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PRESS RELEASE

Agbiz/IDC Agribusiness Confidence Index improves in Q1, 2017

The Agbiz/IDC Agribusiness Confidence Index improved by 2 Index points in the first quarter of this year to 57. A reading above 50, indicates expansion in the South African agribusiness activity. Therefore, a 57 Index point suggests that agribusinesses are holding an optimistic view regarding business conditions in the country. Worth noting is that the Index has remained above the 50 Index points for the past three consecutive quarters, which signals a consistent improvement in agribusiness activity.

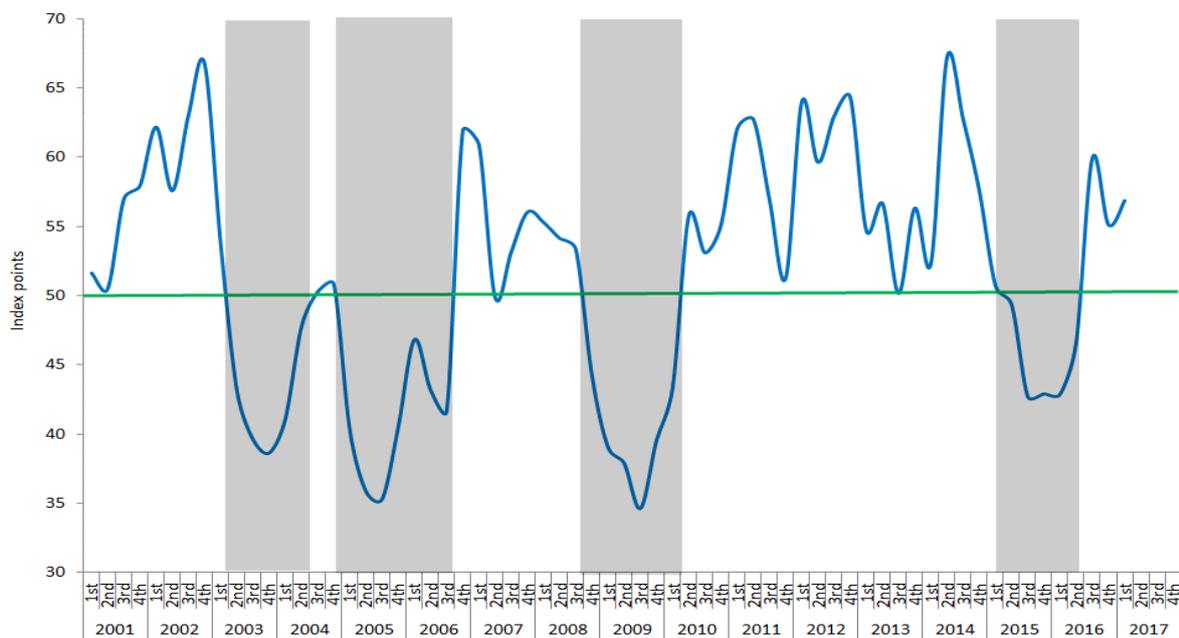


Chart 1: Agbiz/IDC Agribusiness Confidence Index¹

Source: Agbiz Research

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

¹The 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.

Amongst the ten sub-indices making up the Agbiz/IDC Agribusiness Confidence Index, the **turnover, net operating income, employment, economic growth** and **agricultural conditions** sub-indices were the key drivers of the improvement in confidence in the first quarter of 2017. The general improvement in these particular sub-indices is in line with positive prospects for the 2016/17 production season. Meanwhile, the decline in other sub-indices mirrors the aftermath of the 2015/16 El Niño induced drought, as well as uncertainty regarding land reform processes in the country.

DISCUSSION OF THE SUB-INDICES

Confidence regarding the **turnover** sub-index improved by 6 index points in the first quarter to 72. This suggests that some agribusinesses foresee improvement in their profitability status relative to the previous quarter, particularly the ones operating in winter grain producing regions, livestock, financial sector, as well as the wine industry. Meanwhile, the summer grain producing regions, as well as deciduous fruits might still be under pressure due to a decline in stock levels and handling income. In a similar trend with the turnover sub-index, confidence in **net operating income** sub-index improved by 23 index points to 69 in the first quarter.

The perception in the **market share of the business** sub-index declined by 13 index points from the previous quarter to 67. These results reflect the effects of the 2015/16 drought. However, with a general improvement in agricultural conditions, the coming quarters could potentially show an uptick in confidence reading.

The perceptions regarding **employment** in the agricultural sector improved in the first quarter of this year from the previous one. The sub-index reached 56 points, up from 53. This is in line with results of the recent labour statistics survey by Statistics South Africa. The survey showed a 4% improvement in agricultural jobs in the fourth quarter of 2016 to 991 000.

With the rise of “radical economic transformation”, along with controversial land reform statements, confidence regarding **capital investment** amongst agribusinesses declined by 13 points from the previous quarter to 56.

Confidence in the **export volumes** sub-index declined by 9 index points from the previous quarter to 55. This is largely due to lower agricultural commodity volumes, as most crops are still at the early growing stages.

Confidence regarding South Africa’s **economic growth** improved by 16 index points from the previous quarter to 50. This is in line with improved sentiment in the country, with the South African Reserve Bank forecasting a 1.1% economic growth for 2017 from a 0.4% forecast for 2016.

The general **agricultural conditions** sub-index improved by 4 index points in the first quarter of this year to 69. This is largely supported by the favourable outlook for the 2016/17 production season. The National Crop Estimate Committee’s first production estimates for summer crops reached 16.21 million tonnes, up by 72% from the previous season². This could be the largest crop since the

² Summer crop = maize, sunflower seed, soybean, groundnuts, sorghum and dry beans.

2013/14 production season. Also worth noting is that South Africa's 2015/16 final wheat production estimate reached 1.90 million tonnes, which is 32% higher than the previous season due to an increase in area plantings, as well as higher yields on the back of favourable weather conditions.

The agribusiness survey suggests that the provision for bad debt might decline in the first quarter of this year. This is due to improvement in agricultural conditions and expectations that farmers' cash flows could improve over the coming months. This is shown by the **debtor provision for bad debt** sub-index, which declined by 21 index points in the first quarter of this year to 39.

In a similar trend with the debtor provision for bad debt sub-index, the **financing costs** sub-index declined by 37 index points in the first quarter of this year to 29. To some extent, this is due to expectations that the South African Reserve Bank might keep the interest rates unchanged at 7% in their March 2017 meeting.

CONCLUDING REMARKS

The Agbiz/IDC Agribusiness Confidence Index results paint an encouraging picture of the South African agricultural sector. Following higher rainfall in the past few months, the sector is expected to show positive improvements in production this year compared to the previous one. This will subsequently have positive effects on employment, economic growth, as well as food inflation this year.

With that said, developments in the land reform subject, particularly the talks of "expropriation without compensation" could potentially discourage investments in the agricultural sector over the foreseeable future.

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