There's safety in the **countercyclical oilseeds sector**

By Wessel Lemmer, general manager, Agbiz Grain

You do not often read newspaper headlines about the state of the oilseeds industry, as journalists mostly report on current events to which the public can relate. Although keeping up to date with the news is essential, you cannot allow yourself to be overcome by negativity, especially if you are an active stakeholder in the oilseeds industry and a reader of *Oilseeds Focus*. In their reporting on the oilseeds value chain and its role in the South African economy, publications such as *Oilseeds Focus* sustain hope in these troubled economic times.

The joint nett export value of the primary agricultural sector and the food and beverages manufacturing sector, is second only to mineral exports. The sector's performance is sustainable even during times of recession, which makes it countercyclical. This means that the sector's performance does not decline when the rest of the economy is in recession.

When a recession strikes, the demand for consumer goods tends to decline. However, food is a necessity, and the demand for food does not diminish when the demand for luxury and non-essential items decreases.

On the road to recovery

There are positive signs that the economy is recovering as the economically active part of our population begins to function again. It is encouraging that Lesetja Kganyago, governor of the South African Reserve Bank, rejects the idea that large-scale, quantitative easing is a necessary policy for South Africa at this time.

It is also a good sign that the mining sector input in June increased by 59% (up from May) and that retail sales volumes increased by 75% over the same period. The monthly sales of new vehicles have almost recovered to their usual level. This means that consumers' economic activity and consumption are improving despite the COVID-19 measures that were implemented earlier this year. It is important to take note of these developments as they ultimately support the consumption of oilseeds and oilseeds products.

The most recent economic data indicates that wholesale dealers in agricultural raw materials and livestock were the main contributors to the year-on-year (y/y) recovery in wholesale trade sales. In June this year, wholesale trade sales of agricultural raw materials and livestock increased by almost 20% y/y, in sharp contrast to the overall wholesale sales decrease of 6% y/y. In comparison, sunflower seed prices increased by 10% y/y in June and that of soya beans by 23% y/y.

For now, the increase in the prices of oilseeds strains crushing margins and contributes to the expected increase in food inflation, but overall agriculture still performs well.

A vote of confidence

The oilseeds industry should be more confident about the prospects of the next twelve months. The rand is expected to trade at similar levels a year from now. Private consumption is expected to increase by 3% y/y, while food inflation is likely to increase from the current 4,2 to 4,6% y/y.

This is not bad news, especially since the Brent crude oil price will increase by approximately 10% a year from now as the global economy recovers. It is important to note that South Africa is self-sufficient in terms of food and does not track the imported inflation of our largest imported item, namely crude oil.

Interest rates should only begin to increase a year from now by approximately 25 basis points, which should support producers' current investment in infrastructure to boost productivity. The expected year-on-year economic growth is likely to reach almost 9% in the second quarter of 2021 and 5% in the third quarter of the same year.

The way forward

All in all, we can look forward to a less volatile business environment and operations need to be geared to make the most of the economic recovery that lies ahead.

It was evident in a recent conversation with a service provider about the latest laboratory equipment that determines the oil content of sunflower seed and soya beans that role-players in the sector are equally upbeat about the future. They are much better off than their counterparts in the mining or water sanitation sectors.

We are fortunate to be stakeholders in agriculture, seeing that the sector responds differently to current challenges. In addition to the countercyclical nature of agriculture, an excellent rainfall year supported the current marketing year's output.

We are part of the best sector in South Africa. Keep it up and let us make the best of the opportunities that come our way.

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