Deteriorating fuel prices to hit consumers, farmers' profit margins

By Paul Makube

2 May 2018

South Africa's agriculture industry has recovered relatively well following the devastating drought - still ongoing in parts of the country - which helped avoid a recession in 2017 and assisted in taming inflation with a robust output.

©dipressionist via 123RF

Apart from favourable production conditions across the country - except for the Western Cape - the sector benefited from relatively lower Brent crude oil prices and a stronger exchange rate because of their effect on agriculture input costs such as fuel, fertilisers and pesticides.

These dynamics have since changed which saw an upswing in international Brent crude oil prices and the renewed rand weakness triggering a further rise in fuel prices from the beginning of May 2018.

The Department of Minerals and Energy (DME) has recently announced that petrol and diesel prices will increase by 49c/l for all grades and diesel by 59 and 58c/l for the for the two grades (0.05% and 0.005% sulphur) respectively. This was on the back of 7.1% increase in the international crude oil prices to $70.36/barrel and the rand depreciating by 0.8% month-on-month (m/m) to R11.95/$ during the monthly review.

The fuel price outlook has since deteriorated with Brent crude near three-year highs at $74/bbl and the rand weakening to R12.35/$ early last week.

The immediate impact on the agriculture sector

The cost of distributing produce across the country is still highly depended on road transport – for example, about 80% of grain is transported by road.

Harvesting of summer grains will soon be in full swing and planting of winter crops will begin in earnest, therefore demand for fuel will be high. However, the impact will be mitigated by the fact that most producers normally purchase diesel in advance. The net effect of fuel increases is reduced profit margins for producers as input costs over the long run.

Impact on the consumer

The consumer will be hardest hit as disposable income is eroded by consecutive fuel price increases, and the daily cost of transporting, packaging and distributing food will eventually be passed on. This will ultimately feed into inflation which has been relatively low and comfortably within the SARB's target range of between 3% to 6% at a low of 3.8% y/y during March 2018.

Nonetheless, the March PPI data showed easing inflation pressures for most food products which saw the agriculture PPI decelerating to 3.9% y/y. The robust agriculture output for the 2017/18 season coupled with huge carryover grain stocks will continue to provide some cushion for consumers in the short to medium term.

ABOUT PAUL MAKUBE

Paul Makube is Senior Agricultural Economist at FNB.

- Vigilance in containing FMD critical for red meat export growth - 10 May 2024
- 1% upward revision for maize estimates, still down 18.5% year-on-year - 26 Apr 2024
- Chocolate prices continue to rise - 8 Apr 2024
- Agribusiness confidence for Q1 2024 dimmed by bad weather and a plethora of challenges - 26 Mar 2024
- Food inflation decelerates to a 25-month low - 22 Mar 2024

View my profile and articles...