

Insights guiding our thinking about SA agricultural growth prospects in 2023

Over the coming months, we will receive various data releases to help guide our thinking about South Africa's agricultural growth prospects in 2023. The available soft insights suggest that near-term growth prospects of South Africa's agricultural economy look weak after subdued growth of 0,3% y/y in 2022. For example, the livestock and poultry industries, which account for roughly half of the agricultural sector's value, are under pressure amid relatively muted cattle and beef prices while farmers also continue to face higher input costs for maize and soybeans. The ongoing load-shedding is particularly challenging for the poultry industry, with the unreliable electricity supply causing significant production interruptions. As various energy solutions are explored in some farms, the financial costs will persist over the coming months. Similarly, the red meat industry faces an environment where the consumer is under pressure, and thus there is minimal room for upward price adjustments. Moreover, the tail-end effects of foot-and-mouth disease, which interrupted exports, persist, further weighing down demand as the country still cannot access some export markets. This is likely to be the reality for some farmers for much of the first half of this year.

Solutions to load-shedding are also crucial for fruit and vegetable farmers who depend on irrigation for their produce. Importantly, this also means the Department of Agriculture, Land Reform and Rural Development (DALRRD) needs to launch its blended finance solution for energy, which should help ease the financial burden of renewable solutions. This was an intervention mentioned in the national energy task team of the DALRRD but has yet to be communicated to the sector formally. The fruit industry dominates the export activity of the agricultural sector, which means that any negative impact on production would lower the export revenue, which has seen solid growth in the past few years. For example, South African agricultural exports were up for the third consecutive year in 2022, reflecting favourable production conditions and higher commodity prices. In 2022, South Africa's agricultural exports reached US\$12.8 billion, up 4% from the previous year. That said, the harvest activity in the wine grape and some deciduous fruits will likely infuse positive growth momentum in this subsector in the first half of the year. Still, energy interventions are essential for the overall performance of the subsector this year and in the future.

Field crops are the subsector that is on a much stronger footing. For example, South Africa's sugar cane crop is projected to recover by 7% y/y to 18.4 million metric tonnes in 2022/23, according to data from the Pretoria office of the United States Department of Agriculture (USDA). These expectations are supported by favourable weather conditions, which improved yields, and industry efforts to increase production, especially for small-scale farmers. Still, the Tongaat Hulett troubles linger in this industry and remain a significant risk. Moreover, the load-shedding interventions mentioned above also apply within the sugar industry, as 34% of the crop is under irrigation. Fortunately, the frequent rains this year have helped to improve soil moisture and lessen the severity of crop damage from frequent power interruptions.

The grains and oilseeds production conditions for the 2022/23 season also look positive. For example, South Africa's 2022/23 summer grains and oilseeds production is expected at 19,3 million tonnes, up 3% from the previous season, according to recent data from the Crop

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Estimates Committee. If we consider the large crops like maize, soybeans and sunflower seed, production is forecast at 15,6 million tonnes (up 1% y/y), 2,7 million tonnes (up 19% y/y), and 775 260 tonnes (down 8% y/y), respectively. The expected improvement in the maize harvest is on the back of expected better yields as the area plantings are down marginally from the 2021/22 season. Meanwhile, the robust projected increase in soybeans results from both expected large yields and an expansion in the planted area. The fall in the sunflower seed production forecast mirrors the reduced planted area and yields in some areas. Other small crops, such as sorghum and groundnuts, have a reasonably large expected harvest.

Overall, these mixed fortunes amongst various subsectors of South Africa's agriculture mean that growth, at least in the first quarter of half of the year, could be subdued with a potential recovery later in the year. The positive momentum will mainly be from field crops and some fruits. Still, this assumes that there are no significant downward revisions on the current crop forecasts and that energy interventions to stabilise the power supply in the sector are quick. Such an environment would also mean that primary agricultural employment remains reasonably stable above the long-term agricultural job of 780 000. In the last quarter of 2022, there were about 860 000 people employed in primary agriculture. The one aspect whose impact on the jobs outlook we will also monitor is the recent increase in minimum wages which is a concern, specifically for the fruit industry.

Weekly highlights

South Africa's agriculture gross value added slowed in 2022

After a solid performance of 8,8% y/y in 2021, we thought South Africa's agricultural gross value added would contract mildly in 2022. But the data released today by Statistics South Africa paints a slightly positive picture, showing that the sector expanded somewhat by 0,3% y/y. We based our view of a potential contraction on the decline in some vital field crop harvests, such as maize, which is down 5% y/y in the 2021/22 season, estimated at 15,5 million tonnes. Moreover, the poor performance in sugar cane production in 2021/22, and the foot-and-mouth disease outbreak in the livestock industry, which spread for the first time in six of South Africa's nine provinces, were additional risks. The base effects after two years of solid growth, where the sector expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021, was an additional factor to our view of a possible annual contraction in the gross value added in 2022.

Also worth noting is that the Agbiz/IDC Agribusiness Confidence Index (ACI), which we view as a lead indicator of the sector's performance, fell by 4 points in Q4 2022, to 49. This deterioration below the neutral 50-point implies that agribusinesses were slightly downbeat about business conditions in South Africa. If this gloomy path continues, an outcome we will know for sure next week when we release Q1 2023 results, there could be negative implications for the sector's long-term growth. Persistent episodes of load-shedding, higher input costs, rising protection in some export markets, rising interest rates, intensified geopolitical tensions which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries are some key factors that weighed on sentiments.

Still, a meagre growth of 0,3% y/y is in line with the employment conditions in primary agriculture, which remained broadly encouraging in the face of all the challenges we list above. For example, in the last quarter of 2022, there were about 860 000 people employed in primary agriculture (down 1% y/y), which is well above the long-term agricultural employment of 780 000.

While the 2022 performance was subdued, we expect the sector to recover somewhat in 2023. The early indications suggest that South Africa's 2022/23 summer crop production

could amount to 19,3 million tonnes, up 3% from the previous season. If the horticulture and the livestock subsectors also show a recovery, however marginal, this would lead to positive growth in the sector this year. With that said, farming businesses are challenged by persistent load-shedding, which has increased input costs as some seek various means of energy generation that require extra capital. We remain positive that the interventions that the Department of Agriculture, Land Reform and Rural Development (DALRRD) seek to make could slightly cushion the sector. The DALRRD interventions add to the finance minister's recent interventions about diesel rebates for food value-chain role players and that there could be possible energy curtailment options for heavy users where technical infrastructure permits. Other possible options currently being discussed include blended finance to incentivize own generation within agriculture as part of "greening South Africa's agriculture". The detailed brief of interventions is yet to be released by the Department of Agriculture, Land Reform, and Rural Development (DALRRD) through the office of the director general.

Exhibit 1: South Africa's agriculture GVA



Source: Stats SA and Agbiz Research

The USDA lifts its 2022/23 wheat and rice global production forecasts

This past week the United States Department of Agriculture (USDA) released its monthly flagship report, the *World Agricultural Supply and Demand Estimates* report. This report provides insight into the global production conditions of the major grains and oilseeds. This latest update provided positive developments in wheat and rice production prospects for the 2022/23 season, while maize and soybean were revised down marginally from the February estimates.

The USDA forecasts 2022/23 global wheat production at 788 million tonnes, up by 1% from February estimates and the previous season's harvest. As with the earlier months, the ample harvest is on the back of expected large yields in Russia, the US, Canada, Kazakhstan, China, Australia, and the UK. However, because of strong consumption, the 2022/23 global wheat stocks are set to decline by 1% from the previous season to 267 million tonnes.

Moreover, the 2022/23 global rice production is estimated at 509 million tonnes, up by 1% from the February estimates and roughly the same level as the 2021/22 harvest. Because of solid consumption levels, the USDA currently forecasts an 8% annual decline in global rice stocks, estimated at 173 million tonnes.

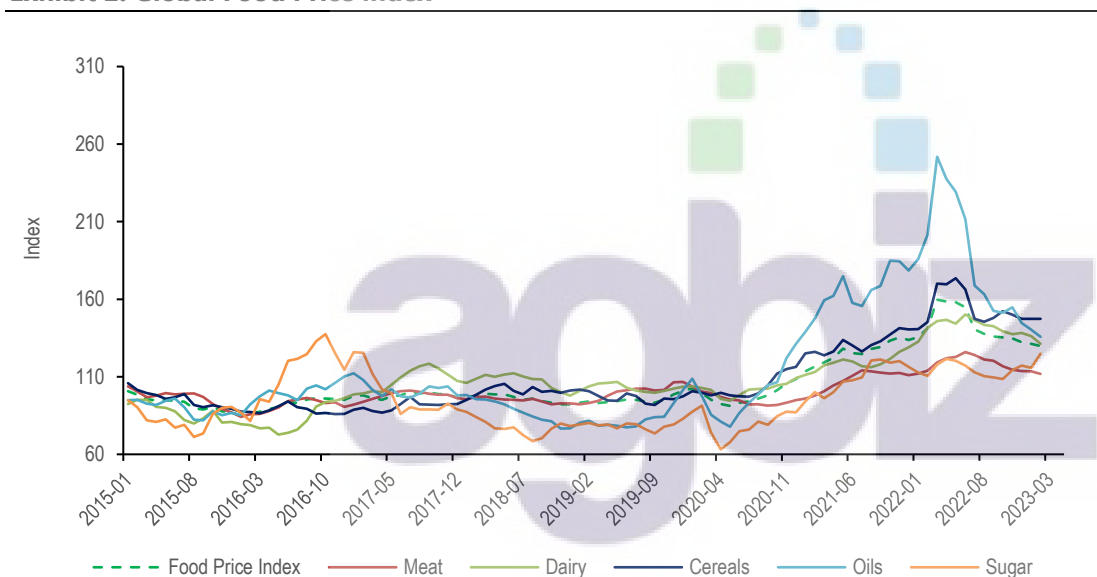
However, the maize and soybeans' monthly production picture is different. For example, the 2022/23 global maize production is forecast at 1,15 billion tonnes, down by 0,3% from the

February estimate and 6% less than the 2021/22 season crop. This is mainly due to an expected smaller crop in the US, Ukraine, and the EU. Subsequently, the 2022/23 global maize stocks are down by 3% from the prior season, estimated at 296 million tonnes.

Moreover, the 2022/23 soybeans production forecast was slashed by 2% from February due to a poor harvest in Argentina. Still, this is 5% up from the previous season. The anticipated large yield in Brazil, Russia and China compensates for the expected decline in the US, India, Argentina, and Uruguay. These deviations in crop expectations are a function of weather and area plantings variations.

As with the previous month, we view the 2022/23 global grains and oilseeds season positively. The expected global production will be sufficient to provide relief from the prices levels grains and oilseeds reached in the weeks after the start of the Russia-Ukraine war. Still, the tighter maize and rice stocks will likely keep prices at reasonably higher levels than the long-term averages. For example, the FAO's Cereal Price Index averaged 147,3 points in February, 1% higher than a year ago (see Exhibit 2).

Exhibit 2: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

We start the week with a global focus. The calendar is reasonably quiet, with only one major release, the **U.S. Weekly Grains and Oilseeds Exports**, by the United States Department of Agriculture (USDA) on Thursday.

On the domestic front, today, Agbiz will release the **Agbiz/IDC Agribusiness Confidence Index (ACI)** results for the first quarter of 2023. As a recap, the ACI fell by 4 points in the fourth quarter of this year to 49. This was the first reading below the neutral 50-point since the second quarter of 2020 and implies that agribusinesses were slightly downbeat about business conditions in South Africa.

On Wednesday, SAGIS will release the **Weekly Producer Deliveries** data for 10 March. In the previous release of 03 March, about 14,6 million tonnes of maize had already been delivered to commercial silos out of the harvest of 15,5 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 season. Moreover, 842 629 tonnes of sunflower seed had already

been delivered on the same day out of the harvest of 845 550 tonnes. This is the last month we report on the 2022/23 marketing year; we will transition into the 2023/24 season next month as the early producer deliveries will gain momentum in April. The 2022/23 wheat producer deliveries amounted to 1,9 million tonnes in the same week, out of the expected harvest of 2,1 million tonnes.

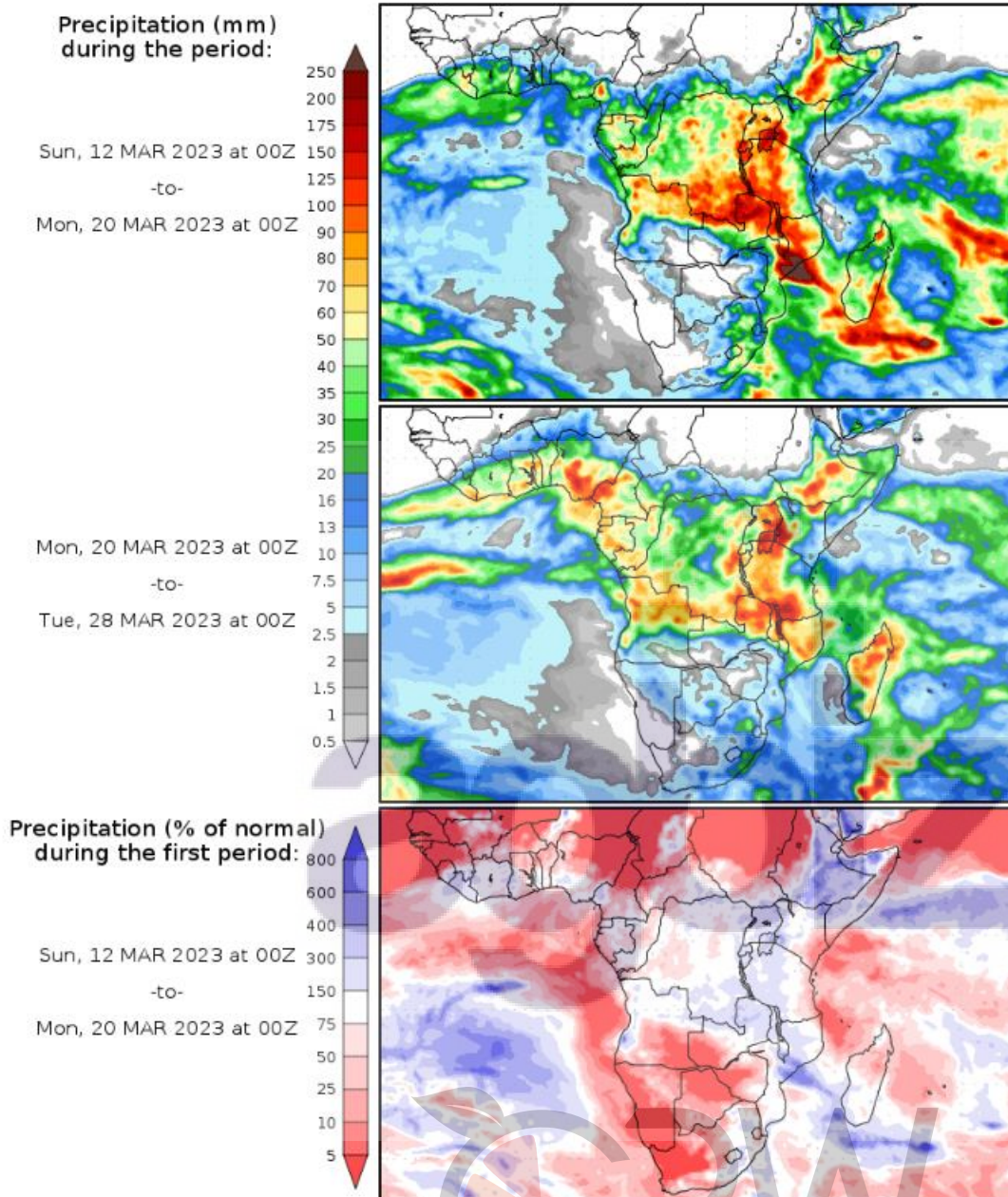
On Thursday, SAGIS will publish the **Weekly Grain Trade** data for 10 March. In the previous release on 03 March, the 44th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 108 926 tonnes. About 24% of this volume went to South Korea, 18% to Honduras, 16% to Guatemala, 13% to Italy, and the rest to Africa. This brought the total 2022/23 exports to 2,9 million tonnes out of the seasonal export forecast of 3,3 million (slightly down from 3,7 million tonnes in the past season due to an expected reduction in the harvest).

South Africa is a net wheat importer, and 03 March was the 22nd week of the 2022/23 marketing year, with 10 424 tonnes all from Poland. South Africa's 2022/23 wheat imports currently stand at 569 856 tonnes. The seasonal import forecast is 1,6 million tonnes, roughly unchanged from the previous season. The major wheat suppliers in the 2021/22 season are Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the U.S. 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 significant wheat suppliers to South Africa.

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Precipitation Forecasts



Source: George Mason University (wxmaps)

As with the previous week, the weather forecast for this week shows prospects of light showers over most regions of South Africa.

While this is not an ideal time for increased rainfall over the summer crop regions of South Africa, the forecast light showers will likely be supportive of crop conditions.