Perspectives on **AGRICULTURE's PERFORMANCE** in Q1 of 2023

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

BFAP
DATA DRIVEN INSIGHT

South Africa's seasonally adjusted quarter-on-quarter real GDP increased by 0.4% in the first quarter of 2023, but agricultural GDP contracted by 12.3%.

South Africa narrowly avoided a technical recession with its seasonally adjusted quarter-on-quarter real GDP increasing by 0.4% in the first quarter of 2023. StatsSA indicates that the weakest sectors were agriculture, forestry, and fisheries as well as electricity, gas and water, which contracted by 12.3% and 1.0%, respectively compared to Q4 2022. Compared to the first quarter of 2022, however, this decline is smaller at 5.4% (**Figure 1**).

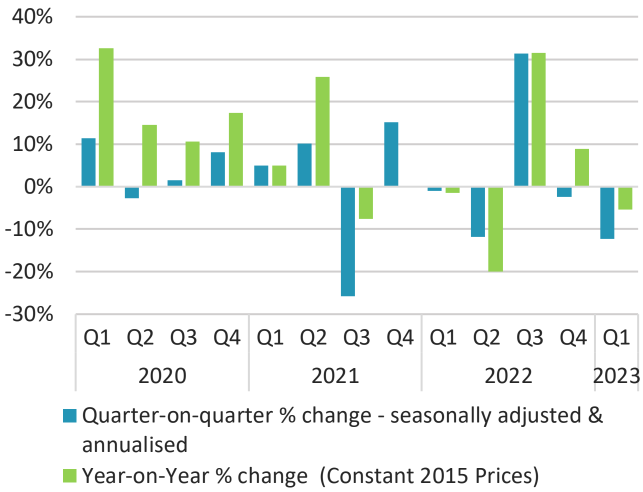

Figure 1: Change in real agricultural GDP per quarter
Source: Stats SA, 2023

Unfortunately, the detailed value-added per agricultural sub-sector is not published, but the disaggregated Gross Value of Production (GVP = Price X Quantity Produced), as compiled by DALRRD, provides revenue contributions and therefore some indication of relative performance. It therefore provides insights into the main drivers behind the agricultural sector's performance in the first quarter of 2023.

The **animal products** sub-sector provided the largest contribution to agricultural revenue in the first quarter, at 56%, followed by the **horticulture** sub-sector, with a contribution of 35%, and **field crops** contributing only 9%. This is largely because there is very limited crop harvesting activity through the first quarter of the year - these will start to influence revenue through quarter 2.

As per **Figure 2**, the GVP of animal products grew by 9.4% in quarter 1 of 2023 compared to the same quarter in 2022. Within this sub-sector, the industries that grew the most were pork (27%), milk (20%), and poultry (19%).

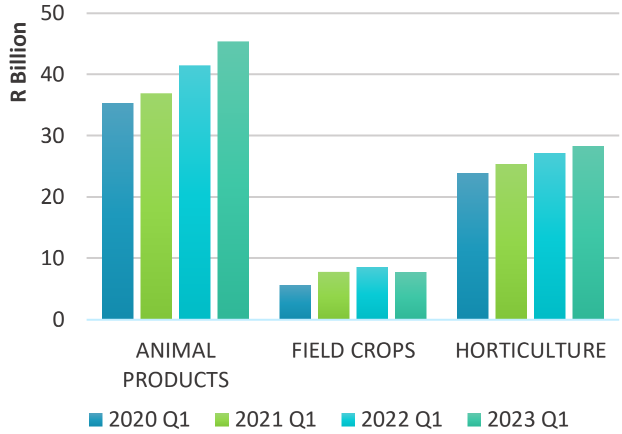

Figure 2: Nominal gross value of production per subsector
Source: DALRRD, 2023

On the other hand, the industries that saw the biggest contractions were sheep (11%), wool (9%) and beef (3%). The pork industry is a small contributor to total GVP, and strong revenue growth was largely due to a 37% increase in price, year-on-year, despite a 5% reduction in slaughter numbers. Pork prices moved from an average of R23.54 per kg in Q1 of 2022 to R32.23 per kg in Q1 of 2023, in line with stronger international prices as production declined in the EU, as well as substantial depreciation in South Africa's exchange rate.

Similarly, poultry prices were the primary driver of revenue growth, increasing by 17% in Q1 of 2023 compared to Q1 of 2022. This follows higher international prices due to the continued spread of Avian Influenza in the Northern Hemisphere in particular, as well as the weaker Rand. While milk production and purchases declined by 3%, the GVP of the milk industry increased by 20% in Q1 of 2023, which can again be attributed to higher milk prices. **While revenue gains are positive, this does not translate into similar gains in GDP, due to persistent rises in input costs**, particularly feed. White and yellow maize prices rise by 15% and 11% respectively over the same period, while soybean oilcake prices were 23% higher.

Figure 3 presents the producer price index (PPI) for the final manufactured goods that are major inputs in livestock production, together with the PPI for the agricultural output 'Live animals and animal products' and 'Cereals and other crops'. An average for 2018 Q1 is set to 100. The field crops PPI is a major driver of feed prices, which is the single biggest input in intensive livestock production systems such as poultry, pork and beef feedlot operations. Relative increases in all livestock inputs have been higher than that of livestock output prices, which implies that revenue gains did not translate into GDP gains.

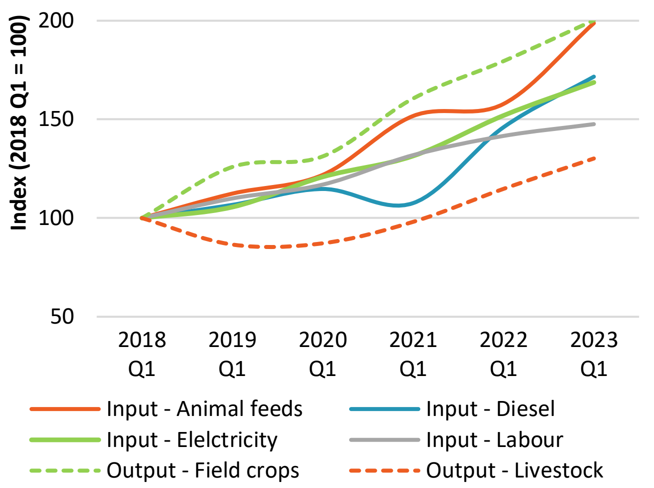

Figure 3: PPI of livestock inputs and output
Source: StatsSA, 2023 & DEL, 2023

The relatively high red meat prices experienced in the last few months has started to decline, albeit slowly, with beef prices dropping by 1% and sheep meat prices remaining relatively stable over the first quarter of 2023. At the same time, sheep and cattle slaughters continue to decline, with cattle slaughters decreasing by 8% and sheep by 14%, reflecting the impact of animal disease concerns and poor profitability through a prolonged period of high feed costs.

The first quarter of the year reflects limited summer crop activity, with harvesting set to start in Q2. Similarly, most of the winter crop is delivered in Q4. Therefore, despite the increases in output prices, its relative volume share in Q1 is too small to bring about growth in the sub-sector. Consequently, field crops contributed the least to the GVP of South African agriculture in the first quarter of 2023. Furthermore, **the gross value of production dropped by 10% for field crops**, compared to the same quarter in 2022.

The first quarter of the year is typically dominated by the middle to second half of the table grape and stone fruit export seasons, along with the start of the harvesting, packing, and exporting seasons for pome fruit, citrus and avocados. Domestically, vegetables and some seasonal fruits are traded on the local market in Q1. On aggregate, a 5% year-on-year increase was recorded in horticulture GPV in Q1.

While the 2022/23 season yielded smaller crops for both the table grape and stone fruit industries, the returns from exports were generally higher. Fewer than normal competitors in the export market, together with assistance from a weaker rand, improved the returns per carton. At the end of January and beginning of February, Peruvian exporters shipped smaller volumes of table grapes due to a regional strike, while overall lower volumes from South Africa also reduced competition for shelf space. Fewer table grapes in the market also often alleviate some of the price pressure on stone fruit, as competition for the consumer's favour is somewhat less. However, given the lower crop volumes, the returns per hectare and contribution to GPV are not necessarily higher. SARS (2023) reports a reduction in the combined volume of exports of table grapes and raisins of 17% for 2023 Q1 compared to Q1 of the previous year, whilst the value of exports only reduced by 3%, suggesting better prices this year. Similarly, a 10% reduction in fresh stone fruit export volumes was recorded for Q1 2023 compared to Q1 of 2022, with the recorded value 7% lower.

Conversely, year-on-year increases in volume for the quarter is recorded for pome fruit, citrus and avocado exports. Hail in key pome fruit production regions had a negative impact on the quality of the crop, with a reduction in the estimates for export cartons for the year. However, South African exporters made the most of the opening of the Chinese market for pears and the change in the protocol to India to allow for in-transit cold treatment in the first quarter of 2023. This largely countered the lower export volumes on the stone fruit and table grapes to stabilise the GPV recorded for deciduous fruits at around -3% year-on-year for Q1.

South Africa started exporting avocados to Europe two weeks earlier than in 2022, with three times the volume in 2023 Q1 compared to 2022 Q1. This is, however, from a very low base, as the bulk of volume is moved in Q2 and Q3. In magnitude, subtropical fruit's contribution to GPV in Q1 is one tenth of deciduous fruit and therefore this change has a limited impact on the total change in value recorded for horticulture. Citrus producers saw a better start to the season than in 2022. The biggest drivers of additional value are linked to higher quantities of early season soft citrus exports (+200 000 cartons) and grapefruit exports (+63 000 cartons) that offset the lower lemon exports (-140 000 cartons). With a smaller European 2022/23 citrus crop and lower availability from Morocco, Southern Hemisphere countries were able to enter the market earlier with the potential for better returns too, instigating a 38% year-on-year increase in GVP for citrus in Q1, which should normalise over the course of the season.

Vegetables – primarily sold fresh on the local market and to neighbouring countries – contributed 31% of total horticulture GPV in Q1 of 2023 and returned a 17% year-on-year increase for the quarter. Potatoes, onions, and tomatoes are the most traded fresh commodities. While 3% fewer potatoes and onions were traded on the municipal markets, the value of sales increased by 53% (potatoes) and 91% (onions) for the quarter compared to 2022, due to higher prices. The quantities on hand at the market were considerably lower, which indicates that produce moved faster through the market, alluding to higher demand and fewer quality deterioration related sales at lower values. While increases in both the volume and value for tomatoes were recorded, the impact was less drastic than for the other commodities mentioned.

While the total revenue generated by the horticultural sub sector did increase, this was insufficient to cover sharp input cost increases, resulting in a contraction in GDP performance from the sector. Figure 4 shows that the PPI for manufactured goods that are necessary inputs in the production, processing and packing of horticultural products increased sharply over the past few years. Loadshedding is likely to be one of the drivers of further domestic cost increases, with the direct and indirect impact of the conflict in Ukraine together with the weakening of the rand also playing a significant role. The sharp cost increases presented in Figure 4, together with the small gain in GPV suggests that **horticulture was likely the biggest contributor to the total decline in agricultural GDP for the first quarter of 2023.**

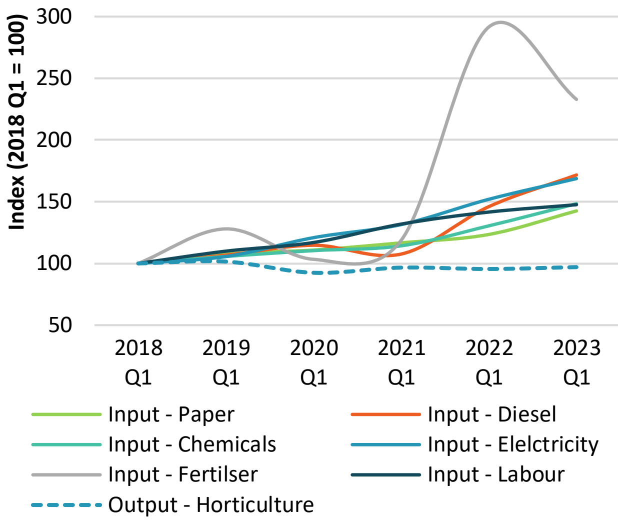

Figure 4: PPI of horticulture inputs and output
Source: StatsSA, 2023, DEL, 2023 & ITC, 2023

IN SUMMARY...

...South Africa narrowly avoided a technical recession with its seasonally adjusted quarter-on-quarter real GDP increasing by 0.4% in the first quarter of 2023. Nevertheless, StatsSA indicates that compared to Q4 2022, the Agriculture, forestry, and fisheries as well as electricity, gas and water contracted by 12.3% and 1.0%, respectively.

Through the first quarter of the year, there is little field crop activity and revenue is dominated the Animal Products and Horticulture subsectors. While the gross value of production increased in both these sectors, albeit more in animal products than in horticulture, it was insufficient to cover substantial input cost increases, particularly for feed, fuel, electricity packaging and labour costs. The net effect resulted in the contraction in agricultural GDP.