SA's agribusiness confidence deteriorates in Q3

The Agbiz/IDC Agribusiness Confidence Index (ACI) deteriorated further by 7 points to 53 in the third quarter following a 2-point decline in Q2 of 2022.

The key factors that survey respondents cited as the key concerns included higher input costs, friction in some export markets, persistent animal disease challenges, rising interest rates, intensified geopolitical risks which disrupted supply chains, and ongoing weaknesses in municipal service delivery and network industries.

Source: ©otto du plessis via 123RF

Still, a level of the ACI above the neutral 50-point mark implies that agribusinesses remain cautiously optimistic about operating conditions in South Africa. Therefore, Q3, 2022 results still reflect broadly favourable agricultural conditions, albeit not as strong as the previous seven quarters. This survey was conducted in the first two weeks of September 2022 and covered agribusinesses operating in all agricultural subsectors across South Africa.

Figure 1: Agbiz/IDC Agribusiness Confidence Index1

Discussion of the subindices

The ACI comprises 10 subindices, and seven declined in the third quarter. This is excluding the debtor provision for bad debt and financing costs subindices, which are interpreted differently from other subindices. Here is the detailed view of the subindices.

• The turnover subindex fell by 14 points to 79 in the third quarter of 2022. This current level, however, is well above the long-term average, signalling that many farmers and agribusinesses continue to benefit from strong crop prices. Along with the turnover, the net operating income subindex fell by 15 points to 63.

• The employment subindex declined by 4 points to 61. This points to a potential slowdown in employment in the fields as the third quarter each year is a quiet period as harvests would typically have been finalised ahead of the start of the 2022/23 production season in Q4.

• After a mild uptick in the second quarter, the capital investments subindex retracted by 2 points in the third quarter to 71. Still, the current levels are above the long-term trends and reflective of the vibrant environment where the tractor and combine harvester sales have remained robust since the start of the year. Farmers are increasing investment in movable assets following two agricultural seasons of large harvest and higher crop prices, specifically for grains and oilseeds.

• The subindex measuring the volume of exports sentiment moderated by just one point from Q2 to 70. Given the market access challenges the South African citrus industry experienced in the EU, the temporary ban of wool exports to China, which had now been resolved, the temporary stoppage of livestock product exports to some markets because of the outbreak of foot-and-mouth disease and the expected decline in summer crop and wine grape harvests, a level of 70 still indicates robust export conditions.

• The general economic conditions subindex fell by 19 points to 24. These results mirror the current environment of uncertainty triggered by recent geopolitical tensions, inflation concerns, rising interest rates, a general slowdown in the global economy, and more domestic issues such as persistent load-shedding and inefficiencies in the network industries, amongst other factors.

• The general agricultural conditions subindex fell by 11 points from the second quarter to 42, which is the lowest level since the last quarter of 2019. The agribusiness operating in grains, finance and agrochemicals were among the respondents that expressed a

downbeat view of agricultural conditions. However, this could change in coming quarters as the weather outlook points to prospects of a weak La Niña, which could bring moderate rains in the 2022/23 summer season.

• Unlike the above seven subindices, the market share of the agribusinesses subindex lifted by 2 points from the second quarter to 74. This optimism stemmed from the majority of the respondents, with a few that maintained an unchanged view from the previous quarter.

• The subindices of the debtor provision for bad debt and financing costs are interpreted differently from the abovementioned indices. A decline is viewed as a favourable development, while an uptick signals growing financial strain. In the third quarter, the subindex for debtor provision for bad debt fell by 3 points to 39. However, the financing costs subindex increased by 7 points to 11 in the third quarter. This is still low but the increase is consistent with the current environment of rising interest rates.

The Agbiz/IDC ACI's third-quarter results present a picture of a sector that remains on a sound footing, but one that is also confronted with a range of challenges.

"This moderation in sentiment suggests that 2022 could show contraction in South Africa’s agriculture gross-value added. Still, this does not mean the sector is in terrible shape. The base in 2021 is high and we see slightly lower harvests in some field crops this year," says Wandile Sihlobo, chief economist of the Agricultural Business Chamber of SA (Agbiz).

"Looking ahead, the prospects of a weak La Niña provide a good foundation for an excellent rainy season. This is notwithstanding the lingering challenges of higher prices of critical farm inputs such as fertilizer, agrochemicals, and fuel, which will put pressure on farmers' and agribusinesses' finances when the summer crop season starts in October." "For the long-term growth of this sector, the need to improve the efficiency of ports, electricity supply and water, quality of roads, curbing crime that devastates the rail network, and improving biosecurity should be prioritised by both government and the private sector," adds Sihlobo.