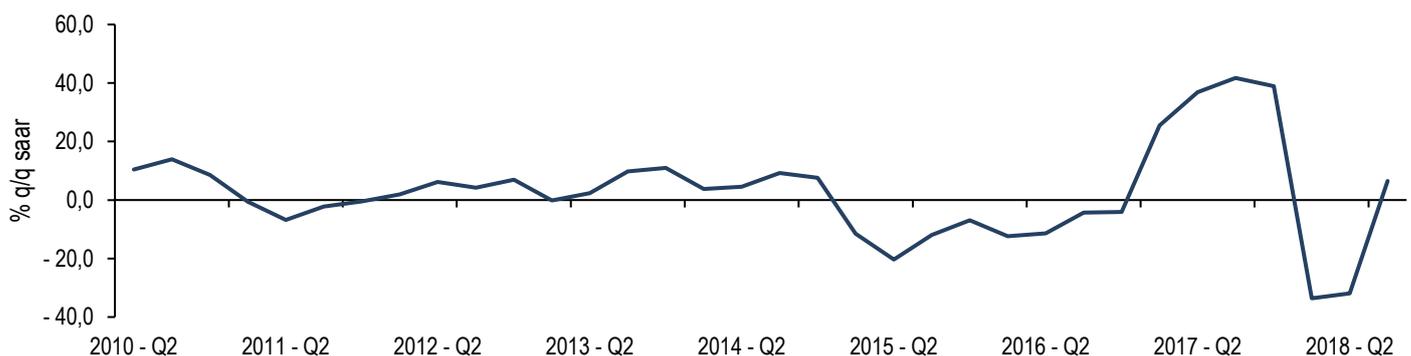


South African Agricultural Economy Recovers in Q3, 2018

- After entering a technical recession in the second quarter of the year, the South African agricultural economy recovered in the third quarter, boosted by higher production of horticulture and animal products. Within the horticultural subsector, the most notable performer was the citrus industry which has thus far exported a record 2 million tonnes for the year. The uptick in animal products somewhat mirrors the recovery in the livestock sector after the 2015-16 drought period. Nonetheless, we still believe that the agricultural sector will contract in 2018 due to generally lower output of major agricultural commodities compared to 2017.**
- The data released earlier today by Statistics South Africa showed that the agricultural economy grew by 6.5% on a quarter-on-quarter seasonally-adjusted annualised rate (q/q saar). While we expected a better performance than the second quarter (-31.9% q/q saar), the magnitude of a recovery came as a surprise. This can partly be explained by the base effects, as well as the above-mentioned recovery in the horticultural and livestock subsectors.
- While this is generally a welcome development, it is likely to be short-lived as agricultural conditions remain tough in the large part of the country due to unfavourable weather conditions. The central and western parts of the country, which predominantly produce summer grain and oilseed, would have planted a large share of the crop by this time of the year, but there is still minimal activity on the ground due to dryness. The South African Weather Service recently noted that the next three months could bring rainfall over these areas, but this remains to be seen as there is still very little evidence on the ground. Moreover, there are fears of an El Niño later in 2019 summer season.
- With that said, the current summer crop started on sound footing with farmers aiming to increase summer grain and oilseed planting by 5% from 2017/18 production season to 4.03 million hectares. This was followed by robust tractor sales which amounted to 5 818 units in the first 10 months of this year, up by 9% from the same period last year. But this optimism has weakened as confirmed earlier today in the Agbiz/IDC Agribusiness Confidence Index which fell to 42 points, the lowest level since 2009. Above all, the weather remains a key factor that will determine the growth prospects of the South African agricultural economy in the coming year.

Figure 1: South African agricultural economy



Source: Stats SA, Agbiz Research

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