Addressing binding constraints to SA agriculture growth

14 February 2022

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A central theme in President Ramaphosa's 2022 State of the Nation Address (SONA) was the government's work in improving the efficiency of physical and regulatory infrastructure aimed at unlocking private sector-led economic growth. This included the establishment of an office that focuses specifically on easing red tape across the different levels of government in addition to the ongoing efforts to address inefficiencies across South Africa's network industries. As we have argued before, there is a variety of challenges that constrain general business activity, such as worsening dysfunction in municipalities that lead to deteriorating infrastructure investment and poor service delivery, amongst others, and after that, low job creation.

For the agricultural and agribusiness sectors that operate primarily in rural towns, the inept municipalities service 'non-delivery' is a significant challenge and leads to increased business costs. Some cases of this challenge are Clover's announcement in 2021 that they intended to leave Lichtenburg because of unsatisfactory service delivery by the municipality.[1] Astral is also another agribusiness case that suffers from poor service delivery in Mpumalanga.[2] We hear of similar challenges from agribusinesses operating in the Eastern Cape, such as the wool industry. Their operational costs have increased notably partly because of unmaintained roads and the absence of basic service delivery, which have forced some businesses to perform functions that the municipalities would have ordinarily performed. And these are only just a few examples. Such challenges are binding constraints to expansion and divert energy and capital that agribusinesses could have spent expanding their business activities and creating employment to perform basic services that are key for business survival. This is one of the big constraints to agribusinesses, agriculture as well as other sectors that require urgent attention.

There are also agriculture-specific binding constraints, which the Department of Agriculture, Land Reform and Rural Development has started working on collaboratively with the private sector. For example, for years, the challenge of lack of modernization of the Fertilizers, Farm Feeds, Seeds and Remedies Act 36 of 1947 has been highlighted as a significant threat to the registration and importation of various agricultural input products. These are critical products for improving agricultural productivity and the global competitiveness of the South African agricultural sector. Fortunately, the input providers are working collaboratively with the government to address this Act's various challenges. This process should ideally continue in the spirit of a public-private partnership approach to leverage all the sector's expertise to efficiently complete the process and allow the registration of all needed agrochemicals and other inputs. This is all for the good of the South African agriculture and agribusiness sector, all within an appropriately regulated environment.

Similarly, Onderstepoort Biological Products' (OBP) inability to produce the required vaccines for the South African livestock industry presents risks for the major commercial livestock producers and the developing farmers that aim to build their herds and commercialize.[3] It is also critical that the National Treasury and the Minister of Agriculture, Land Reform and Rural

[1] News24, "*North West govt officials rush to Lichtenburg to halt closure of Clover cheese factory*", 09 June 2021.
[2] Business Day, "*Astral Foods wins court order over lack of service delivery*", 13 April 2021.
[3] Daily Maverick, "Agricultural organisations and experts warn that animal vaccine production in SA could fail", 12 January 2022.

Development properly investigate any corruption and financial management issues at OBP in the process of reforming the institution. As with the challenges above, the solution will require that the Department of Agriculture, Land Reform and Rural Development engage with organised agriculture, communicate its turn-around strategy of this vital entity, and leverage the private sector expertise where necessary. President Ramaphosa' s social compacting approach/partnerships to rebuilding the South African economy should find expression within the agricultural sector as well. For instance, this should be the approach to the current challenges, such as the locust invasion in Northern and Eastern Cape regions. Organised agriculture and provincial and national government should respond together in a coordinated manner.

The sabotage of the South African infrastructure is another major problem for the agricultural sector and other sectors of the economy. Cases of the theft of railway material which disrupts the trains and the movement of goods and export activity have been well documented in the media. With an increase in security risks, working with organisations such as Transnet is a critical intervention. Such efforts would add positive momentum to the potential private-public-partnerships in ports infrastructure, which is vital for the export-oriented agricultural sector (as well as mining, automobile and other manufacturing industries). The security challenge also highlights the need for increased police presence in rural South Africa to curb the attacks on farms, stock theft and vandalism of infrastructure.

Notably, the establishment and effectiveness of the Land Reform and Agriculture Development Agency by the Department of Agriculture, Land Reform and Rural Development, which President Ramaphosa also highlighted in the State of the Nation Address, has the potential to improve the delivery of land redistribution and work collaboratively with the private sector. Hopefully, an improvement in land redistribution delivery will be enough evidence that land reform could progress efficiently without pursuing policies such as land expropriation. Therefore, the success and effectiveness of this agency are critical for the sector's policy stability.

Other more subsector focused binding constraints to the agricultural economy are covered in the Agriculture and Agro-processing Master Plan. Still, the points mentioned above are overarching and need increased focus from the Presidency and line departments, especially the Department of Agriculture, Land Reform and Rural Development. Again, these need not be government initiatives alone. As the President said in the SONA, a social compacting approach will require collaboration with the private sector and other players within the context of a shared vision and advancing the interests of society as a whole.

Weekly highlights

SA agriculture machinery industry has a positive start into 2022

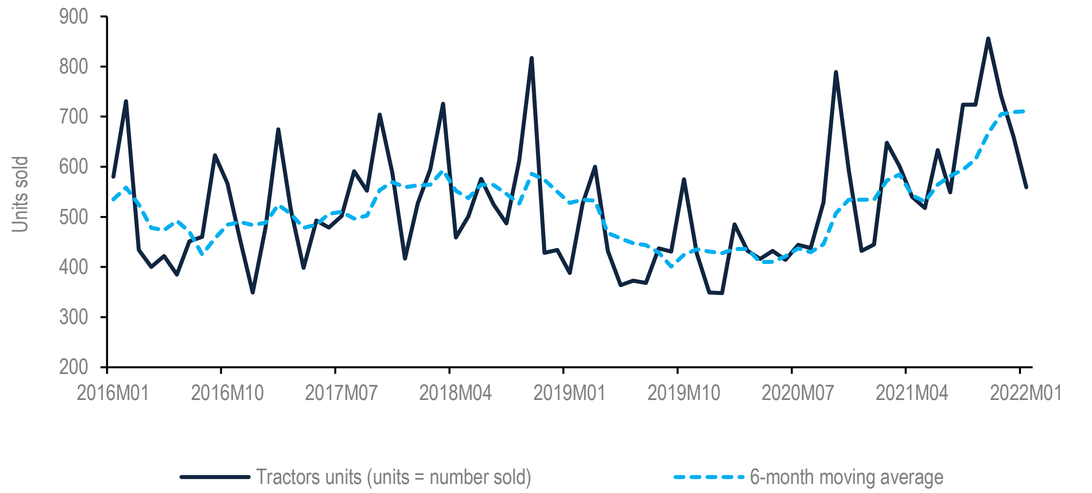
South Africa's agricultural machinery industry has had two consecutive years of robust sales boosted by improved farmers finances on the back of a large harvest in 2019/20 and 2020/21, combined with higher commodity prices, particularly in grains and oilseeds.[4] However, 2022 will likely change the trend and show moderate agricultural machinery sales as the new machinery's replacement rate will probably be lower than the previous years. Moreover, the crop harvest, especially grains and oilseeds, which were the primary drivers of sales in the past few years, could show a lower yield this year than the past two seasons because of the excessive rains since the start of the 2021/22 production season. This could reduce the profitability of various farming businesses and, after that, equipment purchases.

[4] South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. The combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year in South Africa's agricultural machinery sales, so surpassing it means 2021 was indeed an exceptional year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvester sales increased 29% from 2019, with 184 units sold in 2020.

Still, the sales at the start of the month continued on the positive trajectory of the past two years. The data released by the South African Agricultural Machinery Association showed that in January 2022, tractor sales were up 20% year-on-year, with 559 units sold. This is likely a tail end of the robust sales, and the coming months could show moderation. The combine harvester sales were down by 20% year-on-year, with four units sold in January. The sales could linger at these lower levels, especially if the summer crop harvest proves to be notably smaller than the past season, where maize amounted to 16,3 million tonnes, a second-largest harvest on record, and soybeans at 1,9 million tonnes, which is a record harvest. The improved farmers' incomes and volumes that had to be harvested in the 2020/21 production season necessitated many combine harvester sales in 2021.

Overall, it is still early days, and we will know more about the 2021/22 summer grains and oilseeds potential harvest size from the end of this month. With that said, our baseline view is still that the agricultural machinery industry will likely see moderate sales in 2022.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

SA 2020/21 final summer crop harvest slightly larger than the previous estimates

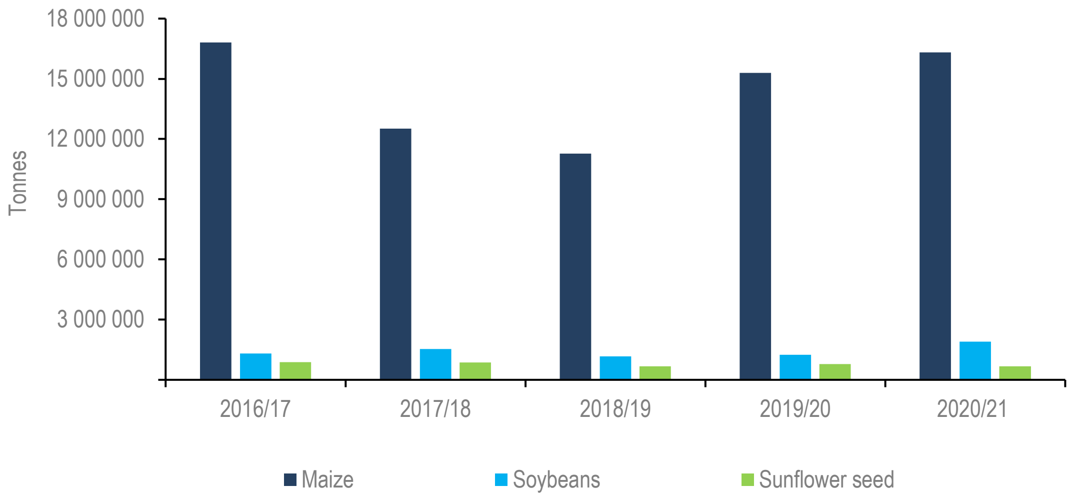
There was no doubt that South Africa's 2020/21 summer crop harvest would be one of the largest in history following the expansion in area plantings and favourable weather conditions that boosted the yields. Still, the size of the harvest remained tentative as the harvest continued across the country. Only in the second week of February 2022, the Crop Estimates Committee will release its final view on the actual size of the 2020/21 summer crop harvest. It is mildly larger than the estimates released in November last year. For example, the 2020/21 maize harvest is 16,3 million tonnes, up by 0,5% from the November 2021 estimate and the second-largest harvest in the history of South Africa. In addition, soybeans 2020/21 final harvest is 1,9 million tonnes, up by 0,4% from November and the largest harvest on record.

Groundnut's harvest was lifted by 7% from November 2021 estimate to 64 300 tonnes. This is up by 25% from the 2019/20 season and the largest harvest in five years. The sorghum harvest was lifted by 0,6% from November to 215 000 tonnes, which is up by 36% from the 2019/20 production season and the largest crop in eight years. The expansion in area plantings and larger yields are also the primary driver of the sorghum harvest.

The sunflower seed harvest was also lifted marginally by 0,1% from November to 678 000 tonnes. However, unlike other summer grains and oilseeds, the sunflower seed harvest is down by 14% from the 2019/20 production season due to reduced area plantings and lower yields in some areas. Due to profitability, some farmers had switched the typical sunflower seed area into maize.

Contrary to the previous seasons where the large harvest would typically add downward pressure on domestic prices, the 2020/21 season was overshadowed by the global events. These were primarily the poor harvest in South America and Thailand and rising demand in China and India, which added upward pressure on global grains and oilseeds prices and after that South African market.[5]

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Recent developments in the global grains market

South Africa is part of the global agricultural market; hence, domestic commodity prices typically follow global commodity market developments. Over the past few months, we have focused on the 2021/22 grains and oilseeds crop size and stocks, ultimately influencing the price direction. This is important for the South African grains and oilseeds farmers and the livestock and poultry industries, which have experienced higher input costs over the past two years.

The significant concerns thus far have been the dryness in South America and the potential impact on maize and soybean harvest. Positively, the United States Department of Agriculture (USDA) still maintain a reasonably positive view of South America's crop, and after that, global harvest and supplies. For example, in this month's update, the USDA maintained its estimates for 2021/22 global maize production of around 1,2 billion tonnes, up by 7% y/y. Due to the expected relatively large global production, the USDA forecast 2021/22 global maize stocks at 302 million tonnes, up by 4% y/y. Still, the weather is a crucial indicator to monitor, as it influences the yields in South America. Notably, the local analysts in South America paint a somewhat negative picture of crop conditions than the USDA.

Soybeans, another vital crop for South America, is down globally by 2% from January 2022 estimates. This is mainly on the back of the downward revision of South America's soybeans

[5] IMF, "*Four Facts about Soaring Consumer Food Prices*", June 24, 2021

harvest. The USDA's view in this regard is also shared by the local analysts such as Conab, who slashed its estimate for Brazil's 2021/22 soybean production by some 15 million tonnes last week.[6] Consequently, the 2021/22 global soybeans stocks are down by 8% year-on-year, estimated at 93 million tonnes. This means that the global soybeans prices could remain somewhat elevated, especially if Chinese soybeans demand increases from the current estimate of 97 million tonnes (compared with 100 million tonnes in 2020/21 season).

In terms of wheat, the 2021/22 global harvest is down by 0,3% from January 2022, at 776 million tonnes. This is roughly in line with the 2020/21 season. The stocks are currently forecast at 278 million tonnes, down by 4% from the previous season because of an expected increase in global wheat usage. The 2021/22 global rice harvest is roughly unchanged from January 2022 estimate at 510 million tonnes, up by 1% year-on-year, following an improvement in the Asian crop. The stocks are at 186 million tonnes, unchanged from the 2020/21 season.

In essence, South America remains a downward rick to the global grains and oilseed harvest in the 2021/22 season. So far, the USDA has maintained a somewhat optimistic picture of the crop in this region, specifically for maize. Thus, assuming the current harvest estimates and stock levels, one can expect global maize, rice, and wheat prices to trade sideways to downward in the medium term, which could also influence the price trend in South Africa. Meanwhile, the soybeans prices could lift due to the relatively lower stock levels.

Data releases this week

We start this week focusing on the domestic agricultural market, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 11 February. This data cover summer and winter crops. But our focus is on winter crops that have recently completed the harvest activity. The summer crops' new season is still at its early stages. Thus, we will focus on the summer crop data closer to harvest time in the coming months. In the previous release of the week of 04 February, about 2,08 million tonnes of wheat had already been delivered to commercial silos. This covered the first nineteen weeks of the 2021/22 production season and equated 94% of the revised harvest estimate of 2,21 million tonnes.

Also on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for January 2022. In this data, we will primarily focus on the consumer food price inflation figures. To recap, the consumer food price inflation slowed marginally to 5,9% in December 2021 from 6,0% in November. The product prices underpinning this slight moderation include bread, cereals, and fish. For the whole of 2021, the consumer food price inflation averaged 6,5% (compared with 4.6% y/y in 2020). Broadly, the high grains, vegetable oils and meat for the past few months were the primary drivers of consumer food price inflation in 2021.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 11 February. On 04 February, which was the 40th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,83 million tonnes, equating to 83% of the seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 04 February, was the 19th week of the 2021/22 marketing year. The total imports are now at 417 766 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports of 1,51 million tonnes).

Globally, on Thursday, the USDA releases the **US Weekly Export Sales** data. Here we typically assess the Chinese demand for US grains and oilseeds.

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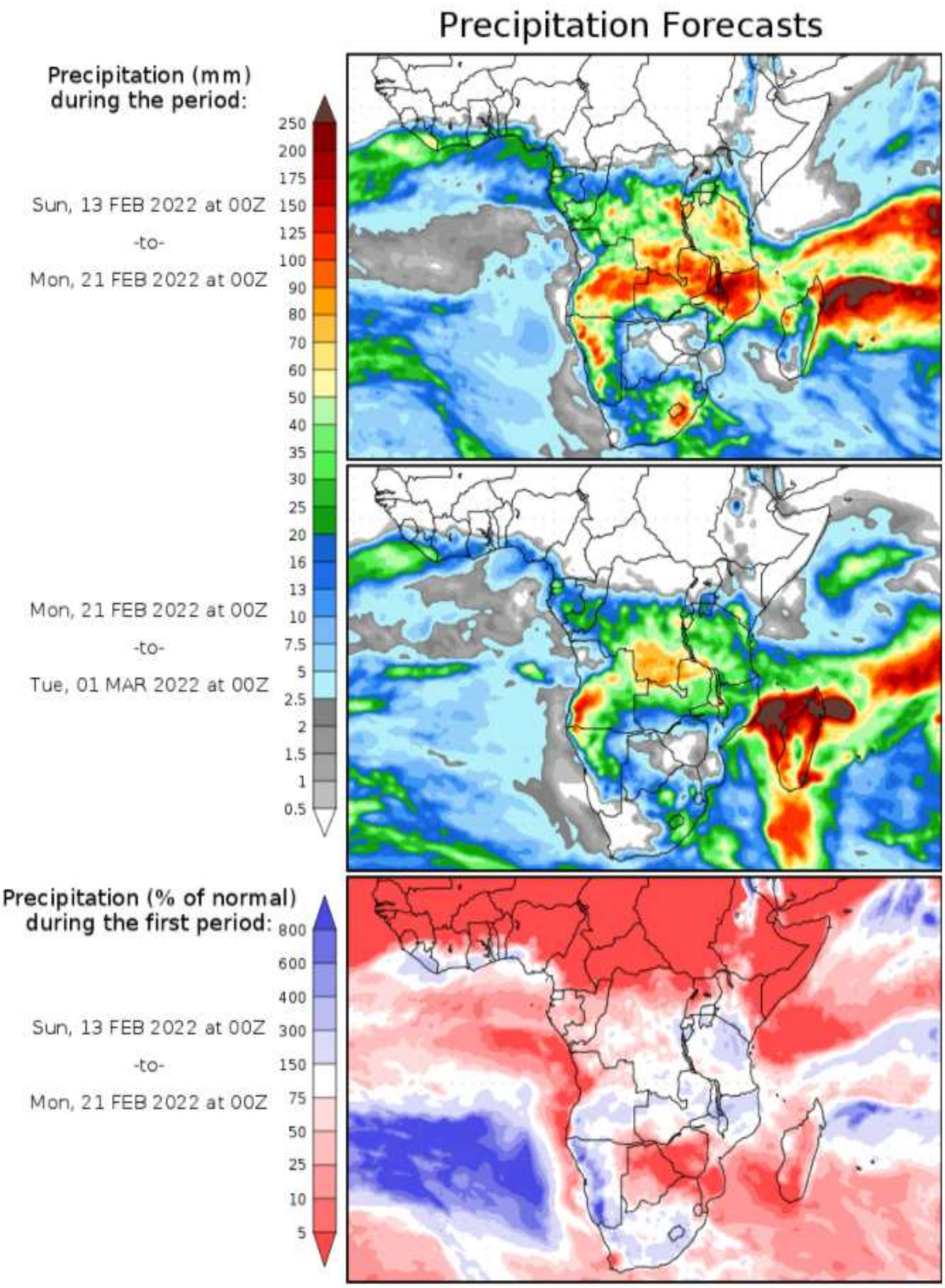
[6] Reuters, "*Conab Cuts Brazil 2022 Soybean Crop Estimate By 15 Mln T*", February 10, 2022

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

After days of a breather, the weather forecast for this week shows prospects of rains over most regions of South Africa. This is not conducive for the summer rainfall areas which still need drier weather conditions after weeks of excessive rains.