

Why labour-related risks at Transnet matter for SA agricultural and food trade

One major challenge that emerged this past week that directly impacts South Africa's agriculture is labour-related tensions at Transnet. The logistics utility declared a force majeure at its port operations last week, citing an illegal strike. There is a risk that disruptions could escalate this week. The weekend papers cited statements by the representatives of the South African Transport and Allied Workers Union (Satawu) and the United National Transport Union (Untu) that workers are demanding a wage increase of a minimum of 10%, slightly down from the initial demand of 13,5%. However, this is still far from the current offer by Transnet at 4%. Against this, Satawu said over the weekend that it has served Transnet with a 48-hour notice that its members will be striking from today. Disruptions to the flow of goods to and from other countries could negatively impact South Africa's food, fibre and beverages sector, depending on its duration.

While agricultural production tends to be seasonal, South Africa has diverse agriculture, and there is large trade activity each quarter of the year. For example, exports of food, fibre and beverages in Q4 2021 amounted to \$US2.8bn, 23% of the total value of exports in that year. Some of the products that dominated the export activity were citrus, maize, apples and pears, wine, grapes, nuts and berries, wool, soybean oil, apricots, cherries and peaches. Not all these exports were facilitated through Transnet. Still, the point is that the fourth quarter of each year is a high export activity quarter. Given that agricultural production has generally been resilient, we expect that there are substantial volumes of exports of various products scheduled for this month.

Similarly, South Africa imports a range of food products in the fourth quarter of the year. For example, in 2021, during this period, we saw imports of wheat, palm oil, rice, spirits, poultry meat, sunflower oil, and soybeans oilcake, amongst various products. The total imports of food, fibre and beverages in the last quarter of 2021 amounted to US\$1,9 billion. In the same way, as the exports, labour-related disruptions would disrupt this import activity.

Importantly, we are not outlining these trade values to signal that this will be the direct loss if there is a strike. Instead, we are outlining the importance of trade in South Africa's food, fibre and beverages sector. Any costs would ultimately depend on the scale and timeframe of disruptions. The focus should be on supporting both parties to find common ground. Indeed, the whole logistics industry is the bloodline of South Africa's export-oriented agriculture or food, fibre and beverages sector.

In the export business, especially of high-value products, the reliability of South African suppliers is key in a highly globalized competitive world. Therefore, any potential prolonged delays would negatively impact the business activities of the South African suppliers to various markets in the world. Different agricultural groupings and commodity associations have already been vocal in the weekend newspapers about the possible negative impact of the Transnet strike on their businesses and the agricultural economy.

Aside from the immediate strike concerns, the logistics industry requires improvements, from roads, rail and ports, to support a growing agricultural sector. Road networks have deteriorated severely across South Africa over the recent past, weighing on agribusinesses

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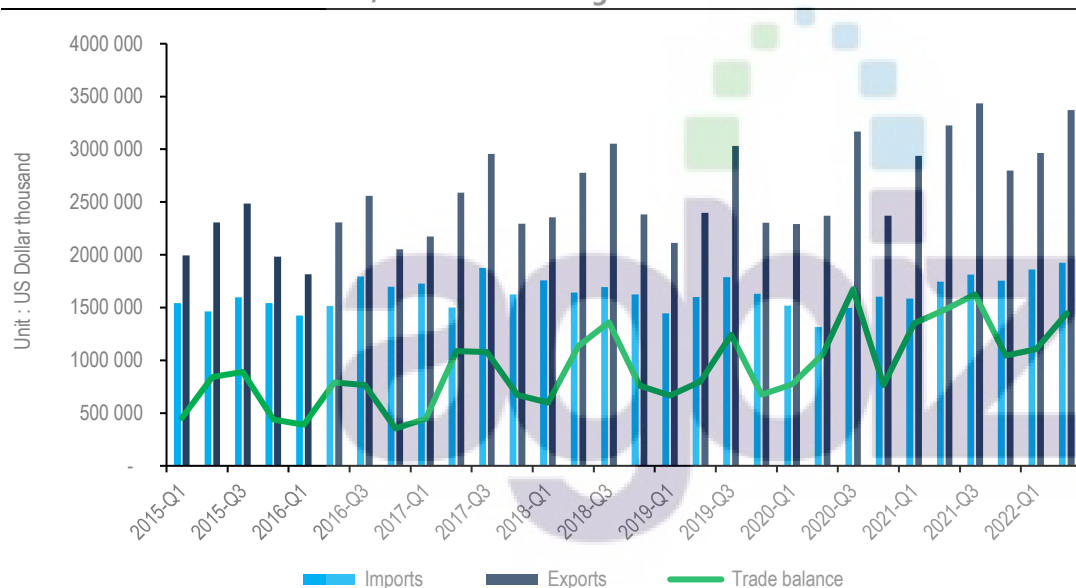
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and farming entities. Notably, some are using the capital resources which could have been allocated to business expansion, and thus long-term employment, to maintain and build roads. This is a public sector function and shouldn't be covered by private businesses. Similarly, there are long-standing challenges with rail and ports. Fortunately, on this part, Transnet has been working closely with agribusinesses, commodity associations and farmer groupings to refine their agricultural strategy that responds to the sector's needs and devise a long-term solution. This is crucial as South Africa already exports half of its agricultural produce. Any improvements in production going forward will have to be linked to potential export markets, and the logistics industry will be at the heart of this process.

In sum, the current labour disputes at Transnet are an important risk for South Africa's food, fibre and beverages sector. The fourth quarter of the year is as busy as any other quarter in terms of trade. Therefore, stoppages would negatively affect both imports and export activities. The actual costs of it, however, will depend on the duration of the strike. We hope a solution is found quickly between Transnet and the labour unions to minimize disruptions to trade.

Exhibit 1: South Africa's food, fibre and beverages trade



Source: Trade Map and Agbiz Research

Weekly highlights

SA agriculture machinery sales paint a mixed picture in September 2022

After a solid run since the start of the year, South Africa's agricultural machinery sales painted a mixed picture in September 2022. For example, tractor sales were up by 4% year-on-year (y/y), with 777 units sold. Meanwhile, the combine harvester sales were at 17 units, down 19% from September 2021. Still, a monthly decline in the combine harvester sales does not change the fact that agricultural machinery sales have been on solid footing since the start of 2020.

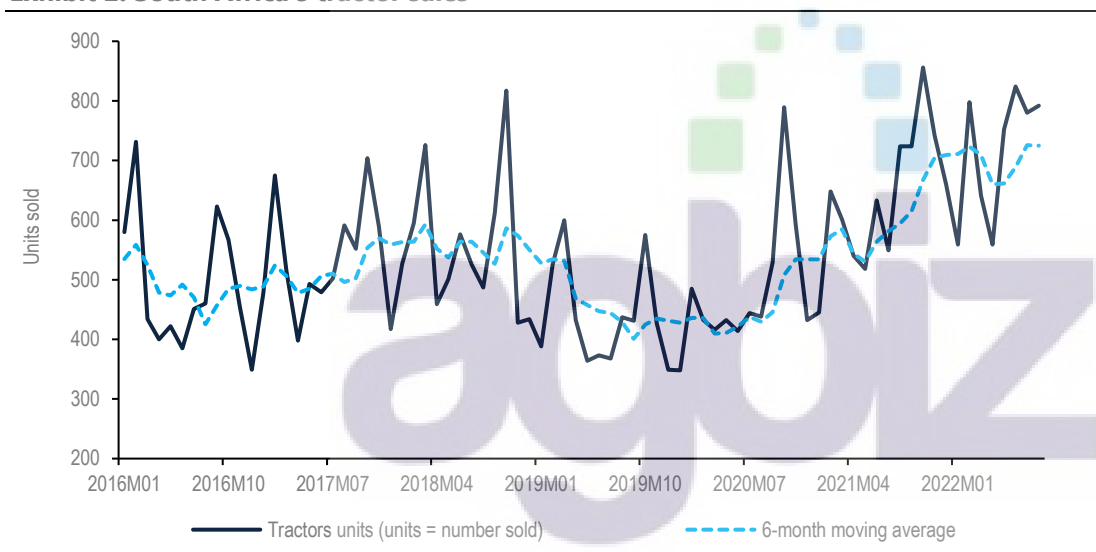
These strong sales over this period indicate a primary agricultural sector still in a reasonably better financial condition and continues to invest in movable assets. As we have previously argued, when farmers have a good year, allied industries benefit from spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020, 2021 and the first nine months 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, and that would have weighed down the profitability. Therefore, these past few years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grain and oilseed prices, along with the Russia-Ukraine war, which disrupted the supplies.

Importantly, this year the reasonably higher input costs and rising interest rates did not reduce farmers' spending on machinery as we initially anticipated. In a way, this speaks also to the farmers' confidence about the 2022/23 production season which has recently started.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

As always, we start the week with a global focus. On Tuesday, 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, and the harvest has started. This data also helps us form a view of the crop quality in the US. In the previous release, in the week of 02 October 2022, about 52% of the maize crop was rated good/excellent, which is the same level as the previous week. Importantly, this is down by 7% from the same week a year ago. This general decline is mainly explained by the drier weather conditions in some States over a few couple of months.

Moreover, about 20% of the crop had already been harvested, slightly behind last year's pace of 27% in the same week. Meanwhile, about 55% of the soybean crop was rated good/excellent, also unchanged from the previous week. This is down by 3% from the previous year's rating in the same week. In terms of the harvest, about 22% of the crop had already been harvested, compared with 31% in the same week last year.

In addition, on Wednesday, the USDA will release its monthly flagship report, the **World Agricultural Supply and Demand Estimates** report. This report will provide an updated view of the world grains and oilseeds supply and demand conditions, and notable

adjustments on it could be "market moving". The USDA will release the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 07 October 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 30 September, about 13,6 million tonnes of maize had already been delivered to commercial silos, out of the expected harvest of 15,3 million tonnes. In the same week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,2 million tonnes. Moreover, 831 876 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes.

On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 07 October 2022. In the previous release on 30 September 2022, which was the 22nd week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 128 998 tonnes. About 37% of this went to Taiwan, 31% to Mexico, 22% to Japan, and the rest to the Southern Africa region. This brought the total 2022/23 exports to 1,8 million tonnes out of the seasonal export forecast of 3,5 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 30 September was the 53rd week of the 2021/22 marketing year. The total imports are now 1,6 million tonnes, far surpassing the seasonal import forecast of 1,5 million tonnes (and the 2020/21 marketing year imports of 1,5 million tonnes). 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. Next week, the focus will be on the new marketing year of 2022/23.

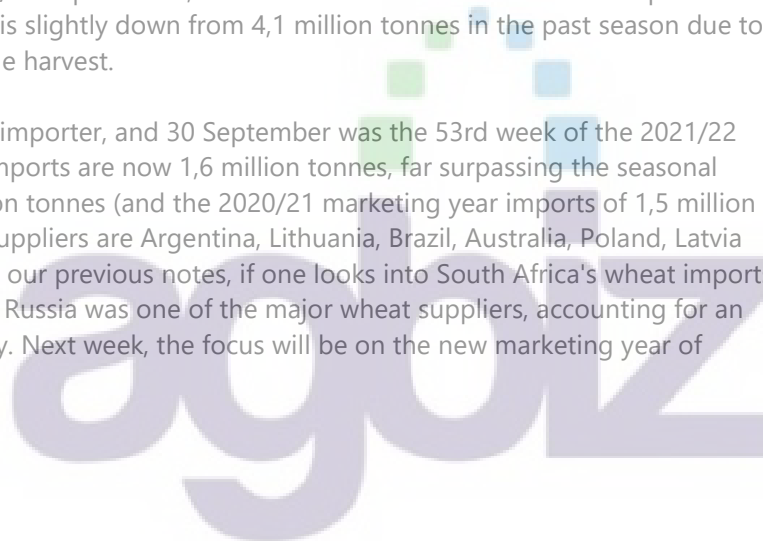
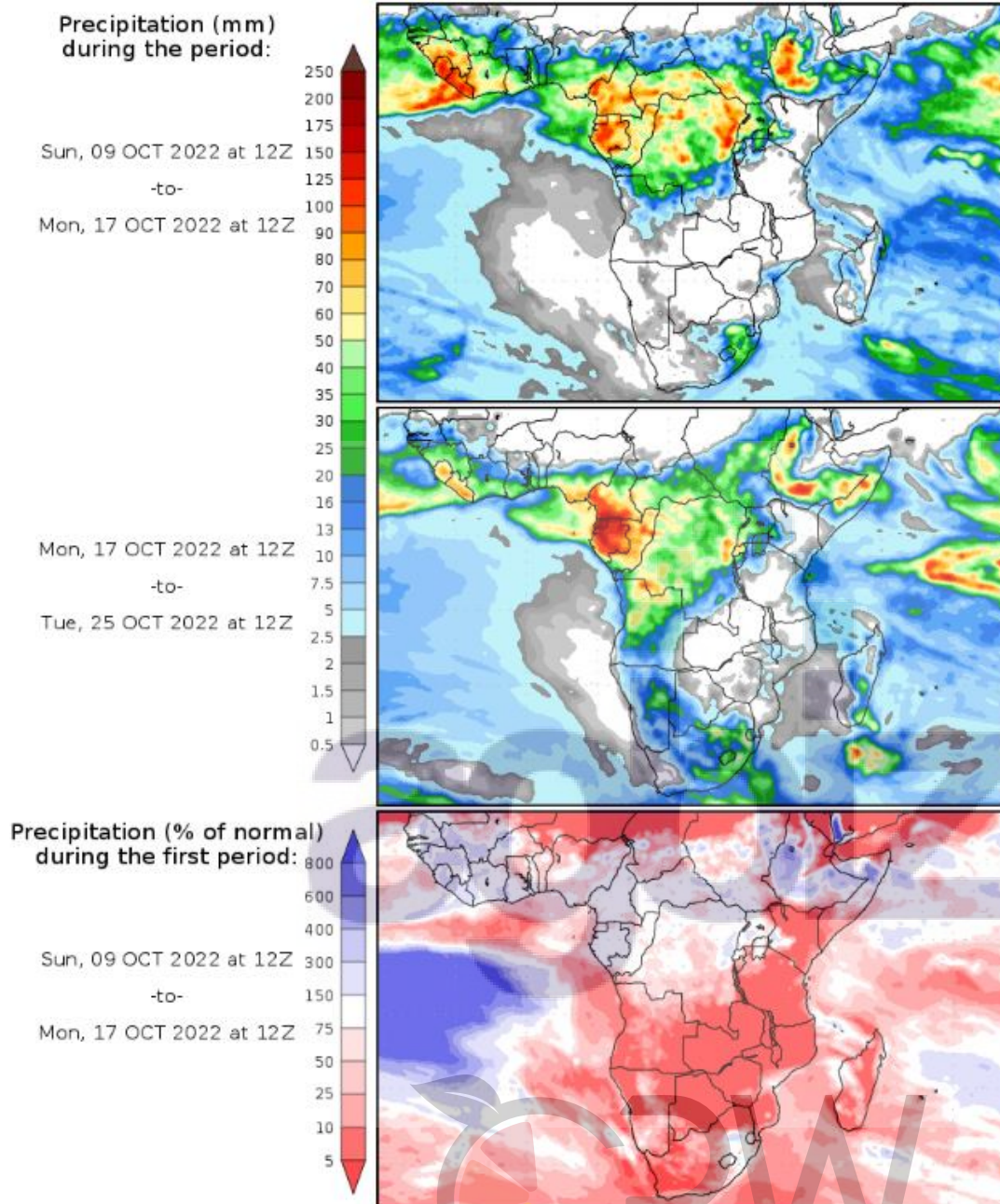


Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



Source: George Mason University (wxmaps)

After a week of excessive heat across the northern regions of South Africa, the weather forecast for the week bring a slight breather for the central and eastern regions, which could receive light showers.

The week after could be even more favourable for agriculture, with possibility of widespread rains across the country. This will help improve soil moisture, and support the planting activity for the 2022/23 production season.