

Collaboration helped to lift agricultural exports in Q3 despite various challenges

The need to expand South Africa's agricultural export markets beyond the current reach, along with concerns about logistical interruptions, were the two major running themes in various interactions we had with agribusinesses last month. China, Japan, India, Saudi Arabia, and Bangladesh are some of the markets that the agribusinesses are interested in expanding their presence in. This is because of the growing population and generally better economic conditions that support the demand for high value agriculture, food, and beverages products. For the near term, the destruction and criminality destroying Transnet infrastructure was a key focus. This is mainly because South Africa's agricultural and agribusiness sector is export-oriented. Some worried that the unrest in Kwa-Zulu Natal in July, combined with the cyberattack at Transnet and general theft of rail material that disrupted the agriculture, food and beverages export activity would have a notable impact on trade figures for the second half of this year.

We now have the trade data for the third quarter of 2021, and positively, the exports are up by 8% y/y to US\$3,4 billion. This puts South Africa's agriculture, food and beverages exports for the first three quarters of this year at US\$9,6 billion. The top exportable products were citrus, maize, wine, apples and pears, nuts, sugar, fruit juices, and wool, amongst other products. We expect some of these products to continue dominating the export list in the fourth quarter of the year. The major factors underpinning this robust export value are the sizeable agricultural output in the 2020/21 production season, combined with general solid global demand, even at higher agricultural commodity prices. There are still ample agricultural and beverages exports ongoing since the start of the final quarter of this year. Hence, we are inclined to believe that South Africa could surpass 2020's agriculture exports of US\$10,2 Billion, which was the second-highest on record and could even pass the record exports of 2018, which was US\$10,6 billion.

From a destination point of view, the African continent and Asia were the largest markets for South Africa's agricultural exports in the third quarter of this year, accounting for 35% and 33% in value terms, respectively. The European Union was the third-largest market, taking up 23% of South Africa's agricultural exports. The balance of 9% value constitutes the Americas and other regions of the world.

At the core of this success lies the continued coordination that organized agribusiness and agriculture, Transnet, and various ports operating and truckers' groups have had since the July unrests. Through meetings organized by Business Unity South Africa (BUSAs), the regular interactions amongst these groups have been a key platform to share information about various glitches that are encountered in the logistics and ease the flow of information to parties that can assist. The logistical challenges have caused financial implications, but the coordination has ensured a flow of products and export earnings for the country.

For some role players in logistics, Finance Minister Enoch Godongwana's view in the Medium-Term Budget Policy Statement that South Africa will focus on improving the efficiency of logistics infrastructure was seen as a positive signal for long term sustainability. Notably, the Finance Minister's indication of plans to have Transnet Freight Rail allow third-

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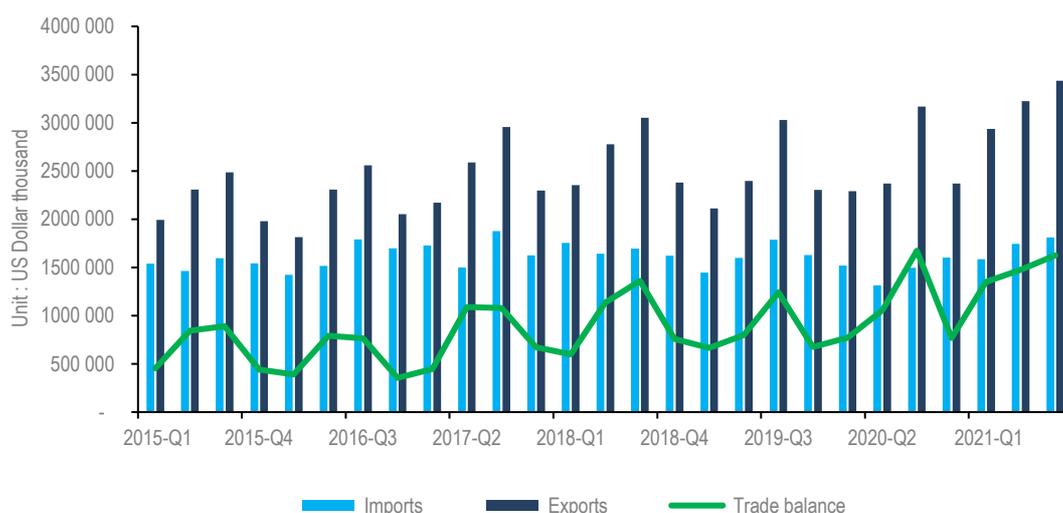
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party access to the freight rail network by the end of 2022 will also assist the agricultural sector, which has long desired to increase its share of products transported by rail.

Efficient logistics are also vital for imports as South Africa still relies on other countries for crucial food products such as wheat, rice and vegetable oils. These products dominated the food import bill in the third quarter, as they cannot be sustainably produced at scale in South Africa because of unfavourable climatic conditions. As such, in the third quarter of this year, agricultural imports increased by 21% y/y to US\$1,8 billion. The base effect contributed to this notable jump, as 2020 import activity was somewhat interrupted by Covid-19 lockdowns. In addition, the higher agricultural commodity prices also contributed to the elevated import bill. We believe rice, wheat, and palm oil will continue leading the agricultural import product list throughout the fourth quarter of the year. In sum, South Africa recorded a trade surplus of US\$1,6 billion in the third quarter of 2021, which is down by 3% from the corresponding period last year. The narrowing of the trade surplus is not caused by lower exports, as we noted above, but rather the increase in imports value and the higher commodity prices.

In terms of policy, the collaboration that has yielded positive growth in exports even in times of major disruption in logistical infrastructure should be extended to the search for export markets. Positively, the agriculture and agribusinesses role players have already identified the countries which government should use as a priority for this sectors export expansion. These are China, Japan, India, Saudi Arabia and Bangladesh, which we noted above. These efforts should be well sequenced and complement the ongoing attempts to boost domestic production through various interventions such as the Agriculture and Agro-processing Master Plan.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research