

## SA agriculture economy could recover in 2020

A few weeks back we noted that it is almost certain that South Africa's agricultural economy will contract in 2019, mainly as a result of the poor summer crop harvest coming after a drought. But there is cause for hope with South Africa's 2020 agricultural performance. On 30 August 2019, the South African Weather Service released further evidence which reinforces this view. The agency noted that the central and eastern parts of South Africa could receive above-normal rainfall between November 2019 and January 2020<sup>1</sup>. The weather outlook for the north-western regions of the country is unclear at this point, but we think there could be normal showers. It is quite rare to find a season where the north-eastern parts of South Africa experience above-normal rainfall while the western areas are dry, hence we are optimistic that the overall summer crop growing areas could receive sufficient rains in 2019/20 production season.

The planting season is due to start around mid-October in the eastern parts of South Africa, as shown in Figure 1. But we think there could be one-or-two-weeks delays in plantings in some areas that have lower soil moisture until the anticipated rainfall starts in November. Summer crop plantings in the north-western areas should commence on time, not only because of anticipated showers but generally improved soil moisture due to late 2019 summer rainfall and cool winter which preserved moisture in some areas.

In 2018/19 production season, most summer crop harvests fell by double-digit because of drier weather conditions at the start of the season. To zoom in on major crops in 2018/19 production season, maize, soybeans and sunflower seed production are respectively down by 12% y/y, 21% y/y and 24% y/y, to 11.02 million tonnes, 1.17 million tonnes and 680 940 tonnes. Assuming good weather conditions, there could be a notable upswing from these levels. For example, the International Grains Council's preliminary estimates for South Africa's 2019/20 maize production are 12.8 million tonnes, which would be 16% higher than the current season and slightly above the five-year average production of 12.3 million tonnes.

This would be a welcome development, not only by the summer crop farmers but also livestock farmers and agribusinesses. The livestock sector could benefit through potentially lower prices when the harvest increases. At the end of August 2019, South Africa's yellow and white maize prices were respectively up by 15% and 22% from the corresponding period last year because of the lower harvests in the 2018/19 production season. The agribusinesses could benefit in various ways, from improved grain volumes for storage and through lower prices in entities that use maize and other summer crops.

The optimistic outlook doesn't only lie rely on the potential recovery of summer crop production, but also winter crops and the horticultural sector. The Western Cape, which is amongst the key horticulture-producing provinces in the country, received good moisture in the past few weeks which improved soil moisture and water levels in dams. Going forward, the province is set to receive additional rainfall, all of which is conducive for the horticulture harvest of 2020, which would ultimately boost South Africa's agricultural economic fortunes. Over the coming weeks and months, we will closely monitor the weather developments as the optimistic picture we've painted here depends on good rainfall.

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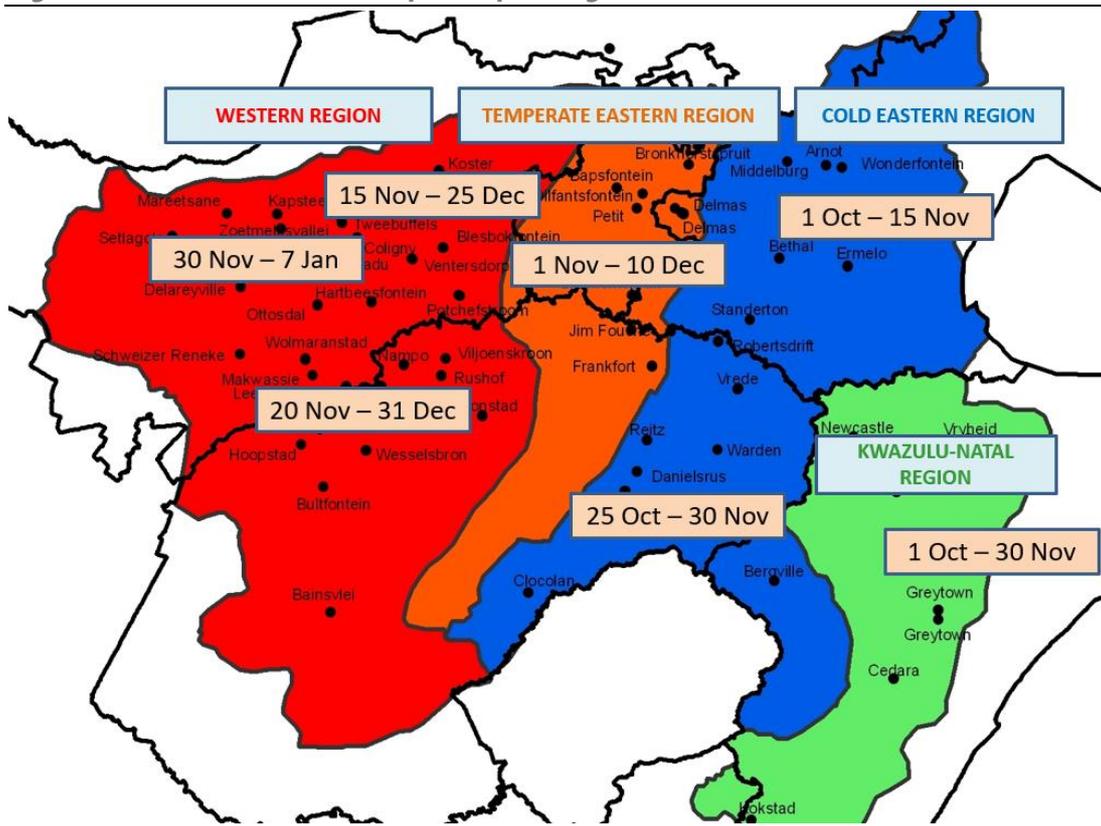
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<sup>1</sup> For more information, please read South African Weather Service's Seasonal Climate Watch for September 2019 to January 2020. It was released on 30 August 2019.

**Figure 1: South Africa's maize optimal planting dates**



Source: Grain SA

## Weekly highlights

### National Treasury's Economic Policy Paper: Agricultural focus

Over the past week, a lot has been said and written about the broader themes of National Treasury's recent economic policy discussion paper.<sup>2</sup> While feedback from various corners of society is mixed, we welcome it and view it as a right step towards formulating policies that could lift South Africa's economic fortunes. In an agricultural section, the paper rightly highlights that "several features of agriculture make it important in the pursuit of inclusive, labour-intensive economic growth: rural linkages, ability to absorb less-skilled labour, large multipliers due to extensive links with the rest of the economy, globally competitive labour productivity, and importance for export-led growth." To see a notable improvement in agriculture, the paper centres the possible interventions in agricultural developments on the following points:

- Providing adequate and affordable agricultural insurance;
- Improving extension services for smallholder and emerging farmers;
- Enhancing trade promotion and market access;
- Enhancing access to water for irrigated agriculture;
- Investing to establish innovative market linkages for smallholders; and
- Create an enabling environment for investment in agriculture.

These proposals are proposals that some private sector agricultural groupings have advocated for in the past. If they could be adopted into government policy and implemented efficiently, there could be a positive impact in South Africa's agricultural sector in our view.

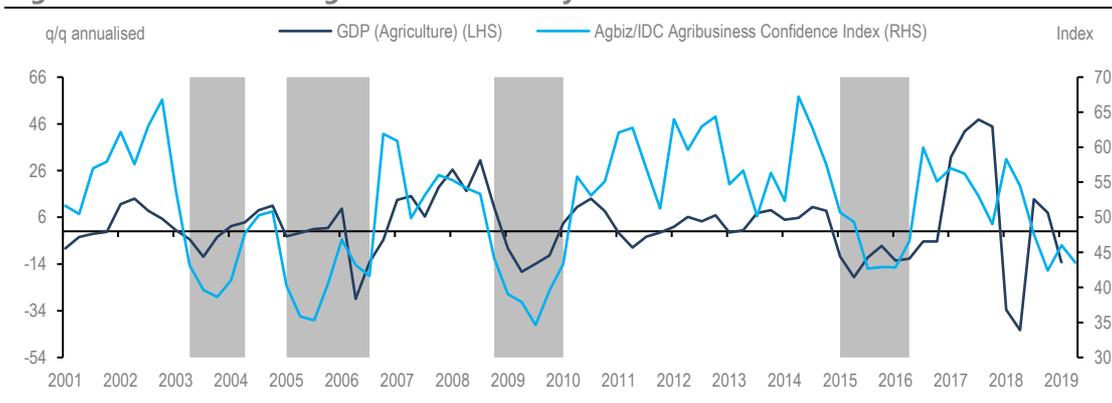
<sup>2</sup> Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa. Available at: [http://www.treasury.gov.za/comm\\_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf](http://www.treasury.gov.za/comm_media/press/2019/Towards%20an%20Economic%20Strategy%20for%20SA.pdf)

*South Africa's National Treasury economic policy paper is a right step towards formulating policies that could lift South Africa's economic fortunes.*

## Week ahead

On Tuesday, Stats SA will release the **GDP data** for the second quarter of 2019. After contracting by 13.2% on a quarter-on-quarter seasonally-adjusted annualised rate (q/q saar) in the first quarter of this year (Figure 2), we think South Africa's agricultural economy experienced a mild recovery in the second quarter of this year. The base effect, horticulture harvest, and partial summer crop harvest are the key factors that potentially underpinned the improvement.

**Figure 2: South Africa's agricultural economy<sup>3</sup>**



Source: Stats SA, Agbiz Research

With that said, the second-quarter numbers will, however, have a minimal influence on the potential direction of the sector by year-end. We think South Africa's agricultural economy will contract by about 2% y/y in 2019 because of generally poor summer grains and oilseed harvest in the 2018/19 production season. Moreover, the Agbiz/IDC Agribusiness Confidence Index, which in the past proved to be a good indicator of the growth path of the South African agricultural economy has been rather wobbly in the most recent quarters, but remains in the contractionary territory, having eased at 44 points in the second quarter of 2019. This is below the neutral 50-point mark and implied that agribusinesses are downbeat about business conditions in South Africa.

On Wednesday, SAGIS will release the **grain producer deliveries** data. This data will give us an indication of the summer grains and oilseeds delivered to commercial silos as of the week of 30 August 2019.

On Thursday, we will get the **weekly grain trade** data for the week of 30 August 2019. In terms of maize, the first 17 weeks' exports of the 2019/20 marketing year amounted to 351 612 tonnes. We expect South Africa to remain a net exporter of maize this year, although the volume will most likely fall by half from the previous year to about 1.1 million tonnes. This is under the assumption that domestic maize production could amount to 11.02 million tonnes. At the same time, we expect imports of about 450 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 500 tonnes in the 2018/19 marketing year. The country has thus far imported 172 887 tonnes of yellow maize, all from Argentina.

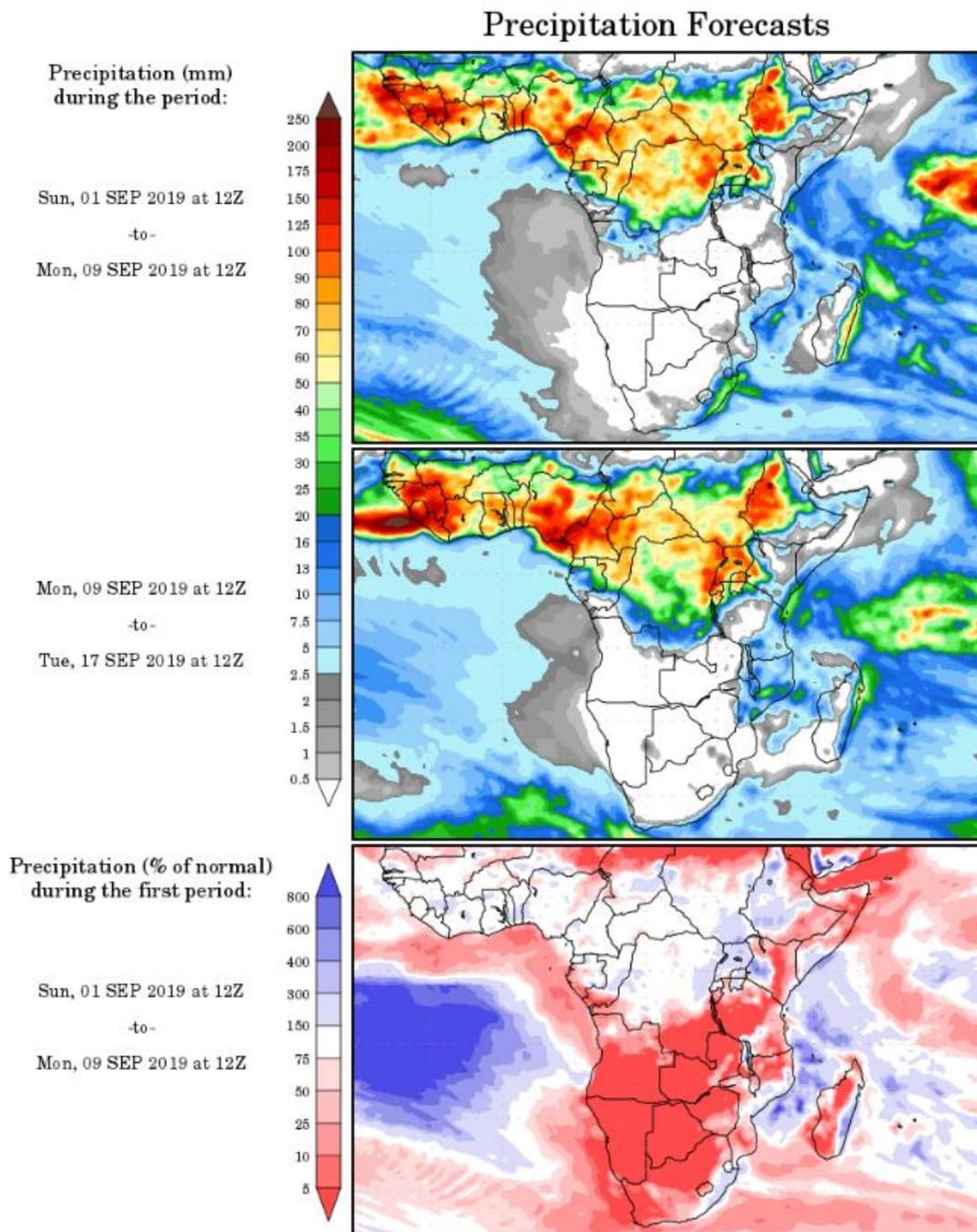
In terms of wheat, South Africa remains a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 71% of the seasonal forecast. The leading suppliers have been Germany, Russia, Lithuania and Canada amongst others

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<sup>3</sup> Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres

Figure 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

#### Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 02/09/2019
- SAGIS producer deliveries data: 04/09/2019
- SAGIS weekly grain trade data: 05/09/2019
- National Crop Estimates Committee's monthly data: 26/09/2019

*The weather forecast for this week shows prospects of rainfall in the eastern parts of the country, which should slightly improve soil moisture ahead of the 2019/20 production season.*