

16 October 2023

Reflections on South Africa's food security conditions

- October 16th marks World Food Day, a celebration of the founding of the United Nations Food and Agriculture Organization in 1945. This day is also an opportunity for countries to reflect on their food security conditions and efforts to boost agricultural production.
- Thus, today, we revisit an aspect we discussed a year ago: food security conditions in South Africa. One of the measures some researchers often use to evaluate the food security condition of each country relative to the world is The Economist's Global Food Security Index. In 2022, South Africa ranked 59th out of 113 countries in the index and was the most food secure in Sub-Saharan Africa. This is an improvement from the previous year's ranking of 70th in 2021. South Africa ranked the second most food-secure country in the African continent after Morocco.
- The Global Food Security Index comprises four subindices, namely: (1) food affordability, (2) food availability, (3) food quality and safety, and (4) sustainability and adaptation. The affordability and availability subindices carry a combined weighting of two-thirds of the total index. The affordability subindex includes the change in average food costs, agricultural trade, food safety net programs, proportion of population under the global poverty line, and funding for food safety net programs. Meanwhile, the availability subindex includes the sufficiency of supply, access to inputs, agricultural research and development, farm infrastructure, supply chain infrastructure, food loss, as well as political and social barriers to food.
- In 2022, South Africa experienced a mild deterioration in the food affordability subindex of 7 points. Meanwhile, the rest of the other subindices improved significantly. This decline in the affordability subindex is unsurprising as the country has witnessed a broad acceleration in consumer food price inflation since the start of the year. South Africa's consumer food price inflation averaged 9,5% y/y in 2022, from 6,5% up from in 2021. Food inflation was also elevated in the first half of 2023, with only the second half that showed moderation. In the first eight months of this year, South Africa's food inflation averaged at 12,2%.
- Notably, the higher food inflation these past months was a global challenge not unique to South Africa. Admittedly, in an environment such as South Africa with higher unemployment, the effects of food inflation shocks tend to be more severely felt by consumers. Over the last few years, several factors have added upward pressure on global food prices. First, the drought in South America in the 2019/20 season reduced the harvest notably, primarily in Brazil and Argentina. These countries collectively account for 14% and 50% of global maize and soybean production. The drought persisted for roughly three seasons since 2019/20, further exacerbating the grain price increases from 2020 to 2022. Secondly, China's imports of grains and oilseed as the country was rebuilding its pork industry after a

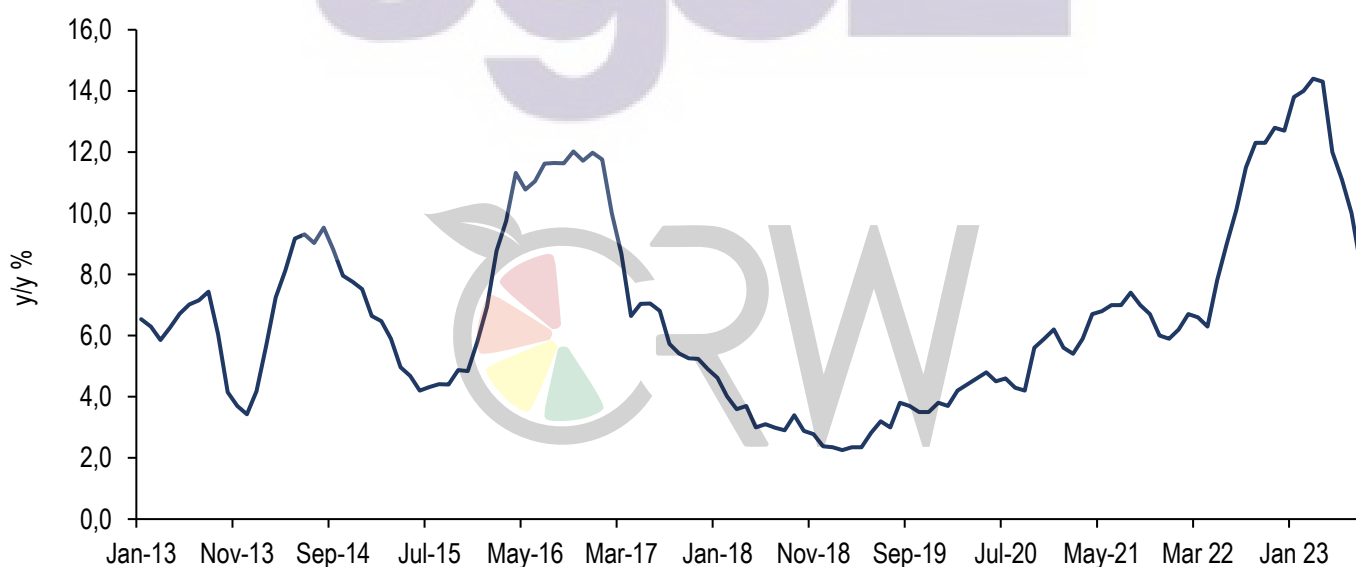
devastating African Swine Fever also added to the surge in demand at a period when global stocks were tight. China's growing demand had a consequential impact on global grain prices because of its share size of imports. The country imports about 60% of globally traded soybeans.

- As COVID-19 spread in early 2020, several major grain producers, such as India, Kazakhstan and Vietnam, worsened global price increases by temporarily banning exports. As this unfolded, shipping costs soared, increasing global grain prices further. In sum, a combination of trade policy actions by other countries, logistics and weather conditions placed upward pressure on food prices.
- These challenges were further worsened by the Russia-Ukraine war. Russia and Ukraine are substantial players in the grains and oilseeds market. The former produces about 10% of global wheat, while Ukraine accounts for 4%. Together, the two countries account for a quarter of global wheat exports. Moreover, Russia and Ukraine are notable players in maize, responsible for 4% of production combined. However, their contribution is even more significant in exports, accounting for an average of 14%. Both countries are also among the leading producers and exporters of sunflower oil. Pre-war, Ukraine's global product exports accounted for 40%, with Russia accounting for 18%. Thus, the war led to a surge in grains and oilseeds prices for much of 2022.
- As a small, open economy, South Africa, interlinked with the world, was not insulated from these agricultural and food price shocks. Admittedly, South Africa was in a reasonably better place, with abundant supplies, as the La Niña weather event brought good rains across the country and supported agricultural activity. Still, the prices did not reflect the increased domestic supplies as the global shocks dominated.
- These were the first round of shocks in global food prices. Fortunately, by the end of 2022, as the grain trade resumed in the Black Sea region following the Black Sea Grain Deal initiative that started in July 2022 and allowed for exports of grain from Ukraine without military attacks by Russia, the global agricultural prices came off the record levels seen months after the invasion of Ukraine. The global agricultural prices continued to decline throughout 2023 and remained at reasonably lower levels even with the Black Sea Grain Deal initiative having been terminated by Russia. For example, in July 2023, the Food and Agricultural Organization of the United Nations (FAO) Global Food Price Index was at 122 points in September 2023, down 11% y/y and 24% below its all-time high reached in March 2022. We also see this in South Africa at the farm level and, most recently, at the retail level of some products (although not to the same extent).
- The vital consideration one should consider when looking at the FAO's Global Food Price Index is that it mainly measures the monthly change in international prices of a basket of food or agricultural commodities. This means one should assume some lag between these prices and what consumers pay at the retail level.
- As we have repeatedly highlighted, a major issue to keep in mind when observing global agricultural indices, such as the Global Food Security Index, is that subjectivity can never be fully eliminated from the authors' judgment. Resource constraints can hinder objective data collection on the ground in each country, and they sometimes rely on blueprint models that may not be site-specific. Sources of bias can stem from inconsistency in data quality, frequency and reliability across all countries. The

weightings and rankings are also tricky because they must be tailored to suit different socio-economic contexts.

- With that said, the key message is that South Africa is in a better place regarding food security when compared with various countries in the world. This does not mean there should be complacency. South Africa will need to continue improving food security through expansion in agricultural production and job creation in various sectors of the economy.
- At a technical level, the ideas of expanding agriculture and agro-processing capacity to boost growth and job creation were well established as far back as in the National Development Plan 2012. They were again highlighted in the 2019 National Treasury paper, in the 2022 Agriculture and Agro-processing Master Plan, and, most recently, in a book titled [*A Country of Two Agricultures: The Disparities, The Challenges, The Solutions*](#).
- These include expanding agricultural activity in the former homelands and government land, the release of PLAS land with title deeds, effective blended finance scheme, enhancing government-commodity organizations' partnerships in extension services, investment in the network industries (water, electricity and road infrastructure), port infrastructure, and state laboratories. Across the regions, Limpopo, KwaZulu-Natal and the Eastern Cape are the most food-insecure provinces, but these provinces also have vast tracts of underutilized land. These provinces should be a priority in agricultural development plans, with a commercial focus where conditions permit so that job creation can be achieved, all to boost South Africa's food security conditions.

Exhibit I: South Africa's consumer food inflation



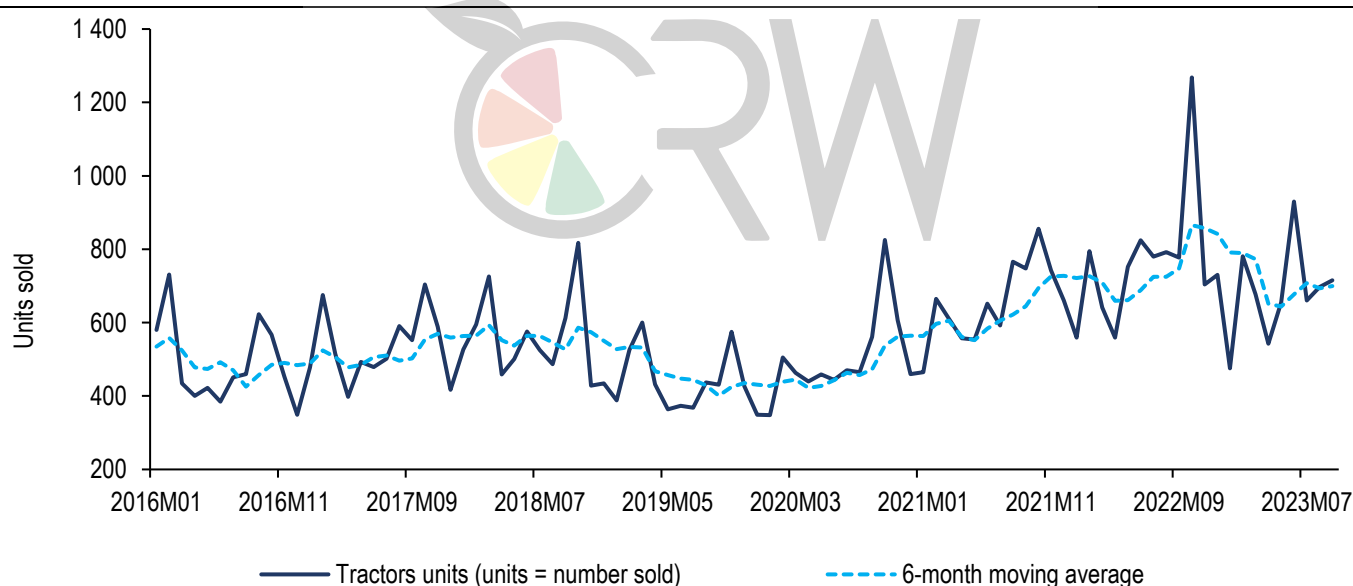
Source: Stats SA and Agbiz Research

WEEKLY HIGHLIGHT

SA agricultural machinery sales slowed in September 2023

- The relatively more robust agricultural machinery sales of the first half of this year were primarily a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain and oilseed farmers' finances. The delivery delays of the orders raised the sales figures for the first half of the year. Over the medium term, the sales will likely remain subdued despite the current 2022/23 large grain and oilseed harvest, but somewhat above long-term average levels.
- The recent months' sales point to this path. For example, South Africa's September 2023 tractor sales were down (-8% y/y), with 715 units sold. Surprisingly, the combine harvester sales remained slightly firm, with 18 units sold, up 6% from September 2022. Still, this comes after a notable decline in the previous months, which again speaks to the moderation in machinery sales.
- Although we have a large grain and oilseed harvest, with the 2022/23 maize harvest estimated at 16,4 million tonnes, the second largest on record, and soybeans at a record 2,8 million tonnes, we don't expect a boost in machinery purchases. Furthermore, the prices of these commodities have declined by roughly 15% y/y, specifically maize. Also worth highlighting is that the agricultural machinery sales have been robust in the past few years; therefore, the replacement rate will be reasonably low.
- With the 2023/24 summer crop production season starting this month, the farmers' focus is on input costs. Although various 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 in an environment where commodity prices have declined somewhat. Moreover, the higher interest rates continue to pressure farmers' finances, thus adding to our downbeat view of South Africa's agricultural machinery sales, although not as low as levels seen in 2017/18.

Exhibit 2: South Africa's Tractor Sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

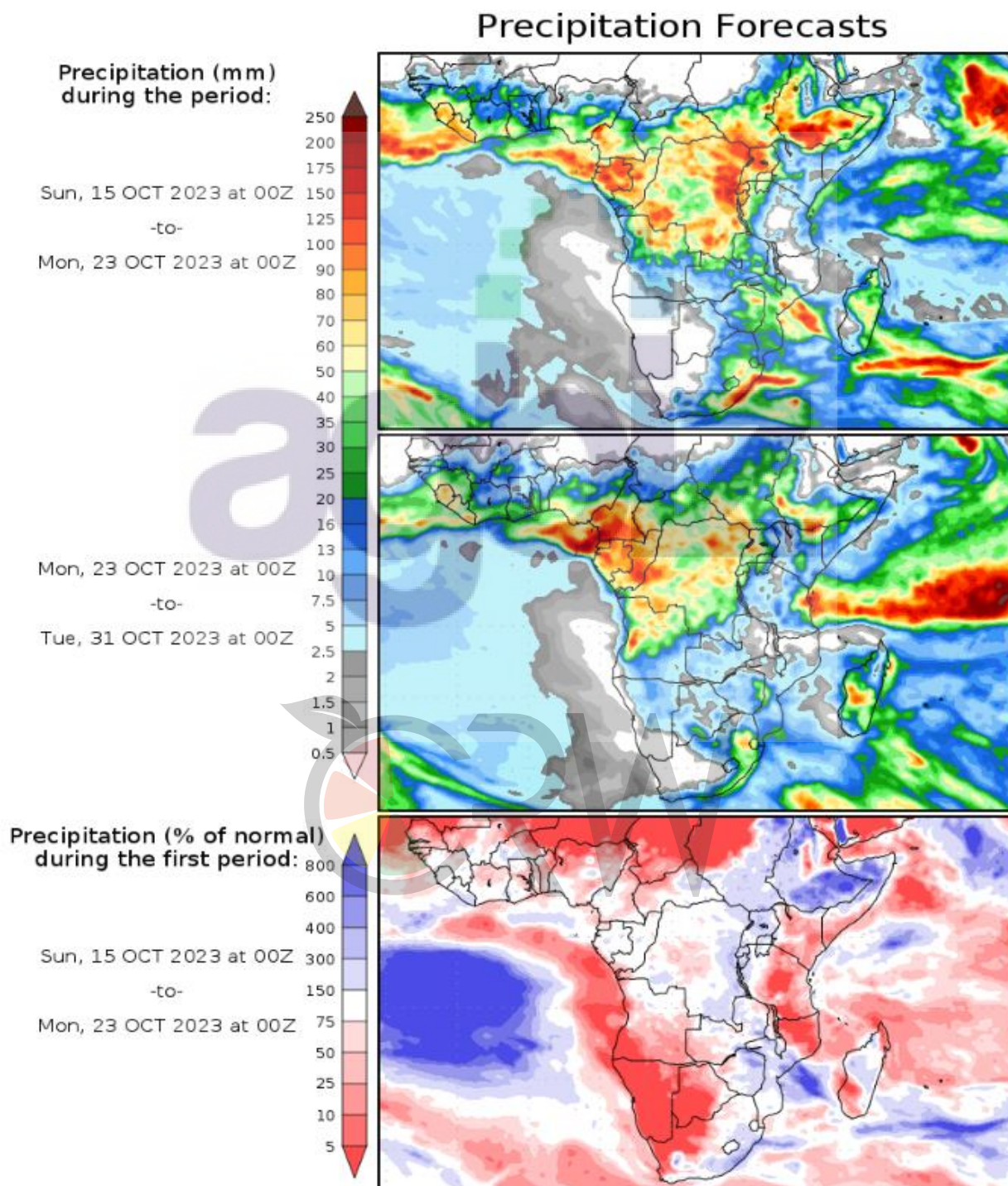
What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) will release its weekly update of the **US Crop Progress Report**. The harvest of maize and soybeans is in full swing in several States. Regarding crop conditions, on October 10, about 53% of the planted maize crop was rated good/excellent, slightly below 54% in the same week in 2022. Furthermore, about 51% of the soybean crop was rated good/excellent, down from 57% in the same week in 2022. These downgrade in crop quality reflects the effects of the high temperatures that several grains and oilseed-producing regions of the US experienced in recent months. Moreover, USDA will release the **Grains and Oilseeds World Trade** data on Thursday.
- On the domestic front, on Wednesday, SAGIS will release its weekly **South Africa's Grains and Oilseeds Producer Deliveries** data for October 13. In the previous release on October 06, South Africa's 2023/24 maize producer deliveries were about 56 199 tonnes. This placed the 2023/24 deliveries at 14,3 million tonnes out of the expected harvest of 16,4 million.
- On September 29, the soybean deliveries were about 2,7 million tonnes of soybeans out of the expected crop of 2,8 million tonnes. On the same day, sunflower seed producer deliveries amounted to 711 230 tonnes out of the expected harvest of 729 110 tonnes.
- On Thursday, SAGIS will publish its weekly **South Africa's Grains and Oilseeds Trade** data for October 13. In the previous release on October 06, the 23rd week of the 2023/24 marketing year, South Africa exported 79 999 tonnes of maize. Of this volume, 70% was exported to China and the balance to the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 1,97 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and October 06 was the first week of the new 2023/24 marketing year. There were weekly import volumes of 81 090 tonnes from Poland, Russia and the US. South Africa's 2023/24 wheat import forecast is 1,6 million tonnes, down from 1,7 million tonnes because of the expected large domestic harvest.

South Africa's Precipitation forecast

- This week, the summer crop-growing regions of South Africa could receive good showers. This rainy outlook for the week bodes well for the 2023/24 production season. The rain will help improve soil moisture and support the planting process. The Western Cape could see cool and drier weather, which is much needed after the recent floods.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)