

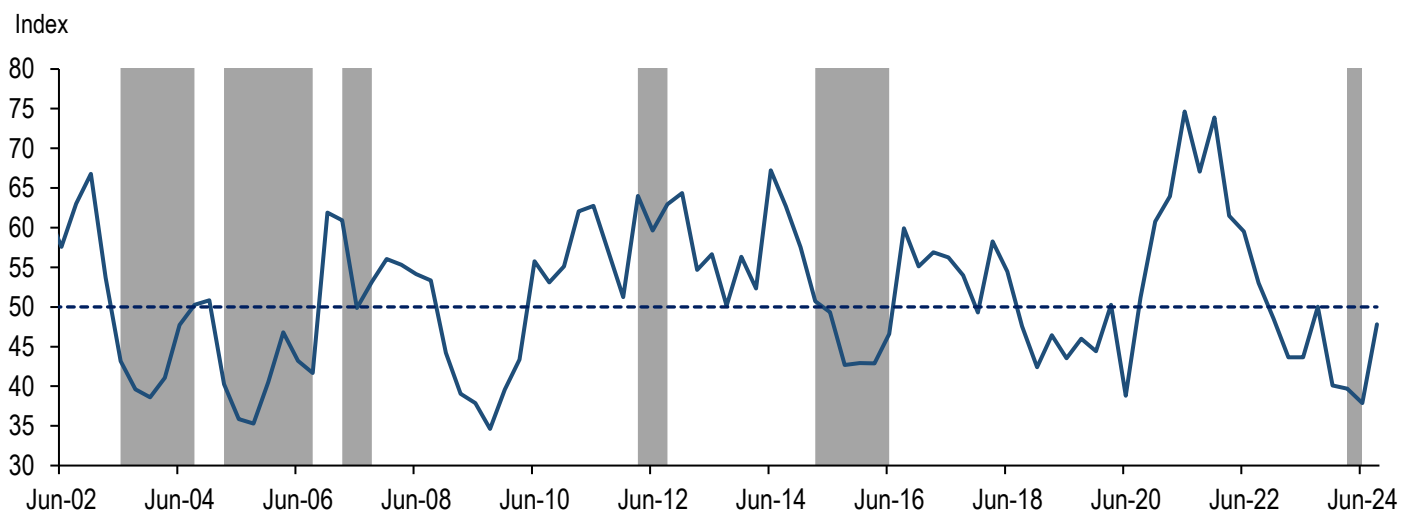
October 8 2024

In search for optimism in South Africa's agriculture

- Like many other sectors of the economy, South Africa's agriculture has shown signs of improving optimism since the start of the Government of the National Unity (GNU), which has fueled confidence levels about the path forward. The Agbiz/IDC Agribusiness Confidence Index (ACI), a sentiment indicator about business conditions in the sector, has risen from its low levels in the second quarter of 2024. The ACI increased by 10 points to 48 in the third quarter. While the index remains below the neutral 50-point mark, the jump by 10 points is encouraging. It signals that things are moving in the right direction.
- A sustained lift in sentiment matters, especially over the long run, for fixed investment in the agriculture and agribusiness sectors. The ACI also serves as a leading indicator of agricultural growth prospects over time. We can thus expect slightly better farming output data for the third quarter of the year.
- Several factors underpin the improvement in sentiment. One of them is the better electricity supply in the country. South Africa's horticultural production – fruit, vegetables and floriculture – is under irrigation, requiring a sustainable energy supply. Furthermore, roughly a third of field crops are produced under irrigation, benefiting from improved energy supply. The livestock, poultry, and dairy industry are also among the major energy users in the sector. Aquaculture industries like abalone farms also require a sustainable energy supply to pump fresh water.
- Indeed, there has been a significant increase in renewables and other alternative energy sources, but the broad stability in the national energy supply has helped.
- Moreover, the fact that the 2024-25 summer season starts, at least for field crops and horticulture, with relatively better-priced input costs compared with the past season, is another reason to be optimistic. For example, in rands terms, most fertilizer product prices were down by roughly 10% year-on-year in September 2024 compared with the previous year. Since fertilizer accounts for approximately a third of the grain farmers' input costs in South Africa, such a price decline significantly improves farmers' finances.
- Also worth noting is that in rands terms, herbicide prices were down by around 20% in August 2024 compared with the same period last year. The prices of insecticides were down by roughly 15% year-on-year in August 2024. Since herbicides and insecticides comprise about 10% of grain farmers' input costs, declining prices help with operational costs. The stronger domestic currency, combined with the decline of these prices in the international market, is a significant factor behind the decrease in domestic prices. While we highlight the proportion of these products in the grain farmers' costs, they also make a considerable share of the production costs in the horticulture sub-sector. The recent easing in fuel prices at a time of high usage during planting is another positive factor regarding the operating conditions in the farming sector.

- The prospects of a La Niña-induced rainfall in the 2024-25 summer season is another additional factor to be optimistic about the agricultural outlook in South Africa. The weather arguably matters more than other factors regarding the sector's performance. The 2023-24 mid-summer drought has led to a projected 23% decline in South Africa's summer grains and oilseed production to 15,45 million tonnes. This is also one of the factors behind the contraction in the agricultural gross value added in the second quarter of this year (in addition to the animal disease challenges). Therefore, the possibility of improvement in rainfall occurrence means that the recovery in the sector's performance is in sight.
- Ultimately, improving agricultural production conditions would also bode well for job creation in the sector and the consumer food price inflation outlook going into 2025.
- While we highlight these reasons for optimism in the agricultural sector, we remain of the firm belief that the long-term growth prospects of South Africa, which would also deliver jobs, hinge on the GNU's ability to resolve the challenges of the network industries, improve the functioning of the municipalities, address the animal diseases, and open new export markets in a world that is increasingly fragmented.

Exhibit I: Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz Research, South African Weather Service
 Shaded areas indicate periods of drought in South Africa.)