

SA agricultural economy contracted by 24.2% q/q in the first quarter of 2018

The negative effects of the Western Cape drought are evident in the first quarter GDP data, which showed that South Africa's agricultural economy contracted by 24.2% q/q.¹ This far exceeds our expectations of a modest contraction of about 11% q/q. The bulk of the winter crops such as wheat, barley and canola, together with summer fruits (stone and grapes) are typically harvested in the period between November and March, which somewhat coincides with the first quarter GDP data. These crops are dominantly produced in the Western Cape and took a huge knock in the recent harvest due to drought, which ultimately explains the negative GDP reading this morning.

- As we set out in our note on the 06 March 2018, the agricultural economy will underperform in the first part of 2018 owing to a 19% y/y decline in winter wheat production to 1.54 million tonnes, 14% y/y decline in barley production to 307 000 tonnes, 11% y/y decline in canola production 93 500 tonnes, and a decline in stone and grapes fruit production, particularly Western Cape province (see Chart 2). The aforementioned fruits are key drivers of agricultural exports, which implies a decline in production also negatively affects the export activity.
- It is also worth noting that in the past few years, the [Agbiz/IDC Agribusiness Confidence Index](#) proved to be a good leading indicator of agricultural GDP performance (see Chart 1). However, the recent notable uptick in confidence was not immediately followed by a similar magnitude of an increase in agricultural GDP, as factors driving each variable are quite distinct at the moment. Confidence is mainly supported by broader positive sentiment following recent political developments in the country. Meanwhile, the agricultural economy is suppressed by tail-end effects of the 2017 Western Cape drought (see Chart 2).

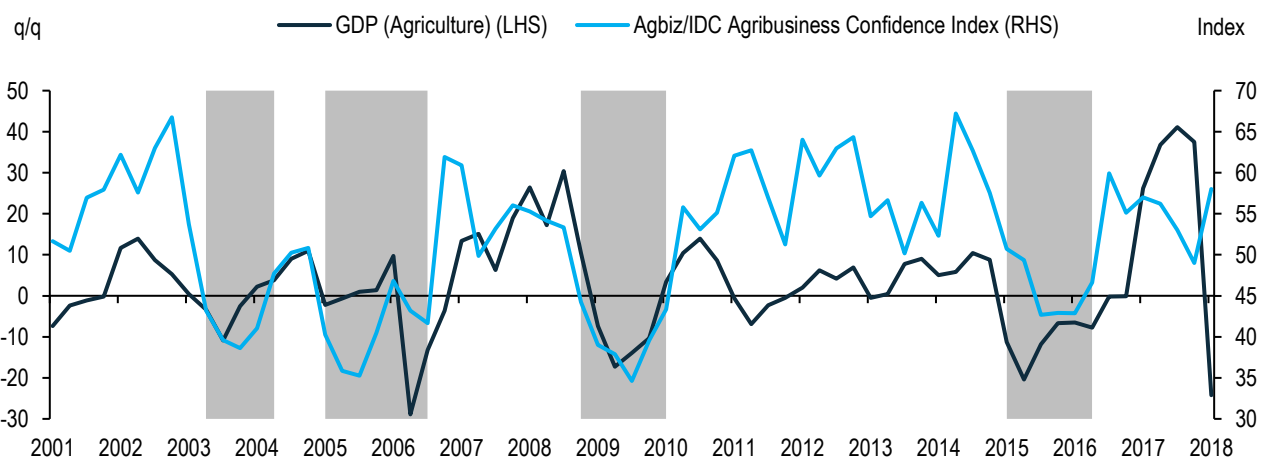


Chart 1: Agbiz/IDC Agribusiness Confidence Index and RSA GDP (Agriculture)

Source: Statistics South Africa and Agbiz Research

¹ Seasonally adjusted annualised

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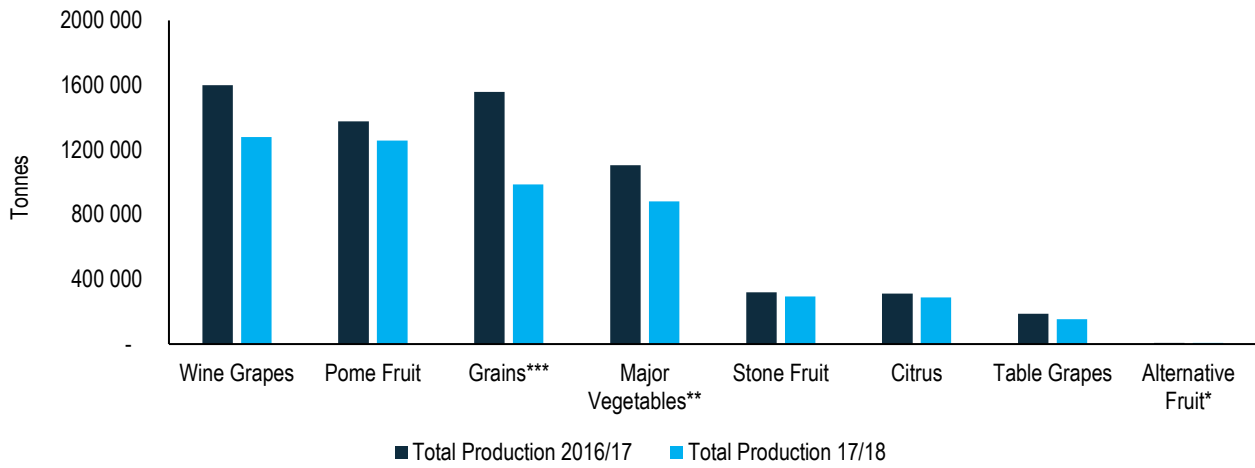


Chart 2: Western Cape's agricultural production (major crops only)

Source: Western Cape Department of Agriculture and BFAP

*Pomegranates, **Potatoes, onions, butternut, pumpkins, carrots, cabbage; *** Wheat, canola and barley

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