



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 – March 2022

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EXECUTIVE SUMMARY

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

South Africa's GDP increased at a seasonally adjusted and annualised rate of 1.2% in the fourth quarter (October to December) of 2021. This follows a decrease of 1.7% in the third quarter (July to September) of 2021. Seasonally adjusted figures show that five industries recorded positive growth between the third quarter of 2021 and the fourth quarter of 2021.

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

With lower international oil inventories, gradual but limited increase in production and the geopolitical tension between Russia and Ukraine as well as between United States and Russia, oil prices escalated at the end of 2021 and beginning of 2022. On an annual basis (February 2021 to February 2022), crude oil prices increased by 39.8% while the exchange rate (R/\$) depreciated by 5.1%. From January 2022 to February 2022, crude oil prices further increased by 14.5% while exchange rates depreciated by 0.2%.

- ***Average Prime Interest Rate***

The prime interest rate is currently 26.8% lower than during February 2016. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. Due to the increase of the Repo rate, the prime interest rate increased to 7.50% in January 2022.

- ***Farm Income and Expenditure***

Comparing the fourth quarter (October to December) of 2021 to the fourth quarter of 2020 (y-o-y), the real expenditure on intermediate goods and services, real net farm income and real gross income increased by 2.0%, 1.0% and 0.9%, respectively.

1. Introduction

The aim of this publication is to report on 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 (DALRRD).

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

Figure 1 presents the real GDP for selected South African industries from the fourth quarter of 2018 to the fourth quarter of 2021 and their contributions to the overall economy. According to the data from Stats SA, South Africa's GDP increased at a seasonally adjusted and annualised rate of 1.2% in the fourth quarter (October to December) of 2021. This follows a decrease of 1.7% in the third quarter (July to September) of 2021. Seasonally adjusted figures show that five industries recorded positive growth between the third quarter of 2021 and the fourth quarter of 2021.

Between quarter three and quarter four of 2021, the annualised and seasonally adjusted figures show that the agriculture, forestry and fishing (AFF) industry was the largest positive contributor recorded at 12.2%, followed by trade, catering & accommodation (2.9%), manufacturing industry (2.8%), personal services (2.7%) and transport, storage and communication (2.2%). The electricity, gas and water industry declined by 3.4% due to decreases in electricity and water consumption.

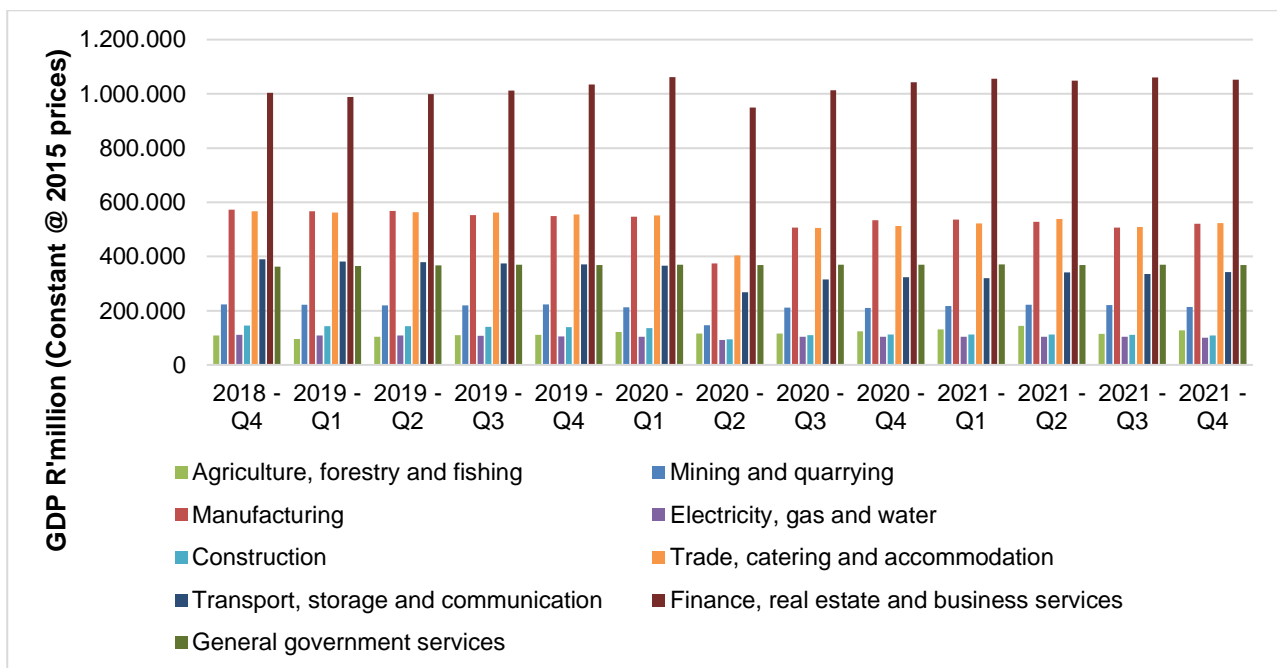


Figure 1: Quarterly GDP of selected industries, at constant 2015 prices, seasonally adjusted and annualised

Source: Stats SA, 2022

Figure 2 shows a y-o-y percentage change in the GDP for AFF, at constant 2015 and seasonally unadjusted prices. Between the fourth quarter of 2015 and the fourth quarter of 2021, the GDP growth rate of AFF increased from a negative 2.4% in the fourth quarter of 2015 to a positive 1.4% in the fourth quarter of 2021. For the same period, the AFF GDP peaked at 33.9% during the third quarter of 2017. Comparing the fourth quarter of 2021 to the third quarter of 2021, the AFF GDP growth declined by 35.7%.

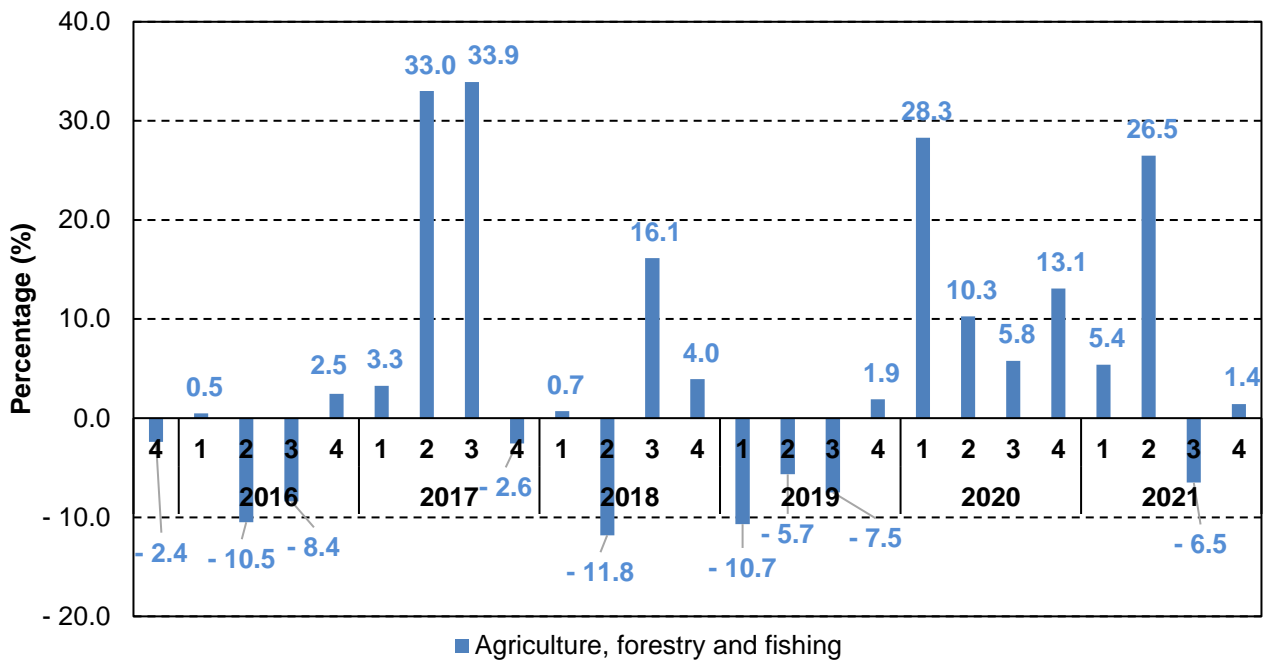


Figure 2: Percentage changes in AFF GDP, at constant 2015 prices

Source: Stats SA, 2022

3. Comparison of Crude Oil and Exchange Rate

Figure 3 shows crude oil price (US\$/barrel) trends and the Rand/Dollar (R/\$) exchange rate from February 2014 to February 2022. For the observed period, crude oil prices decreased by 20.0% while exchange rates depreciated by 44.2%.

With lower international oil inventories, gradual but limited increase in production and the geopolitical tension between Russia and Ukraine as well as between United States and Russia, oil prices escalated at the end of 2021 and beginning of 2022.

On an annual basis (February 2021 to February 2022), crude oil prices increased by 39.8% while the exchange rate (R/\$) depreciated by 5.1%. From January 2022 to February 2022, crude oil prices further increased by 14.5% while exchange rates depreciated by 0.2%.

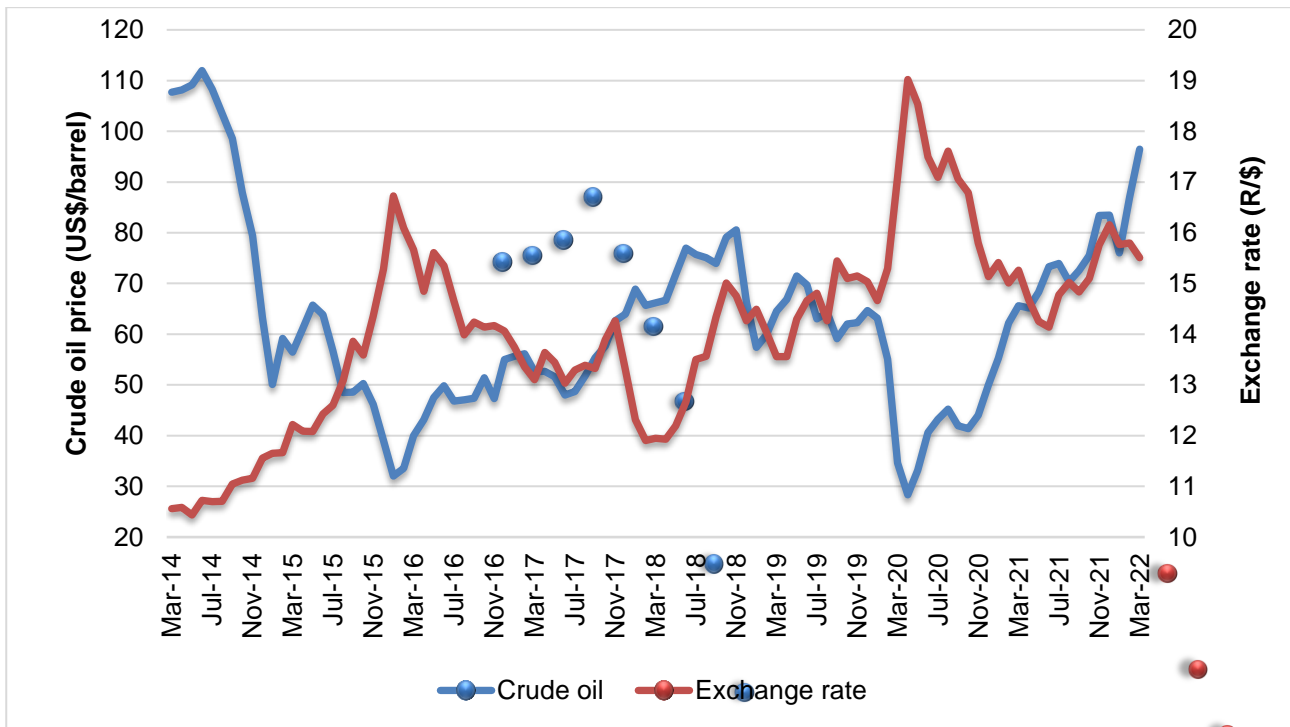


Figure 3: Crude oil and the exchange rate

Source: Grain SA, 2022

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, the risks to the inflation outlook are assessed to the upside. Global producer price and food price inflation continued to surprise higher in recent months and could do so again. Oil prices increased strongly through 2021 and are up sharply year to date. Current oil prices sit well above forecasted levels for this year. Electricity and other administered prices continue to present short- and medium-term risks. Given the moderate medium and long-term inflation projections, higher domestic import tariffs, stronger services inflation and higher wage demands present additional upside risks to the inflation forecast.

The prime interest rate is used 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 creditworthy clients. **Figure 4** illustrates the average monthly prime interest rate for the period of February 2016 to February 2022. The prime interest rate is currently 26.8% lower than during February 2016. The prime interest rate reached a peak of 10.5% during the period March 2016 to June 2017. Due to the increase of the Repo rate, the prime interest rate increased to 7.50% in January 2022.

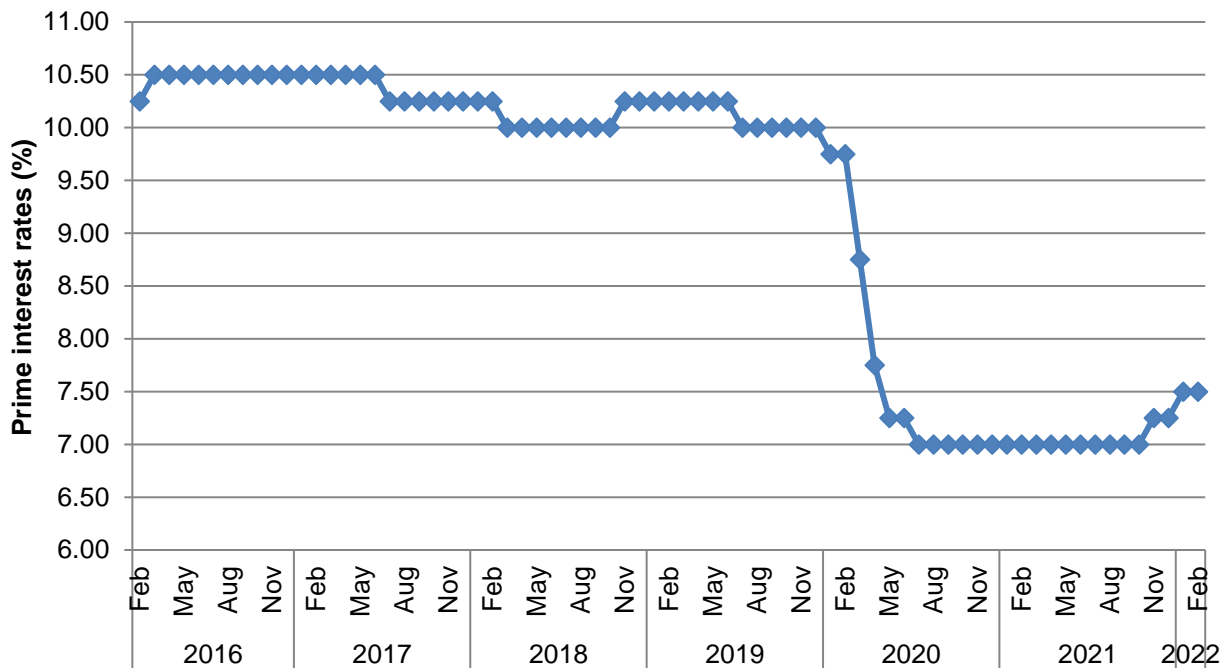


Figure 4: Average monthly prime interest rate
 Source: South African Reserve Bank (SARB), 2022

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 2022 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 2021 to the fourth quarter of 2020 (y-o-y), the real expenditure on intermediate goods and services, real net farm income and real gross income increased by 2.0%, 1.0% and 0.9%, respectively. When comparing the third quarter (July to September) of 2021 to the fourth quarter of 2021, the real net farm income and real gross income decreased by 33.3% and 9.2%, respectively and the real expenditure on intermediate goods and services increased by 2.2%.

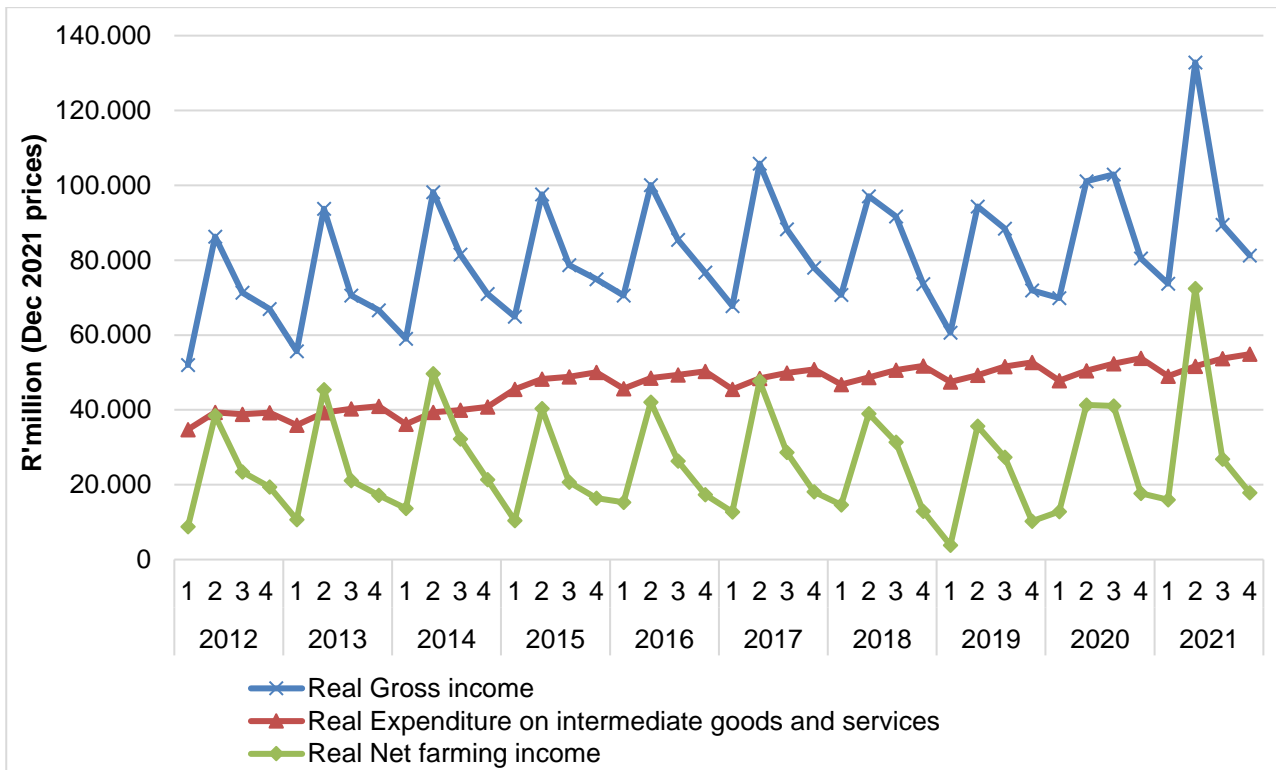


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD), 2022

Conclusion

South Africa's economy grown by 1.2% during the fourth quarter compared to the third quarter of 2021. Stats SA said the fourth quarter growth spurred the GDP annual growth rate to about 4.9% after a "dismal" 6.4% contraction during 2020 when the country was hampered by the onset of the COVID-19 pandemic. The upward interest rates adjustments might put the economy slightly under pressure during the first quarter of 2022 as this will affect borrowing, reduce disposable income and limit growth in consumer spending. Crude oil prices are continuing the noticeable increases that started at the end of 2021 in response to low global inventories and inadequate growth in supply as well as geopolitical situations. Most forecasts predict that oil prices will keep rising given the ongoing geopolitical tensions.

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