National Agricultural Marketing Council
Promoting market access for South African agriculture

Markets and Economic Research Centre

Macroeconomic Digest

Economic Growth and other Indicators - March 2021

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- ***Real Gross Domestic Product (GDP) and Growth Rates***

South Africa's GDP increased at an annualised rate of 6,3% in the fourth quarter (October to December) of 2020 when compared to the previous quarter (July to September) of 2020, largely as a result of further easing of corona virus (COVID-19) lockdown restrictions. The agriculture, forestry and fishing industry increased at a rate of 5,9%, and contributed 0,2 of a percentage point. It is noteworthy that in 2020, the agricultural sector performed well in all its sub-sector of field crops, horticulture and livestock.

- ***Crude Oil and the Exchange Rate***

Comparing February 2020 to February 2021, y-o-y, the price of crude oil increased by 13% while the exchange rate depreciated by 1.8%. This increase in crude oil prices shows returning price trend to pre-pandemic levels. Although, the oil market remains fragile in the early part of 2021 as measures to contain the spread of Covid-19, with its more contagious variants, weigh heavily on the near-term recovery in global oil demand. In February 2021, the price of crude oil and the exchange rate reached levels of US$62.22/barrel and R14.76/$, respectively.

- ***Average Prime Interest Rate***

The prime interest rate is currently 24.3% lower than during November 2014. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. The prime interest rate remains at 7.0% in November 2020.

1. Introduction

The aim of this publication, Macroeconomic Digest, is to report on Economic Growth and other key economic indicators such as the real Gross Domestic Product (GDP), crude oil, exchange rate, average prime interest rate and farm income. The data for this publication was obtained from Statistics South Africa (Stats SA), the South African Reserve bank (SARB) and the Department of Agriculture, Land reform, and Rural development.

2. Real Gross Domestic Product (GDP) and Growth Rates

GDP is one of the primary indicators used to measure the monetary value of final goods and services produced within a country in a given period (quarterly and/or annually). It provides information regarding the size and the performance of an economy. The Gross Domestic Product (GDP) of selected South African industries are depicted in **Figure 1**, at constant 2010 prices. South Africa's GDP increased at an annualised rate of 6.3% in the fourth quarter (October to December) of 2020 when compared to the previous quarter (July to September) of 2020, largely as a result of further easing of coronavirus (COVID-19) lockdown restrictions. Eight industries recorded positive growth between the third and fourth quarters of 2020. The largest positive contributors to growth in GDP in the fourth quarter were the manufacturing (21.1%), trade (9.8%) and transport (6.7%) industries. The agriculture, forestry and fishing industry increased at a rate of 5.9%, and contributed 0.2 of a percentage point. In 2020 generally, the agricultural sector performed well in all its field crop sub-sectors especially, maize which recorded a second-largest crop, and horticulture, particularly the citrus industry which reached a record of 146 million cartons in exports. A recovery in the livestock sub-sector was also noticed with pork exports increasing by 4.8% in 2020 attributed to improved biosecurity management.

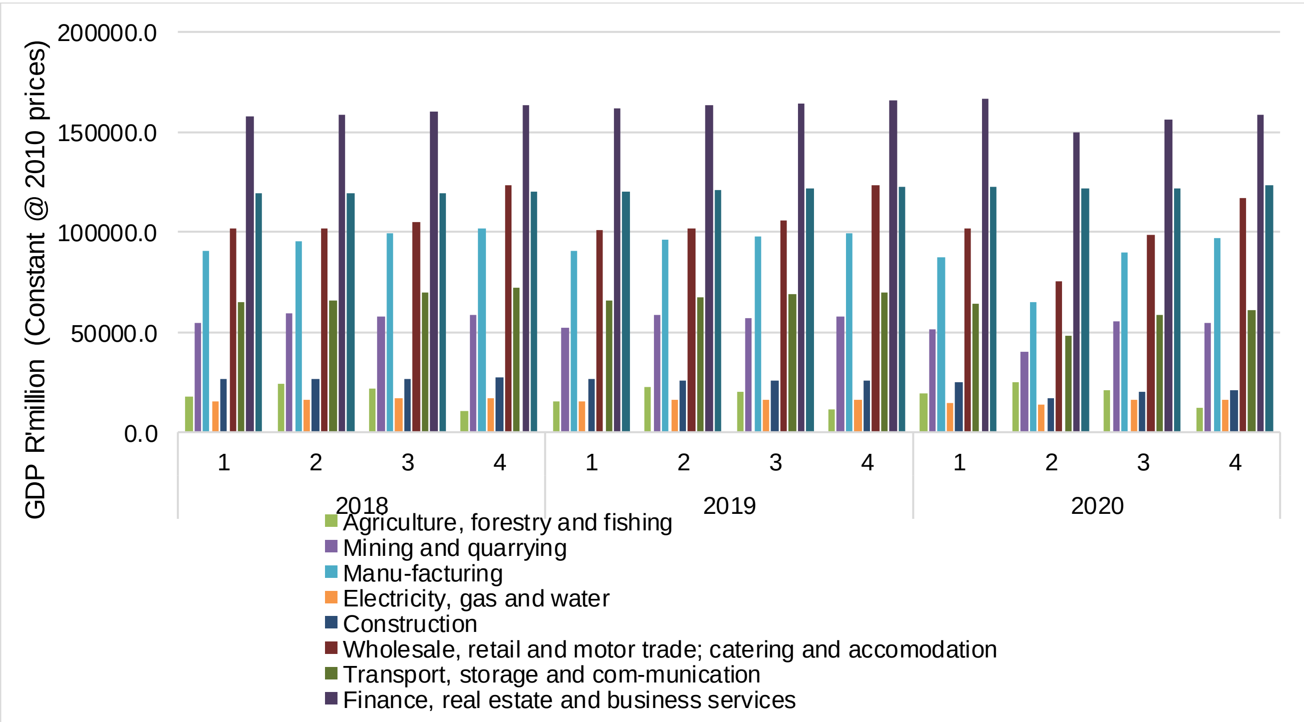

Figure 1: Quarterly GDP of selected industries, at constant 2010 prices
Source: Stats SA, 2021

The percentage change in GDP analysis indicates how fast a country's economy is growing in a particular quarter. Real GDP decreased by 7.0%, annual percentage change, in 2020 following an increase of 0.2% in 2019. This was primarily led by decreases in manufacturing (-11.6%), trade, catering and accommodation (-9.1%) and transport, storage and communication (-14.8%). **Figure 2** shows the year-on-year (y-o-y) percentage change for Agriculture, Forestry and Fisheries (AFF) GDP, at 2010 prices. Between the fourth quarter of 2014 and the fourth quarter of 2020, the GDP growth rate of AFF increased from 5.2% to 12.7%, peaking at 36.7% during the second quarter of 2017. Also between this period, a record of negative 19.7% during the third quarter of 2015 was recorded. The AFF industry increased by 13.1% in 2020 compared with 2019. Comparing the fourth quarter of 2019 to the fourth quarter of 2020, the AFF GDP growth increased from 2.1% to 12.7%.

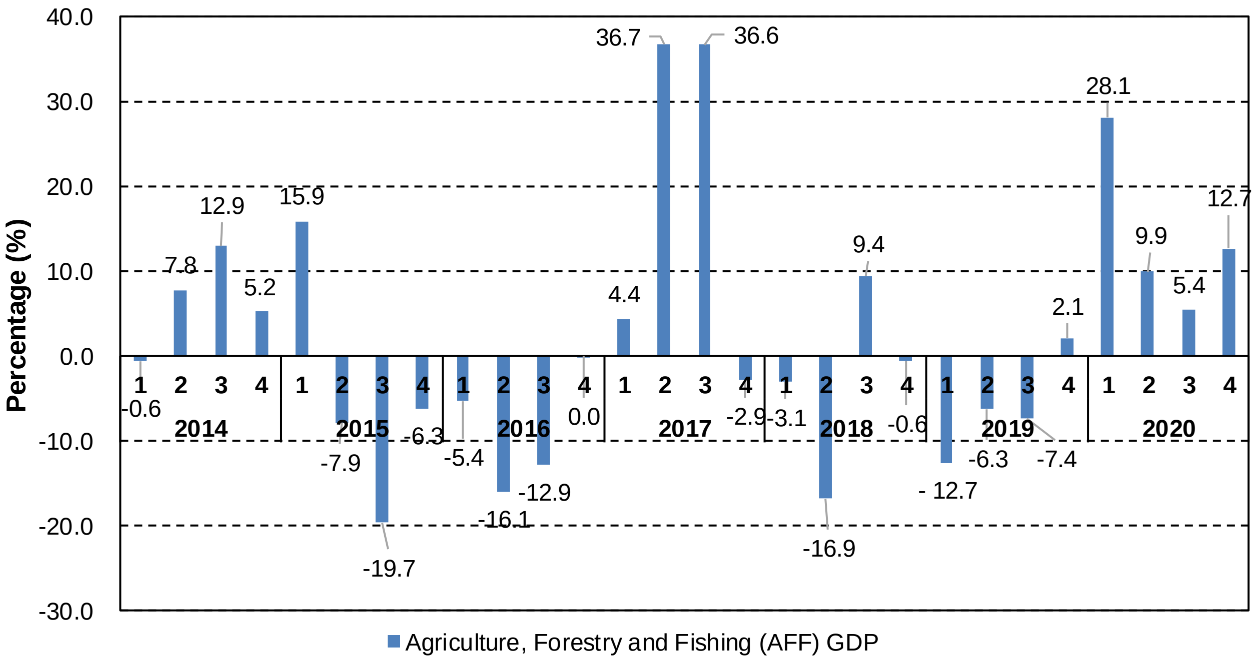

Figure 2: Percentage changes in AFF GDP, at constant 2010 prices
Source: Stats SA, 2021

3. Comparison of Crude Oil and Exchange Rate

Figure 3 shows the trend of the crude oil price (US$) versus the Rand/Dollar (R/$) exchange rate. From February 2013 to February 2021, the price of crude oil (US$/barrel) decreased by 46.8%, while the exchange rate (R/$) appreciated by 66.1%. Comparing February 2020 to February 2021, y-o-y, the price of crude oil increased by 13% while the exchange rate depreciated by 1.8%. This increase in crude oil prices shows returning prices to pre-pandemic levels. Although the oil market remains fragile in the early part of 2021 as measures to contain the spread of Covid-19, with its more contagious variants, weigh heavily on the near-term recovery in global oil demand. In February 2021, the price of crude oil and the exchange rate reached levels of US$62.22/barrel and R14.76/$, respectively.

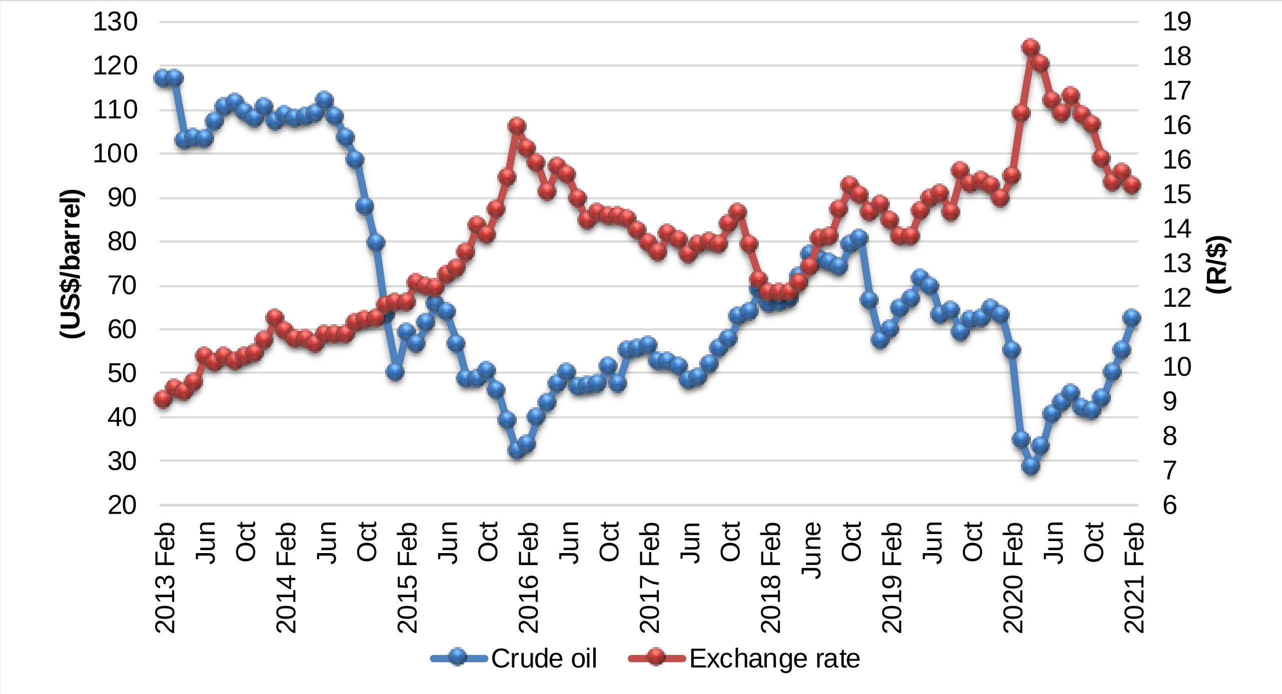

Figure 3: Crude oil and the exchange rate
Source: Grain SA, 2021

4. Average Prime Interest Rate

The South African Reserve Bank (SARB) uses interest rates to influence the level of inflation. To protect the value of the rand, the SARB uses inflation targeting, which aims to maintain consumer price inflation between 3% and 6%.

According to the Monetary Policy Committee (MPC) of the SARB, overall risks to the domestic growth outlook are assessed to be balanced. Global growth, vaccine distribution, a low cost of capital and high commodity prices are supportive of growth. However, new waves of the Covid-19 virus are likely to periodically weigh on economic activity both globally and locally. Besides constraints to the domestic supply of energy, weak investment, and uncertainty surrounding the vaccine rollout remain serious downside risks to domestic growth. The slow economic recovery will help keep inflation below the midpoint of the target range for this year and next. Unless the assumed risks materialise, inflation is expected to be well contained in 2021, before rising to around the midpoint in 2022 and 2023. Headline consumer price inflation averaged 3.3% in 2020, in line with the Bank's expectation, and is the lowest rate since 2004.

The prime interest rate is utilised as a reference or benchmark rate for loan pricing. The prime rate is the lending rate at which a bank will provide credit facilities to their most credit worthy clients. **Figure 4** illustrates the average monthly prime interest rate for the period of March 2015 to March 2021. The prime interest rate is currently 24.3% lower than during March 2015. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. There has been a fluctuation of prime interest rates over the depicted period in efforts to manage the inflation.

Due to an unchanged Repo rate, the prime interest rate remains at 7.0% in March 2021 since July 2020.

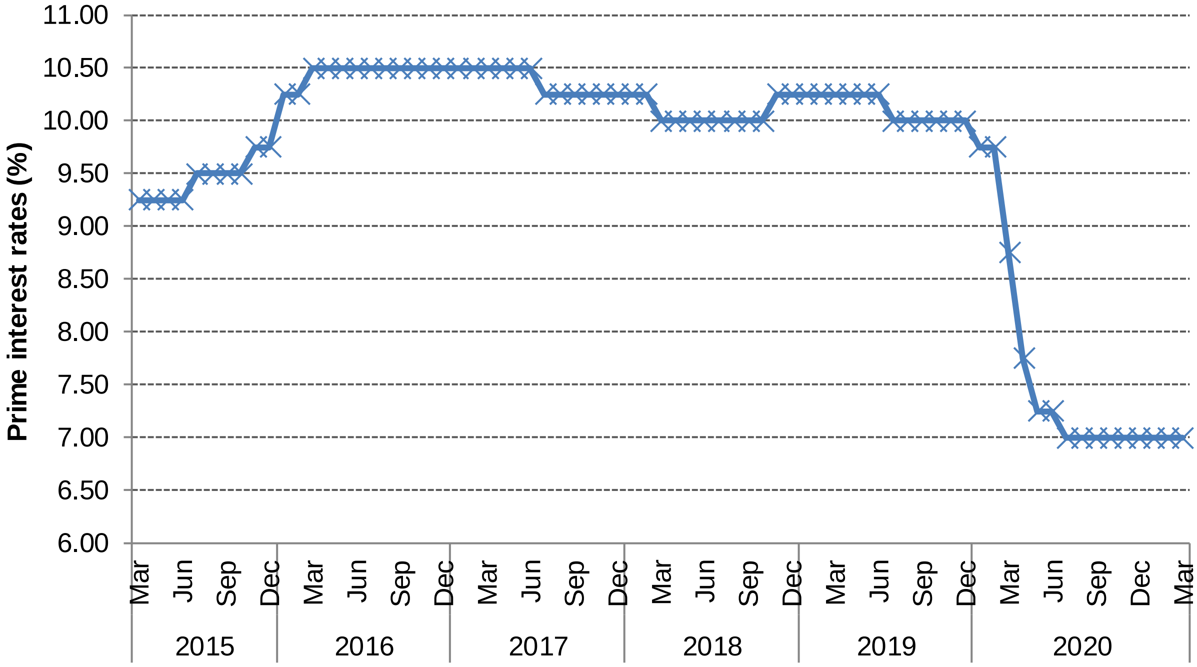

Figure 4: Average monthly prime interest rate
Source: South African Reserve Bank (SARB), 2021

5. Farm Income and Expenditure

Figure 5 shows the quarterly real gross income, real expenditure on intermediate goods and services and the real net farm income from 2012 to 2020, at December 2016 prices. The variables under review reflect highly seasonal trends reflecting the seasonal production patterns of agriculture. The gap between real gross income and real net income is expanding due to cost pressures.

Comparing the fourth quarter (October to December) of 2020 to the fourth quarter of 2019 (y-o-y), real net farm income, real gross income and real expenditure on intermediate goods and services increased by 49.4%, 9.3% and 1.9%, respectively.

When comparing the fourth quarter (October to December) of 2020 to the third quarter of 2020, real net farm income, real gross income and real expenditure on intermediate goods and services decreased by 43.7%, 20.2%, and 0.1%.

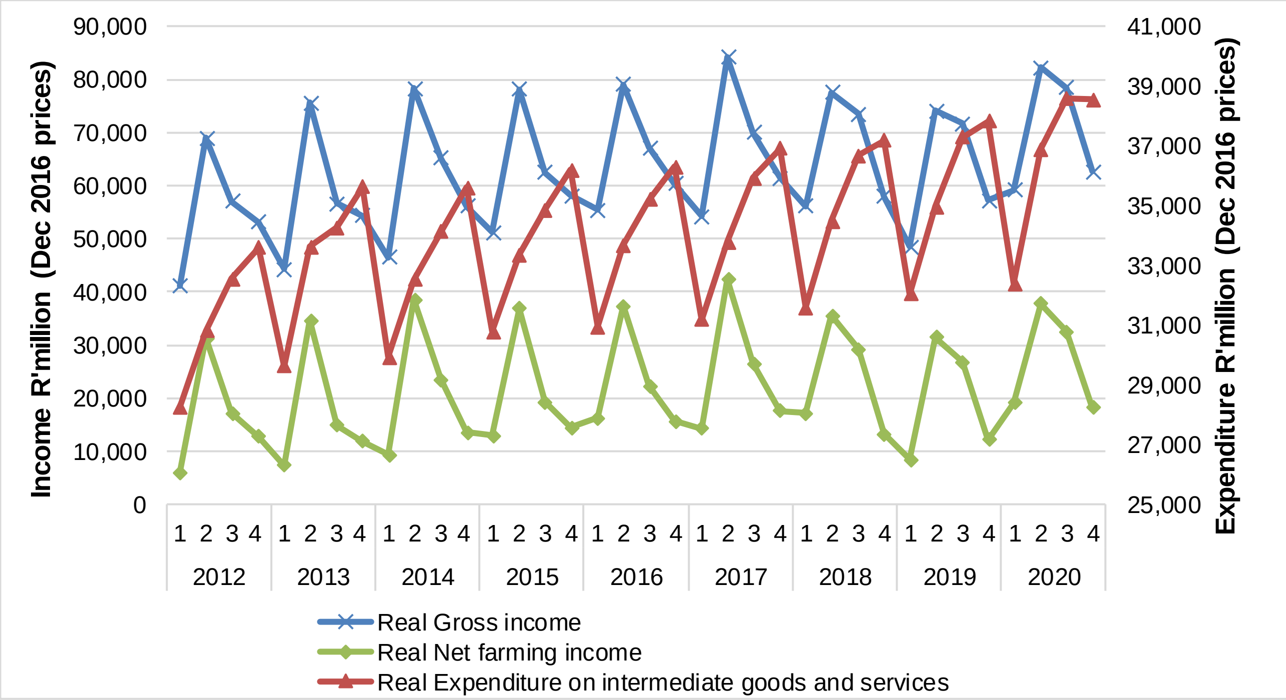

Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD), 2021

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