

Revisiting key events in SA agriculture in 2022

We are nearing the end of a challenging year in South Africa's agriculture. The sector's gross value added will likely show a mild contraction when the data for the entire year are published by March next year. This would be a notable shift from two consecutive years of solid growth with the sector having expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021. Mild declines in critical crop harvests such as maize, production challenges in the sugar industry, trade friction in fruits, vegetables, beef and wool, as well as widespread foot-and-mouth disease weighed on the sector's performance this year. In a slightly more technical sense, the strong growth in the last two years has created an exceptionally high base, setting the ground for some pull back. Therefore, despite the expected moderate decline in 2022, it is important to note that overall activity has remained strong and the sector maintained its core contribution of improving national food security and job creation.

On the food security front, South Africa's ranking in *The Economist's Global Food Security Index* has improved. This Index ranks South Africa at 59 out of 113 countries, improving from the 70th position in 2021. This places South Africa as the most secure food in Africa, followed by Tunisia, ranked 62nd. This improvement is commendable. When looking at the index scoring's technical position, it becomes clear why South Africa's food security conditions have improved, as the "headline" ranking shows. Notably, South Africa's progress in the *Global Food Security Index* is not merely because other countries have regressed notably since the start of the Russia-Ukraine war, which increased global food prices. South Africa's scoring came in at 61,4 for 2022, a notable improvement from 57,8 in 2021. In the four subindices that comprise the *Global Food Security Index* -- namely; (1) food affordability, (2) food availability, (3) food quality and safety, and (4) sustainability and adaption -- there was a deterioration only in food affordability subindex, while the rest improved.

Regarding jobs, South Africa's primary agriculture had 873 000 people employed by the third quarter of 2022, up 5% y/y. Notably, this is well above the long-term agricultural employment of 780 000. As with the previous quarter, the increased farm activity in some vegetables, fruits and field crops sustained robust employment. This speaks to the sector's resilience amid many domestic and global economic and geopolitical challenges in 2022.

The export revenue from the sector also remains encouraging, despite the trade frictions South Africa experienced with its citrus in the EU, wool in China and vegetables in Botswana and Namibia. For example, in the data we have for the first eight months of this year, South Africa's agricultural exports amounted to US\$8,9 Billion, up by 6% from the first eight months of 2021. The generally higher commodity prices have also contributed to this increase in export values. In these months, the African continent and Europe remained vital markets, accounting for roughly two-thirds of total agricultural export earnings. Citrus, maize, nuts, wine, sugar, apples and pears, and grapes were among the key exports, especially in the latter months under consideration.

There have also been important policy developments and programmes that came into effect this year, which, if implemented effectively, could boost long-term growth for the sector. For example, in May, the industry role players together with the Department of Agriculture, Land Reform and Rural Development (DALRRD) launched the Agriculture and Agro-processing Master Plan. This is a socio-compact programme which requires a collective effort of all

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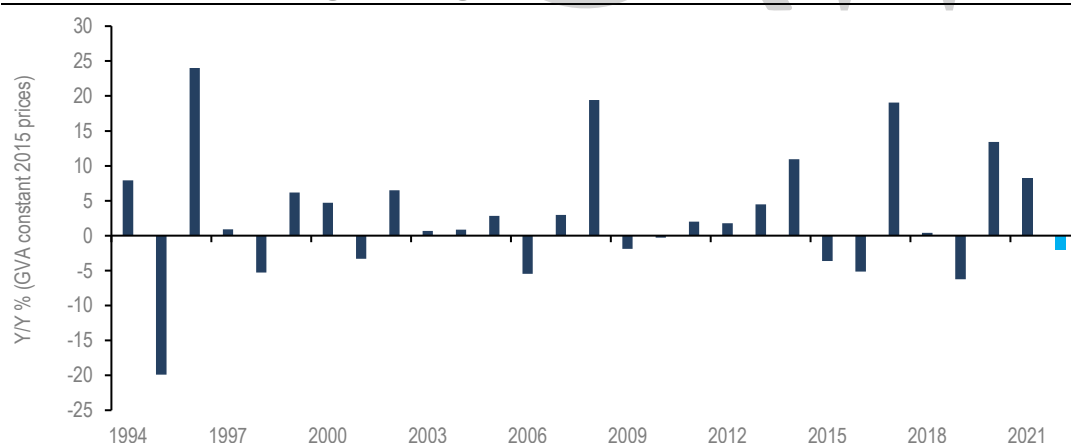
agriculture role players to succeed. Importantly, the programme was co-created by all partners, which means it enjoys a shared vision for the sector's growth agenda. The master plan reflects on key growth-constraining factors of the sector and further proposes solutions on sectoral cross-cutting issues and commodity-oriented. Meanwhile, the launch of the blended finance instrument between the DALRRD and Land Bank was an important step that will support the implementation of the master plan. The industry wishes for this blended finance instrument to be broadened and increase the support of other financial institutions. This will likely occur in the coming months as there has been enormous progress in the programme design.

The one area where there has been minimal progress and where expectations were high at the start of the year is the launch of the Agricultural Development and Land Reform Agency, which we believe could help to accelerate the redistribution pillar of the land reform programme. The agency was mentioned on various occasions by South African President Cyril Ramaphosa and Minister of Agriculture, Land Reform and Rural Development Thoko Didiza. We understand that there has been considerable progress in structuring this agency, and when launched, it could play an important role in land reform. This will be an additional instrument to support the master plan.

All this has been achieved while South Africa's agriculture continues to face a range of exogenous challenges. Most of these we discussed in previous versions of this note and these include poorly functioning network industries – roads, rail, ports, water, and electricity – and service delivery problems in municipalities, leading to an increase in business costs. Moreover, there is a need to expand export markets beyond the country's traditional markets. The priority countries should be China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines and Bangladesh. These countries have a sizable population and large imports of agricultural products, specifically fruits, wine, beef and grains. These countries are already on the radar of the South African authorities.

In sum, the year 2022 presented various challenges to the sector. Still, the resilience ensured that the core objectives, such as food security and job creation, are met amid the intensified geopolitical and rising input costs largely outside South Africa's control. The 2022/23 summer season presents prospects of a La Niña, which is already evident from the recent heavy rains across South Africa. These favourable weather conditions (assuming they won't be destructive) combined with farmers' drive to increase plantings imply that 2023 could be a year of recovery from a potential contraction in 2022. Importantly, accelerated implementation of the programmes we highlight above in 2023 would be an even more important catalyst for the sector's long-term growth. The government must lead the implementation role, complemented by all agriculture role players, as South Africa focuses on a socio-compact approach to agricultural expansion and development.

Exhibit 1: South Africa's agriculture gross value added



Source: Stats SA and Agbiz Research

Weekly highlights

South Africa's agricultural jobs up 5% y/y in Q3, 2022

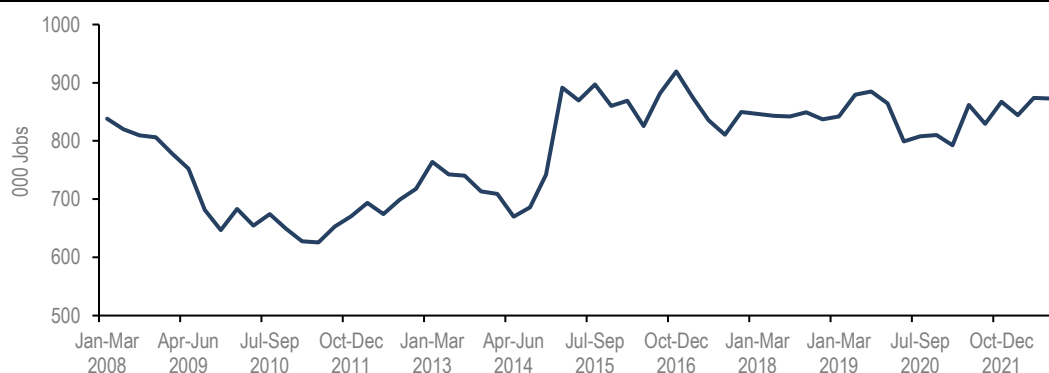
Although South Africa's agricultural sector faced numerous challenges in the 2021/22 production season – from tough production conditions in grains and oilseeds, disease outbreaks in livestock, and trade barriers in horticulture – the sector sustained jobs. In the third quarter of this year, there were 873 000 people in primary agriculture. This is up by 5% year-on-year (while down marginally by 0,1 quarterly). Notably, this is well above the long-term agricultural employment of 780 000. As with the previous quarter, the increased farm activity in some vegetables, fruits and field crops sustained robust employment.

Still, the picture is not all rosy. The livestock, animal husbandry, forestry, and related services subsectors shaved jobs during this period under review. The decline in employment in livestock was expected as the subsector faces the spread of foot-and-mouth disease, which has led to a temporary suspension of exports and a reduction in activity in numerous businesses, thus weighing on farmers' finances. Furthermore, the higher feed cost is an additional challenge for the livestock industry. This decline in agricultural jobs was mainly in the North West and Mpumalanga. Still, the reduction in the business activity in the subsectors mentioned above was compensated by the increasing work opportunities in horticulture and field crops. Thus, other provinces registered positive growth from the third quarter of 2021.

The data for the last quarter of the year will likely present a roughly unchanged view from the third quarter primary agricultural jobs numbers. The horticulture and field crops subsector probably will maintain the current workforce, although input costs have risen notably. Farmers are optimistic about the 2022/23 production season, and the rains since the start of the quarter are broadly positive for the sector, notwithstanding the planting delays in the grains and oilseeds regions and the destruction of some banana and macadamia fields in Mpumalanga because of excessive rains. The business challenges that the Tongaat Hulett financial difficulties brought to the sugarcane industry will possibly not reflect in the agricultural jobs numbers for now.

As we stressed in our various notes, aside from the subsector-specific issues, South Africa's agriculture faces challenges around the inadequate functioning of network industries – roads, rail, ports, water, and electricity, and poorly functioning municipalities, leading to an increase in the cost of doing business. Moreover, the challenging economic conditions in the country have, in some areas, led to labour unrest, which also requires close monitoring.

Exhibit 2: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

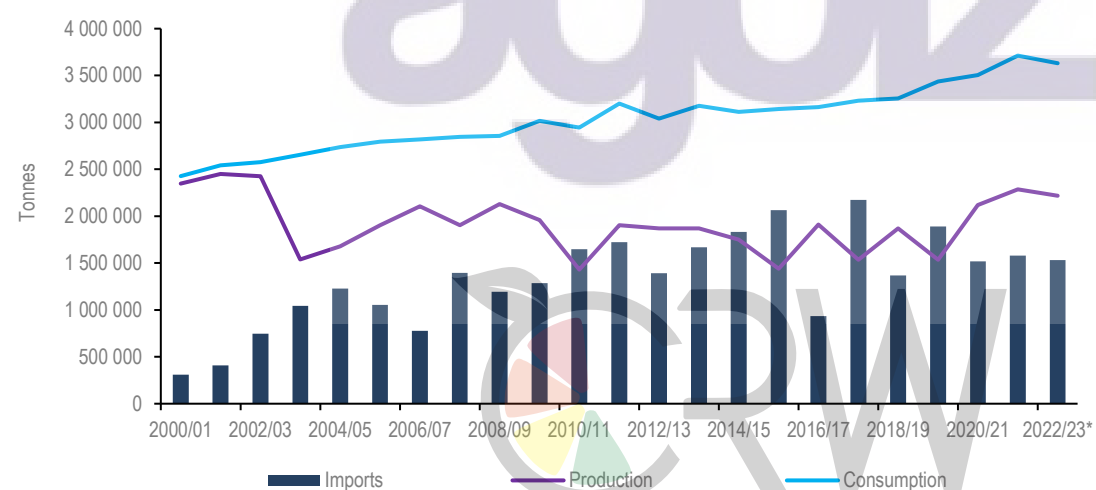
South Africa's wheat production estimates roughly unchanged from October

South Africa is set to have a decent wheat harvest in the 2022/23 season. Last week, the Crop Estimates Committee released its fourth production estimates which show a mild improvement from October figures. The current harvest estimate is 2,2 million tonnes, which is roughly the same as the 2021/22 season, the largest harvest in two decades. Farmers lifted the area plantings to 566 800 hectares, from 523 500 hectares in the previous year. This was on the back of attractive prices following a surge in wheat prices after Russia invaded Ukraine, as well as good soil moisture in various wheat-growing regions of the country.

These harvest figures show that most of South Africa's wheat needs will be produced domestically this year. In that order, the Western Cape, Free State, Northern Cape and Limpopo are the largest producing provinces of this season's crop. Outside the Western Cape, the crop in other provinces benefited from irrigation. Importantly, we still see a possible upward revision of the domestic wheat harvest if the Western Cape, which produces nearly half of the domestic wheat. In our interactions with some producers in the province, we received encouraging feedback about the crop yields.

Still, South Africa will remain a net importer of wheat. We expect the country to import 1,5 million tonnes roughly unchanged from the previous year. The major wheat suppliers are likely to remain 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, but we are now seeing a return of Russia in the wheat suppliers for South Africa.

Exhibit 3: South Africa's agriculture employment



Source: Sagis, CEC and Agbiz Research

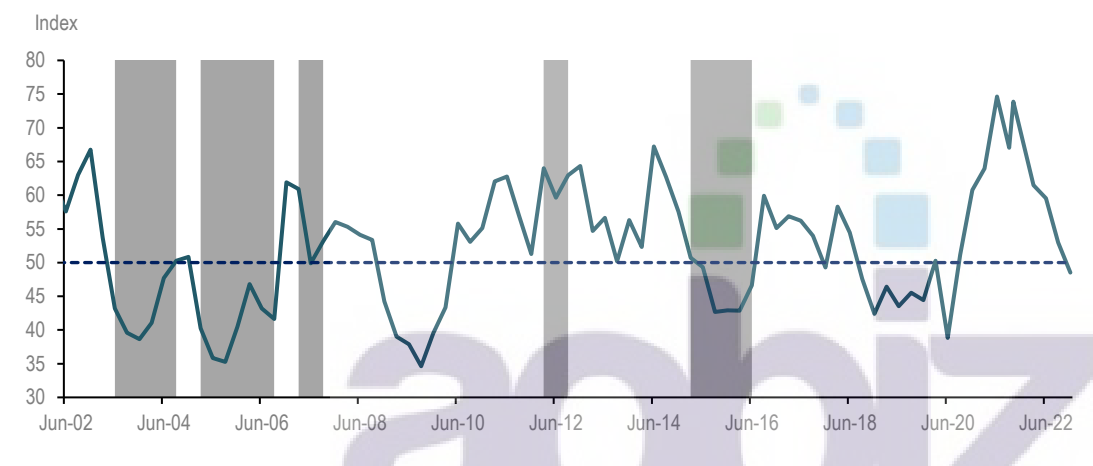
Agbiz/IDC Agribusiness Confidence Index drops below the 50-neutral mark in Q4, 2022

After remaining in optimistic territory for nearly three years, the Agbiz/IDC Agribusiness Confidence Index (ACI) fell by 4 points in the fourth quarter of this year to 49. This is the first reading below the neutral 50-point since the second quarter of 2020 and implies that agribusinesses are slightly downbeat about business conditions in South Africa. Persistent episodes of load-shedding, higher input costs, rising protection in some export markets, animal disease outbreaks, rising interest rates, intensified geopolitical tensions which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries remained the key factors survey respondents cited as their primary concerns. This

survey was conducted in the final two weeks of November, covering businesses operating in all agricultural subsectors across South Africa. The ACI comprises ten subindices, and seven declined in Q4, 2022.

Broadly, the Agbiz/IDC ACI's Q4 results mirror a sector that confronts numerous challenges that could threaten growth. Essentially, the fact that the ACI index dropped below the neutral 50-point mark for the first time in nearly three years suggests that the combination of high input costs, friction in our export markets and persistent animal diseases are starting to bite. Still, the sector could bounce back if the weather conditions prove supportive in the coming months and the South African authorities get a handle on the market access issues in the EU. The other challenge the South African government and industry will need to intensify efforts in combating is the spread of the foot-and-mouth and strengthening the biosecurity of the country.

Exhibit 4: Agbiz/IDC Agribusiness Confidence Index¹



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

We start the week with a global focus, the United States Department of Agriculture (USDA) will publish the **US Weekly Export Sales** data on Thursday.

On the domestic front, on Tuesday, Statistics South Africa will release the **Gross Domestic Product (GDP)** data for the third quarter of the year. In the second quarter of the year, the agricultural gross value added contracted by 7,7% quarter-on-quarter (seasonally adjusted). This follows a revised contraction of 2,4% in the first quarter of the year. These results are unsurprising as various subsectors of agriculture faced varied challenges.

On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 02 December 2022. In the previous release of the week of 25 November, about 14,0 million tonnes of

¹ The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

maize had already been delivered to commercial silos, out of the harvest of 15,4 million tonnes. In the same week, about 2,1 million tonnes of soybeans had already been delivered to commercial silos out of the harvest of 2,2 million tonnes. Moreover, 835 500 tonnes of sunflower seed had already been delivered on the same day out of the expected harvest of 845 550 tonnes. The 2022/23 wheat producer deliveries amounted to 1,05 million tonnes in the same week, out of the expected harvest of 2,2 million tonnes.

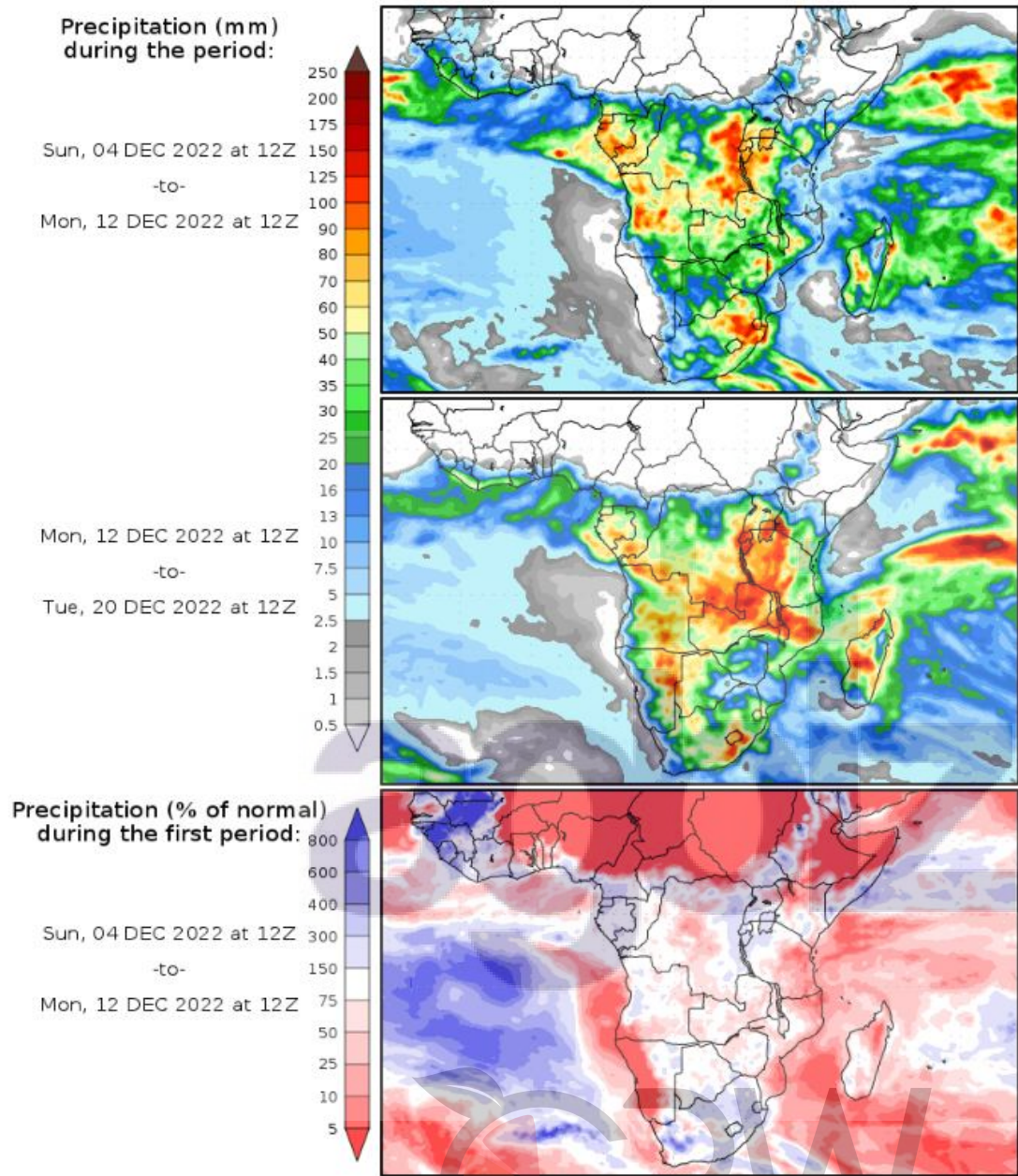
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 02 December 2022. In the previous release on 25 November 2022, which was the 30th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 37 726 tonnes, about 62% to Mexico and the rest to the Southern Africa region. This brought the total 2022/23 exports to 2,18 million tonnes out of the revised seasonal export forecast of 3,40 million. This is slightly down from 4,14 million tonnes in the past season due to an expected reduction in the harvest.

South Africa is a net wheat importer, and 25 November was the seventh week of the 2022/23 marketing year. The weekly imports amounted to 34 532 tonnes, all from Russia. This puts the total imports for the 2022/23 season at 340 385 tonnes. The seasonal import forecast is 1,53 million tonnes, slightly down from 1,58 million tonnes in the previous season. In the 2021/22 season, the major wheat suppliers are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. As we stated above and in the 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. This was replaced by Argentina and Brazil in the 2021/22 season. We will closely monitor Russia's presence in the 2022/23 season.

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Precipitation Forecasts



Source: George Mason University (wxmaps)

The weather forecast for the next two weeks show prospects of rainfall over the summer crop growing areas of South Africa.

While the rains are generally a welcome development, an increase in moisture could delay plantings in areas where there are already high moisture levels.