Rising costs in SA agriculture and agribusiness sectors

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Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

The debate about rising global inflation and increases in interest rates is hugely relevant for South Africa's agriculture and agribusiness sectors. In 2020, when major central banks, including the South African Reserve Bank, lowered interest rates to record lows in response to the pandemic economic damage, the farming sector saw significant reductions in debt servicing costs. This was a welcome development for a sector that had outstanding debt of R191 billion in 2020[1]. However, the rise in interest rates now comes at an even trickier time for the farming sector, where input costs such as fertiliser and animal feed remain elevated and are likely to stay at a higher level for some time. The increases in input costs are partly the result of the Russia-Ukraine war, which has limited fertiliser production and exports from Russia. Before the war, Russia was the world's leading exporter of fertiliser, accounting for about 14% of global exports.

Supply constraints in China, partially caused by the Covid-19 lockdowns and Chinese authorities' decision that fertiliser companies should stop exporting to ensure the supply of the domestic chemical fertiliser market have also contrived to higher input prices.[2] This is noteworthy because China is the second-largest exporter of fertiliser after Russia, making up an average of 12% of global exports. With the two significant fertiliser exporters, Russia and China, limited in the export market, the supplies have been reduced notably. It is for this reason that we believe that prices could remain elevated for some time. In March 2022, which was a critical month for the winter crop farmers in South Africa, domestic fertiliser prices were up by over 70% year-on-year (y/y). We saw a similar price trend in agrochemicals prices.

It is tough for farmers to escape from rising input costs as they require fertilisers and agrochemicals to attain optimal yields. Despite this, we were encouraged by the winter crop farmers, who intend to increase the area plantings in the 2022/23 production season by 6% y/y. We will have a clearer view of whether they maintained these intentions in July when the Crop Estimates Committee releases its winter crop preliminary plantings data.

Meanwhile, summer crop farmers will provide us with their intentions to plant for the 2022/23 production season later in the year on 26 October. Other field crops, such as sugar cane, will require an even higher fertiliser usage during the replanting following the devastating floods in KwaZulu-Natal. For the horticultural industry, disrupting important markets such as the Black Sea region, important for citrus and deciduous fruits, implies that profitability will be negatively affected. It will not be an easy task to reroute fruits to other markets, particularly citrus, whose export season starts this month. The logistical challenges at ports exacerbated by the recent floods in KwaZulu-Natal are an additional cost to the agribusiness. These difficulties also apply to the wine industry, livestock, and poultry industries as well. Foot-and-mouth disease has resulted in a temporary ban of South Africa's wool, beef, and livestock products to most export markets. These challenges come at a time when farmers face higher input costs, mainly for maize and soybeans.

[1] This is based on the data form the Abstract of Agricultural Statistics published by the DALRRD. It is available here.
[2] For more information, please read here.

Ultimately, the rising interest rates and various input costs imply that South African agriculture and agribusiness will, in the coming months, have to be focused on cost management even more than has already been the case. For this reason, as Agbiz, we have consistently raised the issue of poor municipality service delivery and lack of maintenance of network industries such as roads, ports, water and electricity. The current conditions mean that agribusinesses and farmers have to divert some of their resources to activities that the state would ordinarily have done. In the environment of constrained financial resources, as we have explained, there is limited flexibility for businesses to embark on such cost-intensive tasks.

Agriculture is an important sector of the economy in South Africa, revered for both its ability to absorb labour, provide food security, and reduce poverty, particularly in small towns. The sector is also a notable foreign currency earner through its exports which were at a record US$12,4 billion in 2021. Although South Africa has no control over input costs rising due to external factors, to support the sector and ensure that it continues to play a notable role in the economy, the government departments responsible for the network industries, along with Infrastructure South Africa, must prioritise the infrastructure improvements. As we have stated in the previous notes, the improvements will also be beneficial to the tourism, mining and manufacturing sectors.

Weekly highlights

The global Food Price Index slightly eased in April, but this is a temporary blip

The world has seen a surge in food prices for several reasons. These include drought in South America and Indonesia, rising demand for grains and oilseeds in China, and, more recently, the disruption of the global grains and oilseeds exports following the Russia-Ukraine war. In March 2022, the FAO Global Food Price Index rose to a record level since its inception, illustrating the price increases observed across the world's major agricultural producing and exporting regions. This difficulty of rising food prices is unlikely to change in the medium term as general grains and oilseeds supplies are constrained, and the higher fertiliser prices have increased uncertainty about the potential harvest in the 2022/23 production season.

This past week, the FAO Global Food Price Index eased from the all-time high level in March 2022, declining by 1% to 159 points.[3] Still, this is up by 30% from the corresponding period last year (see Exhibit 1). The easing in prices in April was on the back of a slight decline in the vegetable oil prices. This is even a more complicated issue, as the recent decision by Indonesia to ban the exports of palm oil means that the global export volumes have reduced significantly, and prices have surged since then. The FAO data probably didn't fully account for the Indonesia decision. We will likely see the price increases reflected in the data for May, which will be released on 03 June. Other food prices such as grains, dairy, meat, and sugar remain elevated, and we don't see a potential change in the price direction in the near term.

We believe that the slight ease in the global food prices in April was a temporary blip, as the fundamentals that underpinned the price increases over the past few months have not changed. If anything, they have worsened if we consider Indonesia's decision to ban palm oil exports, drought in parts of the US that are currently planting, and the rising fertiliser prices, which could negatively influence planting and yields in the 2022/23 season.

[3] More information about the FAO Global Food Price Index is available here.

Exhibit 1: FAO Global Food Price Index

Source: FAO and Agbiz Research

Data releases this week

We start this week focusing on global data release; today, the United States Department of Agriculture (USDA) will release its weekly **US Crop Progress** data. In the previous release, in the week of 01 May 2022, maize and soybean plantings were still at preliminary stages and quite behind the 2021 pace because of dryness in some regions of the US. For example, about 14% of the US maize hectares had been planted camped with 42% on 01 May 2021. Moreover, 8% of the soybeans had been planted compared with 22% in the corresponding period last year.

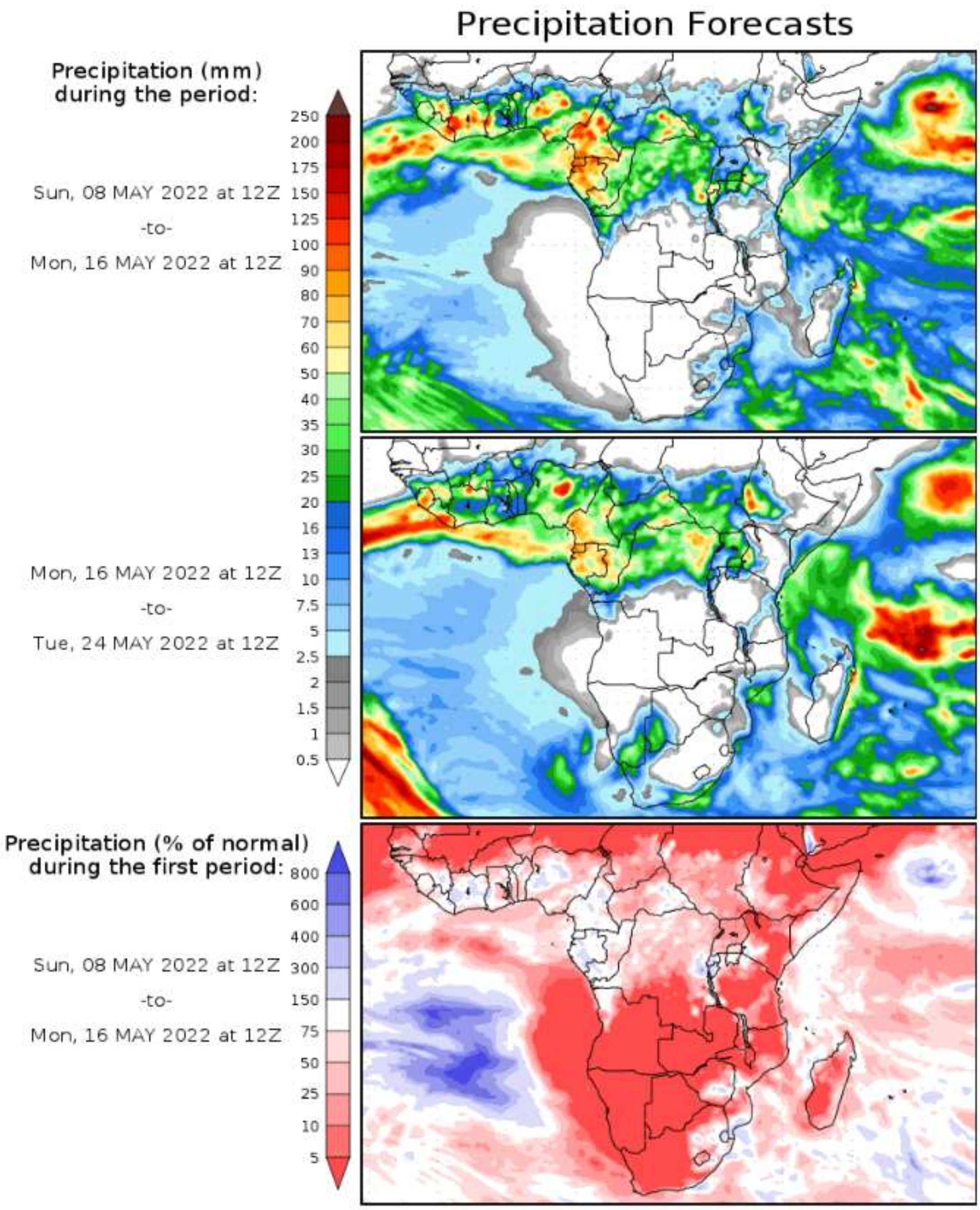
Importantly, on Thursday, the USDA will release its monthly **World Agricultural Supply and Demand Estimates** report. This is a key report to keep an eye on as it will provide the preliminary crop area plantings forecasts for the US, and grains and oilseeds production estimates for other regions of the world for the 2022/23 production season. Given the challenges of fertiliser costs and supplies we have highlighted, we look to see how various countries are coping with the challenge and estimating crop production. On the same day, Thursday, the USDA will release the **US Weekly Export Sales** data.

Domestically, on Wednesday, SAGIS is due to release the **Weekly Grain Producer Deliveries** data for the first week of the new marketing year for summer crops, the year 2022/23. Our focus on these data will be on maize. We will cease our regular updates on the producer deliveries for wheat until later in the year when we start the harvest season. The winter crops are currently at the beginning stages of the 2022/23 production season. To close the winter crops, we reflect briefly on the previous release of the week of 29 April, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 31 weeks of the 2021/22 production season and equated to 96% of the harvest estimate of 2,3 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 06 May. In the previous release on 29 April, which was the 52nd week of South Africa's 2021/22 maize marketing year, total maize exports remained at 3,7 million tonnes, equating to 95% of the seasonal forecast of 3,9 million tonnes (up by 36% y/y). This was the last week of the marketing year, and the next release will focus on the 2022/23 marketing year. The data means that the exports were slightly overstated, as we are at 95% of the seasonal forecast. Still, these were largest exports since 1994/95.

South Africa is a net importer of wheat, and 29 April was the 31st week of the 2021/22 marketing year. The total imports are now at 922 936 tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest).

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week ahead shows clear skies over the summer crop growing areas of South Africa, which is favourable for the harvest process that has recently started in various parts of the country.

Importantly, the week ahead also shows prospects of warmer weather conditions, which will continue to support the harvest activity.