

Lessons learned from the drought: A focus on the agricultural sector

By [Dawie Maree](#)

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Apart from the Western Cape, the gripping drought that hung over the country has finally weathered away - the agricultural sector has more than recovered to a projected record harvest.



Dawie Maree, Head of Information and Marketing for Agriculture, FNB Business

Good rainfall over most of the summer grain producing areas, a lot of rested lands, improved cultivars and the use of technology resulted in record crops for both maize and soya beans. The maize crop increased from roughly 7.7 million tonnes to a projected 14.3 million tonnes.

The intensive livestock sector, such as feedlots, dairies and broiler producers, has also benefited from the rains as there will be an improvement in the feed margins. However, the extensive livestock sector, farmers producing from grazing, is still not out of the woods yet.

A lack of good rainfall and very low dam levels in the Western Cape are concerning, however, we remain hopeful as we head into winter, that the usual winter rains begin to fall across the province.

So what are the lessons we have learned from this drought:

Lesson 1: First, it is important not to lose focus of your long term strategy. In farming, droughts will come and go, but how you plan to overcome a drought is an important part of the business. Do your production budget, feed-flow plan and all other budgeting with both an optimistic view but always factor in a worst case scenario. If your farm

can overcome the worst case scenario, then you will be fine.

Lesson 2: Try to keep to your cash flow budget as far as possible and for as long as possible. This might mean that you have to sell off non-productive assets, but rather this than the risk of losing productive assets.

Lesson 3: An important lesson is to diversify and with the current improved conditions, now might be the time to do so.

Food inflation

In general, production conditions for the agricultural sector have improved substantially and this is clear in the latest consumer price inflation data release.

Food inflation in March fell to its lowest level in 14 months and the expectation is that it will decline even further given the improved agricultural conditions. Meat inflation is, however, still lagging the decline. Farmers are in the process of rebuilding their herds and hence slaughtering supply has declined. The declining food inflation bodes well for overall inflation and we saw a surprise decline in CPI to 6.1% in March, down from 6.3% in February.



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Some growing concerns

The recent downgrades in which both consumer and business confidence in South Africa took a knock cannot go without mention. The exchange rate, fortunately, stabilised and recovered some lost territory but one might wonder where it will go over the next few months.

The volatile rand, combined with an uptick in crude oil prices means we may be in for another fuel price increase in May, and this will further burden the recovering sector.

The agricultural sector has seen the worst in the past year. It has, however, began to find an upward swing again, the rains have returned, dams have filled up to near capacity, we have gone from a very low maize crop to a record high crop, and yes, the economy may be on a downturn, but just as the drought came and went, so will the tough times too.

The overall takeout is plan for the worst, implement the basics, ensure your finances are in order and talk to your banker in advance. If you get that right then there is no reason why you won't be singing in the rain.

ABOUT THE AUTHOR

Dawie Maree, Head of Information and Marketing for Agriculture at FNB Business

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