Agricultural Business Chamber
Landboubesigheidskamer

MEDIA RELEASE

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ABC/IDC Agribusinesses Confidence Index

From the "highs" in 2008, to the "lows" in 2009 and again the "highs" in 2011

Agribusinesses in South Africa have had positive business confidence for a year now; peaking since the beginning of 2011. According to the results from the ABC/IDC Agribusiness Confidence Index, agribusinesses' confidence increased to 62.7 index points in the second quarter of 2011. It is a mere 1% higher than the first quarter of 2011 and 12% higher than the same quarter of the previous year.

Last year this time (second quarter of 2010), the ABC/IDC Agribusiness Confidence Index reached 55,7 index points - it was the first time to be in positive territory (being above the neutral level of 50 basis points) since the third quarter of 2008.

Late 2008's index results resembled the business expectations of a flourishing industry reaping the fruits of a period of high prices, excellent yields and strong local and international demand for agricultural and food products. However, the economic slowdown, due to the global economic shocks was then just starting to take its toll on the industry. Slowdown in consumer spending and the drastic drop in commodity prices were to follow – hence a year of business confidence ranging in the negative territory, reaching its "all time low" in the third quarter of 2009. The South African economy came rather 'light off', considering the impact the global recession had on big international economies. In the same context, the agricultural sector in South Africa was much 'better off' when compared to other sectors - basically because consumers, locally and abroad, had to cut on spending on luxury items, but they still needed to eat, therefore spending on agricultural and food products continued. Even though the luxury food and agricultural products and convenience markets did take the most strain, the agricultural industry stood their ground, in relative terms, throughout the recession.

The increase in confidence at the end of 2009 was basically stimulated by the expectations of the economic recovery and the increased investment and spending expected prior and during the 2010 FIFA World Cup Soccer. It was then expected that credit spending will increase and inflation will reach higher levels than the South African Reserve Bank's inflation target of 3-6%. That did not happen and even after much uncertainty, a year passed with confidence gradually increasing as the economy slowly recovered, inflation were suppressed and interest rates remained low (largely thanks to the capital inflows keeping the exchange rate over valued). The export markets, burdened with low foreign earnings, also recovered slightly as international demand gradually returned and exporters budgeted and planned according to a strong Rand.

The confidence in the agribusiness sector remained in positive territory since the second quarter of 2010, as climatic conditions improved significantly, commodity prices increased, excellent yields were obtained and local and global demand recovered further. The country maintained a GDP growth of around 3%, but it was mostly consumption-led. There was very limited investment support, which was also seen in the agribusinesses uneasiness to increase capital investment.

Facts and Figures of the ABC/IDC Agribusiness Confidence Index

The changes in agribusiness confidence over the past decade, as explained by the ABC/IDC Agribusiness Confidence Index, are shown in the figure 1 below. The overall index is made up from ten weighted sub-indices. Agribusinesses from across the country, serving all the different agricultural industries, respond to the survey on a quarterly basis. The changes in the sub-indices are shown in the table 1 below.

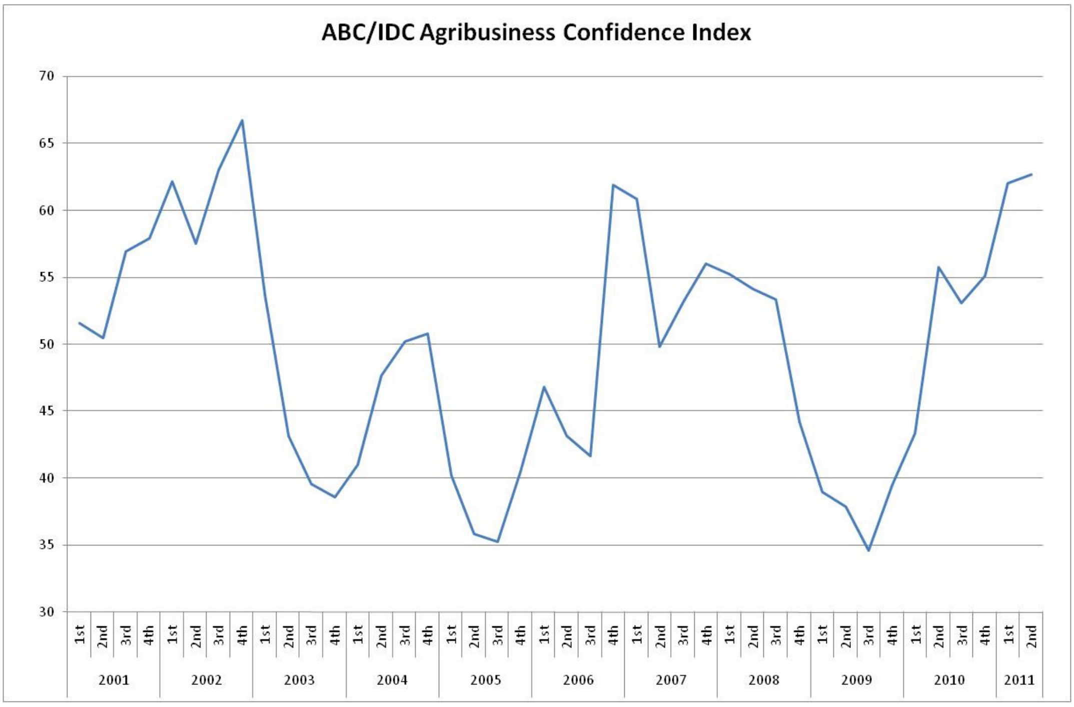

Figure 1: ABC/IDC Agribusiness Confidence Index (2001 to the second quarter of 2011)

Table 1: Changes in the ABC/IDC Agribusiness Confidence Index' Sub-Indices in the second Quarter of 2011

	Quarter to Quarter	Year-on-Year
Turnover	Small decrease	Increase
Net operating income	Small increase	Increase
Market share of the business	Small increase	Increase
Employment	Small decrease	Small decrease
Capital investment	Increase	Small increase
Volume exports	Decrease	Decrease
Economic growth in South Africa	Unchanged	Decrease
General agricultural conditions	Increase	HUGE increase
Debtor provision for bad debt	Decrease	Decrease
Financing costs	Increase	Large increase
Overall index	**Very small increase (1%)**	**Increase (12%)**

Interpretation of the changes in the sub-indices

A year ago agribusinesses were plagued with low commodity prices, low foreign earnings from exports, droughts in the Southern and Eastern Cape and the cost price squeeze (input cost being higher than producer prices) experienced by most farmers, which directly mirrored in the agribusinesses' cash flow. The current situation speaks of increased commodity prices, excellent yields (for various products both in volumes and quality) and a recovering local and international demand. Due to good rains, the grazing capacity improved and livestock prices is also starting to stabilise.

More agribusinesses currently expect to cut employment then to increase employment. Some agribusinesses indicated that their margins are under pressure as input costs, especially electricity and fuel, have increased tremendously. Therefore cost-saving strategies are being implemented, whereby employment need to be cut to most efficient levels and very few capital investments can be realised.

Most agribusiness experience a decrease in volumes exported. The ostrich and venison export industry are severely under pressure, as they now rely on the very small local market, due to the foot and mouth disease outbreaks inhibiting venison exports, and the export ban on ostrich meat after avian influenza was detected in certain specific regions. The strong rand is also reducing foreign earnings significantly, especially in the wine and fruit industry. All exporting industries remain under pressure, having to endure local challenges, facing low foreign earnings and, above all, also competing against highly subsidised countries for an international market which still has low demand considering the very slow recovery after the global economic crisis.

Agribusinesses perceived their financing costs to have increased, even though interest rates were kept low for more than a year now. It is very difficult to pin point a specific reason to it, but Rian Coetsee, the IDC's head of agro-industries, speculated that banks upgraded the risk position of agriculture after the financial crisis and therefore financing costs of the sector increased relative to the interest rates. Referring to previous results from the ABC/IDC Agribusiness Confidence Index, it can be argued that it was also influenced by the high levels of bad debt in the previous season. Due to higher commodity prices, the producers' repayment ability has increased since. With higher credit ratings, the debtor provision for bad debt has decreased significantly. This can have a decreasing effect on financing cost in future. In the contrary financing costs for the industry can also be expected to increase according to the expectation that the Monetary Policy Committee might tighten monetary policy later in 2011, as the upside inflation risk persist.

Relationship between Confidence and Competitiveness

During the recent World Economic Forum (WEF) for Africa, Dr John Purchase, CEO of the Agricultural Business Chamber attended a workshop on competitiveness. During that workshop the attendees broadly discussed the low ranking South Africa, and other African countries for that matter, got on the world competitiveness ranking. South Africa's ranking dropped over the past year from 45th to 54th out of 133 countries. The ABC constructs an Agribusiness Competitiveness Status Index, based on the Relative Trade Advantage (RTA) methodology, which also indicated that Agribusinesses in South Africa experienced a drop in competitiveness. It was proven that the competitiveness index, basically indicating the ability to trade, or participate in global trade and doing so in a profitable and sustainable manner, follows directly after the confidence of the industry – hence a direct correlation between the two indices.

The competitiveness index dates back, as it can only be constructed as international trade data is finalised and made available. The confidence index is measured quarterly and released timely, thus reflecting the immediate levels of confidence. Over the past year, the confidence has increased significantly. Therefore it is expected that the competitiveness will follow suit. Dr Purchase emphasised that the strength of the correlation is determined by the weight and impact of the factors taken in consideration. I.e. General agricultural conditions, which are one of the factors measured for the confidence index, is inevitable towards increased production, which is naturally a prerequisite for competitiveness. "Productivity is a factor that can change drastically in the short term, for instance during a drought, while many other factors leading to competitiveness are more constant, whether enhancing or constraining. Therefore, when considering it from a realistic point of few, the competitiveness index is expected to follow the upward trend set by the confidence index only in the short run, because production has increased significantly. The competitiveness is, however, expected to increase to a lesser extent and thereafter expected to either decrease or move sideways, because other important factors inhibiting our competitiveness, such as the bad state of infrastructure, high cost of inputs, shortage of skilled and professional labour, restrictive labour policies, unfavourable trade policies and poor service delivery, will have a detrimental effect on competitiveness of the South African agribusiness sector in the long run." - Dr John Purchase, CEO of the ABC

The ABC Competitiveness Executive Survey in 2010 highlighted the most constraining and enhancing factors to competitiveness of the agribusiness sector in South Africa. Unfortunately the constraining factors out-weighed the enhancing factors. It is important to create interventions to address the constraining factors. It is also important to encourage the enhancing factors, as they have a very positive impact on the industry's competitiveness. Table 2 below lists the top ten most enhancing and most constraining factors.

Table 2: Top 10 most constraining and enhancing factors to the South African agribusiness sector's competitiveness, as indicated from the ABC Competitiveness Executive Survey in 2010

Rank	Top 10 Constraining factors	Top 10 enhancing factors
1	Trust in the political system	Intense competition in the local market
2	Competence of personnel in the public sector	Production of affordable high quality products
3	Public sector's ability for sufficient service delivery	Investment in human resources
4	Electricity suppliers	Availability of unskilled/semi-skilled labour
5	Cost of Crime	Competition are from local or locally based companies
6	Efficiency of national infrastructure	Unique products, services & processes
7	Cost of transport	Applying efficient new technology
8	Administrative regulation in SA	Local suppliers of your company's primary inputs
9	Availability of professional labour	Relationships/networks
10	Cost of using infrastructure	Changing consumer trends

The impact of the constraining factors is detrimental. Even though Confidence has been increasing steadily over the past year and a half, it is expected to initially flatten out, before it will gradually start to decrease in the longer term, as these constraining factors start to take its toll, unless effective intervention, economic and social stability and a stable investment climate is established.

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