

Agribusiness confidence rises to its highest level in 6 years

Following a notable recovery to 51 points in quarter three of 2020, the Agbiz/IDC #Agribusiness Confidence Index rose to 61 points in quarter four, which is its highest level since quarter three of 2014.

A level above the neutral 50-point mark implies that agribusinesses are optimistic about business conditions in South Africa.



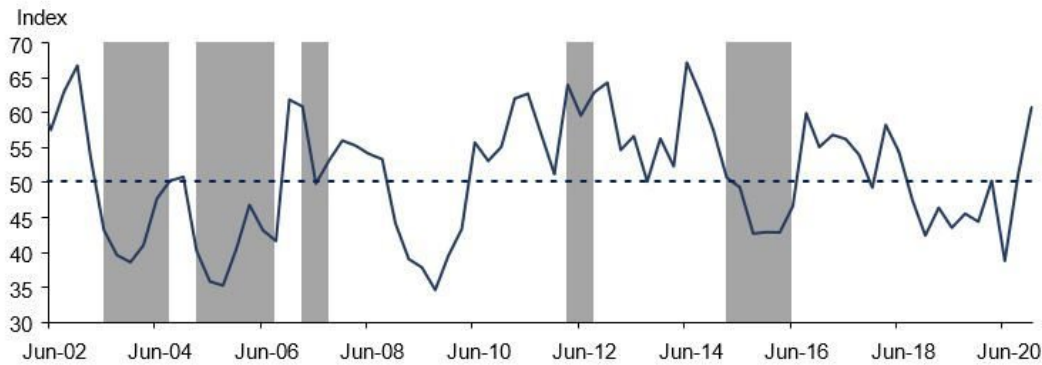
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The fourth-quarter improvement likely reflects two important factors. Firstly, various high-frequency data show that most of South Africa's agriculture and agribusiness sectors performed relatively well in a year of unusually elevated uncertainty with minimal impact, at an aggregate level, from the Covid-19 crisis and related lockdown restrictions.

Secondly, there is strong optimism about the 2020/21 production season on the back of expected higher rainfall across most regions of the country.

This fourth-quarter survey was conducted between 11 and 20 November and covers agribusinesses operating in all agricultural subsectors across South Africa.

Figure 1: Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz Research, South African Weather Service

Discussion of the subindices

- The ACI comprises 10 subindices and most of these showed a notable uptick in the fourth quarter of the year. Confidence regarding the turnover and the net operating income subindices soared by 32 and 35 points from the third quarter to 82 points each in Q4, respectively.

For both these subindices, these are the highest levels since the third quarter of 2014. Similar to the previous quarter, the optimism is mainly supported by firms operating within the field crops, horticulture, livestock and financial services owing to a large harvest in 2019/20, and anticipated good season in 2020/21.

- The sentiment regarding the employment subindex rebounded by eight points from the third quarter to 41. This is a preliminary indication that agricultural employment could recover somewhat in the coming quarters.
- The subindex measuring the volume of exports sentiment improved by five points from the third quarter to 60 in the fourth quarter, as exports continued to soar on the back of large supplies and the relatively weaker domestic currency.
- The perception regarding economic conditions improved by four points to 24 in the fourth quarter of this year. Nevertheless, this specific subindex is still far off the neutral point of the 50-mark, which indicates pessimism about South Africa's broader economic growth fortunes.
- Confidence regarding general agricultural conditions jumped by 15 points to 94 in the fourth quarter. This is the highest level since the inception of the ACI which points to optimism about expected La Niña-induced rains in 2020/21 agricultural season.
- The debtor provision for bad debt and financing costs subindices are interpreted differently from the above-mentioned indices. A decline is viewed as a favourable development, while an uptick is not a desirable outcome as it shows that agribusinesses are financially constrained. In the fourth quarter of 2020, the sentiment regarding the financing costs fell by

15 points to 68, which is a favourable direction.

- Meanwhile, the market share of agribusinesses subindex deteriorated marginally by two points from the third quarter to 62. This view was largely shared by agribusinesses operating in the livestock subsector, while others in various subsectors maintained an unchanged view from the previous quarter.
- The capital investments confidence subindex fell by three points from the third quarter to 41. This happened, despite, the robust agricultural machinery sales data this year. This pessimism could be underlined by generally tough financial conditions in agriculture; a comment that some respondents made.
- As previously stated, the debtor provision for bad debt and financing costs subindices are interpreted differently from other indices, and an uptick is not a desirable outcome as it shows that agribusinesses are financially constrained.

In the fourth quarter, the sentiment regarding the debtor provision for bad debt increased by eight points from the third quarter to 35, which is an unfavourable direction. However, this subindex remains fairly low, suggesting that bad debts have not become a generalised problem at this stage.

The final quarter results of the ACI broadly mirror the prevailing optimism in South Africa's agricultural sector, both about the good performance of the 2019/20 production season and the expected good season in the 2020/21 production year on the back of La Niña-induced rains.

Nevertheless, as we have consistently stated in previous write-ups, the positive story of South Africa's agriculture is only at the aggregate level. The impact of the ban in sales and interrupted exports of wine, tobacco and floriculture amongst other subsectors is beginning to show in the official jobs numbers in these specific subsectors and provinces where these subsectors are predominant.

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