Perspectives on **AGRICULTURE's PERFORMANCE** in Q4 of 2021

Agriculture was the fastest growing sector in the South African economy for a second consecutive year in 2021. This publication provides context on the drivers of the sector's strong performance.

BFAP
DATA DRIVEN INSIGHT

Agriculture, forestry & fisheries was South Africa's fastest growing sector in 2020 and 2021. It was one of only four sectors that realised any growth over this period. In 2021, strong fourth quarter growth of 12.2% contributed to seasonally adjusted, annual agriculture GDP growing by 8.3%, almost double the growth for the national economy.

South Africa's seasonally adjusted GDP grew by 4.9% in 2021. Agriculture, which expanded by 8.3%, was the second fastest growing sector behind mining (11.8%). This expansion is well in line with BFAP's projection of 7.6% when the annual Baseline outlook was released in August last year. What makes this growth in agriculture more impressive is that it follows a 13.4% expansion in 2020, making agriculture the strongest performing sector since the start of COVID-19. The sector has been remarkably resilient during a challenging period, contributing hugely to growth and food security.

In the final quarter in 2021, the South African economy expanded by 1.2%. The strongest growth rates were observed for agriculture, forestry & fisheries (12.2%), followed by trade, catering & accommodation (2.9%), manufacturing (2.8%), personal services (2.7%), and transport, storage & communication (2.2%). The positive growth for agriculture follows a contraction in quarter 3, which was mainly driven by the timing of the field crop harvest rather than any substantial changes in annual production value.

In order to explain the drivers of Q4 performance, we briefly evaluate year-on-year changes across various sectors, comparing quarter 4 of 2021 to quarter 4 of 2020. This removes the need for seasonal adjustment. **Figure 1** (Green) shows the growth in real GDP for agriculture over time, based on this metric.

Since detailed value-added numbers per agricultural sub-sector is not published, we assess the sector's performance based on each specific industry's performance in terms of the Gross Value of Production (GPV = Price X Quantity Produced), as compiled by DALRRD (**Figure 2**).

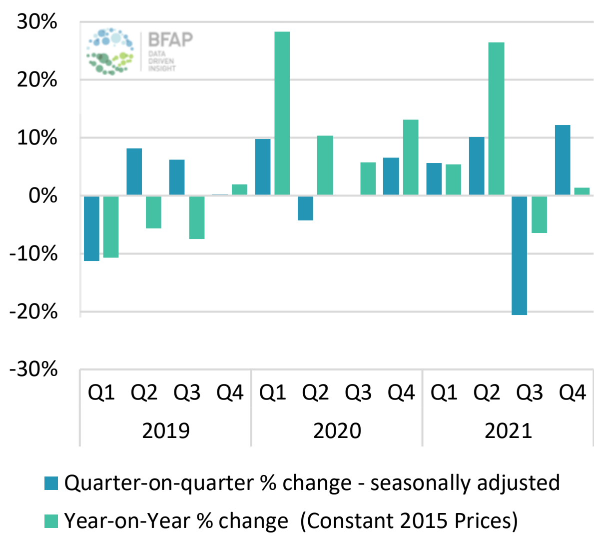

Figure 1: Year on year change in real (2015) agricultural GDP per quarter
Source: Stats SA, 2021

The growth in agricultural GDP in the fourth quarter of 2021 was driven mostly by a 11% increase in the gross production value from horticulture, followed by a 6% increase in the GPV of animal products.

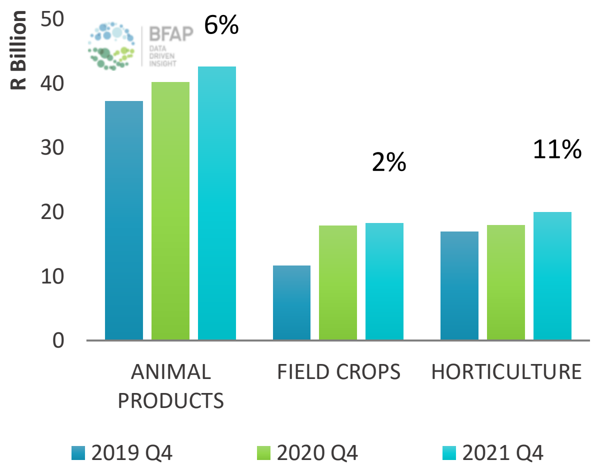

Figure 2: Nominal gross value of production per subsector
Source: DALRRD, 2021

Growth in field crops was the slowest in the last quarter of 2021, with a 2% increase in GPV y-o-y. In the fourth quarter, winter crops make the biggest contribution to field crop revenue. In this respect, the GPV from wheat production increased by 11% in Q4 of 2021 relative to Q4 of 2020, underpinned by a 19% increase in wheat prices and a 7% increase in deliveries. This reflects a bumper crop in 2021, sold at higher prices due to strong international markets. The GPV from canola also increased by 19% in Q4 2021 compared to Q4 2020, reflecting an all-time record crop, again sold at high prices. Conversely, barley GPV declined by

37% compared to Q4 2020, reflecting significantly reduced production volumes following intermittent bans on alcohol sales through 2020 and 2021. Consequently, the total barley crop in 2021 declined by 30% compared to 2020.

Animal products reflect sustained growth throughout 2021, with the sub-sector expanding by 6% in the last quarter of the year compared to the same period in 2020. High prices continue to support this growth in revenue, with the exception of pork industry, where prices declined by 8% in the final quarter of 2021. In revenue terms, this decline was more than offset by higher volumes, as higher slaughter numbers supported 10% growth in GPV in Q4 of 2021. The GPV from beef grew by 9% due to higher prices, which offset a modest contraction in slaughter volumes. Amongst the smaller red meat industries, the GPV from sheep and goats grew by 2% and 24% respectively.

The poultry industry is the biggest contributor to the GPV from animal products and it expanded by 6% in the fourth quarter of 2021, supported by high chicken prices. The average price for IQF mixed portions, which form the bulk of South Africa's market, was around R27 in Q4 of 2021, compared to R22 in the same period of 2020. This results from higher world prices, where the combination of animal disease and persistent high feed prices has constrained supply. While revenue performance from animal products was strong, feed prices in South Africa continue to rise and as the single biggest contributor to production costs in intensive production systems (such as pork, poultry and beef feedlots), this raises concerns around profitability.

The horticultural sub-sector was the star of the agricultural sector in the fourth quarter of 2021, showing an 11% increase in GPV compared to the same quarter in 2020. Despite logistical challenges throughout the season that may have delayed picking, packing, and shipping, high export volumes supported growth. The biggest contribution to the GPV from horticulture in the fourth quarter typically comes from a combination of table grapes, stone fruit and berries, together with the last exports from the pome fruit and citrus industries. In the deciduous fruit category, GPV grew by 11% in Q4 of 2021 relative to the same time in 2020.

The value of subtropical fruit exports increased by 3,3% compared to Q4 2020. Avocado prices seem to be stable despite growing global volumes, which is indicative of rising demand, especially in Europe. Banana sales on the municipal markets were up 12% for the year.

Generally, the logistical challenges and port related challenges delayed the horticulture season. This is reflected in the citrus industry, where exports peak in quarters 2 and 3, with limited final volumes shipped in Q4. However, due to the delays, Q4 orange exports were 1 million cartons (15kg) higher in 2021 than the comparable period in 2020.

The wine industry was another strong contributor to horticultural growth. Following the challenges of 2020, exports increased by 46% year-on-year for bulk products and 7% for packaged products. The year-on-year increase in export value of bulk and packaged exports was 7% and 9%, respectively. Considering only the final quarter of 2021, compared to Q4 2020, bulk exports were 80% higher, and total bulk export value increased by 67%.

We conclude this Quarterly GDP Brief by touching on some of the key factors that will inevitably impact agricultural growth for 2022. One of the greatest uncertainties in this regard is the unfolding conflict between Russia and Ukraine. Both countries are major exporters of wheat, maize and sunflower products. In light of concerns around export supply from the region, global prices of all these products have increased sharply, but where they peak will depend on the duration and outcome of the situation in Ukraine.

Ukraine's spring wheat should be planted in March and April, but given current state of affairs this is unlikely to happen. While spring wheat is a small share of the total crop, the winter wheat harvest is also due to commence by mid-year. Ukraine's ability to harvest this crop will be reliant on an end to the current invasion by Russia.

Russia in itself is a major supplier, typically contributing upwards of 15% of global wheat exports, is the major supplier of chemical fertiliser in the global market, and is a major exporter of petroleum products. Consequently, ongoing sanctions could restrict availability, not only of wheat, maize and sunflower oil, but also key inputs such as fertiliser. Combined with the sharp increases in Crude oil prices that are already evident, this could push input costs substantially higher, particularly for winter crop producers in South Africa, who will commence planting in April.

The turbulence in global markets will affect South African producers in multiple ways. Input costs, which already increased sharply in 2021, are likely to rise further. Rising grain and oilseed prices will further escalate animal feed prices, resulting in pressure on margins. These higher prices will however also result in increased revenue for field crop producers.

South Africa produced a bumper wheat crop in 2021, but remains a net importer and therefore prices have already increased sharply and will likely remain high this year. Similarly, as a net importer of vegetable oils, prices tend towards import parity levels and despite estimates of bumper summer oilseed crops, prices have been supported by international levels.

If international prices remain at current levels for most of 2022, and inputs remain readily available, albeit at a higher cost, South Africa's real agricultural GDP could expand for a third consecutive year. Of course this situation can change quickly as international factors evolve. Given that stock levels were already low and that weather concerns in South America remain, there is further risk on the upside in the global market space. Likewise, if a peaceful resolution can be reached in the Black Sea region and other Northern Hemisphere producers have favourable conditions, prices could ease later in the year.

From a consumer perspective, the global market situation, combined with high energy and manufacturing costs implies that, unfortunately, food inflation will continue to rise. This despite the fact that South Africa is expected to produce another big summer crop this year. First estimates from the Crop Estimates Committee will likely result in a substantial exportable surplus.

IN SUMMARY...

...the horticultural sub-sector has been the star of the agricultural sector in the fourth quarter of 2021 with an 11% growth in GPV. Despite logistical challenges, high production levels as well as strong global demand has resulted in high export volumes and value.

High animal protein prices continue to support growth in the animal products sub-sector despite relatively low slaughter numbers, particularly in the red meat industry. Field crops reflected the slowest growth in the last quarter of 2021 with only a 2% increase in the GPV compared to the same quarter in 2020, but this follows an already very strong performance in 2020 and therefore occurs of a larger base.

Given the situation in the Black Sea region and resultant high world prices, South Africa's agricultural sector is likely to expand, in real terms for the third consecutive year in 2022.