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Sharp decline in agricultural machinery sales: Weaker Rand and the drought continue to take their toll – 12 May 2016

The recent agricultural machinery sales data released by the South African Agricultural Machinery Association (SAAMA) indicated that the April 2016 combined harvester’s sales were down by 26% y/y, to 73 units, while tractor sales were down by 10% year-on-year (y/y), to 2 145 units. The sharp decline is a continuation of a negative trend that started from 2013, where annual tractor sales declined by 5%, and then 1% in 2014 and 10% in 2015 (**figure 1**).

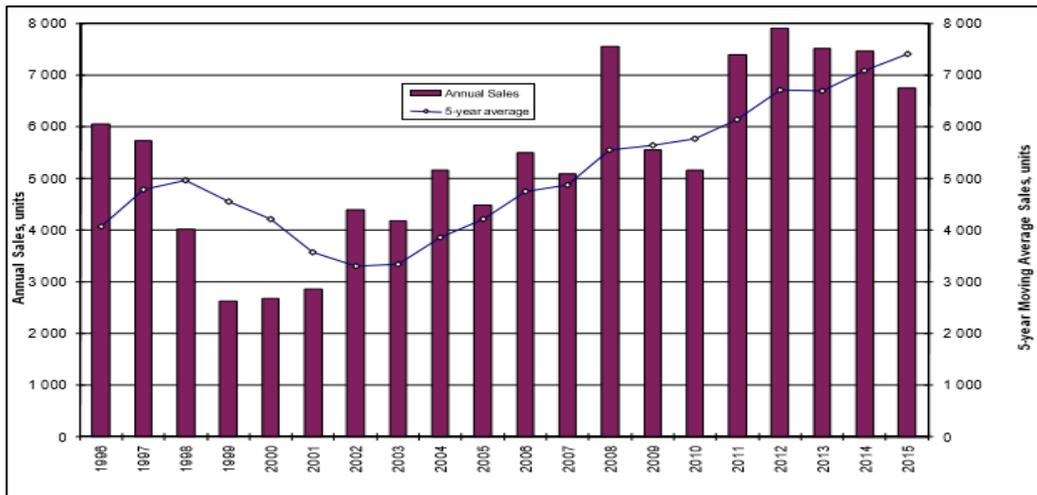


Figure 1: South African Agricultural Tractor Sales 1996 -2015

Source: South African Agricultural Machinery Association, Agbiz Research

This negative trend coincides with a period in which the Rand lost considerable traction against the USD – losing two thirds of its value – on the back of the tapering of quantitative easing by the US Federal Reserve Bank. Between the considered period, the Rand/USD exchange rate depreciated from levels of just below R9.00 at the beginning of 2013 to the current levels of around R15.00.

Coincidentally, this is also a period in which South Africa began experiencing progressively drier conditions, which culminated into a severe drought in 2015/16 season.

The total summer crop area planted decreased by 22% y/y to 3.2 million hectares, from 4.1 million hectares in 2015¹. Subsequently, total summer crop production declined by 28%, to 8.6 million tons,

¹ Summer crops: maize, sunflower-seed, soybeans, groundnuts, sorghum and dry-beans



down from 11.9 million tons in 2015. This signals reduced production and harvesting activity in the sector.

Outlook

In the short to medium term, the outlook for the South African agricultural machinery sales remains weak due to lower than expected crop production, high and increasing interest rates and a weaker Rand. To add, escalating farm debt increased by 7% to R125 billion in 2016, from R117 billion in 2015 - thus reducing the farmers' ability to further invest in machinery and equipment.

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