INTUITION

6 OCTOBER 2023

Agriculture: a growth industry

Over time, diets change, influenced by various factors. These factors include income, prices, personal tastes and beliefs, cultural traditions, as well as where people live and the world around them. It's a complex web of influences that shape what we eat. Brillat-Savarin captures this so well in the saying, "tell me what you eat, and I'll tell you who you are." It is these eating choices that are fundamental drivers of various agricultural commodities and sectors.

Lebogang Malatji

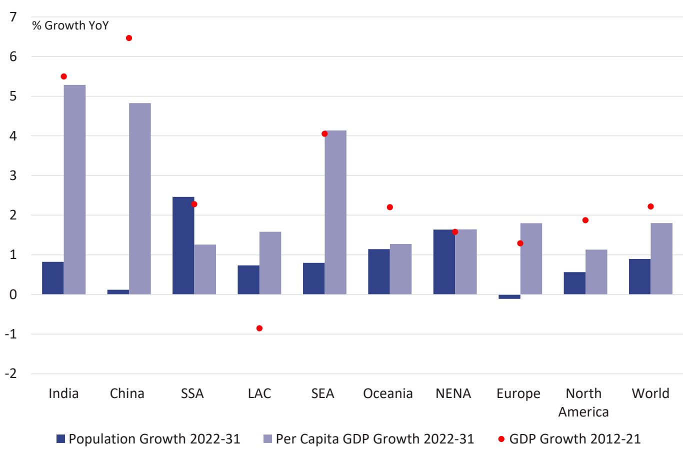
My dietary inclinations were formed in a small village not so far away from Limpopo's fruit basket, Tzaneen. The diet was a mix of home-grown maize, lots of berries, citrus, vegetables, and even seasonal treats like mopani worms. We had cows, chickens, and goats, and we rarely needed money to buy food. That was years ago and so many things have since changed. The 2022 - 2031 OECD-FAO Agricultural Outlook offers a model of what could happen within the agricultural sector over the next decade. It looks at things like basic foods, meat, fats, fruits, and veggies. It makes these predictions based on two important assumptions: how fast the population is growing and how the economy is doing. Population growth is forecast to slow, from 1.1% p.a currently to 0.9% p.a. At face value one might think that is not a big deal, but it has significant implications. These projections are a driver of some of the more open border policies in developed countries. When we look at different parts of the world, Africa is going to see the fastest population growth. Sub-Saharan Africa and Northeast/North Africa are leading the way with growth rates of 2.5% and 1.6% p.a, respectively.

Another important consideration is the projected growth rates of per capita income. The combination of the per capita income growth rate and population

SPEED READ

- **The global population growth rate is forecast to grow at a slower rate in the future, from 1.1% to 0.89% p.a.**
- **The growth prospects in Sub-Saharan Africa are complex yet this region is expected to have the highest population growth. We see increases in calorie intake, modelled from trends in Nigeria and Ethiopia and the least developed countries within the region.**
- **On average, food producers tend to be valued at a 30% discount relative to valuations for the broader JSE All Share Index. This significant difference in valuation reflects some of the unique challenges faced by the food production industry.**

AVERAGE ANNUAL GROWTH RATES



Agricultural Outlook forecasting slower economic growth in China and North America, a function of slowing population growth and per capita income growth.

growth rate approximate the overall economic growth rate of a country or region. What is noteworthy is that China, historically a major driver of global economic growth, is projected to grow at a slower rate going forward - from an average growth rate of 6.4% to 4.8%. In contrast, India is expected to have the highest economic growth rate at 6.1%, primarily due to income growth, with population growth making only a minimal contribution. On the other hand, North America and Europe are anticipated to have economic growth rates below the global average, mainly because of their low population growth. These trends are already well in-play. Consequently, global multinationals have been investing heavily to gain a foothold in that country.

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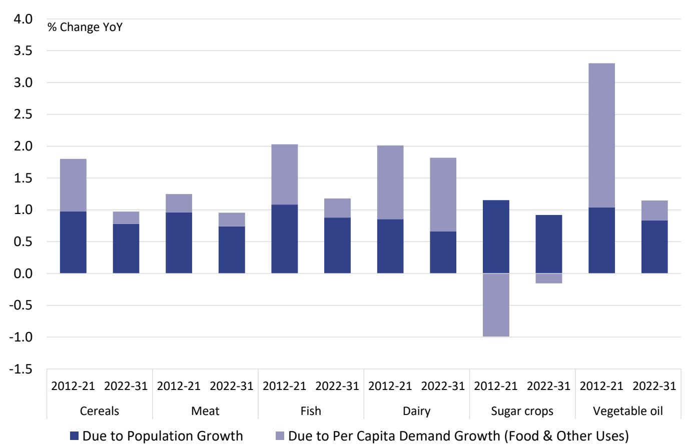
What is also clear is that between 2012 and 2021, the combination of population growth and rising income levels played a significant role in driving annual demand for various essential goods. The model suggests slower growth across all the major food categories due to slower income and population growth over the next few years. Vegetable oils are expected to experience the largest slowdown with a surprising recovery from sugar. Dairy will be the least affected by unfolding trends. Looking ahead, it is likely that volume growth will no longer be a reliable driver for assessing the valuation of food producers indexed to these commodities. Instead, companies linked to these commodities will need to focus more on cost-cutting measures and efficiency improvements.

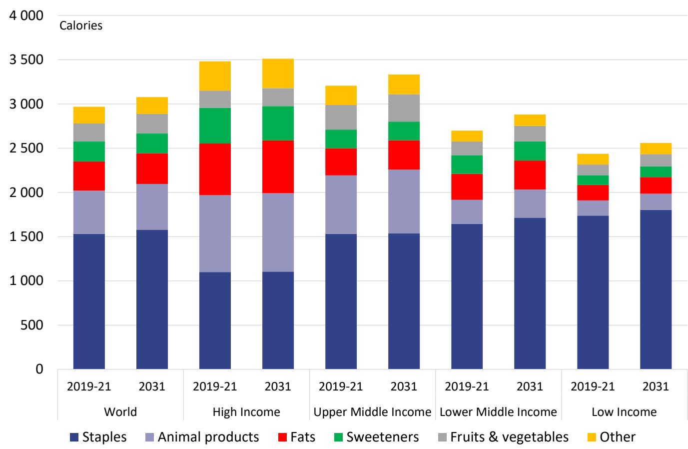
DEMAND GROWTH FOR KEY COMMODITY GROUPS



Growth in demand for most commodities is expected to be slower in the decade ahead than the previous decade.

Digging even deeper, what is even more fascinating are the income-specific trends. The composition of the average diet is 52% staples which includes wheat, cereals, roots, tubers and pulses. Animal products (including meat, dairy, eggs, and fish) comprise a further 17%, whilst fats (such as butter and vegetable oil) comprise a further 8%. The balance largely consists of fruits and vegetables (7%) and sweeteners (8%), which include sugar and corn syrup. The model points to a noticeable shift occurring over the next decade. Calorie consumption is expected to grow by only 0.8% within High Income countries. However, fruits and vegetables will see a marked increase of 4% offsetting the decrease in sweetener consumption. This reflects changing lifestyles and a focus on healthier eating habits. Unsurprisingly, per capita consumption growth of 7% and 5% is expected in Lower Middle- and Low-Income countries, respectively. Sweetener growth is also expected to be the highest in these areas, which explains the growth modelled for sugar crops in the previous chart. Encouragingly, the overall trend in fruits and vegetables suggests a global trend toward healthier eating habits. Taxes and policies aimed at reducing sugar consumption have not been effective in the lower income countries given the small percentage that it comprises of the monthly budget, coupled with growing populations. On the other hand, animal products and fats are projected to see growth rates of 8% and 7% respectively. Looking at protein availability on a global scale, poultry, pork, beef, and sheep meat are all expected to see increases by 2031, driven largely by upper middle and lower-middle income regions. The aggregate shows slowing growth but clearly this suggests that there are pockets of opportunities for companies that position themselves correctly in these markets.

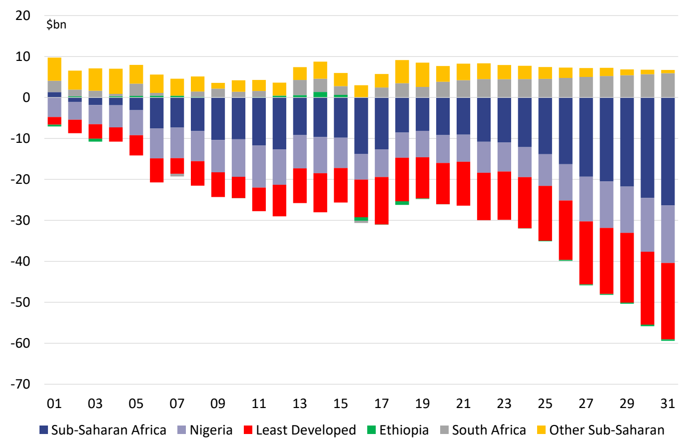
PER CAPITA CALORIE AVAILABILITY BY INCOME BRACKET



Modelling by the FAO suggests saturation in consumption from developed countries, with growth driven by Upper-Middle and Low-Income countries.

The growth prospects in Sub-Saharan Africa are complex. This region is expected to have the highest population growth. Consequently, calorie intake is expected to grow in Nigeria, Ethiopia, and the least-developed countries across the continent. On the other hand, South Africa's calorie consumption is expected to decline by 3% - largely a function of weak per capita income growth. This could change materially should our overall GDP growth rate improve. Due to poor infrastructure and inefficiencies, a substantial portion of the increased demand in Africa will have to be met through imports. This reliance on imports is expected to widen the trade deficit for essential food products over the next decade. This deficit is estimated to balloon from $9 billion to $26 billion by 2031. That is a considerable amount of value lost from the region, especially considering Africa's potential for food production. There are several reasons cited for this, including low levels of fertilizer usage and poor trade infrastructure that does not encourage large-scale agriculture. Increased coordination and cooperation between countries could go a long way to addressing these issues, however there are short-term factors at play that further encourage imports. Weather patterns and outbreaks of disease, such as the current Avian Flu outbreak in SA, can exacerbate shortages and prompt increased reliance on imports. The Global Risks Perception Report of 2023, published at the beginning of the year, highlighted food security as the highest perceived risk over the short-term. Africa has always been vulnerable in this regard. That does not look set to change.

AGRI TRADE BALANCES IN SUB-SAHARAN AFRICA



SA is one of the few countries that generates a trade surplus from agricultural products. Generally, the region is a net importer of food, which makes it vulnerable to global shocks. For example, African countries have been hard hit by the disruptions to wheat supply due to the Ukraine war.

Despite it only contributing 5% of our GDP, agriculture remains an important component of our economy. It generates thousands of direct jobs but also feeds multiple downstream industries and makes a positive contribution to our trade balance. Frustratingly, the food sector on the JSE is limited but many companies across the economy benefit from the downstream impact of agriculture, whether it be through chemicals, fertilisers, machinery, logistics, packaging, or retail. What is clear is that global demand for agricultural products is on the rise, and this trend is particularly significant for South Africa. All in all, when you project a bit further in the future, the case for South African agriculture remains strong.

Our next Insight seminar will take place in December in Cape Town, Johannesburg and Howick. After an eventful 2023 which has delivered its fair share of surprises, our next seminar will take stock of the year and focus on the outlook for 2024.

Topic:	Outlook for 2024
Natal Midlands	
Date:	7th of December
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	6th of December
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	4th of December
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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