

Livestock health is key to inclusive growth in SA agriculture

Livestock farming is one of the most strategic subsectors in South Africa's agriculture. Its value is not only derived from the fact that it directly accounts for roughly half of the agriculture gross value added, an estimated 48%, but also through its interlinkages to the grains and oilseeds sector. The livestock sector utilizes about 53% of the 11,5 million tonnes of domestically consumed maize per annum in South Africa. The industry also accounts for a significant consumption share in soybeans, sunflower seed, sorghum and wheat. Hence, the vibrant success and growth of the livestock subsector is also beneficial to these commodities and other value chain businesses.

Notably, the livestock sector's potential to improve the inclusion of black farmers into commercially viable farming entities cannot be understated, especially as South Africa is currently in a drive for inclusive growth and a social compact approach to development in various sectors of the economy. Industry surveys conservatively estimate that black farmers are responsible for 34% of the South African commercial beef production, 13% of mohair, and 11% of wool. It is also widely known that animals represent a major source of both wealth and livelihoods for many South Africans in the traditional areas as well as the peri-urban agricultural sector. The health, condition and productivity of these animals could therefore be critical in promoting inclusive economic growth and improved well-being for many of our poorest families.

The policymakers and industry focus should be to accelerate this subsector's growth comprehensively. But there are persistent challenges that threaten progress. One such challenge is the deterioration of animal biosecurity measures, which we observe through frequent outbreaks of foot-and-mouth disease and African swine fever in the case of piggery, amongst other diseases. Last week, the Department of Agriculture, Land Reform and Rural Development confirmed a case of foot-and-mouth disease on a commercial stud farm in North West. Additionally, there was another case detected in Collins Chabane municipality in Limpopo, which added on some areas in the province where the disease was detected in 2019. These are additional cases to the foot-and-mouth outbreak in KwaZulu-Natal. The challenge with these detections is that they present what has become a frequent occurrence of these animal disease outbreaks. This is additional to various cases reported in the poultry industry and piggery.

The economic cost of the disease outbreaks is related to limitations on trade domestically in the affected regions, and most importantly South Africa's inability to export red meat products to high-value markets in the EU, UK, and the USA. This reality brings huge financial losses to the sector but also inhibit the growth of this subsector – first for the commercial and export-orientated farmers but then also the small livestock keepers that could potentially benefit from the surge in demand through growth in exports.

Export growth is an important strategic tool of demand-pull growth for black farmers eager to commercialize and expand their farming operations. Some have partnered with established livestock farming entities in cattle, sheep and piggery industries. If the export markets could open and there is a surge in demand for South African livestock products, then the new entrant black farmers also benefit (see Exhibit 1 for growth in exports thus far). These disease outbreaks resulting from poor disease monitoring, coordination and limited

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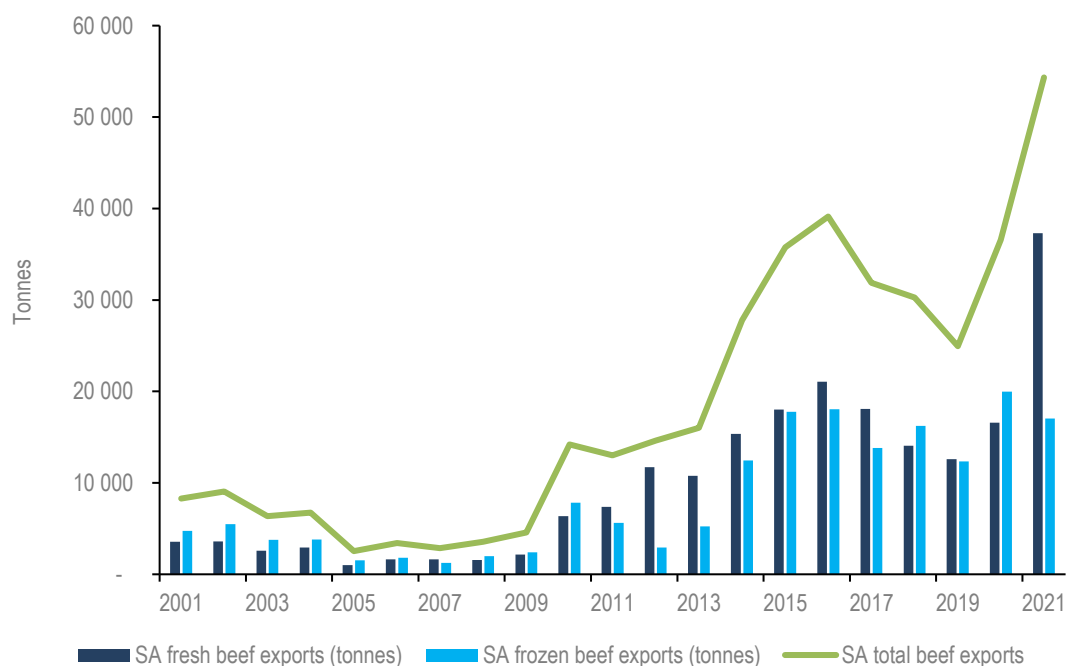
and/or delayed actions by government officials not only affect the directly affected livestock value chains but present risks to the entire livestock subsector. Many may remember China's drastic move in 2019 to temporarily ban South Africa's wool imports following the outbreak of the foot-and-mouth disease in Limpopo. China is an important market for the South African wool industry and accounts for an average of 71% of South Africa's wool exports in value terms. The ban on wool imports for several months saw South Africa's wool exports declining by 24% year-on-year to US\$302 million in 2019. The live animal trade with the neighbouring countries and red meat exports also faced various limitations for months.

The recent outbreaks could again lead to temporary bans of some South African livestock product exports by various nations. The common understanding is that unless drastic action is taken by the government, South Africa will remain a pariah in the international meat trade environment for at least the next five years. Despite this reality, we have not yet observed dramatic measures to turn this sad reality around and we hope that there could be leniency and a scientific approach to decision-making by South Africa's various trading partners.

Therefore, it is of the utmost importance that government and farmer associations prioritize improving South Africa's biosecurity systems. There needs to be an urgent plan of action to address a range of scientific challenges such as the failures in state-owned animal vaccine manufacturing entities like Onderstepoort Biological Products (OBP). Improved disease monitoring and improved functioning of dip tanks in the rural areas to service the livestock of small-scale farmers are urgently needed. There also needs to be a better and more rapid response to outbreaks of all kinds between industry and government departments (national and provincial).

The minister has last year appointed a task team to unpack the systemic problems in South Africa's animal biosecurity system. The task team was composed of Dr Shadrack Moepuli, Prof Johann Kirsten, Dr Gideon Bruckner and Dr Kgabi MogoJane. We believe that this esteemed task team has completed a report on their investigation, and its recommendations should hopefully be implemented swiftly.

Exhibit 1: South Africa's beef exports



Source: Trade Map and Agbiz Research

Weekly highlights

SA consumer food price inflation could accelerate modestly in the coming months

The subject of food prices is again a major focus as the agricultural commodities prices continue to surge on the back of the Russia-Ukraine war. But the effects of the war on agricultural commodities prices have not yet fully reflected on the retail prices of various food products due to the lag in price transmission. The price increases will likely reflect, partially, from March 2022 consumer food price inflation and the months that follow. So far, we have South Africa's consumer food price inflation data for February, which accelerated to 6,7% y/y, from 6,2% y/y in the previous month. Bread and cereals; meat and fish, are the primary products that underpinned this mild uptick in overall consumer food price inflation in February.

What is worth emphasizing is that global grains prices have primarily underpinned the increases in domestic agricultural commodity prices over the past two years. The size of the domestic grains harvest mattered less than the crop conditions in South America or oilseeds and grains demand in China and India, which were primary drivers of the global market. These factors provided upward pressure on global grains and oilseeds prices. South Africa, a relatively small player in global agriculture, is linked to the global market and is therefore generally a price taker for various commodities. Thus, the general rise in global prices overshadowed the improved domestic crop supply in the 2020/21 production season. These conditions remain the dominant feature in the global agricultural market. For instance, the FAO Cereal Price Index averaged 144.8 points in February, up by 3% from January and 15% one year ago.

With the Russia-Ukraine war having affected the grains and vegetable oil markets the most because of the significance of these two countries in global exports of the commodities, the prices have surged since the invasion on 24 February 2022. Thus, we expect the "bread and cereals" and "oils and fats" to be the main channels through which these global factors drive South Africa's consumer food price inflation higher in the months to come. There are no risks to supply in the domestic market over the foreseeable future, only a potential price increase. For example, while the 2021/22 first production estimate for maize is 14,5 million tonnes, down 11% year-on-year (y/y), this is well above the 10-year average harvest of 12,8 million tonnes and annual maize consumption of 11,5 million tonnes. About 7,5 million tonnes is white maize, and 7.0 million tonnes is yellow maize. The yearly decline is mainly due to a reduction in area plantings and expected lower yields in some regions, due to excessive rains.

Notably, South Africa will likely remain a net exporter of maize in the 2022/23 marketing year, which starts in May. Moreover, South Africa's 2021/22 sunflower seed production is forecast at 914 350 tonnes, up by 35% y/y. This is the third-largest harvest on record, primarily due to an expansion in area plantings and expected better yields in some regions. This increase in sunflower seed production will help boost domestic supplies and lessen the reliance on imports. In terms of wheat, a large share of the expected imports has already been imported, and the importers are confident that they will be able to secure the required supplies for domestic consumption for the rest of the year. We also expect a potential increase in domestic wheat consumption in the 2022/23 season.

Still, not all food prices will necessarily be rising in the short term. There could be downward price pressures in fruits in the coming months due to an increase in supply in the harvest period of citrus and the temporary limits of key exports in the Black Sea region. The recent outbreak of foot-and-mouth disease will likely lead to the temporary closure of some key export markets for the red meat industry, thus adding downward pressure on prices. Clearly, there is a variety of factors all pushing in opposing directions in the short term. As a result of these dynamics, we now expect South Africa's consumer food price inflation to increase

modestly from readings in recent months, and possibly average 6,0% y/y in 2022 (from 6,5% in 2021), and not follow the drastic surge that we have observed in grains prices. The base effects and the meat and fruit dynamics we mentioned above will also play a constructive role in the consumer food price inflation path.

A crucial major upside risk to consumer food price inflation worth monitoring is fuel, whose prices continue to increase on the back of higher Brent crude oil prices. For instance, the price of diesel increased by 44% throughout 2021 and by a further 9% since the start of the year. On average, 75% of national grains and oilseeds are transported by road and a substantial share of other agricultural products.

Exhibit 2: SA consumer food price inflation



Source: Stats SA and Agbiz Research

Fuel price set to increase further

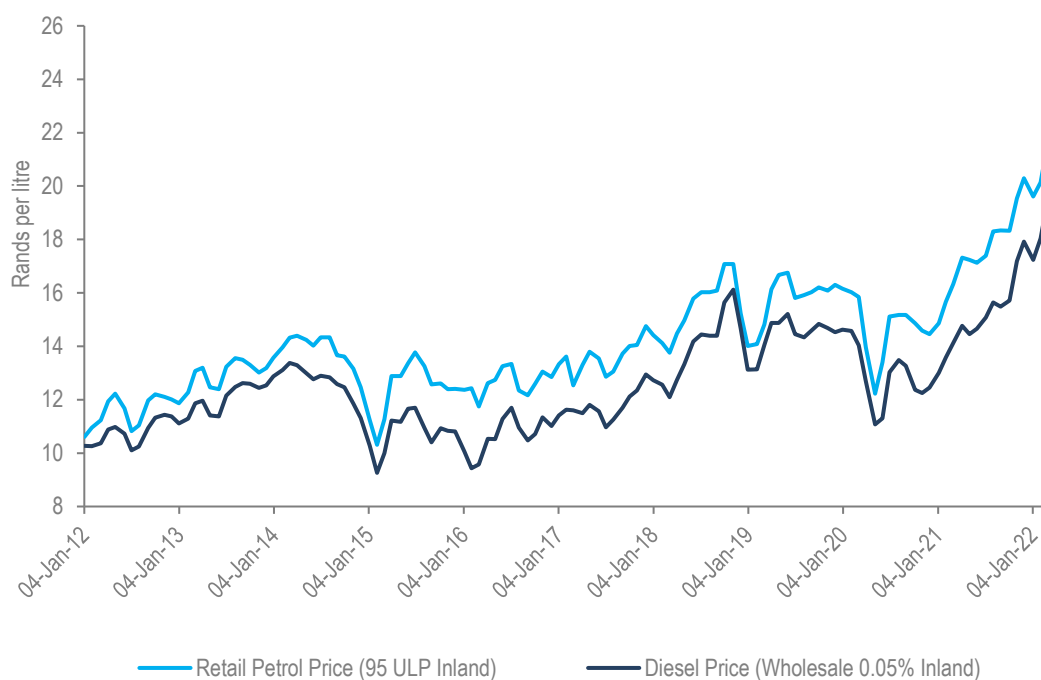
On 06 April, South Africa's petrol (95 ULP inland) and diesel (0.05% wholesale inland) prices will likely increase by R1,93 and R2,96 cents per litre, respectively. These increases will put the retail price of petrol at a record R23,53 per litre from the current level of R21,60 per litre. Simultaneously, the wholesale diesel price will be R22,44 per litre from R19,48 in March 2022 (see Exhibit 3).

The underpinning driver of the fuel price increase is the rising Brent crude oil price on the back of the current geopolitics, disruption in oil production in the Middle East and supply constraints that existed before the intensification of the Russia-Ukraine war, amongst other factors.

While this fuel price uptick will increase farmers' input costs, it, fortunately, comes at a quiet period in the summer crop producing areas where the crops are still maturing. Meanwhile, the winter crop growing areas will start planting at the end of April. This is specifically wheat, barley, canola and oats farmers. This is at a time when fertilizer prices are also generally elevated, and the ongoing war in the Black Sea region adds further upside risks to costs. The rising transport costs are a challenge also for the fruits and vegetables-focused industries. The same is true for agribusiness; those in the logistics business will experience cost increases. This is a busy period of wheat imports and maize exports. This is in addition to general movements of agricultural products in various provinces for domestic consumption. In this case, it is worth noting that roughly 81% of maize, 76% of wheat and 69% of soybeans

in South Africa are transported by road. On average, 75% of national grains and oilseeds are transported by road and a substantial share of other agricultural products.

Exhibit 3: South Africa's retail petrol and wholesale diesel prices



Source: Central Energy Fund and Agbiz Research

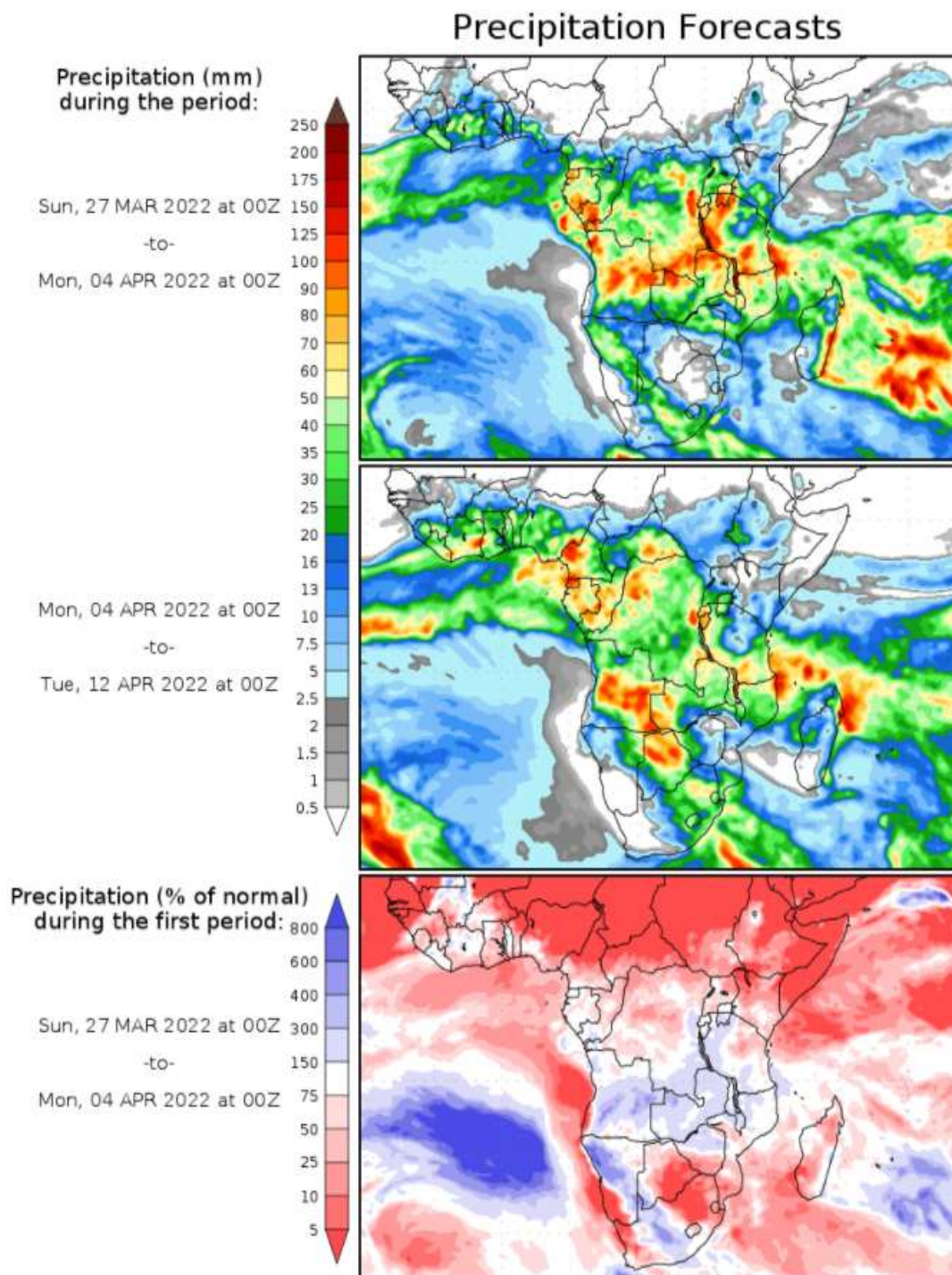
Data releases this week

We start this week focusing on domestic data release; today, the Crop Estimates Committee will release its **second production forecast for summer field crops for 2022**. On Tuesday, Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS)** for the fourth quarter of 2021. In the third quarter of 2021, agricultural employment increased by 3% y/y to 829 000, which is well above the long-term level of 780 000.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 25 March. This data cover summer and winter crops. But our focus is on winter crops. The summer crops' new season is still at its maturing stages. Thus, we will focus on the summer crop data closer to harvest time, around mid-April. In the previous release of the week of 18 March, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 25 weeks of the 2021/22 production season and equated 96% of the revised harvest estimate of 2,3 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 25 March. On 18 March, which was the 46th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 3,3 million tonnes, equating to 85% of the revised seasonal forecast of 3,9 million tonnes (up by 36% y/y). South Africa is a net importer of wheat, and 18 March was the 25th week of the 2021/22 marketing year. The total imports are now at 728 343 tonnes out of the seasonal import forecast of 1,48 million tonnes (slightly below the 2020/21 marketing year imports of 1,51 million tonnes because of a large domestic harvest).

Globally, the United States Department of Agriculture (USDA) will release the **US Weekly Export Sales** data on Thursday. We will particularly monitor the destinations of the US grains given the current blockage on the Black Sea's grains exports.



Source: George Mason University (wxmaps)

The weather forecast for the week shows prospects of scattered shows in the central and eastern regions of South Africa. This is not conducive for summer crop growing areas that currently need warm weather conditions as the crop passes the pollination stages.