

# THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

THIRD QUARTER 2016

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the latest from the main manufacturing industries and key data in Excel format\*.*

## Quarterly GDP growth

*South Africa's third quarter GDP growth, seasonally adjusted but not annualised, fell back to 0,05% compared to the surprisingly strong 0,8% expansion in the second quarter. Mining continued to recover from the sharp drop in the second quarter, growing by 1,4%, while manufacturing gave up the gains it made in the previous quarter. Agriculture lost ground for the seventh quarter in a row.*

The annual data help see past the quarterly fluctuations. Agriculture is still struggling with the drought; mining remains well below 2015 levels; and manufacturing output has stayed virtually unchanged in constant terms in the past two years. Construction and the rest of the economy have continued to expand, but the rate of growth declined steadily from 2015 (see Graph 1).

Over the five years since the end of the commodity boom, despite quarterly fluctuations, manufacturing has seen some growth, but at well under a percentage point a year.

Mining has recovered from its low point in the first quarter of 2012, but its output remains lower than 2011 in volume while it has dropped by 12% in constant rand (deflated with CPI). Construction continues to grow faster than the GDP as a whole, driven largely by public investment (see Graph 2).

\*Available to download at [www.tips.org.za/realeconomybulletin](http://www.tips.org.za/realeconomybulletin)

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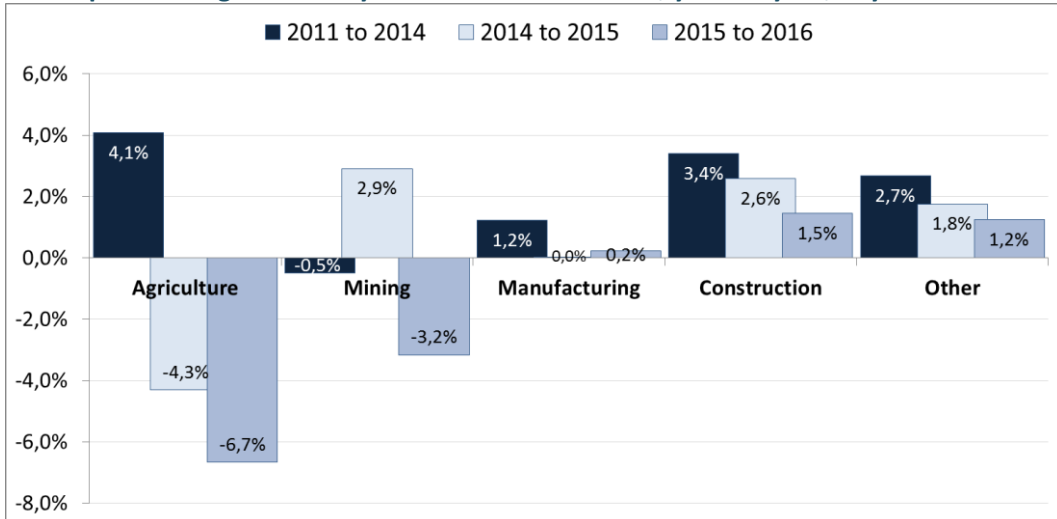
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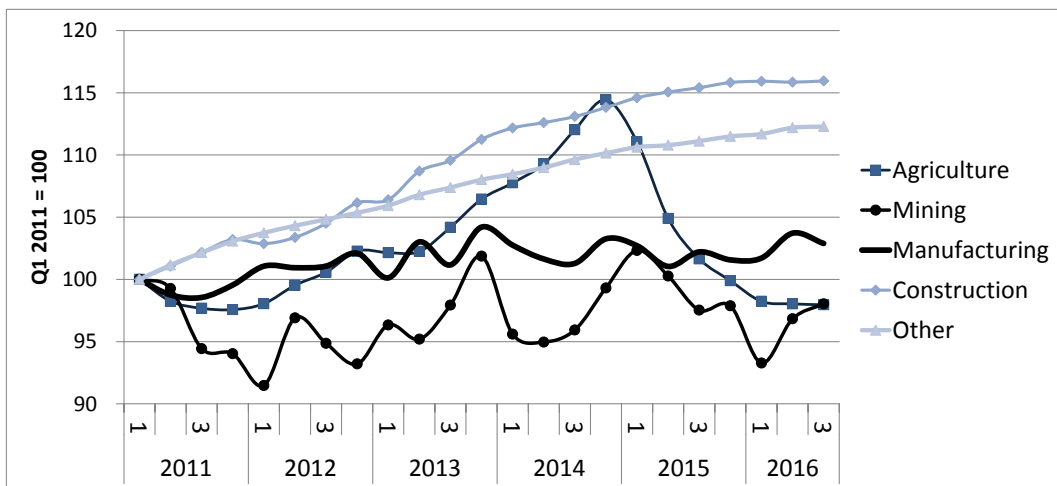
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**Graph 1: Change in GDP by sector in volume terms, year on year, in year to third**



Note: Calculated on the basis of the sum of four quarters of each year to the second quarter. Source: Calculated from Statistics South Africa. Electronic database. Series on Gross Domestic Product growth. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016.

**Graph 2: Index of volume of production, quarterly, 2011-2016 (first quarter 2011 = 100)**

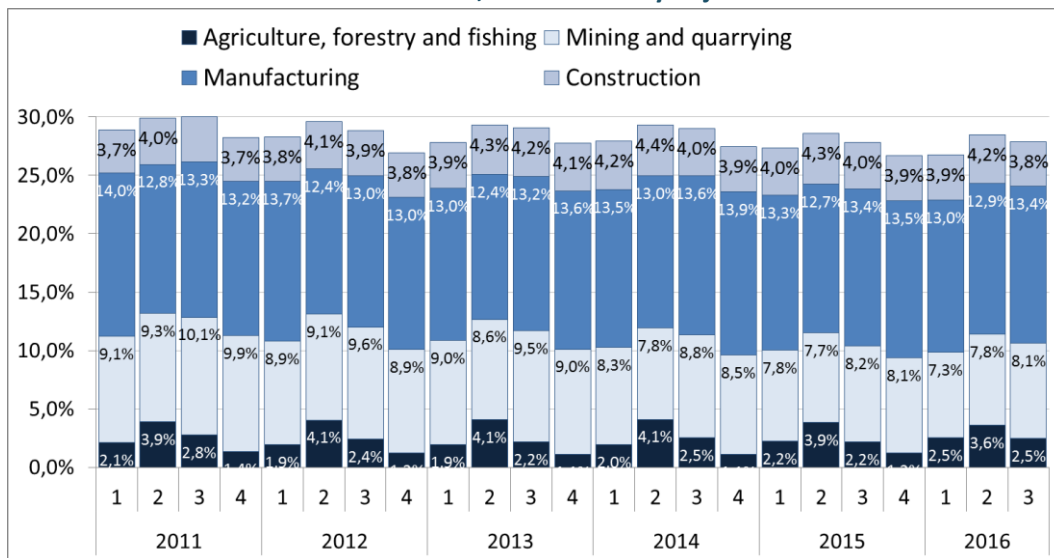


Source: Calculated from Statistics South Africa. Gross Domestic Product (Quarterly) (2016Q3). Excel spreadsheet downloaded in December 2016.

The share of the real economy in the total GDP in current terms continued its long-run secular decline in the past year.

Most of the fall was due to the relatively slow growth in mining and manufacturing compared to the tertiary sector (see Graph 3).

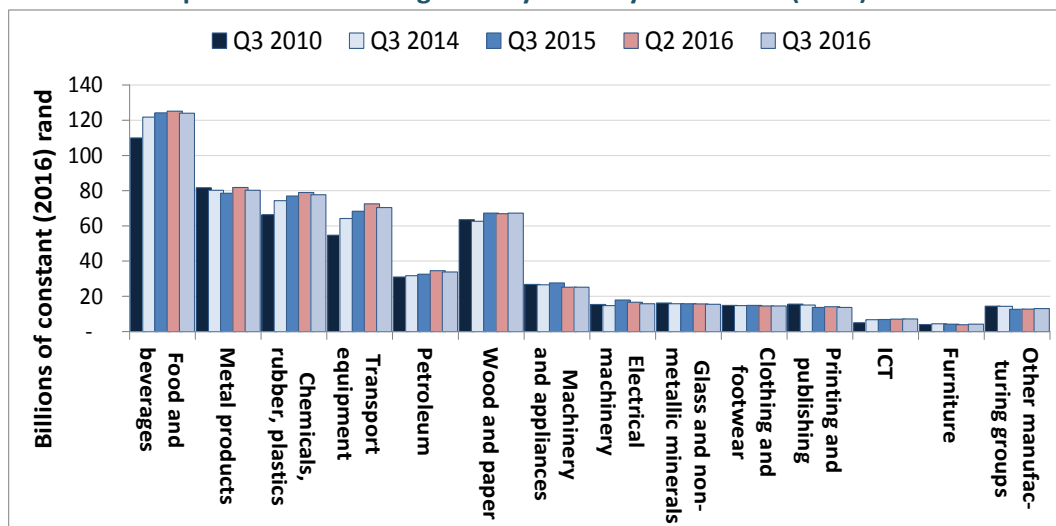
**Graph 3: Share of the real economy in the GDP, in current terms, not seasonally adjusted**



Source: Own compilation based on Statistics South Africa. Electronic database. Series on GDP growth. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016.

In the third quarter of 2016, most manufacturing sectors saw stagnant sales. Metals continued to struggle, with the steel industry generally facing headwinds. Agro-processing growth remained flat as a result of the drought, which cut short several years of strong growth. Auto fared well in exports but domestic demand remained sluggish, slowing its growth after several years of rapid expansion. A similar picture emerged for the chemicals, rubber and plastics industry (see Graph 4).

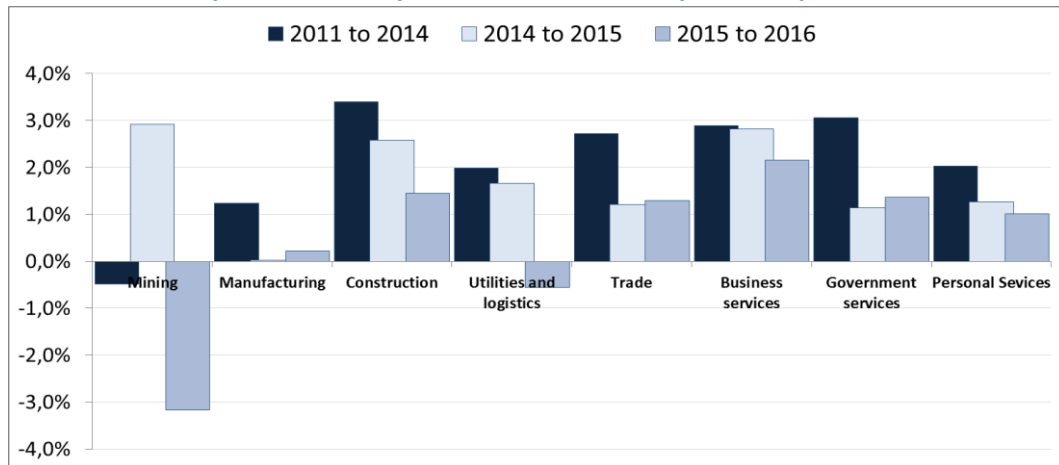
**Graph 4: Manufacturing sales by industry in constant (2016) rand**



Note: Average of monthly figures for each quarter. Source: Calculated from StatSA, Manufacturing: Production and Sales. Excel spreadsheet. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in November 2016.

Services and construction continued to drive GDP growth in the past year, although they slowed compared to the 2011 to 2014 period (see Graph 5).

**Graph 5: Growth by sector, 2011 to 2016, year to September**



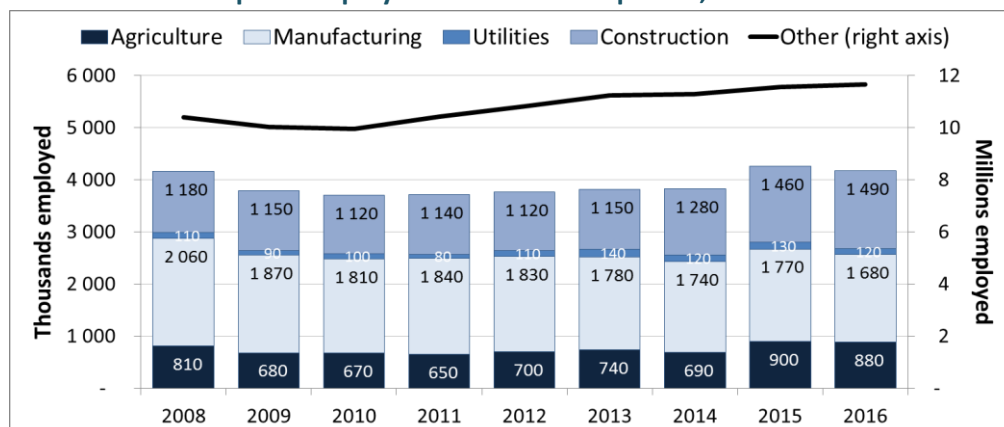
Source: Calculated from, Statistics South Africa. Gross Domestic Product (Quarterly) (2016Q2). Series on GDP in constant rand. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016.

## Employment

Total employment remained virtually unchanged from the third quarter of 2015 to the third quarter of 2016. But the composition of employment changed. Manufacturing and community services lost around 85 000 jobs each. Business services created around the same number, almost entirely in security and cleaning. CCMA data point to significant retrenchments in the mining value chain over the past year.

As Graph 6 shows, employment in agriculture remained virtually unchanged over the previous year, while construction continued to create new jobs. Since 2008, construction employment has risen by more than 25%. In contrast, manufacturing returned to job losses in the year to September 2016. Employment figures are not seasonally adjusted, so the quarterly data need to be treated with care.

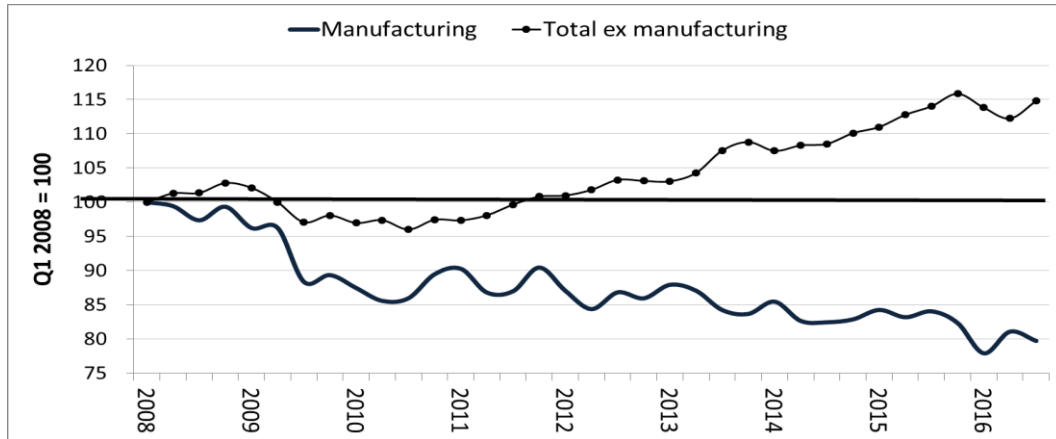
**Graph 6: Employment in the third quarter, 2008 to 2016**



Source: Statistics South Africa. Quarterly Labour Force Survey. Trends from 2008. Excel spreadsheet. Downloaded in November 2016.

Over the long term, manufacturing continued to shed jobs even as the economy as a whole generated new employment. Since 2008, manufacturing has lost 370 000 jobs, or around 18% of its total. The rest of the economy as a whole saw growth of around 15% in employment over the same period (see Graph 7).

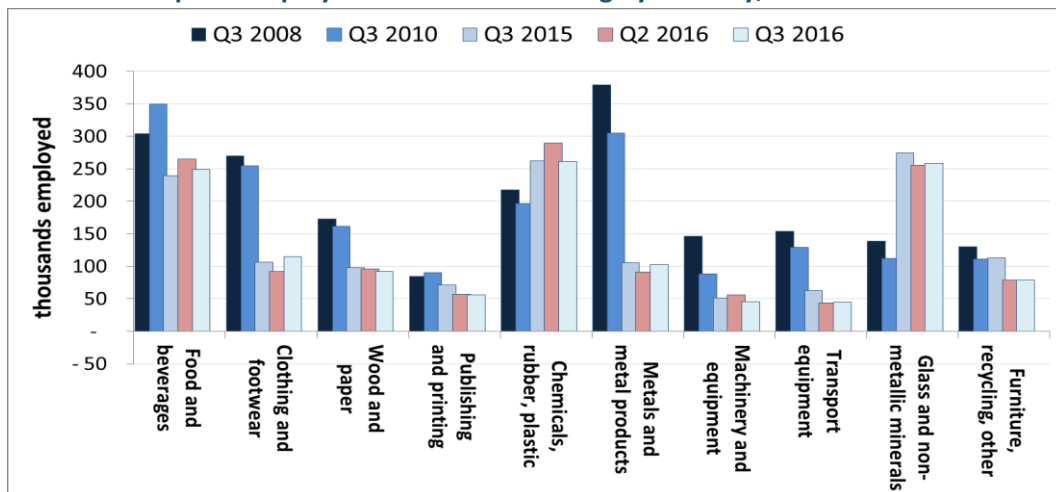
**Graph 7: Index of manufacturing and other employment, first quarter 2008 = 100**



Source: Statistics South Africa. Quarterly Labour Force Survey. Trends from 2008. Excel spreadsheet. Downloaded in November 2016.

Within manufacturing, employment trends varied significantly in the past year. Job losses from the third quarter of 2015 (the quarter-on-quarter figures are not very meaningful) were largest in food and metals production. In contrast, after years of decline and a shift to new forms of government support, clothing and footwear reported an increase in employment. The figures are small, however, so it is early to see if the uptick is significant. Most other sectors showed virtually no change (see Graph 8).

**Graph 8: Employment in manufacturing by industry, 2008 to 2016**



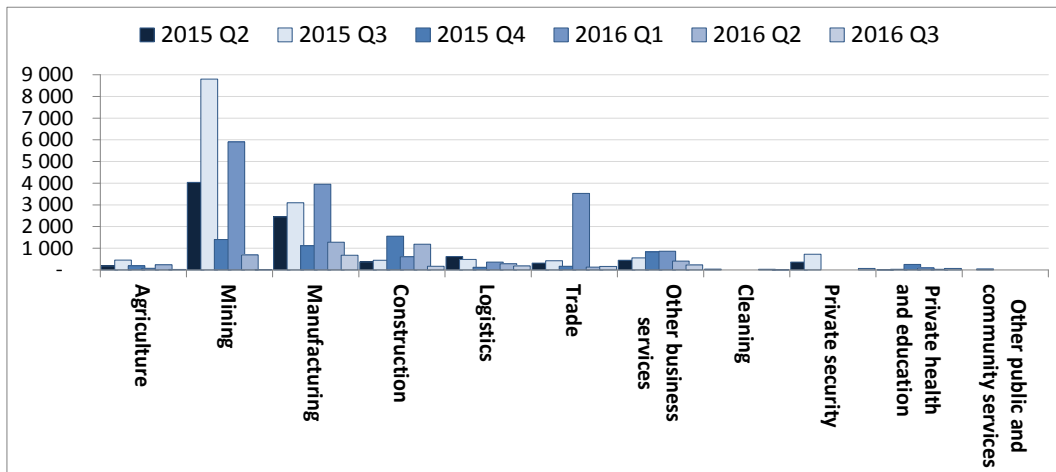
Note: Includes all reported employees, not just those aged 15 to 64. Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey for relevant quarter. Electronic database. Series on industry.

Retrenchment data from the CCMA (Commission for Conciliation, Mediation and Arbitration) underscore the impact of the slowdown in the metals industry on employment. In the period from March 2015 to October 2016, retrenchment cases at

the CCMA saw just over 50 000 jobs losses. Metals employers accounted for over half of all the retrenchments in manufacturing.

The CCMA data only cover formal retrenchment procedures under section 189 of the Labour Relations Act. They exclude retrenchment processes handled through private mediation or arbitration, or where workers accepted job losses without going through a legal procedure. As Graph 9 shows, mining had the largest retrenchments in the past 18 months, with 21 000 reported job losses. Manufacturing came in second, with 12 500.

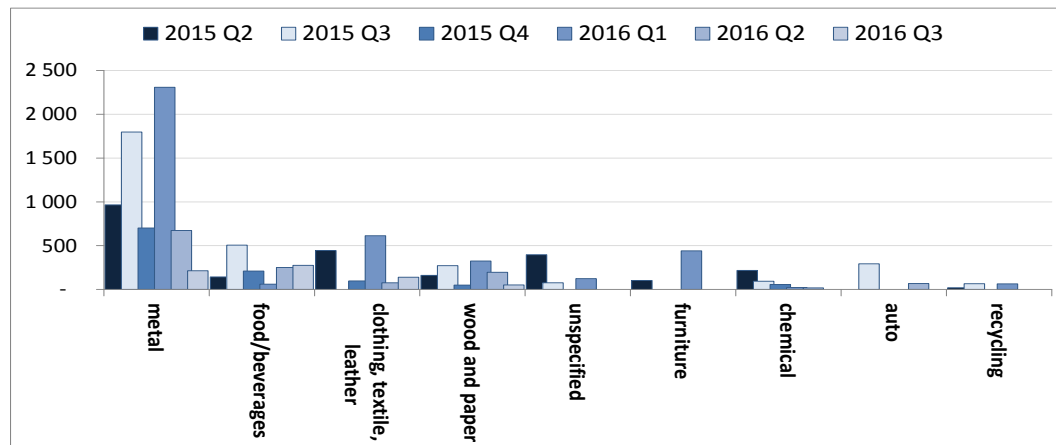
**Graph 9: Retrenchments through the CCMA by sector, March 2015 to October 2016**



Source: CCMA communication, December 2016

Within manufacturing, metals accounted for over 6 500 retrenchments in the past 18 months (see Graph 10).

**Graph 10: Retrenchments through the CCMA by manufacturing industry, March 2015 to October 2016**



Source: CCMA communication, December 2016

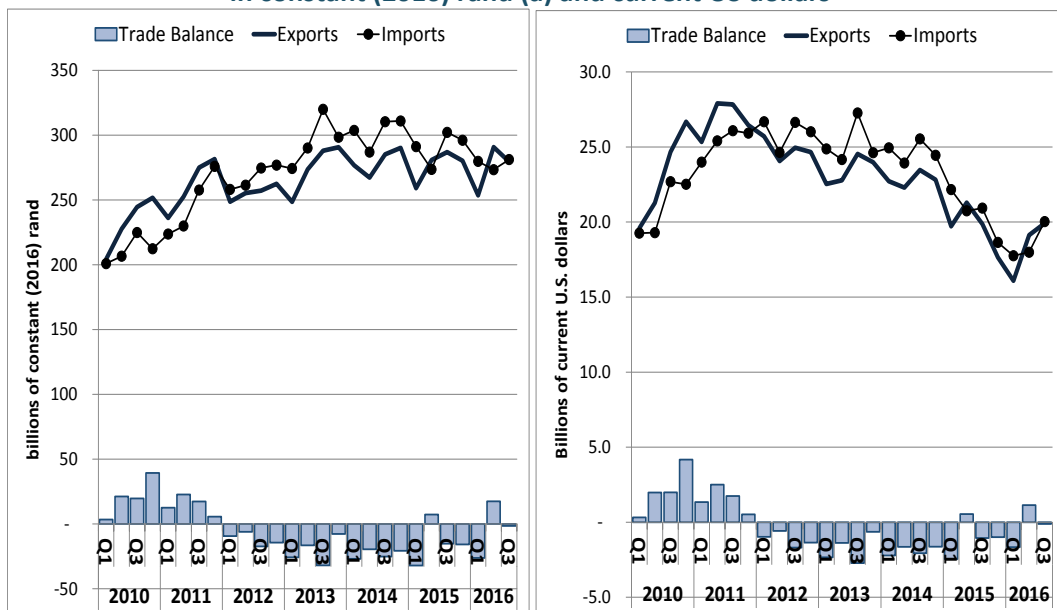
The CCMA registered a total of 626 cases from March 2015 to October 2016. Of these, more than 90% ultimately led to some job losses, with an average of just under 90 job losses each. Companies initially sought to retrench almost 90 000 workers, but ultimately they agreed to reduce forced retrenchments to 30 000, with 21 000 voluntary retrenchments.

## Trends in trade

In the third quarter of 2016, imports increased in rand terms while exports declined, wiping out the balance of trade surplus experienced in the second quarter of the year. Compared to the previous third quarter, manufacturing imports continued to decline in rand terms while exports stabilised, mostly due to continued growth in foreign auto sales.

Overall, the balance of trade returned to a slight deficit in 2016. Depreciation saw the value of both exports and imports increase in rand, but in dollar terms exports fell while imports rose. The figures are not seasonally adjusted, and the third quarter usually sees an uptick in consumer goods imports in advance of the festive season.

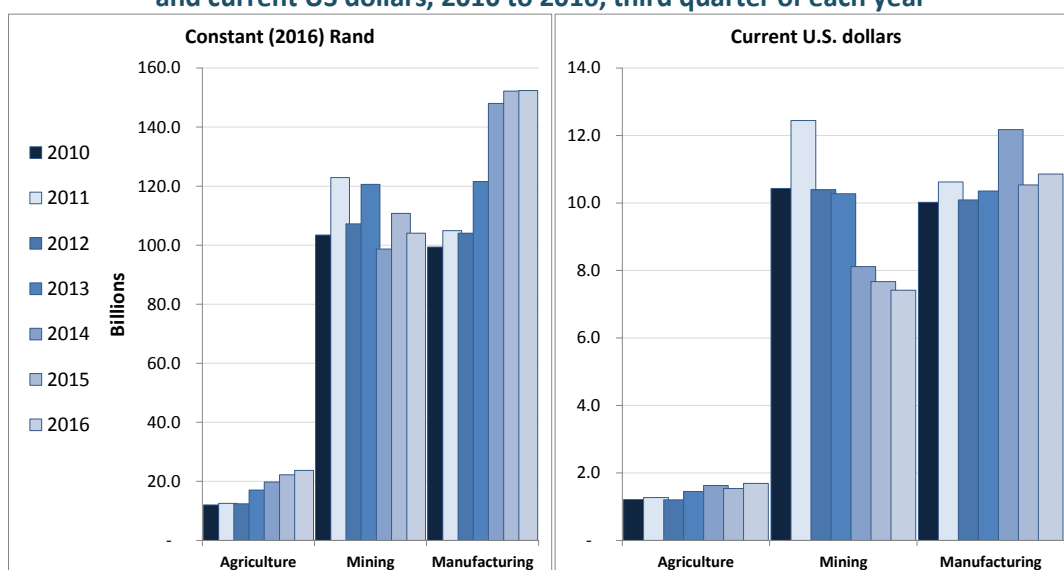
**Graph 11: Exports, imports and the balance of trade in constant (2016) rand (a) and current US dollars**



Note: (a) deflated with CPI rebased to June 2016. Source: Calculated from SARS. "Trade Balance Graph for 2010-2016 (including and excluding BLNS)". Excel spreadsheet. Downloaded from [www.sars.gov.za](http://www.sars.gov.za) in November 2016.

With the end of the commodity boom, mining exports fell sharply in dollar terms and have also declined in constant rand. In contrast, manufacturing exports have tended up in dollars and risen sharply in rand. The figures for manufacturing included raw metals, which have also been depressed by the fall in commodity prices. If they were excluded, manufactured exports would look even more dynamic.

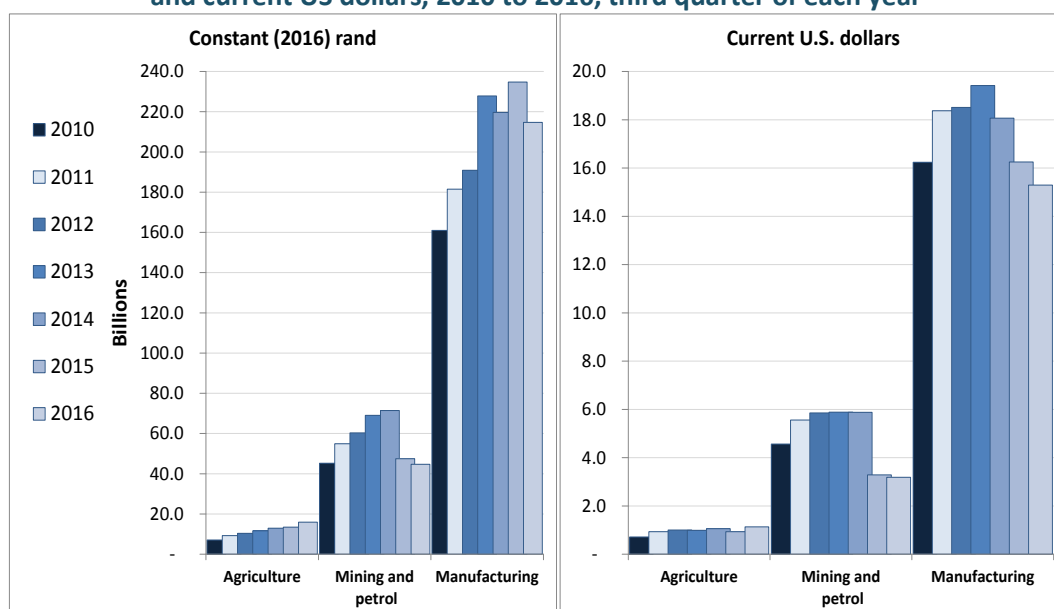
**Graph 12: South African exports in constant (2016) rand and current US dollars, 2010 to 2016, third quarter of each year**



Source: Calculated from SARS monthly trade data.

In terms of imports, South Africa has benefited from the low price of petroleum in recent years. In 2014, the average oil price was around US\$100 a barrel; in the third quarter of 2016, prices were fluctuating below US\$50. As a result, in dollar terms imports of petroleum dropped by close to half. Manufactured imports have fallen steadily in dollar terms with depreciation, although in rand terms the impact has been smaller and less stable.

**Graph 13: South African imports in constant (2016) rand and current US dollars, 2010 to 2016, third quarter of each year**



Source: Calculated from SARS monthly trade data.



Within manufacturing, metals and machinery exports fell by almost 10% in dollar terms, and around 7% in constant rand. In contrast, transport equipment saw significant gains in both dollar and rand terms. Paper and publishing expanded substantially, but off a small base. In terms of imports, virtually all manufacturing sectors saw lower figures except for food and beverages.

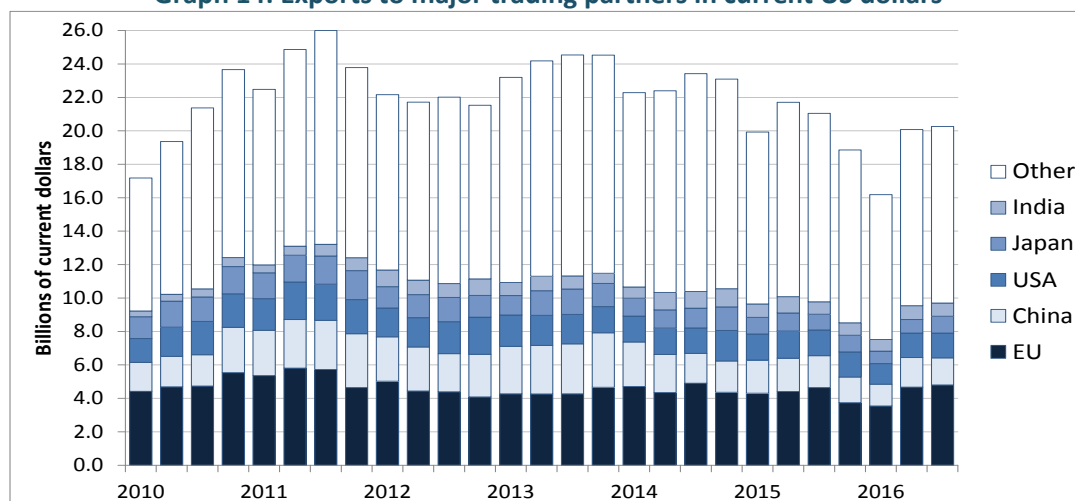
**Table 1: Value of and change in trade in manufactures to third quarter 2016, nominal US dollars and constant rand (a)**

Industry	Value (billions)		% change from Q3 2015		Change in millions	
	USD	Rand	USD	Rand	USD	Rand
<i>Exports</i>						
Food and beverages	0.91	12.8	1%	3%	7.3	364
Clothing and footwear	0.40	5.6	-5%	-3%	-18.8	-157
Wood products	0.12	1.7	0%	1%	-0.5	24
Paper and publishing	0.45	6.3	11%	14%	44.5	754
Chemicals, rubber, plastic	1.65	23.2	-2%	0%	-30.0	24
Glass and non-metallic mineral products	0.11	1.6	-4%	-2%	-4.6	-30
Metals and metal products	2.28	32.1	-8%	-6%	-201.6	-2 000
Machinery and appliances	2.03	28.6	-9%	-7%	-193.6	-2 049
Transport equipment	2.88	40.5	7%	9%	183.3	3 304
<i>Imports</i>						
Food and beverages	0.65	9.2	5%	7%	29.9	599
Clothing and footwear	1.16	16.3	-8%	-6%	-99.6	-1 044
Wood products	0.09	1.3	-5%	-3%	-5.2	-45
Paper and publishing	0.33	4.6	-3%	-1%	-11.1	-61
Chemicals, rubber, plastic	3.01	42.4	-10%	-8%	-334.5	-3 713
Glass and non-metallic mineral products	0.25	3.5	-6%	-4%	-15.4	-142
Metals and metal products	1.06	14.9	-7%	-5%	-84.5	-829
Machinery and appliances	5.20	73.1	-13%	-11%	-784.0	-9 294
Transport equipment	3.51	49.4	-12%	-10%	-481.2	-5 532

Notes: (a) Constant change in rand deflated with CPI. Source: SARS data on trade.

TradeMap data shows a recovery in exports to virtually all major trading partners over the past two quarters following a sharper than usual seasonal decline in the first quarter of 2016.(see Graph 14). The durability of the recovery will depend on whether global growth stabilises in the next few years.

**Graph 14: Exports to major trading partners in current US dollars**



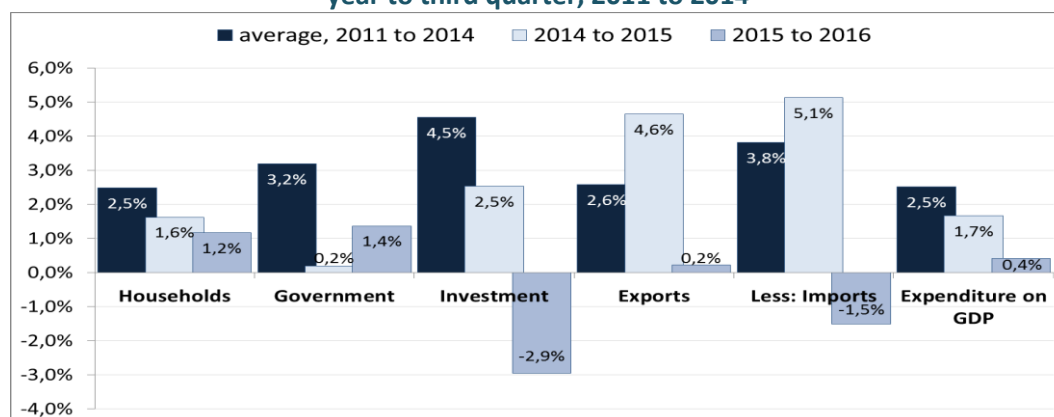
Source: ITC calculations based on South African revenue services (SARS) statistics. Electronic database. Series on export data for South Africa by country. Downloaded from [www.trademap.org](http://www.trademap.org) in December 2016.

## Behind the trends

Slow growth in South Africa mostly reflects the broader global trend since 2011. In the past quarter, the slump in investment deepened. The fiscal consolidation promised by the Medium Term Budget Policy Statement (MTBPS) seems likely to add to the downward pressures on the economy.

As Graph 15 shows, the decline in private and public investment over the past year has become a significant drag on growth.

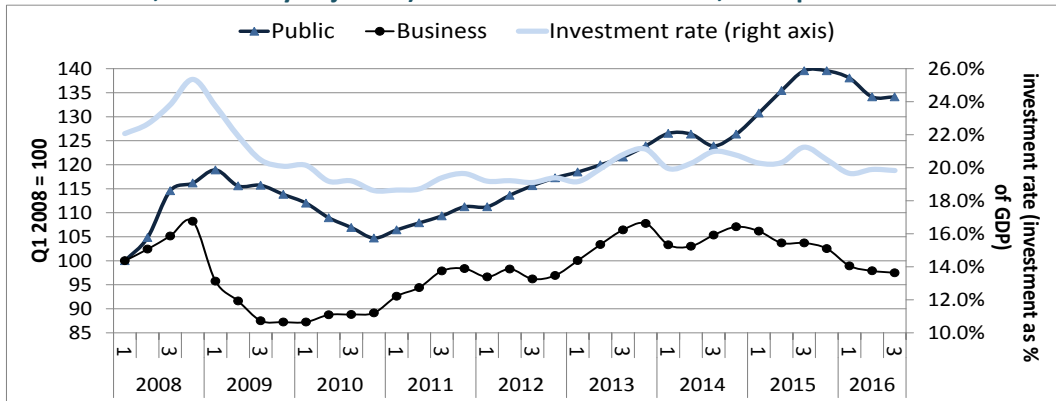
**Graph 15: Change in components of expenditure on the GDP, year to third quarter, 2011 to 2014**



Source: Calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016

After the global financial crisis, business investment recovered through 2014, but since then has declined. Public investment, including both general government and public corporations, began to fall in mid-2015, although it recovered somewhat in the past quarter. As a result, the share of public investment in total investment climbed from 31% in the first quarter of 2008 to 38% in the third quarter of 2016 (see Graph 16).

**Graph 16: Indices of investment by the public sector and business (first quarter 2008 = 100; seasonally adjusted) and the investment rate, first quarter 2008 to 2016**

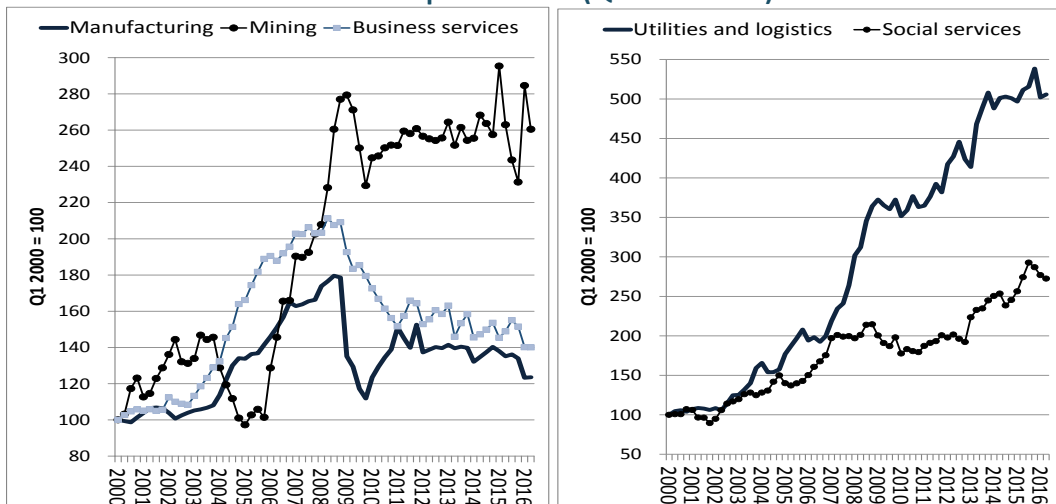


Note: The investment rate is gross fixed capital formation as a percentage of GDP. Source: For first quarter 2010 to third quarter 2016, calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016. For first quarter 2008 to fourth quarter 2009, calculated from Reserve Bank. Interactive data series. Electronic database. Downloaded from [www.reservebank.co.za](http://www.reservebank.co.za) in December 2016.

As a percentage of the GDP, investment climbed from under 15% in 1994 to a peak of 25% in 2008, but dropped to around 19% in the past three quarters. As a general guideline, investment of 20% to 25% of the GDP is required for sustained growth.

Investment in mining, manufacturing and business services generally rose rapidly through 2008, although mining fell sharply in 2004/5. But all three sectors saw a sharp fall with the global financial crisis in 2008/9 and never fully recovered. Investment in manufacturing in particular fell from 2011, largely as a result of the pressure on refineries and capital-goods producers from the end of the commodity boom. In contrast, logistics, utilities and social services, which fall mostly under the state, saw significantly increased investment until 2015.

**Graph 17: Indices of investment by sector in constant rand from first quarter 2000 to second quarter 2016 (Q1 2000 = 100)**

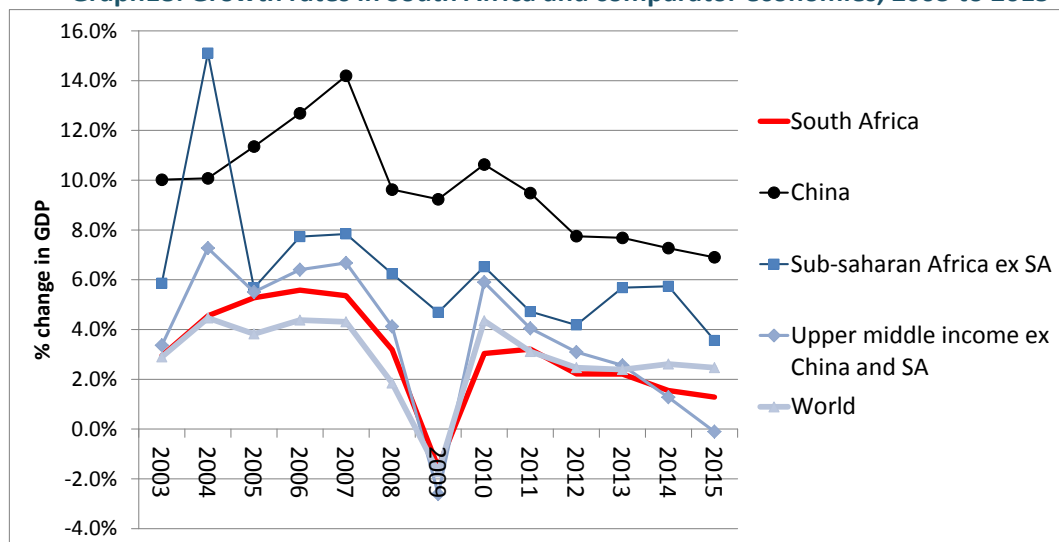


Source: For first quarter 2010 to third quarter 2016, calculated from Statistics South Africa. GDP P0441 – Q3 2016. Worksheet QRU. Excel spreadsheet. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in December 2016. For first quarter 2000 to fourth quarter 2009, calculated from Reserve Bank. Interactive data series. Electronic database. Downloaded from [www.reservebank.co.za](http://www.reservebank.co.za) in December 2016.

More broadly, growth in South Africa continues to track global trends. As Graph 18 shows, in the past year it actually performed rather better than its peers in the upper-middle-income group excluding China, largely because of the deep recessions in Brazil and Russia. From this standpoint, the outlook in 2017 is affected by:

- Efforts by OPEC to reduce production and increase petroleum prices, although the impact is expected to be moderate, raising the price of oil to around US\$60 a barrel.
- The political changes in the US and the UK, which have already been destabilising. If the new US administration increases investment in infrastructure to the extent hoped, it could provide some relief on commodity prices – but the uncertainty around trade and international policy in general as well as the US interest rate is a major risk.
- The inability of China to accelerate its economy. The shift from growth driven by exports and, more recently, massive infrastructure investment to expansion based on household consumption has proven slow. Moreover, the rapid increase in private debt in China over the past two years has raised concerns and not provided the hoped for longer-term stimulus.

**Graph18: Growth rates in South Africa and comparator economies, 2003 to 2015**



Source: Calculated from World Bank. World Development Indicators. Electronic database. Downloaded in November 2016.

## Briefing note:

### The national minimum wage and manufacturing

November 2016 saw the report of the National Minimum Wage Panel, which proposed a minimum wage of R3 500 phased in by mid-2019. This note analyses the implications for the main sectors of the economy and for manufacturing industries based on the available wage-survey data.

Setting a national minimum wage proved challenging because of the unusually large differences in pay level by sector as well as the extraordinarily high overall inequality in South Africa. A moderate pay increase for most formal workers would prove disruptive in the low-wage sectors of domestic, farm and contract cleaning work, where most workers earn under R2 500 a month. For this reason, the panel proposed that at least initially, farmworkers would get 90% of the minimum, or R3 150 a month, and domestic workers 75%, or R2 625. In manufacturing, if introduced as proposed in 2019, estimates indicate that the minimum wage would lead to an increase in labour costs of around 5%, and two out of five workers would benefit. In agriculture and contract cleaning, in contrast, the proposed minimum would affect well over half of workers and provide for an overall increase of over 15% (see Table 1).

**Table 1: Estimated impact of minimum wage on formal employees by sector if implemented in 2019**

Sector	number employed	% change	number affected	% affected	average increase for affected workers in rand
Agriculture	708 000	15%	570 000	80%	817
Mining	392 000	3%	83 000	21%	2 137
Manufacturing	1 306 000	5%	483 000	37%	1 561
Utilities	111 000	3%	24 000	22%	1 876
Construction	784 000	9%	348 000	44%	1 719
Trade	1 688 000	6%	670 000	40%	1 372
Logistics	521 000	4%	157 000	30%	1 792
Business services ex security and cleaners	1 006 000	2%	237 000	24%	1 368
Security guards	404 000	8%	148 000	37%	954
Contract cleaners	151 000	21%	98 000	65%	968
Public services (b)	1 835 000	4%	595 000	32%	1 722
Private community and personal services	777 000	5%	324 000	42%	1 382
Total	9 690 000	5%	3 725 000	38%	1 198

Note: Estimated using CPI forecasts from the 2016 national Budget Review, assuming no change in the allocation of employees between pay levels. (b) Government employees in the community, social and personal services sector. Source: Calculated from Statistics South Africa. 2015 Labour Market Dynamics. Electronic database. Series on formal employment, main industry group and monthly earnings for employees. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in November 2016.

In manufacturing, the effects of the minimum wage on remuneration would vary significantly by industry. The average percentage increase would range from around 8% in clothing and food production to just 2% in machinery and auto. The share of workers affected differed similarly, from almost half in clothing to around a quarter in machinery and auto.

**Table 2: Estimated impact of minimum wage on formal employees in manufacturing by industry if implemented in 2019**

<b>Industry</b>	<b>number employed, 2015</b>	<b>average % increase (total)</b>	<b>number affected</b>	<b>% benefiting</b>	<b>average pay rise for those affected (in 2015 rand)</b>
food, beverages, tobacco	297 000	8%	124 000	42%	1 139
clothing and textiles	141 000	8%	69 000	49%	1 238
other chemicals, plastic, paper	122 000	5%	41 000	33%	1 360
glass and non-metallic minerals	80 000	5%	38 000	47%	1 397
machinery, appliances and transport equipment	204 000	2%	51 000	25%	1 511
metals	202 000	3%	52 000	26%	1 489
other manufacturing	259 000	6%	108 000	42%	1 217

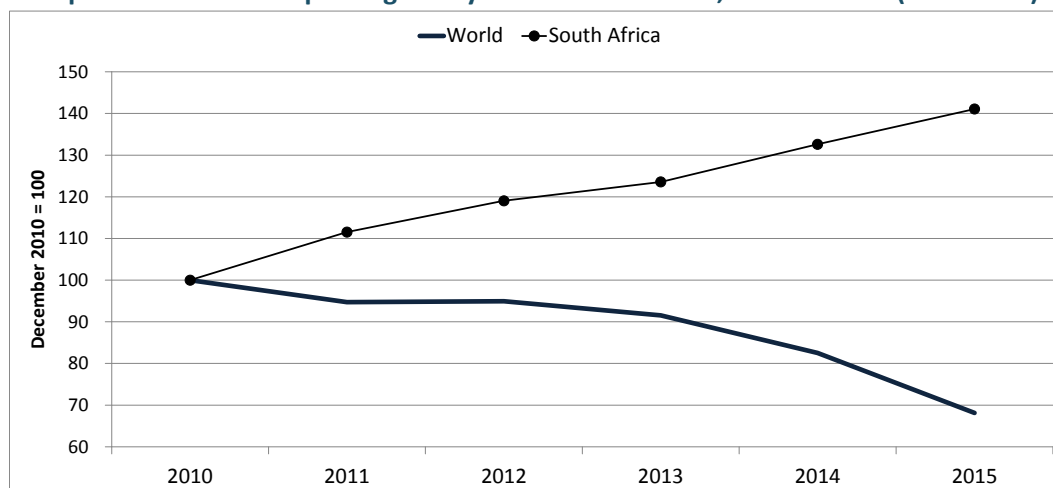
*Note: Estimated using CPI forecasts from the 2016 national Budget Review, assuming no change in the allocation of employees between pay levels. (b) Government employees in the community, social and personal services sector. Source: Calculated from Statistics South Africa. 2015 Labour Market Dynamics. Electronic database. Series on formal employment, industry and monthly earnings for employees. Downloaded from [www.statssa.gov.za](http://www.statssa.gov.za) in November 2016*

While the minimum wage proposal would bring a relatively modest average increase in remuneration, it would lead to a significant increase for the workers who benefited. That in turn should bolster demand for basic necessities, especially food, clothing and household furnishings, and public transport. The growth in agro processing points to the opportunities this affords for industrialisation, especially with the competitive rand. In contrast, increased demand for basic clothing and furnishings has largely been met by imports. The challenge for industrial policy is to identify where addressing binding constraints on manufacturing can enable South African companies to compete with imports without tariffs that would raise the cost of living for the poor.

## Briefing note: Food and inflation

The international Food and Agricultural Organisation (FAO) found that world food prices declined by 17% in 2015 from the previous year, falling to the lowest level since 2009. This trend contrasts sharply with the situation in South Africa, where food prices have surged from 1994. The recent drought has only aggravated the longer-standing problem.

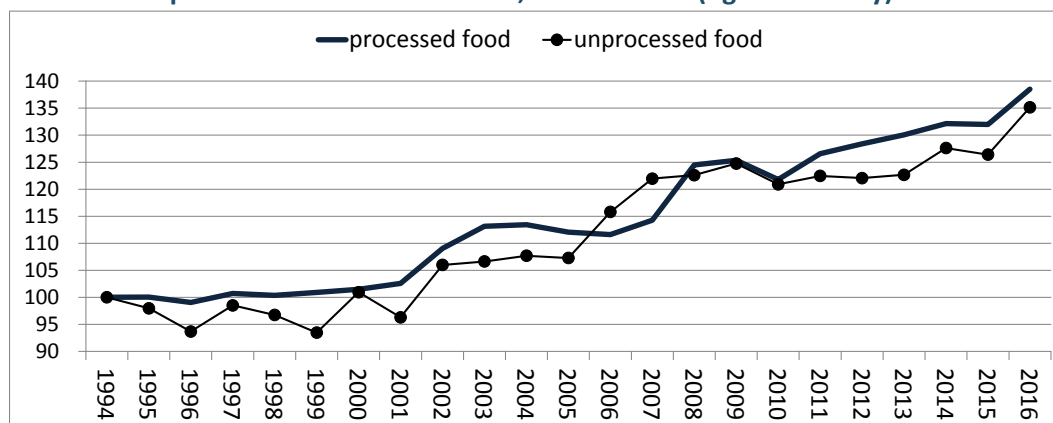
**Graph 1: Index of food prices globally and in South Africa, 2010 to 2015 (December)**



Source: FAO, 2016; Stats SA 2016

As Graph 2 shows, food price increases have exceeded inflation for most years since 1994.

**Graph 2: Index of real food prices for processed and unprocessed food and for other products for the urban areas, 1994 to 2016 (figures for July)**

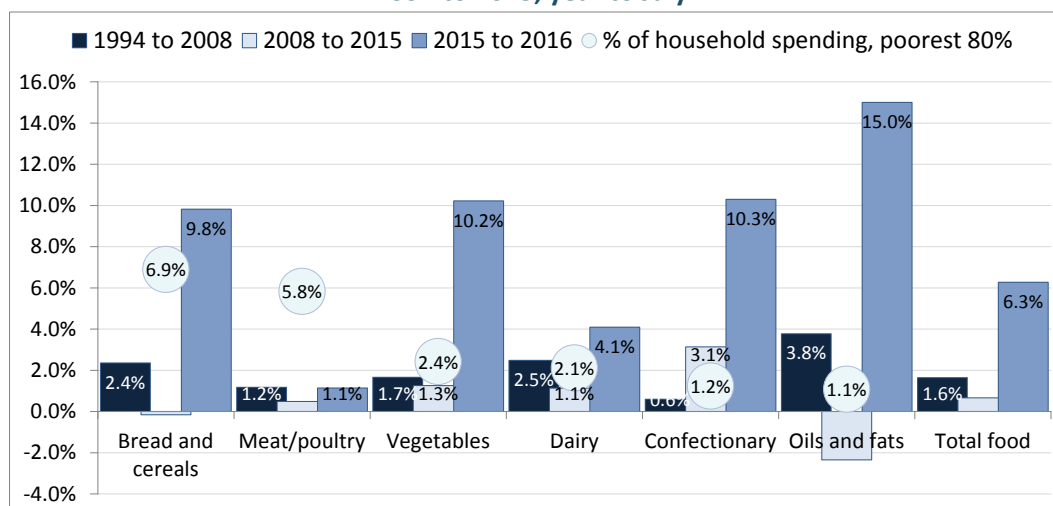


Source: Statistics South Africa, CPI data

Poor households spent a larger share of their budgets on food, and therefore are most burdened by higher prices. In 2011, food absorbed 30% of spending by the poorest 40% of households, around 18% for the next poorest 40%, and just 7% for the richest 20%.

As Graph 3 shows, real changes in food prices differed significantly by product. Bread and cereal prices actually declined from 2008 to 2014 before shooting up by almost 10% as a result of the drought in 2014/15. Virtually every other major type of food increased more than overall inflation from 1994.

**Graph 3: Average annual real change in prices of major food groups, 1994 to 2015, year to July**



Source: Statistics South Africa, CPI data and Income and Expenditure Survey 2010/11.

Moderate real price increases for meat and poultry were driven primarily by low-cost chicken imports, while beef prices increased much faster than inflation. The unit cost of chicken imports in 2015 was around R7 a kilo for products from Brazil, R14 a kilo for products from Europe, but around R21 a kilo for local producers. Local poultry producers repeatedly called for tariff protection, which would lead to a significant increase in meat prices especially for poor consumers, who were more likely to buy frozen imported chicken.

The high level of concentration in the food value chain contributed to the relatively rapid increase in food prices over the past 20 years. A fairly small number of companies dominated storage, processing and retail, as Table 1 shows. In farming itself, the number of commercial farms dropped by around half from 1994, from 60 000 to the current 30 000, without a decline in production. Commercial farmers accounted for around 95% of formal food sales and two thirds of total food sales.



**Table 1: Market structure for major food products**

Sector	Commercial farmers	Dominant processing companies
Maize and bread	9000 in maize Under 4000 in wheat	17 silo companies, based on former co-ops, control over 90% of storage; Senwes, Afgri and NWK control 75% Premier, Tiger Brands, Pioneer and Pride account for 75% of maize milling, with around 300 smaller millers also functioning Pioneer, Tiger Brands, Premier and Foodcorp control virtually all wheat milling; Pioneer, Tiger Brands and Premier account for over 85% of bread sales.(a) Estimates suggest over 50 000 smaller formal and informal bakers, including pizza and similar franchises.
Dairy	There were 1 728 formal milk producers in August 2015, down from 3 665 in January 2008 and over 7 000 in 1997 (b)	Market shares: Clover 26%, Parmalat 18%, Unilever 7%, Danone 6%, and Cape Oil and Margarine 6%.
Poultry	Poultry is grown largely by direct subsidiaries of the large companies as well as by farmers contracted to them	Vertically integrated companies, which also produce feed, dominate poultry production, with Astral and Rainbow together controlling around half of total production. (c) Around 400 farmers are considered “emerging” poultry farmers.
Processed fruit and vegetables	Around 8000 farmers grew fruit and vegetables, but only about a third sold for processing	There are around 55 processors but dominant companies are Tiger Brands followed by Rhodes (which took over Del Monte in SA in 2010) – market share varies by product
Confectionary	Sugar company estates produce 7%; 1500 commercial farmers produce 85%; 25 000 small outgrowers	Mondelez, Nestle, Tiger Brands accounted for 68% in 2015; rest largely imported

Notes: (a) Ledger, T. 2016. *Power and Governance in Agri-Food Systems: Key Issues for Policymakers*. TIPS Working Paper. TIPS. Pretoria. March. (b) Food Price Monitoring Committee. 2003. *Final Report*. DAFF. Downloaded [www.gov.za](http://www.gov.za) in September 2016. p. 201. (c) DAFF. 2012. *A Profile of the South African Broiler Market Value Chain*. Pretoria. P. 7. Source: Information from sector reports by Who Owns Whom, latest version for sector, unless otherwise noted.

In addition to high levels of concentration, the transition to democracy saw a substantial decline in subsidies for commercial farmers. In 2014, the OECD found that farm subsidies in South Africa had fallen from 15% of output in 1995 to 2% in 2014. That compared to a 2014 level of 4% in Brazil, 10% in the United States, and 18% in the European Union.<sup>1</sup>

More recently, the 2015/6 drought meant South Africa this year became an importer of maize for the first time since 2004. The drought, the worst recorded for South Africa, appears to be related to climate change, which aggravated the El Nino phenomenon that is associated with low rainfall in South Africa.

Maize imports have a particularly negative impact on food prices. When South Africa imports maize, the price jumps by at least 30% as sellers shift to import-parity prices, which include a mark-up for transport even for local maize. Higher maize costs affect maize meal but also feed prices for poultry and cattle.

The real increase in food prices over the past 20 years has affected the quality of living for most South Africans. In addition, by increasing the cost of living for working people, it adds to the pressure on wages. A critical challenge for industrial policy is to understand the factors behind the long-term rise in real food costs and identify effective measures to promote competitive and affordable production.

<sup>1</sup>OECD. Producer and Consumer Support Estimates. Electronic database. Series on Percentage Producer Support Estimate for relevant countries. Downloaded from [www.oecd.org](http://www.oecd.org) in February 2016.