

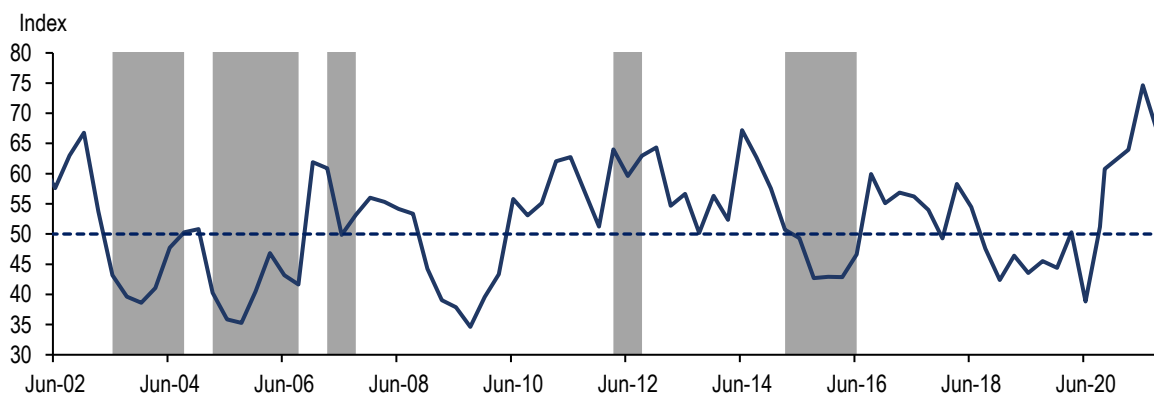
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MEDIA RELEASE

Agbiz/IDC Agribusiness Confidence Index retreats in Q3, 2021

Following a surge to an all-time high of 75 in the second quarter of this year, the Agbiz/IDC Agribusiness Confidence Index (ACI) retracted back to 67 points in the third quarter. Still, this current level reflects favourable conditions in South Africa's agriculture sector and for agribusiness. A level above the neutral 50-point mark implies that agribusinesses are optimistic about operating conditions in the country. The optimism reflects both the large output and higher commodity prices that have benefited farming businesses in the 2020/21 agricultural production season and the favourable outlook about the upcoming 2021/22 season. The higher commodity prices and the positive weather outlook, which shows prospects of above-normal rain across most regions of South Africa, are supportive factors for agribusinesses. This third-quarter survey was conducted between the last week of August and first week of September 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; some moderation across most of these explains the decline of the composite index in the third quarter of 2021. The turnover and the net operating income subindices fell by 9 and 7 points from the second quarter to 82 and 84, respectively. With that said, these current levels are still well above the long-term average, which speaks to the generally improved farm incomes on the back of a large harvest in 2020/21 season across major grains and horticulture products, along with favourable commodity prices as previously stated.
- The market share of the agribusinesses subindex fell by 8 points from the second quarter of 2021 to 70, which is also still above the long-term average. Most agribusinesses signalled an unchanged view from the second quarter. Therefore the deterioration in the sentiment is more of a technical matter than a significant change in the opinion of business bosses.
- The employment subindex declined by 7 to 59 points in the third quarter of 2021. This was probably influenced by the fact that the third quarter is relatively quiet compared to the second quarter, which has increased harvest activity in summer crop fields and some prominent horticulture such as citrus. That primary agricultural jobs rebounded in the second quarter to 862 000 (up 8% year on year) illustrates the point about increasing agriculture activity during the harvest period.
- Sentiment regarding the capital investments subindex fell by 11 points, the third-sharpest decline of all subindices, to 58 points. Still, the agribusiness sentiments are in contrast to some other observations, such as agricultural machinery sales, which have shown strong growth since mid-2020. Total tractor sales for the first eight months of this year are already 30% ahead of the corresponding period in 2020, at 4 658 units.
- The subindex measuring the volume of exports sentiment deteriorated by 6 points from the second quarter to 72. The sizable harvest has sustained the sentiments about exports at fairly higher levels. Still, there are growing concerns about the logistical challenges South Africa experiences, from inefficient ports to destruction of infrastructure on the rail lines and cyberattacks at Transnet facilities.
- The economic conditions subindex showed the sharpest decline of all subindices, falling by 30 points from the second quarter to 48. This is the only subindex that is below the

neutral 50 points mark. This change in the business sentiments speaks to the broad economic challenges that South Africa still faces and the economic recovery road, especially as the recent unrests in KwaZulu-Natal and parts of Gauteng have also disrupted business activity.

- Surprisingly, the general agricultural conditions subindex deteriorated by 14 points from the second quarter to 69. The agricultural conditions are relatively favourable across South Africa. There are prospects of a weak La Niña in the 2021/22 summer period, which increases the likelihood of another good agricultural season. With that said, the current level is still well above the neutral mark of 50 and illustrates that these are still favourable levels.
- The debtor provision for bad debt and financing costs subindices is 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 third quarter of 2021, the sentiment regarding debtor provision for bad debt increased by 18 points to 68, which is an unfavourable direction and adds to the decline in the composite index. This is surprising as farming businesses' finances have improved following the 2020/21 season harvest and higher commodity prices.
- Meanwhile, the financing costs fell by 2 points from the second quarter to 55, which is favourable and reflective of the current environment of lower interest rates.

Concluding remarks

While the Agbiz/IDC ACI's third-quarter results show deterioration from an all-time high in the second quarter, the sector is still in good shape and looking to another favourable season in 2021/22. "We expect the robust growth performance of between 6-7% y/y in agriculture's gross value added in 2021 from an already high base after the strong growth of 13,4% in 2020. Our only major concern is the ongoing glitches in the country's logistics services, both in the in-country and shipping ports centres. This is an area that needs increased attention for policymakers in an export-oriented agricultural sector like South Africa," says Wandile Sihlobo, Agbiz chief economist.

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