BIZCOMMUNITY

Eased input costs, improved profit margins expected for 2017

The drought has caused a significant drop in planted areas, but much-awaited rains have brought some relief and farmers can finally commence with planting. The latest Crop Estimates Committee's (CEC) planting intentions report showed a rebound in the expected area for most of the crops. Approximately 3.753 million hectares will come under crop production during the 2016/17 season.

Dawie Maree

Dawie Maree, head of information and marketing at FNB Business, Agriculture, says “as farmers begin with their seasonal activities, we look at the relative input costs that they face. While input costs remain elevated when compared to historical trends, there has been some decline which bodes well for the season going forward.”

Maree adds, “fertiliser and fuel are the major inputs in crop production, particularly grains, and accounts for approximately 35% and 11% of total variable costs. The prices of these inputs are largely influenced by the international crude oil market from a transport (freight) perspective as well as the fact that some are derived from oil processing. The benefits of lower crude oil prices were however offset by the increased volatility in the rand exchange rate that we continue to experience.”

Other important inputs for summer grain producers include herbicides and pesticides, electricity and water tariffs and labour.

Maree says in all of these we’ve experienced increases above inflation over the last couple of years. However, it seems that increases might ease off, except maybe for water tariffs.

The strength or weakness of the rand

The strength or weakness of the rand has a huge impact on input prices in the agriculture sector. A weaker rand raises the prices of imported inputs such as fertiliser, pesticides, and herbicides. In addition, the prices of most grain commodities are parity based and the weaker rand has helped increase the price of maize which is a major ingredient in the manufacturing of livestock feeds. The stronger rand, however, has an opposite effect.


GregMontani via pixabay

Maize prices

Currently, yellow maize prices are approximately 11% higher year on year but have since fallen from the 2016 peak of R4021/ ton. This trend is likely to continue in the medium to longer term given the improved seasonal outlook with the May and Jul 2017 yellow maize futures already trading below the R3,000/t level. Profitability margins in the feedlot, poultry, dairy and pork industries are therefore expected to improve in 2017.

“The improving domestic grain supply outlook coupled with the huge global production with grains for 2016/17 projected at a record of over two billion tons of which 50% is maize augurs well for the livestock sector in the year ahead. A moderation in input costs will help revive the sector which is reeling from a devastating drought during 2015/16 season” concludes Maree.