

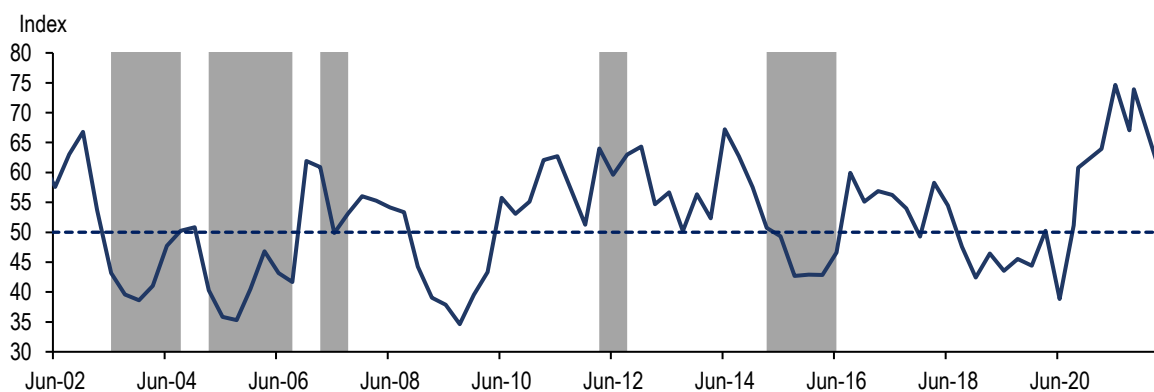
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MEDIA RELEASE

Agbiz/IDC Agribusiness Confidence Index moderates in Q1,2022

Following a period of heightened optimism supported by favourable agricultural production conditions, the Agbiz/IDC Agribusiness Confidence Index (ACI) moderated by 12 points to 62 in Q1 2022 after reaching its second-highest level on record in Q4 2021. A level above the neutral 50-point mark implies that agribusinesses remain optimistic about operating conditions in the country. Therefore, the first-quarter results still reflect favourable conditions, albeit not as strong as the recent quarters. This is due to several factors, including the excessive rains at the start of the season, which caused crop damage in some areas, higher input costs, logistics challenges and the geopolitical tensions that negatively affect the agriculture and agribusiness sectors. The latter is noteworthy as nearly half of the responses to the survey came after February 24, the day Russia invaded Ukraine. This survey was conducted from the last week of February into the first week of March and covered agribusinesses operating in all agricultural subsectors across South Africa.

Figure 1: Agbiz/IDC Agribusiness Confidence Index¹



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

¹ The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 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, policymakers and economists to understand the perceptions of the agribusiness 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 subindices

- The ACI comprises ten subindices, and eight declined in the first quarter of this year. The turnover and the net operating income subindices declined by 7 and 6 points from the Q4, 2021 to 86 and 79 in Q1 2022, respectively. The sentiment was mainly dampened by the expected lower summer crop harvest, which negatively affected the agribusiness operating in field crops, livestock and agricultural machinery industry.
- The market share of the agribusinesses subindex fell by one point from the last quarter of 2021 to 76. Again, the agribusinesses in summer and winter crops were among the respondents who signalled weaker expectations. At the same time, most of the respondents maintained a broadly unchanged view from the last quarter of 2021.
- The employment subindex confidence fell by 2 points from the last quarter of 2021 to 60 in Q1 2022. This mirrors the expected decline in summer crop harvest, and to an extent, some horticulture products after the early summer season excessive rains caused crop damages. With that said, this change in sentiment should not be viewed as necessarily a decline in agricultural employment as a level about 50 still signals expansionary conditions for agricultural sector jobs. We think South Africa's primary agricultural jobs will likely remain at levels over 800 000, above the long term average.
- Confidence in the capital investments subindex fell by 13 points from the last quarter to 67 in Q1 2022. The rising farm input costs and general uncertainty about potential economic spillovers from the Russia-Ukraine war will likely limit the farmers and agribusiness flexibility to invest in new machinery or new business ventures.
- The subindex measuring the volume of exports sentiment declined by one point from the previous quarter to 78 in Q1 2022. This reflects the potential decline in summer crop harvest, some horticulture produce, and the volume of exports after that. That said, a level of 78 still indicates robust export conditions.
- Confidence in the general economic conditions fell by 25 points to 48. This reflects the uncertainty in the current geopolitical environment, a general slowdown in the global economy, and more domestic events such as load-shedding, amongst other factors.
- The general agricultural conditions subindex saw a sharpest quarterly decline of 28 points to 60 in Q1 2022. The excessive rains since the start of the summer crop season, damages on crops in some regions, and animal disease in livestock all reflected in the respondents' downbeat mood about the agricultural production conditions. Importantly, however, this is

still well above the 50-neutral mark, which shows that although production conditions are down from the previous season, they are not dire and remain at above-average levels.

- The debtor provision for bad debt and financing costs subindices is interpreted differently from the abovementioned indices. A decline is viewed as a favourable development, while an uptick is not a desirable outcome as it shows that agribusinesses are financially constrained. In Q1 2022, the indices for debtor provision for bad debt and financing costs fell by 9 and 28 points to 45 and 18, respectively. This is favourable and reflects the tail end of the farmers' financial gains of the last two robust seasons, which enabled them to service their debts.

Concluding remarks

The Agbiz/IDC ACI's first-quarter results present a picture of a sector that is still on solid footing, despite the uncertainty generated by geopolitical events and the damages caused by the excessive rains in various regions of the country. "The issues we are most concerned about right now on are the rising fuel, fertilizer and agrochemicals costs, which could negatively impact farmers' planting decisions in the coming season. This is all a result of the Russia-Ukraine war and pre-existing supply and logistical constraints caused by the COVID-19 pandemic. We doubt that the higher commodity prices will be sufficient to offset the rising costs fully. This is one area we will keep monitoring and engaging with farmers and agribusinesses about in the coming months." says Wandile Sihlobo, Agbiz chief economist.

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