



AgriBusiness

The strategic importance of the AgriFood sector for South Africa





From the AgriBusiness Desk

The strategic importance of the AgriFood sector for South Africa

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The post Covid-19 impact on the economy

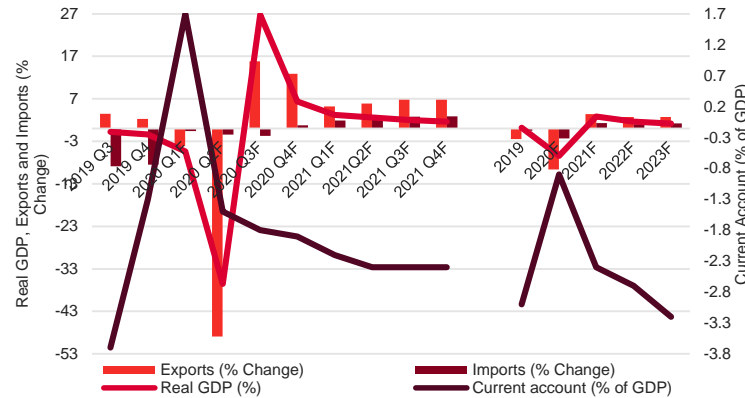
(Source: Absa Research / RBB Agribusiness)

a. Exports are expected to decline by 49% in the second quarter thereby impacting negatively on export earnings, the current account and GDP-growth. A rebound in exports in Q3 (15.8%) and Q4 (12.9%) will contribute significantly to a recovery in GDP (Q3, 26.8% & Q4, 6.4%)

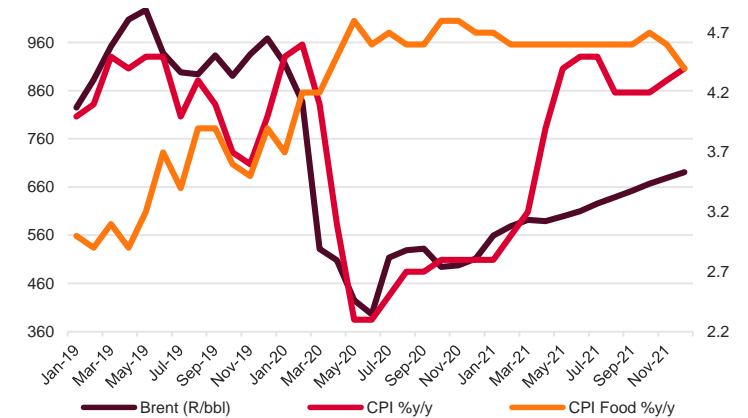
b. The crude oil price (R/bbl) declines from Dec 2019 to projections in June 2020 by 56%. Low demand lowers the total cost of crude oil imports, supports the current account and underpins inflation to reach a low of 2,3% linked to production, transport & distribution

c. As the lockdown eases private consumption will increase supporting the recovery in economic growth. However, the selling price of produced goods will increase also.

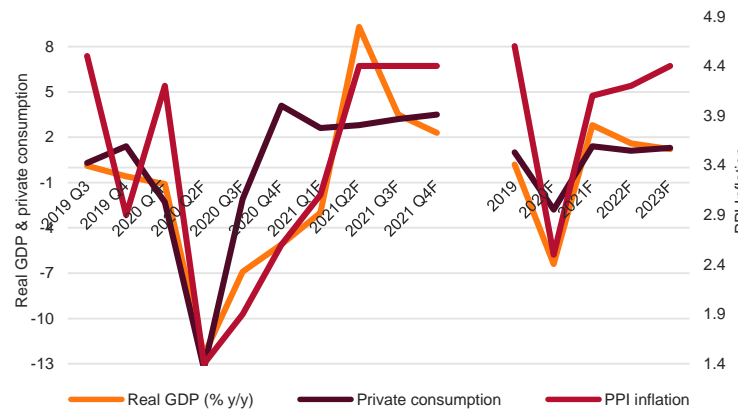
d. In the short term the weak Rand support export earnings and South Africa's global competitiveness.



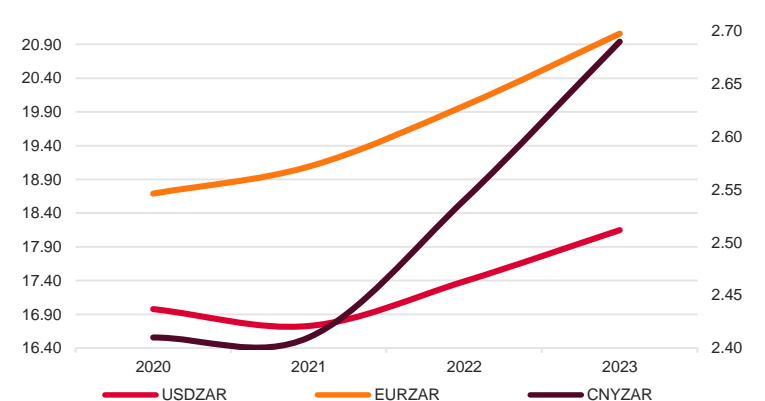
a. Covid-19 impact negatively on the current account and future export earnings



b. Low crude oil prices support the current account, Rand strength and lower general inflation



c. As private consumption & economic growth recovers the selling price of produced goods will increase

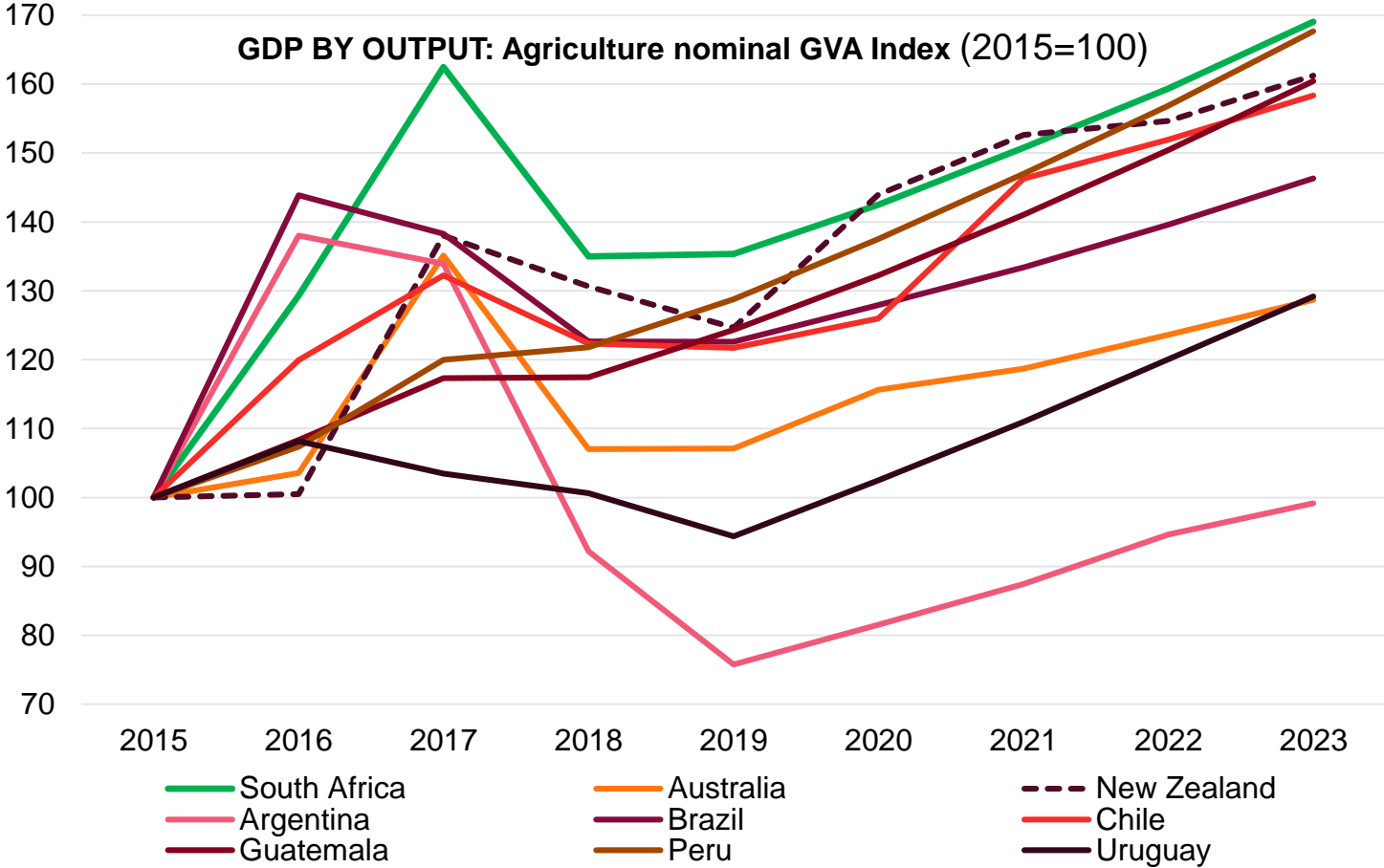


d. The Rand is expected to trade at R16.73 by the end of 2021
Absa Exchange Rate Forecasts (Annual))

RSA agriculture is expected to grow above average compared to other Southern Hemisphere countries

Table 1: Average Annual Growth in Gross Value Add from 2019 to 2023

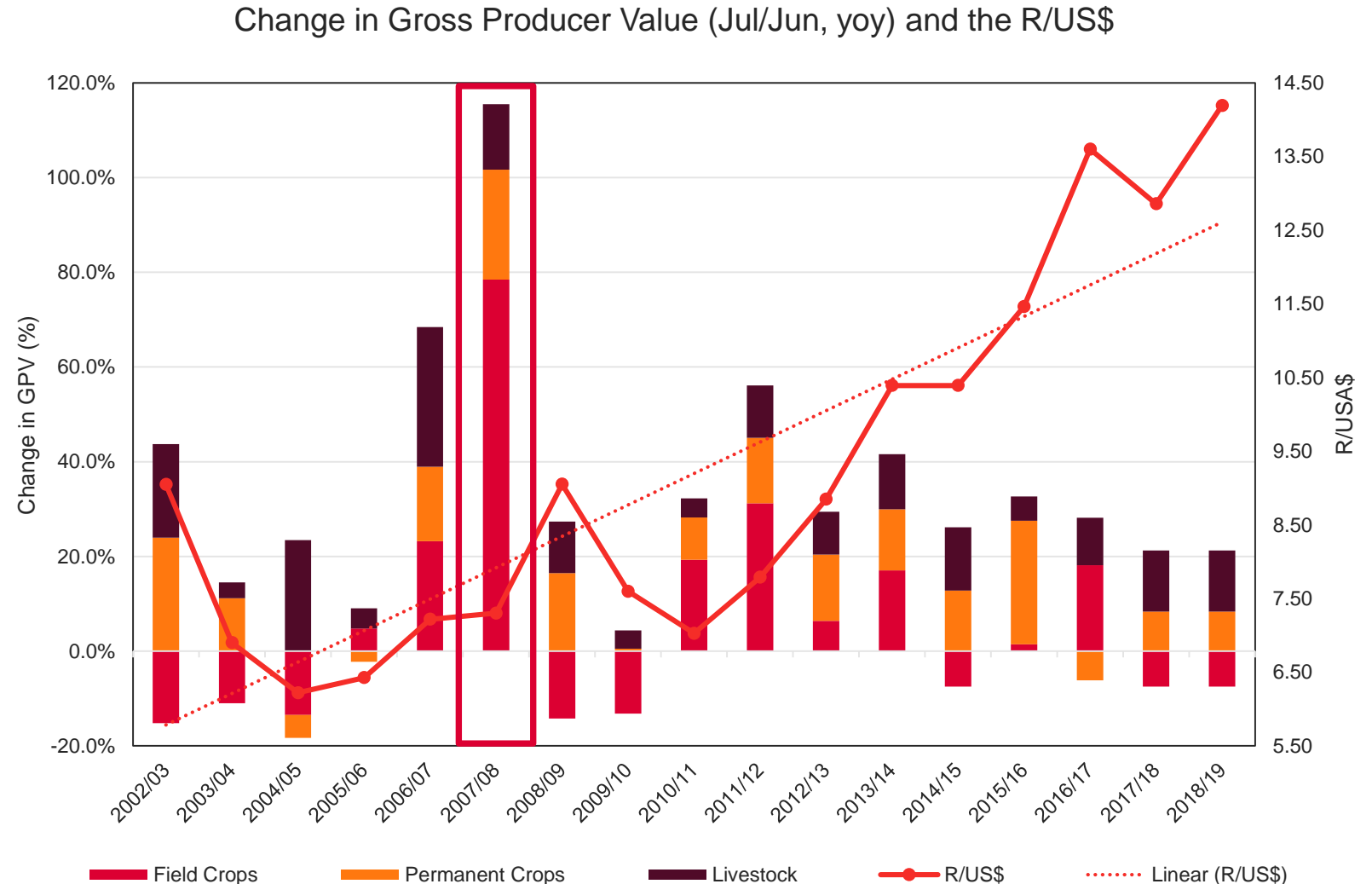
Country	2019	2023	% Growth pa
Brazil	80.16	95.66	4.8%
Australia	30.04	36.10	5.0%
South Africa	7.39	9.23	6.2%
Guatemala	8.33	10.75	7.3%
New Zealand	9.81	12.69	7.3%
Chile	10.31	13.41	7.5%
Peru	16.06	20.91	7.5%
Argentina	17.98	23.54	7.7%
Uruguay	3.01	4.12	9.2%
Ave growth			5.9%



Gross value added (GVA) refers to the value of production less the value of any intermediate inputs

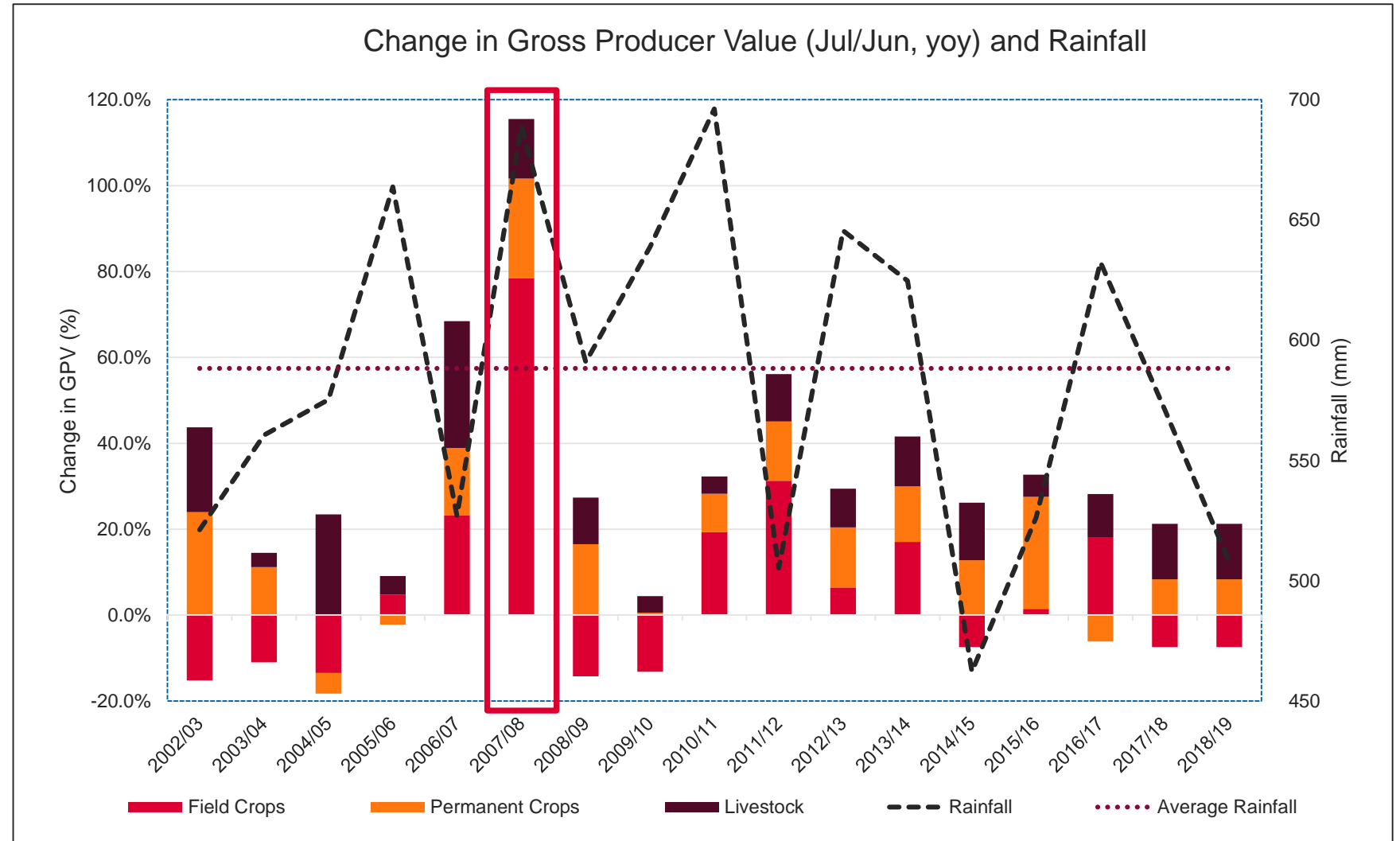
Impact of Exogenous Factors: GPV of Agriculture and the Exchange Rate

- The GPV for agriculture are impacted positively by a weak exchange rate (Vice versa).
- The GPV of field crops are supported by a weak exchange rate during times of low rainfall.
- Note: The GPV of livestock continue to grow positively year on year.
- The majority of primary producers involved in field crop production have a stabilizing livestock sector
- Lower field crop prices leads to higher livestock prices (Weaner calves)



Impact of Exogenous Factors: GPV of Agriculture and Rainfall

- The regional distribution and timely occurrence of rainfall impacts directly on the GPV of agriculture.
- The graph shows the actual rainfall (Jul/Jun) for the Gross Producer Value of each production season (Jul/Jun). Compare the rainfall with the GPV for each sector and production season.
- Field crops (majority of output under dryland production) are impacted negatively by low rainfall

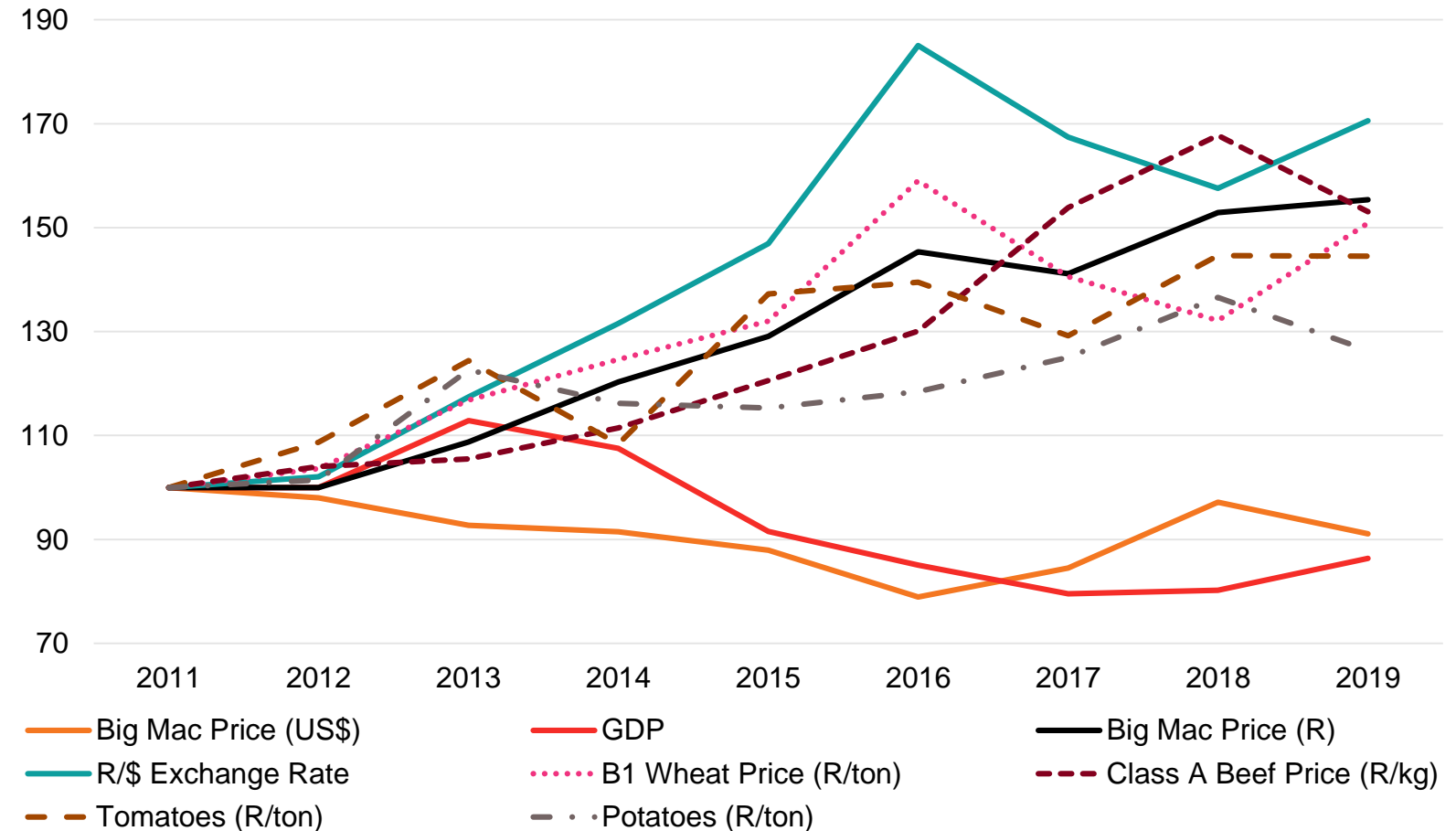


The primary agricultural sector provides cost competitive & sufficient inputs to the Food & Beverages Manufacturing and WRF Food Sector

Efficiencies in agriculture support growth in manufacturing

- The 2020 Big Mac Price Index (Jan 2020) indicates that South Africa is the lowest priced producer of food worldwide. This support national food security.
- The year on year increase in the Gross Producer Value (Agri GDP) for the agricultural subsectors (eg Beef, Wheat, Vegetables) outperforms the lower economic growth (GDP) for South Africa by far.
- The productivity and cost efficiency in primary agriculture lead to lower input costs for the top performing manufacturing subsector.
- Due to efficiencies and increased productivity the primary agricultural sector grow above GDP year on year

Comparison of price movements between the Big Mac and the commodities the Big Mac consists of
(Price Index Base year 2011)



Source: Absa Agri data

The performance of the food manufacturing subsector are closely correlated with the performance of the primary agricultural sector

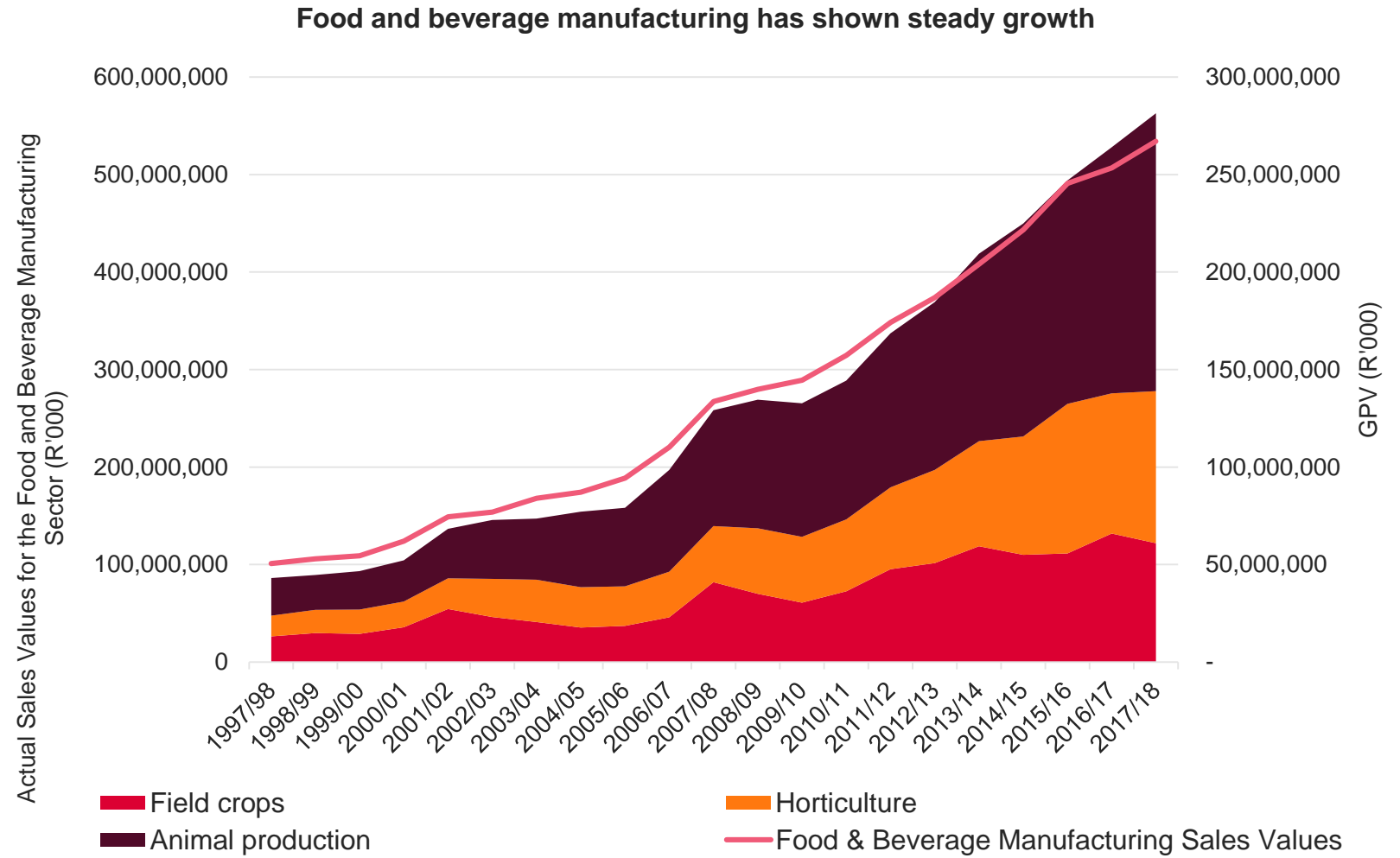
Strong correlation between primary agriculture & manufacturing

Note the strong correlation between the year on year growth of the primary agricultural sector and the year on year growth in the food and beverage subsector

The decline in the recent growth of the secondary food and beverage subsector can be attributed to electricity outages

Investment in solar energy by the food and manufacturing subsector is an opportunity and prerequisite.

Export growth of processed food from the food and beverage manufacturing subsector is important for the continued growth of the primary sector. Hence the importance of global market access.



Source: Absa Agri data

The Western Cape faces the highest risk in the disruption of export logistics

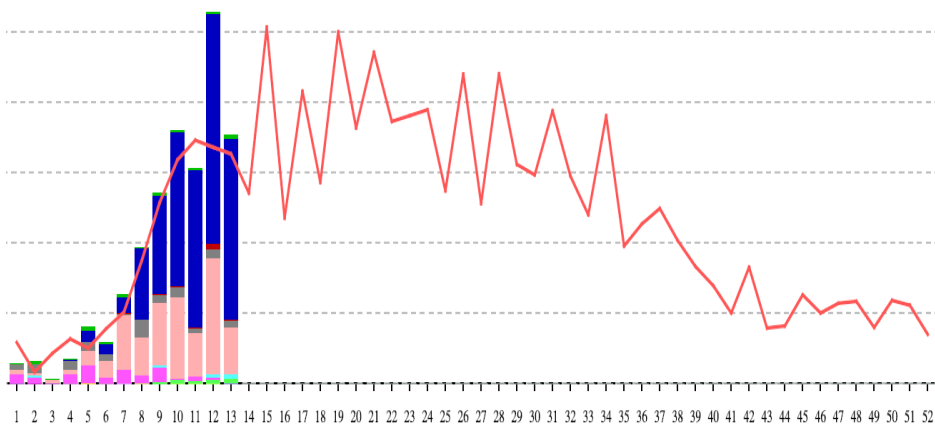
Production and employment in the apples-, pears-, citrus- and nut sectors in 2017

Province	Production		Employment				Corona infections	
	Export crops ¹		Agriculture		Horticulture		Cases reported ²	
	ton	%	Aantal	%	Aantal	%	Aantal	%
Gauteng	231	0.0%	36518	4.8%	11044	30.2%	1952	19.5%
Western-Cape	1348908	36.0%	186998	24.7%	107381	57.4%	5168	51.6%
KwaZulu-Natal	70511	1.9%	96206	12.7%	10795	11.2%	1353	13.5%
Free State	28734	0.8%	75129	9.9%	4853	6.5%	135	1.3%
Mpumalanga	307220	8.2%	73319	9.7%	27485	37.5%	61	0.6%
North West	26471	0.7%	57759	7.6%	6353	11.0%	45	0.4%
Limpopo	1227011	32.7%	97478	12.9%	48079	49.3%	54	0.5%
Northern-Cape	63100	1.7%	69070	9.1%	28089	40.7%	29	0.3%
Eastern-Cape	676922	18.1%	65151	8.6%	24661	37.9%	1218	12.2%
South-Africa	3749108	100.0%	757628	100.0%	268740	35.5%	10015	100.0%

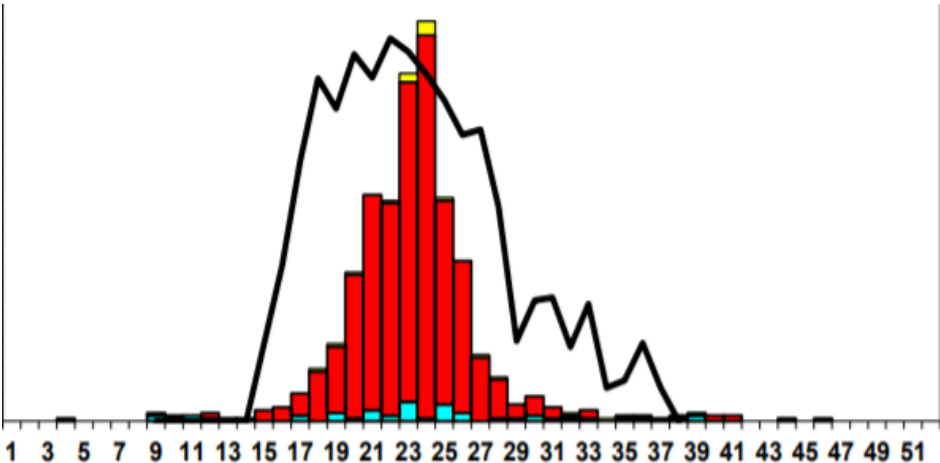
Export crops¹: Apples, pears, citrus, nuts. Largest risk exposure in quarter 2 and 3

Cases reported²: 20 May 2020

Source: Absa AgriBusiness, Statistics SA (Agricultural Census 2017) & NICD



Weekly distribution of total apples exported until week 13 in 2020 compared to 2019



Number of positive samples by influenza subtype and lineage (column graph) and detection rate (line graph) by week in 2019. Source: NICD 2019 Monthly Respiratory Pathogens Surveillance Report

Fruit, wine and sugar are important export sub-sectors for RSA, which risk to be significantly impacted by the COVID-19 trade slow-down

R billion	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Total perishable exports	9,9	12,3	19,5	7,7
Africa	0,9	0,9	1,0	1,0
Apples and pears	0,5	0,5	0,7	0,6
Other	0,4	0,4	0,3	0,4
Americas	0,7	1,0	1,6	0,9
Nuts	0,3	0,3	0,6	0,5
Grapes	0,3	0,0	0,0	0,3
Other	0,1	0,7	1,0	0,1
Asia	2,5	4,7	8,3	2,0
Nuts	0,0	0,6	2,0	0,6
Grapes	1,1	0,0	0,0	0,3
Citrus	0,2	2,6	5,2	0,4
Apples and pears	0,7	1,2	0,9	0,2
Other	0,5	0,3	0,2	0,5
Europe	5,8	5,7	8,4	3,8
Grapes	3,9	0,6	0,4	1,6
Nuts	0,1	0,2	0,3	0,2
Citrus	0,0	2,7	6,3	0,2
Apples and pears	0,6	1,2	0,7	0,0
Stone fruit	0,6	0,0	0,0	0,4
Berries	0,2	0,0	0,4	1,1
Other	0,4	1,0	0,3	0,3

Total RSA exports in 2019 (Including Agriculture): R1,3 trillion

Total Agricultural Exports in 2019: R 98 billion or 7,5% of total RSA exports

- Livestock R1,0 billion
- Meat (*Africa R2b, Asia R1,3b*) R3,4 billion
- Dairy R3,0 billion
- Live Plants R1,4 billion
- Vegetables (*Africa: R2,3b*) R3,0 billion
- Fruit R43,4 billion
- Nuts (*Asia R3,3b, US R1,7b Eu R0,9b*) R6,0 billion
- Coffee, tea & spices R1,9billion
- Grain R5,8 billion
- Milled grain products R2,7 billion
- Oilseeds R3,4 billion
- Fat and oils R3,2 billion
- Tobacco R3,1 billion
- Sugar R7,1 billion
- Wine R9,6 billion

Risk exposure to Coronavirus related disruptions in export logistics

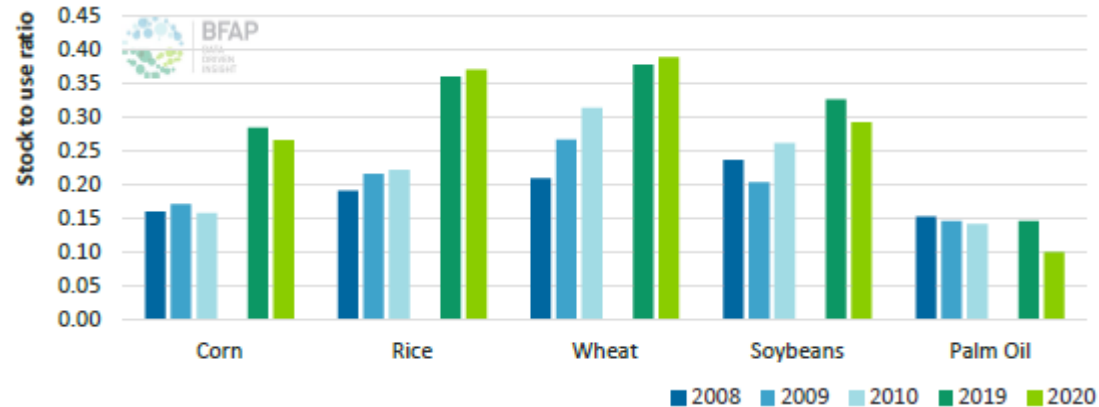
Perishable product exports: R55,8 billion of R98 billion pa

Perishable exports in Q2 and Q3 R23,3 billion of R98 billion pa

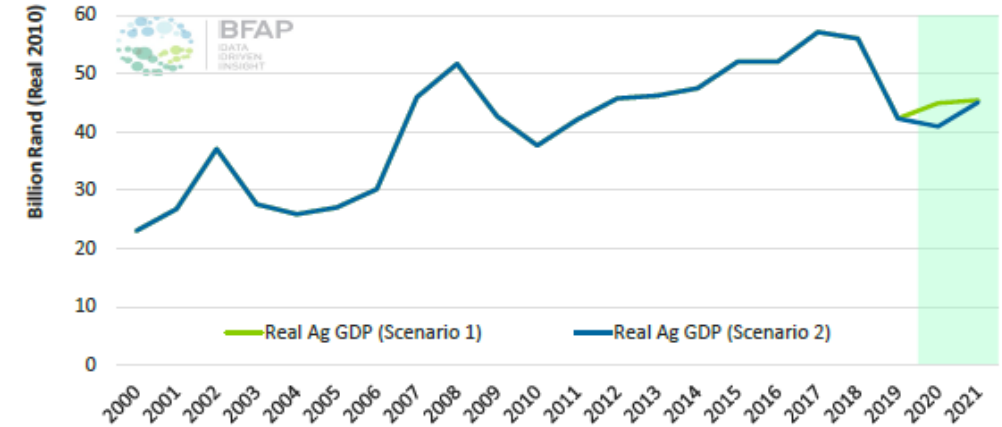
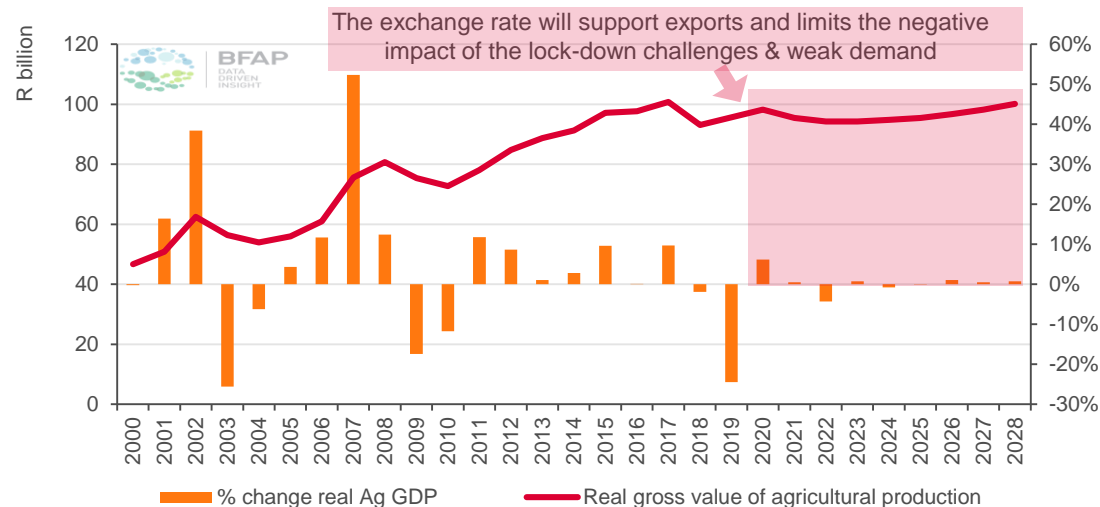
(Assumption: Import logistics fully recover in Q3 in Asia but not to the other export destinations. Weak YoY exchange rate may help to limit revenue losses (Q2 -18%, Q3 -11%))



Covid-19: International and local market response



The current stock to use ratios for most commodities are well above those during the financial crisis (2008-2010) (Source: BFAP & USDA, 2020)



The successful phased exit from lockdown will support a recovery in the Real Ag GDP for 2020 (Source: BFAP, 2020)

Successful phased exit from lockdown

- Readiness of health system pays off.
- Level 4 to 3 by Q3 & 2 to 1 by end of 2020
- Employees are able to work
- Food processing facilities do not to close down
- Real GDP per capita decline by 7 - 9% in 2020
- Demand for higher valued meats, dairy products and fruits decline but this market segment recover rapidly by end of 2020 and Q1: 2021.
- Disruptions at ports lead to a 10% reduction in export volumes by Q2 and Q3

Premature opening of the economy

- Rate of the infection picks up rapidly
- Reintroduction of level 3 and 4 restrictions
- Employees are unable to work
- Food processing facilities have to be closed down frequently
- Real GDP per capita decline of 15.4%
- Demand for higher valued products like meat, dairy products and fruits drops and take longer to recover.
- Disruptions at ports lead to drop in exports of 30% by Q3:2020



Thank you

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