

SA farm economy recovers in Q1, 2020

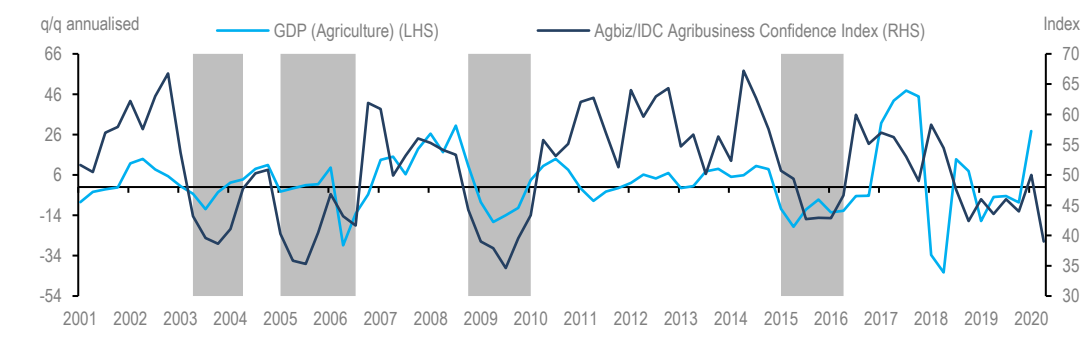
After experiencing four consecutive quarters of contraction because of droughts and foot-and-mouth disease amongst other factors, South Africa's agriculture economy rebounded in the first quarter of 2020 by 27.8% q/q on a seasonally-adjusted and annualised basis. We expect the following quarters of the year to show solid growth, and the year to average at about 10% y/y (compared to -6.9% y/y in 2019). This will be underpinned by a recovery in all major subsectors of agriculture; namely livestock, field crops and horticulture production. This is all on the back of favourable weather conditions during the 2019/20 production season.

In terms of field crops, South Africa currently expects its second-largest grains harvest on record. In this category, maize, sunflower seed, and soybeans produced in the current season (2019/20 production year) are up 38% y/y, 13% y/y and 8% y/y, estimated at 15.5 million tonnes, 765 960 tonnes and 1.3 million tonnes respectively. Moreover, South Africa's sugar cane production is set to increase by 1% y/y to 19.4 million tonnes.¹ In the case of horticulture, South Africa has generally had a good fruit harvest this year, with the citrus industry recently noting a 13% y/y increase in available supplies for export markets in 2020. There is also a broad recovery in the production of deciduous fruit, with apple and pear production up by 5% y/y and 1% y/y, respectively in 2020.²

The Agbiz/IDC Agribusiness Confidence Index (ACI), which in the past proved to be a good indicator of the growth path of the agricultural economy, has been rather wobbly in the most recent quarters. This will continue to be the case in 2020 because of the negative sentiment caused by COVID-19. In the second quarter of the year, the ACI deteriorated to its lowest levels since the financial crisis, which implied that agribusinesses are downbeat about business conditions. Meanwhile, agricultural output and trading conditions were in relatively better shape despite the lockdown regulations to curb the spread of the coronavirus.

In a nutshell, there could be a disjoint this year between the agribusiness confidence levels and the actual economic performance of the sector (Exhibit 1). The sentiment could be downbeat because of the pandemic, whereas the agricultural economy could perform well on the back of an expected large output in all major subsectors of agriculture.

Exhibit 1: South Africa's farm economy and Agribusiness Confidence Index



Source: Stats SA, Agbiz Research

¹ <https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Sugar%20Annual%20Pretoria%20South%20Africa%20-%20Republic%20of%2004-15-2020>

² <https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Fresh%20Deciduous%20Fruit%20Semi-annual%20Pretoria%20South%20Africa%20-%20Republic%20of%2005-15-2020>

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