

Business has an important role in rebuilding South Africa after recent unrests

We are yet to fully understand the impact and financial cost of the devastation from the recent incidents of unrest in KwaZulu-Natal and parts of Gauteng in the agricultural sector. At a high level, it appears that primary agriculture was broadly insulated from the direct damage. Still, the disruptions in various sugar mills, bakeries, eggs businesses and milling facilities, amongst others, impacted primary agriculture by disrupting supply chains and slowing demand from these establishments. Small-to-medium-scale farms that directly supplied the retailers are also affected as their typical market channel vanished in a few days. In collaboration with provincial departments and private sector players, the Department of Agriculture, Land Reform and Rural Development should assess the scale of this damage and devise potential response measures to sustain the agricultural sector in its robust form.

While there is no consensus about the motives behind the unrest and on whether these were centrally orchestrated or not, it is increasingly evident that high unemployment and inequality provided fertile socio-economic grounds for the disruptions. Boosting inclusive growth and job creation need to be amongst the key response priorities for the country as we rebuild KwaZulu-Natal and parts of Gauteng that were affected by the unrests. With the current fiscal constraints, the rebuilding process will likely have to be led by the private sector players as the state has limited financial muscle to do so. And this is where the challenge begins. For the private sector to increase investment, there need to be quick reforms in the security cluster, providing evidence that the government is taking bold steps to ensure that a repeat of the chaos, looting and destruction of public and private economic assets is prevented going forward. Such security reforms, as well as finding and holding those responsible for the violence, will need to be done and communicated in a convincing manner in order to build confidence.

For agriculture and agribusinesses, the stakes are high; this is a long-term investment sector. There needs to be an assurance of respect for property rights, addressing rural crime, and rebuilding the municipalities in the small towns that service agricultural businesses. The government can utilize its national structures of engagement with the business community in this process and also provincial ones. The agriculture and agro-processing sectors are labour intensive and can absorb the least skilled South Africans. Notably, the provinces of KwaZulu-Natal, Eastern Cape, and Limpopo have underutilized land, ripe for expansion of primary agriculture. If such expansion would happen, it could be followed up with agro-processing to add value to the products produced and also provide further employment opportunities. These are all ideas that were highlighted as far back as 2012 in the National Development Plan. Some of them are resurrected within the government's Agriculture and Agro-processing Master Plan, which will hopefully be launched in the coming months. Therefore, the Master Plan could in a way be viewed as a response measure to the recent disruptions and with a comprehensive view of ensuring additional growth in the sector.

Various role players who are crucial for ensuring the success of the Master Plan through their financial investments will now possibly be going to meetings with a different outlook and emotion than when the process started. Security is now probably high on the agenda and should be prioritized. In addition, the four broad challenges which we highlighted over past months as major hindrances of faster growth in agriculture will also need to be addressed

26 July 2021

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swiftly. These are (1) inefficiencies in state administration, (2) infrastructure challenges, (3) lack of security in rural areas and (4) prevailing uncertainty in land governance.

On the points about infrastructure challenges, the key challenges include the poorly maintained road networks in the central regions of the country and almost non-existent road networks in the areas of the former homelands. In the case of KwaZulu-Natal, it is plausible that in the small towns, there was further damage in the already under-serviced road networks. These challenges have implications on market access for new entrant farmers and increase transaction costs for commercial farmers. Inadequate water infrastructure in some regions of South Africa is another challenge for agriculture, along with a need for more agile management of water rights allocation. This is another area that in KwaZulu-Natal possibly took a knock from the recent unrests.

With respect to the uncertainty in land policy, the discussion is beyond the Department of Agriculture, Land Reform and Rural Development and currently at the National Assembly. The parliamentary committee tasked to "make explicit what is implicit" in section 25 of the Constitution has until the end of August 2021 to make its recommendations. It is, therefore, prudent that Parliament decides on the section 25 matter, mindful that South Africa is in a rebuilding process that requires investment, and that also hangs on confidence-building laws and policies. The decision to be taken will have a broader impact on the agricultural sector and other sectors of the economy that are crucial for job creation and growth. We have long argued at Agbiz that land reform is an important policy imperative, and we are in full support of it. Yet, we do not believe that an amendment of the Constitution will lead to the country's desired prosperity outcome. Instead, the government should focus on building the Land and Agricultural Development Agency that the President announced at his 2021 State of the Nation Address and utilize the agency to drive land redistribution. Moreover, the government should also aggressively release the land acquired thus far to beneficiaries and align this activity with the Master Plan. This would be an important confidence-boosting signal.

Overall, the recent unrests most likely have their political motives, which we are yet to understand fully. Still, the underlying structural challenges of high unemployment, especially in the wake of the pandemic, and inequality remain an ongoing vulnerability for the country as Moody's ratings agency also noted recently. An undeniable point is that government alone is unlikely to succeed in rebuilding society and creating the jobs needed to improve living standards. The business community could play an important role in this area, but the government will need to move quickly, not only with reform and security matters, but also reinforcing closer collaboration with businesses and other social partners.

Weekly highlights

SA food price inflation likely to moderate in the second half of 2021

While the recent data continue to show that South Africa's consumer food price inflation remains elevated, the second half of the year could show moderation. In June 2021, South Africa's consumer food price inflation accelerated to 7,0% y/y from 6,8% y/y in the previous month. This was the fastest pace since June 2021. The underpinning drivers of this monthly increase were primarily the oils and fats; meat; and milk, eggs and cheese. Bread and cereals, which are amongst the products with higher weighting and were one of the drivers of the uptick in inflation in the past few months remained broadly unchanged from May 2021.

The general increase in consumer food price inflation in the past few months has not been a unique occurrence to South Africa but a global phenomenon. In fact, the price increase of various products such as grains, as well as oils and fats in South Africa were driven by global

developments. The global market price increases were, in turn, supported by a range of factors such as growing demand in China, lower production of palm oil in Asia, lower global grains stocks, dryness in South America and unfavourable weather conditions in parts of Europe and North America at the start of the 2021/22 production season. But we have now seen substantial change in these factors and the global prices is starting to reflect it.

For example, the production conditions have improved notably in Europe and North America. As such, both the International Grains Council and the United States Department of Agriculture forecast an improvement in the 2021/22 global grains and oilseeds production. Both institutions forecast the 2021/22 maize production at 1,2 billion tonnes, 7% higher than the last season. The optimism is on the back of an expected large crop in the US, Brazil, Argentina, Ukraine, China, EU, and Russia. The 2021/22 global wheat production is estimated at 792 million tonnes, 2% higher than the 2020/21 season. This is on the back of an expected large crop in the EU, the US, Ukraine, Argentina, China, India, and the UK. The global rice production is forecast at 506 million tonnes, up by 0,2% from the 2020/21 season because of expanding area plantings in Asia. The soybeans 2021/22 global harvest estimate is at 385 million tonnes, 6% higher than the previous season. This is supported by an expected large harvest in the US, Brazil, Argentina, India, Paraguay, Russia, Ukraine, and Uruguay.

This improvement in the global grains and oilseed production prospects is evident in the FAO Global Food Price Index which fell by 3% in June 2021 from the previous month to 125 points; the first drop in 12 consecutive monthly increases.

These production forecasts suggest that global agricultural commodity prices from the second half of the year could continue softening, slightly, from the recent months' levels. If such transpires, the South African grain prices could follow a similar path, which bodes well for consumer food price inflation. The only major upside risk on grain prices are the lower grains stocks, and progressively also the growing consumption from the renewable energy industry. With that said, the data so far points to a positive direction for a consumer than much of the first half of the year.

The oils and fats in South Africa's food basket, whose price direction is largely influenced by global vegetable oil price trends could also soften in the coming months. The global prices are already on a downward path.

Meat, which also underpinned the increase in food price inflation in June 2021, could likely soften in the coming months. The source of softening in prices could be the biosecurity challenges, such as the foot-and-mouth disease in parts of KwaZulu-Natal and Limpopo and the subsequent ban of South Africa's beef in various export markets, along with the African swine fever and avian influenza. While these diseases are damaging and costly for farmers, they tend to lead to a decline in domestic meat prices due to the restricted exports.

The recent unrests in KwaZulu-Natal, are unlikely to be major upside risks to domestic food price inflation as the supply chains were quickly restored. There is anecdotal evidence that at the height of the unrests, prices of basic food stuffs such as bread hiked notably in informal markets. But there was a correction as soon as the bakers reopened and the bread supply improved. If there is one upside risk to keep an eye on in the food price inflation dynamics, it is the rising fuel prices. A large share of South African products is transported by road.

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

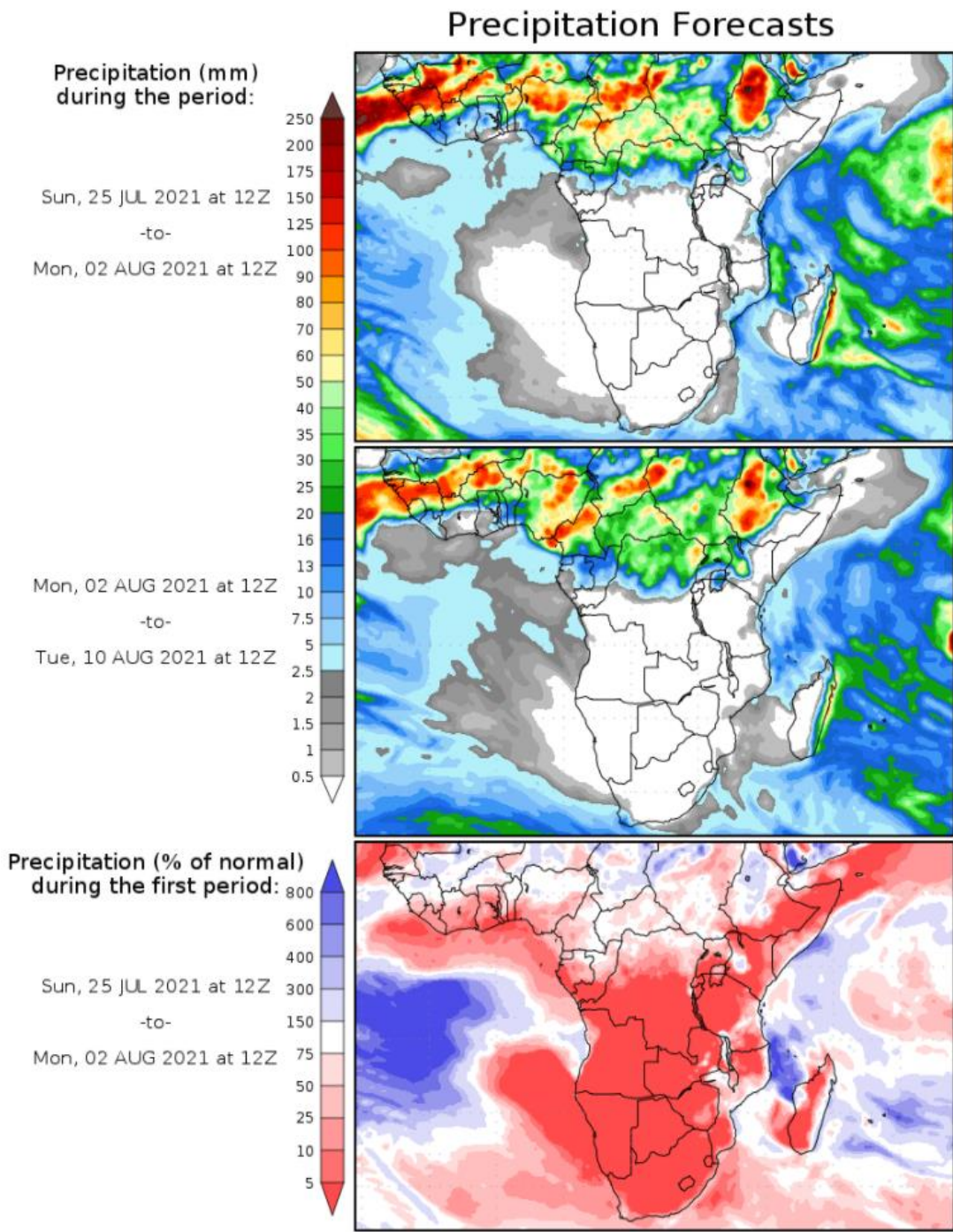
Data releases this week

We start the week with a global focus, as the USDA will today release the **US Crop Progress Report**, which will rate the crop conditions over the past week compared to the corresponding period last year. In the last assessment on 18 July 2021, the US maize crop was rated at 65% good/excellent, which is slightly worse off compared with the 69% in the corresponding period last year. In the same week, soybean was rated at 60% good/excellent compared with 69% on 18 July 2020. The drier weather conditions in parts of the US in the past few weeks have been the key challenge for some areas within the US grain belt. The **US Weekly Export Sales** data is due for release, also by the USDA, on Thursday.

On the domestic front, on Wednesday, SAGIS will release **the Weekly Grain Producer Deliveries** data for 23 July 2021. This data cover summer and winter crops, although we only focus on summer crops for now where harvesting is at completion. To recap, on 16 July, about 1 018 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 20 weeks of the 2021/22 marketing year at 1,81 million tonnes, which equals 94% of the expected harvest of 1,92 million tonnes. Moreover, 619 896 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 eleventh week of the 2021/22 marketing year, which began at the start of May. The producer deliveries currently amount to 11,6 million tonnes, which equates to 72% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 23 July 2021. In the week of 16 July, which was the eleventh week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 792 598 tonnes. The seasonal export forecast is 2,6 million tonnes, roughly 10% below the previous season because of an anticipated decline in Southern African demand, a region that is typically a key importer of maize from South Africa. In terms of wheat, South Africa is a net importer. On 9 July, imports amounted to 1,3 million tonnes, equating to 81% of the seasonal import forecast of 1,6 million tonnes.

Also on Thursday, Statistics South Africa will release the **Producer Price Index (PPI)** data for June 2021.



The weather forecast for this week shows clear skies over most regions of South Africa, which is supportive of the summer crop harvest process which is at its tail end.

Source: George Mason University (wxmaps)