Economic Indicators

Economic indicators are economic statistics which are released periodically by government agencies and private organisations. These indicators provide insight into the economic performance of a particular country or region. Some of the economic indicators that affects the agricultural sector includes supply and demand of agricultural products, economic growth, exchange rates, policies, commodity prices and inflation. Each will be discussed in detail in the link below.

Demand for Agricultural Products

The demand for agricultural products directly affects the price for the commodity. If the demand increases, prices are expected to increase. If the demand for a specific product decreases, prices tend to decrease similarly. Consumer demand is defined as the various quantities of a particular good that an individual consumer is willing and able to buy as the price of that good varies, with all other factors that affect demand held constant. The demand side is made up of:

- Domestic human consumption and feed use,
- Exports (variable due to production successes and failures in SA and other countries, and the value of a particular nation's currency and transportation costs.
- Industrial uses

The major factors that influence the level of demand include:

- Demographic factors such as population size, its distribution by age, ethnicity and so on;
- Economic factors such as income and its distribution, and the prices and availability of other products;
- Consumers' tastes and preferences, which can be influenced by their educational level, life experiences, information and advertising, and the social context in which they live.

Supply of Agricultural Products

The supply of agricultural products is seasonal and dependent on favourable weather- and other external conditions. A farmer's objective is to maximise profits and they will not produce a product if they do not have an expectation of realising profits. Two components that make up the supply side is the level of beginning stocks, which represents how much of a commodity is carried over from the previous year and production. How many hectares planted and expected yields determine production levels.

If the supply of a product increases, the prices for the same product will decrease. If the supply of a product decreases, the prices for the same product will increase. The major factors that influence the level of supply include:

- Changes in the prices of input costs;
- Changes in prices of commodities competing for the same resources;
- Changes in the prices of joint products (e.g. lamb and wool for sheep production)
- Changes in the level of price or yield risks faced by the producer;
- Changes in technology that influence efficiency and the costs of production, and
- Changes in institutional factors, like government price-support programs.

National supply and demand figures indicate how much supply of a commodity there is for the marketing year and how much will be used for a marketing year.

Economic Growth (GDP)

Economic growth, measures by the Gross Domestic Product (GDP) is the total value of goods and services produced by the factors of production located in South Africa over a specified period. The GDP indicates the level of buying and selling activities in an economy and indirectly the consumer demand and consumers ability to purchase goods and services. The higher the GDP, the greater the demand for agricultural goods supporting increasing prices.

Exchange rates

If the currency of one country depreciates against the currency of another, goods from the first country tend to become relatively cheap and more attractive.

International Trading Policies and International Commodity Agreements

Such arrangements sometimes impact supply or affect price levels while overriding, at least temporarily; normal supply/demand patterns. Export subsidies and trade agreements are related to factors that impact prices.

Overall Level of Commodity Prices

Commodity prices tend to move together. If the price of one commodity rises 10%, then the prices of substitute or competing commodities might be expected to rise similarly. As the effects of these price increases filter through the economy, prices of other commodities will also be expected to rise. Indexes that include a number of commodities, stocks or bonds provide clues to general price levels.

Brent Crude Oil

The price of Brent crude oil has a direct impact on the expected fuel price which, in turn, affects the prices of input costs. Bren crude oil also affects the cost of transportation which affects the prices for specific products.

Inflation

Inflation is sustained and significant increases in general price levels. It indicates the increases in input costs for agricultural products and directly impacts the profitability of farming businesses.

With macro background factors in mind, the next step in economic analysis involves examining how a commodity fits within its particular industry. Some markets are more sensitive to supply factors while others are more responsive to changes in demand. In many agricultural markets, changes in supply resulting from weather conditions are often the dominant factor in the short run. In other markets, such as precious metals where large stockpiles exist, shifts in demand are often more pivotal.