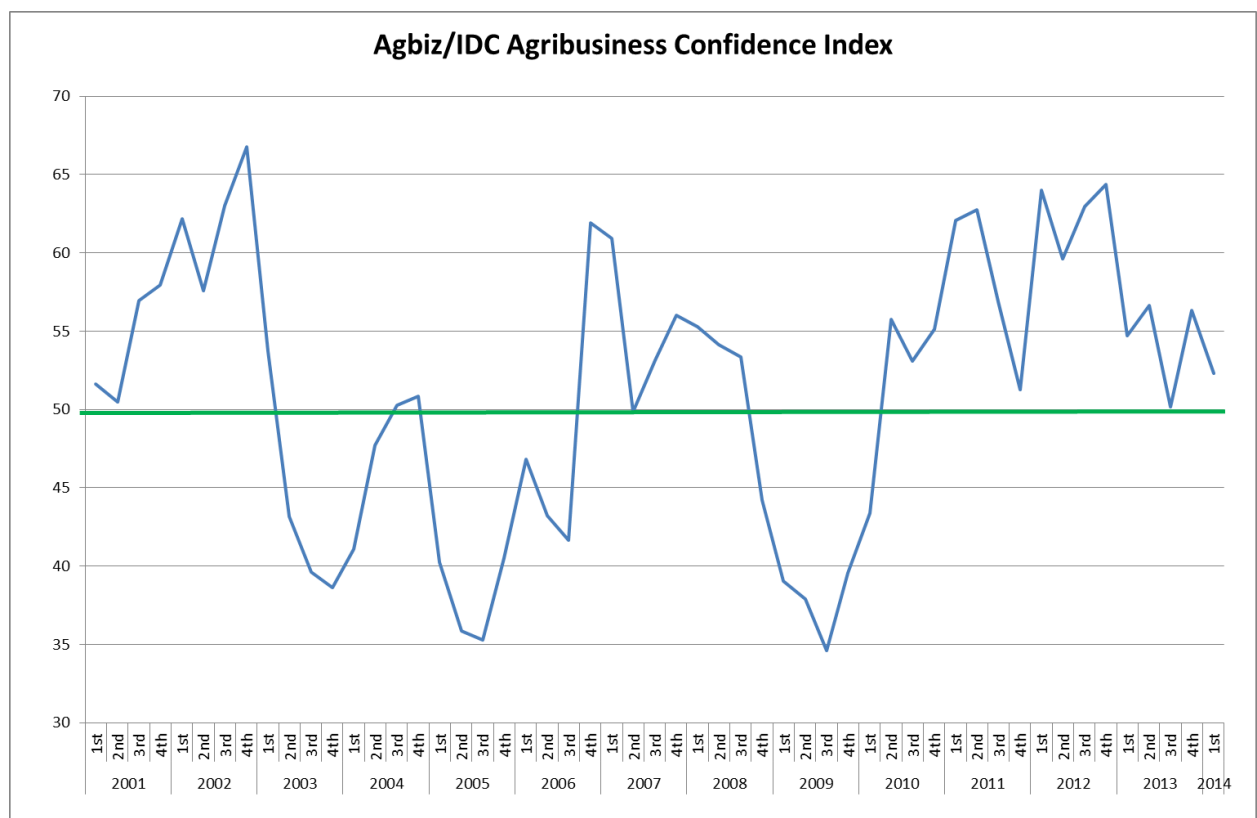


7 March 2014

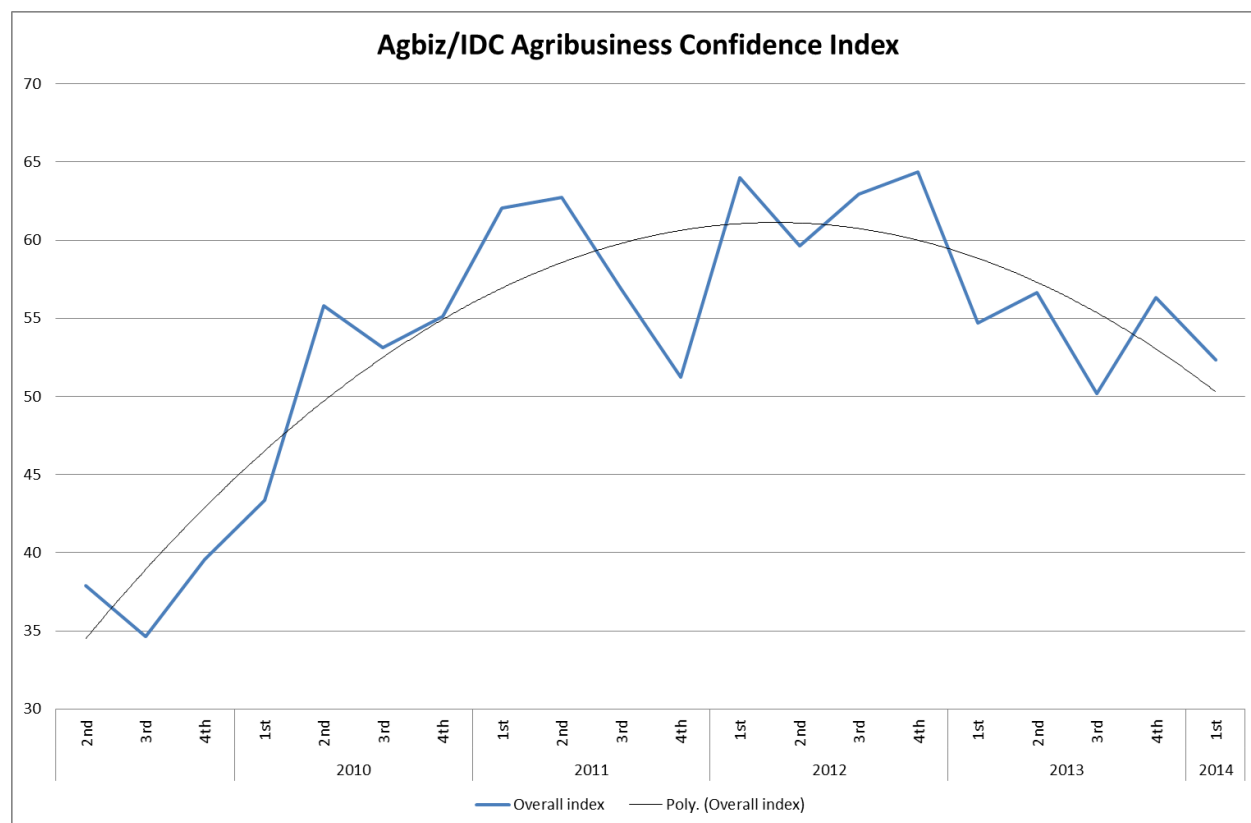
Agribusiness confidence low, yet positive

The results for the quarterly constructed Agbiz / IDC Agribusiness Confidence Index indicated a slight drop in confidence in the first quarter of 2014. It is a mere 7% down from the preceding quarter and only 4% down since the first quarter of 2013. At an index level of 52.33, the aggregate confidence is only marginally positive (being above 50). The figure below shows the trends in the Agbiz / IDC Agribusiness Confidence Index since 2001.



The uncertain global and local economic conditions places the South African economy under severe pressure. Advanced economies remain reliant on the emerging markets for its growth potential, but, as they are recovering, they tend to neglect to recognize it. This results in various

challenges for the emerging markets, of which South Africa is no different; slow growth, high inflation, exchange rate depreciation and capital flows. In South Africa, specifically, we also experience decline in retail sales, low consumer confidence, low fixed capital investment, and now also the recent hike in interest rates. The figure below indicates how the agribusiness confidence's recovery trend, since the ultimate low in the third quarter of 2009, has come to an end, after it gradually slowed down since mid-2012.



2014 Quarter 1		
	Quarter to Quarter	Year-on-Year
Turnover	Decrease	Very small increase
Net operating income	Very small decrease	Very small decrease
Market share of the business	Very small increase	Small increase
Employment	Small increase	Small increase
Capital investment	Very small decrease	Very small decrease
Volume exports	Decrease	Decrease
Economic growth in South Africa	Small decrease	Decrease
General agricultural conditions	Increase	Increase
Debtor provision for bad debt	Increase	Small increase
Financing costs	Increase	Increase
Overall index	Small decrease (-7%)	Very small decrease (-4%)

In the table above, the changes within the ten sub-indices, used to construct the overall Agbiz / IDC Agribusiness Confidence Index, are indicated.

The turnover and net operating income of the agribusinesses are largely linked to the agricultural commodity and farm gate prices and reflects the impact of input costs and cost of doing business. Very small, and almost insignificant changes was indicated over the past year. Due to the seasonality of agriculture, the quarter to quarter changes is not very indicative. However, the responses in this quarter, clearly indicated how the lower expectations for the summer grain harvest, as well as the impact of the earlier flooding and hail damage in the fruit industry impacted on the expectations for the turnover in the short run. The expectations for the general agricultural conditions was indicated to have improved, which might suggest that production output could be higher, than currently expected, in the second quarter.

Accordingly, the expectations for volumes exported are also down, both in the short and long term. Generally it would be expected that volumes would increase with the weak exchange rate, but it became clear that due to the decrease in production output, exporters cannot utilize the potential increase in foreign earnings.

The agribusinesses expected economic growth to further slowdown; marginally in the short term, but significantly in the longer term. The growth in the economy reflects the confidence in the purchasing power of the consumers, which directly impact the agricultural sector, whether or not the agribusiness is directly involved in retail.

The hike in interest rates in January 2014, directly gave effect to expectation for increased financing costs. These responses were expected. The observations of responses over the longer term are more relevant when interpreting it. Interest rates were kept unchanged over a 5 year period and real interest rates remain very low. The high cost of financing is more linked to the availability of credit, especially to high risk industries, such as agriculture. On-lenders, in particular, experienced the increasing financing costs more severely, which was also reflected in their debtor provision for bad debt. The expectation for bad debt increased only slightly over the past year, but, as the production output was still expected to be low, it increased significantly on the quarter to quarter changes. As inflation is breaching the upper end of the Reserve Bank's inflation target and is not expected to recover in the immediate future, together with declining growth projections and the weakening rand, further interest rates hikes in the near future can be possible. This can place significant pressure on the agribusiness confidence and investment projections.

ENQUIRIES:

Lindie Stroebe

Agbiz Manager Economic Intelligence

E-mail: lindie@agbiz.co.za

Tel: 012 807 6686