Confidence and growth in the South African agricultural sector…

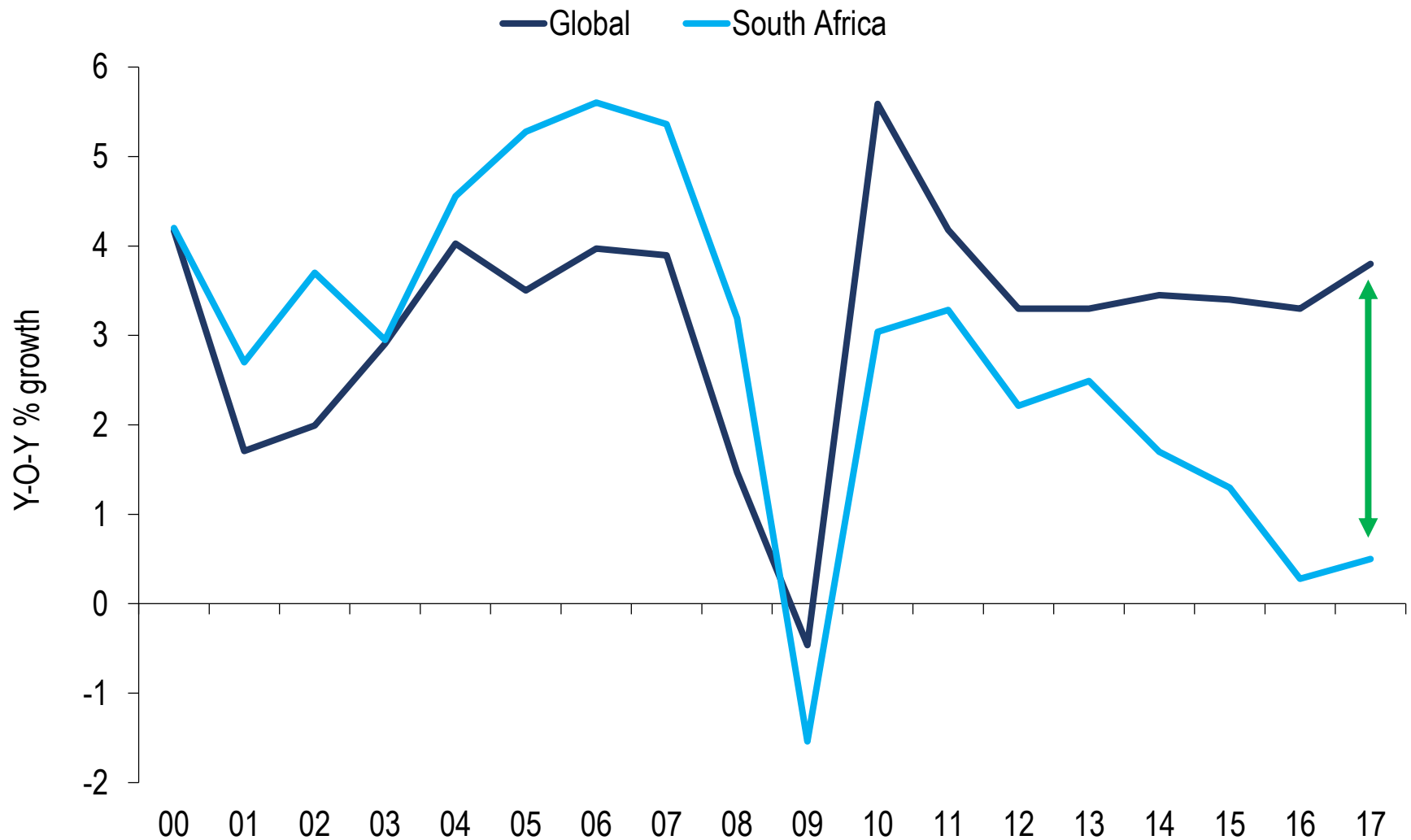**Wandile Sihlobo**

Paarl, RSA

05 October 2017

Macro perspective: SA vs the global economic growth...

Why is business confidence important?...

"Improved business confidence is the cheapest form of economic stimulus"

- *Larry Summers, American economist and former Chief Economist of the World Bank.*

However, in SA, both business and consumer confidence remain depressed...

"At the present juncture, our fundamental problem is confidence. The BER's surveys show that the confidence levels of business and consumers are at their lowest since the Global Financial Crisis"
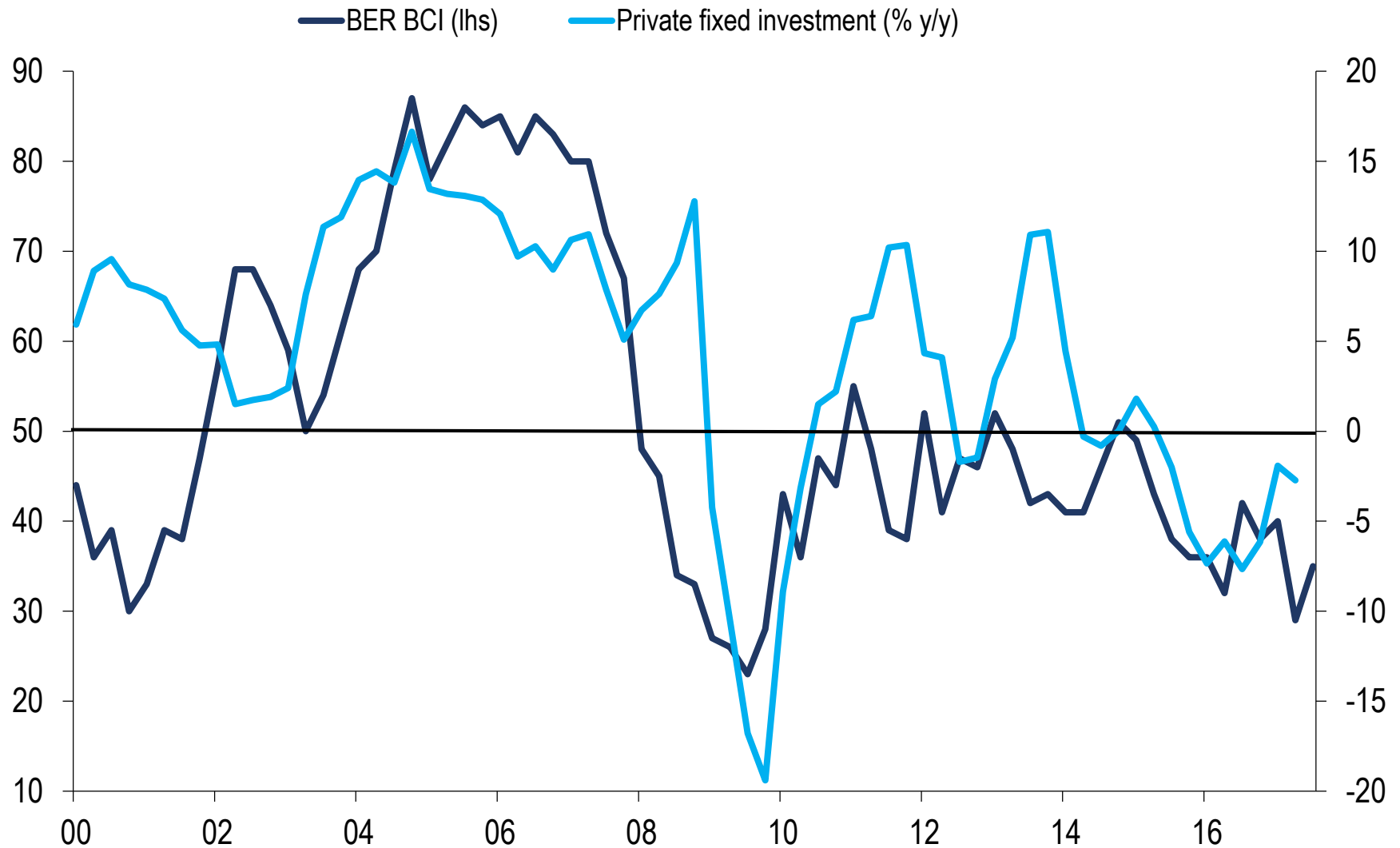
- *South African Reserve Bank Governor, Lesetja Kganyago, 19 June 2017*

SA business and consumer confidence remain depressed...

FNB/BER Consumer Confidence Index (LHS)   RMB/BER Business Confidence Index (RHS)
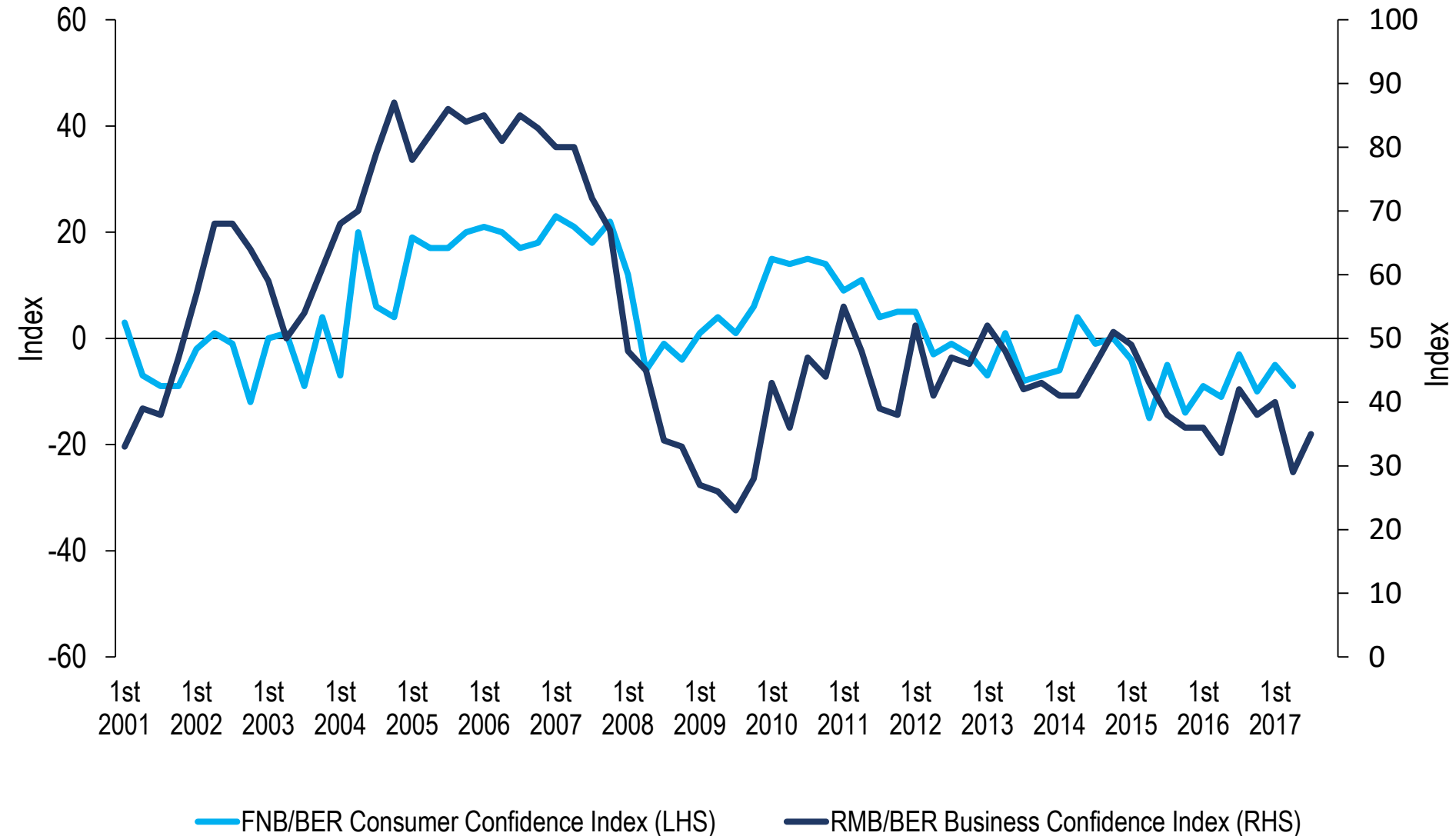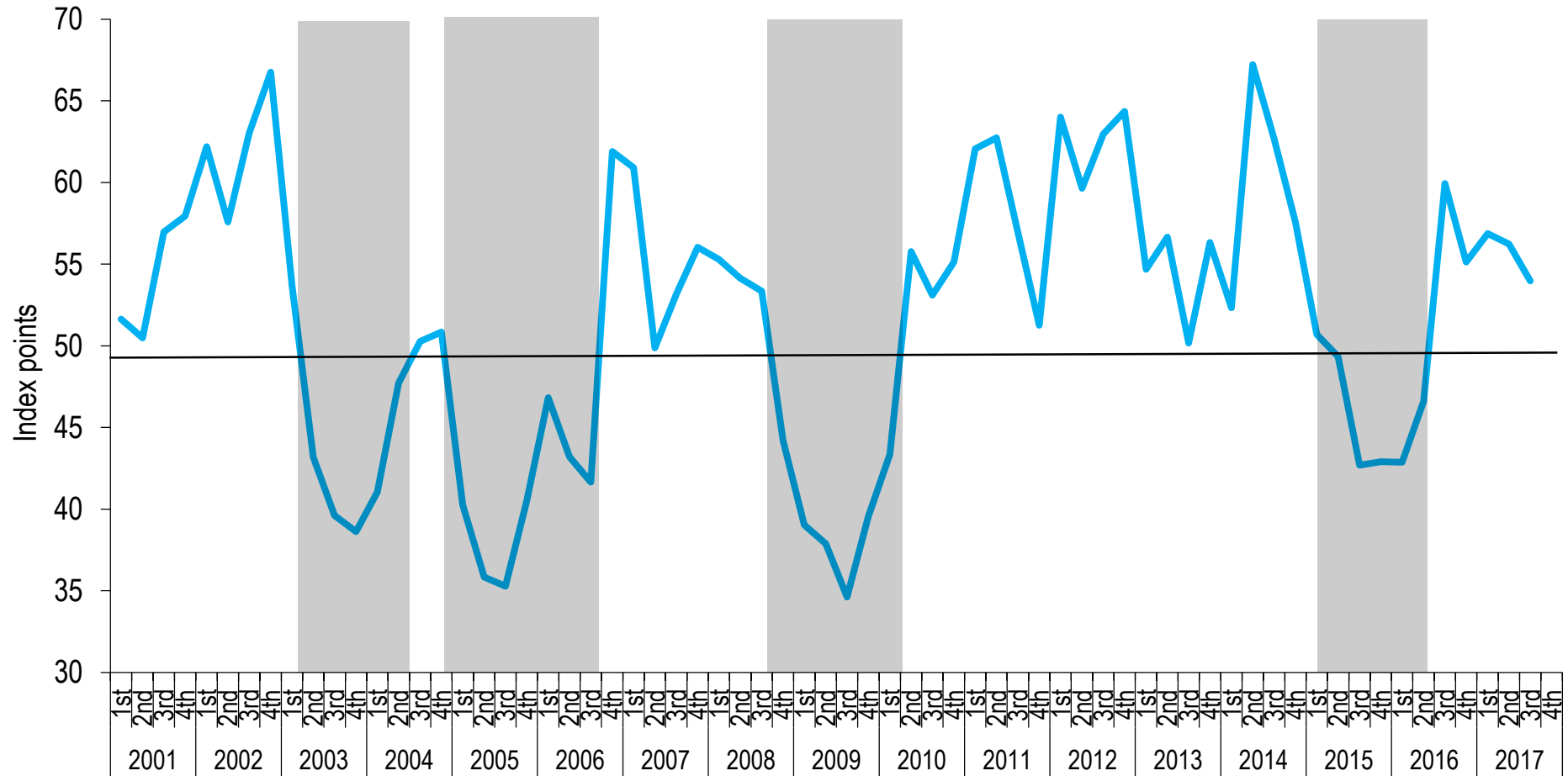
Source: BER, Agbiz Research

Why is business confidence important?...

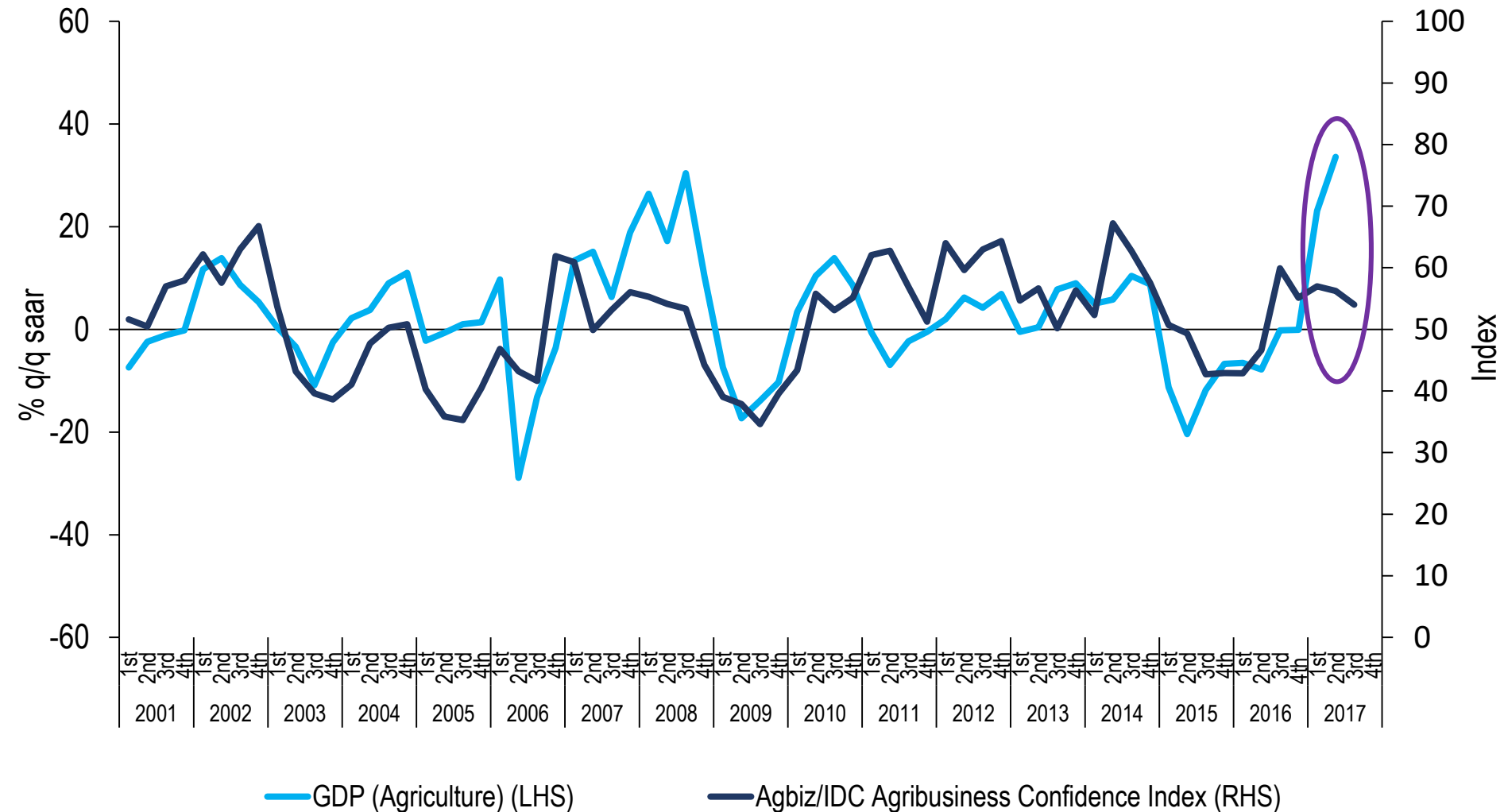Source: BER, Barclays Africa, Agbiz Research

Although still in an expansionary terrain, Agribusinesses' Confidence is also on a declining trend...

*Agbiz/IDC Agribusiness Confidence Index

Source: Agbiz Research

Agbiz/IDC Agribusiness Confidence has proven to be good directional indicator for agri. GDP growth (but now?)...
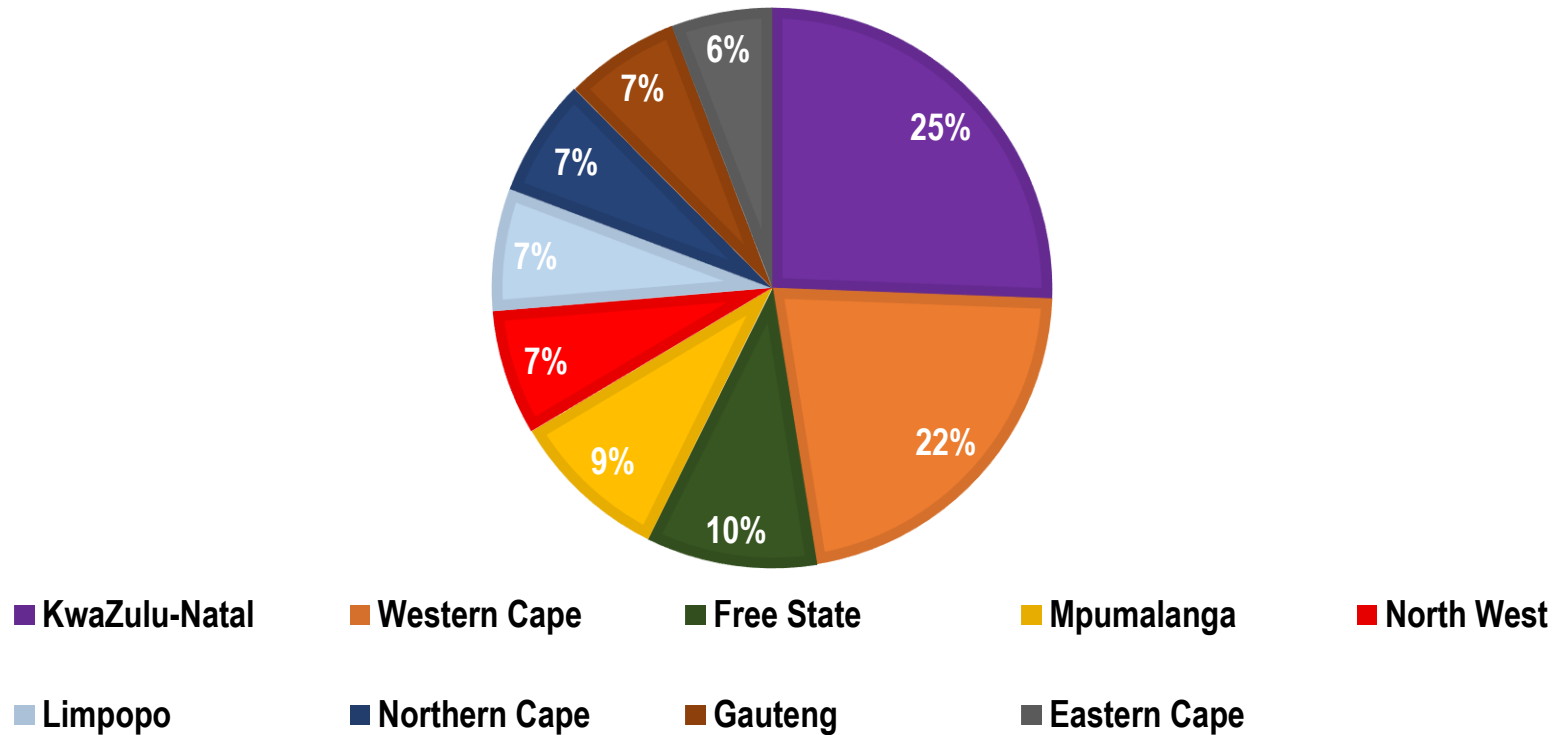

Source: Statistics South Africa, Agbiz Research

Agbiz/IDC Agribusiness Confidence has proven to be good directional indicator for agri. GDP growth (but now?)...

- The shift between the "emotional side of agriculture and hard data" can partly be explained by policy uncertainty, particularly Land Reform ahead of the ANC conference…

- The survey respondents from the WC region were also pessimistic due to persistent dryness – this too partly explains the shift between confidence and agricultural GDP growth…

- Implications going forward?

Source: Statistics South Africa, Agbiz Research

The Western Cape province is a key contributor to the country's agricultural economy, but...implications of dryness could be delayed....

■ KwaZulu-Natal	■ Western Cape	■ Free State	■ Mpumalanga	■ North West
■ Limpopo	■ Northern Cape	■ Gauteng	■ Eastern Cape	

Source: Stats SA, Agbiz Research

Above all, the agricultural sector could performance well this year and will provide much needed boost to overall economy ...

Period	2014	2015	2016	2017*	2018*	2019*
Agricultural GDP growth (y-o-y % change)	6.9	-6.1	-7.8	15.0	5.8	2.4

* represents a "forecast"

Source: World Bank

Here are the sub-indices behind the composite '*Agbiz/IDC Agribusiness Confidence Index*' view – weather is a fundamental driver of the sentiment....

| Sub-index |
|---|
| Turnover |
| Net operating income |
| Market share of the business |
| Employment |
| Capital investment |
| Volume exports |
| Economic growth in South Africa |
| **General agricultural conditions** |
| Debtor provision for bad debt |
| Financing costs |

Source: Agbiz Research

Apart from policy matters, weather remains a primary driver of agribusiness confidence and growth in agriculture – *general agricultural conditions sub-index...*
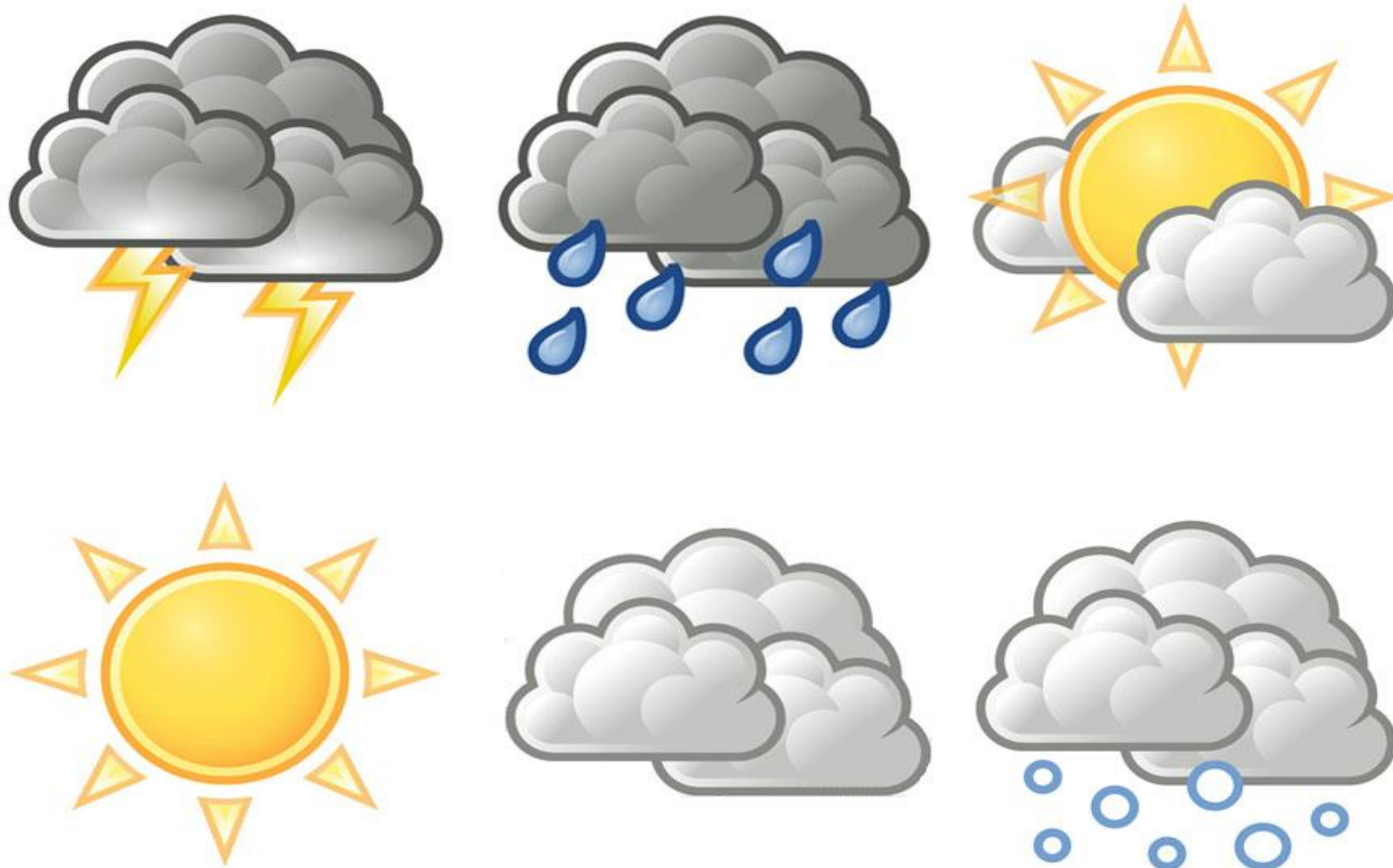
Earlier in the year there were concerns that El Nino could return in 2018...
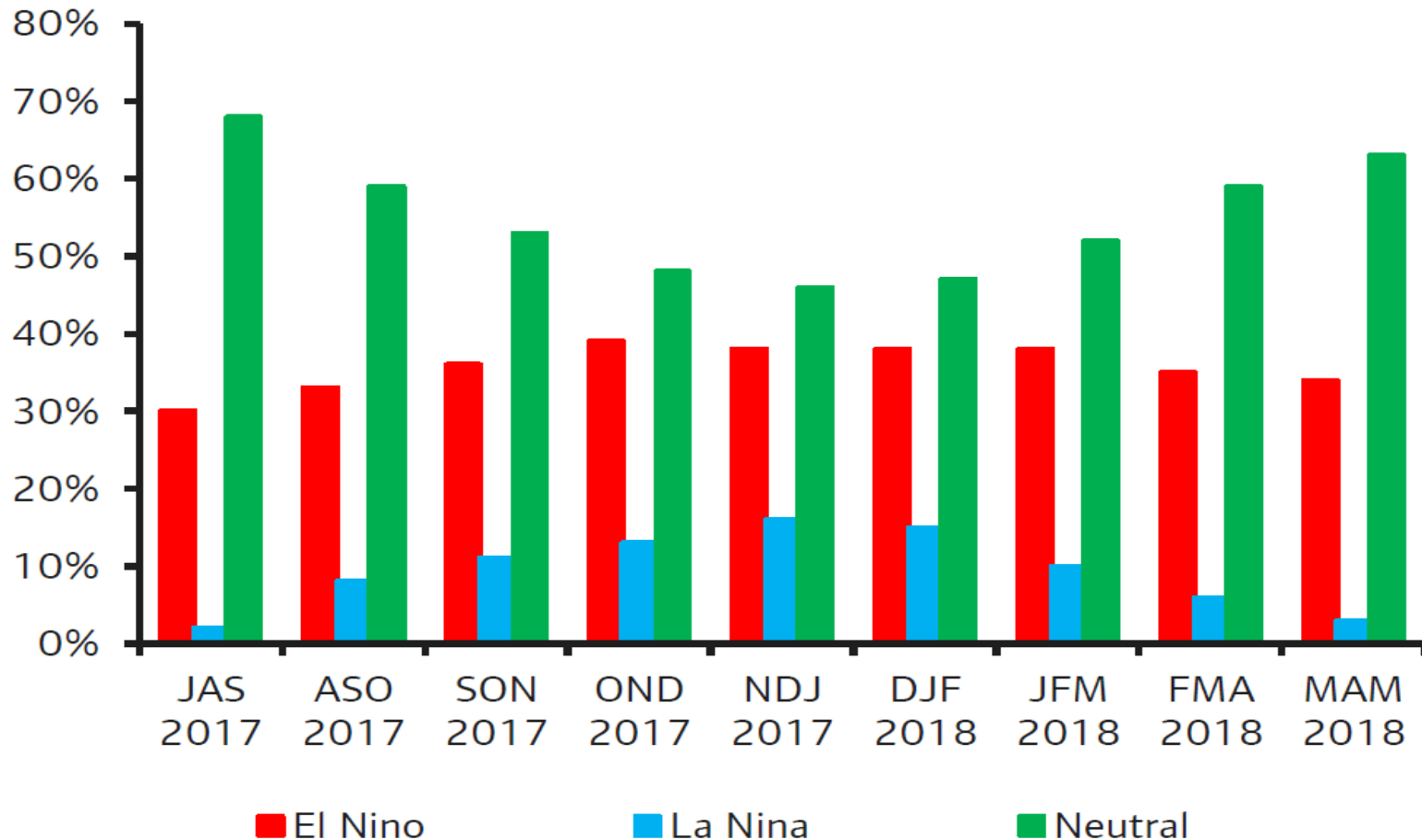
However, the most recent estimates show that SA will have a normal summer rainfall...
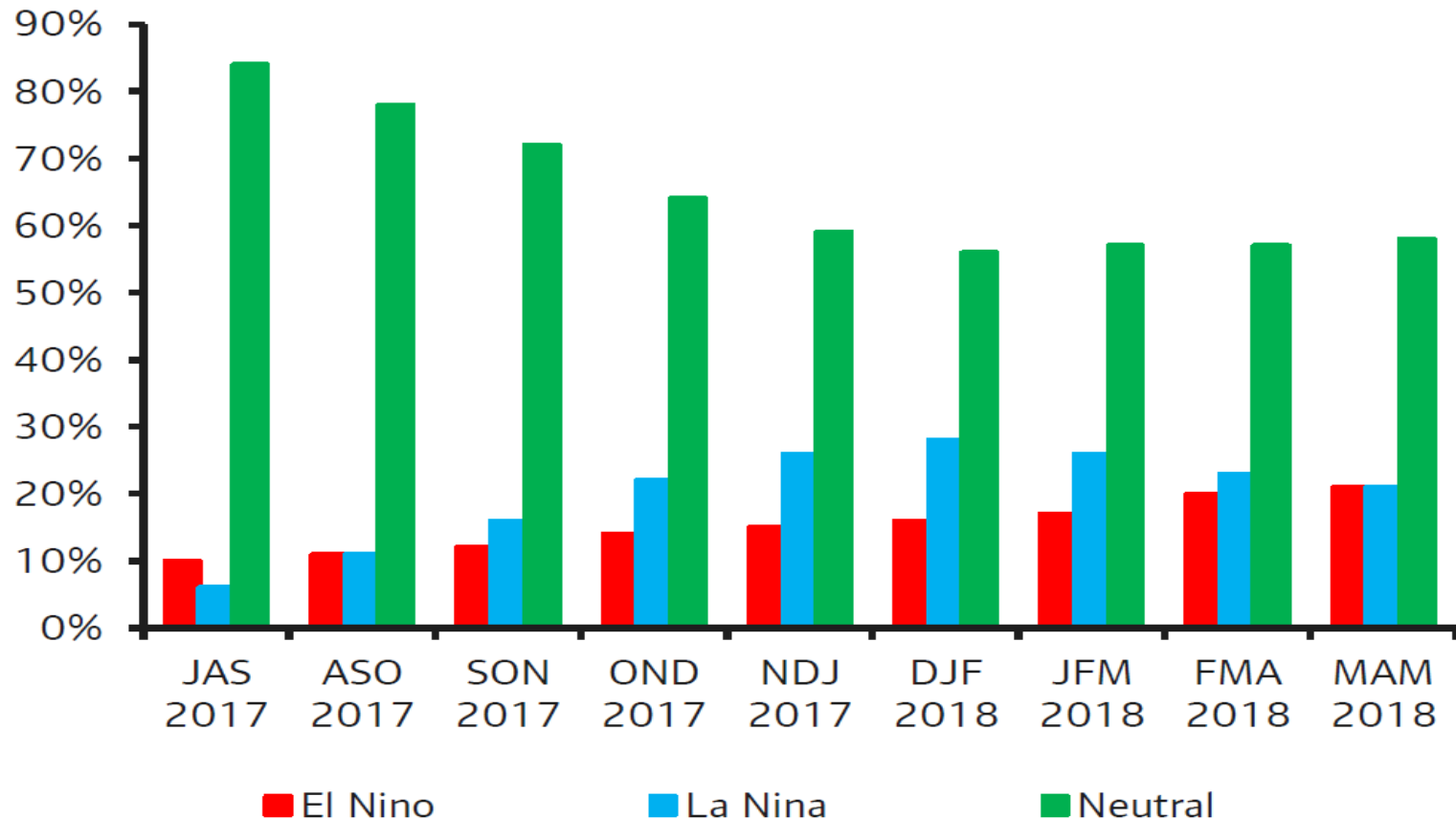
The local weather bureau also echoed a similar sentiment...

South African Weather Service
ISO 9001 Certified Organisation

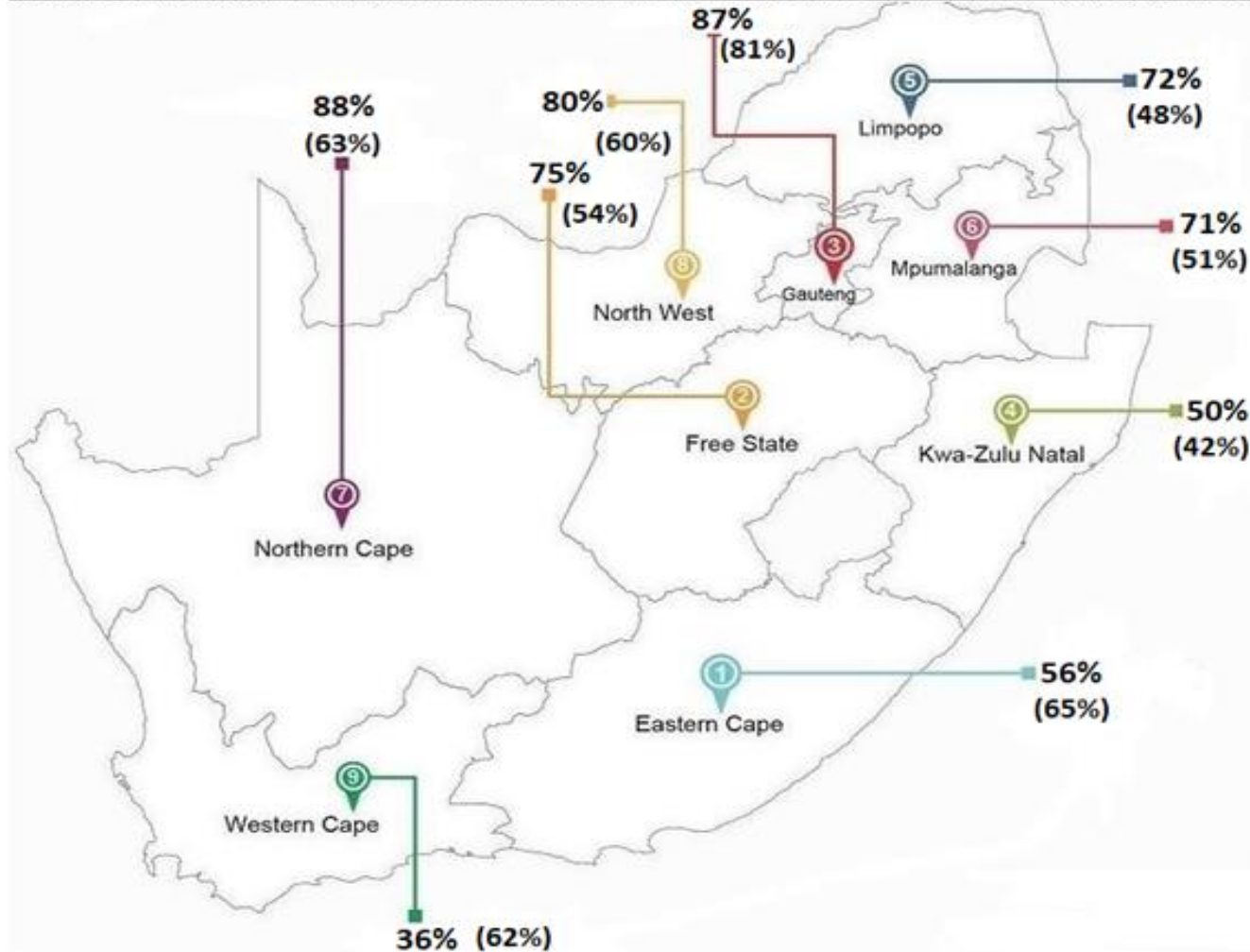## Seasonal Climate Watch

October 2017 to February 2018

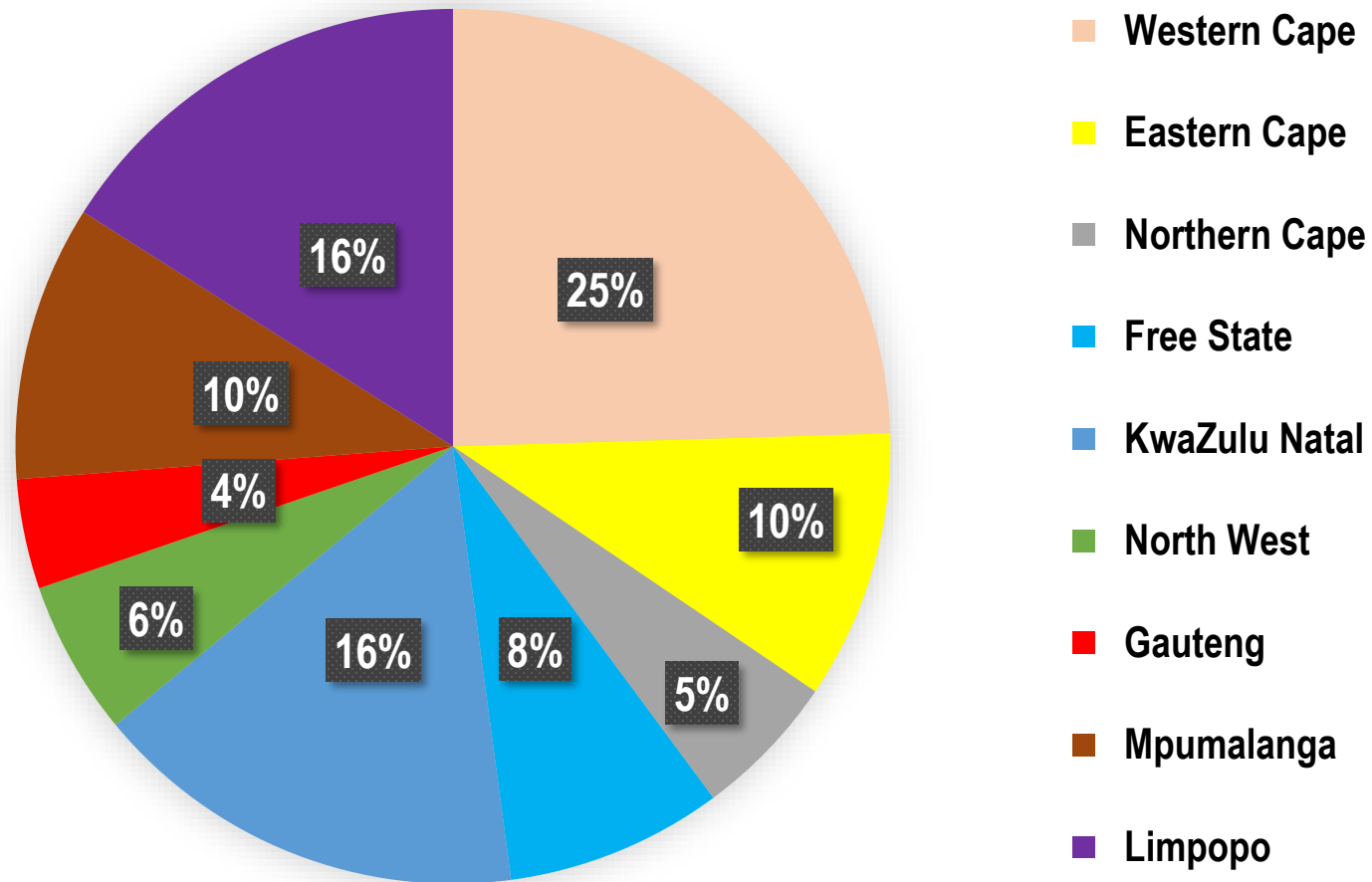Date issued: Sep 29, 2017

I.   Overview

During the last month there has been a drastic change in the expected El Niño Southern Oscillation (ENSO) phase. The current predictions now indicate a high likelihood for a weak La Niña to develop during the early and mid-summer months (Nov-Dec-Jan and Dec-Jan-Feb). This, supported by the regional forecasts, indicates that the summer rainfall areas (north-eastern parts of South Africa) can expect above-normal rainfall during these periods. However regional forecasts as well as conditions over the Indian Ocean suggests that the late spring period (Oct-Nov-Dec) may receive below-normal rainfall in parts of the summer rainfall areas.

Source: South African Weather Service

Unfortunately, the WC remains dry with lower water levels....

South Africa's average dam Levels: week ended 25 September 2017 (last year's figures in brackets − 25 September 2016)

87% (81%)
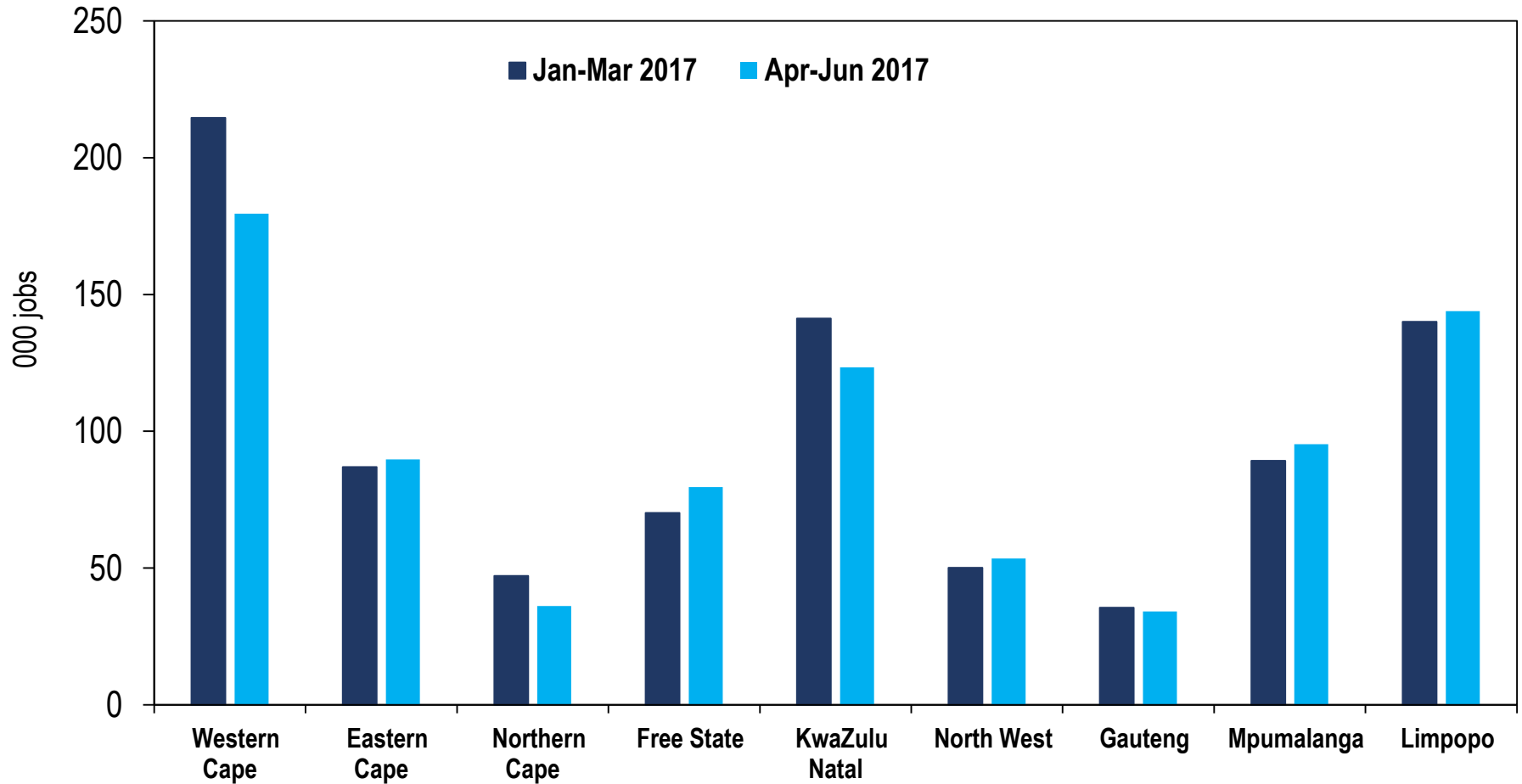
88% (63%) — Northern Cape — 7

80% (60%) — North West — 8

75% (54%)

72% (48%) — Limpopo — 5

71% (51%) — Mpumalanga — 6

Gauteng — 3

Free State — 2

50% (42%) — Kwa-Zulu Natal — 4

56% (65%) — Eastern Cape — 1

36% (62%) — Western Cape — 9

Apart from a growth story, drought in the WC could also negatively affect the agricultural labour market...

Western Cape: 25%
Eastern Cape: 10%
Northern Cape: 5%
Free State: 8%
KwaZulu Natal: 16%
North West: 6%
Gauteng: 4%
Mpumalanga: 10%
Limpopo: 16%

Source: Stats SA, Agbiz Research

Apart from a growth story, drought in the WC could also negatively affect the agricultural labour market...

Legend: Jan-Mar 2017, Apr-Jun 2017

Y-axis: 000 jobs (0 to 250)

Categories: Western Cape, Eastern Cape, Northern Cape, Free State, KwaZulu Natal, North West, Gauteng, Mpumalanga, Limpopo

Source: Statistics South Africa, Agbiz Research

Negative impact will most likely be in field crops, horticulture and forestry...

Source: Statistics South Africa, Agbiz Research
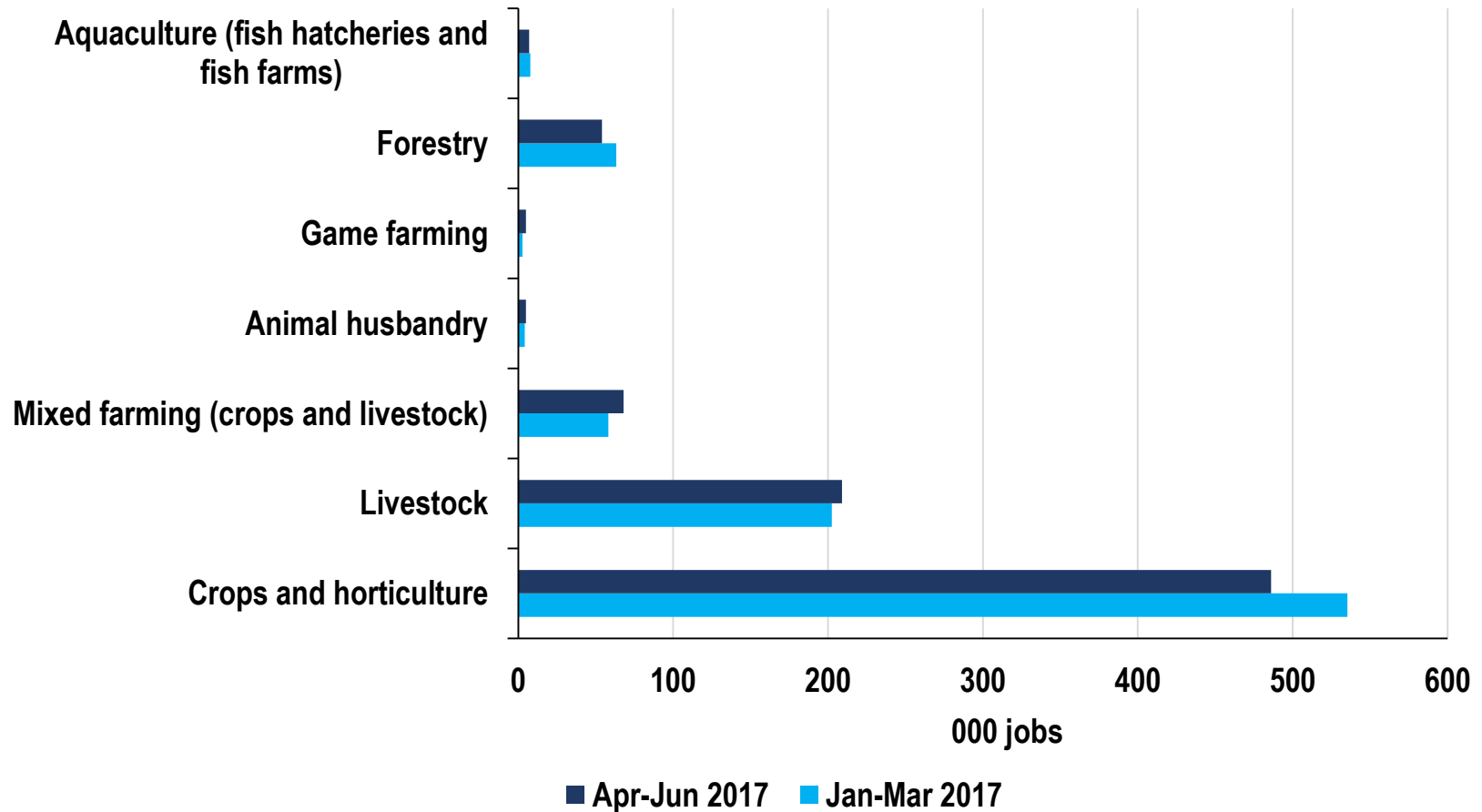
This could drift SA away from its goal of creating close to a million jobs in the sector by 2030 (NDP) – a tough target given that jobs have only been at such levels in the 1960's...
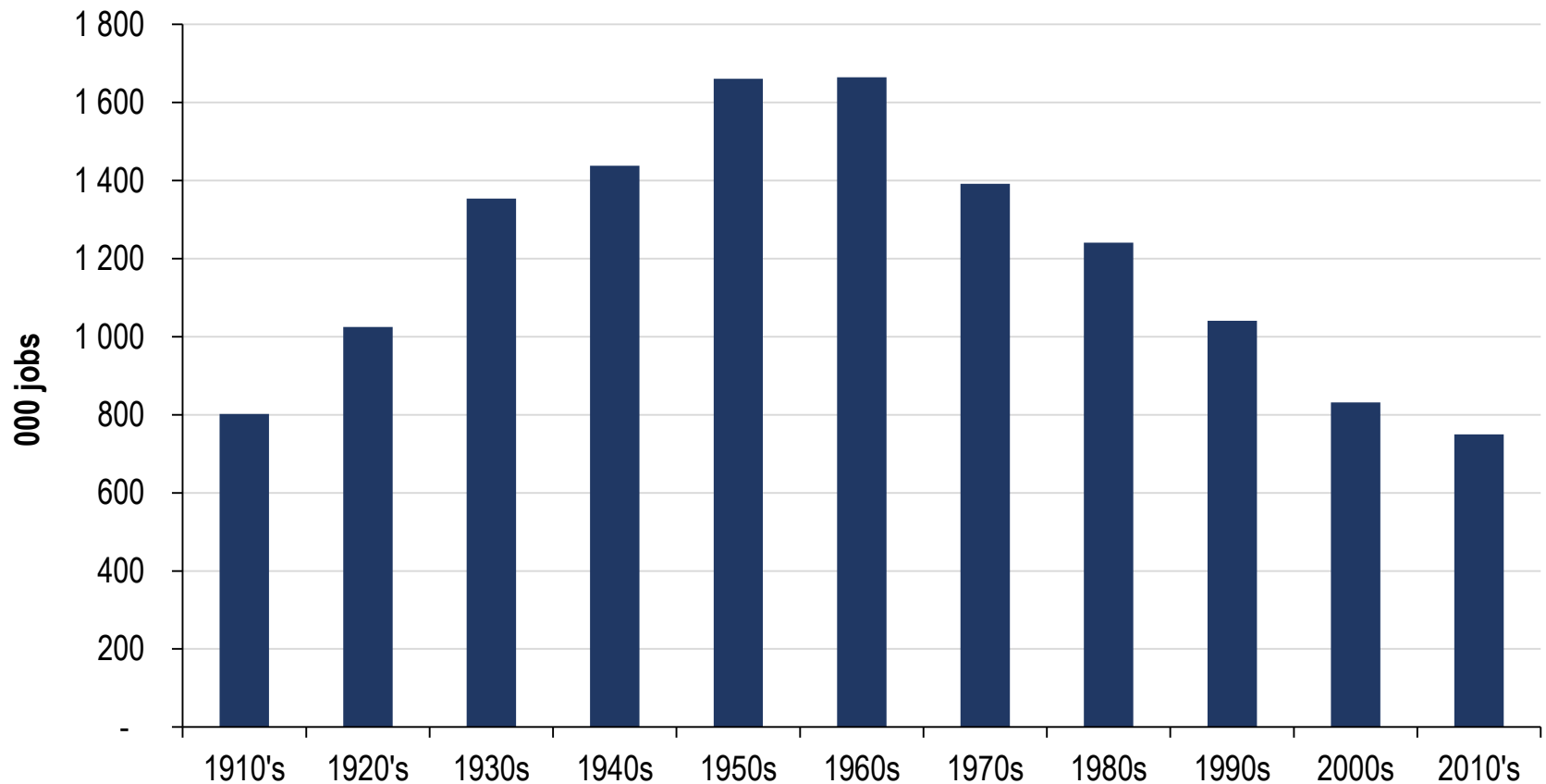
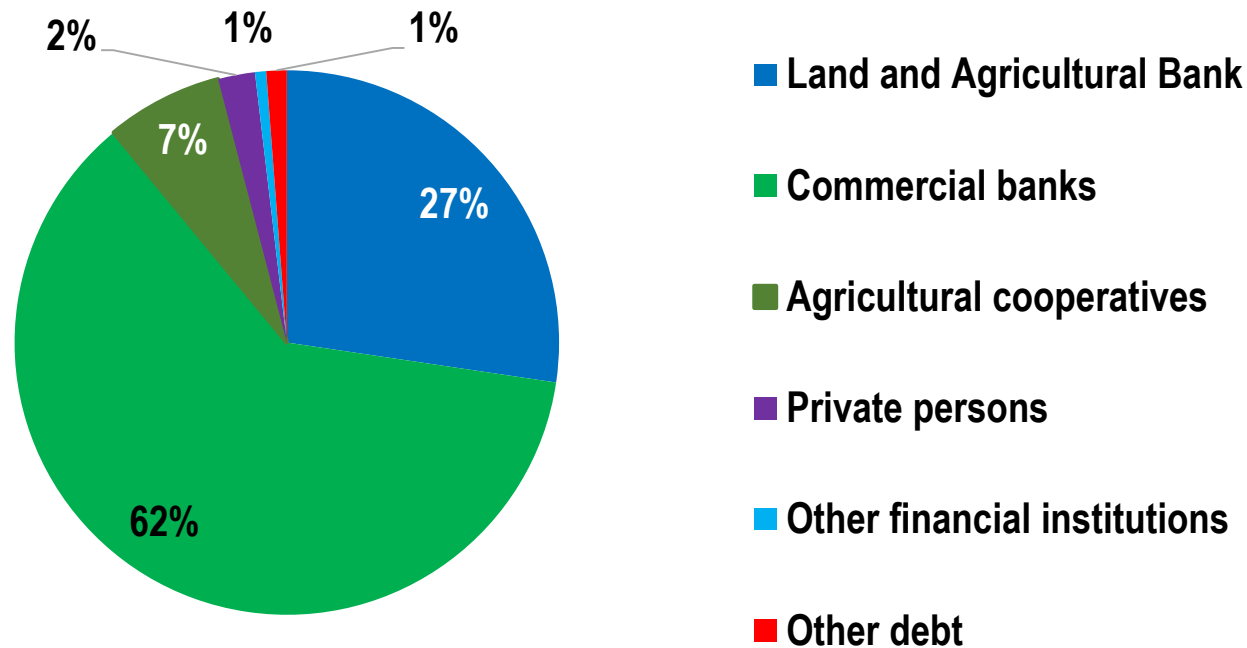# Key takeaways - confidence and growth in SA agricultural sector...

- Policy *uncertainty* will remain a key theme ahead of December 2017 ruling party's conference…

- The weather forecasts paint a positive picture for the upcoming season -- good for summer crops (*but winter crop growing areas will remain stressed*)…

- In the short term, the agricultural sector will remain on a positive growth path. The effects of the WC drought will be clear in 2018's growth (GDP) numbers…

*On balance – the policy environment is quite uncertain, but **Agbiz** will continue to engage policy makers in order ensure sustainability of the agricultural sector…*

Farm debt: Land reform developments not only impact farmers, but agribusinesses and financial institutions as well...
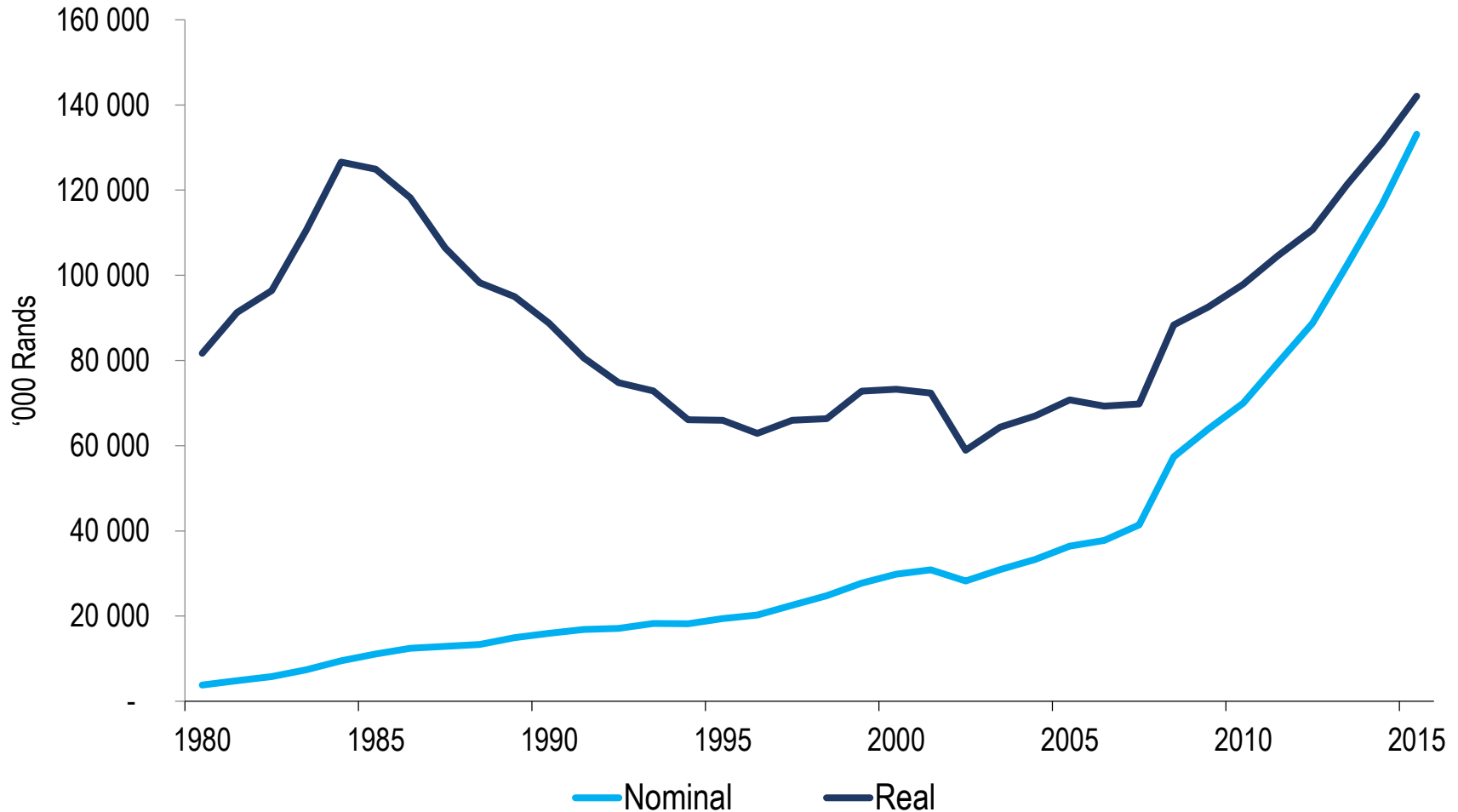
Risk to Collateral: Land reform, particularly the talks of "expropriation without compensation" (this chart shows SA agricultural farm debt)…

Pie chart values:
- Land and Agricultural Bank — 27%
- Commercial banks — 62%
- Agricultural cooperatives — 7%
- Private persons — 2%
- Other financial institutions — 1%
- Other debt — 1%

South Africa's total farm debt in 2016				
Land and Agricultural Bank	Commercial banks	Agricultural cooperatives	Private persons	Other financial institutions and other debt
R40 bn	R89 bn	R10 bn	R3 bn	R3 bn

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