agricultural business chamber
the way to prosperity

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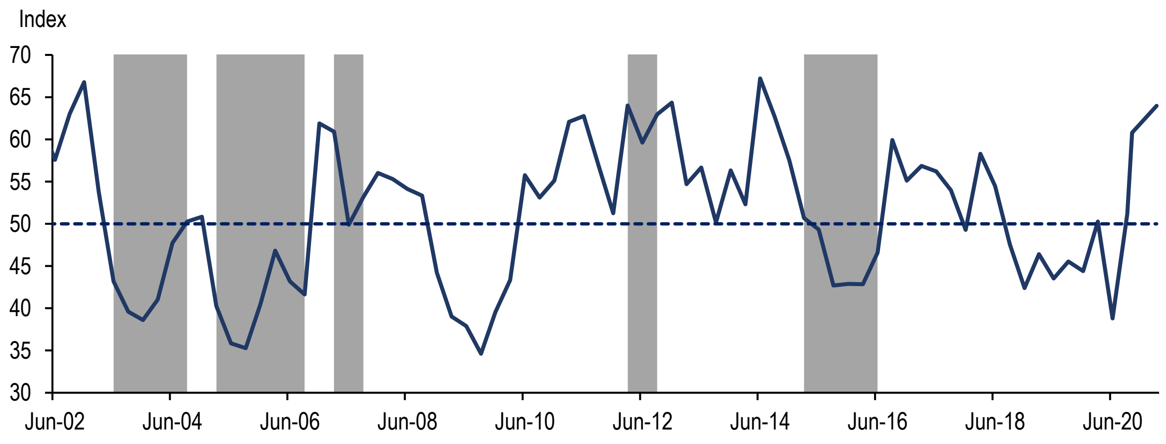
MEDIA RELEASE

Agribusinesses remained optimistic in the first quarter of 2021

The Agbiz/IDC Agribusiness Confidence Index (ACI) improved from 61 points in the fourth quarter of 2020 to 64 in the first quarter of 2021. This is the highest level of the Agbiz/IDC ACI since the second quarter of 2014. A level above the neutral 50-point mark implies that agribusinesses are optimistic about operating conditions in South Africa. These results likely reflect not only the robust performance of South Africa's agricultural sector in 2020, where gross value-added expanded by 13,1% y/y, but also positive early signs for another season of large harvests in 2020/21 from most subsectors. This first-quarter survey was conducted in the first two weeks of March 2021 and covered agribusinesses operating in all agricultural subsectors across South Africa.

Figure 1: Agbiz/IDC Agribusiness Confidence Index[1]



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 most of these increased in the first quarter of 2021. The turnover and the net operating income subindices lifted by 4 and 7 points form the last quarter of 2020 to 86 and 89, respectively. Except for agricultural insurance providers, all other agribusinesses who participated in the survey expressed optimism with respect to these subindices. This is due to a large harvest in the 2019/20 production season, which boosted financial conditions.

- The market share of the agribusinesses subindex improved by 10 points from the last quarter of 2020 to 71, which is the highest level since the last quarter of 2016. This was primarily underpinned by agribusinesses operating in field crops and financial services, while others expressed an essentially unchanged view.

- The employment subindex increased by just 2 points to 43 in the first quarter of 2021. At this level, this subindex suggests that agribusiness remain cautious about increasing staffing levels. It will be interesting to see how this evolves in the coming quarters given expectations of another large harvest. The recent increase in the agricultural minimum wage had caused discomfort amongst agricultural roleplayers, especially the farmers operating in the wine industry. This industry already faces cashflow challenges emanating from the ban on alcohol sales during various stages of the lockdown. However, it is too early to know the impact of the wage adjustment on agricultural sector employment.

- After declining in the last quarter of 2020, the capital investments subindex rebounded by 5 points to 46. There is also evidence of improved sentiment in sales of movable agricultural assets such as tractors, which have been robust since mid-2020 and underpinned by improved farmers' finances following the large harvest in the 2019/20 production season.

- The economic conditions subindex jumped by 16 points to 39 in the first quarter of 2021, its highest level since the last quarter of 2018. Nevertheless, this specific subindex is still far off the neutral 50-point mark, which indicates relatively pessimistic expectations about South Africa's broader economic growth fortunes. The 3.6% y/y economic growth that the South African Reserve Bank forecasts for 2021 will not be sufficient to lift South Africa's fortunes back to the pre-Covid-19 levels.

- The debtor provision for bad debt and financing costs subindices are interpreted differently from the indices mentioned above. 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 the first quarter of 2021, the sentiment regarding the financing costs fell by 6 points to 62, which is a favourable direction and reflective of the current environment of lower interest rates. The sentiment regarding the debtor provision for bad debt increased by 8 points to 43, which is an unfavourable direction. Still, this subindex remains relatively low, suggesting that bad debts have not become a broader challenge at this stage in the sector.

- Meanwhile, the general agricultural conditions subindex deteriorated marginally by 8 points from the last quarter of 2020 to 86 in the first quarter of 2021. Still, this is well above the 50-points neutral mark and generally reflects favourable agricultural conditions in the country, supported by good rains since the start of the season. Notably, the current production conditions are favourable for all agricultural subsectors.

- Surprisingly, the subindex measuring the volume of exports sentiment declined by 4 points to 56 in the first quarter of 2021. The expected sizeable domestic production could lead to higher volumes of exports in 2021. Therefore, we are surprised to see a slightly weaker sentiment about export conditions, albeit still above the 50-points mark. We suspect that the lockdowns in some European countries in the first quarter of 2021 might have contributed to a decline in sentiment in this subindex.

Concluding remarks

The Agbiz/IDC ACI's first quarter results signal that South Africa's agricultural sector will most likely experience another year of robust growth. The underpinning driver is the favourable weather conditions that have allowed farmers to plant on time and increase area plantings for various crops. The higher commodity prices have also improved farmers' finances somewhat, contributing to better sentiment. “Still, industry-by-industry analysis shows that the positive growth numbers are only an aggregate story of agriculture. The wine and tobacco industries, which were arguably the most hardest hit by the ban on sales in various lockdown stages, remain financially constrained and will take longer to recover,” says Wandile Sihlobo, Agbiz chief economist.

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