# Is there potential for agricultural expansion in the former homelands?

- South Africa's sluggish economic growth and high unemployment have forced policymakers to think creatively about ways of addressing these twin challenges. In the midst of all this, agriculture has featured prominently as one of the sectors that can potentially yield employment-creating growth in rural areas. This is under the assumption that there could be potential expansion in area planted to the horticulture and field crop subsectors which currently employ two-thirds of the primary agriculture labour force of 842 000, according to data from Statistics South Africa (Figure 1).

- The focus areas for potential expansion, which we have also argued for are KwaZulu-Natal, the Eastern Cape and Limpopo which still have roughly 1.6 million to 1.8 million hectares of underutilised land, according to a 2015 study by McKinsey Global Institute (Figure 2).[1] More importantly, these aforementioned provinces have the highest levels of unemployment. Development of these areas would require investment in soil preparations, expansion in irrigation systems, and land governance, amongst other aspects. Therefore, a concerted effort to unlock growth and employment in these regions would have significant positive welfare effects.

- But there is a troubling trend that might hinder potential expansion of agriculture in KwaZulu-Natal, Eastern Cape and Limpopo. In December 2018 into January 2019, we decided to tour across a number of rural areas of the Eastern Cape and KwaZulu-Natal after noticing an expansion in human settlement in some rural areas. Although the general trends would suggest that there is an increase in urbanisation, anecdotally, there seems to be a growing expansion in a settlement in the former homelands to such an extent that agricultural land is increasingly used for residential purposes in some areas. We are raising this as a caution to policymakers to not think of agricultural expansion as an isolated matter, but also consider instruments to clearly zone and protect agricultural land at a municipal level.

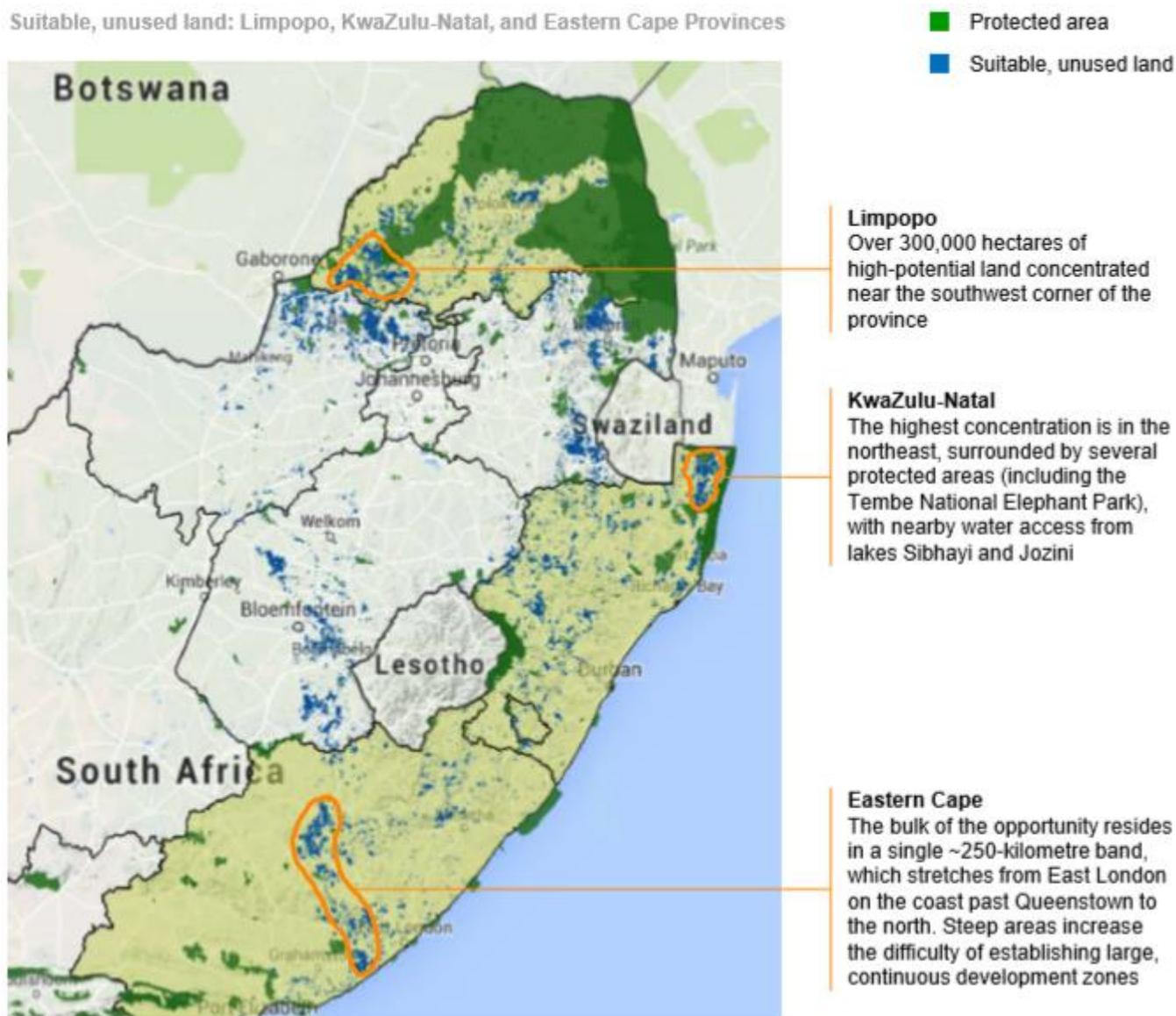**Figure 1: Share of employment by subsector in South Africa's agricultural sector**
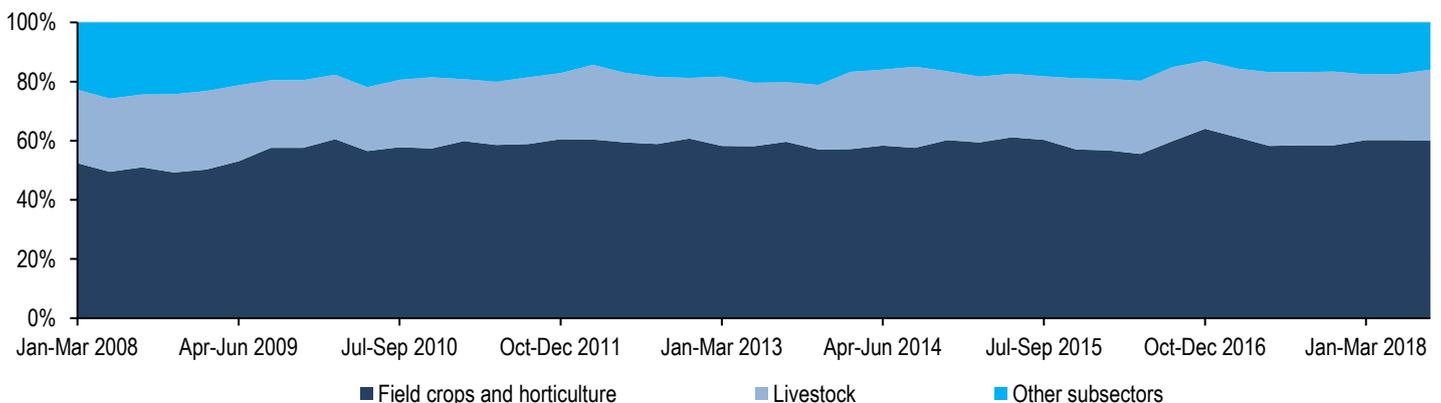
Source: Stats SA, Agbiz Research

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[1] For more information see McKinsey Global Institute, 2015, South Africa's bold priorities for inclusive growth:
https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Middle%20East%20and%20Africa/South%20Africas%20bold%20priorities%20for%20inclusive%20growth/South_Africas_big_five_bold_priorities_for_inclusive_growth%20Full_report.ashx

- This essentially means that some land parcels that were deemed underutilised and available for agriculture in the 2015 study by McKinsey Global Institute might have changed somewhat due to the growing demand for human settlement (Figure 2). Aside from the protection of the agricultural land, South Africa needs to also improve its data collection on land use in rural areas, as this will assist in policymaking and planning.

Figure 2: All three focus provinces have unused land suitable for agriculture

Suitable, unused land: Limpopo, KwaZulu-Natal, and Eastern Cape Provinces

- Protected area
- Suitable, unused land

Limpopo
Over 300,000 hectares of high-potential land concentrated near the southwest corner of the province

KwaZulu-Natal
The highest concentration is in the northeast, surrounded by several protected areas (including the Tembe National Elephant Park), with nearby water access from lakes Sibhayi and Jozini

Eastern Cape
The bulk of the opportunity resides in a single ~250-kilometre band, which stretches from East London on the coast past Queenstown to the north. Steep areas increase the difficulty of establishing large, continuous development zones

Source: McKinsey Global Institute

- Although we view the growing demand for land from non-agricultural sectors as a key threat to agricultural expansion, the sector still holds potential for labour-absorbing growth in rural areas. All agricultural subsectors are important from a perspective of food security, but potential investment in the sector should largely be in labour-intensive sectors in the near term if we are to respond to the challenge of unemployment. From that end, horticulture remains the sector that could play a key role. It is also worth noting is that there is a growing demand for horticultural products in the global market, which is underpinned by the changing consumer diets to what is viewed as healthy meals. This presents an opportunity for South Africa to partially address its twin challenge of unemployment and economic growth.

SA summer grains and oilseeds production data review

- The key focus in the South African summer grains and oilseed market last week was the national Crop Estimates Committee's preliminary planting estimates data, particularly maize. The data showed that the area planted to maize is 2.3 million hectares. About 1.3 million hectares is white maize, with 1.0 million hectares being yellow maize. This came as a surprise as we had a projection of 1.98 million hectares. We suspect that the late plantings might have been more than anticipated following early January rainfall. While this is a welcome development, it is important to stress that these are initial estimates, there could be a revision next month and our view still leans towards a possible downward adjustment.

- The important question at the moment is, what size of maize crop will South Africa have in the 2018/19 production season? The estimates in the market currently vary between 10.4 and 12.0 million tonnes, which is plausible if one assumes the aforementioned area and average yields, although that is dependent on good rainfall which is still proving to be a challenge at the present moment in the western areas of the South African maize belt. In fact, data from RMD Financial Services show that the Free State and Mpumalanga have thus far received lower rainfall compared to the past two production seasons, 2016/17 and 2017/18, measuring September to January.[2]

- To reiterate a point made during the week, given that South Africa's maize consumption is about 10.8 million tonnes a year, a harvest of at least 10.4 million tonnes or even as low as 8.0 million tonnes would still ensure sufficient supplies for the country, as there could be fairly large stocks of about 3.4 million tonnes at the beginning of the 2019/20 marketing year in May 2019. This is under the assumption that there could be minimal exports, which is yet to be seen as our neighbouring countries could experience a shortage.

- The other crop that came as a surprise was sunflower seed area plantings, at about 444 000 hectares down by 26% from the area planted in 2017/18 production year. Unlike the case of maize where we expected a decline in area planting, we had anticipated an uptick on sunflower seed following increased planting activity earlier this month. We foresee a possible upward adjustment when the Committee releases its revised estimates in February. Soybean plantings are estimated at 743 600 hectares, down by 6% from the previous season (Figure 3).

Figure 3: South Africa's summer crop preliminary planting data for 2018/19 season
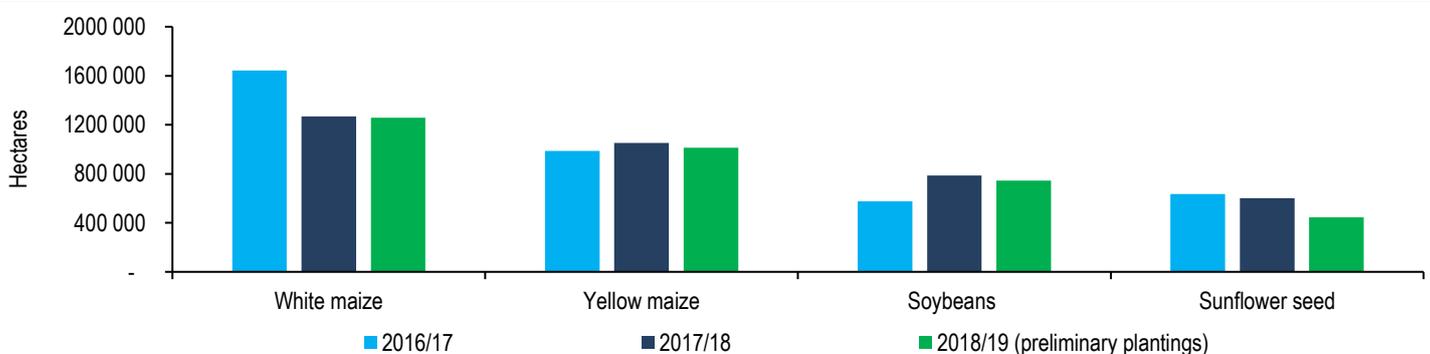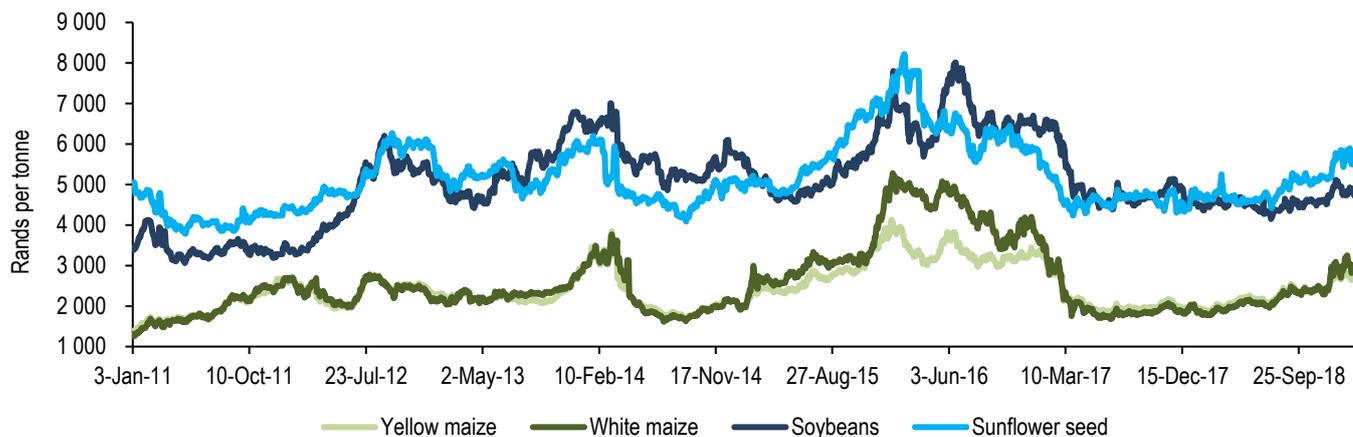

Source: CEC, Agbiz Research

[2] For more information on RMD data: https://www.rmd.co.za/

- Overall, the preliminary planting data, coupled with lower Chicago grain prices and the relatively stronger domestic currency against the US dollar led to marginal losses in SAFEX grains and oilseeds prices in the week of 01 February 2019 (Figure 4).

Figure 4: South Africa's maize, soybean and sunflower seed prices


Source: Bloomberg, Agbiz Research

- In terms of the Chicago grain prices, the losses were partially linked to improvement in South America's crop conditions, particularly Argentina. The general improvement in global maize and wheat production forecasts for the 2018/19 production season from December 2018 estimates by the International Grains Council (IGC) also added pressure to the market.

- IGC lifted its estimate for 2018/19 global wheat production by 8 million tonnes from last month to 737 million tonnes, but this is still 4% lower than the previous season due to an expected lower harvest in parts of the EU and the Black Sea region. From a domestic perspective, these developments are important because South Africa remains a net importer of wheat, with 2018/19 imports estimated at 1.4 million tonnes.

- Furthermore, IGC lifted its 2018/19 global maize production by 3 million tonnes from the December 2018 estimate to 1.076 billion tonnes, which is 3% higher than the previous season. This is on the back of an expected large harvest in the US, Brazil, Argentina, Ukraine and China. But, as we stated in our note on 28 January 2018, the global maize stocks will remain tight due to a rise in consumption, particularly animal feed as traditional buyers of wheat are shifting to maize due to price competitiveness. The global maize stocks could fall by 11% y/y to 271 million tonnes. This will, in the medium term, keep Chicago maize prices sideways.

- From a global soybean perspective, while South America crop conditions are important to monitor, in the near term the focus remains on the US-China trade talks. These talks are important partly because of the US soybean market exposure to China. Between 2013 and 2017, the US exported on average about 48 million tonnes of soybean per annum. About two-thirds of this was destined for China. The other notable markets for US soybeans are Mexico, Indonesia, Japan and the Netherlands. Within the Chinese soybean market, the key US competitors are Brazil, Argentina and Uruguay.

- Aside from the weekly grain trade and producer deliveries data, this will be a quite week on the local front.

SA weather perspective

- In production seasons where grains and oilseeds plantings have occurred during optimal periods, the weather would be a key focus between October and February. This is from planting into the pollination stages of development. But this time around, the planting process was quite late in some areas which means the need for rainfall will extend beyond the typical February pollination period.

- Therefore, the weather will remain a key factor in the market which could influence price movements of SAFEX grains and oilseeds. Fortunately, on Friday the South African Weather Service indicated a likelihood of above-normal rainfall conditions over the summer rainfall regions during early autumn (Feb-Mar-Apr). However, this might not be widespread across all grains and oilseed-growing regions. The shaded areas in Figure 5 are the most likely regions to receive above-normal rainfall in the coming months. It seems as if the North West, which critically needs moisture could remain fairly dry for some time, which does not bode well for the crops.

- While parts of the Eastern Cape are not expected to receive above-normal rainfall in the coming months, areas such as Matatiele all the way up to Ugie region received over 50 millimetres of rainfall in the past few days. Figure 6 below was taken yesterday afternoon, 03 February 2019, in a maize field in Matatiele after heavy rainfall in the area.

Figure 5: Expected precipitation conditions for Feb to March 2019
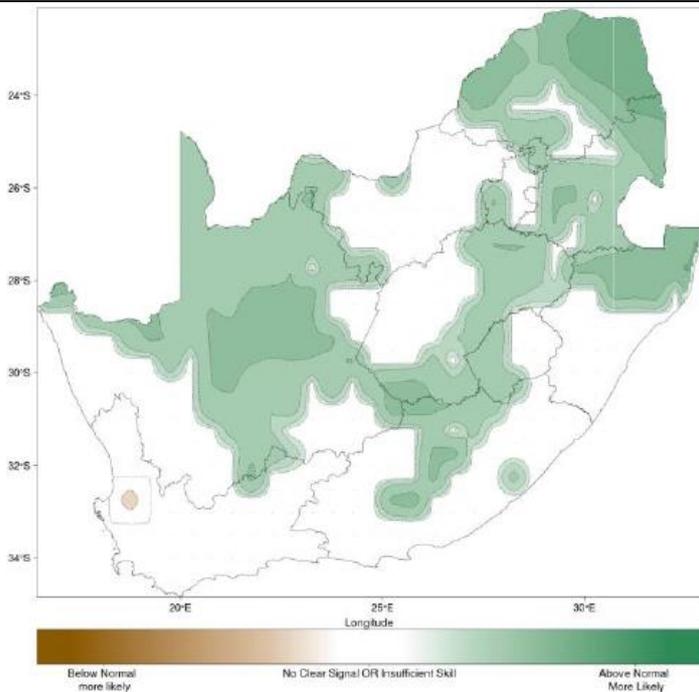
Source: South African Weather Service.

Figure 6: Maize fields in Matatiele region of EC: February 3, 2019


Source: Author's photo

Our takeaway messages this week

- Agriculture has featured prominently in policy debates as one of the sectors that can potentially yield employment-creating growth in rural areas in South Africa. This is under the assumption that there could be potential expansion in area planted to the horticulture and field crop subsectors.

- The focus areas for potential expansion, which we have also argued for are KwaZulu-Natal, the Eastern Cape and Limpopo which still have roughly 1.6 million to 1.8 million hectares of underutilised land.

- But expansion in human settlement in most rural areas of the aforementioned provinces might hinder potential expansion of agriculture.

- In terms of grains and oilseeds, the recent preliminary planting data provided an encouraging picture of higher than expected plantings, but it is important to stress that these are initial estimates, there could be a revision next month and our view still leans towards a possible downward adjustment.

- In production seasons where grains and oilseeds plantings have occurred during optimal periods, the weather would be a key focus between October and February. But this time around, the planting process was quite late in some areas which means the need for rainfall will extend beyond the typical February pollination period.

- On 01 February 2019, the South African Weather Service indicated a likelihood of above-normal rainfall conditions over the summer rainfall regions during early autumn (Feb-Mar-Apr).

Figure 7: South Africa's precipitation forecast
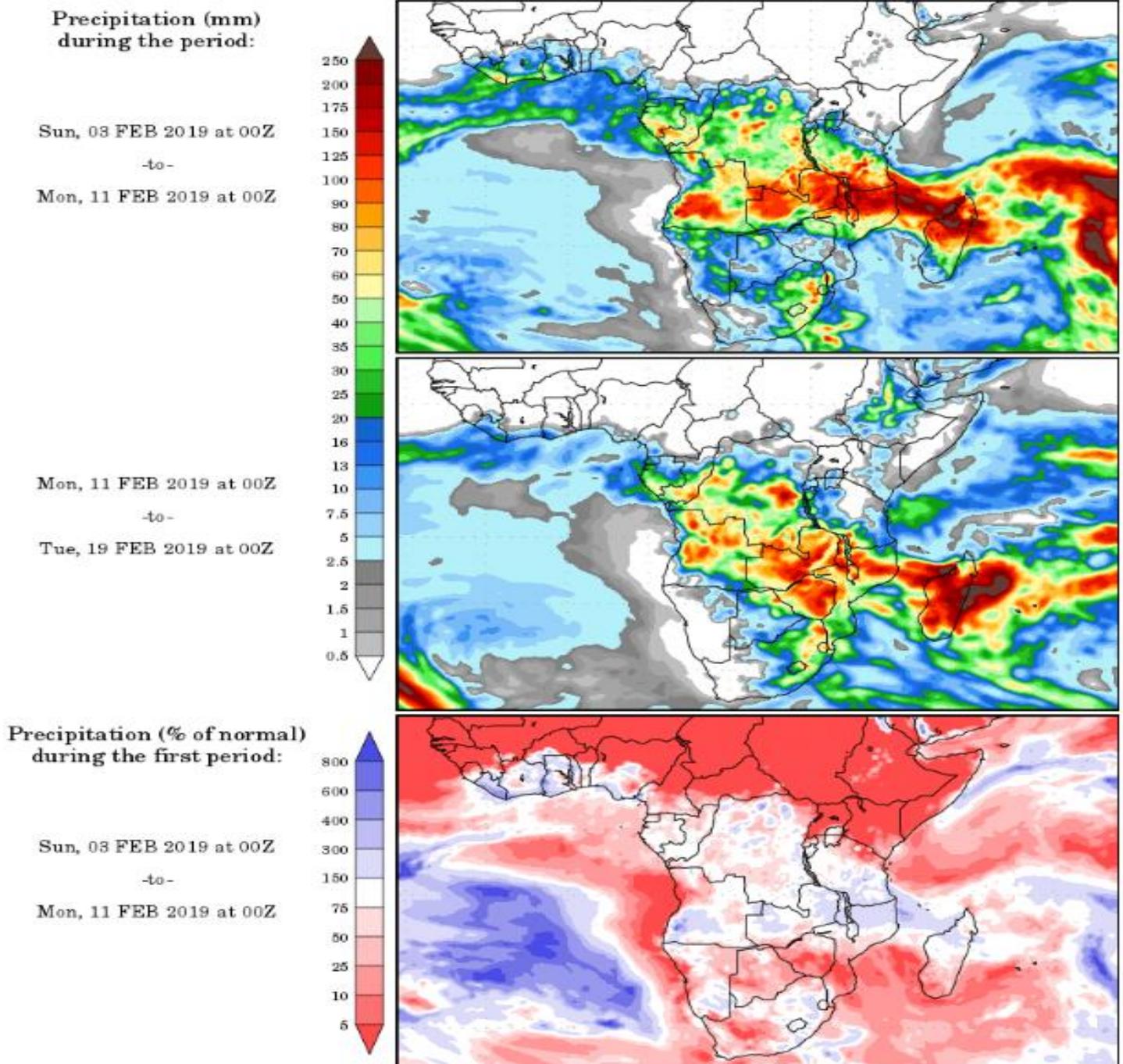
Source: wxmaps

Key Data Releases in the Agricultural Market:

- SAGIS producer deliveries data: 06/02/2019
- SAGIS weekly grain trade data: 07/02/2019
- National Crop Estimates Committee's monthly data: 27/02/2019