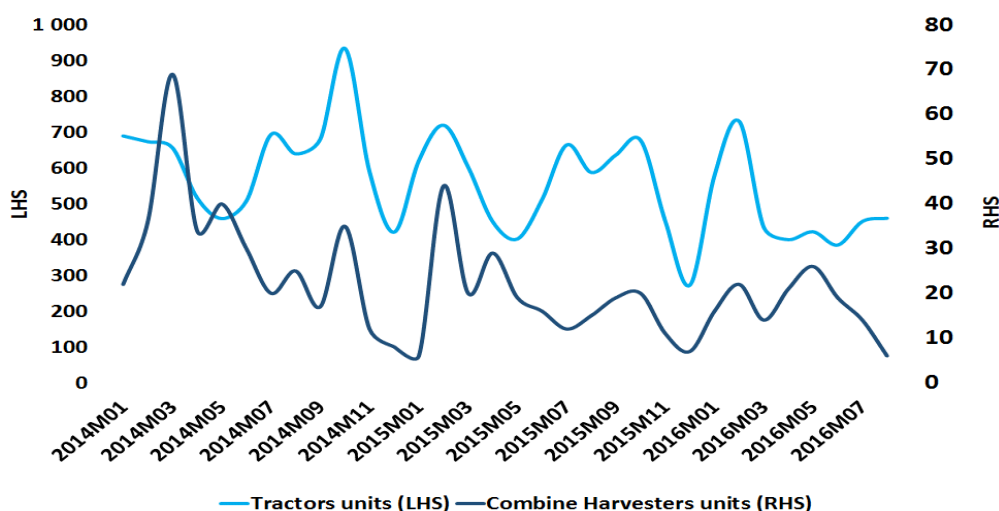


## UPDATE: Sharp decline in South Africa's combine harvester sales - 08 September 2016

- The recent agricultural machinery sales data released by the South African Agricultural Machinery Association indicated that in August 2016, combine harvester's sales were down by 60% when compared to August 2015, only 6 units sold. This is the lowest sales level since January 2015, and it is reflective of reduced harvest activity on the back of lower crop production. At the same time, tractor sales were down by 22% y/y to 460 units, from 589 units in August 2015 (see **Chart 1**).
- This season the area planted with summer crops decreased by 22% year-on-on-year (y/y), at 3.2 million hectares from 4.1 million hectares in 2015. Subsequently, total summer crop production is expected to drop by 25% y/y to 8.9 million tons, which is in line with the decline in combined harvester's sales.
- In addition, the decline in combine harvester's sales, to some extent, coincides with a seasonal sales trend (see **Chart 1**).
- Looking ahead**, over the past two months South Africa's tractor sales showed a slight improvement and we believe the trend could continue in the coming months. All of this is under the assumption that weather conditions could normalise in the 2016/17 production season. If our assumption holds, a similar trend could later transpire in the combined harvester sales data. **The downward risk**, however, is that a number of weather forecasters have been sending mixed signals. Some have revised down their estimated La Niña occurrence to levels around 50%, from earlier estimates of 75%. Moreover, **escalating farm debt, which increased 7% to R125 billion in 2016, from R117 billion in 2015** – remains a key risk which could potentially reduce farmers' ability to further invest in machinery and equipment. The **volatile Rand against the US Dollar** also remains a key risk in the agricultural machinery market.



**Chart 1: South Africa's agricultural machinery sales**

Source: South African Agricultural Machinery Association and Agbiz Research

**Wandile Sihlobo** Agricultural economist (+2712 807 6686, [wandile@agbiz.co.za](mailto:wandile@agbiz.co.za))

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