

Agricultural input prices remain elevated, weighing on SA farmers and agribusinesses

While some farmers in the grains and oilseeds industry benefited from the unusually long period of large yields and higher prices, higher input costs since the start of 2020 have limited the benefits. For farmers in the horticulture industry, where commodity prices did not increase as much as in grains, the higher input costs were an even heavier burden. These price increases were mainly in agrochemicals (herbicides, fungicides, insecticides), fertilizers and fuel. Various factors caused the price increases, but the main ones were the disruptions in industrial production when the covid-19 pandemic started, protracted supply chain bottlenecks, higher shipping costs, China's decision to limit fertilizer exports, and more recently, the Russia-Ukraine war. In the months after the war started, prices of some products increased to record highs.

Fortunately, prices have come off from those highs in recent months. For example, at the beginning of September, the global fertilizer price index is down by 18% compared with April 2022 highs. Despite the recent moderation, current price levels are about 60% higher than a year ago. The market is still far from adjusting to levels before covid-19 and the Russia-Ukraine war. Similarly, Brent crude prices have come off the recent highs, averaging US\$93 per barrel in the first half of this month. Still, these levels are 31% higher than a year ago. We see similar price dynamics in the agrochemicals, which have softened over the past few months, but are roughly 20% more than a year ago.

These price dynamics matter, especially as South Africa approaches its summer crop season, which starts in October. This includes the horticulture industry, which will also be busy in the fields in the summer season. With that said, the grains and oilseeds industry is arguably still in a relatively better position compared with other subsectors of agriculture, which have been confronted by various other challenges these past few months which weighed on profitability for some. These include foot-and-mouth disease, and market access glitches in key export markets, all of which have added to business costs over the past few months. The European citrus market access challenges and the vegetable export ban in neighbouring Botswana and Namibia are a case in point. China's decision to temporarily ban wool exports, which has now been resolved, also had a negative impact on the industry. Meanwhile, the relatively higher fuel prices have impacted all farming subsectors.

As we approach the start of summer, elevated input costs will remain top of mind for many farmers. A majority of farmers have likely already procured inputs at these high price levels. Consider grains and oilseeds farmers, who will be busy in the fields in less than two weeks from today in the eastern and central regions of South Africa. In that subsector, fuel generally accounts for between 11% and 13% of production costs. The consumption is generally throughout the year, with the highest usage periods being planting and harvesting. In terms of annual fuel usage, it is worth noting that South Africa transports by road 81% of maize, 76% of wheat, and 69% of soybeans. On average, 75% of national grains and oilseeds are transported by road. Farm managers and agribusinesses will have to plan for an environment different from the past few months but still quite pricier than last year.

South Africa imports about 80% of its annual fertilizer consumption and is a minor player globally, accounting for a mere 0.5% of global consumption. Local prices tend to be

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influenced by developments in the major producing and consuming countries, such as India, Russia, the USA and Canada. Much of the fertilizer imported by South Africa is utilized in maize production, accounting for 41% of total fertilizer consumption in the country with the second-largest consumer being sugar cane at 18%. Fertilizer constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops.

Overall, while the higher grains and oilseeds prices and harvest prospects might look reasonably supportive on the financial books in the near term, steep input costs haven't provided much room for flexibility. The financial conditions are possibly even more challenging for farmers in agricultural commodities that didn't enjoy big price increases. Another critical factor for domestic farmers will be the performance of the rand, which is also key in determining the ultimate prices that farmers will pay to their various foreign suppliers of production inputs when planting begins. Moreover, with the current rising interest rates, the financial conditions will likely even be much more challenging compared to the previous two years when the interest rates were at lower levels, providing a breather for the indebted South African agricultural sector.

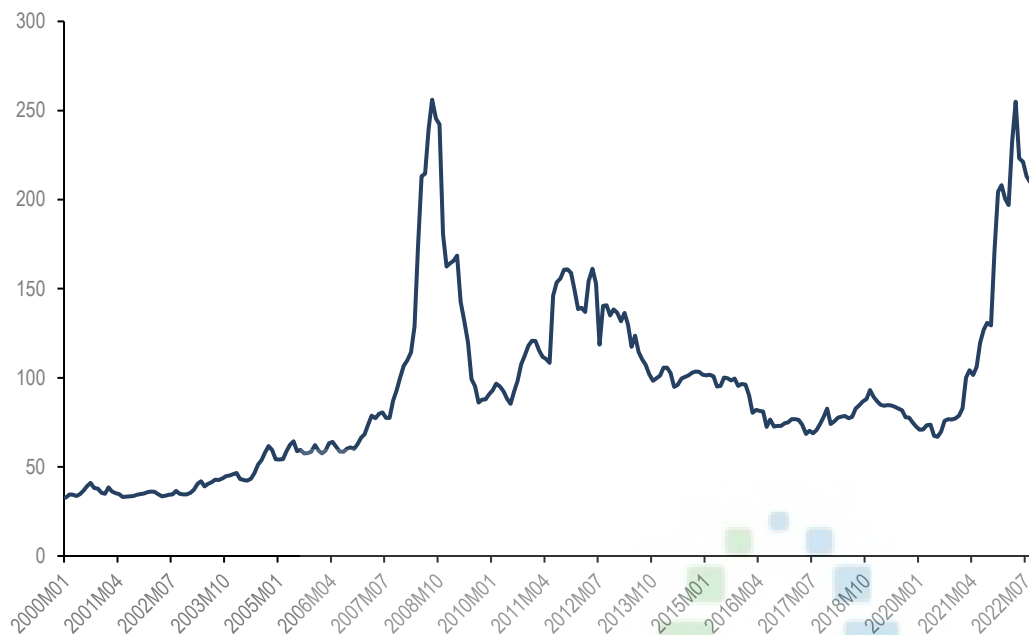
Still, these cost pressures are unlikely to push the farmers away from the fields. We remain optimistic that the upcoming season will be favourable and that farmers could till the typical area for crops and maintain the roughly same area for horticulture. The favourable weather outlook, with prospects of a weak La Niña in the 2022/23 summer season, should bring good showers to support agricultural activity. We had worried that a La Niña could risk bringing excessive rains, as we saw at the start of the 2021/22 summer season, but current forecasts of a weaker one provide some comfort that the rains could be moderate. Moreover, although the environment we have described above is of higher input costs and tough financial conditions for farmers, we have seen some (likely farmers in grains and oilseeds) making large purchases of movable assets. The tractors and combine harvester sales have been strong throughout the year. This suggests that farmers are still confident about the production conditions and eager for the new season. If the fertilizer and agrochemicals use is not reduced on the farms because of prices, we will likely see another positive agricultural season for South Africa.

Policy considerations

Beyond these input costs, there is room for policy to ease some of the operational glitches in the sector. First, the challenges in the export markets should remain at the top of a government agenda, along with attempts to open new markets for the growing domestic production. Second, the continued engagement between the private sector and Transnet is positive for resolving the logistical challenges and will need to intensify and result in tangible project collaboration for the sector's good. Third, the Department of Agriculture, Land Reform and Rural Development should continue with its farmer support programmes for smallholder farmers that may struggle with input procurement. Simultaneously, the blended finance programme should be accelerated to benefit the new entrant farmers in the sector, especially in the current environment of elevated costs. Lastly, domestic fertilizer production through entities such as Foskor remains a worthwhile endeavour that the Department of Trade, Industry and Competition should push through the Industrial Development Corporation of SA (IDC). All these interventions are key, and in the background, the government should intensify its work in fighting the organised crime that undermines the domestic infrastructure and, ultimately, the economy.

Exhibit 1: Global fertilizer price index

Index, 2010=100



Source: World Bank and Agbiz Research

Weekly highlights

What do 2022/23 global wheat production dynamics mean for South Africa?

While South Africa is traditionally a net exporter of agricultural products, wheat is one of the most valuable imported food products. In 2021, South Africa's wheat imports were valued at US\$463 million, which equates to 7% of the overall agricultural import value of US\$6,9 billion that year. In the first half of this year, wheat was the top valuable imported agricultural product into South Africa, surpassing rice and palm oil. Over the past decade, imports accounted for an average of 53% of South Africa's annual wheat consumption of 3,2 million tonnes (Exhibit 2). As a result of this dependency on the global market, we pay close attention to primary producers, who serve as South African suppliers. These include Argentina, Poland, Canada, Australia, Brazil, the US, and the EU.

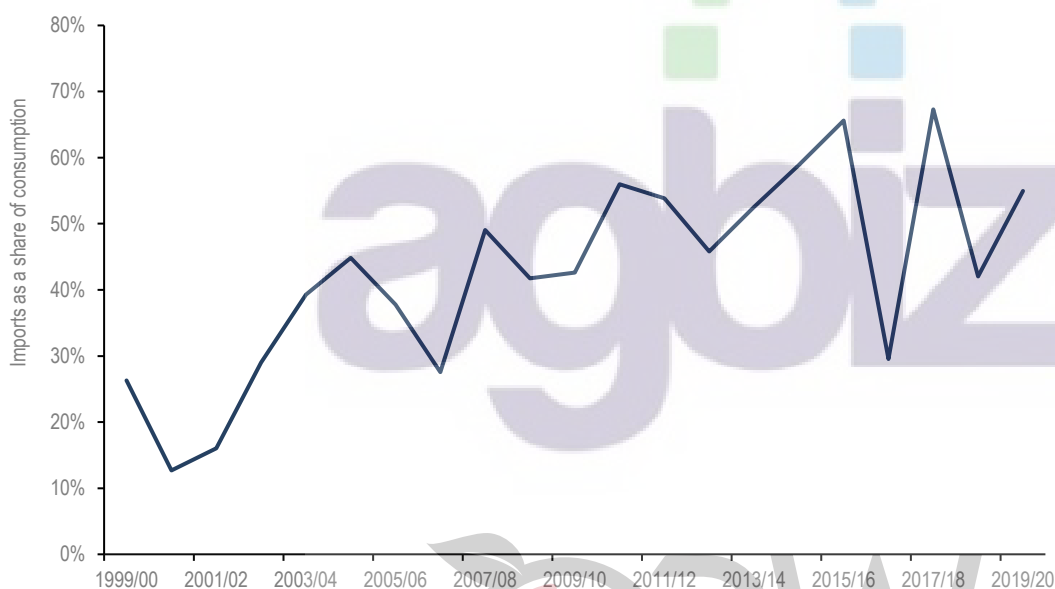
The start of the 2022/23 global wheat production season has been uncertain because of the drought in some countries in the Northern Hemisphere, and the ongoing war in the Black Sea region, a major wheat-producing region. Hence, we will need to pay close attention to how supplies could evolve as production estimates continue to be adjusted in various geographies. Still, the current estimates remain positive. The United States Department of Agriculture forecasts the 2022/23 global wheat production at 783 million tonnes, up by 1% from the previous season. This is on the back of an expected large harvest in the US, China and Russia, amongst other regions. With the war still lingering, Russia's wheat supplies are unlikely to reach as many destinations to ease global food security concerns as in the pre-war years.

Moreover, the forecast of another La Niña in the 2022/23 season is an important factor to monitor. This weather phenomenon typically causes dryness in some regions of the Northern Hemisphere and South America. These are also risks to wheat production that need close monitoring, especially as there had already been droughts in much of the EU.

Also, it is important to highlight that global wheat consumption remains strong. Thus, the 2022/23 global wheat stocks are forecast to fall by 2% year-on-year, despite the improvement in production. This means that the global wheat prices could remain relatively elevated over the medium term, although possibly at lower levels compared to the months after Russia invaded Ukraine.

In sum, South Africa is an agriculturally abundant country, but there is still a global market dependency on wheat products. Hence, we consistently monitor the global dynamics and their implication for the domestic market and consumers. So far, while we fear that tighter stocks mean global wheat prices might not fall notably in response to increased 2022/23 production, we do not expect a significant uptick in prices. We rather expect a more sideways movement, which from a local consumer perspective doesn't present a major food inflation risk. Also worth noting is that the domestic wheat harvest is expected to remain at decent levels, estimated at 2,1 million tonnes in the 2022/23 season which is currently underway. The past few weeks saw good rains in the major wheat-producing regions of the Western Cape; thus, we think these production estimates could even be lifted in the coming months. This will ultimately mean that South Africa's wheat imports could fall below 1,5 million tonnes in the 2022/23 marketing year which starts in October 2022.

Exhibit 2: South Africa's wheat imports as a share of consumption



Source: SAGIS and Agbiz Research

Data releases this week

We start with a global focus. Today, 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 11 September 2022, about 53% of the maize crop was rated good/excellent, which is down by 5% from the same week a year ago. This decline is mainly explained by the drier weather conditions over a few couple of weeks. Meanwhile, about 56% of the soybean crop was rated good/excellent, which was down by 1% from the previous year's rating in the same week. Moreover, the USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for August 2022. Our focus on these data will be on the food category. The higher agricultural commodity prices we have observed in the months since

Russia invaded Ukraine continue to filter into the food price inflation data. Moreover, the higher fuel price inflation since the start of the war is an additional cost driver of food prices. Thus, in July 2022, the consumer food price inflation accelerated by 10,1% y/y, from 9,0% y/y in the previous month. This is the fastest pace since January 2017, which was a drought period in agriculture where costs were driven by higher agricultural commodity prices. The higher global grains and oilseed prices for much of the first half of this year have been the drivers of the costs of "bread and cereals" and "oils and fats" in the consumer food price inflation basket. These are also products with a relatively higher weighting within the food basket.

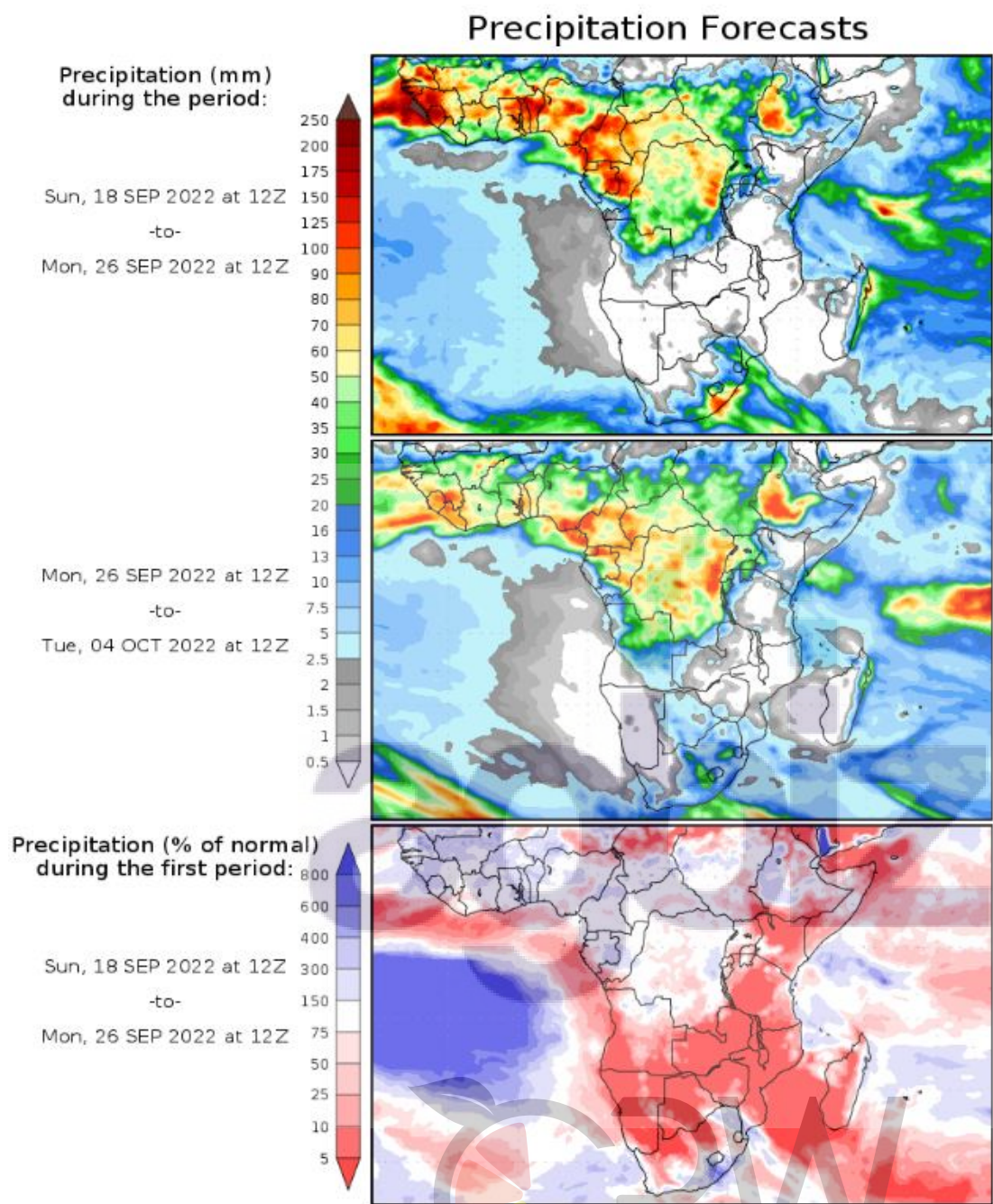
Also on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 16 September 2022. This data will help us get insight into the size of the crop as harvesting has been recently completed in most regions of the country. In the previous release of the week of 09 September, about 13,1 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,0 million tonnes. The soybean and sunflower seed harvests have also advanced.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 16 September 2022. In the previous release on 09 September 2022, which was the 19th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 109 009 tonnes. About 51% of this went to Taiwan and 40% to Italy, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,6 million tonnes out of the seasonal export forecast of 3,4 million. 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 wheat importer, and 09 September was the 50th week of the 2021/22 marketing year. The total imports are now 1,53 million tonnes, far surpassing the seasonal import forecast of 1,48 million tonnes (and the 2020/21 marketing year imports of 1,51 million tonnes). We will likely see additional imports before the end of this marketing year this month. 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.





Source: George Mason University (wxmaps)

We are in a relatively quiet period in the agricultural sector as farmers get ready to start planting summer crop for the upcoming 2022/23 season from October.

Thus, the forecast showers in the eastern regions of South Africa this week will help improve soil moisture before the start of the summer crop planting.