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Report Name: Concerns Over Steep Input Cost Increases in the South African Agricultural Sector

Country: South Africa - Republic of

Post: Pretoria

Report Category: Agricultural Situation, Grain and Feed

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Report Highlights:

Worldwide agricultural inputs prices have risen steeply the past year. South Africa is at the start of the 2021/22 summer production season and farmers are confronting these increased inputs prices that will squeeze profit margins. On average, fertilizer prices more than doubled the past year in South Africa, while agrochemicals prices increased by more than 50 percent. Diesel prices have increased by 40 percent year-on-year. However, the South African agricultural sector has increased its resiliency to rising input costs over time by improving efficiencies. Efficiency has increased across the sector due to, amongst others, the utilization of economies-of-scale, upgraded on-farm machinery, the use of new production technologies, such as Genetically Engineered seed, precision farming, and reduced or no-tillage land preparations.

Steep rise in agricultural input costs

South Africa's summer crop producers are at the start of the 2021/22 production season. Usually, weather conditions and the anticipated impact on commodity prices are the top concerns for farmers. However, for the 2021/22 season, farmers are also concerned by the steep increase of input costs, especially, fertilizer, agrochemicals and fuel. Together, these three farming inputs account for 50 percent to 60 percent of the total input cost of summer grain producers in South African. In the 2020/21 season, South African farmers spent more than R30 billion (US$1.9 billion) on fertilizer, agrochemicals and fuel according to the South African Department of Agriculture, Land Reform and Rural Development. Table 1 illustrates the year-on-year percentage increase of herbicides, pesticides, fertilizer and fuel in South Africa. On average agrochemicals prices (herbicides and pesticides) increased by more than 50 percent from October 2020, while fertilizer prices more than doubled in the same period. Diesel prices had a steep increase of 40 percent since November 2020.

Table 1: The Year-on-Year Price Increases in Agricultural Inputs in South Africa.

	Year-on-year change
Herbicides	
Glyphosate	165%
Acetochlor	110%
Atrazine	48%
Metolachlor	56%
Trifluralin	-5%
Pesticides	
Imidacloprid	116%
Lambda-cyhalothrin	67%
Carbofuran	7%
Deltamethrin	-5%
Acetamiprid	87%
Chlorpyrifos	29%
Cypermethrin	-6%
Fertilizer	
KAN (28)	114%
Urea (46)	130%
MAP	72%
Potassium Chloride	125%
Fuel	
Petrol Unleaded	34%
Diesel	40%

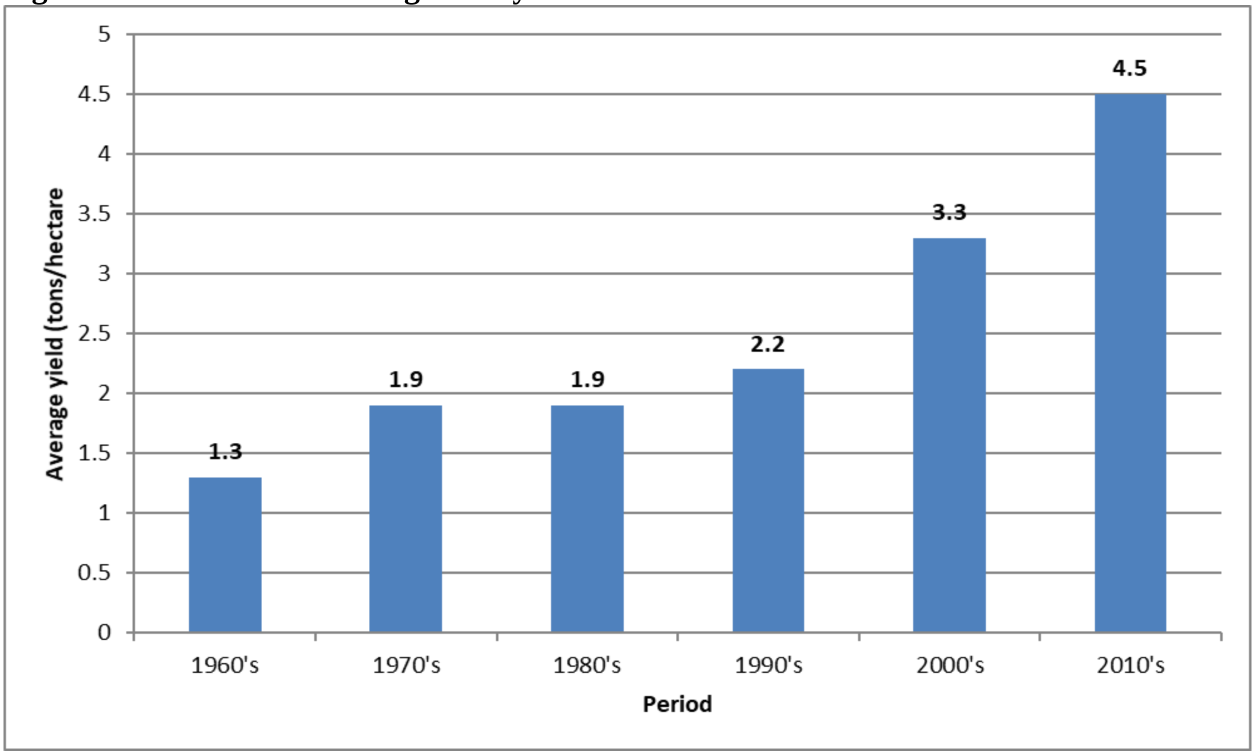
Source: GrainSA

The increases in agricultural input prices are largely driven by global demand from expanding agricultural sectors around the globe. Rising shipping costs, oil and gas prices, as well as logistical problems causing supply constraints in key producing countries have also contributed to the sharp increases. The impact of the COVID-19 pandemic and resulting lockdowns worldwide also played a role in disturbing the normal supply and demand flows. The challenge is that these price increases are driven mainly by international events over which South Africa has very little influence or control. South Africa is also a net importer of these agricultural inputs and importing more than 80 percent of its annual fertilizer usage. Moreover, South Africa's weakening exchange rate is also contributing to the rising costs. In addition to rising input cost, the South African agricultural sector is also confronted with load shedding or rolling blackouts as the state-owned electricity utility, Eskom, is unable to supply power to the entire country at the same time. Load shedding is increasing the production cost of irrigation-reliant and energy-intensive cold chain industries like horticulture, dairy, meat, grains and agro-processing.

The South African agricultural sector has been thriving in recent years, growing by 13 percent year-on-year in 2020 and expected to grow a further 8 percent in 2021. South Africa's agricultural sector recorded a trade surplus of $4.0 billion in 2020 and an even higher trade surplus is expected in 2021. Many agricultural industries recorded historical-high or near-record production figures in 2020 and 2021, including citrus, table grapes, apples, nuts, corn, and soybeans that supported increased exports. The large harvests of 2020 and 2021 improved producer's financial positions and translated to an increase in the sale of new and more efficient on-farm machinery. Tractor and combine harvester sales, for example, increased year-on-year by 25 percent and 36 percent, respectively in 2021.

Despite continued optimism, the steep increase in input costs will be squeezing South African producers' profit margins in the 2021/22 production season. Fortunately, the South African agricultural sector has improved efficiency over time, allowing it to mitigate some of the impact of rising input costs. Efficiency has increased across the sector for decades due to, amongst others, utilization of economies-of-scale, upgraded on-farm machinery, the use of new production technologies, such as Genetically Engineered seed, precision farming, and reduced or no-tillage land preparations. For example, South Africa's corn yields more than doubled over the past 20 years (see Figure 1). To achieve economies-of-scale and mitigate the impact of raising input costs, South African summer rainfall field crops producers increased area planted by 15 percent over the past two decades. For the 2021/22 production season, estimates are that South African farmers will plant a 20-year high of 4.3 million hectares with summer rainfall field crops, an increase of four percent from the previous year. In addition to increased efficiencies, relatively high agricultural product and commodity prices will also assist in softening the impact of increased input costs for South African farmers.

Figure 1: Trends in the average corn yields in South Africa



Source: Crop Estimates Committee

Attachments:

No Attachments.