A double whammy for agriculture as fuel prices escalate and interest rate outlook worsens

By Paul Makube

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The unrelenting crisis on global crude oil trade with ongoing Russia-Ukraine war, production challenges in Libya due to the unrest, the rebound in Chinese demand following the lifting of Covid-19 restriction measures, as well as OPEC's failure to meet its agreed supply quota all contributed to an increase of 77 US cents in prices to US$115.77 since the May update. This more than offset the 1.2% appreciation in the rand exchange rate to R15.76/ US$ during the period under review.

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Consequently, the South Africa's Minister of Mineral Resources and Energy announced a further upward adjustment to the fuel prices with petrol increasing by R2.37/litre and R2.57/litre respectively for the two grades (93 ULP and LRP; 95 ULP and LRP) effective from the 6th of July 2022. The diesel prices were hiked by R2.31/l and R2.30/l respectively to R25.53/l and R25.39/l for the 0.05% and 0.005% sulphur content.

This comes at a time when the consumer inflation deteriorated and breached the upper end of the South African Reserve Bank (Sarb) target of 3% to 6% in May 2022, signalling further rate hikes after the 50 basis points increase to 4.75% last month.

Meanwhile, the producer prices have recently accelerated faster than the consumer prices which reflects the impact of the mounting cost pressures emanating from a combination of fuel prices and limited availability of certain inputs due to the global supply chain bottlenecks. The May 2022 agriculture producer price index (PPI) increased by 19.3% year-to-year with sharp increases of 30.8% year-on-year for the cereals and other crops and 20.8% year-on- for the fruit and vegetable subcategories.

The combination of higher debt serving costs in a record high input cost environment will continue to erode farmer producer margins and may force those that had already been in a dire financial situation to quit. The escalation in fuel costs manifest differently from harvesting to distribution of produce. Grain producers and logistics companies in the agriculture value chain will feel the pain as closer to 80% of grain is transported by road. Livestock and horticulture with citrus export season currently in full swing will also be affected in terms of distribution across the country and for exports.

On the consumer front, the latest update shows the 2Q2022 FNB/BER Consumer Confidence Index (CCI) remained on the downside for the second consecutive quarter signalling potential contraction in consumer spending in the medium term. The 2Q2022 CCI dropped sharply to -25 points following a decrease to -13 index points in 1Q2022. Reduced spending may dampen demand and subsequently prices for produce despite input costs unrelenting at elevated levels, thus a potential squeeze on producer margins in the near term.

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