

SA agriculture still holds potential for growth but faces numerous challenges in the near term

We spent time this past week engaging with some of our members in the Free State. The conversations focused on broad policy themes such as land reform, agriculture and agro-processing master plan, biosecurity, rural rejuvenation, trade policy and challenges in the network industries (water, electricity, roads, rail, and ports). Generally, the spirit is upbeat about this sector but, as with other provinces, agribusinesses are troubled by the deteriorating infrastructure in the above-mentioned network industries and the poorly functioning municipalities. These are all themes that the Agbiz office continues to focus on, amongst other activities. In terms of agricultural conditions, we shared our downbeat view of the sector for this year, which we will paraphrase in this issue of the *Agricultural Market Viewpoint*.

South Africa's agricultural sector was one of the bright spots of our economy during the Covid-19 lockdown period. This was the only sector that showed robust growth as other sectors of the economy were constrained by the lockdown restrictions, various supply chain disruptions and reduced consumer activity due to fear of contagion. But this year, the predominant message South Africans will hear and read regarding the growth performance of the agricultural sector will likely be more downbeat compared with the last two years.

We are already in the camp of those that forecast a mild contraction in South Africa's agricultural sector this year. There are a number of things that concerns us. For example, the livestock industry, which accounts for roughly half of South African agriculture's gross value added, continues to suffer from foot-and-mouth disease outbreaks and rising feed costs. Meanwhile, some field crops' harvests are not as robust as the 2020/21 season due to heavy rains at the start of the season. It is worth acknowledging that while some of these harvests will be lower than in the previous season, they are well above the long-term harvest levels. That said, these reduced harvests and the challenging in livestock farming will likely overshadow the robust activity we have seen in field crops such as soybeans, sunflower seeds, and various fruits.

These challenges are also mirrored in the sentiment indicators of this sector. For example, the Agbiz/IDC Agribusiness Confidence Index deteriorated further by 7 points to 53 in the third quarter following a 2-point decline in the second quarter of 2022. Moreover, on a slightly more technical note, the exceptionally high base created by two years of solid growth where the sector expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021, will also be a major factor to likely lead to a mild contraction in the sector's performance this year.

Respondents to the third quarter Agbiz/IDC Agribusiness Confidence Index survey provided more details about some of the challenges the sector is currently experiencing. Aside from the aspects we noted above, the higher input costs, friction in some export markets, rising interest rates, intensified geopolitical risks which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries were some of the factors that survey respondents cited as the key concerns.

But as usual, one has to treat these sentiment indicators with care and realize that moderation is something to monitor but does not necessarily signal that the sector is in

26 September 2022

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terrible shape. To this end, a level of the Agbiz/IDC Agribusiness Confidence Index above the neutral 50-point mark implies that agribusinesses remain cautiously optimistic about operating conditions in South Africa. With this line of thought, the third quarter of 2022 results still reflects broadly favourable agricultural conditions, albeit not as strong as the previous seven quarters.

One other aspect worth monitoring is jobs, as many of us view agriculture as a key employer. Here, we are not as concerned as we are about the broad growth numbers. For example, in the second quarter of this year, there were 874 000 people in primary agriculture, up by 1% year-on-year (and up 3% quarter-on-quarter). Notably, this is well above the long-term agricultural employment of 780 000.

When we observe the activity on the ground and chat with farmers and agribusinesses, we do not get a sense that there will be a notable fall in employment despite the downbeat view we hold about the sector's broad growth performance for this year. In fact, the Agbiz/IDC Agribusiness Confidence Index has a subindex that also assesses the sentiment about employment conditions in the sector. In the third quarter, that subindex was robust, measured at 61 points (performed much better than the overall composite index).

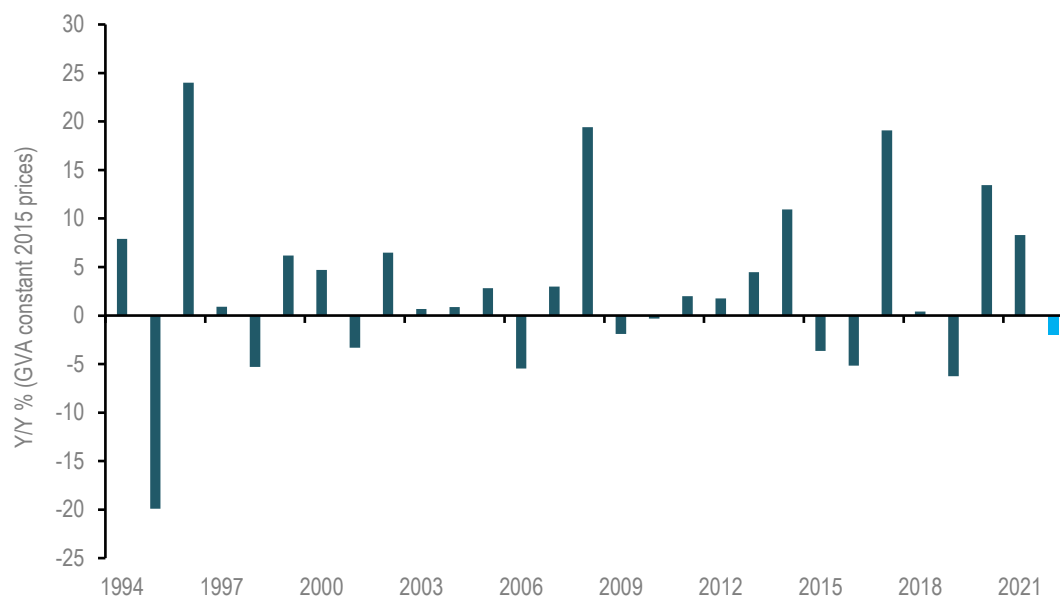
In sum, while we anticipate some moderation in South Africa's overall agriculture growth prospects this year, we are not suggesting that the sector is in bad shape per se. The output in a range of commodities is well above the long-term levels, and the contraction that we project is largely a reflection of the exceptional performance of the past two years rather than the depressed production conditions in the current year. Notably, the sector can return to a positive growth path if the livestock disease is controlled and if we get a favourable rainy season in 2022/23 summer. This means that to get this sector back into a positive growth path, the Department of Agriculture, Land Reform and Rural Development, together with organized agriculture should accelerate the collaborative efforts of resolving the animal disease challenge, as we have previously argued.

We would add to this list the issue of trade, where various agribusinesses and farmers continue to highlight the need for expansion of export markets to markets such as China, South Korea, India, Saudi Arabia, Bangladesh and Japan. These are countries with strong economies and can be key buyers of our high-value products such as beef, wine and fruits. Simultaneously, we need to maintain the existing export markets such as the EU, the African continent and some Asian markets, which are instrumental for our growth path. This is a long-term endeavour that requires active engagement by the South African authorities in consultation with other role-players in the sector.

Regarding the upcoming 2022/23 agricultural season, the prospects of a weak La Niña provide a good foundation for an excellent rainy season. This is notwithstanding the lingering challenges of higher prices of critical farm inputs such as fertilizer, agrochemicals, and fuel, which will put pressure on farmers' and agribusinesses' finances when the summer crop season starts in October.

From a policy position, South Africa's agricultural sector recently launched an Agriculture and Agro-processing Master Plan, a social compact development plan, which should help drive long-term inclusive growth and unlock barriers that constrain performance, if implemented fully. Some barriers require collaboration with various line departments and state-owned companies, specifically concerning the efficiency of municipalities and the network industries (mainly roads, rail, ports, water, and electricity). Aspects of agricultural finance such as Blended Finance are also key ingredients of the growth agenda of this important sector of the South African economy.

Exhibit 1: South Africa's agricultural gross value-added



Source: Stats SA and Agbiz Research

Weekly highlights

South Africa's consumer food price inflation accelerated further in August 2022

South Africa's consumer food price inflation accelerated further to 11,5% year-on-year (y/y) in August 2022, from 10,1% y/y in the previous month. This is the fastest pace since January 2017, which was a drought period in agriculture where costs were driven by higher agricultural commodity prices. The higher agricultural commodity prices we've observed in the months since Russia invaded Ukraine continue to filter into the consumer food price inflation data. Moreover, the higher fuel price inflation since the start of the war is an additional cost driver of food prices.

More specifically, the higher global grain and oilseed prices for much of this year have been the drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. These were also amongst the key drivers of the price inflation in August, alongside vegetables, sugar, sweets and desserts. Notably, these are also products with a relatively higher weighting within the food basket. For example, within the food basket, the key products are meat (35%); bread and cereals (21%); milk, cheese and eggs (17%); vegetables (8%); sugar, sweets and desserts (4%); oils and fats (3%); and fruit (2%).

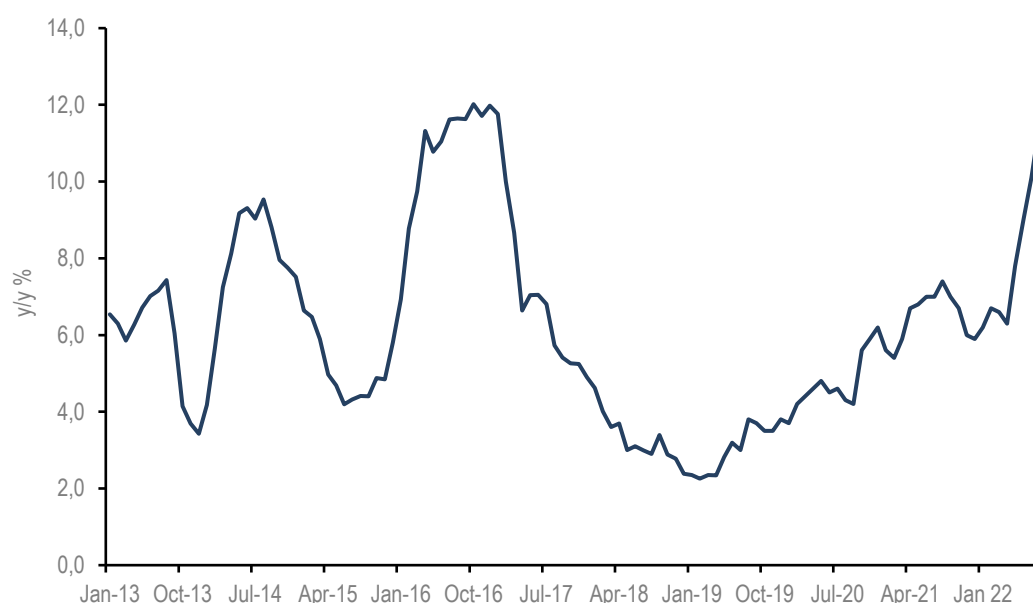
In the case of fruits and vegetables, the uptick registered in August was a monthly blip caused by a temporary decline in volumes in the fresh produce markets across the country. Generally, South Africa has a sizable harvest, and the disruption in fruit exports within the Black Sea and the EU could add downward pressure on domestic prices. This bodes well for the consumer in the near term (and the opposite is true for the farmers).

The one essential product whose price trend remains uncertain is meat, although its prices moderated somewhat in August. The outbreaks of foot-and-mouth disease have led to the temporary closure of some key export markets for the red meat industry. Ordinarily, this would add downward pressure on prices as it implies that we would see an increase in domestic meat supplies. But this time around, the spread of the outbreak is vast, to the extent that we might see a decline in slaughtering in major feedlots, which would ultimately keep red meat prices at relatively higher levels; the opposite of what we initially anticipated.

This remains uncertain, and we will closely monitor the monthly slaughtering activity. Positively, the suspension of the anti-dumping duties for poultry products could help contain the potential price increases in this product, at least in the near term. Still, the broad meat price trend will depend on the developments in the beef market.

In sum, the global grain and oilseed prices, which have been the major drivers of the surge in inflation, are starting to soften, which shows in the global indices. The FAO's Global Food Price Index was 138 points in August 2022, down by 2% from July and registering its fifth consecutive monthly decline led by a price drop in all products.¹ These global developments are also showing in South Africa, and this could also reflect on the consumer food price inflation data in the coming months. Therefore, we continue to expect the domestic consumer food price inflation to start moderating towards the end of 2022.

Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Agbiz/IDC Agribusiness Confidence Index deteriorates further in Q3, 2022

The Agbiz/IDC Agribusiness Confidence Index (ACI) deteriorated further by 7 points to 53 in the third quarter following a 2-point decline in the second quarter of the year. Higher input costs, friction in some export markets, persistent animal disease challenges, rising interest rates, intensified geopolitical risks which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries remained the key factors that survey respondents cited as the key concerns. Still, a level of the ACI above the neutral 50-point mark implies that agribusinesses remain cautiously optimistic about operating conditions in South Africa. Therefore, the third quarter results still reflect broadly favourable agricultural conditions, albeit not as strong as the previous seven quarters. This survey was conducted in the first two weeks of September 2022 and covered agribusinesses operating in all agricultural subsectors across South Africa.

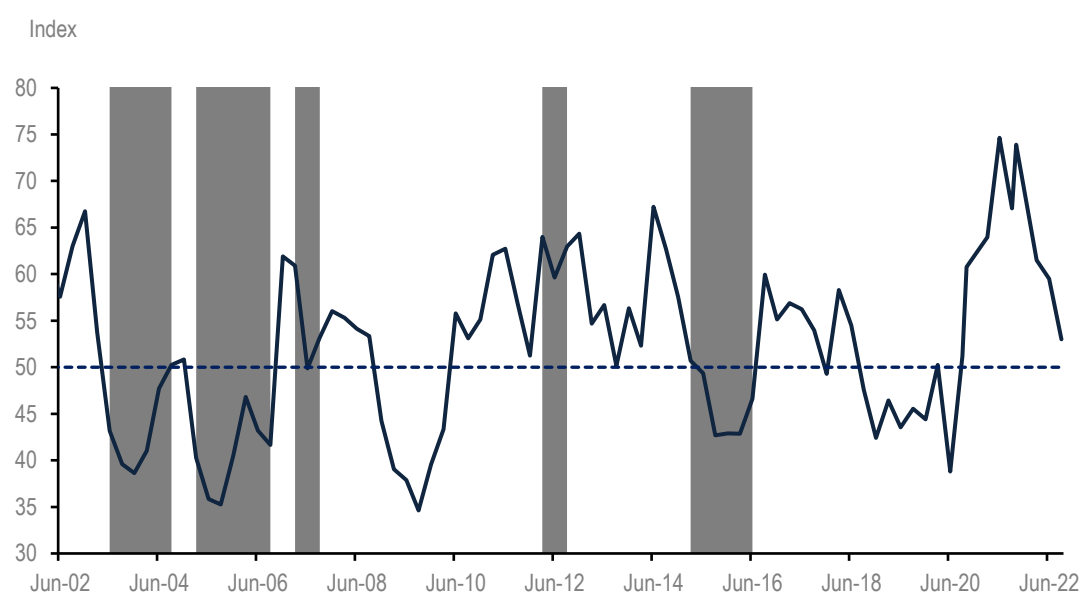
¹ More information is available here: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Broadly, the Agbiz/IDC ACI's third-quarter results present a picture of a sector that remains on a sound footing, but one that is also confronted with a range of challenges. This moderation in sentiment suggests that 2022 could show a contraction in South Africa's agriculture gross value added, as we stated in the opening section. Still, this does not mean the sector is in terrible shape. The base in 2021 is high and we see slightly lower harvests in some field crops this year.

Looking ahead, the prospects of a weak La Niña provide a good foundation for an excellent rainy season. This is notwithstanding the lingering challenges of higher prices of critical farm inputs such as fertilizer, agrochemicals, and fuel, which will put pressure on farmers' and agribusinesses' finances when the summer crop season starts in October.

For the long-term growth of this sector, the need to improve the efficiency of ports, electricity supply and water, quality of roads, curbing crime that devastates the rail network, and improve biosecurity should be prioritised by both government and the private sector.

Exhibit 3: Agbiz/IDC Agribusiness Confidence Index²



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

As always, we start with a global focus. Today, the United States Department of Agriculture (USDA) will publish its **Weekly US Crop Progress** data. In these data, our focus is on the US crop-growing conditions as the season progresses, and some regions have started with the harvest process. In the previous release, in the week of 18 September 2022, about 52% of the maize crop was rated good/excellent, which is down by 7% from the same week a year ago. This decline is mainly explained by the drier weather conditions over a few couple of weeks. Meanwhile, about 55% of the soybean crop was rated good/excellent, which was down by

² The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

3% from the previous year's rating in the same week. Moreover, the USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 23 September 2022. This data will help us get insight into the size of the crop as harvesting has been recently completed in most regions of the country. In the previous release of the week of 16 September, about 13,4 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,0 million tonnes. The soybean and sunflower seed harvests have also advanced.

Also on Wednesday, the Crop Estimates Committee will release the **eighth production forecast for summer field crops** for 2022. On the same day, the CEC will release the **second production forecast for winter cereals** for 2022. We don't expect major adjustments on summer crops. However, the winter crops could show mild upward revision as the weather conditions in the winter-producing regions of the Western Cape have generally been favourable over the past couple of weeks.

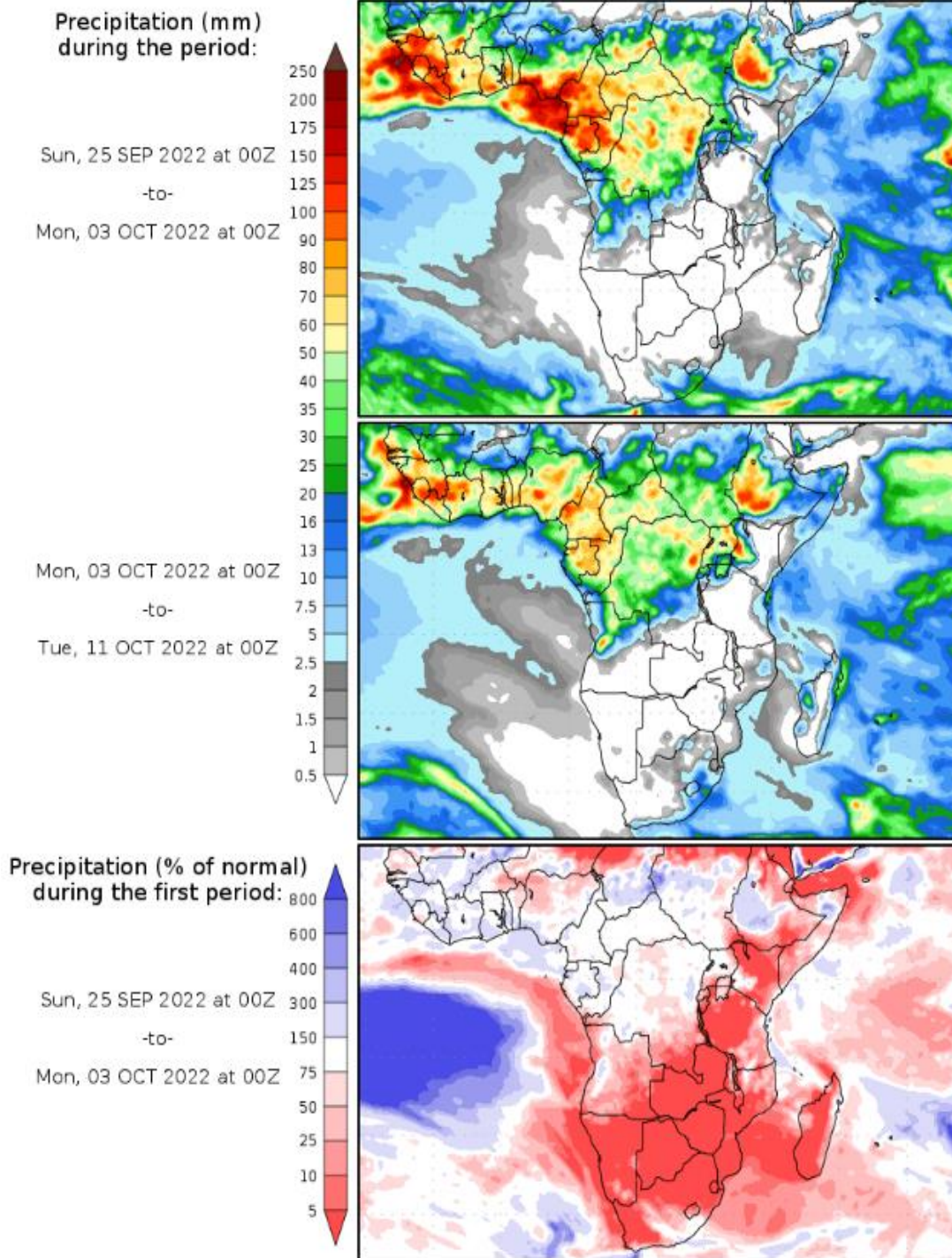
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 23 September 2022. In the previous release on 16 September 2022, which was the 20th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 28 166 tonnes. About 53% of this went to Japan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,6 million tonnes out of the seasonal export forecast of 3,4 million. This is slightly down from 4,1 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 16 September was the 51st week of the 2021/22 marketing year. The total imports are now 1,58 million tonnes, far surpassing the seasonal import forecast of 1,48 million tonnes (and the 2020/21 marketing year imports of 1,51 million tonnes). We will likely see additional imports before the end of this marketing year this month. The major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US.

As we stated in our previous notes, if one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. The suppliers mentioned above have now replaced this.

Also, on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for August 2022. Our focus on these data will be on the food category. The higher agricultural commodity prices we have observed in the months since Russia invaded Ukraine continue to filter into the food producer price inflation data.

Precipitation Forecasts



Source: George Mason University (wxmaps)

We are in a relatively quiet period in the agricultural sector as farmers get ready to start planting summer crop for the upcoming 2022/23 season from October.

The weather forecasts for the next two weeks show clear skies over much of South Africa.

Still, we will likely start receiving frequent rains from next month onwards.