

SA agricultural economy contracted in Q2, 2019

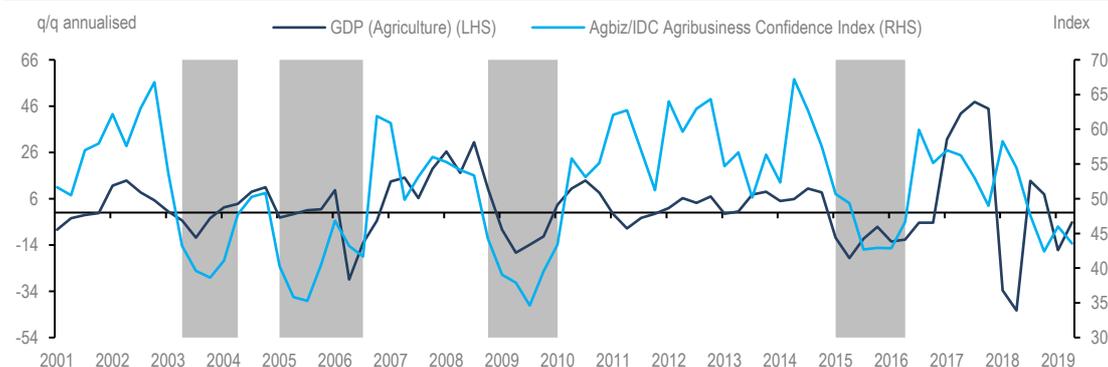
Although South Africa's economy has recovered from the previous quarter's economic performance with a 3.1% quarter-on-quarter seasonally adjusted growth rate (q/q saar), agriculture did not contribute to the improvement. After a strong contraction (16.8% -- *revised numbers*) during the first quarter of 2019, we were optimistic that things would turn around for South African agriculture. We hoped that base effects coupled with improved horticulture production would trigger a recovery for the sector. However, we were wrong.

Data shows that the sector is in recession - having contracted a further 4.2% q/q/ saar in the second quarter of 2019, largely owing to poor field crop harvest, as a result of droughts earlier this year (Figure 1). While this surprised us, it is important to note that these are seasonally adjusted numbers, which means that the increased horticulture activity on the ground may not be reflected in a similar size in the data. The data is weighed down by major summer crops, which performed poorly during the 2018/19 production season – maize, soybeans and sunflower seed production are down by 12% y/y, 21% y/y and 24% y/y, to 11.02 million tonnes, 1.17 million tonnes and 680 940 tonnes, respectively.

Given both the data and our observations of broader agricultural activity, we believe that South Africa's agricultural sector will underperform in 2019. We predict that the sector will contract by approximately 2% y/y this year, because of generally poor summer grains and oilseed harvest in the 2018/19 production season.

Sentiments across the South African farming environment is relatively negative. The Agbiz/IDC Agribusiness Confidence Index, which has historically proved to be a good indicator of the growth path of the South African agricultural economy, has been rather unstable in the most recent quarters, but remains in the contractionary territory, having eased 44 points in the second quarter of 2019. This is below the neutral 50-point mark and reflects the negative perceptions held by agribusinesses about South Africa's business climate. Given that the sector's poor performance is largely due to unfavourable weather conditions, prospects of higher-than-average rainfall in the 2019/20 summer season provides hope that the blip will be short-lived, and that gains are just around the corner (2020).

Figure 1: South African agricultural economy¹



Source: Stats SA, Agbiz Research

¹ Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres

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