

SA agriculture trade balance narrowed in Q2, 2019

While having improved from the first quarter of the year, South Africa's agricultural trade surplus narrowed by 30% in the second quarter of this year compared to the corresponding period in 2018, recorded at US\$789 million (Figure 1).

Figure 1: South Africa's agricultural surplus narrowed by 30% y/y



Source: Trade Map, Agbiz Research

The narrowing of the trade balance was underpinned by lower export volumes of wool, edible fruits, wine and grains. This can be explained by two factors, which are animal health and the changing climate. First, the foot-and-mouth disease outbreak that occurred in Limpopo earlier this year resulted in a temporary ban of South Africa's beef and other livestock products exports. This continued for months while the authorities were still doing inspections and applying control measures, and thus, its impact is reflected in the trade data for the first half of this year. The beef industry is now back in export markets,¹ but the wool industry continues to struggle to access the Chinese market as negotiations to resume exports are still underway.

Second, the drought that started in October 2018 and continued into early 2019 in some parts of South Africa led to a poor summer crop and horticulture harvest. For example, the major summer crops, which performed poorly during the 2018/19 production season – maize, soybeans and sunflower seed production are down by 12% y/y, 21% y/y and 24% y/y, to 11.02 million tonnes, 1.17 million tonnes and 680 940 tonnes, respectively. Moreover, the wine grapes harvest was down by 2% from 2018. All this subsequently led to lower export volumes in the second quarter of this year compared to a corresponding period in 2018.

From a destination point of view, the African continent and Europe continued to be the largest markets for South Africa's agricultural exports, respectively accounting for 40% and 26% in value terms. Asia was the third-largest market, taking up 24% of South Africa's agricultural exports in the second quarter of 2019. The balance of 10% value was spread across other regions of the world.

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¹[https://agbiz.co.za/uploads/AgbizNews19/190418_Update%20on%20Foot%20and%20Mouth%20Disease%20\(1\).pdf](https://agbiz.co.za/uploads/AgbizNews19/190418_Update%20on%20Foot%20and%20Mouth%20Disease%20(1).pdf)

Overall, while South Africa's agricultural trade balance could narrow this year because of the aforementioned animal health and unfavourable weather impact, we expect it to remain in positive territory.

In terms of national policy, in his 2019 State of the Nation Address, President Ramaphosa signalled that potential expansion in agricultural production would mainly be on export-oriented products. There is already a clear pathway for this initiative as South Africa is well-positioned in terms of export markets, and there is clarity about products that show a growing demand in the world market, such as horticulture products, and livestock, to a certain extent, to mention a few categories.²

Weekly highlights

SA agricultural economy contracted in Q2, 2019

Although South Africa's economy has recovered from the previous quarter's economic performance with a 3.1% quarter-on-quarter seasonally adjusted growth rate (q/q saar), agriculture did not contribute to the improvement. After a strong contraction (16.8% -- revised numbers) during the first quarter of 2019, we were optimistic that things would turn around for South African agriculture. We hoped that base effects coupled with improved citrus production would trigger a recovery for the sector. However, we were wrong.

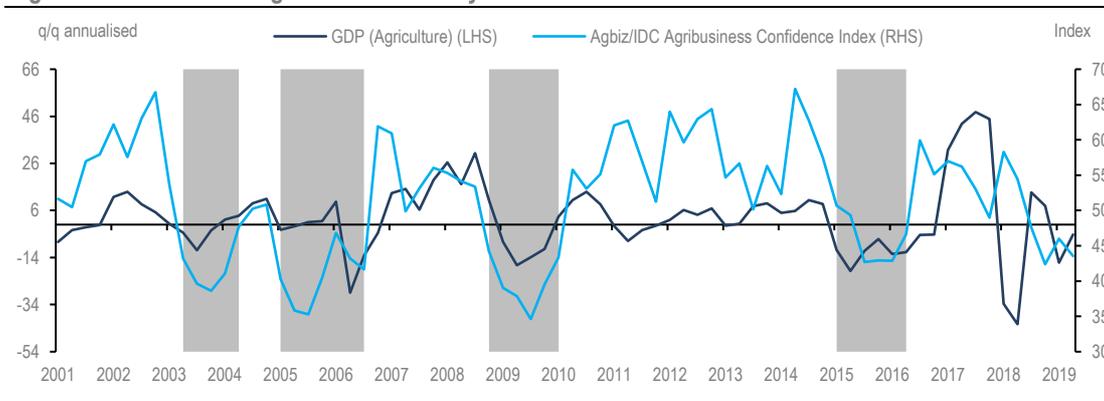
Data shows that the sector is in recession -- having contracted a further 4.2% q/q/ saar in the second quarter of 2019, largely owing to poor field crop harvest, as a result of droughts earlier this year (Figure 2). Given both the data and our observations of broader agricultural activity, we believe that South Africa's agricultural sector will underperform in 2019. We predict that the sector will contract by approximately 2% y/y this year, because of generally poor summer grains and oilseed harvest in the 2018/19 production season.

Sentiments across the South African farming environment is relatively negative. The Agbiz/IDC Agribusiness Confidence Index, which has historically proved to be a good indicator of the growth path of the South African agricultural economy, has been rather unstable in the most recent quarters, but remains in the contractionary territory, having eased 44 points in the second quarter of 2019. This is below the neutral 50-point mark and reflects the negative perceptions held by agribusinesses about South Africa's business climate. Given that the sector's poor performance is largely due to unfavourable weather conditions, prospects of higher-than-average rainfall in the 2019/20 summer season provide hope that the blip will be short-lived and that gains are just around the corner (2020).

South Africa's agricultural sector is in recession.

We predict that the sector will contract by approximately 2% y/y this year, because of generally poor summer grains and oilseed harvest in the 2018/19 production season.

Figure 2: South African agricultural economy³



Source: Stats SA, Agbiz Research

² Wandile Sihlobo, "Areas of agriculture hold job-creation opportunity for new administration," Business Day, May 08, 2019

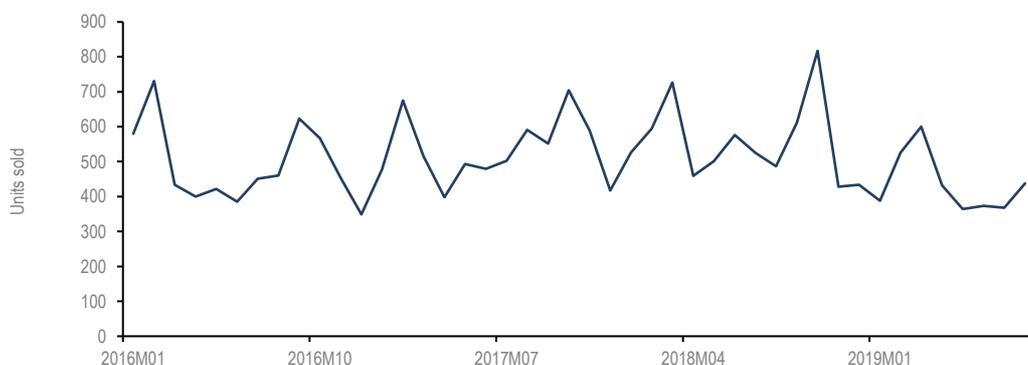
³ Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres

A potential turning point for SA poor tractor sales might be close

The effects of poor summer crop harvest which in turn influence farmers' financial position have spilt over to the agricultural machinery market which has been subdued all year. The figures for August 2019 present no joy. Tractors' sales were down by 10% compared to August 2018, with about 437 units sold (Figure 3).

South Africa's tractor sales have been subdued since the start of the year.

Figure 3: South Africa's tractor sales



Source: SAAMA, Agbiz Research

Admittedly, we can not attribute the poor tractor sales performance solely on the lower harvest on the back of unfavourable weather condition. This is a year that follows 2018 where sales were relatively robust, which implies that the rate of replacement will likely be down in 2019. To illustrate this point; South Africa's total tractor sales for 2018 amounted to 6 680 units, up by 4% from the previous year.

In addition, there have been questions about whether agricultural policy, which has dominated the headlines in the past few months, has influenced farmers' attitudes on investments. To this end, we continue to monitor, through the Agbiz/IDC Agribusiness Confidence Index, the influence of policy discussions on agricultural investment.⁴ Certainly, sentiment in the farming sector has generally been subdued since the second quarter of 2018. But what I found rather comforting is that fixed investments in the sector did not decline notably in 2018.

Be that as it may, the subdued confidence levels in the second quarter of 2019 suggest some urgency in moving the policy levers to ensure that, at least matters that are in the South African policymakers' reach are well addressed for the interest of sustainable growth of the agricultural and agribusiness sector.

In closing, while South Africa's tractor sales have been generally subdued throughout the year, there could potentially be a turning point around next month or so when the 2019/20 summer grains and oilseed production season start. The weather outlook is generally positive which signals a potential recovery in production and activity on the fields. As previously noted, the South African Weather Service recently indicated that the central and eastern parts of South Africa could receive above-normal rainfall between November 2019 and January 2020⁵.

We, nonetheless, expect a recovery in sales towards the end of this year.

⁴The results for Q3, 2019 will be released on 19 September 2019.

⁵For more information, please read South African Weather Service's Seasonal Climate Watch for September 2019 to January 2020. It was released on 30 August 2019.

Week ahead

This is a busy week on the agricultural data front.

On Monday, the U.S. Department of Agriculture will release the US crop conditions data. This will give us a sense of the US crop-growing conditions ahead of the supply and demand estimates report which will be released later this week.

On Wednesday, SAGIS will release the **grain producer deliveries** data. While the data will present producer deliveries data for the week of 06 September 2019, it essentially gives us an indication of the volume of summer grains and oilseeds that have been delivered to commercial silos after the harvest process.

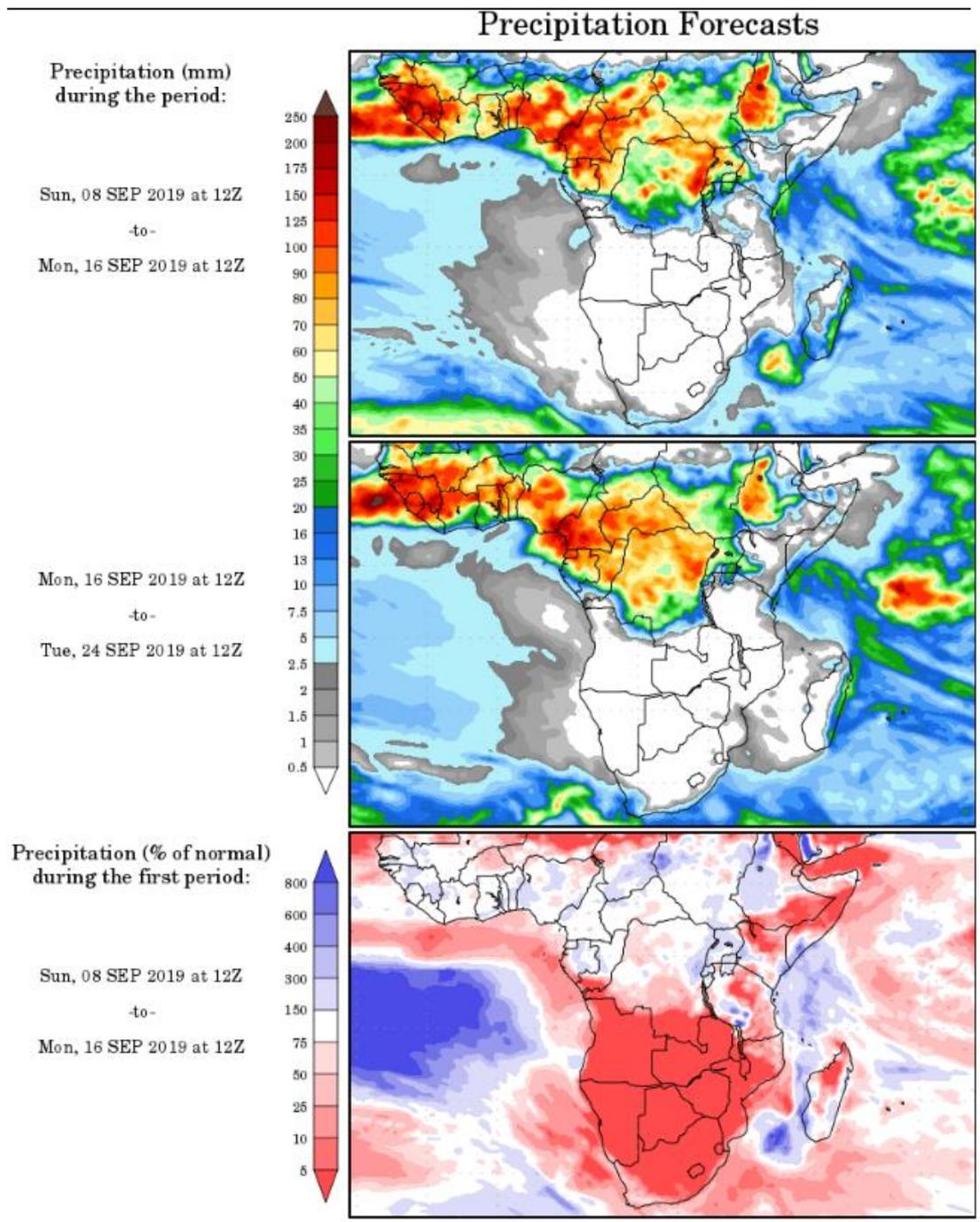
On Thursday, we will get the **weekly grain trade** data (wheat and maize) for the week of 06 September 2019. Briefly, in terms of maize, the exports of the 2019/20 marketing year have thus far amounted to 367 593 tonnes. Looking ahead, we expect South Africa to remain a net exporter of maize this year, although the volume will most likely fall by half from the previous year to about 1.1 million tonnes. This is under the assumption that domestic maize production could amount to 10.9 million tonnes. At the same time, we expect imports of about 450 000 tonnes, all yellow maize, mainly for the coastal provinces of the country. This is up from an estimated 171 500 tonnes in the 2018/19 marketing year. The country has thus far imported 201 730 tonnes of yellow maize, all from Argentina.

In terms of wheat, South Africa remains a net importer, although the recovery in the country's 2018/19 domestic wheat production will lead to a decline in imports this season. South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 74% of the seasonal forecast. The leading suppliers have been Germany, Russia, Lithuania, Canada, Czech Republic and the US., amongst others.

Also, on Thursday, the US Department of Agriculture will its **World Agricultural Supply and Demand Estimates report**, which will give us a sense of the status of global grains and oilseeds supplies for the 2019/20 season. While the data will primarily be for grains and oilseeds, there will be implications on subsectors such as livestock sectors (meat and dairy) which utilises it, and thereafter global food price inflation.

South Africa's 2018/19 wheat imports could fall by 36% from the previous season to about 1.4 million tonnes. So far, the country has imported about 63% of the seasonal forecast.

Figure 4: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

Key Data Releases in the Agricultural Market:

- U.S. Crop Progress report: 09/09/2019
- SAGIS producer deliveries data: 11/09/2019
- SAGIS weekly grain trade data: 12/09/2019
- USDA World Agricultural Supply and Demand report: 12/09/2019
- National Crop Estimates Committee's monthly data: 26/09/2019

The weather forecast for this week shows clear skies across the country. The Western Cape which urgently need follow-up rainfall, could remain dry and warm.