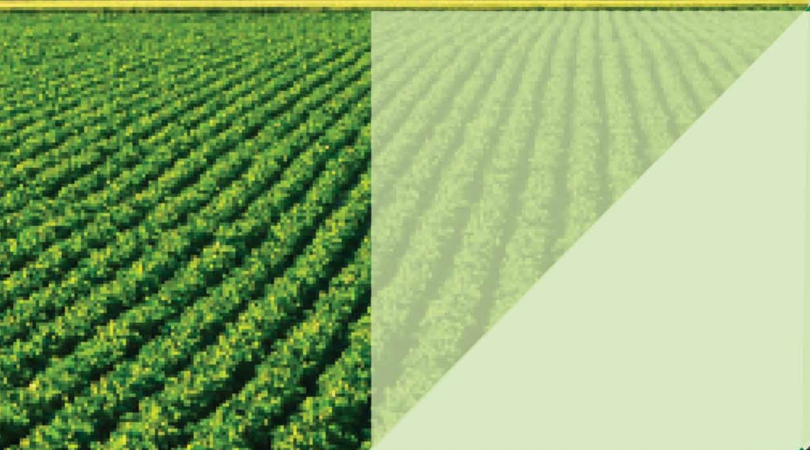
National Agricultural Marketing Council

Promoting market access for South African agriculture

Markets and Economic Research Centre

Macroeconomic Digest



An Update on Selected Macroeconomic Indicators

December 2017

EXECUTIVE SUMMARY

- ***Real Gross Domestic Product and Growth Rates***

From an increase of 38.7% in the second quarter, the Agricultural Industry continued to power ahead, expanding by 44.2% during the third quarter. This is the largest quarterly jump in agriculture production since the second quarter of 1996. The increase in the GDP was mainly attributed to higher production in field crops and horticultural products, with notable increases in the production of maize and vegetable products. In the third quarter (July to September 2017), the largest positive contributor to GDP was Agriculture, Forestry and Fisheries (0.9%).

- ***Employment***

Total employment increased by 0.6% (92 000 jobs) during the third quarter (July to September 2017) compared to the second quarter of 2017. The increase in employment was mainly driven by Finance and Other Business Services, Community and Social Services, Transport and Trade whom increased by 68 000, 56 000, 34 000 and 21 000 jobs, respectively. While Manufacturing, Construction and Agricultural sectors all decreased by 50 000, 30 000 and 25 000 jobs, respectively. Agriculture shed 71 000 year-on-year and 25 000 quarter-on-quarter.

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

From November 2011 to November 2017, the price of crude oil decreased by 27.0%, while the exchange rate increased by 96.5%. In November 2017, the price of crude oil and the exchange rate were US$62.6 per barrel and R/$13.7, respectively.

- ***Average Prime Interest Rate***

The South African Reserve Bank (SARB) lowered its prime interest rate by 0.25% from 10.5% in June, to 10.25% in July 2017. This is due to the inflation outlook that has improved. The lending rate remains unchanged at 10.25% since its decrease during July 2017.

- ***Private Consumption Expenditure***

During the third quarter (July to September 2017), consumer expenditure increased on all of the selected food items with the exception of sugar, bread and grain products, and fruits and vegetables that decreased by 4.7%, 3.9% and 2.1%, respectively, in comparison with the same quarter during 2016. The largest increase was milk and products with 7.2%, followed by oils and fats with 4.7% and potatoes with 4.2%. There was a slight increase of 2.8% in total consumer expenditure during the third quarter of 2017, compared to the second quarter of 2017.

- ***Farm Income and Expenditure***

Compared to the third quarter of 2016, real net farm income, real gross income and real expenditure on intermediate goods and services all increased by 8.0%, 3.9%, and 2.0%, respectively for the third quarter of 2017. When comparing the third quarter of 2017 with the second quarter, real net farm income and real gross income decreased by 32.5% and 13.0%, respectively, whilst the real expenditure increased by 6.3%.

- ***Total Farm Debt***

During the total depicted period, total farm debt increased by 101.0%, with the largest increase in lending from the Land Bank (163.7%), followed by lending from commercial banks of 101.2%. Noteworthy: Decrease in lending from the Agricultural Credit Act, by 69.4%. These two categories of lenders, Land Bank and Commercial banks, represent 88.8% of the total debt, as measured at the end of June 2017.During the first six months of 2017, the total farm debt increased by 4.3%, to R151 billion.

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1. Introduction

Macroeconomic indicators are statistics that indicate the current status of the economy of a country depending on a particular area of the economy. Indicators are pertinent to a broader economy at national level. Macroeconomic indicators are key statistics that influence the direction of a particular large-scale market.

The aim of this publication is to evaluate trends of selected macro indicators in the South African economy. This report/publication provides selected macroeconomic indicators including but not limited to: the real gross domestic product (GDP), employment, crude oil and exchange rate, average prime interest rate, private consumption expenditure, farm income and expenditure, and total farm debt. After examining the selected economic indicators, the performance degree per indicator will be observed.

The data for this publication were obtained from Statistics South Africa (Stats SA), the Department of Agriculture, Forestry and Fisheries (DAFF), Fin24 and the South African Reserve bank (SARB).

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 of time (quarterly or annually). The GDP provides information regarding the size and the performance of an economy. The GDP of selected South African industries are depicted in **Figure 1**, at constant 2010 prices. Over the depicted period positive growth was experienced in most of the industries. These positive trends changed during 2015 and 2016 to mostly negative growth. As GDP was observed to an increase of 38.7% in the second quarter, the Agricultural Industry continued to power ahead, expanding by 44.2% during the third quarter. This is the largest quarterly jump in agriculture production since the second quarter of 1996. The increase in the GDP was mainly attributed to higher production in field crops and horticultural products, with notable increases in the production of maize and vegetable products. In the third quarter (July to September 2017), the largest positive contributor to GDP was Agriculture, Forestry and Fisheries (0.9%). This was followed by the Mining (0.5%) and Manufacturing (0.5%) sectors. The main contributors to negative GDP growth during the third quarter for 2017 included Electricity, Gas and Water (-0.1%), Trade, Catering and Accommodation (-0.1%) and General Government Services (-0.1%).

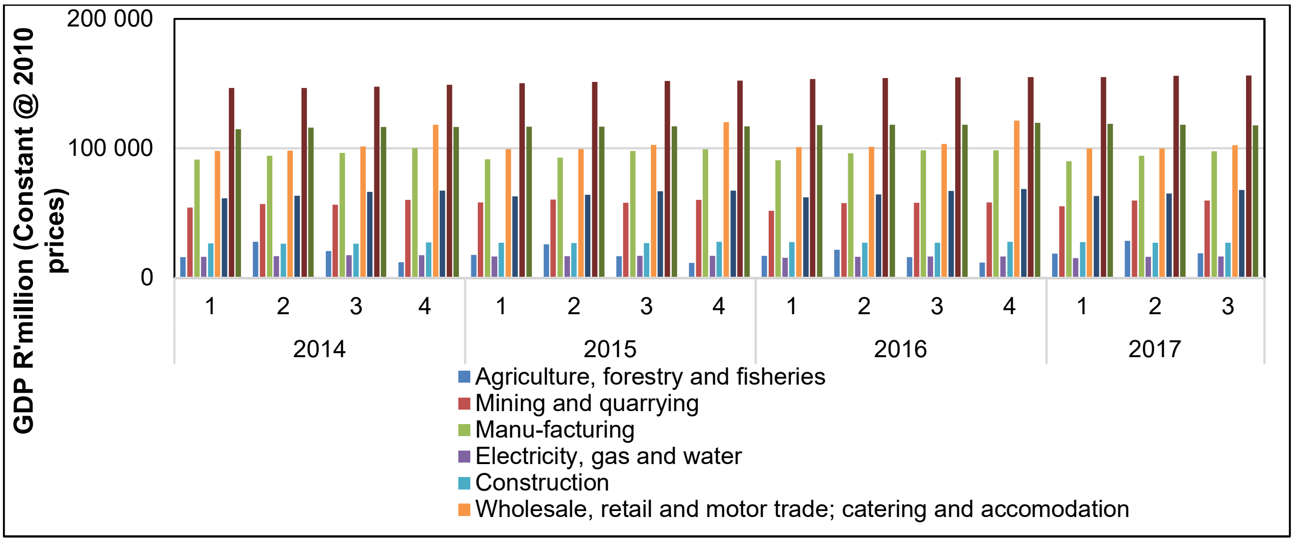

Figure 1: Quarterly GDP of selected industries, at constant 2010 prices
Source: Stats SA, 2017

The quarterly GDP growth rate is the percentage change in GDP, quarter-on-quarter (q-o-q). It analyses how fast a country's economy is growing in every quarter. **Figure 2** shows the q-o-q percentage change for Agriculture, Forestry and Fisheries (AFF) GDP, at 2010 prices. Between the third quarter of 2012 and 2017, the GDP growth rate of AFF decreased by 689.5%, reaching an all-time high of 31.8% during the second quarter of 2017, with a record low of minus 18.9% during the third quarter of 2015.

From the third quarter of 2016 to the third quarter of 2017, the AFF GDP decreased by 475.0%. The percentage change of AFF GDP in the third quarterly of 2017 was recorded at 19.6%.

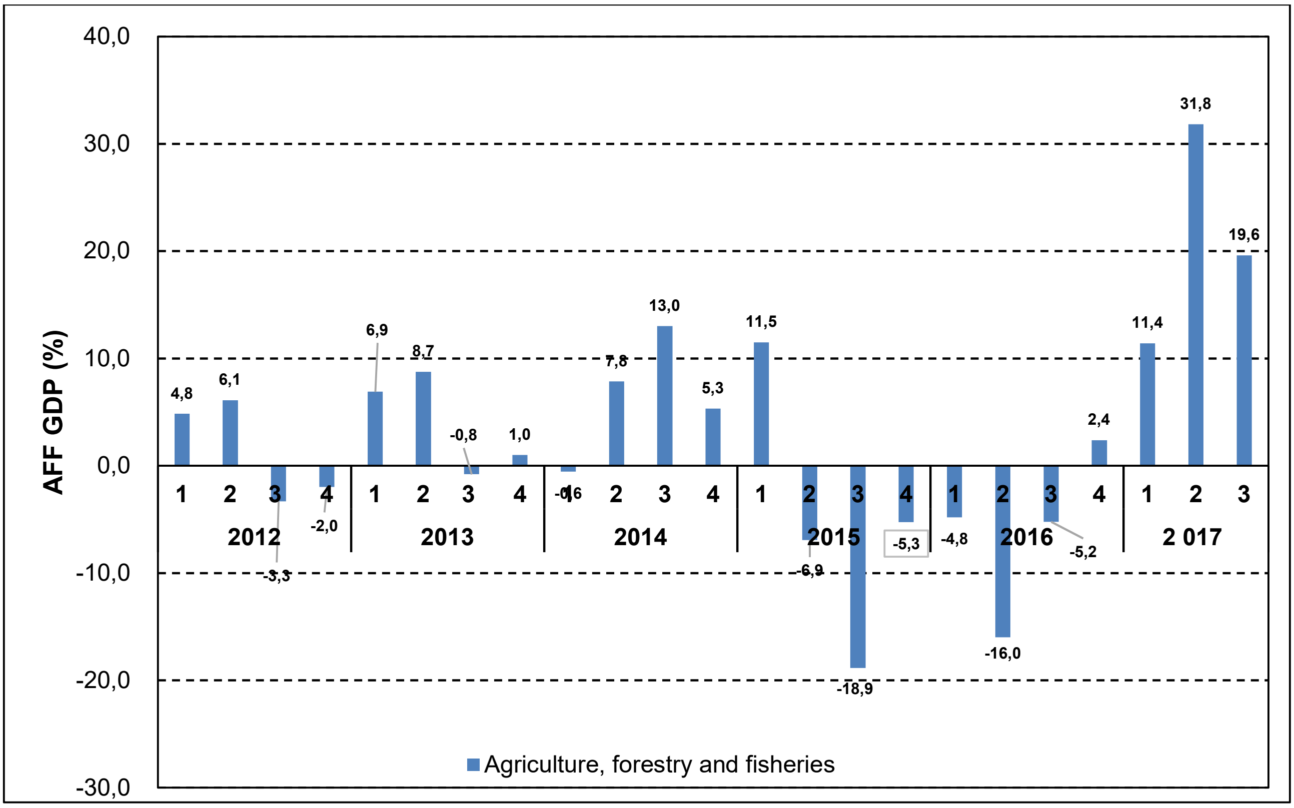

Figure 2: Quarter-on-quarter (q-o-q) percentage change in AFF GDP at constant 2010 prices
Source: Stats SA, 2017

3. Employment

In **Table 1** total employment increased by 0.6% (92 000 jobs) during the third quarter (July to September 2017), compared to the second quarter of 2017. The increased employment during the third quarter was driven by seven of the ten industries. The largest contributors were Finance and Other Business Services, Community and Social services, Transport and Trade whom increased by 68 000, 56 000, 34 000 and 21 000 jobs, respectively. While Manufacturing, Construction and Agricultural sectors all decreased by 50 000, 30 000 and 25 000 jobs, respectively.

Compared to the same period last year, q-o-q, total employment gains of 358 000 were largely driven by Finance and Other Business Services (140 000), Community and Social Services (117 000), Trade (88 000), Transport (73 000) and Manufacturing (66 000), while Construction and Agriculture were the only two industries which shed jobs between Q3: 2016 and Q3: 2017, (down by 127 000 and 71 000 jobs, respectively).

Table 1: Quarterly and annual Total Employment

Industry	Jul-Sep 2016	Apr-Jun 2016	Jul-Sep 2017	Qtr.-to-qtr. change	Year-on-year change	Qtr.-to-qtr. % change	Year-on-year % change
	Thousands					Percentage	
Total	**15 833**	**16 100**	**16 192**	**92**	**358**	**0.6**	**2.3**
Agriculture	881	835	810	-25	-71	-3.0	-8.0
Mining	438	434	446	12	8	2.8	1.9
Manufacturing	1 683	1 799	1 749	-50	66	-2.8	3.9
Utilities	118	148	153	5	35	3.6	29.5
Constructing	1 491	1 395	1 365	-30	-127	-2.2	-8.5
Trade	3 198	3 265	3 286	21	88	0.6	2.8
Transport	915	954	988	34	73	3.6	7.9
Finance and other business services	2 323	2 395	2 463	68	140	2.8	6.0
Community and social services	3 499	3 560	3 616	56	117	1.6	3.4
Private households	1 281	1 311	1 313	1	31	0.1	2.4

Source: Stats SA, 2017

4. Comparison of Crude Oil and Exchange Rate

Figure 3 shows the trend of the crude oil price (US$) versus the R/$ exchange rate. For the period November 2011 to November 2017, the price of crude oil decreased by 27.0%, while the exchange rate increased by 96.5%. November 2016 to November 2017, y-o-y, the price of crude oil increased by 32.4% while the exchange rate decreased by 2.1%. In November 2017, the price of crude oil and the exchange rate were US$62.6 per barrel and R/$13.7, respectively.

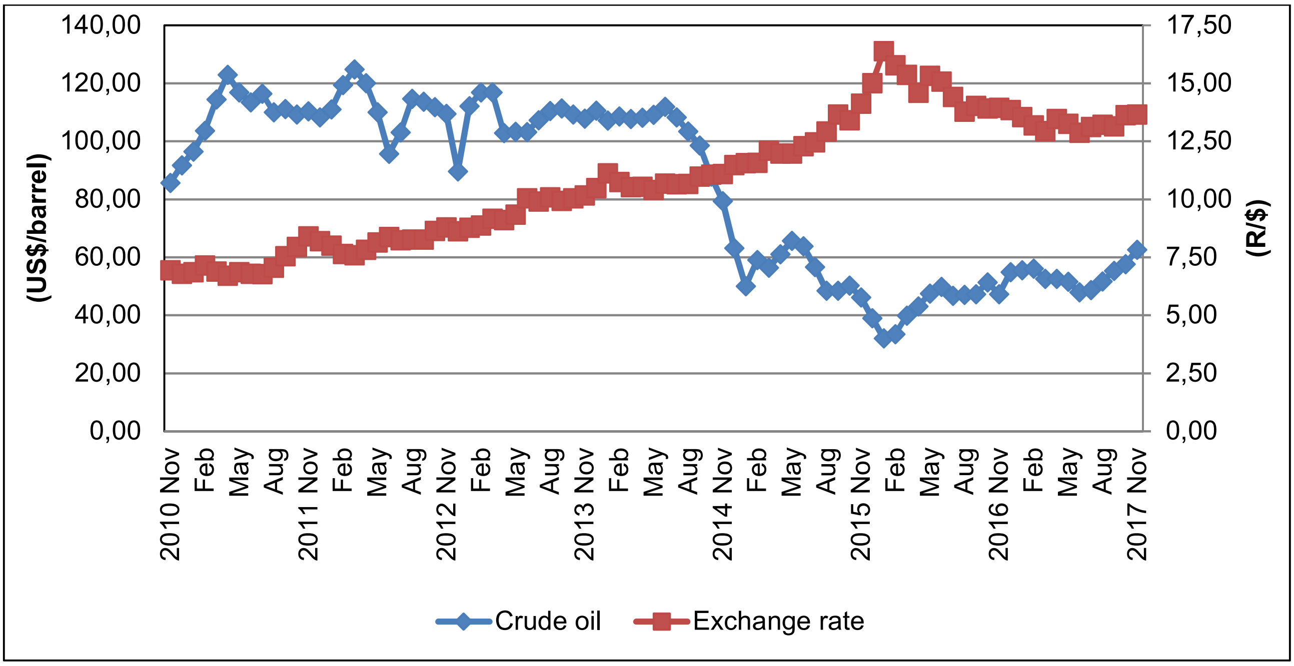

Figure 3: Crude oil and exchange rate
Source: Grain SA, Fin24, 2017

5. Average Prime Interest Rates

The prime interest rate is primarily used as a reference rate or as a benchmark for pricing loans. The prime rate is the lowest rate at which a clearing bank will provide overdraft facilities to its clients. **Figure 4** shows the average monthly prime interest rate for the period November 2011 to November 2017. The average prime interest rate is currently at 13.6% higher than during 2011. The prime interest rate reached a peak of 10.5% during March 2015 to June 2017, and a record low of 8.5% between July 2012 and December 2013. The SARB lowered its prime interest rate by 0.25% from 10.5% in June, to 10.25% in July 2017. This is due to the inflation outlook that has improved. The lending rate remains unchanged at 10.25% since its decrease during July 2017.

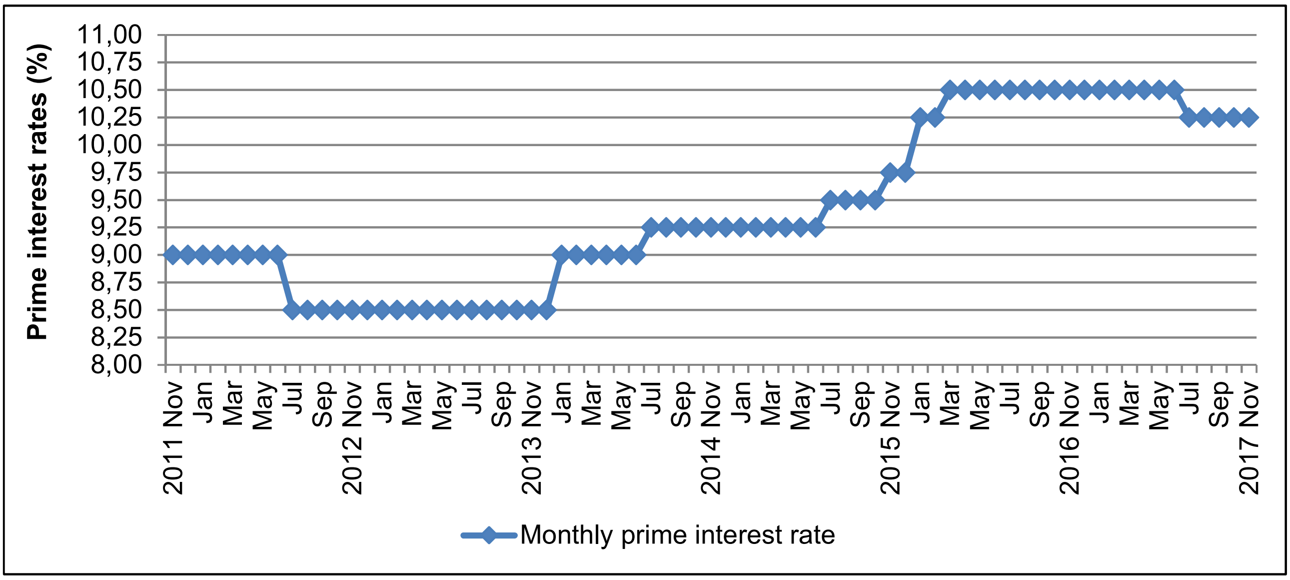

Figure 4: Average annual prime interest rate
Source: SARB, 2017

6. Private Consumption Expenditure

Figure 5 shows the quarterly private consumption expenditure on selected food items, from 2015 to 2017. During the third quarter (July to September 2017), consumer expenditure increased on all of the selected food items with the exception of sugar, bread and grain products, and fruits and vegetables that decreased by 4.7%, 3.9% and 2.1%, respectively, in comparison with the same quarter during 2016. The largest increase was milk and products with 7.2%, followed by oils and fats with 4.7% and potatoes with 4.2%. There was a slight increase of 2.8% in total consumer expenditure during the third quarter of 2017, compared to the second quarter of 2017.

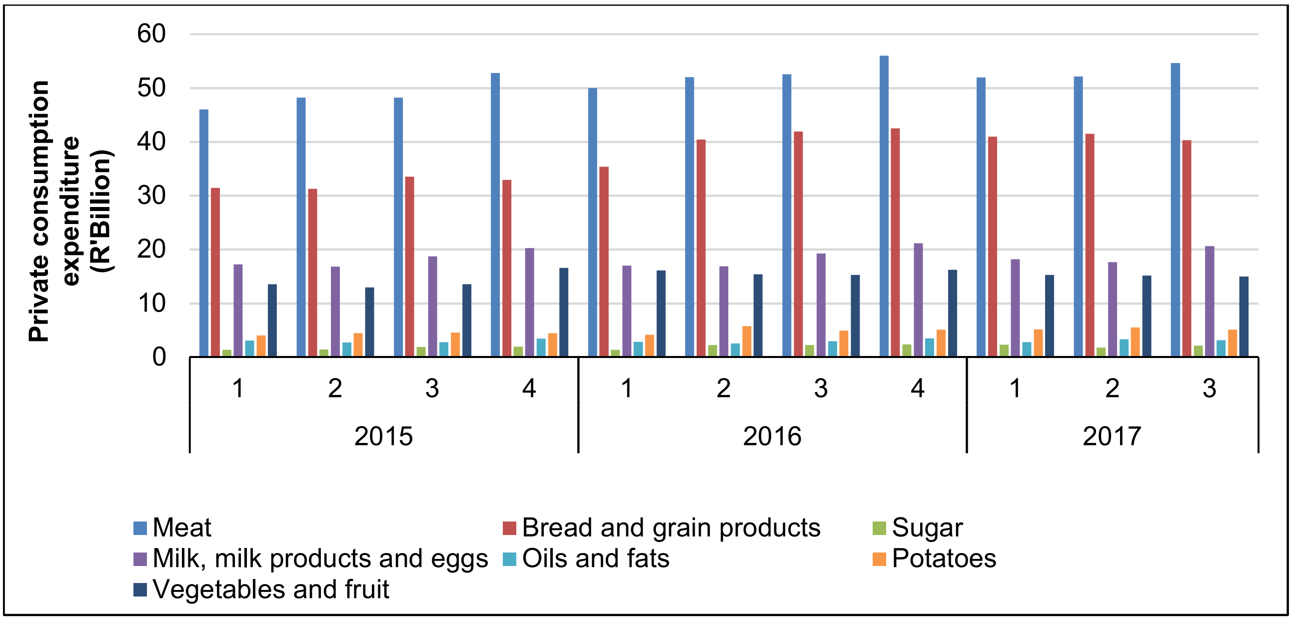

Figure 5: Quarterly private consumption expenditure on selected food items
Source: DAFF, 2017

7. Farm Income and Expenditure

Figure 6 shows the real gross income, real expenditure on intermediate goods and services, and the real net farm income from 2011 to the third quarter of 2017, at December 2016 prices. The variables under review reflect highly seasonal trends, with the exception of expenditure, which shows a more constant increasing trend with less fluctuation. Compared to the third quarter of 2016, real net farm income, real gross income and real expenditure on intermediate goods and services all increased by 8.0%, 3.9%, and 2.0%, respectively for the third quarter of 2017. When comparing the third quarter of 2017 with the second quarter, real net farm income and real gross income decreased by 32.5% and 13.0%, respectively, whilst the real expenditure increased by 6.3%.

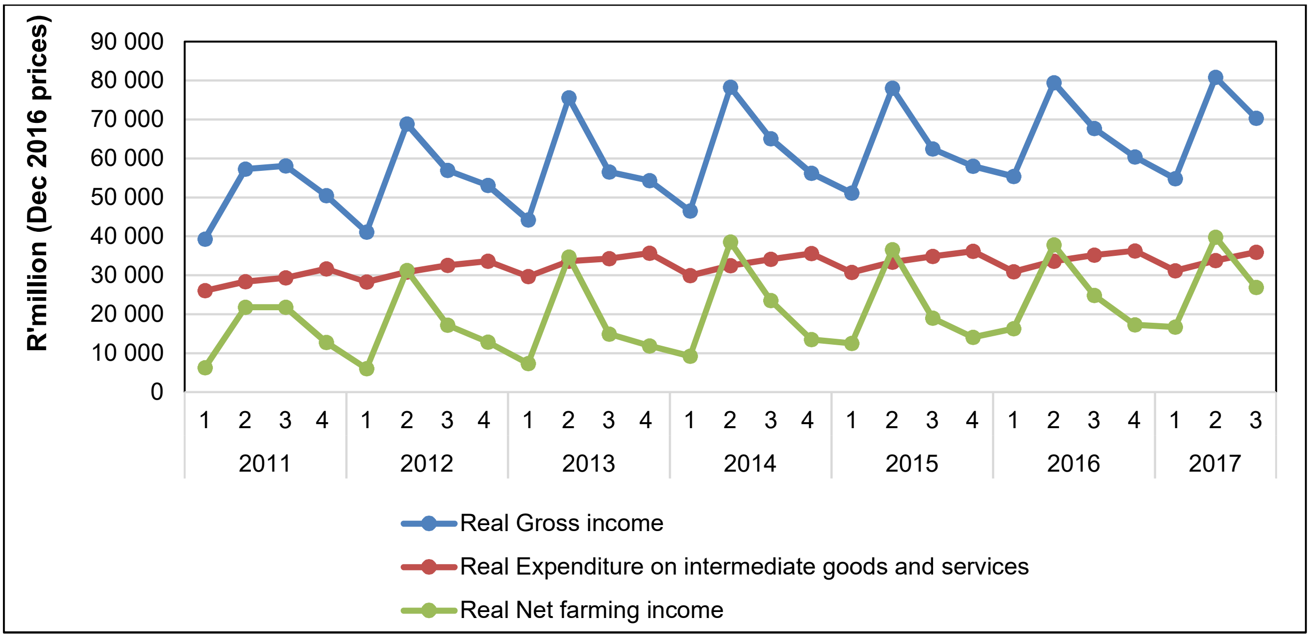

Figure 6: Real gross income, real expenditure on intermediate goods and services and real farm income
Source: DAFF, 2017

8. Total Farm Debt

Figure 7 shows the farm debt as on 01 June 2011 to 01 June 2017. During the total depicted period, total farm debt increased by 101.0%, with the largest increase in lending from the Land Bank (163.7%), followed by lending from commercial banks of 101.2%. Noteworthy, there was a decrease in lending from the Agricultural Credit Act, by 69.4%. These two categories of lenders, Land Bank and Commercial banks, represent 88.8% of the total debt, as measured at the end of June 2017. During the first six months of 2017, the total farm debt increased by 4.3%, to R151 billion.

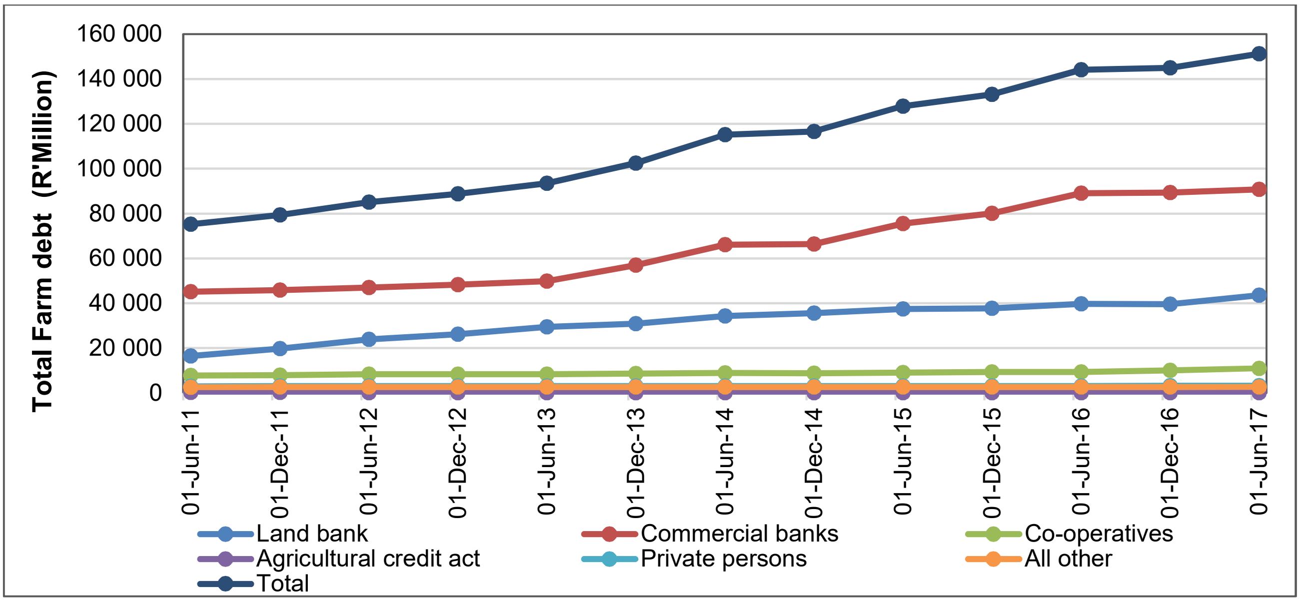

Figure 7: Farm debt
Source: DAFF, 2017

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