



Agricultural Business Chamber Landboubesigheidskamer



5 December 2011

NOTES IN REACTION TO ABSA'S FORECAST

The ABC agrees, in general, with Absa's forecast, as it coincides with other projections as well. Absa Agribusiness did a great job and provided good indication on where the opportunities are expected in 2012. However, the ABC has to be realistic in its view that the numbers seem to be much better than the sentiment – and that cuts across the economy. Even though pessimists are beginning to gradually soften their negative projections for the recovery of the South African economy, the situation is not yet as great as we would like it to be. "We live in very uncertain times", is what the governor of the Reserve Bank, Gov. Gill Marcus says, when referring to the fragile global and local economy. Prof Raymond Parsons, deputy CEO of BUSA said "the margin for error for economic forecasting has increased, thus the margin for error in policy has narrowed and a mistake in domestic policy could be very costly". Meaning that we are likely to be wrong in forecasting the economy, therefore we cannot risk making the smallest policy mistake – the same applies for the agricultural sector, if we want to realise the opportunities available, as identified by the Absa forecasting.

The ABC/IDC Agribusiness Confidence index dropped over the third and fourth quarter of 2011, ending up slightly above the positive line. Considering the general situation of the economy, one can easily expect confidence to drop to negative levels in 2012, but the high expectations for agricultural prices and the good possibilities that interest rates will remain low provide opportunities for the confidence in the sector to increase.

It is a real consideration that the farming sector will not be able to continue business as usual. A product is worth what the consumer is willing to pay for it. The consumers, both locally and globally, can only afford so much. Therefore the higher prices can only be passed onto the consumers to a certain extent. Currently the agricultural sector's prospects are high, considering the high prices, but the cost price

squeeze will catch up on them if they do not improve their efficiency and productivity and broaden their markets.

To realise the good prospects for the sector and to actually see the confidence rising, the industry also relies on government to assist where it is so dearly needed:

Currently on the macro-economic sphere, the country relies on the monetary policy to assist with price stabilisation, and on the fiscal policy for government to spend and invest, such as through infrastructure, where growth can be stimulated and cost of business be lowered. However, the agricultural sector specifically is in dire need for the government to assist in, especially, trade policies and biosecurity issues (e.g. government's inability to do tests during the avian flu outbreak nearly closed the entire ostrich export business down). These can hinder the sector and prevent them from utilising the opportunities brought about by the higher prices. Besides from just aiming at benefitting from good prices, it is also essential to realise how important the sector is for employment and contributing to the economy – direct and through the many multipliers. We also need to aim at realising the benefits, because our country cannot risk losing any further jobs or letting the economy grow at a slower pace.

The opportunities to see a spike in confidence and wellbeing in the sector definitely exist. It will be up to the producers and the government support structures to realise it. The sector, together with government, will have to pull up their socks to reap the benefits.

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