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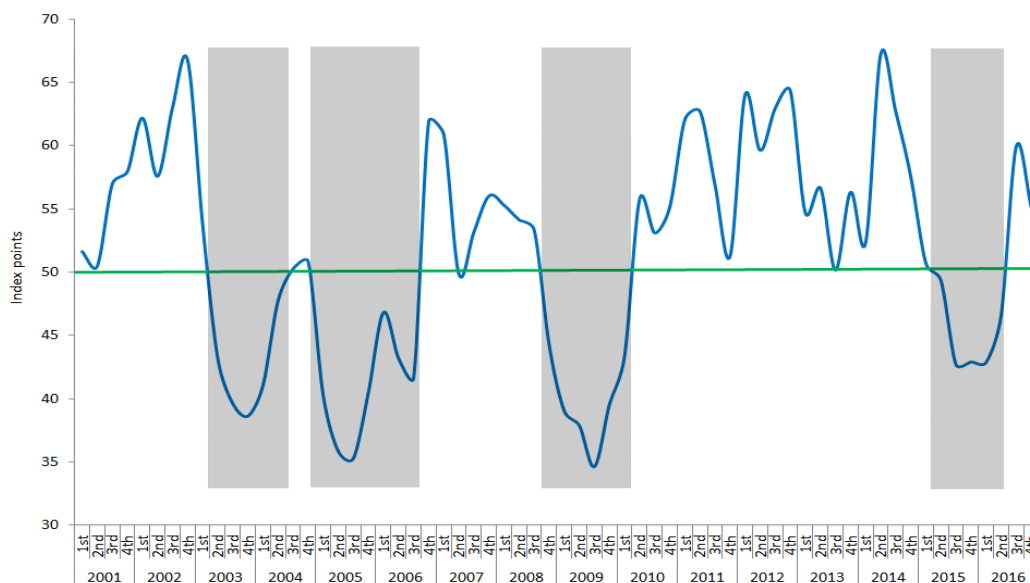
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## MEDIA STATEMENT

### Agbiz/IDC Agribusiness Confidence Index declines marginally in Q4, 2016

The Agbiz/IDC Agribusiness Confidence Index declined by 5 index points in the fourth quarter of this year to 55 Index points. Worth noting, however, is that an index above 50 indicates expansion in the South African agribusiness activity. Therefore a 55 Index point suggests that agribusinesses are still holding a relatively optimistic view regarding business conditions in the country.



### Chart 1: Agbiz/IDC Agribusiness Confidence Index<sup>1</sup>

Source: Agbiz Research

(Shaded areas indicate periods when the confidence index was below 50 points)

<sup>1</sup> 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.

Although the quarter-on-quarter survey showed a decline in overall Index, it is important to highlight that this change was only supported by three sub-indices. Seven out of ten sub-indices of the survey showed expansion, with the exception of **turnover**, **net operating income** and **employment** sub-indices, which were the key drivers of this decline. To some extent, the decline in these particular sub-indices mirrors the aftermath of the 2015/16 El Niño induced drought.

Meanwhile, general improvement in other sub-indices is in line with prospects for the 2016/17 production season. Recent data suggest that summer crops producing regions could plant 3.75 million hectares, which is a 15% year-on-year increase<sup>2</sup>. Moreover, winter crops producing regions are set to realise a 15% year-on-year uptick in total output to 2.14 million tons<sup>3</sup>.

### Discussion of the sub-indices

Confidence regarding the **turnover** sub-index dropped by 8 points to 67 in the fourth quarter from the previous one, which suggests some agribusinesses may be making losses, particularly the ones operating in grain producing areas. Lower output that was seen in the 2015/16 production season resulted in lower storage and handling income for agribusinesses.

In a similar trend with the turnover sub-index, the **net operating income** sub-index dropped by 18 index points to 47 in the fourth quarter, as agribusinesses continue to suffer the effects of the 2015/16 El Niño induced drought.

The perception in the **market share of the business** sub-index improved by 12 index points from the previous quarter to 80. To some extent, this is reflective of the vibrancy ahead of the 2016/17 production season.

The perceptions regarding **employment** in the agricultural sector deteriorated in the fourth quarter of this year. The sub-index fell from 63 points to 53. It appears that agribusinesses' perception regarding employment has been influenced by the views expressed on net operation income sub-index.

Despite the growing concerns about South Africa's political and policy uncertainty, confidence regarding **capital investment** improved by 9 index points from the third quarter to 69. In part, this is due to positive prospects regarding agricultural conditions. With the winter crops overall production set to improve, combine harvesters sales improved by 29% month-on-month in October 2016 to 18 units.

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<sup>2</sup> Summer crops represent maize, sunflower seed, soybean, groundnuts, sorghum and dry beans.

<sup>3</sup> Winter crops represents wheat, canola and barley.

After dropping by 17 index points to 33 in the third quarter, the **export volumes** sub-index improved by 31 index points to 64 in the fourth quarter. This was largely driven by increased export activity in the citrus and wine industries.

Confidence regarding South Africa's **economic growth** improved from 30 index points to 34. This comes after the South African Reserve Bank revised up the 2016 GDP forecast from zero to 0.4%.

The general **agricultural conditions** sub-index improved by 11 points from the third quarter to 66. This is largely supported by the expected favourable weather conditions for the 2016/17 production season. Recent reports from the Earth Institute of Columbia University and Australian Bureau of Meteorology indicate that the possibility of La Niña occurrence this month is 75% and 50%, respectively. If these predictions materialise, South Africa could in all probability see above normal rainfall towards the end of November 2016 and even further through the summer.

Following a sharp decline of 43 index points in the third quarter, confidence concerning the **debtor provision for bad debt** sub-index improved by 28 index points to 60 in the fourth quarter. This comes on the back of the 2015/16 drought which has weighed on farmers' cash flows.

In similar trend with the debtor provision for bad debt sub-index, confidence regarding the **financing costs** sub-index had dropped by 61 points in the third quarter. However, the fourth quarter reading showed an improvement of 36 index points to 67. This is linked to the expectations that the interest rates could be kept unchanged at 7% for the remainder of this year.

### **Concluding remarks**

Although the Agbiz/IDC Agribusiness Confidence Index showed a decline in the fourth quarter of this year, it is still above 50 index points – which shows expansion of business activity in the sector. Encouragingly, this is a second consecutive reading above the 50 index points.

Looking ahead, insights from a survey for “January 2017 to June 2017 prospects” suggests that the confidence index could remain above 50 index points.<sup>4</sup> Moreover, expected favourable weather conditions will bode well for increased agricultural activity.

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<sup>4</sup> Agbiz measured agribusinesses expectations for January 2017 to June 2017 and the overall Index reading was 63 - well above 50 index points.

Despite these positive improvements, political and policy uncertainty remains a key concern and could potentially discourage investments in the agricultural sector over the foreseeable future.

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