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South Africa's agricultural exports hit a new record despite logistical constraints

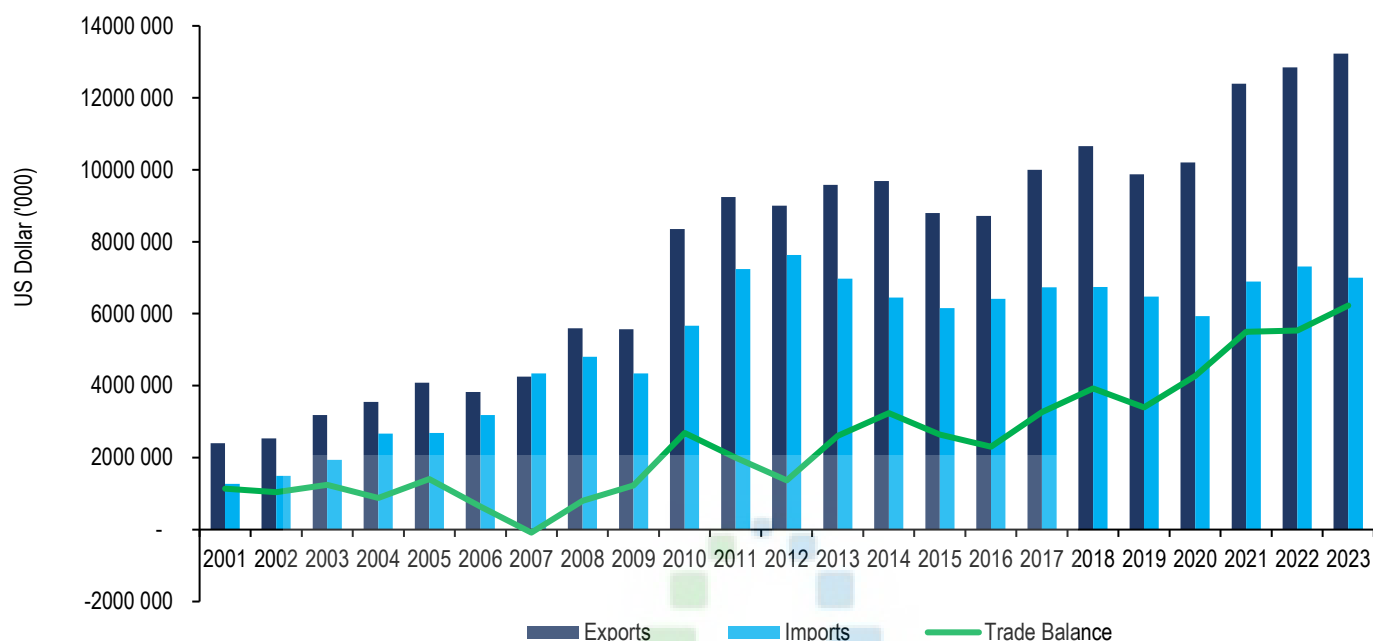
- Despite all the challenges at the ports and various export markets, the South African agricultural sector has continued to realize excellent export activity. Total agricultural exports reached a new record of US\$13,2 billion in 2023, up 3% from the previous year, according to data from Trade Map. This is stronger than our earlier expectations of a modest export activity this year.
- The products that dominated the export list were citrus, maize, apples and pears, nuts, wine, soybeans, sugar, wool, grapes, berries, avocados and fruit juices. This improved export activity was a function of improvement in volumes and prices. That said, pricing developments over the year were significantly more varied than the average data suggest. While fruit prices picked up, grains and oilseed prices have declined notably from the 2022 levels.
- Notably, the exports were widely spread across various key markets. The African continent remained a leading market, accounting for 38% of South Africa's agricultural exports in 2023 in value terms. Asia was the second largest agricultural market, accounting for 28% of exports, followed by the EU, the third largest market, accounting for 19%. The Americas region was the fourth largest, accounting for 6%, and the remaining 9% went to the rest of the world. The UK was one of the leading markets within the 'rest of the world' category, accounting for 7% of total exports. The products of exports to these markets were primarily the same, with the African continent and Asia importing a reasonably large volume of maize, soybeans, wool and beef. Meanwhile, exports to other regions were primarily fruits and wine.
- These robust export earnings were achieved in the face of various challenges in our ports, electricity supply and critical export markets. Some credit goes to organized agriculture groupings, the government, Transnet and different logistical groups that have worked to ensure a smooth flow of products to export markets. The South African agricultural industry has established forums to continuously engage with Transnet and enhance communication about problems at the ports so that the response could be swift to drive the exports of high-value and perishable products. Still, more work is needed as this export success has come at a significant cost to producers and various stakeholders in the value chain.
- South Africa's trade is not one way – the country is also a notable importer of various agricultural products. In 2023, South Africa's agricultural imports amounted to US\$7,0 billion, down 4% from the previous year, primarily because of the decline in commodity prices, while the volume of imported products remained roughly unchanged from the past year. The top imported products were rice, palm oil, wheat, poultry, and whiskies. These products originated primarily from Asia, the EU, the UK, and

the Americas. Considering this import value against the export value of US\$13,2 billion, South Africa's agriculture realized a record trade surplus of US\$6,2 billion.

Policy considerations

- While the recent export expansion is encouraging, South Africa should stay focused on improving the logistical infrastructure efficiency and on the export market expansion mission for the agricultural sector. Remarkably, agricultural exports improved in a year where we saw severe load-shedding and significant logistical infrastructure constraints at the ports.
- The exports could have been much higher than the current levels without these constraints. There is a need for increased investment in port and rail infrastructure, along with the improvement of roads in the farming towns that continue to constrain the sector's growth. Importantly, expanding South Africa's export markets will require better-performing logistical infrastructure.
- The ambition of broadening the export markets is significant as various countries increasingly turn inward and raise multiple kinds of protectionism. We see such protectionism tendencies in the EU and the region in countries like Botswana and Namibia.
- This means there is a need to work hard to retain the existing markets in the EU, African continent, Asia, Middle East, and the Americas. Importantly, in an increasingly divided and fragile world, South Africa must walk a careful path so that its foreign policy approach does not result in a negative trade policy response from its traditional trading partners. This is fundamental for South Africa's agricultural growth, sustainability, and job creation.
- Moreover, South Africa should expand market access to some of the key BRICS+ countries, such as China, India, and Saudi Arabia. Other strategic export markets for South Africa's agricultural sector include South Korea, Japan, Vietnam, Taiwan, Mexico, the Philippines and Bangladesh. This export market expansion ambition is shared by both the private sector and the South African government.
- The Department of Trade, Industry and Competition and the Department of Agriculture, Land Reform and Rural Development should lead the way for export expansion in these agricultural strategic markets. The outcome of the 15th BRICS conference in agriculture also focused on deepening trade within the BRICS+ countries while retaining other markets outside this grouping. This was anchored on the emphasis for BRICS members to lower import tariffs and address SPS barriers hindering deeper trade within this grouping.

Exhibit I: South Africa's agricultural exports



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

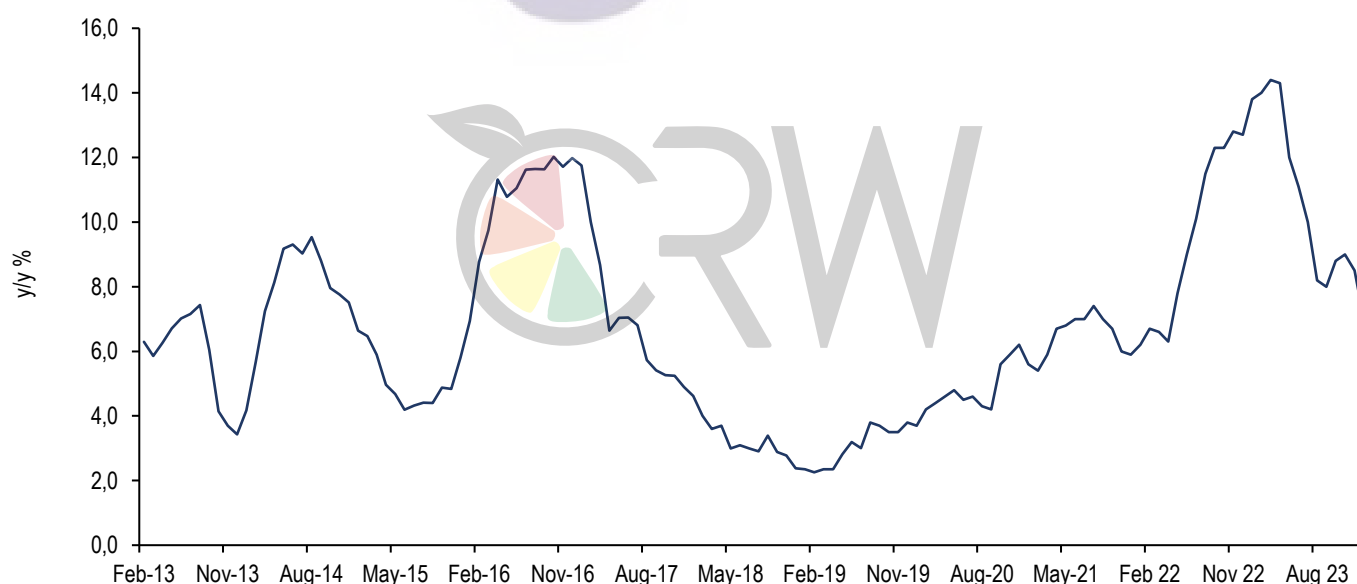
South Africa's consumer food inflation decelerated in January 2024

- South Africa's consumer food inflation slowed to 7,0% in January 2024, from 8,5% in the previous month. This was underpinned by the deceleration across most food products, except for the sugar, sweets and desserts. We expect this broad moderation path to continue in 2024 for most of the products within the food basket, assuming that domestic agricultural conditions improve and South Africa gets a decent summer grain and oilseed harvest.
- While the summer grain and oilseed 2023/24 production season started favourably, with farmers planting roughly 4,4 million hectares, up by 0,4%, the production conditions have increasingly become worrying. Since the start of February, the rain has been scant across the summer crop-growing regions of South Africa, thus raising concerns about the potential yield loss of the crops. In various areas, significant summer grains such as maize, sunflower seed, and soybeans are in the pollination stages this month. The crop should ideally have higher moisture levels during this pollination stage to boost yields. However, the crop enters this growth stage with limited moisture across the major growing regions.
- These current weather conditions have raised fears about the possible yield loss. The consensus in the sector is that the last two weeks of February and the first week of March are critical for the crop. This

means South Africa must receive widespread rains this week or next week for the crop to recover from its current worrying state.

- Regarding meat, a significant upside risk to food inflation in the past few months, the supplies seem to have recovered after the widespread avian influenza in 2023 that sparked concerns. The recovery in poultry production follows a range of interventions that the industry and the government embarked on at the end of last year. These include importing fertilized eggs to rebuild the parental bird stock lost from avian influenza, importing table eggs, and improving biosecurity control measures. Another additional policy measure the government has is easing the poultry product imports in the event of supply constraints, which we do not anticipate over the foreseeable future.
- The fruit and vegetable prices, which also increased notably at the end of 2023, will likely continue to slow in the coming months as the volume of products increases in various Fresh Produce Markets. Unlike field crops, the horticulture industry is under irrigation and thus benefits from improved dam levels in the current dry spell and high temperatures in various regions.
- Also worth noting is that international agricultural commodity prices continue to decelerate from the higher levels we saw a year ago because of expected decent global grains and oilseed harvest. This deceleration further supports our optimism about the potential continuous slowing of domestic food inflation. For example, the FAO Food Price Index, which measures the monthly price changes of agricultural commodities, fell by 1% in January 2024 from its December level and is 10% lower than a year ago.

Exhibit 2: South Africa's consumer food inflation



Source: Stats SA and Agbiz Research

Agriculture still employs a significant number of South Africans

- After a notable jump in the third quarter of 2023 to 956,000, South Africa's primary agricultural employment fell by 4% quarter-on-quarter to 920,000 in the last quarter of 2023. Jobs declined mainly in the Eastern Cape, Western Cape, Gauteng, Mpumalanga and Limpopo. Still, when we view the agricultural jobs annually, these provinces employ many people. The last quarter of 2023 was still well above 2022 levels, except for Mpumalanga, where we saw a marginal decline in primary agricultural jobs. Notably, the 920,000 jobs in primary agriculture in the last quarter of 2023 is 7% up year-on-year and well above the long-term agricultural employment of 793,000.
- The general annual improvement in jobs mirrors the robust agricultural season of 2022/23 across most subsectors of agriculture. More specifically, the excellent production conditions of various field crops, forestry and aquaculture were behind the improvement of farm jobs in the last quarter of 2023. Meanwhile, the livestock industry registered a slight decline, which is unsurprising as the industry was confronted by various animal diseases such as foot-and-mouth, avian influenza and African swine fever in 2023. The tail-end of these challenges continues to weigh on the industry. The production of organic fertilizer facilities also registered an annual decline in employment.
- Beyond this quarterly jobs data, the primary agricultural sector's broad challenges, such as the inefficiencies at the ports, rising geopolitical tensions, deteriorating rail and road infrastructure, weakening municipalities, rising crime, and energy supply constraints, are the significant constraints to long-term growth and employment prospects in the sector.
- Therefore, the South African government and the private sector should work collectively to address these issues, particularly the ones on the domestic policymakers' reach, to support long-term growth. The first step could be a clear roadmap of the implementation of the Agriculture and Agro-processing Master Plan, with the government leading the way in easing up the regulatory matters that the industry has raised, such as the need for modernization of Act 36, addressing cost challenges associated with government utilization of assignees, capacitating the Registre's offices, amongst other aspects.
- A clear focus on the above regulatory matters would help revive the confidence of stakeholders and ease any doubts about the government's commitment to the sector. Launching the Land Reform Agency and policy pronouncement on releasing state land to beneficiaries with title deeds would also profoundly boost sentiment on aspects of inclusive growth in the sector. Overall, these interventions would all be positive for medium to long-term employment. For the near term, the negative impact of scant rains on the harvest of various crops is worth monitoring as the outcome would have near-term implications for jobs, particularly in 2024.

WEEK AHEAD

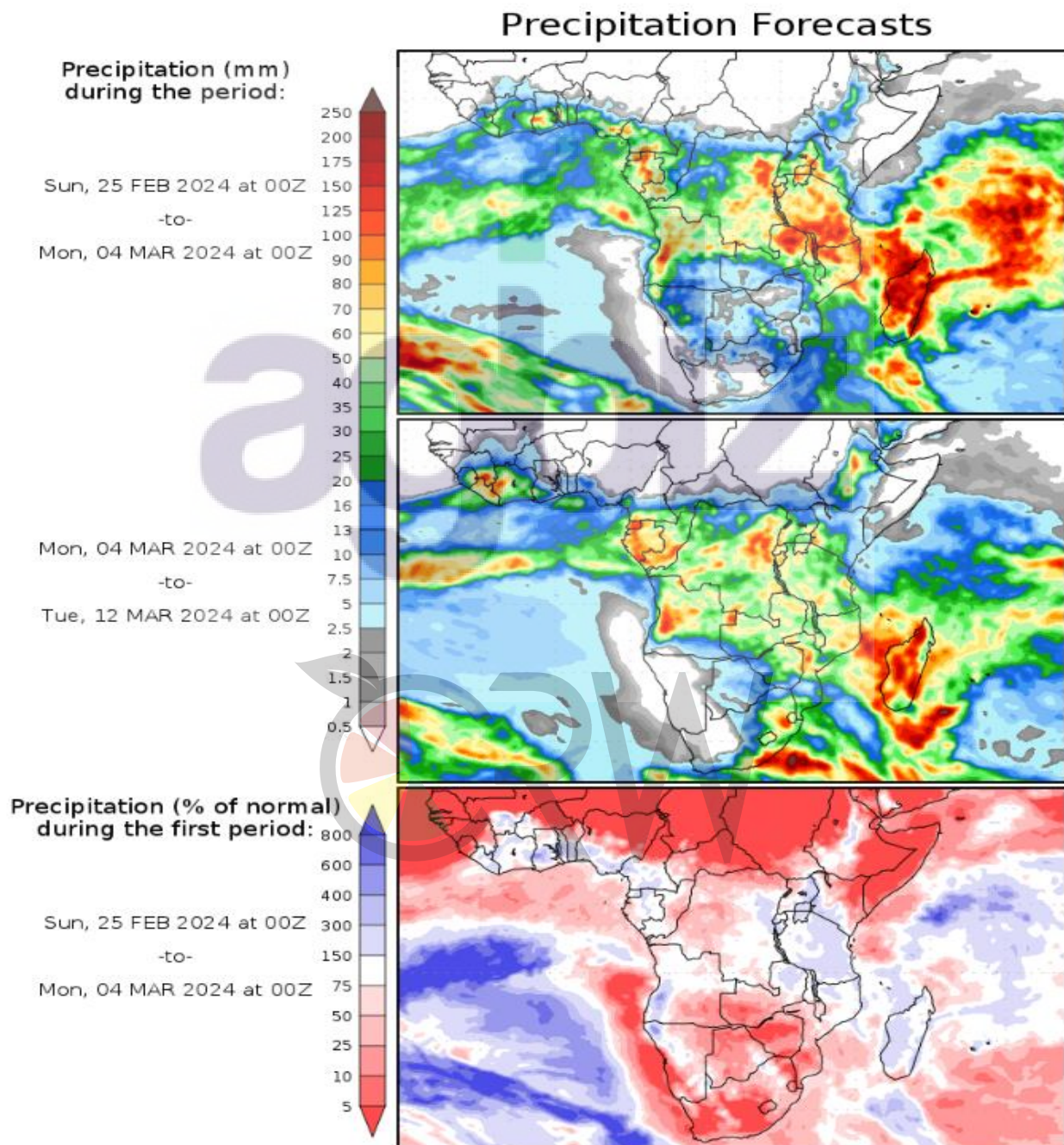
What we are watching this week

- This is a relatively quiet week on the agricultural calendar. On the global side, we only have one major data release. On Thursday, the United States Department of Agriculture (USDA) releases **weekly US grains and oilseeds export sales** data.
- Within the domestic front, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for 23 February on Wednesday. In the previous release on 16 February, South Africa's 2023/24 maize producer deliveries were about 52 617 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 14,9 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 719 815 tonnes out of the harvest of 720 000 tonnes.
- Also worth noting is that South Africa's winter wheat harvest is almost complete. Last week, 8 660 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the expected harvest of 2,2 million tonnes.
- Also on Wednesday, the Crop Estimates Committee will release the **revised summer crop area planted and first estimate production figures**. The Committee will also release the **final production estimate for winter cereals for 2023**.
- On Thursday, Statistics South Africa will release the **Producer Price Index** data for January 2024.
- Also on Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for 23 February. In the previous release on 16 February, the 42nd week of the 2023/24 marketing year, South Africa exported 48 988 tonnes of maize. Of this volume, 59% 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 2,9 million tonnes out of the seasonal export forecast of 3,3 million.
- South Africa is a net wheat importer, and 16 February was the 20th week of the new 2023/24 marketing year, with 9 003 tonnes of imports, all from Lithuania. This placed South Africa's 2023/24 wheat imports at 739 545 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- As the summer crop-growing regions struggle with excessive heat and limited moisture, the weather forecast for the coming week remains worrying. There will likely be only scattered showers over the summer crop-growing regions of South Africa. This is not ideal as crops currently need moisture. Positively, the forecasts for the following week show the possibility of widespread rain, which would benefit agricultural activity in the country. However, it might be too late for some regions in the western areas of the country.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)