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department of  
economic, small business development,  
tourism and environmental affairs  
FREE STATE PROVINCE

## **Research Document on Various Economic Indicators** **An Economic Intelligence Report**

*Impact of the Covid-19 pandemic on the Agriculture Industry*

**June 2021**



This issue of the Economic Intelligence Report provides an overview of the economic performance of agriculture during the Covid-19 national lockdown. It reflects on the performance of agriculture nationally due to the contribution of Free State to the national economy. Agriculture's contribution towards the provincial Gross Domestic Product (GDP) and employment are also highlighted. It further provides the effects of the pandemic on agricultural systems nationally and across the globe.

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<sup>1</sup> Cover image adapted from [https://favpng.com/png\\_view/organism-green-can-stock-photo-green-png/ntE6dB1W](https://favpng.com/png_view/organism-green-can-stock-photo-green-png/ntE6dB1W)  
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## 1. INTRODUCTION AND BACKGROUND

The South African government introduced hard lockdown restrictions at the end of March 2020 as the Covid-19 crisis escalated. This tough lockdown meant that borders were shut to international travellers, trade of non-essential items was prohibited and economic activity almost came to a standstill and even schools were closed. In June of the same year, the government began a gradual reopening to ease economic tension, but restrictions were reintroduced in July as infection rates began to rise again. In August a state of emergency was declared and another lockdown was reintroduced at the end of December 2020 at the peak of the second wave.

Throughout this period industries such as the Trade, Retail and Wholesale industry suffered a major hit. However, the Agriculture, Forestry and Fishing industry nationally increased at a rate of 5.9%, and contributed 0.2 of a percentage point as depicted in table 1 below. Statistic South Africa reported that this increase was mainly due to increased production of animal products.

Table 1: Growth in value added and GDP and contributions to growth (constant 2010 prices, seasonally adjusted and annualised)

Industry	Growth rates: % change quarter-on-quarter (seasonally adjusted and annualized)				
	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Agriculture	-7.6	38.8	22.00	20.1	5.9
	Contributions to growth: percentage points				
	-0.2	0.7	0.4	0.7	0.2

Source: Stats SA, Gross Domestic Product, Q4 2020

The preliminary impact of the pandemic on national economic sectors has been well documented by data agencies such as Statistics South Africa, however provincial data remain very limited. The Economic Research Directorate has found it necessary to determine what the initial impact of the Covid-19 pandemic and subsequent lockdown have been on the provincial economy. This report is a third in a series of Economic Intelligence reports developed to establish the pandemic's impact on various provincial economic sectors.

This issue of the Economic Intelligence report focuses specifically on the initial impact of the pandemic on Agriculture. The report presents the impact on provincial Agriculture Gross Domestic Product (GDP) and employment. A Covid-19 Business Impact Survey was developed and distributed to stakeholders in the agriculture sector. This survey was developed to assess the impact on agricultural productivity and workforce as a result of the Covid-19 pandemic. Unfortunately none of the surveys were returned to reflect the responses from stakeholders, hence the general perspective of the impact of the pandemic on the economy.

## **2. PERFORMANCE OF AGRICULTURE IN SOUTH AFRICA**

Agriculture according to the Industrial Development Corporation (IDC) was the only broad sector of the South African economy to have recorded a positive GDP growth (+13.1% in real terms) in 2020. This was a year in which the economy experienced a deep recession (a 7% decline in real GDP) as a result of the Covid-19 pandemic and the impact of measures taken globally as well as domestically to contain its spread.

This impressive performance of agriculture was largely attributable to favourable weather conditions and, to a significant extent, the classification of the sector's activities as essential services under the initial lockdown regulations imposed early in the second quarter of 2020. This permitted the continuation of agricultural production while most other sectors of the economy were either unable to operate or faced operational restrictions over a considerable period of time.<sup>2</sup>

Field crops, animal products and horticulture segments were consistently contributing to this positive growth. The positive contribution by field crops was driven by the increased production of wheat (+37.4%) and maize (+27.9%) during 2020 compared to the previous year, while sugar cane production was at a similar level to 2019. The output of the animal products segment increased marginally mainly due to higher poultry production and the slaughtering of pigs, as cattle and sheep slaughtering declined in 2020 relative to the preceding year. The expansion of citrus production to a record of 146 million cartons supported the rise in horticultural output, as well as the

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<sup>2</sup> Sector Trends: Performance of the primary and secondary sectors of the SA economy, IDC, April 2021



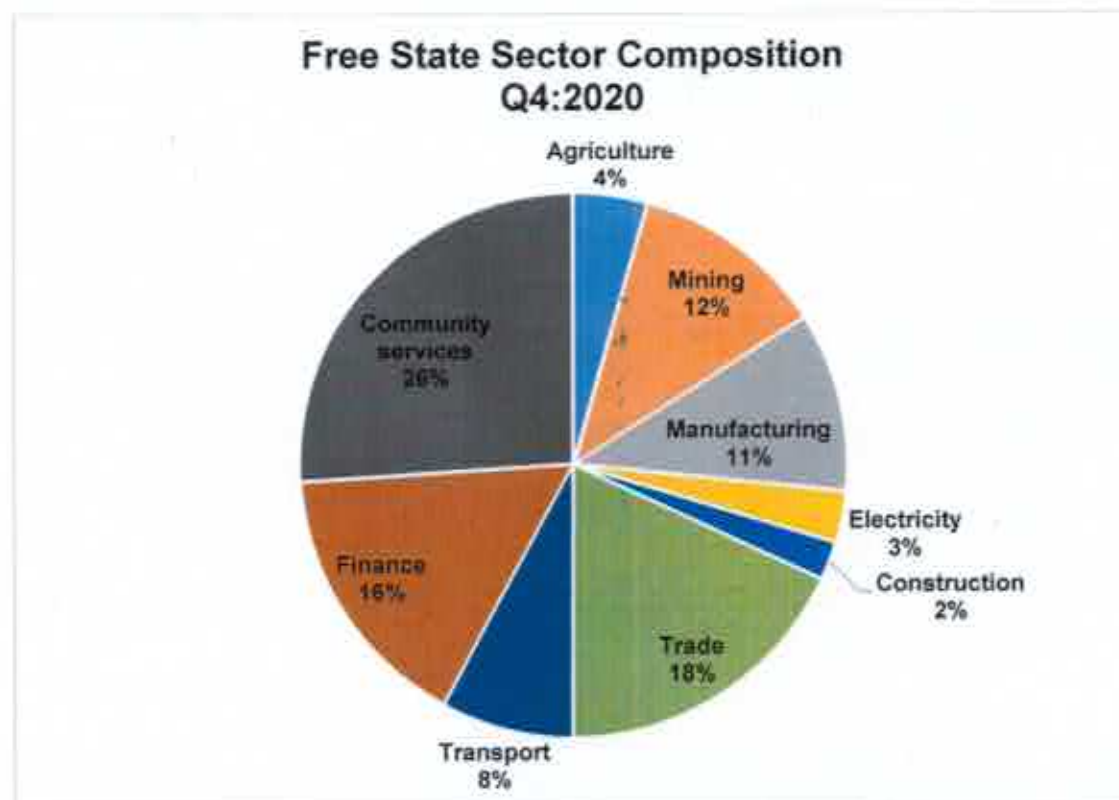
production of oranges that increased by 2.4% in 2020. Deciduous fruit production also recorded a broad recovery, with the output of apples and pears up by about 5% and 1% year-on-year, respectively, in 2020.

Overall employment in the agricultural sector in South Africa declined in the final quarter of 2020 compared to the preceding quarter, despite optimism regarding the prospects for the 2021 season. Improved profitability and higher production values supported the 23.3% increase, year-on-year, in remuneration of employees in the sector as a whole in the fourth quarter of 2020.<sup>3</sup>

### 3. FREE STATE AGRICULTURE: GDP AND EMPLOYMENT

In 2020 Agriculture accounted for 4% of the Free State Gross Value Added (GVA). Despite this relatively small contribution towards provincial output, the Free State Agriculture industry is among the largest among the provinces, making up 11.9% of national agriculture output.<sup>4</sup>

Figure 1: Free State Sector Composition Q4:2020



Data Source: IHS Markit Regional eXplorer version 2070

<sup>3</sup> Sector Trends: Performance of the primary and secondary sectors of the SA economy, IDC, April 2021

<sup>4</sup> IHS Markit Regional eXplorer version 2112

Historically the agriculture industry has been generally characterised by volatility in growth. Between 2010 and 2020, the agriculture sector experienced the highest positive growth in 2017 with an average growth rate of 30.5%. The sector experienced the lowest growth for the period during 2015 at -24.3%. During 2020 where many economic industries were severely impacted by the Covid-19 pandemic, the agriculture industry continued to contribute positively towards provincial output as illustrated in the figure 2 below. Growth forecasts predict that over the next 5 years the industry will grow by 0.64%.<sup>5</sup> In contrast to this forecast however, the OECD's analysis highlights that as a result of the COVID-19 pandemic agricultural markets in least developed countries (LDCs) are expected to suffer. The effect of lower economic growth is expected to be exacerbated in LDCs since these countries spend a larger share of their incomes on food.<sup>6</sup>

Figure 2: Free State Agriculture GVA % change quarter-on-quarter (seasonally adjusted and annualised) and contribution to growth in Quarterly GDP from Q4:2019 to Q4:2020



<sup>5</sup> IHS Markit Regional eXplorer version 2112

<sup>6</sup> OECD, 2020. The Impact of COVID-19 on agricultural markets and GHG emissions



The Agriculture industry accounts for 7% of the province's formal employment, employing 54 000 people in the Free State province as depicted in figure 3 below. The majority (67.6%) of people employed in the industry are adults aged between 35 and 64 years of age while youth aged between 15 and 34 years of age make up the minority share (32.4%). Year on year, employment in the industry fell by 18.4%, with the youth population experiencing the most job losses (-36.4%). In contrast, the industry recorded a quarterly increase in employment with an additional 4 904 (10.1%) jobs between Q3:2020 and Q4:2020. During this period youth employment in the industry decreased by 7.7% while adult employment increased by 11.2%.<sup>7</sup>

Figure 3: FS Agriculture Employment Q4:2019 to Q4:2020



Data Source: Statistics South Africa. 2020. Quarterly Labour Force Survey Q4:2020

<sup>7</sup> Statistics South Africa. 2020. Quarterly Labour Force Survey Q4:2020

#### 4. IMPACT OF COVID-19 ON AGRICULTURE

The Covid-19 pandemic has resulted in immediate, serious, and worldwide human health issues.<sup>8</sup> Governments, globally as well as nationally, in an effort to minimise the impact came with necessary counter measures to the virus, e.g. quarantines and other restrictions, which were in place since March 2020 until now. Efforts to control the virus by limiting human movement inevitably caused economic shocks and social costs that will affect the functioning of agricultural and food systems.

Indirect effects of the pandemic on agricultural systems across the globe can already be observed in the decreased demand for restaurant and commercial food services in combination with restrictions in labour, processing capacity and/or storage has led to farmers discarding their output. Some of these measures are severely affecting labour availability for key time-critical farming from sowing vegetable crops to picking fruit. It is expected that these impacts, during the lifespan of this pandemic are likely to become more widely and deeply felt in agricultural across the national and globally economies.

To date several dimensions of concern with respect to COVID-19 and agricultural systems have been identified<sup>9</sup> which can also be associated with agriculture in the province, namely:

##### 4.1 Food security

Covid-2019 is affecting agriculture in two significant aspects according to the Food and Agriculture Organisation: the supply and demand for food. These two aspects are directly related to food security. The announcements of social isolation, during the pandemic, made people to buy from the supply centers, thus generate a shortage of some products. However, the food supply has stabilised because it is one of the systems that must be maintained to ensure food security. The demand for food has decreased due to uncertainty and the reduction of people's spending capacity,

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<sup>8</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7237936/>

<sup>9</sup> Ibid



although this decrease is still slight; the situation could worsen if the pandemic continues for a long time, due to reduced income and job losses.<sup>10</sup>

Food distribution channels have also been highly disrupted, with strong negative consequences for the most vulnerable. It is henceforth referred to the sudden decreases in food security due to:

- Loss of income from workers who are fully or partially furloughed affecting their ability to purchase food;
- Stay-at-home orders and restricted physical access to food markets and/or indigenous food gathering activities;
- Closure or diminished capacity of institutions that support food social safety nets, such as food banks and school feeding programs; and
- Market disruptions such as issues with the ability of supermarkets to rapidly restock from centralised distribution systems following unprecedented demand (i.e. panic buying) for pantry staples.
- Wastage of fresh vegetables, fruits and milk due to inability by farmers or entrepreneurs to transport them from point of production to local markets or supermarkets in nearby towns or cities.<sup>11</sup>

#### 4.2 Availability of Labour

Labour has been suddenly restricted in many regions due to quarantine measures and loss of workforce from COVID-19 deaths and serious illness. This seems particularly severe in horticulture, livestock production systems, and processing but also for planting and harvesting of crops that are relatively labour-intensive.

#### 4.3 Agricultural system connectivity

The Covid-19 pandemic is having an impact on the agri-food sector which is highly connected internationally. Ports that shut down or reduce activity, vastly reduced freight capacity on commercial flights for agricultural goods. Other broad global supply chain disruptions due to the Covid-19 crisis have the potential to limit critical access

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<sup>10</sup> [http://www.scielo.org.pe/scielo.php?script=sci\\_arttext&pid=52077-99172020000100003](http://www.scielo.org.pe/scielo.php?script=sci_arttext&pid=52077-99172020000100003)

<sup>11</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7237936/>



to agricultural inputs and markets. This may negatively impact agricultural productivity for current and future seasons.

## 5. CONCLUSIONS

The COVID-19 pandemic is a global health crisis that is having devastating impacts on the world economy – both directly and through public-health measures to contain the spread of the disease.<sup>12</sup> All sectors driving the provincial economy to an extent are impacted by this virus. Agriculture, as one of the priority sectors in the province which is key to food demand and food security, is greatly affected due to mobility restrictions, reduced purchasing power, and with a greater impact on the most vulnerable population groups. As cases of contagion increase, more drastic measures are taken to stop the spread of the virus, which in turn influencing the food system. The premise of any measure adopted should not be to protect the health and food security of the population, to the detriment of economic growth.

Labour supply for the production of food is critical to ensure food security. Addressing and resolving labour shortages and designing working conditions that are safe for workers and the community, needs undivided attention in order to secure future growing seasons and avoid disastrous consequences for future food security and supply.

The OECD Policy Responses to Coronavirus (COVID-19) Report states that the pandemic has imposed a shock on agricultural markets and its effects will most likely reverberate throughout the coming decade. The macroeconomic impacts of the pandemic, such as the fall in household income, are leading to a decline in gross calorie demand, especially in LDCs. Further efforts will be needed to help end hunger and malnutrition by the end of the decade as the pandemic puts people's life at risk.

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<sup>12</sup><https://www.oecd.org/coronavirus/policy-responses/the-impact-of-covid-19-on-agricultural-markets-and-ghg-emissions-57e5eb53/>

Agriculture as a key sector that drives the provincial economy will gradually respond to lower consumer demand, leading to a reduction in agricultural output. Livestock production is expected to decline more substantially than cereal production due to a larger drop in demand for high-value products. As the supply side reaction to this lower demand will lag, agricultural prices will fall, at least in the short run, putting additional pressure on farm revenues.<sup>13</sup>

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<sup>13</sup> <https://www.oecd.org/coronavirus/policy-responses/the-impact-of-covid-19-on-agricultural-markets-and-ghg-emissions-57e5eb53/>