



2 JUNE 2023

Agriculture – a small sector with a big heart

During May I visited the 55th edition of Nampo, a weeklong exhibition of agricultural-related equipment and a lot of other farming related features. My trip took me to Bothaville in the Free State and used all my steps in my watch as a friend and I walked 16 kilometers to see the 823 stands. As an outsider it was a lot to absorb. This year's theme was "Innovation in Agriculture" so it was pleasing to see that artificial intelligence and data applications are present in the industry. Although agriculture is less than 5% of the total economy, the passion of a farmer is tangible. Unfortunately, the dynamics of weather, general sentiment and ever-increasing political interference will always be part of this industry. Sentiment, from a more measurable perspective is low, but I believe a farmer is born an internal optimist. Long may it last as we all need to eat.



**Willie
Pelsner**

During May I had the privilege to visit Nampo. For most readers, the name Nampo may not mean much unless you are a farmer or have a link to the agricultural sector of some sort. Nampo is not a conference you attend; it is simply a humongous exhibition. I walked just over 16 kilometers on the day I visited to experience each exhibition stand and rub shoulders with the other visitors. Nampo welcomed 81,945

visitors over 4 days and hosted 823 exhibitors on a farm outside Bothaville in the Free State. They came in bakkies (and a few other vehicle types as well) and over 200 small airplanes and 75 helicopters landed over the duration of the event. 2023 was the 55th year of bringing farmers in contact with suppliers. The first expo was held on a farm just outside Bloemfontein and it was only in 1974 that the farm Marthaville outside Bothaville became the permanent host of Nampo.

"Innovative agri businesses are using drones for irrigation and security 'patrols'."

This year's theme was "Innovation in Agriculture". Innovation is not new - satellite navigation has been used for years to optimize crop planting - but what was noticeable is the increased use of digitization. For example,

SPEED READ

- The 55th Nampo exhibition outside of Bothaville took place during May. I had the privilege to visit and stop, for a brief second, at all 823 stands. Visitors arrived in bakkies, motorbikes, planes and helicopters.
- Innovation was this year's theme and the application of artificial intelligence, data mining and digitization was noticeable - from maize seed through to drone-applied spraying.
- Agriculture as a sector is a small component of South Africa's economy, but if it wasn't for an optimistic farmer, we'll all be worse off. They face daily challenges with weather and an increasing political impact.

the use of drones for irrigation and security "patrols". The integration of digital technology into agriculture presents a major opportunity. The emergence of the smartphone as a popular communication tool, coupled with internet-based solutions, has already boosted access to financing for agricultural inputs across the value chain. Digitalization, as well as the effective use of fertilizer and seeds, will become increasingly important in unlocking agriculture prospects in South Africa. Trending technologies in agriculture include data management, machine learning, artificial intelligence, automation, and drone-based applications.

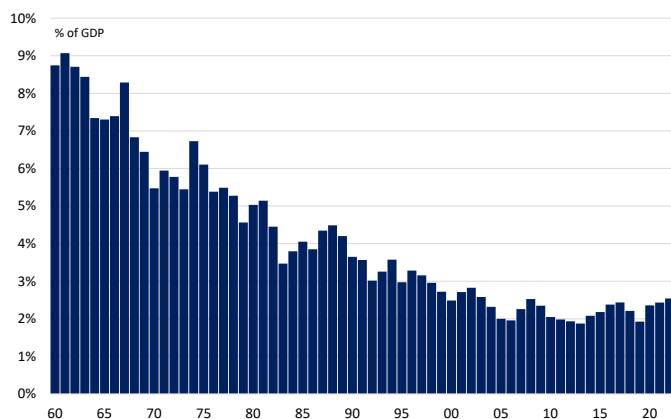
Unfortunately, I can't write about every innovation I saw across the 823 exhibits, but perhaps I can bring two other points home. How big the sector is and what sentiment is

like given prevailing conditions?

A friend with whom I was travelling made the comment that going through South Africa we all see the vast areas of land dedicated to agriculture; from maize fields to cattle farms, fruit farms and the winelands. But he also wondered how big the agriculture sector is and its contribution to the economy.

The chart below, dating back to 1964, shows that the agricultural sector has never been a very large contributor to the overall size of the economy. Currently it only constitutes about 3% of GDP. However, what we must not lose sight of is the multiplier effect. For example, and very simplistically put, the maize planted and harvested then moves through various processes in the food chain and leads to employment in other industries and final consumption. Compared to the rest of Africa, South Africa has by far the most modern, productive, and diverse agricultural economy. South Africa has a well-developed agricultural sector, which will stand the country in good stead in the face of continuing uncertainty both economically and in terms of the weather. South Africa has approximately 32,000 commercial farmers, of which 5,000 to 7,000 produces approximately 80 percent of agricultural output.

AGRICULTURE'S CONTRIBUTION TO GDP



Albeit a small contributor to GDP, we must not underestimate the economic multiplier effect from this industry.

During 2022 the sector was burdened by lower production of field crops and horticulture products. Activity was further curtailed by abnormal weather conditions, the outbreak of foot-and-mouth disease, higher input costs, and intensified electricity load-shedding.

The vibe at Nampo was one of positivity, filled with happy faces, and I concluded that a farmer is probably born with a heart of hope because this sector does have its fair share of challenges, almost daily. Sentiment is measured by the



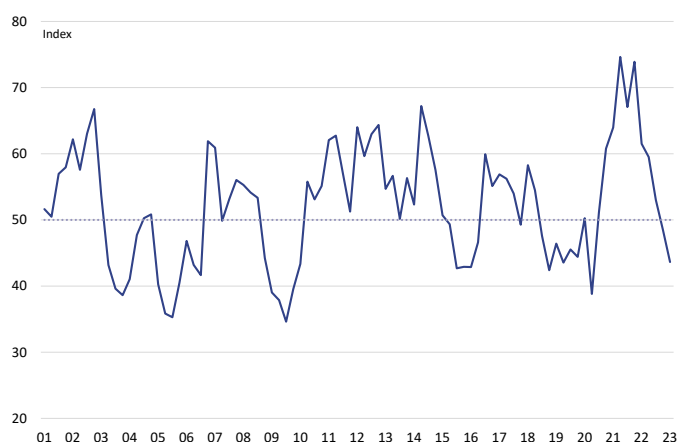
The NAMPO show was well attended and bustling with a range of innovative ideas.

Agbiz/IDC Agribusiness Confidence Index (ACI). The index measures factors such as turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agriculture conditions, debt and financing costs.

The ACI deteriorated further by 5 points in Q1 2023 to a level of 44 points. The current reading is the lowest since Q2 2020 when Covid-19 lockdown restrictions were first implemented. Notably, the first quarter reading is below the neutral 50-point level, implying that agribusinesses are downbeat about business conditions. The persistent and intense episodes of load-shedding, higher input costs, rising protection in some export markets, rising interest rates, intensified geopolitical tensions which disrupted supply chains, ongoing weaknesses in municipal service delivery, and network industries were again the key factors survey respondents cited as their primary concerns.

Following the release of the latest datapoint Wandile

AGBIZ/IDC AGRIBUSINESS CONFIDENCE INDEX



The positive vibe at Nampo is in contrast to latest sentiment reading, which suggests deteriorating confidence amongst farmers.

Sihlobo, chief economist of the Agricultural Business Chamber of SA (Agbiz) said: “Addressing the electricity crisis, and sector-focused issues such as biosecurity, opening up more export markets and dealing with inefficiencies in municipality service delivery are some of the key issues that will help improve sentiment and the fortunes of our agriculture and agribusiness sectors”.

Unfortunately, whilst I was at Nampo our association with the Russians became a hot “potato” topic as South Africa currently has a favorable trade agreement with the US through the AGOA Act, which provides 1800 SA products with duty-free access to that market. In 2022, under this agreement, we exported almost R60 billion worth of goods, of which the agricultural sector made up about R8.1 billion. As we approach 2025, the agreement will need to be reauthorized. Hopefully South Africa will play their cards right and avoid the current issues at hand.

The agricultural sector, or a farmer in general, will probably continue to face, amongst plenty of others, these 3 critical factors: Weather, sentiment and increasing political interference. South Africa doesn’t have a long list of companies on the JSE directly linked with the agriculture sector and even if there were, the cyclical nature will make it hard to justify long-term holdings in client portfolios. However, the success of the sector has a direct influence on a host of downstream companies, from fertilizers and chemicals to tractor sales and logistics. Many of those are



The happy and bustling scenes at NAMPO belie the daunting political, social and economic reality of agricultural sector.

key holdings in portfolios, hence the reason not to overlook this age-old industry.



The NAMPO exhibition seen from the air.



Our next Insight seminar will take place in June and provide an update on what has driven markets over the first six months of the year, and what might lie ahead for the balance of the year. We are very excited to be expanding our seminar program to Cape Town.



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Topic: **Mid Year Market Update**

Natal Midlands

Date: Thursday, 22nd June 2023

Venue: Oasis Conference Centre,
72 Main Road, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: Tuesday, 13th of June

Venue: Rosebank Union Church, Cnr
William Nichol and St Andrews
Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: Wednesday, 14th of June

Venue: ABRU Motor Studio, Lourensford
Wine Estate, Somerset West

Time: 5.30pm for 6pm

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