Perspectives on **AGRICULTURE's PERFORMANCE** in Q2 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 0.6% in the second quarter of 2023, with agricultural recording the fastest growth of all sectors with 4.2%.

South Africa's economic growth surprised on the upside but remains slow, with the real quarter-on-quarter GDP increasing by 0.6% in the second quarter of 2023, a slight improvement from the 0.4% in the first quarter. Six of the 10 sectors showed positive growth, with agriculture recording the fastest growth of 4.2%, though this follows a contraction of almost 12% in Q1 of 2023.

Within the agricultural space, where the contribution from different subsector varies by quarter, it is perhaps more relevant to consider year on year growth. Comparing 2023 Q2 to 2022 Q2 shows stronger growth of 17.9% for the agricultural sector (**Figure 1**). Again it should be noted that this follows a decline of almost 5% in quarter 1, and a decline of almost 20% in quarter 2 of 2022 due to later than normal delivery of some summer crops, which bolstered growth in Q3 of 2022. This suggests that Q2 performance comprises some normalisation from these dynamics.

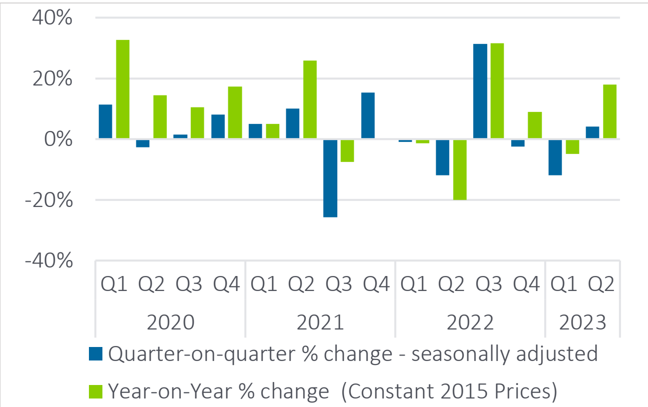

Figure 1: Change in real agricultural GDP per quarter
Source: Stats SA, 2023

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 DALRRD, provides some insights into the main drivers behind the agricultural sector's performance in the second quarter of 2023.

The biggest driver was the field crops sub-sector, where revenue expanded by 16%, followed by the animal production sub-sector at 1.2% (**Figure 2**). During Q2, the field crop subsector also provided the largest contribution (47%) to the agricultural GVP, as the bulk of the summer crop is harvested during this period. Animal production provided the second largest contribution at 31%, with the rest (22%) contributed by the horticulture sub-sector. The GPV contribution of the latter was similar to Q2 of 2022, with almost no growth in revenue recorded.

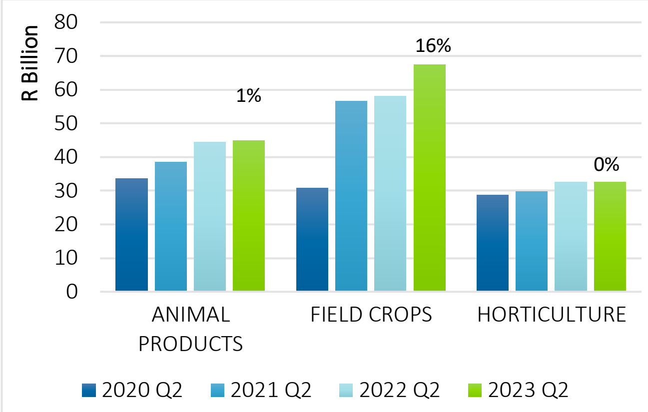

Figure 2: Nominal gross value of production per subsector
Source: DALRRD, 2023

Field crop revenue in quarter 2 is almost exclusively driven by the summer crop harvest. The largest among these is maize, where the 2022/23 crop is expected to be approximately 6% larger than in 2021/22, while soybean production for the year also expanded by 24%, providing a record crop for the third successive year.

Despite maize prices declining by 17% in the Q2 of 2023, the gross value of production rose by 42%, supported by a 54% increase in producer deliveries. This is partly due to the earlier crop, with June deliveries 2.3 million tonnes higher in 2023 compared to 2022, when volumes were stronger in July. On the oilseed side, the GVP of sunflowers dropped by 27% on the back of a 20% price decline and an 12% decline in output. While not exempted from the price decreases in the second quarter, the soybean industry managed 9% growth on the back of a 28% increase in Q2 deliveries, compared to the same period in 2022. The sugar cane industry also contributed a significant share (15%) to the growth observed in the field crops sub-sector, benefiting from high prices in the global market due to weaker output from India and delayed harvests in Brazil due to weather.

While revenue provides indications of relative performance of sectors, costs must also be considered in GDP performance. **Figure 3** shows that while the output prices of field crops (PPI) declined on average by 12% year-on-year for the quarter, the PPIs for major inputs – fertiliser and fuel – also declined (by 36% and 9% respectively).

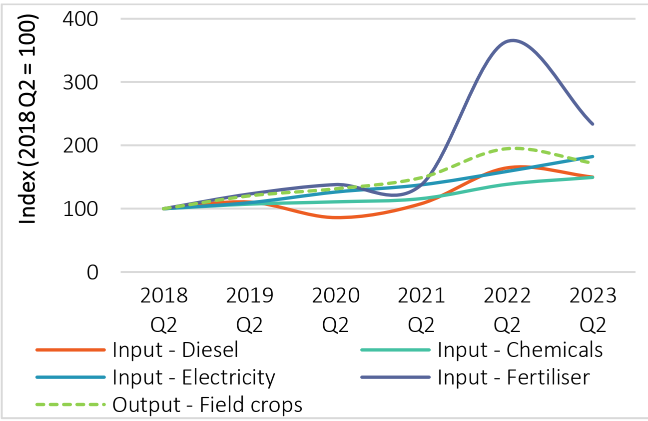

Figure 3: PPI of field crop inputs and output
Source: StatsSA, 2023 & ITC, 2023

While the decline is positive, the weaker exchange rate to date in quarter 3, combined with the stronger Brent Crude Oil price globally, raises concerns about cost dynamics for the rest of the year.

While the animal production sub-sector showed minimal growth, the biggest contributors to this growth was the poultry, beef, and dairy industries. The gross value of beef production declined by 13% year on year, which can largely be attributed to declining prices. The average price of beef dropped from R60.35 per kg in Q2 2022 to R53.80 in Q2 2023 – almost 11%. This represents one of the largest declines seen in beef prices over the past decade, which also speaks to the weak economic growth rate and disposable income of consumers. The GVP of the poultry industry grew by 7%, supported by a slight increase in chicken prices (2%), combined with increased output volumes.

In the case of pork, GVP declined by 10% despite an 11% improvement in prices, due to reduced pig slaughters which resulted from consistent pressure on producer margins over the past few years. This is illustrated in **Figure 4,** which highlights that livestock output PPI was 8% higher than a year prior, still trailing relative to major livestock input cost indices, particularly feed. Of course, the current reduction in the field crop prices should transmit to lower animal feed prices to provide some overdue relief on livestock production margins, but feed mill operations are also facing additional costs arising from the need to use backup power amid ongoing loadshedding.

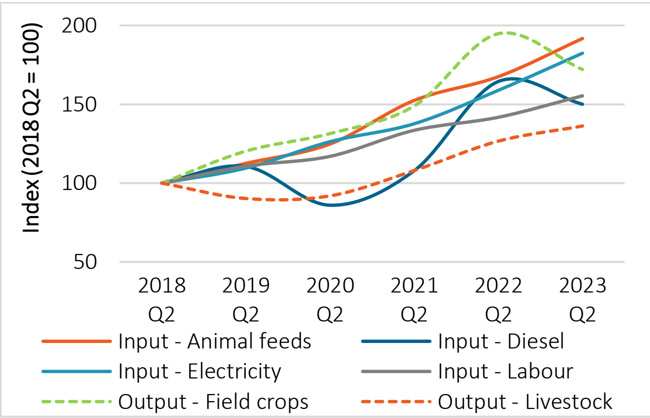

Figure 4: PPI of livestock inputs and output

Source: StatsSA, 2023 & DEL, 2023

The 20% weakening of the Rand, from R15.58/$ in 2022 Q2 to R18.68/$ in 2023 Q2, provided some price support to fruit and vegetable exports, which resulted in exports in Q2 of R19.8bn and R1bn respectively. This represents an increase of 12% and 18% respectively from Q2 2022, despite a slight contraction in volumes. Citrus, the biggest contributor to the generation of foreign revenue at R10.2bn for the quarter, maintained price growth aligned with the weaker Rand (19%). In some other sectors, prices remain under pressure despite the weaker Rand, e.g., shelled macadamia nut unit prices dropped by 37% year-on-year in Q2 as volumes increased by 27%.

Domestically, all major fruit and vegetables sold at higher prices than a year before, generating higher revenues in Q2 of 2023 on the fresh produce markets. The year-on-year increase for major vegetables (cabbage, onions, potatoes, and tomatoes) amounted to 51%, which generated value of R2.5bn. Onions continued their strong price run despite a close to 30 000 tonnes (+37%) increase in volume. Given the sideways movement on GVP, other domestic sales had to have contracted, as total value of exports increased.

Figure 5 shows that since 2018 Q2, output prices of the horticultural sub-sector have consistently trailed the prices of major inputs. Thus, despite a 27% average output price increase since 2018 Q2, the cost of essential inputs such as fertiliser (132%), electricity (82%), labour (55%), fuel (50%), chemicals (49%) and paper for packaging (44%) increased by far more. As the gap between revenue and cost widens, additional contraction of production area or consolidation of farming units is becoming increasingly probable.

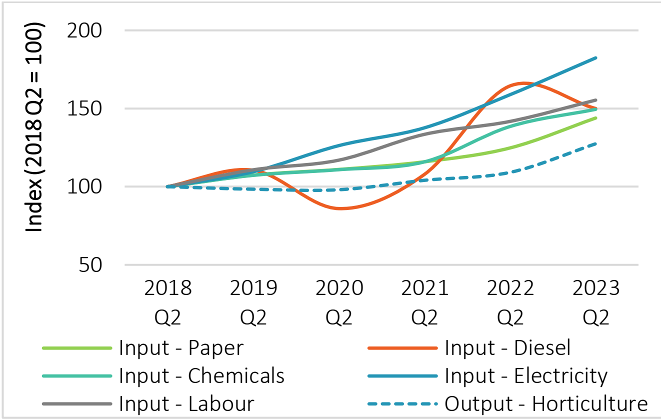

Figure 5: PPI of horticulture inputs and output

Source: StatsSA, 2023, DEL, 2023 & ITC, 2023

IN SUMMARY…

…The agricultural sector's growth of 4.2% in Q2 of 2023 was enabled by the field crop sector – mainly the summer crop, where volumes are expected higher in 2023 compared to 2022, offsetting the decline in prices. In the case of animal products and horticulture, revenue gains were limited and input costs remain high, suggesting that GDP in these sectors contracted. In Q3, some correction is expected for field crops, given earlier deliveries in 2023 compared to 2022. In BFAP's latest baseline, a modest contraction is still expected for full year agricultural GDP. While lower feed grain prices could ease some pressure in livestock production, the horticultural sector in particular remains under pressure due to inefficiencies at domestic ports, together with constrained global demand weighing in on Dollar-based prices.

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