

Falling sales indicate market correction, 2025 outlook positive for agri machinery

By Paul Makube

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The South African Agriculture Machinery Association (SAAMA) has reported another drop in sales, expected due to the weak economy and tough conditions. Falling sales are a sign of market correction following an impressive upswing in the three years before 2023, driven by good harvests and high commodity prices.

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Total agriculture machinery sales surged by 11%, 32%, and 21% year-on-year respectively in 2020, and 2021, at 5,987 units, 7,908 units, and 9,556 units. The 2022 total agriculture machinery sales were 34% ahead of the 5-year and 10-year averages.

The agriculture sector performed strongly during these periods with the gross producer value for subsectors such as field crops (maize, wheat, soybeans, etc) accelerating by 20.9%, 29.1%, and 10.9% year-on-year respectively at R77.92bn, R100.56bn, and R111.55bn for 2019/20, 2020/21,

and 2021/22 seasons, according to the 2023 Abstracts of Agriculture Statistics from the Department of Agriculture, Land Reform, and Rural Development (DALRRAD).

Modest reversal in 2023

We, however, saw a modest reversal in the trend from 2023 with total agriculture machinery sales falling by 7% year-on-year to 8,885 units. Nonetheless, this was still 18% and 24% higher respectively relative to the 5-year and 10-year averages in 2023.

So far, the total machinery sales for the first four months of 2024 fell by 27% year-on-year to just 1,945 units according to data from the latest update from SAAMA. Combine harvester sales posted the biggest decrease of 60.6% year-on-year while tractor sales plunged by 24.6% year-on-year.

Economic performance and agri GDP

Although South Africa's economy managed to avoid a technical recession by expanding by 0.6% in 2023, agriculture fortunes dimmed as sector GDP plunged by 9.7% quarter-on-quarter in Q4 of 2023 with overall annual gross value added down by a whopping 12.2% year-on-year.

This steep decline in agriculture GDP came as a surprise given magnificent summer crop harvests in 2023 with maize topping 16.4 million tonnes (+6% year-on-year), soybeans at a record high of 2.8 million tonnes, and sugar output up by 3% year-on-year to 18.5 million tonnes.

The combination of excellent production conditions that boosted crop harvests and elevated agriculture commodity prices stimulated farmers to replenish their machinery fleet which saw robust sales in the three years before 2023. Total agriculture machinery sales, mainly tractors and combine harvesters, increased consistently by 11%, 32%, and 21% year-on-year respectively for 2020, 2021, and 2022.

However, 2023 saw a massive reversal in the trend partly due to market correction following a bullish run and a turn in the interest rates cycle. South Africa's interest rates rose sharply in the past two years with the repo rate surging by 4.8 percentage points from November 2021 to the current 180-month high of 8.25%.

Agriculture machinery sales will remain subdued in 2024 given the relatively downbeat agriculture output for 2024 with summer crops already hammered by the El Nino-induced midsummer drought and harvest estimates significantly down on last year. Although the National Crop Estimates Committee made an upward adjustment to its total maize harvest estimate by 1% from the previous month to 13.39 million tonnes, this is still down by a whopping 18.5% year-on-year.

Other summer crops such as sunflower and soybeans will see harvest declining by 14.6% and 34.5% year-on-year respectively at 615,000 tonnes and 1.81 million tonnes.

For winter crops, the first intentions to plant show a decrease of 2.6% year-on-year to 798,800 hectares of which wheat accounts for 65% of the total. Oats sees the biggest drop of 25.5% year-on-year in the expected planted area.

The expected total wheat area to be planted was forecast down 3.3% year-on-year to just 520,200 hectares with the biggest declines for the FS, the EC, and LP with -23.6%, - 20.6%, and -16.7% year-on-year respectively.

Positive outlook for 2024/25 crop season

Nonetheless, all is not doom and gloom as the weather outlook has turned positive with forecasts so far indicating that El Nino is strongly transitioning to La Nina which bodes well for the 2024/25 crop season.

This coupled with strong grain and oilseed prices, and with potentially lower input costs particularly fertilisers will encourage producers to increase plantings in the next season. Further, SA's consumer inflation is trending on the downside within the SARB's targeted range.

Market expectations indicate a potential downturn in the interest cycle with rate cuts starting from the second half of 2024 into 2025. All these are positive developments for agriculture machinery sales in the year ahead.

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