



Perspectives on **AGRICULTURE's PERFORMANCE** in Q2 of 2022

This publication contextualises the latest statistical GDP release 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 DECREASED BY 0.7% IN THE SECOND QUARTER OF 2022.

South Africa's seasonally adjusted GDP decreased by 0.7% in the second quarter of 2022. The biggest contributors to this contraction were agriculture, forestry & fisheries (-7.7%), followed by manufacturing (-5.9%), mining & quarrying (3.5%), construction (-2.4%) and trade, catering, and accommodation (-1.5%).

On a seasonally adjusted basis, the agricultural sector contracted by 7.7% from quarter 1 to quarter 2. Compared to the second quarter of 2021, however, the sector contracted by 20.9% (Figure 1). This follows a slower summer crop harvest, and a sharp rise in input costs, which more than offset revenue gains.



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

Source: Stats SA, 2022

Although 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 second quarter of 2022.

The largest contributor to agricultural revenue in the second quarter is the animal products sub-sector, where revenue expanded by 19% compared to Q2 of 2021. Field crops showed a decline of 14% compared to the same period of analysis in 2021, while the horticulture subsector

reflected growth of 4% (see Figure 2, detailing the GVP of each of the three sub-sectors in agriculture in the last four years).

The field crops subsector is the only subsector where revenue contracted in the second quarter of 2022 compared to the same period in 2021. This can largely be attributed to a decline in the GVP of major summer crops such as maize which contributes almost 40% to the GVP of field crops. Despite the price of both yellow and white maize increasing by an average of 37% y-o-y, the crop is smaller than in 2021, though it is still well above average. More importantly, maize was harvested later this year – hence a substantial share was delivered in July and will thus reflect in quarter 3. The result is a 55% decline in producer deliveries in quarter 2 and thus, despite the higher price, a 43% decline in the GVP of maize y-o-y. BFAP expects a strong rebound in growth from this sub-sector in quarter 3, due to the delay in deliveries and we expect the annual GDP for grains and field crops to come out positive despite the sharp decline in quarter 2.

Contrary to maize, revenue from the soybean sector increased by 38%. This follows a 19% increase in output together with a 27% rise in prices. Furthermore, Russia's invasion of Ukraine also resulted in trade and supply chain disruptions that affected prices for multiple commodities. Ukraine is a major supplier of sunflower and sunflower oil into the global market and hence the average global price of sunflower rose by 55% from an average of \$667.42 in Q2 2021 to \$1040.49 in Q2 of 2022. Locally, sunflower prices rose from R8 591.61 in Q2 of 2021 to R10 642.17 in the second quarter of 2022.

Both Russia and Ukraine are also in the top 5 largest exporters of wheat globally. Consequently, global wheat prices increased by 72%, which underpinned a more than 50% increase in the South African wheat price in the second quarter of 2022 compared to the same period in 2021. This rise in prices was the biggest contributor of wheat GVP in Q2 2022 compared to Q2 2021.

Animal products were the largest contributor to the income in the agricultural sector. Red meat prices have increased consistently - the price of beef rose by 15% while that of sheep meat rose by

11% in Q2 of 2022 compared to the same period in 2021. During the same period of analysis, sheep slaughters have continued drop showing a 6% decline while that of cattle rose slightly by 2%. Although the price of pork dropped by 7%, the rise in slaughters offset the price drop resulting in the industry revenue growing by 15% y-o-y.

In a period of high red meat prices, poultry remains an affordable source of animal protein. The gross value of production for chicken grew by 15% while that of eggs grew by 26% in the second quarter of 2022 compared to the same period in 2021, mostly underpinned by price gains. Importantly, the high prices that were realised in the field crop sector are also key cost drivers for animal products that rely heavily on feed. Consequently, while revenue from animal products increased by almost 20%, the sector faces enormous cost pressures, which limit GDP growth.

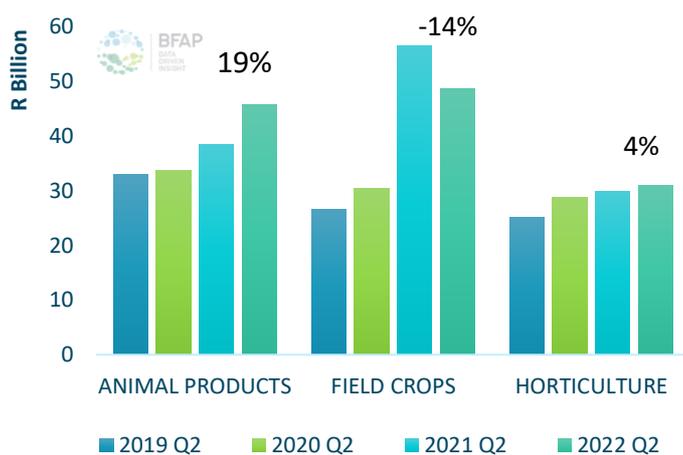


Figure 2: Nominal gross value of production per subsector
Source: DALRRD, 2022

The GPV from the horticulture subsector expanded by 4% in the second quarter of 2022 compared to the same quarter last year. Despite the small improvement in revenue, the sub-sector continues to experience some major challenges affecting the trade of products and profitability. It has also faced substantial cost increases.

The citrus season was slightly late on the early harvesting, packing, and trading – moving some product from Q1 into Q2 and Q2 into Q3. Although much of the citrus is marketed in Q3, and the industry experienced some logistical challenges with the flooding in Durban and continued global

logistical crisis, the industry has managed to grow by 4% in quarter 2 of 2022 compared to Q2 2021. Although a small contributor to total citrus GPV, volumes in the local market also increased.

Deciduous fruits revenue grew by 13% y-o-y. This can largely be attributed to a 4% increase in apple export volumes and 21% increase in pear export volumes compared to the same period last year. Some of the pears increase in Q2 is because of Russia’s invasion of Ukraine, causing a temporary break in the flow of pears to the Russian market in Q1, with the industry catching up on some trade volumes in Q2. Plums, peaches, and nectarines were affected by the global logistics crisis and specifically also at the Cape Town container terminal, delaying exports in Q1 and resulting in an increase in Q2, compared to last year Q2. As a result, plum exports were 17% higher in 2022 Q2 than in 2021 Q1, and peaches and nectarines were 210% higher, albeit from a much lower base. Although the table grape export season finished very late, shifting more volumes from Q1 into Q2, this has negatively affected quality and income generated from the traded volumes. Industry figures show that the YoY increase in table grape exports in Q2 is more than 3.7 million cartons.

The viticulture industry had a 6% decline in gross value of production in Q2 of 2022 compared to Q2 2021. We continue to see the drive of bulk wine exports as the industry actively attempts to reduce stock levels. Bulk export prices have recovered somewhat after slumping last year due to increased volumes.

IN SUMMARY...

...the agricultural sector has been affected by global disruptions to commodity supplies as well as logistical challenges as economies recover from the Covid-19 pandemic and more recently, the war in Ukraine.

Despite high commodity prices, late summer crop deliveries affected output in the second quarter of the year resulting in a 14% drop in gross value of production compared to Q2 2021.