

## SA agriculture gross value added slowed in 2022

After a solid performance of 8,8% y/y in 2021, we thought South Africa's agricultural gross value added would contract mildly in 2022. But the data released today by Statistics South Africa paints a slightly positive picture, showing that the sector expanded somewhat by 0,3% y/y. We based our view of a potential contraction on the decline in some vital field crop harvests, such as maize, which is down 5% y/y in the 2021/22 season, estimated at 15,5 million tonnes. Moreover, the poor performance in sugar cane production in 2021/22, and the foot-and-mouth disease outbreak in the livestock industry, which spread for the first time in six of South Africa's nine provinces, were additional risks. 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, was an additional factor to our view of a possible annual contraction in the gross value added in 2022.

Also worth noting is that the Agbiz/IDC Agribusiness Confidence Index (ACI), which we view as a lead indicator of the sector's performance, fell by 4 points in Q4 2022, to 49. This deterioration below the neutral 50-point implies that agribusinesses were slightly downbeat about business conditions in South Africa. If this gloomy path continues, an outcome we will know for sure next week when we release Q1 2023 results, there could be negative implications for the sector's long-term growth. Persistent episodes of load-shedding, higher input costs, rising protection in some export markets, rising interest rates, intensified geopolitical tensions which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries are some key factors that weighed on sentiments.

Still, a meagre growth of 0,3% y/y is in line with the employment conditions in primary agriculture, which remained broadly encouraging in the face of all the challenges we list above. For example, in the last quarter of 2022, there were about 860 000 people employed in primary agriculture (down 1% y/y), which is well above the long-term agricultural employment of 780 000.

While the 2022 performance was subdued, we expect the sector to recover somewhat in 2023. The early indications suggest that South Africa's 2022/23 summer crop production could amount to 19,3 million tonnes, up 3% from the previous season. If the horticulture and the livestock subsectors also show a recovery, however marginal, this would lead to positive growth in the sector this year. With that said, farming businesses are challenged by persistent load-shedding, which has increased input costs as some seek various means of energy generation that require extra capital. We remain positive that the interventions that the Department of Agriculture, Land Reform and Rural Development (DALRRD) seek to make could slightly cushion the sector. The DALRRD interventions add to the finance minister's recent interventions about diesel rebates for food value-chain role players and that there could be possible energy curtailment options for heavy users where technical infrastructure permits. Other possible options currently being discussed include blended finance to incentivize own generation within agriculture as part of "greening South Africa's agriculture". The detailed brief of interventions is yet to be released by the Department of Agriculture, Land Reform, and Rural Development (DALRRD) through the office of the director general.

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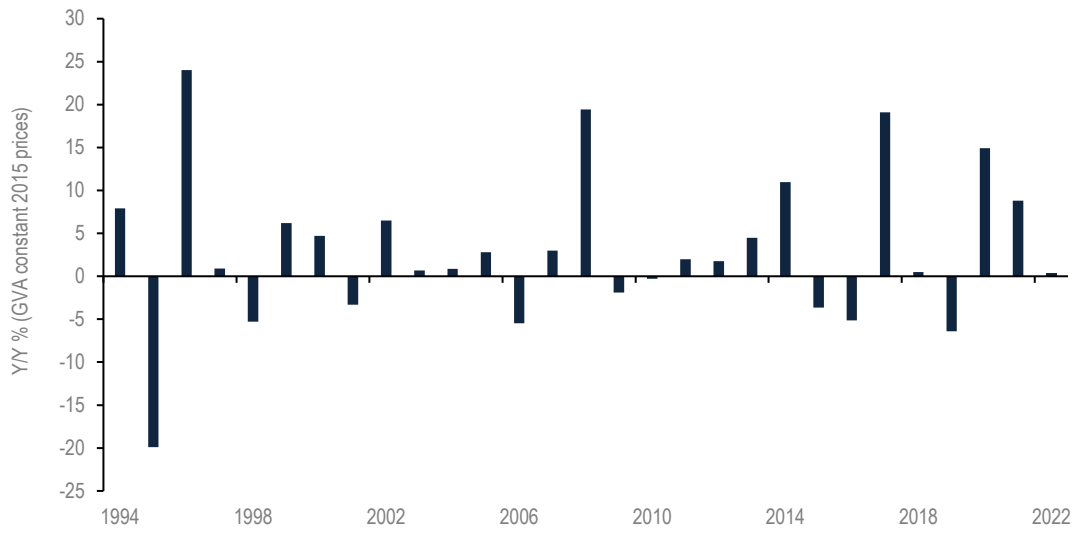
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## Exhibit 1: South Africa's agriculture GVA



Source: Stats SA and Agbiz Research