

South Africa's agriculture records a decent trade surplus in Q1,2023

South Africa's agricultural sector had a rough start to the year regarding production and exports. The excessive rains brought production challenges that delayed the summer crop planting activity by roughly a month but later improved. Regarding exports, the slowing agricultural commodity prices reduced profitability from the levels farmers enjoyed a year ago, specifically grains and oilseeds. Moreover, some logistical challenges persisted in Cape Town port and thus negatively affecting the table grapes and various horticultural products exports. Still, this was not as harsh as in the previous years. The cooperation between organized agriculture groups and Transnet has helped improve agricultural export efficiencies somewhat. With that said, there is still room for improvement, which is essential for all the ports as South Africa has an export-oriented agricultural sector.

Against this backdrop, South Africa's agricultural exports fell by 2% y/y in the first quarter of 2023 to US\$2,9 billion. However, when viewed quarterly, the exports are up 5% from the last quarter of 2022. The top exportable products were grapes, maize, apples and pears, wine, wool, apricots and peaches, sugar, fruit juices, and soybeans, amongst other products. We expect some of these products to continue dominating the export list, with the additions being citrus, where harvest and export activity is underway. While the start of the year was rough with excessive rains, improving weather conditions from the end of January supported agricultural activity. South Africa has one of the best agricultural seasons from a production perspective. For example, the 2022/23 maize harvest could reach 16,4 million tonnes, 6% higher than the 2021/22 season's harvest and the second-largest harvest on record. In addition, the soybeans harvest is estimated at a record 2,8 million tonnes. South Africa's sugar cane crop will likely increase by 3% to 18,5 million tonnes in 2023/24. Other field crops and fruits also show prospects for decent harvest this season, which supports better employment prospects in the sector. The one area that continues to worry us is citrus export out of the Western Cape, following the infrastructure damage in Citrusdal because of heavy rains in June 2023. The destruction of the bridge slowed the citrus exports from the region. The impact of this will likely show in the second and third-quarter export data.

Also worth noting is that the impact of load-shedding may continue to influence production conditions as all of South Africa's fruits and vegetables are under irrigation, and roughly a third of field crops are produced under irrigation. Still, the various interventions to ease the load-shedding burden on farmers, such as load curtailment, expansion of the diesel rebate to the food value chain, and, most recently, the launch of the Agro-Energy Fund, all support the production conditions. Hence, the production figures we highlight above are robust. With that said, the effectiveness of these energy support measures differs across farming enterprises and food companies, and the costs to food producers, mainly those not fully benefiting from the above efforts, remain high because of all the necessary mitigation measures. Notably, the rainy season also helped ease the pressure to irrigate crops. As we transition to a potentially drier El Niño season in the 2023/24 production season, the need for irrigation may intensify, which will require a reliable energy supply.

From a destination point of view, the African continent remained the largest market for South Africa's agricultural exports in the first quarter of this year, accounting for 39% in value

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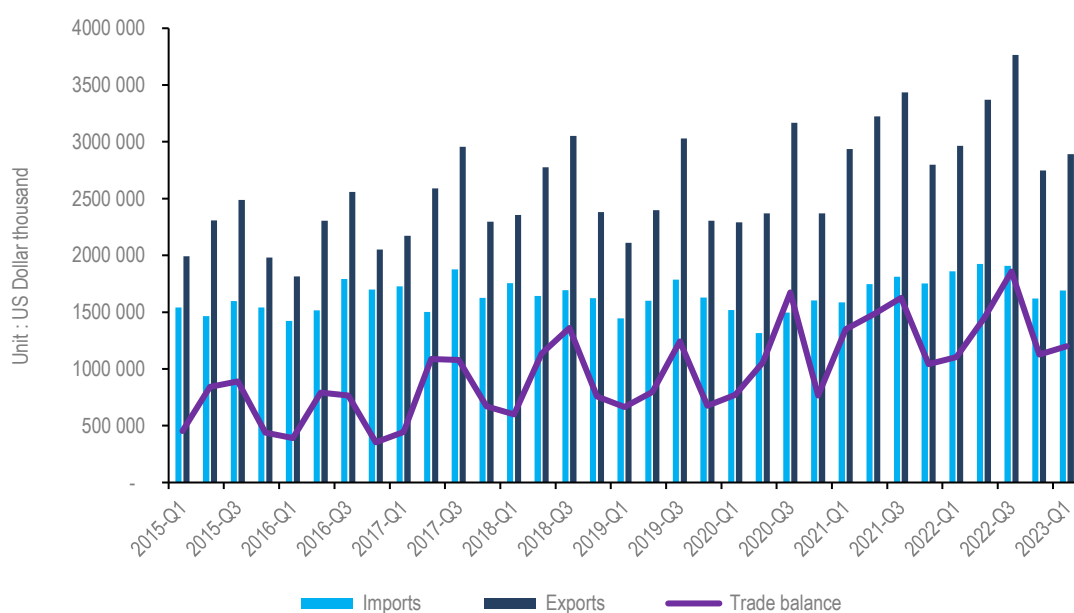
terms. The European Union was South Africa's second-largest market, accounting for 23% of all agricultural exports. Asia and the Middle East combined accounted for 21%. The Americas region accounted for 8% of South Africa's agricultural exports. The United Kingdom is one of the most important agricultural markets for South Africa and accounted for 7% of overall exports in the first quarter. The balance of 2% value constitutes other regions of the world.

South Africa's trade approach is not one-sided, perusing only exports. The country imports a significant amount of agricultural products. And thus, in the first quarter of 2023, South Africa's agricultural imports amounted to US\$1,7 billion, down 9% y/y (but up 4% quarter-on-quarter). The imported products are primarily wheat, rice, palm oil, sunflower, and poultry. Because of unfavourable climatic conditions, rice and palm oil cannot be sustainably produced in South Africa. The annual decline in the import bill is mainly because of the relatively lower agricultural commodity prices compared to a year ago. We believe rice, wheat, and palm oil will continue leading the annual agricultural import product list.

Ultimately, South Africa recorded an agricultural trade surplus of US\$1,20 billion in the first quarter of 2023, up 9% from last year's corresponding period. The widening trade surplus is mainly a result of a notable decline in import value, not necessarily a growth in exports, as the figures above illustrate.

From a policy perspective, from now on, the focus should be on improving logistics efficiency (roads, rail and ports) and intensifying the promotion of South African agriculture, food, fibre and beverages to export markets. South Africa is an export-oriented sector, where roughly half of the produce, in value terms, is exported. Therefore, an industry and government approach to promoting South African products in export markets is key. The agriculture and agribusiness role players have identified the countries where the government should prioritize this sector's export expansion. These are China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines and Bangladesh. These efforts should be well-sequenced and complement the ongoing attempts to boost domestic production through various interventions outlined in the Agriculture and Agro-processing Master Plan.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research