Publication: THE STAR - BUSINESS REPORT
Title: Agriculture gives us something to smile
AVE: 11161.36

Page: 16
Publish Date: 12 June 2017
Author: Nehru Pillay

Agriculture gives us something to smile

BEING POSITIVE

Nehru Pillay

WITH THE announcement last Tuesday that South Africa has slipped into a technical recession following two consecutive declines in gross domestic product (GDP) of 0.7 percent during the first quarter of 2017 and 0.3 percent during the fourth quarter of 2016, it may be difficult for anyone to remain positive about the economy or any prospects for growth in the short to medium term.

However, last week's announcement by Statistics South Africa (Stats SA) showed positive GDP growth in two sectors – agriculture and mining. While this growth was not enough to offset the overall contraction in the economy, it underscores the potential of agriculture to become an anchor for positive economic growth.

The agricultural sector GDP growth was particularly impressive in the first quarter of 2017, at 22 percent quarter-on-quarter annualised, the first signs of positive growth following eight consecutive quarters of negative growth, which was largely driven by persistent drought conditions across the country.

This recovery bodes very well for consumers, who are already benefiting from lower food inflation, with prices on most maize-based products tracked by Stats SA lower in April this year compared to March.

Trend may remain

Overall food inflation decreased from 8.7 percent in March to 6.7 percent in April. This trend is expected to remain in place in the short to medium term.

With maize being one of the key inputs into livestock farming, farmers will benefit from the decrease in maize prices, allowing them to rebuild cattle herds which were affected by the recent drought. As both inputs and outputs become cheaper, the spin-off for consumers could be even lower food prices in the near future.

For marginal farmers, lower maize prices may put pressure on their profits, though in many cases, the fall in maize prices will be balanced by the increased output, potentially lessening the impact on farmers' incomes.

Good summer rainfalls have resulted in better than expected harvests of summer grains, the full impact of which is likely to be felt in the second quarter of the year. The latest information from the Crop Estimates Committee at the Department of Agriculture, Forestry and Fisheries indicate that summer grains are likely to reach 18.03 million tons this year.

Maize and soya beans are the stars of the show, with growth in excess of 100 percent and 66 percent respectively, being forecast for these crops.

The improvements in soya bean production have served to enhance the capacity utilisation of the county's soya bean crushing plants from 15 percent month-on-month in March to 33 percent in April 2017.

Improved weather

Production increases off the back of improved weather conditions are also being buoyed by renewed investment within the agricultural machinery market. After plummeting by 23 percent month-on-month in April, tractor sales rebounded by 23.9 percent month-on-month in May.

This was on the back of stable and relatively stronger rand/dollar exchange rate, coupled with expectation of a large summer grain and oil seed harvest, boosting farmers' confidence to invest in equipment. The simple economics behind this is that greater harvests mean greater earnings (all things being equal), enabling farmers to reinvest into the sector.

The Agbiz/IDC Agribusiness Confidence indicator, which has consistently increased over the past three quarters, remained above the 50 index point mark. This indicates that the outlook for the agricultural sector is largely positive.

On the employment front, the agricultural sector noted increases during the third and fourth quarters of last year, which indicate the jobs potential the sector holds.

Land Bank, for example, is working to create partnerships between established commercial players in the sector and emerging farmers to drive economic transformation and social inclusivity.

As more partnerships are forged and more sector players become aligned, the outlook on employment can only improve.

Nehru Pillay is general manager for Research and Intelligence at the Land and Agricultural Development Bank of South Africa (Land Bank).