

Embargo: 10:00 A.M., 12 March 2018

MEDIA RELEASE

Agbiz/IDC Agribusiness Confidence Index Improves in Q1, 2018

The Agbiz/IDC Agribusiness Confidence Index improved by 9 points to 58 in the first quarter of 2018, after declining to levels below 50-points mark in the last quarter of 2017¹. The survey was conducted between 21 February and 01 March 2018. Therefore, the overall results are somewhat reflective of broader positive sentiment following recent political developments, tail-end benefits of robust agricultural output in the 2016/17 production, as well as favourable weather conditions for the 2017/18 summer crop growing areas of the country. About two-thirds of the responses were however received before the National Assembly adopted the motion on land expropriation without compensation, so it remains to be seen if this development will have an impact on agribusiness confidence.

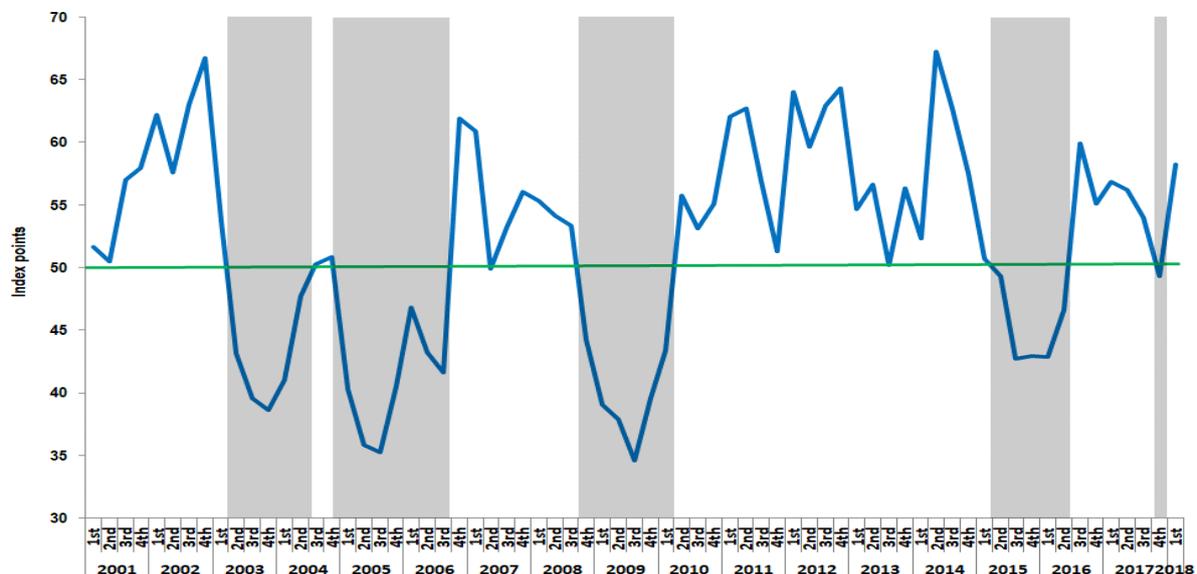


Chart 1: Agbiz/IDC Agribusiness Confidence Index²

Source: Agbiz Research

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

¹ A reading above 50 indicates expansion in the South African agribusiness activity.

² The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 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 quarterly uptick was broad-based, with the exception of the volume of exports and debtor provision for bad debt sub-indices. Driving the sentiment in these particular sub-indices was mainly the unfavourable weather conditions in the Western Cape province, as well as weak global demand for maize exports amongst others.

Meanwhile, the turnover, net operating income, market share, employment, capital investment, economic growth, general agricultural conditions and financing costs sub-indices were the key drivers of the uptick from the previous quarter. In the section below, we briefly discuss the sub-indices boosting agribusinesses' confidence.

Discussion of the sub-indices

Confidence regarding the turnover sub-index improved by 10 index points in the last quarter of 2017 to 77. This is the highest level since the second quarter of 2016. The optimism is mainly underpinned by large supplies or inventories, particularly for agribusinesses operating in the summer grains and oilseed growing areas. In a similar trend with the turnover sub-index, confidence in net operating income sub-index marginally declined by 1 index point to 68 in the first quarter of 2018.

The perception in the market share of the business sub-index improved by 6 index points from the previous quarter to 68. These results also partially reflect the potential benefits of the 2017 summer rainfall, particularly in summer grain and oilseed operating businesses.

Confidence regarding employment in the agricultural sector improved from 58 in the last quarter of 2017 to 75 points. This reflects improvement in expectation of seasonal employment owing to increased activity in summer crop growing areas of the country, as well as harvest process in some horticulture growing areas. Also worth noting is that the sector already saw a 5% q/q increase in employment in the last quarter of 2017 to reach 849 000 jobs.

After deteriorating to 44 points in the last quarter of 2017, the capital investments confidence improved by 23 points in the first quarter of 2018 to 67. This optimism is somewhat linked to broader positive political sentiment in the country. It is worth noting however that two-thirds of the responses to the survey were collected before the adoption of the motion of expropriation without compensation, therefore, the perceptions regarding that policy shift are not fully accounted in these results.

The perception regarding export volumes sub-index deteriorated further by 7 index points in the first quarter of 2018 to 55. This is largely due to lower demand for maize in South Africa's traditional export markets, as well as an expected decline in horticultural products output.

The perception regarding economic conditions improved by 45 points in the first quarter of this year from the previous quarter to 68. This is the highest reading since the second quarter of 2011. This is in line with positive domestic and global economic growth expectations.

The general agricultural conditions sub-index increase by 9 index points in the first quarter of this year to 37. This is largely underpinned by favourable weather conditions in summer crop growing areas of the country.

The financing costs sub-index was fell by 14 index points in the first quarter of this year to 30. To some extent, this is in with expectations that the South African Reserve Bank could cut its repurchase rate in the near term.

Concluding remarks

The first quarter of 2018 Agbiz/IDC Agribusiness Confidence Index results paint an encouraging picture of the South African agricultural sector. Improvement in confidence is somewhat in line with the recent favourable domestic political developments and improved weather conditions. 'However, the debates around the contentious issue of land reform, particularly expropriation without compensation, remains a key risk that could potentially undermine investment in the sector', says Wandile Sihlobo, agricultural economist at the Agricultural Business Chamber.

ENQUIRIES:

Wandile Sihlobo

Head: Agribusiness Research, Agricultural Business Chamber (Agbiz)

E-mail: wandile@agbiz.co.za

Tel +27 12 807 6686 Fax +27 12 807 5600