

ECONOMIC OUTLOOK REPORT XVI



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Table of Contents

1. EXECUTIVE SUMMARY	3
<i>Global macroeconomic status</i>	3
<i>South African macroeconomic status</i>	3
<i>Global agricultural outlook</i>	3
<i>South African Agribusiness</i>	3
<i>Field crop outlook</i>	4
<i>Horticultural outlook</i>	4
<i>Livestock production</i>	4
<i>SADC Food Security Outlook</i>	4
2. FOREWORD AND ACKNOWLEDGEMENTS	5
3. MACRO-ECONOMIC INDICATORS	6
<i>Global macroeconomic status</i>	6
<i>South African macroeconomic status</i>	6
<i>Global agricultural outlook</i>	7
<i>South African Agribusiness</i>	8
<i>SADC Region</i>	9
4. FIELD CROP PRODUCTS	9
<i>Global Grains snapshot</i>	9
<i>South African Grains Sector</i>	11
<i>Wheat</i>	11
<i>Maize</i>	12
<i>Sorghum</i>	12
<i>Barley</i>	13
<i>Soybeans</i>	13
<i>Sunflower seed</i>	14
<i>Groundnuts</i>	14
<i>Dry beans</i>	15
5. HORTICULTURE OUTLOOK	15
<i>Apples and pears</i>	15
<i>Avocado outlook</i>	16
VEGETABLES	17
6. ANIMAL PRODUCTION	18
<i>Global Trends</i>	18
<i>Domestic Livestock Market</i>	18
<i>Poultry</i>	19
<i>Beef</i>	19
<i>Pork</i>	20
<i>Eggs</i>	21
<i>Milk and dairy products</i>	21
<i>Mohair</i>	22
<i>Wool</i>	22
7. CONCLUSIONS	23

1. EXECUTIVE SUMMARY

Global macroeconomic status

The first quarter of 2014 saw a slowdown in growth in advanced economies compared with the 4th quarter of 2013, due in part to severe weather conditions, particularly in the US. Nevertheless, underlying US growth prospects remain relatively favourable despite a slower pace of employment growth, amid positive investment and consumption indicators. The UK economy continues to show signs of sustained improvement, with declining inflation and unemployment as well as a buoyant housing market. The Eurozone growth prospects remain weak, although there are signs of a modest recovery, and the unemployment rate appears to have peaked. Japanese economic growth was lower than expected, and there are indications that the recovery could be losing momentum. There is also a deteriorating outlook in a number of the larger emerging market economies, including Brazil, Russia and China. The slowdown in China is expected to maintain downward pressure on global commodity prices, particularly industrial commodities. Global inflation pressures remain benign, particularly in the advanced economies.

South African macroeconomic status

South African economy continues to draw strength from global market trends, with growth in Europe expected to improve marginally to 1% in 2014 and Sub-Saharan Africa expected to grow by 6.1% in 2014. The South African Reserve Bank's forecast of headline inflation is unchanged; expected to average 6.3%, with a peak of 6.6% expected in the fourth quarter. The forecast average inflation for 2015 was lowered to 5.8%, with inflation expected to average 5.6% in the final quarter of that year. Inflation is still expected to breach the upper end of the target range in the second quarter of 2014, and to return to within the target range in the second quarter of 2015. The outlook for core inflation improved, and is expected to average 5.6% in both 2014 and 2015. There has been the contraction of the trade account and economic growth is expected to remain below potential at between 3 and 3.5% in 2014, with a consequent widening output gap, influenced by protracted strikes and electricity constraints and amid continued low levels of business confidence. Unemployment will be 24.8% in 2014, from 25.0% in 2013 and projected 23.3% by 2017.

Global agricultural outlook

Muted agriculture land appreciation and slightly lower levels of income are expected in 2014, leading to moderate returns. However, there are opportunities available for the investor in certain sectors. By 2022 developing countries will account for the majority of exports of coarse grains, rice, oilseeds, vegetable oils, protein meals, sugar, beef, poultry meat, fish and fishmeal. Overall world production growth is projected to slow to 1.6% p.a. in the coming decade, compared to 2.3% p.a. the previous decade. Agricultural trade is expected to increase in response to strong demand in developing countries. Other factors that continue to influence agricultural growth include higher energy prices which will have an effect on both demand and supply of agricultural products; population growth, and exchange rates. Many emerging economies continue to invest in their agricultural sectors and pursue policies to encourage production.

South African Agribusiness

The year-on-year food and non-alcoholic beverage index was 4.3% in January 2014. The weaker exchange rate keeps on fuelling inflation in the food value chain. Acceleration in consumer food price inflation was fairly broad-based among food categories, with both processed and unprocessed food price inflation gaining momentum. Still, BMI forecasts strong growth in food consumption in South Africa, driven largely by rising

disposable incomes as the economy continues to expand. The sugar sector presents interesting growth opportunities, due to renewed investment and improved technologies.

Field crop outlook

Current forecasts suggest that the local grains sector will continue to experience healthy growth in 2014; despite fears about political developments in Eastern Europe spilling over into the local wheat and maize sectors. The continued healthy outlook for both the summer and winter grains sector is expected to positively impact other industries, especially the livestock sector which is heavily reliant on summer grains. BMI anticipates that barley and wheat production will decrease in South Africa due to a continued decline in profitability, and a resulting switch to canola and oats production. It is projected that farmers in Mpumalanga may switch to soybean production owing to an increase in soybean processing capacity in the province. Wheat prices stand to increase should the ongoing impasse in Ukraine persist, which will likely affect wheat imports. Lastly, grain prices are expected to underperform in the next quarter, whilst maize and soybeans are expected to trade sideways. Wheat prices will display more weakness whereas rice prices will remain supported over the short term but generally will be lower in 2014.

Horticultural outlook

While farmers were expecting a windfall for exports at the back of a weaker currency, a new risk factor emerged in the form of Transnet National Ports Authority (TNPA) tariff applications for 2014/15 financial year. The area planted to apples and pears is expected to increase in 2014. However the area planted to bearing pear trees is projected to decline over the next ten years. Rising establishment costs are to blame for the lag period. The avocado industry is expected to deliver a record 58 million tons of fruit in 2014.

Livestock production

Rising food prices reinforce a reduced growth expectation for poultry, beef and pork consumption in the short term. steady strong GDP per capita growth and a steady fall in unemployment are expected to drive poultry consumption. The extended forecast for poultry production envisages strong growth of nearly 22.8% in the five years to 2017/18. The country's annual per capita beef consumption has gradually declined from a peak of 26kg in the late 1970s to the current 16.5kg. In the short to medium term, BMI forecast beef production rising by 6.6% in the five years to 2017/18. Weaner prices had fluctuated from as low as R14/kg in the first two quarters of 2013 to R18/kg in the last quarter of 2013. Expectations are that prices will remain at this level in 2014. Over the period to 2017/18, pork production is forecast to grow 22.5% on the 2012/13 level to 257 200 tons. Milk imports increased from 3 123 tons in January to 5 762 tons in February 2014. Cape Wools' Merino indicator softened by a marginal 1.4% to close at R115.67/kg (clean), a 13.5% increase on the opening sale and is up almost 6.1% on the corresponding sale last year.

SADC Food Security Outlook

The regional food security outlook of the 1st semester of 2014 is low due to below normal rainfall. Rain deficits, and below normal rainfall forecasts, are likely to perpetuate dry conditions which might negatively impact crop production, particularly where the rains stay away. Significant drought relief is already evident in Zimbabwe.

2. FOREWORD AND ACKNOWLEDGEMENTS

The Economic Services Unit presents this 16th Economic Outlook to the ARC as a planning resource. The document analyses global and domestic trends in economic policy and agricultural markets and their envisaged 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 should be interpreted as possible scenarios. The following sources are acknowledged:

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3. MACRO-ECONOMIC INDICATORS

Global macroeconomic status

The International Monetary Fund (IMF) projects global economic growth to increase from 3.7% this year to 3.9% in 2015. Economic activity in advanced economies has strengthened. The outlook for emerging markets remains positive, with projected economic growth of 5.1% in 2014, up from 4.7% in 2013.

Of the advanced economies, the **US** economy is expected to grow by 2.8% in 2014, up from 1.9% in 2013. Improving housing and labour markets provide a favourable backdrop for domestic demand growth. While unemployment has declined, the number of people who are no longer counted as part of the workforce has increased. The pace of monetary tightening is a risk. In **Europe**, growth is projected to improve marginally to 1% in 2014. In the UK, GDP growth of 2.4% is expected in 2014, up from 1.7% in 2013. Recovery is insufficient and uneven across Europe, with persistently high unemployment in France, Spain, Greece and Italy. The banking system remains undercapitalised, posing a risk to financial stability and the recovery. In **Japan**, DP growth reached 1.7% in 2013 and is projected to remain at that level in 2014. Rising government debt could put pressure on the fiscus.

The developing economies show more robust growth: **Sub-Saharan Africa** is expected to remain the second fastest growing region in economic terms, with growth of 6.1% in 2014 and 5.8% in 2015. The region recorded 16.2% growth in net foreign direct investment in 2013, concentrated in natural resources and services. Over the next 10 years, the region's real per capita income is expected to increase by over 30%. The primary risks for the region relate to moderating commodity prices due to slower growth in China. The **Chinese** economy, now the world's second largest, continues to grow strongly, but at a reduced pace. GDP growth is projected at 7.7% in 2013, 7.5% in 2014 and 7.3% in 2015. The model on which the country has achieved rapid growth has come under pressure owing to demographic shifts and rising demand for higher wages. High debt levels, rising borrowing costs and bank liquidity concerns are risks to the outlook. In **India** GDP growth of 5.4% is projected for 2014, up from 4.4% in 2013. High inflation, rising interest rates, and continued market and capital flow volatility are risks to the outlook. The **Brazilian** economy will benefit from improving export growth and strong public investment for the 2014 soccer World Cup and the 2016 summer Olympics. GDP growth is projected at 2.3% in 2014 and 2.8% in 2015. Capital flow volatility and rising interest rates are risks to the outlook.

South African macroeconomic status

South Africa's improved medium-term growth prospects are tied to an improving global outlook, strong economic growth in sub-Saharan Africa, and the release of production and transport constraints as major infrastructure becomes operational. Real GDP is projected to grow from 1.8 % in 2013 to 2.7% in 2014, reaching 3.5% by 2016. The outlook as seen by the governor of the SARB is that the economy remains subdued amid continued strikes in the platinum sector and uncertainty regarding a stable and sufficient electricity supply in the coming months. While the most recent inflation forecasts suggest marginal improvements in the medium term, upside risks to the inflation outlook persist despite the recent appreciation of the rand, which remains vulnerable to shifts in global risk sentiment and adverse domestic developments. The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 5.8% and 5.9% in January and February 2014 respectively, up from 5.4% in December. This marked upward trend was in line with the Bank's forecasts. Food and non-alcoholic beverage price inflation reversed its previous downward trend, measuring 4.3% and 5.4% in the past two months, compared with a

low of 3.5% in December 2013. The contribution of this category to the overall CPI inflation increase was 0.8% percentage points in February compared with 0.5 in December. The petrol price, which was the other main contributor to the higher CPI inflation in February, increased at a year-on-year rate of 14%. Core inflation, which excludes food, petrol and electricity, was unchanged at 5.3%, for the sixth consecutive month. Administered price inflation excluding petrol measured 6.9%. The headline producer price inflation for final manufactured goods measured 7.7% in February. The Bank's forecast of headline inflation is unchanged for 2014, and is expected to average 6.3%, with the peak of 6.6% still expected in the fourth quarter. The forecast average inflation for 2015 declined from 6% to 5.8%, with inflation expected to average 5.6% in the final quarter of that year. This improvement is mainly the result of the lagged effect of the repo rate increase. Inflation is still expected to breach the upper end of the target range in the second quarter of 2014, and to return to within the target range in the second quarter of 2015. The unemployment rate will be 24.8% in 2014, from 25.0% in 2013. It is projected to be 23.3% by 2017. However growth in real household consumption expenditure is projected to increase from 2.7% in 2013 to 3.4% in 2016.

Global agricultural outlook

BMI estimates global agribusiness market value growth falling by 6.4% year-on-year, to US\$9.4bn in 2012/13 with further growth projected to average 2.6% annually until 2016/17. Agricultural prices are projected to decline a further 2.5% in 2014, assuming that existing improved crop conditions will continue. Specifically, prices of food and beverages are expected to drop by 3.7 and 2.0% respectively, but raw material prices will not change much. Fertilizer prices are expected to decline $\pm 12\%$ in 2014, on top of the 17.4% decline in 2013, mostly due to new fertilizer plants coming on stream in the U.S., in turn responding to low natural gas prices. The FAO Food Price Index declined by 10.47% between January 2013 and January 2014, attributed to a decline in global prices of oil, sugar, cereal and meat products.

The USDA's 2014 assessment largely maintain a forecast of marked improvement for the 2013/14 outlook with production of maize, wheat, and rice expected to increase by 12, 8.6, and 0.4%, respectively from last season. Increases are expected in the stock-to-use (S/U) ratios for maize and wheat but not rice. The oilseed and edible oil outlook is comfortable. Global supplies of the 17 most consumed edible oils is expected to reach a record 196.3 million tons in 2013/14, up from last season's 187.6 million tons. The USDA's January 2014 update report, placed the global maize production estimate at 967 million tons, up from 863 million tons in 2012/13, in turn increasing the S/U ratio from 15.4 percent to 17.1%. Similarly, the global wheat production estimate for 2013/14 stands at 713 million tons, up from last season's 656 million tons, increasing the S/U ratio marginally, from 25.9 to 26.4%.

Consumption of agricultural products has demonstrated resilience in the face of world economic shocks, prolonged reduced growth prospects and high unemployment in developed countries. By 2022 developing countries will account for the majority of exports of coarse grains, rice, oilseeds, vegetable oils, protein meals, sugar, beef, poultry meat, fish and fishmeal. World prices are expected to be sufficiently remunerative in the next decade to encourage further investment in agricultural production and technological enhancements to permit output to continue to expand to 2022.

South African Agribusiness

BMI projects a positive view on the South African agricultural sector and identify particular growth potential in the grain and livestock sectors. Both sectors' growth will be boosted by regional export demand.

An NAMC Food Price Monitor report, comparing price in January 2013 and 2014, identified food categories that experienced inflation as bread, cereals, coffee, tea, dairy, eggs, vegetables and bean products. This could have a negative impact on household food security in SA, as it affects affordability of important staples and food items with a major contribution to dietary diversity. The report's March to May 2014 outlook concluded that South Africa could potentially face shortages of maize meal, or exorbitant prices for this commodity. The weaker exchange rate keeps on fuelling inflation in the food value chain. This is expected to strengthen over the outlook period and food price inflation will most likely increase in the short term. However, over the medium term, food inflation is expected to decline and trade within the targeted band as global agricultural commodity markets are trading significantly lower than a year ago and energy prices are relatively stable. If the rand trades in a more stable band, international price trends will feed into the local market and food inflation will decline.

Between 2013 and 2017, BMI forecasts that food consumption in local currency terms will grow by 42.6%. However, its current forecasts could come under threat from both internal and external factors. BMI expects to see steady growth in SA's confectionery market over the forecast period. Between 2013 and 2017 strong value sales growth of 43% is expected in local currency terms, with volumes forecast to grow by 17.6%.

Total domestic sugar consumption is expected to grow at the same pace as the past decade; at a consistent pace of $\pm 1\%$ p.a. bringing total consumption of sugar to 2.35 million tons by 2022. Sugar production growth to 2017/18 is projected to be 21.9% to 2.4mn tons. The increase, combined with low global prices, is likely to benefit consumption growth, and BMI forecast demand in 2014 to grow by 2%. The main drivers of consumption growth will include the steady expansion of the country's population, as well as an increase in disposable incomes and growing demand for confectionery and soft drinks. South African sugar, especially white sugar, is gaining a reputation internationally for quality, which could lead to increased exports.

BMI forecasts consumption to continue and rice demand at 945,900 tons in 2013/14. The main downside risks to rice consumption relate to global price and the trajectory of South Africa's economy. When rice prices appreciate too quickly, governments in rice-exporting countries, such as Vietnam and Thailand, often intervene to ensure reasonably priced rice by consumer standards. Since South Africa is wholly dependent on rice imports to meet domestic demand, a sharp increase in rice market prices, would likely result in consumers turning to other staples. In terms of upside risks, any progress in the region with regard to the production of Nerica could result in rice becoming cheaper for South Africa to import.

The first unit of the Medupi power station is expected to be completed towards the end of 2014. This will limit power shortages. However, high electricity tariffs are a concern for farmers and sugar producers especially expressed concern arguing that higher energy fees could result in reduced profit to unsustainable levels. For small producers, lower profits would increase the likelihood of job losses.

SADC Region

The FEWS NET (January 2014) report indicated that the food security outlook in the region until June 2014 is mixed. The southern, eastern and central parts of the region experienced below normal rainfall in October and November. December however saw above normal rains in most of these areas. However, rain deficits, combined with forecasts for below normal rainfall, are likely to perpetuate dry conditions in drought-affected areas which might negatively impact crop production, particularly in areas such as southern Malawi, northern/central Mozambique, eastern Zambia and Zimbabwe. January to March is the peak hunger season in Zimbabwe and 2.2 million people (25% of the rural population) will be food insecure going into the winter. Despite tighter staple food stocks in the region over the 2013/14 consumption season, and lower levels of exportable surpluses (mainly from South Africa and Zambia), intra and extra regional exports have been robust and are expected to remain high until the next harvest expected to start in April.

CONCLUSION

The global outlook presents both opportunities and risks for South Africa. The recovery in advanced economies will translate into moderately higher demand for South African exports. Prices for South Africa's main commodities have declined and the terms of trade (the country's export prices compared with its import prices) have however deteriorated, widening the current account deficit. Uncertainty over election outcomes in a number of countries may delay investment decisions and hinder international policy coordination. Short-term capital flow volatility is likely to continue, with consequences for the exchange rate, the current account and borrowing costs, whilst South Africa needs higher levels of growth to address the challenges of unemployment, poverty and inequality.

The capacity of the agricultural sector to meet the rising demand for food remains high on the international political agenda. Critical factors such as land availability, productivity gains, water usage and climate change remain important. Agricultural production could be significantly increased, provided there is sufficient investment in research, infrastructure and technological change, particularly in developing countries.

4. FIELD CROP PRODUCTS

Global Grains snapshot

Developments in South Africa's key grain trading partner countries instigated changes in the global grains market. BMI has recalled all grains price projections for Eastern Europe for the short-term amidst growing tensions in Ukraine and the implications it might have on global wheat and maize supplies and prices, following increased volatility created by the recent intervention by Russia in Crimea. Russian naval forces are now in control of Ukraine's access to the Black Sea, which could limit grains exports from the main ports of Odessa and Illichivsk. In addition, potential for sanctions by Western powers on Russia to restrict Russian wheat and maize exports cannot be ruled out. BMI believes that this will increase volatility in grain markets as both Ukraine and Russia are major exporters of wheat and maize. As a result prices are being pushed higher. BMI's projections were initially premised on the back of improving US weather and strong Russian export capacity (and the Black Sea region more generally) before the start of the 2014/15 harvest, which would have dragged wheat prices lower in coming months. The latest information suggests that even if Ukraine continues to export wheat (and maize) in the coming months, potential economic sanctions on Russia (financial or trade sanctions) could limit exports and force large importers to pay a premium for

shipments from elsewhere before the 2014/15 harvest starts in June. There is no doubt that there will be spill-over to the local wheat market which depends largely on Ukrainian wheat exports for local demand.

The BMI expects Australia to continue to increase its wheat exports, which could in the long-term stabilise global wheat stocks. However, due to production growth constraints, the Australian wheat surplus will expand at a much slower pace than that of its competitors. As a result, Australia's global market share of wheat exports is likely to stagnate in the coming decade around current levels (12-13% of global wheat exports in 2012/13 and 2013/14). Australia is expected to continue enjoying a competitive edge in terms of exports, especially regarding wheat, based on the quality of its grain and a freight advantage in Asia.

Owing to dry weather conditions at the start of the season, which led to poor yields in some areas, Argentine maize production in 2013/14 was lower than expected. BMI now forecasts that Argentine maize production in the 2013/14 season will decrease to 23.9mn tons (from 25.8mn). Late plantings, which accounted for more than half the total maize crop (a record high, according to the USDA), will be harvested between June and August. Overall, rains have been favourable. BMI adds that the forecast of a slight reduction in yields is because the area dedicated to maize decreased in the 2013/14 season with production to decline by 3% year-on-year to 26.5mn tons. Argentine farmers are expected to switch extensively to soybean, as it is generally easier to maintain and less costly. However, Argentine farmers are expected to continue withholding soybeans in protest of the government's move to tax soybean exports. Latest reports document that farmers have stored over 16 million tons of soybeans with an estimated market value of US\$ 7.4 billion. This will have a huge effect on the soybean market when eventually shipped. The holding back of stocks is informed by Argentinian farmers' frustration with government's move to tax soybean export earnings at 40% to subsidise other sectors. Producers' problems were exacerbated by poor rain. China (32% of global output) followed by the USA (17%), Argentina (17%), Brazil (16%) and India (4.5%) are some of the leading countries in soybean consumption.

Dry weather in Brazil provide downside production risks. Brazil had its hottest month ever in January and the driest month in 20 years, leading to stress across various crops, notably coffee and possibly sugar. USDA weather forecasts suggest that the country's main maize-growing regions have come away relatively unscathed to this point, with rainfall levels close to average in recent weeks. The BMI maintained its country forecast for Brazilian maize output with production projected to decline year-on-year in 2013/14, to 73.0mn tons, as the area dedicated to the crop falls. Farmers in key areas are favouring soybean, which is easier to grow and more price competitive than at any time in the last decade. The USDA forecasts maize area harvested to decrease to 14.7million hectares in 2013/14, compared with 15.8mn hectares in 2012/13. Yields are also expected to decrease, to 4.8 tons/ha in 2013/14, from 5.1 tons/ha in 2012/13. Generally, declines in area harvested in Brazil in the coming season are likely to occur, as the record soy/maize ratio will mean more land is diverted to soybean.

China led shipments for soybeans in December with 1,926,100Mt of the total 2,488,600Mt shipped, a record high. In spite of fears that China might reject US maize shipments owing to an inclusion of a transgenic gene, soybeans sales increased by about 16%. Cumulative soybeans sales to China were 90% of the USDA's target in November 2013, versus 74% in 2012 or 65% five years ago. Chinese purchasing patterns of soybeans suggest that the 'middle-country' might be hedging against post-harvest logistics issues that have hampered business with Brazil and Argentina.

South African Grains Sector

The significance of crop breeding research and other forms of agricultural R&D in South African agriculture is becoming more and more evident. Given limited arable land for agricultural expansion, BMI expects no further expansion in area planted to grains. Further growth in the sector is expected to come from an increase in yields. ABSA, in slight contrast, projects a healthy outlook and growth for the South African grains sector. BMI isolates land reform as imposing 'downside risks' to the growth of the summer and winter grains sector in the short to medium term. BMI expects barley and wheat production to continue to fall due to dwindling profits. Maize production will remain a winner as increased earnings are concerned. Human demand for grains is expected to decrease whilst grains for animal feed is expected to grow.

Wheat

BMI expects demand for wheat to be stronger on the back of strong substitution effects and the tightness of the maize market. Wheat consumption will remain positive against an expanding population, rising living standards and a projected increase in domestic supply. Wheat consumption will grow by 11.5% in the five years to 2018 to reach 3.6 million tons. However much of the consumption will be met by imports. Given limited room for profit, less wheat production is expected (ABSA, 2014). Rain damage in the Free State is to blame for decreases in production in the province (table 4.1). Farmers in the Western Cape face a transport differential fee deducted by SAFEX; low prices and poor crop quality which cause some farmers to shun wheat. Table 4.1 shows the estimated area planted and final production estimate for 2013. The estimated final wheat crop produced by commercial farmers is 1.804 million tons, which is 9 300 tons or 0.52% more than the previous forecast of 1.795 million tons, whilst the expected yield is 3.57 t/ha (CEC, 2014).

Table 4.1: Winter Cereals (CEC (2014))

Crop	Area (ha) 2014	Final estimate (tons) '13	1 st forecast (tons) '14	Area (ha) 2013	Final crop (tons)	% Change
Wheat	505 500	1 804 450	1 795 150	511 200	1 870 000	+0.52
Barley	81 320	266 002	263 602	84 940	298 000	+0.91
Oats	72 165	112 041	112 041	44 100	79 000	-
Total	659 985	2 182 493	2 170 793	640 240	2 247 000	+0.54
Wheat Production in the Provinces						
Province	Area (ha) '13	Final estimate (tons) 2013		Area (ha) '12	Final estimate (tons) 2012	
Western Cape	310 000	914 800		272 000	897 600	
Northern Cape	42 000	298 200		42 000	272 000	
Free State	98 000	282 000		130 000	360 000	
Eastern Cape	4 000	19 000		4 500	10 500	
KwaZulu Natal	7 000	37 000		6 500	32 500	
Mpumalanga	4 000	27 900		4 700	25 300	
Limpopo	28 000	142 000		30 000	141 000	
Gauteng	1 000	6 000		1 500	8 420	
North West	10 000	105 450		20 000	114 000	
Total	505 500	1 804 450		511 200	1 870 000	

The Western Cape is expected to produce most wheat at 914 800 tons from 310 000 ha. The Free State, is expected to deliver 282 000 tons, 78 000 tons less than the previous seasons' crop. In the Northern Cape, 298 000 tons is expected. An estimated 505 000 ha of land will be put to wheat production in 2013/14.

Maize

BMI has decreased its April/May 2013 maize projections on the back of 'intention to plant' survey results released in October 2013 which suggested that farmers were planning to plant 3.1 million hectares versus an average of about 3.6 million hectares in the past. Subsistence farmers are expected to plant 500 000 hectares, with the remainder from commercial farmers. Owing to continued adoption of GM seeds by commercial farmers and good weather, maize yields are expected to continue to increase in South Africa.

However, over the medium term, land reform uncertainty is projected to hamper productivity. Because of the expropriation bill of 2013, which industry fear expands the scope for land appropriation, decreased productivity of the staple and other crops is possible. The appropriation bill of 2013 is projected to impact on skills, training and capital availability into the sector. As a result of these dynamics, BMI projects that export potential of maize may be affected. Maize surplus will reach 1.4 million tons in 2017/18 compared with 2.3 million 10 years ago, suggesting less reliable exports of maize to major trading partners, such as Japan, Taiwan, South Korea and Mexico.

The CEC puts the area estimate for maize at 2.668 million ha, a 40% decline from the previous season. The commercial crop is estimated at 12.403 million tons, 6.1% more than the previous season. An expected average yield of 4.65 t/ha for maize is forecasted. White maize will continue to take a higher portion of the area planted to maize, at an estimated 1.531 million ha. The production forecast for white maize is 6.458 million tons which is likewise higher than last season's forecast. The area planted to yellow maize is estimated at 1.137 million ha, forecast to produce 5.855 million tons, at an average yield of 5.15 t/ha.

Table 4.2: Commercial summer grains CEC (2014).

Crop	Area planted (ha) 2014	1 st forecast (tons) 2014	Area planted (ha) 2013	Final crop (tons)	% Change
Commercial					
White maize	1 531 200	6 548 050	1 617 200	5 545 000	+18.09
Yellow maize	1 137 000	5 854 700	1 164 000	6 145 000	-4.72
Maize	2 668 200	12 402 750	2 781 200	11 690 000	+6.10
Sunflower	598 950	778 175	504 700	557 000	+39.71
Soybeans	502 900	832 350	516 500	784 500	+6.10
Groundnuts	52 525	82 365	49 900	41 500	+98.47
Sorghum	86 850	239 650	62 620	147 200	+62.81
Dry beans	55 670	76 570	43 350	60 200	+27.19
Total	3 965 095	14 411 860	13 280 400	13 280 400	+8.52

Sorghum

Following the BFAP's appraisal that "the introduction of sorghum as feedstock for bioethanol production could literally double the size of the current market", sorghum plantings increased. Although yields of new varieties are still low and current varieties susceptible to bird damage, farmers believe that sorghum would likely improve their earnings. Sweet sorghum has been found an excellent feedstock for the production of bioethanol. As a result the CEC estimates that sorghum output will this quarter increase to 239 650 tons. Over all, an increase of 62.81% in sorghum output is expected. The CEC anticipate a yield of 1.55t/ha. The area estimate for sorghum 86 850ha compared with the 62 620 ha for last season (Table 4.2). 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 drive production in South Africa. Real gross income from sorghum production is expected to increase over the baseline (BFAP, 2013).

Barley

Barley is a key crop for the malting market in South Africa; and is produced exclusively for malting purposes. Specific requirements compulsory for the production of different beer varieties are followed (BFAP, 2013). A crop that does not meet brewing requirement 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” BMI predicts a relatively flat growth in demand for barley. However, the latest developments in the brewing sector entail renewed hopes for the crop. BFAP (2013: 35) cites “the recent announcement by a major brewing company that a new inland malting facility will be erected” has the potential to boost production. However, this growth will according to BFAP most likely be at the cost of reduced wheat hectares, considered “an easier crop to grow” as barley which although having a higher potential profit margin, requires very intensive agronomic management practices. The CEC production forecast for malting barley is 263 602 tons. CEC estimates an area planted at 81 320ha with an expected yield of 3.72t/ha (Table 4.1).

Soybeans

South Africa’s celebration of a record soybean crop last season was dampened by turbulent market conditions in international markets. Since November 2013, soybean prices decreased significantly owing to good harvests in China and the USA. Fears of Brazil’s soybean crop arriving late did little to improve prices. New projections put the global soybean crop for 2013/14 at 281 million metric tons (MMT) up by 3 MMT from the previous season.

Owing to a bumper harvest in SA last season and the near completion of two soybean processing plants, ABSA projects that the production outlook for soybeans will change to the positive in the near future. New plants are expected to become operational this year. Given good local soybean output, South Africa could now virtually producing enough for local consumption, but still imports oilcake seed from Brazil and Argentina. Especially farmers in Mpumalanga are expected to increase production due to increased local processing capacity which is expected to drive the costs of transportation lower. The CEC area estimate for soybeans in South Africa is 502 900ha, a 2.63% decrease from the previous season. Output of 832 350 tons is expected at a yield of 1.66t/ha.

Mpumalanga province is expected to continue to lead the provinces in the production of soybeans, followed by the Free State province. The Northern Cape will continue to see an increase in the area planted, as shown in Table 4.3. ABSA expects soybean prices to remain pretty stable at current levels. A slight increase in the price for soybean in the medium to long term is expected owing to an expected increase in Chinese consumption.

Table 4.3: Soybean production in South Africa (CEC, 2014)

	Area planted (ha) 2014	1 st forecast (tons) 2014	Area Planted (ha) 2013	Final crop (tons) 2013
Western Cape	-	-	-	-
Northern Cape	3 900	13 650	2 000	7 000
Free State	201 000	281 400	215 000	249 500
Eastern Cape	2 000	3 000	500	750
KwaZulu-Natal	35 000	91 000	32 000	82 000
Mpumalanga	203 000	304 500	205 000	335 000
Limpopo	22 000	66 000	20 000	53 500
Gauteng	20 000	44 000	20 000	34 000
North West	16 000	28 800	22 000	22 750
Total	502 900	832 350	516 500	784 500

Sunflower seed

ABSA projects that world stocks for sunflower are low with only the USA, China, Brazil and Argentina having enough sunflower seed stocks. Should the political situation in the Ukraine deteriorate; the global output will be affected. Current estimates by the CEC (2014) suggest that the area planted to sunflower seed will increase from 504 000ha in 2013 to 598 950ha in 2014, a 18.67% increase. However, average income is projected to remain relatively low due to lower yields, despite higher price levels. Recent heavy rain in the summer grains area is projected to lower production of especially sunflower, a more drought tolerant crop. Farmers are likely to switch to other grains. The CEC estimates an average yield of 1.30 t/ha (Table 4.4). The Free State province is expected to continue to lead in area planted, followed by North West and Limpopo. Area planted will increase by about 900 ha in Gauteng and 1750 ha in Mpumalanga.

Table 4.4: Sunflower production in South Africa (CEC 2014)

Province	Area planted (ha) 2014	1 st forecast (tons) 2014	Area Planted (ha) 2013	Final crop (tons) 2013
Western Cape	-	-	-	-
Northern Cape	900	450	2 00	100
Free State	280 000	392 000	220 000	297 000
Eastern Cape	550	825	-	-
KwaZulu-Natal	-	-	-	-
Mpumalanga	3 500	5 250	6 600	9 900
Limpopo	90 000	77 000	99 000	85 000
Gauteng	3 000	3 900	3 900	4 000
North West	221 000	298 350	175 000	161 000
Total	598 950	778 175	504 700	557 000

Groundnuts

The introduction of good quality cultivars and adoption of better planting practices by farmers have paid off in increased yields. As a result, area planted to groundnuts in South Africa has decreased since the early 1990s, as farmers got more from less land. ABSA projects that in spite of increased local output, the processing of groundnuts is expected to continue losing market share, whereas the domestic price for groundnuts is expected to strengthen. The CEC projects that the area planted will increase by 12% to 52 525

ha versus 46 900 ha, last season. The expected groundnut crop for 2014 is 82 365 tons, 98.47% more than the 41 500 tons of last season. The yield is expected to increase from 0.90 t/ha in 2013 to 1.57t/ha in 2014.

Dry beans

Production of dry beans has improved significantly in South Africa since the late 1980s. The contribution of the ARC-GCI's dry bean breeding program which has seen the release of over 30 dry beans cultivars since its inception in the early 1980s is worth noting. Various research activities have led to the understanding of dry beans diseases which have also saved farmers lots of production costs, reducing risks and increasing yields. The contributions of other forms of maintenance research on dry beans are equally commendable. The ARC's cultivars have performed fairly well in the National Cultivar Trials, getting very good rankings year after year. The CEC projects an area estimate for dry beans of 55 670ha, 27.83% more than last season's 43 550ha. The CEC's production forecast for dry beans is 76 570 tons, a 27.19% increase from the previous season. Yields are expected to reach 1.38t/ha.

5. HORTICULTURE OUTLOOK

In the previous Outlook released in September 2013, the production and exports of table grapes was described. The area under production of grapes is projected to increase marginally over the next decade, to 26 720 ha in 2022. Total area planted was estimated at 25 980 ha in 2013. The European market remains a favourable option in the a long-term with prices gaining in real terms, and currently still accounts for approximately 78% of South African exports. The average price of table grapes was expected to increase by 14% to roughly R17 400/ton over the decade. In this Outlook, apples, pears and avocado are considered, as are weekly prices of major vegetables in local markets.

Apples and pears

According to BAFP 2013, the upward trend in area planted to bearing apple trees (i.e. trees aged 4 years and older) is expected to peak in 2014 at 20 216 hectares, remaining fairly stable over the remainder of the baseline period. The area planted to bearing pear trees is projected to decline over the next decade, from 10 580 ha in 2012 to 10 247 in 2022. Rising input costs restricts establishment of new orchards through its negative impact on cash flow. The violent strikes of late 2012 in the Western Cape also increased uncertainty and created negative investor sentiment, discouraging new investment. Input costs are expected to continue increasing, at above the average inflation rate, further discouraging expansion. However, towards the end of the baseline both apple and pear area is projected to expand marginally. Gains in efficiency and increasing yields are projected to off-set area issues to some extent, resulting in total apple production remaining above 800 000 tons per year and the pear crop above 355 000 tons.

The latest estimates from Hortgro indicate that 2013 exports of both apples and pears are the highest in the history of pome fruit production in South Africa. Apple exports of 382 370 tons are expected, 18% higher than the previous season. Pear exports are estimated at 193 670 tons, 8% higher than the preceding three year average. This higher supply is mainly due to improved yields and quality, which fortunately coincides with favourable market conditions.

Although carry-over stocks of apples in the United States is higher than last year, the EU apple stock is about 20% down, while pear stocks in the EU are more than 40% lower. This implies upward pressure on prices.

When coupled with the relatively weak Rand, returns to producers are favourable for the current season. The average price for apple exports is projected to increase by around 15%, while the average pear export price is projected to strengthen by up to 20% year-on-year. Prices are expected to drop to lower levels in 2014 as northern hemisphere stocks are replenished and the exchange rate is projected to strengthen. Over the next decade, prices are projected to increase on average by 7.8 and 7.2% respectively for apples and pears. These price increases translate into annual real price gains in the order of 2.8% for apples and 2.2% for pears. Depreciation in the Rand and increasing world demand are the two main driving forces behind expected price growth. Support in retaining existing markets, exploring new markets, and negotiations of trade protocols are of utmost importance for the competitiveness of the South African fruit industry.

The performance of the local apple market was disappointing in 2012, with price increases of only 3% despite lower volumes sold. Current conditions in the local market are promising. The average price for 2013 was expected to be R5 780 per ton, an increase of 10%, despite higher supply. Over the baseline period prices are projected to increase on average by 6.8% per annum.

Though economic growth projections are fairly conservative below 4% per annum, it does result in increasing spending power. The average price for pears sold locally increased 8% in 2012, with an average price at R4 840/ton. The pear price is expected to continue its upward movement in 2013 projected at 9%, with supply levels remaining fairly stable. The average price is expected to be R5 260/ton. Similar to apples, the average pear price is projected to increase on average by 6.5% per annum, resulting in pear prices exceeding consumer price inflation by 1.5% per year on average. Supply is projected to increase steadily to just over 56 000 tons in 2022.

Avocado outlook

According to Freshportal.com (2014), the South African export crop forecast for Avo's is 58 000 million tons (MT) for 2014. Although this will be South Africa's largest export crop to date, it is not foreseen that the European market will be oversupplied as Peru will be channeling a greater proportion of its export avocados to the USA due to reduced supply from the Californian industry. Whilst the Californian crop was 227 000 MT in 2013, the 2014 crop will only be 135000 MT. Hence, Peru will be exploit the US opportunity whilst the forecast is that it's 2014 export volumes to Europe will be similar than in 2013. Forecasts from countries that supplied Europe and North America during the Northern Hemisphere summer showed total production would be marginally lower. Avocado consumption in the EU market continues to grow and had increased from 145 000 MT in 2003 to 279 000 MT a decade later. Expectations are that this trend will continue across Europe where per capita consumption levels are still well below rates across the Atlantic in the US

Around 99% of South African exports currently go to Europe, with marginal export to the Middle and Far East. The SAAGA is exploring markets in the USA, Japan and China. There is growth in the sales of ripe and ready-to-eat avocados, due to increased consumers demand: "Ripe and ready to eat avocados take the guesswork out of buying avocados because you don't have to keep wondering are they ripe and run the risk of cutting them too early or too late"-concluded fresh portal (Freshfruitportal.com 2014). Avocados are high in 'good' monounsaturated fats and contain dietary fiber as well as a host of vitamins and minerals. They are even suitable for inclusion in a diabetic diet.

VEGETABLES

Tomatoes

Tomato prices continued to trend sideways despite reduced supplies across markets. Weekly prices closed at R7 073 per tons in March, up 41.3% y/y. Volumes of tomatoes traded were pegged at 2 913 tons, down by 8 10.8% y/y. Prices are expected to continue to trend sideways in the short term with limited upside potential as supplies improve.

Potatoes

In the potato market, prices continued to strengthen on good uptake and reduced supplies across markets. Weekly potato prices closed at R3 798/ton in March up by 45.2% y/y. Volumes of potatoes traded came in at 12 958 tons, 1.1% higher y/y. It is however expected that prices will ease slightly in the short term on softer uptake and improved supplies.

Onions

Onion prices regained some ground and moved slightly higher on reduced supplies across markets. Weekly onion prices gained 1 26.4% y/y at R430/ton. Volumes traded were pegged at 4 693 tons, 6% higher y/y. Prices are expected to move sideways with limited upward potential on volume pressure.

Carrots

Carrot prices posted sharp gains on further reduction in supplies across markets. Weekly carrot prices rose by 58.5% y/y at R6 684/ton recently. Volumes traded at 1 145 tons, down by 15.3% y/y. It is expected that prices will ease somewhat in the short term on volume pressure.

Cabbages

Cabbage prices were higher supported by good uptake across markets. Weekly cabbage prices closed at R2 610/ton, still 8.2% lower y/y. Volumes traded reached 1 206 tons, up by 12.5% y/y. Prices are expected soften in the short term on volume pressure. In table 1 a summary for the trends in prices of vegetables is presented.

Table 5.1: Trends in vegetable prices on five major fresh produce markets (Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban)

Week ending 14/3/ 2014	Average Price (R/t)	Week-on- Week	Year-on-year	Total Volume (t)	Week-on- week	Year-On-year
Tomato	7073	-0.1%	41.3%	2913	-8.3%	-10.8%
Potato	3798	3.0%	45.2%	12958	-7.0%	1.1%
Onion	4302	1.2%	26.4%	4693	-21.8%	6.0%
Carrot	6684	42.1%	58.5%	1145	-14.2%	-15.3%
Cabbage	2610	2.8%	-8.2%	1206	0.5%	12.5%

6. ANIMAL PRODUCTION

Global Trends

Driven by a combination of population growth, rising incomes and urbanization, worldwide demand for meat is forecast to rise by more than 55% between 1997 and 2020, with most of the increase occurring in developing countries. According to the OECD-FAO's 2013 agricultural outlook, meat consumption will increase by around 1.6% a year from 2013 to 2022, down from 2.3% in the previous decade. Poultry is projected to account for 40% of the global increase in demand for meat to 2020, far higher than the 28% it accounted for in 1997, reflecting a dramatic shift in taste from red meat to chicken. Poultry meat uptake per person is projected to increase faster than that for pork and beef as, based on these forecasts; poultry consumption is seen rising by 9% between 2013 and 2022, compared with gains of 3 to 4% for beef and pig meat respectively.

Two major developments occurred in international poultry trade during the first decade of the 21st century: a rapid increase in poultry exports from Brazil and a sharp decrease in imports by Russia. Between 2001 and 2012, Brazilian exports more than doubled, to 3.5 mmt. Brazil's broiler meat exports rose because of low maize prices and cheap labor. Total U.S. broiler meat exports grew by 9.2% 1997 and 2002 and by 31% 2001 and 2012. Growth in Russia's poultry industry, coupled with reduced tariff rate quota (TRQ) volumes for imported broiler meat, contributed to a sharp decline in exports to Russia, especially over the past several years. The United States is expected to export more broiler meat, with much of the expansion in price-sensitive developing country markets. The US and Brazil, both with a combination of adequate land to produce feed, large internal markets, and strong processing sectors, are expected to remain the major broiler producers and exporters. However, Brazil, with its cost advantage, is projected to account for a rising share of the world market. With feed costs rising worldwide, the efficiency of broilers, relative to cattle and pigs, at converting feed grains (mostly maize and soybean meal) into meat protein is a key factor driving expansion of broiler production. Also, fewer religious restrictions exist on poultry consumption than on consumption of other meats, offering many potential markets for broiler meat.

The OECD-FAO 2012-2021 agricultural outlook predicts modest growth in international dairy prices up to 2021. Continued strong demand due to economic and population growth along with political and macroeconomic instability suggest the overall trend is up, but increased volatility is expected. The market based tools and policies to manage this volatility are expected to profoundly impact the economic sustainability of the dairy sector for decades to come.

Domestic Livestock Market

Real gross value of animal products accounted for 48% of SA's total agricultural income during 2012. Growth in real gross income from animal products increased to 5.2% in 2012 on the back of strong increases in meat and dairy prices after showing moderate growth of 3.2% in 2011. BFAP estimates real gross income to increase by 4.5% in 2013, driven by increased production volumes, despite a general decline in real price, with poultry and lamb the only industries where a marginal increase in real prices is expected, due to dependence on import parity prices and a weaker exchange rate. The potential for new disease outbreaks continues to be one of the biggest downside risks to livestock production. The outbreaks of FMD in KwaZulu-Natal and avian flu in the Western Cape illustrate this. In addition, record maize prices and competition from cheap imports have continued to exact pressure on South African livestock producers, and as a result a subdued outlook for meat production in 2013 was maintained. Even though the

government has stepped back on implementing a tariff surcharge on Brazilian poultry imports, cheap imports will force local producers to increase efficiency and productivity in the near term.

Poultry

The outlook for long-term poultry demand remains positive. Steady strong GDP per capita growth and a steady fall in unemployment are expected to drive consumption. BMI projects poultry production to recover strongly and output to increase by 4.0% year-on-year to reach 1.4mn tons. The extended forecast for poultry production envisages strong growth of nearly 22.8% in the five years to 2017/18. BMI forecast poultry consumption to grow by 4.2% in 2014 following strong growth of 3.6% in 2013. As more consumers move towards diets containing higher levels of protein, poultry is increasingly viewed as a convenient, healthy and affordable source of nutrition. Leading retailers now target health-conscious and time-poor shoppers with a wider range of poultry products. BMI’s revised and extended forecast envisages poultry consumption expanding by 24.8% in the five years to 2018. The continued pressure on producers is expected to result in more diversify in feed sources, sector and geography exposure in order to mitigate volatility in input and output prices. Astral Foods recently indicated increased investment in the Mozambique feed sector in order to ensure a more steady supply. The company will invest through its feeds subsidiary Meadow Feeds into Mozambique's feed sector after having reinforced its presence in Zambia.

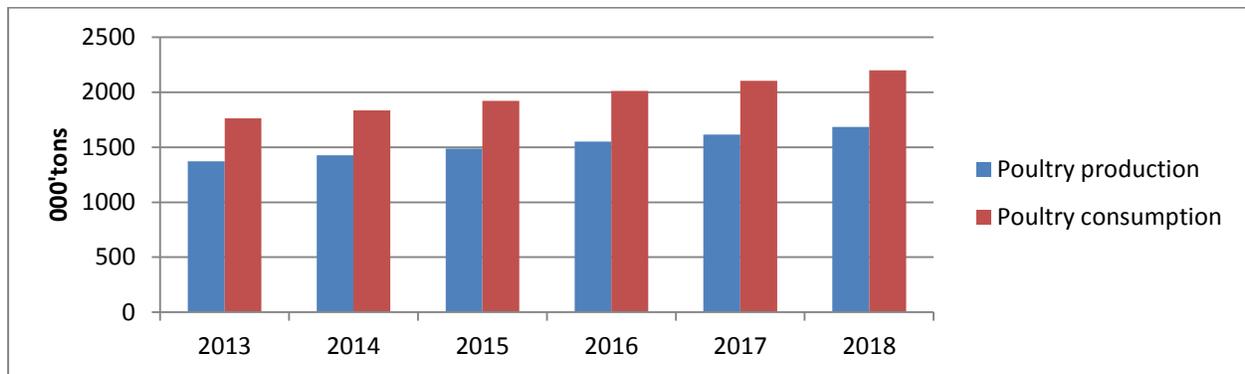


Figure 6.1: South Africa poultry production and consumption, 2013-2018 (BMI, 2014)

Beef

When compared with productivity in other countries, indications are that the South African beef industry is not achieving its full potential. Although the national beef herd has been stable at an estimated 13 million to 14 million head, annual national beef slaughtering figures have varied in recent years as a result of factors such as intermittent drought forcing beef farmers to reduce herd numbers quickly. While the country’s population has grown substantially over the last 40 years, meat consumption habits have diversified into other meat types, creating competition for the beef industry. The country’s annual per capita beef consumption has gradually declined from a peak of 26kg in the late 1970s to the current 16,5kg.

With BFAP’s projected annual average growth rate of 6%, nominal beef prices are expected to reach R47/kg in 2022, which implies that with an expected inflation rate of approximately 5% over the next decade, beef prices will increase marginally in real terms. In the short to medium term BMI revised their forecast for beef production as prospects for the sector improved slightly. Taking into account expectations for economic growth and forecasts for feed prices to moderate, BMI forecast beef production rising by 6.6% in the five years to 2017/18. However, with higher beef prices in a context of tight grain markets, BMI has revised

consumption figures: Up to 2018, BMI forecast a 23.4% increase in beef and veal consumption. Weaner prices fluctuated from as low as R14/kg in the first two quarters of 2013 to R18/kg in the last quarter of 2013. Expectations are that the price will increase to R18/kg in 2014.

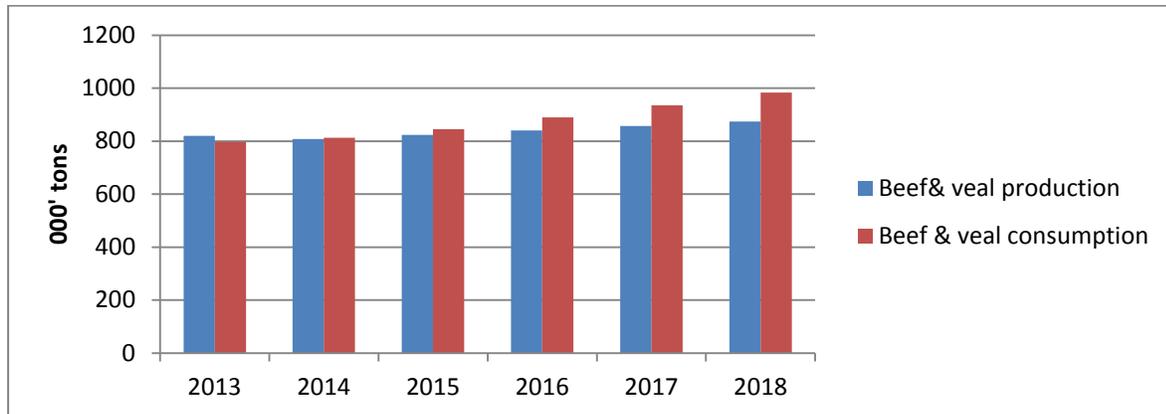


Figure 6.2: South Africa beef & veal production & consumption, 2013-2018 (BMI, 2014)

Pork

Pork is produced throughout South Africa with Limpopo and North West being the largest producers accounting for 44% of total production. The lowest pork producing provinces are the Northern Cape (2%) and Eastern Cape (6%). The local pork industry contributes $\pm 2.15\%$ to the primary agricultural sector. Following recent droughts, pork production is forecast to be affected by tight margins. However, BMI projects production to recover slightly in 2013/14 and forecast pork output to reach 225 000 tons. Over the period to 2017/18, production is forecast to grow 22.5% on the 2012/13 level to 257 200 tons. The South African Pork Producers' Organisation, which represents roughly 400 producers, has been working to promote pork as a healthier option over other meat products. As slower growth in production than consumption is projected over the medium term, South Africa is expected to remain net importer pork. BMI's new forecast sees pork consumption growing by 1.0% in 2013 and by 23.9% in the five years to 2018.

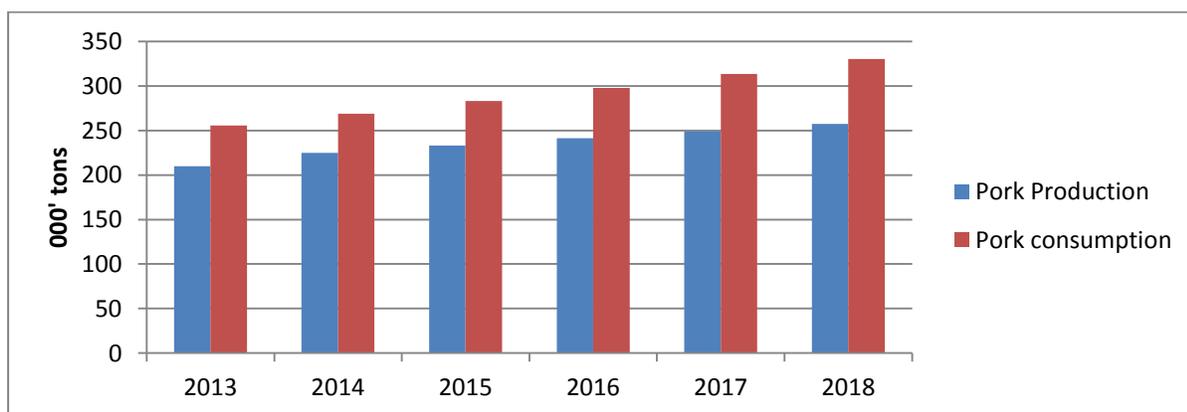


Figure 6.3: South Africa pork production & consumption, 2013-2018 (BMI, 2014)

Eggs

The estimated chick producing turnover on day-old pullets for the egg industry increased from R163 million in 2011 to R177 million in 2012, an increase of 8.9%. In 2011 a total of 24.402 million pullets were produced, increasing by 1.8% in 2012 to total 24.840m pullets. According to the SAPA annual report, in 2012 there were an estimated 20 000 layer breeding birds in the grandparent operation, producing layer parents and another estimated 300 000 layer breeding birds in the parent operation, producing layers. From the breeding stock 25.432 million day-old pullets were produced, 226 000 or 1% less than the previous year.

Despite the pressure of high feed costs, the price of eggs declined slightly in 2012, for the third year running. Notwithstanding this, production increased significantly in order to match a 10.8% increase in consumption. The total value of chicken eggs at retail level in 2012 is R8.2 billion, 3.3% of total food retail of R250 billion. About 646 million dozen eggs were sold in 2012. Of all the marketable graded eggs (grade 1) that were sold in 2012, 11% were medium sized, 47% were large sized, 40% were extra-large sized and 3% were jumbo sized eggs. 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.

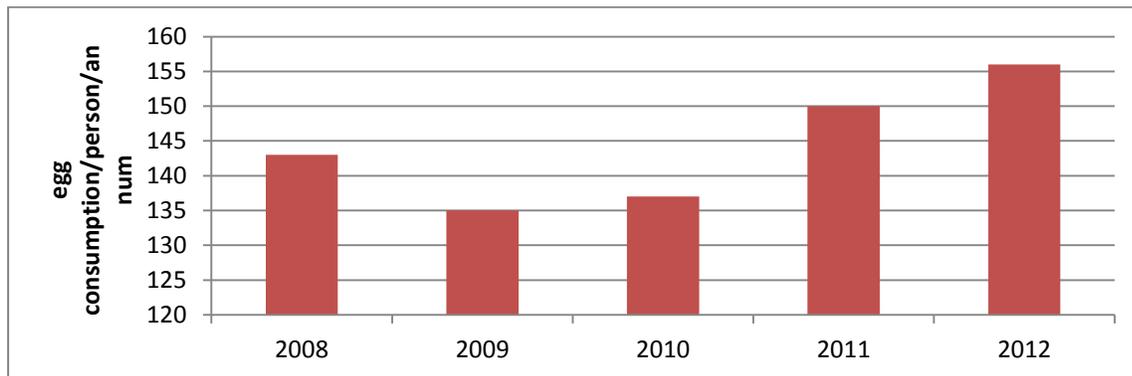


Figure 6.4: Egg consumption per person per annum (SAPA, 2012)

Milk and dairy products

According to a Business Day article by Tom Nevin in October 2013, “in a global context South Africa has the sixth-largest dairy herd size per farm in the world. However, horizontal growth is becoming difficult for some farmers because of diminishing marginal return on herd size larger than 1 000 cows on grazing systems, and the management constraints associated with a farmer running more than one farming unit. As a consequence, larger herd sizes pose a problem for transformation of the sector because of the capital and technical expertise to run larger-scale operations. Essentially, about 600 milk cows are required to start a viable dairy farm along with around R60m in capital. Consequently, returns are often insufficient to cover the debt redemption”. The Milk Producers organization in collaboration with the International Farm Comparison Network, conducted a study on the international competitiveness of the local dairy industry in 2013. The study revealed that local dairy farms are larger than farms in many other countries and that milk yield and cost of production is comparable to dairy farms in developed countries. The average dairy farm in the world has 2.8 cows. Larger dairy farms are found in Saudi Arabia, New Zealand, South Africa, Argentina, the US and Canada. The 2012 South African average herd size of 238 was the third largest in the world.

Milk imports increased from 3 123 tons in January to 5 762 tons in February 2014. The increase can mainly be attributed to a rise in long life (UHT) milk imports. During February 2014, 2 344 tons of UHT milk was

imported from Uruguay at a free-on-board price of R7.95 per kilogram. Imports on a milk equivalent basis were 3 million litres (16.7%) higher while exports declined by 15 million litres (-31%). Total exports still exceed total imports by 13 million litres. According to MPO economist Dr Koos Coetzee it is a pity that products have to be imported at current high prices while lucrative export opportunities are missed.

Mohair

The 2014 summer selling season surprised as there was high demand and new price levels were established in Rand terms at a rate that nobody expected. The third sale of the 2014 summer selling season continued the upward trend. Demand remained higher than supply and buyers competed feverishly, with strong competition from the two processors, which is a result of low stock levels in their factories. The average CMW market indicator at R172.52/kg and the actual average price (R191.53/kg) was on the highest level ever for any broker. Several record prices were achieved. A seasonal record price for a bale of summer kids at R530.00/kg, and a new world record price for binned summer kids was established at R500.00/kg, whilst a new world record for young goats was reached at R335.15/kg. Another new world record price for adults, presented as winter young goats was established at R286.00/kg for a bale of 28.0 micron. Short term projections are that the demand will remain and higher prices are expected.

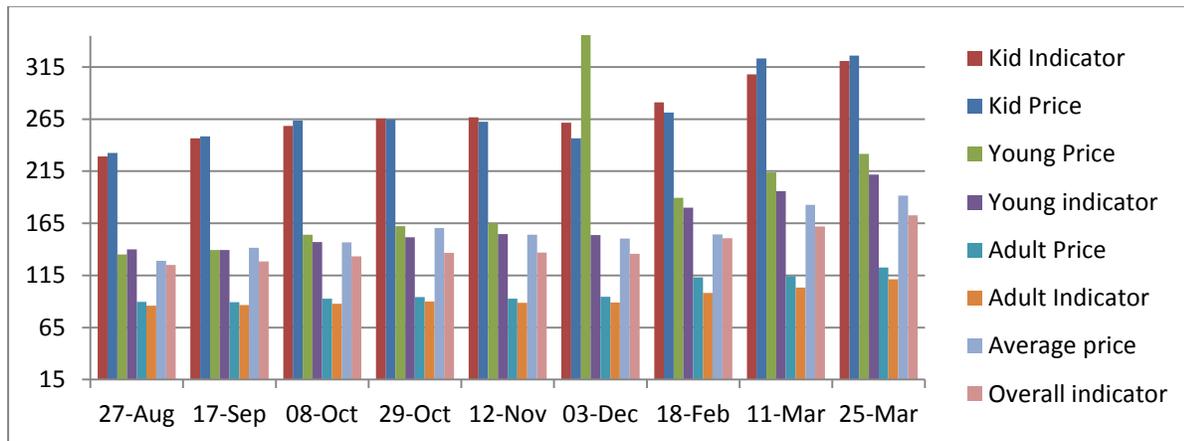


Figure 6.6: Cape Mohair indicator movement for different age group categories for 8 weeks (CMH, 2014)

Wool

China has become a strong high-end consumer market in the wake of their growing middle class and increasing spendable income. The average clothing expenditure in China is estimated to grow by another 11% until 2020, a boost in confidence for wool buyers. The South African wool market held up well at the first sale of the new year. Cape Wools' Merino indicator softened by a marginal 1.4% to close at R115.67/kg (clean) late in March, a 13.5% increase on the opening sale and is up almost 6.1% on the corresponding sale last year.

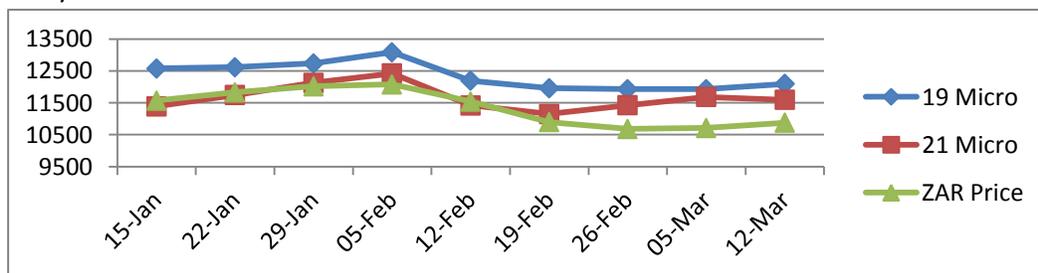


Figure 6.7: Price movement for good quality wool per micron 2013/14 season: (CMW, 2014)

7 CONCLUSIONS

Over the past 6 months since our last outlook in September 2013, the grains sector has witnessed significant changes, mainly 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 lower than normal rains during the planting season, which has depressed maize output. The soybean crop is gaining momentum in South Africa alongside a favourable global soybean market which has seen local prices moving closer to export and import prices. There is a possibility that future soybean prices may temporarily plummet when Argentine farmers decide to dump their stock which has piled up ever since they started protesting their government's move to tax soybean exports.

The contribution of crop breeding research from the ARC is yielding huge benefits for the sector. Increases in summer and winter grains yields are evident, coming from farmers using high yielding cultivars produced by both the ARC and the private sector. Programs such as the National Cultivar Trials contribute in aiding farmers select seed of good quality. Yet, there are fears that the land expropriation bill of 2013 may impinge on productivity and yield growth. It is important that South Africa pays close attention to global developments with the purpose of finding ways of obtaining these commodities elsewhere should current import markets become unavailable. Continued capacity building in the smallholder sector could play a huge role in fast-tracking South Africa's capacity to produce enough food for everyone.

The weaker rand makes South African exports attractive to global buyers due to the exchange rate differential yet ever escalating production costs are limiting producer profits. The expected increment in Transnet port tariffs poses a threat to the profitability of fruit exporting farmers. Rising establishment costs for fruit orchards cause a lag in replacing bearing trees on time. The avocado industry is expected to deliver a record 58 million tons of fruit in 2014.

As employment levels improve more people diversify their diets to include animal products as source of protein. SA's beef production and supply projected as far as 2020 falls short of demand by about 50 000 tons p.a., creating an opportunity for smallholder farmers to join mainstream markets. However, calving and weaning percentages and herd composition of smallholder farmers must be improved as should carcass mass, to achieve the good prices achieved by commercial counterparts. This will improve beef supply and the viability of the sector as a whole. Genomic research has the potential to assist smallholder farmers. While there are practical challenges to increase the national herd, including predation and environmental concerns, existing production efficiencies need to be improved.