PREFACE

The core business of this directorate is to do analysis on national level in order to produce agricultural economic information and advice for sound decision-making on the South African (SA) agricultural sector. To support this important task the division (Economic Research) concentrates on economic analysis of performance of and external impact on the agricultural sector and its industries.

This publication developed from a need within the Department of Agriculture (DoA) to be regularly informed on African economic trends in the agricultural sector. The African Annual review has now been established as an annual feature in the Directorate's work plan. Since the beginning of 2006 the report is also published for outside consumption to add value to a number of existing regular economic publications on the agricultural sector. It is our vision to maintain it as indispensable reading for every serious student of the SA agricultural sector.

Any comments on the content of this annual review series are most welcome.

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1. INTRODUCTION

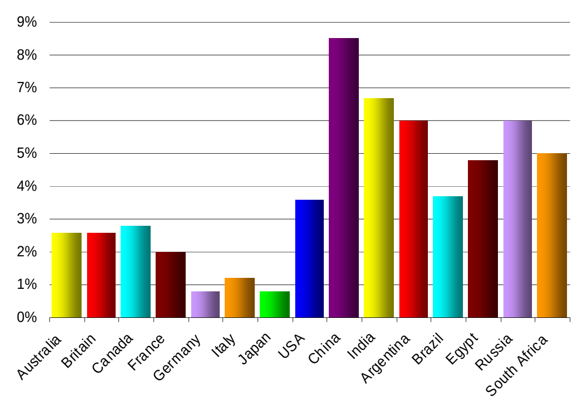
This document takes a review of the South African macro economy in 2005 with a special section on the agricultural sector. To get a holistic picture of the economic condition in 2005, a broad range of indicator are graphed and discussed, in order to identify trends, abnormalities and structural breaks. However, such a wide range of indicators exists which makes it impossible to discuss them all. The main and popular indicators are presented mostly in real 2005 value. External impacts such as commodity prices and the exchange rate are discussed with its impact on agriculture. **The wages** and number of jobs in the economy are used as indicator for the health of the economy. Total unemployment and economic growth are discussed with speculations on what can be expected in future. The general stand of the South African economy is evaluated by looking at income per capita, income distribution, employment and comparing economic growth with that of the United States. The stand of Government is evaluated by taking a look at Government's role in the economy, its debts and deficits and overall finance. Agriculture as sector is analyses in terms of its sub sectors, its return to capital, trade, and most important: its ability to provide enough food for the population of South Africa. From all these analysis it was **concluded** that Government's finances are healthy, the economy is growing satisfactory with unemployment decreasing for the first time in years. In general South Africa entered a healthy and good economic state with expectations that are positive. The agricultural sector itself is a little unsure as a result of low grain prices and climatic volatility, yet production is sufficient to supply in the basic and luxury demand.

2. INTERNATIONAL

2.1 Economic Output

World economic growth slowed down from 5,1% in 2004 to 4,3% in 2005 *(IMF, 2005)*. Climatic hazards had some negative impact on the world economy in 2005. The year kicked off dealing with the major tsunami tragedy. The USA was hit by hurricanes, especially Katrina. Earth quakes hit Pakistan. However, the advantage of technological progress has once again guaranteed a long term growth trend. Advanced countries are growing at a lower average rate than emerging countries.

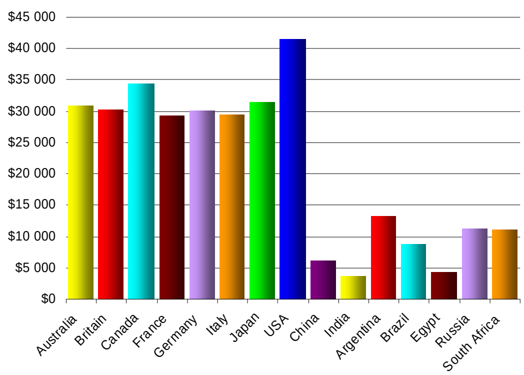
Figure 2.1: GDP Growth, 2005



Source: IMF, 2005

Of the bigger economies China experienced the highest growth (8,5%) with Germany and Japan both recording only 0,8%. Of the developed countries the USA recorded a remarkable good growth rate of 3,6% (though its population is also growing relatively fast). South Africa recorded a growth rate of 5% in 2005, which is very good in its own historical perspective, but lower than many other emerging economies.

Figure 2.2: GDP per Capita, 2005



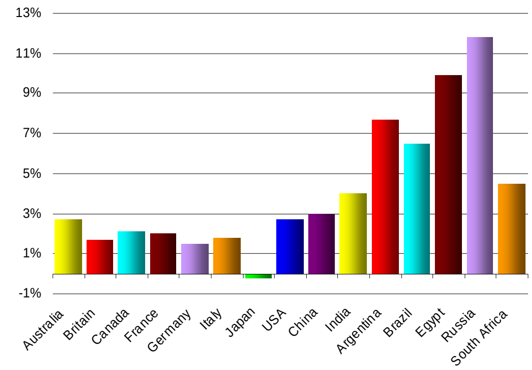
Source: IMF, 2005

In terms of economic output per person, the USA is in a league of its own, outperforming other advanced economies by 35%. South Africa is classified as a low middle income country and falls in the same class as Russia, Brazil and Argentina. This is a good indication for South Africa, however the very skew income distribution should be taken into account.

2.2 Outlook Indicators

Inflation and interest rates are good indicators of the financial stability of a country and are used by investors to determine what return they can realize on their investments. Countries with a high real interest rate provides a good investment opportunity, provided that inflation is not too high (indicating high risk).

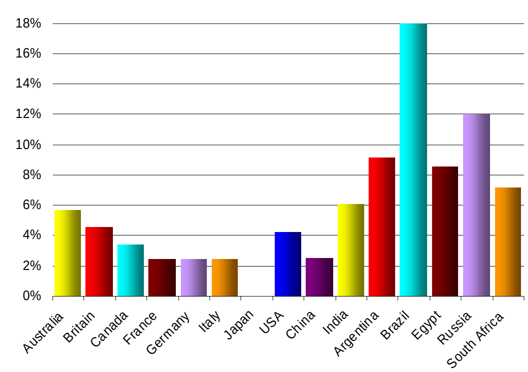
Figure 2.3: Inflation, 2005



Source: IMF, 2005

World inflation rates tend to be under control in the latest decade. Low inflation rates are a common characteristic of the advanced economies, reflecting on their low risk. Japan experienced deflation during 2005. Emerging economies also experience inflation rates which are relatively low and under control. South Africa had an inflation rate of 4,5% in 2005, Russia had 11,8%.

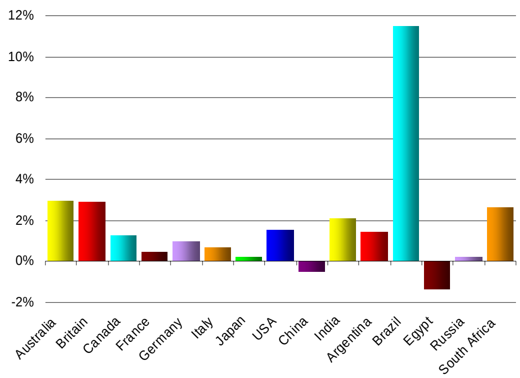
Figure 2.4: Short term Interest Rates, end 2005



Source: The Economist, 2006

Nominal interest rates keep a balance between the cost of money and inflation. Countries with very high nominal interest rates are experiencing inflation problems also. Interest rates a clearly lower in advanced economies compared to emerging countries. In Japan short term interest rates are only 0,2% per annum compared with 18% in Brazil. South Africa had a rate around 7,15% by the end of 2005.

Figure 2.5: Real Interest Rates, 2005



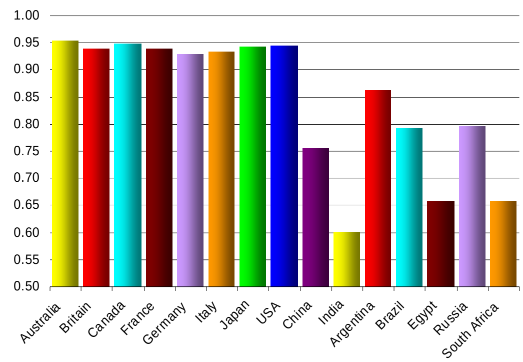
Source: Derived from The Economist & IMF, 2006

The cost of borrowing (related to the cost of capital) is a good indication of the demand for capital in a specific country. Real interest rates (after the impact of inflation) will be low if the demand for capital is low. This is the case in most advanced economies where the need for expansion and new capital is low. Emerging economies has a huge demand for capital to expand their production. However, from figure 3.5 the correlation seems vague. Some emerging economies such as China have a negative real interest rate, which may indicate that China's growth surge may run out of steam in the next decade. South Africa had a normal real interest rate of 2,65% by the end of 2005, in line with that of Australia and Britain. Brazil had an extremely high real interest rate of 11,5%.

2.3 Development Indicators

The condition of a county's population can be described by development indicators of which the Human Development Indicator of the UN is the most valuable. It captures the standard of living in a country such as life expectancy, literacy and income. Other important indicators are the unemployment rate and Gini coefficient which reflects on the income distribution.

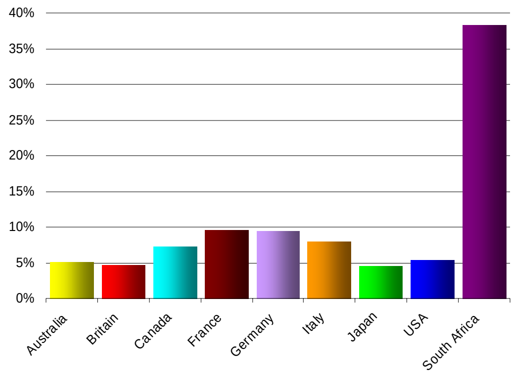
Figure 2.6: Human Dev. Index, 2003



Source: United Nations, 2005

The advanced economies all have very high levels of human development, related to a high life expectancy, near full literacy rate, good secondary and tertiary education and high incomes. South Africa is not scoring well in this regard, with values declining from 0,74 in 1995 to 0,66 in 2003. The most important reason for the sharp decline is the impact of HIV on life expectancy (48 by 2003). China is scoring relatively high, even with the low income levels it has, since life expectancy in China is 72 and literacy is high.

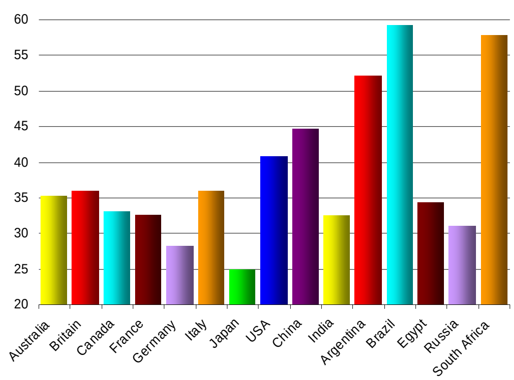
Figure 2.7: Unemployment Rates, 2005



Source: IMF, 2005

Unemployment rates are only indicated for advanced economies and South Africa. Japan and Brian has the lowest unemployment rates of 4,5% and 4,7% respectively. Other European countries struggle with twice that. South Africa, as an emerging economy, has a huge problem of unemployment being 38% in 2005. This is impacting negatively on the income distribution of the population.

Figure 2.8: Gini Coefficient



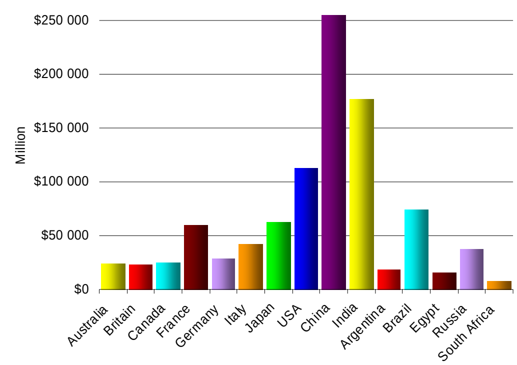
Source: United Nations, 2005

A high Gini Coefficient is an indicator that a small portion of a country's population earns a big part of the income. Poverty would thus be a problem among a big part of people. Japan has one of the most equal distributions with a coefficient 24,9 (the 20% poorest people earn 10% of the income). South Africa ranks number 116 out of 124 countries with a coefficient of 57,8 (the 20% poorest earn 3,5% of the income). Most SADC countries have a higher Gini Coefficient than South Africa.

2.4 World Agriculture

World grain output increased by 10% during 2005, more than world population growth. This indicates that the planets population is in a better position to feed itself than a year before. Agriculture tends to be a smaller part of advanced economies compared to emerging economies.

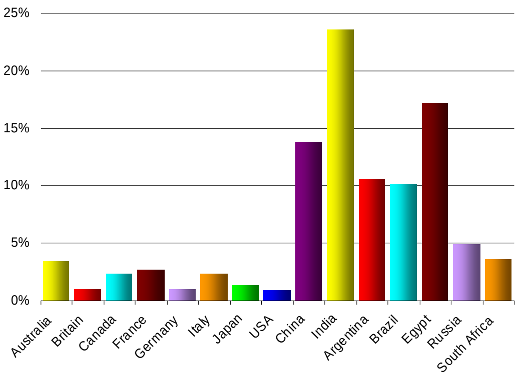
Figure 2.9: Agricultural Output, 2005



Source: Derived from IMF, CIA World Fact Book, 2005

China has the world's largest agricultural output ($254 billion in 2005). Next to it is India. Both of these countries have very large populations to feed. South Africa had an agricultural output of $8,2 billion in 2005. Of the EU countries France is the leader in agricultural production.

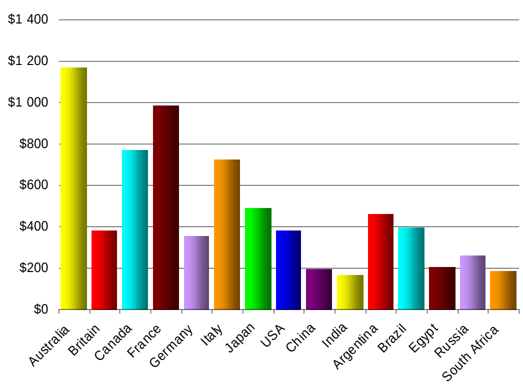
Figure 2.10: Agriculture as % of GDP



Source: CIA World Fact Book, 2005

South Africa's agricultural sector (3,6%, including forestry and fishing) plays a small role in its economy compared to other emerging countries. India has a very large agricultural sector (23,6%) compared to the US (0,9%).

Figure 2.11: Agric Output per Capita



Source: Derived from IMF, CIA World Fact Book, 2005

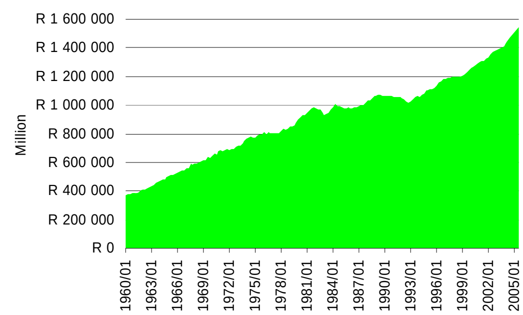
Though the advanced countries have small agricultural sectors they still tend to produce more agricultural output per capita than emerging countries. In this case South Africa clearly falls in the emerging category with and Agric Output per Capita of only $184 per annum, compared to the $379 of the USA and $1 172 of Australia.

3. ECONOMIC OUTPUT

3.1 Gross Domestic Product

The Gross Domestic Product refers to the actual size of a country's economy. Only relative the population size can the GDP be an indicator of the level of wealth of a country. The annual growth of GDP is an indication of the economic progress that a country experience and it is regularly influenced by world growth.

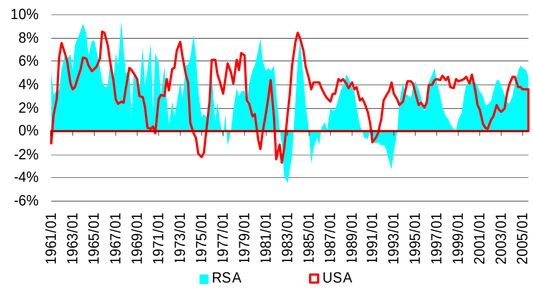
Figure 3.1: Gross Domestic Product, 2005R



Source: SARB, 2005

South Africa's economy shows some impacts from its political history. The upward trend was disturbed during the oil crises of the 1970's and escalated in the 1980's partly as economic sanctions against South Africa were intensified by the international community, and also as a result of worldwide economic volatility. Since 1994 the economy recovered to its original trend.

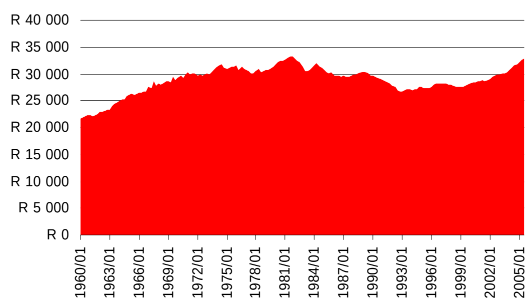
Figure 3.2: Economic Growth, 2005R



Source: SARB, 2005

During 2005 the economy grew by more than 5% during some quarters, and by more than 4% for the whole year. The impact of the U.S. economy can be seen in figure 4.2, also showing the volatility that started in the 1970's.

Figure 3.3: GDP per Capita, 2005R



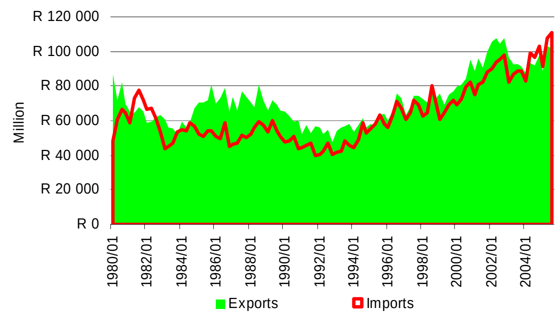
Source: SARB, 2005

The economic volatility of the 1980's had a negative impact on GDP per capita, which decreased at that time. Since 1999 the GDP per capita started to rise again as a result of both higher economic growth and lower population growth. During 2005 it reached a historical maximum of R32 800.

3.2 Exports and Imports

Historically gold and mining commodities constituted a large quantity of South Africa's exports. With time the balance shifted to the export of manufactured products, while the share of agriculture also increased. Most of South Africa's imports are in the form of manufactured products, while agricultural imports have decreased sharply.

Figure 3.4: Quarterly Exports and Imports, 2005R



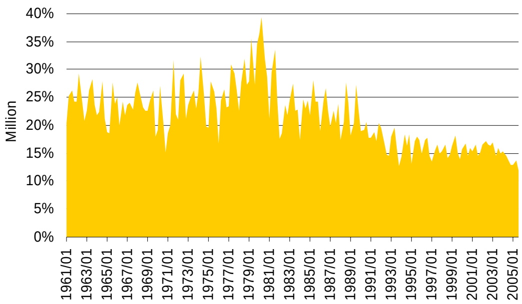
Source: SARB, 2005

The level of exports is strongly influenced by the exchange rate. When the rand was weak in 2002 exports increased but when the rand appreciated exports fell again. In 2005 exports recovered mostly to the levels of 2002 and imports reached record highs of R110 billion per quarter.

3.3 Savings and Investment

Savings is used to finance investment, otherwise funds should be found from foreign sources. South Africa has a very low savings rate and therefore is dependant on foreign investment for the economy to grow.

Figure 3.5: Gross Savings as % of GDP



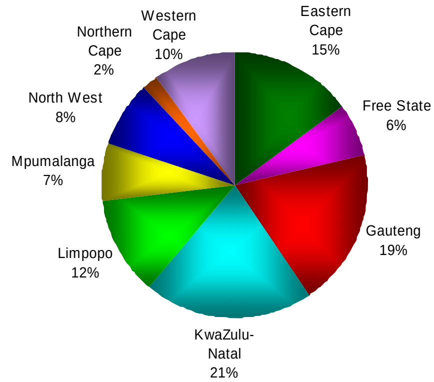
Source: SARB, 2005

Savings reached a peak when the gold price was over $800 in 1980. Since1992 saving decreased to lower level, going even lower after 2003. In 2005 gross savings constituted only 12% of GDP. To counter depreciation and finance new investment a savings rate of 25% is ideal. Luckily South Africa attracts enough foreign money to finance this 13% gap.

4. PROVINCES

Though South Africa seems to be functioning well in economic terms, the nine provinces of the country tend to differ substantially in terms of their own level of development. Provinces such as Gauteng and the Western Cape could be classified as first world whereas provinces such as the Eastern Cape and Limpopo could be classified as third world provinces.

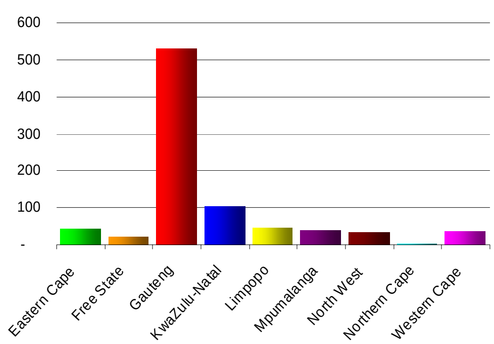
Figure 4.1: Population share of each Province: 2005



Source: StatsSA, 2005

Of all the 9 provinces Kwazulu-Natal has the highest population, reaching 9,65 million in 2005 (21% of the total). Gauteng, the smallest province has the second most people (9,02 million). Only 2% of South Africa's population resides in the Northern Cape, which is the largest of all the provinces.

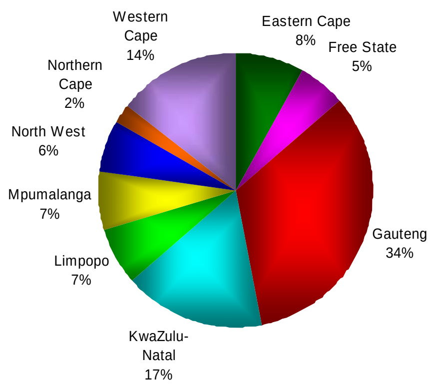
Figure 4.2: Persons per km², 2005



Source: StatsSA, 2005

Gauteng is the province with by far the highest population density. This places Gauteng in a very competitive position regarding efficiency. Distances for infrastructure are shorter, which makes infrastructure more affordable. Travelling distances to places of work and education are shorter, which makes Gauteng's economy more efficient. Gauteng is more density populated than the Netherlands, and more than twice as dense as Germany or Great Britain.

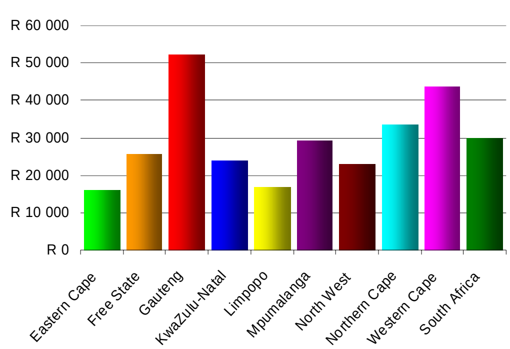
Figure 4.3: Economic share of each Province, 2004



Source: StatsSA, 2005

Gauteng has the largest economy in South Africa. More than one third of South Africa's economic output is generated on 1,4% of its surface area, which implies that a tenth of Africa's economic output is generated on 0,06% of its surface. The second largest economy after Gauteng's is Kwazulu-Natal, and in the third place is the Western Cape. The province with the smallest economy is the Northern Cape. To bring the population and economic size of each province into perspective, the output per capita is as follows:

Figure 4.4: GDP per capita: 2004



Source: Derived from StatsSA, 2005

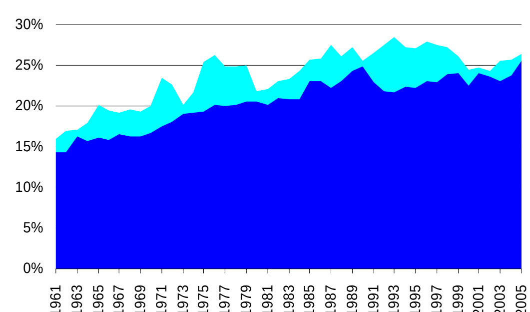
The economic output per person differs dramatically from province to province. The output per person in Gauteng (R52 222) is the highest in South Africa (R29 764), with the Western Cape in second place and the Eastern Cape (R15 928) in last place. The output per person in Gauteng is 3,3 times as high as that of the Eastern Cape and 1,75 times the South African average. This puts Gauteng on the level of a developed country.

5. GOVERNMENT

5.1 Income, Expenditure and Deficit

The participation of government in the economy differs from country to country, with a theoretical ideal of 20%. Governments tens to be less efficient and competitive than private firms, which implies that participation should be kept under control

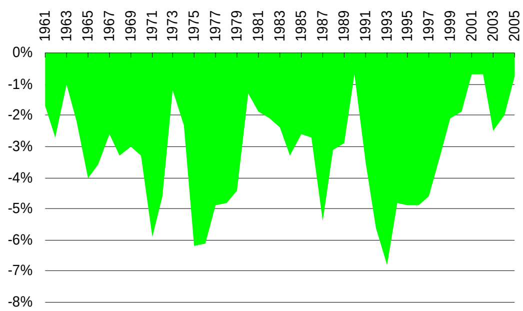
Figure 5.1: Government Income & Expenditure as % of GDP



Source: SARB, 2005

In the long run the South African government has systematically involved itself in the economy at a higher rate. By 2005 government expenditure reached a maximum of 28,5% in 1993 and levelled off to 26,4% of GDP in 2005, compared to only 16,7% in 1960. The bulk of governments funds are spent on education as well as other welfare programmes.

Figure 5.2: Deficit as % of GDP



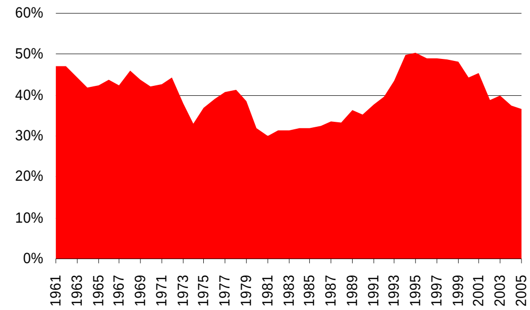
Source: SARB, 2005

The shortage of income to expenditure differs from year to year as % of GDP. The expected deficit in 2005 is 0,8% which indicates a very healthy financial situation for the central government. As a result government do not borrow much and future interest payments can be low. South Africa had its highest deficit of 6,8% in 1993.

5.2 Debt and Interest

As a result of deficit spending, Government needs to borrow money in different forms. These debts accumulate and are eventually expressed as a % of GDP. In many years the interest on debt is one of government's greatest single expenses.

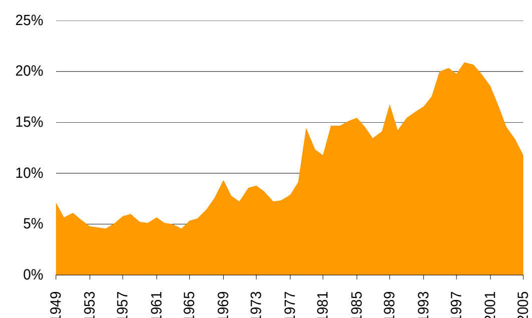
Figure 5.3: Government debt as % of GDP



Source: SARB, 2005

South Africa has a moderate state debt (36,5% in 2005) when compared other industrialised countries. When interest rates were low Government could afford to have high debts, but with high interest rates during the 1980's Government were forced to keep its debt low. Debt reached a maximum of 50% to GDP in 1995. Since then Government succeeded to bring this burden down.

Figure 5.4: Interest as % of Government spending



Source: SARB, 2005

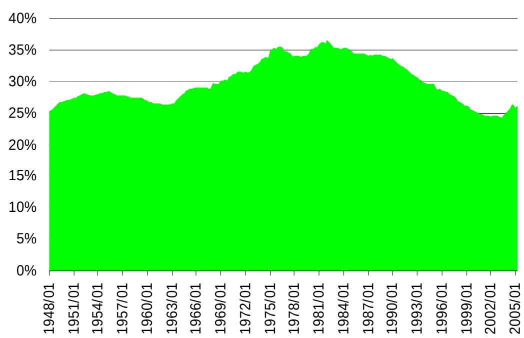
The interest bill of Government depends on the level of debt as well as interest rates. Interest payment reached a maximum of 21% to GDP in 1998. Since then debt as well as interest rates decreased allowing interest payment to fall to 12% in 2005.

6. LABOUR

6.1 Employment

Employment is perhaps the most important factor concerning economics. It allows for a more fair distribution of income and it increases economic output. An indication of the level of employment in a country is the % of the population that works. Another indication is the % of potential workers that don't work, called the unemployment rate.

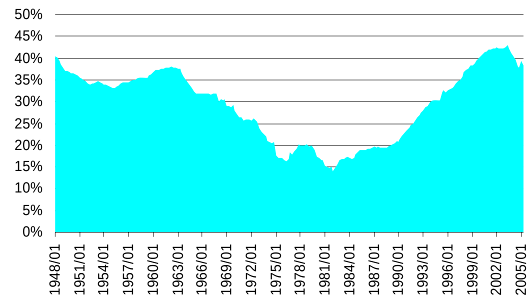
Figure 6.1: % of SA population employed



Source: Derived from SARB & StatsSA, 2005

The % of the population that works in South Africa is low compared to countries such as the USA (which has 45%). During 2005 employment increased from 12,0 million persons in 2004 to 12,3 million. This constitutes 26,2% of the population. Employment reached a maximum of 36,5% in 1982 and a minimum of 24,2% in 2003.

Figure 6.2: Unemployment Rate



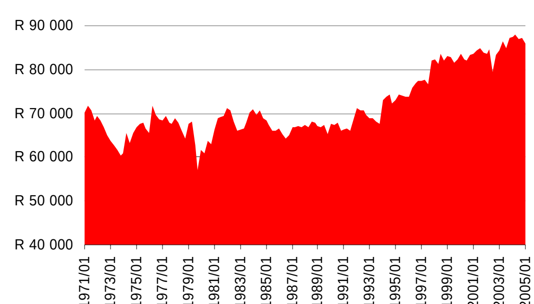
Source: Derived from SARB & StatsSA, 2005

The extended unemployment rate decreased from 39,6% in 2004 to 38,3% in 2005. Unemployment reached a minimum of 14% in 1982 and a maximum of 43% in 2003. The trend turned around and lower unemployment figures can be expected in future.

6.2 Employee Remuneration

Of the nearly 12,3 million people employed in South Africa, only 7,08 million work for a salary in the formal sector of the economy. Another 670 000 are self employed in the formal sector. The balance is working in the Agricultural-, informal- and domestic service sector (4,55 million).

Figure 6.3: Average Formal Salary, 2005R



Source: Derived from SARB & StatsSA, 2005

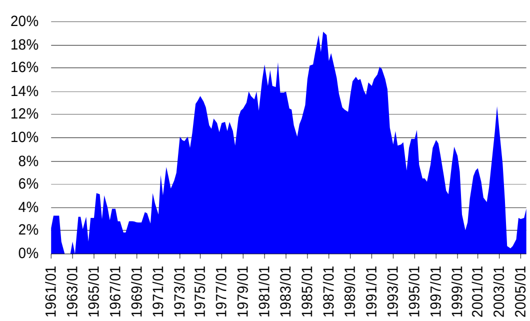
The average salaries of employees in the formal sector have increased substantially since 1994. By 2005 the average salary was R85 900 per annum (R7 158 per month), slightly lower than the R87 500 of 2004. Higher salaries are associated with higher labour productivity. Fewer labourers were thus needed and it partly resulted in the high current unemployment rate.

7. OUTLOOK INDICATORS

7.1 Inflation and Interest Rates

Inflation and interest rates move hand in hand. South Africa, along with world trends, has managed to bring inflation down and along with it interest rates. Both in low terms are beneficial to economic growth.

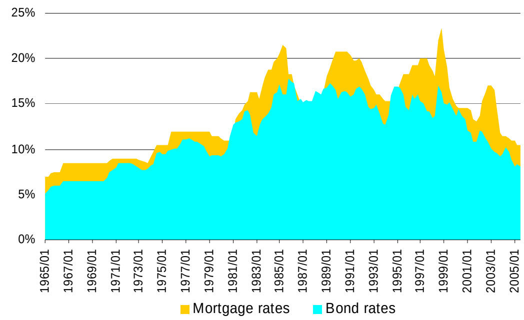
Figure 7.1: Consumer Inflation



Source: SARB, 2005

Consumer inflation increased to 3,84% in 2005 from 1,31% in 2004. However, the long run trend is currently very low, back to the levels before 1970. High inflation was present in many countries (advanced and emerging) during the 3 decades from 1970 – 2000. The low levels of inflation were allowed by low interest rates, which caused property prices to dramatically rise nearly worldwide.

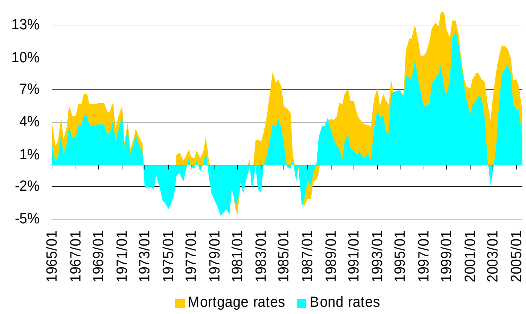
Figure 7.2: Mortgage and Bond rates



Source: SARB, 2005

Before 1970 mortgage and bond interest rates have been low and stable for long periods at a time. Since then volatile and high inflation was experienced but the trend has turned downwards after 1999. By 2005 the prime interest rate have decreased from 11% to 10,5%. The rates on government bonds have also decreased slightly from 9,7% in 2004 to 8% in 2005.

Figure 7.3: Real Mortgage and Bond Rates



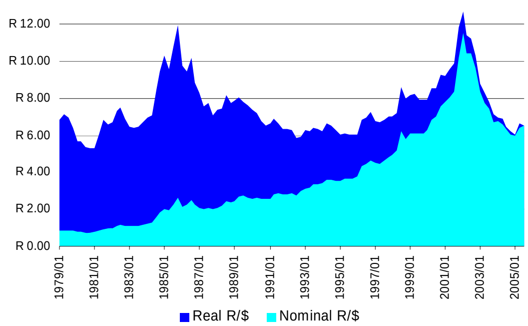
Source: Derived from SARB, 2005

Interest rates should normally be higher than the inflation rate in order to have a positive real interest rate. During the 1970s and 1980s there were long periods with a negative real interest rate. The real mortgage rate decreased from 9,9% in 2004 to around 5% in 2005. The real bond rate decreased from 8,4% in 2004 to 2,6% in 2005. This is a low rate compared to the last few years which may cause a lower attraction of foreign capital.

7.2 Exchange Rate and Gold

Related to interest rates and inflation is the exchange rate. High real interest rates result in an appreciating currency while a high inflation rate results in a depreciating currency. Gold also plays an important role in the exchange rate of South Africa since gold is a virtual world currency itself. A high gold price would therefore result in an appreciating Rand.

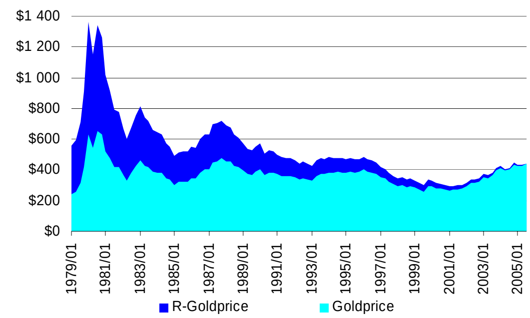
Figure 7.4: Exchange Rate, 2005R



Source: Derived from SARB, 2005

A better indication of the strength of the Rand is by taking into consideration in the exchange rate the impact of inflation in South Africa in relation to inflation in the USA. The real exchange rate of the Rand reached a historical low point at R12,70/$ in 2002 and a high point at R5,30/$ in 1980. During 2005 the Rand was very stable around R6,50/$, a reasonable and long run level.

Figure 7.5: Real & Nominal Gold Price



Source: Derived from SARB, 2005

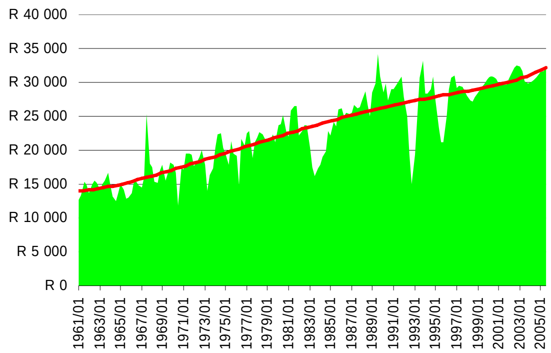
The gold price was much more volatile and high during the 1980s. Since then it relatively stabilised and increased from a $400/ounce average in 2004 to $440/ounce average in 2005. By the end of 2005 the gold price was more than $500/ounce. This is very positive for the South African economy which is strongly commodity based, as more foreign currency would be earned to pay for imports. It should support the Rand in the process and thus keep inflation and interest rates stable.

8. AGRICULTURE

8.1 Size of Agriculture

The size of the Agricultural sector can be measured in nominal terms and also as % of the total economy. In the case of advanced economies agriculture constitutes a very small portion of the gross economy. In the case of emerging economies the opposite is true.

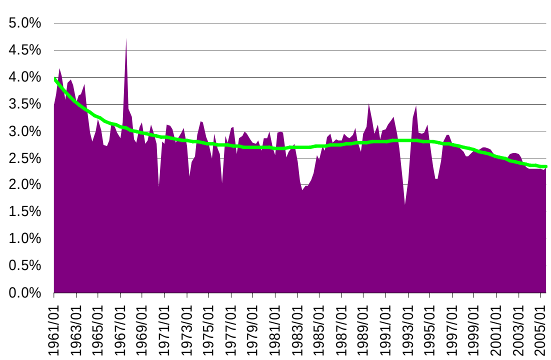
Figure 8.1: Agri Output, 2005R



Source: Derived from SARB, 2005

In nominal terms the South African agricultural sector has shown a steady growth in the long run. By 2005 the agricultural output was 164% more than in 1960. During 2005 the sector grew by 5,7%, outperforming the rest of the economy. Years that show a sudden and sharp decrease in output is usually as a result of dry spells.

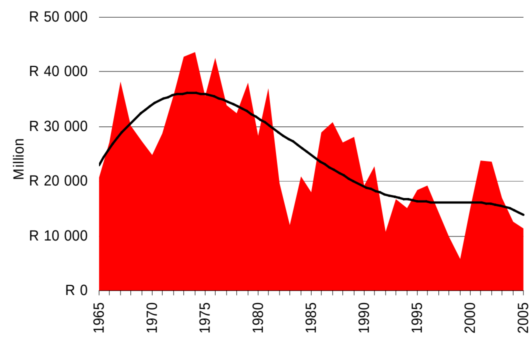
Figure 8.2: Agriculture as % of GDP



Source: Derived from SARB, 2005

Agriculture as % of GDP (the total economy) has decreased in the long run. This implies that South Africa's economy has slowly become more advanced. In 1960 agriculture constituted 4% of the total economy and this decreased to only 2,3% in 2005. Though this decrease seems to be a negative trend from a farmer's perspective, it signals that the South African economy is reaching maturity as the secondary and tertiary sectors become more important.

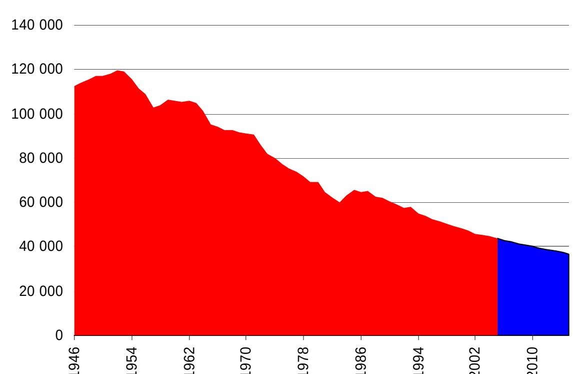
Figure 8.3: Net Farm Income, 2005R



Source: Department of Agriculture, 2006

Another important factor concerning the size of the agricultural sector is the combined net income of all farmers. This net income did not increase along with the size of the sector, as it is supposed to be in a normal situation. The profit of farmers has decreased drastically. By 1975 farmer income was twice as much as value added –this can only imply huge subsidies from government. By 2005 the net farmer income was R11,5 billion compared to a net sector value added of R32,5 billion. Since the profit of farmers have decreased steadily, the number of farmers have decreased substantially too.

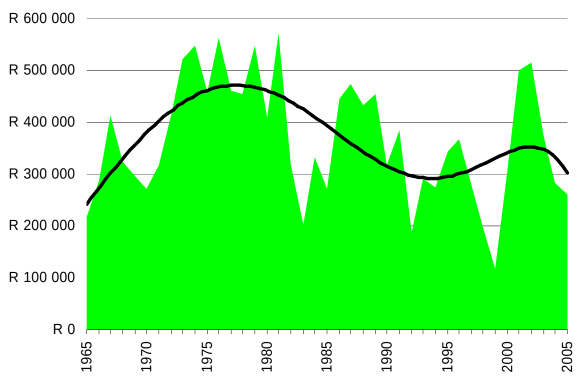
Figure 8.4: Number of Farmers



Source: Department of Agriculture, 2006

As a result of globalisation and improving agricultural technology, the number of farmers in South Africa is on a decreasing trend. This is not unique to South Africa and happened world wide since the dawn of the industrial revolution. However, since the middle 1980's the trend in South Africa have slowed down somewhat. According to econometric estimates the number of farmers have decreased from 44 600 in 2004 to 43 800 in 2005. This fall is in accordance with the decrease in net farm income.

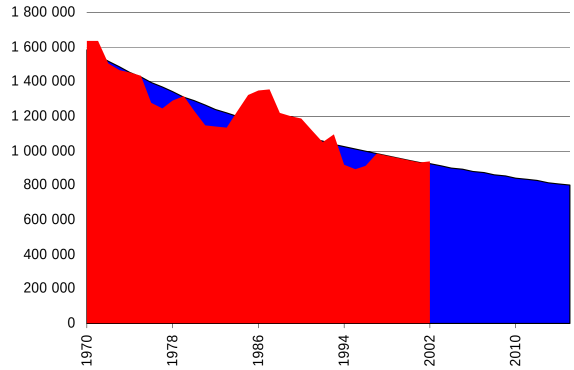
Figure 8.5: Annual Profit per Farmer, 2005R



Source: Department of Agriculture, 2006

The annual profit per farmer is very volatile from year to year, but is still on an acceptable long run level. The middle 1970s was the most profitable period (mostly as a result of government subsidies). In 2001 and 2002 farmers had high returns as a result of a weak exchange rate. Since the Rand regained its value profitability have normalised downwards again. It decreased from R282 000 per farmer in 2004 to R262 000 per farmer in 2005.

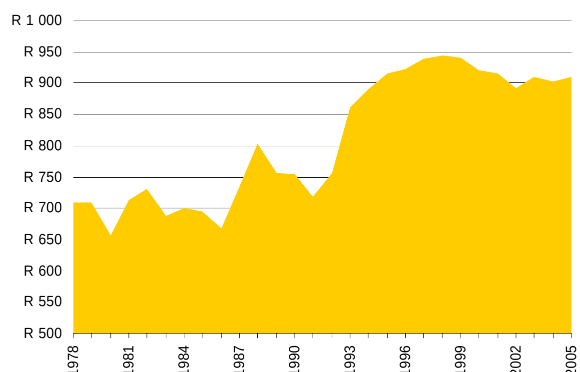
Figure 8.6: Number of Farm Workers



Source: Department of Agriculture, 2006

Along with the number of farmers, the number of farm workers has also decreased. According to econometric estimates farm workers have decreased from 901 400 in 2004 to 891 000 in 2005. The decrease in farm workers is slower than that of farmers. From 1970 to 2005 farmers have decreased by 53% compared to 46% by farm workers.

Figure 8.7: Monthly Salary of Farm Workers, 2005R



Source: Department of Agriculture, 2006

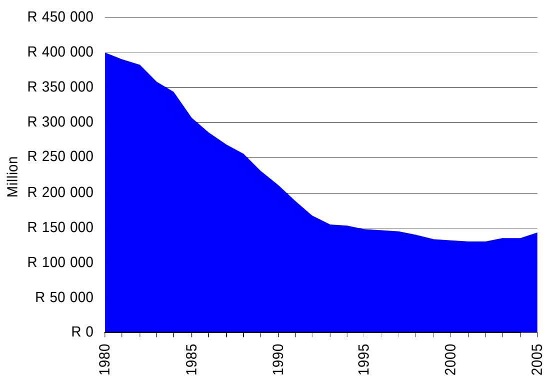
The monthly salary of farm workers is much more stable than the annual profit of farmers. Before 1994 farm worker salaries were around R700 per month. This increased substantially after 1994 to an average of R900 per month. Salaries increased slightly from R903 per month in

2004 to R910 per month in 2005.

8.2 Agricultural Capital and Debt

Since the number of farmers have decreased but farming output have increased, the question remains if farming capital have increased to cause a higher output? Interestingly enough farming capital has also decreased sharply.

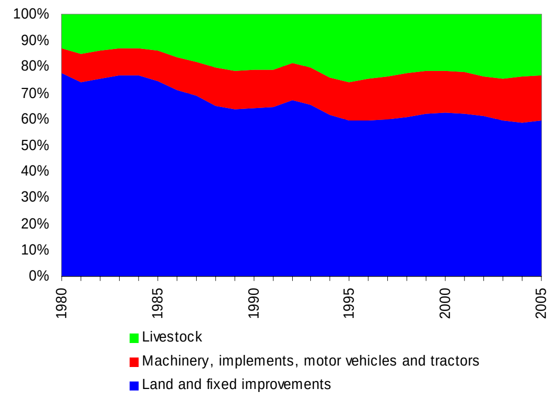
Figure 8.8: Farm Capital, 2005R



Source: Department of Agriculture, 2006

The total value of capital has decreased by more than 60% from 1980 to 1994. Since then the value of capital have stabilised. From 2004 to 2005 the value has increased from R135 billion to R143 billion. Since agricultural output have increased against a fall in capital, it implies that capital productivity have increased tremendously, along with labour productivity.

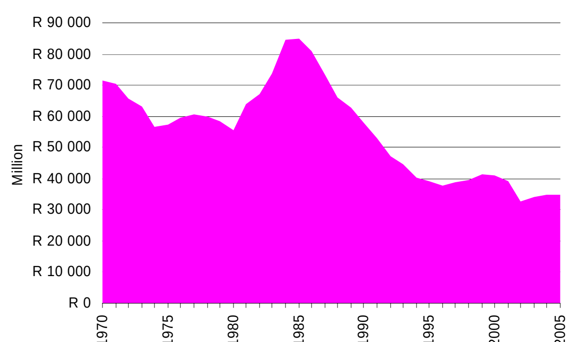
Figure 8.9: Composition of Agric Capital



Source: Derived from SARB, 2005

The composition of capital has changed by time. The proportion of land and fixed improvements has decreased in favour of livestock and machines. This decrease can mostly be ascribed to the steady fall in the market price of land. In 2004 this trend reached a bottom and may be reversing now as land and fixed improvements constituted 59,4% in 2005 compared to 58,4% in 2004.

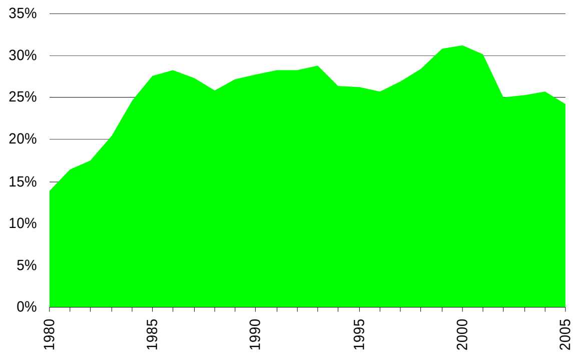
Figure 8.10: Farming Debt, 2005R



Source: Department of Agriculture, 2006

Farming debt reached a peak in 1985 from where it decreased to a more stable level below R40 billion since 1994. These low levels are very beneficial to the farming sector, keeping interest payments low and as result the price of food produced. Debt also remained very constant at R34,7 billion in both 2004 and 2005.

Figure 8.11: Farm Debt-to-Capital Ratio



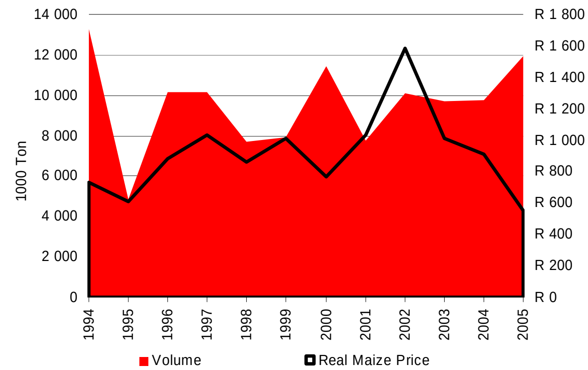
Source: Department of Agriculture, 2006

As capital stock decreased and debt did not, the ratio of debt that is cover by capital increased. However, this ratio reached a new equilibrium around 25% since 1985. This is probably as a result of the risk management policies of financial institutions.

8.3 Production

The production of agricultural commodities is very volatile from year to year since external factors such as climatic conditions have in important influence. In the long run production have steadily increased as South Africa's population have grown and the demand for food along with it. Due to improved technology the farming sector was able to increase output by utilising fewer natural resources. For the 3 main categories of production, Field Crops and Animal Production have shown an increase in 2005, but Horticultural Products have shown a decrease.

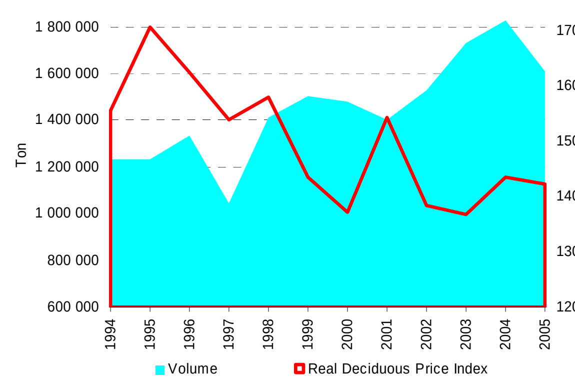
Figure 8.12: Maize Production



Source: Department of Agriculture, 2006

Production of the most important field crop, maize, have increased sharply from 9,7 million ton in 2004 to 11,9 million ton in 2005. This is mostly as a result of good climatic conditions that prevailed in the maize areas of South Africa. However, surplus production resulted in a sharp fall of the maize price. The average price of 2005 was 39% lower compared to 2004. Farmers now intend to plant much less in the current season.

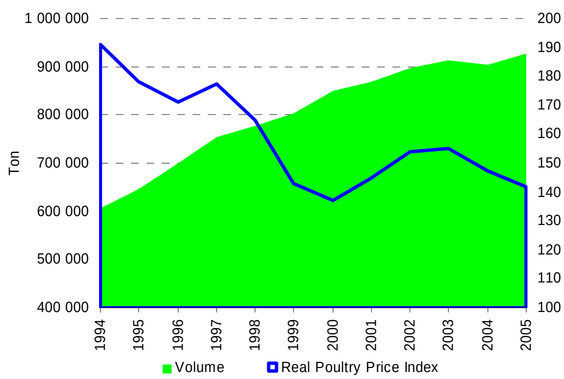
Figure 8.13: Deciduous & other Fruit Production



Source: Department of Agriculture, 2006

Of the Horticultural sub sector, deciduous fruit is the most commonly produced. Real prices have decreased in the long run as production increased. This implies that demand did not increase along with production. In 2005 production decreased to 1,6 million ton compared to the 1,8 million ton of 2004. During the same period the real price of deciduous fruit decreased by 1%.

Figure 8.14: Poultry Production



Source: Department of Agriculture, 2006

Chicken is South Africa's most widely consumed meat. The production of poultry is steadily improving and it is not very volatile. The real price of poultry is decreasing as production improved, indicating that the growth in demand is not that strong. Poultry production increased to 0,93 million ton in 2005 from 0,9 million ton in 2004. During the same period the prince of poultry decreased by 4% in real terms.

Table 8.1: Intentions to plant for the new season

Crop	Intentions at end Oct 2005	2005 vs. 2004
	Ha	**%**
Total maize	1 371 540	-51.19
White maize	744 360	-56.21
Yellow maize	627 180	-43.5
Sorghum	30 300	-64.97
Groundnuts	65 000	52.5
Sunflower seed	592 100	28.72
Soy beans	231 800	54.53
Dry beans	58 600	18.86

Source: Department of Agriculture, 2006

The effect of the low maize price is clear in the huge drop of more than 50% in the planting intentions of farmers. However, they clearly intend to switch to substitute crops such as soy beans and groundnuts. The sudden decrease in maize production could contain some risk to Southern Africa's food security as many countries depend on maize imports from South Africa, though current surplus stock should carry the region for a while. A surplus production of soy beans may be consumed in the production of bio diesel.

9. CONCLUSION

The nature of South Africa's dual economy is clear when internationally compared. South Africa is growing fast along with most emerging economies, though its agricultural sector constitutes a very small portion of economic activity as is the case in advanced countries. South Africa's largest problem currently would be the high unemployment rate. This is slowly changing though it will take another generation or two to be solved at the current growth rate of 5%. Since the population is now longer expanding the GDP per capita has started to make significant gains. Imports have risen sharply 9much more than exports) which have an exchange rate risk to it. Another risk is the very low savings rate which is still decreasing in the long run, making South Africa dependant on foreign investment. Government finance is in a very good condition as the deficit, debt and interest payments were at very low levels in 2005, saving government some money. The gold price was very high by the end of 2005 indicating an inflow of foreign currency to the benefit of the

Rand, low inflation and interest rates. South Africa can expect the have these good conditions to last at least to the end of 2006. Regarding the agricultural sector output have increased during 2005, mostly as a result of good climatic conditions in the short run and improved technology in the long run. As a result of a surplus production of maize the price decreased substantially, causing farmers to switch to substitute products such as soy beans and groundnuts. Overall the South African economy and its agricultural sector are in a good condition that can be maintained if the international environment remains stable and peaceful.

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