

## SA's robust grains output supports slowing food inflation

South Africa had a challenging start to the 2022/23 summer crop season. Excessive rains slowed the planting activity in various regions from October 2022 when the season started to the end of the year. Thus, the crop was planted roughly over a month behind the typical planting window in some areas. It was only around late January 2023 that all plantings were completed.

The late plantings also raised fears of possible poor yields, as some feared the crop would be negatively affected by frost later in the season. Another challenge was the intensified load-shedding and its impact on production, mainly for areas under irrigation, about 20% of maize and 15% of soybean production.

Fortunately, the combination of favourable weather conditions and the various interventions to ease the load-shedding burden on farmers supported the production conditions. The interventions include load curtailment, expansion of the diesel rebate to the food value chain, and, most recently, the launch of the Agro-Energy Fund. With that said, the effectiveness of these energy support measures differs across farming enterprises and food companies, and the costs to food producers, mainly those not fully benefiting from the above efforts, remain high because of all the necessary mitigation measures.

As a result, the crop production outlook in South Africa is fairly positive. For example, in the last week of June 2023, South Africa's Crop Estimates Committee lifted the country's 2022/23 commercial maize production estimate by 1% from the previous month to 16,35 million tonnes. This crop is 6% more than the 2021/22 season and the second-largest harvest on record. The expected ample harvest is primarily on the back of large yields, as the area planted is slightly down from the 2021/22 season. About 8,64 million tonnes is white maize, with 7,71 million tonnes being yellow maize. A crop of 16,35 million tonnes implies South Africa will have sufficient supplies to meet domestic maize needs of roughly 11,40 million tonnes and have over 3,00 million tonnes for export markets in the 2023/24 marketing year.

Moreover, the soybeans harvest was unchanged from May's record estimate of 2,76 million tonnes (up 24% year-on-year). The annual crop improvement is due to an expansion in the area planted and higher yields. The ample soybeans harvest means South Africa could meet its domestic demand and remain with over 300 000 tonnes of soybeans for export markets. This soybean export expansion is a new territory for South Africa, which until recently, had been a net importer of soybeans and soybean products, and positive for the agricultural trade balance.

However, the sunflower seed production estimate was lowered by 5% from last month at 758 610 tonnes (down 10% y/y). The annual decline in the sunflower seed production forecast mirrors the reduced planted area and yields in some areas. Sorghum production estimate is down 1% from last month and now estimated at 103 870 tonnes (up 1% y/y). Other small crops, such as groundnuts and dry beans, were left unchanged from last month at 51 510 tonnes (up 6% y/y) and 48 560 tonnes (down 8% y/y), respectively.

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**Wandile Sihlobo**

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

[www.agbiz.co.za](http://www.agbiz.co.za)

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Overall, South Africa has big summer grain and oilseed harvest, and the recent rains did not cause quality issues as some may have feared. Importantly, the fears of potentially bad harvest at the start of the year also did not materialize, and the country has one of its best agricultural seasons.

From a grain consumer perspective, these data bode well with the already softening maize and oilseed prices and reinforce a view of a possible moderation in grains-related food product prices in the food inflation basket. As I recently stated in the Mail and Guardian, after eight months of South Africa's food inflation at levels above 12.3%, May 2023 data decelerated to 12.0%, down from 14.3% in April. The food product prices primarily underpinning this moderation in food inflation are bread and cereals (grains and oilseeds), meat, fish, oils and fats, and fruit.

I expect South Africa's consumer food inflation to continue decelerating in the second part of the year, and the grains and oilseeds-related products will likely be amongst the products underpinning the softening trend of consumer food price inflation. Other products that will probably drive the slowing price inflation are vegetable oils and fruits, combined with grains and oilseeds, comprising roughly two-thirds of South Africa's consumer inflation food price basket. Importantly, the base effects also support a view of a softening pace of about 8% to 9% year on year in 2023 (from 9.5% in 2022).

With all the challenges confronting South Africa's agriculture this year, the country still achieved robust output, which bodes well for consumer food price inflation and supports export activity.