve at a more moderate pace. This embodies weaker prospects across all regions. In China, growth will average 7¾% in 2013-14, ¼ and ½ percentage points lower in 2013 and 2014, respectively, than the April 2013 forecast. Forecasts for the remaining BRICS have been revised down as well, by ¼ to ¾ percentage points. Growth in sub-Saharan Africa will be weaker, as some of its largest economies (Nigeria, South Africa) struggle with domestic problems and weaker external demand. Growth in some economies in the Middle East and North Africa remains weak because of difficult political and economic transitions.

The weaker prospects call for structural reforms across all major economies to lift global growth and support global rebalancing. This implies measures to sustainably raise consumption (China) and investment in surplus economies (Germany), as well as measures that improve competitiveness in deficit economies.

#### **3.2 South African macroeconomic status**

South Africa's real growth rate picked up to an annualised rate of 3% in the second quarter of 2013, recovering from the disappointing performance registered in the first quarter. The biggest contribution

came from the manufacturing sector, where production rebounded following a first-quarter setback related to a fire at a steel mill, maintenance of refineries and other mainly temporary forces. The electricity and construction sectors also registered improved growth rates in the second quarter.

Growth in the primary sector real output contracted in the second quarter of the year. The real value added by the agricultural sector declined as dry weather conditions in most maize-producing areas of South Africa in early 2013 led to lower field-crop production. Mining production also regressed as platinum output was hampered by escalating cost pressures, unstable ground formations, safety stoppages and significant labour disruptions. Diamond production was held back in the wake of severe flooding early in the year at one of the country's largest opencast mines.

Growth in real fixed capital formation accelerated in the second quarter of 2013, led by the private sector. Producers in the agricultural, mining and manufacturing sectors were especially active and purchases of agricultural machinery picked up. Agricultural stocks-in-trade were boosted by the relatively early harvesting of a large part of the latest maize crop.

In the second quarter of 2013 household debt relative to disposable income inched higher in the second quarter of 2013. General loans to households lost momentum over the past year as lenders became more cautious. In the second quarter of 2013 house prices continued rising at a moderate pace during the period under review. Consumer price inflation is 5.9% in 2013 thus far, up from an average of 5.7% in 2012.

The deficit on South Africa's current account with the rest of the world widened in the second quarter of 2013 to 6.5% of GDP. The terms of trade deteriorated notably on account of lower international commodity prices, but export revenues were also held back by slow growth in the volume of non-gold exports. Export volumes of mining and agricultural products edged higher over the period under review though. However, the volume of merchandise imports also inched higher in the same period.

The public sector supported economic recovery in the 2<sup>nd</sup> quarter, recording public-sector borrowing requirement equal to 5.1% of GDP. Rising expenditure was matched by Government briskly collecting taxes on property, customs duty, personal income and value-added tax. South Africa has been an African country to have been affected in a major way by the spill-over from the Euro zone crisis, as a result of strong trade and financial linkages. In general, it is expected that an easing of monetary and fiscal policy will strengthen growth in both emerging and developing countries.

### **3.3 Global agricultural outlook**

For decades, global agriculture was characterized by policy-induced production surpluses in industrialized countries and stagnating growth in developing countries. Policy reforms and economic growth across the globe have been changing demand and supply fundamentals sufficiently to turn agriculture into a more market-driven sector which provides investment opportunities, particularly in developing countries. Agricultural trade is projected to increase with developing countries capturing most of the export growth.

With one-fifth of the world's population, high income growth and a rapidly expanding agri-food sector, Chinese agriculture have a major influence on world markets; with increasing production constraints and

strong demand growth, additional agricultural imports are anticipated. Food security has improved as high income and agricultural growth has reduced the number of undernourished people in China from 21% in 1990 to 12% 2013 but more is required as the economy expands.

Food price movements are particularly important for developing countries and low income groups in OECD countries where food expenditures often account for a large share of household expenditure. High consumer prices have fallen at the start of the outlook period (2013-2022). Food price inflation, as measured by the food component of the Consumer Price Index (CPI), fell from 3.8% to 2.7% in the OECD and in developing countries in the aggregate from over 9% to 6%, with food price increases decelerating in roughly half of OECD countries and almost two-thirds of developing countries.

Exchange rates are critical to baseline projections as they influence relative competitiveness for exporters and affordability of purchases for importers and thus agricultural trade between regions. By the end of 2022, the price of crude oil is assumed to be around USD 145 per barrel, with an average growth over the period of 2.6% p.a. and slightly above that for consumer price inflation. High energy and oil prices will have effects on both demand and supply of agricultural products, through higher agricultural supply costs and increased demand for agricultural feed stocks used for biofuels production. Another factor strengthening demand for agricultural products is population growth. Consumption of agricultural products has demonstrated its resilience in the face of world economic shocks, prolonged reduced growth and high unemployment in developed countries. World prices are expected to be sufficiently remunerative in the next decade to encourage further investment in agricultural production and technological enhancement to permit output to continue to expand to 2022. Land available for agriculture is limited and this will curtail production in developed countries. Developing countries have the potential to increase land devoted to agriculture with the advanced economies' agricultural farming practices.

World production of wheat and coarse grains is projected to increase by 16% and 22%, towards 2022. Production growth will however be influenced by a slowdown in yield growth, not compensated for by area expansion. World production of oilseeds and the by-products of protein meals and vegetable oils are projected to increase by 26% over the outlook period (up to 2022) as remunerative prices continue to attract land from other crops and with yields increasing, but at a slower rate than in the past. World sugar production is projected to increase by 1.9% p.a. over the projection period to reach approximately 212 ton in 2022. World cotton production is expected to grow by 1.6% p.a. marginally more slowly than consumption at 1.7% p.a. to reach 27.2 ton in 2022, as the high global stocks are gradually reduced.

Biofuel production is projected to consume a growing share of global production of sugar cane (29%), vegetable oil (15%), and coarse grains (12%) by 2022. Global biodiesel production is projected to grow slightly faster than ethanol production, at 4.5% p.a. to reach 41 billion litres in 2022, increasing less rapidly than in the last decade.

Global livestock inventories and livestock product supplies will expand less rapidly over the projection period than in the past decade. The average annual production growth rate is estimated at 1.8% up to 2022, compared to 2.3% p.a. in the last decade. By 2022 developing countries will account for the majority of exports of coarse grains, rice, oilseeds, vegetable oils, sugar, beef, poultry meat, fish and fishmeal.

Real net investment in farm capital has increased significantly recently and the power of agricultural machines has increased more than seven-fold in the past 30 years. The number of large and medium-size tractors and maize combines in 2012 were 4.9 million and 2.3 million units respectively.

### 3.4 South African Agribusiness

Real intermediate input expenditure increased by 8% in 2012; its main drivers being nominal expenditure growth in fuel (17.5%), dips and sprays (17%), packing material (22%), farm services (15.6%) and electricity (11%). Nominal expenditure on fertiliser and feed also grew moderately by 5.1% and 8.2%, respectively. In 2011 real value added in the sector growth was 10% and it further increased by 8% during 2012. This was prompted by the acceleration of commodity prices and volume of production. A projected 3% growth is expected in 2013, maintained by further increases in grain prices as well as strong income growth in the horticultural and livestock sector, due mainly to depreciation in the exchange rate. During the baseline period the real gross value added of the sector is projected to grow modestly at an average annual growth rate of 1.6%. This higher gross income is also expected to propel real net farming income by 2% in 2013. The growth of real debt value of the agricultural sector moderated to 6% in 2012 following an 8% increase in 2011. The nominal debt value from the Land Bank grew considerably by 32.4% and from commercial banks it increased moderately by 5.6% during 2012. As a result, the share of debt from the Land Bank increased from 25% in 2011 to 29.5% in 2012. The debt from commercial banks, however, still accounts for the largest share (54.5%) of total sector debt. The debt burden is expected to grow to reach 38% in 2022.

Table 3.1 shows the value of agricultural exports and imports compared to total exports and imports for SA in 2012: the country exported products to a total value of R709 191.2 million and imported R831 041.5 million; making SA a net importer and resulting in a negative trade balance of R121 851.5 million. Agricultural products amounted to R55 518.6 million or 7.8% of total exports and R53 620.8 million or 6.5 % of total imports in 2012. This makes SA a net exporter of agricultural products in 2012, with a positive trade balance of R1 897.8 million. Agricultural products comprised the largest share of total exports when exporting to Africa (13.2%) and the largest share when importing from Oceania (16.7%).

**Table 3.1: Agricultural trade as share of total trade by region in 2012**

Trade Region	Agric Exports (R million)	Total exports (R million)	Agric exports share (%)	Agric Imports (R million)	Total imports (R million)	Agric imports Share (%)
Africa	17 310	131 322	13.2	3 338	79 146	4.2
EU (27)	16 605	142 123	11.7	15 668	238 598	6.6
Oceania	669	8 548	7.8	2 248	13 490	16.7
America	5 834	81 844	7.1	14 951	99 030	15.1
Asia	13 199	248 671	5.3	15 369	384 607	4.0
Other	1 901	96 684	2.0	2 046	16 172	12.7
<b>Total</b>	<b>55 517</b>	<b>709 191</b>	<b>7.8</b>	<b>53 620</b>	<b>831 043</b>	<b>6.5</b>
<b>BRIC</b>	<b>3 997</b>	<b>122 818</b>	<b>3.3</b>	<b>11 281</b>	<b>172 656</b>	<b>6.5</b>

Source: BFAP (2013)

Table 3.2 below gives an indication of South African agricultural exports: Zimbabwe is the largest export market for South Africa's agricultural, forestry and fisheries products by value and the largest export market in Africa during 2012. Its share in South Africa's total agricultural, forestry and fisheries exports increased

from 7% in 2011 to 9% in 2012. South Africa's exports of agricultural, forestry and fisheries products to the Netherlands decreased by 5% between 2011 and 2012. Its share in South Africa's total agricultural, forestry and fisheries exports also decreased from 9% in 2011 to 8% during 2012.

**Table 3.2: Exports of agricultural products**

Calendar Year 2011			Calendar Year 2012			
Top 10 export markets	Share in total agric exports	Export Value	Top 10 export markets	Share in total agric. exports	Export value	Top 3 products exported
Netherlands	9%	5.5	Zimbabwe	9%	5.3	Soybean & sunflower, wheat
UK	8%	5.0	United Kingdom	8%	5.2	Apples, Grapes & Wine
Zimbabwe	7%	4.7	Netherlands	8%	5.2	Grapes, Oranges & Wine
China	5%	2.9	China	6%	3.7	Wool, Wood Pulp & Wine
Mozambique	5%	2.9	Mozambique	5%	3.0	Sugar, Soups/broths, Maize
Indonesia	5%	2.9	Mexico	4%	2.6	Maize, Paper & Wood Pulp
Mexico	4%	2.8	Indonesia	4%	2.4	Wood pulp, Cotton & Paper
Germany	3%	2.1	Angola	4%	2.3	Maize meal, liqueur & cordial
Korea South	3%	2.0	Germany	3%	2.0	Wine, paper & vegetables
Angola	3%	1.9	USA	3%	1.8	Wine, oranges & wood pulp

**Source: DAFF (2013)**

Table 3.3 below presents South African agricultural imports: China ranks as South Africa's largest import market for agricultural, forestry and fisheries products by value during 2012 after ranking sixth during 2011. Its share in South Africa's total agricultural, forestry and fisheries imports increased from 6% in 2011 to 10% in 2012. South Africa's imports of agricultural, forestry and fisheries products have, in total, increased by 70% between 2011 and 2012 calendar years. Rice ranked among the top five products that SA imported from China during 2012. This increase in agricultural, forestry and fisheries imports from China was largely driven by an increase in rice imports which grew substantially between 2011 and 2012 (DAFF, 2013).

**Table 3.3: Imports of agricultural products (in Billion Rand)**

Calendar Year 2011			Calendar Year 2012			
Top 10 import markets	Share in total agric imports	Import Value	Top 10 import markets	Share in total agric. imports	Import Value	Top 3 products imported
Argentina	11	5.7	China	10	5.6	Rice, Kidney beans & animal offal
USA	8	4.0	Argentina	9	5.2	Soybean oil, sunflower, grape juice
Brazil	7	3.8	UK	7	4.0	Whiskies, Books & Chicken Cuts
UK	7	3.5	Brazil	6	3.5	Chicken cuts, sugar & tobacco
Germany	6	3.3	USA	6	3.0	Food preparations & wood pulp
China	6	3.3	Netherlands	5	2.9	Soybean Oil, chicken cuts, pet food
Thailand	5	3.0	German	5	2.6	Soybean Oils, pork, chicken
Malaysia	4	2.3	Thailand	5	2.6	Rice, chicken cuts & cassava
Indonesia	4	2.0	Indonesia	4	2.4	Palm & kernel oil, wood & coffee
Netherlands	4	1.9	Malaysia	4	2.3	Palm & kernel oil, cocoa butter & Vegetable Fats & Oils

**Source: DAFF (2013)**

### 3.5 Selected consumer issues

The acceleration in consumer food price inflation was fairly broad-based among consumer food categories in recent times, with both processed and unprocessed food price inflation gaining momentum. BMI forecasts strong growth in food consumption in SA, driven in large by rising disposable income as the

economy continues to expand. Between 2013 and 2017, food consumption in local currency terms will likely grow by 42.6% to reach a value of R574.6 billion. However, it should be noted that current forecasts could come under threat from both internal and external factors.

BMI is of the view that there will be strong growth in rice consumption in 2013, as high prices for substitutes have encouraged imports. This is also in line with official estimates for imports over the period. Out to 2017, consumption is forecast to grow 25.7% to 1.1m tons. With domestic consumption set to grow over the next few years, South Africa will become even more reliant on imported rice to meet total demand. This dependence on imported rice makes the country vulnerable to fluctuations in the global price of rice. Even if rice prices are expected to average lower in 2013, imports will continue to be expensive for the country.

The total area under sugarcane in SA has declined to 371 000 ha in 2012 from its peak of 431 800 ha in 2001. This represents a 14% decline in roughly a decade. The expectation is that the area under cane will stabilize around 380 000 ha. Contrary to other industries, where a contraction in hectares is usually accompanied by an increase in yields due to intensification, this has not been the case in the sugar industry. Industry experts argue that a number of external influences such as urbanisation in coastal regions, land claims and unsuccessful land reform projects in the midlands have resulted in the decline in area under production. Total domestic consumption is expected to grow at the same pace as the past decade; roughly 1% per annum, bringing the total consumption of sugar to 2.35 million tons by 2022. Sugar producers have expressed concern about the potential impact of electricity tariff hikes proposed by state-owned utility firm Eskom. The country's sugarcane growers argue that higher energy fees could result in profit being reduced to unsustainable levels. Concern is particularly high among small-scale growers and those in irrigated areas. For small producers, lower profits would increase the likelihood of job losses. In response to the proposed tariff hikes, sugarcane growers have prepared written appeals to the National Energy Regulator of SA.

### **Food security - SADC Region**

The food security outlook for the region remained stable during July to September; although there were pockets of acute food insecurity in areas that experienced reduced harvests due to drought or flooding. Food prices in some of the region's most productive areas continue to decrease or stabilize, following normal post-harvest seasonal trends. In deficit areas food prices are rising steeply even while harvests are still on-going, a pattern that is unusual for this time of the marketing year. The 2013 national vulnerability assessments findings released in July point to increased levels of food insecurity across the region. According to the Zimbabwe Vulnerability Assessment Committee's (VAC), 1.5 million people are estimated to be in need of assistance between October and December, a figure expected to rise to 2.2 million between January and March 2014. Humanitarian assistance through the Seasonal Targeted Assistance (STA) program is planned to start as early as September/October, likely ending in March. In the presence of STA, FEWS NET projects that most households will face minimal food security tension between October and March next year, with the exception of some localized areas that will be stressed.<sup>2</sup>

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<sup>2</sup> [http://www.fews.net/docs/Publications/Zimbabwe\\_FSO\\_07\\_2013.pdf](http://www.fews.net/docs/Publications/Zimbabwe_FSO_07_2013.pdf)

#### 4. FIELD CROP PRODUCTS

##### Global snapshot

Developments in the world's foremost grains producing countries have instigated significant changes in the global grains market in the 6 months since March 2013. Beginning in early April, suspicions of an outbreak of bird flu in China caused soybean futures to perform lower than expected. Consequently, the market encountered stress and concerns over the outbreak's would-be effects on soybean production and demand in the 'Middle Country'. As a result, the price of soybean reached an all-time low in May and continued to hover below par amidst growing fears that some States in the US were going to be unable to meet planting dates in early to mid-June due to higher than expected rains. Production from South American countries such as Brazil and Argentina continued to put a strain on the international soybean prices. Still, the BFAP projects that the global area under soybean production is expected to increase in 2013/14.

Persistent droughts in the Southern Africa region depressed supplies of the staple crop; even though maize output in the 2012/2013 production season is still higher than the five year average, "a combination of lower surpluses and reduced carry-over stocks in surplus-producing countries means that less maize will be available for export within and outside the region this year" (Fews.Net, 2013). This will have serious food security concerns in maize importing countries in the region such as Botswana, Lesotho and Swaziland; at the very least, the price of the staple crop might be steeper for consumers in the region. In Malawi and Zimbabwe, "pockets of acute food insecurity" (Fews.Net, 2013) owing to poor maize output have been reported. Elsewhere, US farmers experienced improved harvests; consequently, prices for maize remained lower compared to the higher prices in 2012 which were a result of a drought in the US (which accounts for 50% of global maize output). BMI has attributed the collapse in maize prices to higher-than-expected revisions to US stocks by the USDA. As well, BMI noted that short-term volatility in the grains markets should be expected as market participants readjust their positions, which will make prices to remain lower in the medium term. In a bid to fetch better prices, US farmers have been holding on to their grains supplies in anticipation that prices will improve. The BFAP projects that global maize prices will trade significantly lower as stock levels are replenished. Prices are expected to improve from 2016 onwards, as farmers will be discouraged by low price levels, which will cause them to switch from maize to the production of other grains. This will decrease maize output and set prices on an upward trend.

Cotton supplies remained steady, with smallholder cotton producers in Burkina Faso continuing to drive production in the West African country amidst a very challenging production environment in most parts of sub Saharan Africa. China is expected to continue with its stockpiling policy which will make cotton to be amongst the most supported crop amongst the softs. In Argentina farmers threatened to take to the streets to protest unfair government policies in the wheat sector. Unions met the government to discuss actions that could bring about some long-awaited changes in government policies, particularly with respect to export taxes and state interference in the agricultural markets. Meanwhile, the price of wheat has risen quite dramatically in Argentina as domestic production plummeted in the 2012/13 season owing to a decision by farmers to reduce plantings in favour of soybeans as a sign of dissatisfaction with the government's interference in the market by regulating wheat exports. Although South Africa's soybean imports from Argentina and Brazil have decreased over the past 3 years in favour of European (mainly

Spanish, French and German) imports, increased outputs in Argentina may reverse the situation, even if only marginally. Continued droughts in Ukraine will have a significant effect on wheat yields in the East European country which might affect global wheat supplies.

### **South African Grains Sector**

BMI continues to project a very healthy outlook and growth for the South African grains sector. However, because of on-going droughts in surrounding SADC countries and to some extent locally, high export demand for local grains from neighbouring countries should be expected. Given the erratic nature of domestic rainfall, in addition to relatively limited irrigation facilities, this is expected to continue to be a challenge for local grain producers. South Africa uses approximately half of its available water for agricultural purposes. The country's main growing regions, such as the Free State province (which produces about 40% of South Africa's maize) and the North West province (accounting for about 30% of the crop), received insufficient rain during the last planting season. Subdued maize supplies in the local grains market together with an increase in grain prices have affected grains producers; causing margins to decrease. Added to these is foreign competition from grain producing countries which has meant that local grain farmers will continue to experience a cost-price squeeze that is likely to make it more difficult for local grains enterprises to stay afloat as margins are expected to drop noticeably. Domestic prices are expected to see slower growth which will have adverse effects on real income growth for field crops in the 2013/14 season. Moreover, in the long term, the BFAP anticipates commodity prices to stay relatively stable. The good news is that South Africa experienced a bumper harvest for soybeans which will go a long way in boosting the livestock sector against a weakening rand that is causing the price of imports to skyrocket.

#### ***Wheat***

The BFAP outlook for 2013 to 2022 projects a shortfall between local wheat production and local wheat demand. Consumption is expected to increase from 3.2million tons in 2013 to 3.7 million tons by 2022. Even though the sector is expected to realise production increases in the long term, such increases will be unable to meet local demand and consumption. The BMI expects demand for wheat to be stronger because of substitution effects but speculates that demand will stagnate in 2013 as lower maize prices will lead consumers to favour maize over wheat. However, this scenario is unlikely given the drought that has affected South African maize producers. In the longer term, BMI expects wheat consumption growth to remain positive, underpinned by a growing population, rising living standards and an increase in domestic supply. In the five years to 2017, BMI forecasts that wheat consumption will increase by 9.3% to reach 3.5 million tons. Despite the expectations for improved production growth, much of the country's wheat consumption will continue to be met by imports. The BFAP expects wheat production to remain stable in the next 10 years. The SAFEX price for wheat is projected to increase owing to higher than average international prices. Production side challenges such as low moisture levels at the commencement of the planting season caused farmers to set aside many fields to summer maize planting owing to the lure of better profitability in yellow maize. As a result, BFAP expects area under wheat production to stay unchanged. In the long term; the summer rainfall area will bounce back. BFAP cautions that wheat production in the summer rain areas remains a risky option when compared to maize. The introduction of

sustainable rotational cropping patterns mainly in the Swartland area are expected to be the main drivers of a decline in land previously used for wheat production over the baseline.

The CEC projections reveal that there was a decrease of 4.55% in wheat output since the last forecast. It expects the anticipated production of wheat to be at 1 785 million tons, against 1 870 million tons of the previous estimate whilst the expected yield is 3.40 t/ha. The area estimate for wheat was revised to 525 500 ha, which is 10 300 ha more than the 515 200 ha of the previous forecast.

**Table 4.1: Winter Cereals**

CROP	2013 area (ha)	1 <sup>st</sup> forecast '13 (tons)	Area planted '12 (ha)	Final crop 2012 (tons)	% Change
Wheat	525 500	1 784 950	511 200	1 870 000	-4,55
Malting barley	81 320	280 961	84 940	298 000	-5,72
Canola	75 165	113 001	44 100	79 000	+43,04
Total	681 985	2 178 912	640 240	2 247 000	-3,03

**Source: CEC (2013)**

The CEC's expected production in the Western Cape is 852 500 tons (48%), which is 45 100 tons lower than the 897 600 tons produced in the previous season. In the Free State, expected production is 302 500 tons (17%), which is 57 500 tons less than previous seasons' crop of 360 000 tons. In the Northern Cape, 294 000 tons (16%) is expected to be produced. An estimated 310 000 ha or 59% is planted in the Western Cape, 110 000 ha or 21% in the Free State and 42 000 ha or 8% in the Northern Cape.

### **Maize**

Owing to insufficient rains, maize output in the Free State and North West Provinces was lower than anticipated. However, in the short to medium term and given good rains, maize production is expected to improve significantly. Projections by BMI reveal that the maize sector is expected to grow by about 16.1% during the period 2013/14 to 2016. This growth will be driven by improvements in SA's macroeconomic outlook as well as the introduction of new maize varieties that yield higher. In 2013/14, the BFAP notes that more acreage will be used for the production of yellow maize owing to better yellow maize prices. As a result, gross income per hectare from yellow maize will be better than that of white maize mainly because of increased area under production. The BFAP expects lower international prices for white maize to drive a decline in the SAFEX price for white maize between 2014 and 2015. This will lead to a decline in average gross income per hectare as projected growth in yields will be offset by means of producers reducing acreage under white maize plantings in favour of other crops, possibly yellow maize. Yellow maize is projected to have the greatest returns in terms of gross income in the forecast period of 2014 to 2022.

Dry weather in the Free State and North West provinces are expected to have an adverse effect on anticipated yields. The CEC expects the area estimate for maize to remain unchanged 2 781 million ha from the July 2013 estimate, while the expected yield is 4.14 t/ha. The CEC's area estimate for white maize is 1617 million ha and for yellow maize it is 1164 million ha, as shown in Table 4. 2. The production forecast of white maize is 5.580 million tons, which is 169 250 tons or 2.94% less than the 5.750 million tons of the July 2013 forecast. The yield for white maize is estimated at 3.45 t/ha which is about 0.11t/ha lower than the previous forecast of 3.56 t/ha. Yellow maize production is estimated to increase to 5,933 million tons, which is going to be 287 850 tons or 5.1% more than the 5.645 million tons of the previous forecast. The yield for yellow maize is 5.1 t/ha which is 5% higher than the previous forecast of 4.85 t/ha. The CEC estimates that of the 242 500 ha planted to maize under irrigation, 82 000 ha (33.8%) is for white maize and 160 500 ha

(66.2%) for yellow maize. The CEC estimates the potential size of the maize crop under irrigation at 2.433 million tons (21.13%) and under dry land conditions 9.080 million tons (78.87%). The average yield for maize under irrigation is projected at 10.03 t/ha and for dry land at 3.58 t/ha. In the case of white maize, the CEC expects the yield for irrigation to be 8.70 t/ha and for dry land 3.17 t/ha. The yield for yellow maize under irrigation is estimated at 10.71 t/ha and for dry land at 4.20 t/ha.

The area planted to maize in the non-commercial sector is 456 900 ha. The CEC noted that this will be 3.34% higher than the 442 114 ha of the 2012/13 production season. A higher maize crop is expected for the non-commercial sector which shall be driven by output from the Eastern Cape Province, which shall account for 58% of the maize produced in this sector. The expected maize crop will be 675 090 tons, which is 5.74% higher than the 638 463 tons from last season.

**Table 4.2 Commercial summer grains**

CROP	Area planted in 2013 (Ha)	7 <sup>th</sup> forecast in ton	6 <sup>th</sup> forecast in ton	Area planted in 2012 (Ha)	Final crop 2012	Change 2012-2013
White maize	1 617 200	5 580 300	5 749 550	1 636 200	6 903 656	-2,94
Yellow maize	1 164 000	5 933 100	5 645 250	1 063 000	5 217 000	+5,10
Maize	2 781 200	11 513 400	11 394 800	2 699 200	12 120 656	-1,04
Sunflower seed	504 700	566 600	576 500	453 350	522 000	-1.72
Soya-beans	516 500	787 100	787 100	472 000	650 000	-
Groundnuts	46 900	42 300	42 300	45 450	59 000	-
Sorghum	62 620	154 494	164 069	48 550	135 500	-5.84
Dry beans	43 550	60 200	60 200	39 750	47 695	-
TOTAL	3 955 470	13 124 094	13 024 969	3 758 300	13 534 851	+0,76

**Source: CEC (2013)**

### **Sorghum**

The BFAP notes that “the introduction of sorghum as feedstock for bioethanol production could literally double the size of the current market.” However, for this to happen, the BFAP advises that yields of new varieties will have to be superior to the current average to attract additional hectares. Production side challenges such as birds eating sweet sorghum varieties will mean farmers would have to think carefully on how they will obviate these challenges. Sweet sorghum is an excellent feedstock for the production of bioethanol. Further research is needed to develop better mechanism to allow farmers to take advantage of this lucrative farming enterprise. In the long term, high sorghum prices are expected to be the main driver of sorghum production in SA. Real gross income from sorghum production is expected to increase in the baseline (BFAP, 2013). The CEC estimates that sorghum output will drop further this quarter to 154 494 tons, compared with the 164 069 tons of the previous forecast. Over all, a decline of 5.84% in sorghum output is expected when compared with figures from the last forecast. The CEC anticipate a yield of 2.68t/ha. The area estimate for sorghum remained unchanged at 62 620 ha, as shown in Table 4.2.

### **Barley**

Barley will continue to be a key crop for the malting market in SA and is produced exclusively for malting purposes. Hence, the crop is expected to adhere to specific requirements compulsory for the production of different beer varieties (BFAP, 2013). A poor barley crop (which does not meet brewing requirements) is sold to the animal feed market. The BFAP notes that “historically, local production has not met local demand and malting barley was imported. Yet, the level of imports has gradually declined and introduction of new barley varieties which comply with the required quality specifications and improved yield potential

have led to a gradual increase in local production” (BFAP, 2013: 35). Other factors include known capacity constraints at the inland malting plant which limited significant increases in local barley production. As a result, BMI predicts a relatively flat growth in demand for barley. However, latest developments in the brewing sector hold renewed hopes for the crop. The BFAP (2013: 35) cites “the recent announcement by a major brewing company that a new inland malting facility” which will be erected in the near future as having the potential to boost production in the inland irrigated production regions. Nevertheless, if there is any growth in area under production, BFAP (2013) opines that it will be realisable at “the cost of reduced wheat hectares” notably considered “as an easier crop to grow” compared to barley which currently possesses a higher potential profit margin but requires very intensive agronomic management practices. The CEC production forecast for malting barley for August was 280 961 tons, 17 039 tons less than the previous forecast. The area planted with barley has improved from last season’s 44 100 ha to 81 320 ha, with an expected yield of 3.46t/ha, as shown in Table 4.1 above. BMI expects that there is going to be a decline in barley output due mainly to lower land availability due to increased plantings of maize. However, BMI notes that farmers have not switched away from barley as significantly as previously expected.

### **Soybeans**

SA experienced a bumper harvest last year, which is predicted to going to help decrease imports significantly. Increased yields and better prices will lead to an increase in gross income/ha for soybean producers. Importantly, new plants for crushing are being erected, made possible by recent developments which have seen local soybeans trading closer to export parity levels with soybean cake and oil trading closer to import parity levels (BFAP, 2013). This has improved the economics of oilseed crushing, making soybean crushing viable in South Africa. Local prices are therefore expected to trade at a premium higher than export parity levels thus higher than import prices. The BFAP expects this improved outlook for the soybean sector to entice more farmers to switch to soybean production both in the short and long term.

**Table 4.3: Soybean production in South Africa**

Province	2013 (tons)	2012 (tons)	2013 vs. 2012 (%)
Northern Cape	7 000	1 500	366.7
Mpumalanga	369 000	263 050	40.3
Free State	236 500	192 500	22.9
Gauteng	32 000	28 500	12.3
Limpopo	55 000	50 600	8.7
Eastern Cape	750	750	0.0
KwaZulu-Natal	80 000	81 600	-2.0
North West	22 000	31 500	-30.2
Western Cape	0	0	0
TOTAL	802 250	650 000	23.4

**Source: Soybean quarterly report (AMT, 2013)**

The production forecast for soybeans is 787 100 tons, which is 15 150 tons or 1.89% less than the previous forecast. The CEC’s area estimate for soybeans is 516 500 ha, with an expected yield of 1.52t/ha. The area planted with soybeans increased from 472 000ha in 2012 to 529 000ha in 2013. The Northern Cape saw an increase of 366.7% in soybean output followed by Mpumalanga (40.3%) and the Free State (22.9%) provinces, respectively as shown in Table 4.3. The North West province experienced the greatest decline in output of 30.2% whilst in KZN soybean production decreased by a mere 2%.

### ***Sunflower seed***

The BFAP notes that area under sunflower production increased following a move by summer grain producers to increase sunflower plantings from 453 000 ha in 2012 to 504 000 ha in 2013. However, average sunflower income per ha remained relatively low due to lower yields, despite the higher price levels. Poor rains in the summer grain caused some summer grains producers to switch to sunflower production, because of drought resistant characteristics of the crop. The CEC estimates the production for sunflower seed as likely to increase by 11 000 tons or 1.95% to 576 500 tons. The area estimate for sunflower seed is 504 700 ha, with an expected yield of 1.14 t/ha, as shown in Table 4.2 above.

### ***Groundnuts***

The CEC predicts that the production output for the groundnut crop will remain unchanged from the previous forecast at 42 300 tons. The area estimate is 46 900 ha, and the expected yield is going to decline to 0.90 t/ha, as shown in Table 4.2 above.

### ***Dry beans***

The CEC's production forecast for dry beans remained unchanged at 60 200 tons, with an area estimate of 43 550 ha. The expected yield is 1.38 t/ha, as shown in Table 4.2.

### ***Cotton***

BMI expects cotton to eventually break above its current trading range (between US\$84.00/lb. and US\$86.00/lb.) in coming months as there are no foreseeable major changes to China's stockpiling policy before mid-2014. Moreover, tightening credit conditions are making it increasingly difficult for Chinese cotton spinners to purchase fibre from government reserves, as government now requires on the spot payment (BMI, 2013). On the contrary, purchases of foreign cotton require 90-day letters of credit, decreasing pressure on mills that currently suffer from tight liquidity conditions. Consequently, BMI expects China's cotton imports to remain strong in coming months, leaving prices artificially supported in a context of ample stocks. Because BMI expects the global market to record decreasing cotton surpluses owing to relatively low prices, it expects discouraged cotton plantings while demand recovers. Consequently, BMI has revised their average cotton price forecast up to US\$85.00/lb. in 2013 and US\$87.50/lb. in 2014. In the 2012/13 production season, Limpopo followed by the Northern Cape had the highest amount of land set aside to cotton production under irrigation, respectively as shown in Table 4.4. A total of 29 622 bales of cotton were produced in South Africa in the past season alone. Limpopo had the highest output followed by Northern Cape. Swaziland provided 3500 bales of cotton in the same year.

**Table 4.4: 2012/13 Cotton production in South Africa and Swaziland:**

PRODUCTION REGION	hectares irrigation	hectares dry land	Irrigated yield kg cotton/ha	Yield dry land kg cotton/ha	200 kg bales cotton lint	% hand picked	% ginned so far
LIMPOPO PROV.							
Loskop	820	150	4410	600	6486	1%	85%
North & South Flats	0	865	0	1430	2165	0%	85%
Dwaalboom/Thabazimbi	0	0	0	0	0	0%	0%
Weipe	800	0	4000	0	5920	0%	60%
NOTHERN CAPE							
Vaalharts	500	0	5200	0	5250	0%	80%
Lower Orange River	190	0	5000	0	1730	1%	70%
Rest of Northern Cape	336	0	5000	0	3100	0%	94%
NORTH WEST							
Stella/Setlagoli	0	0	0	0	0	0%	0%
Taug	0	0	0	0	0	0%	0%
KWAZULU-NATAL	310	1406	3000	613	3243	74%	85%
MPUMALANGA	0	1600	0	600	1728	100%	85%
EASTERN CAPE	0	0	0	0	0	0%	0%
RSA TOTAL	2956	4021	4390	783	29622	14%	79%
Swaziland*	0	3600	0	550	3500	100%	40%
Botswana*	0	0	0	0	0		
Namibia*	0	0	0	0	0		
Zimbabwe*	0	0	0	0	0		
Mozambique*	0	0	0	0	0		
GRAND TOTAL	2956	7621	4390	673	33122	23%	75%

*\*Particulars relate to expected purchases of seed cotton by RSA & Swaziland ginners from these countries*

**Source: Cotton South Africa (2013).**

## 5. HORTICULTURE OUTLOOK

In the previous outlook report issued in March 2013, this section provided trends in production and exports of peaches and nectarines where it was reported that the production for these commodities shall increase by 3% from the previous season to reach a record 19.4 million tons. It was also reported that China was responsible for 62% of global production of these commodities. In the current edition, this section provides a glimpse on the South African vegetable industry, with special focus on emerging market opportunities on the African continent and also provides trade projections for table grapes going onto 2022.

### 5.1 Exports of Vegetables to Sub-Saharan Africa

According to Barrientos and Visser (2012), the expansion of South African supermarkets in Sub-Saharan Africa, Asia and the Middle East are providing new market channels for fruit and vegetables: These markets sets standards that are generally less stringent than European markets and are paying comparable prices to those of the EU. The emergence of Africa as an export destination for South African horticultural products is further highlighted in the BFAP 2013 report. In 2012, exports to Africa exceeded exports to EU, with Africa representing 31.2% and EU representing 29.9% of agricultural exports. Africa is said to be a net exporting market for South Africa's agricultural products and the positive trade balance has been increasing during the past 10 years. In table 5.1 below the top ten agricultural products that are exported to Africa are listed.

**Table 5.1: Top ten agricultural products exported to Africa (in million Rand)**

Commodity type	2008	2009	2010	2011	2012
Citrus fruit, fresh or dried	5381.0	5234.2	6536.7	6789.3	7376.2
Wine of fresh grapes	6142.2	5897.7	5707.6	5407.3	5973.2
Grapes, fresh or dried	3021.3	3352.8	3646.3	3359.6	4072.3
Apples, pears & quinces fresh	2869.7	3069.4	2983.4	3288.8	3898.4
Maize (corn)	4297.8	3733.2	2226.5	5822.8	3253.3
Wool, not carded or combed	1225.3	1270.9	1316.6	2142.2	2394.6
Fruit & vegetable juice, unfermented	1389.7	1382.9	1508.3	1652.2	1868.0
Cane or beet sugar & chemically pure sucrose	1787.3	3059.2	1808.8	1413.1	1601.0
Preserved fruit nes	1334.0	1460.3	1521.7	1351.6	1525.9
Nuts (excl. coconuts, Brazil nuts & cashew nuts)	372.6	446.4	727.2	1004.6	1333.8

Source: BFAP (2013)

In 2011 exports claimed 3% of vegetable exports mainly to Sub-Saharan Africa, yet the volumes are increasing rapidly. According to a study conducted by Emongor and Kirsten (2010), in 2007 there were already more than 400 South Africa owned supermarkets operating in SADC countries and playing a crucial role in terms of importation of vegetables from South Africa. In table 5.2 below the composition of South African Supermarkets in SADC is illustrated, with Zimbabwe, Namibia and Botswana leading the pack.

**Table 5.2: Number of South African supermarkets in SADC**

Country	Shoprite	Pick & Pay	Spar	Woolworths	Total stores	% of stores
South Africa	718	552	675	320	2265	85.4%
Angola	8	0	0	0	8	0.3%
<i>Botswana</i>	<i>10</i>	<i>19</i>	<i>26</i>	<i>11</i>	<i>66</i>	<i>2.5%</i>
DRC	0	0	0	0	0	0%
Lesotho	7	0	0	2	9	0.3%
Mauritius	1	0	11	1	13	0.5%
Malawi	5	0	0	0	5	0.2%
Mozambique	5	0	0	0	5	0.2%
<i>Namibia</i>	<i>65</i>	<i>15</i>	<i>19</i>	<i>4</i>	<i>103</i>	<i>3.9%</i>
Seychelles	0	0	0	0	0	0%
Swaziland	7	6	7	3	23	0.9%
Tanzania	5	0	0	1	6	0.2%
Zambia	18	0	2	1	21	0.8%
<i>Zimbabwe</i>	<i>1</i>	<i>56</i>	<i>70</i>	<i>2</i>	<i>129</i>	<i>4.9%</i>
Total	850	648	810	345	2653	100%

Source: Emongor & Kirsten (2010)

## 5.2 Types of fruits and vegetables exported to SSA

Although information relating to exports of vegetables is scarce, current indications are that apples, onions and tomatoes are more easily exported to SSA because they are less perishable (tomatoes are picked green to withstand bruising), whereas grapes and stone fruit require better cool chain facilities which are less likely to be available in SSA (see table 5.3).

**Table 5.3: Exports destinations (% value of fruits & vegetables from South Africa)**

Country	Grapes		Apples, pears, quinces		Stone fruit		Tomato		Onion, garlic, leeks	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
EU (Excl-UK)	63.83	49.94	14.13	9.69	46.71	40.94	2.39	0	21.34	14.6
UK	20.30	20.65	32.97	20.66	37.68	32.69	9.04	0	4.33	3.33
AEC*	4.11	19.21	11.93	20.55	3.59	6.43	0	0.96	0.72	1.35
Africa	1.15	2.25	12.45	22.98	2.13	2.66	88.3	98.76	70.28	79.02
Middle East	2.73	5.72	2.51	7.41	9.29	16.38	0	0.9	0.24	1
Other	7.88	2.23	26.01	18.71	0.6	0.9	0.27	0.28	3.09	0.7

Source: Barrientos and Visser (2012)

South Africa has a competitive advantage over most Sub-Saharan countries mainly due to economies of scale and a high standard infrastructure and logistical arrangements. In Namibia and Botswana for instance, most of the fresh produce is imported from South Africa due to limited local production. In countries like Zimbabwe, Swaziland, Zambia, and Mozambique canned fruits and vegetables, jam and other processed foods, such as all fruit juices, are imported from South Africa.

South African spices and peppers are reported as high value crops that are also showing potential in Sub-Saharan African markets. According to DAFF and NAMC (2013), the top three destinations for South Africa's spices in 2012 were Zambia with a 23% share, followed by Zimbabwe with a share of 22% and Malawi with a share of 9%. Top exported spices include pepper, which is the second most traded spice product in the country. The top three destinations for South African pepper in 2012 were the United States of America with a share of 27%, Australia with 17% and United Kingdom with a share of 11%.

### 5.3 Trade Projections for Table Grapes

According to BFAP 2013, the total area planted to table grapes was estimated at 25 872 hectares in 2012 projected to increase to 25 980 hectares in 2013. Over the next ten years, this area is projected to increase marginally to 26 720 hectares in 2022. This average increase of 0.3% per annum is significantly lower compared to the average annual increase of 1.7% over the previous decade. Expansion of the industry is not only restricted by the projected rising input costs exceeding inflation over the medium term, but also uncertainty resulting from the violent labour strikes in the industry seen towards the end of 2012.

#### **Table grapes – export market**

The average price for fresh grapes exported fell from R15 470 in 2010/11 to R15 215 in 2011/12 (figure 5.1). Taking inflation into consideration this represents a real price drop of 7%. This was the result of a combination of factors impacting negatively on the market, including oversupply, quality problems, timing from Southern Hemisphere suppliers and sluggish demand. Grape prices recovered in the 2012/13 season as South African supply was about 4% lower compared to the previous season, and exports from the rest of the Southern Hemisphere remained fairly stable year-on-year. The European market was favorable with prices gaining in real terms. The European market still accounts for approximately 78% of South African exports. The projected increase in the average grape price is in the order of 14% to almost R17 400 per ton. Over the long run, increasing demand and stable supply (from both South Africa and South America) are expected to exert upward pressure on prices.

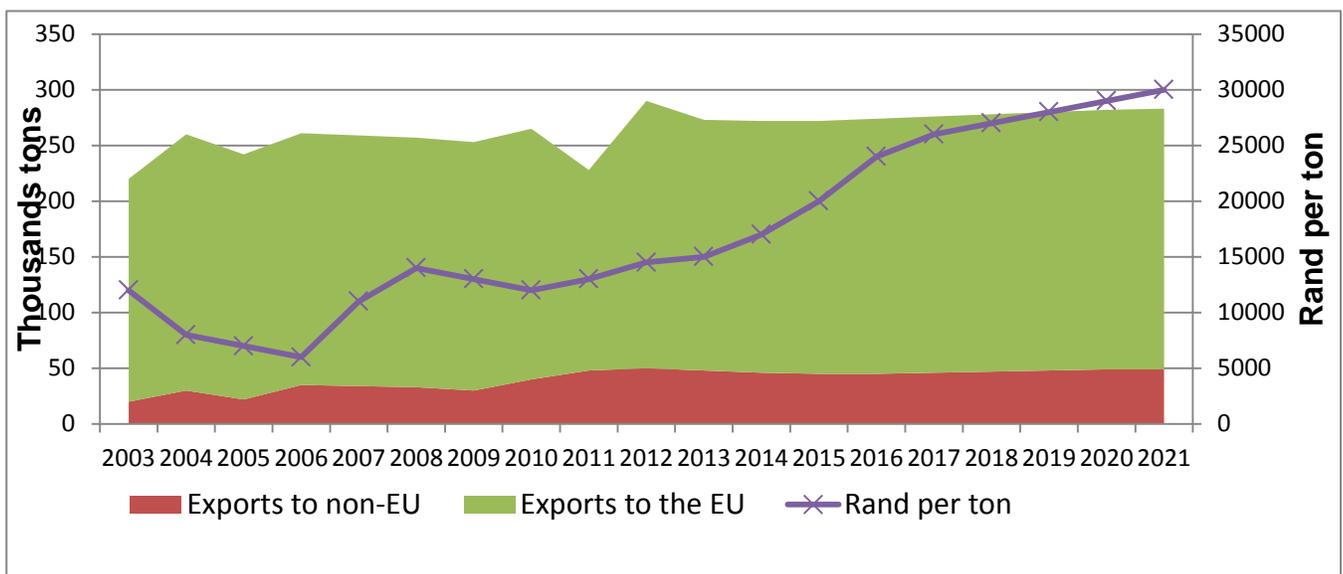


Figure 5.1: Export Market for SA fresh grapes (BFAP, 2013)

### Domestic market

The upward surge in the local price of fresh grapes continued in 2012, increasing by 8% from R7 600 per ton in 2011 to R8 200 per ton in 2012 (Figure 5.2). The projected price for 2013 is simulated at R8 795, up 7% year-on-year. Over the past decade prices increased on average by 8.3% per year, and over the next decade consumer prices for table grapes are projected to increase on average by 7.4% per year. This means, with an average inflation rate of 5% per year, price inflation of fresh grapes is projected to exceed average consumer price inflation by 2.4%.

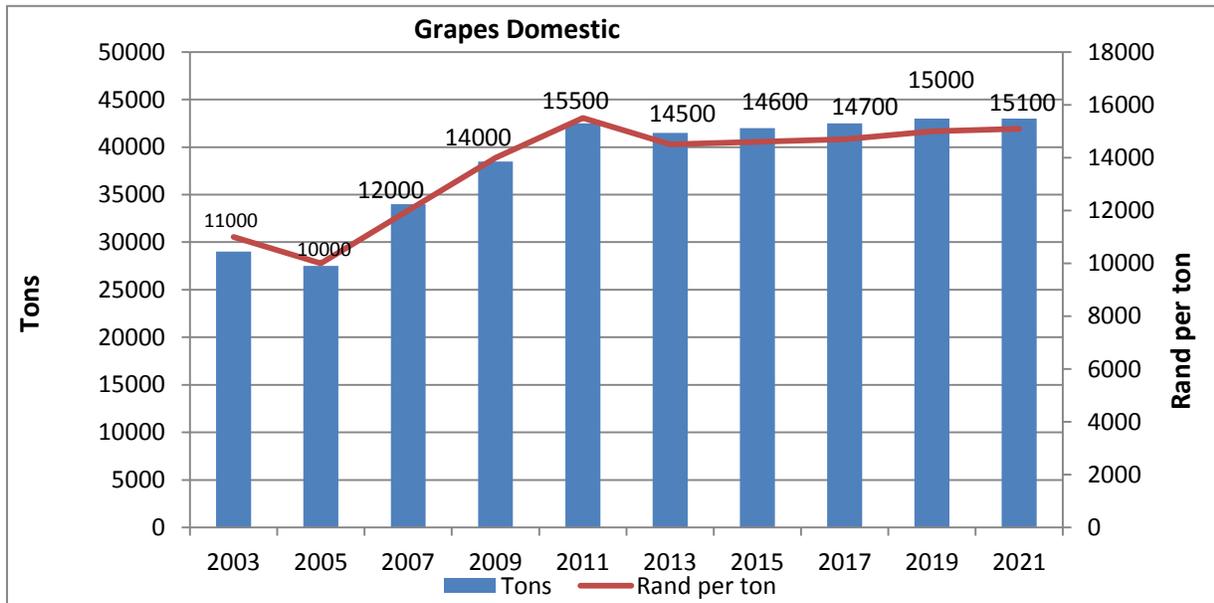


Figure 5.2: Local Market for SA fresh grapes (BFAP, 2013)

## **6. ANIMAL PRODUCTION**

### **6.1 Global Meat Trends**

Despite relatively stagnant demand in the OECD region, beef prices have increased significantly over the past 3 years due to high income and increased urbanisation in developing economies. The high cost of feed grains which has resulted in reduced carcass weights together with the depleted stock numbers in key production regions has however limited the supply response. Over the past 2 years sheep numbers have increased as a result of improved market conditions, with the lamb price reaching record levels in 2011. Improved weather conditions in Australia and New Zealand have further supported the recovery in flock size. New Zealand and Australian lamb prices have declined steadily through 2012 and 2013 as a result. The profit margins of intensive pork and chicken farmers have come under severe pressure over the past eighteen months due to spiraling feed prices. While feed costs reached record levels in 2012, the price of pork in the USA and poultry in Brazil has decreased slightly in 2012 following the 2011 increase, leading to extreme pressure being placed on producers' profit margins. In the EU however, pork prices increased in 2012 as a result of limited supply due to the high implementation costs of new welfare regulations. The OECD-FAO Outlook projects that world consumption of meats over the next decade will continue to expand at a moderate rate compared to the past decade. While consumption growth in developing countries remains strong, demand in developed countries seems to have reached saturated levels. World poultry consumption is projected to grow by 1.9% per annum over the next decade, followed by pork (1.4% per annum), beef (1.4% per annum), and sheep meat (1.2% per annum). The recovery in meat prices has already induced a phase of rebuilding stock numbers and over the long run production will expand further in order to match consumption of meat.

### **6.2 Poultry**

Two of the country's main poultry producers (Astral Foods and Rainbow Chicken) saw margins plummet in the 2012 financial year as local maize prices hit record highs. Domestic maize prices have remained quite high by historical standards, while domestic demand growth is expected to stay subdued in the coming months on the back of a slowing economic environment. From 2010 to 2012, broiler feed prices have increased by 51% while the broiler producer price increased by only 20% in the same period. Indications are that the country's poultry producers will strive to diversify their feed sources, sector and geography exposure in order to mitigate volatility in input and output prices. Astral Foods has recently indicated to increase its investment in the Mozambique feed sector in order to ensure a more steady supply in case of drought, or a production shock in South Africa from where it gets more of its feed at the moment. The company announced it would invest through its feeds subsidiary Meadow Feeds into Mozambique's feed sector after having reinforced its presence in Zambia.

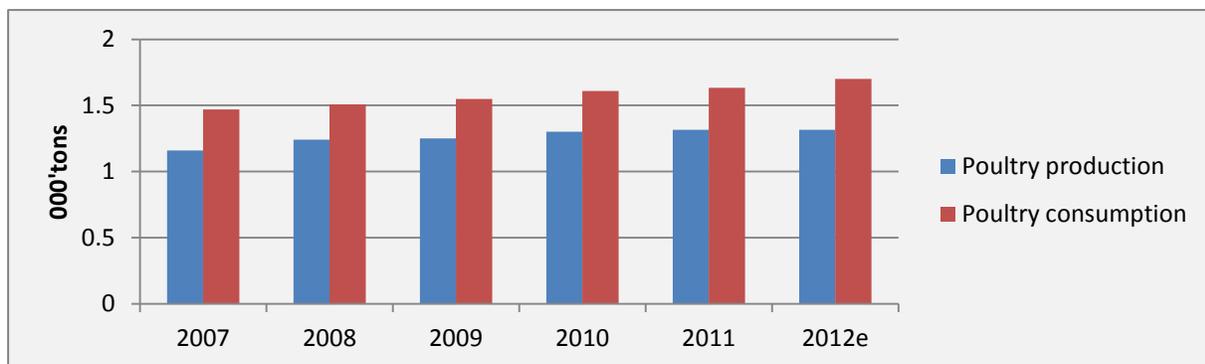
According to AMT, when comparing the second quarter of 2013 with the first quarter of the same year, the average producer price of frozen chicken declined by 0.5% to 27.0% while fresh poultry and IQF<sup>3</sup> respectively increased in total by 0.2% and 6.2% to 9.0% and 10.3% year on year. The quantity of maize that

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<sup>3</sup> Individually quick frozen

could be bought with the price of one kilogram of fresh poultry meat increased by 2.0% in the second quarter of 2013 compared to the previous quarter, due to a decline of 1.8% in the price of maize and an increase of 0.2% in the quarterly price of fresh poultry meat. Year-on-year, the quantity of maize that could be bought with the price of one kilogram of fresh poultry improved in total by 0.5% in the second quarter of 2013 due to an increase of 8.5% in the price of maize and an increase of 9.0% in the quarterly price of fresh poultry meat. Year-on-year, import parity price of broilers increased in total by 10.3% and leg quarters increased by 11.2%. In the second quarter of 2013, the import parity prices of whole birds and leg quarters were in the order of R27.15/kg and R18.11/kg compared to R18.58/kg and R18.26/kg for South African whole birds and leg quarters.

Due to its competitive price compared to other meats, BFAP estimates an annual average growth consumption of 3.7% for chicken meat while growth production is estimated at 1.6%, an indication that South Africa is still expected to remain a net importer of chicken meat. In the first quarter of 2013 a total of 80 960 tons of chicken meat was imported which was 24.4% less than in the previous quarter and 10.8% more than in the same quarter a year ago. The operating environment of the country's main poultry producers is projected to be difficult than earlier projected and as a result poultry production growth is expected to be subdued in 2012/13. BMI expects poultry production to recover in 2013/14, as maize prices are likely to moderate sharply in the coming months and a weaker rand will make imports less competitive. In addition to rising levels of poultry consumption among South African households, the meat has become increasingly popular as a convenience food, with leading retailers targeting health-conscious and time-poor shoppers with a wider range of poultry products. In the medium term, BMI envisages strong growth of nearly 20% and poultry consumption to expand by 23.8% in the five years to 2017, driven by strong GDP per capita growth and a steady fall in unemployment. Over the next decade, BFAP, forecast chicken production to increase 1.73 million tons and that approximately 839 thousand tons of chicken will be imported.



**Figure 6.1: South Africa Poultry Production & Consumption, 2007-2012(BMI, 2013)**

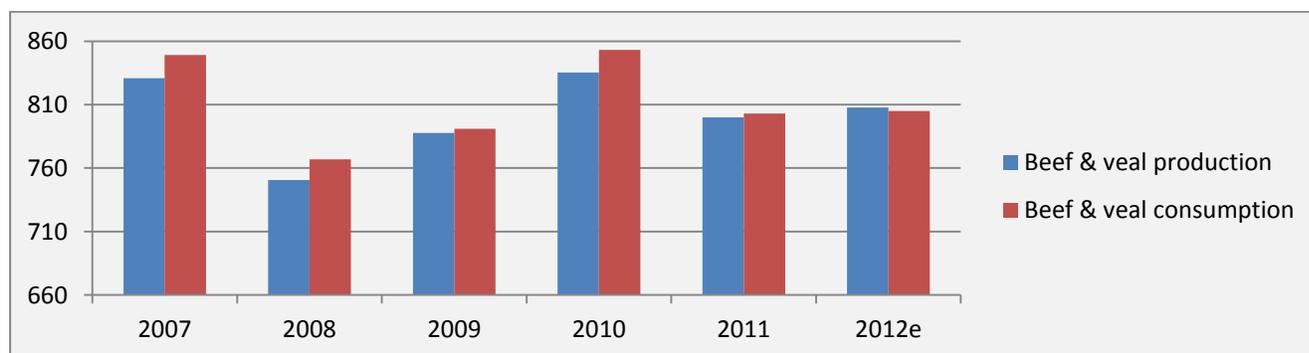
### 6.3 Beef

According to BFAP (2013), in recent years, the domestic beef market has been characterized by volatility owed to fluctuations in demand and supply resulting from extreme weather conditions and changes in

economic prospects. The growth in demand has been stagnant; however spike increases in feed costs in 2011 and 2012 pushed the price up. Feedlots provide about 80% of the beef cattle being sold at abattoirs in South Africa. This implies that South African beef cattle farmers are mainly weaner farmers. According to BFAP (2013) calf prices increased significantly in 2011 before easing in 2012 as high feed grain costs resulted in smaller feedlot margins compared to 2010, when feed grains were cheaper and the demand for beef was stronger. According to AMT, the average price of light weaners (190- 240kg) was 6.3% lower in the second quarter of 2013 compared to the previous quarter and 0.3% lower compared to the same quarter in 2012. With the cost of feed grains still high, BFAP (2013) foresees that feedlot margins will remain under pressure in 2013, resulting in further reduction in calf prices. Calf prices are expected to increase again in 2014 following the impact of stock reduction.

According to AMT from the first quarter of 2009 to the first quarter of 2013 there was a decline in the imports from overseas due to relative high world prices of beef. Imports from Namibia show an increasing trend from the first quarter of 2009 to the third quarter of 2011 after which it started to decline to the first quarter of 2013. In the first quarter of 2013 South Africa imported 892 tons of beef from overseas which was 22.0% less than in the previous quarter and 71.7% less compared to the first quarter of 2012. Over the same period, South Africa imported 16 541 tons of beef from Namibia (live animals included) which was 50.7% more than in the previous quarter and 109.7% less compared to the same quarter in 2012. In the second quarter of 2013, the average quarterly producer prices of Class A2/A3 and Class B2/B3 beef were in total respectively 5.9% and 4.7% higher than the average prices in the same quarter of 2012, but the average price of Class C2/C3 beef was 0,5% lower. In the second quarter of 2013, the average quarterly producer prices of Classes A2/A3, B2/B3 and C2/C3 beef carcasses were respectively 6.2%, 3.0% and 8.1% lower than in the previous quarter.

In the short term, an increase in the producer price of weaners is predicted. Taking into account expectations for economic growth in South Africa and the forecasts for feed prices to moderate in the medium term, BMI forecast beef production rising by 5.1% in the five years to 2016/17 while over the long run demand and supply of beef is projected to grow at a constant rate, improving on the growth that was realized over the past decade. Beef consumption is expected to grow by 27% (compared to 10% over the period 2002 – 2012).



**Figure 6.2: South Africa beef & veal production & consumption, 2007-2012 (BMI, 2013)**

## 6.4 Pork

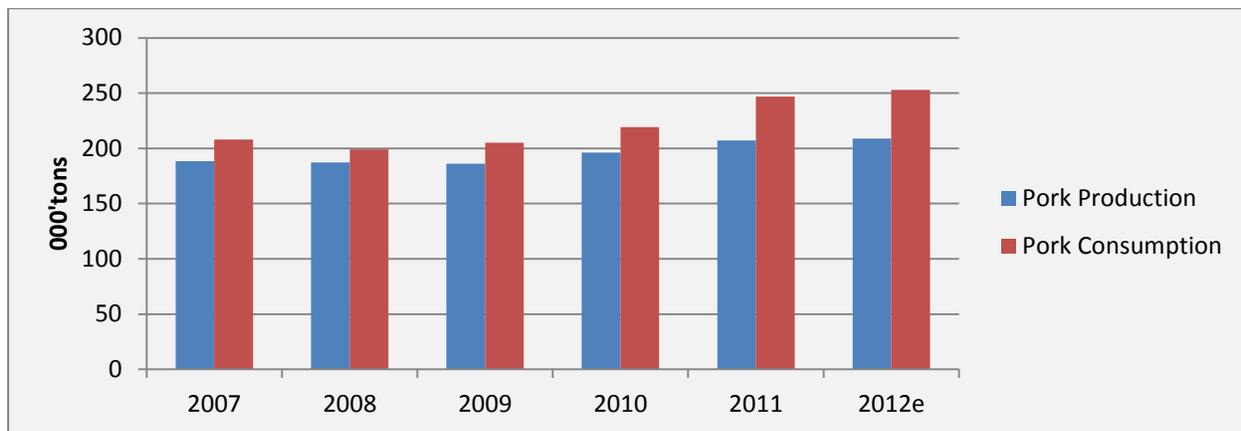
From 2003 to 2012 official statistics suggests that the national pork herd has declined by 4.6% in total. Pork production contributes around 2.15% to the primary agricultural sector. The average gross value of pigs slaughtered over the past 10 years amounted to R 19.8 billion. The contribution of pork to the gross value of agricultural production increased steadily from 2001/02 to 2005/06 and substantial increases in gross value due to an increase in prices were experienced from 2006/07 to 2010/11. It is estimated that over 2.4 million pigs were slaughtered during 2011 yielding over 2 million tons of pork. The total number of pigs slaughtered in the first quarter of 2013 was 7.4% less compared to the previous quarter, 13.8% less than the second quarter of 2012 and 43.2% less compared to the long-term average from the second quarter of 2009 to the second quarter of 2013. The trend in slaughtered animals started to decline from the third quarter of 2009 to the second quarter 2013.

Based over the average period from the second quarter of 2009 to the second quarter of 2013, an increasing trend in pork production from the first quarter in 2011 to the second quarter of 2013 has been experienced. South Africa remains the net importer of pork with imports projected to provide 13% domestic demand in 2013. In the second quarter of 2013, a total of 14 202 tons of pork meat was imported, which was 122.3% more than in the previous quarter and 63.9% more compared to the same quarter in 2012. The imports of ribs in the second quarter year-on-year were 101.0% more and the import of other pork meat was 29.9% more. In the second quarter of 2013, the meat/maize price ratio<sup>4</sup> weakened in total by 2.9% against the previous quarter, which was caused by a decline of 1.8% in the price of yellow maize and a decline of 4.6% in the price of baconers. Year-on-year, the meat/maize price ratio weakened by 6.1%, which was caused by an increase of 6.5% in the price of yellow maize and a decline of 0.2% in the price of baconers. In the second quarter of 2013, the meat/soya bean oil cake ratio weakened in total by 6.6% against the previous quarter due to an increase of 2.2% in the import parity price of soy oil cake and a decline of 4.6% in the price of baconers. Year-on-year, the meat/soy oil cake price ratio weakened by 7.0% due to an increase of 7.3% in the import parity price of soy oil cake and a decline of 0.2% in the price of baconers. The average price of porkers was in the second quarter of 2013 year-on-year in total 1.3% higher and the average price of baconers was 0.2% lower. In the second quarter of 2013 the average producer prices of porker carcasses declined in total by 4.5% and baconer carcasses declined by 4.6% compared to the previous quarter.

Pork production is forecast to grow 16.4% on the 2011/12 level to 249,100 tons. Pork consumption is projected to grow by 41% (compared to 62% over the period 2002 – 2012) until 2022 while in the medium term; consumption is seen growing by 1.0% in 2013 and by 23.9% in the five years to 2017. In the short term, an increase is predicted in the average prices of both the porkers and baconers.

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<sup>4</sup> The meat/maize ratio and meat/soy oil cake ratio is an indication of the quantity of maize or oil cake that could be bought with the price of one kilogram of baconer carcass.



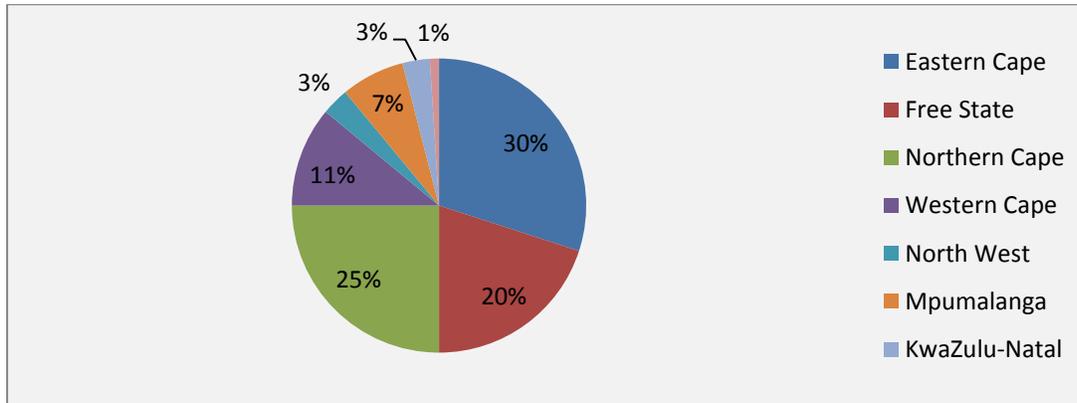
**Figure 6.3: South Africa pork production & consumption, 2007-2012 (BMI, 2013)**

## 6.5 Mutton

Sheep numbers in South Africa are estimated at 28.8 million distributed in all nine provinces as depicted in figure 6.4 below. Approximately 86% of sheep are in Eastern Cape, Northern Cape, Free State and the Western Cape. The other five provinces share the remaining 14% of the country's sheep numbers. There are approximately 8 000 commercial sheep farms throughout the country and about 5 800 communal farmers. Over the past ten years, the average gross production value amounted to R 2 588 million. The gross value of mutton production increased continuously from 2001 until 2009 and declined a bit in 2010. Declining sheep numbers and rapid population growth in SA have led to an increase in demand and subsequent shortages in the supply of mutton. The declining of sheep numbers results mainly from stock theft and predation.

According to BFAP (2013) domestic lamb prices show a strong correlation with international lamb prices due to reliance on imports to meet domestic demand. After a sharp increase in 2011 on the back of high international prices and increasing demand for lamb following recovery from the financial crisis, lamb prices decreased significantly in 2012. The decrease followed increased supply by New Zealand and Australia as the impact of recovering herd numbers began to show combined with lower demand from the EU due to the debt crisis leading to a sharp decline in international prices. As a net importer of lamb, the domestic price in South Africa also declined. According to AMT, imports from Namibia of 4 766 tons of mutton, including live animals) in the first quarter of 2013 was 18.4% more compared to the previous quarter and 22.5% more than the same quarter in 2012. In the first quarter 2013, SA imported 1 169 tons of mutton from overseas which was 4.2% less compared to the previous quarter and 46.4% less than in the same quarter in 2012. In the second quarter of 2013 the total number of sheep and lamb slaughtered was 0.6% less compared to the previous quarter, 4.4% more than the same quarter a year ago and 9.5% more than the long term average from the second quarter in 2009 to the second quarter in 2013. The average quarterly producer price of Class A2/A3 lamb carcasses in the second quarter of 2013 was 2.8% lower than in the previous quarter, and B2/B3 and C2/C3 mutton were respectively 2.7% and 6.2% lower. In the second quarter of 2013 the average import parity price of Australian lamb was 18.1% higher than in the previous quarter, and the average price of mutton was 31.7% higher. Year-on-year the average quarterly import parity price of lamb was 6.2% higher in the second quarter of 2013, and the average price of mutton was 28.3% lower. Although the sheep meat market is relatively small, growth of 16% (compared to a

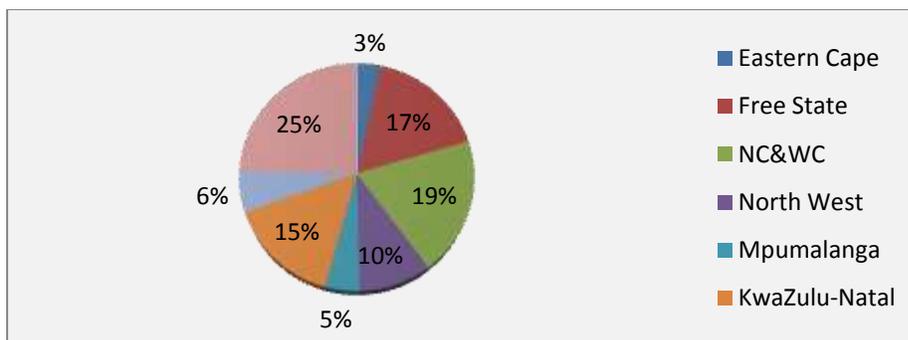
contraction of 18% over the period 2002 – 2012) is expected over the next decade. In the short run an increase is predicted in the average price of Class A2/A3 lamb while over the long run, the lamb price is expected to increase at an annual rate of 4.8% in nominal terms.



**Figure 6.4: Distribution of sheep per province in 2010 in South Africa (DAFF, 2011)**

## 6.6 Eggs

At a gross turnover of R6.951 billion at producer level, eggs take their place as the fourth largest animal-product sector in agriculture in SA. About 580 million dozen eggs were sold in 2011 through various channels. In 2009/10 the price of eggs was R9.36 per dozen. This is an increase of R0.53 compared to 2008/09 and an increase of R5.38 (135%) compared to 2000/01. This increase might have been caused by the high feed prices; although there was a decrease of 11% of feed cost in 2010 the feed prices are still high following the increase of 32% experienced in 2008. Despite the pressure of high feed costs, the price of eggs declined slightly in 2012, for the third year running. Notwithstanding the lower price, production increased significantly in order to match a 10.8% increase in consumption. The consumption of eggs is also expected to increase by 33% (compared to 38% over the period 2002 – 2012), exceeding 545 thousand tons by 2022. High feed costs following the US drought in 2012 drove the egg to maize price ratio to its lowest level in the past decade, though a recovery is expected in 2014 after which the increase in egg price will remain higher on average than the increase in maize price over the outlook period. This positive output to input price ratio supports the expansion of the local industry in order to match ever expanding per capita consumption.



**Figure 6.5: Provincial Egg Production (SAPA, 2012)**

## 6.7 Milk and dairy products

Over the past decade the dairy industry has expanded by 32%, with total consumption of dairy products increasing from 2.12 million tons in 2002 to 2.8 million tons in 2012. Relatively lower feed grain prices in 2010 boosted production to a record level of 2.69 million tons, consequently causing the producer price of milk to decrease towards the end of 2010 and 2011. During 2012, 2 757 million litres of milk were produced, 4.5% more than in 2011. From January to July 2013, 1 490 million litres of milk were produced, 0.07% up on 2012. Production growth will probably remain low till spring 2013. Dairy products equivalent to 284-million litres of milk were imported and dairy products equivalent to 419- million litres of milk were exported. In total 135-million litres more were exported than imported. This year, up to July 2013, dairy product exports exceed imports by 120 million litres. The market demand for dairy products continues to grow at more than 4% per year. With a significantly smaller increase in price expected in 2013, production will increase only marginally by 1%. Consumption of fresh milk is expected to increase at an annual average of 2.1% per annum over the next decade, compared to 2% per annum over the past decade. By 2022, 3.49 million tons of milk (excluding the imports of dairy products) will be produced to match local consumption.

Increases in the price of milk products were greater in 2012 than in 2011, flowing from the increase in raw milk prices combined with greater demand associated with growth in per capita income. Although nominal prices are expected to increase over the next decade only cheese and skimmed milk powder are expected to increase at a rate that is significantly greater than the expected inflation rate of 5%, resulting in a 2.2% and 2.3% increase in real terms respectively. The price of butter and whole milk powder is expected to increase at an average of 5.3% and 5.5% per year respectively, resulting in relatively constant real prices. Due to the anticipated depressed economic growth over the next decade relative to the past decade, the growth in the demand for dairy products is expected to slow down to an annual average increase of 4.7% per year, compared to 5.6% over the past decade. Butter consumption increases of only 9% are expected over the next decade, matching growth of 8.7% over the past decade. A decline in butter consumption is expected from 2017 to 2022.

**Table 6.1: Retail Market growth**

Product	Annual Percentage growth for 12 months to March 2013			
	Dec-10	Dec-11	Dec-12	Mar-13
Fresh Milk	4.6	2.6	-4.8	-6.5
UHT Milk	5.1	10.6	7.6	8.3
Flavored Milk	3.5	5.8	16.0	7.9
Yoghurt	8.5	8.3	3.9	2.5
Pre packed cheese	8.6	17.8	21.1	18.5
Butter	6.0	1.1	4.3	10.9
<b>Total Market</b>	<b>4.7</b>	<b>5.9</b>	<b>5.0</b>	<b>4.5</b>

Source: MPO (2013)

## 6.8 Mohair

South Africa is still the leading mohair producer in the world with 50.4% of the total world production, followed by Lesotho and Argentina. World production continued to decline since 1990. However, the rate of decline slowed since 2000, and production stabilized during the last three years.

In 1988 South Africa had 2.9 million Angoras which produced 12.2 million kg of mohair, where after the production of mohair declined sharply to 5.6 million kg in 1996 and 2.32 million kg in 2012 implying that the current flock size and production level are the lowest in the two decades. The national herd has stabilized to around 0.644 million goats in 2012 and local production for 2012 at 2.32 million kg. Some of the reasons for the decline in local production are losses to predators, severe drought experienced in a large part of the production area, stock theft and the extension of national parks that take up production areas. In 2000, the South African share in world production was 62.3%, but decreased to 50.4% in 2012. The USA lost share from 14.6% in 2000 to 4.6% in 2012. The market share of Lesotho increased from 7.3% in 2000 to 16.7% in 2012 to become the second largest producer of mohair followed by Argentina at 13%. The total mohair export volume decreased with 10.8% from 2011 to 2012. In comparison with 2010, the volume of mohair exports decreased with 38.5% from 4.320 million kg to 2.655 million kg. During 2011, the five major South African mohair export destinations imported 89.4% of the total exports. The volume of mohair exported to Italy, the major export destination for South African mohair during the last year decreased with 26.5% year on year from 2011 to 2012. China being the second largest importer of SA mohair in volume terms decreased its imports in 2012 with 19.2% from 2011. South African mohair exports to different countries are shown in figure 3 below.

The average price realization for 2012 was R106.01/kg, whereas the average price for the previous season amounted to R100.55, an increase of 5.4%. Prices for kid, young goat, fine adults and strong adults' hair averaged R172.83/kg, R128.95/kg, R85.64/kg and R75.24/kg respectively during 2012, compared to the R158.87/kg, R117.07/kg, R89.09/kg and R75.21/kg of these classes respectively during 2011. The average market indicator for the summer of 2013 was R106.01/kg. Whereas the average price for the previous season amounted to R100.55, an increase of 5.4%. The overall market indicator for the final summer sale of 2013 closed on R117.22, 16.6% higher than the corresponding sale of 2012 and 20% higher than the opening sale of 2013. Prices for kid, young goat, fine adults and strong adults hair averaged R292.85/kg, R184.17/kg, R108.56/kg and R90.14/kg respectively during the final summer sale of 2013; compared to the R210.16/kg, R152.25/kg, R98.44/kg and R86.81/kg of these classes respectively during 2012.

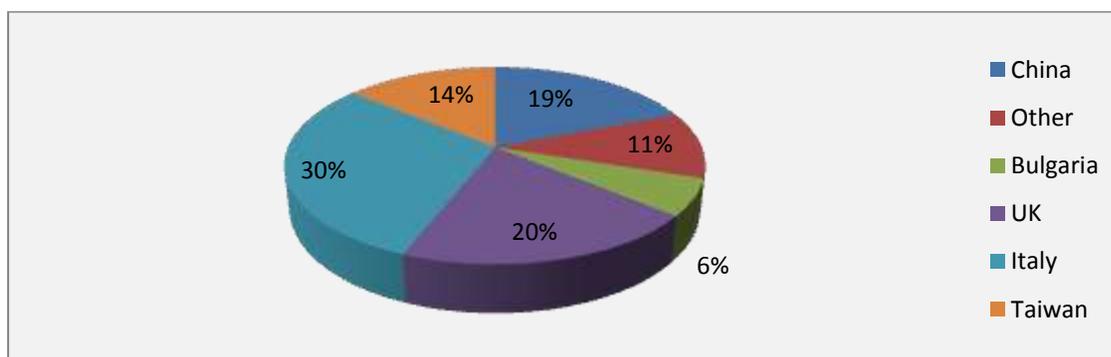
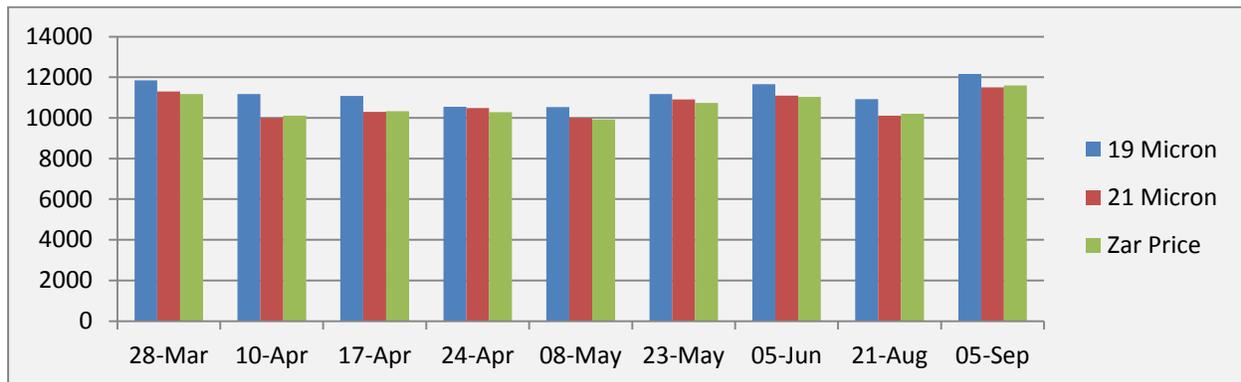


Figure 6.6: Major exports per country of destination of RSA mohair during 2012(Mohair SA Limited, 2013)

## 6.9 Wool

South Africa produces mainly apparel wool. Course wool and coloured types are produced and marketed at a limited scale. The composition of wool sheep in South Africa is mainly Merino and Karakul. Around 74% of the total wool sheep is Merino sheep. The production season of wool is between August and June of the following year and each sheep is shorn twice during the production season. More than 50% of the clip is produced in the Eastern Cape and the Free State provinces. The second wool auction of the 2013/2014 season exceeded all expectations when the wool-price soared some 13%. Although this came about largely as a result of the weaker Rand/US Dollar exchange rate it followed in close pursuit of Australian prices. There was only a scant difference between the micron groups. Wool of 20 - 21.5 micron as well as 22.5- 23 micron improved by as much as 14%. Low stock levels in China have resulted in Australia earning the highest price in 30 months as well as a 13% wool price increase in South Africa. The significantly improved consumer confidence, especially in Europe and the US, has contributed to the higher price levels by increasing orders from retail to manufacturing. This has resulted in buyers needing to provide for outstanding and existing orders.



**Figure 6.7: Price movement for good quality wool per micron 2011/12 season: (CMW, 2013)**

## 7 CONCLUSIONS

It is important for governments of developing countries and low income groups in OECD countries to closely watch food price movement since this is where food expenditures often account for a large share of household expenditure. A number of factors will continue to influence the evolution of agricultural markets in the coming decade including the broader macro-economy in which agriculture operates. Greater responsiveness of consumption to income growth along with more rapid population gains and large middle classes, are expected to support increased demand for and trade in food, feed, fibre and fish over the next decade. New prospects have been opened up in the development of modern agriculture. The pattern of agricultural development has changed with better infrastructure supporting the sector. The policy environment is more supportive to productivity growth with a greater emphasis on science and technology, and with facilities to improve farm productivity and higher ecological performance.

During 2012 South African exports to Africa exceeded exports to EU for the first time, and this phenomenon shows that the country is playing a bigger role on the continent. South Africa has been a net importer of agricultural products from BRIC countries, Oceania and America for the past 10 years and the negative trade balances seems to have been increasing in magnitude since 2010.

Current food forecasts could come under threat from both internal and external factors. In terms of the latter, the deteriorating global environment will have an impact on the country's economic performance and, in turn, the state of consumer confidence and spending. Food security will remain broadly stable in the region over the short term, although medium-term concerns will drive interest in land acquisitions.

In the past 6 months beginning in April 2013, the grains sector has witnessed significant changes which have mainly drawn from developments in the world's foremost producers of grains. Drought continued to be a major concern in Southern Africa. In South Africa, leading summer grains producing areas such as the Free State and North West provinces experienced drought, which has depressed maize output for the country. Soybean is gaining momentum in South Africa alongside a favourable global soybean market which has seen local prices moving closer to export and import prices. Due to sunflower's drought resistant characteristics, farmers in the summer grains areas are likely to set aside more land for sunflower production. Factors expected to drive increased productivity in the summer and winter grains sector include a favourable macroeconomic outlook for South Africa, improved prices for some grains, heightened efforts to increase the capacity for local processing of some grains such as oilseeds (soybeans and sunflower), malting barley and bearish prices for yellow maize. New crop technologies are also expected to continue to add significantly in improving grains output in South Africa. Continued droughts in South Africa's key import partners for wheat (Ukraine) are likely to lead to an increase in the price of wheat.

Africa is seen as an emerging market with potential growth for agricultural products. The expansion of South African supermarkets into Sub-Saharan Africa serves as an important game changer from several business perspectives; first in terms of creation of new export destinations, second in terms of redefining and re-orientating the sourcing and procurement of farm products, third increasing the capacity for agro-processing and lastly growing the vegetable industry. Efforts for growing markets in Sub-Saharan Africa have resulted from better administrative capacities where statistics on sales and production of vegetables are improving. This is aided by the involvement of private companies (e.g. Shoprite and Pick & Pay). A brief outlook on prospects for table grapes shows that both domestic and export prices for these commodities

are expected to increase at a substantial rate, well above the CPI. This is good news for South African farmers and poor consumers.

Despite industry challenges, high feed costs and the influx of cheap imports, steady growth is projected for the domestic livestock sector in the medium to long run term. While growth is anticipated, participation by previously disadvantaged individuals and rural communities is still minimal. This fact together with the point that South Africa remains a net importer of certain meat and livestock products provides an opportunity for smallholder business expansion. The ARC through its renewed emphasis on smallholder development should explore ways in how to transform small holder challenges into opportunities for capacity development to contribute towards ensuring both household and national food security. High feed costs have been identified as a serious threat in achieving the anticipated growth. This necessitates ARC to form partnerships with other stakeholders to explore R&D activities that sought to address the reliance on imported soybean oil cake which forms a significant part of the feed costs.