

Baseline 2011

African Agricultural industry has the natural and human potential to create thousands of job opportunities in the next 10 years. There are, however, various factors that can limit the increase in agricultural output which will, in return, limit the creation of jobs. These are some of the findings of the latest Agricultural Baseline report of the Bureau for Agricultural and Food Policy. For more we spoke to Dr Ferdi Meyer of BFAP.

Warning of spike in commodity and food prices

South Africans should brace themselves as commodity and food prices are expected to be a lot higher next year, driven mainly by unreliable weather, the Bureau for Food and Agricultural Policy says.

Food prices account for more than 14% of the basket of goods and services that is the basis of the consumer price index, SA's main measure of inflation.

SA's poor majority spend most of their income on food, so higher food inflation will put significant upward pressure on their cost of living. Food and beverage prices rose 7,1% in June, well above the overall inflation rate of 5%.

Releasing its annual South African Agricultural Baseline — an outlook for SA's agricultural production, consumption, prices and trade for the period until 2020 — on Friday, the bureau projected maize would trade about 30% higher next year due to insufficient rain and excessive heat in the US in the second and third quarter this year.

The situation could be worse if SA received less than the expected rain forecast, which would push the local maize market to import parity prices much faster, leading to an increase of as much as 42,6%, the report said.

The baseline is used by farmers, agricultural business and organisations, research institutions and the government as an early warning system in the agricultural industry about the potential effect of long- term structural changes on agricultural commodity markets, such as the effect of the sharp increase in input costs.

It is also a benchmark against which alternative exogenous shocks can be measured and understood.

Dr Ferdinand Meyer, lecturer at the University of Pretoria's department of agricultural economics, extension and rural development, said the weather's effect on commodity prices was a key driver of food inflation in local retail prices. Over the next 10 years, farmers are expected to switch

between field crops, with yellow maize and soybean plantings increasing at the expense of white maize and sunflowers.

Holger Matthey of the United Nations Food and Agricultural Organisation said his group's 2011-20 outlook was for cereals and oils to cost a lot more due to higher input costs for farmers worldwide, with oils influenced by the biofuel industry growth. Meat and dairy products were also likely to increase.

Apart from the weather, there are stronger linkages between agriculture commodities and energy markets through inputs such as fuel and fertiliser, and through demand for feedstock in the biofuels industry, and this has increased the transmission of volatility in energy markets to agricultural markets.

Mr Matthey also projected a gradual decline in gross domestic product growth rates for all major economies beyond 2013. This is based on the assumption that major developing economies such as India and China will attempt to curb inflation, resulting in energy prices remaining at reasonable levels.

Dr Meyer said it was expected that, under SA's biofuel industrial strategy, which continues to exclude maize for biofuel use for fear of basic food instability, the demand for feedstock for the production of biofuels will be negligible.

Apart from policy, the baseline projects that the primary constraint on the use of sugar cane locally in ethanol production will raise world sugar prices, resulting in sustained exports of sugar from SA .

For more on the Bureau for Food and Agricultural Policy (BFAP) go to www.bfap.co.za

The new Outlook is not available online yet.

For the 2010 Baseline go to

<http://www.bfap.co.za/FINAL%20Agricultural%20Outlook.pdf>

Source:

<http://www.businesslive.co.za/southafrica/2011/08/15/warning-of-spike-in-commodity-and-food-prices>

Copyright © Media World 2011. Design by G. Marais