

22 January 2024

What political messages would speak to agricultural issues ahead of elections?

- Over 70 countries around the globe will hold elections this year in what will be a huge test for democracy with implications for policy, geopolitics and ultimately businesses. South Africa is one of these countries, with its national and provincial elections due to take place this year. During this period, leaders of the various political parties that will be contesting for power outline their manifestos, speaking to the various challenges across society, economy as well as other areas and how they plan to address these challenges. Given the history of this country, it is commonplace for political parties to include land and agricultural policies in their election manifestos and promises. This year's elections come when the agricultural sector faces serious challenges, thus offering an opportunity to hear whether the political leaders or various parties' manifestos will speak to the pressing challenges of the sector.
- The most pressing issues, according to the Agbiz/IDC Agribusiness Confidence Index results for the fourth quarter of 2023 include intensified delays and inefficiencies at the ports, rising crime, deteriorating rail and road infrastructure, worsening municipal service delivery, rising protectionism in key export markets, increased geopolitical uncertainty and persistent episodes of load-shedding. The slow process of launching the Land Reform Agency adds to this long list of sector challenges. This means that the over two million hectares of state land that should have been released to black beneficiaries remain unutilised, undermining not only the sector's growth but also its transformation and inclusivity.
- Some of the challenges mentioned above are beyond South Africans' control, but the majority are within South African's control. Hence, ahead of the elections and as manifestos are unveiled, it will be interesting to hear if these issues are raised by the various political parties and what policy actions are proposed to deal with them. We believe that if these challenges that farmers raise are addressed, the sector will unlock its long-term growth potential and increase employment opportunities.
- The South African agricultural sector has done reasonably well over the past three decades, having doubled in value and volume terms. The exports reached record levels of US\$12,8 billion in 2022, with employment also at the highest levels since the early 1990s, at 956 000 in the third quarter of 2023. The country has also improved its food security conditions, ranked 59th out of 113 countries in The Economist's Global Food Security Index, making it the most food secure in sub-Saharan Africa and reflecting the increase in agricultural output.
- Still, the aforementioned growth-constraining factors weigh on sentiment in the sector and could undermine investment and long-run growth prospects if they are not properly addressed. For example,

in the last quarter of 2023, the Agbiz/IDC Agribusiness Confidence Index deteriorated by 10 points to 40. This is its lowest level since the second quarter of 2020, at the height of the Covid-19 pandemic hard lockdown restrictions. The fourth quarter results of the 2023 reading of the Agribusiness Confidence Index are below the neutral 50-point mark, implying that South African agribusinesses are downbeat about business conditions in the country.

- Thus, we have long argued that the government and private sector should collaboratively work to resolve these constraints to attract investments and boost long-term growth. The roadmap for addressing these challenges and generally growing the sector had long been outlined in Chapter Six of the National Development Plan in 2012 and, most recently, in the Agriculture and Agro-processing Master Plan. While both plans received broad sectoral support, implementation has proved challenging.
- Therefore, ahead of the elections, the sector should look not only to pronouncements of the challenges above but also implementation plans. Ultimately, improvements in local governance, delivery of services, maintenance of roads, and release of land for new entrant farmers are essential for the growth of South Africa's agriculture. Nationally, focus ought to remain on opening export markets, addressing logistics at ports, dealing with crop and animal disease, and embracing new technology by registering new agrochemicals and genetics, essential for boosting productivity. An agile decision-making environment would also be critical, particularly given the fast evolving nature of global and domestic risks.
- Overall, we are optimistic that the sector will not face confidence-sapping destructive rhetoric this year as in the past elections when there were talks of expropriation without compensation. The conversation will likely be more focused and would help if it touches on the real issues of the sector outlined in this note. These aspects are not only ideas for agriculture and agribusinesses, but addressing them would also mean dealing head on with rural economic and low employment challenges. The next few months will be busy, but thankfully, the production conditions are favourable for the sector in the near term. Had they been negative, that would have taken attention away from the underlying challenges of the sector as leaders try to focus on near-term issues.

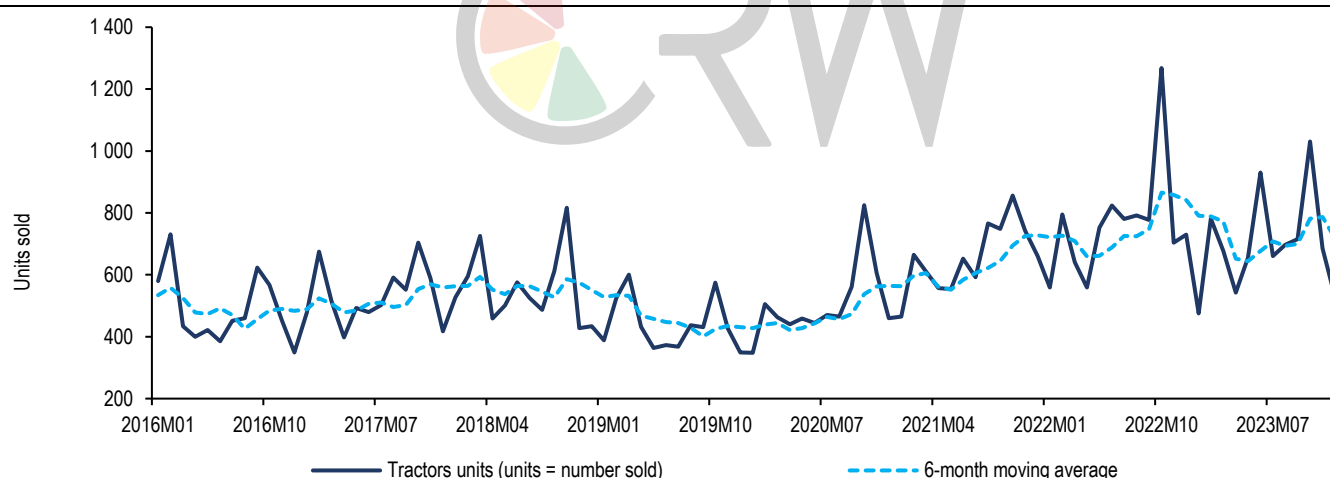
WEEKLY HIGHLIGHT

What underpinned the mixed performance of South Africa's 2023 agricultural machinery sales?

- South Africa's field crop harvest was excellent in the 2022/23 season. For example, the 2022/23 maize harvest amounted to 16,4 million, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. Soybean harvest was at a record 2,8 million tonnes. South Africa's sugar cane crop was 18,5 million tonnes in 2023/24, up 3% y/y. Other field crops and fruit harvests were also decent in 2023. Still, this excellent performance did not translate into overall robust agricultural machinery sales as it has been in the past. South Africa's agricultural machinery sales painted a mixed picture in 2023.

- Tractors sales for 2023 amounted to 8 380 units, down by 9% from 2022. The decline in tractor sales is unsurprising, as we expected the sales to cool off following a few years of excellent activity. For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% y/y and the highest annual sales for the past 40 years.
- Meanwhile, the combine harvesters amounted to 505 units, up notably by 35% y/y. This follows an excellent performance of 373 units in 2022, up 38% y/y and the highest yearly sales figure since 1985. These strong combine harvester sales are primarily on the back of large grain and oilseed harvest.
- There are several factors behind the slight decline in tractor sales. Chief amongst them is the lower replacement rate of older tractors, as the past three years saw increased new machinery sales. Moreover, the rising interest rates added pressure to farmers' finances. The relatively weaker rand exchange rates also negatively influenced the farmers' machinery buying decisions. Also worth noting is that while other input cost prices, such as fertilizer and agrochemicals, have softened in 2023, the price levels were still well above long-term levels, thus adding pressure on farmers' finances.
- Over the medium term, the sales will likely remain subdued despite the promising agricultural season in 2023/24. The same factors underpinning the agricultural equipment market will likely prevail in the 2023/24 season. Still, the agricultural conditions are excellent. The weather conditions have remained reasonably favourable across South Africa, thus benefiting the crops. At the start of the 2023/24 summer crop production season, farmers intended to plant 4,5 million hectares of land, which is up 2% from the previous season.
- Given the optimistic feedback about crop growing conditions from the Grain South Africa survey, we feel compelled to believe that farmers met their expected planting area in most provinces. If there are any reductions in area, they will likely be in the white maize regions of the North West. At the end of this month (30 January 2024), the Crop Estimates Committee will release its preliminary area planted estimate for summer grains 2024. This data will give us a better sense of the planted area and potential harvest size. The large combine harvester sales of 2023, will likely be put into good use in the 2023/24 season as the harvest could be ample as in the previous years.

Exhibit I: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

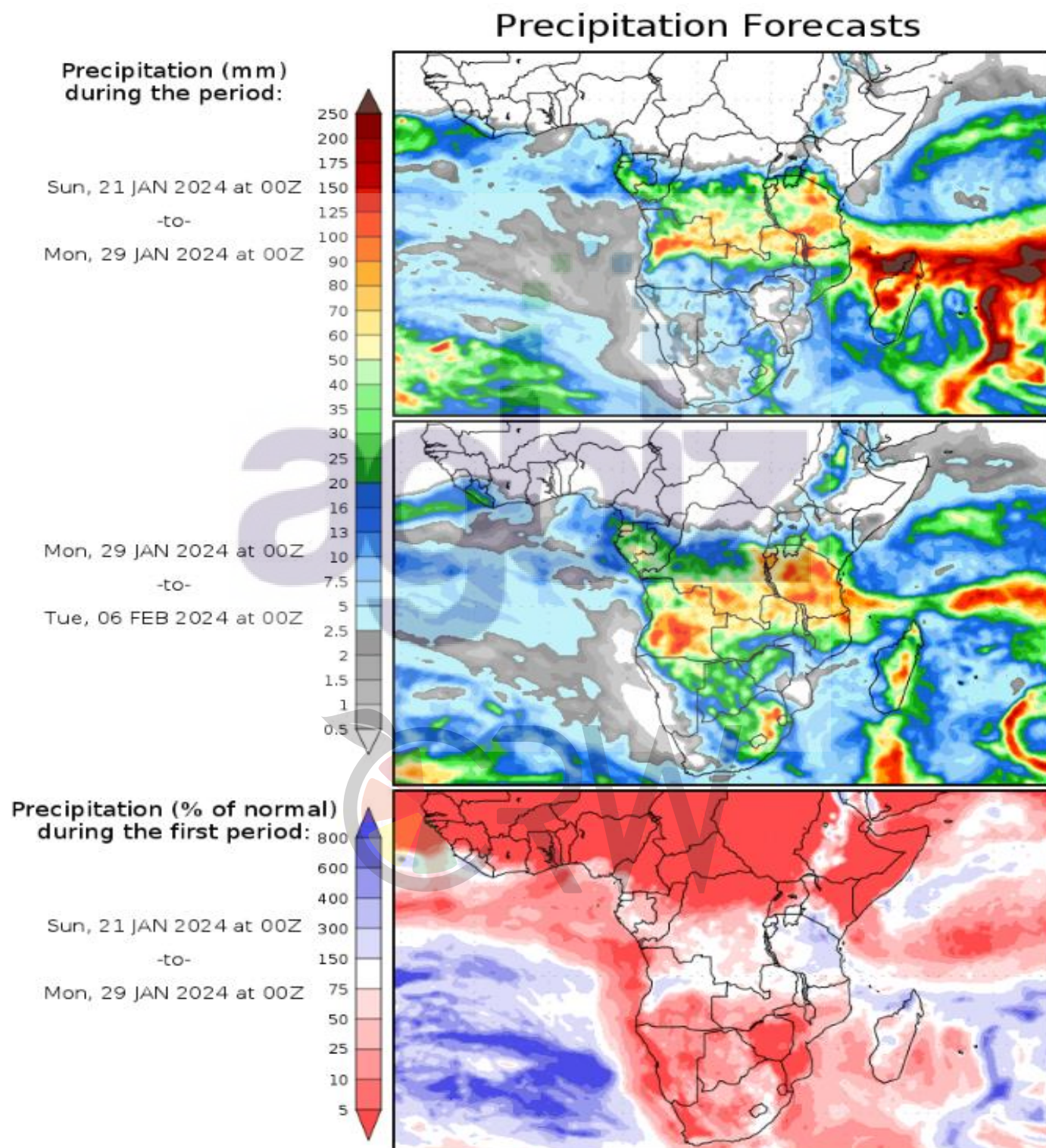
What we are watching this week

- We have a busy calendar this week. Globally, we have the United States Department of Agriculture (USDA) **weekly U.S. grains and oilseeds export sales data** due for release on Thursday.
- On the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for December 2023. In this data, our focus will be on the food category. South Africa's consumer food inflation quickened to 9,0% in November 2023, from 8,8% in the previous month. The product prices underpinning this increase were mainly milk, eggs and cheese; fruit; vegetables; and sugar, sweets and desserts. The December 2023 data probably accelerated to 9,3%, underpinned by similar factors as the previous month.
- Also on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries data** for January 19. In the previous release on January 12, South Africa's 2023/24 maize producer deliveries were about 21 455 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,8 million tonnes out of the overall harvest of 16,4 million.
- On the same day, the soybean deliveries were about 2,7 million tonnes of soybeans out of the harvest of 2,8 million tonnes. The sunflower seed producer deliveries amounted to 715 812 tonnes out of the harvest of 724 110 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is towards completion. Last week, 17 092 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,8 million tonnes out of the expected harvest of 2,2 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade data** for January 19. In the previous release on January 12, the 37th week of the 2023/24 marketing year, South Africa exported 46 967 tonnes of maize. Of this volume, 51% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 2,69 million tonnes out of the seasonal export forecast of 3,33 million.
- South Africa is a net wheat importer, and January 12 was the 15th week of the new 2023/24 marketing year, with 26 108 tonnes of imports from Poland. This placed South Africa's 2023/24 wheat import at 595 931 tonnes out of the seasonal forecast of 1,6 million tonnes (down from 1,7 million tonnes in the 2022/23 season).
- Also on Thursday, Statistics South Africa will release the **Producer Price Index (PPI) data** for December 2023. Similarly to the CPI data, our focus here will be on the food category.

South Africa's Precipitation forecast

- The weather forecast for the next two weeks is favourable, showing prospects of light showers across most summer crop-growing regions of South Africa.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)