

Why a social compact key to fighting rising unemployment and low growth in SA

The twin challenges of low growth and rising unemployment facing South Africa today are not new. Structurally high unemployment has been a feature of this economy for many years, and economic growth has disappointed in the decade before the pandemic. Lifting growth and lowering joblessness has also been the central theme of numerous government policy papers.¹ Among other interventions, these papers have championed the need for a social compact approach to economic development, recognizing the government's fiscal constraints and capacity challenges at various levels of government and the need to generate buy-in of the private sector. The capability challenges have resulted in many municipalities failing to deliver essential services such as infrastructure maintenance, which enables businesses to operate efficiently. The government institutions and some state-owned entities also suffer similar challenges. Corruption, which intensified over the past decade², is one of the significant causes of capacity challenges in many government institutions. In the agricultural sector, this is reflected through the weaknesses in delivery in the Onderstepoort Biological Products (OBP), amongst others.³

Sustainably resolving the socio-economic ills such as rising unemployment and unlocking growth will require fully functional government institutions. This is key in supporting both currently operational businesses and new entrepreneurs. In the agricultural sector, the weaknesses in institutions such as the OBP, amongst others, mean that the transformation or inclusion of black South Africans will primarily suffer due to state inadequacy. For this reason, the social compact approach was widely championed by businesses through Business for South Africa's economic paper published in 2020.⁴ This document, which Agbiz participated in, outlined the essential interventions for unlocking growth from a sectoral approach. Within agriculture, some interventions recommended were legislative and required minimal government spending. Others, however, do require a broader shift in policy orientation in critical areas such as land reform. At the core, the social compact approach called for increased cooperation and trust between business, labour, community and government for the betterment of South Africa. For success, each social partner has to understand their responsibilities and commitments.

There usually is success in instances where the business has worked collaboratively with the government. There are a few examples in this regard. Within agriculture, during the port's challenges in Durban in 2021 and the period of unrest in KwaZulu Natal and parts of Gauteng, the government and business worked collaboratively to ensure the security was increased and businesses were able to move products across the country. Similarly, on exports, the collaboration increased exports, although at a significant cost to the industry, especially the horticulture subsector. It is for this reason that in the first three quarters of 2021, South Africa's agriculture, food, and beverages exports reached US\$9,6 billion, up 23% compared with the same period in 2020. The large agricultural production was also a

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¹ The most recent paper that reflected on these challenges are the Presidency's "[Economic Recovery and Reconstruction Plan](#)", and the National Treasury's paper, "[Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa](#)".

² This is covered at length at the recent "[Judicial Commission of Enquiry into State Capture report - part I](#)".

³ For more information, see "[Agricultural organisations and experts warn that animal vaccine production in SA could fail](#)".

⁴ Business for South Africa released its economics paper in June 2020, titled, "[A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy](#)".

significant factor behind the large exports. From a broader development approach, government programmes such as the Jobs Fund have included numerous black farmers in commercial production. There are also positive examples in the livestock, field crops and horticulture.

Therefore, in 2022, the government's goal should be to strengthen the social compact approach from a sectoral basis and understand the areas of interventions and collaborations that will majorly pay off in addressing the twin challenges of rising unemployment and slow growth path. This exercise should improve the network industries, specifically the rail, road and ports. The agricultural sector began 2022 with this major congestion challenge at Cape Town port. With the citrus industry heading to its export season in the coming months, there are rising concerns that the port of Durban and other ports in the country could yet again present challenges that will be costly for the industry.

Thus, a close collaboration between government, Transnet, business and other major industry stakeholders in resolving near term challenges and planning for long term solutions is paramount. The same is true for major agricultural institutions such as the Agricultural Research Council and the Onderstepoort Biological Products. This approach also requires a change in outlook so that business can be viewed as part of the solution to the country's problems. Building trust and delivery by all parties to all resolutions will strengthen credibility. From a government's side, moving swiftly in all legislative matters that don't require capital and communicating the progress will enhance the much-needed trust.

Preliminary area plantings data for 2021/22 summer crops to be released this week

Aside from the locusts spreading in parts of the Northern and Eastern Cape and threatening the grazing veld, the major concern for much of South Africa has been the excessive rains. At the start of the 2021/22 production season in October 2021, farmers were optimistic. They planned to lift the area plantings to summer crops by 3% year-on-year to 4,3 million hectares in the 2021/22 production season. This comprises maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans.

A deep dive into the numbers showed a mixed picture, albeit broadly positive. For example, the 2021/22 maize planting intensification is 2,73 million hectares, down by 1% y/y (but well above the 10-year average area of 2,53 million hectares). Sorghum area was also expected to decline by 9% y/y to 45 000 hectares (well below the 10-year average of 52 237 hectares). The groundnuts area was projected to fall by 4% from the 2020/21 production season to 37 000 hectares (lower than the 10-year average of 43 348 hectares). Meanwhile, sunflower seed, soybeans, and dry beans area plantings were expected to increase by 16%, 12% and 14% from the 2020/21 production season to 555 800, 924 800, and 54 250 hectares, respectively.

These were welcome developments as some initially feared that the rising input costs – fertilizer and agrochemicals – would potentially discourage plantings. To illustrate the rise in input costs, consider the herbicides such as glyphosate, atrazine, and metolachlor; their prices were up by 99%, 33% and 32%, respectively, in September 2021, compared with the corresponding period in 2020. The exact price trend persisted in major fertilizers such as ammonium nitrate, urea, and potassium chloride, whose prices were up by 107%, 58% and 125%, respectively, in September 2021 compared with September 2020. These overall increases were on the back of supply constraints and disruptions in production lines in major global fertilizer and agrochemical producing countries like China, India, the United States, Russia, and Canada. The higher shipping costs and oil prices also contributed to these price surges, along with firmer global demand from an expanding agricultural sector.

This means that South African farmers incurred higher costs in the 2021/22 season with the hope that a favourable weather outlook and higher commodity prices would be financially

rewarding. But as we have now observed, the excessive rains delayed plantings in some regions, and in others, damaged the crops. This means that the 2021/22 season could be a financially costly year for farmers that experience losses in yields due to floods.

This week is critical in knowing how much of the initially intended 4,3 million hectares were ultimately planted. The Crop Estimates Committee will release the preliminary plantings data on Thursday afternoon, January 27. All indications and various farmers' surveys suggest that the area plantings will be less than farmers initially anticipated.⁵ It will be a month from then for us to view the first production estimates, which will be released on February 28. Still, we doubt if South Africa will turn into a net importer of major staple grains.

Weekly highlights

SA consumer food price inflation likely to moderate somewhat in 2022

The data released by Statistics South Africa last week showed that consumer food price inflation slowed marginally to 5,9% in December 2021 from 6,0% in November. This slight moderation was in bread, cereals, and fish products. For the whole of 2021, the consumer food price inflation averaged 6,5% (compared with 4,6% y/y in 2020). Broadly, the high grains, vegetable oils and meat for the past few months were the primary drivers of consumer food price inflation in 2021.

While the excessive rains across South Africa present risks for agricultural production this year, the overall impact on crop prices remains uncertain. First, there have admittedly been delays in crop plantings and damages in some areas due to flooding. Still, the scale of this disruption will only be precise after the release of the preliminary summer crop planting data on January 27 and production estimates data at the end of February. Only then could we formulate a reliable view on the possible size of imports need if the damage is extensive, and impact after that on prices.

Second, the increases in domestic agricultural commodity prices have primarily been underpinned by global prices over the past two years. The size of the domestic harvest mattered less than the crop conditions in South America or grains and oilseeds demand in China and India, which were primary drivers of the global market. These factors provided upward pressure on global grains and oilseeds prices. South Africa, a relatively small player in global agriculture, is linked to the global market. Thus, the general rise in global prices overshadowed the improved domestic crop supply in the 2020/21 production season. These conditions remain the dominant feature in the global agricultural market, although the prices softened somewhat in December 2020.⁶ Importantly, with global grains production estimates relatively optimistic in 2021/22 compared to the previous season⁷, despite the La Niña induced dryness in parts of South America, and as a consequence, the stocks set to improve slightly; it is plausible that prices could move sideways. To an extent, this will bode well for the domestic consumer food price inflation path.

Lastly, if we account for the base effects and the above points, it is possible that consumer food price inflation could be somewhat moderate this year compared to 2021.

The essential data to watch domestically, which could present upside risks to consumer food price inflation, is meat. South Africa's cattle slaughtering activity was relatively lower in 2021 than in 2020. The continuous rebuilding of the cattle herd since the 2016 drought, combined

⁵ One of the important surveys was done by Grain South Africa in the first few weeks of the year.

⁶ Food and Agricultural Organization. 2022. *The FAO Food Price Index reaches a 10-year high in 2021, despite a small December decline*. Rome: United Nations.

⁷ Sihlobo, W. 2022. *What should we watch in the global grains and oilseeds market?*. Pretoria: Agricultural Business Chamber of South Africa.

with foot and mouth disease last year, were amongst the factors that contributed to modest slaughtering activity. The direction slaughtering will take this year will matter for meat prices. Another vital issue to remember is poultry import tariffs that came on last year; this year's base effects will likely positively affect the consumer price inflation moderation path.

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

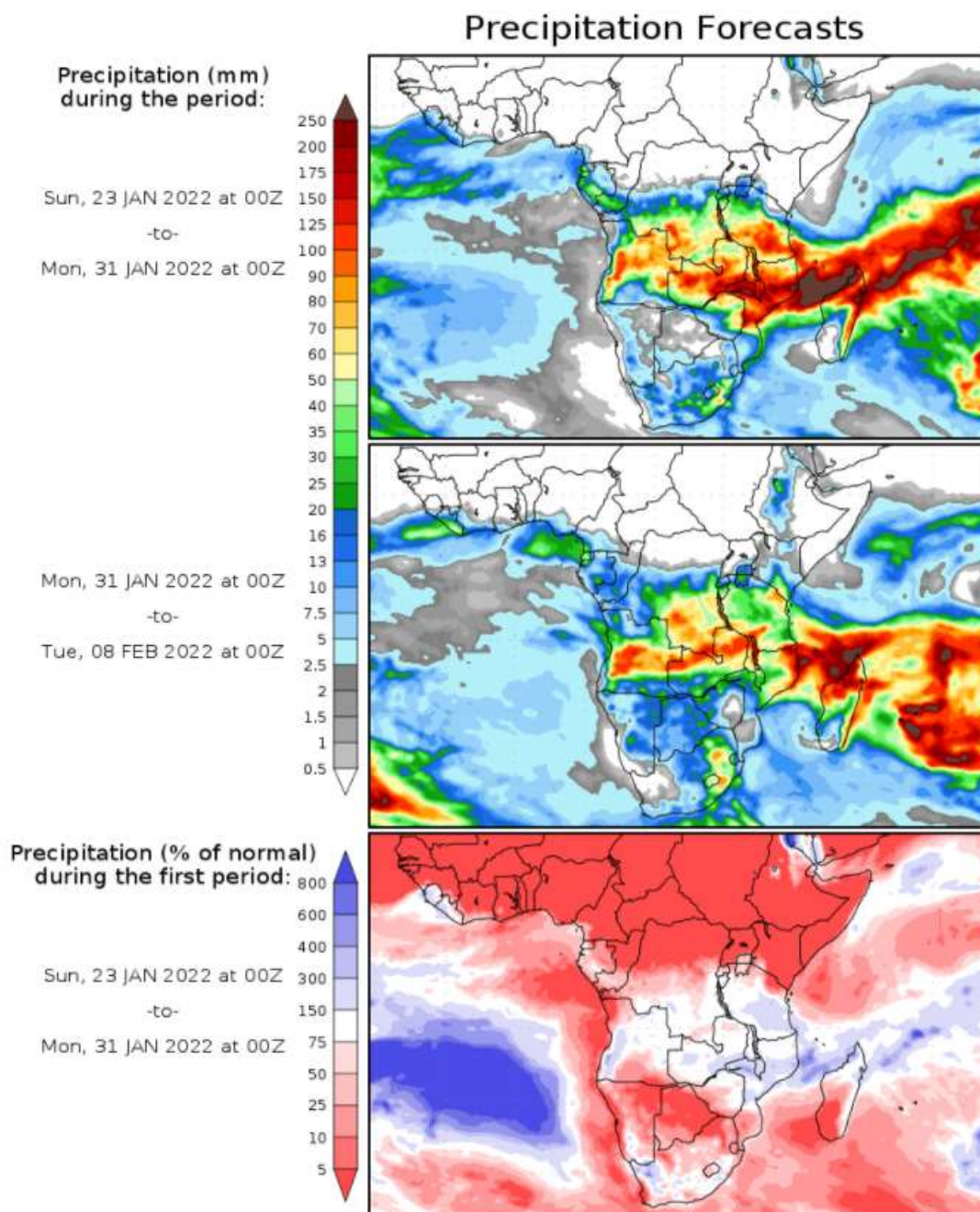
We start the week with a domestic focus. On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for January 21 2022. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity. The summer crops' new season is still at its early stages. Thus, we will focus on data closer to the harvest period in the coming months. In the week of January 14, about 2,02 million tonnes of wheat had already been delivered to commercial silos. This covered the first sixteen weeks of the 2021/22 production season and equated to 94% of the estimated harvest of 2,15 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of January 21. On January 14, which was the 37th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,58 million tonnes, equating to 75% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and January 14, was the 16th week of the 2021/22 marketing year. The total imports are now at 349 441 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).

Also, on Thursday, the Crop Estimates Committee will release the **preliminary area planted** data as we have stated above. Statistics South Africa will also publish the **Producer Price Index (PPI)** data for December 2021 on Thursday.

Globally, the United States Department of Agriculture (USDA) will release the **US weekly agricultural export sales** data on Thursday. The USDA will release the **global citrus markets and trade** data on the same day.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

After weeks of heavy showers across the country, the weather forecast for the week ahead shows prospects of a reprieve, with light showers over most regions of South Africa.

The drier weather conditions are ideal for agriculture at the moment.

The first week of February will also likely show light showers, with the exception of the eastern regions, which would again receive heavy rains which is not conducive for agriculture.