

Agricultural performance: bottlenecks and opportunities for growth in 2023

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Agriculture is one of the most resilient and adapting sectors within the South African economy. The sector's adaptability and agility were demonstrated by a strong positive growth in the past three years despite the disruptions caused by the Covid-19 lockdown regulations, floods and the social unrest in parts of Gauteng and Kwa-Zulu Natal province. However, the unfolding energy crisis is likely to regress the gains in the sector and potential expunge several farmers and agripreneurs from business. The impact of load shedding would be more severe on small to medium scale farmers with limited capacity to install alternative energy sources. Moreover, the energy crisis effects will vary across the different agricultural commodities because of the seasonality differences, operational intensity and the need for constant and reliable energy supply as well as the perishability of commodities. In this note, we outline the expected performance of various agricultural commodities in 2023 underscored by a multitude of risk factors such as the load shedding, heatwaves, biosecurity threats and trade distortions.

1. Poultry and eggs

Globally, there is a shift in meat consumption away mainly from beef and towards chicken. The Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization (FAO) of the United Nations (OECD-FAO) report cited several drivers of this transition. From the perspective of developed or high-income countries, poultry is considered a healthier source of animal protein and is simpler to cook than other meat options. In the low-income countries, sensitivity to meat price is high, hence, they prefer poultry meat. This has been fuelled by the recent global economic weakness caused

by the Covid - 19 pandemic, the conflict between Russia-Ukraine and increasing fuel and food inflation that are pushing the cost of living higher. Typically, the rising poultry meat demand should pull production, which it has been the case for majority of the large producing regions/countries like the European Union (EU), Brazil, United States of America (USA) and others. However, the outbreak of the Avian Influenza (AI) disease is stifling global production and triggering importing countries to institute import bans from countries affected by the AI disease.



Looking at the 2023 projections, Brazil is expected to increase its poultry production, subsequently its exports to countries like South Africa. The OECD-FAO commodity outlook¹ projects that the global poultry production will increase by 16% in the next eight year, however, the short-term production will be impacted by biosecurity bridges and rising feed costs. The domestic poultry and egg production is expected to be hard-hit by the energy crisis since chicken production is a high-intensity operation that is strongly dependent on energy supply. On the consumption side, both domestic and global, poultry meat will remain a preferred source of animal protein due to affordability and healthy eating habits.

Tariff protection will continue to dominate the domestic broiler and egg industries as they continue to upscale efforts to implement the Poultry Master Plan. On the egg side, the need to expand local consumption will be crucial to sustain the industry. On the broiler side-consumption levels will continue to rise but biosecurity issues and dumping of poultry meat will be a challenge for domestic producers. These are areas that both government and industries must address.

2. Wheat

Along with rice, chicken and palm oil, wheat is one of the most important staple commodities imported into South Africa. The global wheat market is closely influenced by the Black Sea (Russia and Ukraine) and USA production levels. With Russia and Ukraine being the key exporters of wheat supplying around 24% of wheat to South Africa before the conflict, the ongoing conflict between these countries might still cause further disruptions in the global supply of wheat. Despite the conflict, Russia's wheat crop is estimated to be around 100 million tons. As stated, exporting this stock to the world will be a challenge due to economic sanctions imposed on Russia and blockages in the Black Sea trade corridor.

Outside USA and the Black Sea region, the EU, Australia and Canada are expected to have enough wheat stock for exports which will play a significant role in the global wheat export market. The global wheat price will remain volatile in particular for the USA as witnessed in 2022. Apart from the supply issues, trade distortions will also impact global wheat prices. For example, India had an export ban on wheat last year (2022) and it remains uncertain whether they will institute a similar export ban in 2023. The International Grain Council (IGC) predicts tighter wheat stocks, driven lower by a smaller carryover

¹Available on: https://www.oecd-ilibrary.org/agriculture-and-food/oecd-fao-agricultural-outlook-2022-2031_f1b0b29c-en



in the top exporters, and that a minor drop in wheat acreage might limit world wheat production to 788 million tons. At domestic level, the country will import about 1.5 million tons of wheat and therefore local prices may be impacted by imports of limited supply. Because of this, it is critical that South Africa closely monitors the global wheat markets since they present a potential threat on the supply and prices of wheat there.

3. Sunflower seed

South Africa produces an adequate quantity of sunflower seeds, which is sufficient for the entire country's consumption. For the 2022/23 season, South Africa is expected to produce about 891 840 tons of sunflower seeds. South Africa is considered a small global player in the sunflower market unlike countries like Russia and Ukraine which produce an average of 5.6 and 5.9 million tons, respectively. The two countries (i.e., Russia and Ukraine) hold more than 50% share in global sunflower production. This explains the large price hikes in sunflower oil in 2022 when the two countries engaged in a conflict. Since the conflict, vegetable oil prices were among the most affected commodities and this is expected to spill-over to 2023 but at a more moderate level than in 2022. Despite South Africa's production ability to meet its local demand, the global market forces have more power to influence prices as observed most of 2022. The price of sunflower seeds will probably remain highly elevated in 2023 due to the persisting conflict between Russia and Ukraine. Sunflower and rapeseed from the war-prone Black Sea region have been mostly purchased by the EU region through "grain export deal". However, the deal will expire in a few weeks, and its future course is

uncertain. For 2023, sunflower seed producers are likely to experience favourable prices because of possible shortages from the Black Sea region. However, as profit margins are being reduced by higher input costs, the price of inputs like fertilizer will be crucial in this.

4. Sugar

Brazil is the leading sugar and ethanol producer in the world. With the fossil fuel oil increasing beyond the US\$80 per barrel, the demand for ethanol is rising at the same level as other energy sources. Brazil is anticipated to convert more sugar fields to ethanol production, which might reduce the world's supply of sugar and lead to an increase in export prices. Overall, the production is anticipated to stabilise in countries like India, Thailand and the EU as these countries/regions recovers from the Covid-19 pandemic that constrained the availability of labour. The OECD-FAO expect the world's sugar trade slightly lower compared to the previous season. In part, this is a result of fewer exports from Brazil, whose sugar production is expected to decline.

The government of India, a significant global producer and supplier of sugar, continues to support a national ethanol blending scheme. In the short to medium term, these developments have the potential to reduce the availability of sugarcane for sugar production thereby negatively affecting supply and subsequently prices in 2023. By the end of 2022, in the world market the price of sugar had increased to its highest level since early 2017. Domestically, a 2.5-kilogram bag of white sugar costed R50.04 in October 2022 as opposed to R46.77 in the corresponding period in 2021.

5. Vegetables

South African vegetable supplies and prices are periodically impacted by several factors across the year, mainly weather variability. Due to prolonged drier conditions in northern and central parts of the country, the onion production was down by 20% in 2022 compared to the previous year. As result of low production, onion price increased by 47% in December 2022 as compared to the corresponding period in 2021. Cabbage was also impacted by low volumes and higher input prices, collectively driving the price of cabbage up by 16% in December 2022 (year-on-year changes). Interaction with vegetable farmers reveal that erratic and excessive rain and outbreak of insects were major factors impacting production. Other vegetable items that are susceptible to weather changes include tomatoes and peppers. As has been the case in recent seasons, prices tend to rise quickly after such incidents or during seasonal transition periods. Additionally, to weather challenges, the constant load shedding is disrupting the irrigation schedules of farmers, consequently reducing yields and at times leading to food waste on farms. This might be even more of an issue in regions where production is done under irrigation like Northern Cape, Limpopo and some parts of the country where temperatures are generally warmer.



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