

Publication		
BUSINESS DAY		
Page	Date	AVE (ZAR)
7	Thurs 01 Mar 2018	24314.91



TRADE OUTLOOK

Agriculture export growth depends on rainfall and rand

SA's agricultural sector has an auspicious outlook, despite the fact that challenges such as policy uncertainty and climate change remain dark clouds overhead.

In 2017, SA's agricultural exports grew past the \$10bn mark for the first time, boosted by growth in exports of edible fruit, beverages, spirits, vegetables, grains and other agricultural products. This is a 15% increase from 2016, a year that was characterised by El Niño-induced drought.

In the same year imports



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also increased but by a marginal rate of 5% year on year, reaching \$6.7bn. This was driven by a notable uptick in grain imports, particularly wheat and rice, on the back of reduced domestic production as a result of the Western

Cape's drought and an increase in domestic consumption.

SA recorded rice imports growing by 10% year on year to 1.1-million tonnes in 2017. There were also large imports of meat, sugar, tobacco and coffee, among other products.

Above all, a closer look at the trade statistics shows that SA's agricultural sector recorded a positive trade balance of \$3.3bn in 2017,

which is also a record level in a dataset dating back to 2001. The trade impact of the drought in the Western Cape was minimal in 2017. It will only be felt in the

2018 trade statistics, as table grapes and major vegetable products are set to decline by double digits from the 2016-17 production season.

From a destination point of view, Africa and Europe continued to be the largest markets for SA's agricultural exports, collectively absorbing 67% of total exports in 2017, measured in value terms.

Africa remained SA's largest market, accounting for 42% of agricultural exports, which is a percentage point increase from a five-year average share.

The sector's export growth

to the continent was led by relatively competitive industries such as beverages, cereals, fruits, sugar and vegetables.

Trailing Africa was the EU region, which absorbed 25% of SA's agricultural exports in 2017, up 13% from the five-year average share.

SA's agricultural exports to this region were led by beverages, wool, sugar, fruit and animal fats.

Asia is an important market for SA's agricultural exports, taking a 24% export share in 2017, up by a third from the previous year. Wool, fruit,

grains, beverages, vegetables and meat were the leading products. The Americas and the rest of the world accounted for 5% and 4%, respectively, with 3% and 14% increases from 2016, respectively. Exports to these regions were dominated by fruit, beverages, sugar, flowers and ornamental foliage.

Owing to the domination of beverages and fruit in the exported products across almost all the aforementioned regions, the decline in production in 2018 owing to the Western Cape's drought could have a notable impact in total

export value. The only mitigating factor could be better value for beverage products. This could happen if global prices of wine remain at relatively higher levels for some time owing to lower wine grape production in Europe.

Maize exports could also soften from the 2017-18 export forecast of 2.3-million tonnes, owing to an expected lower harvest in the current production season.

However, agricultural imports could increase as the production of commodities such as wheat declined to

1.5-million tonnes due to drought in the Western Cape. While this is not a desirable trend, it could be short-lived if the Western Cape receives good winter rainfall this year.

Overall, the weather, global prices and the rand's performance remain key determinants of whether the country's trade performance will remain vibrant or soften in the coming years.

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