

The recently published BFAP baseline projections contain a wealth of information of great importance to farmers.

Better days ahead?

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CYCLICAL TRENDS

With a few minor exceptions, farmers produce commodities. The price of a commodity is determined by macro supply and demand factors and the individual farmer has very little control over prices. The farmer is therefore a price-taker and must operate within that restriction. That does not imply that he must accept any price for his product passively – he must still do everything in his power to get the highest possible price and that includes marketing his product optimally.

BFAP

Part and parcel of this process is to be informed of major cycles in the economy and in the different agricultural sectors that affects his farming business. The Bureau for Food and Agricultural Policy at the University of Pretoria (BFAP) produces an annual South African Agricultural Outlook Baseline. It provides a wealth of information on the projected future trends in agricultural production and prices for the following five years. Although the BFAP baseline is not a prediction, it is the best estimate of future trends based on current assumptions and is probably superior to anything an individual producer can develop. Farmers who want to optimize their farming operations must therefore consider the BFAP outlook in their strategic plans.

Projections are always based on a set of assumptions. In the case of

the BFAP projections it is assumed that the South African population will grow to 47,7 million by 2007. Thereafter it will decrease to 47,2 million by 2011. Reasons for the decrease include the impact of HIV/Aids and a decrease in the number of children per household due to changing lifestyles. This projection excludes the effect of increased legal and illegal immigration from the rest of Africa on the local population.

BFAP expects the rand to weaken against the US dollar to a level of R7,27/US\$ by 2011. Here they probably also err on the cautionary side as current exchange rates show. The rand actually reached R7,27 per dollar in July 2006. The macro assumptions are conservative and future prices may increase more than indicated in the baseline projections.

MAIZE PROJECTIONS

The following graph (Figure 1) shows the price trends for some products over the next five years as estimated by the BFAP (2006 = 100). BFAP expects maize prices to decrease next year because of higher planting rates. Prices will not reach the 2006 level within the following five years. BFAP did not include the possible effect of bio-ethanol production on possible maize prices in the main report.

At the recent launch of the latest BFAP report the possible effects of bio-ethanol production on grain prices were expanded upon. In-

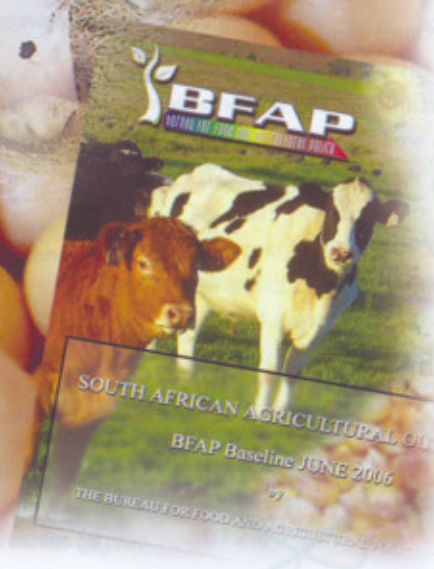
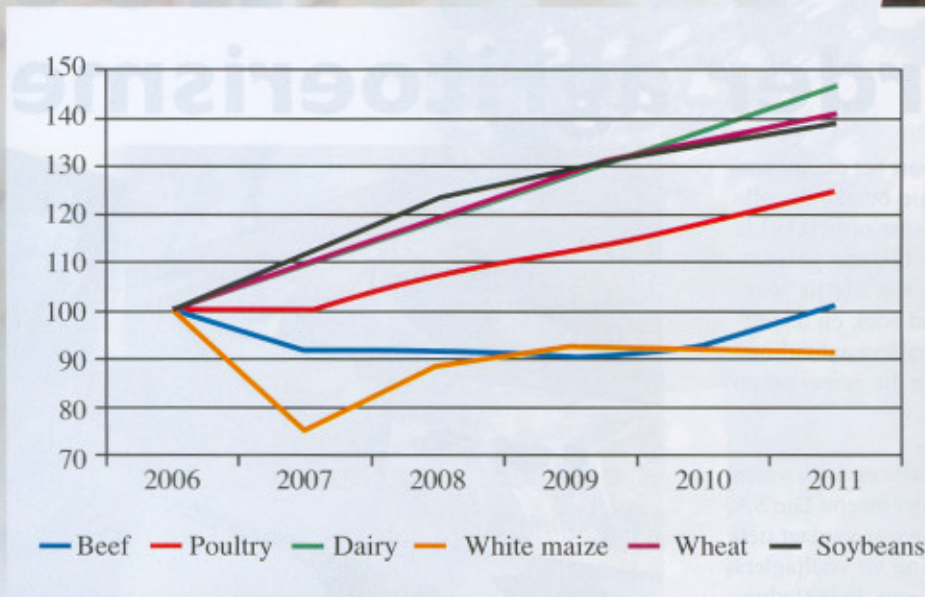


Figure 1: BFAP baseline projections of producer prices, 2006 – 2011



Increased bio-ethanol production will have a very small effect on maize prices but will result in more price variability over the next five years. Farmers should not view the possible future use of maize for bio-ethanol as an indication that current maize prices will continue.

SOYBEAN PROJECTIONS

Soybean demand will increase because of increased livestock feed demand. The price of soybean oilcake will also increase at a similar rate. This projection did not include the possible effect of bio-diesel production from soybeans. Unless bio-diesel production takes up the surplus production in future, prices may decrease to lower levels.

WHEAT PROJECTIONS

Wheat production in the summer grain area is expected to decrease during 2006, as more land is used for maize production. Total production in the winter rainfall area remains constant over the total period. Wheat price increases are limited by low-priced imported grain. Price increases are mainly the result of the weakening rand. An analysis based on variable exchange rates and rainfall shows that the wheat prices for 2006 will probably trade at R1 478 per ton, with a minimum value of R1 412 and a maximum value of R1 738. The current SAFEX December price of R1 594 should be viewed favourably if one compares it with the BFAP projection. Wheat producers must keep this in mind when they enter into contracts for the 2006 wheat season.

THE MEAT MARKET

BFAP expects poultry prices to move sideways to 2007. Thereafter a slight increase in prices is expected. Increased

demand in South Africa will result in increased production and in imports especially from Brazil. They expect chicken prices to reach an average of R13,29 by 2010.

The beef industry is currently in a herd-building phase. This has resulted in a shortage on the local market. Weaner prices are also at a very high level. BFAP expects a softening in demand because of the record prices paid during 2005 and 2006. They expect that prices will decrease till 2008 and increase thereafter at a slow rate during the rest of the baseline period.

DAIRY PROJECTIONS

According to BFAP the dairy industry faces better times than they experienced the past couple of years. Higher world prices will combine with a weaker rand to raise import parity prices. Local demand will increase because of higher demand from the emerging middle class. The projection assumed that international subsidies would remain in place. Various studies have shown that any progress in the World Trade Organisation negotiations will result in higher local dairy prices.

In general the BFAP baseline paints a favourable picture for SA farmers. With a few exceptions all producer price trends are positive. However, as any farmer knows prices never move as smoothly as the baseline graphs indicate. The right combination of grain and livestock enterprises will ensure that farmers make a reasonable profit. Farmers must take note of the cyclical nature of agricultural prices and try to operate counter-cyclically. For instance, the time to get into beef production is not when prices are at an all-time high.

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