PRESS RELEASE

Agbiz/IDC Agribusiness Confidence Index remains low – 8 June 2016

The Agbiz/IDC Confidence Index in the first quarter of 2016 (Q1, 2016) was 42.87 points, which was a further contraction from the fourth quarter of 2015 (Q4, 2015) level of 42.91 points. The contraction is even larger when considered from a year-on-year perspective, with Q1, 2016 being 15% lower than Q1, 2015, the latter being the last time the index was above 50 points. This means that South Africa’s agribusiness sector is still holding a largely pessimistic view regarding business conditions since mid-2015.

![Figure 1: Agbiz/IDC Agribusiness Confidence Index](image)

Source: Agbiz Research (shaded areas represent areas in which the index was below 50 points)

Discussion

An index below 50 indicates contraction in the South African agribusiness activity. The confidence index has been below 50 points over the past four consecutive quarters, a trend that has only occurred in times of serious crises - drought years (in 2003 and 2005) and the global financial crisis (2008 to 2009).

1 The Agbiz / IDC Agribusiness Confidence Index is constructed quarterly by the Agricultural Business Chamber (Agbiz), in support of the Industrial Development Corporation (IDC). This index reflects the perceptions of at least 20 agribusiness decision-makers on the ten 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, policy-makers and economists to understand the perceptions of the agribusinesses 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.
Against this background, the latest confidence index comes as no surprise as the industry experiences an unprecedented El Nino induced drought, with the Q4, 2015 agriculture Gross Domestic Product (GDP) having contracted by 14% quarter-on-quarter.

From a year-on-year perspective, seven of the ten sub-indexes that make up the Agbiz/IDC Confidence Index showed contraction in the Q1, 2016, while four also similarly contracted on a quarter-on-quarter basis – with the latter reflecting seasonality variations.

**Table 1: Changes in the Agbiz/IDC Agribusiness Confidence sub-indexes**

<table>
<thead>
<tr>
<th>Sub-Index</th>
<th>quarter-on-quarter (q/q)</th>
<th>year-on-year (y/y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>-8.4%</td>
<td>-21%</td>
</tr>
<tr>
<td>Net operating income</td>
<td>-9.1%</td>
<td>-19%</td>
</tr>
<tr>
<td>Market share of the business</td>
<td>+2.3%</td>
<td>-4%</td>
</tr>
<tr>
<td>Employment</td>
<td>-12.7%</td>
<td>-10%</td>
</tr>
<tr>
<td>Capital investment</td>
<td>+7.7%</td>
<td>-14%</td>
</tr>
<tr>
<td>Volume exports</td>
<td>+8.3%</td>
<td>+50%</td>
</tr>
<tr>
<td>Economic growth in South Africa</td>
<td>+90.5%</td>
<td>-74%</td>
</tr>
<tr>
<td>General agricultural conditions</td>
<td>+11.1%</td>
<td>-12%</td>
</tr>
<tr>
<td>Debtor provision for bad debt</td>
<td>-8.0%</td>
<td>0%</td>
</tr>
<tr>
<td>Financing costs</td>
<td>-3.6%</td>
<td>+26%</td>
</tr>
<tr>
<td>Overall index</td>
<td>-0.1%</td>
<td>-15%</td>
</tr>
</tbody>
</table>

Source: Agbiz Research

The turnover sub-index contracted by 8.4% q/q and 21% y/y (Table 1), which is reflective of the reduced productivity in primary agriculture due to the current drought. The area planted with summer crops decreased by 22%, to 3.2 million hectares from 4.1 million hectares in 2015. Additionally, the Q2, 2016 turnover sub-index is likely to remain under pressure as the total summer crops harvest is expected to contract further by 27% y/y to 8.7 million tons.

Similarly, the net operating income sub-index contracted by 9.1% q/q and 19% y/y in Q1, 2016; while the market share of the business sub-index increased by 2.3% q/q and contracted by 4% y/y (Table 1). This decrease in the aforementioned sub-indices is, to some extent, reflective of the changes in the turnover sub-index.

The perceptions regarding employment in the agribusiness sector have worsened. The employment sub-index has contracted by 12.7% q/q and 10% y/y. This is in line data from Statistics South Africa which indicated that the country’s food manufacturing output declined by 2% y/y in March 2016. However, the negative sentiment in the agribusiness sector is contrary to the activity in primary agriculture, where employment increased by 2% in Q1, 2016 to 876 000 people, but 2% lower than the same period last year.

Like the employment sub-index, the capital investment sub-index showed expansion on quarterly basis, but contracted on yearly basis. The index increased by 7.7% q/q, but down by 14% y/y. The contraction can be explained by a combination of factors – the current drought conditions, as well as the political and policy uncertainty – the latter emanating from land reform proposals which signalled negative sentiment in the agricultural and agribusiness sector.

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2 The recent announcements on land reform, particularly in terms of the 50/50 plan to address relatively rights of the people working on the land, limitations to foreign land-ownership and the possible introduction of land ceilings could possible limit investments at farm level, and that might in turn directly and indirectly affect agribusinesses.
The **volume exports** sub-index increased by 8.3% q/q and 50% y/y – with positive sentiment supported by the wine, citrus and the ostrich meat industry. To some extent, there was also an increase in maize products exports to regional market, despite being net importer of grains in the 2015/16 marketing year.

The **economic growth** sub-index signalled positive sentiment in Q1, 2016, with the index having increased by 90.5% q/q, but still down by 74% y/y. This annual decrease came as no surprise, with the overall GDP expected to only grow by 0.6% this year.

The **general agricultural conditions** sub-index indicates a scenario that has largely been underpinned by the agribusinesses’ perception of climate change and related risks. This sub-index showed positive sentiment of 11.1% q/q, but still 12% lower than the same period last year. This significant contraction is, of course, reflective of the effects of the on-going drought on the agribusiness environment.

The **debtor provision for bad debt** sub-index represents the repayment of farmers. On quarterly basis, this sub-index has declined by 8% q/q, but remained flat on annual basis. This contraction, to some extent, reflects the effects of the expected lower production. Farm debt rose by 7% y/y from R117 billion in 2015 to R126 billion in 2016, with a growing sentiment amongst agribusinesses that some farmers might not be able to meet their debt obligations, thus increasing risk for agribusinesses.

The **financing costs** sub-index increased by 3.6% q/q and 26% y/y. The increase in financing costs have largely been driven by an increase in the repo-rate, which is currently at 7%. Moreover, the looming credit rating downgrade remains a key risk in the financing of agriculture. Consequently, the sentiment from the agribusinesses is to some extent already reflective of this expectation.

**Bottom line**

This Agbiz/IDC Agribusiness Confidence Index reflects the perception of South African agribusinesses on several aspects of the agricultural economy discussed above. As the index represents the perception of a sample of the population of agribusinesses in the country, it provides a useful tool to gauge the confidence of the sector in the business environment, which changes from one period to the other.

Based on the Q1, 2016 index, South Africa’s agribusinesses remain pessimistic, with key driving factors being low economic growth, lower turnovers, lower net-operating income, low capital investment and generally unfavourable agricultural conditions. Another important driver is the possibility of La Nina occurrence in the next season, which has increased to as high as 75%, with the lower base outlook at 50%, which may potentially shift perceptions to a more optimistic outlook. Also critical in improving confidence is policy certainty around land reform especially.

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