

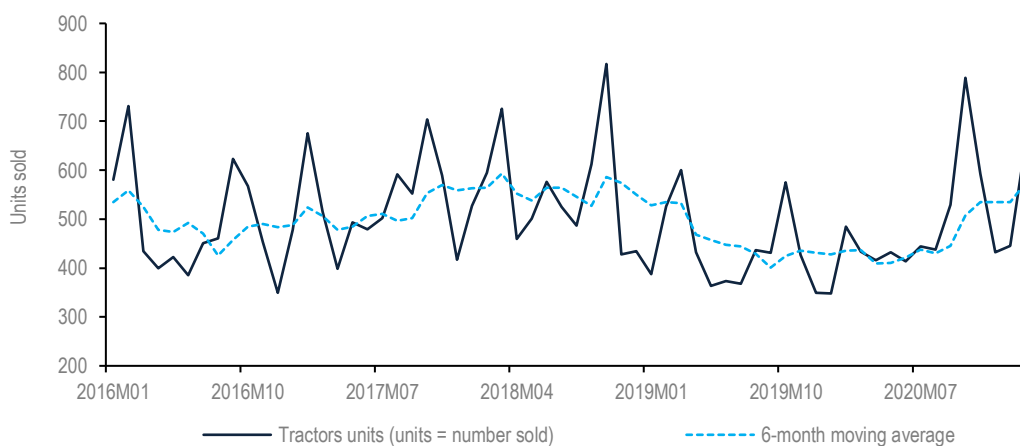
South Africa's tractor sales remain on a positive footing

After a solid start of the year with tractor sales up by 28% year on year (y/y), with 445 units sold in January 2021, this positive momentum continued in February, with tractor sales up again 28% y/y, with 648 units sold (see Exhibit 1). These strong sales continue the 2020 positive activity where the tractor sales amounted to 5 738 units, up by 9% from 2019. The underpinning driver is the slightly improved farmers' finances following higher agricultural output in 2020, coupled with relatively higher commodity prices.

As a recap, 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 higher tractor sales also correspond with the increase in summer crop plantings and expected output in 2020/21. As previously stated, the data recently released by the Crop Estimates Committee show that South Africa's 2020/21 summer grain and oilseed production could increase by 5% y/y to 18,5 million tonnes.¹ Nevertheless, combine harvester sales were not as robust as the previous month in February. The sales fell by 22% from February 2020, with 14 units sold.

Overall, 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.

Exhibit 1: South Africa's tractor sales



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

¹ Summer grains and oilseeds comprise maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans

08 March 2021

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