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South Africa, Republic of

Agricultural Situation

Food security situation in Southern Africa

2007

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Report Highlights:

Drought, coupled with high international commodity prices, is putting the food security of a large portion of Southern African consumers in jeopardy. South Africa, the main producer of the staple corn, is suffering from a serious drought with the crop soon to be harvested dropping from a possible 10 million tons at the end of December to about 7 million tons. As a result about 1.5 million tons of corn, more than a million tons of wheat and the oilseed equivalent of a million tons of oilseeds will have to be imported later this year. High current international prices will also push up costs, which will result in increased hunger for many families in Southern Africa.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Pretoria [SF1]
[SF]

Impact of rising commodity prices on Southern African countries

Rising commodity prices are putting pressure on South Africa's food price inflation rate, increasing the risk of another interest rate hike and putting pressure on food supplies. The Reserve Bank has a target of between 3 and 6 percent for CPIX (the consumer price index excluding mortgage costs) and uses interest rate changes to keep CPIX under control. CPIX includes food price inflation, which reached a monthly high of 9.4% in October 2006 before slowing down. The time lag involved means that continued food price increases due to current, high local and world commodity prices will only be manifest in the inflation figures later this year.

South African Prices	Dec. 04	%	Dec. 05	%	Dec. 06	%
White bread 700 g	R4.70	4.4%	R4.62	-1.7%	R4.89	5.8%
Corn meal 2.5 kg.	R7.96	0.6%	R7.33	-7.9%	R9.02	23.1%
Rice 2 kg.	R9.88	-2.6%	R12.15	23.0%	R12.69	4.4%
Cooking oil 750 ml	R7.53	5.6%	R7.00	-7%	R7.50	7.1%
Total Food Price Inflation.		1.5%		4.3%		8.1%
CPIX, Consumer Prices		4.3%		4.0%		5.0%

As the chart above shows, South Africa's food price inflation has been higher than the general consumer inflation (CPIX) rate during the past two years. Since food price inflation is one key component of the CPIX, it is clear that food price inflation is helping to drive the CPIX higher. Also, the price of corn or maize meal, the staple food of working class South Africans, rose by 23% in 2006, far above the food price inflation rate. Unfortunately for the consumer, corn prices will stay high in 2007 due to the current drought in South Africa and will drive up the prices of chicken, pork, and beef. We do not have enough information to make an educated forecast of food price inflation for 2007, but the effects of the drought and high international commodity prices (high priced imports) will make it difficult for food price inflation to stay below 10 percent in 2007.

In the midst of the international commodity price increases, the South African situation is aggravated by a drought. Our initial forecast for the corn crop planted on 3 million hectares in 2006 was for a 10 million ton crop. An El Nino-induced drought and heat wave has persisted since January 2007 severely damaging the crop and reducing prospects to 7 million tons. Carry-over stocks from the previous season at the end of April 2007 are expected to reach 1.7 million tons, which will cushion the effect of the drought. White corn supplies may be sufficient to supply domestic and regional needs but yellow corn imports will have to increase from the estimated 1.1 million tons of the current season to at least 1.5 million tons in MY 07/08.

South African agriculture is based on an unprotected free market system and imports of wheat are also expected to exceed a million tons while oilseed products (meal and oil), exceeding the equivalent of a million tons of oilseeds, will also be imported. The open regime kept food prices low when international commodity prices were low and the Rand strong, causing local production to decrease. This policy has now led to higher domestic prices, which may limit local and regional

sales while import costs increase dramatically. Consumer prices of grain- and oilseed-based products are especially vulnerable to the increases.

High commodity prices will have a devastating effect on Southern Africa where the Republic of South Africa is considered the granary, especially for white corn, and the conduit for wheat imports. The price for bulk white corn has tripled from only R600/ton 18 months ago to R1,600/ton a month ago and is currently close to R2,000 or \$275/ton. White corn, the regional staple, is also in short supply on the international market and currently carries a \$65/ton premium over yellow corn FOB Gulf at \$250/ton for June. Offers are however, limited.

South Africa's corn exports during the current, 2006/07 marketing year, have been slow and are now only expected to reach about 530,000 tons, mainly as a result of low sales to Zimbabwe, which is facing a foreign currency crisis. Sales from May 2006 to end February 2007 amounted to about 357,000 tons white and 77,000 tons yellow for a total of 434,000 tons. The insistence of some markets for non-GMO corn will further impact on South Africa's MY 07/08 exportable supply, currently estimated at about 550,000 tons of white corn.

The United Nations World Food Programme (WFP) on Friday March 9 expressed deep concern over erratic, El Nino weather patterns in Southern Africa which have devastated harvest prospects for millions of people, and could spell yet another year of widespread food shortages. An El Nino year typically means an excess of rain in Eastern Africa and a drought in Southern Africa. Parts of Angola, Madagascar, Mozambique, and Zambia, have been struck by devastating floods, which have destroyed tens of thousands of hectares of crops during the most critical growing stage.

In stark contrast, Lesotho, Namibia, South Africa, southern Mozambique, much of Swaziland, and Zimbabwe south of Harare, have all been affected by prolonged dry spells, which have withered and killed crops or reduced their development. Lesotho, for example, is expecting up to a 60 percent decline in agricultural output over last year's harvest.

One of the countries worst affected by dry spells is Swaziland, which is potentially facing a sixth consecutive year of poor harvests - perhaps the worst in 25 years. In the last few months, Swaziland has suffered delayed rainfall, heavy winds and hailstorms, and then scorching dry spells. This year, the impact of the drought will be felt countrywide.

Since 2002, WFP has been supporting about 25 percent of Swaziland's 1.1 million people with food assistance to improve the nutrition of families affected by drought, poverty, and HIV/AIDS. However, even in a normal year of harvests, nearly half the population is classified as suffering from food insecurity.

Parts of Zimbabwe are of particular concern as early indications are that cereal crops in much of the southern half of the country have been decimated by the long, dry spell in January and early February. Zimbabweans have suffered through the world's highest inflation rates in recent years. The economy is in tatters and,

despite hunger all round, much of the country's productive farmland is not being cultivated. It is estimated that roughly one quarter of all Zimbabweans have left the country, often illegally, in order to find work and something to eat. Zimbabwe's ability to import is severely restricted by foreign exchange shortages.

In some other parts of Southern Africa, the unusual El Nino weather has caused greater than average rainfall. Malawi is expected to yield a bumper harvest again this year, while Zambia and northern Mozambique are also likely to produce good harvests that will represent buying opportunities for WFP, as in previous years. Crops are usually harvested during April and May.

Since 2004, harvests in southern Africa had generally improved due to better weather patterns and the broader availability of seeds and fertilizers. As a result, the number of people requiring food aid had steadily declined. However, due to chronic poverty and nine of the ten highest country HIV/AIDS prevalence rates in the world, food security in Southern Africa remains precarious, requiring WFP to currently assist 4.3 million people.

Even without the additional challenges that would be posed by widespread erratic harvests in southern Africa, WFP faces a funding shortfall through to the end of 2007. This shortfall is attributed to donor fatigue. The increased international commodity price levels are thus likely to have a major effect on food insecurity in the region, as the ability to pay is limited.

What do high commodity prices mean to working class South Africans?

In a discussion on March 9, 2007, Johanna Malute, a working class South African, reported that each month she buys one, 28-pound bag of maize meal to feed her family of five. In 2005 that bag cost R18 and today that same bag costs R29, a 61% increase in 18 months. (Maize meal will likely get more expensive later in 2007 as a result of the current drought in South Africa.) Sometimes the family finishes that bag of maize meal before the month is up. In that case she buys some bread, potatoes or sometimes rice, whichever starch is the cheapest. Prices have also increased for the tomatoes and onions she uses to make a sauce for the maize porridge. Her other food staples are sugar, tea, milk and oil. Although most South Africans love to eat meat such as beef, chicken, and local sausages, she did not mention any meat products as commonly purchased items by her family.

She reports that the schools tell parents to buy fresh fruits and vegetables for the children, but these things are expensive. She tries to buy bananas, apples, carrots, cabbage or sweet potatoes for the children to add some nutritional value to their caloric intake that comes mainly from starch.

Ms. Malute reckons she spends fifty percent of her monthly salary (which is roughly \$325 per month) on food and nearly another quarter on transport.

Transportation, in the form of a dangerous mini-bus that she takes for about 10k of her journey, has also gotten more expensive. In 2005 the journey was R5 and

today it is R7. Paraffin the main cooking fuel has also gotten more expensive so that some mornings they don't have a hot breakfast in order to conserve fuel.

Sources: GAIN Reports SF 7006 and RH 7002
www.fews.net February Southern Africa Food Security Update

On March 12, 2007, South African Rands 7.30 = \$1.00