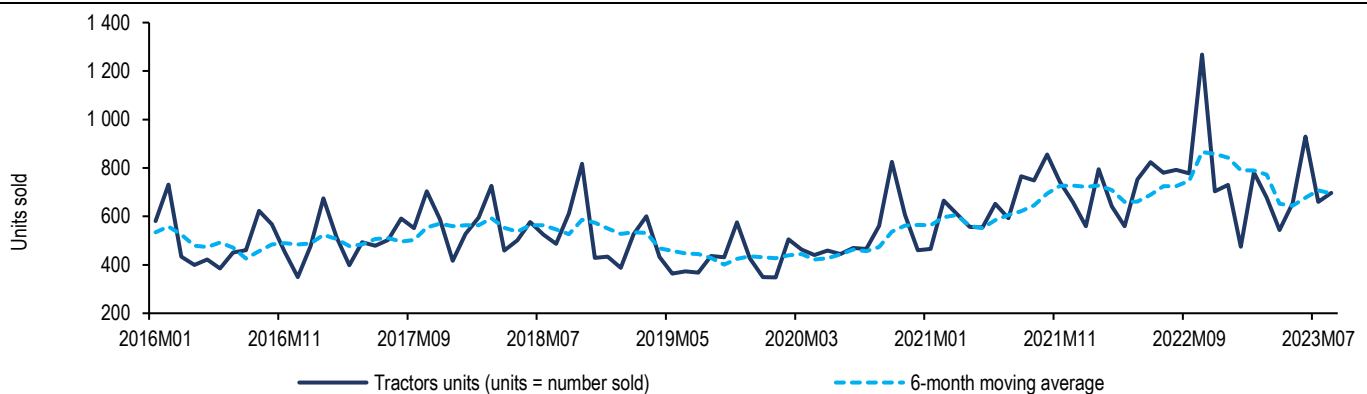


SA agricultural machinery sales down in August 2023

- We are now convinced that the relatively more robust agricultural machinery sales of the first half of this year were primarily a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain farmers' finances. The delivery delays of the orders raised the sales figures for the first half of the year. Over the medium term, the sales will likely remain subdued despite the current 2022/23 solid grain harvest.
- The recent sales already paint this possible path. For example, South Africa's August 2023 tractor sales were down (-12% y/y), with 694 units sold. This follows the sharpest annual decline for the year in July (-15,4% y/y). At the same time, the combine harvester sales were flat from August 2022, with 24 units sold. This also comes after a notable decline in July 2023 sales (-11% y/y).
- While making a call in a few months' data is not always advisable, our baseline view is that South African farmers have probably slowed agricultural machinery purchases. Although we have a large grain and oilseed harvest, with the 2022/23 maize harvest estimated at 16,4 million tonnes, the second largest on record, and soybeans at a record 2,8 million tonnes, the prices of these commodities have declined by roughly 17% y/y, specifically maize. Moreover, agricultural machinery sales have been robust in the past few years; therefore, the replacement rate will be reasonably low.
- As we stated in recent comments, with the 2023/24 summer crop production season approaching, the farmers' focus is on input costs. Although various input cost prices, such as fertilizer and agrochemicals, have softened in recent months, the current price levels are still well above long-term levels, thus adding pressure on farmers' finances in an environment where commodity prices have declined somewhat. Moreover, the higher interest rates continue to pressure farmers' finances, thus adding to our downbeat view of South Africa's agricultural machinery sales.

Exhibit I: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research