



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 2021

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EXECUTIVE SUMMARY

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

South Africa's GDP increased at an annualised rate of 4.6% in the first quarter (January to March) of 2021 when compared to the previous quarter (October to December) of 2020. This might largely be due to further easing of coronavirus (COVID-19) lockdown restrictions. Eight industries recorded positive growth between the fourth quarter of 2020 and the first quarter of 2021. The Agriculture, forestry and fishing industry decreased at a rate of 3.2%. The decrease was mainly due to lower production of field crops and animal products, due to seasonality of production.

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

Comparing May 2020 to May 2021, y-o-y, the price of crude oil increased by 106.6% while the exchange rate appreciated by 21.4%. This represents a rebound from the 2020 average price of crude oil, but it is still lower than pre-COVID levels. The gains reflect improving oil demand due to progress in recovering global economic activity. In May 2021, the price of crude oil and the exchange rate reached levels of US\$68.50/barrel and R14.23/\$, respectively.

- ***Average Prime Interest Rate***

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 May 2021 since July 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 4.6% in the first quarter (January to March) of 2021 when compared to the previous quarter (October to December) of 2020. This might largely be due to further easing of coronavirus (COVID-19) lockdown restrictions. Eight industries recorded positive growth between the fourth quarter of 2020 and the first quarter of 2021. The largest positive contributors to growth in GDP in the first quarter were the Mining (18.1%), Finance (7.4%) and Trade (6.2%) industries. The Agriculture, forestry and fishing industry decreased at a rate of 3.2%. The decrease was mainly due to lower production of field crops and animal products, due to seasonality of production.

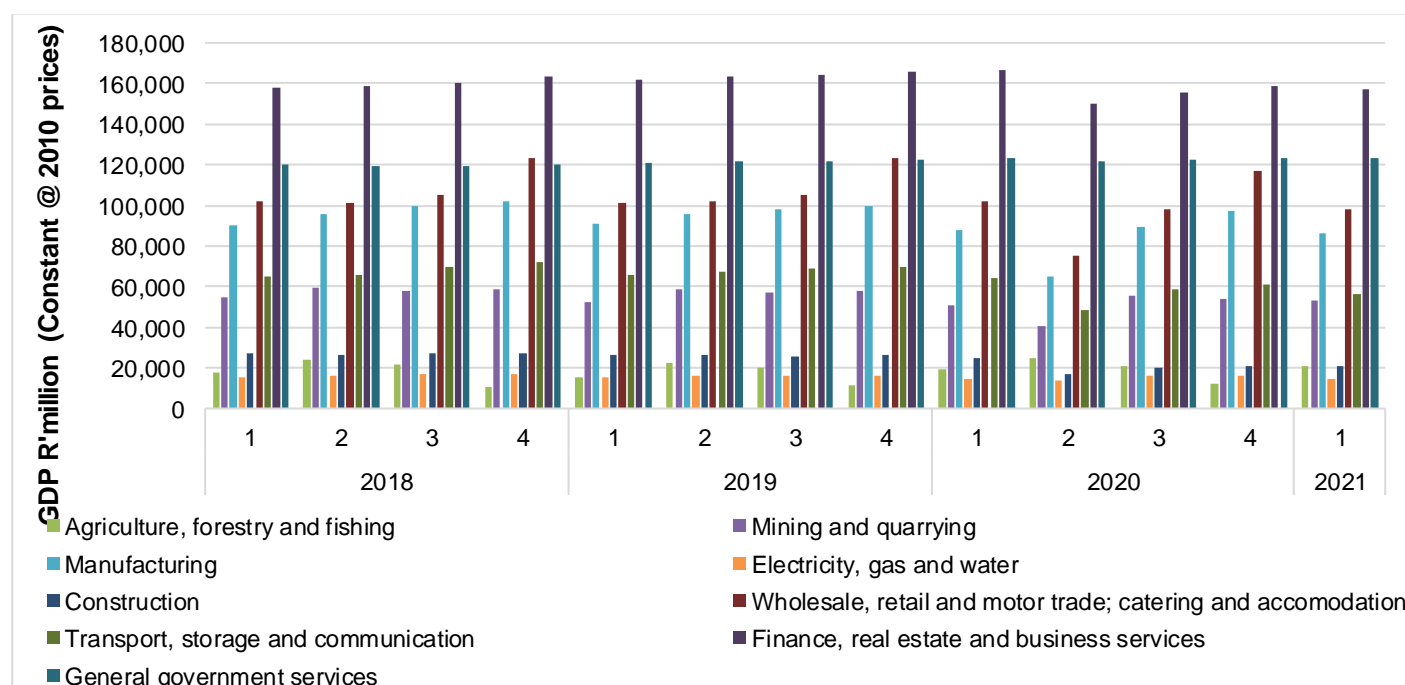


Figure 1: Quarterly GDP of selected industries, at constant 2010 prices

Source: Stats SA, 2021

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 2021, the GDP growth rate of AFF increased from negative 0.6% to 7.5%, peaking at 36.7% during the second quarter of 2017. During the depicted period, a record of negative 19.7% during the third quarter of 2015 was recorded. Comparing the first quarter of 2020 to the first quarter of 2021, the AFF GDP growth decreased from 28.1% to 7.5%.

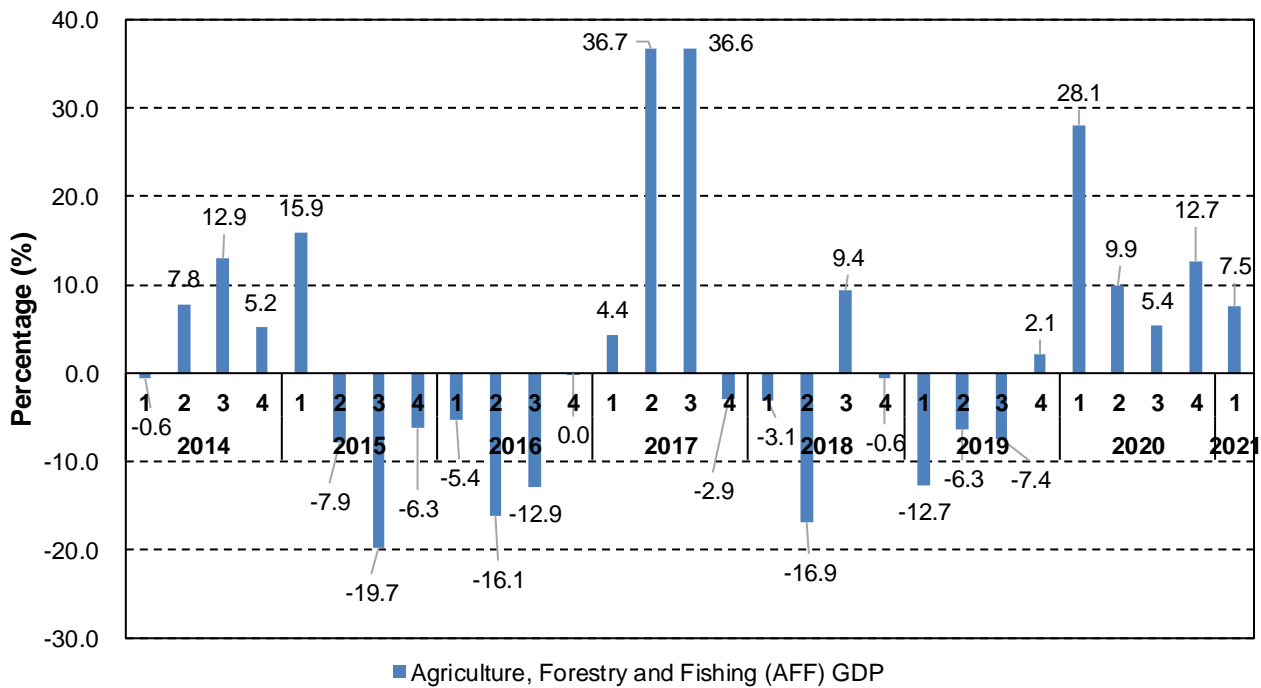


Figure 2: Percentage changes in AFF GDP, at constant 2010 prices
 Source: Stats SA, 2021

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 May 2013 to May 2021, the price of crude oil (US\$/barrel) decreased by 33.7%, while the exchange rate (R/\$) depreciated by 52.2%. Comparing May 2020 to May 2021, y-o-y, the price of crude oil increased by 106.6% while the exchange rate appreciated by 21.4%. This represents a rebound from the 2020 average price of crude oil, but it is still lower than pre-COVID levels. The gains reflect improving oil demand due to a recovering in global economic activity. Rising shipping costs and disruptions to petroleum supply from extreme winter weather in Texas also put upward pressure on crude oil prices in February. In May 2021, the price of crude oil and the exchange rate reached levels of US\$68.50/barrel and R14.23/\$, respectively.

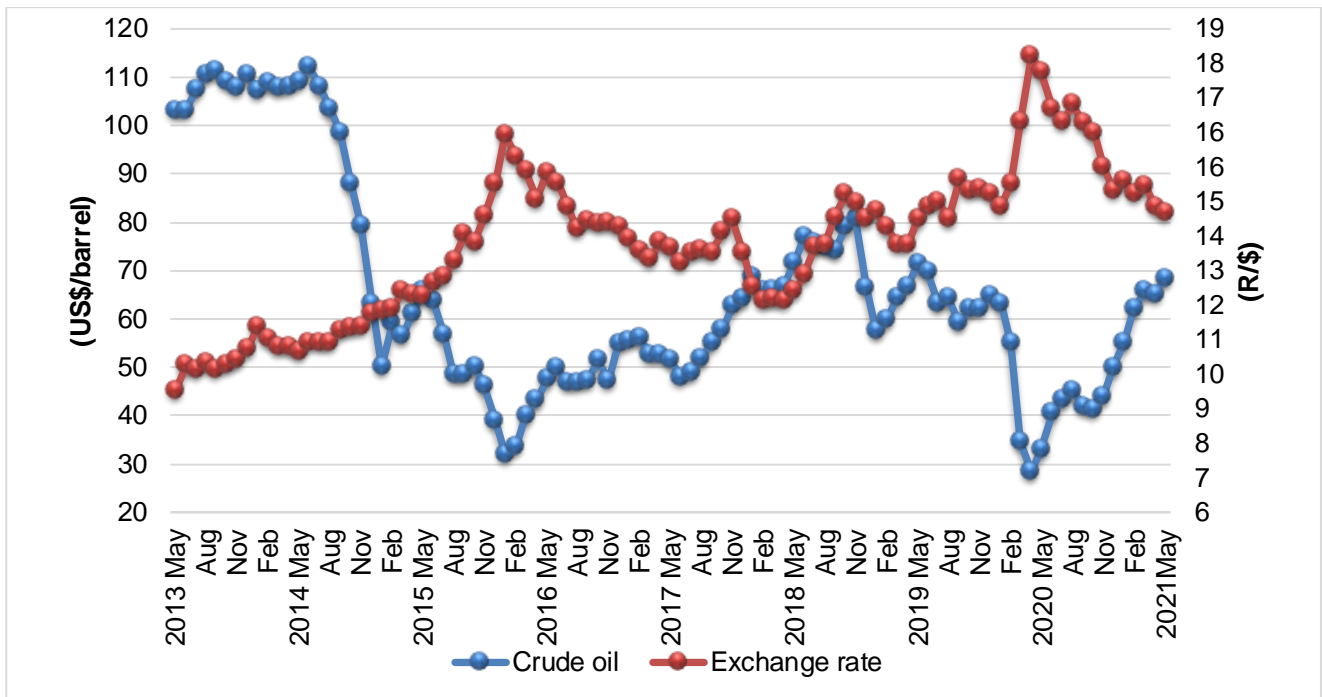


Figure 3: Crude oil and the exchange rate

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 is 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 May 2015 to May 2021. The prime interest rate is currently 24.3% lower than during May 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 May 2021 since July 2020.

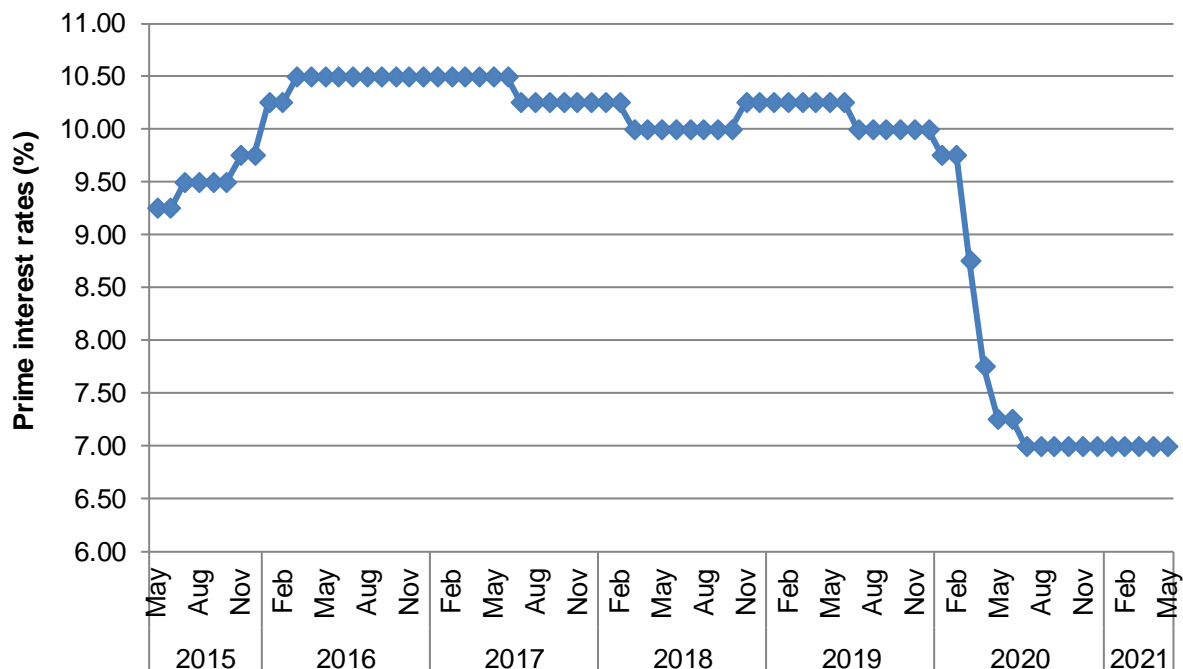


Figure 4: Average monthly prime interest rate
 Source: South African Reserve Bank (SARB), 2021

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 2021, 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 first quarter (January to March) of 2021 to the first quarter of 2020 (y-o-y), real net farm income, real gross income and real expenditure on intermediate goods and services increased by 18.7%, 7.1% and 3.6%, respectively.

When comparing the fourth quarter (October to December) of 2020 to the first quarter of 2021, the real expenditure on intermediate goods and services and real gross income decreased by 12.9% and 5.8%, whilst the real net farm income increased by 5.1%.

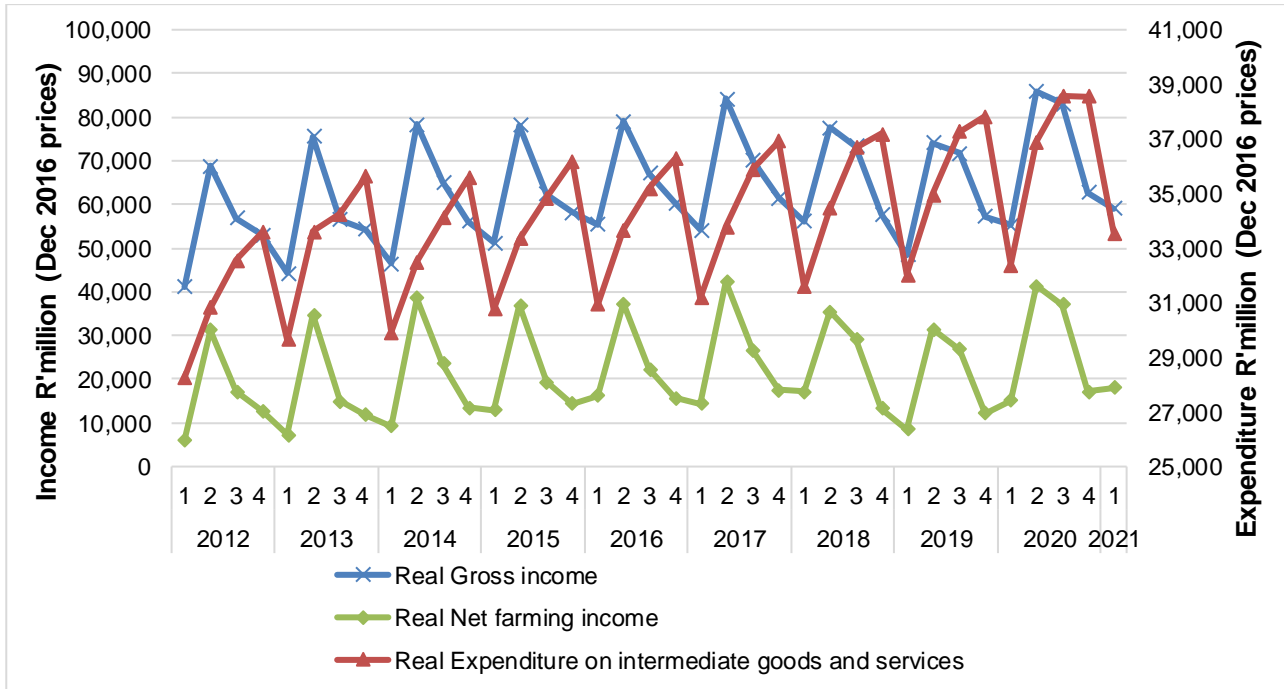


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

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

Conclusion

Stats SA released data that report an increase in output in the first quarter of 2021, however, Agriculture declined by 3.2% in the first quarter of 2021 compared to the previous quarter. The crude oil prices have recovered from the COVID-19 slump, driven by firming demand and continued production restraint by OPEC and its partners (OPEC+). Noteworthy that oil price forecasts depend on the interaction between supply and demand for oil in international markets. In terms of average prime interest rate in South Africa, it is important to note that the monetary policy will continue to support the economic recovery.

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