Looming agriculture profit margin pressures ahead as rate hike cycle resumes

By Paul Makube

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The South African Reserve Bank (Sarb) followed on its previous warnings that it would not hesitate to hike rates if the inflation trajectory carried on the current path to the upside. The Sarb raised its repo rate by 0.25% to 3.75% effective from the 19th of November 2021. The bad news is that the Sarb's projections indicate further increases in the next three years to 2024 which is cumulatively 300 basis points.

Source: 123RF

Although the rate hike shows signs of domestic economic recovery due to a combination of improved household consumption expenditure, resilient exports, and greater return to economic activity after previous lockdowns, the outcomes indicate tough times for farmers in the months ahead.

Amid mounting cost pressures emanating from massive upswing in fuel, fertilizer, pesticides, and herbicides prices, higher debt serving costs from rising interest rates will trim profit margins in the sector despite a fantastic outlook for the season ahead.

The record low-interest environment over the past year provided a breather for farmers and allowed them to do the necessary replacement and replenishment of the machinery and equipment. So far, tractor and combine harvester sales for the year to October 2021 were already 6% and 33% ahead of the 2020 levels which showed strong optimism for the agriculture outlook.

With international fertilizer prices already 80% to 150% higher year-on-year in October coupled with no end to the global logistic crisis in the short to medium term, we expect further input cost pressures for the field crops and horticulture sectors.

Although strong commodity prices have somewhat offset the impact of these cost pressures, higher debt servicing costs in the medium to longer term will thin out margins if the projected interest rate hikes for the years ahead materialise.

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