

Promising prospects for another season of above-average rainfall for SA

South Africa has been in an unusually long period of higher-than-average rainfall over the past three seasons. Ordinarily, we would have one or two consecutive years of above-average rainfall, thereafter an average rainfall season or even dryness. The rains have been supportive of the agricultural sector. The past three seasons have seen large harvests which boosted domestic food supplies and agricultural export earnings. With the 2021/22 summer crop harvesting underway across the country, some have begun to ask what the 2022/23 production season, which starts in October, may look like. In its recently released Seasonal Climate Watch report, the South African Weather Service provides an optimistic outlook. The weather agency notes that "the El Niño-Southern Oscillation (ENSO) is currently in a La Niña state, and forecasts indicate that it will likely remain in this state during the coming seasons. During winter, the presence of ENSO has less of an impact. Thus, the presence of the current La Niña event is not expected to have any significant impact on rainfall in the coming seasons."

If this materialises, it would mean that South Africa will be in its fourth consecutive La Niña season, bringing higher-than-normal rainfall. This would be an unusual occurrence. The only period in the recent past that had at least, three successive years of conducive weather conditions, and a large crop harvest were in the 2007-08, 2008-09, and 2009-10 production seasons. In this period, the agricultural sector benefited from better moisture levels.

Currently, the weather, along with rising input costs and deterioration of the domestic network industries are among the major risks that South African farmers and agribusinesses monitor closely. If we receive another La Niña season, with less damaging rains than what we experienced in the 2021/22 production seasons, then the risk factors that farmers face would have been slightly reduced. There are only three months left before the 2022/23 summer crop planting season begins in October in the eastern regions of South Africa. Indications thus far from farmers we have interacted with are that they will likely stay on the job and boost plantings although the rising input costs – fuel, fertiliser and agro-chemicals – are putting a strain on the sector. A stronger indication of whether this story stands or not will be the release of the farmers' intentions to plant data at the end of October. The favourable rains in recent seasons have not only benefited grains and oilseeds but have also been supportive to the horticulture and livestock subsectors.

For horticulture, while the yields have been reasonably large over the past few seasons, the price gains were not as large as what we witnessed in the grains and oilseeds industry. Moreover, South Africa's exposure through roughly 7% of overall citrus exports and 12% of overall apples and pears to Russia and Ukraine, has dampened the exports outlook this year and thus has implications for profitability. The same cautious view holds in the livestock industry. Foot-and-mouth disease has led to a temporary ban on the exports of livestock products by various countries, thus negatively affecting the profitability of businesses in this subsector at a time when input costs – maize and soybeans – are at higher levels. The expected favourable summer rains in the 2022/23 season will help improve pastures and thus slightly reduce the reliance on increasingly expensive grain feed for the livestock.

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To emphasise a point we made last week, the domestic network industry challenges – road, rail, water, electricity and ports – will take a while to be fixed. The positive is that all key policy documents, the ANC's policy briefing papers, and the Agriculture and Agro-processing Master Plan reflect on these aspects and centre improvements to the networks industry as critical to driving growth in South Africa's agriculture. The government's Operation Vulindlela has already made some progress towards easing some of these infrastructure constraints but a lot still needs to be done. The master plan, has better prospects of quicker implementation if it receives buy-in of the line departments responsible for these network industries.

In sum, South Africa's agriculture faces numerous challenges, but the weather conditions continue to contribute positively to the growth of the sector. These optimistic preliminary projections for weather conditions are an important signal for a strong harvest, particularly for farmers who may have to incur debt for inputs purchases in the 2023 season as fertilisers and agro-chemical prices have more than doubled from the 2019 levels. This also means that the global grains and oilseeds prices, and indeed in South Africa, could remain elevated for some time. Ordinarily, while a La Niña season brings rains in the Southern Africa region, the South America region tends to experience dryness. If this holds in the 2022/23 season, then the global grains and oilseeds stock levels might not recover much, and with ongoing geopolitical tensions, an environment of higher grains and oilseeds prices could persist. Such conditions should be an additional incentive to take risks and plan for the 2022/23 season. More will unfold in the coming months, but we remain optimistic about plantings, even in the face of higher input costs.

Weekly highlights

SA agriculture registers positive jobs growth in Q1, 2022

South Africa's 2021/22 agricultural production season started on a rough footing. The excessive rains in various regions of the country damaged some field crops and vegetables and necessitated replanting. We feared that the effects of the rough start of the year would show in primary agriculture jobs numbers. Positively, the data released by Statistics South Africa last week shows a 7% year-on-year improvement in primary agriculture jobs to 844 389 jobs in the first quarter of this year.¹ This is well above the long-term agricultural employment of 780 000. The increased activity on farms during the replanting process, combined with the decent deciduous fruit harvest, supported employment. Other subsectors such as livestock also contributed to employment. The subsectors that shaved employment during this period were forestry and aquaculture (ocean and coastal fishing and fish farms).

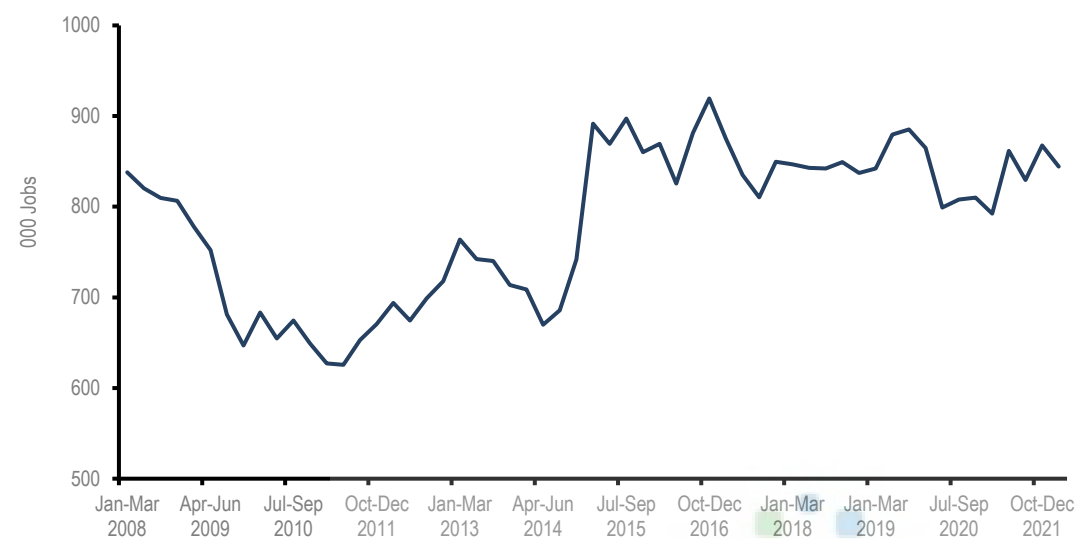
The Western Cape, Northern Cape, Free State, North West and Limpopo registered job gains from a provincial perspective. These overshadowed losses in employment in other provinces. Hence, the overall primary agriculture employment increased by 7% y/y, as stated above.

With expectations of decent citrus, summer grains and oilseeds harvests, and fairly good activity in other subsectors of agriculture, we believe primary agriculture employment could remain at these robust levels this year. The livestock and wool industries, which are confronted by rising feed costs and foot-and-mouth disease outbreaks, with the latter leading to an export ban, are in the uncertain territory and worth close monitoring. Other subsectors of agriculture face general challenges around the inadequate functioning of network industries – roads, rail, ports, water, and electricity, and poorly functioning municipalities, leading to an increase in the costs of doing business. Moreover, the challenging economic conditions in the country have, in some areas, led to labour unrest,

¹ On a quarterly perspective, the jobs are down by 4% from the last quarter of 2021.

which also requires a close eye. Still, we are positive about agriculture's ability to provide employment even in these challenging times.

Exhibit 1: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

Data releases this week

We start the week with a global focus, where today the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. In the previous release, in the week of 29 May 2022, maize and soybean plantings were nearly complete, although still behind the 2021 pace because of dryness in some regions of the US. For example, about 86% of the US maize hectares had been planted compared with 94% on 29 May 2021. Moreover, 66% of the soybeans had been planted compared with 83% in the corresponding period last year. On Thursday, the USDA will release the **US Weekly Export Sales** data.

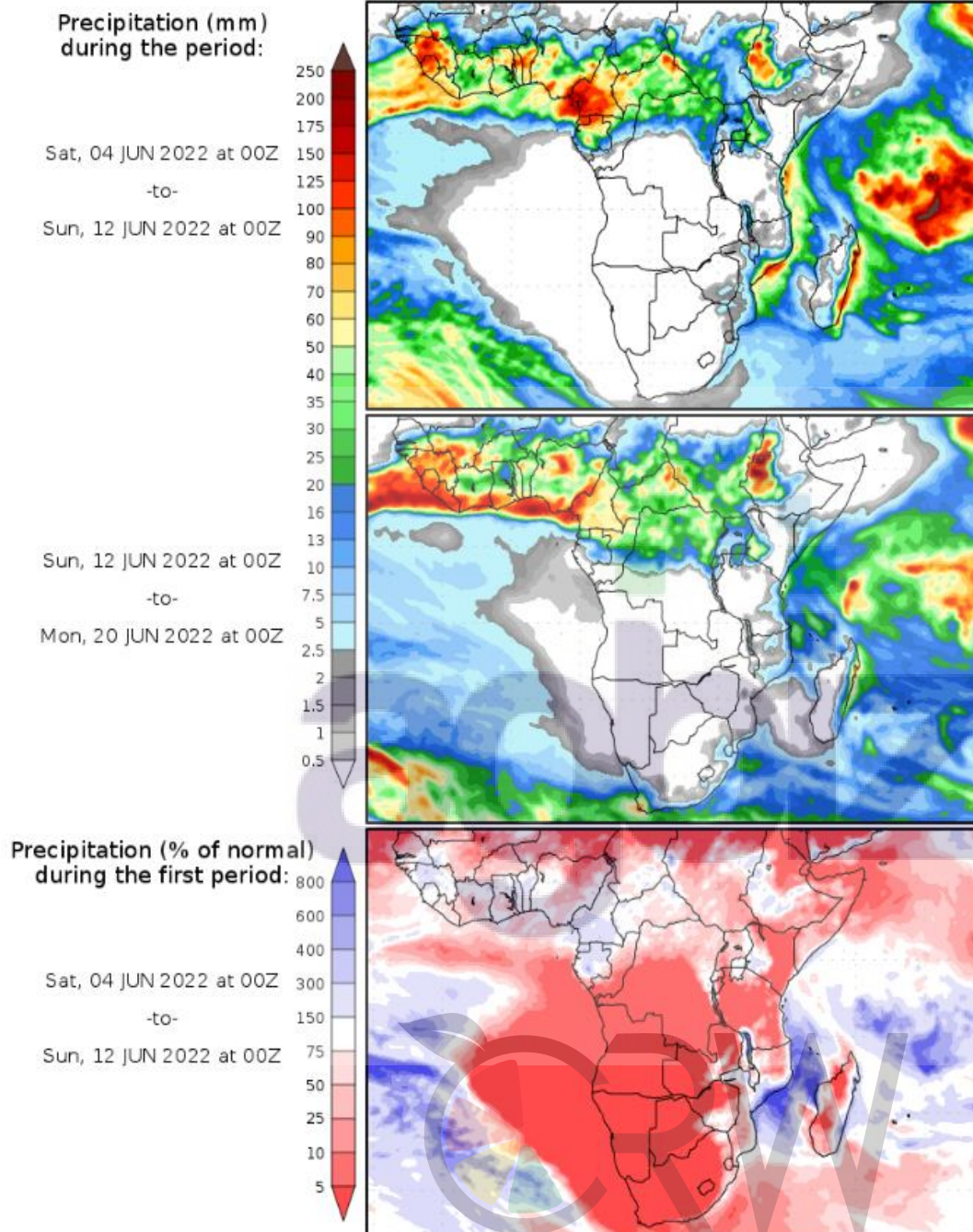
Domestically, on Tuesday, Statistics South Africa will release the **Gross Domestic Product (GDP)** for the first quarter of the year. Our focus in these data will be on agriculture. While the agricultural sector is in good shape with production well above the long-term average level, we expect a contraction in 2022 because of a lower crop than last year and base effects. Moreover, the agricultural quarterly numbers tend to be quite volatile, and thus, we place more emphasis on the annual average performance.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for the week of 03 June 2022. In the previous release on 27 May, which was the fourth week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 106 870 tonnes. The key markets were Japan, South Korea and the Southern Africa region. This brought the total 2022/23 exports to 278 484 tonnes out of the seasonal export forecast of 3,2 million tonnes. This is slightly down from 4,1 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net importer of wheat, and 27 May was the 35th week of the 2021/22 marketing year. The total imports are now at 1,07 million 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).

Exhibit 2: South Africa's precipitation forecast

Precipitation Forecasts



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks shows clear skies over most regions of South Africa.

Such drier weather conditions will help support the summer crop harvesting activity.