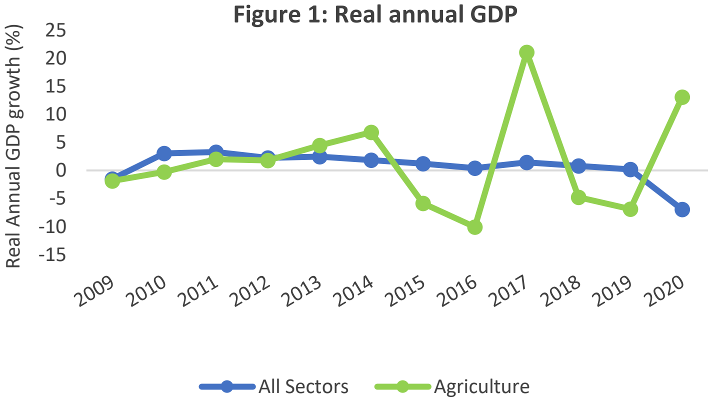
PERSPECTIVE ON AGRICULTURE'S PERFORMANCE IN QUARTER 4 OF 2020

This Quarterly Brief provides perspective on the South African agricultural economy's performance in terms of the latest Gross Domestic Product (GDP) statistics released by Statistics South Africa. Before delving into the quarterly performance, this edition starts with an analysis of the complete 2020 calendar year.

It was a remarkable year for growth in the agricultural economy in 2020, coming at a time when all other sectors experienced significant contractions as a result of COVID-19. The national economy saw a record annual decline of -7%, the biggest contraction since at least 1946. By contrast, the agriculture sector realised an annual real GDP growth of 13.1%, which was the only sector, apart from government services, that saw any expansion. Figure 1 puts these numbers into context, showing the real annual GDP growth for the RSA economy, as well as the agricultural sector. Agricultural GDP is only reported at a national aggregate level since cost of intermediate goods and services are not always attributable to specific commodities. Therefore, to understand the drivers of agriculture's performance, we consider the disaggregated gross value of production (GPV = Price X Quantity Produced) per industry, as compiled by DALRRD.

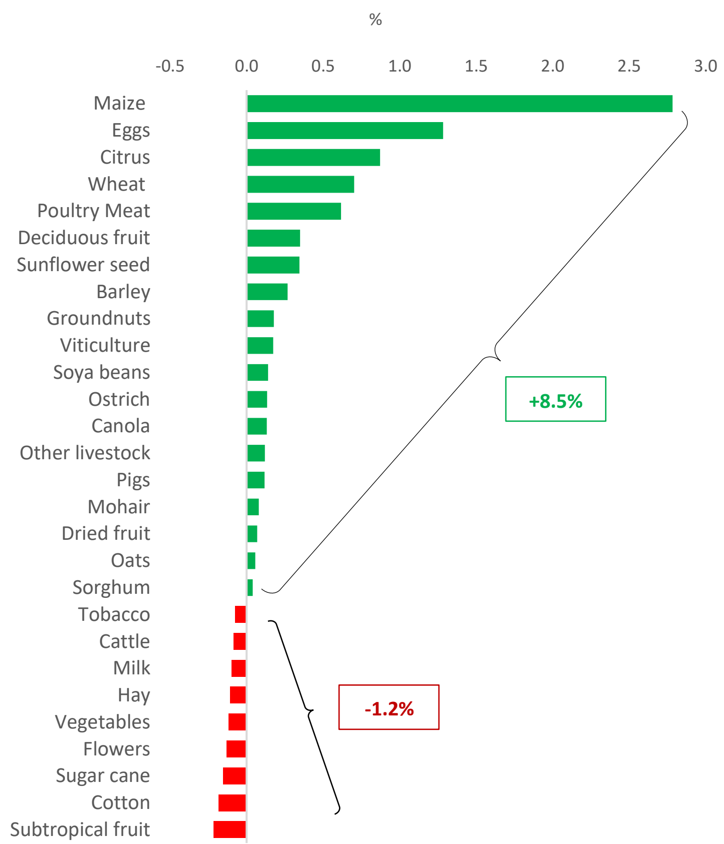
The large decline in economic activity in the farming sector between 2015-2016 and again in 2018-2019 was a result of drought conditions and the impact of animal diseases. It was, therefore, anticipated that there would be some form of a recovery in 2020. In its Baseline projection midway through 2020, BFAP suggested that the agricultural sector would grow by 13%. This estimate was based on the fundamental drivers affecting supply and demand, brought together in BFAP's partial equilibrium modelling framework. In a year with such volatility and multiple exogenous shocks to the economy, the modelling framework proved immensely valuable in quantifying these impacts and providing a reliable, consistent estimate of the sectors performance.

Figure 1: Real annual GDP



The major drivers behind the good performance are summarised in Figure 2, showing the contribution that each sub-industry made to real income growth between 2019 and 2020. The total farming sector income grew by 7.3%, of which the income in the maize industry contributed the largest proportion of 2.8%, followed by eggs (1.3%) and citrus (0.9%). 2020 was a good year for the citrus industry with the weak exchange rate and high demand as a result of COVID-19. These industries made a large contribution owing to their relative size and strong growth in output, whilst benefiting from fairly normal operations, despite the restrictions associated with COVID-19. In the case of citrus, the sector overcame many logistical challenges to export record levels, despite lockdown restrictions. Favourable weather conditions meant that field crops overall grew by 21%, whilst citrus expanded by 14%. Smaller industries that realised large increases in 2020 were oats, groundnuts, ostrich products, canola, mohair and barley.

Figure 2: Contribution to AGR-GDP growth



Whereas most sub-industries contributed to the positive growth picture in 2020, there were, however, some industries that also contributed negatively to the GDP. These were mainly affected by COVID-19 regulations and weak demand and include sectors such as flowers, tobacco and cattle farming. It is also expected that the full negative impact of COVID-19 on wine grape farming will be realised in the coming months. In aggregate, gross farm income expanded by around 7.3% in real terms, whilst the subdued inflation on agricultural input assisted the sector further, to get to the annual agricultural GDP growth of 13%.

QUARTELY PERFORMANCE

In the fourth quarter, South Africa's seasonally adjusted and annualised GDP increased by 6.3% in 2020. This is following the massive 67.3% increase in the third quarter after the easing of Covid-19 restrictions, which had devasted the economy in the second quarter of the year. The economy is still recovering from the effects of COVID-19, which saw many economic activities shutdown to curb the spread of the virus. The biggest contributor to GDP in the last quarter of 2020 was the manufacturing sector with a 21.1% contribution.

The agricultural sector's quarterly performance is often complicated given the timing of delivery by various subsectors, but still provide valuable insights to consider. Relative comparison of quarter 4 2020 numbers to that of quarter 4 2019 performance removes the need for seasonal adjustments and provides an alternative, simpler picture of agricultural performance in the past quarter. Real agricultural GDP expanded its run of consecutive quarterly growth since the fourth quarter of 2019, growing by 6% in the past quarter and 21% from the level observed in the same quarter in 2019.

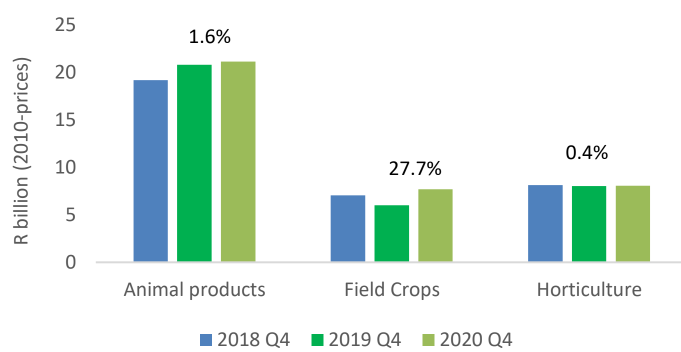
Figure 3: Quarterly AGR-GDP

The agricultural sector performed well in the fourth quarter of 2020, with all three sub-sectors showing real growth. As given in Figure 4, the GPV from animal products increased by 1.6% year on year, the major contributors to growth being eggs, pigs and goats. Although sheep production declined by 18%, growth continues to be supported by prices, which increased by 33%. However, in real terms growth in sheep income was negative, probably also since South Africa entered another round of stricter lockdown during the festive season.

Low pork prices, compared to other meat types, have resulted in a rise in the demand for pork as consumers look for a cheaper source of animal protein. The GPV for poultry increased by only 3.4% year on year in quarter 4. Chicken prices have remained stable throughout the year, with the weak Rand offsetting the lower international price. However, production volumes increased by 13% between October and November 2020, compared to same period in 2019. Real GVP for poultry meat therefore increased by 1.7% in this period.

Once again, field crops made the biggest positive contribution to agriculture's growth, with a 28% increase in GPV compared to Q4 of 2019. The winter grains and oilseed harvest were the main reason for this strong performance, with record harvests for wheat, barley and canola in the Western Cape. Compared to quarter 4 in 2019, the 2020 GVP for these industries had a combined increase of 45%. The large harvest was also supported by good price levels. In short, the GVP of wheat increased by 37% compared to 2019, while barley and canola rose by 68% and 74% respectively. Wheat value was largely supported by a 39% increase in production deliveries and 13% price increase compared to the same period in 2019.

Figure 4: Real Gross Farm Income



The GPV from horticulture showed the smallest growth of 0.4% year on year for quarter 4. The two biggest industries that normally contribute to growth during this part of the year is blueberries and vegetables, whilst the start of the table grape and stone fruit sectors also commence. Deciduous and other fruit's income grew by 3% in real terms in quarter 4, whilst vegetables sales was more or less at the same level as 2019. Unfortunately, the flower industry continues to be affected by weak demand and income in this sector is still 17% lower than 2019. The GVP of deciduous fruits only grew by 3% in the fourth quarter of 2020. This is largely a result of a slower start to the season due to weather conditions (lower heat units), which resulted in a 7–10-day delay in harvesting table grapes and stone fruits. Despite these delays, it is expected to be a good season, in terms of volumes. The COVID-19 pandemic assisted the horticulture industry and despite a sluggish local market, export volumes and a weaker exchange rate served the subsector well in 2020. However, it did come with some major logistical challenges.

Overall, the results from the fourth quarter, and the combined data for 2020, suggest that the agricultural sector had an exceptional growth year.