

## South Africa's agriculture still holds potential for growth but faces numerous challenges in the near term

We spent time this past week engaging with some of our members in the Free State. The conversations focused on broad policy themes such as land reform, agriculture and agro-processing master plan, biosecurity, rural rejuvenation, trade policy and challenges in the network industries (water, electricity, roads, rail, and ports). Generally, the spirit is upbeat about this sector but, as with other provinces, agribusinesses are troubled by the deteriorating infrastructure in the above-mentioned network industries and the poorly functioning municipalities. These are all themes that the Agbiz office continues to focus on, amongst other activities. In terms of agricultural conditions, we shared our downbeat view of the sector for this year, which we will paraphrase in this issue of the *Agricultural Market Viewpoint*.

South Africa's agricultural sector was one of the bright spots of our economy during the Covid-19 lockdown period. This was the only sector that showed robust growth as other sectors of the economy were constrained by the lockdown restrictions, various supply chain disruptions and reduced consumer activity due to fear of contagion. But this year, the predominant message South Africans will hear and read regarding the growth performance of the agricultural sector will likely be more downbeat compared with the last two years.

We are already in the camp of those that forecast a mild contraction in South Africa's agricultural sector this year. There are a number of things that concerns us. For example, the livestock industry, which accounts for roughly half of South African agriculture's gross value added, continues to suffer from foot-and-mouth disease outbreaks and rising feed costs. Meanwhile, some field crops' harvests are not as robust as the 2020/21 season due to heavy rains at the start of the season. It is worth acknowledging that while some of these harvests will be lower than in the previous season, they are well above the long-term harvest levels. That said, these reduced harvests and the challenging in livestock farming will likely overshadow the robust activity we have seen in field crops such as soybeans, sunflower seeds, and various fruits.

These challenges are also mirrored in the sentiment indicators of this sector. For example, the Agbiz/IDC Agribusiness Confidence Index deteriorated further by 7 points to 53 in the third quarter following a 2-point decline in the second quarter of 2022. Moreover, on a slightly more technical note, the exceptionally high base created by two years of solid growth where the sector expanded by 14,9% y/y in 2020 and 8,8% y/y in 2021, will also be a major factor to likely lead to a mild contraction in the sector's performance this year.

Respondents to the third quarter Agbiz/IDC Agribusiness Confidence Index survey provided more details about some of the challenges the sector is currently experiencing. Aside from the aspects we noted above, the higher input costs, friction in some export markets, rising interest rates, intensified geopolitical risks which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries were some of the factors that survey respondents cited as the key concerns.

26 September 2022

**Wandile Sihlobo**

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

[www.agbiz.co.za](http://www.agbiz.co.za)

### Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.

But as usual, one has to treat these sentiment indicators with care and realize that moderation is something to monitor but does not necessarily signal that the sector is in terrible shape. To this end, a level of the Agbiz/IDC Agribusiness Confidence Index above the neutral 50-point mark implies that agribusinesses remain cautiously optimistic about operating conditions in South Africa. With this line of thought, the third quarter of 2022 results still reflects broadly favourable agricultural conditions, albeit not as strong as the previous seven quarters.

One other aspect worth monitoring is jobs, as many of us view agriculture as a key employer. Here, we are not as concerned as we are about the broad growth numbers. For example, in the second quarter of this year, there were 874 000 people in primary agriculture, up by 1% year-on-year (and up 3% quarter-on-quarter). Notably, this is well above the long-term agricultural employment of 780 000.

When we observe the activity on the ground and chat with farmers and agribusinesses, we do not get a sense that there will be a notable fall in employment despite the downbeat view we hold about the sector's broad growth performance for this year. In fact, the Agbiz/IDC Agribusiness Confidence Index has a subindex that also assesses the sentiment about employment conditions in the sector. In the third quarter, that subindex was robust, measured at 61 points (performed much better than the overall composite index).

In sum, while we anticipate some moderation in South Africa's overall 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, and the contraction that we project is largely a reflection of the exceptional performance of the past two years rather than the depressed production conditions in the current year. Notably, the sector can return to a positive growth path if the livestock disease is controlled and if we get a favourable rainy season in 2022/23 summer. This means that to get this sector back into a positive growth path, the Department of Agriculture, Land Reform and Rural Development, together with organized agriculture should accelerate the collaborative efforts of resolving the animal disease challenge, as we have previously argued.

We would add to this list the issue of trade, where various agribusinesses and farmers continue to highlight the need for expansion of export markets to markets such as China, South Korea, India, Saudi Arabia, Bangladesh and Japan. These are countries with strong economies and can be key buyers of our high-value products such as beef, wine and fruits. Simultaneously, we need to maintain the existing export markets such as the EU, the African continent and some Asian markets, which are instrumental for our growth path. This is a long-term endeavour that requires active engagement by the South African authorities in consultation with other role-players in the sector.

Regarding the upcoming 2022/23 agricultural season, the prospects of a weak La Niña provide a good foundation for an excellent rainy season. This is notwithstanding the lingering challenges of higher prices of critical farm inputs such as fertilizer, agrochemicals, and fuel, which will put pressure on farmers' and agribusinesses' finances when the summer crop season starts in October.

From a policy position, South Africa's agricultural sector recently launched an Agriculture and Agro-processing Master Plan, a social compact development plan, which should help drive long-term inclusive growth and unlock barriers that constrain performance, if implemented fully. Some barriers require collaboration with various line departments and state-owned companies, specifically concerning the efficiency of municipalities and the network industries (mainly roads, rail, ports, water, and electricity). Aspects of agricultural finance such as Blended Finance are also key ingredients of the growth agenda of this important sector of the South African economy.

Exhibit 1: South Africa’s agricultural gross value-added



Source: Stats SA and Agbiz Research