

# ECONOMIC OUTLOOK REPORT XVII



*Prepared by the Economic Services Unit:*

**AGRICULTURAL ECONOMICS AND CAPACITY DEVELOPMENT DIVISION**

*March, 2015*

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## 1. EXECUTIVE SUMMARY

### ***Global macroeconomics and local macro economics***

Weak global economic recovery is projected to continue for the next several years, with growth forecast to rise from 3.3% in 2014 to 3.5% in 2015 and 3.7 % in 2016. Volatility in capital flows is expected to continue. Forecasted growth rates of large emerging markets have been revised downwards. In emerging markets and developing economies, growth is projected to dip to 4.3% in 2015, improving to 4.7% in 2016. Locally, projected GDP growth was revised down from 2.5% to 2% in 2015, with a gradual rise to 3% by 2017. Core inflation is projected at 5.5% and 5.2% in 2015 and 2016, respectively.

### ***Field crops outlook***

South Africa will import maize for the first time in 11 years as the worst drought since 1992 destroyed crops, according to a report from GrainSA. Hence the outlook for other local summer grain crops' output was also decreased. Soya beans output is forecasted to decrease by 1% year on year whilst sunflower, dry beans, groundnuts and sorghum output has also been negatively impacted. Sunflower and soya bean yields are expected to average 1.00 t/ha and 1.37 t/ha, respectively. Summer and winter grain prices are expected to increase in the short term on the back of high import prices given the high Rand Dollar exchange rates.

### ***Horticultural outlook***

Pomegranate production in South Africa stands at about 1 000 ha and is projected to grow by 189% by 2017. The South Africa grape crop for wine production will decrease by 2% to 1.490 million tons in 2015, from a peak of 1.520 million tons in 2014. Projections show that the growing trend in bulk wine exports from South Africa will continue to 350 million liters (70% of total exports) in 2015. The production of stone fruit in the 2014/15 season is projected to be higher than in the previous season, when bad weather limited production. Peaches recorded acceptable increases of about 13.6 %. The projected continuous weakening of the rand is expected to strengthen the prices.

### ***Livestock production***

Increased economic growth and relatively low grain prices are expected to support the poultry market while further weakening of the rand against the US \$ will provide further support to local prices. The outlook for the demand of beef remains positive. Fuelled by strong global economic growth, the demand for beef is expected to firm. Pork production is projected to increase by  $\pm 1.9\%$  to reach 112.8 million tons in 2015. BFAP projects pork consumption to grow the fastest of all meat types over the next decade, accounting for 10% of additional meat consumed by 2023. Strong projected growth in the Middle East, as well as South and East Asia is expected to strengthen the demand for mutton. Locally, ABSA projects mutton prices to continue their upward trend. Higher domestic prices will continue to drive production expansion in wool. Supported by continued growth on the demand side and easing feed prices, milk production is projected to expand by 30% through the next decade. ABSA projects that the demand for mohair will remain strong as global stock levels are very low.

## 2. FOREWORD AND ACKNOWLEDGEMENTS

The Economic Services Unit presents this 17<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 in related policy, as well as potential impacts of the above on sector performance. Apart from a macroeconomic perspective, it deals with 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. Respected local sources such as BFAP and ABSA outlooks are also used. Projections should be interpreted as possible scenarios. The following sources are acknowledged:

ABSA Agricultural outlook, 2015

AgBiz Newsletter, 29 January 2015

Bureau for Food and Agricultural Policy (BFAP) 2014 Outlook

Business Monitor International Report, Q4, 2014

Cape Mohair & Wool (CMW): Mohair market report, March 2015

Cape Mohair & Wool (CMW): Wool market report, March 2015

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DAFF Quarterly Economic Overview of the Agriculture, Forestry and Fisheries sector: October 2013 to December 2013. Volume 11, Number 4, March 2014

FEWS NET, March 2015

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Freshfruitportal.com 2015. Exotic expansion plans for Halls' fruit basket. [online] available at:

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Pomegranate Association of South Africa (POMOSA), 2015. [Online] Available at: <http://www.hortgro.co.za/portfolio/pomegranate> [accessed 26 March 2015]

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

#### **Macro-Economic outlook**

Weak global economic recovery is projected over the next few years, with growth forecast to rise from 3.3% in 2014 to 3.5% in 2015 and 3.7% in 2016. Volatility in capital flows is expected to continue. Among advanced economies, growth is picking up in the United States, but economic activity remains tepid in Europe and Japan. The forecast growth rates of large emerging markets have also been revised downwards. In emerging markets and developing economies, growth is projected to dip to 4.3% in 2015, improving to 4.7% in 2016. China's GDP growth rate is projected to slow to 6.8% in 2015. The growth outlook for sub-Saharan Africa remains robust, averaging 5% over the next three years, despite lower commodity prices. Economies in the region have diversified over the past decade, attracting increased foreign direct investment and benefiting from rising investment in ports, electricity capacity and transportation.

#### **Global agricultural outlook**

U.S. agricultural exports are expected to remain strong in 2015, hitting the second-highest level ever at \$141.5 billion. Commodity prices will remain painfully low in 2015/16, thanks to another bumper crop. Soybeans continue to be an important crop for U.S. farmers, who could export more than 48 million metric tons of beans in 2015. While the U.S. is expected to remain the largest exporter of corn in 2015, that title is at risk for other commodity crops. In soybeans, the U.S. will likely lose out to Brazil in 2016/17. Economists expect American soybeans to lose market share on the global stage, falling to 33% by 2024. In comparison, Brazil is expected to capture 46% of the global soybean market during the same time frame. In wheat, the European Union and Russia are both nipping at America's heels. The U.S. was the top wheat exporter as recently as 2013/14. It is expected that corn acres will drop with 89 million acres projected for 2015. The U.S. will produce a record 95 million pounds of meat in 2015, thanks to the pork and poultry industries. Milk production will also be historically high, at 211.5 million pounds. But while the margins for cattle will stay strong in 2015, prices for pork, poultry and dairy are likely to soften.

#### **South African economic outlook**

Projected GDP growth was revised down from 2.5% to 2% in 2015, with a gradual rise to 3% by 2017. The moderate improving growth outlook will be supported by continued economic growth in much of sub-Saharan Africa, as well as better terms of trade and inflation gains associated with the lower oil price, and a more competitive rand exchange rate. The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas measured 4.4% and 3.9% in January 2015 and February 2015, respectively. Lower inflation was mainly due to lower fuel prices. Core inflation, which excludes food, petrol and electricity, measured 5.8% in both January and February 2015. It is projected at 5.5% and 5.2% in 2015 and 2016, respectively.

The SARB indicated that the Balance of Trade in South Africa was expected to increase to -10393.11 ZAR million in February of 2015 from -24215.00 ZAR million in January of 2015. In 2016, the Balance of Trade is expected to increase to 604.33 ZAR million. In the long-term, the Balance of Trade in South Africa is projected to trend around -3971.94, -2578.01 and -1938.12 ZAR million in the years of 2020, 2030 and 2050 respectively.

**Table: 1 Change in GDP and consumer price inflation in selected regions/countries, 2013-2016**

	2013	2014	2015	2016	2013	2014	2015	2016
	%age GDP projections <sup>1</sup>				CPI projections <sup>2</sup>			
<b>World</b>	3.3	3.3	3.5	3.7	3.9	3.8	3.9	3.8
<b>Advance economies</b>	1.3	1.8	2.4	2.4	1.4	1.6	1.8	2.0
<b>United States</b>	2.2	2.4	3.6	3.3	1.5	2.0	2.1	2.1
<b>Euro area</b>	-0.5	0.8	1.2	1.4	1.3	0.5	0.9	1.2
<b>United Kingdom</b>	1.7	2.6	2.7	2.4	2.6	1.6	1.8	2.0
<b>Japan</b>	1.6	0.1	0.6	0.6	0.4	2.7	2.0	2.6
<b>Emerging markets &amp; developing economies</b>	4.7	4.4	4.3	4.7	5.9	5.5	5.6	5.2
<b>Brazil</b>	2.5	0.1	0.3	1.5	6.2	6.3	5.9	5.6
<b>Russia</b>	1.3	0.6	-3.0	-1.0	6.8	7.4	7.3	6.0
<b>India</b>	5.0	5.8	6.3	6.5	9.5	7.8	7.5	6.7
<b>China</b>	7.8	7.4	6.8	6.3	2.6	2.3	2.5	3.0
<b>Sub-Saharan African</b>	5.2	4.8	4.9	5.2	6.6	6.7	7.0	6.5
<b>South Africa<sup>3</sup></b>	2.2	1.4	2.0	2.4	5.8	6.1	4.3	5.9

*IMF Economic Outlook update, 2014; IMF Economic Outlook, Jan 2015 & National Treasury forecasts*

### **South African Agribusiness**

Agriculture in SA has become more export focused. Labour-intensive horticultural exports (such as grapes, citrus and tree nuts) are growing as a share of output, replacing highly mechanised grain exports such as maize. The NAMC Food Price Monitor report indicated that there is a drop in white and yellow maize production from 14.2 million tons in 2014 to 9.6 million tons in 2015 due to a severe drought in the major maize production areas of the North West and Free State provinces. The drought also affected sunflower production; estimated to decline by 30%. If there is no significant rain soon, the livestock industry will also be affected by limited amount of grazing available, which implies slaughtering numbers could potentially increase, causing prices to trade weaker over the winter period.

The positive impact of lower fuel prices for a period of time, with positive implications for food prices will be short lived with the announcement of higher fuel taxes and the much higher electricity rates that will increase the cost of processing. These increases will not affect food prices directly between March and May 2015 but will eventually feed through the food chain.

### **Food security outlook**

The January to June 2015 FEWS NET food security outlook issued in December 2014 reported that the SADC's regional availability of staple cereal, mainly maize will remain higher than in previous years with most countries having remaining stock from the previous year. Maize surplus-producing countries including South Africa, Tanzania, and Zambia are expected to have large exportable maize surpluses in 2014/15. The report of January to June 2015 food security outlook for Mozambique issued in January 2015 indicated that households directly impacted by the flooding are likely to face acute food insecurity in the central and northern areas of the country that received extremely heavy rainfall. South Africa will continue to be the main source of maize imports for southern African countries experiencing maize deficits.

## 4. FIELD CROP PRODUCTS

### Local grains

South Africa will import maize for the first time in 11 years as the worst drought since 1992 destroyed crops, according to a report from GrainSA. The drought has damaged crops in the Free State and North West, comprising 64% of total output in 2014. The price of white maize rose 27% in Johannesburg and that of yellow maize which is mainly used as animal feed by 13% on the back of the smallest predicted harvest since 2007. An estimated 934 000 metric tons of yellow maize, worth ± \$137 million at current prices is expected to be imported from countries such as Argentina and the Ukraine in 2015 through to the end of March 2016.

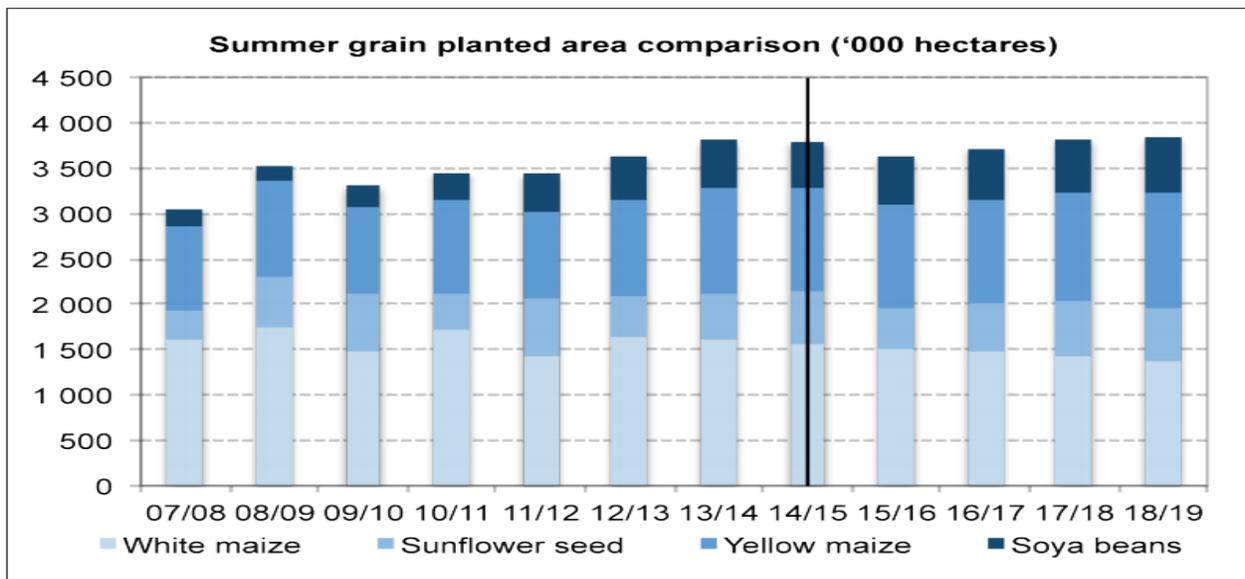


Figure 1: Summer grain planted area comparison. Source: ABSA (2015: 47)

Due to the drought, the outlook for all local summer grain crops' output was decreased. Soya beans output is expected to decrease by 1% year on year whilst sunflower, dry beans, groundnuts and sorghum output will also be negatively impacted. ABSA has decreased the outlook for area planted to summer grain crops as shown in Figure 1. Better gross margins in soya and sunflower are expected to continue to entice farmers to set aside more land for these crops in 2015/16. ABSA projects that there will be a decline in area planted to summer grain crop in South Africa in 2015/16. Summer and winter grain crops' prices are expected to increase in the short term on the back of high import prices given high Rand/Dollar exchange rates. The SA Futures Exchange (SAFEX) expects wheat and maize prices to stabilise by March and May 2016, respectively. However, economists now expect this to have a negative effect on inflation, especially the food price index, which is anticipated to hit double digits by mid-year on the back of an expected poor maize crop.

### Maize

The CEC now estimates the expected maize crop at 9.665 million tons. White maize is estimated at 4.696 million tons and yellow maize at 4.969 million tons. This is 32% smaller than the 2014 crop, which was the biggest in 33 years. The area estimate decreased by 11 950 ha or 0.45 % to 2.653 million hectares on the back of poor rains. The expected average maize yield is 3.64 t/ha and local producers are expected to face a reduction in real gross income per hectare in 2015 given drought induced poor yields. The CEC's production

forecast for white maize is now 4.639 million tons, on an average yield of 3.20 t/ha. In the case of yellow maize the production forecast is 5.027 million tons, on an expected yield of 4.17 t/ha

### **Barley**

Changes in the barley industry such as the introduction of new barley varieties which comply with industry required quality specification and improved yield potential have caused Grain SA to project a 4.7% increase in area plantings for barley. This is expected to ease barley imports into South Africa the long term.

### **Groundnuts**

The CEC expects an improvement in groundnut output since the last forecast. The new forecast puts the groundnut crop at 66 225 tons, which is 2.39% less than the 67 845 tons of the last forecast. For groundnuts, the area estimate is 58 000 ha and the expected yield is 1.14 t/ha.

### **Sunflower**

The production forecast for sunflower seed improved by 0.75% to 578 600 tons from the CEC's previous forecast. The area estimate for sunflower seed is 576 000 ha. Yields are expected to average 1.00 t/ha.

### **Soya beans**

The CEC forecasts that soya beans output will increase by 0.48% to 942 850 tons. The area planted to soy beans is estimated to be 687 300, with an expected yield of 1.37 t/ha.

### **Sorghum**

The local output for the brown grain is estimated at 158 300 tons, which is 11.42% lower than the 178 700 tons of the previous forecast. Ongoing drought in key sorghum producing areas is the key reason for the decrease in sorghum outlook. The area estimate for sorghum is 70 500 ha and the expected yield is 2.25 t/ha.

### **Dry beans**

The CEC's production forecast for dry beans is 78 815 tons, which is 5.16% less than the 79 940 tons of the previous forecast. The decline in output is attributed to poor rains during the growing season in key producing areas. As a result, the area estimate for dry bean is 64 000 ha, with an expected yield of 1.18 t/ha.

### **Cotton**

Low cotton prices are expected to persist while farmers in the Northern Hemisphere make their planting decisions. As a result, the global cotton area in 2015/16 is projected down 6% to 31.6 million hectares. Assuming a world average yield of 777 kg/ha, world cotton production is forecast to fall 6% to 24.6 million tons, the lowest volume since 2009/10. Global cotton consumption is expected to increase by 2% to 24.7 million tons, making 2015/16 the first in five seasons where consumption overtakes production. However, this would only be a small dent in the large stockpile of cotton. Falling cotton prices are likely to make cotton a less attractive crop to plant in 2015/16. Prices for cotton fell whilst prices for competing crops such as maize and soy have been increasing since last September. Indian farmers are planting less cotton due to high production costs, but given a similar yield than last year, India will be the largest producer of cotton for the second consecutive season. In China, area is projected to fall for the fourth consecutive season to 3.8 million hectares, and production is forecast down to 5.7 million tons, the lowest level since 2003/04. In the US, area is also expected to contract to 3.6 million hectares, and production will decline to 3.3 million tons in 2015/16. Low prices in Pakistan prompted many farmers to end cotton harvesting early to plant wheat. The lack of enthusiasm for cotton is likely to persist into 2015/16.

## 5. HORTICULTURE OUTLOOK

Specific attention in this Outlook is given to exotic fruits, gaining popularity in exports markets, creating an opportunity for South Africa to diversify its offering. A key commodity is the pomegranate.

### Pomegranate industry profile

Pomegranate (*Punica granatum* L.) production is growing in South Africa. The fruit is valued for its tasty and juicy edible part (aril), and lately for juice production. Increasing consumer interest has spurred a global increase in production and marketing of the fruit and its products. Commercial orchards are grown world-wide, with about 90% of production occurring in the Northern Hemisphere. In South Africa there are roughly 1 000 ha of pomegranate orchards, and fruit export increased drastically from ± 315 tons in 2009/2010 to 198 000 tons in 2011/2012, mainly to Europe, the Far East and Canada (See figure 2). Local production is projected to grow by 189% by 2017. To fully harness the opportunity, there is a need to characterize commercial pomegranate cultivars grown in South Africa for the purpose of selection and marketing of cultivars with better quality as fresh fruit or processed products.

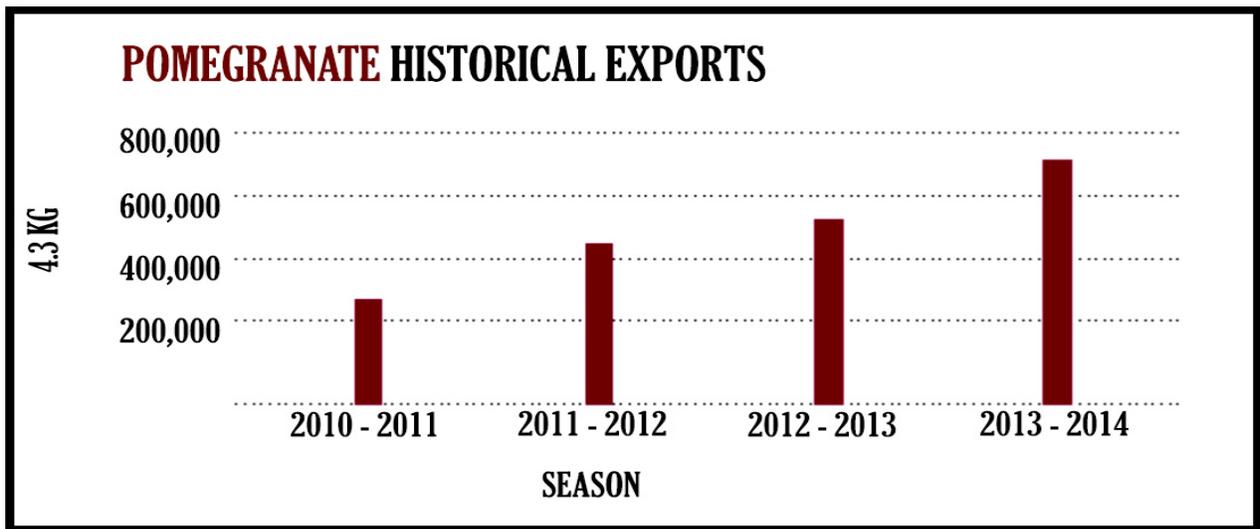


Figure 2: Trends in exports of SA pomegranate SA fresh produce export's forum, 2015)

### Wine

According to projections by GAIN (2014), the South Africa grape crop for wine production will decrease by 2 % to 1.490 million tons in 2015, from the peak of 1.520 million tons in 2014. Wine exports will increase by 4 % to 500 million litre in 2015. South Africa wine exports to the US have grown from 12,971,841 litre in 2011 to 24,460,215 litre in 2014. South Africa's wine imports from the United States have grown steadily from 14,359 litre in 2012 to 38,552 litre in 2014. The 2015 season started two weeks earlier than normal, and according to some wineries the wine grapes are expected to be smaller with concentrated flavors as a result of the long, dry and windy summer. This has raised expectations that the 2015 South African wines would be of better quality. Ideal weather conditions during the flowering and berry set period resulted in the biggest crop ever produced in South Africa (see Figure 3).

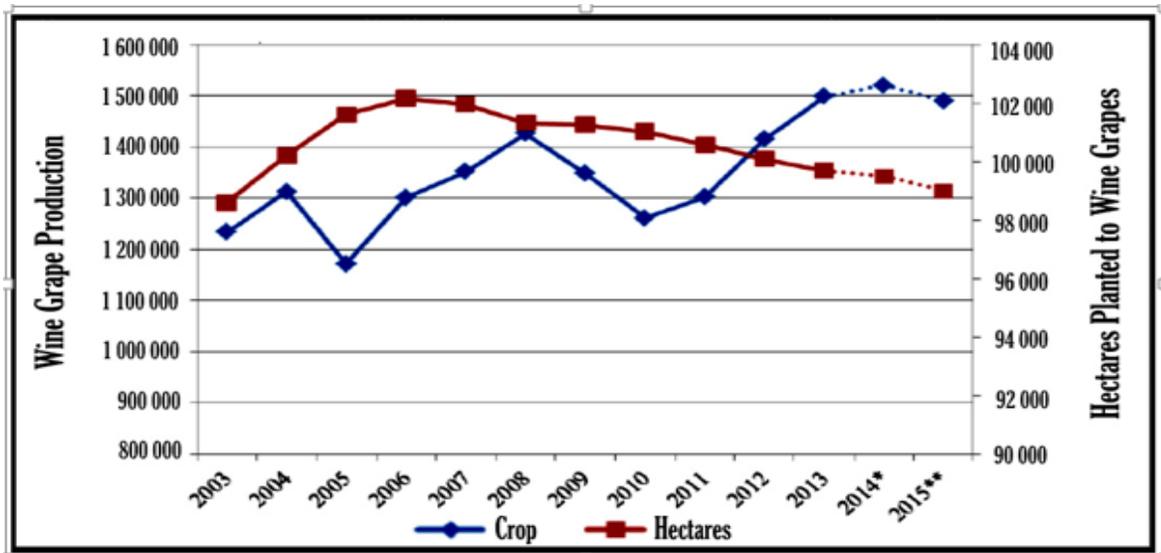


Figure 3: The trend in South African wine grape production in the past ten years (GAIN 2014)

### Exports of grape and wine

South Africa will export 500 million litres of wine (natural, sparkling and fortified wine) in 2015, based on the total wine production of 1,150 million litres and the prevailing weak rand exchange rate (R11.60/US\$). Projections show that exports at 480 million litres in 2014, down from the peak exports of 526 million litres in 2013. The trend in bulk wine exports from SA will continue (70% of total exports in 2015). A long term comparison shows that the growth in bulk wine exports is significant, as bulk wine exports were only 69 million liters (29 % of total exports) in 2003. The growth in bulk wine exports is a global trend.

### Stone fruit

In sub-Saharan African, South Africa is the leading producer and exporter of stone fruits. Fuelled by increase in production and good weather, ABSA projects that production of stone fruit in the 2014/15 season will be higher than in the previous season, when bad weather led to poor production. The improvement is expected to support increases in exports. The weaker exchange rate is expected to support export prices.

### Peaches

Peaches recorded increases of about 13.6 % in 2013/14. During this season the bulk of the peaches were exported to UK, and the Middle East. Export prices are expected to continue to lead, supported by the weakening exchange rate. This is foreseen to drive farmers towards replacing processing cultivars with export cultivars. Figure 4, shows growth in export volumes of peaches, whereas the trend for other commodities can be observed in the South African Fresh Produce Export's Forum (2015).

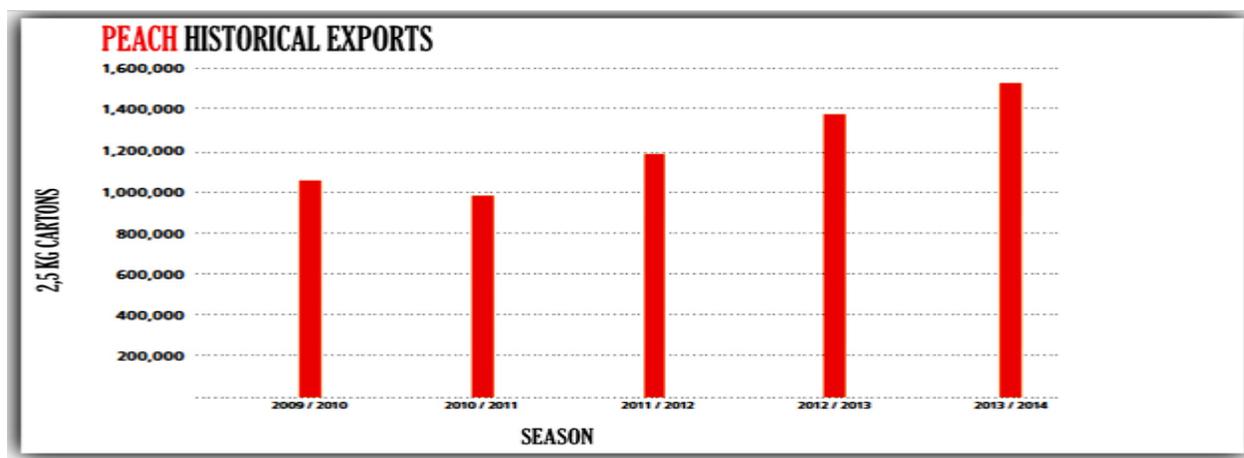


Figure 4: Trend in exports of South African peaches (SA fresh produce export's forum, 2015)

### **Apricots**

Due to transport and storage challenges, most of South African apricot production is destined for the processed market. However, export prices are higher. The projected continuous weakening of the rand is expected to strengthen prices. In addition, the higher profitability associated with apricots is expected to support the steady increase of area under apricots.

### **Vegetables**

South Africa is a major producer of vegetables such as potatoes, tomatoes, onions, cabbage and carrots. Supply and demand influence prices as the bulk is sold on the fresh produce market. Table 2 shows the volume and average prices of the top five vegetable crops in the country for the week ending 20 March 2015. Tomato recorded higher prices, but also a high growth in volumes traded week-on-week. Although three commodities, potato, onion, and carrots suffered negative growth in terms of prices, year-on-year, when it comes to volumes traded there was a positive growth both at week-on-week and year-on-year.

**Table 2: Statistics for volumes of vegetables traded at National Fresh Produce Markets**

Major fresh produce markets (Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban)						
Week ending 20 March 2015	Average price (R/t)	w/w	y/y	Total volume (t)	w/w	y/y
Tomato	8208	19%	16%	3617	72%	31%
Potato	2788	18.1%	-12.0%	11847	40%	0.7%
Onion	3597	22%	-11%	5623	66%	39%
Carrot	5707	24%	-7%	1472	34%	27%
Cabbage	3814	55%	70%	1219	22%	7%

### **Vegetable Trade**

Following the one-year Russian ban of imports from the US, EU, Canada, Australia and Norway in August 2014, South Africa has had an opportunity to increase its market share to Russia. Russia and South Africa are developing a good relationship and the country plans to set up a partnership to export vegetables to Russia. South Africa is Russia's main trading partner in Africa. Last year, this market firmed by 11%, and from January to June 2014 trade has grown by 10%.

## **6. ANIMAL PRODUCTION**

### ***Poultry***

Over the past two years, world broiler production has increased by 1% and 1.45% respectively. Over the past decade consumption has increased on average by 3.3% per annum. Lower grain prices are projected to increase margins in the broiler industry, which will fuel production levels. Locally, broiler production has been increasing by an average of 3.73% per year for the last eight years while consumption has on average increased by over 5%. In the long run BFAP projects consumption to increase by 34% over the next decade accounting for 73% of additional meat consumed by 2023. Increased economic growth and lower grain prices are expected to support the poultry market as will further weakening of the rand against the US\$.

### ***Beef***

World beef production for 2014 was estimated at 58.8 million tons, an increase of just 0.4% while consumption was estimated at 57.2 million tons, an increase of 0.73% from the previous year. The ABSA outlook estimates that production will increase by 0.54% to reach 59.2 million tons in 2019. Fuelled by strong world economic growth, the demand for beef is expected to firm. Locally, total beef consumption for 2014 was 890 000 tons. The outlook for the demand of beef remains positive. BMI forecast production to increase by 6.6% in the five years to 2017/18 benefiting from moderating feed prices and the expected economic growth. Over the next decade, BFAP forecasts the demand for beef to increase by 20%, accounting for 15% of additional meat consumed in 2023. Fuelled by firm demand and rising prices in competing industries, BFAP projects beef prices to increase continuously through the next decade, exceeding R50/kg by 2023.

### ***Pork***

Global pork production for 2014 was 111 million tons, an increase of about 1.15% from 2013. Driven by higher margins as a result of low grain prices, ABSA projects an increase of about 1.88% growth in production to reach 112.8 million tons in 2015. Consumption increased by 1.25% from 2013 to reach 110.5 million tons in 2014. For 2015, consumption is projected to increase by 2% to reach 112.5 million tons. Locally, pork production and consumption increased by an average of 4% per year over the past eight years. In 2014, production is estimated to have reached 222 619 tons while consumption is estimated at 254 458 tons. BFAP projects pork consumption to grow the fastest of all meat types over the next decade, accounting for 10% of additional meat consumed by 2023.

### ***Mutton***

World mutton production increased by 1.35% to reach 8.7 million tons in 2014. International lamb prices experienced strong volatile growth over the past few years. The strong projected economic growth in the Middle East, as well as South and East Asia is expected to strengthen the demand for mutton. Locally, ABSA projects mutton prices to continue their upward trend. Led by import parity levels, BFAP projects the domestic lamb price to increase by an annual average of 5% through the next decade.

### ***Wool***

International wool production is expected to continue to grow as production margins remain favorable. Locally, wool prices reacted positively and climbed by 2% on average, fuelled by the weaker Rand/US Dollar exchange rate. Short wool with a minimal seed content were the best sellers. Driven by the weakening rand,

domestic prices are expected to continue to strengthen in spite of some weakness in the Australian wool price. It is projected that the higher domestic price will continue to drive production expansion in wool.

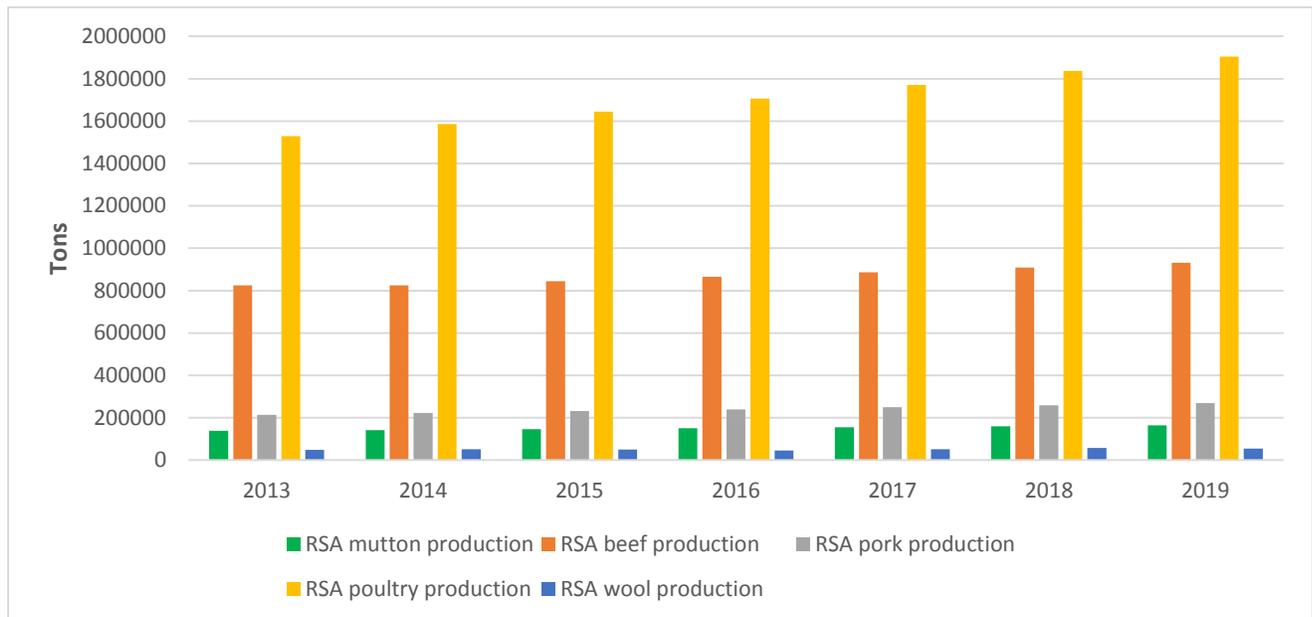


Figure 5: Meat and wool production in South Africa (ABSA, 2015: 47)

### **Eggs**

The outlook for egg production remains positive. Increasing continuously through the past decade, consumption declined for the first time in 2013 due to higher prices. However, BFAP, projects local consumption to increase by 27% in the next decade, exceeding 540 000 tons by 2023; more than 10kg per capita.

### **Milk and dairy products**

Global demand growth for dairy products was robust throughout 2013 and the first quarter of 2014. Total milk production for 2014 is estimated at 2 831 million liters. The milk to feed price ratio has recovered from the lowest level reached in 2013 to a level above 1.5: 1, which may result in higher production in 2015. In the long run, the price of milk is projected to grow at an average rate of 6.3% per year over the next decade. Supported by continued growth in demand and easing feed prices, milk production is projected to expand by 30% through the next decade.

### **Mohair**

Based on the ABSA agricultural outlook, local producers are becoming more competitive due to a weaker rand and a stronger US dollar. Consequently, production expansions are projected. Of concern is the realization that, currently Angora goats only make about 40% of the total goat herd in South Africa compared to 90% in 1989. ABSA projects that this number will grow towards 53% in 2019. As the leading producer of mohair, the world price for mohair is indirectly derived from South Africa. In spite of the weaker rand, prices improved faster than inflation, hence the expected growth in production over the next few years. Given this expected increase, export volumes should also increase. ABSA projects that the demand for mohair will remain strong as world ending stock levels are almost non- existing.

## 7 CONCLUSIONS

The world economy does affect South Africa. Lower commodity prices, slow growth of major trading partners and volatility in global monetary policy and capital flows will directly affect South Africa over the next few years. The European monetary stimulus is expected to have only a muted impact on GDP growth in Europe, and the anticipated weakness of the Euro will limit South Africa's currency competitiveness. Weaker commodity demand from China in particular is also expected to have a negative effect on South Africa's exports.

Labour-intensive horticultural exports (such as grapes, citrus and tree nuts) are growing as a share of output, replacing highly mechanised grain exports such as maize. Such developments are expected to position the industry for future growth. However inadequate and expensive electricity supply, might impose a serious constraint on output and exports over the short term.

The general conclusion is that South Africa's summer grain output is expected to decrease from the last forecast, despite healthy plantings, as the prolonged dry spell intensified in the North West and Free State provinces. This is expected to cause South Africa to import maize for the first time in 11 years. Increasing Rand Dollar exchange rates should cause increased food prices and an increase in the food price index. Although new maize cultivars that are resistant to drought have been released to South Africa by the ARC, land reform uncertainty, aging farm infrastructure and rising costs of production are some of the key factors that will cause a reduction on farm profitability.

The depreciation in the value of the Rand has provided relief in the horticulture industry, as international consumers perceived local commodities such as wine, grapes and citrus fairly cheaper. Everything remaining constant, the current strategy of investing in high value horticultural and exotic commodities especially those adapted to local conditions including indigenous crops, provides opportunities for cost optimization and commodity diversification. There are also other environmental benefits to be gained from more intensified high value crop production as well as from a greater focus and implementation on more sustainable production practices. In this regard climate smart agriculture, conservation agriculture and precision agriculture are concepts that the ARC would do well to explore with more vigour. The ARC further needs to expand research in the area of neglected, under-utilised and exotic fruit commodities in order to develop high yielding varieties.

Meat production in South Africa is clearly on an increasing trend. However, the country remains a net importer of meat and other livestock products. There is scope to increase production, and especially the increased participation of previously disadvantaged smallholder farmers needs to be enhanced. The ARC through its emphasis on smallholder development should seek to increase small holder farmer' access to services such as training and information dissemination, which could certainly contribute significantly to household and national food security, increased income and a more profitable and sustainable sector.