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Agriculture export growth depends on rainfall and rand

South Africa's agricultural sector has an auspicious outlook, albeit, challenges such as policy uncertainty and climate change remain dark clouds over the sector. In 2017, South Africa's agricultural exports grew past US\$10.0 billion for the first time, boosted by growth in exports of edible fruits, beverages, spirits, vegetables, grains and other agricultural products. This is a 15 percent increase from 2016 – a year that was characterised by El Niño induced drought.

In the same year imports also increased, but by a marginal rate of 5 percent year-on-year, reaching US\$6.7 billion. This was driven by a notable uptick in grain imports, particularly wheat and rice, on the back of reduced domestic production as a result of the Western Cape province's drought and an increase in domestic consumption. In the case of rice, South Africa is traditionally a net importer, and we saw imports growing by 10 percent year-on-year to 1.1 million tonnes in 2017 due to higher demand. There were also large imports of meat, sugar, tobacco and coffee, amongst other products.

Above all, a closer look at the trade statistics shows that South Africa's agricultural sector recorded a positive trade balance of US\$3.3 billion in 2017, which is also a record level in a dataset dating back to 2001. The trade impact of the severe drought in the Western Cape province was minimal in 2017. It will only be felt in the 2018 trade statistics, as table grapes and major vegetable products are set to decline by double-digits from the 2016/17 production season. At this point, however, the scale of the potential decline in export activity remains unclear.

From a destination point of view, Africa and Europe continued to be the largest markets for South Africa's agricultural exports, collectively absorbing 67 percent of total exports in 2017, measured in value terms. In more detail, Africa remained South Africa's largest market, accounting for 42 percent of agricultural exports, which is a percentage point increase from a five-year average share. The sector's export growth to the continent was led by relatively competitive industries such as beverages, cereals, fruits, sugar and vegetables.

Trailing Africa was the European Union region which absorbed 25 percent of South Africa's agricultural exports in 2017, up by 13 percent from the five-year average share. South Africa's agricultural export growth to this region was also led by industries such as beverages, wool, sugar, fruit and animal fats.

Asia is also an important market for South Africa's agricultural exports, demanding a 24 percent export share in 2017, up by a third from the previous year. Wool, fruit, grains, beverages, vegetables and meat were the leading products exported to this particular region. The Americas and the rest of the world accounted for 5 percent and 4 percent shares, which are 3 percent and 14 percent increases from 2016 exports, respectively. Exports to these regions were also dominated by fruits, beverages, sugar, flowers and ornamental foliage.

From the domination of beverages and fruits in the exported products across almost all the aforementioned regions, the decline in production in 2018 owing to the Western Cape province's drought could have a notable impact in total export value. The only mitigating factor could be better values for beverage products. This could happen if global prices of wines remain at relatively higher levels for some time owing to [lower wine grape production](#) in Europe. Maize exports could also soften

from the 2017/18 export forecast of 2.3 million tonnes, owing to an expected lower harvest in the current production season.

However, agricultural imports could increase as commodities such as wheat declined to 1.5 million tonnes due to drought in the Western Cape. While this is not a desirable trend, it could be short-lived if the Western Cape province receives good winter rainfall this year. Overall, the weather, global prices and the rand's performance remain key determinants of whether South Africa's trade performance will remain vibrant or soften in the coming years.