

South Africa's agriculture: activity outlook and policy landscape in 2022

For most agricultural subsectors, we are emerging from one of the best years in South Africa's agricultural sector, the 2020/21 season. Grains, oilseeds and some fruits saw bumper harvests, which boosted the export earnings and improved farm incomes, especially for grains where the large harvest coincided with higher crop prices. The current season, 2021/22, promised to be exceptional when the season started. The first rains arrived on time, with planting having kicked off roughly within the optimal planting window, from October, in the eastern regions of South Africa.

But the continuation of the heavy rains has proved to be a challenge for various regions. There is flooding within the Free State, North West, Limpopo and parts of the Eastern Cape and KwaZulu-Natal. This has caused crop damage and delayed planting in some regions. This is a La Niña-induced rain and came in a season that followed another year of higher-than-average moisture. Various crop surveys have indicated a potential decline in harvests in 2021/22.¹ We are waiting for the Crop Estimates Committee's preliminary plantings estimates, which will be released on 27 January, to formulate a view on the potential crop sizes. Ultimately, this seems likely to be a financially costly year for the farming community compared to the previous boom season if crop damage proves to be extensive.

The policy front in 2021 was also somewhat productive. The primary focus for the sector has been the Agriculture and Agro-processing Master Plan (Master Plan), which in all likelihood will be launched within the first half of this year. This means this process in the policy discussions will also dominate for most of 2022. The success of the implementation rests on the buy-in of all social partners. Notably, the Master Plan process has primarily been discussed at a national level, but the implementation will be at the provincial and municipality level. The priority for the government should be to ensure that those local structures have a similar understanding of the division of responsibilities and vigour to implement as the national department, which has led the discussions with social partners. This is particularly important as South Africa's municipalities have become increasingly dysfunctional, which adds a cost burden to the agribusinesses in some towns which have assumed public responsibilities such as road maintenance and water supply.

This year, the debate about the improvement of local governance could be prominent in policy spaces as their inefficiencies present a risk to the agribusinesses, broader agriculture and other sectors of the economy. This is a key area to watch this year. It also dovetails well with the poor roads' infrastructure, which is an additional cost burden for agribusinesses, as some commodities are heavily reliant on roads. Consider the grains and oilseeds industry. In this subsector, roughly 80% of the produce is transported by road.

Trade will also continue to dominate the broader agricultural policy environment this year. For South Africa's agriculture and agribusiness, the major focus is opening export markets to various countries such as China, India, Bangladesh, Japan, and Saudi Arabia, amongst others. In the past year, the government has had success with pears opening into China, but the goal is to reach wider access for a range of products. The balancing act from South African

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¹ One such survey is a recent one done by Grain South Africa, which indicated prospects of poor yields for some regions.

policymakers will be on attempting to widen the export market while domestically focused on the localization policy. Other countries that will want reciprocity could find the South African approach unfriendlier. This trade policy focus will likely tie up with the logistics challenges, specifically the rail and port efficiencies. The government could increase the security focus on the vandalism occurring at Transnet infrastructure. But the collaboration with business in ports facilities will most likely remain an important focus this year as Transnet has already signalled its openness to such discussions. The South African ports' efficiency has in the recent past regressed, as illustrated recently in the World Bank's research as amongst the least efficient ones in the ranking of 351.²

The land reform debate will remain part of the policy discussion this year. First, the Land Reform and Agricultural Development Agency, which President Ramaphosa first mentioned in his 2021 SONA, could be launched within the first half of the year. This Agency's focus will likely be land redistribution, while restitution and tenure remain an integral part of the government. Moreover, the broader policy could be with the government while the Agency's focus will be implementation. This is another crucial area that the private sector might have to collaborate with the government on towards implementation.

Secondly, the governing African National Congress (ANC) will have its policy conference this year. One of the contentious issues that emerged from the last conference was the adoption of a policy resolution of expropriation of land without compensation, with specific qualifications, such as ensuring that the policy doesn't negatively affect the economy and food security at implementation.³ While this policy has failed to receive support in the National Assembly in December 2021, a favourable outcome in our view, the ANC will likely revisit this discussion at its policy conference later this year. The result of this policy conference is worth watching as it will have implications for the agriculture sector and agribusinesses beyond this year.

A key area that has recently surfaced also in the media is the institutional capabilities of the government, specifically the inefficiencies at the Onderstepoort Biological Products (OBP). The goal should be to recapacitate the institution and invest in infrastructure improvement. The institution is critical to the sustainability of South Africa's vibrant livestock industry. Another institutional reform matter to watch closely because of its importance across the agricultural sector is the Land and Agricultural Development Bank of South Africa (Land Bank), with a new board that is focused on stabilising the institution and ensuring that it remains one of the pillars of South Africa's agricultural economy and that it also supports transformation, sustainably, in the sector.

Climate change will also continue to receive attention. First, this will be underpinned by the devastation we've witnessed in South Africa through the excessive rains. Broadly, the global community is also adjusting its policy. A case in point is the European Green Deal we highlighted at the end of 2021.⁴ The EU has crafted the "Farm to Fork strategy" to ensure that agriculture, fisheries, and the entire food system effectively contributes to reducing greenhouse gas emissions. The new set of regulations under the EU Green Deal and its Farm to Fork Strategy imposes additional compliance costs that will likely negate the benefits of existing preferential trade arrangements.

Overall, 2022 could prove to be yet another eventful year for South Africa's agriculture, particularly on the policy and institutional reform front. This year could be downbeat in farm profitability compared to 2021, where there were bumper harvests in a range of crops. But the key focus, for now, should be the official data which will provide a clearer view of the potential size of the crop.

² More information about the World Bank and IHS Markit Container Port Performance Index 2020 Report is available [here](#).

³ The ANC's 54th National Conference Report and Resolutions is available [here](#).

⁴ Kapuya, T. and Sihlobo, W. 2021. *The EU's Green Deal: opportunities, threats and risks for South African agriculture*. Johannesburg: The Conversation.

Weekly highlights

After two years of robust momentum, SA agriculture machinery sales could cool off in 2022

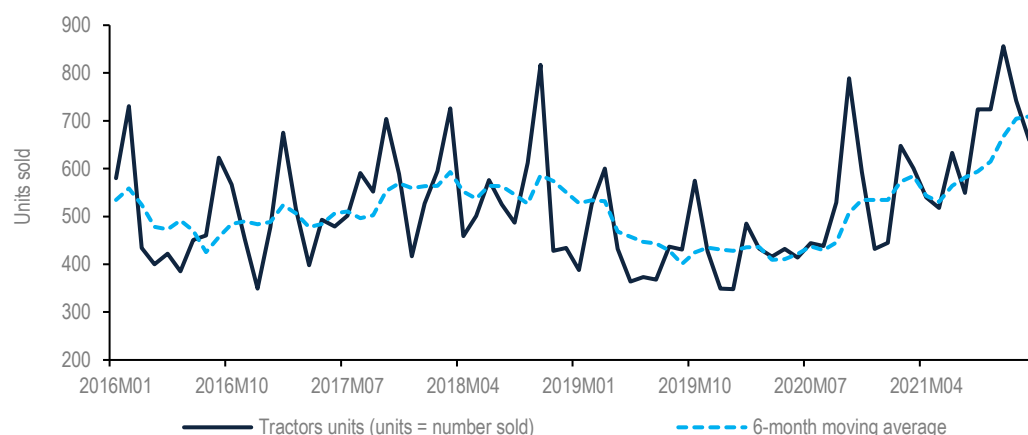
The year 2021 was generally a good agricultural season for particular subsectors such as the grain industry, and the interlinked industries like the agricultural machinery industry also benefited. South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. The combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year in South Africa's agricultural machinery sales, so surpassing it means 2021 was indeed an exceptional year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvester sales increased 29% from 2019, with 184 units sold in 2020.

The ample crop harvest of the 2020/21 production season (and the 2019/20 season), combined with generally higher commodity prices, specifically grains and oilseeds, helped boost farmers' incomes and, after that, their ability to procure the new and much needed agricultural machinery. The optimism at the start of the 2021/22 production season, supported by favourable weather conditions, also encouraged farmers to buy new agricultural machinery. Farmers planned to increase the area plantings at the start of the 2021/22 production season by 3% from the 2020/21 production season to 4,3 million tonnes.⁵

However, the excessive rains across the country since October 2021 have delayed plantings in some regions. Some areas that planted on time have experienced crop losses because of the flooding. The true impact of the rain on planting and yields will be clear on 27 January 2022 in terms of plantings data and 28 February in the case of area plantings. All available indications point to a possibly poorer season than 2020/21, which was the backbone of the robust tractors and combine harvester sales.

Hence, we are inclined to believe that the 2022 agricultural machinery sales will likely be more muted than the previous season. Moreover, the possible replacement rate of older machinery will likely be lower in 2022 as the past two years saw increased sales of the new machinery. Therefore, 2022 will, in all likelihood, not be a repeat of robust agricultural machinery sales, even if commodity prices could remain elevated for some time, as it could be the case from the preliminary indications in the global grains and oilseeds market.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

⁵ Crop Estimates Committee, 2021. *The intentions of producers to plant summer crops for 2022*. Pretoria: Department of Agriculture, Land Reform and Rural Development.

What should we watch in the global grains and oilseeds market?

Unlike in the Southern Africa region, where a La Niña event typically leads to wet weather, the South America region experiences dryness. The drier weather has been the main feature of South America's 2021/22 production season, with grains and oilseeds production forecasts revised down in the past month from the optimistic levels of November 2021 in anticipation of poorer yields. The most exposed countries are Brazil, Paraguay and Argentina.

Still, suppose one considers the latest crop estimates from the International Grain Council (IGC) and the United States Department of Agriculture (USDA); the data suggest that South American countries will have a relatively larger harvest than 2020/21 production season. Considering maize, the IGC forecasts a 30% year-on-year (y/y) and 1% y/y increase in Brazil and Argentina's 2021/22 maize production to 113 million tonnes and 61 million tonnes, respectively. For this reason, both the IGC and USDA maintained the 2021/22 global maize production forecast at 1,2 billion tonnes, up by 7% y/y. Due to the expected relatively large global production, the IGC forecast 2021/22 global maize stocks at 287 million tonnes, up by 3% y/y. Still, the weather is a crucial indicator to monitor, influencing the final yields in South America. At the end of the week of 14 January 2022, there were forecasts of rains for parts of Brazil and Argentina, which, if it materialises, would bring the much-needed rains.⁶ We will keep a close eye on this region in the coming weeks.

Importantly, we should perhaps read the USDA and IGC's latest 2021/22 production estimates with caution. They might not have accounted for some recent weather changes and their impact after that on crops. Consider South Africa's maize production estimates, which the USDA placed at 17,0 million tonnes (up from 16,7 million tonnes in 2020/21 season). The IGC estimated 16,5 million tonnes (down from 16,9 million tonnes in 2020/21 season). Such optimistic production harvests are unlikely for South Africa as the recent heavy rains have caused crop damage in some provinces and delays in plantings. It seems that these institutions considered the optimistic weather outlook at the start of the season, in October 2021, and didn't account for the recent weather development. We fear the same could be true for South American countries; hence we think it's essential to observe weather conditions in this region over the next couple of weeks, which will impact the harvest size.

Unlike maize, the soybeans 2021/22 production forecasts for Brazil, Argentina, and Paraguay were revised down notably from the previous estimates. The IGC currently forecasts Brazil's 2021/22 soybeans production at 137 million tonnes (down 0,4% y/y), Argentina's harvest at 44 million tonnes (down by 5% y/y), and Paraguay's 2021/22 soybean harvest at 8,5 million tonnes (down by 13% y/y). Consequently, the 2021/22 global soybeans production is at 368 million tonnes, which is almost the same as the previous season. The improvements in the harvest in the US, Russia, and Ukraine have somewhat compensated for the expected poor yield in South America. As a result of these production adjustments and the firmer global soybeans consumption, the IGC forecasts 2021/22 global soybeans stocks at 52 million tonnes, down by 6% y/y.

Rice and wheat production are not in a similar spotlight as soybeans as production forecasts have remained relatively stable since last year. The 2021/22 global rice and wheat production is estimated at 511 million tonnes (up by 1% y/y) and 781 million tonnes (up by 1% y/y). In terms of rice, the price direction has trended sideways to downwards in the recent months; we expect the trend to continue in the near term. For wheat, the rise in global consumption has provided upward support to prices in the recent past. Still, the wheat prices shouldn't be as volatile as what we could see in soybeans and maize, where the weather conditions matter a lot for the near-term price direction.

⁶ Polansek, T. 2022. *Grains-Soy Futures Ease on Outlook for Rain to Aid South America Crops*. Reuters.

Data releases this week

We start the week with a global focus. The United States Department of Agriculture (USDA) will release the **US Feed Grains** data on Tuesday.

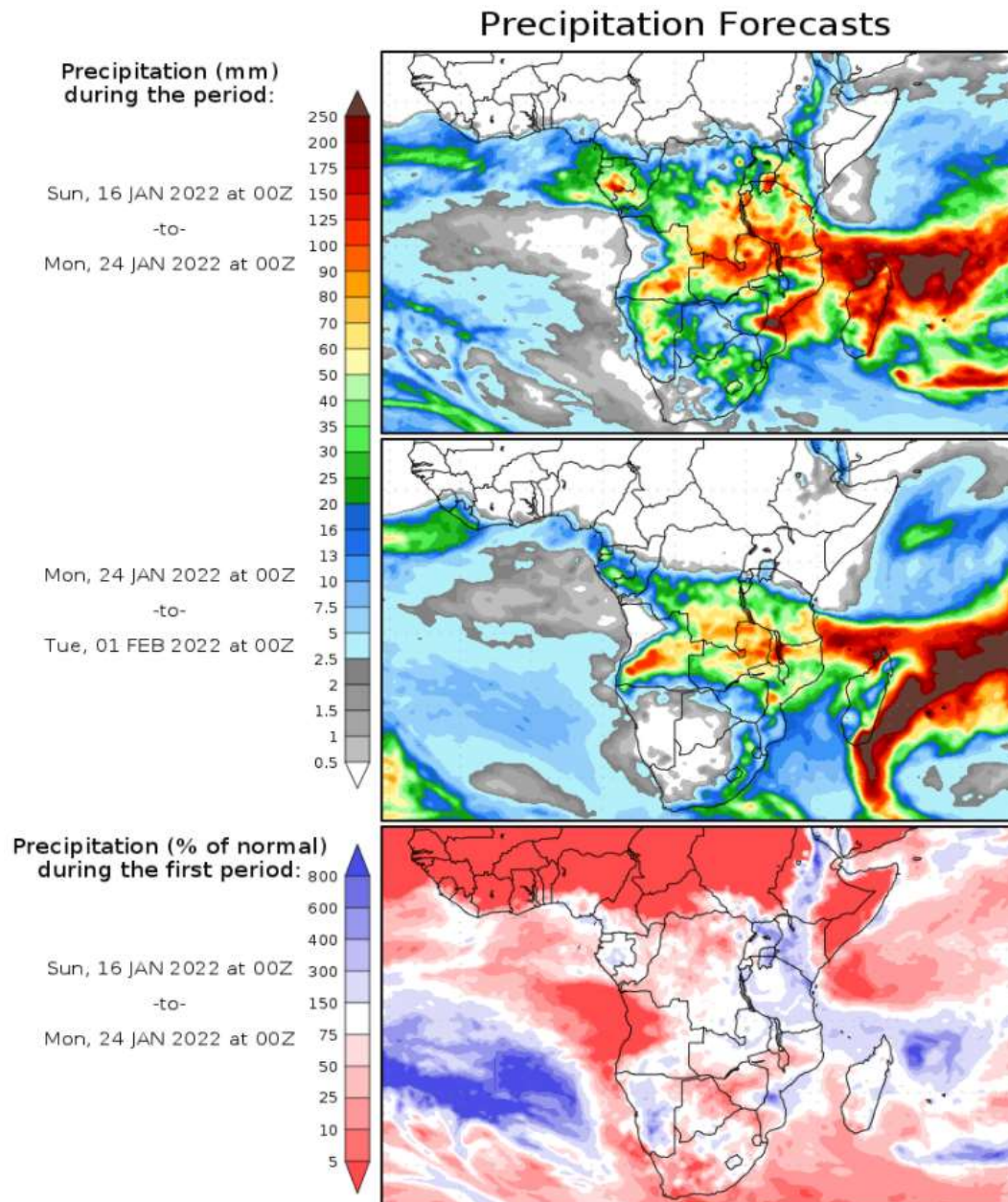
Domestically, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 14 January 2022. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity, the summer crops new season is still at its early stages, and thus, we will focus on its data in the coming months closer to the harvest period. In the week of 07 January 2022, about 1,96 million tonnes of wheat have already been delivered to commercial silos in the first fifteen weeks of the 2021/22 production season. This equates to 91% of the estimated harvest of 2,15 million tonnes.

Also on Wednesday, Statistics South Africa will release the **Consumer Price Index** (CPI) data for December 2021. For context, after peaking to 7.4% y/y in August 2021, South Africa's consumer food price inflation has continued to moderate and softened to 6.0% in November from 6.7% in October. The food products prices underpinning this deceleration in inflation are bread and cereals, meat, fruit, and vegetables. For the first eleven months, consumer food price inflation averaged 6.5% (compared with 4.6% y/y in 2020). The high grains, vegetable oils and meat for much of the past few months were the primary drivers of the consumer food price inflation.

On Thursday, SAGIS will release the **Weekly Grain Trade** data also for the week of 14 January 2022. On 07 January 2022, which was the 36th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,56 million tonnes, equating to 75% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 07 January 2022 was the 15th week of the 2021/22 marketing year. The total imports are now at 342 768 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,51 million tonnes).



Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for the week shows prospects of light showers over most regions of South Africa.

This is not conducive for agricultural activity, which needs a breather from the recent high rain that has caused flooding in some regions.

Fortunately, the last week of January shows prospects of dryness, which is a welcome development for agriculture.