

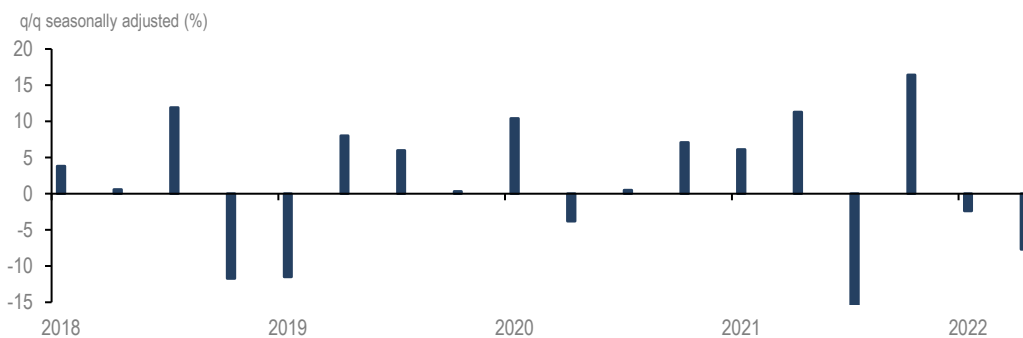
SA agriculture gross value-added contracts in Q2

The rough start of the 2021/22 agricultural season has been muted in several sectoral economic indicators. But the data released this morning by Statistics South Africa put the picture in perspective. The agricultural gross value added contracted by 7,7% quarter-on-quarter (seasonally adjusted) in the second quarter of this year. This follows a revised contraction of 2,4% in the first quarter of the year. These results are unsurprising as various subsectors of agriculture face varied challenges. For example, the livestock industry, which accounts for roughly half of the sector's gross value added, continues to suffer from foot-and-mouth disease outbreaks and rising feed costs. Moreover, some field crops' harvests aren't as robust as the 2020/21 season due to heavy rains at the start of the season, albeit well above the long-term harvest levels. These constraints have undermined the robust activity we saw in field crops such as soybeans, sunflower seeds, and various fruits, which promised to provide some activity at the start of the year.

That said, South Africa's agriculture quarterly gross value-added figures tend to be quite volatile; hence our communication over the past few months focused on the annual performance. We still expect a mild contraction of between 3-5% in 2022, mainly on the back of a decline in some field crop harvests, such as maize, which is down 8% y/y, estimated 15,0 million tonnes, as well as challenges in the livestock industry. Moreover, the base effects after two years of solid growth, where the sector expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021 (revised figures), will also be an additional factor to the potential annual contraction.

In sum, while we are downbeat about South Africa's agriculture growth prospects this year, we are not suggesting that the sector is in bad shape per se. The output in a range of commodities is well above the long-term levels, which speaks to the exceptional performance of the past two years rather than the current production conditions. Notably, the sector can return to the growth path if the livestock disease is controlled and if we get a favourable rainy season in 2022/23 summer. From a policy position, the sector recently launched an Agriculture and Agro-processing Master Plan should help drive long-term inclusive growth and unlock barriers that constrain performance, if implemented fully. Some barriers require collaboration with the line departments, specifically concerning the efficiency of municipalities and the network industries (roads, rail, ports, water, and electricity).

Exhibit 1: South Africa's agriculture GVA



Source: Stats SA and Agbiz Research

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