

PRESS RELEASE

Agbiz/IDC Agribusiness Confidence Index slightly improves in Q2, 2016 – 27 July 2016

The Agbiz/IDC Confidence Index recovered by 4 index points in the second quarter of this year to 47. An index point below 50 indicates contraction in the South African agribusiness activity. Therefore a 47 index point suggests that agribusinesses are still holding a pessimistic view regarding business conditions in the country.

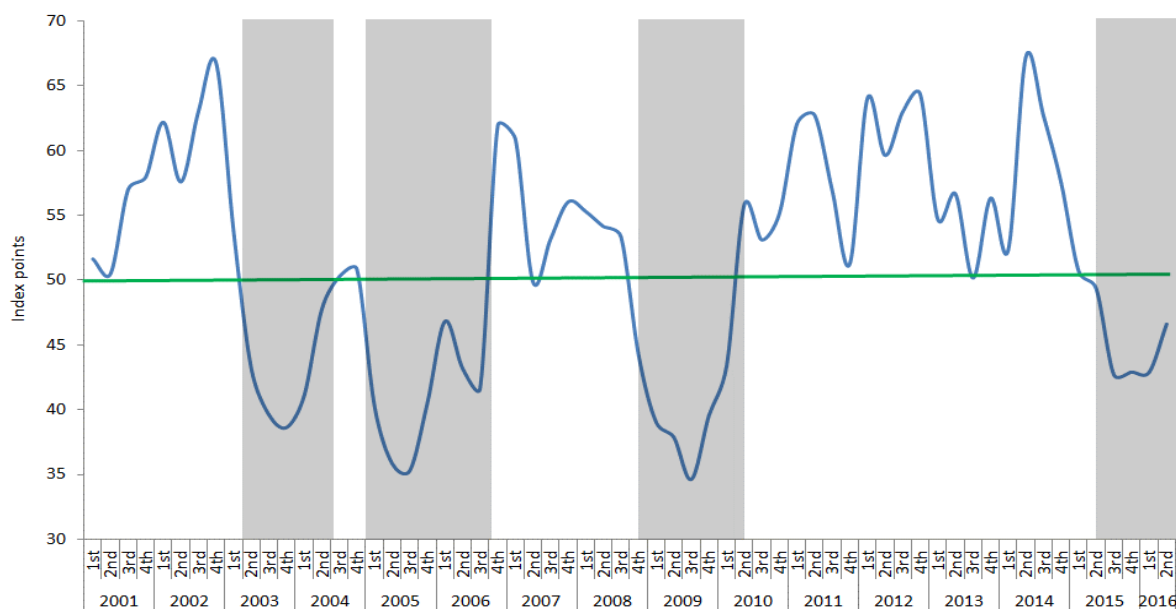


Chart 1: Agbiz/IDC Agribusiness Confidence Index¹

Source: Agbiz Research

(Shaded areas indicate periods when the confidence index was below 50 points)

The Confidence Index remained below 50 points over the past five consecutive quarters (see **Chart 1**). However, this is no surprise as the industry experienced an El Nino induced drought between 2015 and 2016. On a quarterly basis, the perceptions of agribusinesses improved in the majority of sub-indices, with the exception of **export volumes** and **economic growth prospects** sub-indices.

¹ The Agbiz / IDC Agribusiness Confidence Index is constructed quarterly by the Agricultural Business Chamber (Agbiz), in support of the Industrial Development Corporation (IDC). This index reflects the perceptions of at least 20 agribusiness decision-makers on the ten most important aspects influencing a business in the agricultural sector (i.e. turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost). It is used by agribusiness executives, policy-makers and economists to understand the perceptions of the agribusinesses sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

Discussion of the sub-indices

Perceptions about the **turnover** sub-index improved by 20 points in the second quarter to 79, which suggests that there were hopes that higher agricultural commodity prices might, to some extent, compensate for the losses in volumes in some enterprises. Moreover, the weaker Rand against the US Dollar also boosted confidence, particularly for the exporters.

Similarly, confidence about the **net operating income** sub-index improved by 25 index points to 75. Additionally, confidence improved in the **market share of the business** sub-index by 6 index points to 75. The improved confidence in the aforementioned sub-indices is reflective of the sentiment expressed in the **turnover** sub-index.

The perceptions regarding **employment** in the agribusiness sector marginally improved in the second quarter of 2016 by 2 index points to 54, but 7 index points down when compared to the same period last year. An annual decline could be linked to a drop in primary agricultural activity. South African farmers planted 22% less area of summer crops this year, which then suggests that some enterprises within the agribusiness sector could also see a decline.

Surprisingly, confidence around **capital investment** improved by 5 index points in the second quarter of 2016 to 67. That said, there are lingering concerns about political and policy uncertainty, particularly the land reform proposals.

As expected, confidence in **export volumes** dropped by 25 index points to 50, which is at its lowest level since Q3, 2015. This is largely on the back of lower crop production. Summer crop production is set to reach 8.79 million tons², down by 26% from last season, which was already 28% lower than in the 2014 season.

Confidence regarding the country's **economic growth** is at its lowest level since Q2, 2008, recorded at 4 index points. This view is in line with the recent South African Reserve Bank's GDP forecast, which signals that the country's economic growth could stagnate this year (0% growth).

Confidence around **general agricultural conditions** improved by 6 index points in the second quarter to 23. Prior to this period, there were fears that some areas might experience frost that could have further limit yields of late planted crops. However, conditions generally turned out to be relatively favourable.

Debtor provision for bad debt confidence sub-index improved by 8 points to 75. The improvement suggests that some farmers might be in a better position to meet their debt obligations. However, some are more likely to struggle due to poor production in certain areas.

Sentiments around the **financing costs** sub-index also improved by 4 points to 47. This could be linked to the fact that the interest rates have been held flat in the past few months, at 7%. However, the looming credit rating downgrade towards the end of the year remains a key risk in the financing of agriculture.

² Summer crops represent maize, sunflower seed, soybean, groundnuts, sorghum and dry beans.



Concluding remarks

Despite recent improvements in the second quarter of the AGBIZ/IDC Agribusiness Confidence Index, South Africa's agribusinesses remain relatively pessimistic, with key driving factors being low economic growth, unfavourable agricultural conditions, capital investment and lower export volumes.

Looking ahead, agricultural conditions could improve in the coming months. A number of weather forecasters suggest that there is a 65% chance of La-Niña occurrence towards late spring through the summer season of 2016/17. Such a weather event could in all probability lead to above normal rainfall, which might then replenish soil moisture. Policy uncertainty remains a key stumbling block and could potentially discourage investments in the sector.

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