

After two years of growth, SA's agricultural economy could contract in 2022

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South Africa's agricultural sector has had two consecutive years of solid growth, with its gross value-added expanding by 13.4% year-on-year in 2020 and 8.3% year-on-year in 2021. This was a period of favourable rainfall, which supported crop yields and grazing conditions for the livestock subsector. The higher commodity prices, specifically for grains and oilseeds, also boosted the farmers' incomes in 2020 and 2021.

The increased global demand for agricultural commodities during this period saw South Africa exporting \$10.3-billion of agricultural products in 2020 and a record \$12.4-billion in 2021. The allied industries, such as the agricultural machinery, benefited from improved farmers' incomes throughout this period.

For instance, South Africa's tractor sales for 2021 were 7 680 units, up by 26% from the previous year. Combine harvester sales were 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year for South Africa's agricultural machinery sales, so surpassing it means 2021 was an exceptional year. In 2020, tractor sales were up by 9% from 2019. Combine harvester sales increased by 29% from 2019.

During this period, these positive agricultural production conditions were also mirrored in employment conditions in the sector, with 829 000 people involved in primary agriculture in the third quarter of 2021, up by 3% year-on-year, and well above the long-term agricultural employment of 780 000. When the fourth quarter employment data are released, the numbers will probably show solid employment levels, probably more than this third-quarter level.

The path ahead

If we look ahead, the South African agricultural sector will probably face more challenging conditions this year and into 2023. The excessive rains at the start of the 2021-22 production season threatened the crops as various areas of the country experienced damages that required replanting. Still, the overall area planting of 4.3 million hectares, well above the 2020-21 season, and the expected summer crop of 17.5 million tonnes (down 9% year-on-year) means that the rains didn't cause as much damage as initially feared, at least from a national perspective.

The expected harvest is well above the long-term average levels. In the horticulture subsector, there were damages in some vegetable fields such as tomatoes and carrots. Still, fruits and a range of vegetables seem to be in reasonably good shape.

But the other difficulties of this past season for field crops and horticulture farmers were higher input costs, which had increased by more than 50%. The areas that had to replant after crop damages by excessive rains incurred much higher costs this past season. Therefore, the

elevated commodity prices, while looking favourable for farmers that have the crop, gains will largely be overshadowed by the higher input costs.

The livestock industry remains in solid condition, but there are still biosecurity cases (foot-and-mouth disease) in parts of KwaZulu-Natal and fears of other disease outbreaks on the back of a wet season. Moreover, the higher grains and oilseeds prices add cost pressures to the livestock and the poultry industry that uses these products in their feed. This is precisely the case for the poultry sector, where maize and soybeans make up more than 50% of input costs. To have these products rising double-digit will add cost pressure to the poultry farming businesses.

The export conditions this year will also be hampered by geopolitics. Citrus was South Africa's leading exportable agricultural product in 2021 in value terms, accounting for roughly \$1.9-billion. Additionally, apples and pears were the fifth largest agricultural product export out of South Africa, accounting for \$689-million. These products had a presence in Russia — about 7% of South Africa's citrus exports in value terms and 12% of apples and pears exports in the same year — the country's second-largest market.

The Russia-Ukraine war and the following sanctions will probably limit South Africa's presence in these markets in the near term. Given the significance of this market, the diversion of the volumes to other export markets of the domestic market could add downward pressure on prices and, after that, negatively influence farmers' finances and the general export earnings of the country.

From a growth perspective, 2022 will probably be a break from the solid two years of expansion in South Africa's gross value added for agriculture. The sector could see a mild contraction in 2022 because of a reduction in the summer crop harvest and the base effects. With that said, employment conditions will probably hold above the long-term agricultural employment levels of 780 000. The recovery in the Western Cape's agricultural production, particularly the wine industry reconstruction strategy, could support employment conditions in the near term.

The outlook going to 2023 will not only depend on general weather conditions but also on input costs, particularly fertiliser. The length of the Russia-Ukraine war and the severity of the damages will matter more for the upcoming season. This is specifically because Russia is the world's leading exporter of fertiliser materials, accounting for 14% of global exports in value terms.

The prices have risen significantly, and there are now fears that if the war continues for longer, there could be disruptions in infrastructure and limits in export volumes, which will have negative implications for the 2022-23 agricultural season and, after that, the general performance of the sector in 2023.

These rising input cost pressures for farmers have also prompted us to negatively view the agricultural machinery sales in 2022 and 2023. Farmers will probably try to manage their costs wisely and reduce spending on new tractors and combine harvesters for now; although the start of the year sales were robust, the coming months will probably show a slowdown.

Wandile Sihlobo, the chief economist of the Agricultural Business Chamber of SA (Agbiz), is the author of "[Finding Common Ground: Land, Equity, and Agriculture](#)".