



Perspectives on **AGRICULTURE'S PERFORMANCE** in Q1 of 2022

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

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SOUTH AFRICA'S SEASONALLY ADJUSTED GDP GREW BY 1.9% IN THE FIRST QUARTER OF 2022. THE AGRICULTURAL SECTOR GREW BY 0.8% QUARTER ON QUARTER, AS SHARP COST INCREASES NEGATE MUCH OF THE REVENUE GAINS. NEVERTHELESS, THE SECTOR CONTINUES TO CONTRIBUTE POSITIVELY.

The largest contributors to national GDP growth were the manufacturing, trade, catering & accommodation, and electricity, gas, and water sectors, contributing 4.9%, 3.1% and 2.0%, respectively.

On a seasonally adjusted basis, the agricultural sector grew by 0.8% from quarter 4 in 2021 to quarter 1 of 2022. Compared to the first quarter of 2021, the agricultural sector expanded by 3.6% year on year (see **Figure 1**). While growth has slowed in the face of rising costs, agriculture remains one of few sectors that contributed consistent positive growth in recent years.

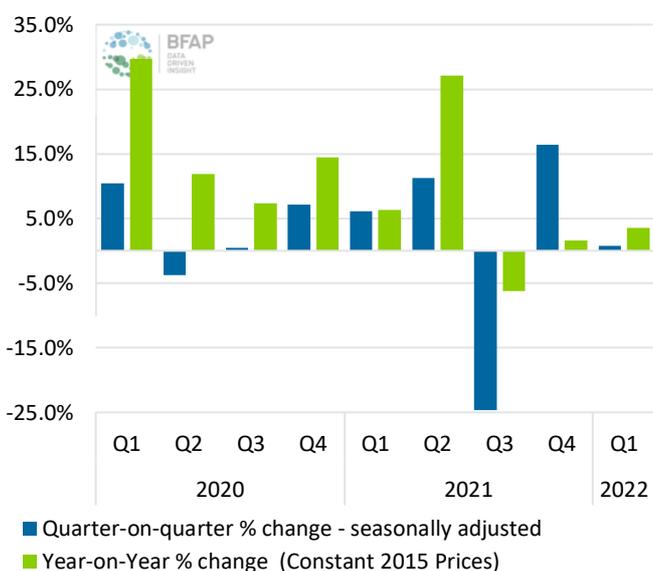


Figure 1: Year on year change in real (2015) agricultural GDP per quarter

Source: Stats SA, 2022

Although the GDP growth rates per agricultural sub-sector are not published, the disaggregated Gross Value of Production (GVP), as compiled by the Department of Agriculture, Rural Development and Land Reform (DALRRD), provides some indication of the main drivers behind the agricultural sector's performance in the first quarter of 2022.

All three subsectors contributed positive revenue growth, with the fastest growth rate attributable to field crops at 11%, followed by horticulture (5%) and animal products (2%) (Figure 2). While revenue generated by field crops grew faster, it is a very small contributor in the first quarter, as the winter harvest (mostly wheat) is typically completed, and summer crops are harvested predominantly in the second and third quarters.

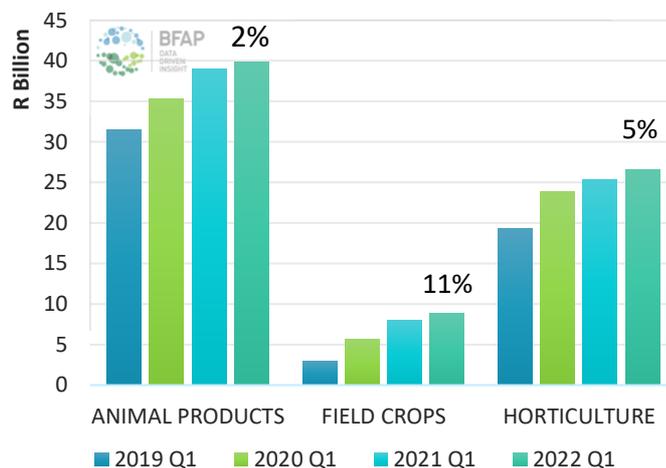


Figure 2: Nominal gross value of production per subsector

Source: DALRRD, 2022

Growth in field crops was supported by price gains across most of the sector, resulting from international market dynamics. Supply constraints and declining stock levels in the international market, which had already pushed prices higher over the past 18 months, were exacerbated by Russia's invasion of Ukraine in February 2022. Both Russia and Ukraine are important exporters of maize, wheat and sunflowers, hence the ongoing war further accelerated the runup in international prices. Revenue also benefitted from increased output volumes, with additional early deliveries of yellow maize compared to 2021 and a bumper wheat harvest the major contributors.

Gross income in animal products grew slower than other subsectors at 2%, but it remains the biggest contributor to absolute growth in GVP at this time of year. Despite rapid meat price increases since mid-2020, livestock slaughter volumes have been decreasing, thus limiting revenue growth. In the first quarter of 2022, compared to Q1 2021, beef prices increased by 12%, sheep meat prices by 4% and poultry prices by 17%. These increases reflect the combination of tight supplies, particularly for beef and sheep, and rising global prices, particularly for beef and poultry. Cattle and sheep

slaughters dropped by 3% and 5%, respectively, while poultry slaughters grew by 4%, reflecting investments into expanding the sector following the conclusion of the poultry masterplan. In the pork industry, these dynamics were reversed – following production expansion in the last few years, slaughter volumes increased sharply, but this weighed on prices. With international markets also trending lower in the first 2 months of 2022 as production in China continues to expand, pork prices in South Africa declined by 16%. This was, however, more than offset by additional volumes, resulting in positive revenue growth for the industry.

Despite positive revenue gains in the livestock sector, profitability is coming under increasing pressure due to persistent increases in feed costs. These increases have been ongoing over the past 18 months, but have accelerated due to the war in Ukraine and weather related concerns that have delayed summer crop plantings in the USA. Consequently, feed costs are rising further in quarter 2 and hence profits will also come under further pressure.

In the horticulture sub-sector, revenue grew by 5% in the 2nd quarter of 2022 compared to the same time last year. Despite this positive revenue growth, the sub-sector faces several challenges that have brought profitability under pressure. These include extreme freight cost increases, challenges in both domestic and global ports that continue to hamper trade, as well as drastic increases in production costs. The sub-sector is also hit by the added challenge of fruit earmarked for the Russian market not trading as normal. Changing markets is not as simple as merely loading a container to another port, as consumer trends are country specific and produce earmarked for the Russian market cannot simply be absorbed by another destination.

Despite these challenges, the citrus industry was quicker out of the blocks, with close to 2 million cartons of lemons exported in Q1 compared to the 1,79 million in Q1 of 2021 and growing by 11% year-on-year for the quarter. Hail in December in parts of Limpopo and Mpumalanga affected the avocado crop, resulting in a downward adjustment

of the initial export estimate from 17.2 million cartons (4kg equivalent) to 15.5 million cartons. Some of this is already observed in the Q1 avocado exports. However, guava and mango exports increased significantly in Q1 of 2022 (compared to Q4 and Q1 of 2021).

Over time South Africa's table grape and stone fruit seasons have shifted to later into the season, meaning lower volumes harvested and traded in Q4 and more in Q1 and some in Q2. This has resulted in higher total traded value due to additional volumes in quarter 1 compared to quarter 4. Overall, the GVP of deciduous fruits increased by 6% in quarter 1 of 2022 compared to the same quarter in 2021. Profitability at farm level, however, remains constrained and a concern. Delays in the supply chain often result in quality claims filtering through the chain only once produce has arrived, the quality has been assessed and financial compensation for delivery are being processed.

The wine industry continues to export additional wine in bulk as stock levels grew substantially during the multiple restrictions on the transport and sale of alcohol during the pandemic. Although, quarter-on-quarter, total wine exports are 18% lower, the 103 million litres exported in Q1 of 2022, of which 33% was packaged and 67% was bulk, is still 26% more than what was exported in 2021 Q1.

IN SUMMARY...

...the agricultural sector has been one of the strongest performers in the South African economy in recent years, but growth is expected to slow in 2022. While prices are high, production costs increased very sharply and continue to rise with the war in Ukraine ongoing. Logistical constraints are another factor that will bring profitability under pressure. Despite the challenges facing the sector, it grew by 3.6% in the first quarter of 2022.