

Perspective on agriculture's performance in Quarter 1 of 2019

Weak economic conditions persist, with the South African economy only growing by 0.8% in 2018 and the GDP decreasing by 3.2% in the first quarter of 2019 relative to the fourth quarter of 2018 (seasonally adjusted and annualised). The largest positive contribution to the national GDP came from the finance sector with a contribution of 0.2%. The agricultural sector contributed -0.3% to the national GDP. Figure 1 shows the year on year change in real agricultural GDP for each quarter, from 2014 to 2019. Comparison of quarter 1 2019 numbers relative to the same quarter of 2018 removes the need for seasonal adjustments and provides a clear picture of agricultural performance in the past quarter. By this metric, agricultural GDP declined by 9.4% year on year.

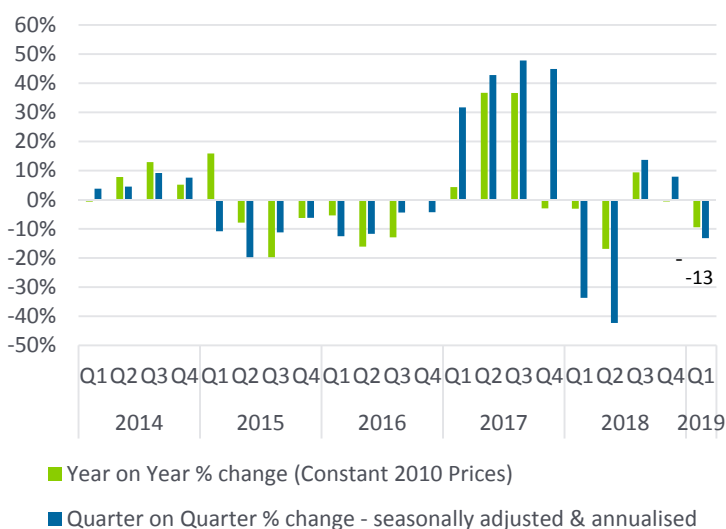


Figure 1: Year on year change in real (2010) agricultural GDP per quarter (Source: Compiled from StatsSA, 2019)

Figure 2 illustrates gross income per subsector on a quarterly basis from 2014. It reflects a decline of 14% from Q4 2018 to Q1 2019. History suggests that a seasonal decline is normal from quarter 4 to quarter 1, but even relative to Q1 of 2018, gross income in Q1 2019 declined by 8%. A number of industries contributed to this decline, but in the first quarter, livestock sectors constitute the largest share to total gross income, followed by horticulture (Figure 2).

The gross income from the livestock sector decreased by 9% in Q1 2019, compared to Q1 in 2018, with the largest contributor being the beef industry (13% decrease in gross income). The first quarter of the year saw the outbreak of foot and mouth disease, which had a negative effect on the export of some animal products such as beef. Beef exports dropped to 4 000 tons in the first quarter 2019 compared to exports of 6 600 tons in the same period in 2018. Exports only started picking up in the third month of the year when 1.79 thousand tons were exported. Production for the export market was redirected to the domestic market, causing a significant decline in domestic beef prices. On average, A2/A3 carcass prices were 13% weaker in the first quarter of 2019 relative to the first quarter of 2018.

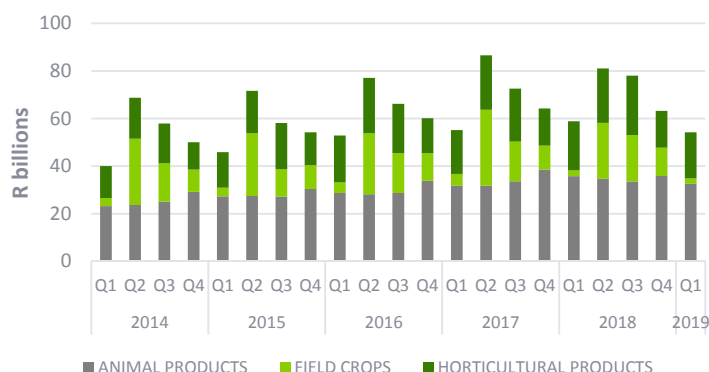


Figure 2: Gross value of production per subsector at current prices (Source: Compiled from DAFF, 2019)

Other meat industries were also affected by the decline, due to relative substitutability amongst different meat types. The combination of weak demand and strong supplies resulted in pork prices trading on average 8% lower in quarter 1 of 2019 relative to quarter 1 of 2018. Despite the depreciation in the exchange rate, which typically increases the price of imported products, poultry prices were on average 5% lower in the first quarter of 2019 relative to the first quarter of 2018, despite the depreciation in the exchange rate.

Late planting of summer crops brought added risk to the industry as it was uncertain how much would be planted as well as how the yield would be affected by frost, in the winter season. Yellow maize prices rose to R2740 in the first month of the year compared to R1971 in the same month in 2018. On average, yellow maize prices were R2675 in the first quarter of the year compared to R1947 in the same period in 2018. These high maize prices have had an impact on the production of animal products as yellow maize is primarily used for animal feed. The direct impact of the summer crop in 2019 will only be evident in 2nd quarter GDP figure, which is when the bulk of the summer crop is typically delivered. Due to late plantings, a larger than usual portion of the summer crop harvest income may only reflect in Q3 of 2019. The bulk of field crop impact on quarter 1 GDP originates from winter crops, where wheat deliveries were down 15% in Q1 2019 relative to the same period in 2018, but higher prices offset this decline, resulting in a small increase in gross income from wheat.

Gross income from the horticultural subsector decreased by 6% between Q1 2018 and Q1 2019. Horticultural production is mainly geared for the export market and the bulk of the decline is attributed to deciduous fruit. Within this group, table grapes constitutes the largest share of exports in the 1st quarter. The value of table grape exports declined in Q1 2019 relative to Q1 2018, due to multiple factors, including lower prices that resulted from a combination of weather related impacts on quality and increased competition in Europe resulting from the continued trade disputes between the USA and China, which diverted US exports into other markets. The value of wine exports also declined in Q1 2019 relative to Q1 2018, on the back of a smaller crop. The value of pome fruit exports increased marginally compared to the same time in 2018, whereas Citrus exports were also lower. The bulk of Citrus exports however occur in the second and third quarter.