



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 2022

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EXECUTIVE SUMMARY

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

South African gross domestic product (GDP) increased by 1.9% in the first quarter (January to March) of 2022, representing a second consecutive quarter of upward growth. This follows an increase of 1.4% in the fourth quarter (October to December) of 2021. Seasonally adjusted figures show that eight industries recorded positive growth between the fourth quarter of 2021 and the first quarter of 2022.

- ***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 (June 2021 to June 2022), crude oil prices increased by 56.8% while the exchange rate (R/\$) depreciated by 14.5%. From May 2022 to June 2022, crude oil prices increased by 9.8% and exchange rates depreciated by 7.0%.

- ***Average Prime Interest Rate***

The prime interest rate is currently 21.4% lower than during May 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 8.25% in May 2022.

- ***Farm Income and Expenditure***

Comparing the first quarter (January to March) of 2022 to the fourth quarter of 2021, both the real expenditure on intermediate goods & services and real gross income declined by 9.5% and the real net farm income decreased by 4.1%.

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 first quarter of 2019 to the first quarter of 2022 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 1.9% in the first quarter (January to March) of 2022. This follows an increase of 1.4% in the fourth quarter (October to December) of 2021. Seasonally adjusted figures show that eight industries recorded positive growth between the fourth quarter of 2021 and the first quarter of 2022.

Between quarter fourth of 2021 and quarter first of 2022, the annualised and seasonally adjusted figures show that the manufacturing industry was the largest positive contributor recorded at 4.9%, followed by trade, catering & accommodation (3.1%), finance, real estate & business services industry (1.7%), personal services (1.1%), household final consumption expenditure (1.4%) and government final consumption expenditure (1.0%). While, the mining and quarrying industry and construction industry decreased by 1.1% and 0.7%, respectively.

Agriculture, forestry and fishing industry (AFF) also increased by 0.8% in this quarter. South Africa's agricultural sector is in its second consecutive year of good performance supported by favourable rainfall and expansion in plantings.

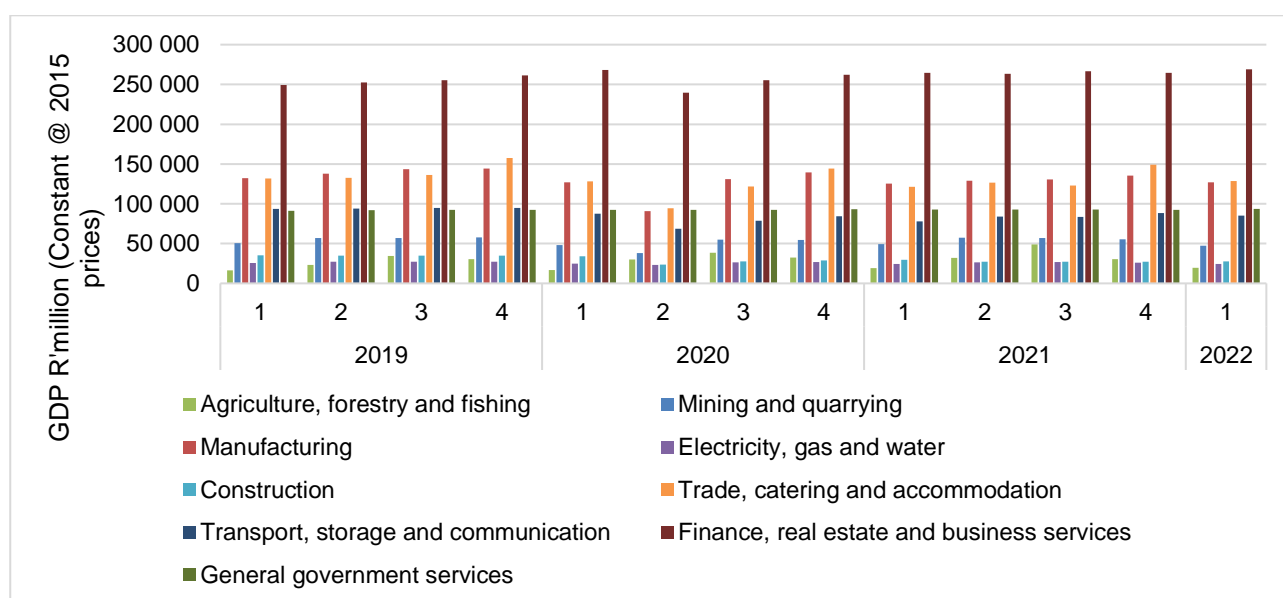


Figure 1: Quarterly GDP of selected industries, at constant 2015 prices, seasonally adjusted and annualised

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 first quarter of 2015 and the first quarter of 2022, the GDP growth rate of AFF decreased from 18.4% in the first quarter of 2015 to 3.6% in the first quarter of 2022. For

the same period, the AFF GDP peaked at 33.9% during the third quarter of 2017. Comparing the first quarter of 2021 to the first quarter of 2022, the AFF GDP growth declined from 6.3% to 3.6%. The growth may be attributed to favourable climatic conditions. With the current climatic conditions and high commodity prices it can be expected that this trend will continue.

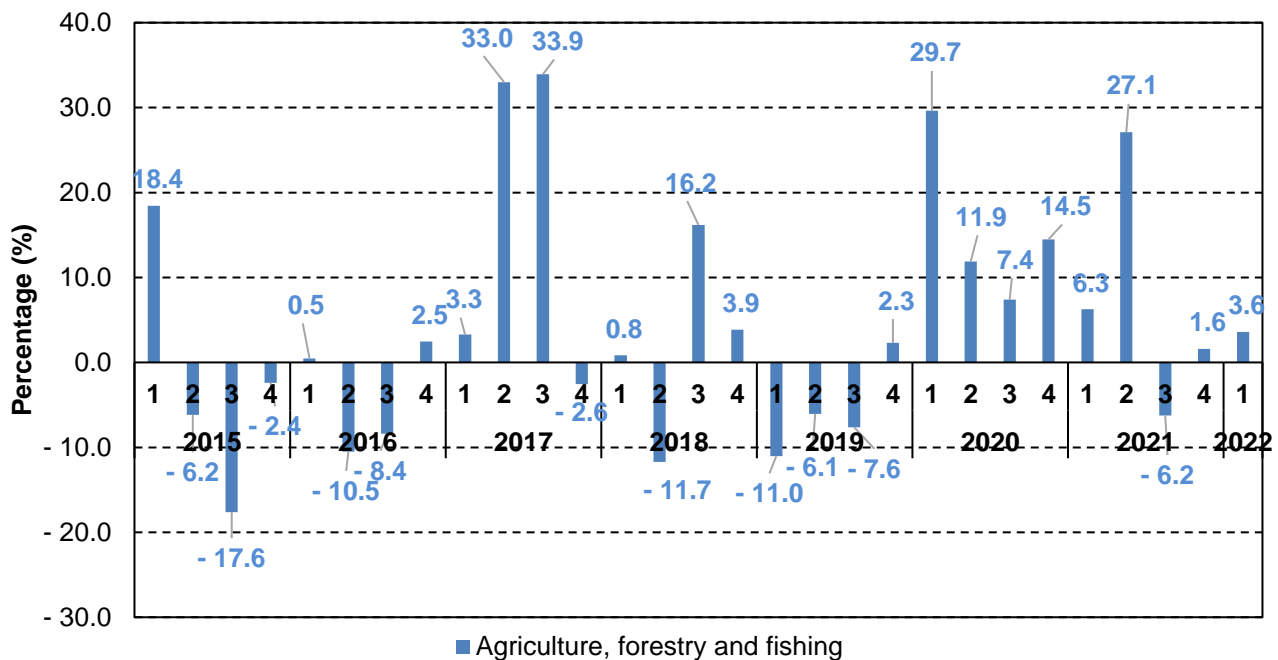


Figure 2: Percentage changes in AFF GDP, at constant 2015 prices

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 June 2014 to June 2022. For the observed period, crude oil prices increased by 2.7% while exchange rates depreciated by 49.2%. 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 (June 2021 to June 2022), crude oil prices increased by 56.8% while the exchange rate (R/\$) depreciated by 14.5%. From May 2022 to June 2022, crude oil prices increased by 9.8% and exchange rates depreciated by 7.0%.

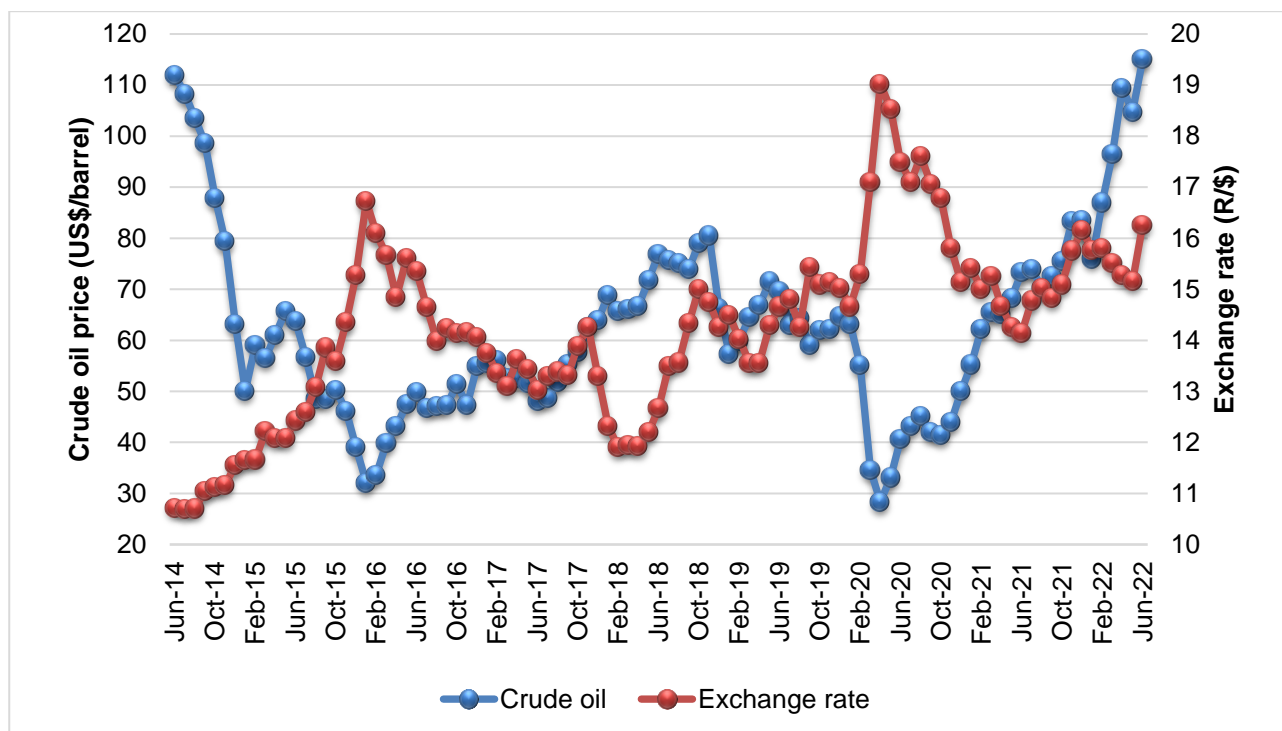


Figure 3: Crude oil and the exchange rate

Source: Grain SA, 2022

4. Average Prime Interest Rate

The South African Reserve Bank (SARB) uses interest rates to influence the level of inflation and to protect the value of the rand. The SARB 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. Dramatically higher oil, commodity and food prices, additional constraints to trade and finance, and rising debt, worsen economic conditions for most emerging and developing economies. Last year saw the ongoing recovery of the South African economy from the pandemic, expanding by 4.9%. The economy is expected to grow by 1.7% in 2022, revised down from 2.0% at the time of the MPC March meeting. This is due to a combination of short-term factors, including the flooding in Kwa-Zulu Natal and the continued electricity supply constraints. Global producer price and food price inflation continued to increase in recent months and could do so again. The Russia's war in the Ukraine is likely to persist for the rest of this year and may have significant further effects on global prices. Oil prices increased noticeably from the start of the war and may rise more as stresses in energy markets intensify. Electricity and other administered prices continue to present short- and medium-term risks.

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 May 2016 to May 2022. The prime interest rate is currently 21.4% lower than during May 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 8.25% in May 2022.

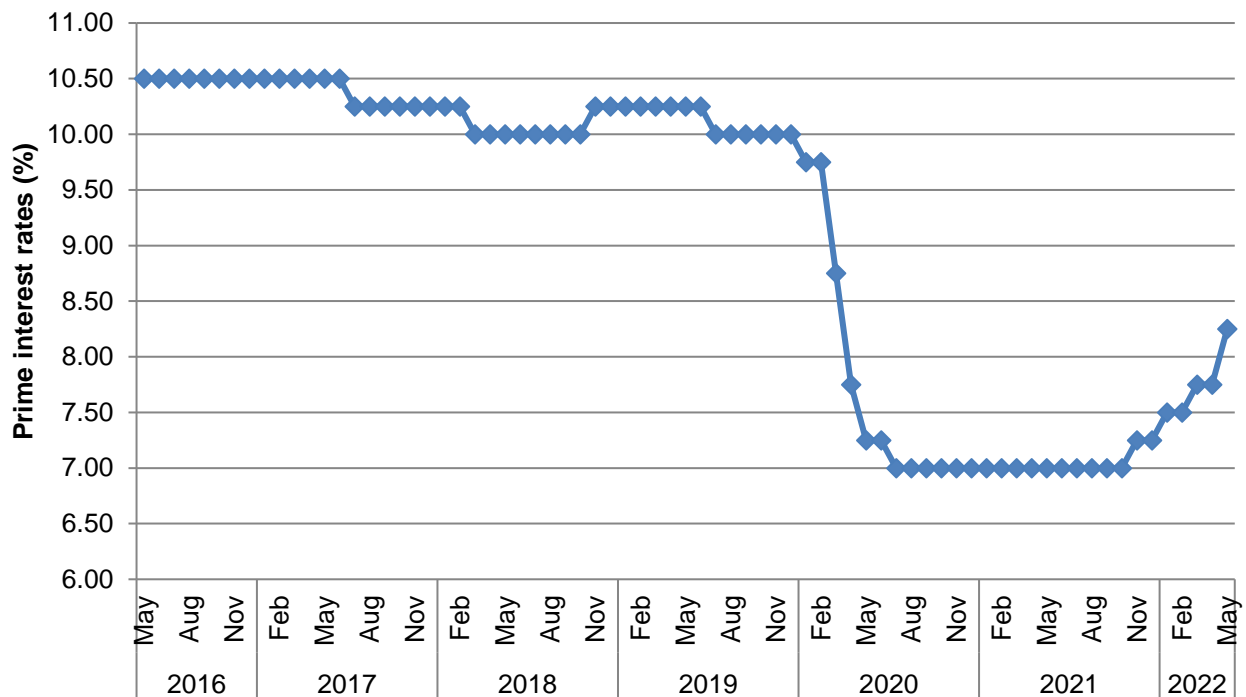


Figure 4: Average monthly prime interest rate
Source: South African Reserve Bank (SARB), 2022

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 2022, 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 first quarter (January to March) of 2022 to the first quarter of 2021 (y-o-y), the real expenditure on intermediate goods and services, real net farm income and real gross income increased by 10.6%, 1.5% and 1.1%, respectively. When comparing the first quarter (January to March) of 2022 to the fourth quarter of 2021, both the real expenditure on intermediate goods & services and real gross income declined by 9.5% and the real net farm income decreased by 4.1%.

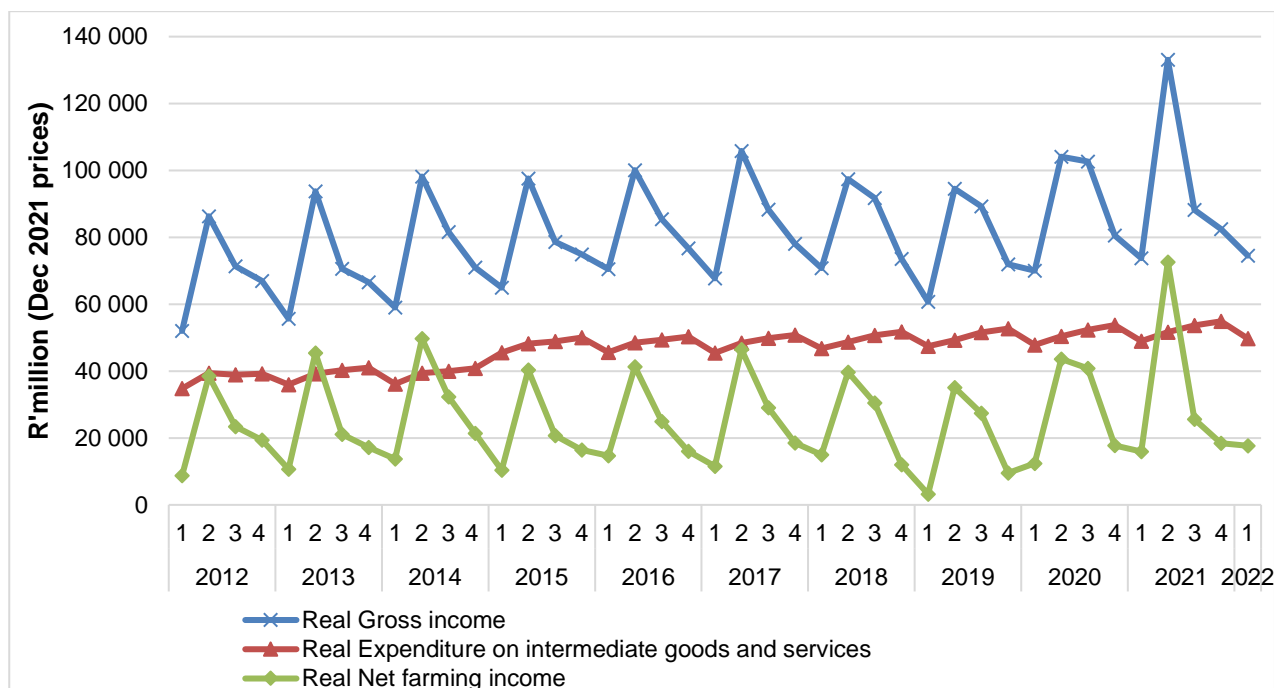


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

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

Conclusion

South Africa's economy grew by 1.9% in the first quarter of 2022, following an increase of 1.4% in the fourth quarter of 2021. Agriculture, forestry and fishing industry also increased by 0.8% in this quarter. The sector is set for one of the best years on record due to the expansion of area planted to crops and strict measures on biosecurity scenario. However, the length of the Russia-Ukraine war and persistence of other disease outbreaks on the back of a wet season might shadow the performance of the sector.

In terms of crude oil, 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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