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the way to prosperity

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The key events and themes in SA's agriculture in 2024

- As 2024 draws to a close, it is worth reflecting on critical events and themes that dominated the South African agricultural scene. Five stood out for us and resulted in a mixed performance this year across the different subsectors. The field crops and livestock subsectors had their fair share of challenges, while the horticulture subsector had a relatively better year.

- First, we started the 2023-24 production season, aware that it would be a mild El Niño year, but the timing of it was uncertain at the start of the season. Consensus from various early forecasts showed that it would intensify from March onwards. In theory, this would not be the worst timing for farmers as the crop would have passed the pollination stages that require moisture. As a result, we had assumed that South Africa would still achieve a decent harvest under such conditions. As a result, farmers planted slightly higher areas for the 2023-24 summer grains and oilseeds than the previous one. The good rains at the start of the season were a major incentive for farmers, along with relatively higher agricultural commodity prices. Indeed, for the first few months of the season, South Africa seemed to be in for a decent summer grains and oilseed harvest.

- The conditions changed for the worst from February to the end of March. The country did not receive any meaningful rains throughout this period, and there was also a severe heatwave. This resulted in significant crop failure and financial loss to farmers as they had planted a slightly bigger area. By the end of the season, South Africa's 2023-24 summer grains and oilseed harvest was down 23% from the previous season at 15,40 million tonnes. The consequence of crop failure is the tight grain supply and higher commodity prices we continue to see. For example, on December 6, 2024, white maize spot price traded at R6 388 per tonne (up by roughly 50% y/y), with yellow maize at R5 036 per tonne (up roughly 30% y/y). These high maize prices also present upside risks to consumer food price inflation.

- Second, animal disease continued to be a major challenge for farmers.. This is understandable because we have had various cases of foot-and-mouth disease in cattle, African swine fever in pigs, and avian influenza in poultry over the past three years. 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. Livestock and poultry farming account for roughly half of agriculture's annual gross value added.

- Moreover, the livestock subsector also significantly contributes to the inclusion of black farmers in commercial agricultural production. Thus, 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. 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, which 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." 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.

- Third, there were also positive developments in South Africa's agriculture this year. One such positive development, which is not necessarily agriculture specific, is the improvement in electricity supply. This positively contributed to the sector and partly to the robust horticulture production. For example, when one considers the dependence of South Africa's agriculture on horticulture, it is always worth highlighting that all of South Africa's horticulture – fruits and vegetables depends on irrigation that needs an adequate power supply. In crucial field crops, roughly 20% of maize, 15% of soybean, 34% of sugarcane, and nearly half of wheat are produced under irrigation. In red meat, poultry, piggery, wool, and dairy production, electricity is also heavily used across various processing activities. Similarly, agribusinesses and other food-producing businesses use heavy amounts of electricity and various downstream processing activities, such as milling, bakeries, abattoirs, wine processing, packaging, and animal vaccine production. Thus, we believe this year's better electricity supply has helped the sector and significantly lowered the cost of doing business as it reduced reliance on expensive diesel-backed generators.

- Fourth, logistics infrastructure efficiency remains a primary concern for the farming sector. However, the ongoing collaboration between Transnet, private industry, and the various logistical organizations assists in ensuring the continuous flow of products, even if there are delays in specific periods. The gains of this collaboration are visible in the export figures. For example, South Africa's cumulative agricultural export value for the first three quarters of 2024 is up 4% from last year, at US$10,55 billion. This reflects an uptick in the volume of various agricultural exports and the price surge in some products. The top exported products by value include citrus, nuts, maize, apples and pears, wine, fruit juices, sugar, dates, figs, avocados and mangos, berries, and grapes, amongst other products.

- Lastly, the commitment to policy continuity after the formation of the Government of National Unity (GNU) is also a noteworthy development for South Africa's agriculture. Ordinarily, when a new government begins its term, there would be a temptation to introduce new policies and programmes. At times, such practices are justified. However, in South Africa's agriculture, the Agriculture and Agro-processing Master Plan has already been formulated and embraced by business, labour, government, and other social partners. There was no need for introducing a new policy, but continuity and a sharper focus on implementation of policy and programmes. This is precisely what the seventh administration committed to doing in agriculture. This approach saved the sector much valuable time, and the efforts could now be channelled towards implementing various programmes and the sector's growth. Amongst other things, this is partly why the sentiment in the sector improved notably in recent months.

- While there were numerous other developments in the sector that we do not discuss in this note, the five points outlined above were perhaps the most notable and cross-cutting in various value chains. As we end this year and will soon start 2025, there is renewed optimism in the sector on the back of expected better rainfall and improvements in the animal disease control front. The focus next year should remain on the opening of export markets, improvement of the network industries, and improvement of municipality performance. Moreover, there also needs to be a relentless focus on implementing the Agriculture and Agro-processing Master Plan as it carries relevant and necessary interventions to support the inclusive growth of South Africa's agriculture.

WEEKLY HIGHLIGHT

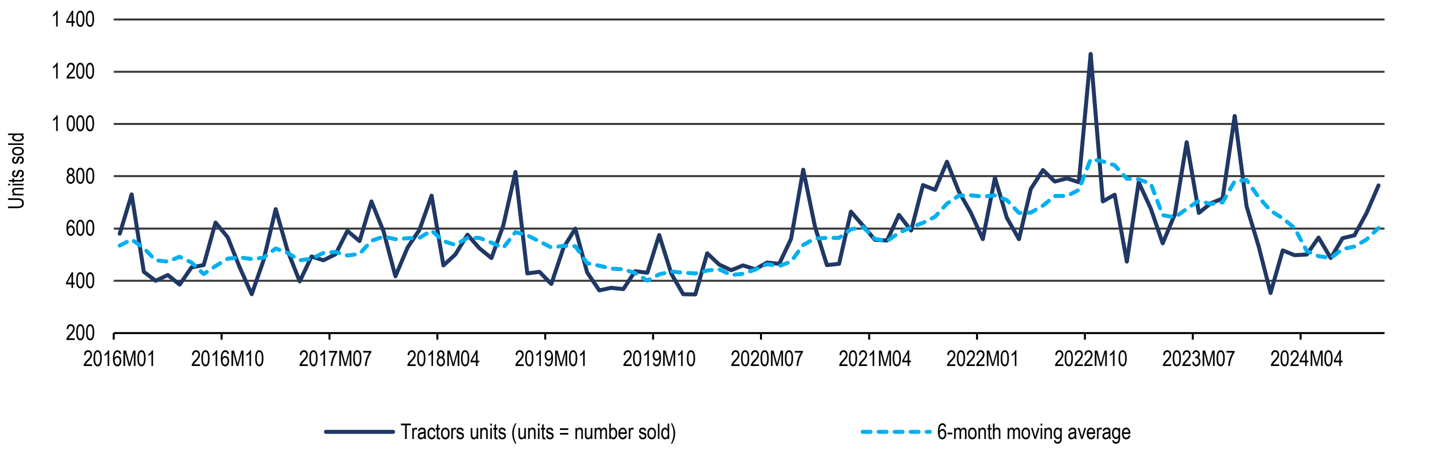
SA's agricultural machinery sales remain weak

- We continue to observe relatively weak agricultural equipment sales in South Africa. However, these weak sales data are not necessarily indicators of the farmers' plantings for the new 2024-25 season. There are distinct factors that underpin poor sales. The data from the South African Agricultural Machinery Association shows that in November 2024, tractors and combine harvester sales were down by 24% y/y and 62% y/y to 523 units and 13 units, respectively. This continues the declining trend we have observed since the start of the year, and there are several reasons behind the weak sales.

- First, the agricultural sector has had higher machinery sales in the past three years, supported by improved farmers' incomes due to ample harvest and higher commodity prices. Thus, there was bound to be some correction period, leading to moderation in sales. Second, after a few good agricultural years, we struggled with a mid-summer drought in the 2023-24 season, changing the farmers' fortunes and worsening sales performance. Farmers are under financial pressure because of the crop losses. For example, the 2023-24 mid-summer drought has led to a projected 23% decline in South Africa's summer grains and oilseed production to 15,40 million tonnes. Lastly, the relatively higher interest rates for much of this year added to the financial pressures in the sector, where farm debt is hovering over R200 billion.

- In essence, these agricultural machinery sales data are not necessarily a guide for the season we are starting but a reflection of the constraining factors in the previous season. There is optimism about the new 2024-25 season, and the general mood in the sector is upbeat. South African farmers intend to plant 4,47 million hectares of summer grains and oilseeds in the 2024-25 season, up by 1% year-on-year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

SA's agricultural gross value added declined sharply in Q3 2024

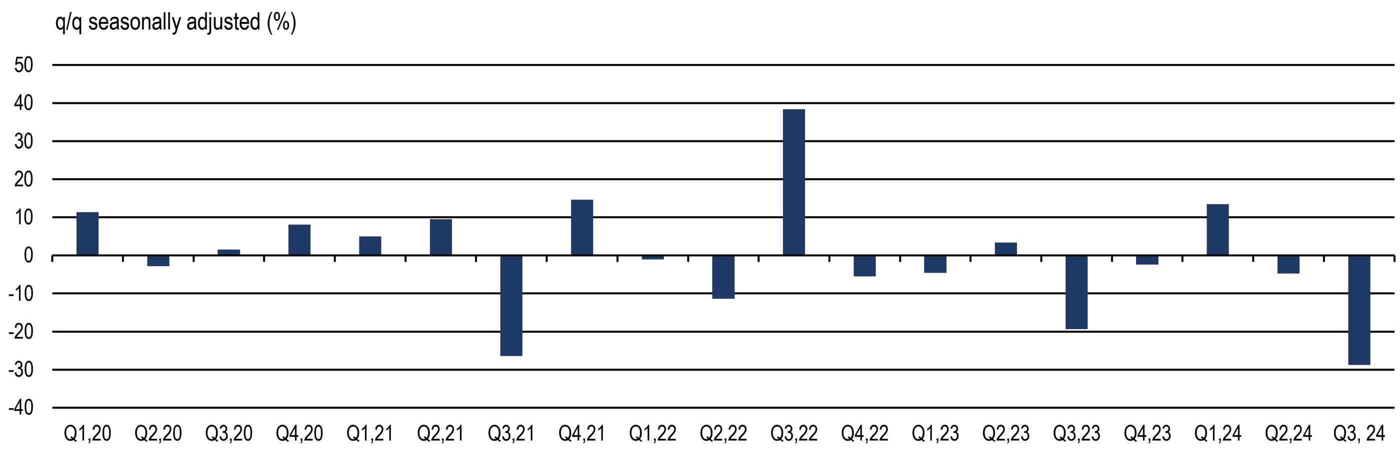
- South Africa's agriculture has had a challenging year, with the El Niño-induced mid-summer drought weighing on the 2023-24 summer crop production and animal diseases still lingering in the livestock industry. Ordinarily, in seasons like this, one would expect the sector to underperform. Still, the extent of the decline in the country's agricultural fortunes in the third quarter is surprising. The data released by Statistics South Africa shows that the country's agricultural gross value added contracted by -28,8% quarter-on-quarter (seasonally adjusted) in the third quarter, following -4,8% quarter-on-quarter in the second quarter. Later, we will have more to say about the data, which requires a closer look. However, the general trend of the sector can partly be explained by these factors.

- The field crops' underperformance is mainly in the production of summer grains and oilseeds. For example, South Africa's 2023-24 summer crop harvest is down 23% from the previous season, at 15,40 million tonnes. We believe the livestock subsector, which accounts for nearly half the sector's value, has also not fully recovered. This subsector faces relatively higher feed costs and lingering animal diseases (particularly foot-and-mouth disease in the Eastern Cape), contributing to the underperformance this quarter.

- Still, it is not all doom and gloom in the sector; the horticulture subsector performed reasonably well this year, albeit its impact was not fully pronounced in the third quarter figures. The mid-summer drought did not severely affect the horticultural industry because the production is under irrigation. Also, the dam levels across South Africa had benefitted from heavy rains at the end of 2023 and into the start of 2024 before we experienced a mid-summer drought. These better dam levels and more reliable energy supply catalyzed the excellent production in the horticulture subsector.

- Overall, the underperformance of the sector requires a closer look at the data, along with an appreciation that we are closing a challenging year of drought and lingering animal diseases.

Exhibit 2: South Africa's agricultural gross value added



Source: Stats SA and Agbiz Research

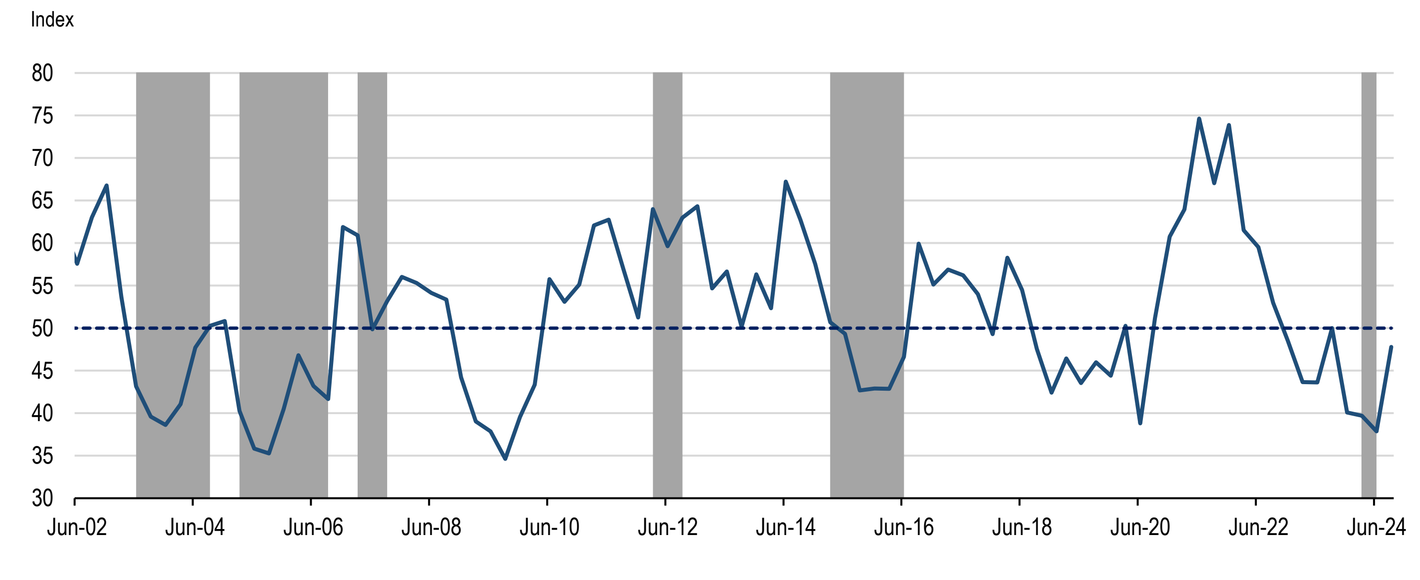
Agbiz/IDC Agribusiness Confidence Index increases further in Q4, 2024

- The Agbiz/IDC Agribusiness Confidence Index (ACI) increased by 10 points from Q3 to 58 in Q4. This is the second consecutive improvement, placing the ACI at its highest since Q2 2022. This level of the ACI implies that South African agribusinesses remain generally optimistic about business conditions in the country. This optimism is a result of a combination of factors, including favourable weather conditions, with expectations that La Niña rains will support the 2024-25 agricultural season.

- Moreover, the stable energy supply, improvements in port efficiency, and the better political climate following the formation of the Government of National Unity are some of the aspects the respondents cited as key factors underpinning their optimism. This survey was conducted in the last week of November, covering businesses operating in all agricultural subsectors.

- In essence, the ACI results for Q4 2024 show that the mood in the sector is upbeat, reflective of the potential recovery in agricultural conditions following a challenging season of drought and animal diseases. We should build on this optimism for the sector's long-term growth. This will require collaborative efforts between businesses and government to push for the effectiveness of the network industries, better management of the municipalities, further efforts to open new export markets, and better biosecurity matters.

Exhibit 3: Agbiz/IDC Agribusiness Confidence Index[1]



Source: Source: Agbiz Research, South African Weather Service (Shaded areas indicate periods of drought in South Africa.)

[1] The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

WEEK AHEAD

What we are watching this week

- On the global front, the United States Department of Agriculture (USDA) will release its **World Agricultural Supply and Demand Estimates (WASDE)** report on Tuesday. This monthly report provides valuable insight into agricultural production conditions, consumption and trade. Our focus on it will be on the 2024-25 figures for major grains and oilseeds. Moreover, the USDA will also release its **weekly US Grains and Oilseed Export Sales** data on Thursday.

- On the domestic front, Statistics South Africa will publish the **Consumer Price Index (CPI)** data for November 2024 on Wednesday. Our focus on the data will be on the food category. The recent food inflation figures have painted a more positive picture. For example, having stabilized at 4,1% in September 2024, South Africa's consumer food price inflation slowed notably to 2,8% in October. This is the lowest level since May 2019. The deceleration was broad-based, except for "sugar, sweets and desserts", which lifted somewhat.

- Also, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, we will receive a data release for the 32nd week of the 2024-25 marketing year this week. In the previous release on November 29, South Africa's weekly maize producer deliveries were about 39k tonnes. This puts the 2024-25 maize producer deliveries at 10,51 million tonnes out of the final harvest of 12,72 million tonnes. The 2024-25 soybean deliveries in the first 39 weeks of this new marketing year amounted to 1,77 million tonnes out of the final harvest of 1,84 million tonnes. At the same time, the sunflower seed deliveries amounted to 629k tonnes out of the harvest of 636k tonnes.

- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 32nd week of the 2024-25 marketing year. In the previous release on November 29, the 31st week of the 2024-25 marketing year, South Africa exported 52k tonnes of maize. Of this volume, 57% was exported to Zimbabwe, 13% to Botswana, 11% to Namibia, and the balance to the neighbouring African countries. This puts South Africa's total maize exports in the 2024-25 marketing year at 1,37 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).

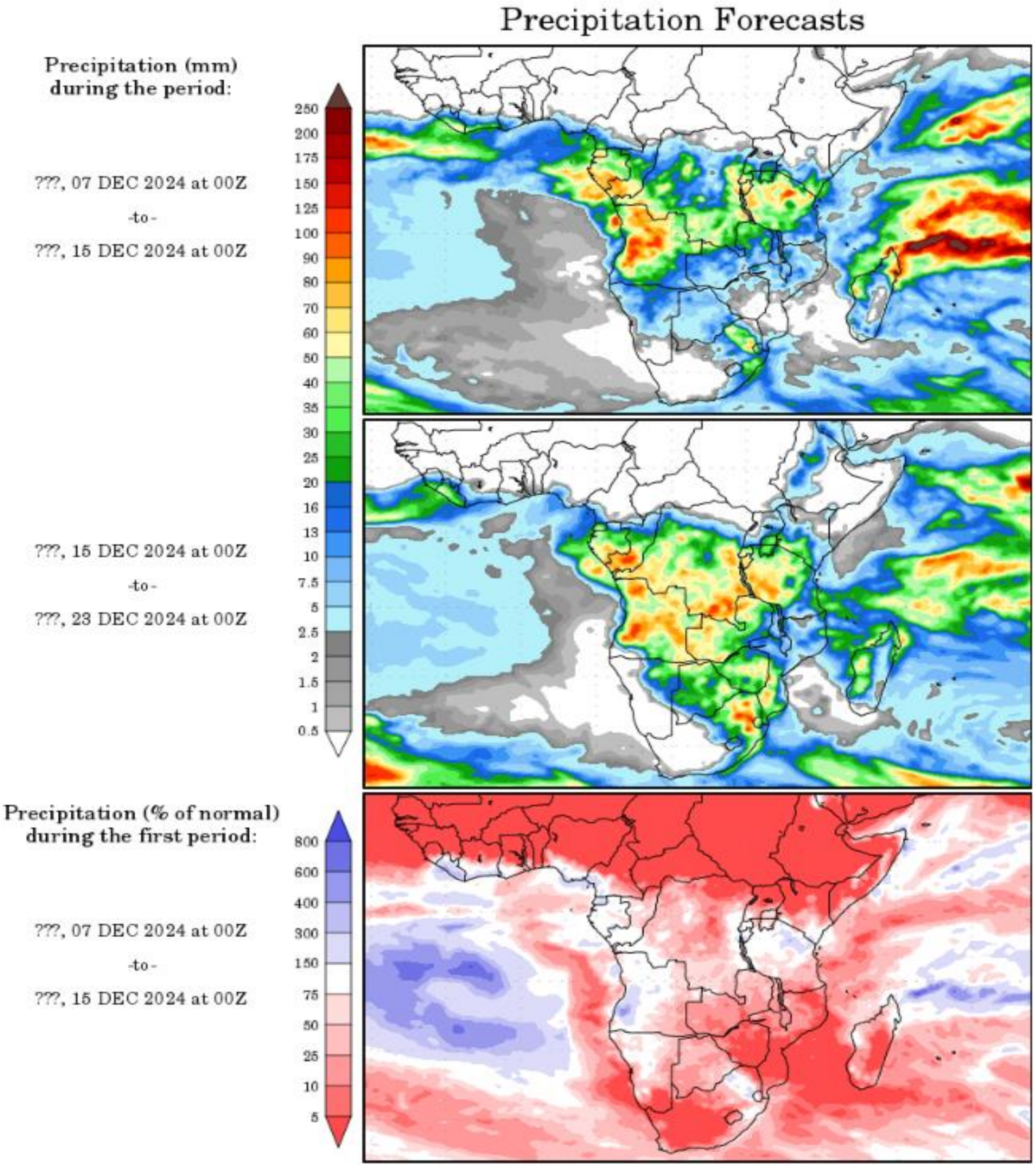
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024-25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024-25 maize imports currently stand at 342k tonnes.

- South Africa is a net wheat importer, and the week of November 29 was the ninth week in the new 2024-25 marketing year. The imports so far amounted to 326k tonnes. The leading suppliers are Russia, Poland, Lithuania, Latvia and Canada. The seasonal import forecast is 1,80 million tonnes, down from 1,93 million tonnes the past season.

South Africa's Precipitation forecast

- Following a week of an intense heatwave in some regions of South Africa, the coming two weeks may offer relief. There is a likelihood of rainfall in the northern and eastern areas of the country, which is favourable for agriculture. The rain prospects are even more favourable for the week of December 15.

Exhibit 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)