

Municipal service delivery and infrastructure constraints are costly for farmers

South Africa is a diverse and sizable country of 122 million hectares. But there is a commonality in challenges that farmers and agribusiness raise regardless of the provinces or municipalities. The challenge of poor service delivery by municipalities and inadequately maintained roads are amongst some of the core issues in every discussion. This past weekend, we joined a discussion in the Free State organized by one of our members, Sernick Group, and these matters were yet again the key points of reflection, along with broad policy themes of land reform and water use regulations. Given that these hindrances hamper the profitability of many businesses and that resources that could be invested in growth-enhancing activities within farming entities and agribusiness are now increasingly diverted to public services, we will continue to raise these issues for prioritization by the government through our interactions with the Department of Agriculture, Land Reform and Rural Development, and other departments such as Department of Public Works and Infrastructure. As we stated in our previous note, the infrastructure rebuilding process of KwaZulu-Natal after the flooding should be broadened to be a nationwide effort as all provinces face varying degrees of network infrastructure deterioration. Therefore, network industries across the country should be a priority.

This is even more urgent as the farming sector, and agribusiness (along with the mining industry), which are the key economic actors in the rural towns, are coming under increasing pressure from the rising input costs. The general rise in crop prices we have observed since the start of the Russia-Ukraine war is, from a farming and agribusiness perspective, largely overshadowed by the higher input costs such as fertilizers, agrochemicals, and fuel. These are all critical risks for the 2022/23 production season ahead. In such an environment, agribusinesses can ill afford to divert scarce resources to fix public infrastructure. In the near term, there are sufficient grains supplies as farmers increase plantings in the 2021/22 season. However, input prices were already elevated, but not to the extent we are currently witnessing.

One encouraging data point this past week was the farmers' intentions to plant winter crops in the 2022/23 production season. These plantings commence this month in the Western Cape and in the coming month in areas such as Northern Cape, Free State, and Limpopo. Farmers intend to increase the canola planting to a record area of 120 000 hectares (up 20% year-on-year (y/y)). Additionally, area plantings for wheat could increase by 3% y/y to 538 350 hectares. Barley plantings could also recover by 15% y/y to 109 100 hectares. Numbers like these give one hope that even the 2022/23 summer crop planting, when it starts in October, could maintain a decent area. There is also encouraging activity in the horticulture industry through expected large yields and continued plantings of various vegetables. The livestock is one subsector that, in the near term, is constrained by a range of challenges, which include foot-and-mouth disease and trade restrictions that follow. These difficulties are in a year where feed prices are elevated (as seen in maize and soybean prices).

The set of interventions that the state can do to ease the pressures in agriculture include tackling the broad network industry challenges, i.e., roads, water, rail and electricity. Increased investment and work in these areas are also favourable for employment in the rural towns where economic opportunities remain limited. Indeed, a thriving agriculture and

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agribusiness sector, supported by improved network industries functioning and municipalities delivering, would also continue to provide employment opportunities and use some of its resources for joint-venture projects that enhance transformation in the sector.

The Department of Agriculture, Land Reform and Rural Development also needs to build on the positive momentum of the past week with the minister visiting foot-and-mouth disease-affected areas and engaging our trade partners to explore ways of opening up commerce for wool and other affected products as a result of the trade ban. We continue to engage the government on this aspect as it's critical for a subsector that is so vital, making nearly half of the agriculture gross value-added, yet confronted by numerous challenges.

There are several challenges in the agricultural sector, and solutions to the industry-specific matters are outlined in the agriculture and agro-processing master plan, which is yet to be launched. Still, there are fundamental issues that are beyond the Department of Agriculture, Land Reform and Rural Development, which should be addressed if we are to see a continuation of good performance in this vital sector of the economy in the coming years. These are network industries and functioning municipalities.

Weekly highlights

South Africa's 2021/22 summer crop harvest at decent levels

The excessive rains during the 2021/22 summer season have increased uncertainty about the crop harvest size and quality. At the start of the summer crop season, there were fears that farmers wouldn't be able to meet the usual area plantings. Still, the pause in the rains in January allowed farmers to replant in areas that had experienced crop damages, and thus we ended up with a decent crop area. The harvest size figures also remain encouraging, although we are still trying to understand the full impact of the recent disastrous KwaZulu-Natal and Eastern Cape rains. The figures released this past week by the Crop Estimates Committee (CEC) about South Africa's 2021/22 summer crop harvest probably don't mirror the impact of these rains. Still, it is worth noting that these provinces combined produce just under a million tonnes of maize at a commercial level. The dominant agricultural practices in these provinces include dairy, horticulture, sugar, and livestock. Therefore, even if the complete assessment of damages proves significant in the agricultural fields, it won't significantly change the national view of the maize harvest.

In its third estimates for the 2021/22 season, the CEC lifted its maize and sunflower seed harvest estimates by 0,3% and 0,4%, respectively, from March figures to 14,72 million tonnes (down 10% y/y) and 963 000 tonnes (up 42% y/y). Meanwhile, the soybean harvest estimate was unchanged at 1,89 million tonnes (down 1% y/y).

For maize, a harvest of 14,72 million tonnes is decent and well above the 10-year average of 12,8 million tonnes and annual maize consumption of 11,8 million tonnes. About 7,55 million tonnes are white maize, and 7,17 million are yellow maize. The yearly decline is mainly due to reduced area plantings and expected lower yields in some regions. Notably, South Africa will likely remain a net exporter of over two million tonnes of maize in the 2022/23 marketing year, which starts in May.

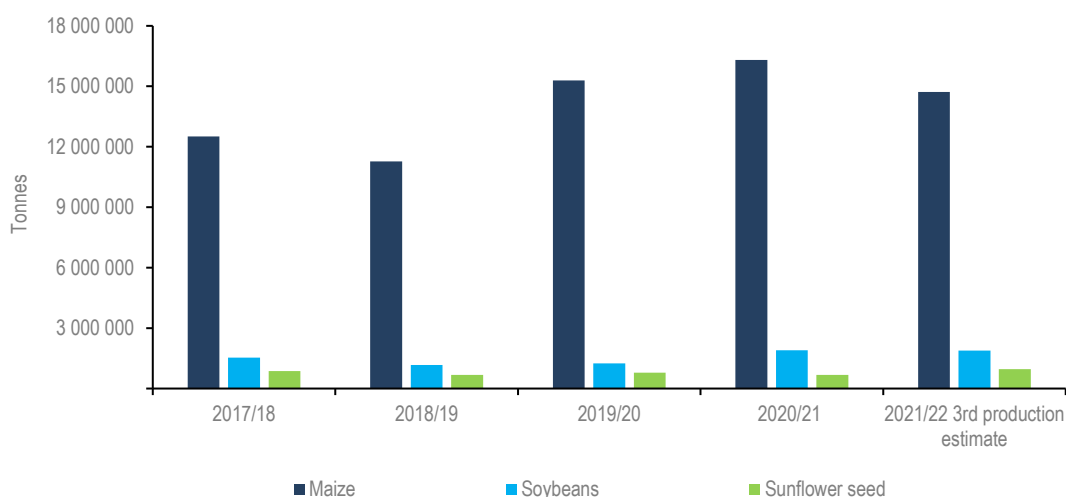
In the case of soybeans, the expected 1,89 million tonnes crop is the second-largest harvest on record. The major factors underpinning the harvest are expansion in area plantings and expected better yields in some regions. The 2021/22 sunflower seed expected production of 963 000 tonnes is the second-largest harvest, primarily due to an expansion in area plantings and expected better yields in some regions. The improvement in the sunflower seed harvest, and indeed, the entire vegetable oils market, comes at an opportune time when there are

worries that there could be supply constraints in the coming months in the global market. The Russian invasion has devastated Ukraine's exports and agricultural activity, thus limiting sunflower oil exports. Moreover, Indonesia's decision to ban palm oil exports also introduced uncertainties about the global vegetable oil supplies. Therefore, the increase in domestic output will slightly lessen South Africa's reliance on imports, although imports will likely still be required to meet our annual needs.

Other crop production estimates were slashed from March estimates, such as groundnuts, down by 5%, to 70 400 tonnes (up 9% y/y). Dry beans production estimate is 6% less than the previous month, at 55 995 tonnes (down 3% y/y). Sorghum remained unchanged at 137 220 tonnes, down by 36% y/y.

Overall, these mainly optimistic production data will have minimal impact on prices. As with the previous few years, the domestic grains and oilseeds prices primarily follow the global markets. The Russia-Ukraine war worries continue to present upside pressures on prices, reflected in the South African grains market. Still, the fact that supplies improved provides comfort as far as the availability of essential grains and oilseeds is concerned. The upside price movements bode well for farmers in areas that didn't experience much crop damage. They stand to benefit from slightly higher grains and oilseeds prices. Meanwhile, the consumers, livestock and poultry producers will likely experience increased costs.

Exhibit 1: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

We start this week focusing on global data release; today, the United States Department of Agriculture (USDA) will release the **US Crop Progress** data. In the previous release, in the week of 24 April 2022, maize and soybean plantings were still at preliminary stages and behind the 2021 pace because of dryness in some regions of the US.¹ Regarding the area the US farmers will plant, the USDA's World Agricultural Supply and Demand Estimates Report which is due for release on 12 May 2022 is a key report to keep an eye on. It will also carry the preliminary plantings forecasts for other key agricultural regions of the world. On Thursday, the USDA will release the **US Weekly Export Sales** data.

Domestically, this is a quiet week, SAGIS due to release the **Weekly Grain Producer Deliveries** data for 29 April on Thursday. This data cover summer and winter crops. But our

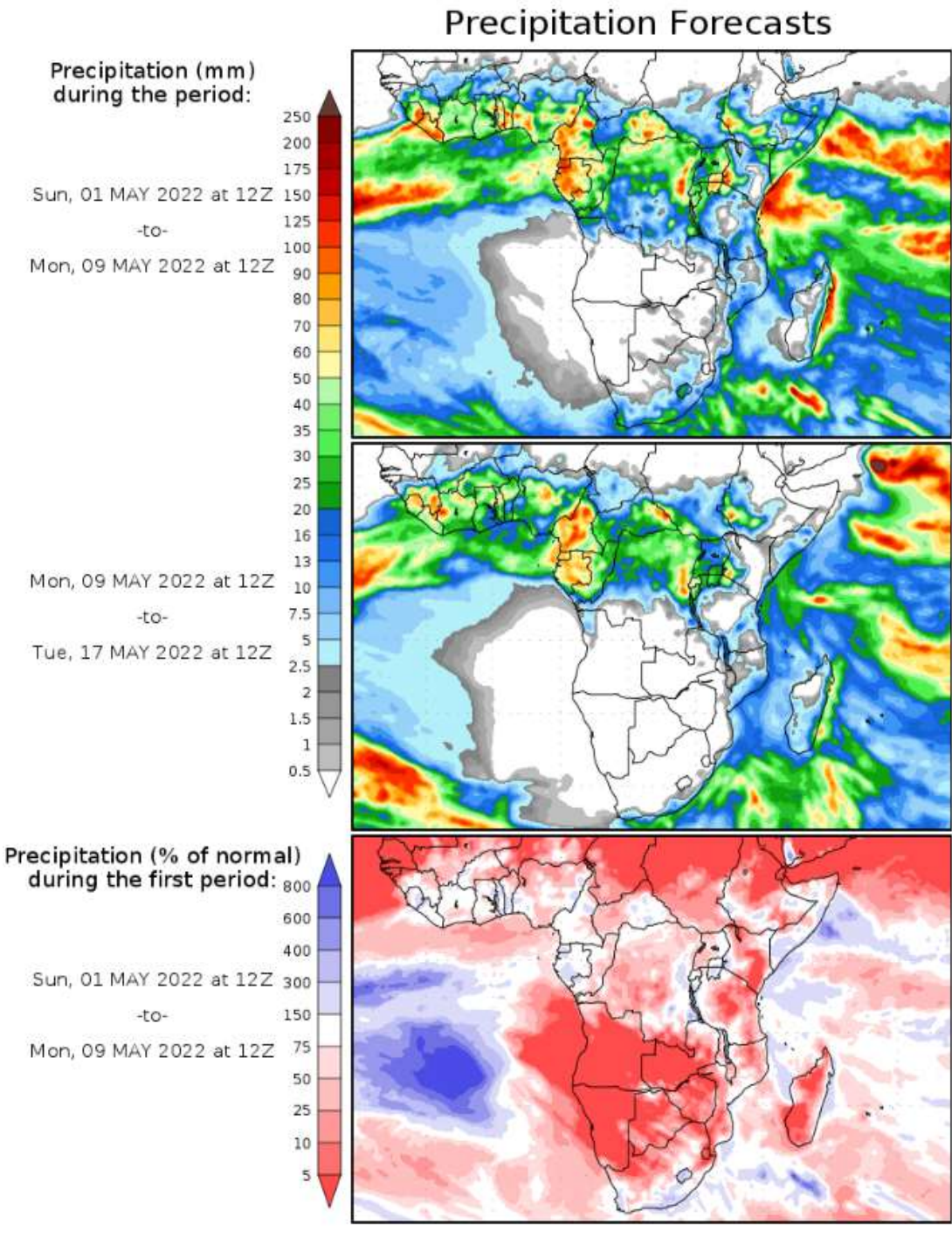
¹ An article about dryness in parts of the US is available [here](#).

focus is still on winter crops. The summer crops' new season is still at its maturing stages, and harvesting has recently started in some early planting regions. Thus, we will focus on the summer crop data from the beginning of May, which will also be the start of the 2022/23 marketing year. In the previous release of the week of 22 April, about 2,2 million tonnes of wheat had already been delivered to commercial silos. This covered the first 30 weeks of the 2021/22 production season and equated to 96% of the harvest estimate of 2,3 million tonnes.

On Friday, SAGIS will release the **Weekly Grain Trade** data for the week of 29 April. In the previous release on 22 April, which was the 51st week of South Africa's 2021/22 maize marketing year, total maize exports remained at 3,6 million tonnes, equating to 92% of the revised seasonal forecast of 3,9 million tonnes (up by 36% y/y). The Port of Durban, which faced massive disruption following the destructive floods has now reopened, but there are still challenges as the construction continues.

South Africa is a net importer of wheat, and 22 April was the 30th week of the 2021/22 marketing year. The total imports are now at 897 123 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).





Source: George Mason University (wxmaps)

The weather forecast for the week ahead shows clear skies over the summer crop growing areas of South Africa, which is favourable for crops ahead of the harvest process.

However, the eastern regions of the country could receive light showers, which is not conducive for crops, especially following weeks of heavy rains in KwaZulu-Natal and the Eastern Cape.