

Deteriorating service delivery and infrastructure constrain SA's agricultural growth prospects

South Africa's agriculture has had a few excellent consecutive seasons. The current 2022/23 season will likely also deliver solid growth again for the sector, although with variation across the different sub-sectors. Favourable rainfall and the sectors' ability to cope with the current load-shedding crisis have supported production. This also means the export performance will likely be robust, especially with a weaker exchange rate that makes South African products more competitively priced in the global market.

Still, this positive outlook and the previous years of strong performance that allow agribusiness to support rural towns and communities have not motivated the provincial governments and municipalities to play a more helpful role in propelling the sector's progress. The challenges of deteriorating roads, water infrastructure, and rising crime that we raised a few years ago persist and, in some cases, have worsened. The summer rainfall that supported agricultural production has also had the downside of exacerbating the damage to the already neglected roads.

This is not a challenge faced only by large commercial farmers that serve a broader clientele but all farmers. The emerging or new entrant black farmers, with limited financial resources, face it more acutely. A case in point is the Eastern Cape, where this past week, dairy farmers in the Ncorha area struggled to receive farm supplements, feeds and diesel because of the poor state of roads. At the same time, they couldn't deliver their produce to the market. This has adverse financial consequences for farmers, workers and communities.

This challenge, however, is not isolated to the Eastern Cape but across the entire country. The roads across the rural towns of the Free State, North West, Limpopo and KwaZulu-Natal, to name a few provinces, are also poorly maintained in bad condition. Compounding this challenge is the reality that South Africa now transports over two-thirds of its agricultural produce by roads, as rail transport has faced its fair share of challenges over the years. This means the higher agricultural output without functional roads does not yield full financial benefit to farmers and agribusinesses, as some have to find private construction at their costs to maintain some roads. This happens while the municipalities often have the allocated financial budget to cover their infrastructure needs but misuse the funds, as so often reported by the Auditor General.

Water is another aspect that various agribusinesses and farmers often raise as a challenge, both from a policy perspective and, more critically, in terms of infrastructure maintenance. There are examples of towns where agribusinesses have had to play a more active role in the water supply. This again takes financial and human capital away from businesses to public service that municipalities should be covering.

Moreover, agribusinesses and farmers also see a rise in corruption and crime. Commercial farming businesses have had to tighten security over the years at their own cost because of lawlessness in rural South Africa. Harvest and livestock theft challenges affect all farmers and are much harder for new entrant farmers without a strong financial position to invest in security and various technical solutions. Again, tightening security comes at a cost, with

22 May 2023

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

resources having to be shifted from more productive uses to cover for the government's shortcomings.

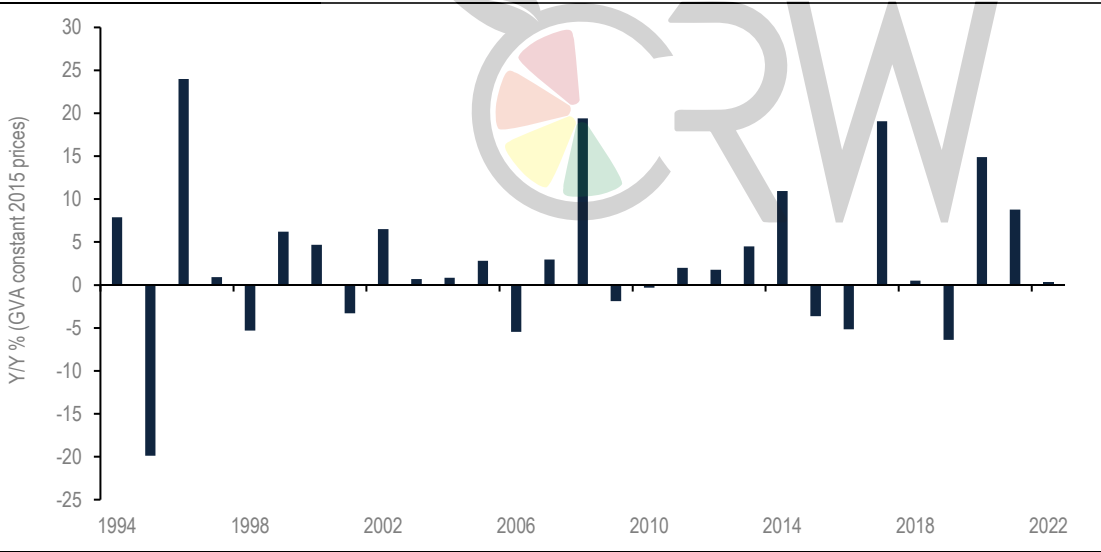
Collectively, these challenges highlight the effects of weak governance across all spheres of government in South Africa. For agriculture, this is a challenging period as the sector is essentially dependent, to an extent, on the proper functioning of all these essential aspects to realize its full potential. The rural towns, which seriously need economic rejuvenation and employment, will struggle to see meaningful economic change without improvements in governance, service delivery and security.

South Africa faces a high unemployment rate, at just under 33%, in the first quarter of 2023. Resolving this unemployment crisis requires that all economic sectors perform optimally, especially the primary sectors with an ability to absorb even the least skilled labour. Agriculture is one such sector, while agribusiness and agro-processing also present various employment opportunities. But all these hinges on effective service delivery and functioning infrastructure.

Notably, the recently launched Agriculture and Agro-processing Master Plan presents practical steps for implementing Chapter Six of the National Development Plan, which further outlined a vision for developing the agricultural sector. Weaknesses of the provincial government and municipalities will undermine the plan's agenda of expanding agricultural output and resolving inefficiencies within the Department of Agriculture, Land Reform and Rural Development. This also means the economic vision for South Africa that President Ramaphosa outlined will be hindered. Therefore, the Presidency needs to increase its focus on monitoring the delivery by provinces and municipalities and work towards capacitating them speedily. Other industries like mining and automobiles also feel agriculture's pains. Public-private sector partnerships can be considered to help tackle some of these challenges. The partnership modalities are outlined in various master plans and need commitment and effective leadership.

Notably, the services of small businesses that exist when large industries thrive also suffer due to the failure of governance. Addressing the local government failures should be a top priority for the Presidency in rejuvenating rural towns and communities that support millions of people and are currently in despair.

Exhibit 1: South Africa's Agriculture GVA



Source: Stats SA and Agbiz Research

Weekly highlights

South Africa's agricultural jobs up 5% y/y in Q1, 2023

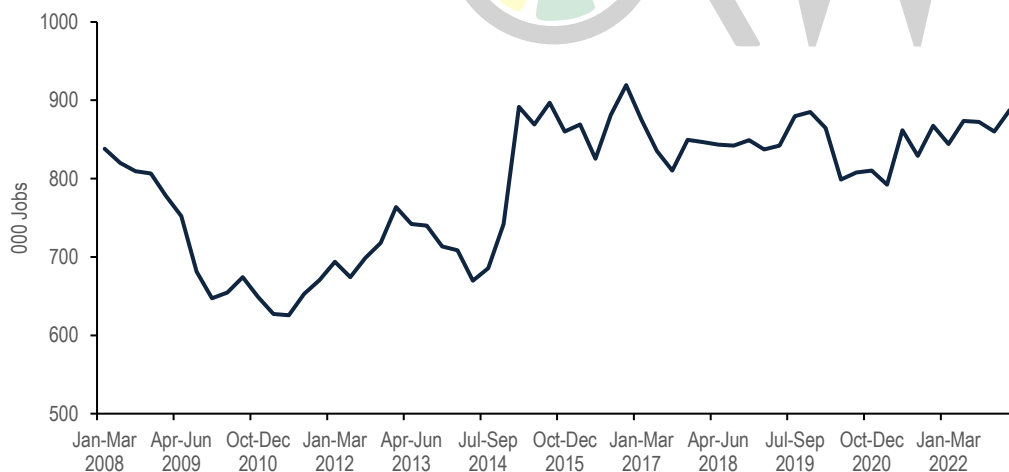
The data released this past week by Statistics South Africa paints an encouraging picture of agricultural employment. In the first quarter of 2023, about 888 000 people were employed in primary agriculture, up 3% q/q and 5% y/y. This is well above the long-term agricultural employment of 780 000. From a regional perspective, the Western Cape, KwaZulu-Natal, and Gauteng were the significant drivers of this employment. At the same time, other provinces showed a slight decline compared to levels seen in the first quarter of 2022. The robust production conditions of various field crops, fruits, forestry and aquaculture were behind the improvement in agricultural jobs in the first quarter. Meanwhile, the livestock industry saw a decline in employment, which is unsurprising given the pressures presented by the higher feed costs at the start of the year and animal diseases for much of 2022 and into 2023.

Admittedly, while the agricultural season, mainly field crops and fruits, is promising, the start of the year was on a rough patch. The excessive rains, high input costs, and persistent load-shedding presented various risks to farmers. As a result, crop planting in different regions of the country was delayed by roughly a month, threatening yield prospects. But the warm weather at the end of January and much of February helped improve conditions on the farms.

Moreover, various interventions to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and, most recently, the launch of the Agro-Energy Fund, all support the production conditions. Hence, the 2022/23 maize harvest is estimated at 15,9 million, 3% higher than the 2021/22 season's harvest and the third-largest harvest on record. In addition, the soybeans harvest is estimated at a record 2,8 million tonnes. South Africa's sugar cane crop will likely increase by 3% to 18,5 million tonnes in 2023/24. Other field crops and fruits also show prospects for decent harvest this season, which supports better employment prospects in the sector.

From now on, the rising geopolitical tensions, deteriorating infrastructure, crime, and the general impact of these factors on trade are key issues we will monitor as they will influence farm profitability and job prospects. An export-oriented agricultural sector like South Africa requires a favourable global environment, increasing investment, and efficient logistics to thrive.

Exhibit 2: South Africa's agriculture employment



Source: Stats SA and Agbiz Research

Black Sea Grain Deal extended for two months

One of the key events in global agriculture this past week was the Black Sea Grain Deal renewal, which initially encountered some glitches as Russia was reluctant to renew it. Fortunately, an agreement was reached at the last minute resulting in the extension of the Black Sea Grain Deal for two more months. We view this as a positive development and help support the moderation in global grain prices and food inflation.

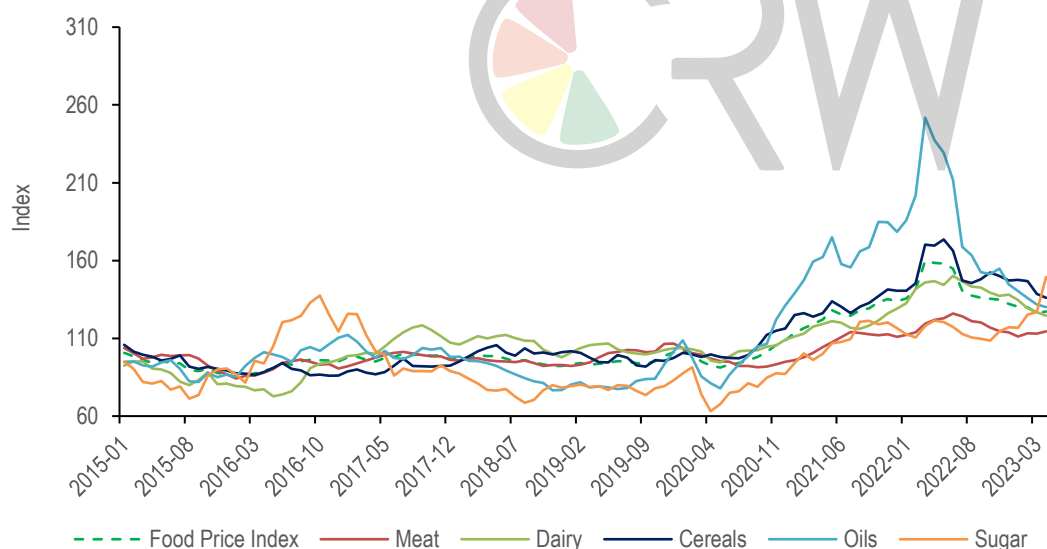
A brief background on the deal; the "Black Sea Grain Deal" started in July 2022, facilitated by the United Nations representatives, the Turkish government, and the Russian and Ukrainian governments. Its goal is to allow grain movement from Ukraine to the world market without military attack by the Russians. This has been a success, as Ukraine has exported over 25 million tonnes of grains and vegetable oils since the deal started.

Notably, global food prices have also moderated considerably over time, partly due to increased shipments of grains and vegetable oils from the Black Sea region to the world market. In April 2023, the FAO Global Food Price Index was at 127 points, down by 9% from July 2022, when the deal was reached, and down 20% y/y.

While the intention was to increase grain exports out of Ukraine, Russia has arguably also benefitted from the grain deal through increasing wheat exports. Russia typically exports, on average, about 35 million tonnes of wheat a year. Its largest markets include Türkiye, Egypt, Azerbaijan, Kazakhstan, Nigeria, Bangladesh, Sudan, Latvia, Saudi Arabia, Yemen, Cameroon and Israel. The data for Russia's exports over the past few months is unclear.

Still, we believe Russia also had more incentive to continue with the "Black Sea Grain Deal" as the country had about 44 million tonnes of wheat for exports in the 2022/23 marketing year, up 34% from the previous year. The International Grains Council's preliminary projections for the 2023/24 marketing year suggest that Russia will remain with ample supplies on the back of sound production. Thus exports could be at 42 million tonnes. For these exports to continue out of Russia with minimal interruption, the "Black Sea Grain Deal", initially set to assist Ukraine, must remain in place.

Exhibit 3: Global Food Price Index



Source: FAO and Agbiz Research

Data releases this week

The agricultural calendar this week is relatively light. On the global front, today, the Department of Agriculture (USDA) will release its weekly update of the **U.S. Crop Progress Report**. The U.S. farmers have advanced with summer crop planting because of favourable weather conditions. For example, on 14 May, about 65% of the maize intended area had been planted compared with 45% in the corresponding period a year ago. Moreover, about 49% of the soybean intended area had been planted compared with 27% on 14 May 2022. The USDA will release its weekly **U.S. Grains and Oilseeds Exports** data on Thursday.

On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grain Producer Deliveries** data for 19 May 2023. The data will likely show a decline in volumes as the weather was reasonably rainy, and farmers were at NAMPO this past week, with not much harvest activity in the fields. In the previous release on 12 May, South Africa's 2023/24 maize producer deliveries were about 236 634 tonnes. This placed the 2023/24 deliveries at 456 935 tonnes out of the expected harvest of 15,9 million tonnes. The soybean harvest activity has progressed more than maize. On 12 May, about 1,9 million tonnes of soybeans had already been delivered to commercial silos out of the expected harvest of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 359 601 tonnes out of the expected harvest of 797 610 tonnes.

Also, Statistics South Africa will release the **Consumer Price Index (CPI)** data for April 2023 on Wednesday. Our focus in this data will primarily be on the food category. South Africa's consumer food inflation accelerated by 14,4% in March 2023 from 14,0% in the previous month. The food product prices that increased notably were milk, eggs, and cheese; fruit; vegetables; and sugar, sweets and desserts.

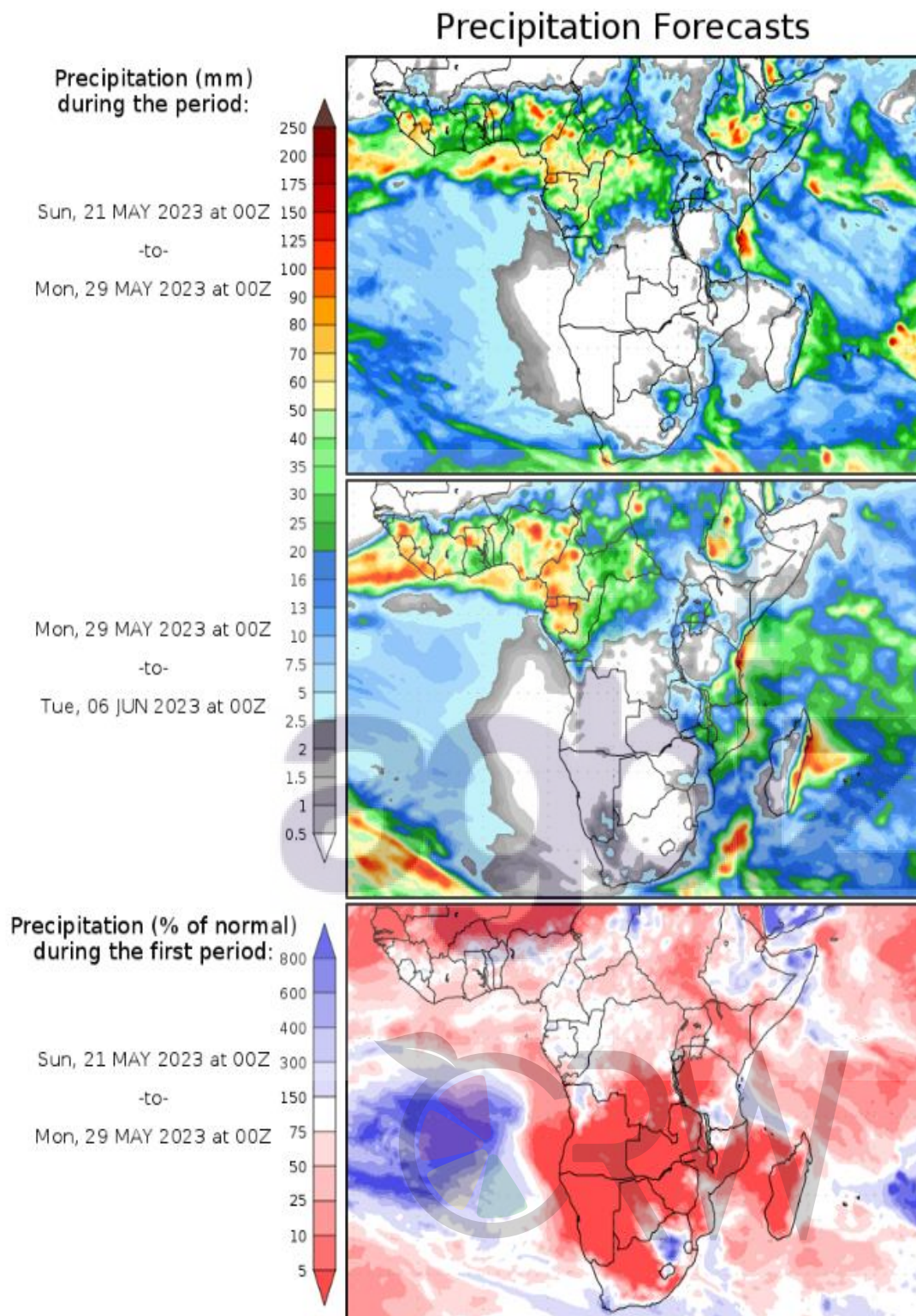
On Thursday, SAGIS will publish its weekly **South Africa's Grain Trade** data for 19 May. In the previous release on 12 May, the second week of the 2023/24 marketing year, South Africa exported 47 451 tonnes of maize. About 63% of it went to South Korea and the rest to the neighbouring countries. This placed South Africa's 2023/24 maize exports at 94 725 tonnes out of the seasonal export forecast of 3,0 million tonnes (down from 3,64 million tonnes of exports in the 2022/23 season).

South Africa is a net wheat importer, and 12 May was the 32nd week of the 2022/23 marketing year, with 14 227 tonnes, all from Poland. South Africa's 2022/23 wheat imports currently stand at 879 928 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 were 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 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.

Also, Statistics South Africa will release the Producer Price Index (PPI) for April 2023 on Thursday. Our focus in this data will primarily be on the food category.

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

There weather forecast show broadly clear skies over South Africa this week and the next.

The drier weather conditions will support the harvest activity in the summer crop regions.

At the same time, the winter crop regions will likely see acceleration in planting activity given the breather from the recent rains that have favorably improved soil moisture.