Expected fuel price increase to have a direct impact on SA agriculture

According to mid-month calculations, a sharp increase in fuel prices is expected early in September and this increase will have a direct impact on South Africa's agricultural sectors as the cost of production and transport will increase. This may go as far as having an impact on retail prices.


Dawie Maree

Information from the Central Energy Fund (CEF) shows an under-recovery of between 57-60 cents/litre on petrol and 47-49 cents/litre on diesel.

“The combined depreciation of the exchange rate and increase in the international price of crude oil and commodities has led to a situation where if the cost of fuel remains the same, fuel distributors in South Africa will essentially be trading at a loss or in economic terms, experience an under-recovery. To avoid this, prices will have to increase,” says Dawie Maree, Head of Information and Marketing at FNB Agriculture.

The exchange rate and commodity price influence the fuel price differently. The movement in the exchange rate is responsible for only an average of 4 cents/litre of the under-recovery, while the bulk is due to the movement in international product prices. The latter is responsible for 53-55 cents/litre under-recovery in the case of petrol and 43-44 cents/litre for diesel.

Sharp increase, higher input costs

“The increase will be sharp, at an estimated 5%. For agriculture, September is the start of the seedbed preparations in the eastern parts of the maize-growing areas of South Africa. Farmers will have to increase spend on diesel, one of the major input cost lines for a grain farmer, due to a higher price. Secondly, the transport of agricultural inputs, such as fertilisers and seed will also be negatively impacted,” says Maree.

For the consumer, the direct impact of the fuel price increase will decrease their disposable income. What will balance the current upward swing in cost is that food inflation will be decreasing due to the great season agriculture is having in the year thus far. We might also expect interest rates to be cut further later on in the year, given the improved inflation expectations.

“It may be uphill for the next while but we must ride the wave. The advice here is – don’t panic, it too will pass,” concludes Maree.