



Agricultural Business Chamber Landboubesigheidskamer



Media release

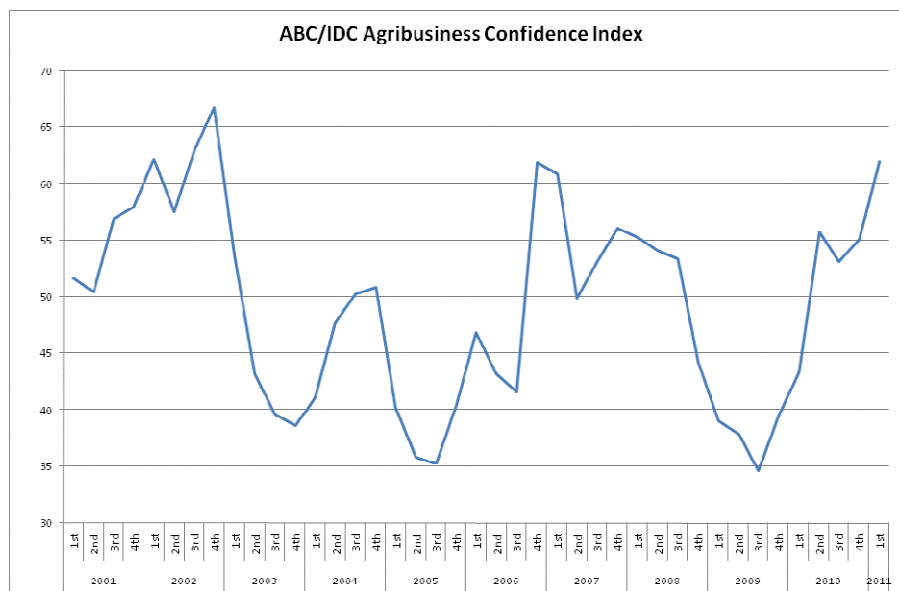
FOR IMMEDIATE RELEASE

14 March 2011

POSITIVE CONFIDENCE LEVELS MAINTAINED FOR ALMOST A YEAR NOW...

The ABC / IDC Agribusiness Confidence Index reached its highest level in more than three years. The index measured at 62 basis points in the first quarter of 2011; which is 13% higher than the preceding quarter and 43% higher than the same quarter of the previous year.

The positive confidence is largely due to higher commodity prices, increased international demand, the recovery of the South African economy from the recession, and a significant improvement of general agricultural conditions, when compared to last year. Government's indication to work with the commercial agriculture sector on the New Growth Path may be a further contributing factor to positive sentiment. However, some looming constraints, such as cost of capital, infrastructure and service delivery, still inhibit employment and capital expenditure, while both floods and droughts in certain areas have impacted negatively on certain industries.



The ABC/IDC Agribusiness Confidence Index is measured by means of a quarterly survey amongst agribusinesses across the country, serving all the different agricultural industries. The overall index is constructed from ten sub-indices. The changes in the different sub-indices are tabled below.

2011 Quarter 1		
	Quarter to Quarter	Year-on-Year
Turnover	Very small increase	Large increase
Net operating income	Decrease	Large increase
Market share of the business	Very small increase	Very small increase
Employment	Small decrease	Increase
Capital investment	Unchanged	Increase
Volume exports	Increase	Increase
Economic growth in South Africa	Very small increase	Increase
General agricultural conditions	HUGE increase	HUGE increase
Debtor provision for bad debt	Decrease	Decrease
Financing costs	Increase	Increase
Overall index	Increase (13%)	Large increase (43%)

Interpretations to the Changes and Trend Observed for the ABC / IDC Agribusiness Confidence Index

Compared to last year, turnover and net operating income have increased significantly as commodity and other agricultural product prices increased somewhat, good summer grain harvests are expected, and exporters adapt to the strong Rand and utilise the higher international demand, where relevant. Compared to the first quarter of last year, the increase in both turnover and net operating income is significant, but in the short run – comparing the fourth quarter of 2010 with the first in 2011 - income is lower and turnover increased only slightly. Even though the recovery is noteworthy, it is evident that the industry is cautious; hence dragging its feet out of the recession.

The probability for increased employment in the agribusiness sector is higher compared to last year, but, as income is not expected to increase in the short run, so isn't employment. Capital investment was unchanged in the short run, and is considered to follow the same trend of expectations as in the case of employment. The Bureau for Economic Research (BER) and Rand Merchant Bank (RMB) Business Confidence index, released on 8 March 2010, also indicated a jump in confidence – confidence being positive for the first time in three years. Even though this is a good signal for possible increased capital expenditure, the business sector also recognises the critical bottlenecks, such as deteriorating and insufficient infrastructure and poor service delivery. These bottlenecks are particularly impacting on the rural municipal areas, where agribusinesses are typically located.

Export volumes increased in the short and longer term, mainly due to increased international demand as the global economic recovery continues and global food supplies remain low. South African exporters adapted their planning and budgeting according to the persistently strong Rand. It is, however, noteworthy that foreign earnings from export products, especially in the case of high value products, remain low. The fruit

industry, entering their export period in the second and third quarter, indicated the expectation of significantly lower turnover this year, due to the strong Rand.

Respondents to the survey experienced appreciably improved general agricultural conditions in the first quarter of 2011, when compared to early 2010. Accordingly, the expectations for a good summer grain harvest are good; hence the increased potential for higher turnover for agribusinesses in this following year.

The cost of financing for agribusinesses has increased substantially in both the long and short term. Even though interest rates remained relatively low during this period, agribusinesses' reserve funds declined and they were obliged to source more expensive external financing. Credit is difficult to obtain, especially when taking into consideration the low repayment ability of farmers, hence the high debtor provision for bad debt over the past year. The decrease in debtor provision for bad debt in the first quarter of 2011, compared to the first quarter of 2010, as well as the fourth quarter of 2010, is a positive indicator. The higher farm gate prices are argued to be a strong contributing factor.

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