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Agriculture a major contributor to the economy's contraction

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By: Tebogo Mashabela (https://www.voices360.co.za/?post_type=associates&p=868) September 6, 2018

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South Africa's domestic economy entered into a technical recession, the first one since the global financial crisis of 2008/09. The economy recorded a contraction of 0.7% in Q2 2018 (quarter-on-quarter (q/q), seasonally adjusted and annualised). This follows a contraction of 2.6% in Q1 2018. The most important reason for the contraction in the economy was once again the agricultural sector. Other contributing factors were contractions in the transport, storage and communication sectors as well as the retail trade, catering and accommodation sector.

The transport sector decreased by 4.9% and contributed -0.4 of a percentage point to overall GDP contraction in Q2 2018. This was as a result of a decrease in land transport, air transport and transport support services. The trade sector decreased by 1.9%, contributing -0.3 of a percentage points to the economy's contraction during the same period. Decreased economic activity in the trade sector was mainly due to a combination of reduced motor retail sales and tourism.

The agricultural sector also entered into a technical recession after recording two consecutive quarters of negative growth. The sector's GDP contracted by 29.2% in

Q2 2018, following a contraction of 33.6% in Q1 2018. In the absence of the decline in agricultural GDP, the economy would have managed a marginal positive growth rate in Q2 2018.

The latest agricultural contraction was mainly due to a drop in the production of field crops and horticultural products, especially in the Western Cape Province. Crops that are predominantly produced in the Western Cape such as stone fruits and grapes took a huge knock in the recent past due to persistent drought, which ultimately explains the negative GDP figures for the agricultural sector. The reduction in the Western Cape agricultural output is so pronounced because of its large share contribution towards the overall agricultural economy, underpinned by higher value field crops and horticulture.

In addition, a severe hailstorm in Mpumalanga, resulting in extensive crop damage, also placed additional pressure on production in the second quarter. The delayed harvest in the summer crop growing areas, particularly the grain and oilseed production regions, also contributed to the contraction experienced in Q2 2018. This is on the back of a late

start of the summer crop season due to unfavourable weather conditions earlier in the year

It is expected that the domestic agricultural sector will rebound to a more positive territory in Q3 2018. Now that the drought in the Western Cape appears to have broken, agricultural output should begin to rise in the second half of the year. Growth in the sector from Q3 2018 onwards could be supported by the expected large maize harvest of around 13.8 million tonnes, a record soybean harvest of 1.6 million tonnes, large sunflower seed crop of 858 605 tonnes, improvement in the sugarcane production to roughly 18.5 million tonnes, and general improvement or recovery in the livestock sector.

The projected growth in the agricultural sector in the next quarters is supported by the Agbiz/IDC Agribusiness Confidence index, which is still above 50 despite a decline in Q2 2018. An index of above 50 is an indication that there is still some optimism regarding business conditions in the agricultural sector.

However, despite expected recovery in Q3 2018 and another expected good season, agricultural output for the whole of 2018 is expected to be lower than in 2017. This

is mainly due to the very high base, especially for summer crop, experienced in 2017 (e.g. best maize crop on record) following the severe drought in the 2016 season. All summer grain crops are likely to record a decrease in production, except soybeans. Concerning winter grains, production is likely to increase this season following a notable decline last year on the back of Western Cape drought.

Although some are already expecting the uncertainty around land expropriation without compensation (EWC) to have an impact on the performance of the agricultural sector, it is still too early to assess the impact of this policy proposal on the sector. More clarity on the impact of EWC can only realistically be expected once a policy direction is finalised. The planting season for summer grains is only starting in October, and another indicator will be the data on the intentions to plant figures from the Crop Estimate Committee. At this stage, it is still difficult to tell if the uncertainty around the direction land reform policy will take will dampen the spirits of farmers to put seed into soil.

Tebogo Mashabela is an Agricultural Economist currently serving as a Research Analyst at Land Bank. He writes in his personal capacity and the views expressed in this article are his own and do not necessarily represent policy positions of Land Bank.

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