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# Performance of the agricultural harvest in Argentina 2017 - 2018

Agribusiness

August de 2018

kpmg.com.ar

# An expected deceleration in soy and corn. Consolidation of wheat.

As early as in April this year, the "*agricultural estimates*"[1] of the Ministry of Agribusiness (MINAGRO) included a significant fall in the total grain production for the 2017-2018 season compared with the prior 2016-2017 season, in which the total output of the sector set the historical record of 137 million tons. According to the latest data published by MINAGRO, the total grain production for 2018 would have reached 110 million tons[2], which confirms the assumptions of the Ministry and evidences a 20% decrease compared with the prior year. The heavy rain fallen at the end of 2017 in the most productive areas of the country, mainly in the provinces of Buenos Aires, La Pampa and Santa Fe, together with one of the most important droughts seen in the last 50 years, making the authorities declare the Agricultural Emergency in different regions, as well as the rains that followed, have been the drivers of the results presented below.

Regarding the coarse harvest, where soy and corn stand out, the data reported by MINAGRO show a significant fall in the production of both crops in the last season (compared with the previous one): -15% for corn and -33% for soy. In the case of soy, a crop which recorded an unprecedented growth in our country from the point of view of both the area intended for planting and its harvest as a consequence of the rise in international prices of agricultural commodities in the last decade, the productive decline evidenced this year, together with a fall of 6% in the prior 2016-2017 season, was mainly explained by a drop in yield (production by planted hectare), from 3.1 tons per hectare (tn./ha.) to only 2.2 tn./ha. Although the collapse of external prices in the last five years has been the main driver of the local productive decline of this and other crops (while they have recently shown signs of recovery) and, at the same time, this has led to the development of other activities that had been relegated (such as livestock), the weather has had a strong impact on the current yield of the oilseed (primarily the adverse weather conditions between December 2017 and March this year)[3]. In fact, despite the hectares planted with soy decreased by just one million from the last season to this season, production fell by around 18 million tons (from 55 million to 37 million tons), which clearly evidences the impact of other factors unrelated to the behavior of prices and/or decisions and strategies of agricultural producers. However, although the gross value of soy production has experienced a significant drop in this season compared with the last seasons, this grain is still the one adding the highest value to the GDP[4], and one of the most important ones in terms of exports.

Corn, on the other hand, which had experienced a growth of more than 20% in the previous season and had set a historical record of 50 million tons, shows a drop of 15% this season (that is, 42 million tons). Although the yield of this grain depreciated at a lower rate than that of soy between the past and current harvest (from 5.8 tons / ha. in the 2016-2017 season to 4.7 tons / ha. in this season), the planted area for this crop was higher by around 400,000 ha., which makes us conclude that in a relatively stable context of prices the impact of the weather variable has been crucial on the results observed, particularly on production planted at later dates, which was fully impacted by the last drought. It is worth remarking that in the case of corn, the productive decline of this crop directly affects its two main destinations, i.e. the export of the grain and its byproducts (which might be offset by the increase in its international price) as well as its use as one of the main forage grains (feed for livestock); this might affect production costs, the expected meat prices (at least internally) and future investment

[1] "*Agricultural Estimates. Monthly Report*". Ministry of Agribusiness, April 19, 2018.

[2] In addition to wheat, soy and corn, the figure includes sunflower, sorghum, barley, birdseed, rice, cotton, oat, safflower, rye, rapeseed, flax, peanut and millet.

[3] "*The Government has estimated a 29% fall in the harvest of soy, as well as losses amounting to USD 5 billion*". Infobae, April 20, 2018.

[4] Since the price of the oilseed has remained high compared with the other crops, its gross value of production (that is, derived from multiplying the average international price as of May 2018 and its physical production) enables us to estimate that the contribution of this crop to the GDP is around 2.5%. It is to note that in the previous estimate only the production of the grain, and not the production of byproducts, was taken into account.

decisions in the sector. However, it should be noted that corn is still the grain with the highest weighing in GDP after soy; while it shows the highest contribution to national exports.

Finally, wheat, which is the most representative grain of fine crops (or winter crops, together with barley, rye and oat), was the only crop out of the three crops under analysis which maintained its yield compared with the prior season (around 3 tons / ha.) and, as opposed to the other crops, it set a new record of 18.5 million tons of production, or around 100,000 tons in addition to the figure recorded in 2017. Consequently, the contribution of the gross value of production of this grain to the GDP is estimated at 0.6%; its contribution to national exports, which amounted to 4% in 2017, may even increase this year (2018). In effect, analysts specialized in this sector estimate that wheat production, jointly with the increase in its external price, will offset the losses caused to agricultural exports due to the drops in soy and corn, particularly considering that it is very likely that producers may direct investment decisions to this crop in the next season, after observing the negative effects of the recent drought on the production of other grains.

Despite these results, the agricultural growth potential in the country is still very important due to natural conditions (according to the Food and Agriculture Organization of the United Nations -FAO, Argentina has the fourth position in the ranking of countries with the highest area of cropland, with almost one hectare per capita, while it is one of the most important producers of crops at a global level), as well as the series of measures implemented by the national Government, seeking the constant promotion of the business (for example, the elimination in 2016 of export tax withholdings on wheat, sunflower and corn, as well as the gradual reduction in the tax on soybean until its elimination in 2022[5]). As a matter of fact, the prevailing tax conditions have been key upon evaluating the performance of the sector during the previous season (2017), where there was a record in the production of crops such as wheat and corn and exports of grains and oilseeds maintained their levels above USD 10 billion (accounting for 17% of total national exports, worth USD 58 billion in 2017). Nevertheless, in this season, where the performance of the agricultural sector has not been as expected due to factors beyond human control, such as weather conditions, the contribution of crops such as soy and corn to national exports is expected to fall considerably, but, on the other hand, in response to the facilities offered by the national authorities and the growing trend of external prices, wheat, which has managed to evade the reality of the other two crops, is expected to offset the recession seen in the other grains. In this regard, the data on the trading of recent harvests strengthen this assumption by indicating that wheat has been gaining ground year after year in terms of contribution of grains to total Argentine exports, as since the 2014-2015 season this crop has increased its share by around one percentage point per year. Considering that national exports might reach USD 60 billion in 2018 and assuming that the price of wheat, as the price of other crops, will maintain the current trend at the end of the year, the foreign sales of this grain might amount to USD 2.4 billion in 2018.

In fact, the statistics prepared on a regular basis by the World Bank[6] show that the prices of the main crops analyzed in this article will maintain an upward trend towards the end of the year, after a long fall, mainly between 2012 and 2015. Corn, which had decreased by 93% between 2012 and 2017 (going from USD/Tn. 298 to USD/Tn. 155), has shown certain signs of recovery in 2018, reaching in May this year an average price of USD/Tn. 170 Soy, on the other hand, which had also lost ground in the sowing decisions of producers in response to the steep fall in its price (going from an average of USD/Tn 590 in 2012 to USD/Tn 390 in 2015), shows a reversal in its trend since 2016, and has only partly recovered as of May 2018 (USD/Tn 426). Finally, wheat, which had shown a similar behavior during the international recession, showed the highest recovery in its price in dollars in 2018 (12%, from USD/Tn 176 in 2017 to an average of USD/Tn 198 as of May 2018). In effect, the improvement in foreign prices of these commodities implies an important variable in decision taking when agricultural producers develop their production strategies, encouraging sowing and enabling a greater

[5] The soy export duties went down by 5 points in 2016 from 35% to 30% of the exported value. However, since January 2017, a process has begun to remove half a point monthly and, therefore, the tariff will amount to 24% by the end of 2018, 18% in 2019, 12% in 2020 and 6% in 2021, being eliminated in 2022.
[6] "*Commodity Markets*". World Bank, 2018 - http://www.worldbank.org/en/research/commodity-markets.

balance in the use of land. Likewise, and as already mentioned, the tax benefits offering the elimination or reduction of export tariffs satisfy the expectations of producers, who can consider and estimate their yield without additional burdens imposed by the State, which have a negative effect on agricultural production and contribute to the reallocation of resources to other activities. At the same time, the Government still generates a significant amount of public revenues derived from other tax rates more related to the performance of the sector (for example, income tax and turnover tax). In fact, the Buenos Aires Grain Exchange, in a recent paper seeking to estimate the contribution of the wheat production chain to the national economy[7], weigthed that in recent seasons the income tax and other taxes such as the turnover tax, accounting for the highest tax collection from this sector, have offset and even recouped the loss suffered by the State due to the elimination of withholdings on wheat; in fact tax collections are expected to reach USD 725 million in the 2018-2019 season,19% higher than the amount recorded in 2017-2018 (USD 610 million) and 29% higher than that recorded in the 2015 season, where the withholding system was still in place.

In the future, it is expected that as a consequence of the satisfactory natural conditions prevailing at the country, the current policies on the elimination of customs withholdings and any other measures that may be implemented to reverse the productive levels recorded this season by both soy and corn -as a result of the adverse weather conditions-, the 2018-2019 season will show signs of recovery and positive figures will still be achieved by wheat, which will surely be the grain selected for future investments in planting.

[7] "*Campaña 2018-2019. Contribución de la cadena del trigo a la economía argentina"*. Economic Studies Institute. Buenos Aires Grain Exchange. June 2018.

# Authors

## Mariano Balestra
**Agribusiness Partner**
**KPMG Argentina**

## Matías Cano
**Markets Manager**
**KPMG Argentina**

# Contact us


## Eduardo Harnan

**Deputy Senior Partner and Agribusiness Leader**
**KPMG Argentina**
**T:** +54 11 4316 -5956
**E:** eharnan@kpmg.com.ar


**kpmg.com.ar**

@KPMGArgentina
KPMG Argentina
KPMG Argentina
KPMG AR Talents