

Insights guiding our thinking about SA agricultural growth prospects in 2023

Over the coming months, we will receive various data releases to help guide our thinking about South Africa's agricultural growth prospects in 2023. The available soft insights suggest that near-term growth prospects of South Africa's agricultural economy look weak after subdued growth of 0,3% y/y in 2022. For example, the livestock and poultry industries, which account for roughly half of the agricultural sector's value, are under pressure amid relatively muted cattle and beef prices while farmers also continue to face higher input costs for maize and soybeans. The ongoing load-shedding is particularly challenging for the poultry industry, with the unreliable electricity supply causing significant production interruptions. As various energy solutions are explored in some farms, the financial costs will persist over the coming months. Similarly, the red meat industry faces an environment where the consumer is under pressure, and thus there is minimal room for upward price adjustments. Moreover, the tail-end effects of foot-and-mouth disease, which interrupted exports, persist, further weighing down demand as the country still cannot access some export markets. This is likely to be the reality for some farmers for much of the first half of this year.

Solutions to load-shedding are also crucial for fruit and vegetable farmers who depend on irrigation for their produce. Importantly, this also means the Department of Agriculture, Land Reform and Rural Development (DALRRD) needs to launch its blended finance solution for energy, which should help ease the financial burden of renewable solutions. This was an intervention mentioned in the national energy task team of the DALRRD but has yet to be communicated to the sector formally. The fruit industry dominates the export activity of the agricultural sector, which means that any negative impact on production would lower the export revenue, which has seen solid growth in the past few years. For example, South African agricultural exports were up for the third consecutive year in 2022, reflecting favourable production conditions and higher commodity prices. In 2022, South Africa's agricultural exports reached US\$12.8 billion, up 4% from the previous year. That said, the harvest activity in the wine grape and some deciduous fruits will likely infuse positive growth momentum in this subsector in the first half of the year. Still, energy interventions are essential for the overall performance of the subsector this year and in the future.

Field crops are the subsector that is on a much stronger footing. For example, South Africa's sugar cane crop is projected to recover by 7% y/y to 18.4 million metric tonnes in 2022/23, according to data from the Pretoria office of the United States Department of Agriculture (USDA). These expectations are supported by favourable weather conditions, which improved yields, and industry efforts to increase production, especially for small-scale farmers. Still, the Tongaat Hulett troubles linger in this industry and remain a significant risk. Moreover, the load-shedding interventions mentioned above also apply within the sugar industry, as 34% of the crop is under irrigation. Fortunately, the frequent rains this year have helped to improve soil moisture and lessen the severity of crop damage from frequent power interruptions.

The grains and oilseeds production conditions for the 2022/23 season also look positive. For example, South Africa's 2022/23 summer grains and oilseeds production is expected at 19,3

15 March 2023

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million tonnes, up 3% from the previous season, according to recent data from the Crop Estimates Committee. If we consider the large crops like maize, soybeans and sunflower seed, production is forecast at 15,6 million tonnes (up 1% y/y), 2,7 million tonnes (up 19% y/y), and 775 260 tonnes (down 8% y/y), respectively. The expected improvement in the maize harvest is on the back of expected better yields as the area plantings are down marginally from the 2021/22 season. Meanwhile, the robust projected increase in soybeans results from both expected large yields and an expansion in the planted area. The fall in the sunflower seed production forecast mirrors the reduced planted area and yields in some areas. Other small crops, such as sorghum and groundnuts, have a reasonably large expected harvest.

Overall, these mixed fortunes amongst various subsectors of South Africa's agriculture mean that growth, at least in the first quarter of half of the year, could be subdued with a potential recovery later in the year. The positive momentum will mainly be from field crops and some fruits. Still, this assumes that there are no significant downward revisions on the current crop forecasts and that energy interventions to stabilise the power supply in the sector are quick. Such an environment would also mean that primary agricultural employment remains reasonably stable above the long-term agricultural job of 780 000. In the last quarter of 2022, there were about 860 000 people employed in primary agriculture. The one aspect whose impact on the jobs outlook we will also monitor is the recent increase in minimum wages which is a concern, specifically for the fruit industry.