

Key challenges that constrained SA's agricultural fortunes in 2023

- As the year draws to a close, it is worth reflecting on critical events that dominated the South African agricultural scene over the past year. There are three in particular that stood out for us. First, the intense and persistent load-shedding right from the start of the year was a significant challenge for South Africa's agriculture and agribusinesses. The impact became apparent when one considers that all of South Africa's horticulture – fruits and vegetables depends on irrigation that needs an adequate power supply. In crucial field crops, roughly 20% of maize, 15% of soybean, 34% of sugarcane, and nearly half of wheat are produced under irrigation. In red meat, poultry, piggery, wool, and dairy production, electricity is also heavily used across various processing activities. Similarly, agribusinesses and other food-producing businesses faced similar challenges in various downstream processing activities, such as milling, bakeries, abattoirs, wine processing, packaging, and animal vaccine production. Exporting agribusinesses, especially those where delays can be costly, such as fruits, red meat, and wine, were also worried about the port activities.
- In the first quarter of the year, the economic impact of the load shedding was felt across the food, fibre and beverages value chains. Primary farmers and businesses searched for capital to invest in their own energy generation, and some experienced losses in their stock. In addition to the private efforts, the Department of Agriculture, Land Reform and Rural Development, Eskom management and organized agriculture formed an Agricultural National Energy Task Team. This Task Team introduced interventions to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and, most recently, the Agro-Energy Fund. The fact that we were also in a La Nina rainy season, in crops and horticulture helped to ease the demand for regular irrigation. Through these efforts and heavy investment in renewables and other energy generation measures, South African agriculture, along with the food, fibre and beverages value chains, managed to minimize the damage of load shedding and ensured a consistent supply of high-quality food for consumers.
- Second, the weaknesses of South Africa's biosecurity system were a dominant challenge this year. Admittedly, biosecurity breaches are not uniquely South African and have become a significant challenge globally. We frequently hear of Foot and Mouth Disease (FMD) in cattle, African Swine Fever in pigs and Avian Influenza in poultry worldwide. However, very few countries have had to deal with the scale of these disease outbreaks almost simultaneously as South Africa has had to do over the past year.
- Back in 2022, six of our nine provinces reported FMD outbreaks. By the start of 2023, the conditions hadn't changed much, as we continued to see reported cases throughout the year. Also noteworthy is that at the end of 2022, we learned of the outbreaks of the African Swine Fever, which put the pig

industry under additional pressure. This remains an ongoing challenge in the pig industry. Most recently, the focus has been on Avian Influenza, where more than a hundred commercial poultry facilities have reported cases. There have been significant losses in parent stock for breeders of layers and broilers, thus leading to imports of fertilized eggs to rebuild the parent stock flock decimated by the disease. The financial impact of this outbreak is evident in the recent losses announced by the major producers and the price increases of some products from a consumer perspective.

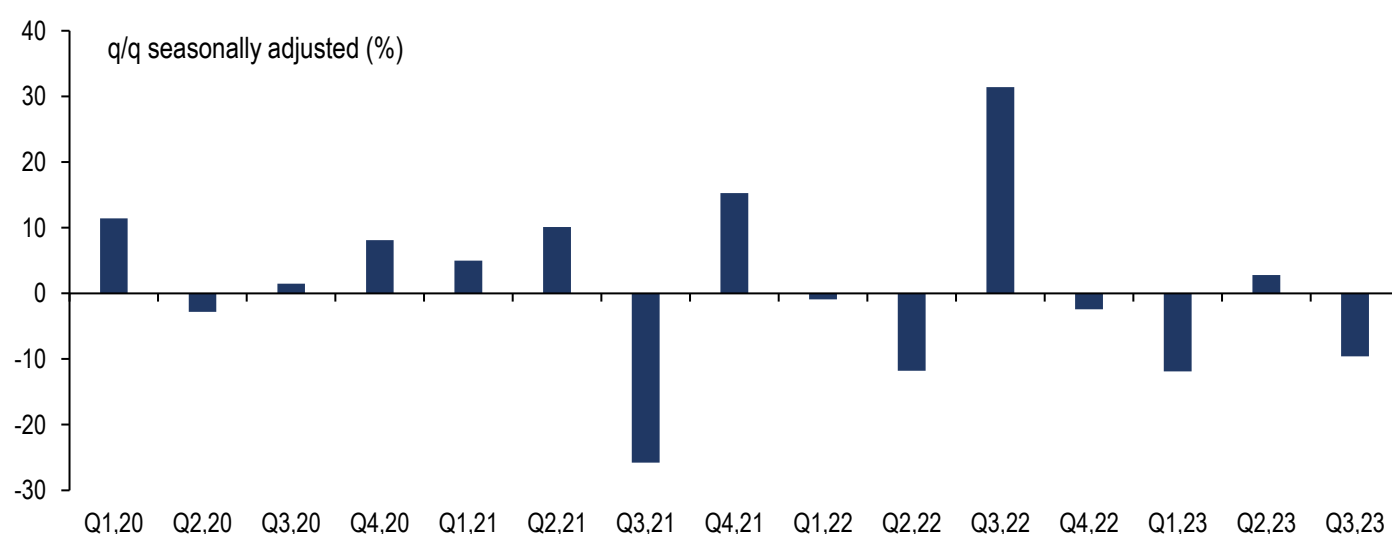
- Regarding the cattle industry, the financial impact is also severe, and South African cattle products exports to some markets were suspended. In essence, as seen in the recent outbreaks, South Africa's biosecurity breaches signal some serious capacity challenges in farm biosecurity measures and the country's veterinary and related support services. This is mainly in the laboratories, control of the movement of livestock and vaccine production. Therefore, the South African government and organized agriculture and industry bodies should work closely together to address the country's biosecurity challenges as they persist.
- Lastly, the congestion at the ports is another aspect that dominated the conversation, especially in the last quarter of the year. For the first three quarters, the agricultural sector successfully collaborated with Transnet to keep exports flowing to export markets. South Africa's agricultural exports amounted to US\$10,2 billion in the first nine months, up 1% from the same period in 2022. But the last quarter exports are at risk, mainly the deciduous fruits and table grapes and wines in the Port of Cape Town, which is typically busy with agricultural exports this time of the year compared with other ports. This is an area that needs urgent intervention to support the growth of the sector. South Africa's agricultural sector is export-oriented and depends on efficient and effective ports.
- Overall, while there were numerous other challenges in the sector that we do not discuss in this report, the three points we discussed above were perhaps the most notable and cross-cutting across each commodity and its value chain. These factors also diverted attention from implementing fundamental policies and programmes such as the Agriculture and Agro-Processing Master Plan, and the stakeholders suddenly had to be in "crisis" mode instead of thinking about the long-term growth prospects and interventions to support such a vision. Going into 2024, the industry will have to refocus on the Master Plan and resolve the above-mentioned constraints, as it remains relevant and necessary to support the inclusive growth of South Africa's agriculture.

WEEKLY HIGHLIGHT

South Africa's agricultural gross value added contracts in Q3, 2023

- Following an encouraging recovery of 2,8% quarter-on-quarter (seasonally adjusted) in the second quarter of 2023, South Africa's agricultural gross value added contracted by 9,6% in the third quarter. These figures were a surprise as we thought the ample field crop, whose harvest was a month behind the typical schedule, would still be reflected in the third-quarter data. For example, the 2022/23 maize harvest is at 16,4 million, which is 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybean harvest is at a record 2,8 million tonnes. South Africa's sugar cane crop is forecasted to be 18,5 million tonnes in 2023/24, up 3% y/y. Other field crops and fruit harvests were also decent this year. Ultimately, the base effects and headwinds in the livestock and poultry industry weighed on the sector. The livestock and poultry industry, which accounts for nearly half the sector's value, has been hit by animal diseases such as foot-and-mouth, avian influenza and African swine fever.
- Also worth noting is that South Africa's agriculture quarterly gross value-added figures tend to be quite volatile; hence, our communication always focuses on the annual performance. Importantly, with the downbeat growth figures of the recent quarters, we now think the sector could show mild contraction this year instead of the solid growth we initially anticipated.
- Aside from the quarterly growth figures, the sector's key challenges are rising geopolitical tensions, deteriorating infrastructure, weakening municipalities, crime, and energy supply, which all influence farm profitability. The South African government, collectively with the private sector, should address these issues to support the sector in the long term. Also crucial for the outlook of the agricultural sector is highlighting that El Nino's impact on the 2023/24 summer season is another aspect to keep an eye on, although we remain optimistic that it will have a mild impact on the sector and thus keep production at decent levels and, by extension, support growth.

Exhibit I: South Africa's agricultural gross value added



Source: Stats SA and Agbiz Research

WEEK AHEAD

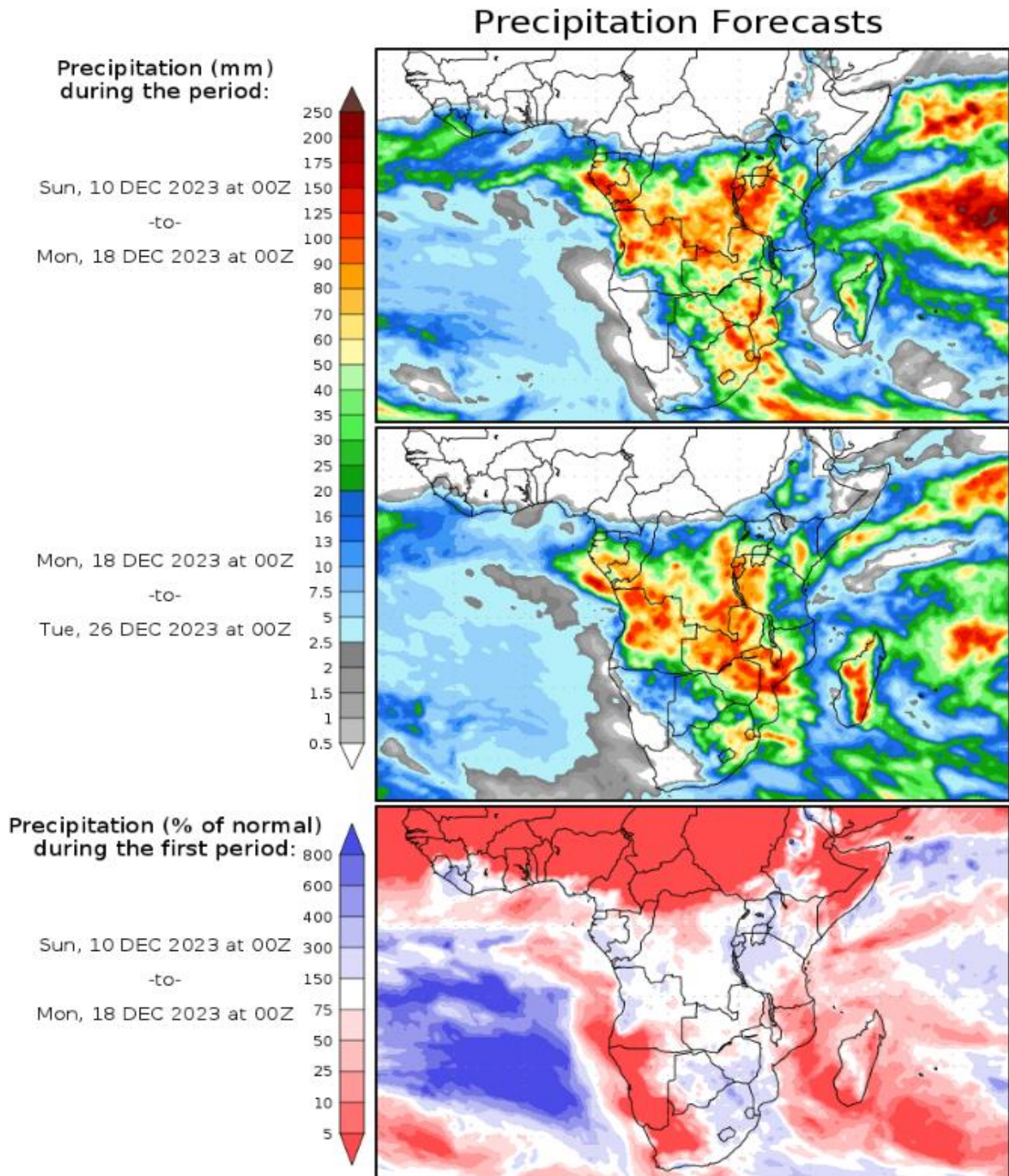
What we are watching this week

- This is a quiet week on the global front; we only have the United States Department of Agriculture (USDA) **weekly U.S. grains and oilseeds export sales** data due for release on Thursday.
- On the domestic front, Statistics South Africa will release **Consumer Price Index (CPI)** data for November 2023 on Wednesday. Our focus on this data will primarily be on the food category, and we expect some moderation. To recap, South Africa's consumer food inflation quickened to 8,8% in October 2023, from 8,0% in the previous month. The product prices underpinning this increase were mainly milk, eggs and cheese; fruit; and vegetables. For all these products, the recent price rises will likely be a temporary blip. They are a reaction to brief supply constraints in the past few months.
- Also on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for December 8. In the previous release on December 1, South Africa's 2023/24 maize producer deliveries were about 34 493 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,6 million tonnes out of the overall harvest of 16,4 million. On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the harvest of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 714 880 tonnes out of the harvest of 724 110 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is in full swing. Last week, 252 554 tonnes of wheat had already been delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,3 million tonnes out of the expected harvest of 2,2 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for December 8. In the previous release on December 1, the 31st week of the 2023/24 marketing year, South Africa exported 37 055 tonnes of maize. Of this volume, 43% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,41 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and December 1 was the ninth week of the new 2023/24 marketing year. There were weekly import volumes of 37 553 tonnes from Canada, Latvia, Lithuania and Russia. This placed South Africa's 2023/24 wheat import at 485 059 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).

South Africa's Precipitation forecast

- The weather forecast for the next two weeks is favourable, showing prospects of rain across the summer crop-growing regions of South Africa. The rain will help further improve soil moisture and benefit the 2023/24 summer crops.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)