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Large agricultural harvest and higher commodity prices continue to boost tractors and harvesters' sales

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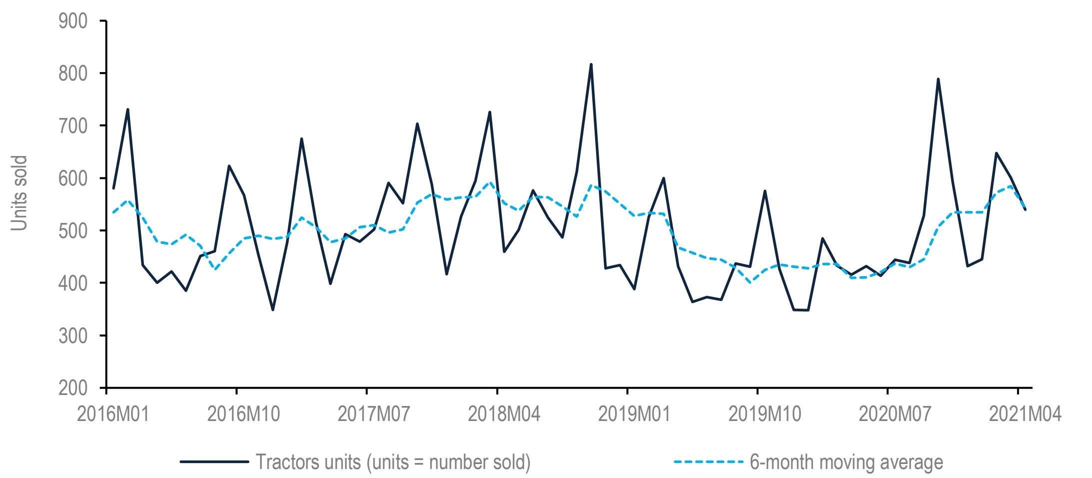
South Africa's agricultural machinery sales have remained on a positive footing since May 2020. The figures released by the South African Agricultural Machinery Association last week show that tractors' and harvesters' sales were up by 23% y/y and 115% y/y in April 2021, with 540 and 40 units sold, respectively. Improved farmers' finances have supported the sale. This is on the back of the large harvest in 2019/20, prospects for yet another good agricultural season in 2020/21, and higher commodities prices. The relatively stronger exchange rate has also been a positive buffer for the imported agricultural machinery.

We focus on the major summer grains to illustrate the positive prospects of the 2020/21 production season. The South African Crop Estimates Committee (CEC) currently forecasts maize, soybeans and sunflower seed production at 16,1 million tonnes (up 5% y/y – the second-largest harvest on record), 1,8 million tonnes (up 44% y/y, a record harvest), and 696 290 tonnes (down 12% y/y), respectively. The expected decline in sunflower seed harvest is because of a reduction in area plantings as farmers switched some areas to maize. Generally, the expected large grains harvest is also mirrored on other subsectors of agriculture and underpinned by favourable weather conditions.

While South Africa is now in a busy period of the agricultural calendar – planting for winter crops and harvesting for summer crops, we remain cautious that the excellent momentum of agricultural machinery sales might slow in the coming months. In our view, the expected large harvest in the 2020/21 production season might not lead to sustained sales and another year of higher agricultural machinery sales. Typically, a relatively good sales year, such as 2020, is likely to be followed by a somewhat lower sales period. The replacement rate of machinery with new ones would usually be down from the previous years. Moreover, another factor to keep a close eye on is the exchange rate, although the current firmer levels support the sales. Any changes into a weaker domestic currency will likely lead to higher prices for imported agricultural machinery and discourage sales.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research