BIZCOMMUNITY

Another relief for the agri sector after a 50 basis points cut in the repo rate

By Paul Makube

22 May 2020

A combination of favourable crude oil price outlook, lower local inflation with risks to the downside, and economic contraction afforded the South African Reserve Bank (SARB) room to cut the repurchase rate by another 50 basis points.

This brought the repo rate to a historical low of 3.75% and the prime lending rate to 7.25% effective from 22 May 2020. The interest rate outlook is even lower with the SARB's projections pencilling another cut of two repo rate of 25 basis points in the next two quarters of 2020.

©gajus via 123RF

With debt estimated over R170bn and rising, the agriculture sector is set to benefit especially in this time of COVID-19 where disruption to trade will impact on incomes and debt serviceability. Bear in mind that some in the sector are yet to recover from the recent severe drought conditions of which the latest has gripped large parts of the Eastern and the Northern Cape provinces.

The trend in agriculture machinery sales and replacements have been under pressure in the last twelve months on the back of drought-induced financial constraints due to the lower harvest. The latest tractor and combine harvester sales from the South African Agriculture Machinery Association (SAAMA) showed a decline of 4% and 13% respectively year-on-year during April 2020.

The agriculture harvest outlook, however, remains bullish with the 2019/20 summer crop harvest expected up 31% year-on-year to 17.52 million tonnes and country's largest staple, maize, seen at 15.22 million tons (+35% year-on-year).

This combined with a favourable interest rate environment will afford producers to do the necessary replacements of various machinery and equipment employed in agriculture. The bullish supply outlook will help tame food inflation in the wake of income losses due to Covid-19, affording consumers the necessary breather.

ABOUT PAUL MAKUBE

Paul Makube is Senior Agricultural Economist at FNB.