

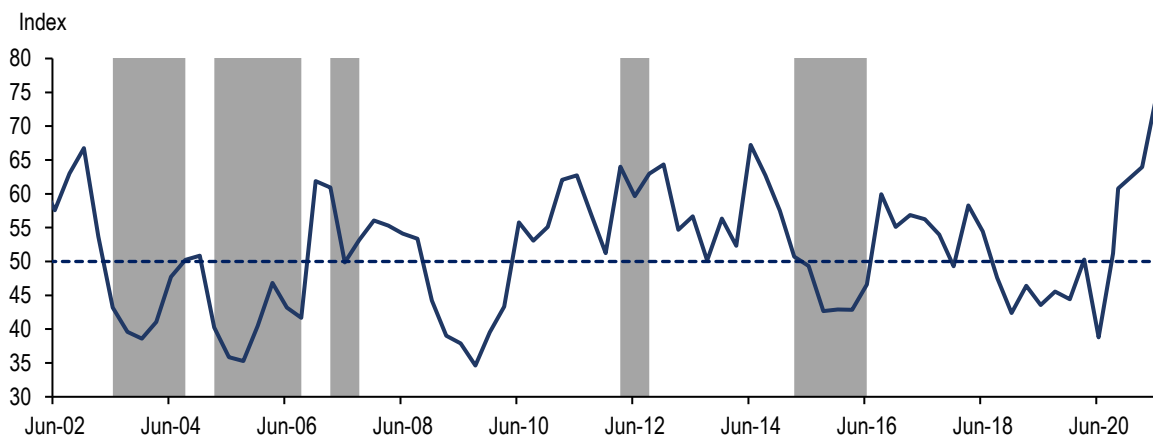
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## MEDIA RELEASE

### Agbiz/IDC Agribusiness Confidence Index shoots to record high in Q2, 2021

South Africa's agricultural sector has not, in the recent past, had a season as good as the current one. This is evident from the Agbiz/IDC Agribusiness Confidence Index (ACI), which in the second quarter of this year reached a record high (since its inception in 2001) of 75, from 64 in the first quarter of 2021. These results reflect favourable conditions for all subsectors of agriculture, with various crops set to reach record output levels. Importantly, this comes at a time when commodity prices – domestically and globally -- are at relatively higher levels, mainly supported by growing demand from China, combined with dryness in parts of South America. Such an environment of large yields and higher prices is not a usual occurrence in South Africa and has boosted farmers' incomes and sentiments about business conditions. This second-quarter survey was conducted in the first two weeks of June 2021 and covered agribusinesses operating in all agricultural subsectors across South Africa.

**Figure 1: Agbiz/IDC Agribusiness Confidence Index<sup>1</sup>**



Source: Agbiz Research, South African Weather Service  
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

<sup>1</sup> The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. *turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost*). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

## Discussion of the subindices

- The ACI comprises ten subindices, and most of these are behind the notable jump in the composite index in the second quarter of 2021. For example, the turnover and the net operating income subindices lifted by 5 and 1 points from the first quarter to both reach 91. As in the first quarter, with the exception of the agricultural insurance providers, all other agribusinesses who participated in the survey expressed higher levels of optimism about these subindices. This is as the expected large harvest in the 2020/21 production season boosted financial conditions. In addition, the rising demand for agricultural products and key farming equipment such as tractors and associated parts also supported these subindices.
- The market share of the agribusinesses subindex improved by 7 points from the first quarter of 2021 to 78, which is the highest level since the last quarter of 2016. This optimism was underpinned by agribusinesses operating in field crops and financial services, while others expressed an unchanged view.
- The employment subindex increased by 23 points to 66 in the second quarter of 2021. While contrary to the recent jobs statistics, which showed a decline in agricultural employment in the first quarter of 2021, the improvement in sentiment regarding employment conditions in agriculture raises hopes of some reversal of recent job losses in the sector. That said, one factor we continue to monitor is the impact of the minimum wage on jobs. The minimum wage in agriculture was recently lifted in March 2021. At the time of the announcement of the increment, there was discomfort amongst agricultural role players, especially the farmers operating in the wine industry. This industry already faces cash flow challenges emanating from the alcohol sales ban during various stages of the lockdown.
- Another positive was the capital investments subindex which increased by 23 points from the first quarter to 69, the highest point since 2016. Agricultural machinery sales, which have shown strong growth since mid-2020, support the rise in this subindex.
- After declining in the first quarter of this year, the subindex measuring the volume of exports sentiment improved by 22 points to 78 in the second quarter of 2021. The expected sizeable domestic production could lead to higher volumes of exports in 2021. We have already had robust agricultural exports in the first quarter of the year.

- The economic conditions subindex jumped by 39 points to 78 in the second quarter of 2021, its highest level since the last quarter of 2011. This is in line with the general sentiment that South Africa is now in the recovery mode from the Covid-19-induced economic shock in 2020, although aggregate economic activity is yet to return to pre-pandemic levels.
- The debtor provision for bad debt and financing costs subindices are interpreted differently from the indices mentioned above. 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 second quarter of 2021, the sentiment regarding the financing costs fell by 5 points to 57, which is a favourable direction and reflective of the current environment of lower interest rates. Meanwhile, the sentiment regarding the debtor provision for bad debt increased by 7 points to 50, which is an unfavourable direction. Still, this subindex remains relatively low, suggesting that bad debts have not become a major challenge at this stage in the sector.
- Meanwhile, the general agricultural conditions subindex deteriorated marginally by 2 points from the first quarter to 83 in the second quarter of 2021. Still, this is well above the 50-points neutral mark and still reflects favourable agricultural conditions.

### **Concluding remarks**

The Agbiz/IDC ACI's second-quarter results suggest South Africa's agricultural sector is set for another year of robust performance. We are at the lower end of consensus in our forecast of 5,0% y/y expansion in the agricultural gross value added in 2021, while other organisations are slightly more upbeat with BFAP, for instance, forecasting growth of 7,6% y/y for the year. This follows a growth of 13,1% y/y in 2020. The underpinning driver is the favourable weather conditions that have allowed farmers to plant on time and increase area plantings for various crops. The higher commodity prices have also improved farmers' finances, contributing to better sentiment. "We are in a good year from a production perspective. Our main concern at the moment is around the biosecurity challenges in the livestock and poultry sectors. These are areas that should be addressed to sustain the positive momentum in agriculture," says Wandile Sihlobo, Agbiz chief economist.

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