



Agricultural Business Chamber Landboubesigheidskamer

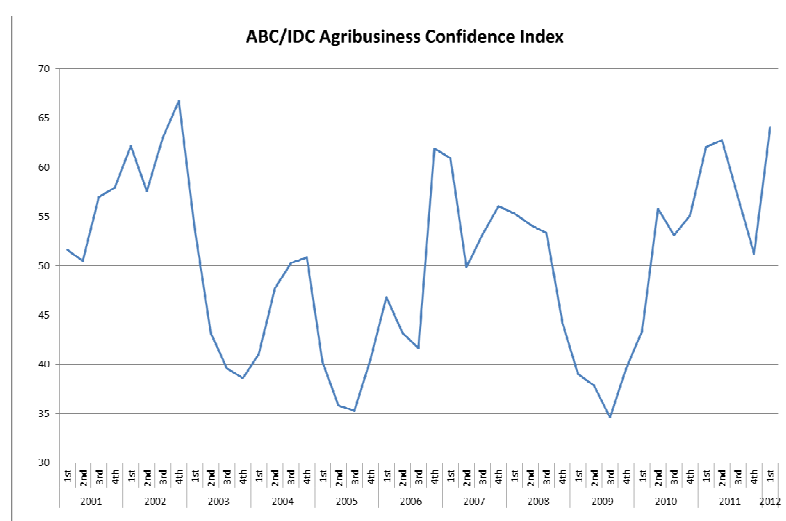


1 March 2012

AGRIBUSINESS' CONFIDENCE RECOVERING STEADILY

Agribusinesses kicked the first quarter of 2012 off on a positive note as the confidence recovery trend continues. The duration of 2011 was defined by its positive, yet low confidence; mostly due to the inhibiting impact of the increase in the cost of doing business, which constrained the good expectations for the higher commodity and farm gate prices.

The ABC/IDC Agribusiness Confidence Index increased to 64 index points in the first quarter of 2012, which is a mere 3% higher than the first quarter of 2011, but a substantial 25% higher than the preceding quarter, being the fourth quarter of 2011. According to the moving average of the index, the dip in the previous quarter was not a structural change and that the recovery trend in the index, since the third quarter of 2009, is maintained. The drop in confidence in the last quarter of 2011 was largely due to the expectations of a decrease in turnover and net operating income, due to the possibilities of a less than favourable rainy season in some parts of the country and the supply-side constraints and costs, such as electricity tariff increases, high labour wage settlements and increase in other regulatory costs.



The ABC/IDC Agribusiness Confidence Index is measured quarterly through a survey completed by agribusinesses across the entire country, serving the whole spectrum of the agricultural sector.

The overall confidence index is constructed from ten sub-indices. These ten sub-indices reflect the most important aspects taken in consideration by decision-makers in the agribusiness industry when making decisions and planning strategically for the business and the sector.

2012 Quarter 1		
	Quarter to Quarter	Year-on-Year
Turnover	Increase	Small increase
Net operating income	Increase	Increase
Market share of the business	Increase	Increase
Employment	Small increase	Increase
Capital investment	Increase	Increase
Volume exports	Small increase	Small increase
Economic growth in South Africa	Small decrease	Decrease
General agricultural conditions	Increase	Decrease
Debtor provision for bad debt	Decrease	Small decrease
Financing costs	Small increase	Increase
Overall index	Increase (25%)	Insignificant increase (3%)

The overall expectations for the summer grain harvest are very good. The weather conditions currently promises a generally good harvest and prices are relatively high, especially with the increase in exports and the low stock levels. Producers are in a favourable position to consider extending their operations, further their mechanisation and/or acquiring new technology. These expectations for a good summer grain harvest, high prices and expansion and improvement of mechanisation, reflects in the increase in expectations for turnover, net operating income and market share of agribusinesses. These positive expectations generally ripples through to other industries as well, accept for the livestock industry where certain areas experience less than favourable rain to maintain grazing capacity. The high grain commodity prices and the effect of the weak economy and consequently lower demand implied a further margin squeeze on the livestock industry.

Following the increase in business and operations, the agribusinesses also foresee more opportunities for employment and capital investments. Rian Coetzee, Head of Agro-Industries at the Industrial Development Corporation (IDC) confirmed that they have clearly experienced an increase in investment applications in the agricultural value chain. “These investment applications are not only maintenance of existing capacity, but

actually an increase in capacity. Companies are increasingly looking at diversification strategies to de-commoditise their product range". The increase in capacity has the potential to lead to increase job-creation in rural areas, which is an important imperative for both government and business.

The relatively stronger Rand still inhibits the potential for foreign earnings from agricultural exports, which explains the very small increase in volume exports. Due to the strong Rand, together with the weak demand in the Eurozone, exporters are now also focussing more on local markets, which has a negative impact on growth in volumes exported. The fruit markets are seriously considering markets in the Far and Middle East; the significant change in export focus could contribute in expanding export potential in future.

The biggest constrains for the industry are the negative expectations for economic growth in South Africa. The agribusiness sector depends on a growing economy, to provide employment to the people so that the purchasing power, mirroring the local demand for agricultural products, especially for high-end products, is maintained.

Even though interest rates are kept low and repayment ability of farmers, indicated by agribusinesses through their debtor provision for bad debt, has decreased, the cost of financing have once again increased. The availability of credit and the risk aversion by financiers have recently largely been blamed therefore.

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