



National Agricultural
Marketing Council
Promoting market access for South African agriculture

Markets and Economic Research Centre

Macroeconomic Digest



*An Update on Selected
Macroeconomic Indicators*

Economic Growth and other Indicators - June 2020

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EXECUTIVE SUMMARY

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



It is important to note that this GDP data reflects only the first Quarter (January to March) of 2020, before the nationwide lockdown was fully implemented (27 March). South Africa recorded a decline in Gross Domestic Product (GDP) in the first quarter (January-March) of 2020, deepening the recession it entered into at the third quarter of 2019. GDP growth for the first quarter 2020 decreased by 2,0%, marking the third quarter of decline in succession, following a decline of 0.6% in the third quarter (July and September) of 2019 and 1.4% in the fourth (October and December) of 2019. Agriculture, Forestry and Fisheries (AFF) increased by 27.8% due to good harvest for grains, oilseeds and fruits products including a well performance in animal producing industries. The devaluation of the Rand also boosted agricultural foreign earnings which bodes well with agricultural growth in the first quarter of 2020. Comparing the first quarter of 2019 to the first quarter of 2020, the Agricultural Fisheries and Forestry (AFF) grew by 13.6%.

- **Crude Oil and the Exchange Rate**



Comparing June 2019 to June 2020, y-o-y, the price of crude oil decreased by 40.3% from US\$69.69/per barrel to US\$41.60/barrel, while the exchange rate depreciated with 19.3% from R/\$14.43 to R/\$17.22. With much of the world in lockdown as the coronavirus pandemic rages on, demand for oil has fallen off a cliff. People are not travelling and business has slowed, reducing the need for jet fuel and gasoline. In June 2020, the price of crude oil and the exchange rate reached levels of US\$41.60/barrel and R/\$17.22, respectively.

- **Average Prime Interest Rate**



The South African Reserve Bank (SARB) assessed the state of the struggling economy, with the Eskom crisis keeping economic activity muted, while business confidence remained weak. The SARB recently decreased the prime interest rate by 0.50 percentage points in May 2020. The SARB's lending rate changed from 7.75% in April 2020 to 7.25% in May of 2020. According to the

Reserve Bank, monetary policy can ease financial conditions and improve the resilience of households and firms to the economic implications of Covid-19. In addition to continued easing of interest rates, the Bank has eased regulatory requirements on banks and has taken important steps to ensure adequate liquidity in domestic markets. These actions are intended to free up more capital for lending by financial institutions to households and firms. The prime interest rate remains at 7.25% in June 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 and average prime interest rate. The data for this publication was obtained from Statistics South Africa (Stats SA), Fin24, the South African Reserve bank (SARB) and 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 of time (quarterly and/or annually). It 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. South Africa recorded a decline in Gross Domestic Product (GDP) in the first quarter (January to March) of 2020, deepening the recession it entered into at the start of the third quarter of 2019. GDP growth for the first quarter of 2020 decreased by 2.0%, marking the third quarter of decline in succession, following a decline of 0.6% in the third quarter (July and September) of 2019 and 1.4% in the fourth (October and December) of 2019. It is important to note that this data reflects only the first three months of 2020, before the nationwide lockdown was fully implemented, which commenced from 27 March 2020). Agriculture, forestry and fishing industry (AFF) increased by 27.8% due to the bumper production of grains and fruits. Finance (3.7%) and General government services (1.0%) also show a positive growth rate.

On other side, Mining and Quarrying industry declined by 21.5%, the biggest slump in six years. Iron ore, manganese and chromium were the biggest drags on mining growth, offsetting positive gains made by coal, diamonds and platinum group metals. The Manufacturing industry declined by 8.5%. The Electricity, gas and water industry contracted 5.6% largely due to decreases in electricity distributed and water consumption, this was followed by the Construction industry with 4.7% decline.

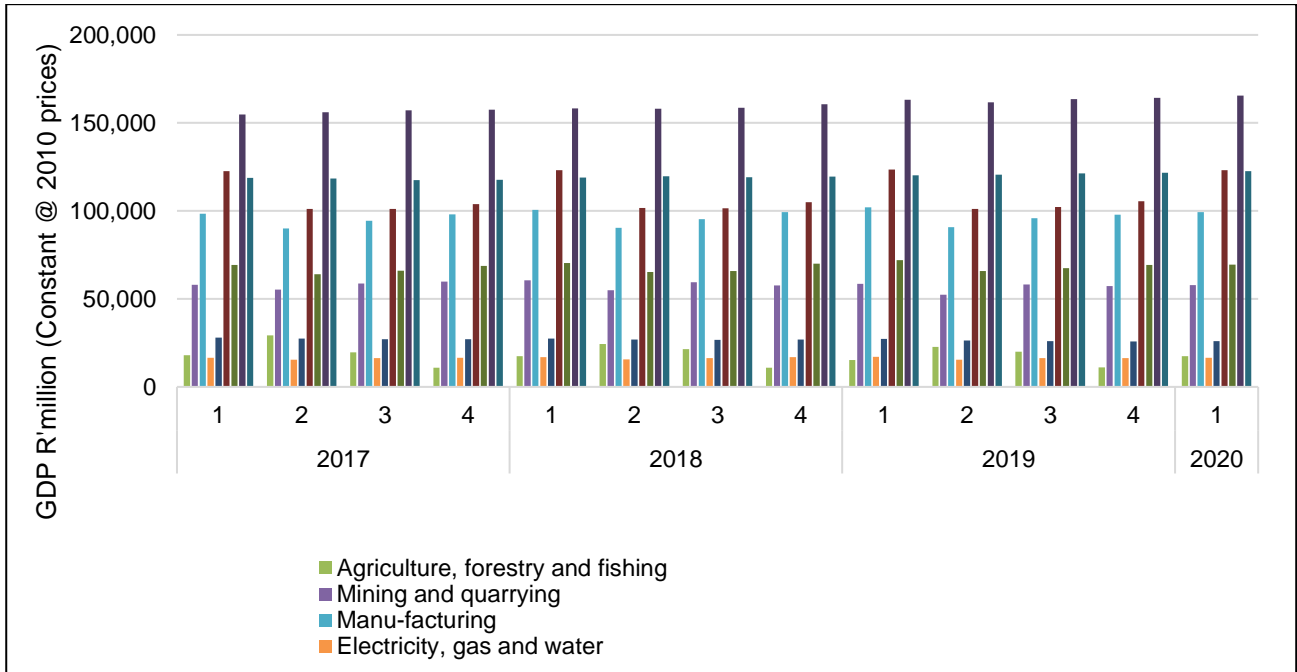


Figure 1: Quarterly GDP of selected industries, at constant 2010 prices

Source: Stats SA, 2020

The percentage change in GDP, q-o-q, analyses shows how fast a country's economy is growing in a particular quarter. **Figure 2** shows the year on year (y-o-y) percentage change for Agriculture, Forestry and Fisheries (AFF) GDP, at 2010 prices. Between the first quarter of 2014 and the first quarter of 2020, the GDP growth rate of AFF worsened from negative 0.8% to negative 8.9%, peaking at 36.7% during the second quarter of 2017, while reporting a record through of negative 19.7% during the third quarter of 2015.

Comparing the first quarter of 2020 to the first quarter of 2019, year-on-year (y-o-y), the AFF GDP growth increased from -12.7% to 13.6%. The percentage change on year on year basis was recorded at negative 13.6%.

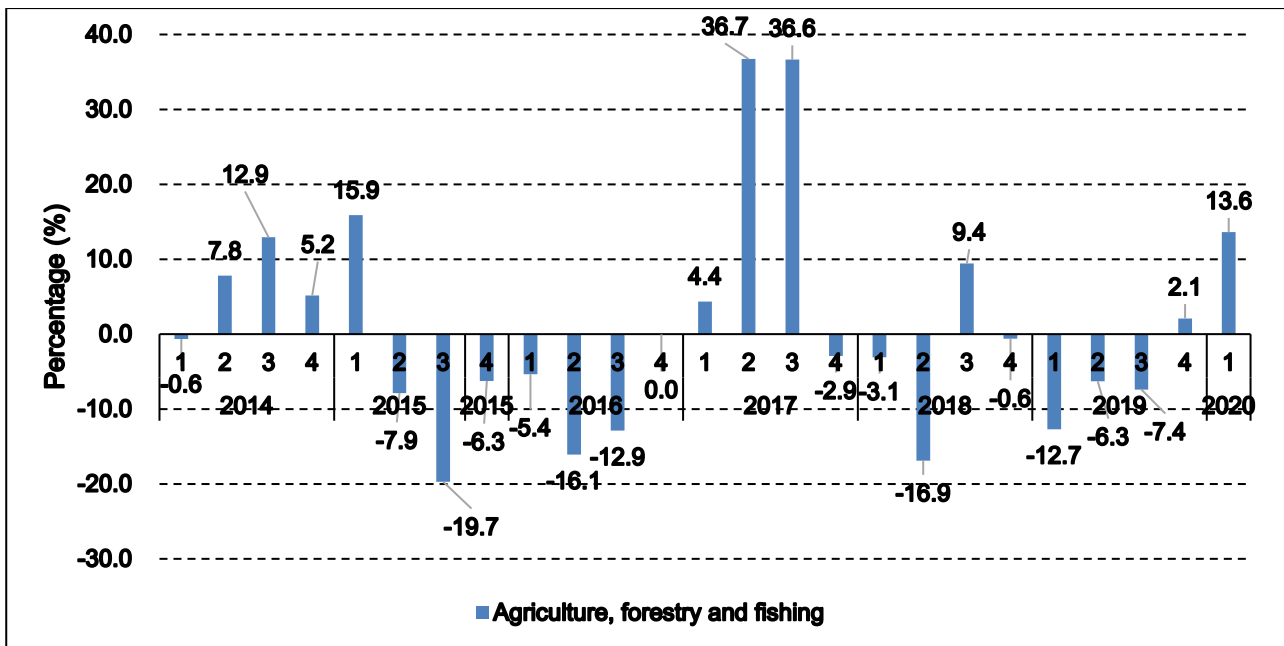


Figure 2: Year on year (y-o-y) percentage changes in AFF GDP, at constant 2010 prices

Source: Stats SA, 2020

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. For the period of June 2012 to June 2020, the price of crude oil (US\$/barrel) decreased by 56.6%, while the exchange rate (R/\$) depreciated with 105.4%. Comparing June 2019 to June 2020, y-o-y, the price of crude oil decreased by 40.3% while the exchange rate depreciated with 19.3%. With much of the world in lockdown as the coronavirus pandemic rages on, demand for oil has fallen off a cliff. People are not travelling and business has slowed, reducing the need for jet fuel and gasoline. In June 2020, the price of crude oil and the exchange rate reached levels of US\$41.6/0barrel and R/\$17.22, respectively.

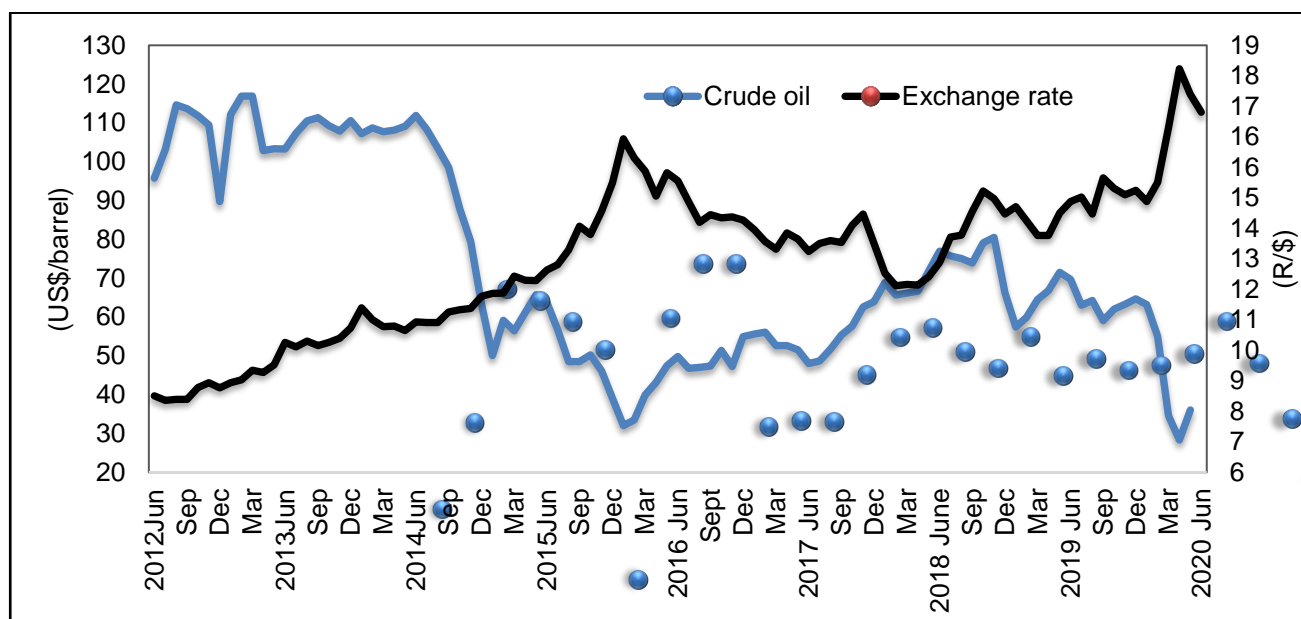


Figure 3: Crude oil and the exchange rate

Source: Grain SA, 2020

4. Average Prime Interest Rate

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 May 2014 to May 2020. The prime interest rate is currently 19.4% lower than during May 2014. 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 under the reviewed period. The SARB recently decreased the prime interest rate by 0.50 percentage points in May 2020. The SARB's lending rate changed from 7.75% in April 2020 to 7.25% in May of 2020. According to the Reserve Bank, monetary policy can ease financial conditions and improve the resilience of households and firms to the economic implications of Covid-19. In addition to continued easing of interest rates, the Bank has eased regulatory requirements on banks and has taken important steps to ensure adequate liquidity in domestic markets. These actions are intended to free up more capital for lending by financial institutions to households and firms. The prime interest rate remains at 7.25% in June 2020.

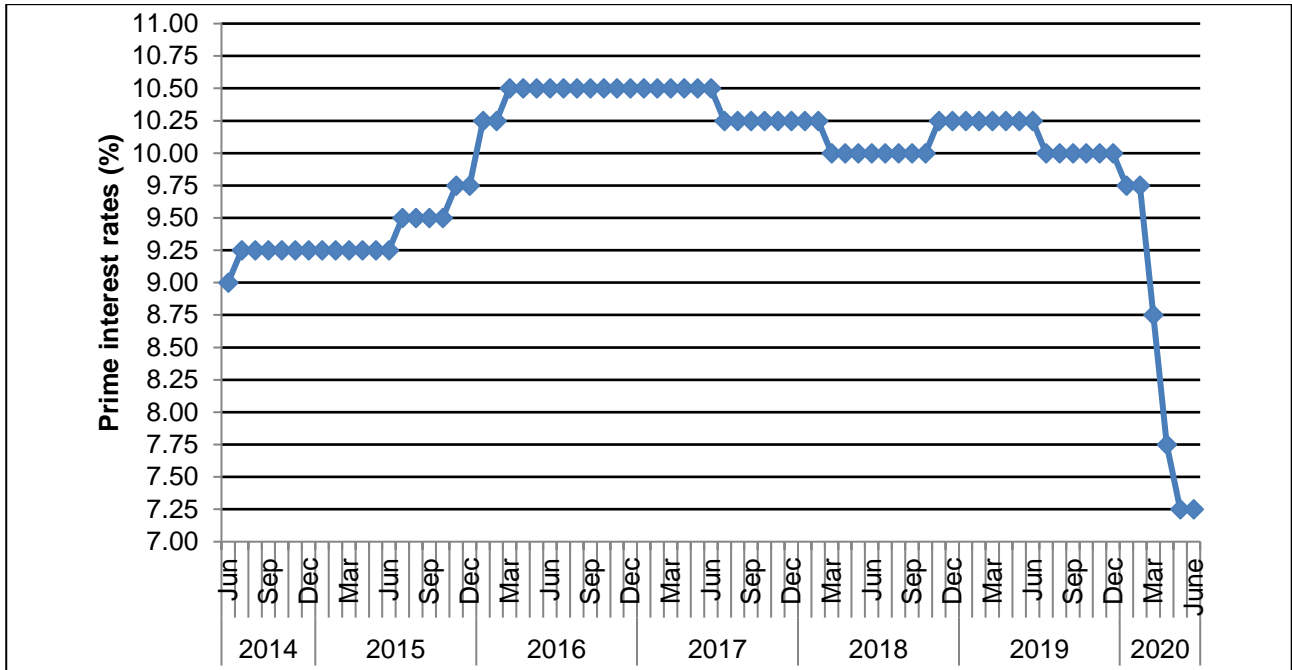


Figure 4: Average monthly prime interest rate

Source: SARB, 2020

5. Farm Income and Expenditure

Figure 5 shows the real gross income, real expenditure on intermediate goods and services, and the real net farm income from 2012 to 2019, at December 2016 prices. The variables under review reflect highly seasonal trends, with the exception of expenditure, which comprises of a more constant increasing trend. Comparing the fourth quarter (October to December) of 2019 to the fourth quarter of 2018 (y-o-y), real net farm income and real gross income decreased by 10.4% and 1.7%, respectively. The real expenditure on intermediate goods and services increased by 1.8% during the same period.

When comparing the fourth quarter (October to December) of 2019 to the third quarter of 2019, real net farm income and real gross income decreased by 55.6% and 20.5% , respectively. The real expenditure on intermediate goods and services increased by 1.5% during the same period.

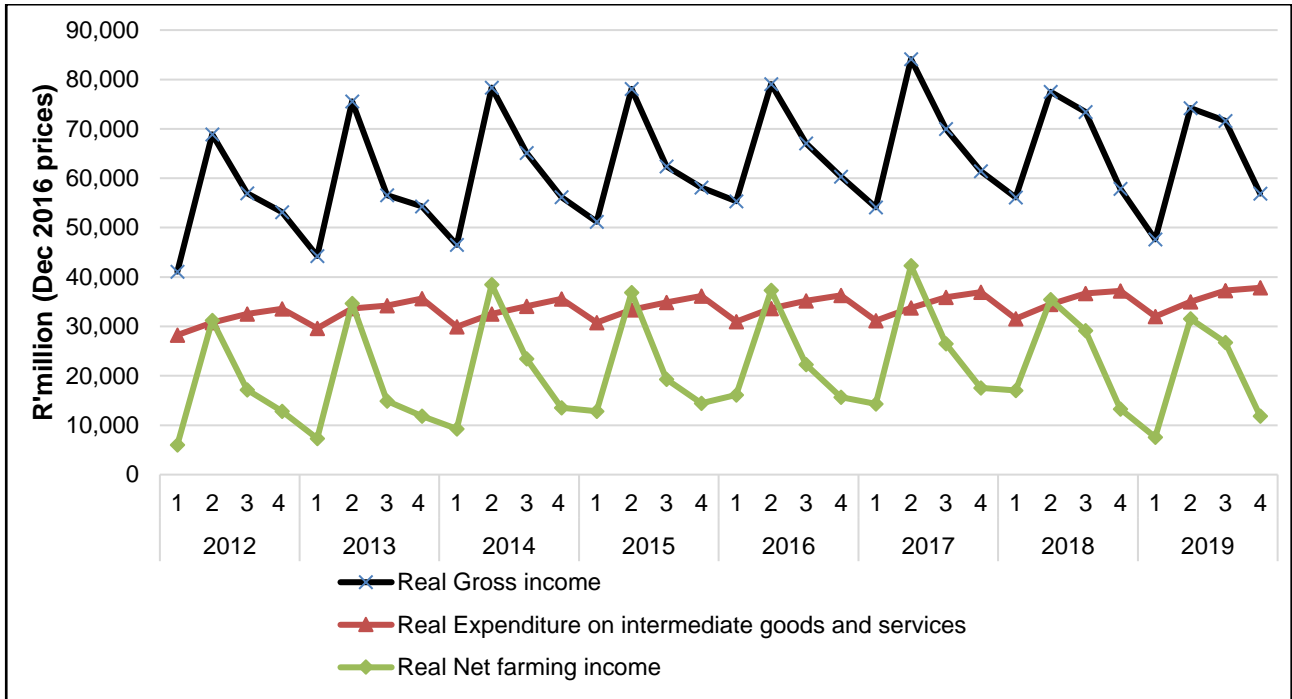


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

Source: DAFF, 2020

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