

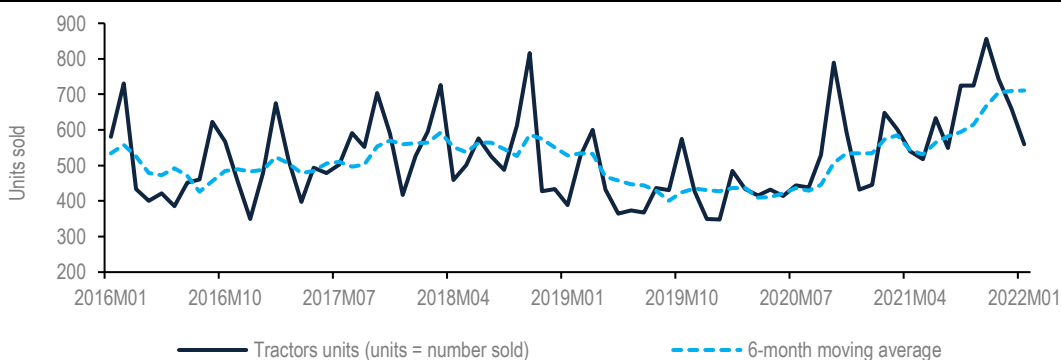
SA agriculture machinery industry has a positive start into 2022

South Africa's agricultural machinery industry has had two consecutive years of robust sales boosted by improved farmers finances on the back of a large harvest in 2019/20 and 2020/21, combined with higher commodity prices, particularly in grains and oilseeds.¹ However, 2022 will likely change the trend and show moderate agricultural machinery sales as the new machinery's replacement rate will probably be lower than the previous years. Moreover, the crop harvest, especially grains and oilseeds, which were the primary drivers of sales in the past few years, could show a lower yield this year than the past two seasons because of the excessive rains since the start of the 2021/22 production season. This could reduce the profitability of various farming businesses and, after that, equipment purchases.

Still, the sales at the start of the month continued on the positive trajectory of the past two years. The data released by the South African Agricultural Machinery Association showed that in January 2022, tractor sales were up 20% year-on-year, with 559 units sold. This is likely a tail end of the robust sales, and the coming months could show moderation. The combine harvester sales were down by 20% year-on-year, with four units sold in January. The sales could linger at these lower levels, especially if the summer crop harvest proves to be notably smaller than the past season, where maize amounted to 16,3 million tonnes, a second-largest harvest on record, and soybeans at 1,9 million tonnes, which is a record harvest. The improved farmers' incomes and volumes that had to be harvested in the 2020/21 production season necessitated many combine harvester sales in 2021.

Overall, it is still early days, and we will know more about the 2021/22 summer grains and oilseeds potential harvest size from the end of this month. With that said, our baseline view is still that the agricultural machinery industry will likely see moderate sales in 2022.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

¹ South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. The combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year in South Africa's agricultural machinery sales, so surpassing it means 2021 was indeed an exceptional year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019. The combine harvester sales increased 29% from 2019, with 184 units sold in 2020.

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

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