

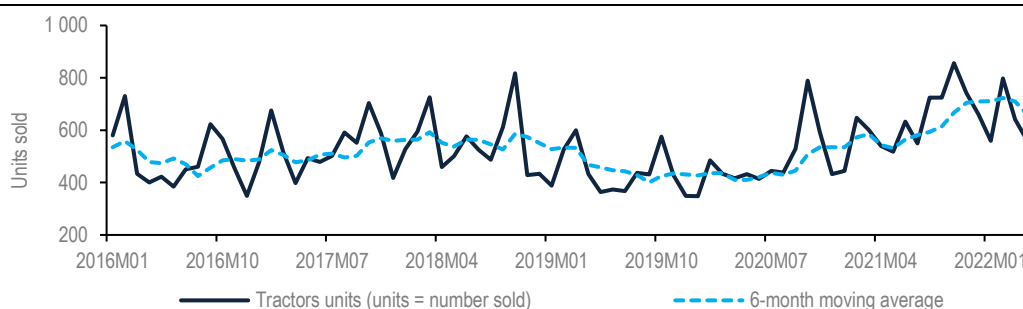
SA agriculture machinery sales remained robust in April, but we expect a change in the coming months

South Africa's agricultural machinery market remained robust in the first four months of 2022. The data released by the South African Agricultural Machinery Association this afternoon show that in April 2022, tractor and combine harvester sales were up, marginally, by 0,3% year-on-year (y/y) and 2,0% y/y, with 559 units and 44 units sold, respectively. Monthly, however, tractor sales, in particular, are softening (see Exhibit 1), while the opposite is true for combine harvesters. The generally healthy sales are welcome developments, as they indicate a primary agricultural sector that is still in a better financial condition and continues to invest in movable assets. We, however, believe that the monthly decline in tractor sales could start a break from the two years of a positive trend.

First, the rising farm input costs, such as fertilisers, fuel and agrochemicals, and increasing interest rates will likely weigh on farmers' finances in the coming months. Second, the strong agricultural machinery sales in 2020 and 2021 could lead to a lower replacement rate this year. For example, South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. Combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year for South Africa's agricultural machinery sales, so surpassing it meant 2021 was exceptional. In 2020, tractor sales were up by 9% from 2019. Combine harvester sales increased by 29% from 2019. Last, the summer crop harvests this year is down from the 2020/21 season, which will likely have negative financial implications for farmers and could mean that, for the harvesting period that is commencing, there could be less demand for harvesters than in 2021. For example, South Africa's 2021/22 maize harvest is estimated at 14,72 million tonnes, down by 10% y/y.¹

The improved farmers' finances from large harvests and higher commodity prices, specifically in grains and oilseeds, mainly underpinned the agricultural machinery sales of the past two years. The grains and oilseeds prices were supported by global events such as dryness in South America and Indonesia and rising demand for grains and oilseeds in China. Had it not been for higher global agricultural prices, the local grain and oilseed prices would have softened due to large harvests.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

¹ This is according to the third estimates of the Crop Estimates Committee. Importantly, a maize harvest of 14,72 million tonnes is decent and well above the 10-year average of 12,8 million tonnes and annual maize consumption of 11,8 million tonnes.

09 May 2022

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