

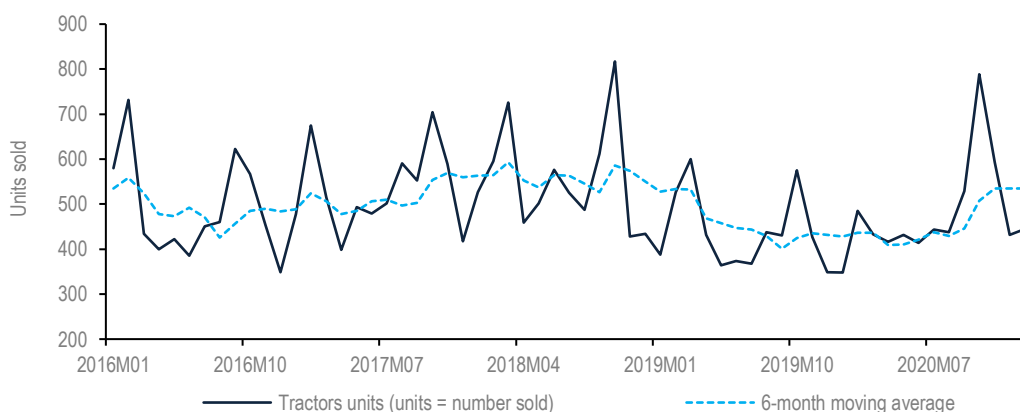
Solid start of the year for South Africa's agricultural machinery sales

South Africa's agricultural machinery sales have had a solid start to the year, with tractor sales up by 28% year on year with 445 units sold in January 2021. The combine harvester sales in the same month were at the same levels as in 2020, with five units sold. These strong sales are somewhat a continuation of the 2020 activity where the tractor sales amounted to 5 738 units, up by 9% from 2019, with combine harvester sales up by 23% from the same year, amounting to 184 units. The underpinning driver is the slightly improved farmers' finances following higher agricultural output in 2020, coupled with relatively higher commodity prices.

As indicated in our note on 18 January 2021; ordinarily, in a year of higher agricultural output, commodity prices would soften. But in 2020 and into the beginning of 2021, the rising demand for grains in China provided support to global prices, which, in turn, influenced the domestic market. The increasing demand for South Africa's grains in Southern Africa and the Far East markets, coupled with the relatively weaker domestic currency, also supported domestic grain prices. Farmers were on the right side of having supplies, in an environment with favourable prices, and thus the slight improvement in the finances that supported the increased machinery sales. The generally higher tractor sales also correspond with the increase in summer crop plantings in 2020/21. The Crop Estimates Committee's first planting estimates data placed total summer grains plantings for 2020/21 at 4.2 million hectares, up by 6% from the 2019/20 season.

Nevertheless, we are still downbeat about the outlook for agricultural machinery sales in 2021. The expected large harvest in the 2020/21 production season might not lead to another year of higher agricultural machinery sales. Typically, a relatively good sales year is likely to be followed by a somewhat lower sales period as the replacement rate of machinery with new ones would usually be down from the previous years. Moreover, there will likely be pressure from weak exogenous macroeconomic fundamentals such as the weaker domestic currency, which will lead to higher prices for imported agricultural machinery. We think such a relatively lower tractor sales pattern would appear from the latter month of the second quarter of the year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association (SAAMA) and Agbiz Research

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Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

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