

## Challenges facing the SA livestock industry

South Africa's livestock industry has faced numerous challenges over the past few years. One of these was the rise in feed prices since 2020, especially for maize and soybeans. The rise in animal feed prices coincided with a worsening in consumers financial strain due to the damaging effects of the pandemic. Thus, we saw a decline in the demand for red meat products as consumers opted for relatively cheaper forms of protein. Moreover, the spread of foot-and-mouth disease (FMD) to six of South Africa's nine provinces for the first time in history was another challenge for the industry. This brought temporary bans in certain export markets, extending to auctions and livestock movement, mainly cattle, for some time in 2022.

Despite the FMD-related export bans, South African beef producers sent sizable volumes of beef products to markets that did not close the import channel. This is evident in the beef exports for 2022, which amounted to 28 422 tonnes (albeit down 12% from 2021), according to data from Trade Map. This is only mildly below the ten-year average exports. Fresh beef accounted for 54% of overall exports while the balance was frozen beef. Within this total figure, a significant decline was recorded in frozen beef exports, which were at 12 945 tonnes in 2022, down 24% year-on-year. Meanwhile, fresh beef exports increased by 2% year-on-year to 15 477 tonnes.

The key markets for South Africa's fresh beef were Kuwait (with a market share of 22%), Jordan (16%), Mozambique (13%), United Arab Emirates (12%), Qatar (9%), Netherlands (4%), Lesotho (3%), Canada (3%), Zimbabwe (3%), Mauritius (3%), and Eswatini (2%). These markets accounted for 90% of South Africa's fresh beef exports in 2022. In the case of frozen beef exports, the top export markets were Lesotho (16%), China (14%), Nigeria (14%), United Arab Emirates (9%), Mozambique (7%), Kuwait (6%), Egypt (5%), Qatar (4%), United Kingdom (3%), Netherlands (3%), and Jordan (2%). These markets accounted for 82% of South Africa's frozen beef exports in 2022.

The outbreak of the foot-and-mouth disease also negatively impacted South Africa's wool exports. China, which accounts for roughly 70% of South Africa's wool exports in value terms, temporarily suspended South Africa's wool exports in the second quarter of 2022 and only opened the market in the last week of August 2022. The suspension happened despite a unique protocol to handle the wool shipments and avoid contamination during a foot-and-mouth disease outbreak in South Africa. South Africa and China agreed on this protocol following the 2019 outbreak, which weighed on exports.

This resulted in a 21% year-on-year decline in export value of wool in 2022, to US\$337 million, according to data from Trade Map. Still, this is significant, accounting for 3% of South Africa's record agricultural export value of US\$12,8 billion in 2022. Meanwhile, beef exports were about 1% of agricultural exports, valued at US\$151 million in 2022.

Aside from the trade dynamics, the wool and beef industries are also among the agricultural subsectors with a large share of new-entrant black farmers that also experienced financial pressures over the past couple of years of higher input costs and animal disease outbreaks. The National Agricultural Marketing Council estimates suggest that black farmers account for 18%, 13% and 34% of wool, mohair, and cattle production, respectively.

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The outbreaks we faced in last few years will not be the last. Other industries that face the same challenge are poultry and piggery, which are susceptible to diseases such as African swine fever and avian influenza, which typically come as a heavy financial burden for producers. South Africa's inability to control the spread of disease in the recent outbreaks signals a failure in the country's veterinary services and related support services i.e., laboratories and vaccine production.

Therefore, the government, along with organized agriculture and industry bodies, should closely work together to address the biosecurity challenges in the country. Notably, the government needs to lead the way in assisting at such times to ensure the sustainability of businesses and keep up with the promise of the Agriculture and Agro-processing Master Plan, which seeks to boost collaboration amongst social partners to improve inclusive growth in the sector.

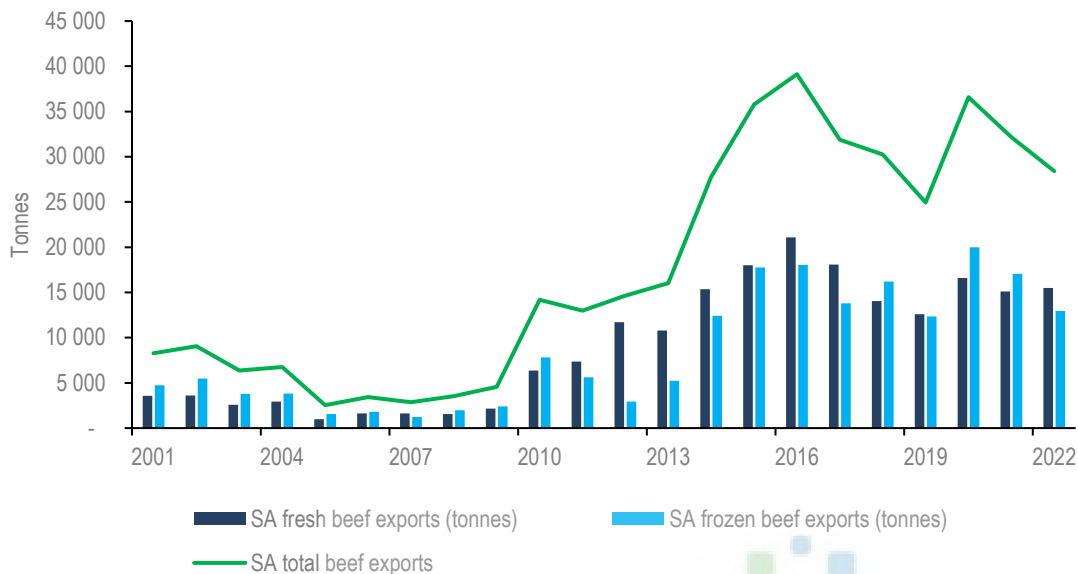
As climate change intensifies and disease is likely to be more prevalent, the Department of Agriculture, Land Reform and Rural Development should consider earmarking a share of their annual budgets for emergency purposes to deal with animal disease outbreaks. These funds should be utilized under strict rules and in concurrence with the National Treasury only in the case of notifiable animal disease outbreaks. This is necessary to control animal movements, buy vaccines, employ additional staff, and compensate producers when animals must be culled, according to the World Organisation for Animal Health (OIE) guidelines. Veterinarians and animal health technicians are critical for continued surveillance, monitoring, and advice to farmers. The process of authorizing veterinarians in the private sector to deliver services on behalf of the State's needs should be a priority.

Moreover, the uncontrolled movement of animals and animal products from disease-control areas has, in almost all recent severe outbreaks of diseases, caused their spread to areas in the country where they have never occurred before. Therefore, the veterinary services at the provincial level should thus be accompanied by effective livestock movement control functions.

Also necessary is the repair and maintenance of international fences which, in their current state of disrepair, fail to keep wild animals and infected animals from neighbouring countries out of South Africa. Collaboration between Public Works and the National Treasury in this respect is critical.

In essence, most interventions require better management, better coordination, restructuring of the various departments, and investment in fencing, new laboratory equipment, and vaccine production. This is important because the livestock industry and its products (beef, lamb, wool, poultry, goats, pork, ostrich, dairy, and mohair) represent more than half of agricultural gross value-added in South Africa and provide the largest source of protein to the diets of South Africans. Hence, a failure to support this industry will negatively affect our agricultural fortunes and our overall inclusive growth ambitions.

## Exhibit 1: South Africa's beef exports



Source: Trade Map and Agbiz Research

## Weekly highlights

### A slight improvement in South Africa's March 2023 tractors sales still doesn't change the outlook of possible moderation

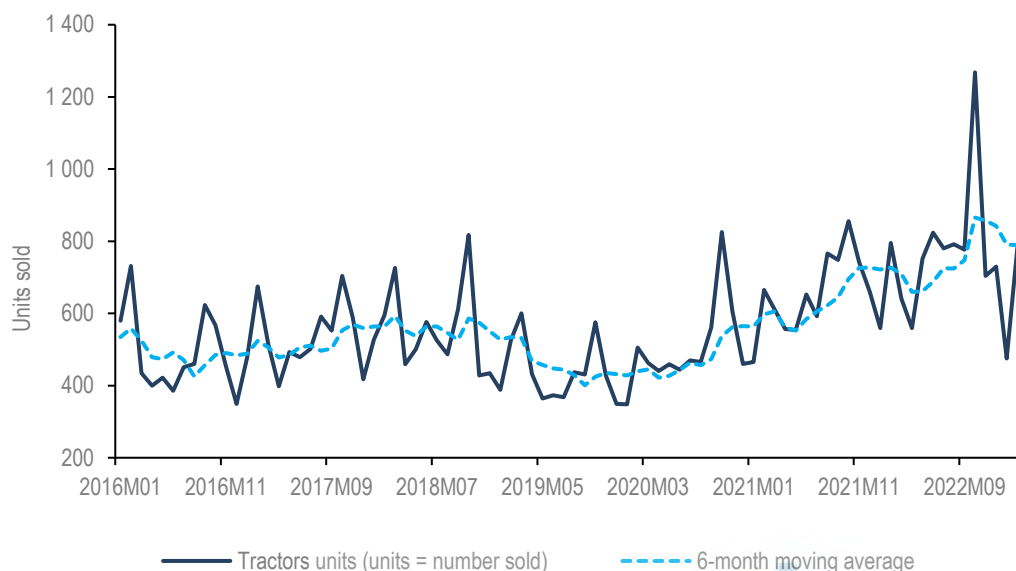
South Africa's latest agricultural machinery sales painted a mixed picture. The tractor sales were up by 6% y/y in March 2023, with 677 units sold. Meanwhile, combine harvester sales were down by 9% y/y, with 39 units sold.

These data aren't surprising, and we still believe that South Africa's agricultural machinery sales will cool off this year, following a few years of excellent activity. For example, South Africa's tractor sales for 2022 amounted to 9 184 units, up 17% y/y and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 in the same period, up 38% y/y and the highest yearly sales figure since 1985.

This year will likely be a pause from this robust sales period, for several reasons. Chief amongst them is that the possible replacement rate of older machinery will likely be lower this year as the past three years saw increased new machinery sales.

The rising interest rates will continue to pressure farmers' finances. While other input cost prices, such as fertilizer and agrochemicals, have softened in recent months, the current price levels are still well above long-term levels, thus adding pressure on farmers' finances. Importantly, the large summer crop harvest, currently estimated at 19,6 million tonnes, up 5% higher than the previous season, will likely not change these possible outcome of sales for the year.

## Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

## Data releases this week

We start the week with a global focus. Today the United States Department of Agriculture (USDA) will release the **US Crop Progress** report. Moreover, the USDA will release its **US Weekly Grains and Oilseeds Exports** data on Thursday.

On the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for March 2023. Our focus in this release will mainly be on the food category. South Africa's consumer food price inflation accelerated mildly to 14% y/y in February 2023 from 13,8% in the previous month. The food product prices that increased notably were meat; milk, eggs and cheese; vegetable; and sugar, sweets and desserts. These elevated levels of South Africa's consumer food price inflation are unsurprising and illustrate an environment where there are still tail-end effects of generally higher agricultural commodity prices.

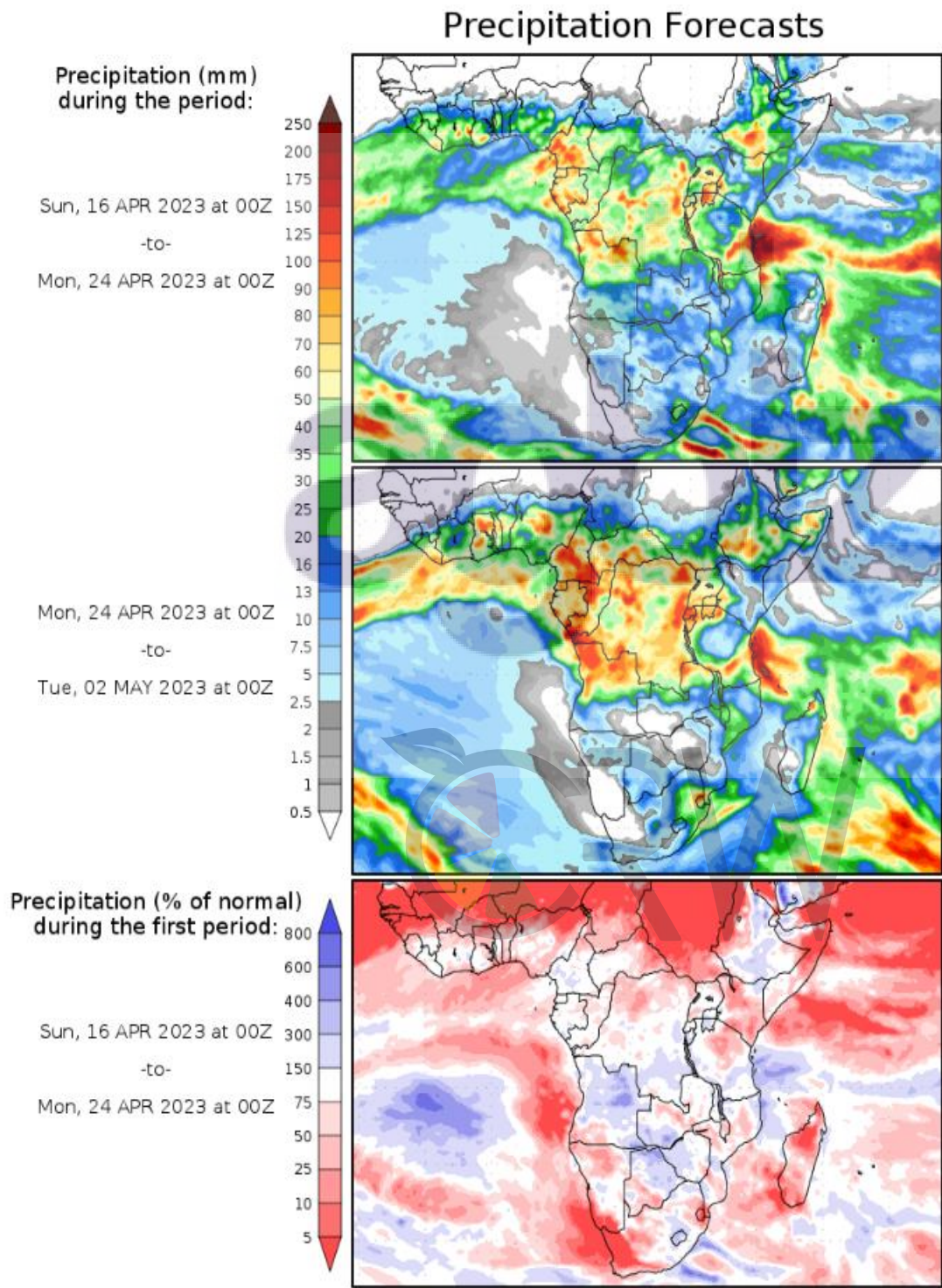
On the same day, SAGIS will release **South Africa's Weekly Grain Producer Deliveries** data for 14 April. In the previous release of 07 April, the 2022/23 wheat producer deliveries amounted to 1,98 million tonnes, out of the **expected** harvest of 2,1 million tonnes. We will report on the 2022/23 summer grains and oilseeds when the harvest gains momentum in May.

On Thursday, SAGIS will publish **South Africa's Weekly Grain Trade** data for 14 April. In the previous release on 07 April, the 49th week of South Africa's 2022/23 maize marketing year, the weekly exports amounted to 124 899 tonnes. About 65% to China, 20% to South Korea and the balance to the neighbouring countries. This brought the total 2022/23 exports to 3,38 million tonnes out of the revised seasonal export forecast of 3,54 million (slightly below 3,73 million tonnes in the past season because of a lower harvest compared to the previous season).

South Africa is a net wheat importer, and 07 April was the 27th week of the 2022/23 marketing year, with 6 815 tonnes, all from Australia and Lithuania. South Africa's 2022/23 wheat imports currently stand at 765 609 tonnes. The seasonal import forecast is 1,6 million

tonnes, roughly unchanged from the previous season. As we stated in our earlier notes, the major wheat suppliers in the 2021/22 season were Argentina, Lithuania, Brazil, Australia, Poland, Latvia and the US. If one looks into South Africa's wheat import data for the past five years, Russia was one of the significant wheat suppliers, accounting for an average share of 26% yearly. Argentina and Brazil replaced this in the 2021/22 season. However, Russia is back on the suppliers' list in the 2022/23 season and is again one of the significant wheat suppliers to South Africa thus far.

Exhibit 3: South Africa's precipitation forecast



The weather forecast for the next two weeks shows prospects of light showers over most regions of South Africa.

In the summer crop regions, the forecast showers could slightly slow the harvest where the process is about to start. Still, we do not anticipate possible damages on the crop.

Meanwhile for winter crop regions, the forecast showers will help improve soil moisture ahead of planting. Notably, the Western Cape, which needs increased showers will likely remain fairly dry over the next two weeks.

Source: George Mason University (wxmaps)