

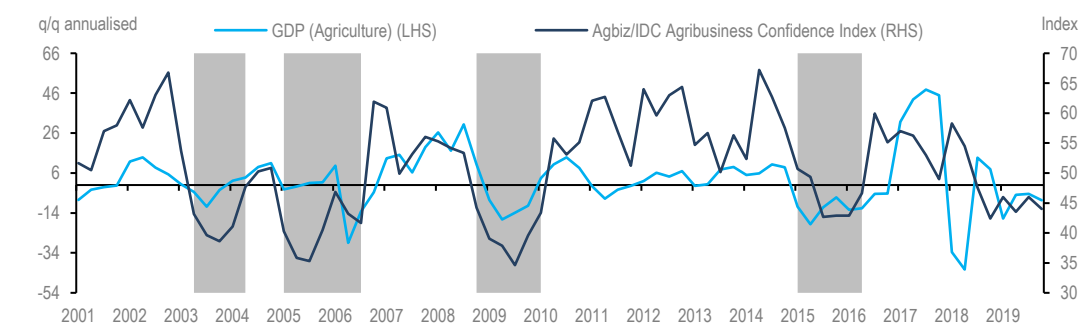
SA farm economy to recover in 2020

South Africa's farming economy was not in good shape in 2019. This is clear from the agricultural GDP data released this morning by Statistics South Africa. The data show a 6.9% year-on-year contraction for 2019, which is a second consecutive year of contraction in South Africa's farm economy. While worse than our initial expectations of a 4.0% y/y contraction, this is unsurprising. The output of various crops and horticulture produce declined notably in 2019 because of the drought, while the livestock was negatively affected by the foot-and-mouth disease outbreak.

This year, however, could be different. The improved weather conditions have led to an increase in summer crops area plantings and prospects of higher yields. The data recently released by the Crop Estimates Committee showed that South Africa's 2019/20 summer crops production could increase by 26% y/y to 16.8 million tonnes, which could be the second-largest summer crops harvest on record after the 2016/17 crop. What's more, the South African wine grapes production is also set to increase in 2020. There is also general optimism about 2020 harvest in the fruit industry, which supports our view of possible improvement in farming economy this year. Against this backdrop, we are convinced that South Africa's farm economy could recover by at least 5% y/y in 2020. The two factors that we are concern about and monitoring are (1) the spreading coronavirus and (2) the foot and mouth disease in the domestic market. The coronavirus could negatively impact the global demand for agriculture products, and subsequently prices. Whereas, the foot-and-mouth disease has led to a ban on South Africa's livestock products exports since the end of 2019.

Moreover, the Agbiz/IDC agribusiness confidence, which in the past proved to be a good indicator of the growth path of the South African agricultural economy sector has been rather wobbly in the most recent quarters because of policy uncertainty. It remains in the contractionary territory, having eased at 44 points in the last quarter of 2019. This is below the neutral 50-point mark and implied that agribusinesses are downbeat about business conditions in South Africa. Overall, we think the expected improvement in summer crop and horticulture harvest could add some optimism in the sector in the coming quarters. With that said, developments on the agricultural policy environment, depending on how they are perceived by agribusinesses, could always influence the confidence levels much faster than one can observe changes in farm economy which is guided by the seasonal output.

Exhibit 1: South Africa's farm economy



Source: Stats SA, Agbiz Research

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