Fair weather makes agriculture a hive of activity

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Despite ongoing challenges presented by the Covid-19 pandemic, SA's recent agricultural economic data have reaffirmed our view that this will be a recovery year for the sector after two consecutive years of declining fortunes.

Data released last week showed that gross value added (GVA) in agriculture expanded 27.8% quarter on quarter on a seasonally adjusted and annualised basis. Primary agricultural employment rose 3% from the corresponding period last year to 865,000 (albeit down, marginally, 2% quarter on quarter).

The allied industries, such as agricultural machinery sales painted a mixed picture. Combine harvester sales were up 14% year on year in the first quarter, but tractor sales were down 17% year on year.

Across all major subsectors of agriculture — livestock, field crops and horticultural production — activity is much more buoyant this year compared with the past two seasons. This is all mainly due to favourable weather conditions.

From a field crops perspective, SA now expects its second-largest grain harvest on record for the 2019/2020 production season. The latest projections for the 2019/2020 maize, sunflower seed and soya bean harvests point to increases of 38%, 13% and 8% year on year, respectively, equivalent to output levels of 15.5-million tonnes, 765,960 tonnes and 1.3-million tonnes, respectively. SA's sugar cane production is set to increase 1% year on year to 19.4-million tonnes.

In the case of horticulture, SA has generally had good fruit harvests so far this year, with the citrus industry recently noting a 13% year-on-year increase in available supplies for export markets in 2020. There is also a broad recovery in the production of deciduous fruit, with 2020 apple and pear production up 5% year on year and 1% year on year, respectively.

The livestock subsector has also been resilient, though animal health (specifically foot-and-mouth disease) was a serious challenge at the start of the year. The second-quarter data should continue to paint a robust picture of agricultural GVA and we maintain our annual growth forecast at 10% year on year (compared with -6.9% year on year in 2019). The aforementioned factors will remain the key drivers of economic activity in the sector.

The agricultural machinery industry data for the second quarter has continued to paint a mixed picture, with tractor sales up 8% year on year, while combine harvester sales are down 3% year on year. The improved harvest, which somewhat boosted farmers' finances and their interest to buy up existing stock ahead of expected price increases due to the weaker domestic currency, has been the key driver of the growth in second-quarter sales.

I am somewhat downbeat about the agricultural employment data for the second quarter of the year. The social distancing regulations introduced at end-March 2020 to prevent the spread of the coronavirus could mean that farmers and agribusinesses might not increase employment, especially of seasonal labour in the same way they would have in the absence of the pandemic. Farmers may resort to increasing the hours at work of trained staff to minimise exposure and compensate for a reduced workforce in a year in which there is a bumper harvest of many crops.

Overall, the roundup of SA's agricultural economic data paints a picture of good economic performance that should persist throughout 2020. However, employment trends might not follow their typical trajectory in response to booming production amid the pandemic. The seasonal labour component of the agricultural labour force could be the hardest hit during the year.

Regarding the agriculture machinery industry, there could be subdued performance towards the end of the year. The weaker domestic currency will lead to higher prices for imported agricultural machinery, which will reduce farmers' ability to acquire tractors and combine harvesters. And the ongoing economic uncertainty could negatively influence the financing of agricultural equipment, because commercial banks are likely to be more risk-averse in this unprecedented environment.

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