Rainfall set to boost growth in southern Africa

By Steve Johnson

8 May 2017

Africa is back in the headlines for all the wrong reasons when it comes to food security. According to the UN, the world is enduring its worst humanitarian disaster since 1945, with 20m people facing the threat of famine and starvation in Somalia, South Sudan, and Nigeria, as well as Yemen. While not downplaying the suffering in the afflicted areas, there is at least good news to report on agricultural output elsewhere on the African continent, which should be powerful enough to meaningfully raise economic growth.

©Dmitry Pichugin via 123RF

Southern Africa's rebound

The picture is brightest in southern Africa, where a severe drought in 2015-16, driven by the El Niño weather phenomenon, has abated.

In South Africa, a 7.8 percent fall in agricultural production as a result of the drought was enough to knock 0.2 percentage points off economic growth last year, according to the country's national statistics agency. With growing conditions now returning to normal, production of maize, Africa's most important food staple, will rise by 65 percent this year in South Africa, according to a forecast by the US Department of Agriculture.

Using the maize forecast as a proxy for overall agricultural activity, Oliver Allen, a researcher at Capital Economics, a

London based consultancy, estimates that agricultural gross domestic product should rise by about 15 percent this year, as the first chart indicates.

That in turn should boost overall GDP by about 0.3 percentage points and reduce inflation, given that futures prices for South African white maize have fallen 60 percent in a year handy for a country likely to face higher imported inflation following the rand's 10 percent slide against the dollar in the wake of President Jacob Zuma's sacking of Pravin Gordhan, the internationally respected finance minister.

Indeed, the likely rebound in South Africa's agricultural output is a key reason why Capital Economics forecasts the country's GDP will rise 2 percent this year, well above the consensus estimate of 1.1 per cent.

This is despite agriculture accounting for just 2.1 percent of South Africa's GDP, and hydroelectric power, another industry dependent on healthy rainfall, constituting just 0.4 percent of its domestic energy production, according to figures from Capital Economics.

Countries such as Ethiopia, Kenya, and Tanzania, where farming accounts for 30 percent or more of GDP, or those where hydroelectricity is by far and away the major source of power, such as Zambia, Ethiopia again and Uganda, as the second and third charts illustrate, is clearly more rainfall dependent.

A substantial boost for Zambia

Consequently, Zambia, another of the countries struck by the Southern African drought, could be a major beneficiary this year. "Zambia is one of the breadbaskets in the region and last year was hit pretty hard," said Yvonne Mhango, sub-Saharan economist at Renaissance Capital, a Moscow-based investment bank with a focus on emerging markets.

"The government is suggesting growth will be 3.7 percent [this year]. There are upside risks to that, I think it will be over 4 percent because of much better agricultural output," said Mhango, who is based in South Africa and reports that food prices are already easing.

Higher hydropower production should also lower energy costs for businesses and households, given that it accounts for 99 percent of the country's energy generation. "The return to normal weather patterns will give a substantial boost to Zambia's otherwise struggling economy," Allen said. "Recent reports suggest that water levels at the Kariba Dam, the country's largest, have risen sharply since January, after two years of operating at below normal levels."

Fitch Ratings cited the likelihood that increased rainfall would boost agricultural output and "aid the nation's strained power generation capacity" in its decision in February to maintain Zambia's singleB credit rating, despite the country being on negative outlook.

Mixed picture for East Africa

The picture in East Africa is more mixed, however. Ethiopia was also hit by drought last year, but the UN has forecast a rebound in crop yields this year, a recovery that it predicts will halve the number of people dependent on food aid to 5m. Given that 80 percent of the Ethiopian workforce is employed in the agricultural sector, this should provide widespread gains. However, parts of the country are still seeing little rainfall, suggesting that the UN's forecasts may not come to pass.

Renewed drought may also hit harvests in Tanzania and in Kenya where, as a result, Allen sees inflation rising to 8 percent this year from 6.3 percent in 2016 preventing the central bank from cutting interest rates below 9.5 percent. Mhango is more worried still, fearing that Kenya's inflation trajectory since the turn of the year "is similar to that of 2011" when inflation peaked at 20 percent, with knock-on effects. Inflation hit 10.3 percent in the year to March, the highest rate since 2012, with food inflation higher still at 18.6 percent, according to official data.

"A comparison of 1980/2012 macro data from drought and non-drought periods tells us that the 2017 drought will have a marked effect on consumer spending and tea output," Mhango said, with "weak" credit growth and a slowdown in capital expenditure ahead of August's presidential election "likely to compound the drought's impact on growth".

Agriculture is Kenya's most important sector, accounting for 22 percent of GDP and employing two-thirds of the workforce. Tea alone constitutes 20 percent of the country's exports. Mhango's analysis suggests Kenya's economic growth tends to be 1.5 percentage points weaker during drought years, and as such she is pencilling in growth of just 4.2 percent this year, down from 5.8 percent in 2016 which would be the weakest figure since 2009.

One saving grace for Kenya is that thanks to the expansion of geothermal power, hydropower now accounts for just 3,540 percent of energy supply, down from 5560 percent in 2007.

Knock-on effect in neighbouring countries

However, Mhango fears that rising food prices in Kenya are likely to have a knock-on effect in neighbouring countries.

"In East Africa, there is a lot of trade between countries. As prices go up in places like Kenya, you start to see the impact hitting Tanzania and Uganda, not because their harvests are poor but because prices are going up across the region," she warned.

Food price inflation has already risen to 11.5 per cent in Uganda, from just 3.5 percent in October 2016, and to 7.6 percent in Tanzania, from 6 percent in October. Rwanda has seen a leap to 24.5 percent, which Mhango said was related to disruption in imports from Burundi, on top of the regional trend.