National Agricultural Marketing Council

Promoting market access for South African agriculture

Markets and Economic Research Centre

Inputs cost monitoring

An updated on selected items

Table of Contents:

1. International price trends for selected fertilisers:

As depicted in Figure 1, the prices of international fertilisers showed volatility but with a constant increasing trend with the exception of Muriate of Potash (MOP) that decline signifigantly over the depicted period. From September 2007 to September 2013 the prices of Urea, Di-Ammonium Phosphate (DAP) and Muriate of Potash (MOP) increased by 31.4 %, 21.3 % and 97.4 % respectively. During the same period the R/$ exchange rate depreciated by 40.9 %.

From September 2012 to September 2013, the international price of Urea, DAP and MOP decreased by 9.1 %, 16.2 % and 6.8 % respectively. During the same period the R/$ exchange rate depreciated by 20.7 %.

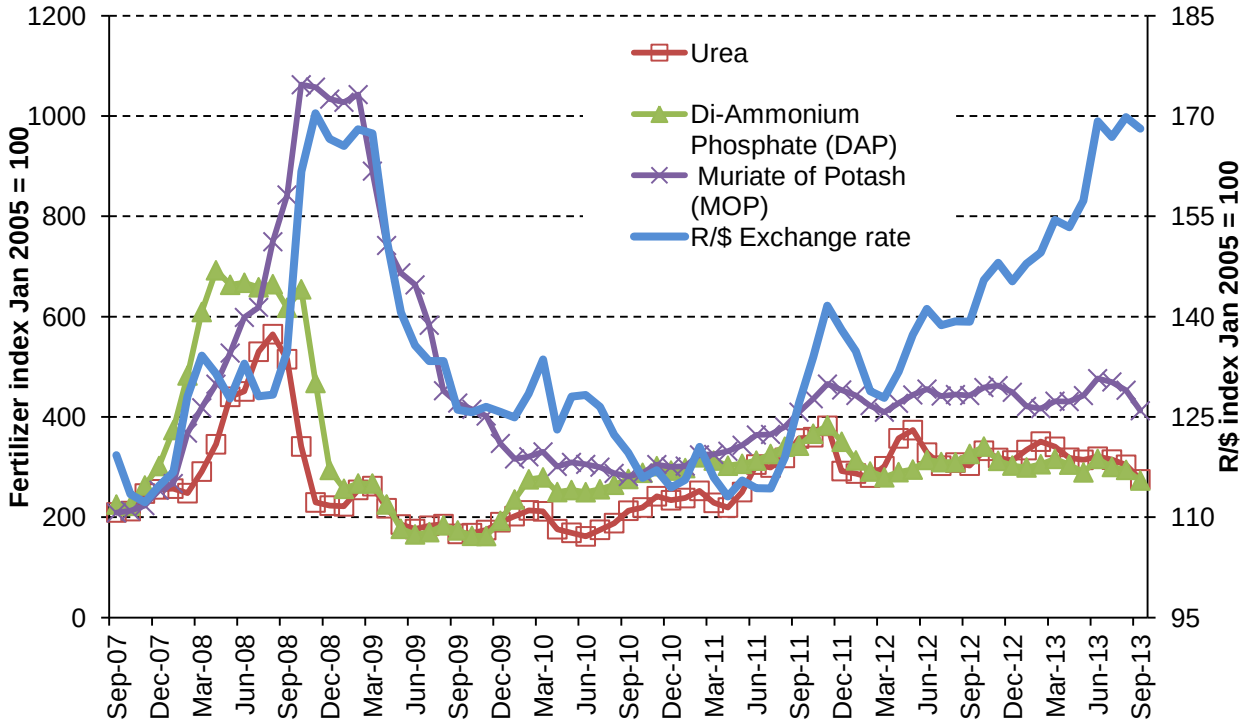

Figure 1: International price trends for selected fertilisers
Source: Own calculations based on data from Grain SA, 2013.

2. Local price trends for selected fertilisers:

As depicted in Figure 2, the prices of local fertilisers showed similar volatility and also with a constant increasing trend. From September 2007 to September 2013 the prices of Mono-Ammonium Phosphate (MAP), Urea and Potassium chloride increased by 52.8 %, 43.9 % and 118.9 % respectively.

From September 2012 to September 2013, the local price of Urea and Potassium chloride increased by 0.8 % and 4 % respectively, whilst the price of MAP decreased by 2.2 %.

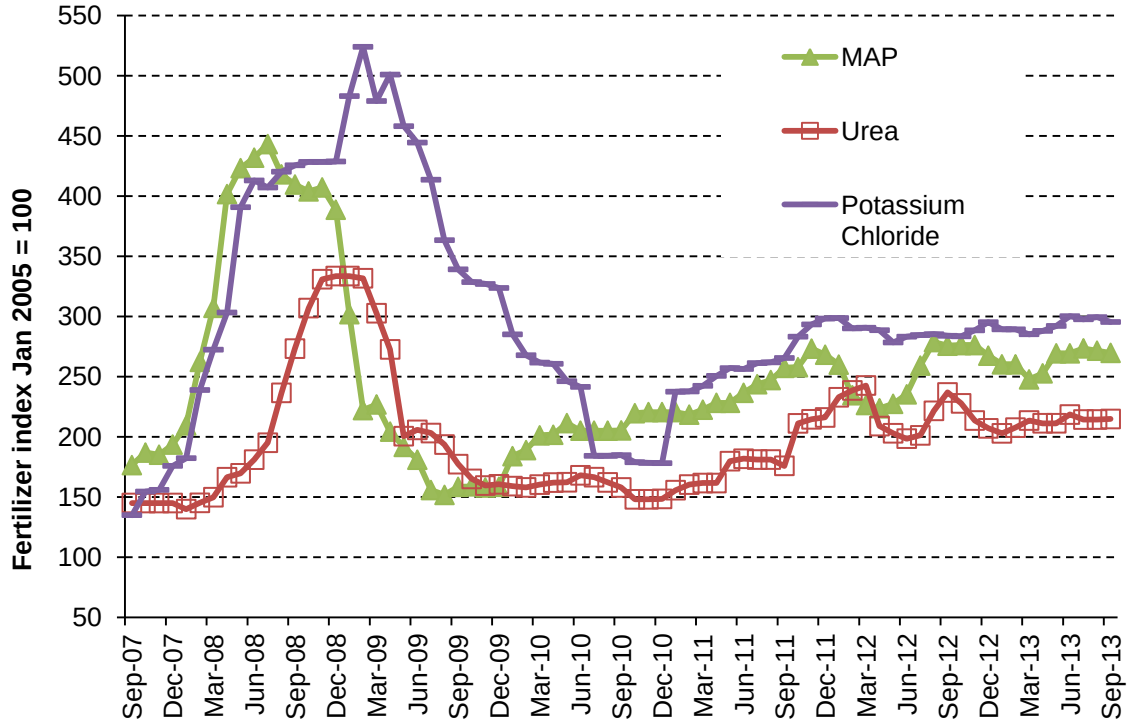

Figure 2: Local price trends for selected fertilisers
Source: Own calculations from price lists, 2013.

3. Fuel prices

As depicted in Figure 3, the prices of crude oil, petrol and diesel followed the same trends and from September 2007 to September 2013 increased by 44.6 %, 95.4 % and 92.3 %, respectively.

From September 2012 to September 2013, the prices of petrol and diesel increased by 12.8 % and 15.3 % respectively, whilst the price of crude oil decreased by 2.0 %.

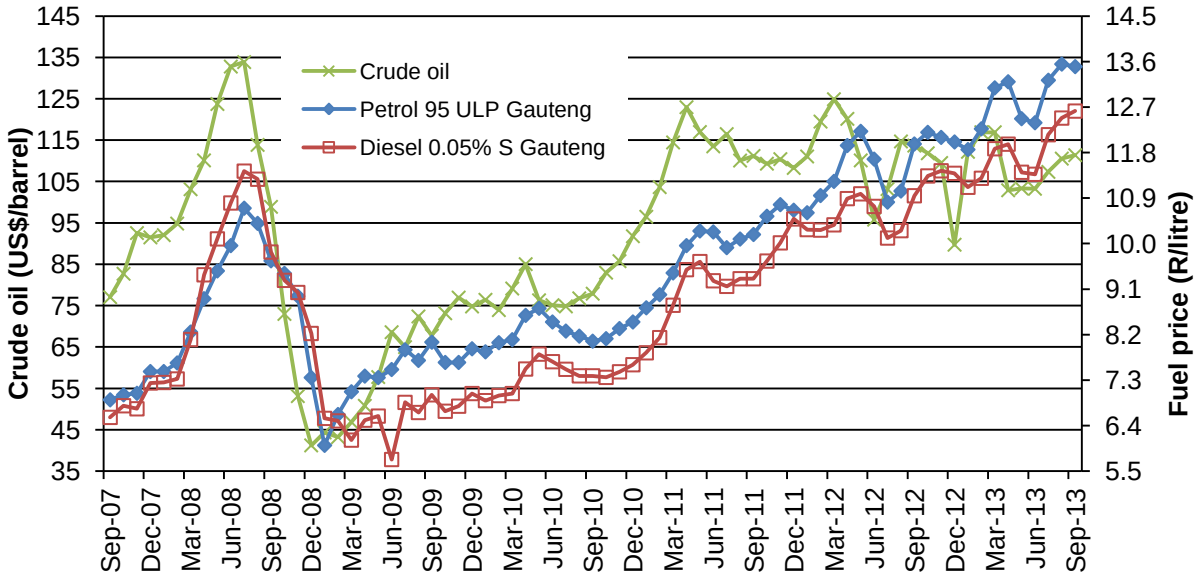

Figure 3: Crude oil and fuel prices
Source: Grain SA and SAPIA, 2013.

4. Baltic Freight Index

The Baltic Dry Index (BDI) measures international freight rates for dry bulk cargo, and is significantly influenced by the demand to move raw materials internationally and the supply of shipping capacity. Figure 4 shows that during the depicted period the index decreased by 80.9 %.

The BDI for September 2013 was 1 618 index points, a 129.8 % increase in comparison with September 2012.

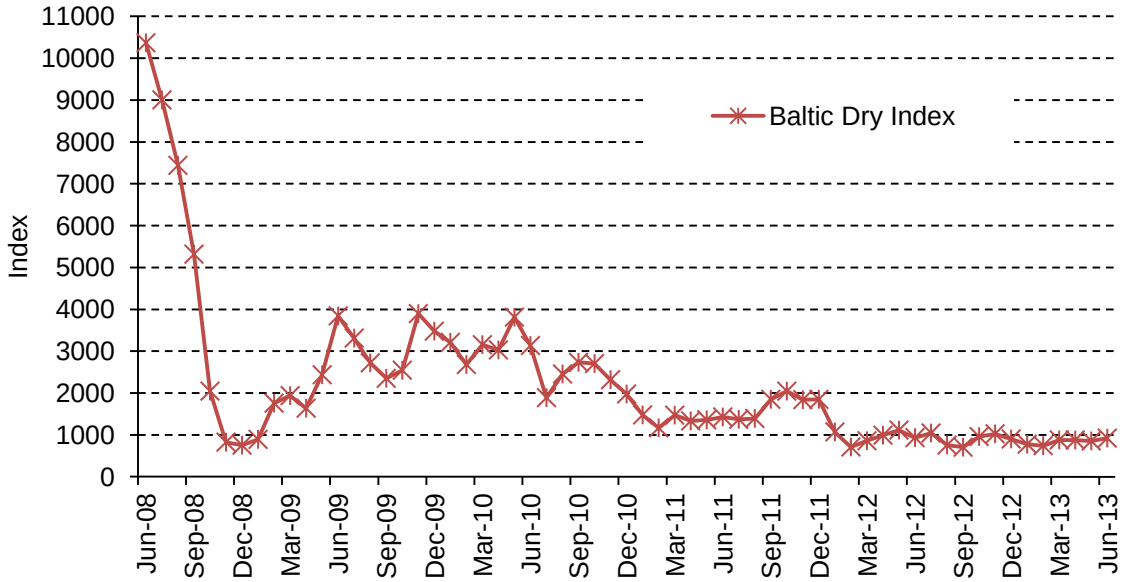

Figure 4: Baltic Dry Index
Source: SAGIS, 2013.

5. Administered cost items

Farmers have experience rapid increases in their expenditure on inputs due to price hikes in, amongst others, administered prices. Administered prices are the **price of a product, set consciously** by an individual producer or a group of producers and/or **any price, which can be influenced by government**, either directly or through one or other government agencies **without reference to market forces**. Examples are:

- Sanitary fees
- Refuse removal
- Water & electricity
- Paraffin & fuel
- Public transport
- Telephone fees, postage

The consumer price index for administered prices is shown in Figure 5. From January 2008 to December 2012 administered prices increased by 54.8 % in total. From December 2011 to December 2012 it increased by 8.8 %.

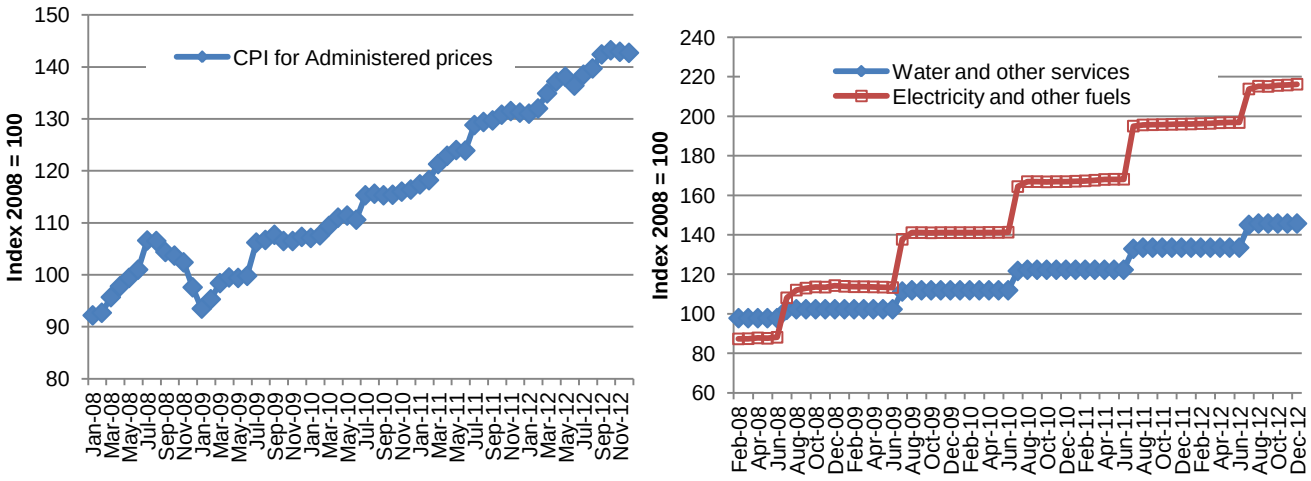

Figure 5: Consumer price index for administered prices
Source: Stat SA, 2013.

The increase in the prices of inputs, including administered (regulated) prices, influenced farmers' profitability if measured by the Real Net Farm Income (RNFI). From Figure 6 it can be seen that the gap between Real Gross Farm Income and RNFI have widened over the depicted period. The RNFI moved sideways over most of the depicted timeframe with some recovery due to improved commodity prices.

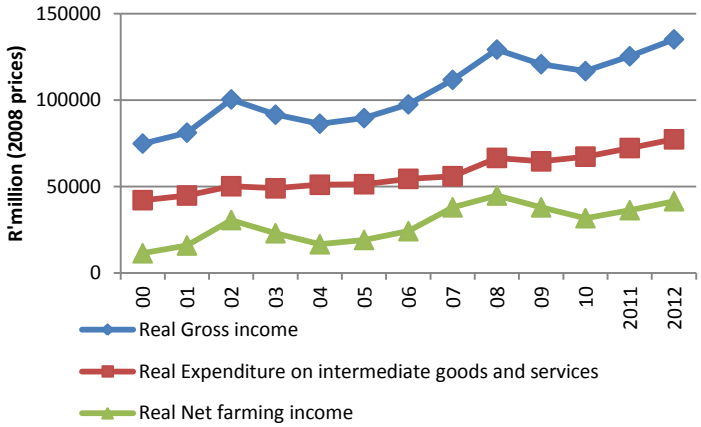

Figure 6: Real gross and net farm income

The average contribution of administered cost items to total expenditure on intermediate goods and services (Figure 7) reached a peak of 22.8 % during 2008, but declined somewhat during the following years to levels still higher than prior to 2008. During 2012 the contribution amounted to 17.7 % of total expenditure on intermediate goods and services with fuel leading the pack with 14.3% in real terms.

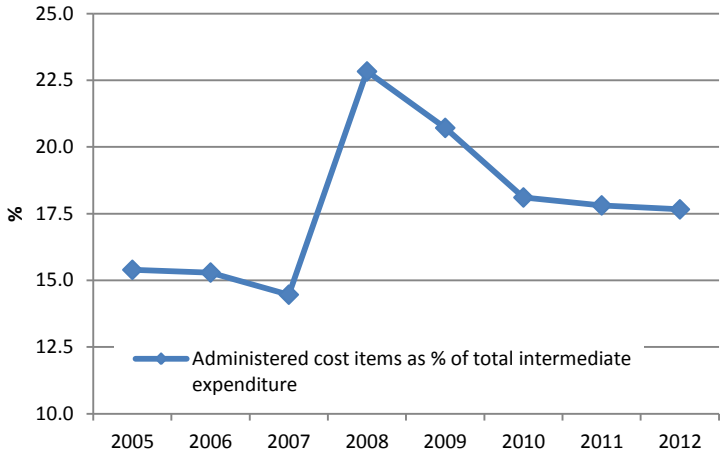

Figure 7: Administered cost items contribution to total intermediate expenditure

Studies done by Agri SA determined that for a one cent (1c) increase in the diesel price, the farmers' total expenditure increased by R10 million per annum. This have significant implications for the sustainable production of maize and wheat since fuel contributed 18 and 11 %, respectively to total variable cost of production.

In real terms (2008 prices) electricity contributed on average 1.7% to total expenditure on intermediate goods and services between 2008 and 2012.

The primary agricultural sector consumed 5931 GWh (3.0%) in 2008 (Figure 8). The industrial sector consumes the biggest share with (117 744 GWh) 58% of the total South African energy. Eskom's revenue per kWh in real value is the highest for rural/farming and domestic & street lightning category, whilst the Industry category generates the lowest revenue.

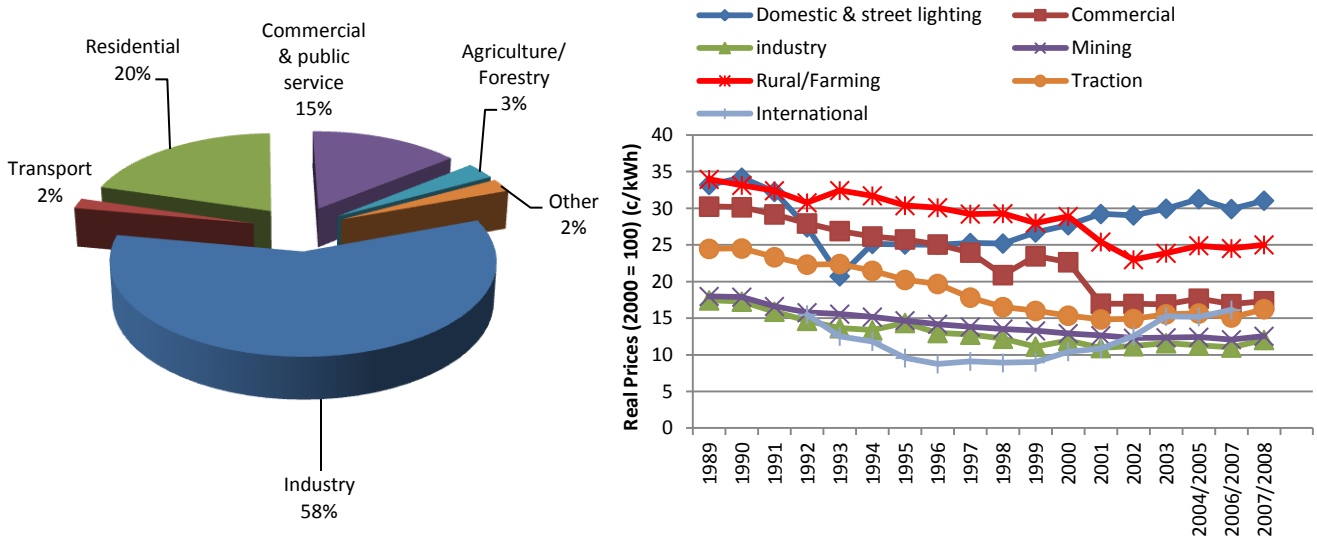

Figure 8: Electricity consumption and Eskom's revenue per industry

According to Joubert (2011) agriculture spent 105 % more on electricity from 2009 to 2012 amounting to almost R4 billion in 2012.

Table 1: Estimated spending on electricity by agriculture

Year	Price of electricity	Estimated usage in GWh	Total estimated cost
2009/10	R336,000	5485.384	R1 843 088 871
2010/11	R415,000	5567.723	R2 314 502 390
2011/12	R523,000	5651.298	R2 955 628 921
2012/13	R658,000	5736.128	R3 777 240 239