SA's agriculture in good shape despite quarterly blip

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Tuesday's GDP data for the first quarter which shows that SA's agricultural output unexpectedly contracted by 3.2% quarter on quarter on a seasonally adjusted and annualised basis should not be of lasting concern. Stats SA attributes the underperformance to "lower production of field crops and animal products". But this is a temporary blip and shouldn't be regarded as a worse season than the robust 2020. The sector is set for one of the best years on record, and such improvements should be reflected in the data in the coming quarters.

For example, the South African Wine Industry Information and Systems forecasts the 2021 wine grape crop at 1.5m tonnes, which is 9% more than the 2020 harvest. The Citrus Growers' Association projects record exports of 159m cartons in 2021, up from 146m cartons in 2020, thanks to a good harvest. The Crop Estimates Committee forecasts 2020-21 maize and soybean production at 16.2m tonnes and 1.9m tonnes, respectively. That's an increase of 6% year on year — and the second-largest harvest on record — for maize, and a 54% rise to a record harvest for soybeans. Bumper harvests of other field crops are also expected. The healthy production forecast for summer grains and oilseeds is based on increased area plantings and favourable rainfall since the start of the season.

While we expect better harvests than 2020, the expansion of the sector's gross value-added could be just 5% year on year because last year's base, at 13.1%, is already quite strong. The only place where the robust performance of the sector will likely not show is for jobs. In the first quarter of 2021, SA's agricultural jobs fell 8% from a year ago, with 792 000 people employed, according to Stats SA's Quarterly Labour Force Survey. That is the lowest since 2014, which was a drought year and we are not in a drought season at the moment. Moreover, the decline in jobs seems to be concentrated within industries most affected by various regulations during the lockdown, such as the horticulture (wine grapes) and game industries.

From a provincial perspective, the job losses were reported in the Western Cape, the Northern Cape, the Free State, KwaZulu-Natal and the North West. To underscore my point that the provinces hardest hit by the lockdown regulations were the ones that experienced a notable decline in employment, consider the Western Cape. Agricultural jobs fell by 47% in the first quarter of 2021 compared to the corresponding period a year ago. Employment in the province's agricultural sector is now at its lowest since 2014, at 136,000. I suspect that the tail-end effects of the ban on wine and alcohol sales continue to constrain farmers' finances. The same is true for the Northern Cape, which experienced job losses, albeit at a relatively lower scale than the Western Cape.

For the provinces that don't produce wine it is also plausible that social distancing measures might have contributed to the decline in employment, especially for seasonal workers. I say this because the Free State, the North West and KwaZulu-Natal are among provinces with good activity in field crops, horticulture, and livestock in a year of favourable rains that allowed for expansion in area farmed. That said, it is important to mention that the different subsectors of agriculture have varying levels of labour intensity. For example, the horticulture industries tend to be more labour-intensive, while field crops and livestock are relatively mechanised.

Agricultural employment data will be of keen interest in the coming months after the 16.1% increase in the sector's minimum wage to R21.69 per hour that took effect on March 1. Various commodity groups, especially those heavily affected by the lockdown regulations, have indicated that the increase could cause a further squeeze on cash flow and negatively influence hiring decisions. Nevertheless, the actual effects of the higher minimum wage on jobs will only be apparent with a lag.

However, we remain optimistic that this will be a good year for agriculture and that exports will also hold firm. As set out in these pages recently, the trade data for the first quarter of the year already points in that direction, with exports amounting to $2.9bn, which is a 28% year-on-year increase. The amount of growth compared with last year is partly due to a low base because the first quarter of 2020 was affected by the Covid-related disruptions to global supply chains. Still, the growth also reflects a rising export performance for various products. With 2021 set to present even larger yields than 2020, we believe that exports could surpass 2020 levels of $10.2bn. Indeed, 2021 is set to be another excellent agricultural year for SA, and the first-quarter decline in the sector's output shouldn't be read as though the sector is in bad shape.

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