

Reviewing South Africa's agricultural sector in 2021

The year 2021 can be characterized as one of the rarest yet possibly most beneficial for South African farmers. The year combined ample crop harvest with higher prices, thus boosting farmers' incomes. Ordinarily, a year of large harvest tends to lead to lower commodities prices, and farmers profits are squeezed. But for 2020 and 2021, commodity prices have remained elevated in South Africa and globally. The growing demand for agricultural products, specifically oilseeds in China and India, combined with lower palm oil production in parts of Asia and a poor harvest in South America, were among the key reasons for higher global agricultural commodity prices. As an integral part of the global agriculture ecosystem, South Africa was influenced by the global price trends, mirrored in the domestic prices.

The farmers that benefited from this windfall saw their finances improve and began spending on agricultural equipment, amongst other things. For example, South Africa's total tractor sales for the first eleven months of this year reached 6 980 units, up by 25% y/y. The combine harvester sales increased by 38% y/y over the same period, with 250 units sold. Notably, 2020 was also a good year in South Africa's agricultural machinery sales, so surpassing it means we are witnessing good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvester sales increased 29% from 2019, with 184 units sold in 2020.

Going back to the start of the season, we started 2021 on a positive footing, with summer crop plantings having been completed on an increased area compared with the previous year and benefiting from higher rainfall. The estimates of ample harvest materialized, not only for summer grains and oilseeds but also for the horticulture industry. Unsurprisingly, South Africa's 2020/21 summer grains and oilseeds harvests were ample, with a sterling performance in particular crops such as soybeans and maize. For example, maize and soybeans saw production reached 16,2 and 1,9 million tonnes. This is the second-largest harvest in maize and a record harvest in soybeans. Other field crops also generated large yields in 2020/21 compared with the previous year. Within the horticulture subsector, the South African Wine Industry Information and Systems forecast the 2021 wine grape crop at 1,5 million tonnes, 9,0% more than the 2020 harvest. Thanks to a good harvest, the Citrus Growers' Association reported a record export of 162 million cartons in 2021, up by 19 million from 2020. A notable 9,0% annual increase in apple and pear exports was also due to a large domestic harvest.

The country has also experienced some challenging moments this year, such as the July 2021 unrests in KwaZulu-Natal and Gauteng, increased theft of rail infrastructure, followed by cyber-attack at Transnet, which briefly affected the movement of goods out of South Africa. For the agriculture, food and beverages sector, which is export-oriented, these were particularly crucial times. But the coordination that organized agribusiness and agriculture, Transnet, and various ports operating and truckers' groups have had since the July unrests proved to be a success. Through meetings organized by Business Unity South Africa (BUSA), the regular interactions amongst these groups have been a pivotal platform to share information about various glitches encountered in the logistics and ease the flow of information to parties that can assist. The logistical challenges have had financial implications, but the coordination has ensured a flow of products and export earnings. This is

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not a unique experience for the agricultural sector but also some parts of the mining and manufacturing industry.

This successful cooperation ensured that South Africa's agriculture, food, and beverages exports for the first three quarters of 2021 reach US\$9,6 billion, up 23% compared with the same period in 2020. The top exportable products were citrus, maize, wine, apples and pears, nuts, sugar, fruit juices, and wool, amongst other products. There are still ample agricultural and beverages exports ongoing since the start of the final quarter of this year. Hence, we are inclined to believe that South Africa could surpass 2020's agriculture exports of US\$10,2 billion, which was the second-highest on record and could even pass the record exports of 2018, which was US\$10,6 billion. We think agriculture, food and beverages exports could hit a record US\$11,0 billion mark this year.

Significantly, the Covid-19 pandemic has not changed the orientation of South Africa's agricultural export markets. While many economies have performed poorly because of the pandemic, we still see the volume of agricultural exports maintaining a similar pattern as the previous years. For example, in this year's third quarter, the African continent and Asia were the largest markets for South Africa's agricultural exports, accounting for 35% and 33% in value terms, respectively. The European Union was the third-largest market, taking up 23% of South Africa's agricultural exports. The balance of 9% value constitutes the Americas and other regions of the world.

In the last quarter of the year, we convened regional meetings of agribusiness to discuss a range of agriculture policy issues. The two major running themes in all the engagements were the need to expand South Africa's agricultural export markets beyond the current reach, along with concerns about logistical interruptions. China, Japan, India, Saudi Arabia, and Bangladesh are some agribusinesses' markets interested in expanding their presence. This is because of the growing population and generally better economic conditions that support the demand for high-value agriculture, food, and beverages products.

The robust agricultural activity this year has also ensured employment activity. In the third quarter of 2021, agricultural employment increased by 3% y/y to 829 000. As we highlighted in the previous notes, the third quarter of each year is typically not a busy period for agriculture; hence employment is down 4% from the second quarter – a busy harvesting period for field crops, with seasonal employment opportunities. Still, this is well above the long-term agricultural employment of 780 000, which shows that the sector has contributed positively to the labour market. Notably, two of the provinces, Western and Northern Cape, which saw a significant drop in employment in the previous quarters partly due to the temporary ban on alcohol sales, saw a recovery in the year's third quarter. This speaks to a rebuilding effort that producer organizations have undertaken over the past few months. One hopes that this rebuilding momentum is not interrupted in the wake of the Omicron variant of Covid-19.

Still, a critical development on the agriculture labour market at the start of the year was the 16,1% increase in the farm minimum wage to R21,69 per hour with effect on 1 March 2021. At the time of its publication, various commodity groups indicated that the increase in the minimum wage would cause a further squeeze on cash flow and negatively influence hiring decisions. But, the actual effects of the current minimum wage increase on jobs will only be apparent with a lag. The favourable agricultural conditions, combined with higher commodity prices, have also improved the farmers' financial conditions and, thus, temporarily eased the pressure of minimum wage increase.

All this robust activity also boosted sentiment in the sector. After a slight retreat to 67 in the third quarter, the Agbiz/IDC Agribusiness Confidence Index (ACI) recovered to 74 points in the final quarter of this year. This is the second-highest level since the inception of the ACI in 2001 (the second quarter of this year had the record level at 75 points). A level above the

neutral 50-point mark implies that agribusinesses are optimistic about operating conditions in the country. Essentially, 2021 was a challenging yet positive year for South Africa's agricultural sector.

The quarterly data in terms of growth in the sector tend to be volatile and might not present a most accurate picture; hence we focus on an annual figure. In this regard, the Bureau for Food and Agricultural Policy (BFAP) forecasts South Africa's agricultural growth for the year at 7,6% y/y (from the strong growth of 13,4% y/y in 2020). This far surpasses our initial projection of 6,0% for the year and all the harvest numbers we observed in the past few months convince us that the BFAP forecast might be correct for the sector's annual performance.

Looking ahead, the early indicators to 2022 are as positive about the agricultural growth prospects. Farmers have lifted the area plantings for summer crops, the rainfall outlook is favourable, and the commodity prices remain elevated. There are unique price-driving factors for crops going into 2022, but broadly, the growing demand for grains and oilseeds in China, poor crop yields in South America in the 2020/21 production season, and higher shipping costs remain the primary price drivers. These high commodity prices will partly offset farmers' input costs of the 2021/22 production season.

Weekly highlights

SA's agriculture machinery sales remain on a positive path

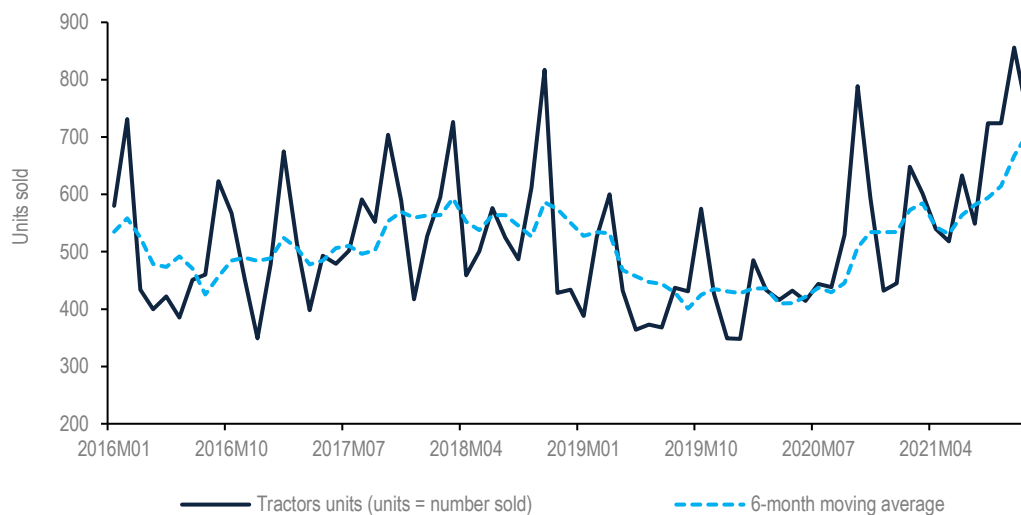
South Africa's agricultural machinery sales have been robust for over a year. In November 2021, the tractor sales of 742 units, up by 22% y/y. Meanwhile, the combine harvester' sales of eight units, double the units sold in the same month last year. This placed the total tractor sales for the first 11 months of this year at 6 980 units, up by 25% y/y. The combine harvester' sales increased by 38% y/y over the same period, with 250 units sold.

As noted in the previous commentaries, 2020 was also a good year in South Africa's agricultural machinery sales, so surpassing it means we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvester sales increased 29% from 2019, with 184 units sold in 2020.

These robust sales were supported by the large summer grains, and oilseeds harvest in 2019/20. Yet, 2020/21 was another excellent agricultural season and coincided with higher commodities prices boosting farmers' finances and, subsequently, the machinery sales. Importantly, this year's data also points to the farmers' optimism about the 2021/22 summer crop production season, whose planting started in October. Moreover, the favourable weather outlook and attractive grain prices are catalysts for a potentially good season. The farmers intended to plant 4,34 million hectares of summer grains and oilseeds. This is up by 5% from the 2020/21 production season. The winter crops are also poised for a large harvest, although the quality has deteriorated in some regions following excessive rains during the harvest period.

In sum, we had initially thought the sales would cool off in the last two months when plantings have advanced and winter crop harvest also at the tail end, but the recent data for November has proved us wrong. The optimism persists in the sector, and the annual agricultural machinery sales for 2021 will likely be significantly larger than the previous year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

We start the week with a domestic focus. On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 10 December 2021. This data cover summer and winter crops. For summer crops, on 03 December, 941 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 40 weeks of the 2021/22 marketing year at 1,84 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes.

Moreover, 673 621 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the 31st week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 14,4 million tonnes, equating to 88% of the expected crop of 16,2 million tonnes.

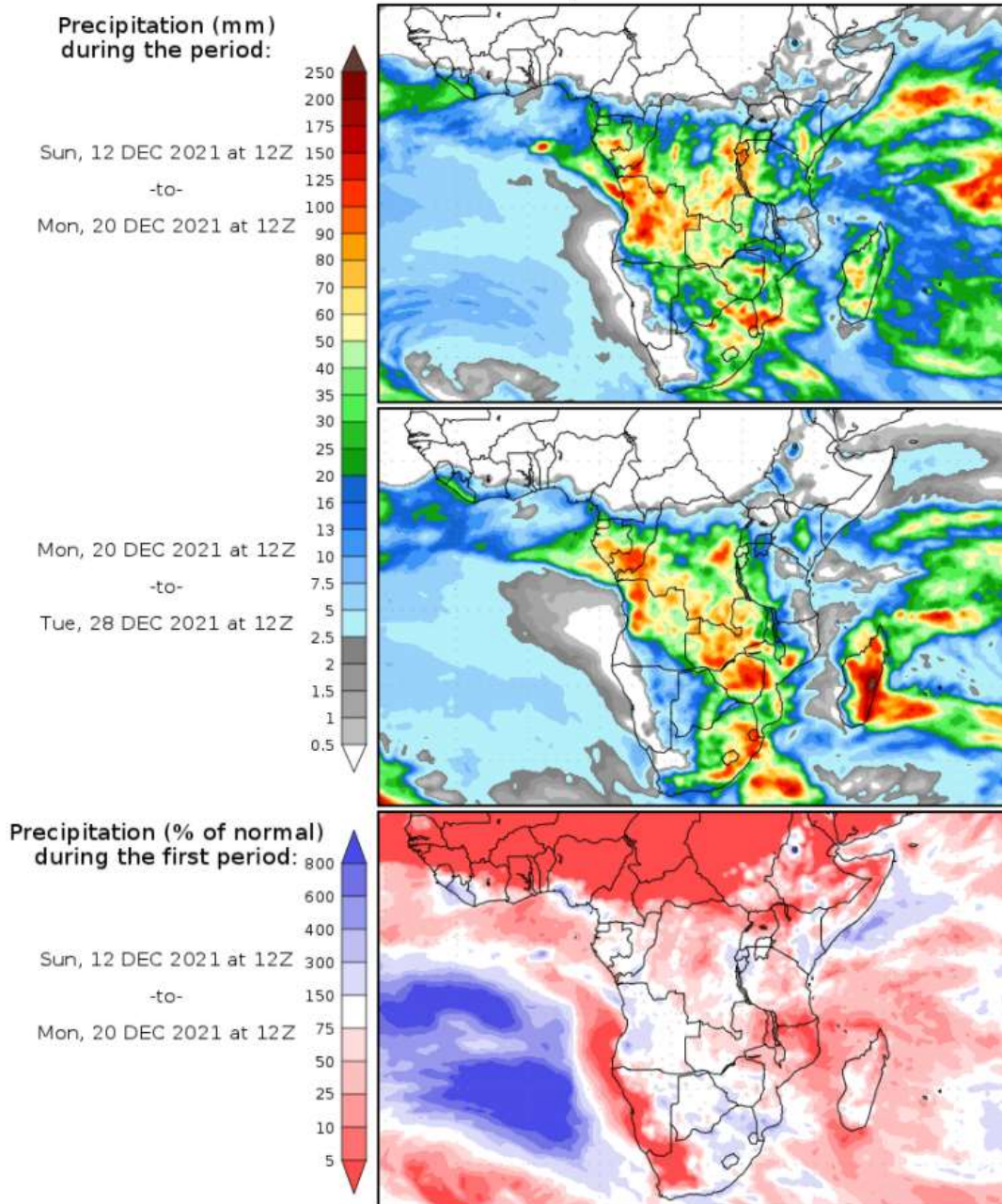
In winter crops, 1,28 million tonnes of wheat have already been delivered to commercial silos in the first ten weeks of the 2021/22 production season. This equates to 60% of the estimated harvest of 2,12 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 10 December 2021. On 03 December 2021, which was the 31st week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,36 million tonnes, equating to 69% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 03 December 2021 was the 10th week of the 2021/22 marketing year. The total imports are now at 347 500 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,51 million tonnes).

Globally, the United States Department of Agriculture will release the **US Weekly Export Sales** data on Thursday.

Exhibit 2: South Africa's precipitation forecast

Precipitation Forecasts



Source: George Mason University (wxmaps)

NOTE: This is our last commentary for the year, the next commentary will be on the 17 January 2022.

The weather forecast for the next two weeks shows prospects of widespread rainfall over South Africa.

This should help improve soil moisture and support the planting activity for the 2021/22 season and crops in areas that have already planted.

With that said, some areas might experience slight planting delays because of moisture. Still, this is not an issue at the moment, and we remain positive about the 2021/22 production season for South Africa's agriculture.