

# ECONOMIC OUTLOOK REPORT XXI



*Prepared by the Economic Analysis Unit:*

**AGRICULTURAL ECONOMICS AND CAPACITY DEVELOPMENT DIVISION**

**March 2017**

## TABLE OF CONTENTS

<b>1. EXECUTIVE SUMMARY</b> .....	3
<b>2. FOREWORD AND ACKNOWLEDGEMENTS</b> .....	5
<b>3. MACRO-ECONOMIC INDICATORS</b> .....	7
<b>4. ANIMAL PRODUCTION</b> .....	11
<b>5. HORTICULTURE</b> .....	17
<b>6. FIELD CROPS</b> .....	23
<b>7. CONCLUSIONS</b> .....	29

## **1. EXECUTIVE SUMMARY**

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

Global economic growth is set to pick-up modestly, but remains too slow. Advanced economies and a number of emerging market economies have recorded some positive signs of accelerating activity and rising consumer and business confidence. Locally, the estimate of GDP for 2017 has been revised down marginally from 1.2% to 1.1% and remains unchanged at 1.6% for 2018. Following good rainfall in parts of the country, a decline in food price inflation is expected. Food price inflation is expected to average 7.0% during 2017, compared with 6.5% previously.

### ***Livestock outlook***

Good rainfall received in the beginning of the year is forecast to improve grazing pastures that were depleted in 2016 because of the 2015/16 drought. Demand for weaner calves is expected to increase around May 2017. In January 2017, the number of mutton and lamb slaughtered was 28.7% less compared to the December 2016. The outlook for lamb and mutton prices is expected to be positive, however, these prices are more susceptible to market fluctuations. South African milk production during January 2017 was estimated at 3.2% higher than during January 2016. Egg prices are expected to expand faster than maize prices as the country recovers from the devastating 2015/16 drought. The outlook for the pork industry is more positive from May onwards, especially with the bigger maize crop that is expected. The mohair market remains relatively steady despite a stronger Rand.

### ***Horticulture outlook***

The persistent dry spell in the Western Cape resulted in a negative impact on the production of table grapes and this will affect the size of volumes to be destined for exports. The production of apples and pears for the 2016/17 marketing year is not yet affected by the drought. Apple production in South Africa is projected to increase by 2% to 980 million tons in the 2016/17 marketing year. The area planted with pears will increase by 1% to 13 000 hectares (ha) in while production will increase by 2% to 440 000 metric tons in the 2016/17 marketing year.

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

The forecast for world total grains production in 2016/17 is forecast reach 2 102 billion tons. This includes record harvests of wheat and barley, while prospects for maize improved in South America. World wheat production is forecast at 236 million tons, with Australia expected to produce a record harvest. Locally, rainfall levels in the summer grain producing areas create suitable conditions for production but the threat is the fall armyworm. Total commercial maize is estimated at 13.9 million tons, 78.9% more than the previous season. The estimated commercial wheat production is 0.9% more than the previous forecast. The country's total area estimate for wheat is 508 365 ha. The expected local sunflower seed commercial production is 928 620 tons, which is 23% more than the previous production season. Production forecast for soybeans is 1 070 million tons, which is about 44.3% more than the previous season. Production forecast for groundnuts is 88 175 tons, which is 70 495 tons more than the previous season. The area estimate for dry beans is 32. 4% more than the 34 400 ha planted during the previous season. The production forecast for sorghum is 140 950 tons, which is 99.9% more than the 70 500 tons of the previous season. The local estimate for the 2016/17 production year indicates a total crop of 75 040 lint bales, which is 48% more than the previous season.

## 2. FOREWORD AND ACKNOWLEDGEMENTS

The Economic Services Unit presents this 21<sup>st</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, FAO and the World Agricultural Outlook are used. Respected local sources such as BFAP, SAPA, Absa and FNB outlooks are also used. Projections should be interpreted as possible scenarios. The following sources are acknowledged:

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

#### **Macro-economic outlook**

The global GDP projection is broadly unchanged since the OECD Economic Outlook of November 2016. At the slowest pace since 2009, global GDP growth is projected to increase, rising from just under 3% in 2016 to 3.3% in 2017 and around 3.5% in 2018. While the modest pick-up is welcome, it would still leave global GDP growth below the historical average of around 4% in the two decades prior to the crisis.

Advanced economies and a number of emerging market economies have recorded some positive signs of accelerating activity and rising consumer and business confidence in recent months, including improved momentum around the turn of the year. However, interest rates and oil prices have risen which will offset this somewhat, although higher commodity prices will benefit some emerging market economies. Overall, global growth is set to pick-up modestly, but remains too slow!

#### **Global Agricultural Outlook**

Key agricultural commodities hit multiyear lows last year after several years of strong harvests, but some experts have a mildly optimistic outlook for 2017<sup>1</sup>. The case for the better outlook comes despite challenges that include a global surplus of major agricultural commodities; bird flu problems outside the U.S. that could hamper feed demand; and the possibility of American President Donald Trump changing policy on ethanol, given that a sizable share of the nation's maize and soybean supplies are used to produce biofuels.

World Agricultural Supply and Demand Estimates (March 2017) reported the following:

Oilseeds: U.S. soybean supply and use changes for 2016/17 include higher crush, lower exports, and increased ending stocks. With increased crush, soybean oil production, exports, and ending stocks are forecast higher.

Livestock: Total U.S. meat production for 2017 will increase from the previous months as higher forecast of beef production more than offsets lower forecast of pork and turkey production.

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<sup>1</sup><http://www.cnbc.com/2017/01/03/agriculture-commodity-traders-see-a-good-2017-despite-possible-demand-risks.html>

Sugar: U.S. fiscal year 2016/17 beet sugar production is decreased 265 000 short tons, raw value (STRV) to 5.106 million.

Wheat: U.S. wheat imports for 2016/17 are reduced this month by 10 million bushels to 115 million. Internationally, global production increased 2.8 million tons to 751.1 million, mainly due to larger crops in Argentina and Australia more than offsetting a slight reduction in the European Union.

Coarse grains: This month's 2016/17 U.S. maize outlook is for increased maize used to produce ethanol and reduced feed and residual use. Global coarse grain production for 2016/17 is forecast 12.7 million tons higher from last month to 1 341.7 million.

Rice: Global rice production is minimally increased to 480.4 million tons with Brazil accounting for all of the increase. World exports are modestly reduced as lower exports by Australia, India, and Vietnam are only partially offset by increases for Brazil and China.

### **South African economic outlook**

Domestic economic growth outlook remains subdued. The estimate of GDP for 2017 has been revised down marginally to 1.1% (from 1.2%), and remains unchanged at 1.6% for 2018 while the output gap is expected to remain negative over the forecast period. Household consumption expenditure accelerated to 2.6% in the third quarter, despite a further contraction in durable goods consumption.

Food price inflation is expected to decline following good rainfall in parts of the country. Spot prices for both maize and wheat have declined significantly, and a markedly higher maize crop is expected this year. However, the impact on prices at the consumer level are yet to be felt, with meat prices likely to lag other food price categories as farmers restock their herds. Food price inflation is now expected to average 7.0% during 2017, compared with 6.5% previously. Food price disinflation is expected to be constrained or delayed by high fuel costs and a rising trend in global food prices.

The MPC has unanimously decided to keep the repurchase rate unchanged at 7.0% per annum mainly because growth prospects remain dependent on uncertain but tentatively improving global conditions, and their impact on commodity prices.

### **South African agribusiness**

The outlook for agriculture is positive, with good rains returning to parts of the country January and February. The dam levels have improved in many provinces except in KwaZulu-Natal, Eastern Cape and Western Cape. Veld and livestock conditions have greatly improved in many areas. Crops are also in good condition, with the exception of wheat in Free State that was affected by drought, and later heavy rainfall. Fall army worm was reported in several provinces, and African Horse Sickness in KwaZulu-Natal. There has been an outbreak of Avian Influenza in parts of the Eastern Cape. The effects of these are yet to be estimated.

The Business Monitor International (BMI) South African Agribusiness report (March, 2017) anticipates that maize production will rebound significantly this year after severe losses in 2015/16 due mainly to the droughts. Maize production is set to grow by 64.6% year-on-year in 2016/17, reaching 13 million tons. The production of sugar is expected to decline by a modest 1.1% year-on-year in 2016/17 as it begins to recover from significant losses incurred in the previous year. The quantity of sugar is expected to be 1.66 million tons. Wheat production is expected to recover significantly in 2016/17, growing by 13.3% year-on-year after two years of severe consecutive losses. Yields are expected at 1.87million tons in 2016/17. Poultry production will reach 1.395 million tons in 2017, representing a year-on-year increase of 3.7%. Pork production will rise by 2.0% in 2017 to reach 250 000 tons, while consumption is expected to rise to 266 000 tons.

### **Southern Africa food security status**

The Famine Early Warning Systems Network (FEWS NET) February report indicates that areas in Zimbabwe, Mozambique, and Lesotho continued to face Crisis (IPC Phase 3) acute food insecurity outcomes where humanitarian assistance coverage is very low and needs are high. During this peak lean period, there is the possibility for some isolated households to experience Emergency (IPC Phase 4) outcomes. In Madagascar and Malawi, area outcomes have improved to Stressed (IPC Phase 2) because of ongoing assistance. Across the region, countries are experiencing continuous heavy rainfall and well above-average rainfall totals. Households with the early planted maize are benefiting from the rainfall, while crops planted in mid-to-late December are being affected by waterlogging. Many poor households were unable to purchase fertilizers this season, and leaching has been reported as a major problem in Zimbabwe, Zambia, Mozambique, Lesotho and Malawi

FEWS NET further show that cases of Fall Armyworm continue to impact several countries, and reports identified the pest in South Africa's Limpopo, Gauteng and Northwest Provinces. Zambia reported that more than 129 000 hectares has been affected, while 5 471 hectares are reported to be damaged in Malawi. Slow responses by the governments of the affected countries could result in localized reductions in household production. Staple prices remain higher than the five-year average in most countries due to increased demand for market purchases during the peak lean season.

#### **4. ANIMAL PRODUCTION**

South Africa received good rainfall in the beginning of 2017, which will improve grazing pastures that were depleted in 2016 because of the 2015/16 drought. It is expected that due to revived grazing land, farmers will tend to reduce the number of animals slaughtered and start rebuilding their herds. This will reduce the number of weaner heifers available for the feedlot industry and lead to increase in price of red meat. When compared to the long-term average over the period 1997 to 2016, AMT (2017) reports that the annual prices of beef, mutton and pork in real terms were respectively 22.5%, 25.5% and 13.2% higher. The average prices increased at a faster rate over the past ten years as was the case with the inflation rate. The 2017 maize production is expected to reach 13 mill tons. The higher maize crop will help to reduce feed prices, thus improving the profitability of the dairy, pork and poultry industries as these industries are very feed intensive. In addition, ABSA (2017) expects low feed costs and higher meat prices to benefit the feedlot industry in 2017.

##### **Beef market**

The South African beef industry faced difficult production season during the previous year with terrible dry weather conditions that lasted for almost a year. Subsequently, beef farmers were forced to liquidate their livestock, which could take time to rebuild. As a result, the supply of beef to the market in the first month of 2017 showed a preliminary decline of 5.6% year-on-year, which give cause to the higher price levels of beef in the first two months of 2017. It is no surprise that in November 2016, South Africa imported 111 tons of beef (excluding offal) from overseas and the main exporters were Uruguay (58,3%), Australia (27,5%) and New Zealand (14,1%). Opportunely, since December 2016 sufficient rain fell over most of the beef producing areas with the prospect of sufficient grazing in the coming winter. The average price of the Class A2/A3 was in total 1,9% higher in January 2017 compared to the previous month, 11,7% higher compared to the average price in January 2016 and 19,3% higher compared to the average 3-year price for January. ABSA (2017) also expects the demand for weaner calves to increase around May 2017, as the maize prices decline due to the increase in maize producer deliveries. AMT (2017) stipulates that the price differential between South Africa and the main export countries now is still too wide to allow for any significant imports of beef. Hence, beef imports are expected to stay on a low level over the next six months. However, the after effects of the 2016 drought in South Africa may cause a

decline in the supply of beef in 2017, which may push producer prices upward. Should this happen AMT projects that beef imports from overseas may increase in 2017.

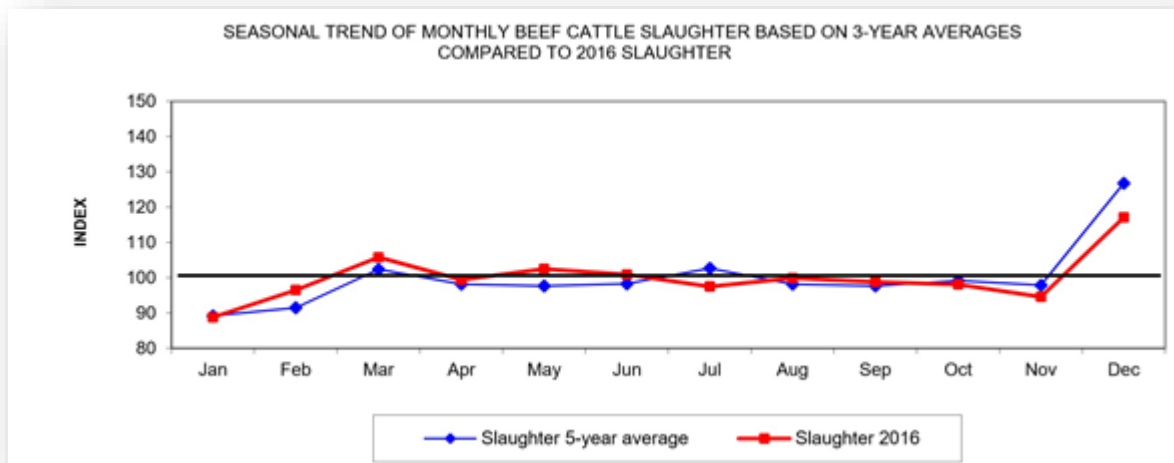


Figure1: Seasonal trend of monthly beef cattle slaughter based on 3-year averages compared to 2016 slaughter

Source: AMT, 2017

**Mutton market**

Based on the latest report by AMT (2017), in January 2017 the number of mutton and lamb slaughtered was 28.7% less compared to the December 2016, 5.3% less year-on-year and 23.7% down on the average over the period January 2014 to January 2017. This is because of the decline in demand for mutton after the festive season. Nonetheless, with current favourable weather conditions that encourages herd rebuilding, mutton prices are expected to remain stable in the short term (ABSA, 2017). With the sheep industry not enjoying the same export opportunities like in the beef industry, lamb and mutton prices are higher when compared to beef, pork and poultry prices. As a result, there might be consumer resistance to the high mutton prices, which may add pressure to both lamb and mutton prices. However, favourable weather outlook may continue to support the livestock market to revive pastures and support herd rebuilding. Internationally, prices may also be supported, as supplies in both New Zealand and Australia remain low. Locally, AMT projects the outlook for lamb and mutton prices to be positive, however, these prices are more susceptible to market fluctuations.

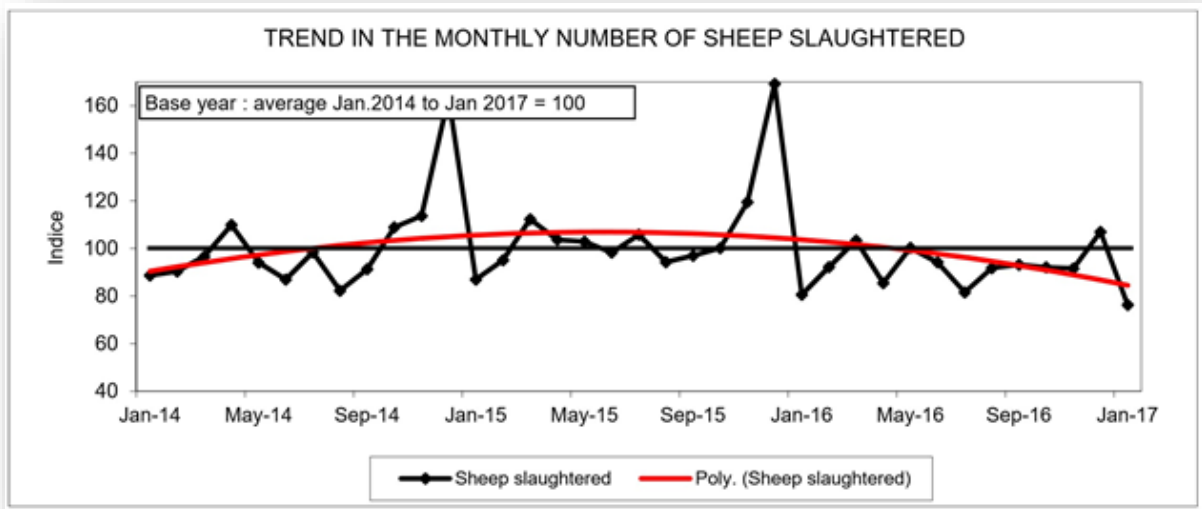


Figure 2: Trend in the monthly number of sheep slaughtered

Source: AMT, 2017

**Dairy market**

Internationally, milk production in the European Nations is slower and generally negative in Southern hemisphere countries. Nonetheless, following the 47 % increase in 2016, international dairy product prices are projected to increase further this year. Locally, according to the 2017 Milk Producers report, South African milk production during January 2017 was estimated at 3.2% higher than during January 2016 but lower when compared to the 2015 production during the same period. It is due to the contribution from favourable early-season production conditions in pasture areas that production has recovered. High grain prices will continue to influence production in inland areas, at least until the 2017 summer grain crop has been harvested.

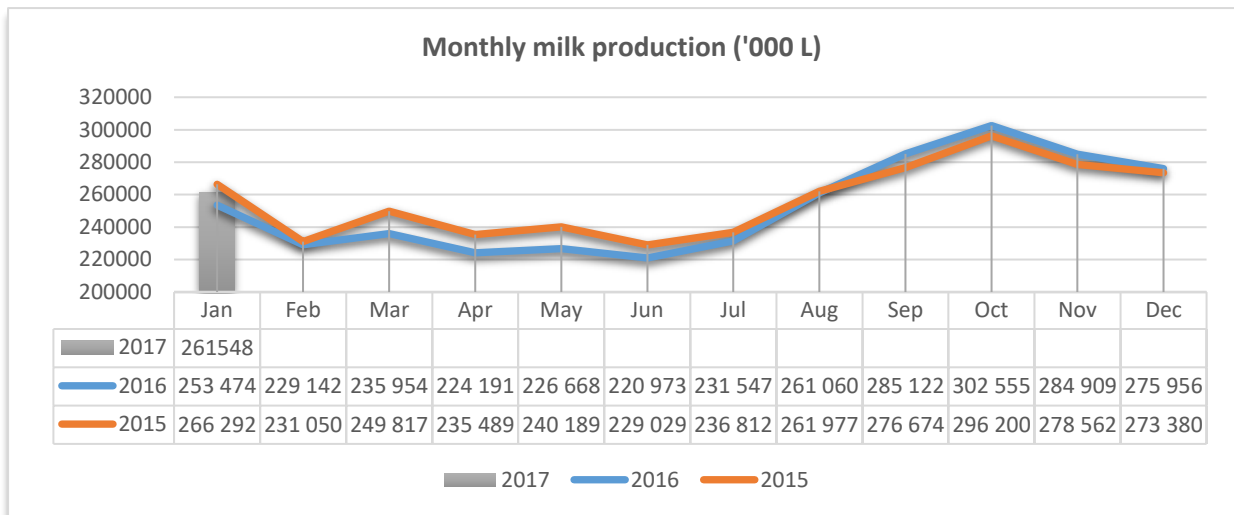


Figure 3: Monthly milk production

Source: MPO, 2017

### Poultry market

The South African broiler industry faced unprecedented challenges going into 2017, due to ever-increasing levels of cheap EU, Brazilian and US imports that disrupt the ordered supply of broiler meat in the country. Despite the faced challenges such as dumping, imposition of 13.9 % tariff on imported EU poultry meat as well as higher prices of red meat prices assist in keeping poultry prices higher as compared to the previous year (FNB, 2017). The total impact of the increase in tariff plus the ban on imports from some of EU countries due to avian flu has resulted in exports of chicken from the EU to South Africa declining by one-third. Nonetheless, should there be no permanent agreement to this tariff after it expires, it is expected that the return of exports from EU in the local market will pressure prices (ABSA, 2017). Fortunately, high beef and mutton prices push consumers towards poultry products. Hence, the demand for poultry products is expected to continue its increasing trend even in depressed economies.

### Egg market

Internationally, egg exports from the US are expected to increase to 295 million dozen in 2017 still 22 % below 2014 levels. Imports of 102.1 million eggs are expected to drop steeply in 2017 to 60 million dozen (USDA in SAPA 2017). According to BFAP (2016), egg prices are expected to expand faster than maize prices as the country recovers from the devastating 2015/16 drought. During the third quarter of 2016, total egg imports reached 57 729 kg; at a

rand value of R6.62 million, France accounted for 79.4 % of total imports; whilst 20.2 % came from Italy and 0.56 % came from Germany, Denmark, Japan, India and Namibia.

### Pork market

Internationally, strong demand for pork may continue to support prices. China is expected to maintain the high level of pork imports in 2017. Locally, the outlook for the pork industry is more positive from May onwards, especially with the bigger maize crop that is expected. The bigger crop will bring relief to feed costs. Pork prices are expected to be supported by increased spending towards pork products compared to the higher prices of beef and mutton.

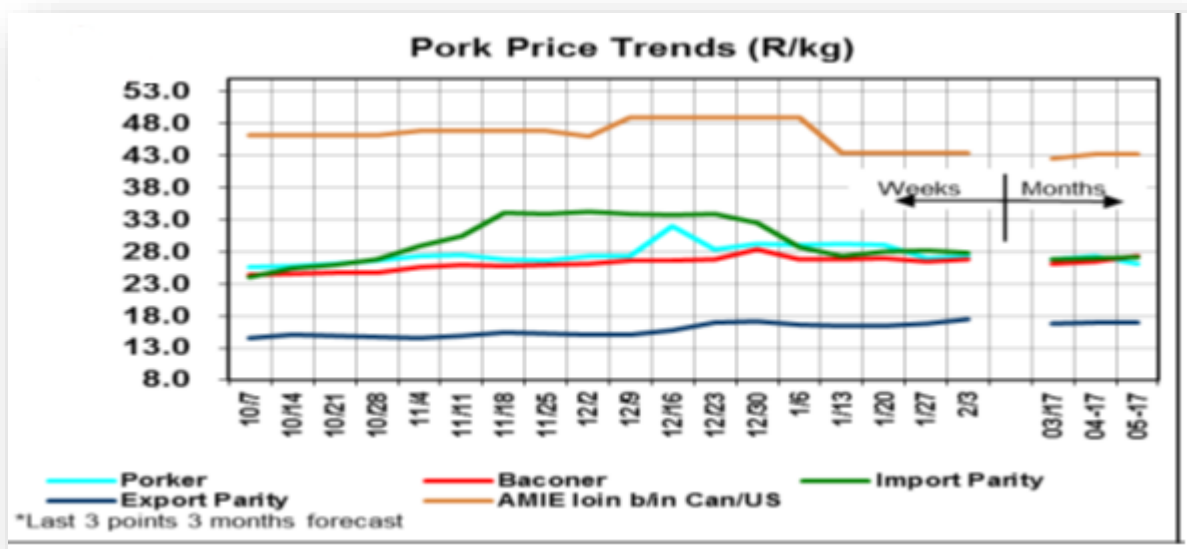


Figure 4: Trends in pork prices

Source: ABSA, 2017

### Wool market

Internationally, wool prices are expected to move sideways as the volumes on offer are expected to be met by good demand. According to Cape Wool SA, despite the rand strengthening and trading at R12.65 to the US dollar, during the last auction on the wool market performance lost only 0.8%. It was a small offering with the majority of wool fine and of medium length. Generally, there is firm demand for mainly fine wool. Locally, the

movement of currency will continue to drive the domestic market.

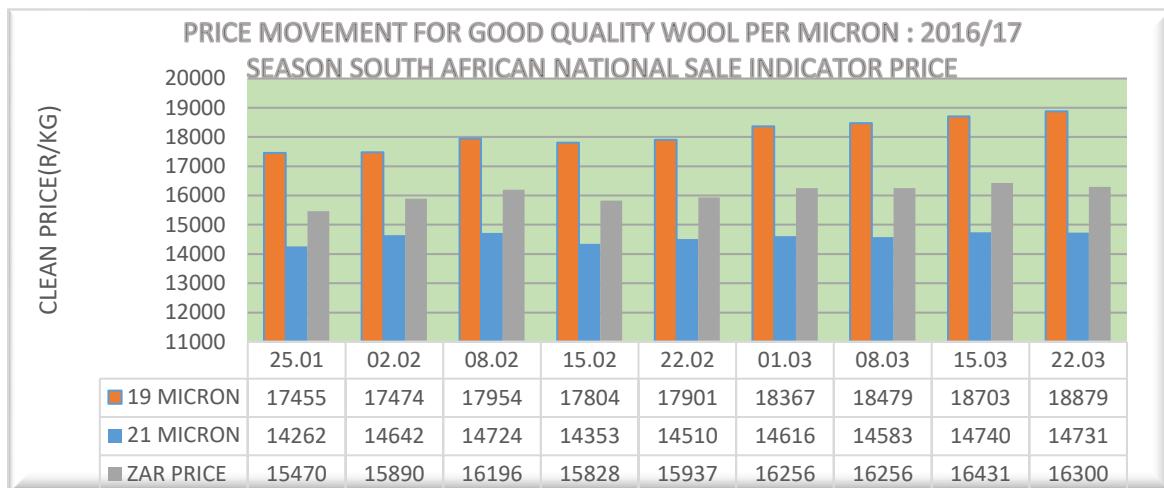


Figure 5: Price movement for good quality wool per micron

Source: CMW, 2017

### Mohair market

The current drought has a major impact on production and quality. Currently, the intake is in excess of 20% down compared to the previous year. Fortunately the mohair is also a lot finer, but unfortunately also substantially shorter. Overall, the market remained relatively steady despite a stronger Rand, which had strengthened with 1.4 % against the US dollar, but in the wake of cabinet changes in the country, substantially weakened. The average market indicator decreased with 1.1% to close at R184.73/kg. Strong adults increased with 0.6% to close at R175.26/kg while fine adults decreased with 1.4%, closing at R194.70/kg.

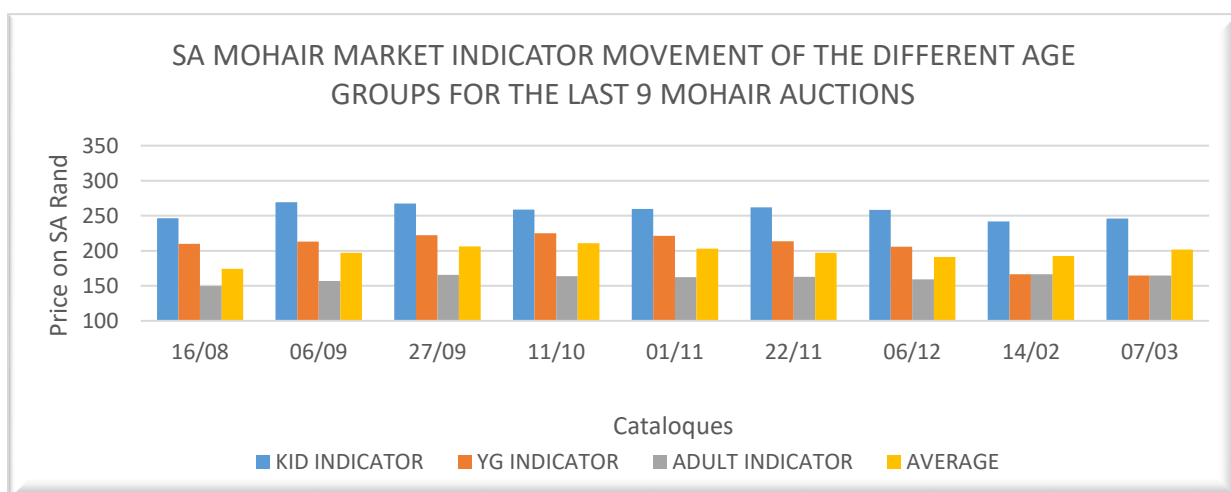


Figure 6: SA mohair market indicator movement

Source: CMW, 2017

## **5. HORTICULTURE**

The current outlook provides an overview for the trends in production and exports of deciduous fruit, focusing on apples and pears. It compares the movements in prices in both local, export markets for the two commodities, and provide an outlook for export going into the future, up to 2025. According to the USDA (2016) report, the persistent dry spell in the Western Cape resulted in a negative impact on the production of table grapes and that this will affect the size of volumes to be destined for exports. South African table grape production will decrease by about 2.7% to 283,700 metric tons in the 2015/16 marketing year, from 291,442 metric tons in the 2014/15. This is due to the dry weather conditions that resulted in smaller grape sizes (USDA, 2016). The production of apples and pears at least for the 2016/17 marketing year is not affected by the drought. Africa is emerging as an important market for the South African deciduous fruit.

### **Apples production**

The area planted to apples has steadily increased over the past decade driven by increased earnings in the export markets due to the weakening Rand. Apples are grown in several provinces throughout South Africa, but the Western Cape is the heartland of deciduous fruit production, accounting for approximately 9% of total apple production and exports.

It is forecast that the area planted to apples will increase by 1% to 24100 ha in the 2016/17 marketing year. Fuelled by the projected increase in the area planted and new plantings coming into full production and normal weather conditions, apple production in South Africa is projected to increase by 2% to 980 million tons in the 2016/17 marketing year, up from 961 000 metric tons in the 2015/16 marketing year.

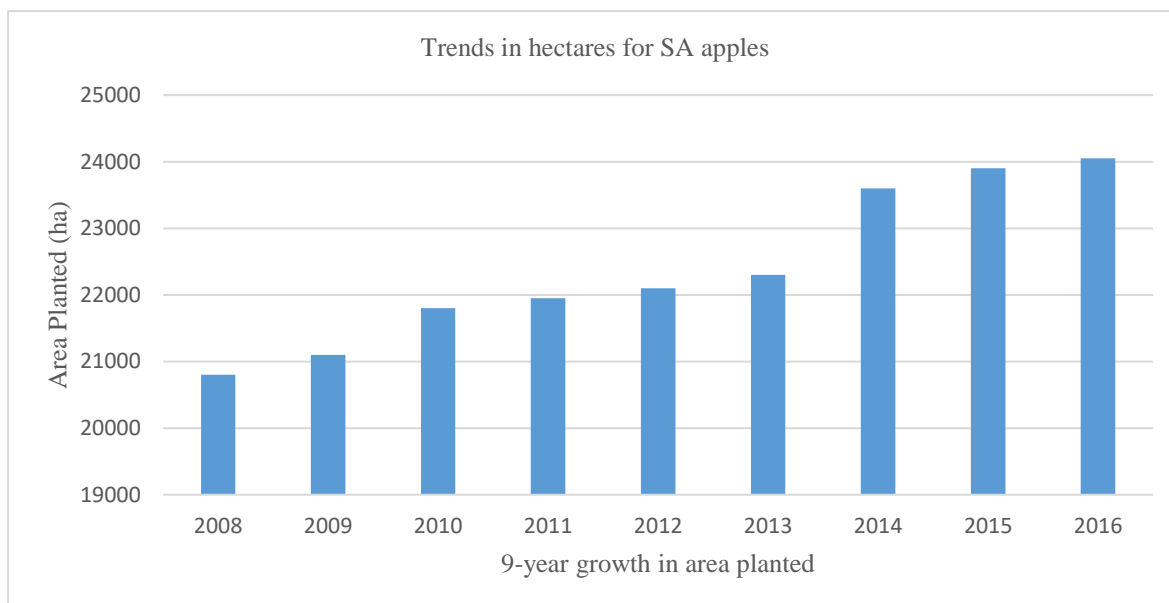


Figure 7: Trends in hectares for SA apples

Source: HORTGRO in USDA (2016)

### Export trends for South African Apples

Projections by USDA (2016) suggest that apple exports will increase by about 4% to 550 000 metric tons in the 2016/17 marketing year, due to the weaker Rand.

### Pear production

Fuelled by an increase in area planted, young orchards coming into full production and normal weather conditions, USDA (2016) projects pear production in South Africa to increase by 2% to 440,000 metric tons in the 2016/17 marketing year, up from 430 000 metric tons in the 2015/16 marketing year. The area planted with pears will increase by 1% to 13 000 hectares (ha) in the 2016/17 marketing year, up from 12 894 ha in the 2015/16 marketing year due to increased investment in the sector. Since 2010 the area planted with pears has been increasing at high rate-thanks to the growth in premium, prices fetched in overseas markets (see table 1 for the trend in prices).

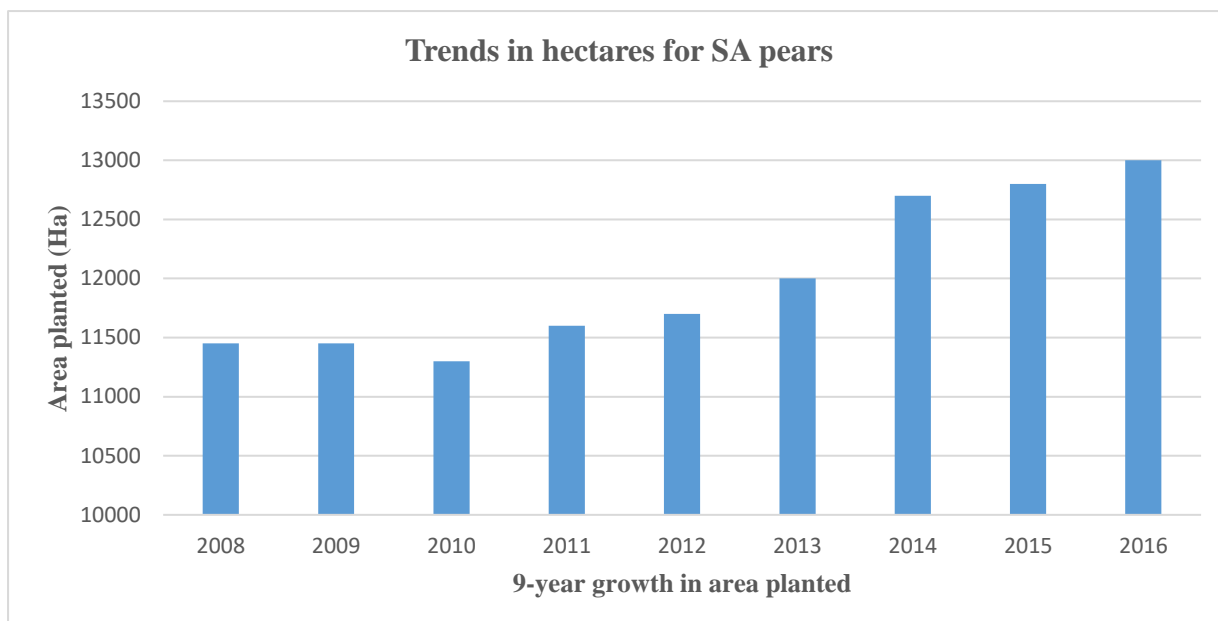


Figure 8: Trends in hectares for SA pears

Source: HORTGRO *In* USDA (2016)

#### Export trends for South African pears

Up from 249436 metric tons in the 2015/16 marketing year, to 260 000 metric tons in the 2016/17 marketing year, USDA (2016) projects pear exports to increase by 4%. This is due to an increase in production plus the weaker exchange rate. BFAP (2016), projects pear exports to increase even more, expanding by 22% to surpass 230 000 tons by 2025.

#### Trends in movements of pear and apple price in local and export markets

Addressing the International Pear Congress in 2016, Jacques du Preez, a manager at HORTGRO stated that even though the South African pear industry is a small international player, about 50% of the produce is traded in export markets (Interpera, 2016). For apples, this figure is estimated at 44.5% of the produce (BFAP, 2016). Table 1 shows that for both apples and pears the prices fetched in export markets had always been higher than those fetched locally. In table 1, it can be seen that the price of apples has always been higher than the price of pears in local markets, while in the export markets, pears are normally priced higher than apples. The key driving forces of the increases in apple and pear export prices are the depreciation in the value of the Rand and increasing world demand (USDA, 2016). The growth in export prices is remarkable. In 2003, the export price of pears was R4 059, and some 14 years later, as at 2015 the price is R 9 977, this representing some more than 100% increase. The same is the case also with apple prices. Since the prices are expressed in South

African currency, this serves as a clear message, that the local produce is of high quality and responsive to the world demands.

**Table 1: Trends in prices of apples and pears in local and export markets**

Season	Apples			Pears		
	Local Market (R/ton)	Export Market (R/ton)	Processed Market (R/ton)	Local Market (R/ton)	Export Market (R/ton)	Processed Market (R/ton)
2003/2004	2109	3794	336	1977	4059	495
2004/2005	2310	3638	341	2128	3861	491
2005/2006	2580	3791	373	2304	3786	573
2006/2007	2799	4363	447	2664	4680	715
2007/2008	3618	5419	1071	3222	5704	973
2008/2009	3568	5834	786	3452	6336	1035
2009/2010	3656	5881	534	3454	6144	810
2010/2011	4326	6210	737	3856	6612	896
2011/2012	4470	6531	1146	4191	6803	1115
2012/2013	4845	8658	1137	4650	8835	1316
2013/2014	4944	10136	1141	4815	9900	1376
2014/2015	5024	10689	1142	5164	9977	1561

Source: USDA (2016)

## WEEK-ON-WEEK PRICE MOVEMENTS FOR VEGETABLES AND FRUITS IN SA

### Tomatoes

Based on the FNB Agri Weekly report of 10 March 2017, prices for the tomatoes continued to post strong gains largely due to moderate in supplies across markets. The average weekly tomato prices advanced by 13% week-on-week and 33% year-on-year at R8.65 per kilogram. Weekly volumes of tomatoes traded were down by 3.9% week-on-week but slightly up on last year by 1% at 3.541 tons. It is however expected that prices will trend softer in the short term. This is due to moderation in demand towards mid-month.

## **Potatoes**

The prices of potatoes dropped sharply during the last week of February to beginning of March due to limited demand towards midmonth. The average weekly potato prices fell by 16% week-on-week and 48% year-on-year to close the week at R3.34 per kg. The weekly volumes of potatoes sold came in down by 13% week-on-week at 16 305 tons, but still 55.1% higher year-on-year. It is however expected that prices will trend sideways with limited upside potential in the short to medium term due to harvest pressure.

## **Onions**

During the week ending 10 of March, prices for onions, posted a strong recovery as volumes declined across most markets. The average weekly onion prices increased by 9.4% week-on-week but still down by 40% at R2.77 per kg. Weekly volumes of sales reached 6 747 tons, down by 17% week-on-week but still 7% up on last year. Nonetheless, the short-term outlook for onion prices remains sideways with limited upside potential as supplies recover.

## **Carrots**

Prices retained the recent uptrend on the back of a substantial decrease in volumes across most markets. The average weekly carrot prices rose by a whopping 29% week-on-week at R4.97 per kg, which is however still down by 8% year-on-year. The weekly volumes of carrot sales fell by 28% week-on-week and 6% year-on-year at 1574 tons. It is still expected that carrot prices will trend sideways in the short term but with limited upside potential during midmonth.

## **Cabbages**

Prices maintained a firmer trend largely due to a modest reduction in volumes across markets. This saw the weekly prices averaging R3.42 per kg, which is up 2% week-on-week, but still down by 30% year-on-year. Weekly volumes of cabbages sold were back 7% week-on-week but still 18% higher year-on-year at 1249 tons. Nonetheless, the short-term price outlook remains bearish on increased availability and limited demand towards midmonth.

Table 2 presents the summary for the week-on-week and year-on-year movements for vegetable prices as recorded by the four major National Fresh Produce Markets in South Africa.

The tomato crop has realised significant increase in price per kg at both week-on-week and year-on-year.

**Table 2: Average prices of week-on-week prices of vegetables at NFPMs**

<b>Vegetable prices: South Africa's Major Fresh Produce Markets (Average Pretoria, Bloemfontein, Johannesburg, Cape Town and Durban)</b>						
<b>Week ending 10 March 2017</b>	<b>Average Price (R/kg)</b>	<b>Price (R/t) w/w</b>	<b>Price (R/t) y/y</b>	<b>Total Volume (t)</b>	<b>Volume (t) w/w</b>	<b>Volume (t) y/y</b>
Tomato	8.65	13%	33%	3541	-3.9%	1%
Potato	3.34	-16%	-48%	16305	-13%	55.1%
Onion	2.77	9.4%	-40%	6747	-17%	7%
Carrot	4.97	29%	-8%	1574	-28%	-6%
Cabbage	3.42	2%	-30%	1249	-7%	18%
Butternuts	2.67	11.5%	-35%	1367	15%	27%
Lettuce	6.59	-11%	-35%	419	12%	11%

Source: FNB Agri-Weekly 10 March 2017

## **6. FIELD CROPS**

The International Grains Council (IGC) forecast total grains production (wheat and coarse grains) in 2016/17 at 2 102 billion tons, up from 2 006 billion in 2015/16. The forecast indicate an 8million tons higher month-on-month. Australia accounts for much of this month's adjustment, including record harvests of wheat and barley, while prospects for maize improved in South America. Most of the increase in supply is absorbed by higher consumption that is expected to reach a new peak of 2 056million tons, an increase of 73million tons year-on-year.

As in the current global trends, the local grain sector is also expected to harvest a bumper crop in the 2016/17 production season. Increased production in the country can be attributed to a combination of factors but largely to favorable weather conditions (good summer rains are expected). Early in the season, the sector was threaten by the breakout of fall army worm especially maize producers. However, the Department of Agriculture, Forestry and Fisheries acted swiftly to implement the emergency plant pest response plan and registered pesticides, monitoring and dissemination of technical information on control options. Some scientists also suggested that the effect might not be severe as almost 80% of country's maize is genetically modified (GM), and the worm effect is susceptibility is minimal on GM maize.

### **Maize**

Rainfall levels in the summer grain producing areas create some suitable conditions for production but the threat is the fall armyworm. It is expected that imports will be replaced as maize production is looking good, 1.2million tons maize available for export. Due to recovery in maize production, the local demand from feedlots and human consumption may increase up to 11.5million tons.

The Crop Estimates Committee has set the total estimated for commercial maize production for 2017 at 13 918million tons, 78.9% more than the 7 778million tons from previous season. The contribution of white and yellow maize is 8 313million tons and 5 606 million tons respectively. The total area planted is 2 629million ha, which show an increase by 681 850 ha as compared to 2016 production year. The yield for white maize is 5.06 t/ha and 5, 69 t/ha for yellow maize. It can be noted that both yellow and white maize recorded an increase in the yield per hectare as compared to the previous season.

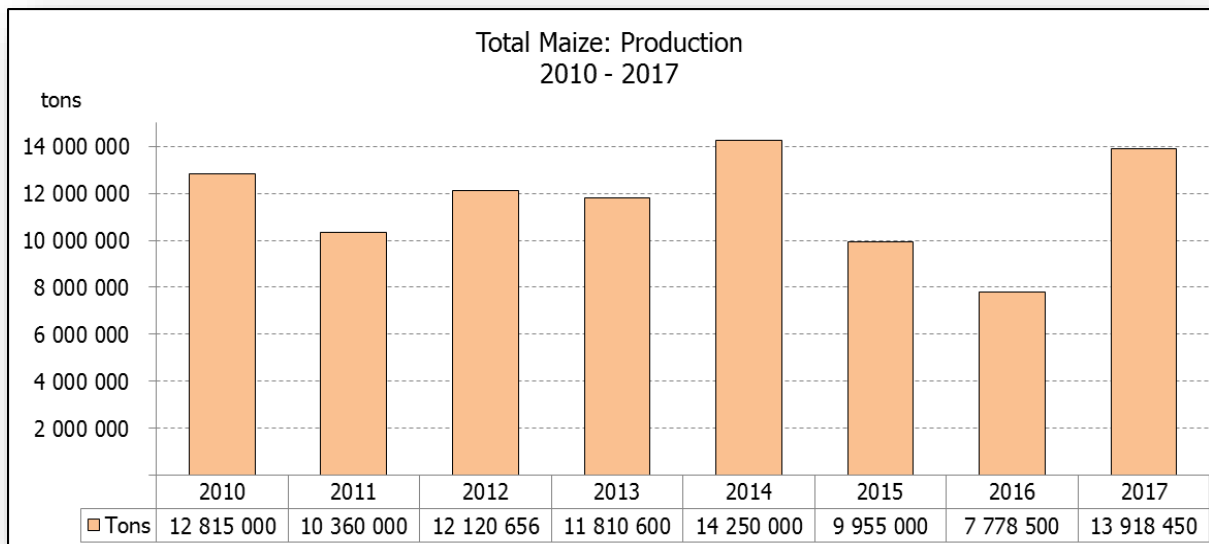


Figure 9: Trends in total maize production

Sources: CEC, February 2017

## Wheat

International Grains Council (IGC) adjusted their forecast to 236 million tons for world production, Australia expected to produce a record wheat harvest. South Africa remains a net importer of wheat, the decline in production since year 2000 is due to farmers dumping the crop in favour of more profitable produce such as maize and soya beans. An import tariff of R1 591.40 per ton has been put in place in a bid to support the local wheat industry.

The estimated commercial production of 1 910 million tons is expected to rise by 0.85%, 16 150 tons more than the previous forecast of 1 893 million tons. Yield per hectare is expected to be 3.76 t/ha. Western Cape remains the largest producer with huge stocks but struggling to move because of logistic transactions. The country's total area estimate for wheat is 508 365 ha. Early in the season, average monthly wheat prices were R4 009.23/ton. However, prices might fall around April with an expectation of weather changes (El Nino) and again peak as we approach Spring-summer with good rain expected. Prices are expected to reach R4 200.00/ton around August 2017.

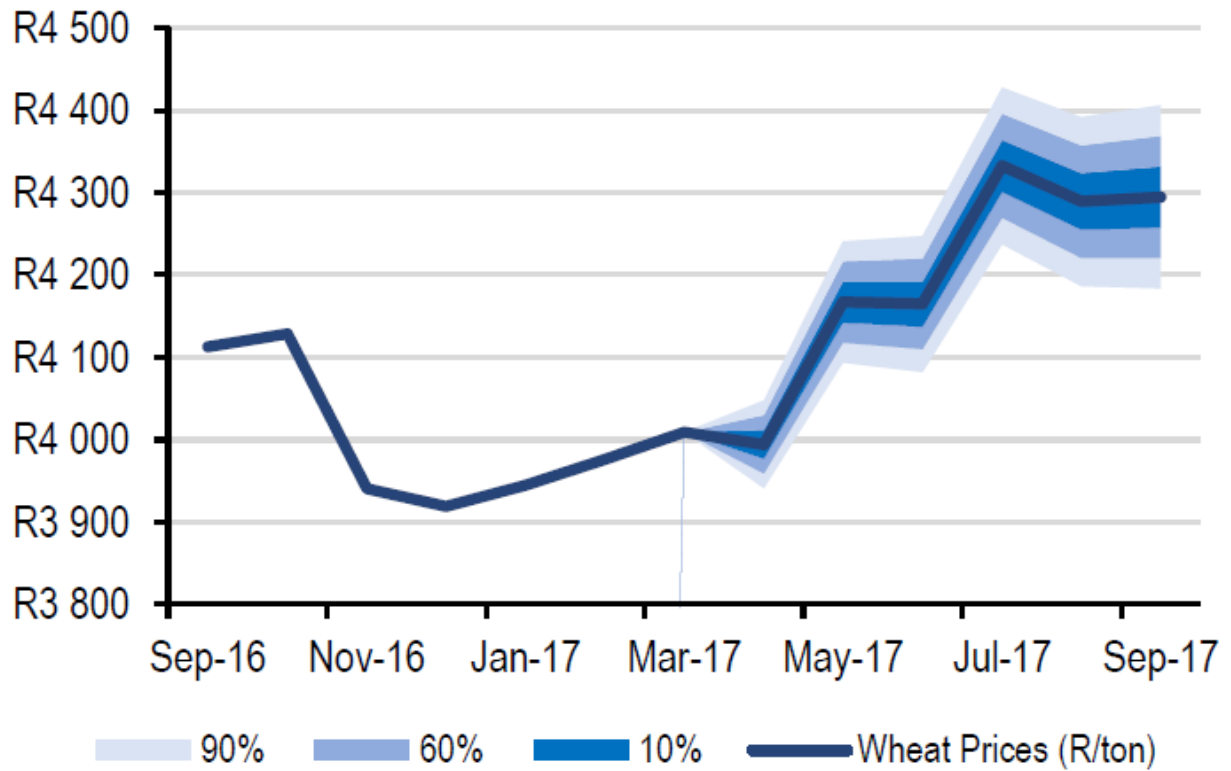


Figure 10: Wheat Prices

Sources: Agbiz Research, 2017

### Sunflower

The expected local sunflower seed commercial production is 928 620 tons, which is 23% more than the 755 000 tons of the previous production season. This would possibly be the largest production level in 16 years. Area planted is estimated at 635 750 ha, which is less (718 500ha) than the area planted the previous production season. The expected yield is 1.46 t/ha. The average price is expected to peak up to R5 438.71/ton in November 2017 marketing season.

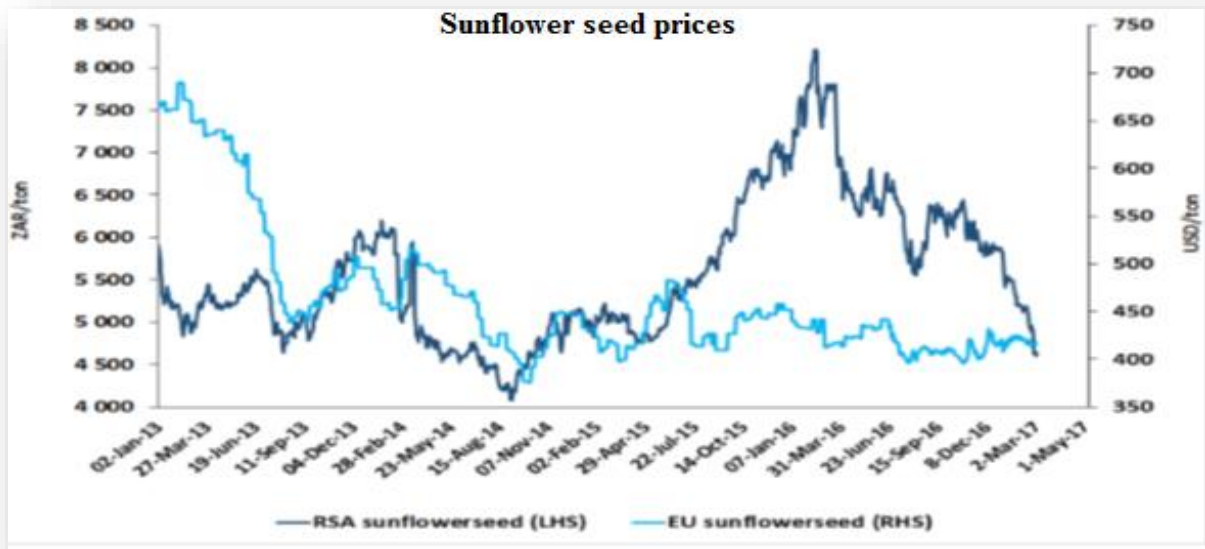


Figure 11: Sunflower seed prices  
 Source: JSE, IGC, and Agbiz Research

**Soybeans**

Locally, it is estimated that 565 850 ha have been devoted to soybean production, which is 63 050 ha increase as compared to the previous production season which was at 502 800 ha. The production forecast is 1 070 million tons, which is about 44.27% more than the previous season. The expected yield is 1.89 t/ha which indicate some level of increase.

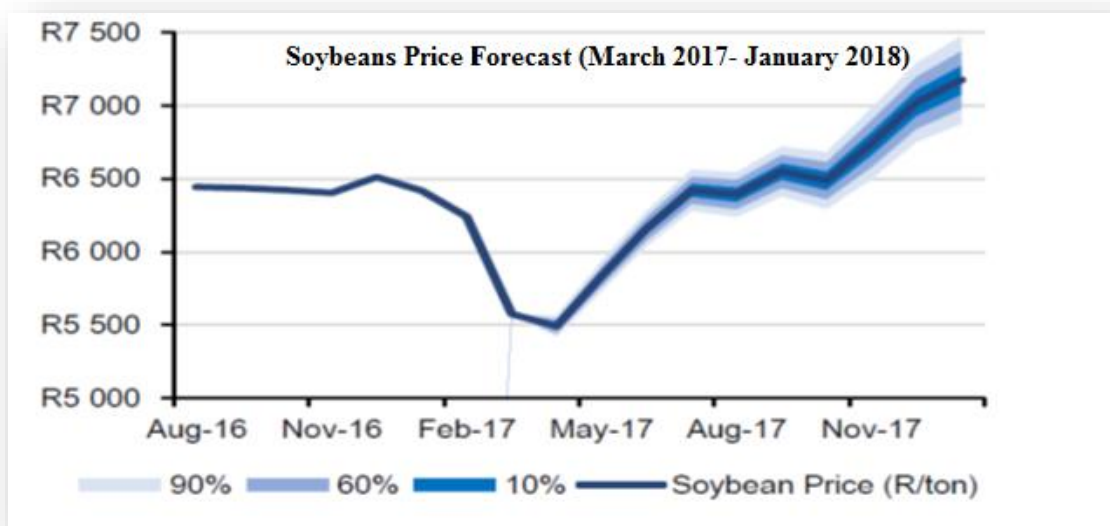


Figure 12: Price forecast for soybeans  
 Source: Agbiz Research

### **Groundnuts**

The local production forecast for groundnuts is 88 175 tons, which is 70 495 tons more than 17 680 tons of previous season. The area planted is estimated at 52 500 ha which is 29 900 ha more than the area grown the previous production season. The expected yield is 1.68 t/ha.

### **Dry beans**

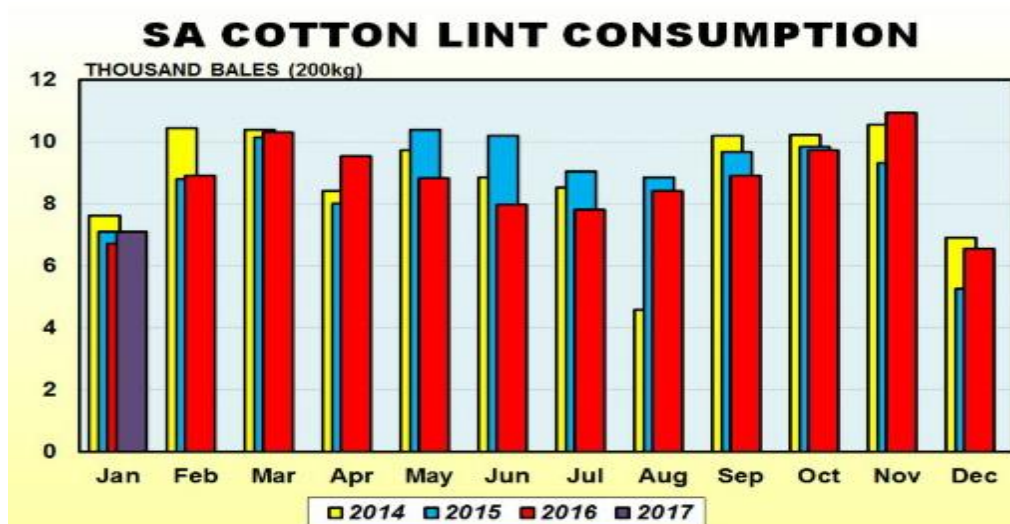
South Africa generally has a dry bean deficit and relies on imports, this present a great market opportunity for farmers. The area estimate is 45 550 ha, which is 32.41% more than the 34 400 ha planted during the previous season. Production is estimated at 64 345 tons, which is about 81.53% more than the 35 445 tons of the previous season. The expected yield is 1.41 t/ha.

### **Sorghum**

The local area for production is estimated to be 42 350 ha, which is 12.68% or 6 150 ha less as compared to last production season. The production forecast for sorghum is 140 950 tons, which is 99.9% or 70 450 tons more than the 70 500 tons of the previous season. The expected yield is 3.33 t/ha which is more than the previous year yield at 1.69 t/ha. Part of the increase in the production is accounted by the significant global demand especially the Chinese market. The demand is from the pet food industries and other consumers creating unique marketing opportunities provide better price for producers.

### **Cotton**

Global cotton production is expected to increase by 2%, due to increased expectation of planted area in some of the major producing countries, including India, China and the US. This increase in production is the first in 6 years. The local estimate for the 2016/17 production year indicates a total crop of 75 040-lint bales, which is 48% more than the previous season. The total area under production is 17 510 ha, with 6 961 a land under irrigation and 10 549 ha under dryland. The balance of 2 000 lint bales relates to expected Swaziland produced cotton to be ginned by the Swaziland gin.



Source: Cotton South Africa, market report. March 2017

The increase in the production may add pressure on prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

**Table 3: Cotton Market Trends**

Cotton prices	SA derived Cotton (R/kg)	New York A- Index (US\$/kg)	New York futureMar-2017 (US\$/kg)	New York future May-2017 (US\$/kg)
<b>Cotton Prices</b>	24.89	1.91	1.69	1.69

Sources: ABSA bank, Agri Trends (livestock). March 2017

## 7. CONCLUSIONS

Global GDP growth is projected to increase but slow. There is some economic uncertainty in the advanced economies' sphere, that is likely to create a more challenging, and volatile environment for emerging markets. A further concern for emerging markets lies in the prospect of change in trade policies that may affect existing trade treaties. Domestic economic growth outlook remains passive. However, the positive outlook for agriculture brings a ray of hope. Southern Africa food security is still hanging in a balance as some of the countries experience food insecurity and have insufficient humanitarian assistance.

Global grain total production is increasing, as more farmers are increasing their plant area. Potential of good summer rains put an advantage on the local grain sector, promising an increase in the total production. Maize production is expected to increase by more than 78.9% as compared to the previous production season. The production for sorghum expected to record 99.9% increase as compared of the previous season. Cotton with the expected 2% increase globally, might register an increase last realized in 6 years ago. The ARC should work with smallholder farmers to assist them to cultivate quality grains, as pulses are largely needed in Africa and the entire world. ARC skills development programs and new technologies can streamline farmers to be competitive. Development of technologies that will help in monitoring the health of crops on a real-time basis and better methods of detecting and managing soil borne diseases will go a long way in helping farmers increase their yields. Monitoring the health of plantings on a real-time basis will enable the ARC to provide timely solutions to organised agriculture, which should also act as a portal for motivating for further funding.

The persistent drought spell in the Western Cape was expected to result with poor harvest for most of the major fruit crops, but it seems according to the statistics provided by USDA (2016), that farmers managed to deal with the problem, probably through efficient application of irrigation programmes. The only sector affected negatively, is that of the table grapes.

The horticultural sector in the past decade has been growing in both production and export volumes due to the growing demand for South African fruit but also due to the depreciation

in the value of the Rand. The high prices fetched in export markets serves as an incentive for farmers to expand their area of production, and as shown in the horticulture section of the outlook released in September 2016, through adoption of good quality cultivars. The ARC needs to intensify its R&D intervention in the horticultural industry by ensuring that it produces cultivars that are responsive to the needs of export markets while also sustaining prevailing levels of yield. Production of water-efficient technologies should be an on-going focus for the ARC, given the effects of global warming. There exists a need to collaborate with fruit grower's associations such as Fruit SA and HORTGRO in finding long-lasting solutions relating to efficient irrigation systems.

Meat production in South Africa continues to exhibit an increasing trend. However, the country remains a net importer of meat and other livestock products. There is scope to increase production. The participation by previously disadvantaged individuals and rural communities is still minimal. The ARC, through its renewed emphasis on smallholder development, should seek to intensify the participation of smallholder farmers to contribute towards ensuring both household and national food security.