The agricultural value chain and the climate crisis

By Wandile Sihlobo, chief economist of the Agricultural Business Chamber of SA (Agbiz)

The effects of the changing climate, which is, of course, a global challenge, have been felt increasingly in sub-Saharan Africa and parts of Asia in the recent past. This is as a result of erratic rainfall and the more frequent occurrence of droughts and floods.

For countries whose economies largely depend on agricultural fortunes, the impact of climate change has mostly been felt in smaller yields, poorer grazing conditions for livestock and ultimately in food price inflation.

However, less of a talking point but equally important is the impact of climate change on value-chain industries such as agricultural input and equipment providers, agricultural financiers and food processing companies, among others.

Agricultural equipment sales

We are witnessing this in South Africa, albeit at a fairly marginal scale thus far. For example, the performance of agricultural equipment has been subdued since the beginning of the year. Several factors gave rise to this trend, the main one being the poor performance of agricultural production due to unfavourable weather conditions.

When the 2018/19 summer grains and oilseeds season commenced in October 2018, only parts of Mpumalanga, KwaZulu-Natal, Gauteng, the Eastern Cape and Limpopo received light showers that enabled plantings. Other provinces, specifically the Free State and North West, only received good rains late in December 2018.

This meant that plantings had to be delayed by about a month, which led to a 4% year-on-year reduction in the area planted to 3,7 million hectares in the 2018/19 summer grains and oilseeds production season. Furthermore, the crop yields in the areas that did plant, also took a knock.

The 2018/19 sunflower seed, soya bean and maize harvests are expected to drop by 29, 21 and 13%, from the previous season, to 611 140 tons, 1,2 million tons, and 10,9 million tons, respectively. All of this is weighing heavily on farmers' finances, and hence agricultural equipment sales.

Admittedly, the poor performance of agricultural equipment sales cannot be attributed to unfavourable weather conditions only. Last year, sales were relatively robust, which implies that the rate of replacement will likely be down in 2019.

To illustrate this point, South Africa's overall tractor sales for 2018 amounted to 6 680 units, up by 4% from 2017. In terms of combine harvester sales, 2018 presented a good performance with 200 units sold, which was 2% higher than in 2017.

Policy and investment

Another important aspect that is monitored through the Agbiz/IDC Agribusiness Confidence Index, is the influence of policy discussions on agricultural investment. Sentiment in the sector has generally been subdued since the second quarter of 2018, but the fact that fixed investments in the sector did not decline notably in 2018, was comforting.

However, the subdued confidence levels in the second quarter suggest some urgency in moving the policy levers to ensure that, at least, matters that are within the South African policymakers' reach, are properly addressed in the interest of sustainable growth of the agricultural and agribusiness sector.

In closing, the climate crisis will continue to be the key driver of performance in the agricultural sector and its interlinked industries in the near term, and for many years to come. Agbiz expects a generally subdued performance in terms of tractor purchases, with a potential turning point around October, when the 2019/20 summer grains and oilseeds production season starts. This, however, is if weather conditions improve.

For more information, email the author at wandile@agbiz.co.za.