



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 - September 2020*

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## EXECUTIVE SUMMARY

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



South Africa's Gross Domestic Product (GDP) declined by a massive 51.0% in the second quarter (April to June) of 2020 when compared to the first quarter (January to March) of 2020, owing to the impact of the corona virus (COVID-19) lockdown restrictions since the end of March 2020. Notably, this was the fourth consecutive decline in quarterly GDP since the second quarter of 2019. This pushes South Africa even deeper into recession, after GDP growth for the first quarter of 2020 was recorded at -1.8%, following drops of -0.8% in the third quarter of 2019 and -1.4% in the fourth quarter of 2019. The agriculture, forestry and fishing industry was the only positive contributor to GDP growth, with an increase of 15.1% and a contribution of 0.3 of a percentage point to GDP growth. The increase was mainly due to increased production of field crops and horticultural and animal products.

- **Crude Oil and the Exchange Rate**



Comparing August 2020 to September 2019, y-o-y, the price of crude oil decreased by 28.0% while the exchange rate depreciated with 21.6%. 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 as much as they should and business has slowed, reducing the need for jet fuel and gasoline. In August 2020, the price of crude oil and the exchange rate reached levels of US\$46.29/barrel and R/\$17.09, respectively.

- **Average Prime Interest Rate**



The South African Reserve Bank (SARB) decreased the prime interest rate further by 0.25 percentage points in July 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 7.0% in September 2020. For the agricultural sector, the 300 percentage point decrease of the prime interest rate over the last 12 months, translate to a saving of R5.0 billion.

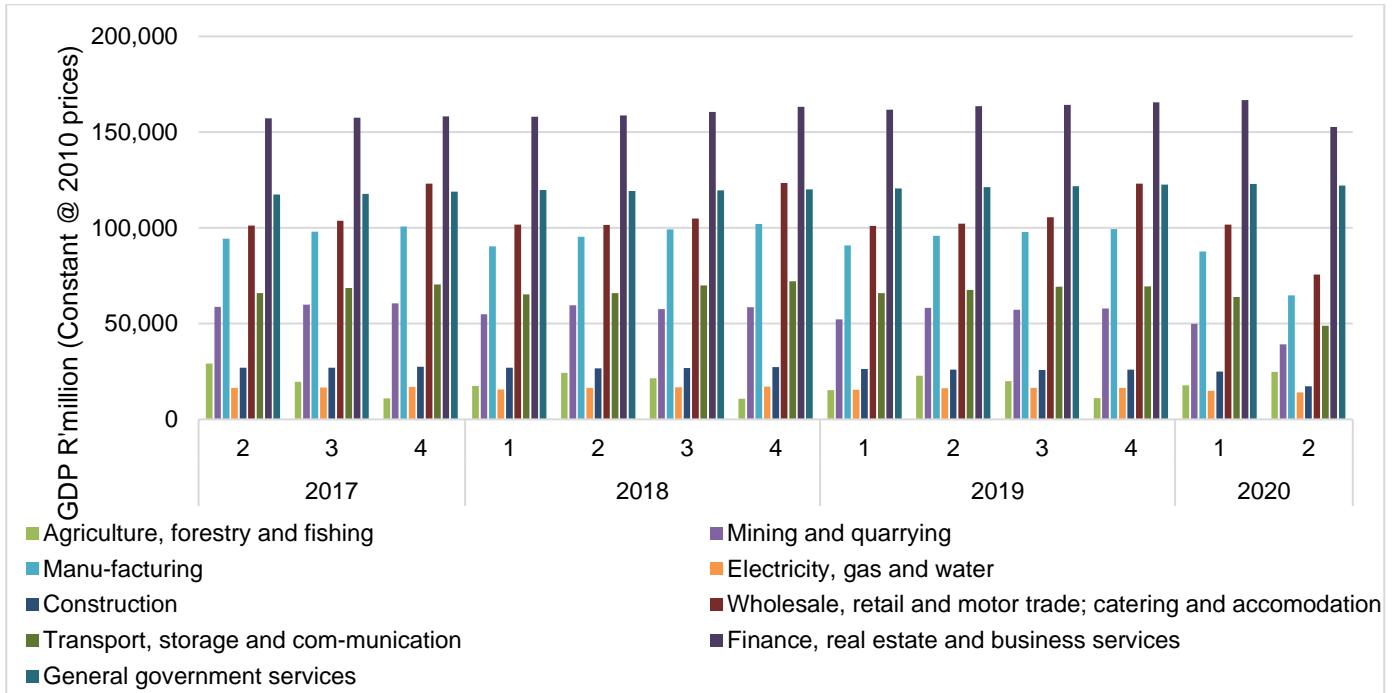
## 1. Introduction

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), 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's Gross Domestic Product (GDP) declined by a massive 51.0% in the second quarter (April to June) of 2020 when compared to the first quarter (January to March) of 2020, owing to the impact of the COVID-19 lockdown restrictions since the end of March 2020. Notably, this was the fourth consecutive decline in quarterly GDP since the second quarter of 2019. This pushes South Africa even deeper into recession, after GDP growth for the first quarter of 2020 was recorded at -1.8%, following drops of -0.8% in the third quarter of 2019 and -1.4% in the fourth quarter of 2019. The agriculture, forestry and fishing industry was the only positive contributor to GDP growth, with an increase of 15.1% and a contribution of 0.3 of a percentage point to GDP growth. The increase was mainly due to increased production of field crops and horticultural and animal products.

On other side, the largest negative contributors to growth in GDP in the second quarter were the construction, manufacturing, mining, transport and trade industries with declines of 76.6%, 74.9%, 73.1%, 67.9% and 67.6% respectively.

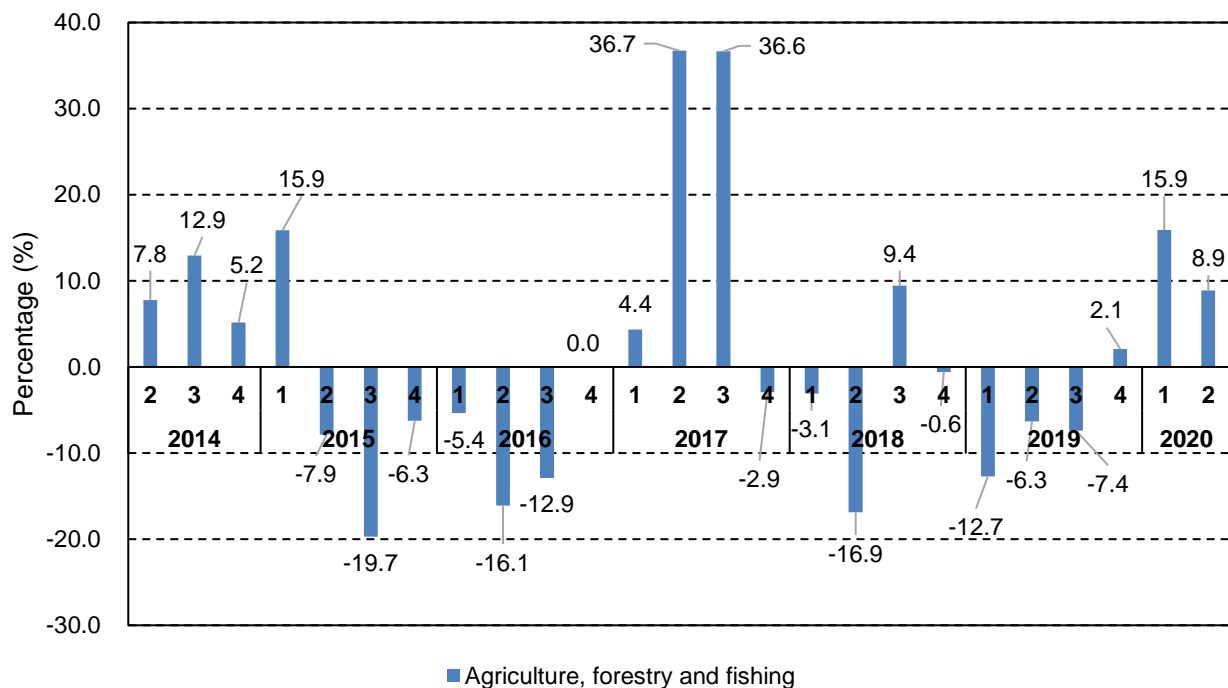


**Figure 1: Quarterly GDP of selected industries, at constant 2010 prices**

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 second quarter of 2014 and the second quarter of 2020, the GDP growth rate of AFF increased from 7.8% to 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 second quarter of 2020 to the second quarter of 2019, year-on-year (y-o-y), the AFF GDP growth increased from -6.3% to 8.9%. The percentage change in the quarterly gross domestic product by industry was recorded at 8.9%.

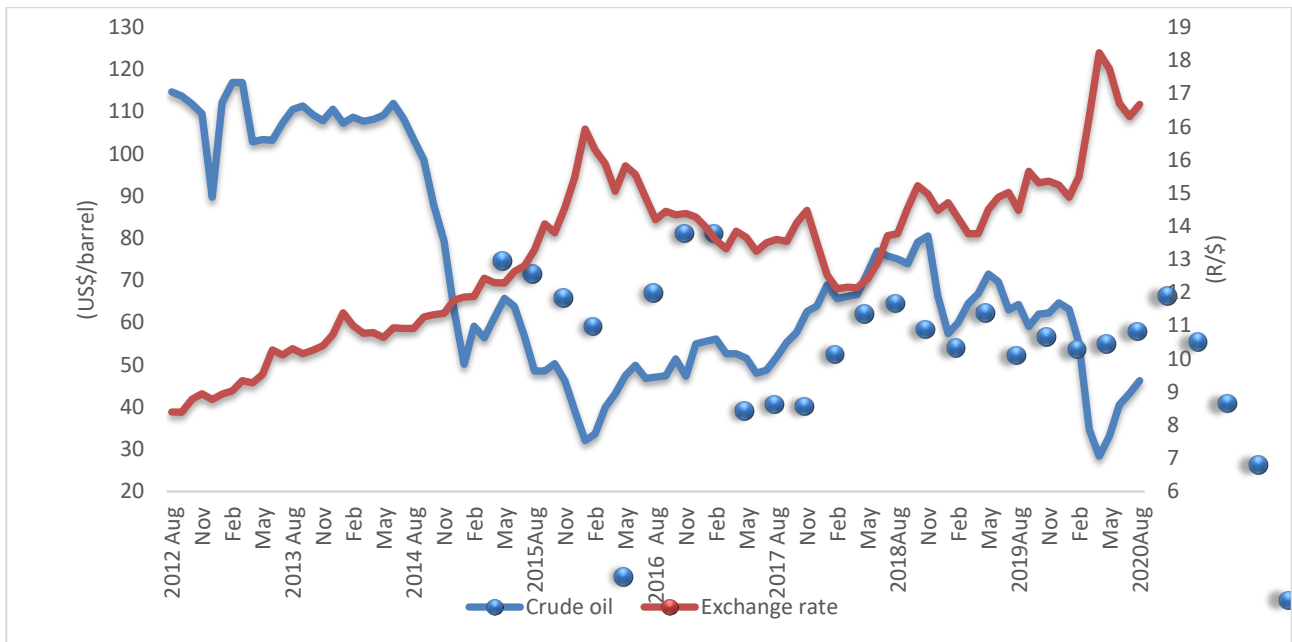


**Figure 2: Year on year (y-o-y) percentage changes in AFF GDP, at constant 2010 prices**  
 Source: Stats SA, 2020

### 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 August 2012 to August 2020, the price of crude oil (US\$/barrel) decreased by 59.6%, while the exchange rate (R/\$) depreciated with 106.5%. Comparing August 2020 to September 2019, y-o-y, the price of crude oil decreased by 28.0% while the exchange rate depreciated with 21.6%. 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 as much as they should and business has slowed, reducing the need for jet fuel and gasoline. In August 2020, the price of crude oil and the exchange rate reached levels of US\$46.29/barrel and R/\$17.09, respectively.





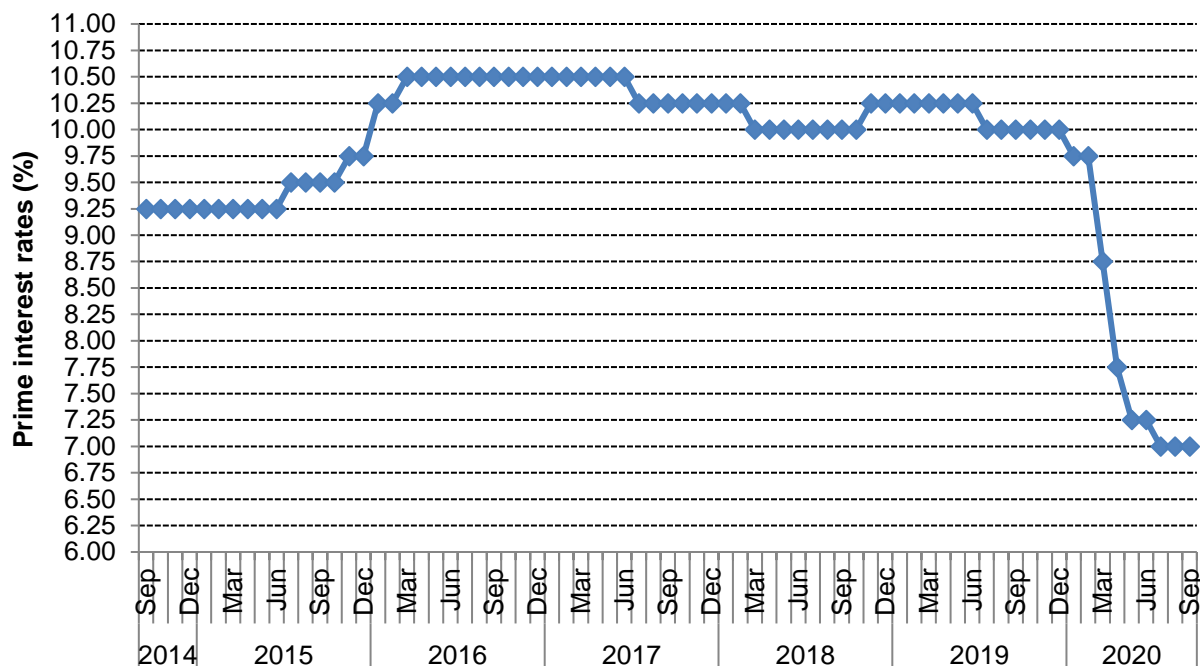
**Figure 3: Crude oil and the exchange rate**

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 September 2014 to September 2020. The prime interest rate is currently 24.3% lower than during September 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 decreased the prime interest rate further by 0.25 percentage points in July 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 7.0% in September 2020. For the agricultural sector, the 300 percentage point decrease of the prime interest rate over the last 12 months, translate to a saving of R5.0 billion.



**Figure 4: Average monthly prime interest rate**

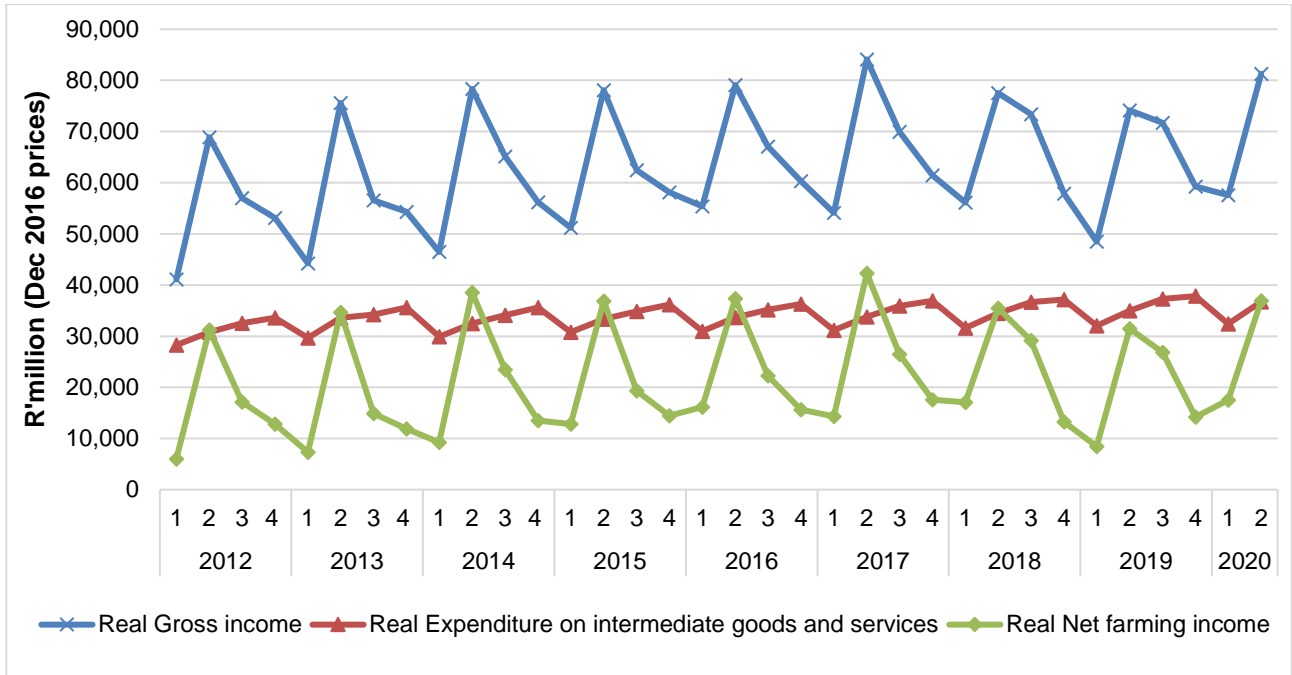
Source: SARB, 2020

## 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 2020, 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 second quarter (April to June) of 2020 to the second quarter of 2019 (y-o-y), real net farm income, real gross income and real expenditure on intermediate goods and services increased by 17.3%, 9.7% and 5.1%, respectively.

When comparing the second quarter (April to June) of 2020 to the first quarter of 2020, real net farm income, real gross income and real expenditure on intermediate goods and services increased by 110.7%, 41.2% and 13.4%, respectively.





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

Source: DAFF, 2020

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