

Loadshedding is disrupting SA agriculture and agribusiness activities

As we start the new year, there is probably no issue more urgent than the worsening energy crisis for South Africa's agriculture and agribusinesses. Farmers who rely on irrigation have all expressed concerns that persistent loadshedding negatively affects production. In crucial field crops, roughly 20% of maize, 15% of soybean, 34% of sugarcane and nearly half of the wheat production are produced under irrigation. Fruits and vegetables also heavily rely on irrigation and thus face similar challenges. In red meat, poultry, piggery, wool, and dairy production, there are also concerns that loadshedding beyond stage two makes operations and planning challenging, as these industries all require continuous power for their usual activities. Similarly, agribusinesses face similar challenges in various downstream processing activities, such as milling, bakeries, abattoirs, wine processing, packaging, and animal vaccine production. Exporting agribusinesses, especially those with products susceptible to delays, such as fruits, red meat, and wine, are also worried about the port activities, which fortunately haven't been primarily affected.

The financial impact on farmers and agribusinesses or food security is not yet clear and will be difficult to quantify. At Agbiz, we have sent out a survey to collect critical data that will help us understand the scale of the financial impact of this crisis on the sector. There are also food security concerns as the effect of loadshedding will probably show in the volumes of products to be harvested/produced later in the coming months due to the time lag in agricultural production stages. The other emerging concern is the impact on jobs if businesses are severely affected. There is a real danger that some farmers could lose their crops, which would impact the farms' financial future and likely negatively impact agricultural financiers.

Total exemption of the sector from loadshedding will be near impossible. Many food processing companies and farms are technically linked to other localities and cannot be easily insulated from loadshedding. With Eskom's challenges likely to be with us for some time, reducing reliance on Eskom will probably be a strategic business survival consideration for many businesses, although costly. Investing in alternative power sources will need to be prioritized where financial resources permit. This alternative generation may not necessarily take a business "off the grid" but ensure the continuity of crucial business activities during the cycle of loadshedding.

The financial commitments associated with this may be quite large, and businesses may also encounter regulatory hurdles. These financial or regulatory limitations should be shared with the Department of Agriculture, Land Reform and Rural Development (DALRRD) so that they can help address them within their available resources and means. One possible step DALRRD can consider is to streamline the application processes under the Subdivision of Agricultural Land Act (SALA) and Spatial Planning and Land Use Management Act (SPLUMA) to authorize land use for energy generation. Additionally, if the government could also consider subsidies for solar panels and battery storage on top of relaxing these requirements, many farmers could possibly go off grid and generate enough power for their systems.

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In recent engagements with the private sector, the DALRRD clearly stated that it would explore any incentives for alternative power generation in the sector. Minister Thoko Didiza expressed deep concerns about the impact of loadshedding in agriculture, agribusinesses and the broader food, fibre and beverages sectors.

Against this backdrop, the DALRRD will set up a task team of industry players, energy experts and government officials to explore possible near-term and long-term energy solutions for the sector this week. The task team route makes sense, given that the sector is wide and diverse, and this is a specialized matter that needs swift and focused intervention from experts on energy and sectoral matters. The results of the survey Agbiz sent out will be instrumental in supplementing the team's work. The matter is urgent and needs practical solutions, not an "academic" exercise. In the near term, while various business attempt to survive this challenge, the public-private sector solution will primarily come from this collaborative effort for the sector.

Away from the ongoing concerns about the energy crisis, agricultural conditions in the country are generally favourable, having benefitted from the rains of the past few months. Provided a near-term solution for the sector's energy shortage is found, this could be another year of generally large agricultural harvests across all subsectors and possibly positive growth (from the contraction we estimate for 2022). Still, uncertainty is high given the large-scale nature of areas that depend on irrigation and some that rely on efficient ports and processing facilities. The interventions to be made by both government and private sector to the energy crisis will be a key determinant of the sector's performance for 2023. Other factors beyond our control, such as the weather, have been positive for the first part of the year. Still, the heatwave of the moment requires irrigation in various areas to sustain the crops and orchards in good condition.

Weekly highlights

South Africa saw robust agricultural machinery sales in 2022

Although we expect South Africa's agricultural gross value added for 2022 to have contracted, the year was generally favourable for the sector. The squeeze we anticipate results from mild declines in critical crop harvests such as maize, production challenges in the sugar industry, trade friction in fruits, vegetables, beef and wool, and widespread foot-and-mouth disease weighed on the sector's performance this year. In a slightly more technical sense, the strong growth in the previous two years -- 14,9% y/y in 2020 and 8,8% y/y in 2021 -- created an exceptionally high base, setting the ground for some pullback.

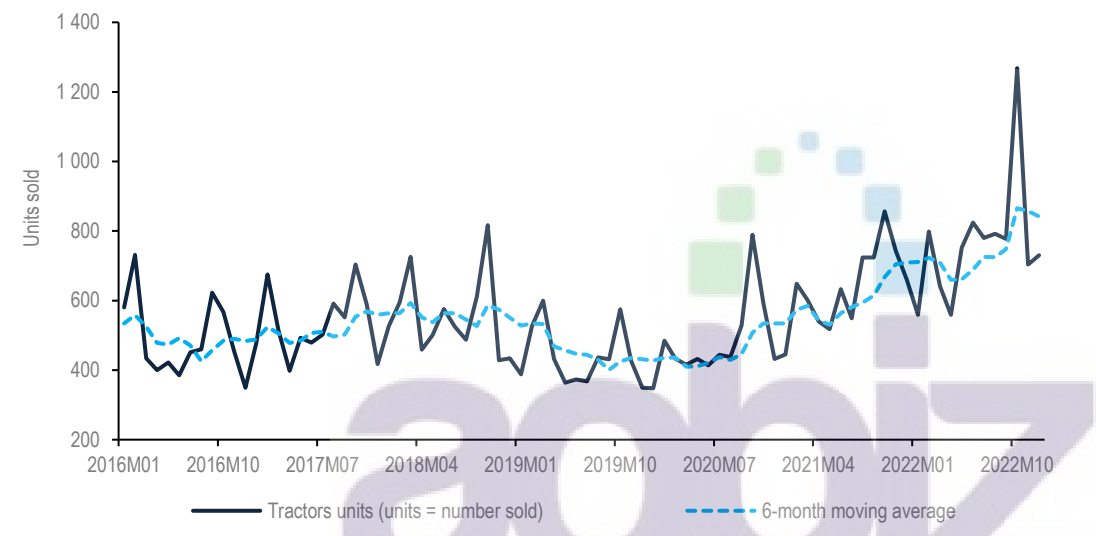
Still, the interlinked industries like the agricultural machinery industry benefited from generally good activities in various commodities of the sector where farmers were in a better financial condition. For example, South Africa's tractor sales for 2022 amounted to 9 184 units, up 17% from the previous year and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 units in the same period, up 38% from 2021 and the highest yearly sales figure since 1985. The ample crop harvest of the 2021/22 production season (and the 2020/21 and 2019/20 seasons), combined with generally higher commodity prices, specifically grains and oilseeds, helped boost farmers' incomes and, after that, their ability to procure new agricultural machinery.

However, the outlook for this year remains uncertain. On the positive side, the crops, specifically grains and oilseeds, are in reasonably good condition, supported by favourable weather conditions, increasing the prospects of another decent harvest. Admittedly, some regions planted way beyond the optimal planting period because of excessive rains at the start of the season. Still, we believe the crop will be in reasonably good condition. Notably,

the farmers planned to mildly increase the area plantings at the start of the 2022/23 season by 0,2% to 4,35 million hectares. With that said, the actual impact of the rain on planting and yields will be clear on 26 January 2023 in terms of plantings data and 28 February in the case of production prospects.

On the negative side, with such large tractor sales in 2022 and solid activity in the two years prior, we are inclined to believe that the 2023 agricultural machinery sales will likely be more muted than the previous season. The possible replacement rate of older machinery will likely be lower this year as the past three years saw increased new machinery sales. Therefore, 2023 will, in all likelihood, not be a repeat of robust agricultural machinery sales, even if commodity prices could remain elevated for some time, as could be the case from the preliminary indications in the global grains and oilseeds market.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

Data releases this week

We start the week's note with a global focus, and one major data is coming up, the **US Weekly Grains and Oilseeds Exports**, which will be released by the United States Department of Agriculture (USDA) on Friday.

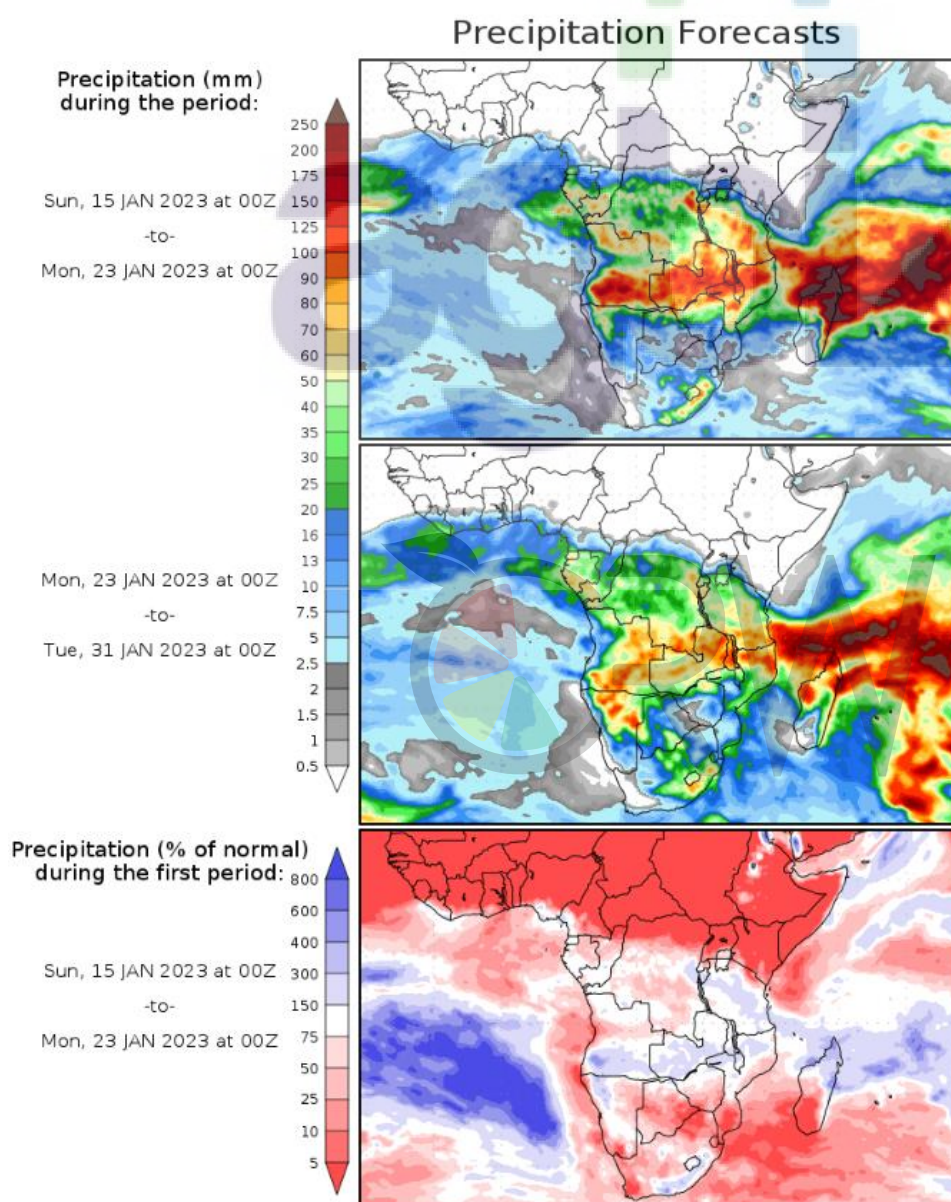
On the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for December 2022. To recap, South Africa's consumer food price inflation was 12,8% year-on-year in October 2022, from 12,3% in the previous month. The products that continued to present upside price pressures were mainly "bread and cereals", "meat", and "milk, eggs, and cheese".

Also, on Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 13 January 2023. In the previous release of the week of 06 January 2023, about 14,2 million tonnes of maize had already been delivered to commercial silos, out of the harvest of 15,4 million tonnes. In the same week, about 2,2 million tonnes of soybeans had already been delivered to commercial silos, roughly the same size as the harvest for the 2021/22 season. Moreover, 838 295 tonnes of sunflower seed had already been delivered on the same day out of the harvest of 845 550 tonnes. The 2022/23 wheat producer deliveries amounted to 1,8 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 13 January 2023. In the previous release on 06 January 2023, which was the 36th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 44 879 tonnes, about 38% to Mexico, 28% to Italy and the rest to Southern Africa region. This brought the total 2022/23 exports to 2,4 million tonnes out of the 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 06 January 2023, was the fourteenth week of the 2022/23 marketing year. The weekly imports amounted to 13 822 tonnes from Brazil and Argentina. This puts the total imports for the 2022/23 season at 399 989 tonnes. The seasonal import forecast is 1,53 million tonnes, slightly down from 1,58 million tonnes in the previous season. The major wheat suppliers in the 2021/22 season 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 import data for the past five years, Russia was one of the major wheat suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. We will closely monitor Russia's presence in the 2022/23 season, as the country is again one of the major wheat suppliers to South Africa.

Exhibit 2: South Africa's precipitation forecast



The weather forecast for this week shows prospects of light rainfall over the summer crop growing areas of South Africa.

This is a welcome development after a couple of days of a heatwave in most regions of the country.

Still, it will be ideal if this could be light showers as the forecast suggest, and also not prolonged. The past few months brought excessive rains which have improved soil moisture notably.