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Leaner meat industry with reduced GDP

By Jan van Zyl

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The contraction of 0.6% in the gross domestic product (GDP) during the first quarter of 2014 does not bode well for the meat industry in South Africa, especially after the disappointing 1.9% growth in 2013.

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For the economy, this means that fewer jobs will be created and jobs may even be lost. With economic growth in decline and fewer workers employed, the result is that households have less disposable income and this affects the meat industry in South Africa in a number of ways.

The country has had its fair share of challenges resulting in many people living in economically harsh circumstances and as such, their diet largely consists of carbohydrates staples, including maize, bread and rice. As disposable incomes rise, diets change to substitute carbohydrates with more protein livestock products; therefore, more meat, eggs and dairy products are consumed.

With sustained economic growth, more and more households will be drawn into the middle-class consumer segment where they will be able to afford to buy more meat regularly. This results in the consumption of meat becoming a habit and meat dishes becoming part of the traditional diet. This ultimately results in a sustainable growth in the meat industry.

Furthermore, the per capita consumption of meat in a particular country correlates closely with the wealth of its citizens as measured by the GDP per capita or the disposable household income per capita. For the meat industry, this measure is more beneficial if there is a fair distribution of wealth in the country, because the population would be included in the sector that can afford to buy meat as opposed to a country where there is a large divide between income groups and only a small segment can afford to buy meat regularly.

The table below compares the GDP per capita in some countries with their per capita consumption of meat. It illustrates the potential for growth in the meat industry in South Africa, if economic growth could be sustained. It also indicates that the comparative wealth of a country does not indicate a preference for a particular meat type.

Selected Countries GDP/Capita and Meat Consumption

	Population Mil	GDP/Capita US$	Beef Kg/yr	Pork Kg/yr	Chicken Kg/yr	Sheep Kg /yr	Total Kg/yr
Luxembourg	0,549	103 858	43.8	45.5	39.8	1.7	136.5
USA	318,104	51 748	42.1	30.3	51.8	0.5	125.4
Australia	23,302	67 441	43.5	23.0	39.3	14.3	121.2
Spain	46,609	28 273	14.9	60.9	27.3	4.5	110.2
Italy	60,021	33 815	24.0	44.7	15.8	1.4	91.4
France	65,885	45 694	26.9	31.7	21.1	3.3	88.7
Germany	80,716	42 597	13.2	55.6	15.5	0.7	87.7
Brazil	202,612	11 339	37.2	11.0	31.7	0.6	80.6
Russia	143,700	14 037	17.6	18.0	22.1	1.2	60.3
Argentina	42,669	11 573	55.1	6.8	26.8	1.4	91.7
China	1364,660	6 091	4.7	33.3	12.0	2.9	54.1
RSA	52,981	7 352	16.5	3.6	25.1	3.7	49.2

Source: The World Bank, FAO.

Very wealthy countries may prefer beef, others pork and for some, mutton or chicken. It shows there is potential for all meat types to prosper in South Africa.

Strikes affect economy

In the June 2014 Monetary Policy Review of the South African Reserve Bank, much of the blame for the economy's poor performance is directed to striking labour, which has negatively affected other sectors (notably the manufacturing sector) and consequently consumption expenditure on a macro level. This has especially further knee haltered the beef industry.

Even under severe economic conditions, many poorer communities are still able to buy meat products, but notably the cheaper cuts, grades and offal. In this way, the meat industry also provides for the needs of the poor.

However, if there is limited income in communities or workers are not dispatching money to families living perhaps in other areas, the market for these meat products all but dries up and places severe pressure on the industry.

Leather industry also slows

In contrast, there is also another by-product of the beef industry that is affected if economic times get tight for the middle and upper income segments. The leather for car seats is sourced from the beef industry and is a very important revenue stream.

The slowdown in the economy is manifested in the decline in the number of new cars sold in the country. This will negatively affect the demand for hides and skins for the automotive industry and add to the woes in the meat industry.

Last year, the meat industry was under pressure to drought conditions in the north and north-western regions of South Africa, as well as in Namibia. Poor veld conditions necessitated the excessive slaughter and marketing of livestock, which depressed producer prices. Although this situation has normalised, the depressed economic conditions of consumers has prevented demand growth this year.

In conclusion, the one factor that has possibly mitigated against the situation being much worse for the meat industry is the substantial growth in the middle-income segment resulting from domestic transformation policies. If the growth in the size of middle class households can be maintained, the meat industry will definitely benefit from increased meat consumption.

Download the podcast here.

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