

Reflections on SA macroeconomy, agricultural conditions and policy

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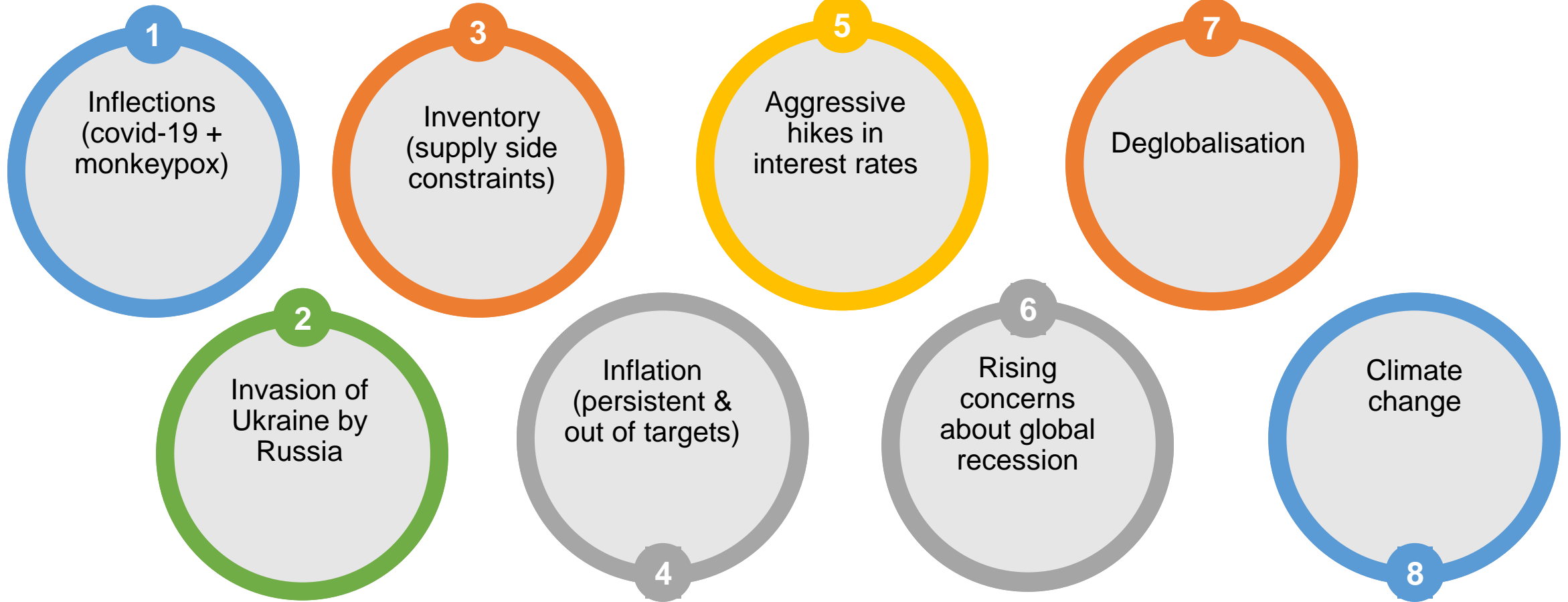
Hortgro Cherries

Paarl

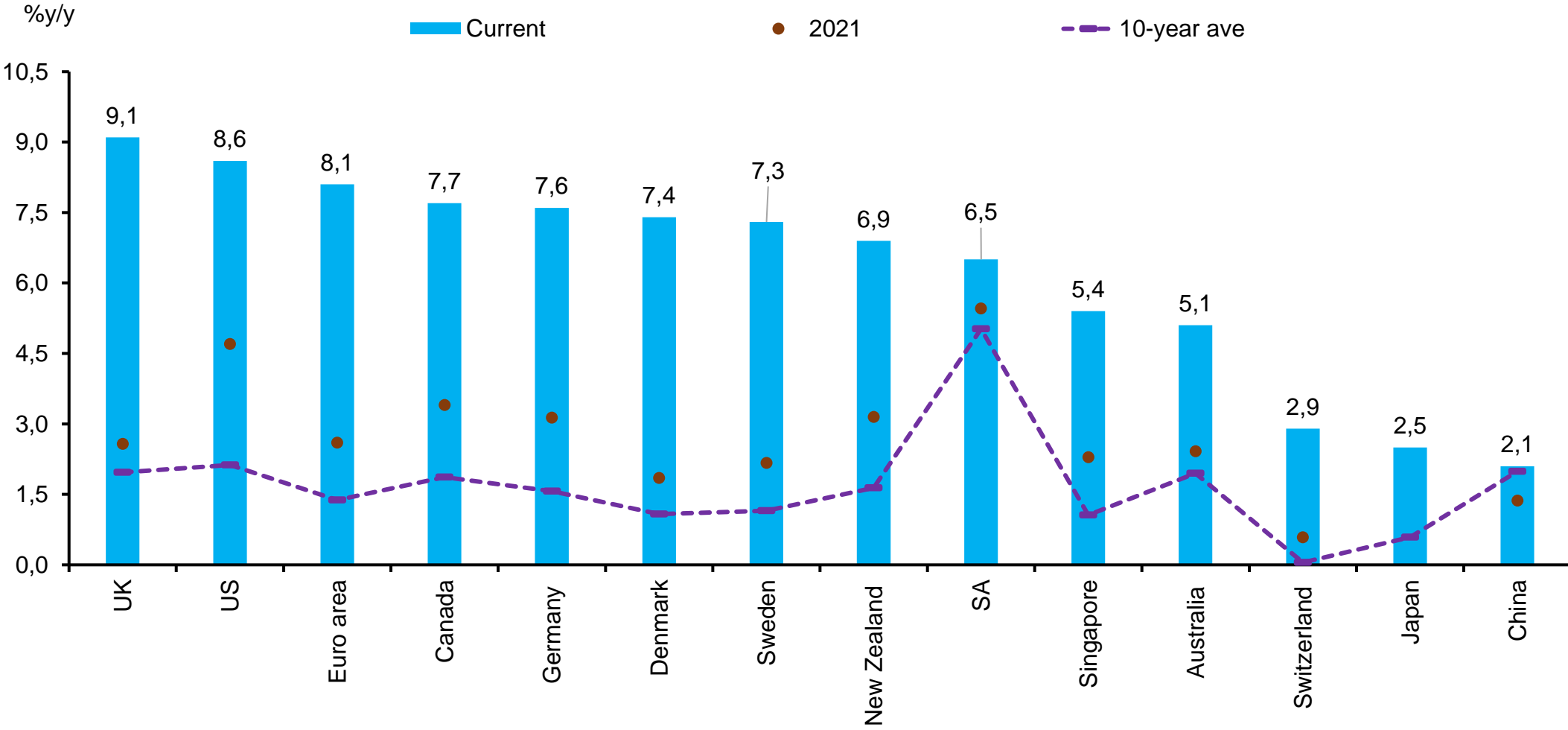
27 July 2022



The global economy is characterized by 5i's, a recession, deglobalization and climate change

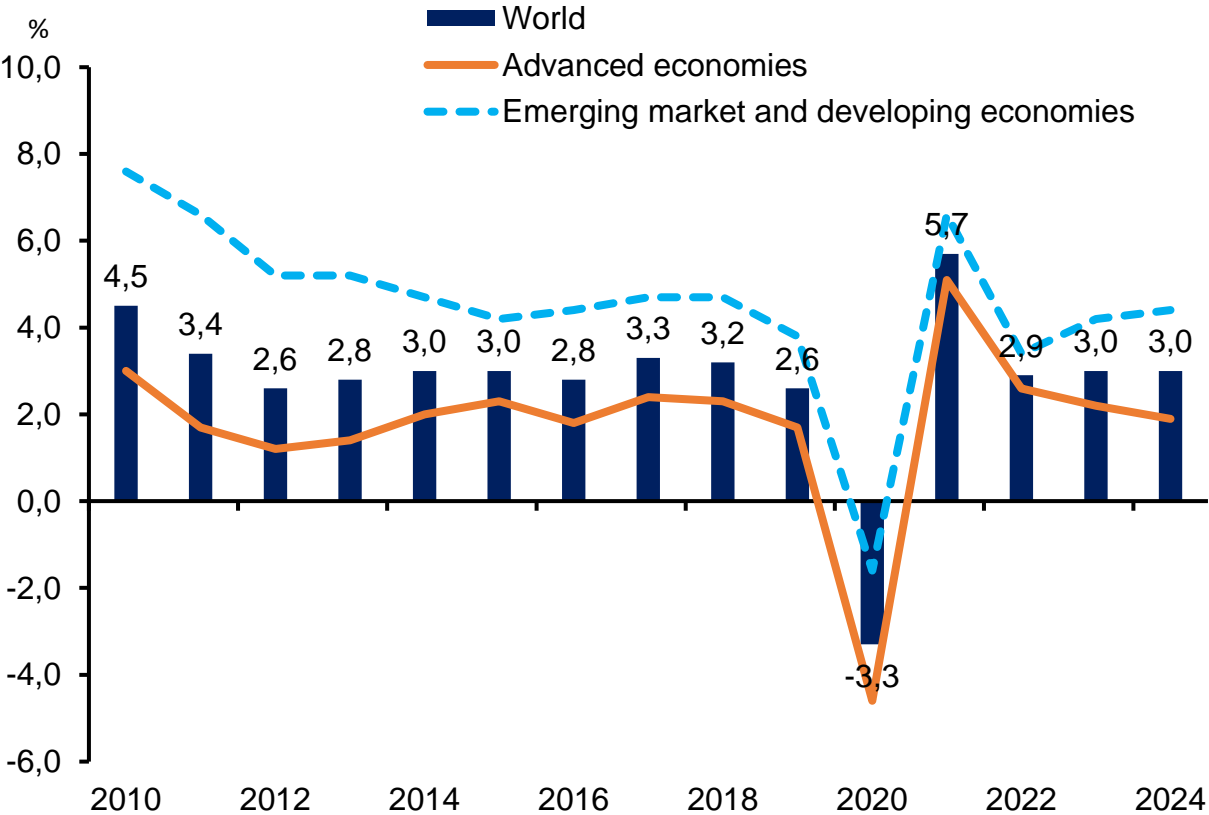


Global inflation remains elevated, and it is not showing any signs of slowing down

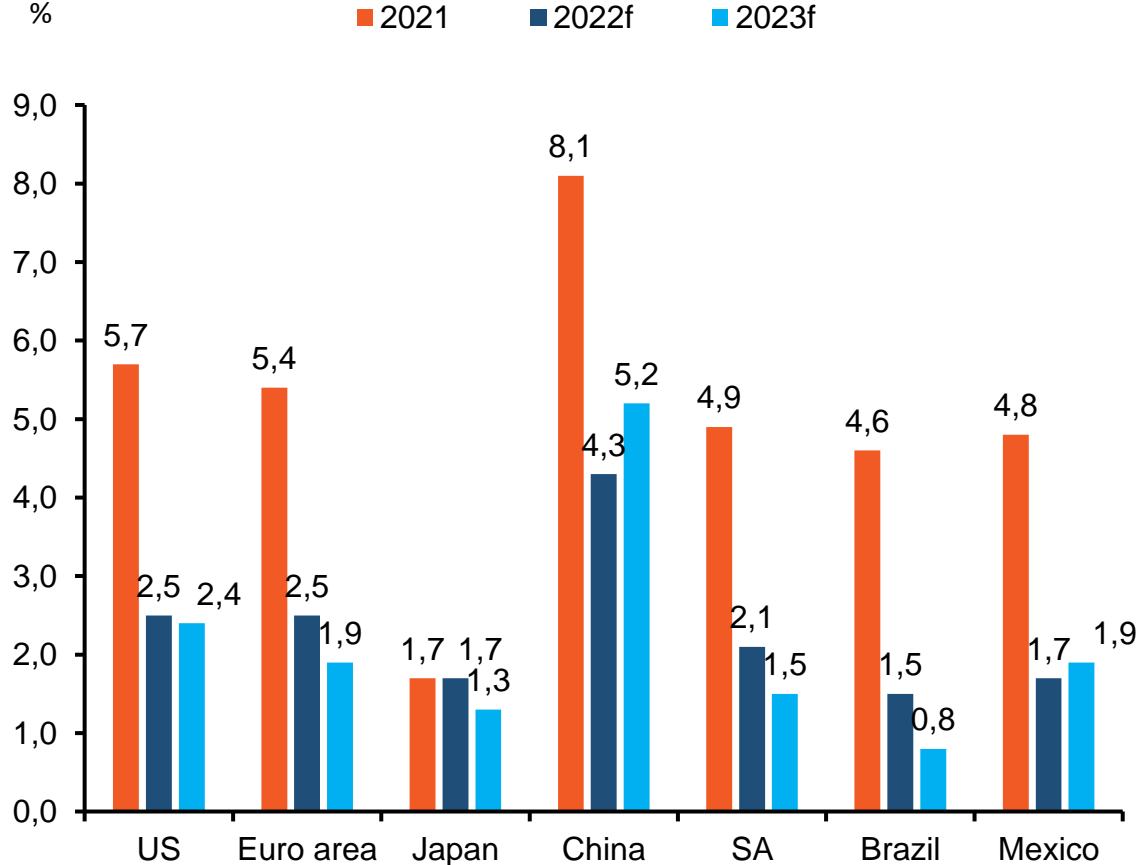


Global growth projections consistently revised down due to the Ukraine war

Global growth forecasts



Selected countries GDP



South Africa's agricultural performance

SA agriculture has had a good run over the past couple of years

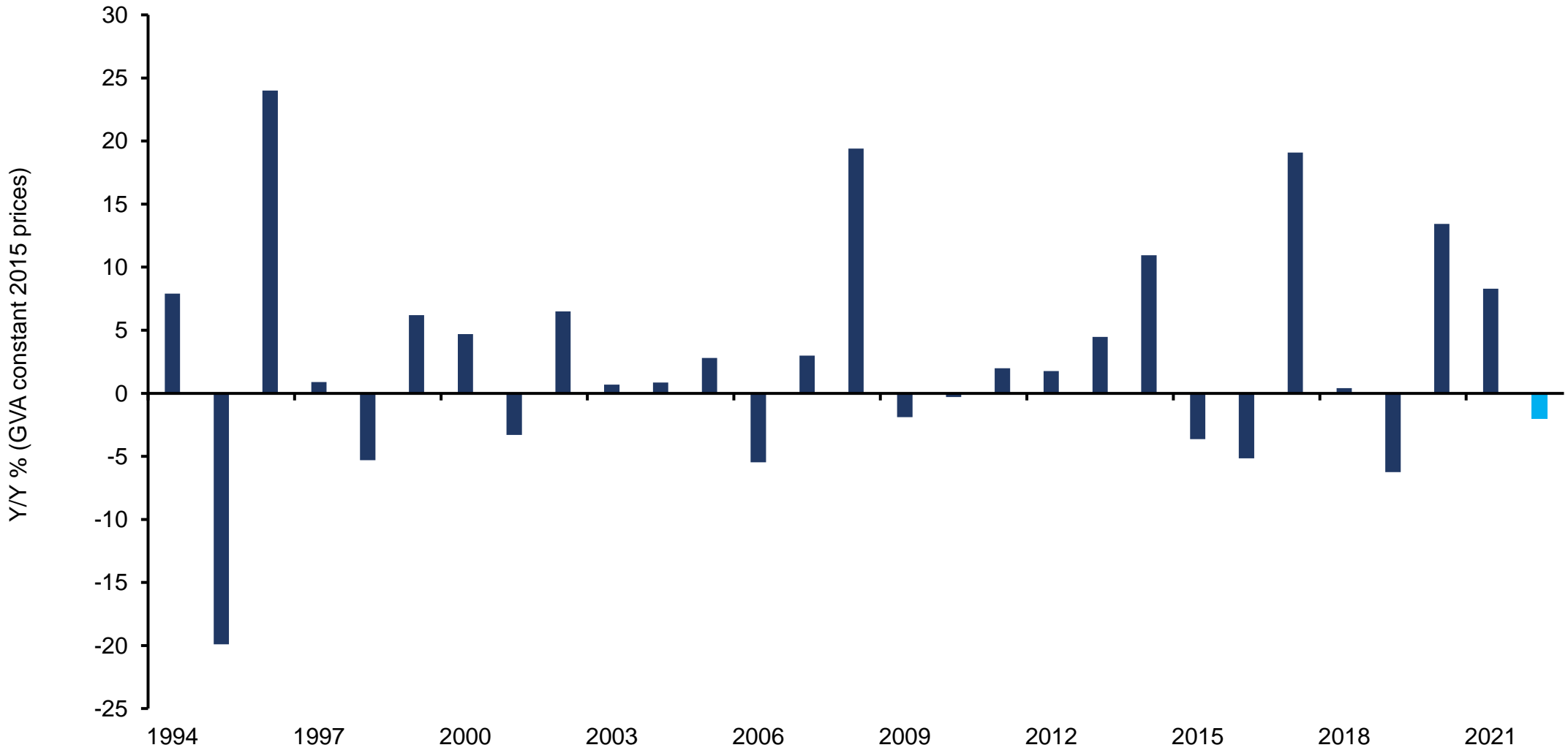
Growth in gross value (2010-2020)

Agriculture	44%
Horticulture	70%
Animal products	43%
Field crop	22%
Agro-processing	13%

Growth in volume of production (2010-2020)

Agriculture	19%
Horticulture	23%
Animal products	21%
Field crop	12%
Agro-processing	N/A

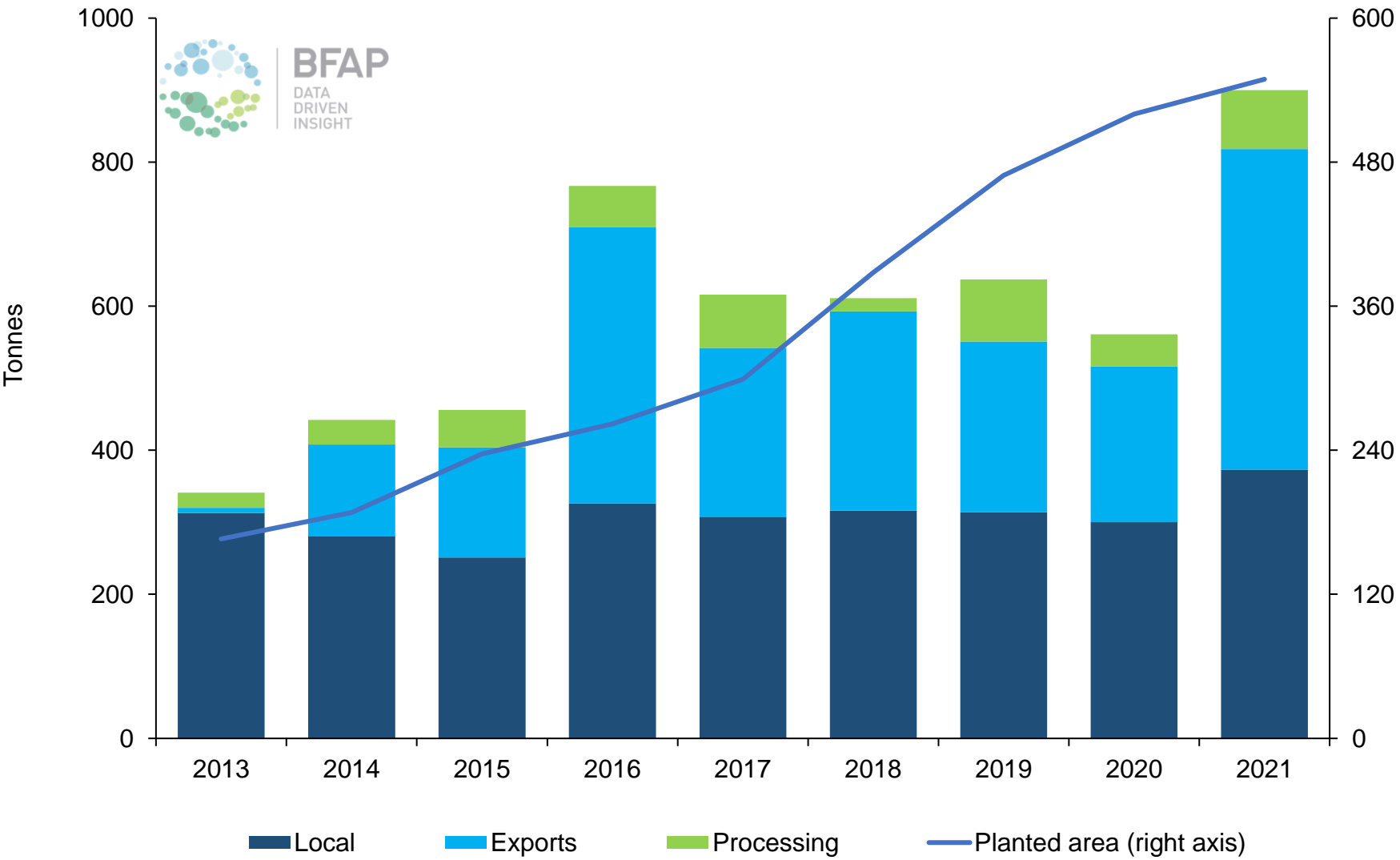
But SA agricultural sector could contract in 2022, mainly because of base effects



The output mix for SA agriculture (top 10 commodities according to production value)

Rank	Production years			
	1994	2000	2010	2020
1	Maize	Maize	Fowls slaughtered	Fowls slaughtered
2	Fowls slaughtered	Fowls slaughtered	Maize	Cattle and calves slaughtered
3	Cattle and calves slaughtered	Cattle and calves slaughtered	Cattle and calves slaughtered	Maize
4	Milk	Milk	Deciduous fruit	Citrus
5	Deciduous fruit	Deciduous fruit	Milk	Deciduous fruit
6	Wheat	Wheat	Vegetables	Milk
7	Vegetables	Sugar cane	Eggs	Vegetables
8	Eggs	Vegetables	Citrus	Eggs
9	Sugar cane	Citrus	Sugar cane	Other livestock products
10	Hay	Eggs	Other livestock products	Sugar cane
Share	74,85%	74,39%	74,36%	74,78%

SA cherry planted area and crop distribution



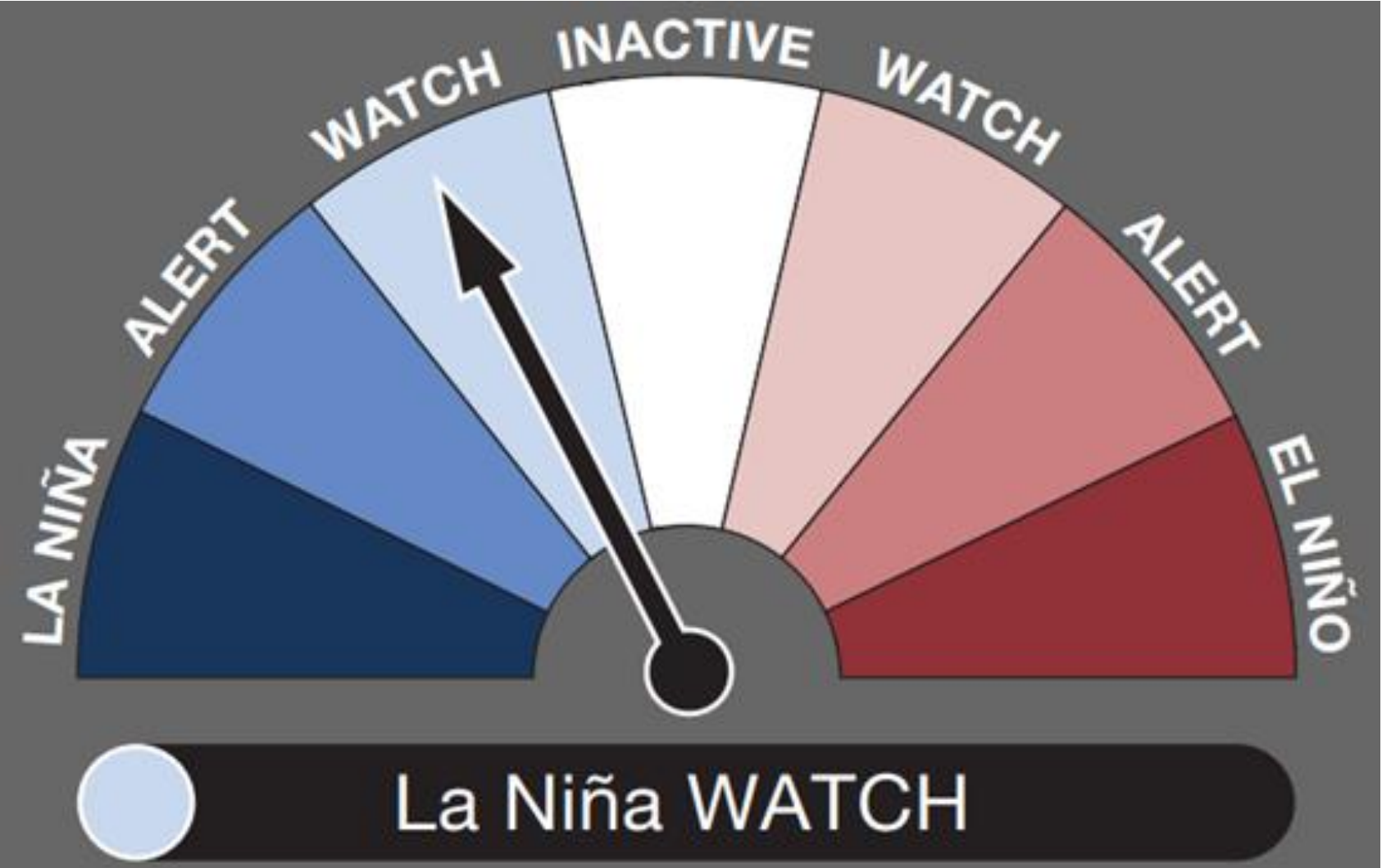
Average annual growth rate: 2013-2021	
Area	16%
Local	2%
Exports	31%
Processing	10%

- In 2017, 30% of cherry orchards were <= 5 years old
- In 2021, 64% of cherry orchards are <= 5 years old
- Stable supply to local market
- Exports grow as supply increases
- In 2021/22, 63% of cherries were exported using air freight
- UK (60%), Middle East (27%) and Europe (6%) are major export destinations for SA

Initial impressions on the 2022/23 summer and winter crop seasons

- The weather outlook for the 2022/23 production season is fairly positive, with prospects of rains which could support agriculture.
- The current weather forecast suggests that we are still in the La Niña phase. The Australian Bureau of Meteorology estimates that “there is a 50% chance of La Niña forming later in 2022. This is approximately double the normal likelihood.” For the Southern Africa region, this implies that we will likely have another rainy season.
- The planting intentions will be released in October 2022, but we are generally positive that farmers will maintain a decent area plantings of around 4,3 million hectares for summer grains and oilseeds. The improved financial position from the past two years should help farmers tolerate the current higher input costs.
- The winter crop, specifically wheat, will benefit from potential expansion in the Free State and Limpopo, where the summer rains have improved soil moisture. The weather outlook for the season is also favourable.
- The conversations with fertilizer suppliers have also been encouraging, from a supply availability perspective, although prices could remain elevated, along with the global dynamics.

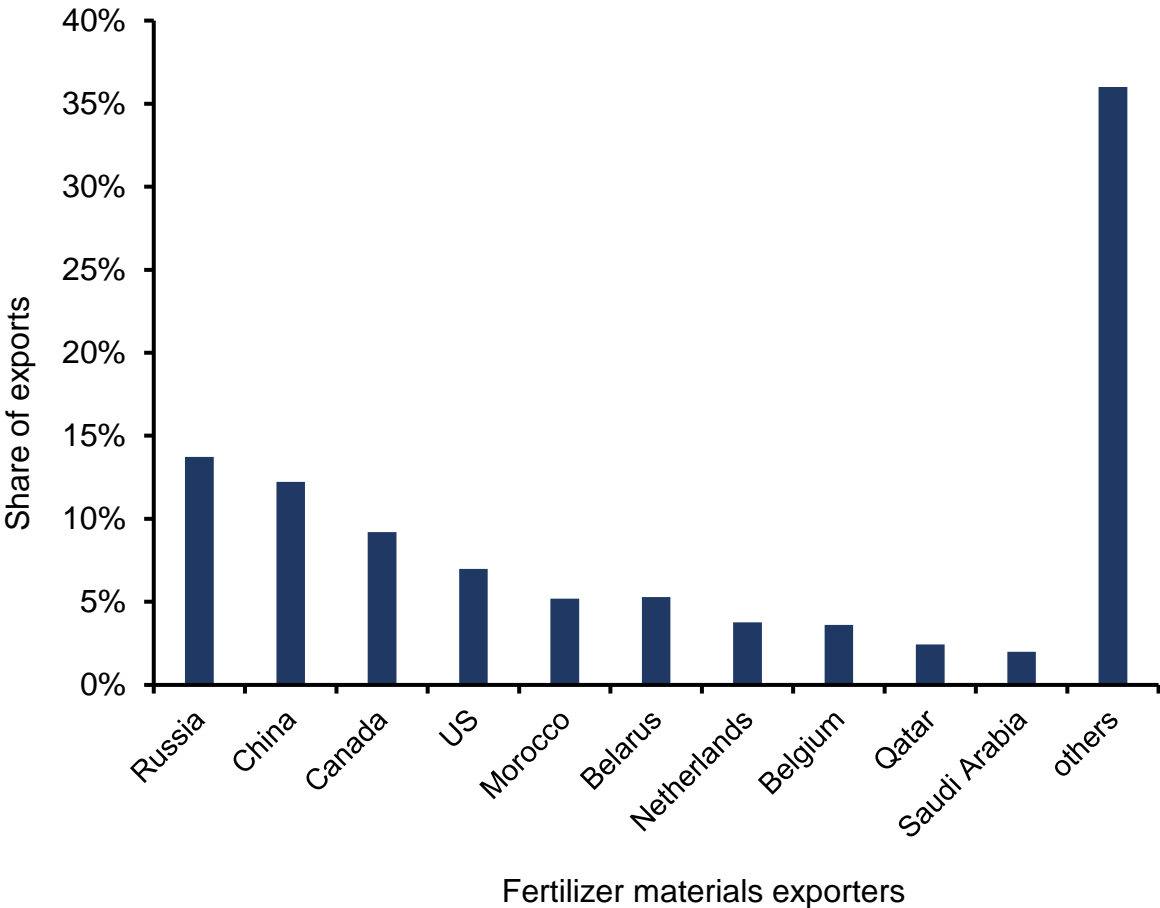
La Niña WATCH



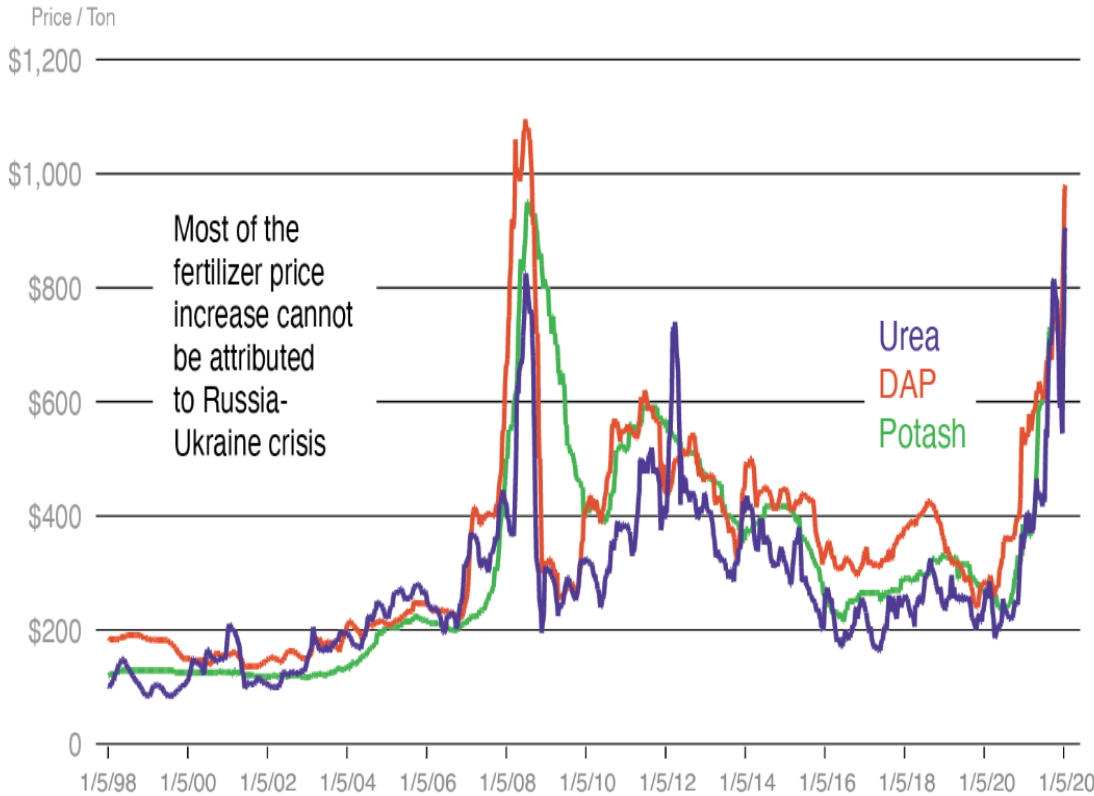
Fertilizer prices (along with agro-chemicals and fuel) remain key risk for farmers

Farmers will experience rising input costs

(Chart shows share ranking of world's top fertilizer exporters by value)



Global fertilizer prices



Are extreme weather events in the Northern Hemisphere highlighting a growing climate risk to global food production?

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Extreme weather

Dangerous heatwaves engulf parts of China, US and Europe

At least 86 Chinese cities issue alerts, while temperatures soar in south-west and central US and Iberian peninsula

By Roxana Hegeman, Associated Press

Heat stress blamed for thousands of cattle deaths in Kansas

Economy Jun 17, 2022 5:04 PM EDT

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Climate change **Added**

Farmers feel heat as northern Italy suffers worst drought in decades

Lack of rain linked to climate change threatens power generation and agricultural output



South Africa's agricultural policy direction

The key factors constraining growth in SA agriculture are well known

1. Inefficiencies in state administration

- Biosecurity (animal disease and hygiene – key for facilitating exports)
- Crop diseases
- Modernisation of the Fertilizers, Farm Feeds, Seeds and Remedies Act 36 of 1947
- Enforcement of Agricultural Products Standards Act and labelling of food produce
- Inefficient staff complement

2. Infrastructure issues

- Rural roads
- Water – urgent investment in dam and irrigation infrastructure and more agile management of water rights allocation
- Ports and rail systems (for facilitating exports)
- Cost-effective and reliable electricity supply

3. Security

- Stock theft
- Theft and vandalism of farm infrastructure
- Farm attacks
- Rail infrastructure theft and vandalization

4. Uncertainty

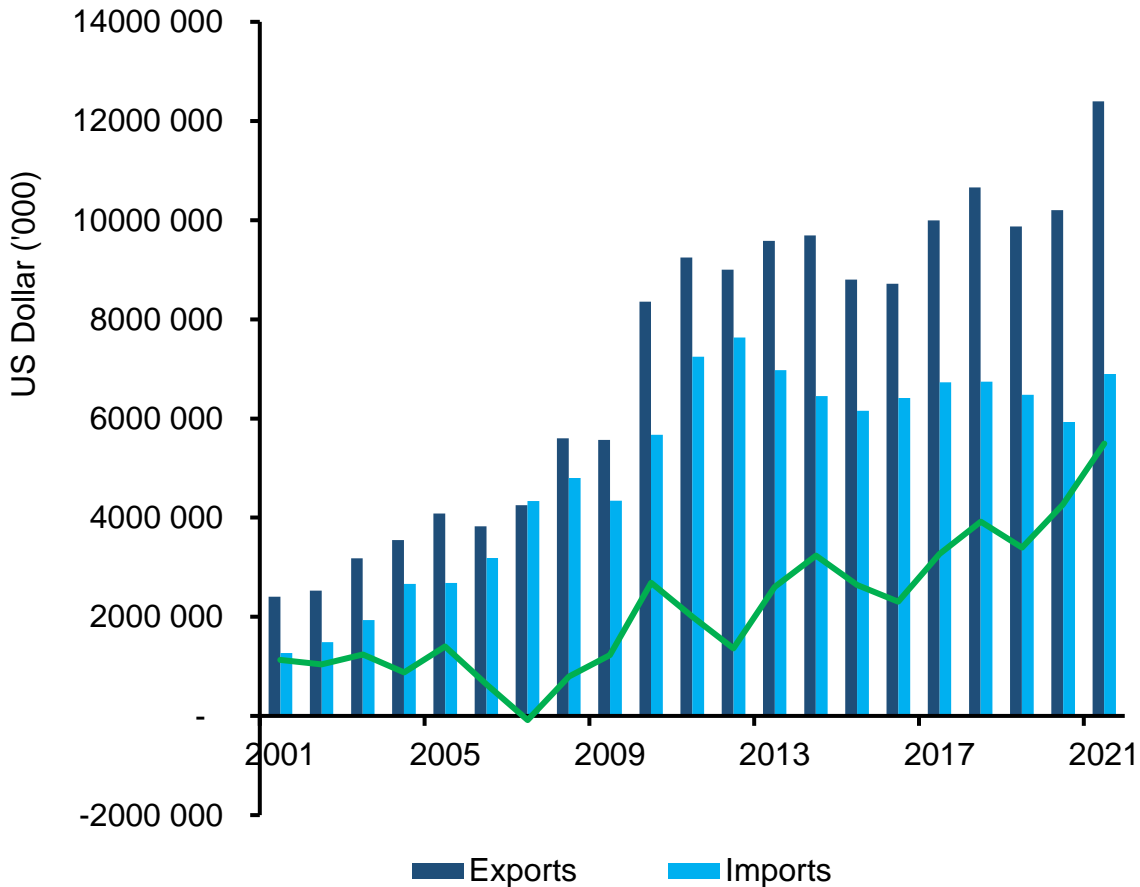
- Land reform policy direction (in addition to the Land Agency)
- Access and availability electricity

5. Research and Development, and a need to widen export markets

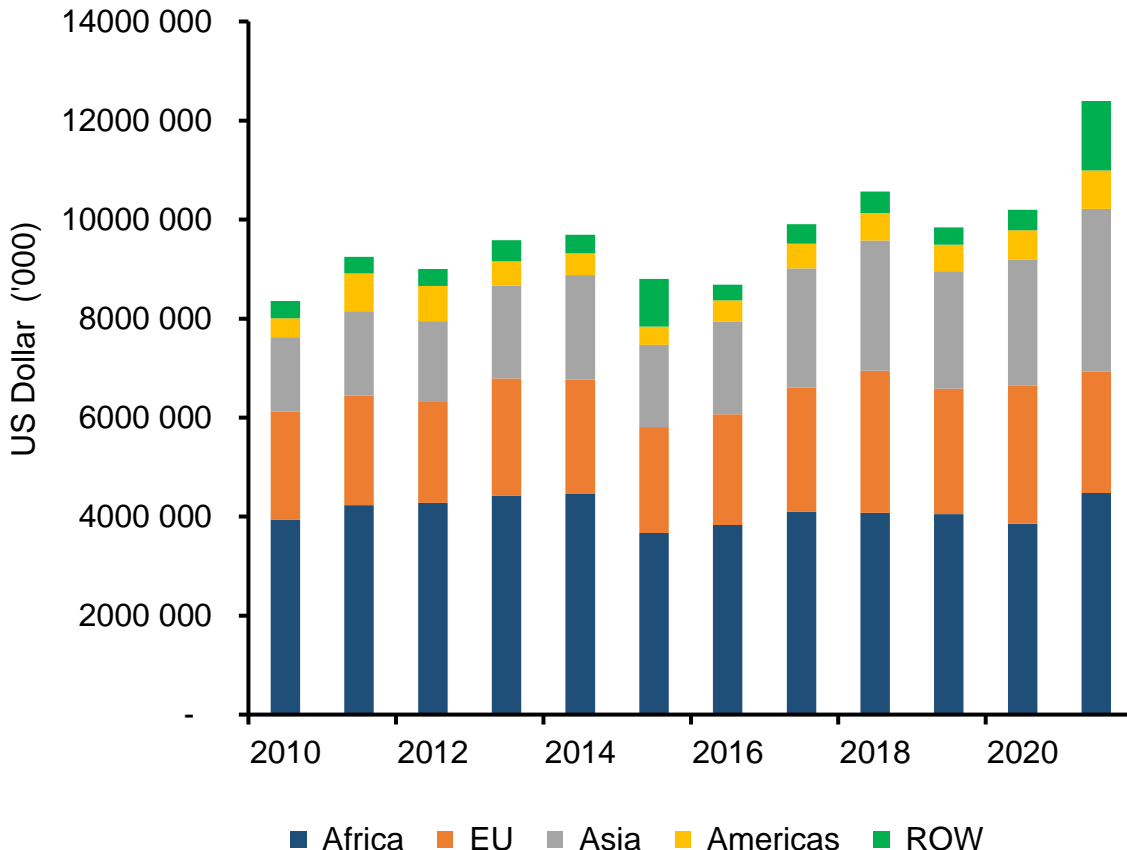
- Including an increase of extension service officers
- Japan, India, China, Saudi Arabia and Bangladesh amongst the target markets for SA agriculture

SA's agricultural growth is export-led and but rising protectionism is a new challenge

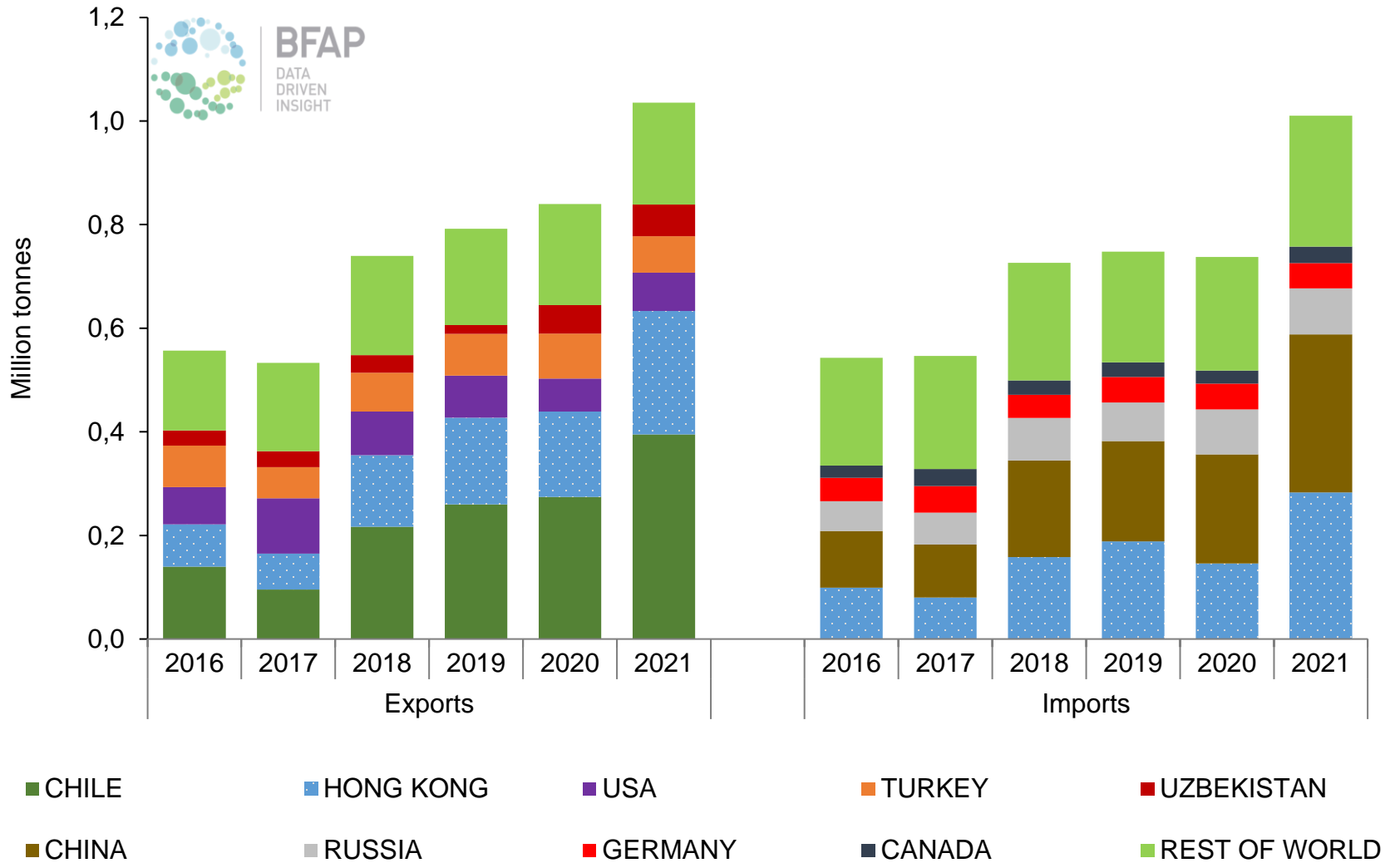
SA agriculture trade



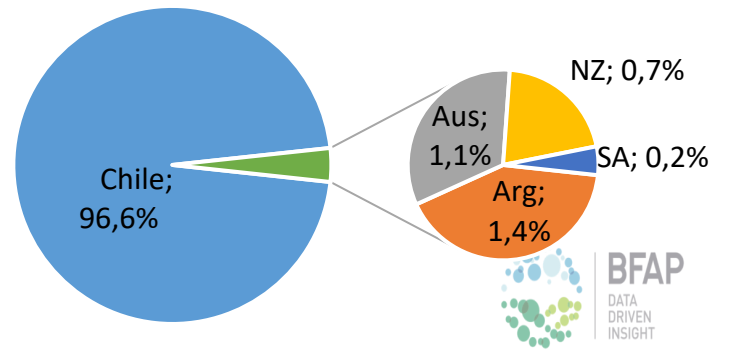
SA agriculture exports by region



World cherry trade



2021 Southern Hemisphere exports



Chile is the world's biggest exporter of cherries
 Chile also only major exporter in S.H.
 China is the world's biggest importer of cherries

Hong Kong trade corridor (major importer and exporter)

Excluding Hong Kong imports, world trade increased by 64% from 2016 to 2021

China CIF import price decline in 2018 and 2021 with step changes in imports

Narratives of land reform still with us

- The failures in land reform and lacklustre implementation of various land reform policies over the years prompted some political parties to call for a need to expropriate land without compensation from December 2017 through an amendment in section 25 of the Constitution.
- This is a motion that was tabled in the National Assembly and failed, an outcome we favor at Agbiz. The political arguments in favor of this did not account for real progress with land reform and the impact of the broader economy.
- Some claimed that land reform in South Africa is too slow and need to be accelerated by the expropriation path. But the relatively slow progress with land reform is due to bureaucratic red tape, patronage and political influence.
- We now also have the Agriculture and Agro-Processing Master Plan, a social compact approach and requires all stakeholders to be fully committed. The positive outcome of the signing off is that all key stakeholders, except labour, supported the plan. The hope is that labour will join in the subsequent phases. The country is now moving towards the next step of the master plan, which includes its practical implementation.

ANC new policy papers are supportive of the agricultural sector

- The ANC acknowledges that "agriculture remains an important sector of the South African economy. It holds the potential to uplift many poor South Africans out of poverty through increased food production, vibrant economic activity, and job creation“.
- The ANC papers further acknowledge that the growth of the agricultural sector partly depends on effective land reform, explicitly bringing into production the underutilised land. Here, the emphasis is on the Land Reform and Agricultural Development Agency, first announced by President Ramaphosa in 2021 and recently in the SONA 2022.
- What we also found important in the policy papers is the emphasis on the need to boost the municipality's functioning and the network industries – road, rail, water, electricity and ports.
- The agriculture and land reform section of the ANC discussion paper focuses on rural development, which is rightly acknowledged as multi-dimensional, encompassing the improved provision of services and opportunities, better infrastructure; social cohesion; and adequate government provision for the vulnerable groups in society.

Concluding remarks

- The global economy, and indeed South African economy, faces a slowdown due to a range of factors that include disruption of the supply chains, rising inflation and the effects of the Russia-Ukraine war.
- South Africa's agricultural production is fairly solid, well above the long-term average levels. But, the sector's gross value added could contract this year as the summer crop harvest is lower than 2020/21 season.
- We expect a La Niña forming later in 2022, which could bring higher rains than we experienced in the previous seasons. Farmers should be on high alert of possible heavy rains. We already see extreme weather events in the northern hemisphere.
- South Africa's agriculture and land reform policy is turning a positive, within the government and the new ANC policy documents, geared towards growth and expansion.

Thank you for your attention.

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