



Perspectives on **AGRICULTURE'S PERFORMANCE** in Q3 of 2022

This publication contextualises the latest release of GDP statistics by StatsSA and provides insights on the major factors driving agriculture's contribution to GDP.

12 December 2022



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INSIGHT

South Africa's agricultural GDP rose by 22.3% year on year in the third quarter of 2022 – a correction from the sharp decline in Q2 due to the delayed maize harvest.

South Africa's seasonally adjusted GDP rose by 1.6% in the third quarter of 2022. Agricultural production, together with finance, transport, manufacturing, and mining were the biggest contributors to this growth.

On a seasonally adjusted basis, the agricultural sector grew by 19.2% from quarter 2 to quarter 3 of 2022. Compared to the third quarter of 2021, however, the sector shows a growth of 22.3% (Figure 1). This is on the back of strong field crop output, with strong volumes and high prices emanating from global dynamics. As we indicated in our previous brief, we were anticipating a sharp rise in growth in Q3 just based on the delayed maize harvest where typical Q2 deliveries only came in Q3, which was a major driver in the contraction in agricultural GDP in Q2.

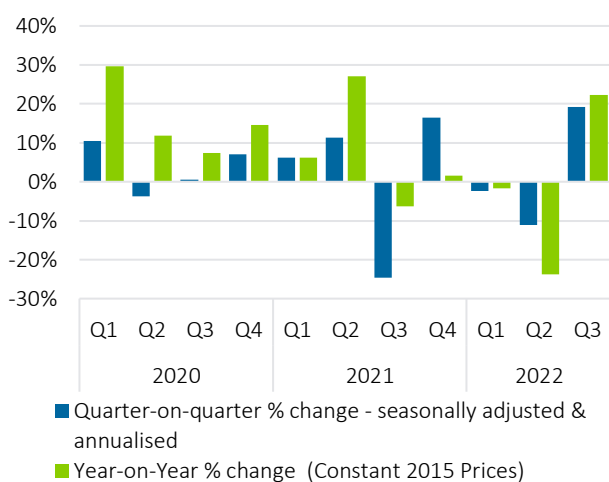


Figure 1: Change in real agricultural GDP per quarter

Source: Stats SA, 2022

While the detailed value-added number per agricultural sub-sector is not published, the disaggregated Gross Value of Production (GVP = Price X Quantity Produced) per industry, as compiled by DALRRD, provides some indication of the main drivers behind the agricultural sector's performance in the third quarter of 2022.

As expected, the largest contributor is the field crops sub-sector, with income more than doubling in the third quarter of 2022 compared to the same period in 2021 (Figure 2). The animal sub-sector was the second biggest contributor, with a 7% growth year-on-year (y-o-y), followed by horticulture with a growth of 5%.

The growth experienced in the field crops sub-sector is on the back of a favourable summer crop harvest in the 2021/22 season coupled with high grains and oilseed prices as well as the delayed grain harvest. Overall, white maize, yellow maize, and soybean deliveries more than doubled in the third quarter compared to the same period in 2021, while sunflower output rose by 66%. Considering the latest estimates from the Crop Estimates Committee, the total maize crop of 15.3 million tonnes is 5% smaller than the bumper harvest of 2021, but still well above average, whereas soybean production increased by 16% y-o-y to an all-time high of 2.2 million tonnes.

Grains and oilseed prices have also been favourable in this season. Maize prices rose by 36% over third quarter 2021 levels, while sunflower and soybean prices rose by 12% and 15%, respectively. Price gains were supported by global factors, where weather conditions in key production regions (mainly Argentina with the worst drought in fifty years), combined with the ongoing war in Ukraine, has raised supply concerns. Furthermore, the GVP of wheat rose by 5%, more due to high wheat prices than to output.

The cattle and poultry industries contributed 65% of the growth in the animal sub-sector. Because cattle slaughter numbers remain low, high beef prices are the major driver of revenue gains in the industry, with prices rising by 16% in the third quarter of 2022 compared to 2021. Similarly, poultry prices in Q3 of 2022 were 18% higher than the same period in 2021. However, increased production also contributed to the growth of the poultry industry in the third quarter.

The GVP of both the pork and sheep industries rose by 5% in the last quarter compared to the same period last year. Sheep slaughters continue to be on the decline with a 4% decrease compared to Q3 of 2021, however, prices continue to support revenue growth in the industry with a 7% increase y-o-y. Investments in pork production have resulted in higher pig slaughters throughout the year and the third quarter was no exception - pig slaughters rose by 4% in the third quarter. For the first time this year, the third quarter saw pork prices also increase by 4%, following improved global prices and a weaker exchange rate.

While revenue performance from livestock production has been strong, persistently high feed prices continue to strain producer margins.

The GPV from the horticulture subsector increased by 5% in the third quarter of 2022 compared to the same quarter last year. Good yields translated in good export volumes, with new trees coming into production also supporting volume growth. However, several factors are contributing to lower per unit returns at farm level. Lacklustre markets, with consumer spending under pressure, together with increases in downstream costs in the value chain, are impacting negatively on producers, who are already squeezed by substantial input cost increases on farm level. While general freight rates have declined, reefer¹ container freight rates are still increasing, which is a major concern and major cost variable for fresh produce exporters. Consequently, the increases recorded in farm gate revenue are likely insufficient to cover costs and provide producers with sustainable returns, especially considering the additional volumes harvested, packed, and transported.

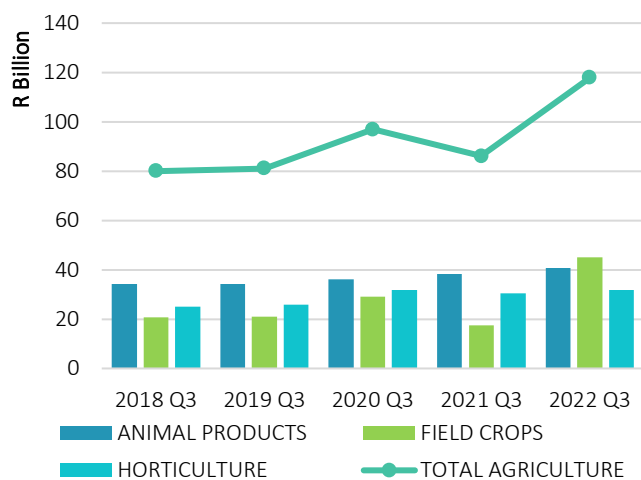


Figure 2: Nominal gross value of production per subsector

Source: DALRRD, 2022

The GVP of the citrus industry rose by 4% and was by far the biggest contributor to the growth of the horticulture sub-sector in Q3 of 2022. Revenues for citrus were largely driven by exports. In the export period of weeks 28-40, for example, South Africa exported 30% more oranges year-on-year, 30% more lemons, 24% more soft citrus and 19% less grapefruit. The difference in 15kg equivalent cartons for the quarter is close to 20 million cartons – 94.4 million cartons in 2022 Q3 compared to the 74.7 million for the same period last year. The smaller 4% y-o-y increase in citrus revenue is the result of the higher costs in the value chain. In addition, primary

production costs have also increased, resulting in marginal to negative net returns realised this season.

Deciduous fruit had a GVP growth of 7% in Q3 of 2022 and, like citrus, exports are the major driver of revenue. The bulk of deciduous fruits traded in Q3 are pome fruit. During Q3, 12.5 million cartons of pome fruit were exported, compared to the 10.7 million cartons for the same period last year (12.5 kg carton equivalent). Apple exports increased by 11% for Q3, when compared to 2021 Q3, and pear exports by 34%. Whilst good weather conditions favoured good yields, the industry was negatively affected by the sudden closure of the Russian market when Russia invaded Ukraine earlier in the year. Consequently, some redirection of fruit was required, resulting in delayed exports and market corrections. Also, like citrus, lower farm gate returns per unit are affecting overall income.

Vegetables contributed about 21% to the total GVP of the horticulture sub-sector. Some of the biggest contributors include potatoes, tomatoes, and onions. For potatoes, volumes sold at the municipal markets increased by 21% y-o-y for Q3, but with an associated drop in value of 20%. Conversely, onion sales in volumes were down 11%, but value increased by 75%, with the price per kilo almost doubling y-o-y for the quarter. Like onions, the tomato sales volume has declined, with a price response that resulted in an increase in sales value.

IN SUMMARY...

...South Africa's seasonally adjusted GDP rose by 1.6% in the third quarter of 2022. The agriculture sector was one of the biggest contributors to this growth – partly due to the delayed maize harvest.

The strongest performance within agriculture came from field crops – where another good harvest was accompanied by high prices resulting from global dynamics. However Q3 performance was also supported by delays in the maize harvest and therefore represents some correction from the Q2 decline.

¹ A shipping container which is equipped with a generator which cools the content of the container