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## Fall in tractor sales is not due to farmers' concerns

- One critical data release in South Africa's agricultural sector this past week was tractor sales, which often tell us much about the financial conditions in the sector and prospects for the next season, when approaching planting.
- But, this year, I think one has to look at the sales data differently, particularly when gauging the prospects for the 2023/24 summer crop season. There are various reasons for the recent moderation in sales, which do not necessarily signal downbeat prospects for the season.
- First, one has to appreciate that the relatively more robust agricultural machinery sales of the first half of this year were primarily a tail-end benefit of the past season when large harvests and higher commodity prices boosted grain and oilseed farmers' finances.
- The delays in the delivery of the orders raised the sales figures for the first half of the year. Over the medium term, the sales will probably remain subdued, despite the current 2022/23 large grain and oilseed harvest, but somewhat above long-term average levels.
- The recent month's sales point to this path. For example, South Africa's September 2023 tractor sales were down (-8% y/y), with 715 units sold.
- Although we have a large grain and oilseed harvest, with the 2022/23 maize harvest estimated at 16,4 million tonnes, the second largest on record, and soybeans at a record 2,8 million tonnes, I don't expect a boost in machinery purchases. Furthermore, the prices of these commodities have declined by roughly 15% y/y, specifically maize.
- Also worth highlighting is that tractor sales have been robust in the past few years, therefore, the replacement rate will be reasonably low.
- With the 2023/24 summer crop production season starting this month, farmers are focused on input costs and weather prospects. Although various input cost prices, such as fertiliser and agrochemicals, have softened in recent months, the current price levels are still well above long-term levels, putting pressure on farmers' finances in an environment where commodity prices have declined somewhat.
- Moreover, the high interest rates continue to put financial pressure on them, adding to our downbeat view of South Africa's agricultural machinery sales, although they probably won't be as low as levels seen in 2017/18.

- Still, this does not mean the production outlook is bleak, even with El Nino prospects. As I recently stated in these pages, the outlook from the South African Weather Service remains encouraging. It stated in its recent Seasonal Climate Watch that "the multi-model rainfall forecast indicates above-normal rainfall for most of the country during mid-spring (Sep-Oct-Nov) and late-spring (Oct-Nov-Dec)".
- The service added, "Early-summer (Nov-Dec-Jan), however, indicates below-normal rainfall over the central parts of the country and above-normal rainfall for the north-east."
- This means that some regions of the country, mainly central to western, won't have the same start to the season as the eastern areas. Still, the broad sentiment is that showers will probably support crop germination during the beginning of the 2023/24 production season.
- This is also an encouraging message for horticulture and livestock, as the rains will help production conditions in these subsectors.
- With such weather prospects, combined with generally improved soil moisture from the previous rainy seasons, one should not view the moderation of tractor sales as an indicator that farmers are being cautious ahead of the new season but mainly as reflecting the key factors we outlined as drivers of the current sales trend