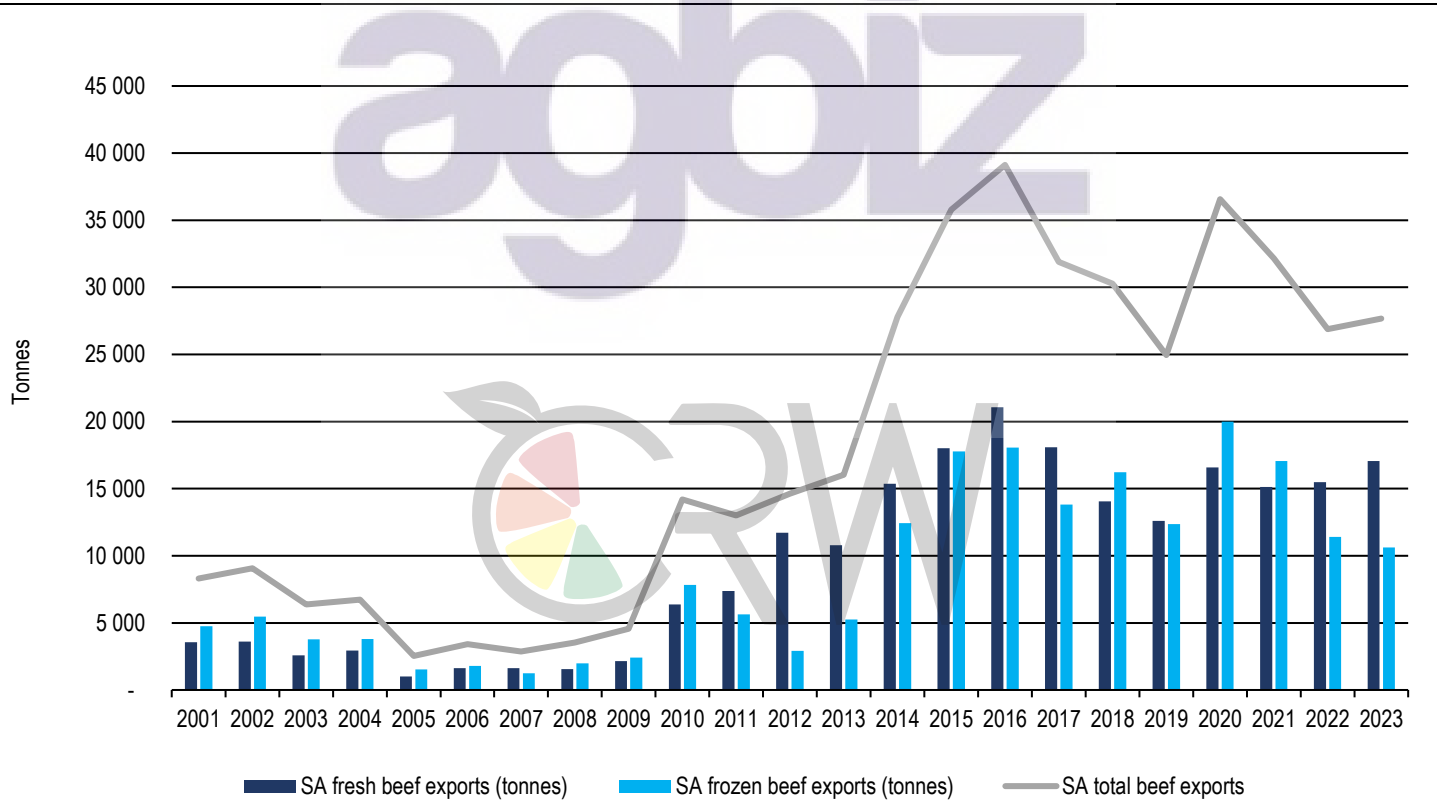


Government and industry's efforts to control animal disease spread must be lauded

- The past three years have been challenging for South Africa's livestock and poultry industry because of the spread of animal diseases. Throughout this period, we have had various cases of foot-and-mouth (FMD) disease in cattle, African swine fever in pigs, and avian influenza in poultry. While animal disease outbreaks are not unique to South Africa and indeed common across the world, South Africa's challenges have intensified in the recent past.
- In 2022, six of South Africa's nine provinces reported foot-and-mouth disease outbreaks. This was the first time in the country's history that the disease had spread this wide. The challenging place the country found itself in prompted the government and industry stakeholders to increase their focus on strengthening farm biosecurity controls and surveillance. Other interventions that are still underway include efforts to improve South Africa's veterinary and related support services (mainly the laboratories) that deal with vaccine production needs.
- The cost of diseases in the livestock industry is not only felt through loss of livestock, but also through reduced exports to the world market in times of outbreaks. For example, South Africa's beef exports volume for 2022 was down by 16% year-on-year to 26 881 tonnes, according to data from Trade Map. This decline was primarily due to the temporary closures of various export markets following the outbreak of FMD disease in South Africa. Furthermore, the sheep industry was also affected by the 2022 outbreak. China, a significant market for South African wool, suspended imports. The impact of those temporary closures is visible on export volumes of wool. For example, in 2022, South Africa's wool exports fell by 19% year-on-year to 42 239 tonnes. The major decline in volume was in the Chinese market.
- Livestock and poultry account for roughly half of agriculture's gross value added. Moreover, livestock also significantly contributes to the inclusion of black farmers in commercial agricultural production. For example, the National Agricultural Marketing Council estimates suggest that black farmers account for 18%, 13% and 34% of wool, mohair and cattle production, respectively. Therefore, the prevalence of animal disease outbreaks in the past few years slowed South Africa's commercial agriculture, export ambition and transformation in the industry.
- In 2023, as the government and industry continued with its work to control the spread of animal diseases, we saw a slight recovery in beef and wool exports. For example, South Africa's beef exports recovered slightly in 2023, up 3% year-on-year to 27 675 tonnes. For wool, the engagements between the South African and Chinese authorities to reassure the Chinese traders of the safety measures in place to ensure that there is no spread of disease led to the resumption of exports. In 2023, South Africa's wool exports recovered 18% year-on-year to 49 715 tonnes.

- On October 25, 2024, the Department of Agriculture released even more positive news, which we believe will further support the recovery path of the industry. The Department announced that the "foot and mouth disease outbreak, occurred during 2021-2022, has been successfully resolved in the North West, Free State, Gauteng, and Mpumalanga Provinces. These provinces, initially impacted by the outbreak, have now completed comprehensive testing of animals on quarantined farms. The results indicate that the foot and mouth disease virus is no longer present."
- The Department added that "the World Organization for Animal Health has confirmed that the outbreak in these regions has officially been closed. However, it is important to note that the KwaZulu-Natal and Eastern Cape Provinces remain affected by foot and mouth disease outbreaks. Encouragingly, no new signs of the disease have been reported in these two provinces over the past month."
- This is admirable progress and further supports South Africa's ambition of being a global player in red meat exports. The successful path to the export markets involves addressing the biosecurity challenges. Continuous efforts must be made to address the remaining challenges in the Eastern Cape and KwaZulu Natal. In addition, the South African government must work collaboratively with the private sector to revive the efficiency of the Agricultural Research Council and the Onderstepoort Biological Products, which are key for vaccine production and various livestock disease management matters.

Exhibit I: South Africa's beef exports



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

Is South Africa spending sufficiently on agricultural research?

- Technological improvement is a primary catalyst for the growth of the South African agricultural sector.¹ Thus, South Africa must continue to spend money on research and development to support the long-term growth of the agricultural sector. However, in recent years, the country seems to be spending less on research, which is worrying, especially during increased climate change risks and the need for even greater spending on research.
- Consider the work done jointly by the University of Pretoria and the Agricultural Research Council (ARC) for the international Agricultural Science and Technology Indicators in 2014, which estimated that South Africa in that year spent about R2,5 billion on agricultural research – by public, university and private sector agencies.
- The most recent government appropriation reports reported that the Department of Agriculture transfers an annual total of R1 billion to the Agricultural Research Council to operate its various programmes to support the agricultural sector. This is roughly 1% of the total budget for the Department of Agriculture, Land Reform and Rural Development.
- Thus, one could raise questions about whether this is enough and in line with global norms. We know from previous work that South Africa's agricultural research spend as a share of the budget and value of agricultural output is the highest in Africa, with only Nigeria coming close. There, of course, questions about the efficiency of the spending on agricultural research, which would involve enquiring how much goes to overheads and other non-research expenditures and then, more fundamentally, the ARC focus on relevant research focus areas, did it appoint the best scientists and what is the state of its laboratories, experimental farms and general aspects of maintenance and upgrading of equipment. This requires detailed studies and detailed evaluation reports to understand whether we are getting value for our taxpayers' money.
- Over the years, role players in the agricultural industry realized that the funding to the ARC and the delivery of critical technical improvements have been insufficient and slow. Therefore, the various commodity organizations have a question: How much do these industry bodies allocate to agricultural research? From the National Agricultural Marketing Council's 2023 report on Statutory Levies in the agricultural industry, we learned that these organizations use R460 million (or 45%) of the R1,022 billion levy income to fund specific research programmes.
- Table I below provides a detailed breakdown and comparison of the research spending by the top 12 industries in South African agriculture. These 12 commodities contribute a significant share to South

¹ Sihlobo, W. 2024. 30 Years into democracy: How has South Africa's agricultural sector performed? Available here: <https://www.econ3x3.org/article/30-years-democracy-how-has-south-africas-agricultural-sector-performed>

Africa's total gross output value in 2023. Poultry, sugarcane and maize industries fund their research activity from different sources.

Table 1: Research expenditure by the 12 largest commodity groups in South African agriculture

Commodity	Production value 2023 ('000)	Levy income 2023 ('000)	LEVY as % of production value	Research spend ('000)	Research spend as % of production value	Research spend as % of levy
Red meat	58 109 307	52 222	0,1%	6 888	0,01%	13%
Citrus	38 922 033	262 925	0,7%	156 148	0,40%	59%
Dairy	27 547 757	61 294	0,2%	3 309	0,01%	5%
Soybeans	23 214 779	86 822	0,4%	68 250	0,29%	79%
Winter cereals	24 912 224	73 244	0,3%	57 230	0,23%	78%
Eggs	13 428 161	9 265	0,1%	91	0,00%	1%
Table grapes	11 805 000	43 413	0,4%	10 202	0,09%	23%
Potatoes	11 091 251	51 408	0,5%	14 588	0,13%	28%
Pork	10 450 381	51 360	0,5%	1 873	0,02%	4%
Deciduous fruit	10 071 415	168 962	1,7%	86 536	0,86%	51%
Viticulture (wine)	6 287 853	123 741	2,0%	13 289	0,21%	11%
Nuts	6 287 853	65 448	1,0%	35 838	0,57%	55%

Source: NAMC, DoA, and various sources

Note: We could not analyse the research expenditure for maize, poultry and sugar as this is funded outside the levy proceeds. Grain SA, does however provide R11 million funding from their voluntary levy/membership fees to support research in all the grains.

- Table 1 illustrates some stark realities about how the various commodity organizations focus on research. The R156 million allocation to research by the Citrus Industry via Citrus Research International (CRI) shows the industry's commitment to research. The growth in the citrus industry in terms of area planted, production efficiency (volume/tree), combatting diseases, and how to deal with the strict demands from export markets have been the backbone of a well-funded, focused, and successful research programme.
- This is a substantive research activity implemented mainly by universities and their scientists. The deciduous fruit, table grape, wine and nut industries follow with similarly designed and funded programmes. Soybeans and wheat industries also spend substantive amounts of the levy income on research. The soybean industry has benefited from decades of funding by the Protein Trust as well as from imported technology in seed genetics and cultivation improvements.
- More revealing is the column in the table that shows research funding by the industry expressed as a share of total gross value. The deciduous fruit industry spends almost 1% of Gross Value on research, followed by Citrus with 0.4%.

- It is worrying that the Red Meat Industry only allocates R6,8 million to research – only about 0.01% of the industry's total value. Given this industry's many questions, issues and problems, one would expect a much bigger research fund. Just one decent research experiment would take about half of the budget. If one takes the example of citrus fruit and spend at least 0.5% of the value of the industry on research, then they should have about **R233 million** available for red meat research. This is massive and substantially more than the current R6,8 million and will be a serious programme that could stimulate the much-needed growth in the industry. It is time for a much-needed discussion in the red meat industry.
- Overall, we deduce from this data that South Africa needs to review its budget allocations for research and do more to ensure increased spending. Climate change has brought new diseases and various challenges for agriculture. There is also a need for better production methods and breeding programmes, all of which will require careful and well-funded research. This is the responsibility of both the government and the private sector.

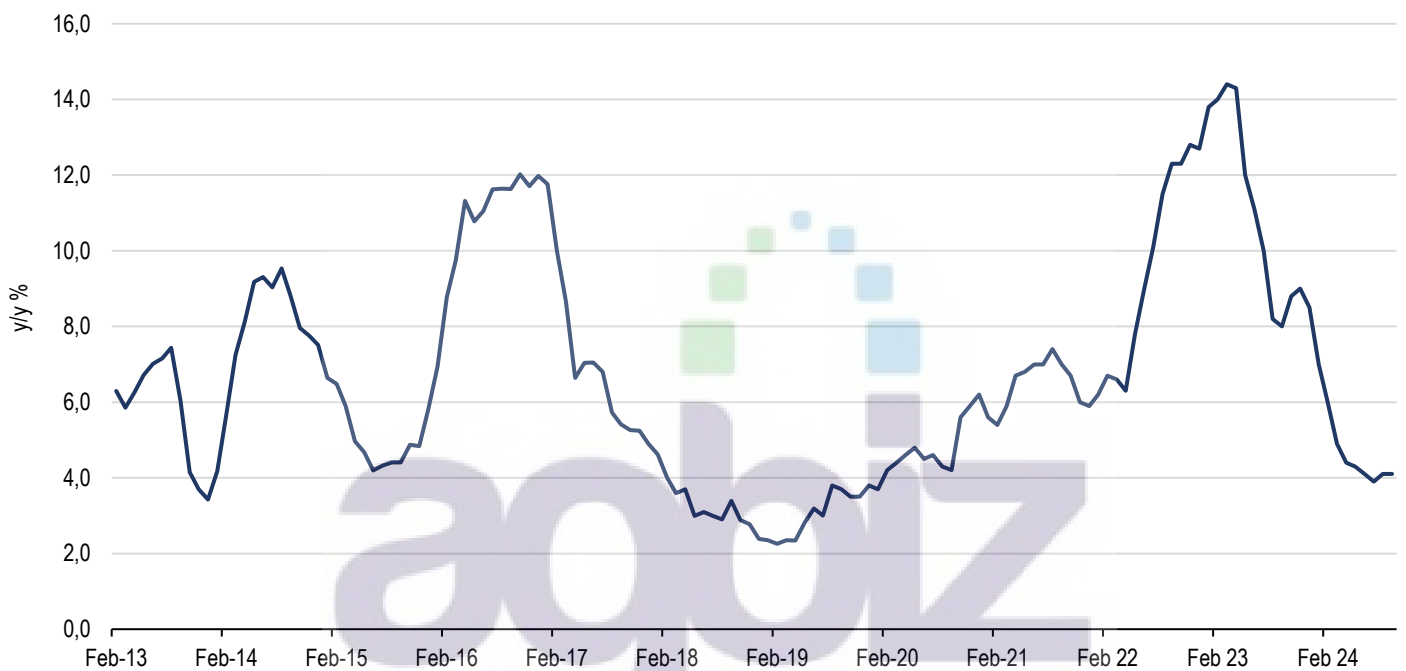
We are grateful for the insights and contribution in this note of Professor Johann Kirsten, Director of the Bureau for Economic Research at Stellenbosch University.

South Africa's consumer food price inflation remained flat in September

- After a slight increase to 4,1% in August 2024, South Africa's consumer food price inflation remained unchanged in September. However, there was a mild deceleration in some products' price inflation, including "bread and cereals", "meat", "sugar, sweets and desserts". The "oils and fats" are in deflation. The "milk, eggs and cheese" remained flat from the previous month. These moderating price trends were countered by the slight increase in the price inflation of "fish", "fruit", and "vegetables"; thus leading to an unchanged headline consumer food price inflation in September 2024.
- The base effects of higher consumer food price inflation a year ago have contributed to the generally moderate trend of some products this year. For example, this time last year, there were risks of higher grain prices after India banned rice exports, and avian influenza, which spread in various regions of the country, led to constraints on egg supplies and, ultimately, upside price risks. We are far from that worrying reality, as India has resumed rice exports and South Africa's poultry product supplies have normalized.
- While having eased in September 2024, the grain-related products remain the upside risk to consumer inflation following a poor crop harvest due to the drought. For example, South Africa's 2023-24 maize harvest is estimated at 12,80 million tonnes, down 22% year-year. This sharp decline in harvest signifies the harsh impact of the 2024 mid-summer drought, and the regions most affected were the white maize growing areas, a staple crop that is also scarce in the world market. Thus, white maize prices have rallied

in recent months, while yellow maize prices have remained sideways. The additional challenge is the continuous demand for white maize from the Southern African region through the first quarter of 2025. That said, we don't expect the potential grain-related product price increase to be substantial as the forecasts from the International Grains Council signal the possible ample global wheat and rice harvest in 2024-25, which could cushion the region as substitutes. The increase in the prices of vegetable products will likely be temporary and mirror the disruptions due to weather-related issues. We have already seen the volume of various vegetable products improving in some fresh produce markets.

Exhibit 2: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research



WEEK AHEAD

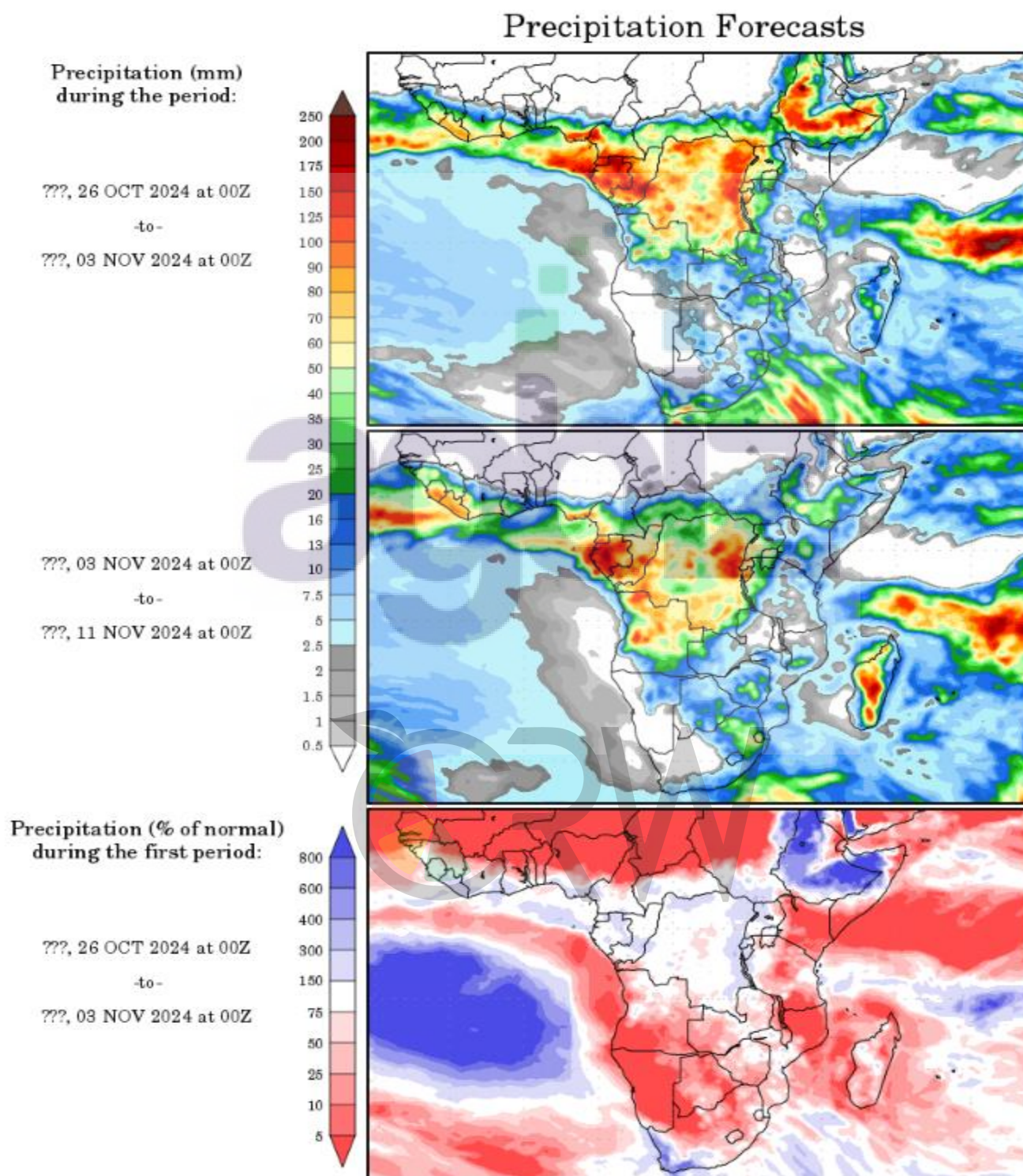
What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The US's 2024-25 maize harvest process is underway, with 65% of the crop harvested as of October 20, 2024. This is slightly ahead of last season's pace, where 55% of the crop had been harvested by this time. Also worth noting is that 81% of the US soybeans had been harvested on October 20, 2024, compared with 72% at the same time last year. Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- On the domestic front, on Tuesday, South Africa's Crop Estimate Committee will release **the ninth production forecast for summer field crops for 2024**, as well as **the 'intentions of farmers' to plant summer grain crops for 2025**. Moreover, the Committee will also release the **third production forecast for winter cereals for 2024**.
- On Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the 26th week of the new marketing year, 2024-25. In the previous release on October 18, South Africa's weekly maize producer deliveries were about 54k tonnes. This placed the 2024-25 maize producer deliveries at 10,21 million tonnes out of the expected harvest of 12,80 million tonnes. The 2024-25 soybean deliveries in the first 34 weeks of this new marketing year amounted to 1,74 million tonnes out of the expected harvest of 1,81 million tonnes. At the same time, the sunflower seed deliveries amounted to 624k tonnes out of the expected harvest of 636k tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 26th week of the 2024-25 marketing year. In the previous release on October 18, the 25th week of the 2024-25 marketing year, South Africa exported 48k tonnes of maize. Of this volume, 59% was exported to Zimbabwe, 15% to Namibia, 11% to Botswana, and the balance to the neighbouring African countries. This places South Africa's total maize exports in the 2024-25 marketing year at 1,08 million tonnes out of the expected 1,90 million tonnes (down from 3,44 million tonnes in the 2023-24 marketing year because of the mid-summer drought).
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024-25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024-25 maize imports currently stand at 243k tonnes.
- South Africa is a net wheat importer, and the week of October 18 was the third week in the new 2024-25 marketing year. The imports so far amounted to 128k tonnes. The seasonal import forecast is 1,9 million tonnes, which is in line with the previous year.
- Also on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for September 2024.

South Africa's Precipitation forecast

- The weather forecast for the next two weeks shows prospects of rain over the summer crop growing regions of South Africa. This will help improve soil moisture and subsequently support the planting season for the 2024-25 summer crops.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)