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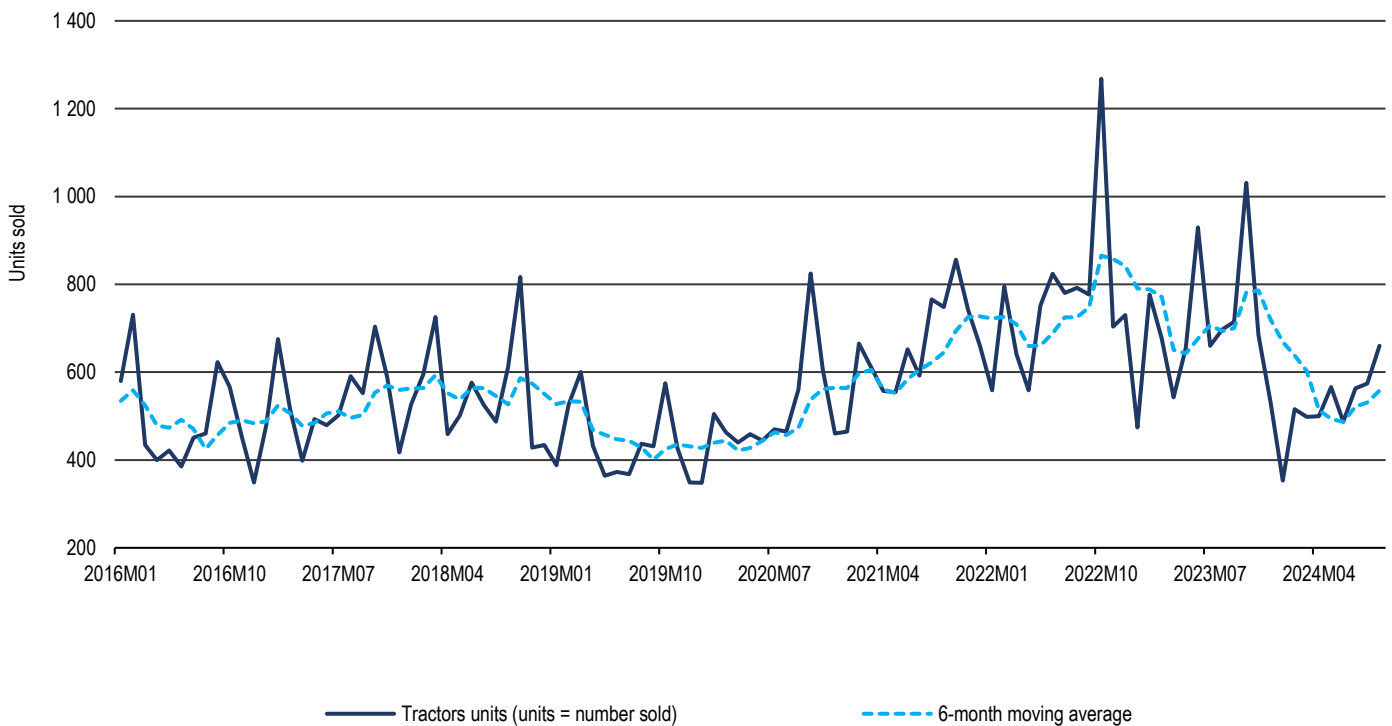
South Africa's weak agricultural machinery sales are not the best indicator for the upcoming 2024-25 season

- Ordinarily, we use agricultural machinery sales to gauge farmers' intentions for the season ahead. When the sales are robust, we are typically positive that farmers are eager for the new season. Equally, we worry about the poor machinery sales. But we are in no ordinary period. The recent months' sales cannot be a guide for the season ahead for various reasons.
- First, the agricultural sector has had a few seasons of higher machinery sales, supported by improved farmers' incomes due to ample harvest and higher commodity prices. Thus, there was bound to be some correction period, leading to moderation in sales. Since the start of 2024, we have been in this "market correction" period for both tractors and combine harvesters' sales. After a few years of higher sales, the replacement rate of the old machines is justifiably down.
- Second, the fact that we also struggled with an intense mid-summer drought did not help. Farmers are under financial pressure because of the crop losses. For example, the 2023-24 mid-summer drought has led to a projected 23% decline in South Africa's summer grains and oilseed production to 15,45 million tonnes. Lastly, the relatively higher interest rates for much of this year also added to the financial pressures in the sector, where farm debt is hovering over R200 billion.
- Thus, the latest South African Agricultural Machinery Association data is not necessarily an ideal guide for the season ahead. As expected, the data shows that in September 2023, tractors and combine harvester sales were down by 8% year-on-year and 6% year-on-year to 660 units and 17 units, respectively. This continues the declining trend we have observed since the start of the year.
- We believe the agricultural season ahead may be favourable and offer a recovery path from a devastating 2023-24 El Niño induced mid-summer drought. There are signs that the weather is shifting towards the La Niña weather phenomenon, which typically brings above-normal rainfall in the country.
- Moreover, the fact that the input costs for farmers ahead of the 2024-25 season are relatively affordable this time adds optimism about the season ahead. For example, in rands terms, most fertilizer product prices were down by roughly 10% year-on-year in September 2024 compared with the previous year. Since fertilizer accounts for approximately a third of the grain farmers' input costs in South Africa, such a price decline significantly improves farmers' finances.
- Also worth noting is that in rands terms, herbicide prices were down by around 20% in August 2024 compared with the same period last year. The prices of insecticides were down by roughly 15% year-on-year in August 2024. Since herbicides and insecticides comprise about 10% of grain farmers' input costs, declining prices help with operational costs. The stronger domestic currency, combined with the

decline of these prices in the international market, is a significant factor behind the decrease in domestic prices. While we highlight the proportion of these products in the grain farmers' costs, they also make a considerable share of the production costs in the horticulture sub-sector. The recent easing in fuel prices at a time of high usage during planting is another positive factor regarding the operating conditions in the farming sector.

- While the agricultural machinery sales data typically indicates the prospects for the season ahead, and the poor sales would be a concern, this time is different. There are distinct factors underpinning poor agricultural machinery sales. These are by no means an indication of the season ahead.
- We remain optimistic that South Africa could recover if favourable rains materialize and support production in the 2024-25 summer crop season.

Exhibit I: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research