

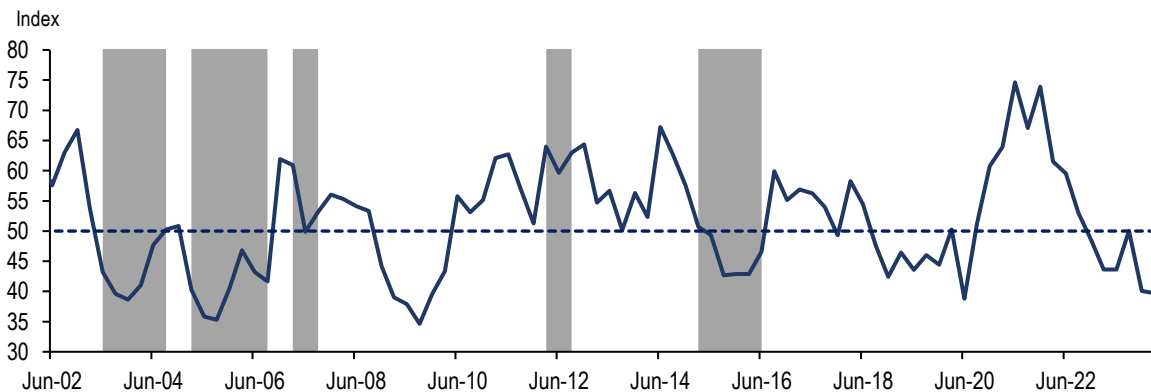
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MEDIA RELEASE

Agbiz/IDC Agribusiness Confidence Index remained downbeat in Q1 2024

After deteriorating by 10 points to 40 in Q4 2023, its lowest level since Q2 2020 at the height of the pandemic, the Agbiz/IDC Agribusiness Confidence Index (ACI) was unchanged in Q1 2024. The Q1 2024 reading is below the neutral 50-point mark, implying that South African agribusinesses remain downbeat about business conditions. This pessimism emanates from mostly the same factors as in recent surveys, which are yet to be addressed, and new challenges on the weather front. These include the ongoing El Niño induced drought that is devastating the summer grains and oilseed regions, persistent inefficiencies at the ports, poor rail and road infrastructure, and the worsening municipal service delivery. The rising crime, lingering animal disease challenges, uncertain policy environment ahead of the elections, persistent episodes of load-shedding and increased geopolitical uncertainty also remain top of mind challenges for agribusinesses. This survey was conducted in the first three weeks of March, covering businesses 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; three declined in Q1 2024, while the rest showed mild improvement. Here is the detailed view of the subindices.

- The turnover subindex was down by 14 points from Q4 2023 to 52. This deterioration in sentiment reflects the expectations of the poor summer grains and oilseed harvest in an environment where the input costs remain relatively elevated. This illustrates not only the pressures in the summer crop regions but also the respondents in the livestock industry, who are also challenged by the relatively higher input costs.
- The sub-index measuring the volume of export sentiment fell further by 7 points to 35 in Q1 2024. This deterioration in sentiment signals the potential decline in export volumes this year from a record export of US\$13,2 billion in 2023. The major challenge is a potentially poor summer grains and oilseed harvest, while the fruit, wines and meat volumes may remain decent. Moreover, the ongoing worries about underperforming ports and railways also added to the pessimism.
- The general agricultural conditions subindex fell by 22 points to 18 in Q1 2024, the lowest level since the first quarter of 2016, the time of the last intense El Niño cycle that caused widespread devastation in South Africa. These results are not surprising and mirror the damage the heatwave and the dryness since the start of February has caused in the summer grains and oilseed-producing regions of South Africa, with crop harvest forecasts also set to be lowered notably in the coming months.

Mild improvements

- The net operating income subindex, typically aligned with the turnover, improved slightly by one point from the previous quarter to 48 in Q1 2024. The agribusinesses that primarily operate in financial services were behind this slight improvement.
- The market share of the agribusiness subindex is up 6 points from Q4 2023 to 59 in Q1 2024. Except for the respondents in the inputs business, which showed an improvement, most held a generally unchanged view from the previous quarter.
- The employment subindex was up by 3 points from Q4 2023 to 50. This was a surprise given the current challenging agricultural production level. It is possible that the employers' views were influenced by the robust results of Q4 2023, where 920,000 people were

employed in primary agriculture, which is 7% up year-on-year and well above the long-term agricultural employment of 793,000.

- The capital investments subindex improved by 7 points from Q4 2023 to 50. This likely reflects the investments in alternative energy sources as the sector continues to invest in mitigating against the effects of load-shedding.
- The general economic conditions subindex recovered by 20 points to 30 in Q1 2024, still far from the neutral point mark of 50. This slight recovery in the mood about the economic conditions could be linked with expectations of a reduction in load-shedding this year, and it is broadly consistent with improvements in various market analysts' GDP forecasts for 2024.
- The subindices of the debtor provision for bad debt and financing costs are interpreted differently from the abovementioned indices. A decline is viewed as a favourable development, while an increase signals growing financial strain. In Q1 2024, the debtor provision for bad debt was down by 9 points to 27, which is a favourable development. Meanwhile, the financing costs indices increased by 14 points to 27, signalling that agricultural firms are still worried by the elevated interest rate in an industry where farm debt is just over R200 billion.

Concluding remarks

After a few years of solid activity, South Africa's agricultural sector faces a daunting year ahead, and the Agbiz/IDC ACI's Q1 results reflect this challenging outlook. "Although weather-related risks are a major concern for this year, there remain aspects that policymakers, collaboratively with the private sector, could tackle to unlock the long-term growth potential of South Africa's agriculture. These include addressing the weakening municipalities, deteriorating roads, animal diseases, efficiency in the registration of new agrochemicals and seeds, rising crime, inefficient logistics, and persistent load-shedding," says Wandile Sihlobo, chief economist of the Agricultural Business Chamber of SA (Agbiz). "Still, with the elections ahead of us, it is unclear if there will be a serious focus on policy matters in the months ahead", added Sihlobo.

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