

Perspective on agriculture's performance in Quarter 3 of 2018

In the third quarter of 2018 (Q3), South Africa exited a technical recession after two consecutive quarters of GDP contractions: 2.6% in Q1 and 0.4% in Q2. The secondary and tertiary sectors were the main drivers behind the growth in Q3, while the agricultural sector also reported positive GDP growth. Figure 1 presents the change in real (2010) agricultural GDP per quarter, relative to the same quarter of the previous year. Due to agriculture's seasonal nature, combined with volatility in weather conditions and its different impact on various subsectors, BFAP prefers comparisons relating quarterly performance to the same quarter of the previous year, as opposed to annualised quarter on quarter movements. By this annual metric, agricultural GDP in Q3 2018 grew by 1.2% from Q3 in 2017 (StatsSA, 2018).

Agriculture's performance in 2017 was remarkable due to a number of factors, including high international prices in horticulture, as well as an all-time record summer crop after a drought stricken 2016 production season. A contraction from this all-time high was always expected in 2018. Comparing year on year movements for each quarter, agricultural GDP declined by -3.2% in Q1 2018 - reflecting the Western Cape drought's impact in the horticulture sector, a further -6.9% in Q2 2018 – due largely to the normalisation of the summer crop, and in turn increased by 1.2% in Q3. Overall, over the first three quarters of 2018, the agricultural GDP has declined by 8.9% in 2018 relative to the same period in 2017.

To provide more detail on the sectors responsible for the decline in 2018, as well as the seasonal nature of agriculture's contribution, Figure 2 provides the real gross value of agricultural production, disaggregated by subsector, since 2012. It illustrates clearly that the gross value of field crop production typically peaks in Q2, while the gross value of animal products typically peaks in Q4. Due to some late plantings in the western parts of the summer production region (especially sunflower and maize), a large part of the harvest was only delivered and recorded in Q3 of 2018, hence field crops reflect a smaller than usual decline from Q2 to Q3.

Field crops was the largest contributor to the increase in agricultural GDP in Q3 2018 relative to Q3 of 2017, as the gross value of field crop production increased by 17% in real (2010) terms. Within the field crop sector, significant increases were evident for maize (17%), sunflower seeds (126%), wheat (122%) and cotton (142%).

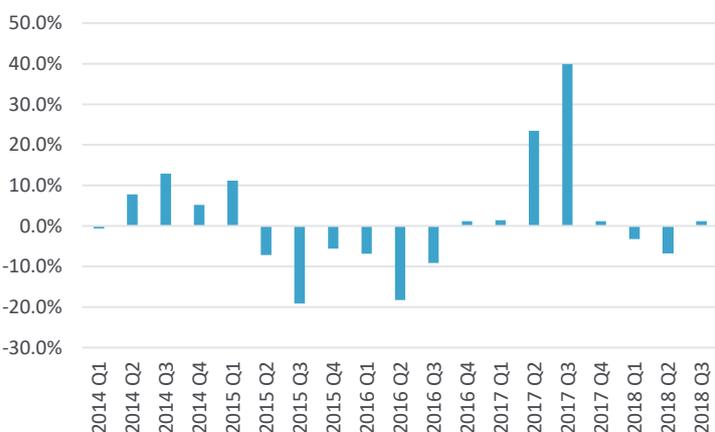


Figure 1: Year on year change in real (2010) agricultural GDP per quarter (e.g. 2018 Q1 vs. 2017 Q1)

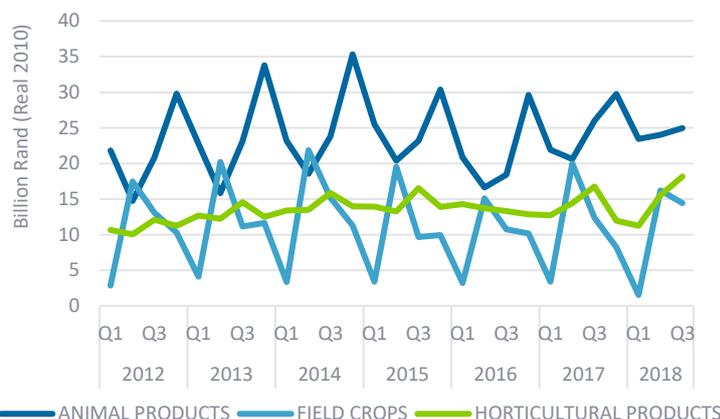


Figure 2: Real (2010) gross value of production per subsector

These significant increases in summer crops are attributed more to the lateness of the harvest than its total size and value contribution. Annual maize production in 2018 for instance is estimated to have declined by 3.9 million tonnes (23%) since 2017. However, the average SAFEX maize price increased by 27% between September 2017 and September 2018. This resulted in a net effective decrease of 20% in the gross value added over the first 3 quarters (2017 vs. 2018). Thus the increase from Q3 2017 to Q3 2018 is merely a result of the harvest being delivered later than usual. The same is true for sunflowers, where the harvest was also late. Conversely, in the case of wheat, the increase is attributed both to an early start to the season, as well as an expansion in total crop size from 2017.

The real gross value of animal products decreased by 4% in Q3 2018 relative to Q3 in 2017. While eggs (16%) and poultry (3%) increased their production value, cattle (-2%) pork (-12%) and sheep (-14%) products contracted in real terms relative to Q3 2017. Typically, the gross value of animal products peak in Q4, due to the cyclical upswing through the festive season. Despite this quarter on quarter increase, the gross value of animal products in Q4 2018 is still expected to be below that of Q4 2017. Supply remains constrained and in a generally weak consumer spending environment, price increases may be smaller than normal. In the case of beef, prices have declined in recent weeks.

The real gross value of horticultural production increased by 8% from Q3 2017 to Q3 2018. Citrus (86%), deciduous fruit (28%), dried fruit (10%) and nuts (8%) were the largest contributors to the increased value of production in real terms. The bulk of seasonal citrus crop value of production is apparent in Q1 while the bulk of the deciduous and dried fruit crop value of production is typically recorded in Q3. The BFAP Baseline 2018, estimates pome fruit and stone fruit production to decrease by 7.7% and 0.8% respectively, while average local prices increase by 9.2% and 4.6%. The depreciation of the exchange rate, peaking at R15.41/USD in September 2018, positively affected South Africa's competitiveness in export markets and also increased export prices in Rand terms.

High fuel prices during the past few months together with an increased minimum wage and rising feed costs will increase production cost and likely increase pressure on farm profitability. This has the potential to impact negatively on agricultural GDP, which may again come under pressure in Q4. Some recovery is expected in 2019 however, provided the summer crop currently being planted comes in at average levels. The current warm and dry conditions do pose some a risk to the eventual size of this crop.