



Perspectives on **AGRICULTURE'S PERFORMANCE** in Q4 of 2022

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

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South Africa's seasonally adjusted quarter-on-quarter GDP dropped by 1.3% in the fourth quarter of 2022. According to StatsSA, only three out of the ten sectors of the economy showed growth. The transport, storage and communication sector grew by 0.7%, followed by the construction sector (0.5%) and personal services (0.2%).

On a seasonally adjusted basis, the agricultural sector contracted by 3.3% from quarter 3 to quarter 4 of 2022, the largest decline amongst the various sectors of the economy. Compared to the fourth quarter of 2021, however, agriculture grew by 10.6% (Figure 1). For the full year 2022, agriculture grew by only 0.3% - substantially slower than the two preceding years. Revenue growth was supported by both the animal product and field crop sector, but income costs increased sharply, limiting GDP gains.

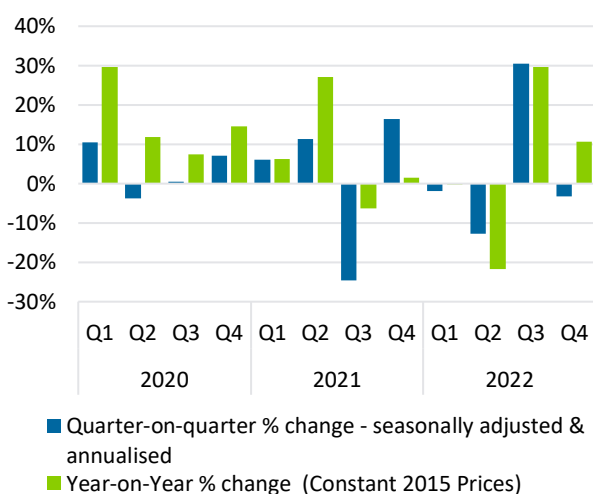


Figure 1: Change in real agricultural GDP per quarter

Source: Stats SA, 2023

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 the National Department, provides some indication of the main drivers behind the performance in the last quarter of 2022.

2022 brought on a plethora of global and domestic challenges for the agricultural sector, and in

particular for export orientated industries. The fourth quarter of 2022 also came with the added challenge of increased loadshedding. This affected production processes of the more intensive industries such as poultry and dairy as well as irrigation of crops, orchards, and vineyards. Through the value chain, it influenced timing and throughput of product at packhouses, processing facilities and cold storage facilities.

Despite these challenges, the GVP of field crops grew by 15%, animal production grew by 13% and horticulture by 2%. Strong revenue is indicative of persistently high world prices, but many of the challenges facing the sector relate to cost increases, which already has, and will continue to weaken GDP performance going forward.

The growth in revenue from animal production was supported by a 26% rise in the gross value of production for pork, followed by a 19% rise in the GVP of poultry and a 9% rise in the GVP of beef. Although pig slaughters declined by 2% between quarter 4 of 2021 and the same period in 2022, the price of pork rose by 26% from an average of R25.49 in 2021 to R32.14 in 2022. Similarly, although cattle slaughters declined by 7% in Q4 of 2022 compared to Q4 of 2021, beef prices rose by 11% between the two periods. The growth in poultry GVP was also supported by an increase in prices, with the price of IQF rising by 12%. Poultry production volumes however declined, largely due to prolonged cost pressures, as well as persistent loadshedding that affected slaughter schedules in December, resulting in supply challenges to some food service outlets.

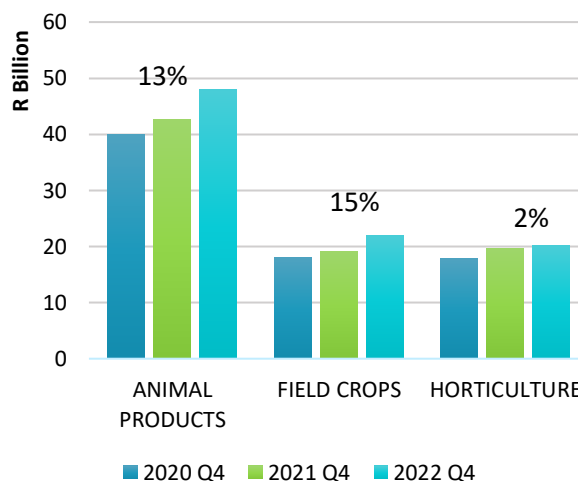


Figure 2: Nominal gross value of production per subsector

Source: DALRRD, 2023

With the largest producer deliveries of summer crops being in the second and third quarters of the year, approximately two-thirds of the growth in field crops GVP was due to contributions from wheat (50%), canola (10%) and barley (6%). This growth in winter crop revenue was largely supported by higher prices, as opposed to increased output, due to challenging weather conditions in the growing regions. Although the output of barley declined by 9% in Q4 of 2022 compared to the same quarter in 2021, prices rose by almost 20%.

The gross value of production of wheat grew by 7% in the last quarter of 2022. This growth was largely supported by high prices, with wheat output declining by 12% following challenging weather conditions in the Western Cape. Prices rose by 17% comparing Q4 of 2022 with the same period in 2021 primarily due to the depreciation in the Rand, as South Africa remains a major importer of wheat. Canola was the only winter crop that showed growth in output, at 7%. Despite a 2% decline in prices, the GVP of canola rose by 27% in Q4 of 2022 compared to the same quarter in 2021.

The horticulture sub-sector recorded a growth of 2% in the fourth quarter of 2022, amid global and domestic challenges, particularly for the export orientated fruit and nuts industries. Most fruit and nut products are export orientated, with bananas, avocados, and wine the only industries that realise considerable returns domestically. In contrast, most vegetables, which contribute 27% of horticulture's total GPV, are traded on the local market.

Apart from onions, where prices were three times higher in Q4 of 2022 compared to Q4 of 2021, unit prices generally declined across major locally traded vegetables and fruit. Consequently, the 13% and 7% y-o-y increase in Q4 GPV of the subtropical fruit and vegetable industries respectively, was primarily a function of volume.

For both bananas and avocados, the Q4 and full year volumes sold at municipal markets increased

by more than 40%, yet total sales value increased by less than 20%. Thus, whilst additional volumes are driving GPV growth, producer returns are declining.

In addition to onions, tomatoes and potatoes are some of the other major contributors to the total industry value of output. Q4 of 2022 compares well with the same period of the previous year in terms of tomato sales on local municipal markets, which recovered slightly towards the latter part of 2022 in terms of market supply. Despite comparable supply in the 4th quarter, total supply for the year decreased by 10%, with a price response that resulted in a 6% year-on-year increase in value. Conversely, while year-on-year potato volumes sold at the municipal markets declined (-8%), growth was positive for the final quarter of the year (+7%). In both instances – for Q4 and the full year – total sales value is down, with a reduction of 10% in prices. Considering that the reduction in value exceeded the reduction of supply, it is believed that the reduction in demand is linked to lower consumer spending.

Shifting from local market to exports, the culmination of the constraints faced in the fourth quarter of 2022 was a slight (-1%) decrease in the GPV for deciduous fruits despite the weakening of the rand. Selective removal of unproductive table grape and stone fruit hectares over the past year, together with heat waves during blooming, poor fruit set and subsequent lower yields have reduced production prospects. Furthermore, challenges at the Cape Town port and more stringent requirements for packing of exports have further dampened value expansion in the deciduous fruit category.

The 12% increase in Q4 and full year GPV of the nut industry corresponds with a reported decline in the unit values of these products. These findings are based on large scale growth in export volumes whilst total value only grew moderately. A year-on-year increase in export volumes was reported at 41% in macadamias (nut in shell), 5% in shelled macadamias and 48% in pecans.

The largest share of the 6% year-on-year growth in horticulture GPV for the full year 2022 is the result of positive returns on citrus, deciduous fruits and vegetables. Compared to 2021, 10.8 million more cartons of citrus (+7.4%) were exported in 2022. The 6% year-on-year increase in the citrus GPV was, therefore, mostly driven by a volume expansion, rather than price support. Similarly, apple (+7%) and pear (+19%) exports have also increased, with pome fruit being the single biggest commodity group contributing to the deciduous fruit industry, followed by table grapes and stone fruit.

Despite the growth in revenue in the three sub-sectors of agriculture, production costs have increased significantly, which has had a negative impact on the overall performance of the sector in quarter 4 of 2022. **Figure 3** provides a combined measure of agricultural production costs, which includes machinery and implements, material for fixed improvements, and intermediate goods. While the increase of 14% is substantially higher compared to most of the past decade, it still pales in comparison to the much sharper increase in some of the individual cost components, such as fertiliser, fuel and chemicals. Animal feed prices also remain at record levels and so increases in some individual subsector cost indices are substantially higher than the combined number.

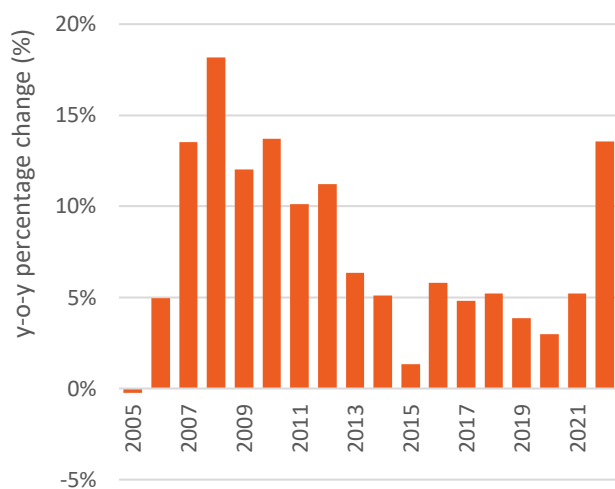


Figure 3: Combined farming requisite price index
 Source: DALRRD, 2023

IN SUMMARY...

...Agriculture was the strongest performing sector of South Africa's economy through 2020 and 2021, but a myriad of challenges contributed to much reduced growth of only 0.3% in 2022.

While revenue performance was strong in both animal products and field crops, input costs increased sharply for the second consecutive year, bringing margins under pressure. Severe cash flow constraints, together with the far-reaching impact of loadshedding, is likely to affect marketable volumes and consequently also revenue performance of many agricultural products in 2023.

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