

## Unlocking growth in South Africa's agriculture

We believe South Africa's agricultural sector will grow by over 6% this year<sup>1</sup> after an already solid growth of 13,4% y/y in 2020. Still, this expansion will likely slow to a long-term average of around 3% in 2022, in our view (see Exhibit 1). The continuous favourable weather conditions, strong export activity, and relatively higher commodity prices will remain critical catalysts for growth in this sector in the near term. While there remains uncertainty about the commodity price trajectory, the expected La Niña and associated dryness it typically brings to South America could prove to be a significant global price supporting factor and, in turn, boost the South African agricultural commodities market.

In the case of trade, South Africa has experienced numerous challenges at the ports through delays, theft of Transnet infrastructure, cyber-attacks, and general inefficiency, which calls for a need to improve and modernise South Africa's shipping ports. Still, agricultural exports have held on positively for the first half of this year. We suspect that the full-year exports will surpass the 2020 levels of US\$10,2 billion. In the first half of 2021, South Africa's agricultural exports amounted to US\$6,1 billion, which is a 30% y/y increase (see Exhibit 2). Compared with last year, the growth is partly because of base effects, as the first half of 2020 was heavily affected by the Covid-19 related disruptions to global supply chains. Still, the growth reflects rising export performance for various products.

The vibrancy could be seen across the major subsectors of the South African agricultural economy – field crops, animal production, and horticulture. As such, we are confident that employment in South Africa's primary agriculture could also remain elevated around the average long term of 852 000 people. Already, in the second quarter of this year, direct agricultural jobs recovered from the slump of the first quarter by 9% q/q and 8% y/y to 862 000 (see Exhibit 3).

While these near-term growth prospects support the sector, unlocking the full growth potential over the long run will require policy interventions within agriculture and cross-cutting government departments. This area has remained a challenge for South Africa for a while because of the poor implementation of government policies and programmes. As indicated in this note before, as far back as in 2012, the South African government published its National Development Plan, which promised prospects of accelerated growth and job creation at the sector's primary and value chain level. But as with some policies before it, South Africa never fully implemented the ideas of Chapter six of the National Development Plan.<sup>2</sup> The prerequisites for unlocking growth in the sector included a need for investment and expansion of irrigation infrastructure across the country. If done properly, it would have unlocked about 500 000 hectares for the horticulture sector – a labour-intensive subsector. In addition, the government had to convert some under-utilised land in communal areas and land reform projects into commercial production. This intervention would have involved a transfer of land rights to beneficiaries so that they could mobilise funding opportunities. Also, the government had to support the commercialisation of the new entrant farmers instead of locking them into small farming enterprises. Unfortunately, none of these suggestions were implemented fully.

<sup>1</sup> Other analysts like the Bureau for Food and Agricultural Policy (BFAP) see a much higher growth figure of 7,6% y/y in 2021. The BFAP's full publication is available [here](#).

<sup>2</sup> The National Planning Commission. 2012. *National Development Plan 2030*. Pretoria: The Presidency.

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The expansion that we have observed in agriculture since 2012<sup>3</sup> has been led by private sector firms rather than government-led. As a result, the discussion about the low levels of transformation in South Africa's agriculture continues to linger. The National Agricultural Marketing Council estimates that black farmers in South Africa still constitute less than 10% of the commercial production.<sup>4</sup> To address the low transformation challenge and potentially slower growth in agriculture in the coming years, the government has revived the high-level views of Chapter six of the National Development Plan through its Agriculture and Agro-processing Master Plan. The master plan involves social compacting between business, labour, and government amongst other stakeholders. Its major contribution is that it has managed to map commodity corridors through which expansion could take off and clearly outline the types of investment and infrastructure needs in each area. Still, this will need a full buy-in of all agricultural role players. We, as Agbiz, have been positive and participating throughout the process.

The two major areas we feel need increased attention are (1) messaging and participation of the provincial and local governments and the (2) financing instruments beyond the Blended Finance model that the government has launched its first leg. On the first point, some of the most critical implementation for the agricultural sector happens at local government, even if the policies are crafted at a national level. Therefore, the national government should ensure that the provinces' agricultural strategies are aligned with the overall national policy approach of the master plan. This will need proactive communication and engagement from the national government.

Secondly, the blended finance instrument is a welcome development but will not be sufficient to fund the new entrant farmers and initiatives entailed in the master plan. Social partners should work on the financial strategy to implement the plan, and the government will have to be proactive in this regard. The first step from the government side would be through ensuring that all provincial spending is aligned with this new plan for agricultural development. The provinces should not continue with their old spending patterns in various projects, instead, align with this new national vision. This is a discussion that could be facilitated within the government, so that appropriate policies and procedures are followed.

Another essential point that the South African government will have to reassess is its land reform policy. The development and expansion that the master plan calls for require private investment into the new land and partnerships. Such interventions will likely continue to be a challenge when there is no clarity on the land reform policies. While already advanced in the National Assembly, the debate about expropriation without compensation will not serve the sector and economy well.<sup>5</sup> In principle, the focus should be on securing property rights, releasing the land already in the government's books to carefully identified beneficiaries, and continuing to pursue various instruments of accelerating land reform. Some were highlighted in the President's Advisory Panel report on Land Reform and Agriculture.<sup>6</sup>

In sum, South Africa's agricultural economy growth prospects are positive in the near term. Still, the long-term growth prospects depend on the pace and commitment to implementing reforms such as the Agriculture and Agro-processing Master Plan, along with various land reform suggestions in the President's Advisory Panel report, amongst others. Another important area that needs the attention of all social partners is agricultural finance.

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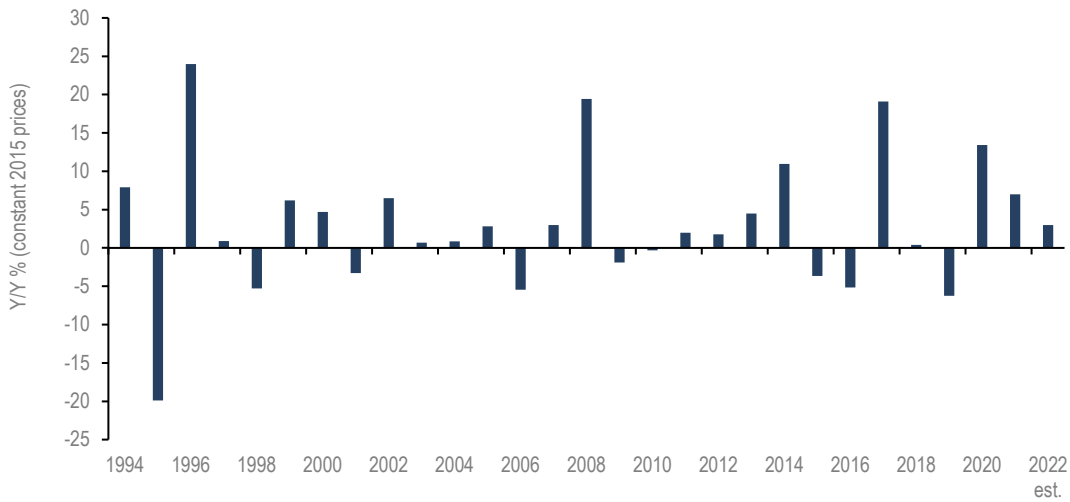
<sup>3</sup> Bureau for Economic Research. 2020. *South Africa's Progress Towards its Development Objective*. Stellenbosch: Stellenbosch University.

<sup>4</sup> There is no consensus around this figure, which shows the need for research in this area. With that said, there is convincing anecdotal evidence which backs the National Agricultural Marketing Council's view that transformation remains at very low levels in South Africa's agriculture. Hence, we continue to call for a need for inclusive growth.

<sup>5</sup> Sihlobo, W. 2020. *Finding Common Ground: Land, Equity and Agriculture*. Johannesburg: Pan Macmillan South Africa.

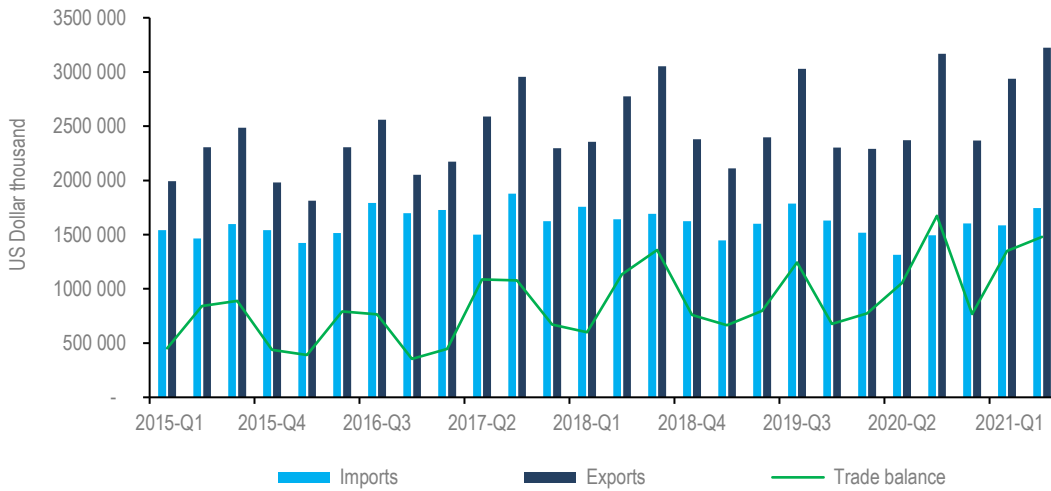
<sup>6</sup> Panel on Land Reform and Agriculture. 2019. *Final Report on Land Reform and Agriculture in South Africa*. Pretoria: The Presidency.

**Exhibit 1: SA agriculture growth could slow to a long-term average of around 3% in 2022**



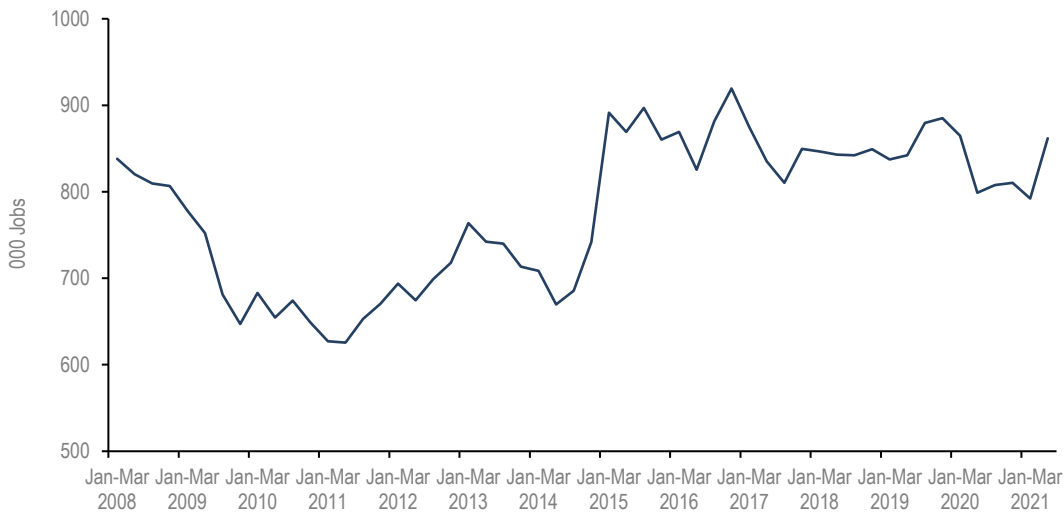
Source: Stats SA and Agbiz Research

**Exhibit 2: In the half of 2021, SA agricultural exports amounted to US\$6,1 billion**



Source: Trade Map and Agbiz Research

**Exhibit 3: In Q2, 2021 primary agricultural jobs recovered**



Source: Stats SA and Agbiz Research

## Weekly highlights

### What to learn from the recent SA Crop Estimates Committee's release?

This past week, the national Crop Estimates Committee released its update on South Africa's 2020/21 summer crop production forecasts and the 2021/22 winter crop production. The summer crop numbers didn't introduce any surprises, aside from the 1% downward revision in the maize production estimate to 16,2 million tonnes, which is still the second-largest maize harvest on record. Other crops production estimates remain unchanged from August estimates, with sorghum and dry beans figures up by 3% and 2%, respectively. Our attention will soon be moving to the 2021/22 summer crop season, which begins this week in the eastern regions of the country. The Crop Estimates Committee will release the farmers' intentions to plant data on 26 October 2021. It is only then that we will have a view of the potential size of the crop. So far, however, all indications are positive, from a weather outlook to tractors sales.

In terms of the winter crops, the September release was the second 2021/22 production estimate, which brings minimal changes from August numbers. For example, only wheat and oats production estimates were lifted by 0,5% and 4,0% from August to 2,09 million tonnes and 82 223 tonnes. For wheat, this production estimate is roughly in line with the previous season's crop of 2,12 million tonnes, while for oats, this is the largest crop on record. The Western Cape, which is the region that grows more than two-thirds of South Africa's winter crops, received favourable rainfall since the start of the season and that supported the planting activity and crop-growing conditions. The only winter crop that experienced a decline in planting is barley; farmers cut its area sharply by 33% y/y to 94 730 hectares. The production figures are also down, in line with the reduction in plantings. This is partly because of lower demand following temporary bans in alcohol sales at various intervals since the pandemic and a large harvest in the previous season.

These winter crops have matured and are in good condition within the Western Cape and various parts of South Africa. The second production estimates paint a positive picture; for example, canola production could also reach record levels of 195 000 tonnes (up 18% y/y). Importantly, the wheat production estimate of 2,09 million tonnes, down by 1% from the 2020/21 season, is primarily underpinned by a decline in area plantings and lower yields in the Free State. The Western Cape registered an uptick from the 2020/21 production season. Still, given the overall increase in area planted and the positive reports about crop conditions we continue to receive from farmers in the Western Cape and other regions of the country, we are inclined to believe that this particular estimate could be lifted further in the coming months.

Nevertheless, South Africa will remain a net importer of wheat even if the 2021/22 harvest is larger than the previous season. The import requirements for the marketing year, which started on 01 October 2021, will become clearer once we have a reliable estimate of the current crop. The Supply and Demand Estimates Committee has maintained its view at 1,52 million tonnes of imports for 2021/22, unchanged from the previous season.<sup>7</sup>

### SA Weather Service has reaffirmed its view about possible La Niña in 2021/22 summer season

In its Seasonal Climate Watch report on 30 September 2021, the South African Weather Services indicated that "The El Niño-Southern Oscillation (ENSO) is currently in a neutral

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<sup>7</sup> The Supply and Demand Estimates Committee figures are available [here](#). These figures are subject to change on a monthly basis depending on deviations on the production estimates.

state, and the forecasts indicate that it will most likely remain in a neutral state for spring, with a likely change to a weak La Niña during early- and mid-summer. As we move towards the mid-summer season, ENSO starts playing an important role in our summer rainfall. As such, the increased likelihood of a weak La Niña during early- and mid-summer is expected to be favourable for above-normal rainfall in that period." This sentiment is aligned with the view we have emphasised in the past few weeks, also echoed by other global institutions such as the Australian Bureau of Meteorology, which currently forecasts the chance of a La Niña forming during the coming months to around 50% - twice the normal likelihood.<sup>8</sup>

The La Niña weather event will support all agricultural activity in South Africa and the broader Southern Africa region. Importantly, these rains come on the heels of another rainy season in 2020/21 summer, which boosted the soil moisture and agricultural production. Hence, we have consistently expressed an optimistic view about the 2021/22 agricultural season for South Africa.

## Data releases this week

We start the week with a global focus. Today, the United States Department of Agriculture (USDA) will release the **US Crop Progress report** for 03 October 2021. In the previous report of 28 September, the US maize crop was rated 58% good/excellent, also unchanged from the last week's rating. Still, this is below the last year's rating in the same week of 61%. In the same week of 28 September 2021, the US soybean crop was rated 58% good or excellent, which is also slightly above the previous week's rating. Again, this is poorer than the rating of the same week last year of 64%. This somewhat poor crop rating reflects the dryness that parts of the US experienced in the past few weeks. On Thursday, the USDA will release the **US Weekly Export Sales** data.

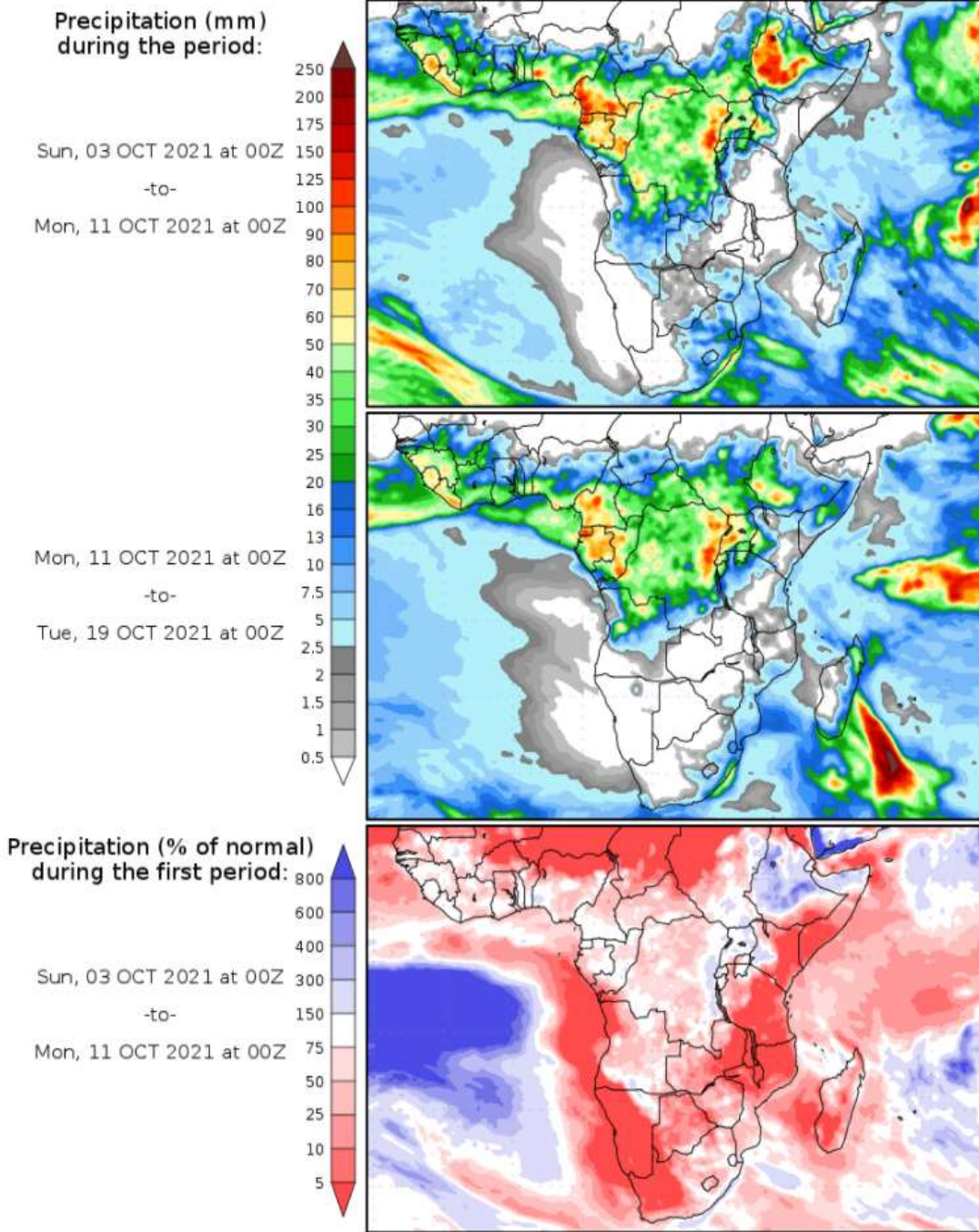
On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 01 October 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed, and farmers will soon be preparing for the next season. To recap, on 24 September, about 1 017 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 30 weeks of the 2021/22 marketing year at 1,83 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes. Moreover, 668 183 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the 21st week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,9 million tonnes, equating to 86% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 01 October 2021. To recap, in the week of 24 September, which was the 21st week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,65 million tonnes, which equates to 54% of the revised seasonal forecast of 3,03 million tonnes (up by 6% y/y). In terms of wheat, South Africa is a net importer. On 24 September, imports amounted to 1,48 million tonnes, equating to 97% of the seasonal import forecast of 1,53 million tonnes. This coming week we will have the full data for the 2020/21 wheat marketing year, which ended in September. We will then transition into the 2021/22 marketing year, and the wheat import forecast is likely to remain unchanged at 1,53 million tonnes in this new marketing year.

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<sup>8</sup> These estimates are available [here](#).

### Precipitation Forecasts



The weather forecasts show prospects of rains over most regions of South Africa this week.

This will help improve soil moisture which bodes well for the planting activity for the 2021/22 summer crop season.

Source: George Mason University (wxmaps)