

Confidence drives growth in SA agricultural economy

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CGA Citrus Summit

Port Elizabeth, 13 March 2019



Overview of the presentation

- Confidence in general terms
- Confidence in firms and households
- Business confidence and corporate fixed investment
- Consumer confidence and households consumption
- Agribusiness confidence, investments and growth in agriculture
- Concluding remarks

Human nature: how do we define confidence?

“The feeling or belief that one can have faith in or rely on someone or something.”

— *Oxford Dictionary*

But what are the attributes of confidence?

- Trust
- Perception
- Reputation
- Reliability
- Dependability
- Uncertainty, etc.

Although we have a common definition, how it manifests is subjective

Business perspective: how do we quantify confidence?

We use business, consumer and agribusiness confidence indices to consolidate views (and sentiments) of business people in the economy.

- **Business confidence** -- based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector (OECD, 2019).
- **Consumer confidence** -- provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation.
- **Agribusiness confidence** -- provides information on future developments, based upon opinion surveys on developments in agricultural production, turnover, net operating income, market share, employment, capital investment and export volumes, etc.

Why is confidence important?

“Business confidence is the cheapest form of stimulus to the economy”

– Lawrence H. Summers, past President of Harvard University

“At the present juncture, our fundamental problem is confidence”

– Lesetja Kganyago, Governor of the South African Reserve Bank (June, 2017)

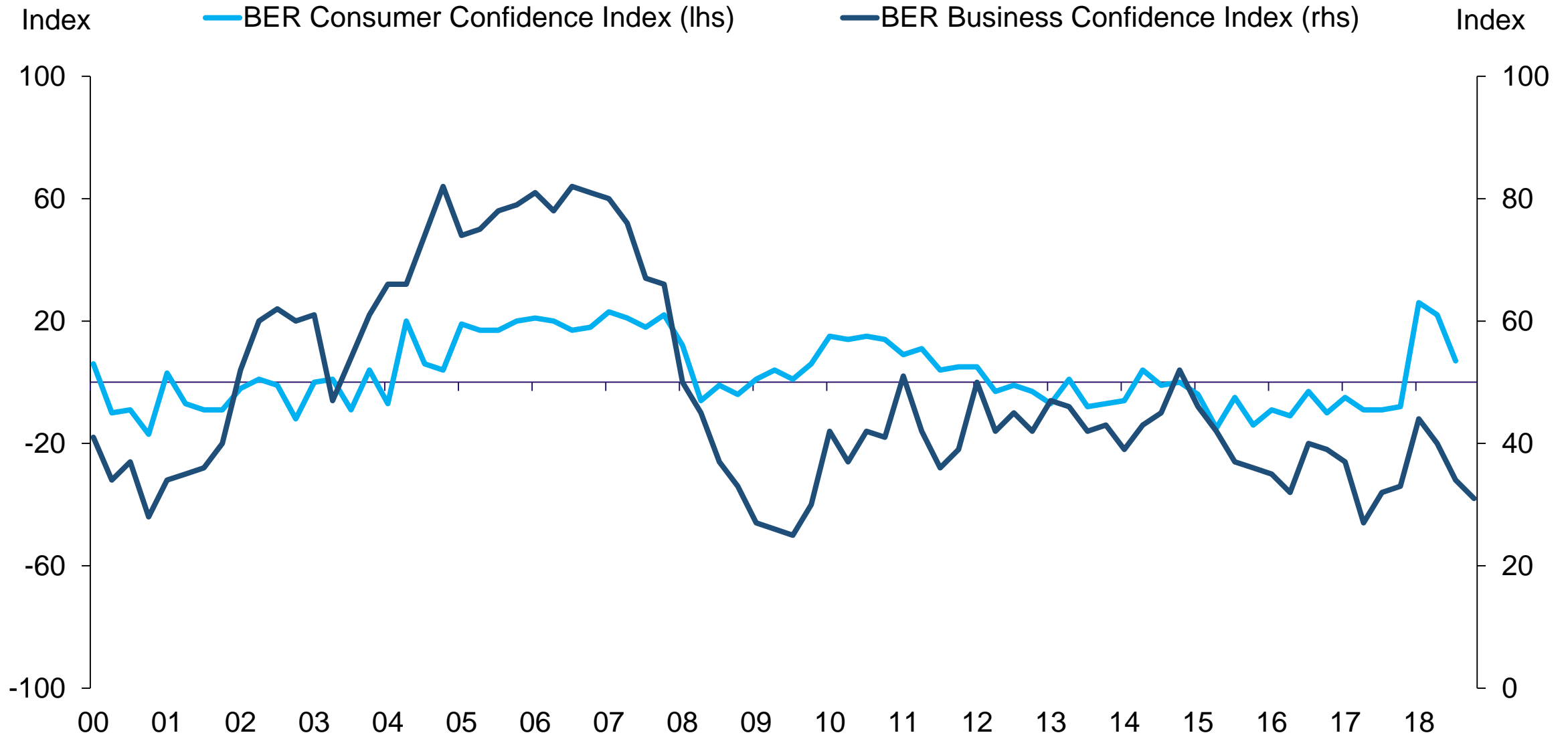
“The political debate on issues such as land reform, the new mining charter and healthcare will have a significant impact on the attitude of potential investors”

– Sandy McGregor, Allan Gray (July, 2018)

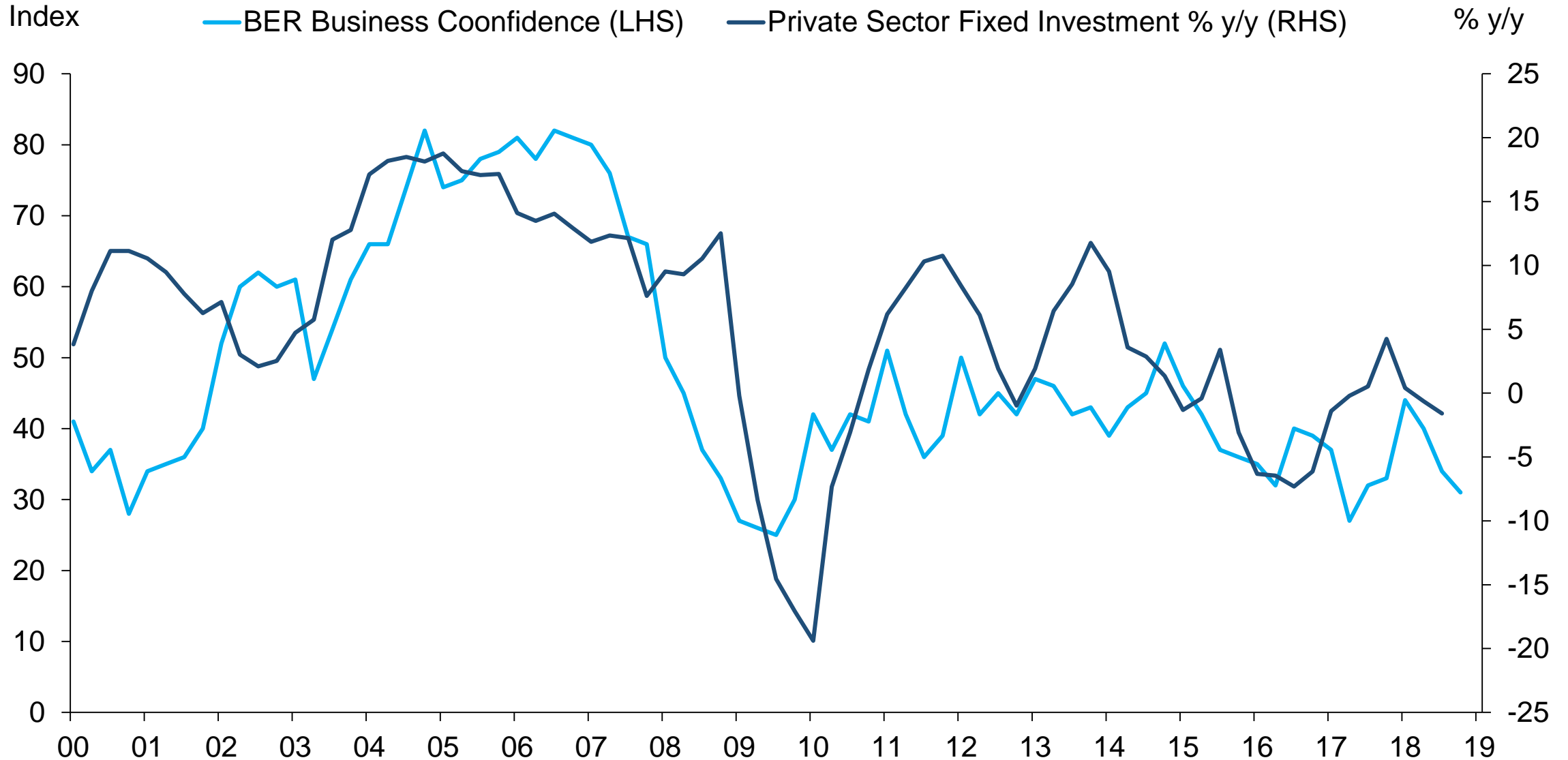
“South Africa’s economy still plagued by policy uncertainty”

– Business Day (October, 2018)

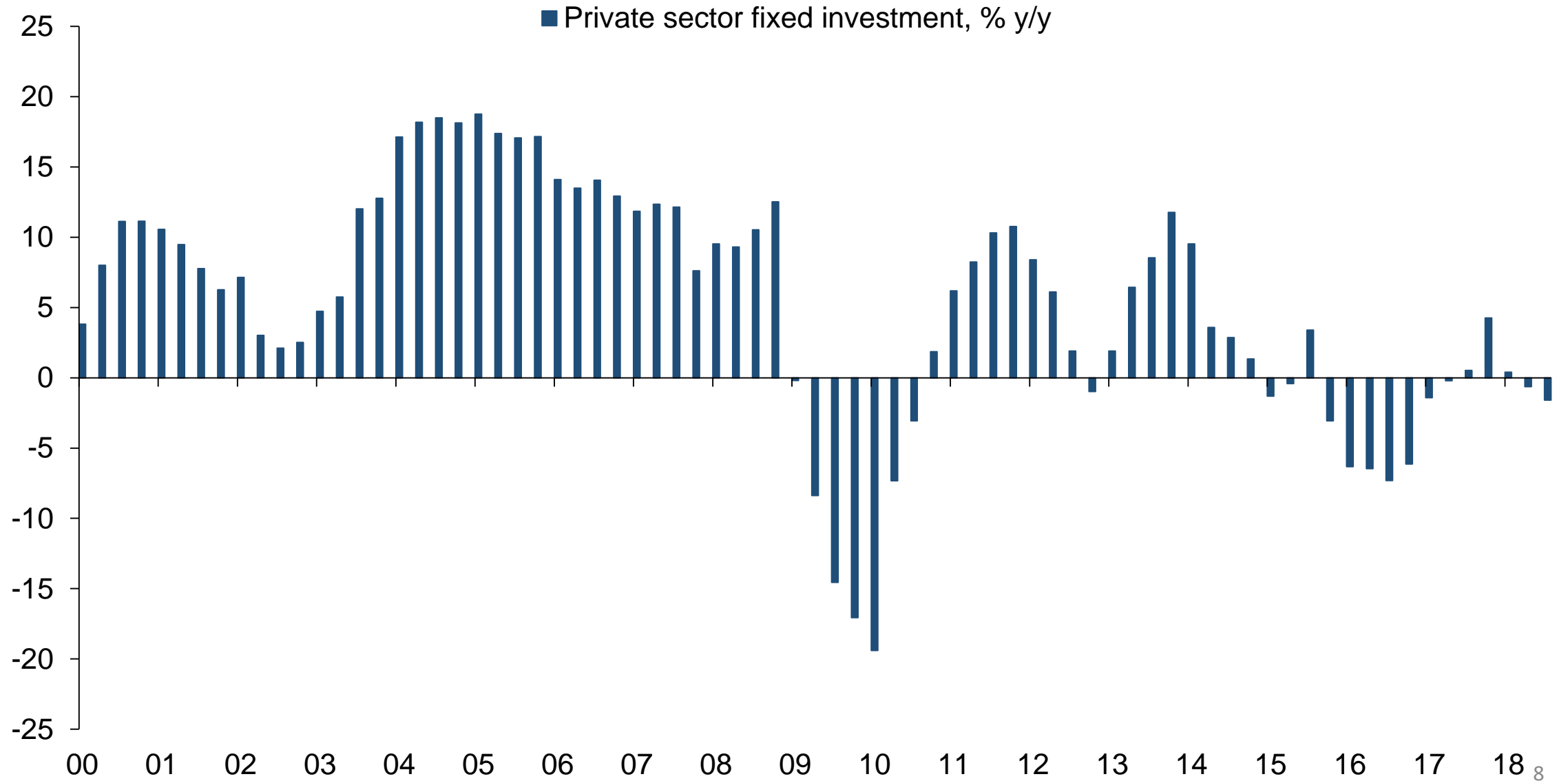
How has the confidence story been in South Africa?



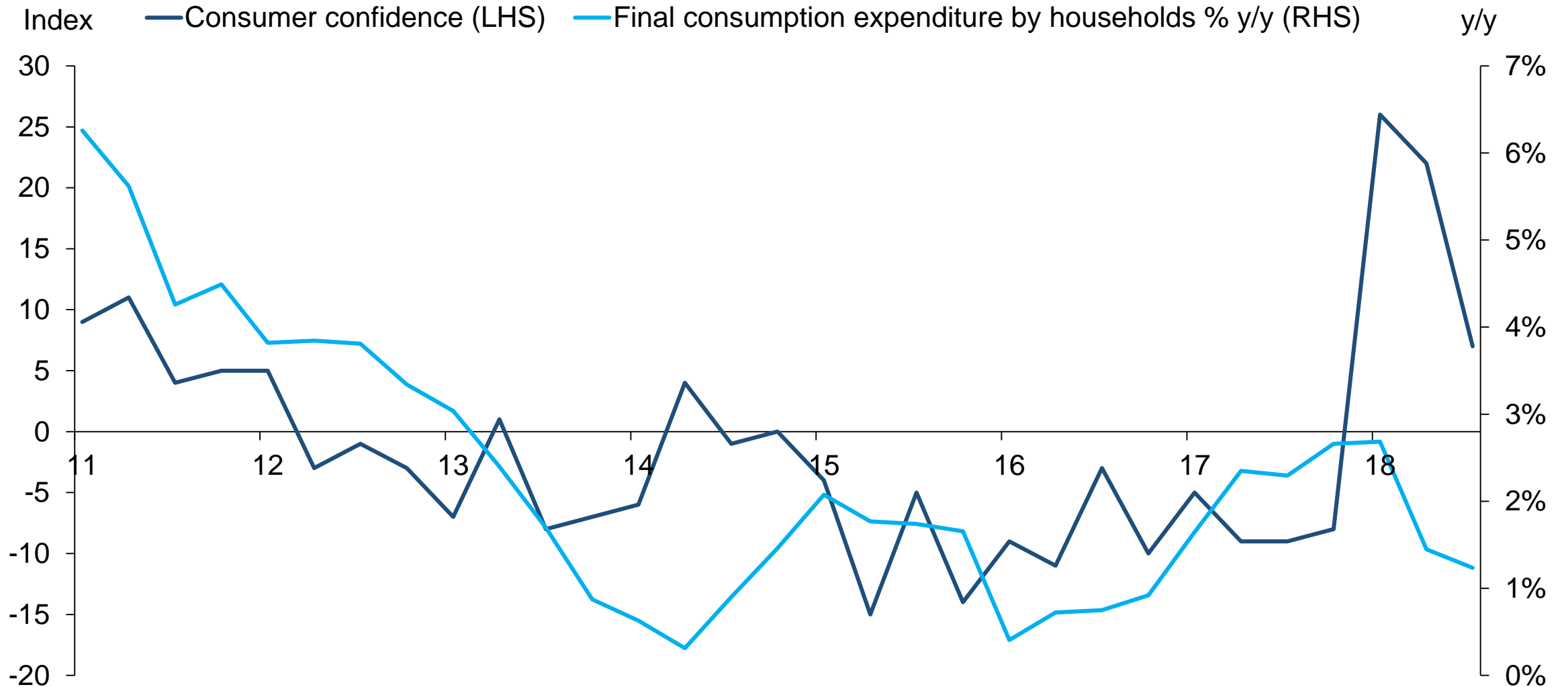
Business confidence leads fixed investment



We've seen high levels of investments in the past, now?



Consumer confidence somewhat leads household consumption

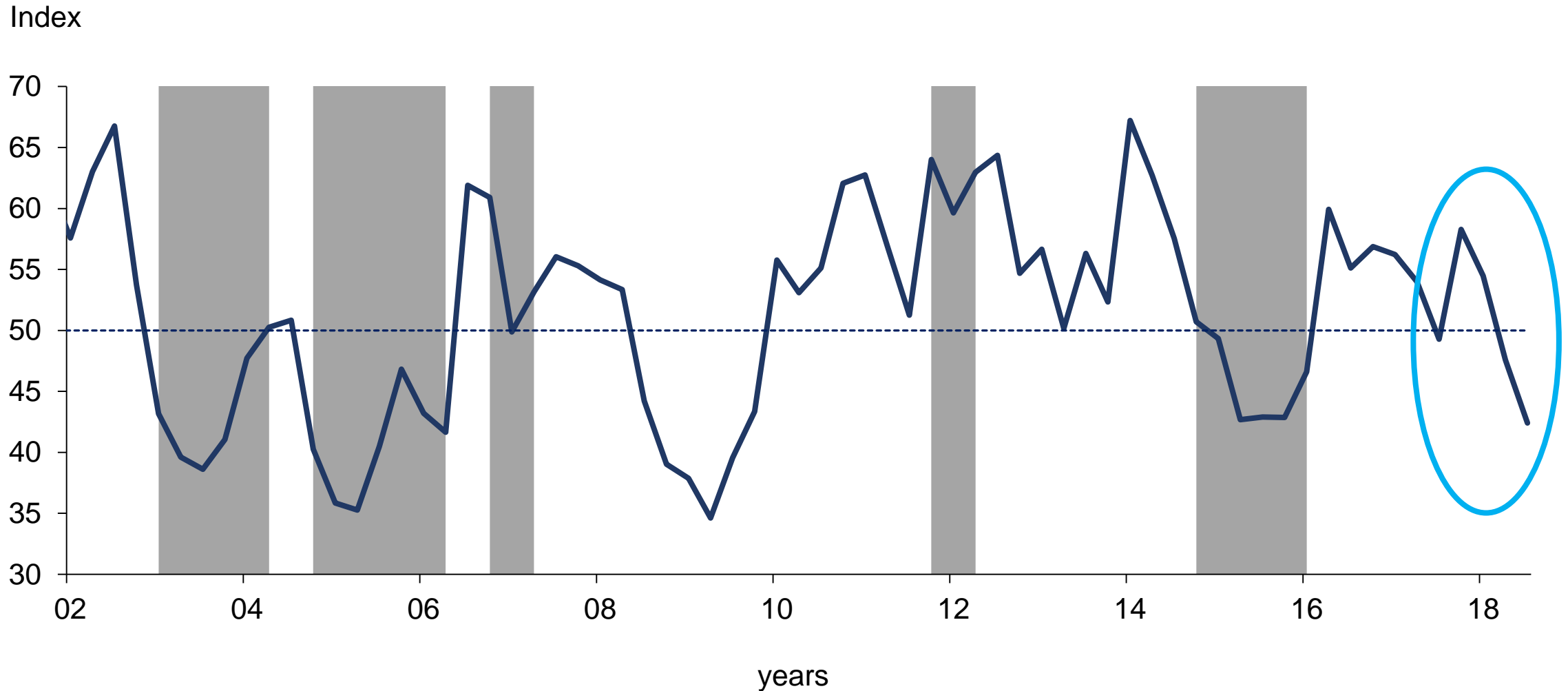


What about agriculture?...

What are the confidence drivers in agriculture?

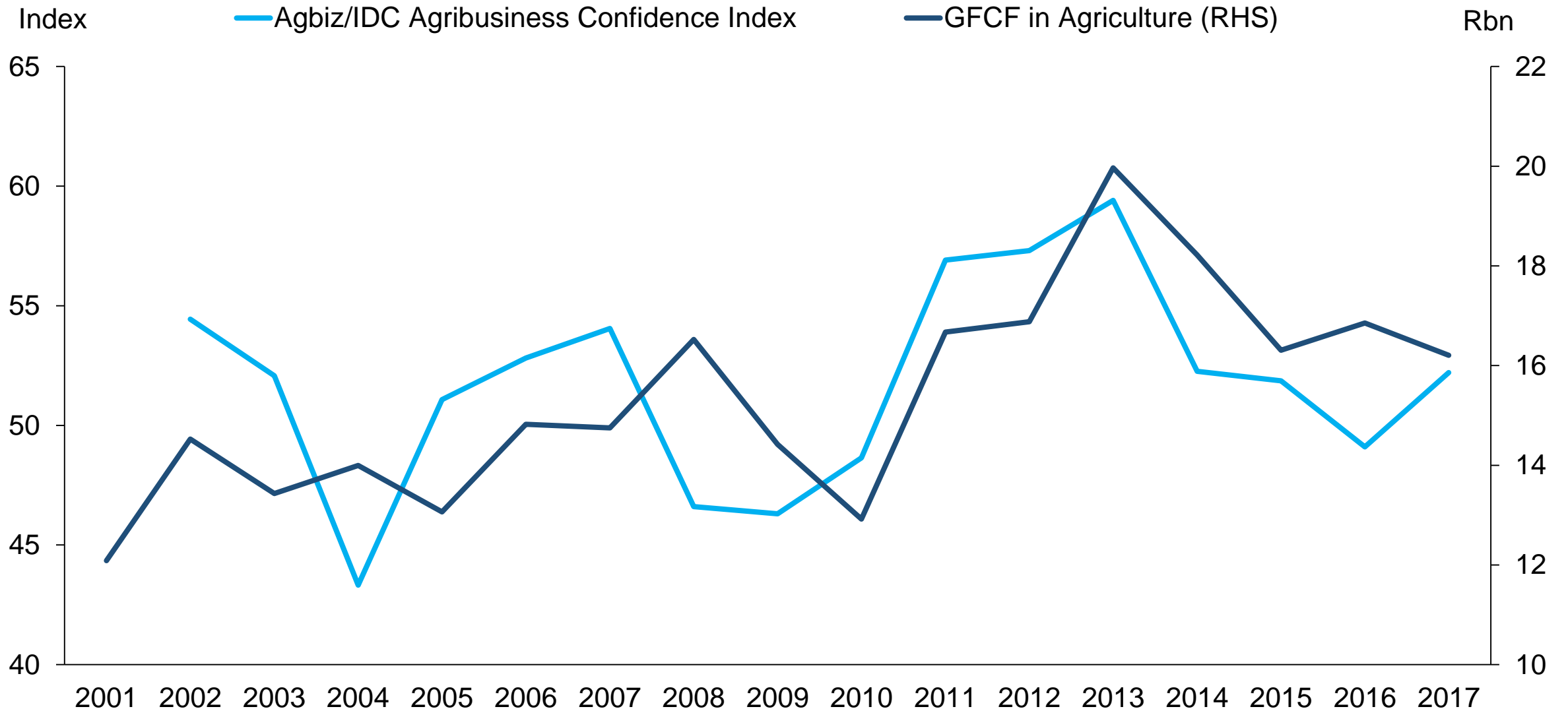
- Turnover of agribusinesses (or farms)
- Net operating income of agribusiness
- Market share of the agribusiness
- Employment prospects
- Capital investment
- Volume of exports (in exporting businesses)
- South Africa's economic growth
- General agricultural conditions
- Debt provision for bad debt
- Financing costs

There was despondency in South African agriculture in 2018



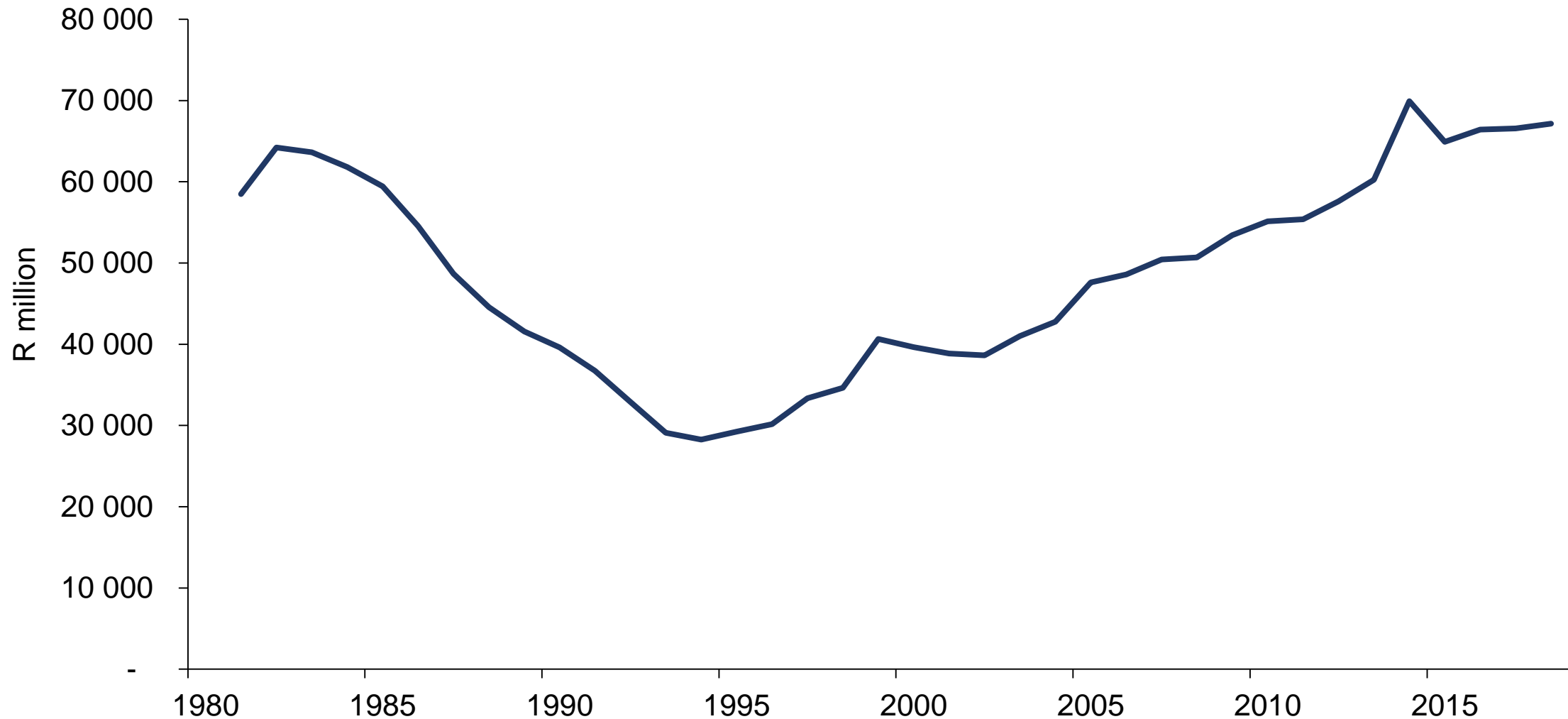
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

SA agribusiness confidence and investment in agriculture



SA agriculture has seen an increase in mechanisation

Value of sales South Africa's agricultural machinery, implements, motor vehicles and tractors

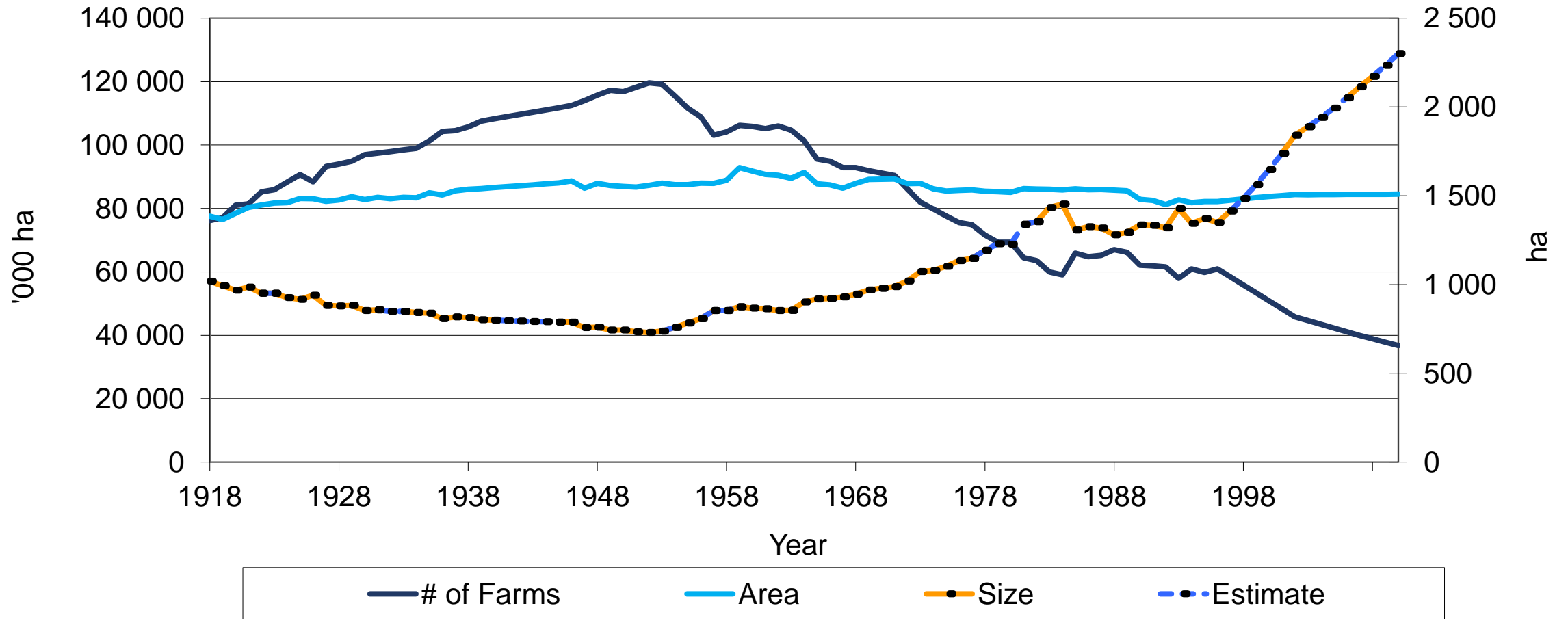


Evolution of farm sizes in South Africa

Area of farm land (hectares),
Number of farms

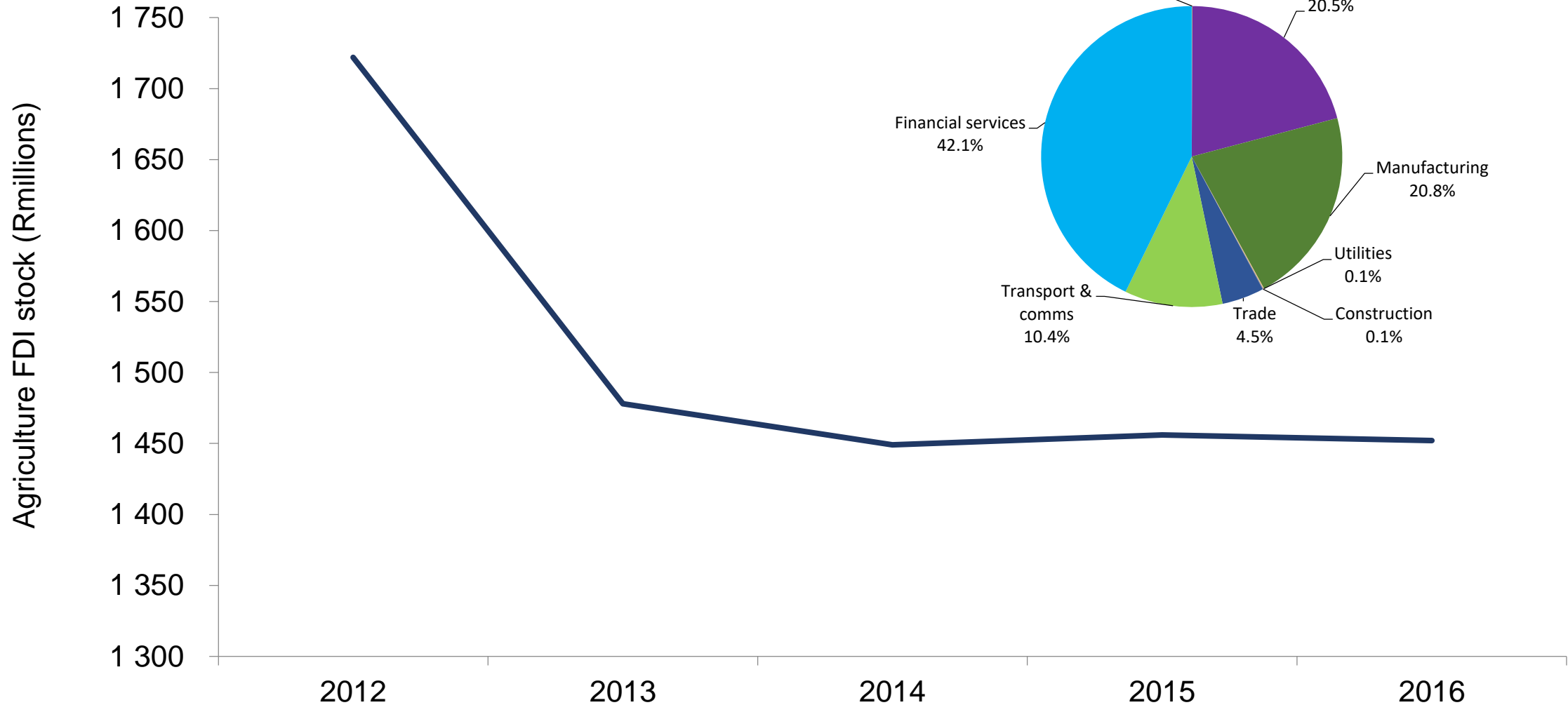
Farm size

Farming Units and Farming Area in South Africa



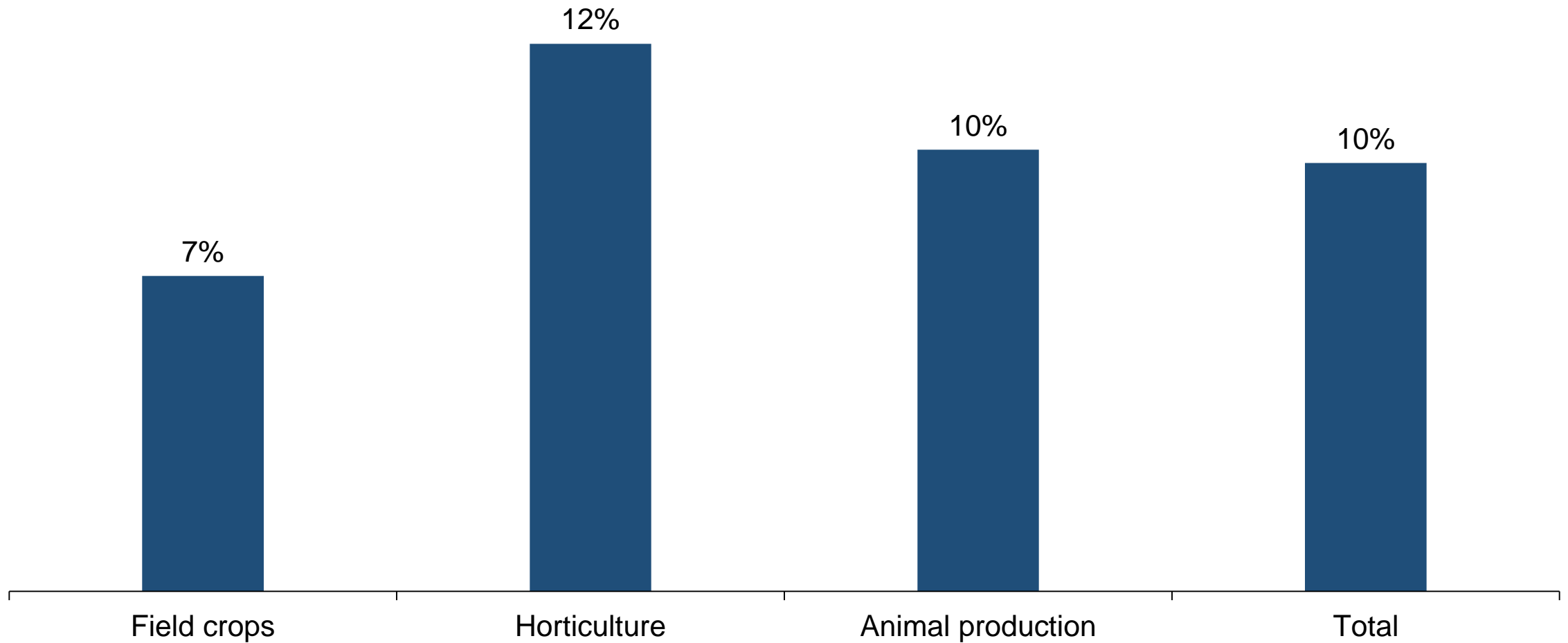
FDI is declining in SA agriculture

- FDI in South African agriculture



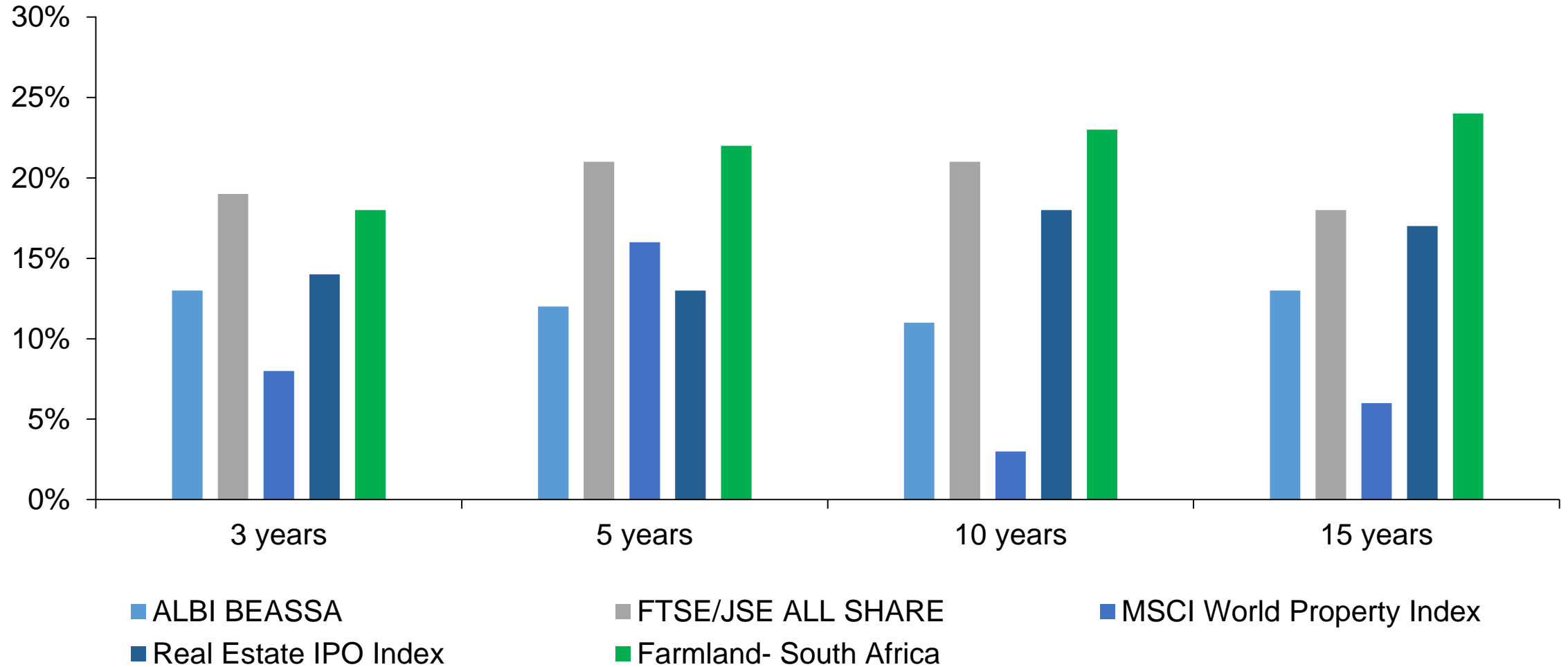
There are solid fundamentals support investment in SA agriculture

Average y-o-y growth (2012/13 – 2017/18)



Good returns in SA agriculture over time

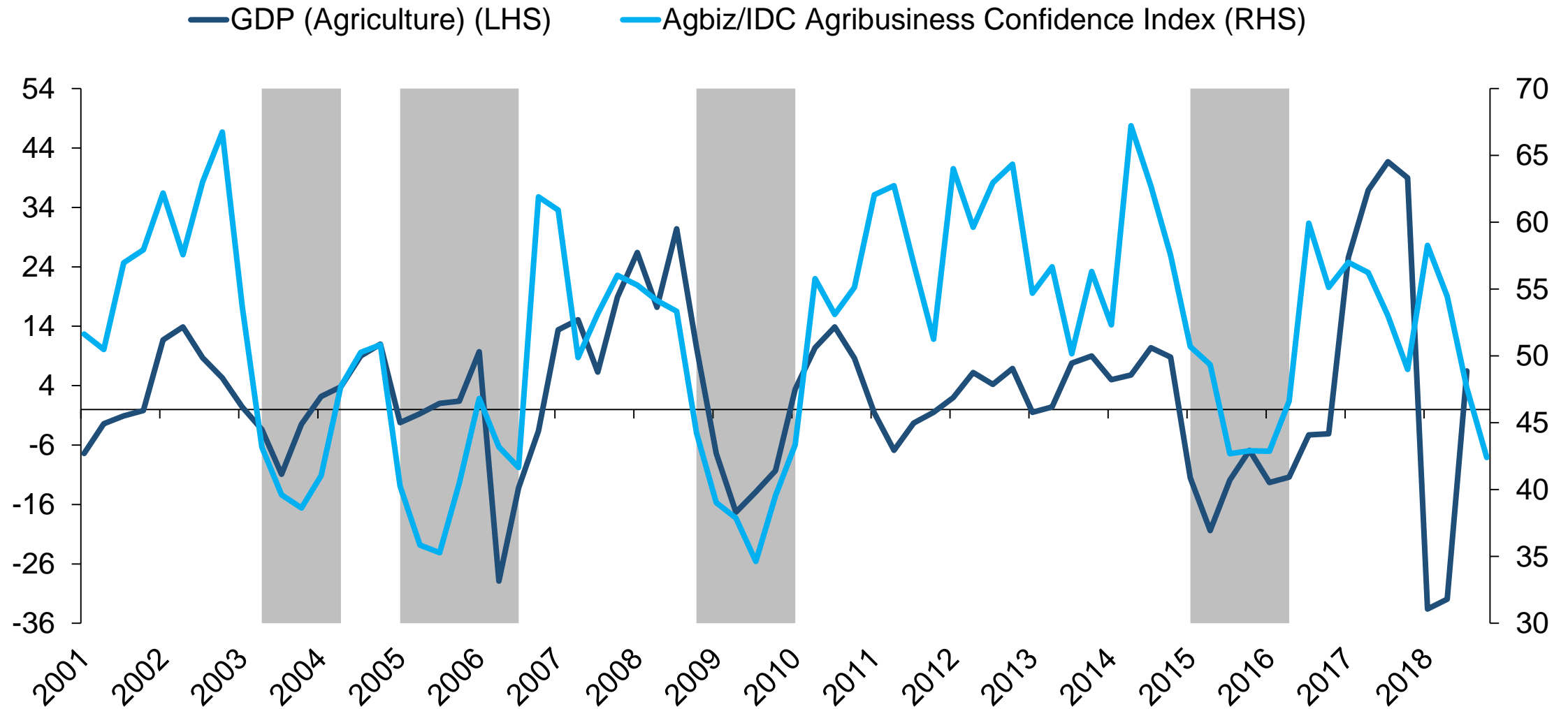
Average returns for various asset classes (1999-2014)



Overall, does subdued confidence tell us anything about growth?

q/q annualised

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What needs to be addressed in order to regain confidence, and subsequently investment, and growth?

- The uncertainty regarding SA's land reform policy is a key risk in the near term
- Climate change (the sector's ability to adapt)
- Water rights regulations
- Infrastructure constraints in some farming areas, particularly former homelands
- International trade matters (non-tariff barriers)

Thank you for your attention.

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