

SA farmers face twin blow of rising input costs and possible drought

By Wandile Sihlobo, [Business Day](#), 27 September 2018

These are challenging times for SA farmers, whether viewed from the perspective of rising input costs or the weather outlook. In a few weeks the 2018-2019 summer crop production season will start on a negative note, partly due to rising costs of agricultural inputs such as fertiliser and fuel.

SA fertiliser prices were up an average 20% in August compared with the corresponding period in 2017, according to data from Grain SA. Given that SA imports about 80% of its annual fertiliser consumption and is also a small player in the global market, accounting for a mere 0.5%, local prices tend to be influenced by developments in the major producing and consuming countries, such as India, Russia, the US and Canada. In the past few months global fertiliser prices rose, partly due to rising demand in Latin America and Asia, among other regions.

The rand-dollar exchange rate and shipping costs are also important determinants of SA fertiliser prices. The rand has come under much pressure in recent months and at the time of writing had depreciated by about 13.4% against the dollar since the start of 2018. This weakness has added to the increases in fertiliser prices, all contributing to the rising pressure on farmers. While increasing fertiliser costs are not restricted to SA, local farmers are in a uniquely adverse position compared to other leading agricultural producers who happen to have some domestic fertiliser production capacity.

Fertiliser constitutes about 35% of grain farmers' input costs and a notable share in other agricultural commodities and crops.

Clearly, the SA agricultural sector is exposed to global fundamental shocks and currency wobbles regarding farm inputs, but there is some divergence across the different parts of SA's diverse agricultural sector. Much of the fertiliser imported by SA is utilised in maize production, which accounts for 41% of total fertiliser consumption in the country, the second-largest consumer being sugar cane at 18%.

The diesel price appears set to increase by more than R1 a litre on October 3, which will further increase input costs in the planting period. This is on top of the cumulative diesel price increases of nearly 20% from March to September. The impact will not be limited to direct farming costs but will extend to the agribusinesses that operate in the transport and logistics industries. On average, 75% of SA's national grain and oilseed crops are transported by road.

Recent updates on the weather front still point to the possibility of an El Niño occurrence during the upcoming summer production season. The potential impact of this weather phenomenon on SA agriculture was discussed in my column of September 13, but should be restated briefly for context. Global observers such as the International Research Institute for Climate and Society at Columbia University and the Australian Bureau of Meteorology, as well as the local national weather agency, forecast an El Niño developing over the 2018-2019 summer season in Southern Africa, which could lead to dryness, depending on its intensity. All of this could negatively affect the agricultural sector.

While the aforementioned developments are not cast in stone and are largely outside farmers' control, the hope is that the lessons from the 2015-2016 droughts will help the industry cope in the event of another drought season. The input cost increases also come at a time when there is a slight recovery in agricultural commodity prices, at least in the case of maize. This could help offset the uptick in input prices over time.