

South African agricultural sector remains in recession – 06 September 2016

- The second quarter of 2016 real GDP figures released by Statistics South Africa showed that overall economic growth was well above market expectations of 2.6% quarter-on-quarter (q/q). The economy grew by a seasonally adjusted annualised rate of 3.3% q/q, following contraction of 1.2% q/q in the first quarter of the year.
- However, the agricultural sector remained in recession, based on a negative growth of 0.8% q/q, after having contracted by 6.5% q/q in the previous quarter. That said, this came as no surprise as the Agbiz/IDC Agribusiness Confidence Index already indicated that the sector is still under pressure. The Index contracted by 6% q/q in the second quarter of this year (see **Chart 1**). **There are however indications that the negative growth cycle in the agricultural sector may be bottoming out.**
- The agricultural sector has largely been constrained by the ongoing drought, and some enterprises will continue to suffer the aftermath over the medium term. On crop production, the area planted with summer crops decreased by 22% year-on-on-year (y/y), at 3.2 million hectares from 4.1 million hectares in 2015. Subsequently, total summer crop production is expected to drop by 25% y/y to 8.9 million tons.
- **Looking ahead**, South Africa's agricultural GDP growth is likely show a slight recovery in the third quarter, with significant growth expected in the last quarter of the year. All of this is under the assumption that weather conditions could normalise this season. That said, of late a number of weather forecasters have been sending mixed signals. In fact, some have revised down their estimated La Niña occurrence to levels around 50%, from earlier estimates of 75%. In essence, **weather will be the key determinant of whether South Africa's agricultural sector escapes the current mediocre growth path.**

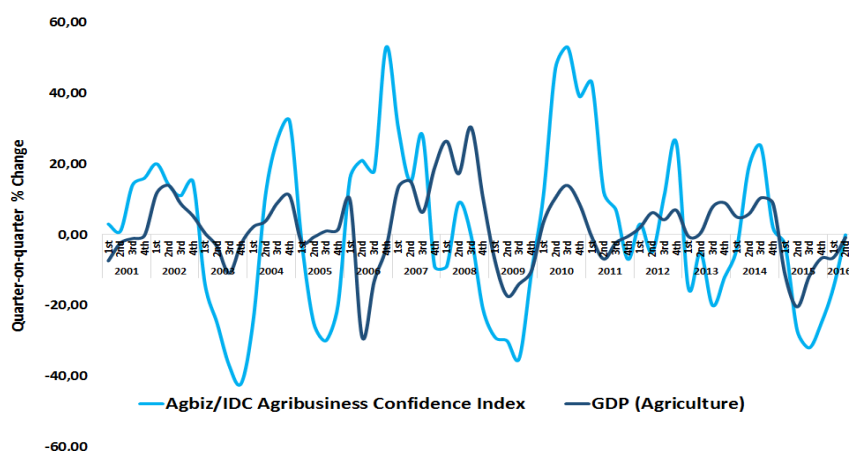


Chart 1: Agbiz/IDC Agribusiness Confidence Index and RSA GDP (Agriculture)

Source: Statistics South Africa and Agbiz Research

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