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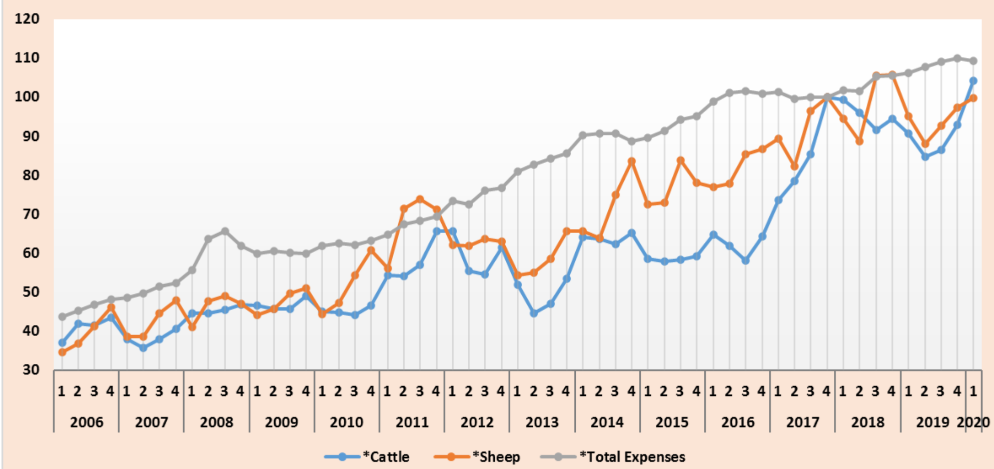
1st Quarter Agri-Review - 2020

***Please note that the NAU uses 2017 as the new base year.**

Inflation of agricultural expenses

Livestock prices improved in the first quarter of 2020, whereas the agri-inflation increased at a decreasing rate in the same period. The NAU production cost index stood at 106.1 basis point in quarter 1 (Q1) of 2019, but it increased to 109.4 basis point in Q1-2020 (see Figure 1). This is an indication that on a year-to-year base the agri-inflation rate increased by 3.1%. The increase in the agri-inflation rate was mainly driven by a 9.5% Y-o-Y increase in medicinal costs, a 5.3% Y-o-Y increase in feed costs, a 4.6% Y-o-Y increase in fuel prices, as well as a surge in the exchange rate. Quarterly, i.e. from Q4-2019 to Q1-2020, the agri-inflation rate dropped slightly with 0.6%.

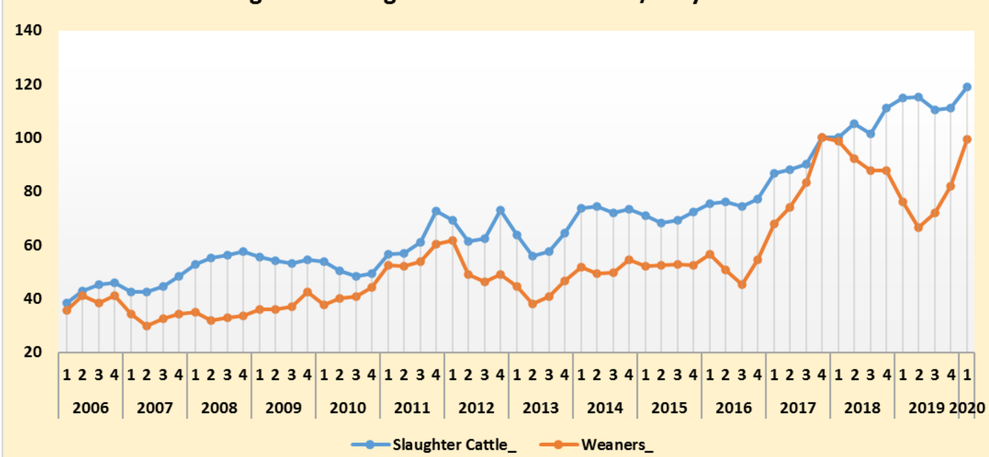
Figure 1: Cattle/Sheep Income & Total Expenses



Source: NAU

Comparing Q1-2019 prices to that of Q1-2020, the total weighted cattle prices improved by 14.8% Y-o-Y (see Figure 1), and it stemmed from a rise in both weaner and slaughter prices. The foot-and-mouth disease outbreak in South Africa in 2019 had a negative effect on the weaner price thus would show a massive weaner price increment of about 30.5% for the last 12 months (see Figure 2). However, comparing Q1-2018 to Q1-2019 there is an indication that there was a very little price increment of 0.6% in the past 24 months, whereas the slaughter price rose by 18.7% over the same 24 months. Sheep prices increased by more than 4.9% Y-o-Y from Q1-2019 to Q2-2020.

Figure 2: Slaughter Cattle & Weaner/Tolly Price



Source: NAU

Producers continue to pay more for a basket of inputs used in the production of livestock than what they receive on the market for the livestock sold. As a result, for the past 14 years producers had to advance their productivity and efficiency by 3.1% per annum for cattle, and by 0.7% per annum for sheep.

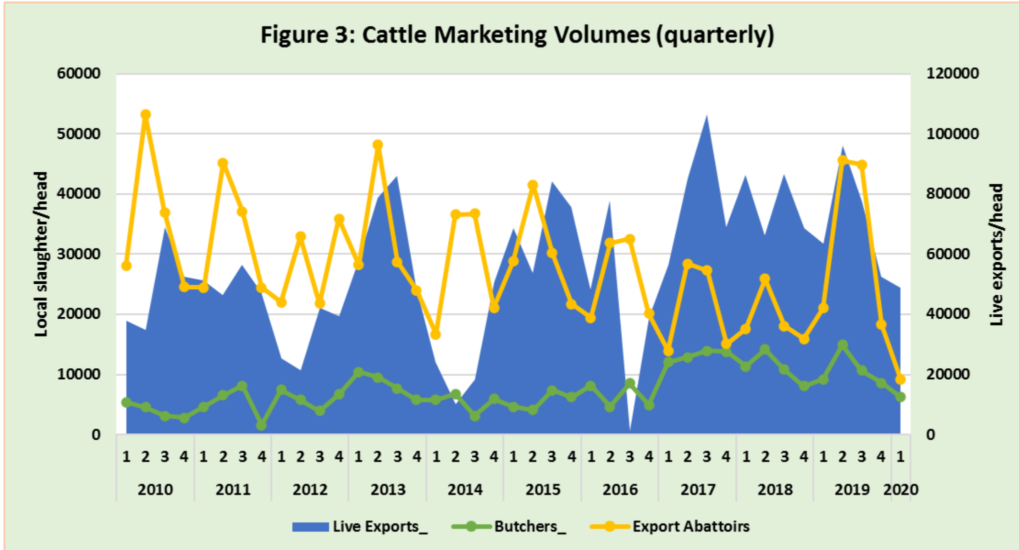
Market statistics

Livestock producers have moved into the herd rebuilding phase, and for that reason the number of cattle and sheep marketed in Q1-2020 reduced with 31.4% and 59.2%, respectively.

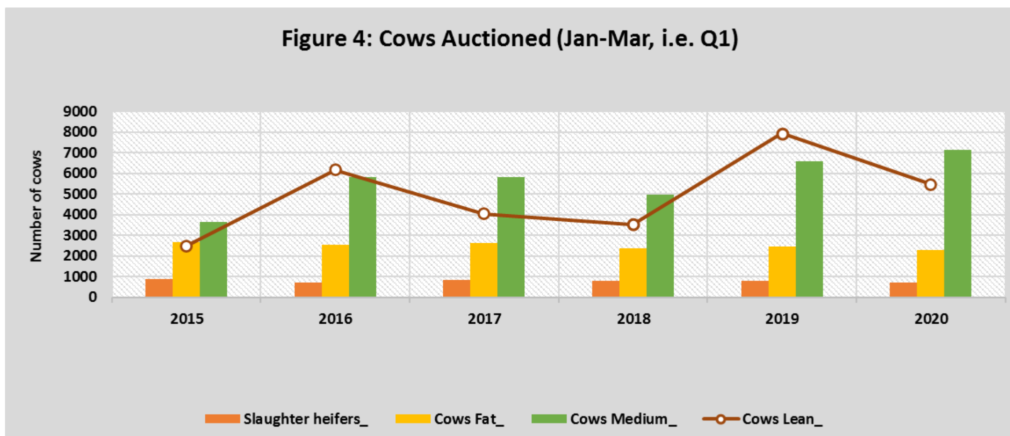
Based on Meat Board statistics, Namibia exported 63 417 live cattle in Q1-2019 compared to the 48 896 live cattle exported in Q1-2020, therefore, indicating an estimated decrease of 22.9%. Export abattoirs slaughtered about 20 991 units of cattle in Q1-2019, and 9 111 cattle in Q1-2020. This means that throughput to export abattoirs reduced drastically by 56.6%. B&C class abattoirs reported a throughput of 9 225 cattle and 6 238 cattle in Q1-2019 and Q1-2020, respectively. Sheep export abattoirs received approximately 52 903 heads of sheep in Q1-2019 and about 14 700 heads of sheep in Q1-2020, showing a major decrease of 72.2%. The live sheep export component of the sheep market did not perform any better, because comparing Q1-2019 and Q1-2020, live export of sheep decreased by 58.8%, i.e. the amount of live sheep exported in Q1-2019 were 104 196 and in Q1-2020 were 42 910. The destocking period during drought, resulted in a large component of core breeding herd being marketed, and that diminished the quantity of livestock available for marketing in 2020.

The number of cattle auctioned declined from 79 852 cattle in Q1-2019 to 77 943 cattle in Q1-2020, signifying a slight reduction of 2.4%. In 2019, a significant number of cows were auctioned. Comparing Q1-2019 to Q1-2020 the marketing of cows at auctions decreased by 12.2%, i.e. farmers auctioned 17 804 cows in Q1-2019 and 15 634 head of cows in Q1-2020. Namibia received good rains in cattle producing areas that improved the natural veld, this in turn increased the marketing of medium cows by 8.2%, while the marketing of lean cows declined by 31.0%.

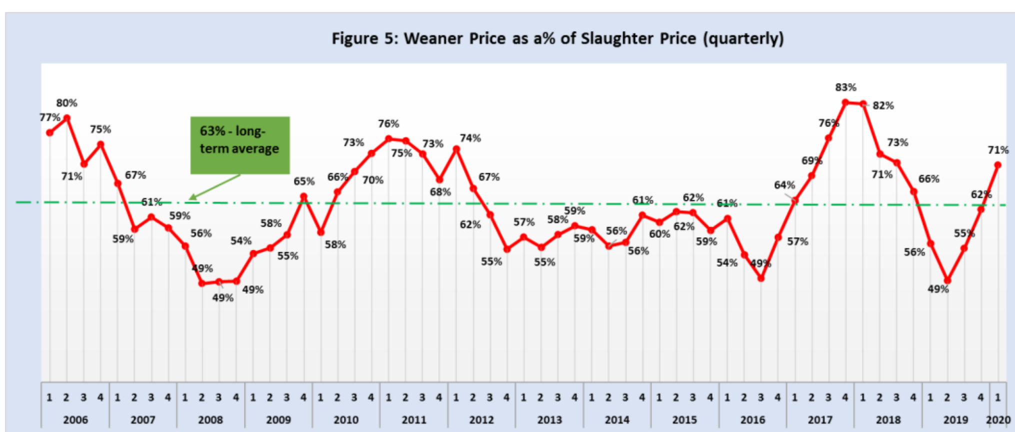
The price of weaners began to increase from Q3-2019 and it continued rising in Q1-2020, thus leaving the weaner price as a percentage of slaughter price at 70.8% in Q1-2020, which is above the long-term average of 63% (see Figure 4). This an indication that in Q1-2020 weaner production was more profitable than ox production.



Source: Meat Board/NAU



Source: LABTA / NAU



Source: NAU

Impact of COVID-19

Since 2013-2019, most areas of Namibia received below normal rainfall for 5 of the past 7 years, and this led to the depletion of natural rangeland reserves and decreased water capacity in the country. Therefore, ultimately affecting agricultural productivity. During the same drought period, major destocking took place to prevent major livestock and financial losses. The marketing of a large number of breeding stock compromised the reproductive capacity of the Namibian livestock sector, and thus puts pressure on the rebuilding phase of the livestock sector post-drought.

Namibia received good rains at the beginning of 2020 in the cattle producing areas, whereas the south is still crippled by continuing drought. Nevertheless, the good rains received broke the spell of drought and marked the beginning of a restocking phase of the livestock sub-sector. Moreover, farmers entered the restocking phase with negative cash flows. As of 2019 (June) the agriculture debt stood at NAD 7.1 billion from NAD 6.3 billion in 2018(June), representing a 13.1% increase in debt level. Considering the extent of debt farmers are in, it is anticipated that the post-drought recovery will take 3-5 years. Besides that, the post-drought recovery challenge is now coupled with the coronavirus (Covid-19) pandemic, and there exists uncertainties post-Covid-19 that could negatively influence investment into agriculture sector.

Currently, the agriculture sector is working hard to maintain current employment and to provide the commodities and food needed by the market. As it is known, the agriculture sector sustains about 70% of the Namibian population and supports a great part of the rural economy. Classifying the agriculture sector as an essential service/industry was a good starting point, however, more can be done to ensure the sustainability of the sector beyond Covid-19. Therefore, during Covid-19 period it would be idle to have a minimal disruption of the agricultural activities to ensure food sustainability and to prevent adverse effects such as job and livelihood losses that could be detrimental to the rural economy and the Namibian economy at large. The following sectors were negatively affected:

Dairy sector: The dairy sector is cost intensive and 71% of the production costs is feed. Over the past few years, high cost of fodder production has made dairy production in Namibia less competitive. To reduce and control feed costs, most dairy farmers are using spent grain, which is a by-product of beer brewing sourced from Namibia Breweries. However, as a result of the State of Emergency declaration on the Covid-19 pandemic, which prohibited the sale of alcohol, there has been a non-availability of spent grain. The non-availability of spent grain resulted in high feed costs, reduced milk production and it forced farmers to change dairy rations to supplement for spent grain.

Swakara: The 8-year drought in the south and south-western parts of Namibia placed swakara farmers and the sector at large under severe financial pressure, consequently leading to undesirable trends in 2018 and 2019. The year 2020 came with the Covid-19 pandemic, which added more challenges to the already strained sector. For that reason, the swakara sector is regarded as one of the economic sectors badly hit by the pandemic. The State of Emergency declaration on Covid-19 banned international travels affected the transportation of pelts by air to auction markets and in that the April 2020 auction was cancelled. As an alternative, 3 228 pelts were sold on an electronic platform and 27 393 pelts were deferred to the September 2020. This shows a significant reduction for the April 2020 auction, because in 2019 around the same time 32 975 pelts estimated at about NAD 14.9 million were sold. Swakara farmers are therefore experiencing serious cash flow challenges.

Tourism and trophy hunting: Tourism is one of the sectors livestock farmers diversify into to improve on-farm cash flow. The sector relies heavily on foreign tourists, and an embargo on international travels due to Covid-19 meant zero tourist arrivals, this led to the cancellation of excursion bookings, major financial losses and possible job losses especially in rural areas. Nevertheless, with the amount of challenges being encountered in the tourism and hunting sectors during the pandemic it is proving difficult to keep providing normal salaries, maintain regular working hours, as well as to keep employees. However, retrenchment remains a last resort. Moreover, there is uncertainty as to when international travels will resume and when foreign tourists will gain the confidence to tour again, because the time it takes for activities to normalize will determine the extent of the damage to the sector. In addition, a 14-day state quarantine does not support any tourism and hunting activities.

Poultry: The poultry sector signified strong growth in 2018 and 2019, with the small-and-medium enterprises contributing a significant amount to the sector. The sector caters for over 67% of the local consumption (Ministry of Industrialization, Trade and SME, 2020). However, the biggest challenge during the lockdown period has been the cross-border imports of raw materials (e.g. importation of parent chicks from neighbouring countries such as Zambia), and the closure of informal markets, which resulted in surplus production and loss of income.

Livestock and meat industry: The slowdown in economic activities has affected consumer income, changed their purchasing behaviour and their protein demand. Consumers have shifted from demanding restaurant services to grocery shopping (retail service). The closure or partial operation of restaurants, as well as a decline in tourists and travels have reduced the demand for high-price meat cuts and all other types of meats. A decrease in the demand of red meat especially in South Africa is expected to affect the demand of weaner calves in the South African and Namibian markets. A lack of demand of weaners from the Namibian market could create an inability to sell livestock and further strain farmers' cash flow. Changing market demand can be detrimental to the Namibian beef sector because it is still recovering from the impact of drought.

The uncertainty surrounding the Covid-19 pandemic puts pressure on markets and the disruption of the global economy is likely to affect export commodities. Therefore, effective cooperation and collaboration is a necessity, and the Namibian agricultural sector would have to restrategise to either improve or maintain their competitive edge.