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THE SOUTH AFRICAN AGRICULTURAL SECTOR IN DECLINE

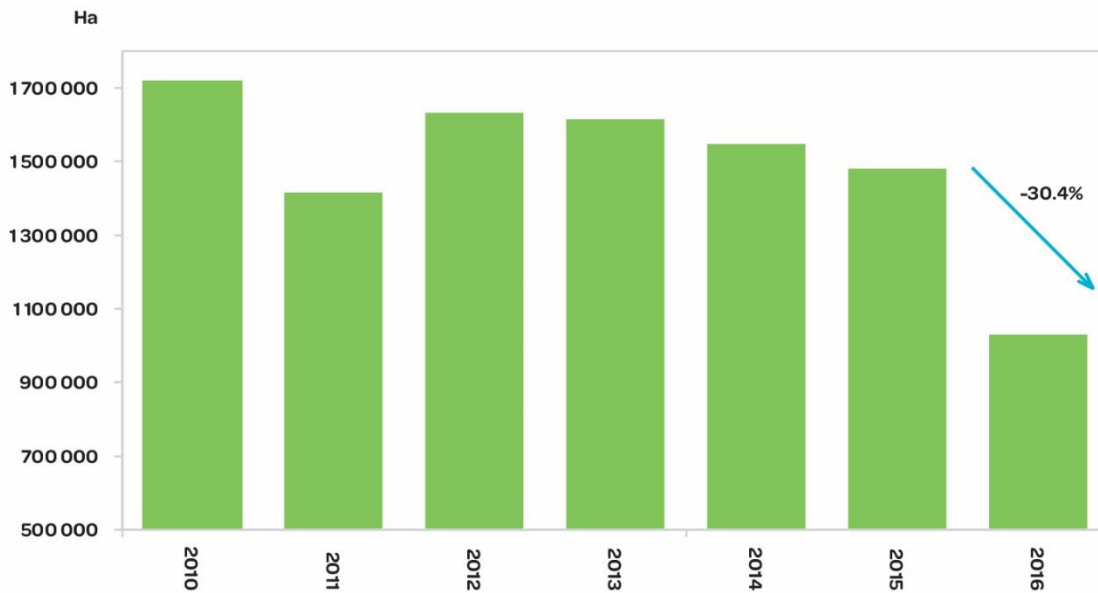
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THE SOUTH AFRICAN AGRICULTURAL SECTOR HAS BEEN IN STRUCTURAL DECLINE OVER THE PAST 50 YEARS. BACK IN THE 1960S THE AGRICULTURAL SECTOR REPRESENTED AROUND 10% OF THE SOUTH AFRICAN ECONOMY.

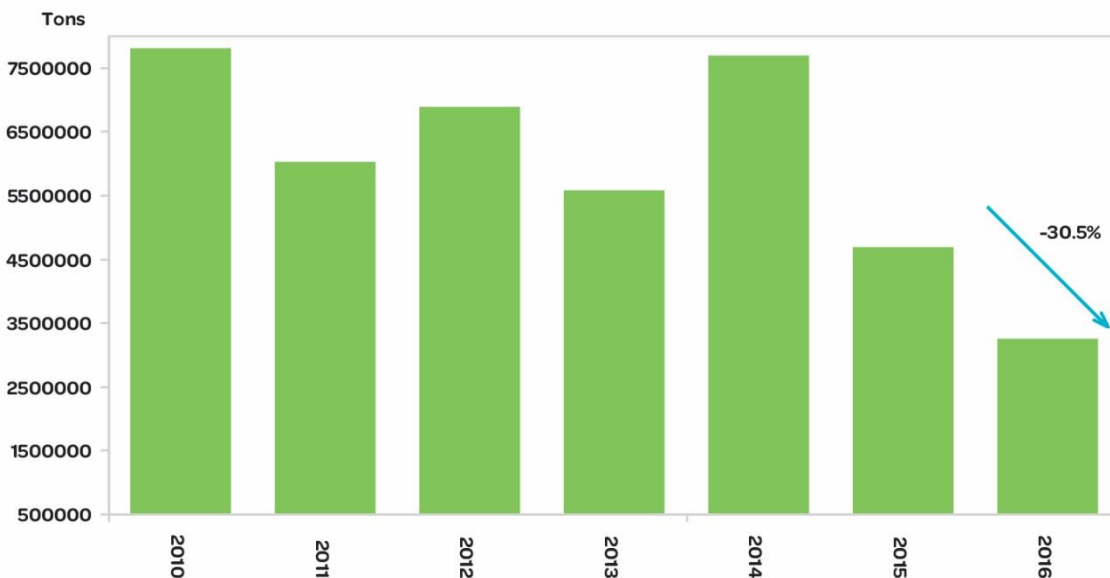
This fell to 7% in the 1970s, 5.5% in the 1980s, 4% in the 1990s and a mere 2% currently. Part of this decline reflects the systematic development and expansion of other parts of the economy, especially service sectors such as retail and finance. Unfortunately, it also reflects a systematic reduction in the number of farmers as well as a fall in the amount of land used for agricultural purposes.

According to the Department of Agriculture, there were an estimated 60 938 commercial farming units in the country in 1996. This fell to 45 818 units in 2002 and 39 666 units in 2007 (latest data available), a total decline of almost 35%. At the same time, the number of people employed in the agricultural sector has dropped from around 922 000 in 1994 to 720 000 at the end of 2013. And in 2012 the value of agricultural imports surpassed the value of agricultural exports for the first time in at least five decades.

SA WHITE MAIZE - AREA PLANTED



SA WHITE MAIZE - PRODUCTION



The farming sector has been plagued by a number of difficulties over the years, including a shortage of suitable irrigation in some parts of the country, sharp fluctuations in produce prices, an escalation in crime including livestock theft and farmhouse murders, a lack of infrastructure (including export infrastructure), very low wages for many farm workers, erratic weather patterns, and ongoing land claims that have still not yet been fully resolved. This combination of factors has made farming less attractive.

The agricultural sector has also been plagued by numerous droughts, with the latest drought one of the worst in recent years. The Department of Agriculture’s National Crop Estimates Committee (NCEC) released their preliminary production forecast for the 2016 summer crops on Wednesday, 27 January 2016. According to the committee, the preliminary planting estimate for the 2016 maize crop is 1.995 million hectares, which is 24.8% or 657 700 hectares less than the 2.653 million hectares planted during the previous summer season and also 21.8% or 555 650 hectares less than the intention to plant estimates that was compiled in October 2015.

In terms of production, the preliminary size of the commercial maize crop is forecast at 7.438 million tons, which is a massive 25.2% or 2.503 million tons less than the 9.942 million tons produced during the previous season. Ahead of the crop estimate being released last week, some analysts (including Grain SA) had expected the maize crop to be estimate at between 5.5 million and 6.5 million tons. Although the maize crop is perhaps not as bad as initially estimates, the latest crop estimate still implies that South Africa would have to import around 3 million tons of maize 2016. This is, however, well below the earlier import estimates of around 5 million tons.

A breakdown of the maize crop estimate shows that the white maize crop is forecast at a mere 3.267 million tons, which is 30.5% or 1.436 million tons less than the 2015 season. In addition, the yellow maize production forecast for 2016 is 4.171 million tons, which is 20.4% or 1.068 million tons less than the 2015 season.

SA SUMMER CROPS 2016	
Preliminary Forecast	
Department of Agriculture: Crop Estimates Committee	
White maize	30.5%
Yellow maize	20.4%
Total maize	25.2%
Sunflower seed	5.9%
Soybeans	27.5%
Groundnuts	47.8%
Sorghum	2.5%
Dry beans	52.1%
Total	24.3%

The improved rainfall during the past couple of weeks (as well as record prices) appear to have prompted some farmers to increase planting, including the planting of white and yellow maize, in the hope that there will sufficient follow-up rains over the coming weeks/months to ensure a successful crop. Typically, in South Africa maize is planted between October and December. Planting as late as mid-January significantly increases the risk that an early frost in May could substantial damage the crop. Under these circumstances the crop would then mostly be used for animal feed or destroyed.

In terms of the other summer crops, expectations range from a production decline of 52.1% in the case of dry beans, to a drop of 47.8% in groundnuts, and a 27.5% fall in soybean production. In contrast, the sorghum crop is currently forecast to be 2.5% larger than the 2015 season (see chart attached). In total, the summer crop production is forecast to be 24.3% smaller during 2016 compared with the 2015 summer season. This will reduce SA GDP growth in 2016 by an estimated 0.30 percentage points. The summer crop estimate is expected to be updated on 25 February 2016, and then again each month until the final production estimate is released on 27 September 2016.

Glacier Research would like to thank Kevin Lings for his contribution to this week's Funds on Friday.



Kevin Lings – B.Com Economics (Hons)

Since 2001 Kevin has been employed as the Chief Economist at STANLIB in Johannesburg. Over the past ten years the scope of his economic research has broadened to include the G3 economies, as well as members of the BRICS. His research is largely used to inform STANLIB's asset management investment process and he embraces the philosophy that everything should be made as simple as possible, but not simpler.

While at STANLIB, Kevin has managed an asset allocation unit trust fund for five years, winning the Micropal's Best in Sector award.

Before joining STANLIB, Kevin was employed as an economist with JPMorgan Chase and also worked as an economist within the Nedcor Group for ten years. His initial role within Nedcor was as an Industrial Economist. This provided an essential base of knowledge on the South African and regional economy, before starting to focus more heavily on analysing the financial markets