Food prices put farmers in trouble

As food inflation gallops ahead of general inflation, new figures show that farmers are also struggling to make ends meet. In time this will place further upward pressure on food prices as some farmers may be forced out of business.

Farmers' indebtedness has risen by 20% to R78,5bn for the year to the end of June, according to the agriculture, forestry & fisheries department's economic review.

Their cash flow also weakened by 20% to R33,5bn for the year, as a result of a drop in gross income.

At the same time agricultural profitability has weakened and the gap between agricultural exports and imports has narrowed. With many countries already experiencing big food-price hikes, a weakening rand is particularly bad for SA. As our imports of food rise to meet our needs, the weak rand means we will be paying higher prices for dollarpriced goods than we might have been earlier this year.

Imports of agricultural goods jumped by 14.3% to R38,8bn and the value of exports increased just 6.9% to R47,6bn. Though still a net exporter of agricultural goods, SA has moved closer to the "food crisis" situation of 2007/2008, when imports outstripped exports.

The cost of farming is higher than farmers' 4.3% price gains. The prices of farming requisites have risen 13.2% - these include machinery, implements, material for fixed improvements as well as intermediate goods and services such as fertiliser and fuel.

Gross farming income from all agricultural products came in at an estimated R131,7bn - 0.4% lower than the previous year. Net farming income of R33,2bn was 18.3% down on the previous year.

SA consumers spent R353,1bn on food during the period, 2.7% more than the previous year. Figures from Stats SA show that food inflation was 7.5% for the same period, outstripping general inflation of 5.3%.

To ensure adequate food production it is important that farmers are encouraged to remain at their ploughs. Production has remained steady over the past year, but the position of farmers has clearly worsened.

As farm debt has rocketed, the ratio of debt to agricultural assets has weakened to 33%. Capital investment in agriculture has risen by just 0.9% and the value of capital assets by 6%, the department's figures show.

This indicates that agricultural debt has been incurred just to keep farms going rather than for capital investment.

The bottom line is that SA food prices will have to rise if farmers are to survive in present conditions.

Also highlighting the importance of food prices and security for SA are the findings of the yearly global hunger index report from the Washington-based International Food Policy Research Institute. They show that SA still has some way to go to match Algeria, Argentina, Brazil, Costa Rica, Libya, Egypt, Jamaica and others in defeating hunger and malnutrition among its population.

The report ranks SA 13th out of 81 countries identified as having hunger problems. Though doing much better than the bottomranked Democratic Republic of Congo, and also Ghana (ranked 20th) and Botswana (32nd), SA is behind African countries such as top-ranked Gabon and Morocco (ninth). While the improving scores of countries such as China and El Salvador (joint fourth) indicate that they are winning the fight against hunger, SA's scores since 1990 show a lack of consistent improvement.

Source: Financial Mail