

ECONOMIC OUTLOOK REPORT XXII



Prepared by the Economic Analysis Unit:

AGRICULTURAL ECONOMICS AND CAPACITY DEVELOPMENT DIVISION

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1. EXECUTIVE SUMMARY

Global and local macroeconomic outlook

Global Gross Domestic Product (GDP) is projected to increase to 3.6% in 2018 while inflation is projected to increase from 1.1% in 2016 to 2.5% by 2019, maintaining an average annual growth of 2.4%. After two consecutive quarters of declining GDP, the South African economy managed to grow in the second quarter of 2017. Most industries had positive contributions to higher economic activity which increased the GDP by 2.5% quarter-on-quarter. Food price inflation is projected to reach a low turning point of 4.8% in the first quarter of 2018, and to average 7.3% in 2017, and 5.2% and 5.6% in 2018 and 2019. Global agricultural growth is projected to be slow and about half the previous decade's growth rate. The South African agribusiness market value has increased to USD13.4bn from the USD11.0bn in 2016 with average annual growth forecast at 7% from 2017 to 2021. It is expected that the country will be running widening deficits in wheat, rice, sugar, poultry and pork over the coming years. Total employment declined in the second quarter of 2017 and the unemployment rate remained unchanged at 27.7%.

Livestock outlook

Global beef and veal production is projected to grow by less than 2% in 2017 to about 62 million tons. Following drought – induced liquidation of stocks, Australia and South Africa are expected to experience a decline in beef production. Consequently, Australia has dropped to third place among beef exporting countries with a projected export total of 1.4 million tons for 2017. Locally, with herd rebuilding underway, favourable prices for red meat are expected. World poultry production is projected to increase by 24% over the next decades, reaching 131.3 million metric tons in 2025. Locally, poultry prices are forecasted to remain stable in the short term due to good demand experienced in the market currently. Higher beef and mutton prices are foreseen to benefit the local demand for pork as consumers may opt for cheaper pork as a substitute product. The projected high demand for wool and the reduction in volumes in both South Africa and Australia may provide support for the domestic and international wool markets.

Horticulture outlook

In 2017, apple production is expected to increase by 3% from 933 404 tons in 2016, whereas the pear crop is expected to be in line with last year production level. Wine grape production is expected to increase by 1.4% reaching 1 425 283 tons in 2017 on the back of improved yields as compared to previous season. The total number of bearing vines in South Africa is projected to decrease by an average of 2.4% per annum, reaching 221 million vines in 2026. The trend of aging vineyards is expected to continue going forward due to the current low profitability levels forcing producers to either switch to alternative crops or extending the life of existing vineyards. Despite the projected 2017 decline in wine production, a significant share of total wine production will remain destined for exports.

Field crops outlook

The forecast for world total grains production in 2017/18 is boosted by 12million tons month-on-month to 2 049 million, but is still down by 4% year-on-year owing to lower area and poorer average yields. The third largest global total grain production in history is anticipated in 2017/18 at 2 049 million tons, down by 78million from the previous season's record. Grain consumption is expected to be higher, which may contract the world stock for the first time in five years. Locally, total commercial maize is estimated at 16.4million tons. The expected production of wheat is 1,604million tons, which is 16.04% less as compare to last season. The production forecast for sunflower seed showed an increase of 16% as compared to 2016/17 production season. The production forecast for soybeans, however, declined by 1.79% as compared to the previous forecast. The expected groundnut crop remains unchanged at 90 550 tons. In the case of dry beans, the production forecast for dry beans is 68 525 tons, which is an increase of 93% from the previous year's production. Cotton production for the 2017/18 production year is estimated at 16 658 tons, up 65% from the previous season.

2. FOREWORD AND ACKNOWLEDGEMENTS

The Economic Services Unit presents this 22nd 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 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 analyses. Projections developed by the Organisation for Economic Cooperation and Development(OECD), International Monetary Fund(IMF), Food and Agricultural Organisation(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

Global macro-economic Outlook

The prospects in the global economy have brightened in 2017. There is an improvement in confidence indicators, industrial production, headline measures of employment and cross-border trade flows in most economies. With investment and trade picking up from low levels, despite the low interest rates, global GDP is projected to increase to 3.6% in 2018. There are signs of rising demand for high technology goods and investment to elevate capital which will ensure further increase in the global GDP. However, inflation is projected to increase from 1.1% in 2016 to 2.5% by 2019, maintaining an average annual growth of 2.4%. There is every expectation that commodity prices will remain under pressure and that they will tend to move sideways. Lower international commodity prices have led to lower export revenue earnings, impacting negatively on the balance of payments of commodity-exporting countries such as South Africa, Angola, Nigeria, Botswana, and Zambia. This has led to the erosion of exchange rates and higher inflation, which has had a negative impact on consumers (ABSA, 2017).

Figure 1, illustrates that global economic activity is picking up with a long awaited cyclical recovery in investment, manufacturing, and trade. World growth is expected to rise from 3.5 in 2017 to 3.6 % in 2018, above 3.4% for 2016. Emerging market and developing economies have become increasingly important in the global economy in recent years. They now account for a significant percentage of global growth in output and consumption. Appropriate strategies are still necessary in developing economies to place public debt on a sustainable path.

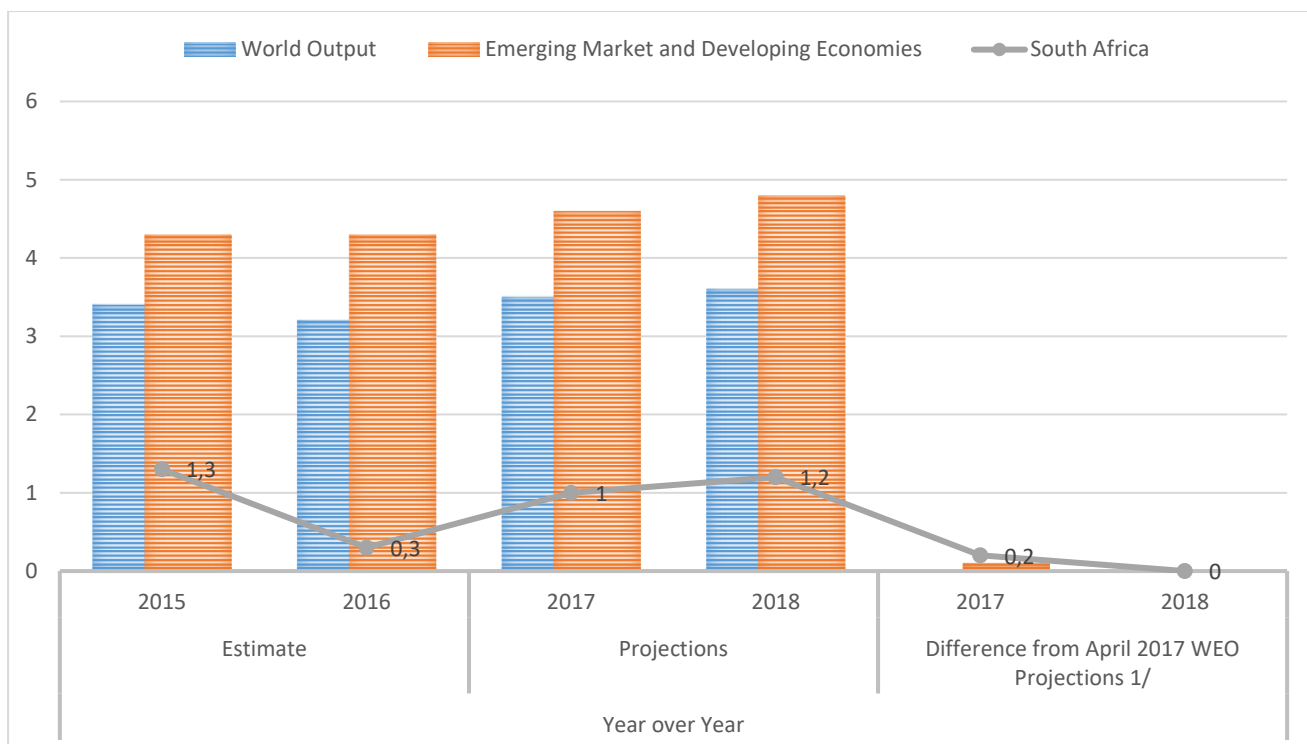


Figure 1: Overview of the world economic outlook projection

Source: <http://www.imf.org/en/Publications/WEO/Issues/2017/07/07/world-economic-outlook-update-july-2017>.

Global agricultural outlook

The last decade has had an unprecedented growth in the demand for agricultural products (OECD-FAO Agricultural Outlook 2017-2026). Hence, over the same period the growth is projected to be slow and about half the previous decade's growth rate. Prices of agricultural commodities are subject to considerable volatility and may show large deviations from their long-term trends for an extended period of time. In the countries of Southeast Asia, growth of agriculture in the region has led to rising pressure on natural resources, affecting the export-oriented fish and palm oil sectors in particular. As a result, palm oil production growth is projected to slow down considerably as the main producer countries focus on sustainable development. Improved resource management and increased R&D will be needed to achieve sustainable productivity growth. Global production of sugar for 2017/18 is up 9 million tons (raw value) to a record 180 million on gains in Brazil, China, the European Union, India, and Thailand. Several factors like rising population, growth of the food and beverage industry, increasing incomes and expanding applications are expected to drive the growth of the global sugar market. Consequently, global sugar market is expected to reach 195 million tons by 2022 (Expert Market Research, 2017). At 758.8 million tons (503.6 million tons, milled basis), world rice production in 2017 is projected at 0.8% or 5.8 million tons, above a revised estimate

for 2016. Fuelled by 0.4% expansion in food use to 408.4 million tons FAO projects global rice utilization to grow by 1.1% in 2017/18 to 505.8 million tons (milled basis).

South African economic outlook

In the first quarter of 2017, South Africa's economy dropped into a technical recession with a GDP growth of -0.7% following a 0.3% shrinkage in the fourth quarter of 2016. However, after two consecutive quarters of a decline in the GDP, the South African economy managed to grow in the second quarter of 2017. Most industries (agriculture, finance and mining) have had positive contributions to higher economic activity which increased the GDP by 2.5% quarter-on-quarter. Although 2.5% might seem like an impressive recovery, longer-term indicators show unresponsive growth. The estimate of GDP for 2017 has been revised down marginally to 1.1% (from 1.2%) and at 1.6% for 2018. The output gap is expected to remain negative over the forecast period. Household final consumption expenditure increased by 4.7% in the second quarter of 2017, contributing 2.8 percentage points to total growth, while government final consumption expenditure increased by 0.8%, contributing 0.2 percentage points. The annual Consumer Price Index (CPI) is 5.5% down from 6.3% in 2016 and it is predicted to average 5.4% from 2017 to 2021. In June, food inflation remained unchanged at 6.9% from the previous month. This rate was 0.5 of a percentage point lower than the corresponding annual rate of 5.1% in June 2017. On average, prices increased by 0.3% between June 2017 and July 2017. The Monetary Policy Committee (MPC) however, projects food price inflation to average 7.3% in 2017 and to reach a low turning point of 4.8% in the first quarter of 2018, , and an average of 5.2% and 5.6% in 2018 and 2019. It is also projected that there may be some downside risk to this forecast in light of the August food inflation outcomes. Total employment declined in the second quarter of 2017 and the unemployment rate remained unchanged at 27.7%.

South African agribusiness

The South African agribusiness sector is currently on a recovery trend to 2021, following the negative impacts of El Nino episode on yields and production. The growth in this sector is stimulated by a recovery in maize production and in the beef and pork sectors. Although confidence in other sectors of the economy remains subdued, the agribusiness sector is still optimistic about business conditions in the country even though it declined marginally in the third quarter. After declining by one index point in the second quarter of this year, the Agbiz/IDC Agribusiness Confidence Index declined further by two index points in the third quarter to 54 points (AGBIZ/IDC, 2017). According to the Business Monitor International (BMI) report, the South African agribusiness market value has increased to USD13.4bn from the USD11.0bn in 2016 with an average annual growth forecast at 7% from 2017 to 2021. The effects of the current Highly Pathogenic Avian Influenza (HPAI) could affect these forecasts negatively.

Southern Africa food security status

According to the Famine Early Warning Systems Network (FEWS NET) September report, most households in the Southern African region continue to experience stable acute food insecurity despite the above-average harvest experienced in 2017. The FEWS NET is expecting minimal outcomes from the Integrated Food Security phase Classification (IPC) Phase 1 through January 2018 in most of the surplus-production areas within the region. The deficit-production areas on the other hand are expected to start experiencing stressed (IPC Phase 2) outcomes as from October on 2017. The FEWS NET has also indicated that to date, the Democratic Republic of Congo is the only country in the region with areas currently in Crisis (IPC Phase 3). This is mainly as a result of the conflicts experienced in that country. It is also projected that in January 2018, poor households in some parts of Madagascar, Malawi, Mozambique and Zimbabwe will be in crisis (IPC Phase 3). The FEWS NET suggests that poor households can secure extra sources of income through gardening as well as other off-season activities like brick-moulding and grass sales in order to meet their livelihood protection needs.

Surplus-producing regions such as Zimbabwe, Malawi and Mozambique continue to experience below average maize grain prices. In Malawi and Mozambique, maize prices were 10 and 9% below the five-year average, respectively. This is a typical trend and has been a result of decline in demand for market purchases as a result of increased consumption of own-produced crops by most households. However, these stocks are becoming limited for some households, thus stimulating a rise in the demand for maize. The FEWS NET projects that the increase in demand is likely to result in increase in maize grain price from September. In addition to this, monitored markets in southern Madagascar are showing an increase in price due to poor production in the recent production season.

4. ANIMAL PRODUCTION

Globally, disease outbreaks in both the beef and poultry industries have reportedly boosted demand for pig meat this year. BFAP, 2017 projects global meat consumption to increase by an annual average of more than 1% over the 10-year period to 2025, supported by rising income levels, as well as higher population growth rates and rapid urbanisation in the developing world. World poultry production is projected to increase by 24% over the next decades, reaching 131.3 million metric tons in 2025. Poultry meat production will be dominating more than half of the growth of all the additional meat produced by 2025. Locally, 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. The projected higher maize crop in the country will help 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

As reported in the ABSA Agri Trends, worldwide limited red meat export supplies in Australia and New Zealand, together with strong demand have been major supporting factors to beef and lamb prices. Continued strong demand in Asia supported meat prices too. Locally, favourable rainfall after the drought enhanced the recovery of pastures, thus supporting herd rebuilding. Herd rebuilding takes time and it typically takes 2 to 3 years for supply to start increasing, which further reduces the number of cattle available for slaughter in the short term (BFAP, 2017). Fuelled by limited supplies resulting from herd rebuilding, local beef prices have experienced a significant increase up to September 2017 (Figure 2). The average class A beef price was up 17.2% at the end of June 2017 compared to the price paid at the end of January 2017. Average weaner calf prices also remained high on the back of improved demand and available low supplies.

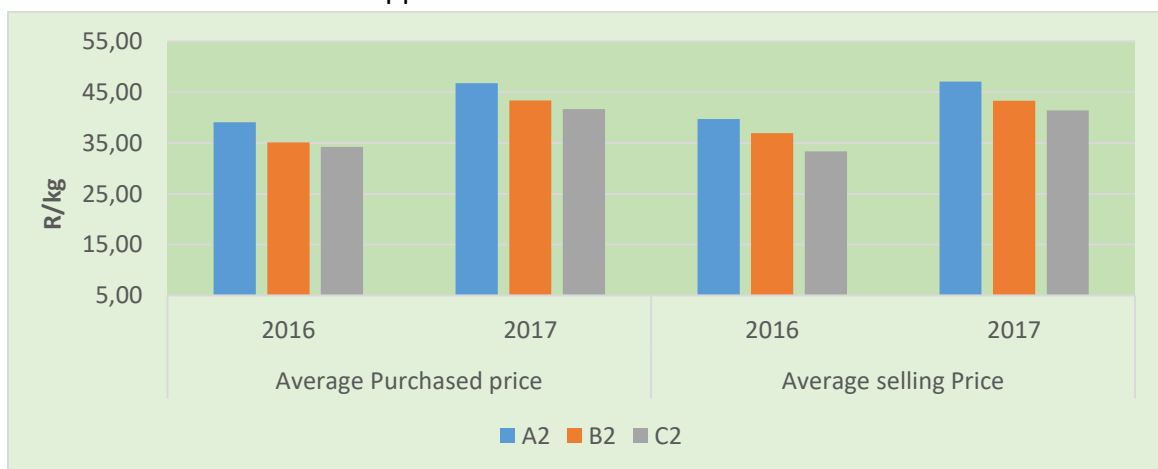


Figure 2: National beef sales price from week 04-10 September 2017

Source: Red Meat Producers Organisation

Mutton market

BFAP reports that, global lamb prices have been on a declining trend since mid-2014, however, exchange rate depreciation has mitigated much of this impact in domestic markets. As a result, local lamb prices increased by 10% year on year in 2016, despite higher slaughter volumes through late 2015 and early 2016. Following an initial reduction of 11% year on year in 2017 due to drought induced slaughters, BFAP projects local production to start increasing in 2018 to reach 125 thousand tons by 2026. As this will not be sufficient to meet additional demand, imports are expected to rise from 2022 onwards. Hence, due to its reliance on imported products to supplement domestic consumption, the local market remains very sensitive to market impacts from major exporting regions such as Australia and New Zealand. Lamb and mutton prices continued with their strong gains as the herd rebuilding process continues to be underway. The average national class A lamb prices trades at almost R75/kg mark (Figure 3).

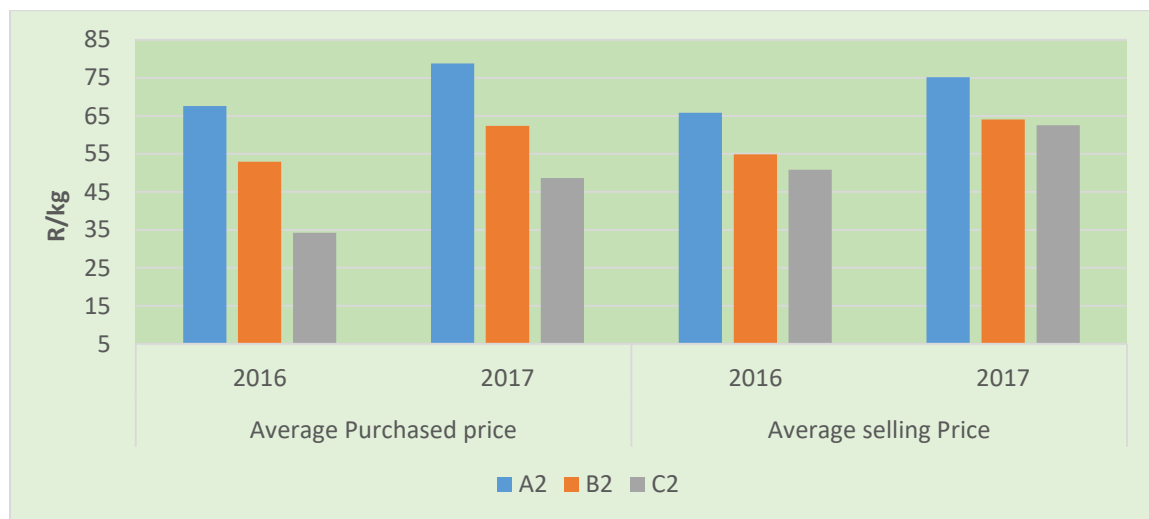


Figure 3: National lamb/sheep sales prices from week 04-10 September 2017

Source: Red Meat producers Organisation

Dairy market

Milk production in the USA and EU remained at relatively high levels although the lower producer prices did affect production growth. In the Southern hemisphere, lower producer prices and unfavourable climatic conditions resulted in lower milk production. In the short term, price movement will depend on the production response in the season of peak production in the Northern hemisphere in the second and third quarters and the new production season in the Southern Hemisphere, commencing in the third quarter and the possible recovery of EU, US and Chinese markets. Overall, global dairy demand is expected to grow by 14 million tons in 2017, increasing to 20 million tons in 2018 while dairy stocks are expected to decrease slightly in 2017 and remain stable in 2018.

BFAP projects that over the next decade, local milk production and consumption will grow by 23% relative to the 2014-2016 base period. Locally, Milk Producers Organisation (MPO) reported milk production in the first half of 2017 to be 0.4% lower than during the same period last year. Milk SA estimates that 235 million litres of milk were delivered to dairies in July 2017, 1.6% up from July 2016, but less than the total intake in July 2015 (Figure 4). During the first five months of 2017, about 38 800 tons of dairy products were imported, double the 2016 quantity. According to MPO a substantial increase in milk production is not expected, as roughage supplies remain scarce and expensive and high beef prices encourage farmers to cull less productive animals

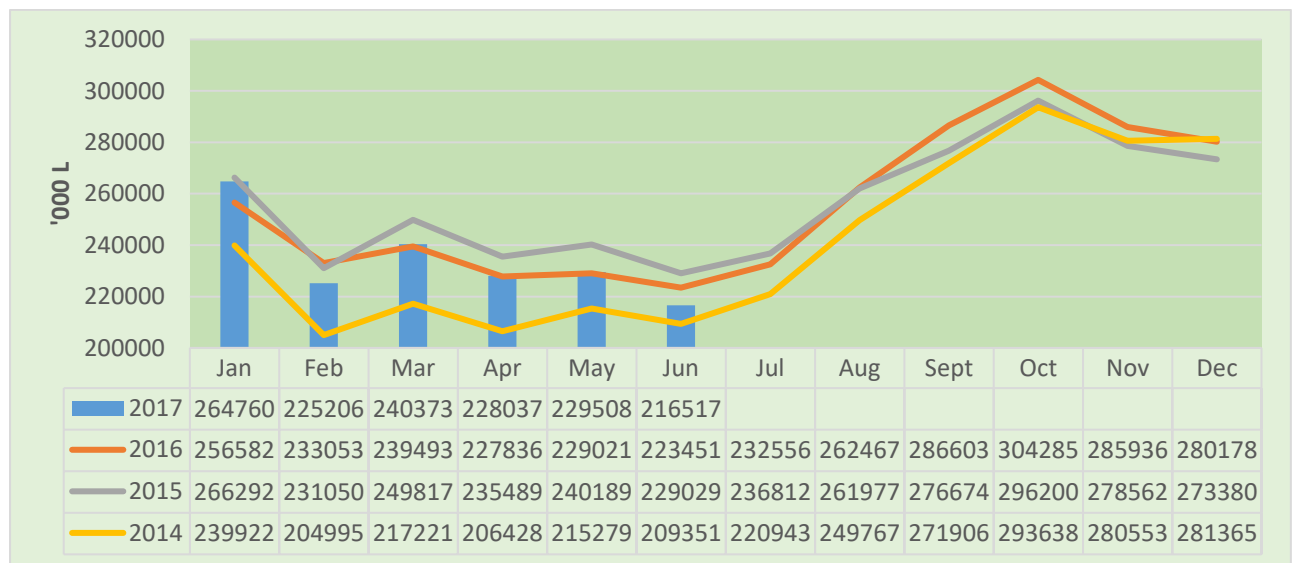


Figure 4: Monthly milk production

Source: MPO, 2017

Poultry market

Following the bird flu outbreaks in the EU, the local industry enjoys the temporary support from the closure of the EU market. However, the South African broiler industry has recently experienced the outbreak of the avian influenza which resulted in culling of thousands of birds. It was expected that as winter passed the virus would finally contained and not spread further due to increased temperatures and rainfall. This however does not seem to be the case as there is continued reports of new cases of outbreak. In addition, production losses associated with bird flu outbreaks may support prices. The poultry industry is yet to establish the impact of the bird flu on total production. It is further expected that as a result of the bird flu, production costs may increase due to the added biosecurity measures and production losses. Hence, it is foreseen that producers may also start to ask for higher prices. As poultry remains one of the cheapest meat products, expectations are that poultry will remain popular and its prices may remain high due to high beef and mutton prices. In the long run, BFAP projects local chicken meat production to expand by approximately 1.5% per annum to reach 1.8 million tons 2026. In the short to medium term, chicken prices are expected to increase

in 2017, due to a combination of high beef prices and the short-term reduction in imports from the EU resulting from the Highly Pathogenic Avian Influenza (HPAI) outbreak in Europe.

Egg market

Global egg consumption is expected to rise worldwide through 2024. Internationally, egg exports from the US are expected to increase to 295 million dozens in 2017, which is still 22% below 2014 levels. With consideration of the impact of culling due to the HPAI outbreak, SAPA projects the average number of laying hens for 2017 at 23.9 million birds, 3.3% less than in 2016. An estimated average of about 392 500 cases of eggs is projected for the year 2017, a decrease of about 3.5% over the 2016 volumes. In the long run to 2026, BFAP projects an average annual expansion of 1.8%, sufficient enough to meet local demand. The average egg price per dozen for 2017 year to date is estimated at R13.60, a 6% change year on year. Figure 5 illustrates the average cases of eggs produced per week from 2012 to 2017.

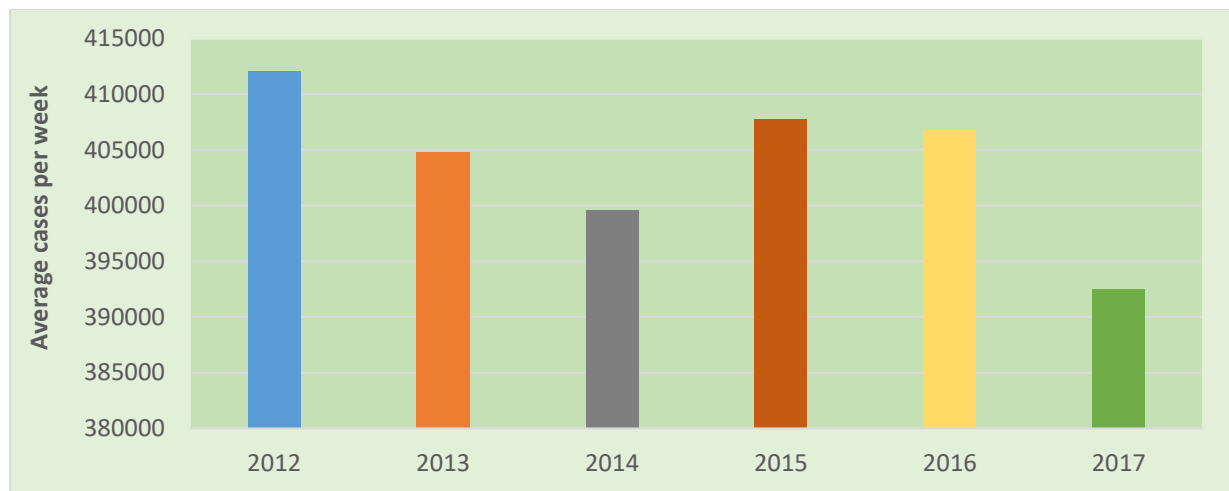


Figure 5: The trend in egg production since 2012

Source: SAPA, 2017

Pork market

Global pork production is expected to increase by 1% in 2017 according to the latest USDA global outlook report. This in turn will fuel export growth which is forecasted to increase by 5%, although this represents a considerable slow down compared to the 15% rise in 2016. The majority of the expected production increase is driven by the US and Russia, more than offsetting a forecast decline in Chinese output. Over half of the increase is coming from an expected 5% rise in US output. Locally, the share of imports in domestic consumption continues to decline with BFAP projecting it to reach 7% by 2026 from 11% in 2016. In addition the local pork industry is exploring export markets in countries such as Singapore, Thailand, the Philippines and India, while some South African farmers are already exporting successfully to some countries in Africa. Higher beef, lamb and mutton prices may see buyers switch to more consumption of cheaper meats like pork and poultry. Pork prices are expected to be supported by increased spending towards pork products compared to the higher prices of beef and mutton.

Wool market

Globally, the demand for wool is reported to have grown significantly over the past decade. While more than 90% of the local wool production is exported, production growth has only increased by merely 1.3% per annum over the last decade. BFAP reports challenges to accelerated growth to include livestock theft and predation, while Rift Valley fever had a substantial negative impact on the SA flock from 2008 to 2011. In the current marketing season, internationally, wool prices are expected to move sideways as the volumes on offer are expected to be met by good demand. While the Australian market showed a slight decline in wool prices on the recent auction held on the 20th September, Cape Wool SA reported that the prices for wool of just about all groups made firm gains in South Africa. This was mainly due to the weaker Rand/US Dollar exchange rate. The national indicator decreased by a further 1.8% to R177.27/ kg for clean wool. Wool of 18,7micron and finer gained some 2%, 19micron was better by as much as 3.5% at R193.58/kg , while 21micron sold for 2,5% higher at R166.58/kg (Figure 6). Although the finer wool achieved smaller gains, select fine-wool still elicited excellent bids. S

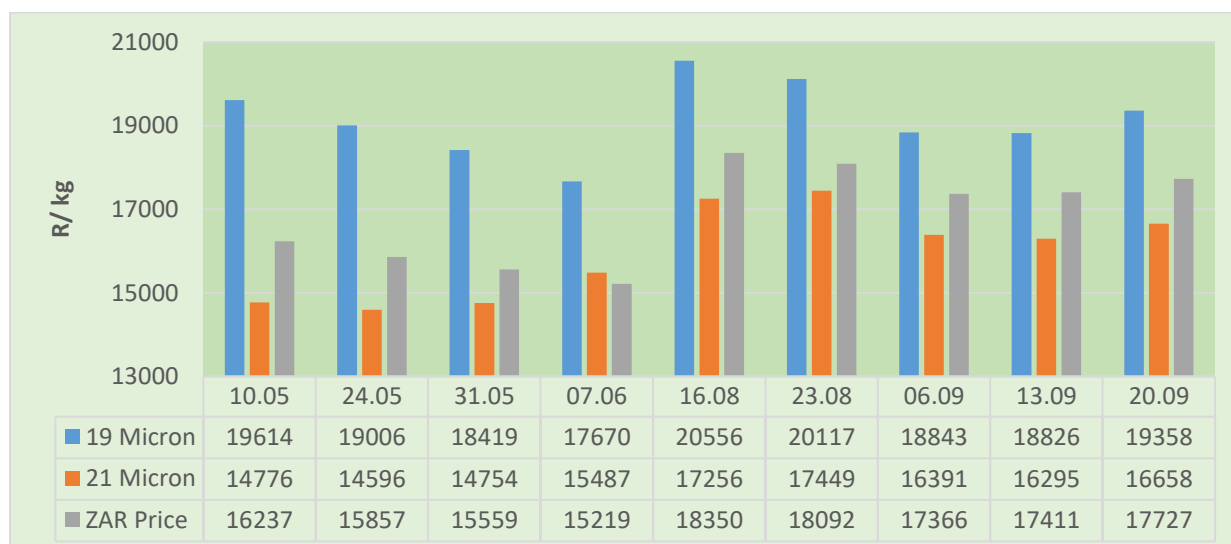


Figure 6: Price movement for good quality wool per micron

Source: CMW, 2017

Mohair market

According to Cape Mohair and Wool (CMW), the second mohair sale of the 2017 winter selling season held on the first week of September, followed the performance of the opening sale with a reasonable result. The adult and young goat mohair sold well with an increased price compared to the previous sale. However, the kid market saw a price drop of 3%, a very disappointing result where Angora farmers are battling to survive in the current drought. The price of kids decreased by 3.1% a market indicator of R241.15/kg and a 97% sale clearance; young goat hair increased by 4.5% with a market indicator of R199.94/kg and a sale clearance of 100%. Adult mohair increased by 2.4% with a market indicator of R174.35/kg and a sale clearance of 100 % (Figure 7). With production on the decline, including the effect of the

drought, the last four sales of the season are projected to see a downward trend on the total mass offered. However, expectations are that the demand will continue to improve.

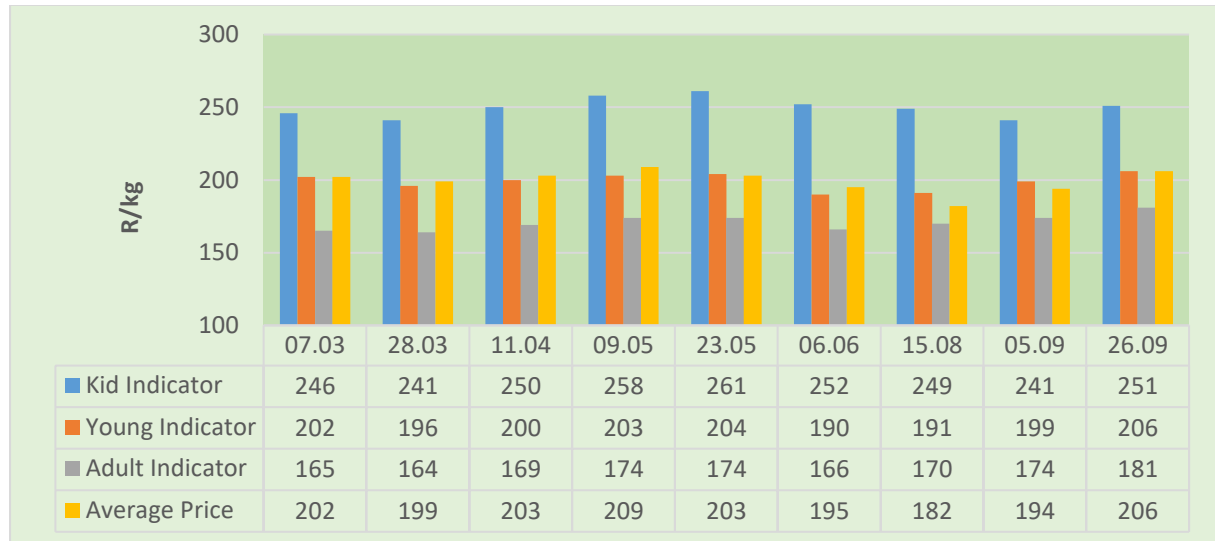


Figure 7: Cape mohair market indicator movement

Source: CMW, 2017

5. HORTICULTURE

The 2015 production season in the deciduous crop-producing region of the Western Cape was hit by a severe drought spell while the citrus industry during the 2016/17 production season, experienced an abnormal premature fruit drop in the Citrusdal region. The excessive premature drop of citrus fruit was most likely caused by the development of abnormal stylar-end characteristics in non-Navel cultivars, and by large secondary navels and navel-end openings in Navel orange fruit (Stander, 2017). This happens on the back foot of input costs in the fruit sector that have been increasing over time. Since 2008, producers' operating costs have risen by a compounded 11.47% per ha and 7.96% per ton (Badenhorst, 2017)¹. A number of positive factors had however offset some of the negative effects of these externalities. These include the depreciation of the Rand since 2013 (BFAP, 2017) that increased the competitiveness of the South African fruit exports, the adoption of high yielding varieties by some of the farmers and the establishment of new orchards with new trees (Badenhorst, 2017). In the EGVV (Elgin, Grabouw, Vyeboom & Villiersdrop) region, in 2016 the top 25% of producers in the region, who made R50 528 more profit per ha, were those who adopted high yielding varieties (Badenhorst, 2017). These producers also earned 5% more per ton for the fruit, but incurred R387 or 18% less on expenditure per ton. However, the cost for establishment of an orchard for most of the deciduous fruit has been increasing at an alarming rate.

The 2016 Hortgro report, shows that in 2016 it cost R363 880 to establish an orchard for pome fruit, whereas for stone fruit and for grapes it was R237 884 and R214 834, respectively during the same period. Except for the wine-grape industry, which BFAP (2017) suggests recorded a 2% decline in production during 2015 to 2016 due to drought; generally it seems fruit farmers were able to handle the effects of drought. According to an article posted by Mariska Botha on SABC online news² on 02 February 2017, despite the debilitating drought, apple and pears crop have pulled through. In 2017, apple production is expected to increase by 3% from 933 404 tons in 2016 volumes, whereas the pear crop is expected to at least break even.

Wine production in the face of prevailing drought conditions

According to BFAP (2017), in the wine-grape industry, the remarkable year of 2013 was associated with record yields, exceptionally favourable climatic conditions, a depreciating exchange rate which supported exports, and smaller than average harvests from major European producers. This resulted in an upsurge in exports to a record level of more than 500 million litres. The succeeding production seasons were characterised by declining yields, a net loss in the area planted to vines (which were aging), along with increasingly severe drought conditions. Having declined by 2% from 2015 to 2016, preliminary estimates show that wine

¹ Badenhorst, K. 2017. Game of fruit 2017: Success lies in productivity and new orchards. *South African Fruit Journal*. Vol. 16 (5): 16-17

² Botha, M. 2017. Apple, pear crops in the W Cape pulled through despite drought. 02 February 2017. <http://www.sabc.news.co.za>

grape production is expected to increase by 1.4% reaching 1 425 283 tons in 2017 on the back of improved yields. This represents a decline of 2.6% from the five-year average (2012-2016) and is accompanied by above average quality in many regions. Table 1 provides the snapshot of the wine industry structure.

Table 1: Industry snapshot for the wine industry

Snapshot of the wine industry structure		
	2006	2016
Number of producers	4185	3145
Number of Wine Cellars which crush grapes	576	568
Hectares	102 146	95 775
Ton crushed	1 301 597	1 405 401
Export litres	271.7 m	428.4 m
Local market litres	337.5 m	436.9 m

Source: BFAP (2017)

SA Wine Grape Production, future projections

There were 275 million vines in production in South Africa in 2016, down by 2.1% from 2015. The share of red wine cultivars increased to 44% in 2016 from only 24% in 2000, whilst the share of white wine cultivars declined from 76% in 2000 to only 56% in 2016. The shift is mainly the result of producers responding to very rewarding red wine prices. Going forward, the total number of bearing vines in South Africa is projected to decrease by an average of 2.4% per annum, reaching 221 million vines in 2026. The proportion of white (mainly Chenin blanc, Sultana and Colombard) and red (mainly Shiraz, Cabernet Sauvignon and Pinotage) grape varieties will converge to 60% and 40% of total vines respectively by the end of 2026.

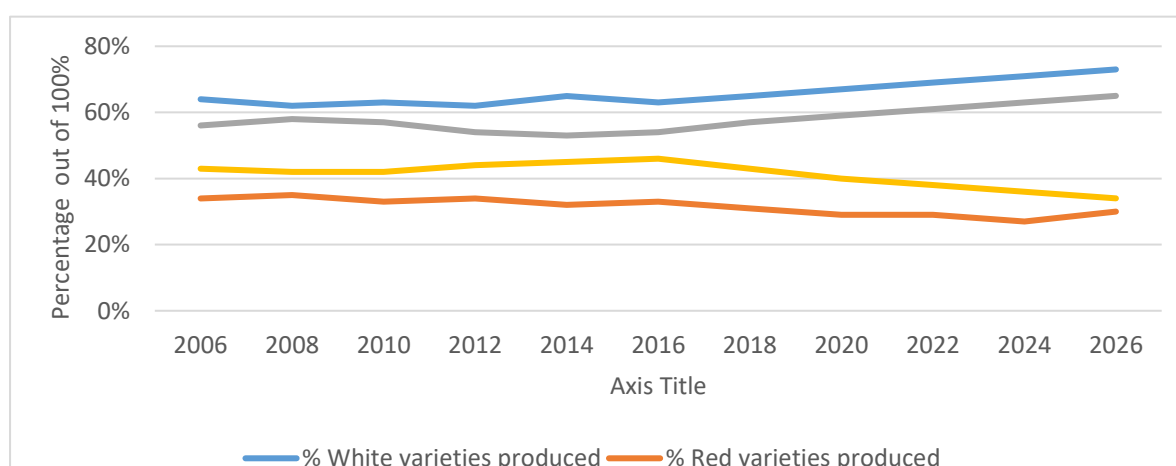


Figure 8: The trend in relationship between white and red wine cultivars

Source: BFAP (2017)

The size of South African vineyards declined by 2% between 2015 and 2016, and by 8.5% since 2008. The current age distribution of yielding vineyards suggests that vineyards younger than 4 years have stabilised at 7 thousand hectares. Vineyards aged between 4 and 15 years have consistently declined since 2011 (Figure 9). This trend of aging vineyard is expected to continue growing, due to a large number of vineyard reaching their replacement age and the current low profitability level.

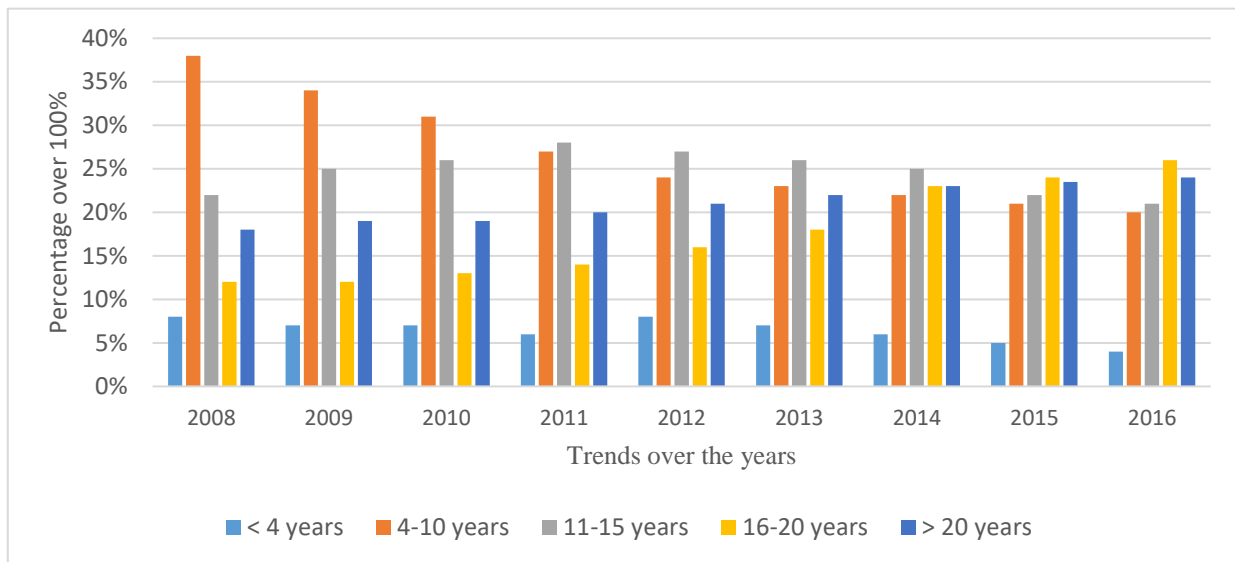


Figure 9: The % age composition of vines in South Africa in each of the years

Source: BFAP (2017)

The share of older vineyards (older than 16 years) has grown from 13% of the total area in 2011 to almost 26% in 2016. This trend of aging vineyards is expected to continue going forward due to a) the growing number of vines reaching their replacement age following the rapid expansion in plantings in the late 1990s and early 2000's and b) the current low profitability levels forcing producers to either switch to alternative crops or extending the life of existing vineyards.

Export trends for South African Wine

Wine export volumes grew by 2% to reach 428 million litres during 2016. Since 2014, strong growth in export volumes occurred to China (+81%), Canada (+46.4%), France (+18.3%) and Denmark (+11.7%). At the same time, export volumes to South Africa's leading export markets, the United Kingdom, Germany, USA and Sweden fell by 9.1%, 1.3%, 5% and 12.2%, respectively. According to USDA (2016), apple exports were expected to increase by about 4% to 550 000 metric tons in the 2016/17 marketing year, due to the weaker Rand. Bulk wine exports continued to dominate in 2016, with bulk volumes constituting 60.5% of total export volumes and packaged exports the remaining 39.5%. Despite the projected decline in wine production over the outlook, a significant share of total wine production will remain destined

for exports. The export trends are anticipated to remain the same with more than 50% of production be destined for export market.

Vegetables

Tomatoes

Based on the FNB Agri Weekly report of 26 September 2017, tomato prices posted sharp losses in the preceding week of 18 September, under pressure due to the improved supplies despite good uptake ahead of the heritage long week. At R4.83 per kg, weekly tomato prices were down by 15% week-on-week (w/w) and 22% year-on-year (y/y). Weekly volumes of tomatoes traded were pegged at 5 658 tons, which is up 33.7% w/w and 43.3% y/y. Prices are expected to trend sideways with limited upside in the short term due to volume pressure.

Potatoes

As indicated in Table 2, weekly potato prices moved modestly lower on the week ending 22 September 2017 as volumes increased across most markets. Potato prices closed last week down 2.8% w/w at R3.40 per kg, which is still down 18% y/y. Weekly volumes of potato sales in September continued to increase and came in up 17% w/w and 24% at 18 101 tons. The medium term price outlook is however bearish largely due to volume pressure across markets.

Onions

In the onion market, prices bottomed out and closed modestly higher supported by strong uptake and despite a substantial increase in supplies across markets. The average weekly onion prices closed at R2.66 per kg, up 7.8% w/w but still down by 10% y/y (Table 2). The corresponding volumes of sales were pegged at 6 889 tons which is up by 22% w/w and 5% y/y. Onion prices are expected to retain the firmer trend but with limited upside in the short to medium term.

Carrots

Carrot prices extended losses under pressure due to a surge in supplies across most markets. The weekly average carrot prices fell by almost 12% w/w but still 4.3% higher y/y, closing ending 22 September 2017 at R2.16 per kg. The corresponding volumes of sales reached 2 681 tons, which is up 31.1% w/w and 16.3% y/y. Carrot prices are still expected to remain under pressure in the short term on volume pressure.

Cabbages

In the cabbage market, prices trended mostly sideways as good buying interest was offset by higher volumes of supplies. The average weekly cabbage prices closed ending 22 September 2017 at R2.24 per kg which is almost unchanged w/w but still up by a whopping 46% y/y. Weekly volumes of cabbages traded increased by 4.2% w/w but still down by 4.2% y/y at 1

689 tons. The short term price outlook remains bearish as a result of the increased volumes across markets.

Butternut

In the butternut market, prices rebounded modestly as a result of good buying interest despite a substantial increase in supplies across markets. The average weekly butternut prices closed last week at R5.17 per kg which is up 3.4% w/w and 40% y/y. Weekly volumes of butternut sales in September came in at 1 160 tons, which is up by almost 22% w/w but still down by the same margin relative to the previous year (Table 2). It is expected that prices will trend firmer in the short term on good demand across markets.

Lettuce

The lettuce prices retained recent uptrend due to the resilient demand despite the increased supplies across markets. The average weekly lettuce prices in September advanced further by 3.6% w/w and were 1.6% higher y/y at R5.45 per kg. The weekly volumes of lettuce sales came in at 399 tons, which is up 12.3% w/w and 10.4% (Table 2). It is however expected that prices will trend sideways with limited upside potential in the short to medium term on improved supplies.

Table 2: Vegetable prices-South Africa's Major Fresh Produce Markets

Week ending 22 September 2017	Average Price (R/kg)	Price (R/t) w/w	Price (R/t) y/y	Total Volume (t)	Volume (t) w/w	Volume (t) y/y
Tomato	4.83	-15.0%	-22.0%	5,658	33.7%	43.3%
Potato	3.40	-2.8%	-17.6%	18,101	17.0%	24.1%
Onion	2.66	7.8%	-9.9%	6,889	22.0%	4.5%
Carrot	2.16	-11.6%	4.3%	2,681	31.1%	16.3%
Cabbage	2.24	0.0%	48.3%	1,689	4.2%	-3.5%
Butternuts	5.17	3.4%	40.1%	1160	21.8%	-22.4%
Lettuce	5.45	3.6%	1.6%	399	12.3%	10.4%

Source: FNB Agri-Weekly 26 September 2017

6. FIELD CROPS

The International Grains Council (IGC) forecast that the world total grains (wheat and coarse grains) production in 2017/18 is boosted by 12m tons m/m (month-on-month) to 2 049m, but is still down by 4% y/y (year-on-year). This has been attributed to lower area and poorer average yields. Higher projected feeding contributes to a larger consumption forecast, but this absorbs only part of the supply increase and carryover stocks are up by 8m tons m/m, to 485m tons. The forecast 40m tons fall in stocks is mostly for maize, while wheat inventories are predicted to grow to a record. With gains for wheat and maize, global trade is seen reaching a new peak of 354m tons with the Argentina, Australia, Canada, European Union, Kazakhstan, Russia, Ukraine and the United States of America expected as the major exporters for wheat. Brazil and Argentina have doubled their share of global maize exports over the past decade and are expected to garner nearly half in 2017/18. Both countries are forecasted to have record exports while US exports and market share are expected to decline in 2017/18. Generally, from a local perspective and following the global trends, South Africa is also projected to enjoy higher production levels for maize due to a combination of factors but largely to favorable weather conditions. The country is expected to continue being a net exporter of maize in 2017/18 from the higher production recorded in 2016/17. This comes after the country had to import 2.2 million tons of maize in 2015/16 due to an extreme drought.

Maize

The expected lower local maize price levels will put downward pressure on the area to be planted with maize for the 2017/18, especially for the white maize area. Hence, it is forecasted that around 2.6 million hectares (commercial) of maize will be planted later in 2017, which is 9% less than the area planted in the 2016/17. It is estimated that South Africa will export about 2.0 million tons of maize in the 2017/18 on sufficient production and a relatively large carry-over stock from the 2016/17. However, a weak global market for white maize limits South Africa's export opportunities, which will leave a relatively large carry-over stock for the 2017/18 at the current estimates. The three main maize producing areas, namely the Free State, Mpumalanga and North West provinces are expected to produce 83% of the 2017 crop.

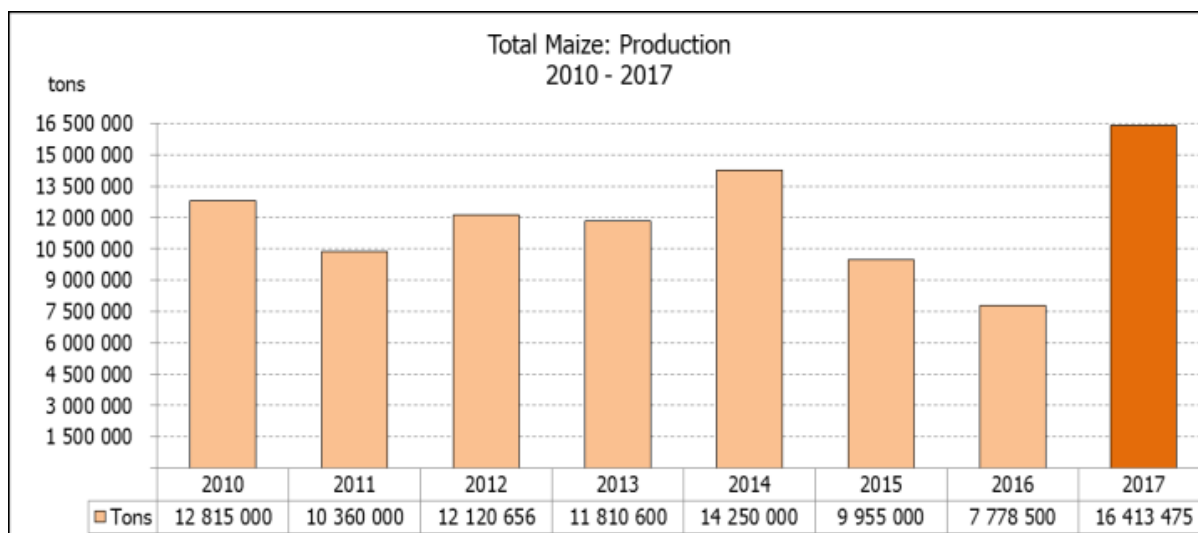


Figure 10: Trends in total maize production

Sources: CEC, August 2017

As at 27 August, 2017 and with reference to figure 10, the Crop Estimates Committee revised the targets for the commercial maize production for 2017 from 13.9m ton to 16.4million tons target (18% increase projection). This is projected to be achieved under an estimated 2 628 600ha for the 2017/18, which represents an additional 681 850ha from the 2016/17 season (35% increase). The expected yield is 6.24 t/ha and is also the highest yield ever in the country. The estimated contribution of white and yellow maize is 9,653 million tons and 6,759 million tons respectively.

Wheat

Despite a reduction in area harvested, the global wheat production increased by 2% in 2016/17 on the back of excellent yields achieved by most major producers, but particularly in Russia, North America and Australia. There is a projection that global wheat inventories are predicted to grow to a record in the 2017/18, despite record consumption. However, 2017 sees projected feed use at a five-year high due to competitive prices and trade volumes supported by strong Asian demand. With production expected to decline in 2017/18, prices are expected to bottom out, but given the magnitude of current stock levels following years of oversupply, a complete recovery to historic price relationships with other grains is expected to take at least 2 to 3 years.

However, South Africa still remains a net importer of wheat, hence, domestic wheat prices tend to be derived from import parity and therefore supported by the combination of the variable import tariff and exchange rate depreciation. Despite continued uncertainty related to possible changes to the structure of the wheat tariff in 2016, early intentions to reduce total wheat area appear to be marginal in 2017.

The expected production of wheat is 1 604 million tons for 2017/18, which is 16.04% or 306 300 tons less than the previous seasons' crop of 1,910 million tons, whilst the expected yield

is 3.34 t/ha, down from 3.76 t/ha in the past season. The expected production in the Western Cape is 861 250 tons (54%), which is 236 950 tons less than the 1,098 million tons produced in the previous season. In the Northern Cape, the expected production is 285 000 tons (18%), which is 19 000 tons more than the previous seasons' crop of 266 000 tons. In the Free State, 182 000 tons (11%) is expected to be produced, which is 126 460 tons less than the 308 460 tons produced in the previous season.

The declining trends in production since year 2000 is attributed to farmers preferring more profitable produce such as maize and soya beans. Even with import tariff of R1 591.40 per ton (2016/17) and estimated R1 167 per ton (2017/18) to support the local wheat industry, wheat production continues to be on a downward trend.

Sunflower

The leading international sunflower price is currently under pressure as a result of the spillover effect of the declining international soybean price. Global sunflower seed production is projected to grow slightly to 46.1 million tons in 2017/2018. The projected increases in sunflower production especially in the EU, Russia, Ukraine and Turkey will add to the downward pressure on international sunflower prices. These trends are projected to follow a similar trend until 2021 (figure 11).

In South Africa, due to sunflower resilience in drought situations and late planting window relative to maize, the area under sunflower increased by 25% in the severely drought affected 2016 season. The 2017/18 production forecast for sunflower seed showed an increase of 5.85% or 48 125 tons to 870 095 tons with an area estimate of 635 750 ha, while the expected yield is 1.37 t/ha.

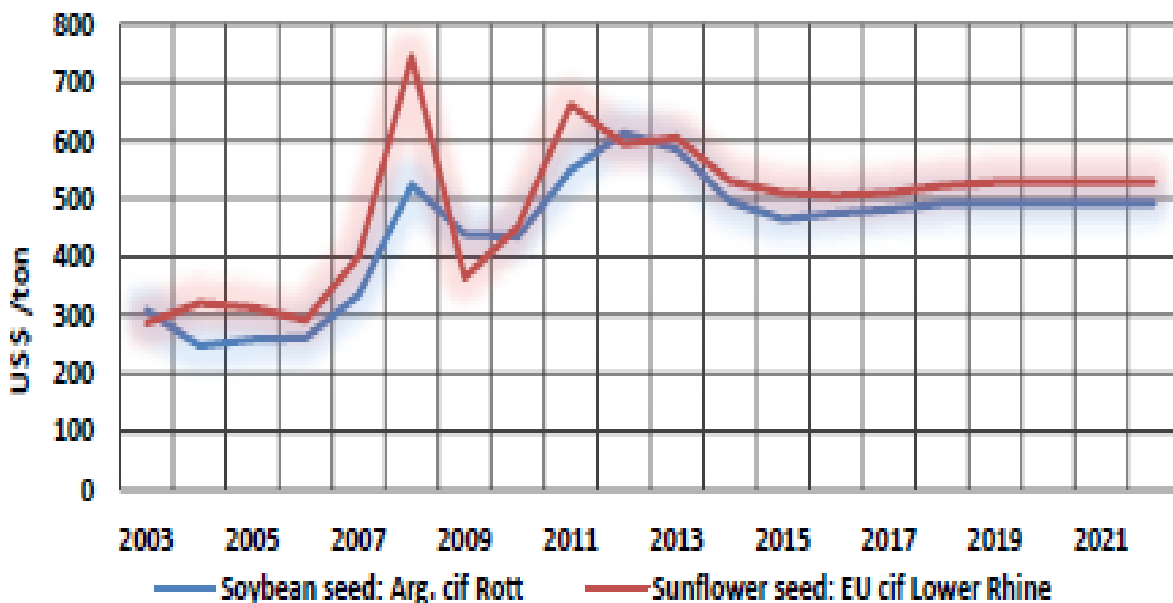


Figure 11: International oilseed price outlook

Source: FAPRI 2013 & International Grains Council (as cited in BFAP 2013) and BFAP 2013 Baseline Report

The production and crushing demand for sunflower seed is projected to remain in a fine balance over the next 10 years, with imports of around 20 000 tons projected by 2026. Net exports are projected in 2017 due to a temporary surplus of sunflower seeds, hence the sunflower price trades closer to export parity. Going forward however, net imports are projected to remain positive, but below 10% of crush demand, therefore prices are expected to trade between import and export parity levels, largely derived from the price of oil and meal.

Soybeans

Global oilseed production is projected to grow slightly in 2017/18 to more than 570 million tons. However, soybean production is projected to decline marginally from the current season's record level as a return to trend yields for major producers such as Brazil and the United States results in year-on-year production declines despite increased area.

Domestically, the production forecast for soybeans in 2017/18 year is 1,316 million tons, an increase of 23% (246 000 tons) from 1 070 million tons. The estimated area planted to soybeans is 573 950 ha and the expected yield is 2.29 t/ha in 2017/18 compared to 1.89 t/ha in the previous year. Soybeans price forecast (figure 12) shows an upward trend in the price.

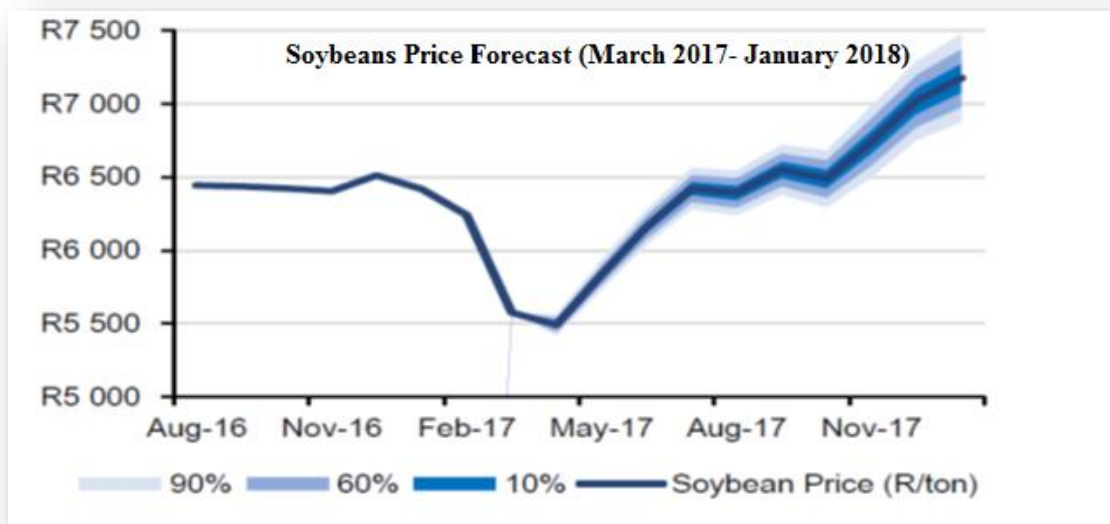


Figure 12: Price forecast for soybeans

Source: Agbiz Research

Groundnuts

The expected groundnut crop remains unchanged at 90 550 tons from 17 680 tons of previous season. The area estimate is 56 000 ha and the expected yield is 1.62 t/ha, representing a decrease from yield of 1.68 t/ha in the previous year.

Dry beans

In the case of dry beans, the production forecast is 68 525 tons, which shows an increase of 93% (33 080 tons) from the previous year's production. The area estimate of dry beans is 45 050 ha, increasing from 34 400 ha for the previous year, with an expected yield of 1.52 t/ha (compared to 1.41 t/ha for the previous year). However, South Africa generally has a dry bean deficit and relies on imports.

Sorghum

In South Africa, the demand for sorghum is projected to remain fairly stable in the next decade, increasing by less than 1% per annum as a result of population growth rather than rising per capita consumption. Area is projected to consolidate at approximately 60 thousand hectares, with production expansion arising from yield growth rather than any large scale area expansion. It is also envisioned that the market will remain finely balanced and from 2018 onwards, limited trade is projected under stable weather conditions, with prices maintaining a premium over maize. Given inelastic demand and a finely balanced market, any weather induced supply shocks will likely result in continued price volatility. Sorghum has been considered as a possible feedstock for bio-ethanol production, which could induce a shift in demand, thus impacting production and trade volumes.

The production forecast for sorghum stands at 151 335 tons from 140 950 tons in the previous year. The expected tonnage comes in the face of a declining area estimate for sorghum, which is at 42 350 ha down from 48 500 ha. However, the expected yield is 3.57 t/ha, which is 7% higher than the previous year (3.33 t/ha).

Cotton

The International Cotton Advisory Committee (ICAC) projects that world cotton production will increase by 8% in 2017/18 to 24.9 million tons, while consumption is projected to rise by 2% to 25 million tons. It is expected that India, the world's largest cotton producer, will increase its cotton production by 6% to 6.1 million tons in 2017/18 due an early and adequate monsoon, a higher minimum support price and the prospect of better returns from cotton compared to competing crops. Whereas in China cotton production is expected to rebound by 7% to 5.2 million tons in 2017/18 due to higher domestic cotton prices. In the USA, higher cotton prices, sufficient soil moisture in dryland areas and beneficial weather during planting time encouraged farmers to expand cotton area and the ICAC estimates a 10% increase in cotton production to 4.1 million tons for 2017/18. Cotton production increases are also expected from the two other large cotton producing countries namely Pakistan (+17%) and Brazil (+5%).

Due to the fact that a number of large cotton-producing countries such as Pakistan and India are likely to decrease their cotton imports in 2017/18 due to larger domestic supplies, the ICAC projects that world cotton trade will decline by 1% to 7.8 million tons in 2017/18, with largest cotton exporter, USA's export declining by 8% to 2.9 million tons in 2017/18 due to more competition from other countries.

As far as the local outlook is concerned (Swaziland gin cotton included), the estimate for the 2017/18 production year indicates a total crop of 16 658 tons, up 65% from the previous season (10 120 tons). The increase in the production may add pressure on prices. Locally, the exchange rate movement may continue to affect the domestic market prices.

CONCLUSIONS

World economic growth will remain fairly sluggish given the turmoil in almost all the major world economies. There is every expectation that commodity prices will remain under pressure and that they will tend to move sideways. After two consecutive quarters of decline in the GDP, the South African economy managed to grow in the second quarter of 2017. Agriculture, finance and mining industries had positive contributions to higher economic activity which lifted the GDP by 2.5% quarter-on-quarter. Although 2.5% might seem like an impressive recovery, longer-term indicators show unresponsive growth. Until August, food price inflation had been moderating at a slower pace than expected, mainly due to the continued acceleration in meat prices. However, the August year-on-year outcome surprised significantly on the downside. Should this lower trajectory continue, there could be a downside risk to the food price forecast, and to the overall inflation outlook, particularly in the short-term.

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 in the mainstream economy by previously disadvantaged individuals and rural communities is still minimal. The fact that SA exports almost all of its wool production into a growing world market suggests that there exists substantial opportunity for production growth and this provides an ample opportunity for participation of smallholder producers including communal farmers, thereby promoting inclusive growth, rural development and utilization of marginal land. 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. The ARC therefore could forge partnerships with organizations such as NERPO, National Wool Growers Association (NWGA) and others to develop and implement programmes that will seek to enhance effective and efficient participation of smallholder farmers in the mainstream markets for their livestock and products.

Despite the negative factors, such as drought, increasing operational costs and increasing costs for orchard replacement, in the short-to-medium term, farmers are able to produce sufficient fruit for both local and export markets. BFAP (2017), however cautions that the escalating costs of orchard replacement, coupled with the high proportion of aging trees, especially in the wine-grape industry, would in the long run, result with reduced volumes of production. The need for technological innovations in the area of efficient orchard design and management cannot be over-emphasised, yet this require efforts from both economists and natural scientists. In 2016, the cost of certified fruit trees, according to Hortgro averaged R60/tree and this has been highlighted as the single important cost factor, after establishment of irrigation system when it comes to orchard establishment. As it has been seen in the meat industry, where scientists are now able to produce hamburger meat in the laboratory, there

must also be innovative ways in horticultural sector, in terms of finding alternative planting materials as opposed to trees. The ARC can therefore play an important role in this area.

Global grains total production is expected to be on the higher-level trends due to a combination of factors but mostly because of favourable weather conditions in most part of the world. South Africa is following the increasing trend with most grains, despite the late rainfall in some of the major regions like Western Cape. The country is generally experiencing a good production year; this is a good recovery from the previous drought season. The weaker rand is also assisting the domestic grains market performance. However, later maize prices might be depressed by this bumper crop (biggest on record since 1981) and good production in the neighbouring countries. However, the growth of the Asian market present an opportunity for exports. From the trends, what concerns is the tons per hectare, which mean productivity is low, thus ARC can play a major role in capacity development and technology development. Also on technology development of the grains like wheat, where the country is still the net importer while the crop is highly consumed locally.