



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 2023

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EXECUTIVE SUMMARY

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

South African Gross Domestic Product (GDP) decreased at a seasonally adjusted and annualised rate of 1.3% in the fourth quarter (October to December) of 2022. This follows an increase of 1.8% in the third quarter (July to September) of 2022. Seasonally adjusted figures show that seven industries recorded negative growth between the third quarter of 2022 and the fourth quarter of 2022. The Agriculture, Forestry and Fishing (AFF) industry decreased by 3.3% in the fourth quarter, contributing -0.1 of a percentage point to GDP growth. This was primarily due to decreased economic activities reported for field crops and horticulture products.

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

On an annual basis (February 2022 to February 2023), crude oil prices decreased by 1.0% while the exchange rate per United States Dollar (R/\$) depreciated by 17.1%.

From January 2023 and February 2023, crude oil prices increased by 1.3% and exchange rate appreciated by 1.3%.

- ***Average Prime Interest Rate***

The prime interest rate is currently on the same level last seen in 2009. Due to the increase of the Repo rate, the prime interest rate increased to 10.75% since January 2023.

- ***Farm Income and Expenditure***

Comparing the fourth quarter (October to December) of 2022 to the fourth quarter of 2021 (y-o-y), the real expenditure on intermediate goods and services and the real gross income increased by 6.0% and 3.1%, respectively, while the real net farm income decreased by 6.1%.

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 (Rand per United States Dollar – R/\$), 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 GDP and Growth Rates

Figure 1 presents the real GDP for selected South African industries from the fourth quarter of 2019 to the fourth quarter of 2022 and their contributions to the overall economy. According to the data from Stats SA, South Africa's real GDP decreased at a seasonally adjusted and annualised rate of 1.3% in the fourth quarter (October to December) of 2022. This follows an increase of 1.8% in the third quarter (July to September) of 2022. Seasonally adjusted figures show that seven industries recorded negative growth between the third quarter of 2022 and the fourth quarter of 2022.

Between the third quarter and the fourth quarter of 2022, the annualised and seasonally adjusted figures show that the Agriculture, Forestry and Fishing (AFF) industry decreased by 3.3%, contributing -0.1 of a percentage point to GDP growth. This was primarily due to decreased economic activities reported for field crops and horticulture products (Stats SA, 2023).

The transport, storage and communication industry and the personal services industry increased by 0.7% and 0.2%, respectively.

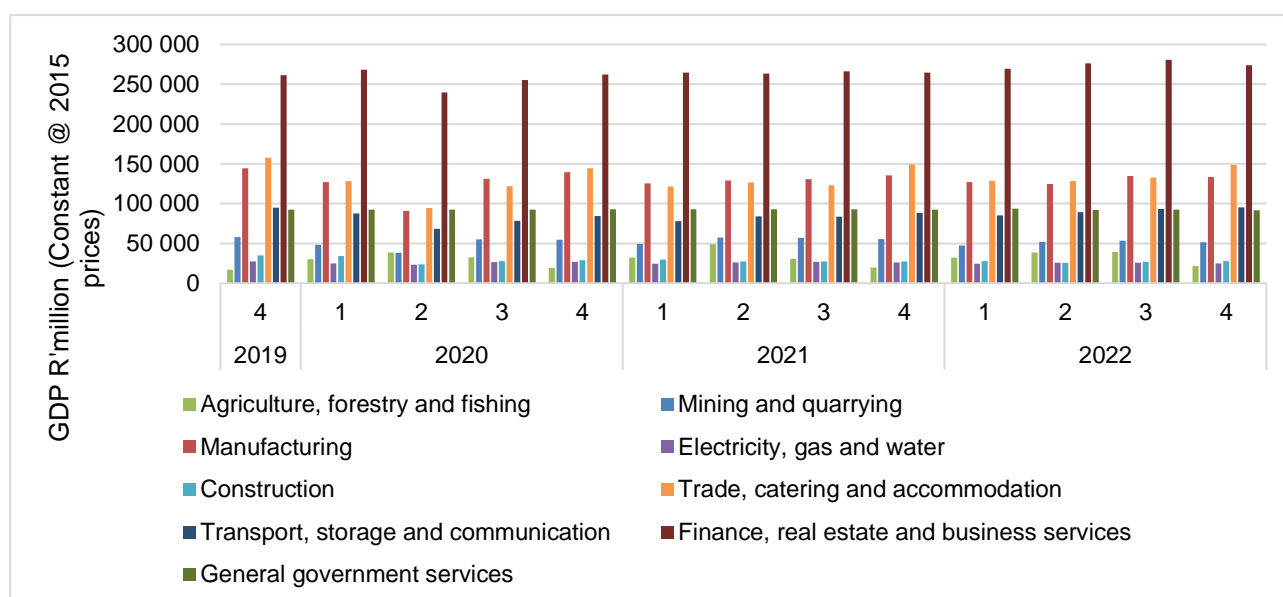


Figure 1: Quarterly GDP of selected industries, at constant 2015 prices, seasonally adjusted and annualised

Source: Stats SA, 2023

Figure 2 shows a year-on-year (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 2022, the GDP growth rate of AFF increased from (-2.4%) in the fourth quarter of 2015 to 10.6% in the fourth quarter of 2022.

During the review period, the AFF GDP peaked at 33.9% during the third quarter of 2017. Comparing the third quarter of 2022 to the fourth quarter of 2022, the AFF GDP decreased from 29.6% to 10.6%.

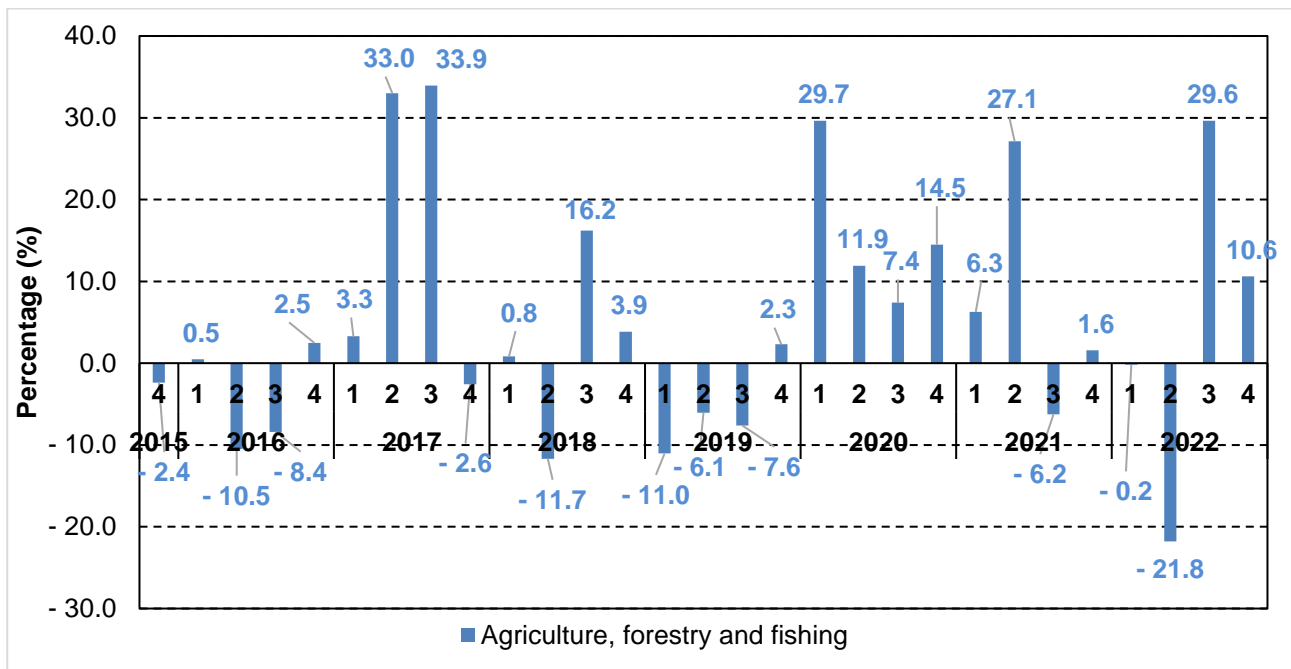


Figure 2: Percentage changes in AFF GDP, at constant 2015 prices

Source: Stats SA, 2023

3. Comparison of Crude Oil and Exchange Rate

South Africa’s fuel prices are influenced by international and local factors. International factors include South Africa’s dependency on imported commodities such as crude oil at a price set at the international level. For net importing countries, such as South Africa, macroeconomic factors such as the exchange rate play a crucial role in the volatility of prices since crude oil is imported from foreign countries and priced in foreign currency. **Figure 3** shows trends of crude oil price (US\$/barrel) and the exchange rate (R/\$) between February 2012 to February 2023. For the observed period, crude oil prices decreased by 27.9% while exchange rates depreciated by 122.8%. On an annual basis (February 2022 to February 2023), crude oil prices decreased by 1.0% while the exchange rate depreciated by 17.1%.

Crude oil prices started to decrease since August 2022 but on average for 2022, it was still 38.3% higher than the average for 2021. Between January 2023 and February 2023, crude oil prices increased by 1.3% while the exchange rate appreciated by 1.3%.

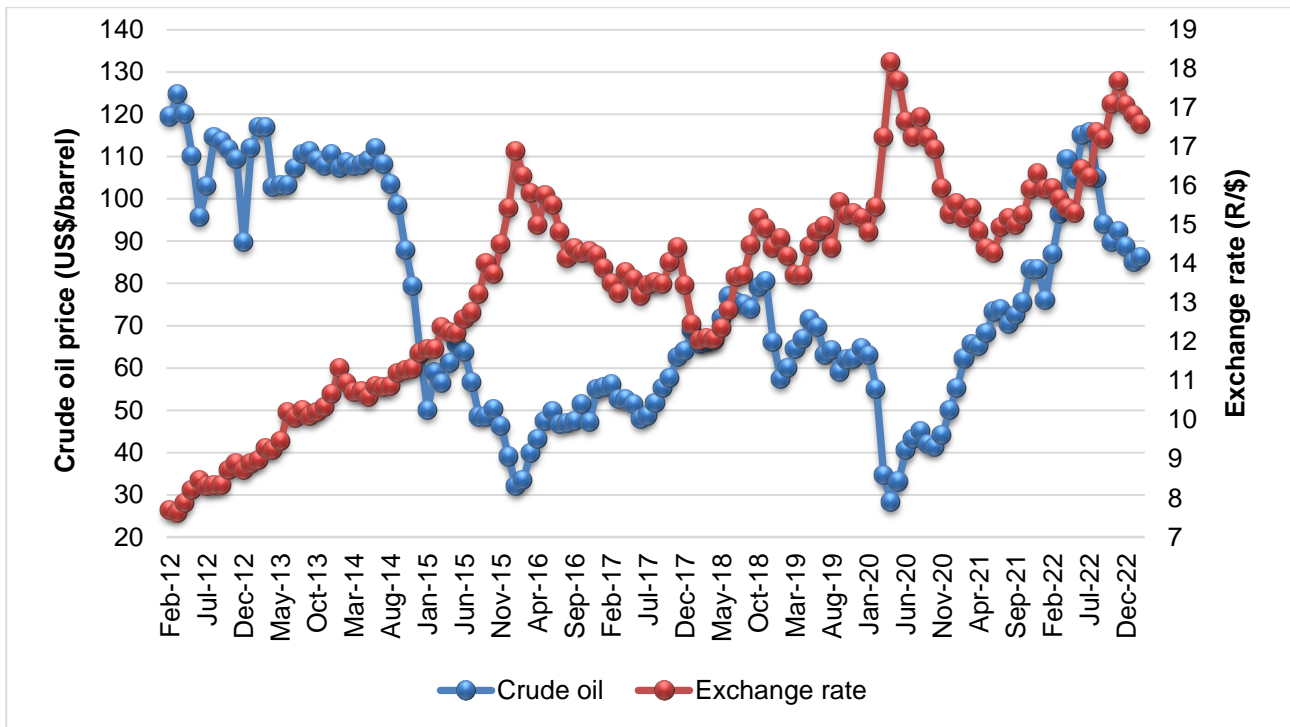


Figure 3: Crude oil and the exchange rate

Source: Department of Mineral Resources and Energy, 2023

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 annual headline inflation for 2023 is forecasted to be 5.4% and 4.8% for 2024. The forecast for annual food inflation is 7.3% for 2023 and this is mainly attributable to the lagged impact of the weaker exchange rate.

The Reserve Bank intends to guide inflation back towards the mid-point of the target band to reduce the economic costs of high inflation and enable lower interest rates in the future. Achieving a prudent public debt level, increasing the supply of energy, moderating administered price inflation and keeping wage growth in line with productivity gains could enhance the effectiveness of monetary policy and its transmission to the broader economy (MPC, 2023).

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 March 2012 to March 2023. Due to the increase of the Repo rate, the prime interest rate was increased by 0.25 percentage points from 10.50% to 10.75% since January 2023, a rate similar to what was last seen in 2009. The rate hike adds more pressure on many South African households, who are already facing a high cost of living.

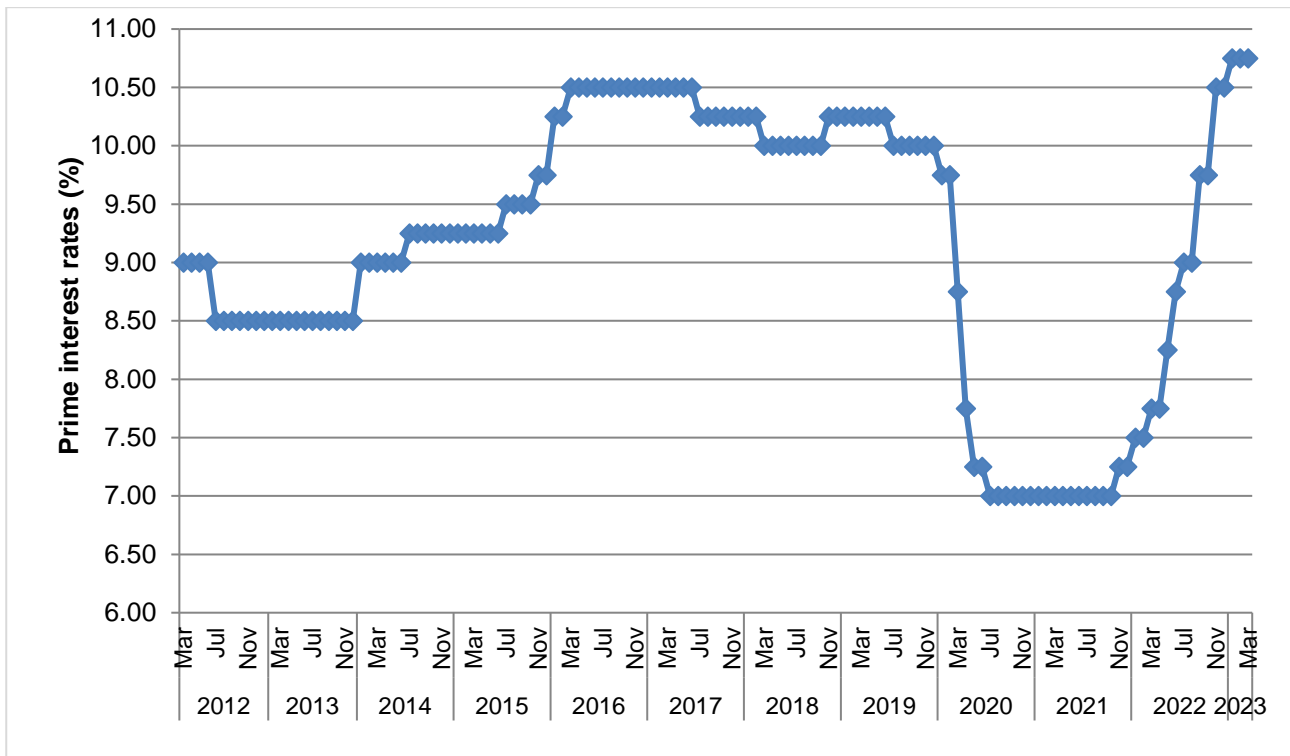


Figure 4: Average monthly prime interest rate
 Source: South African Reserve Bank (SARB), 2023

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 real gross income, real expenditure on the immediate goods and services and real net farm income exhibit a highly seasonal trends reflecting the seasonal production patterns of agriculture. The gap between real gross income and real net income is expanding due to high cost of production, amongst other labour remuneration, interest paid and rent paid.

Comparing the fourth quarter (October to December) of 2022 to the fourth quarter of 2021 (y-o-y), the real expenditure on intermediate goods and services and the real gross income increased by 6.0% and 3.1%, respectively, while the real net farm income decreased by 6.1%. When comparing the fourth quarter of 2022 to the third quarter of 2022, the real net farm income and real gross income decreased by 78.1% and 27.5%, respectively while the real expenditure on intermediate goods & services increased by 1.5%.

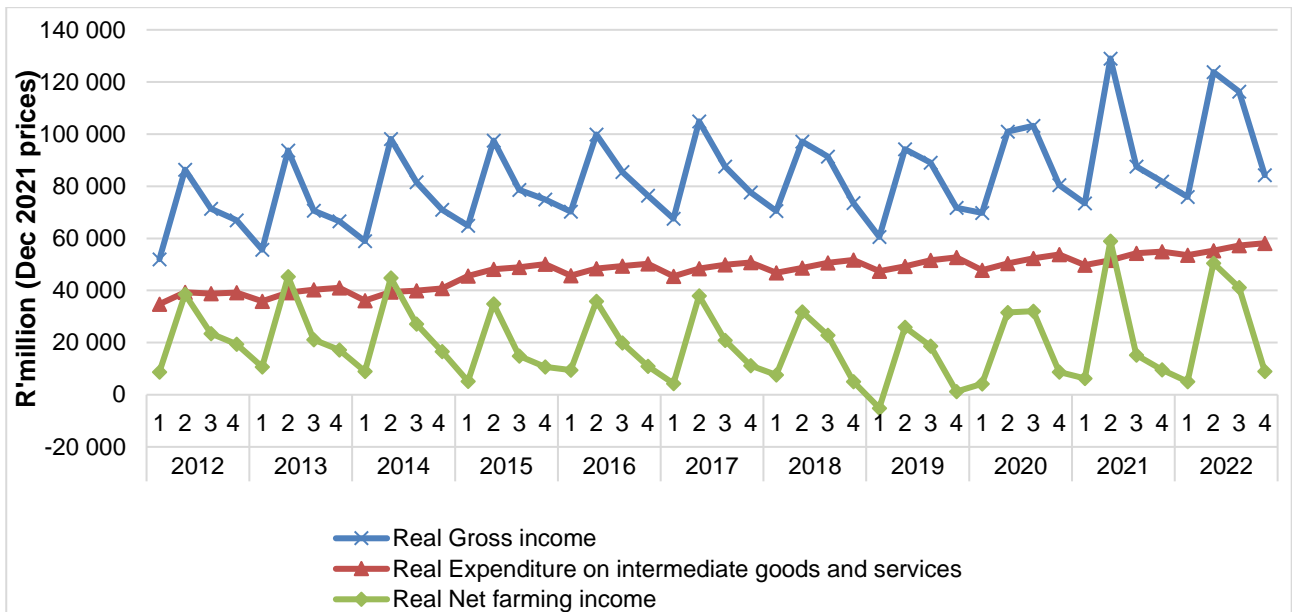


Figure 5: Real gross income, real expenditure on intermediate goods and services and real farm income

Source: Department of Agriculture, Land Reform and Rural Development (DALRRD), 2023

Conclusion

South Africa's GDP decreased at a seasonally adjusted and annualised rate of 1.3% in the fourth quarter (October to December) of 2022. This follows an increase of 1.8% in the third quarter (July to September) of 2022. The AFF industry decreased by 3.3%, this was due to decreased economic activities reported for field crops and horticulture products.

In terms of crude oil, prices noticeably decreased starting from August 2022 but between January and February 2023, the price increased from US\$85.08/barrel to US\$86.16/barrel.

Given the increase of the Repo rate, the prime interest rate increased by 0.25 percentage points from 10.50% to 10.75% since January 2023, a rate similar to what was last seen in 2009. The rate hike adds more pressure on many South African households, who are already facing a high cost of living.

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