From an eventful yet positive 2020, we look to 2021 with more optimism for SA agriculture

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Our first note for the year was sent out on 13 January 2020 and highlighted two threats that were imminent at the time in the sector, namely, drought and biosecurity (specifically foot-and-mouth disease and African swine fever). At the time, it looked as though 2020 would not be much different from 2019, which was a challenging year in which the sector's gross value-added contracted by -6.9%. The areas that were experiencing drought at the time were mainly the Eastern Cape, Northern Cape, North West, Limpopo and parts of the Free State. About 80% of the intended area for maize had been planted in these areas, with farmers hoping for rains that could change the fortunes. In terms of biosecurity, the food-and-mouth disease outbreak, which was reported at the end of 2019, constrained exports of animal products and wool at the time. By the end of January, however, the outlook for the sector had turned positive. It had finally rained across the country and the crop looked promising, despite most of it having been planted outside the optimal window.

As the season progressed and the crop promised to be one of the best in history, Covid-19 concerns intensified in China, and at the start of March we worried about the disruptions on South Africa's exports to the Asia region in a year which promised an abundant harvest. It was not long before South Africa also recorded its early cases of Covid-19 infections and the country went into lockdown by end of March 2020. At the time, one of the key questions confronting policymakers and general members of the public was whether South Africa would be self-sufficient for a long period as more and more countries went into lockdown, and consumers were panic-buying food products. However, it quickly became clear that South Africa's formal food supply chains are resilient, and functioned throughout that rushed period with minimal interruptions, except for those that were partly affected by regulations, and soon fixed. Importantly, the government's decision of leaving large parts of the agriculture and broader food sector operational since the onset of the lockdown provided conducive business conditions, relative to other sectors of the economy which faced more severe restrictions during various stages of the lockdown.

During this period of heightened uncertainty, joint efforts between government, private sector and research institutions such as the Bureau for Food and Agricultural Policy (BFAP) proved invaluable to keeping the agriculture and broader food sectors operational and meeting consumer needs. BFAP created a weekly agricultural value chain tracker covering all aspects of the sector. This proved an essential tool as challenges emanating from it were elevated to the legislators to be tackled swiftly to ensure the continuity of the sector. Through the BFAP Covid-19 tracker, potential challenges at the ports which could have led to prolonged delays in shipments were noticed early and resolved, and there were generally various interactions with industry players throughout the various stages of the lockdown. The potential delays in exports were a great concern as South Africa's agricultural sector is export-orientated. More so as the 2019/2020 production season was bountiful, with large volumes of field crops and horticultural produce to export than in previous years.

It is through these efforts that South Africa's agriculture sector saw record quarterly export earnings of US$3.2 billion in the third quarter of the year, which is an increase of 5% on a year-on-year basis. Importantly, South Africa's agriculture gross value-added expanded by 15.1% q/q on a seasonally adjusted and annualised basis in the second quarter of 2020, following an expansion of 27.8% q/q in the first quarter. The ban on livestock exports was lifted earlier in the year, as some regions of the country were cleared of foot-and-mouth disease. Statistics South Africa will tomorrow, 08 December 2020, be releasing the third-quarter GDP data. We expect positive growth for the agricultural sector, but much milder than the previous two quarters. For the year, we estimate that South Africa's agriculture gross value-added could expand by 10% from the previous year. Others, like BFAP, are more optimistic, estimating a 13% y/y expansion. This is all on the back of a large harvest in all major agricultural subsectors, specifically field crops and horticulture. The livestock sector did experience challenges of lower demand during various stages of the lockdown, but it is now adjusting well (aside from the rising feed prices).

This positive picture, however, was at the aggregate level. A deep dive in the sector shows that the wine, tobacco and floriculture industries were amongst the hardest hit by the ban on sales during the various stages of the lockdown. The industry communicated the potential impact of the ban on the cashflow of businesses, especially those with a domestic focus, which is primarily small and medium-sized family farms. The Western and Northern Cape, who are the major producers of wine in South Africa, saw employment in the third quarter of 2020 fall by 31% and 15% quarter-on-quarter, respectively. When viewed on an annual basis, the Western and Northern Cape's primary agriculture employment fell by 37% and 8%, respectively. In the case of the Western Cape, agricultural employment in the third quarter of 2020 was at the lowest levels since the last quarter of 2014, at 136 729.

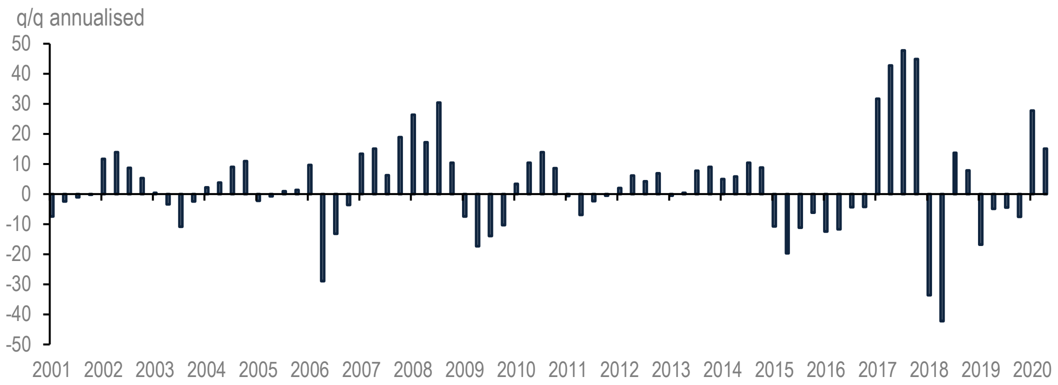
At aggregate levels, South Africa's agricultural employment held firm relative to losses that we observed in other industries. There were roughly 807 882 working in primary agriculture in the third quarter, down by 8% from 2019. The losses in the Western and Northern Cape were somewhat offset by gains in other provinces, especially those with field crops and horticulture. Nevertheless, the real impact of the economic pain in the farm working communities of the aforementioned provinces that experienced job losses persists. The better numbers are merely an indication of national performance.

On a more positive note; the large harvests and continuation of the food value chain activities with minimal interruptions also provided subdued food price inflation. In the first ten months of 2020, South Africa's food price inflation averaged 4.5% y/y. This is a notable improvement compared to drought years such as 2016, where food price inflation averaged 10.8% y/y. There were nonetheless, communities that struggled with food access, but one can argue that such challenges were not primarily caused by rising food prices, rather the lack of buying power as people lost jobs during the various stages of the lockdown.

We are now sending this particular note as our last for the year, and we are more optimistic than in 2019 when we gazed forward to 2020 with worries of drought. South African farmers intend to increase the area planting for summer crops by 5% y/y in the 2020/21 production season, and there are prospects for La Niña rains, which we are already experiencing. The rains have improved soil moisture and supported the planting activity. However, the one factor less talked about, yet an important aspect that worries various stakeholders in agriculture at the moment is the potential lack of financing. Part of this could be traced from the liquidity challenges faced by the Land Bank and effects thereafter in other businesses. This remains an overhanging risk for the sector.

In sum, 2020 has been an eventful year, yet with broadly positive results for the agriculture and food sector. This is the case except for the wine and tobacco industries we mentioned earlier. We look to 2021 with an optimistic eye of yet another strong performance for the sector, albeit the growth numbers won't be double digits, in part because of base effects. We also look forward to a year of subdued food price inflation, which for the overall year should average at levels not exceeding 5% y/y, although earlier months of the year could show higher numbers on the back of elevated grains prices this year. The pass-through could appear earlier next year but soon dissipate due to the expected large grains harvest.

Exhibit 1: South Africa's agriculture GVA



Source: Stats SA, Agbiz Research

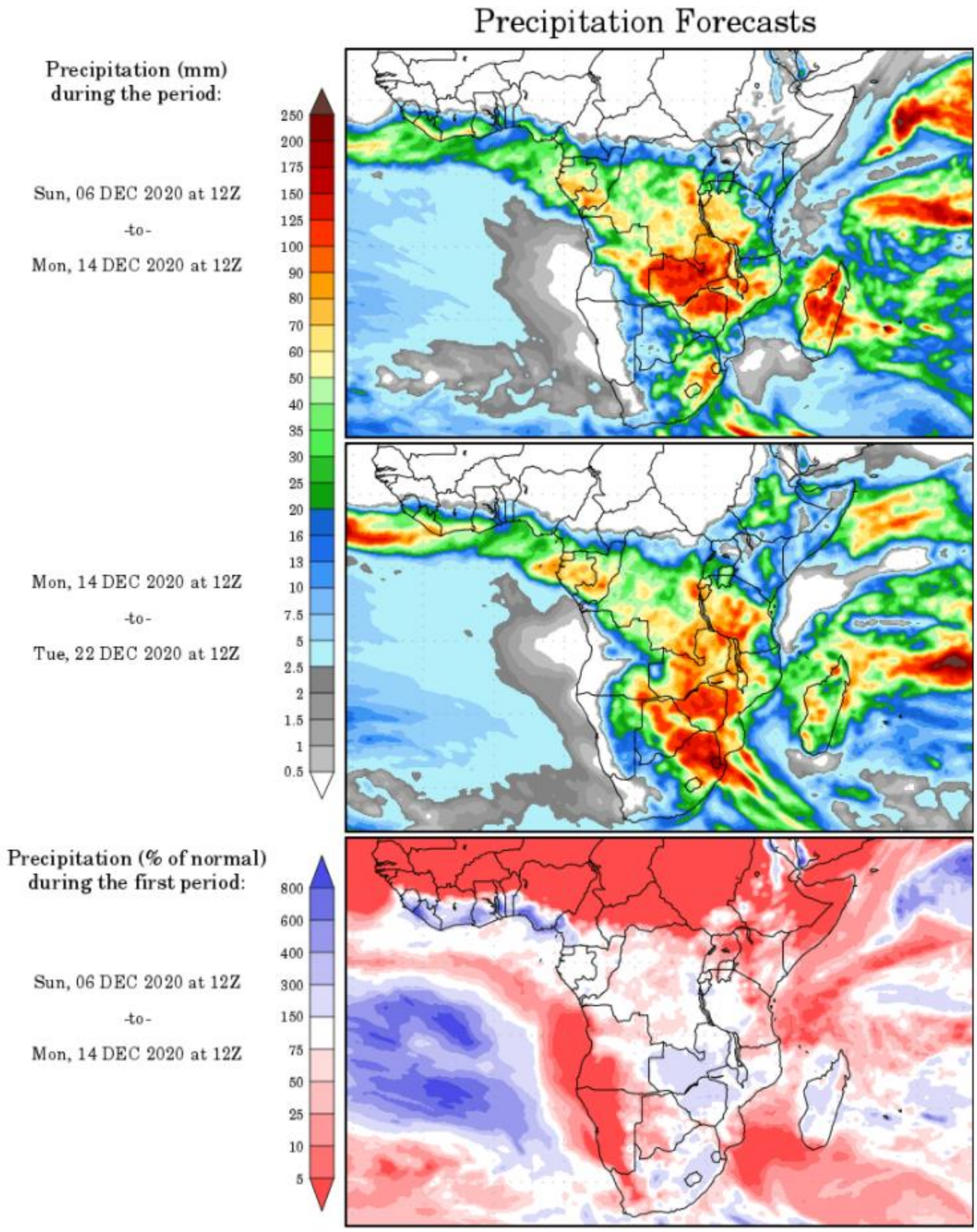
Data releases this week

This is a fairly busy week on the agricultural calendar. On the global front, on Thursday, the USDA will release the **US weekly export sales data**, which helps in tracking the agricultural trade activity between the US and China. In recent weeks, China has been buying large volumes of both maize and soybeans, and the demand is expected to hold as the country rebuilds its pig herd which was devastated by African swine fever. On the same day, the USDA will also release the **World Agricultural Supply and Demand Estimates report** for December 2020. This report will provide an update of the 2020/21 global grains and oilseeds production forecasts, and it's important to keep an eye on this report as parts of Europe and South America struggled with dryness these past few weeks and that has an impact on potential crop yields. The USDA currently forecasts global maize, wheat and soybeans production at 1.14-billion tonnes (up by 3% y/y), 772 million tonnes (up by 1% y/y) and 362 million tonnes (up by 8% y/y), respectively.

On the domestic front, on Tuesday, Statistics South Africa will release the third quarter data of the **Gross Domestic Product (GDP)**. As previously stated, agriculture has experienced solid growth in the first half of the year, and the third-quarter figures will likely maintain positive reading, although at a much milder pace than the previous quarters. On Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 04 December 2020. This data covers both summer and winter crops. But the focus has shifted towards winter crops whose harvest is underway. In the week of 27 November 2020, about 235 775 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 931 673 tonnes, which equates to 43% of the expected harvest of 2.15 million tonnes. Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for November 2020. For background, South Africa's food price inflation accelerated to 5.6% y/y in October 2020 from 4.2% in the previous month, and well above the average of 4.4% for the first nine months of the year. This was broad-based and reflective of the agriculture commodity price increases we have observed in the past few months.

On Thursday, SAGIS will release the **weekly grain trade data** also for the week of 04 December 2020. In the previous week of 27 November 2020, South Africa's 2020/21 total maize exports were at 1.78 million tonnes, which equates to 71% of the seasonal export forecast (2.50 million tonnes). In terms of wheat, South Africa is a net importer, and in the week of 27 November 2020, the ninth consignment for the 2020/21 marketing year had arrived, putting the total imports at 429 964 tonnes. This equates to 28% of the seasonal import forecast of 1.54 million tonnes.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The next two weeks could bring higher rainfall over the summer crop producing regions of South Africa.

Note: *The next Agbiz Agricultural Market Viewpoint will be released on 18 January 2021*