

Feedback from our engagements with agribusinesses and other agri role players

We spent the past week on the road with various Agbiz members and other role players in the agricultural sector. In most of our discussions, there was consistency in the themes and sets of issues that emerged. The need for the expansion of the export markets and much-needed effort to regain the existing ones, such as the EU, the need for improvements in logistics – roads, rail and ports, the need for agricultural finance, particularly developmental finance or flexible finance products for the new entrant farmers and the need to build trust, accountability, as well as monitoring and evaluation of various sector plans. These were the major issues that agricultural sector role players highlighted. These are also some of the themes that have dominated a lot of our recent publications.

Firstly, the need for export markets has become even more urgent as agricultural output consistently improves and the country has limited capacity to absorb new produce. South Africa already exports half of its produce, in value terms. Therefore, the efforts of the Agriculture and Agro-processing Master Plan to boost production have to emphasize the expansion of the export markets. As we have previously pointed out, Japan, China, India, Saudi Arabia, Bangladesh, the Philippines and South Korea are among some of the key markets in which South African agribusinesses are interested in expanding their presence. Recent actions from the EU and China (two of the largest export destinations currently) to place non-tariff barriers, hurting South Africa's interests and export activities, highlight the importance of diversifying destination markets. Resolving the non-tariff barriers challenge or expansion to new markets is not a job for the private sector or organised agriculture alone. The government should work hand-in-hand with the industry stakeholders in creating a "South Africa Inc." plan for widening exports. The building blocks for such a plan are already in the Agriculture and Agro-processing Master Plan. Still, given the urgency of this matter, South Africa needs a dedicated working group that will champion the expansion of the country's agriculture exports and work towards servicing the existing markets to avoid challenges such as the constraints faced by the citrus industry in the EU or wool in China.

Secondly, the need for network industries' improvements was highlighted as there haven't been material improvements, particularly on roads. The agricultural sector role players are in regular conversations with Transnet regarding the effectiveness and efficiency of the ports. So far, Transnet has been open to engagements and efficient in resolving challenges such as rebuilding the Port of Durban following the destructive floods. Going forward, private sector role players want to explore possibilities of better partnerships in the various nodes of the ports, which could help improve efficiencies, not only for agriculture but a range of industries such as mining and automobile, amongst others.

Thirdly, agricultural finance is another topic that has received attention in various engagements. This encompasses the blended finance programme led by the Department of Agriculture, Land Reform and Rural Development, which should be open to all agribusinesses and financial institutions, and separately, the Land Bank, which could also play a key role in supporting the new entrant farmers to the sector, as well as the existing commercial farmers. This area will require increased focus during phase two of implementing the Agriculture and Agro-processing Master Plan. Still, the blended finance instrument from the government should include all agribusinesses and financial institutions in the sector. At the same time, the

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

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government should also support the reform of a critical developmental finance institution i.e., the Land Bank, which has a long history in the sector. As we have argued previously, the goal should be to build agricultural finance instruments that help grow the agriculture and agribusiness sectors of "South Africa Inc."

Fourthly, the broad issue of "trust", "accountability", as well as "monitoring and evaluation" are all key to building credibility. This is trust amongst the sector role players and with the government. The first step in building trust will be to deliver on promises or various aspects affecting the sector. The government can lead in this effort by implementing reforms outlined in the Agriculture and Agro-processing Master Plan, particularly the parts that do not require capital spending but legislative amendments. These could be aspects of agricultural products standards (around the thorny issue of assignees that the industry does not desire or view as value adding to the sector) and aspects of Act 36 (there is already work underway, which could be accelerated), and intensify efforts to open more export markets for South African agriculture, as a few examples. One can summarise this as the following, which are points we made sometime in 2021:

What should the government/DALRRD do in the near term?

- Implement all the regulatory interventions that require less capital and provide consistent updates to social partners.
- Reprioritise the DALRRD budget in line with the master plan interventions. This will signal the government's commitment to ensuring the plan's success.
- Support state entities such as Transnet to improve the effectiveness at the ports.
- Work closely with the National Treasury to resolve the Land Bank's financial challenges so that the bank can play an influential role as outlined in the master plan.
- Intensify efforts to open more export markets for South African agriculture.
- Release land in the government's hand to new beneficiaries with long-term tradable land rights or title deeds.
- Root out corruption at various levels within the department to ensure the effectiveness and efficiency of staff.

What should the private sector do?

- Build trust amongst various farmer organisations and agribusiness to have a unanimous private sector voice that speaks to the government.
- Recognise the need for collaborative efforts in rebuilding South Africa and expanding the agriculture and agribusiness sector. This could be through a partnership with new entrant farmers in the development programmes of various commodity organisations.
- Showcase and expand partnership programmes that have proven successful in various commodities and parts of the country.

These are not exhaustive but we believe are interventions that could move the needle in terms of translating the ideas on paper in various plans into tangible projects that could contribute to the growth and job creation in South Africa's agriculture.

In sum, South Africa's agricultural sector faces numerous challenges, which are now well understood by both the government and various industry stakeholders. South Africa needs a plan of action, particularly on the four areas of interventions that were consistently outlined in various farmer and agribusinesses engagements we had this past week. Notably, these haven't changed from aspects that bothered sector role players a year ago, which means we haven't moved the needle. As agriculture is one of the sectors that will help grow the economy, there needs to be increased attention to the reforms necessary to unlock inclusive growth, and consequently job creation.

Weekly highlights

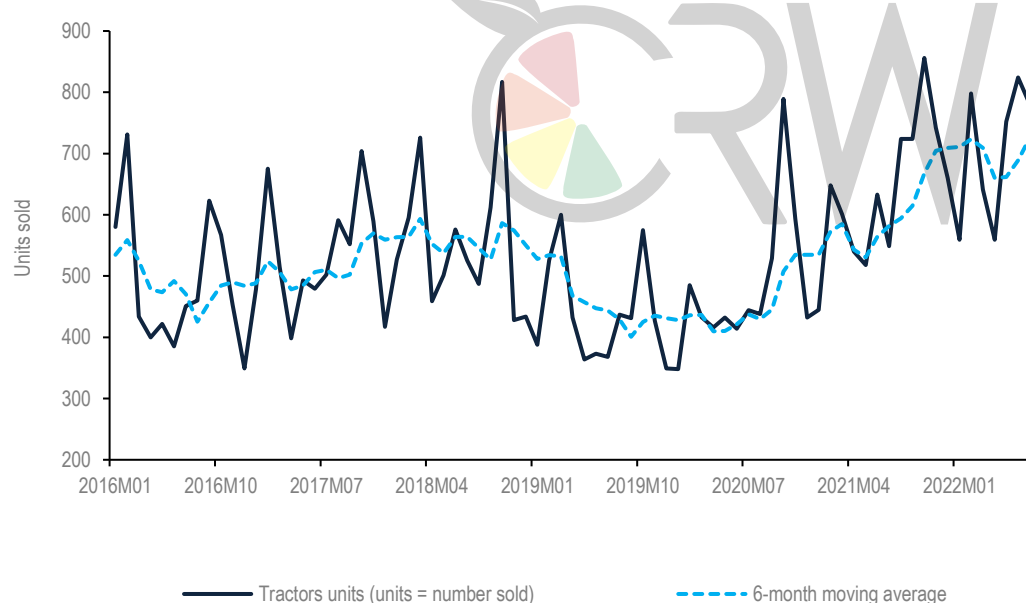
SA agriculture machinery sales remained robust in July

We continue to be surprised by the solid agricultural machinery sales, which have remained robust in the first seven months of 2022. The data released by the South African Agricultural Machinery Association this past week show that in July 2022, tractor sales were up by 32% year-on-year (y/y), with 662 units sold. Combine harvester sales were at 36 units, significantly up from eight units sold in the same month a year ago. The generally healthy sales are a welcome development, as they indicate a primary agricultural sector still in a reasonably better financial condition and continues to invest in movable assets.

This builds upon the solid momentum of the past two years. When farmers have a good year, allied industries benefit from spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020 and 2021 and the first half of 2022. The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years and maintained a decent area in 2022. Weather conditions were favourable, specifically in the past two seasons, resulting in a large harvest for two consecutive seasons. This was also when commodity prices remained elevated, supported by global events such as dryness in South America and Indonesia and rising demand for grains and oilseeds in China. Had it not been for higher global agricultural prices, the local grain and oilseed prices would have softened due to large harvests. These years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grains and oilseeds prices, along with the Russia-Ukraine war, which disrupted the supplies.

Nevertheless, we remain doubtful about the outlook for the sector. Three major factors could slow agricultural machinery sales in the year's second half. First, the higher farm input costs, such as fertilisers, fuel and agrochemicals, and increasing interest rates could weigh heavily on farmers' finances in the coming months. Second, the solid agricultural machinery sales in 2020 and 2021 could lead to lower replacement rate this year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

As always, we start today with a global focus, where the United States Department of Agriculture (USDA) will publish its weekly **US Crop Progress** data. In these data, our focus is on the US crop-growing conditions as the season progresses. In the previous release, in the week of 14 August 2022, about 57% of the maize crop was rated good/excellent, which is down by 5% from the same week a year ago. Moreover, about 58% of the soybean crop was rated good/excellent, which is up by 1% from the previous year's rating in the same week. The USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Tuesday, Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS)** for the second quarter of 2022. In the first quarter of 2022, agricultural jobs were up by 7% year-on-year at 844 389 jobs in the first quarter of this year. 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.

On Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for July 2022. In these data, our focus will be on the food category. To recap on the previous release; South Africa's consumer food price inflation accelerated to 9,0% y/y in June 2022, from 7,8% in the previous month. This was the fastest pace since February 2017. There was an overall increase across the food basket, except for fruit which moderated somewhat.

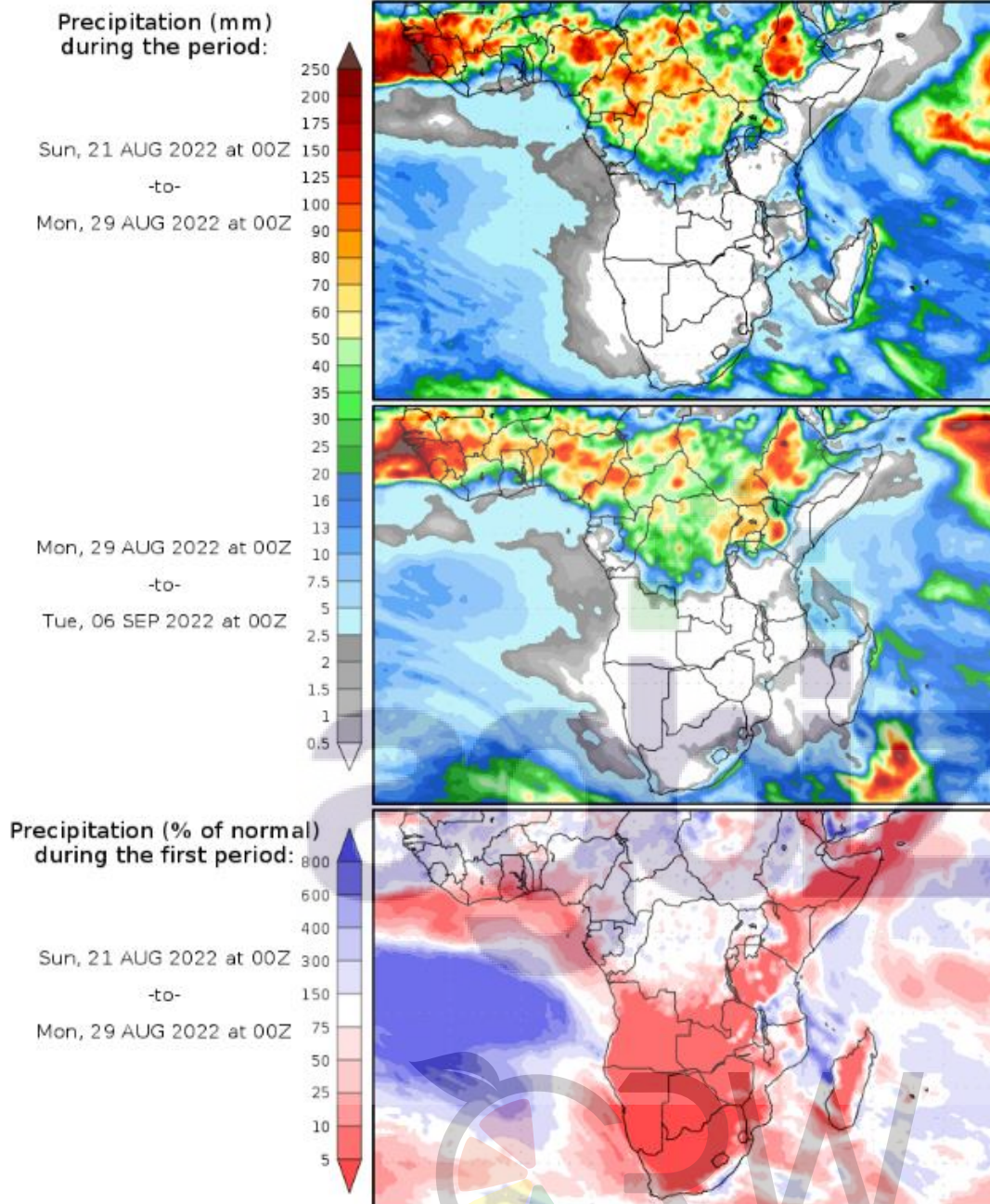
Also on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 19 August 2022. This data will help us get insight into the progress of the maize harvesting activity. In the previous release of the week of 12 August, about 11,3 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 14,71 million tonnes. The soybeans and sunflower seed harvest have also advanced.

On Thursday, Statistics South Africa will release **Producer Price Index (PPI)** data for July 2022.

Also on Thursday, SAGIS will publish the **Weekly Grain Trade** data for 19 August 2022. In the previous release on 12 August 2022, which was the 15th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 57 483 tonnes. The key markets were Japan, Vietnam and the Southern Africa region. This brought the total 2022/23 exports to 1,32 million tonnes out of the seasonal export forecast of 3,20 million. This is slightly down from 4,10 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 12 August was the 46th week of the 2021/22 marketing year. The total imports are now 1,39 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). The major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated in our previous notes, if one looks into South Africa's wheat imports data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. The suppliers mentioned above have now replaced this.

Precipitation Forecasts



Source: George Mason University (wxmaps)

There are clear skies over much of South Africa this week.

This forecast weather will support the harvest activity that is at its tail end in the central and western regions of South Africa