

## South Africa's monthly tractor sales decline for the first time since early 2020

After registering positive growth since May 2020, South Africa's tractor sales fell by 5% year-on-year in November 2022, with 704 units sold. Still, the current sales are well above the long-term monthly average of 565 units, and reflect an environment where farmers were financially secured and confident about the seasons ahead, and thus increased investment in movable assets.

Essentially, when farmers have a good year, allied industries benefit from spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020, 2021 and the greater part of 2022. During the same period, combine harvest sales amounted to 23 units, significantly up from 8 units sold in November 2021.

The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years and maintained a decent area in 2022. Weather conditions were favourable, specifically in the past two seasons, resulting in a large harvest for two consecutive seasons. This was also when commodity prices remained elevated, supported by global events such as dryness in South America and Indonesia and rising demand for grains and oilseeds in China. Had it not been for higher global agricultural prices, the local grain and oilseed prices would have softened due to large harvests, and that would have weighed down the profitability. Therefore, these past few years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grain and oilseed prices, along with the Russia-Ukraine war, which disrupted the supplies.

Importantly, this year the reasonably higher input costs and rising interest rates did not reduce farmers' spending on machinery as we initially anticipated. In a way, this speaks also to the farmers' confidence about the 2022/23 production season which has recently started.

With that said, the monthly decline in tractor sales in November may be a start of a change in sales trajectory after many months of positive momentum. We suspect that the rate of replacement in the coming months may be low as farmers have acquired new machinery for some time. Also, the rising interest rates will continue to add pressure on farmers. These factors could be the underpinning factors for a decline in tractor sales in the coming months. Still, we are cognizant not to draw conclusions on one monthly data point. We will continue to monitor the activity in the coming months.

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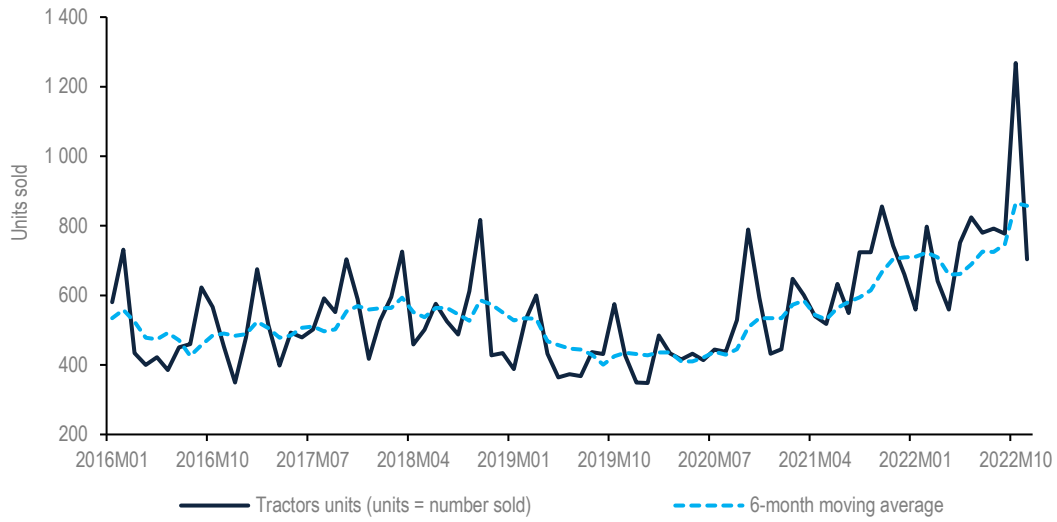
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### Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research