

# Confidence and growth in the South African agricultural sector

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Pretoria, South Africa



# ‘business confidence’ – why is it important?...

“Improved business confidence is the cheapest form of economic stimulus”

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

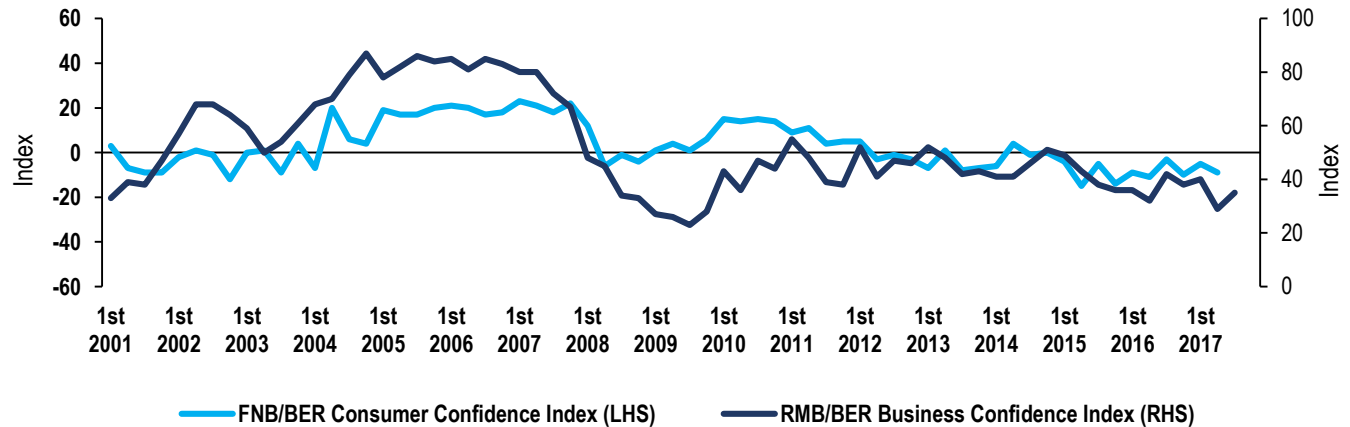
# General confidence conditions in 2017, how will this year look like?

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## Key points

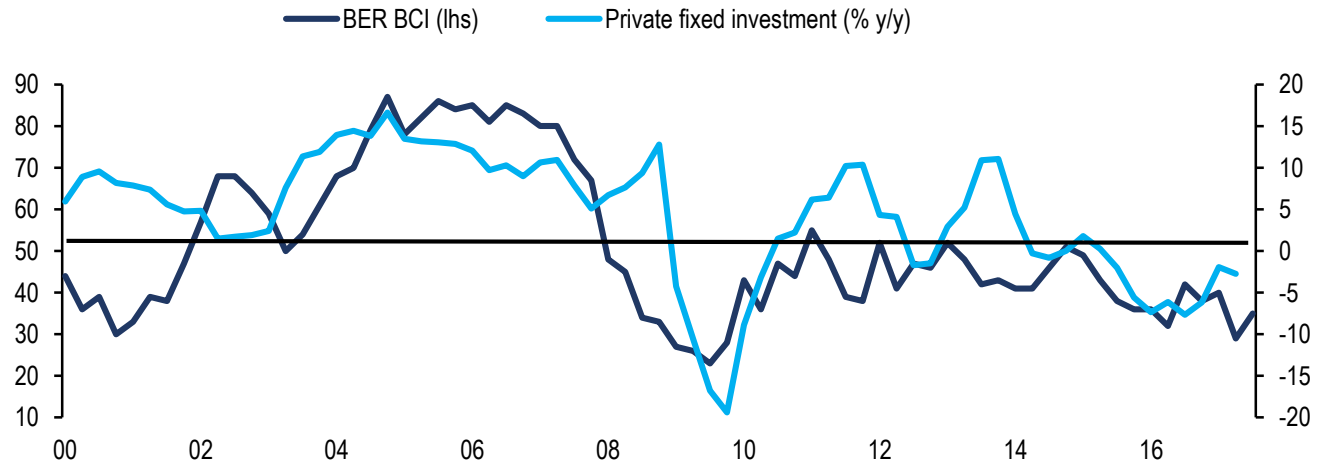
- The RMB/BER Business Confidence Index (BCI) essentially flatlined at 34 in the fourth quarter.
- Having slumped from -5 in the first quarter of 2017 to -9 during the second quarter, the FNB/BER Consumer Confidence Index (CCI) remained low at -8 index points in the fourth quarter of 2017.

## SA business and consumer confidence remained depressed....



## Why is business confidence import?...

- There is a strong correlation between business confidence and private fixed investment.
- Furthermore, household consumption expenditure also has a strong long-run relationship with consumer confidence.
- This speaks to Larry Summers' point – 'Improved business confidence is the cheapest form of economic stimulus'.



Source: BER, Absa Capital, Agbiz Research

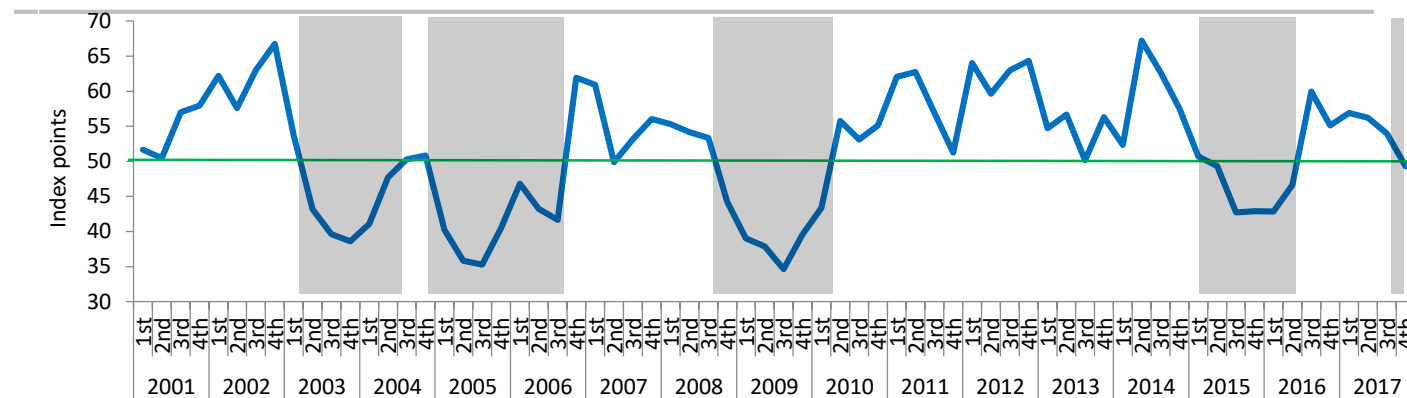
# Current domestic conditions

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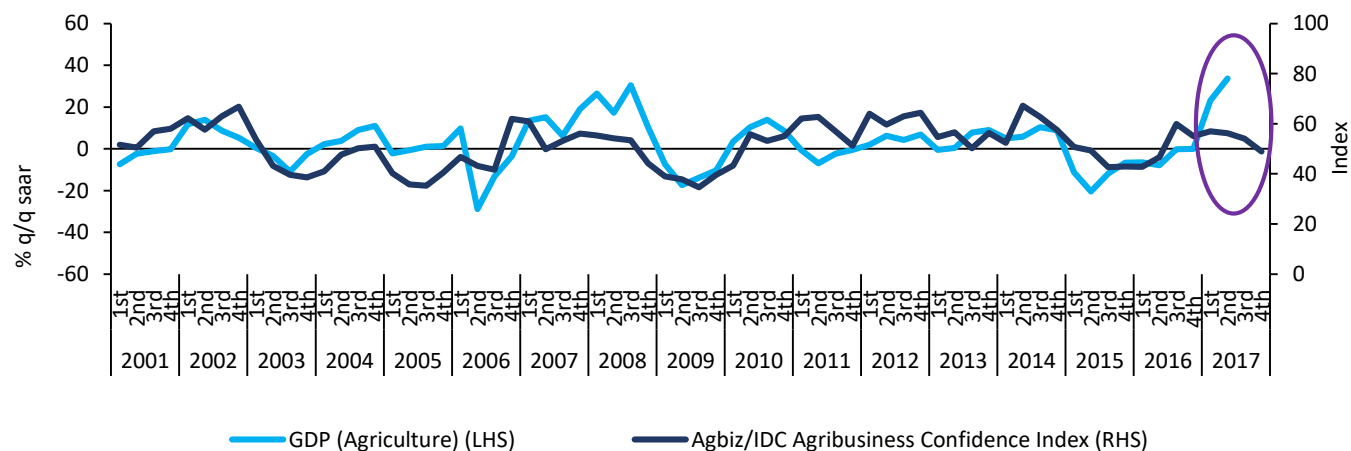
## Key points

- Confidence in the sector - a significant driver of agricultural GDP, but uncertainty around land reform and Western Cape drought weighs on confidence in the sector.
- Agbiz/IDC Agribusiness Confidence Index declined by 5 points to 49 in the fourth quarter of 2017.
- Q1, 2018 numbers will be released next week.**
- After registering a 38.7% q/q (revised) growth rate in the second quarter of this year, the agricultural GDP grew by 44.2% q/q in the third quarter.
- These growth figures mirror an increase in the overall agricultural activity, particularly 2016/17 production season of summer grains, oilseeds, fruits, as well as a recovery in the livestock industry.
- 2017Q4 Agri GDP could grow by 4,4% qoq saar.**

## Agribusinesses' confidence is in contractionary terrain....



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



Source: Stats SA, Agbiz Research

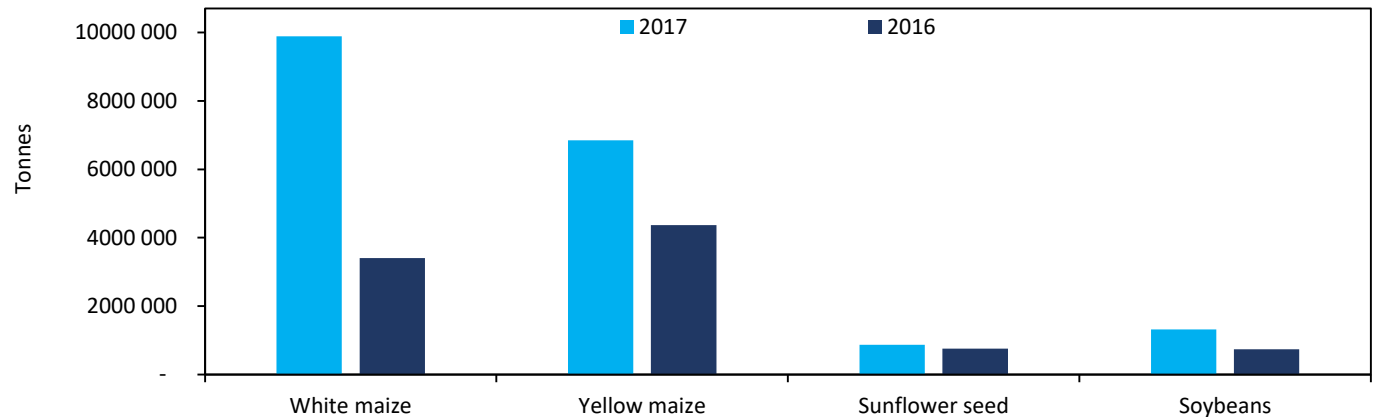
# What is underpinning the strong agricultural economic growth?

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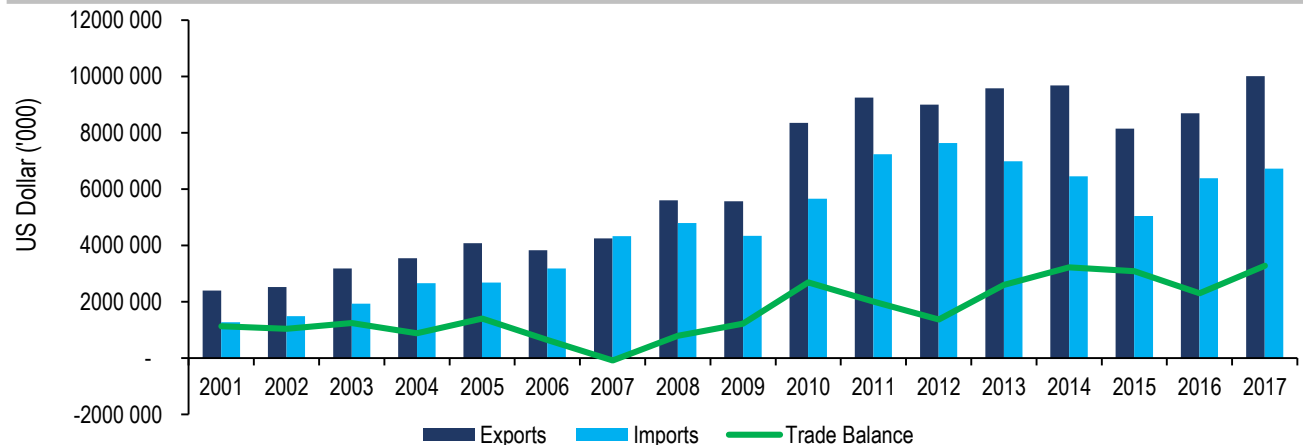
## Key points

- The 2017 total grains and oilseed production was placed at 19.21 million tonnes, which is double the previous season's volume.
- The higher yields and an increase in area plantings are the key drivers of this notable recovery.
- In 2017, South Africa's agricultural exports grew past US\$10.0 billion for the first time, up by 15% y/y.
- In fact, South Africa's agricultural sector recorded a positive trade balance of US\$3.3 billion in 2017, which is also a record level in a dataset dating back to 2001.

## Good performance in major grains and oilseed production....



## Solid agricultural exports, boosted by edible fruits, beverages, spirits, vegetables, grains and other products....



Source: CEC, ITC, Agbiz Research

# What is weighing on agribusinesses' confidence?

- **Policy uncertainty and Western Cape drought are the major stumbling blocks**

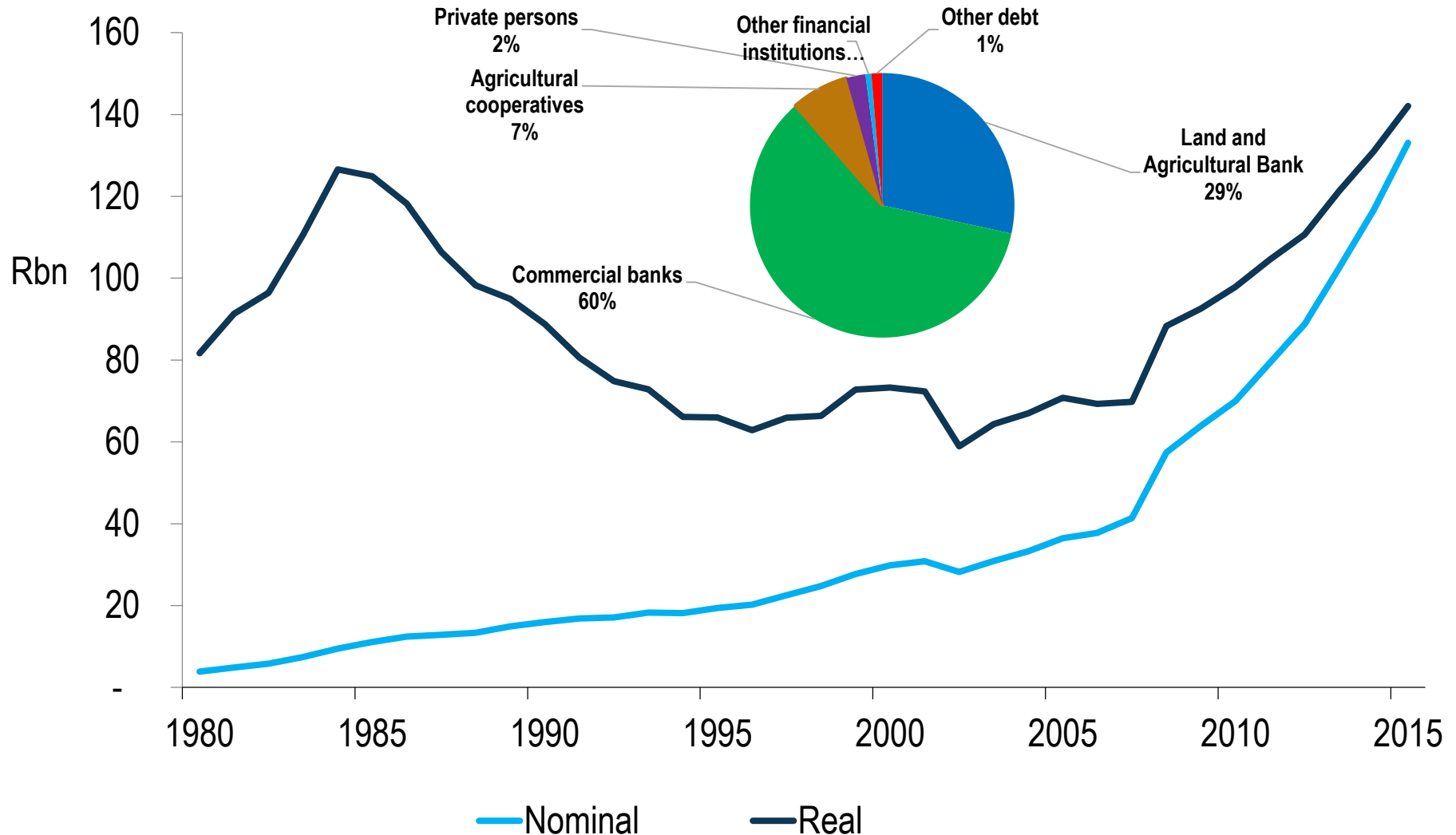
Policy uncertainty, particularly **land reform**

- **Rationale:** not to do with economic considerations (i.e. agrarian reform) – instead it is a historical legacy issue (broaden access to land ownership and repatriations of land lost during Apartheid & colonialism).
- Method:
  - Claim back land that was dispossessed (restitution)
  - Broaden access to ownership (redistribution – 30% by 2012, new target = 30% by 2030)
  - Tenure reform – provide legally secure rights to land in former 'homelands'
- Threats:
  - **Expropriation without compensation** – no clarity on this position at the moment. But, we have drafted some scenarios that we envisage.

*\*Theo Boshoff – speaking next – will expand on **land policy** dynamics\**

# Risk to collateral, “expropriation without compensation”

- Total agriculture farm debt



Our discussion paper on this issue is available on [www.agbiz.co.za](http://www.agbiz.co.za)!

**REDISTRIBUTION OF AGRICULTURAL LAND: EXPROPRIATION WITHOUT  
COMPENSATION DEBATE<sup>1</sup>**

*Theo Boshoff, Wandile Sihlobo, Sifiso Ntombela<sup>2</sup>*

**Abstract**

The 54th Conference of the African National Congress (ANC) took a decision to speed up land reform by pursuing expropriation without compensation. The decision was received with much trepidation, and in order to allay public fears associated with this policy, the ANC provided a key anecdote – which the expropriation of land without compensation is to be done in a sustainable manner that will not harm the financial sector in particular or the economy in general. The lack of detail in how that delicate balance is to be attained has neither been helpful nor progressive in delivering a more productive debate around the policy itself. As such, pessimists have tended to dismiss the ANC position as political banter, while protagonists chant their support without engaging the nuances of policy implementation. In this paper, the authors attempt to unpack the decision of expropriating land without compensation in terms of its economic and legal consequences. The paper sketches various policy trajectories within the context of the current constitutional order, from which four potential scenarios are envisaged. The scenarios are not intended to be recommendations but simply four distinct possibilities that can arise dependent on which mechanisms are pursued in addressing land redistribution.

***NOTE:** This is a discussion document circulated for discussion and contribution to the ongoing debate of expropriation and land reform. The document is inter-disciplinary and was not intended for publication in a recognised economic or legal journal. As such, it does not follow the format prescribed by any specific academic journal.*



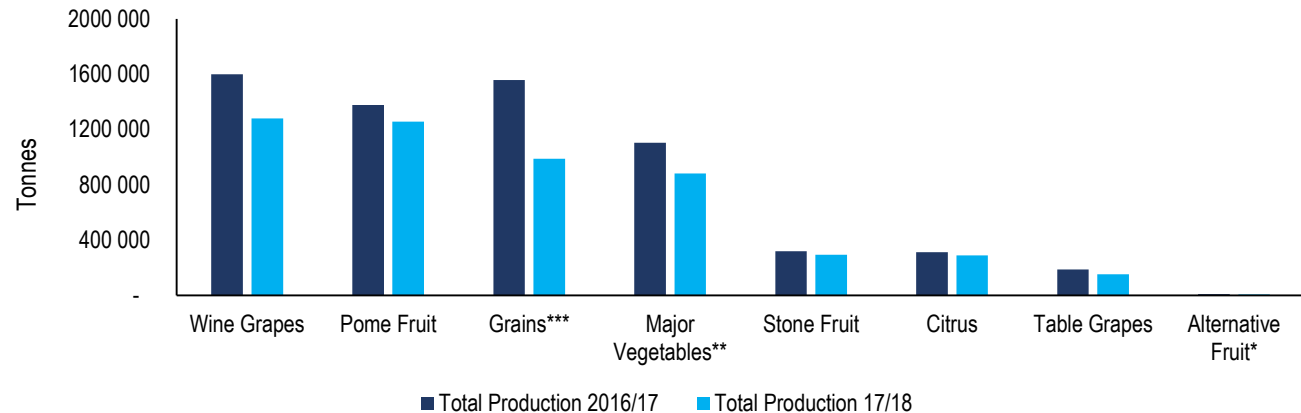
# Widespread decline in Western Cape agricultural production...

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## Key points

- All crops show a notable decline from levels produced in the 2016/17 season.
- The most affected ones are **grains, wine grapes, vegetables and table grapes.**

## Western Cape agricultural production....



## Economic impact of the drought on the Western Cape agricultural sector.....

- The results from the analysis are presented in Table and give the macro-economic impact of the drought per broad industry classification. Compared to the 2016/17 season, the cost to the Western Cape agricultural economy as a result of the drought is estimated to be R5.9 billion in GVA and represents an average production decline of around 20%.

Industry	Total Production 2016/17	Estimated Total Production 2017/18	Drop in Production (%)	GVA Shock 2016/17 vs 2017/18 (R million)	Employment losses
Wine Grapes	1 599 728	1 279 782	-20.0	-591.21	-2 809
Table Grapes	186 772	153 000	-18.1	-787.36	-4 019
Pome Fruit	1 376 279	1 256 773	-8.7	-898.26	-9 635
Stone Fruit	319 424	293 288	-8.2	-458.26	-2 070
Citrus	311 955	287 887	-7.7	-259.24	-1 280
Alternative Fruit*	7 693	7 037	-8.5	-36.35	-220
Major Vegetables**	1 104 580	881 280	-20.2	-78.73	-2 716
Grains***	1 558 200	986 928	-36.7	-2 812.97	-7 482
Total	6 464 630	5 145 975	-20.4	-5 922.37	-30 230

Source: Own calculations

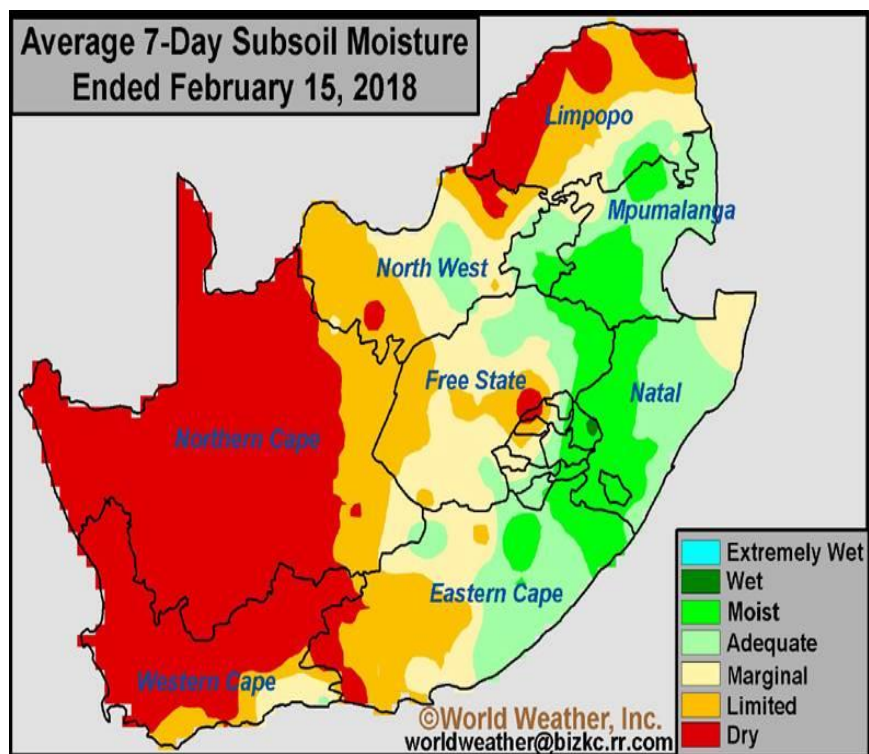
\*Figs: Pomegranates \*\*Potatoes, Onions, Butternut, Pumpkin, Carrots, Cabbage \*\*\*Wheat, Canola, Barley

Source: PIENAAR and BOONZAAR (2018), Agbiz Research

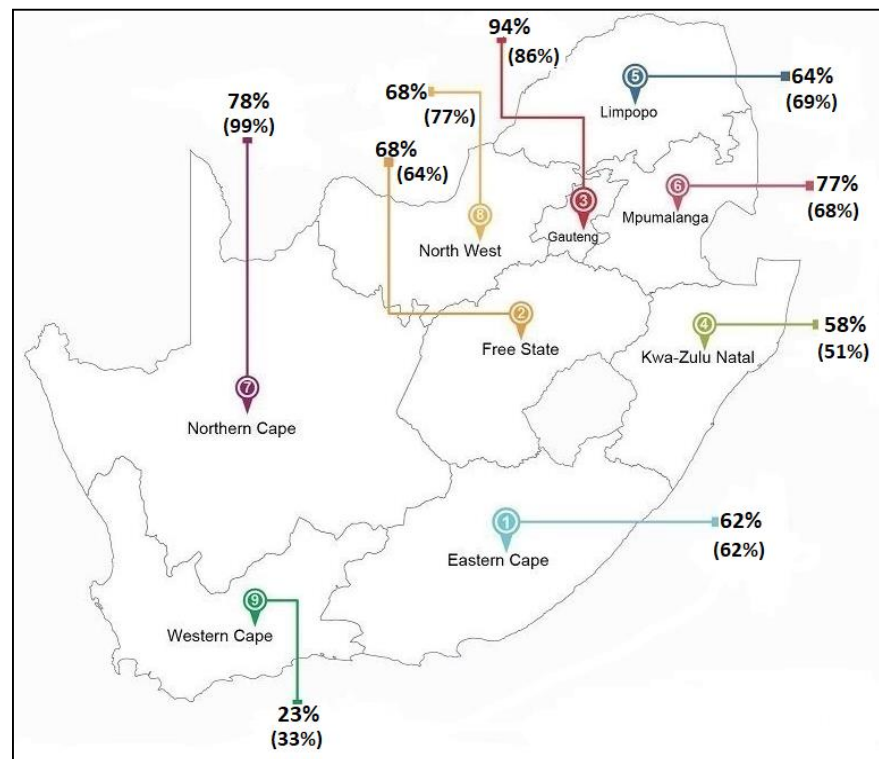
**Policy and WC drought aside,  
what do we expect in the current  
season?**

# Water conditions on the ground?

## Soil moisture across South Africa



SA average dam levels: week ended 19 February 2018, with the same week last year in brackets.

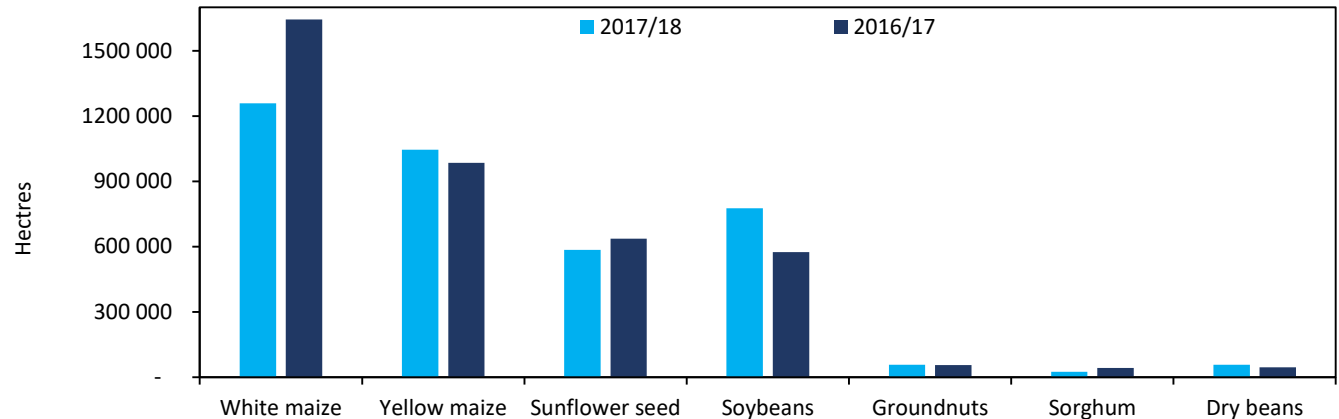


# SA is in for a good summer grain harvest...

## Key points

- South Africa's 2017/18 summer crop plantings show a 5% year-on-year decline to 3.80 million hectares.
- White maize, sunflower seed and sorghum plantings are the key reason for this overall downswing.

Chart shows 2017/18 area planted vs 2016/17 area planted....



Production estimates for major grains – 2017/18 production season vs 2016/17 production season

Maize		Sunflower seed		Soybeans	
2016/17	2017/18 f*	2016/17	2017/18 f*	2016/17	2017/18 f*
16.8 m.t.	12.2 m.t. (-27% y/y)	874 000 t.	731 505 t. (-16% y/y)	1.3 m.t.	1.4 m.t. (+5%)
	*Agbiz est = 11.2 m.t.		*Agbiz est = 672 120 t.		*Agbiz est = 1.2 m.t.

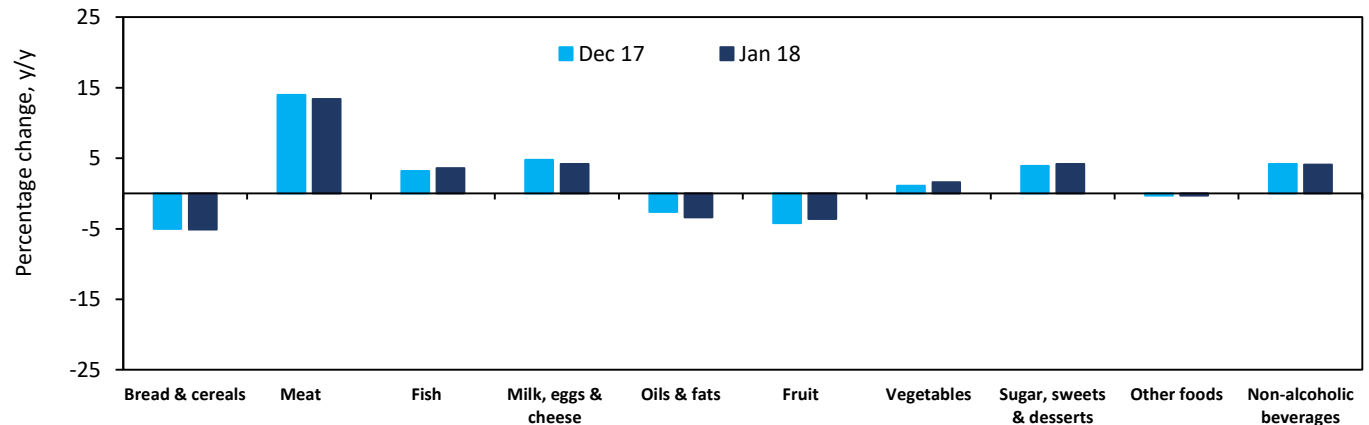
- South Africa's grain and oilseed market could be well supplied in the 2018/19 marketing season owing to expectations of relatively large maize and soybean harvest.
- It is worth noting however that these are first production estimates, which means there could still be changes in the coming months, but will most likely be on the upside given the expectations of favourable weather conditions from this month until April 2018.

# What does this mean for SA food inflation...

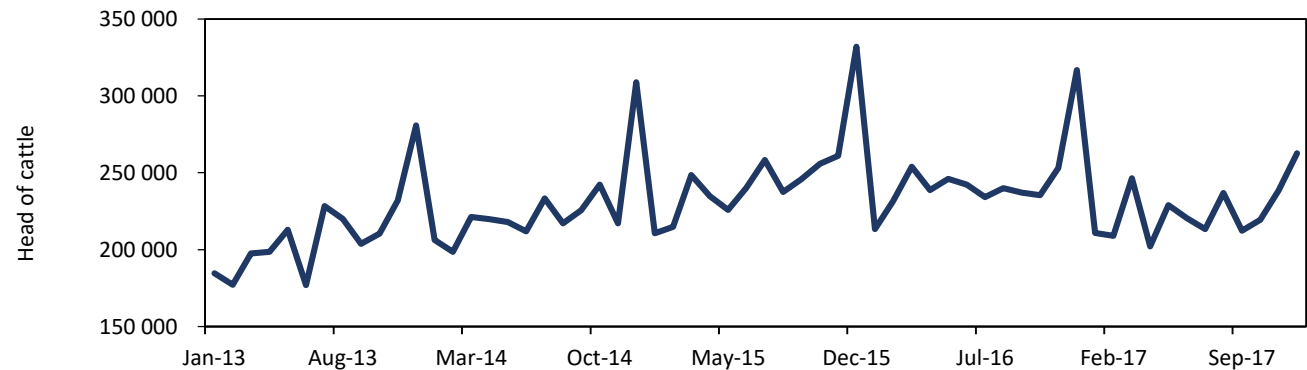
## Key points

- In January 2018, food inflation further decelerated to 4.5% y/y, which is the lowest levels in more than two years. With that said, the food basket remains mixed.
- South African food inflation set to average 5.2%, with the peak somewhere around September 2018. *(Have not calculated the effect of VAT yet)*
- This comes after cattle slaughtering activity increased by 10% m/m to 262 727 head of cattle in December 2017.
- The Red Meat Levy Admin will soon release an update for January 2018 slaughtering activity.

## South African food inflation by product....



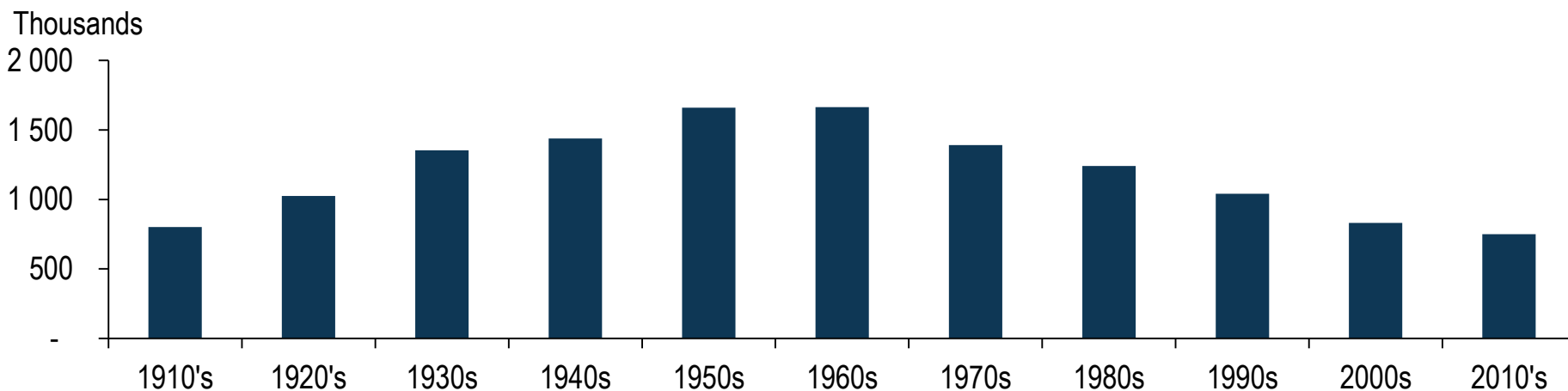
## South Africa's cattle slaughtering activity....



Source: Red Meat Levy, SARB, Stats SA, Agbiz Research

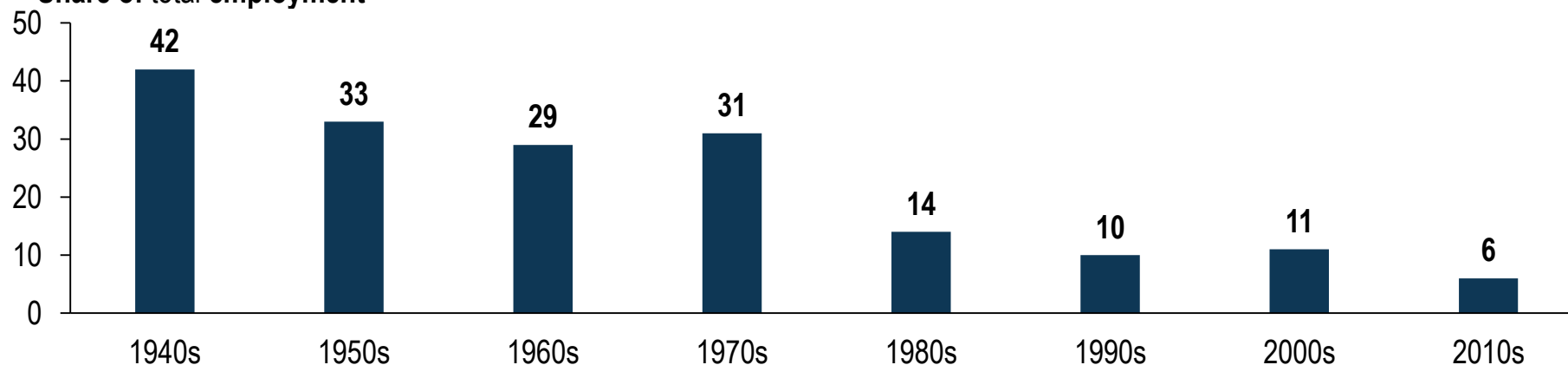
# What about jobs in primary agriculture?...

Total agriculture employment



SA agriculture employment as a share of total employment has declined

Share of total employment



## Conclusion...

- While the harvest is expected to decline marginally, the outlook on food inflation will not change significantly in the near-to-medium term due to the buffer of large stocks from the previous season (Also, for major crops such as maize, the expected crop is well above annual consumption).
- Policy uncertainty will remain a key stumbling block in SA agricultural sector in the near term.
- The persistent drought in the Western Cape province remains a key risk that could potentially undermine the performance of agricultural labour market an economy, along with the expected national minimum wage to be implemented in 2018 (Q4, 2017 was at 849 000 jobs, down 8% y/y).

# – *the way to prosperity...*

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