

SA agriculture machinery industry saw robust sales in March 2022, but the outlook remains uncertain

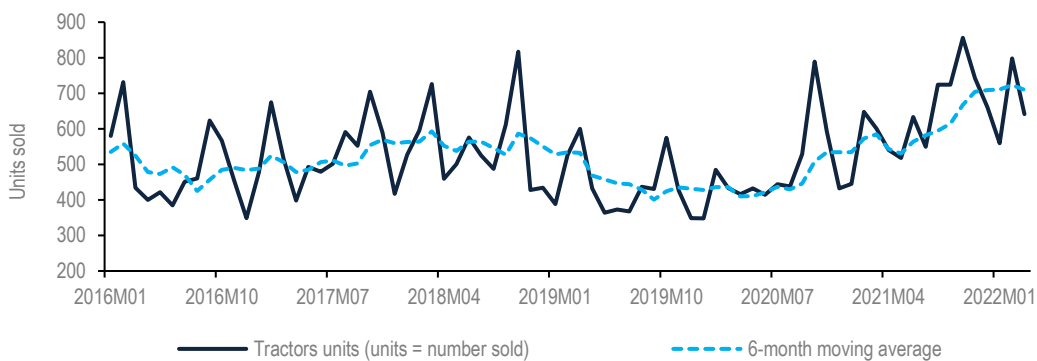
While we maintain a cautious view of the South African agricultural machinery sales outlook in 2022, the high-frequency data confirm that the sales remained robust in the first three months of the year. The tractor sales were up by 5% y/y in March 2022, with 641 units sold. At the same time, the combine harvester sales were up 48% y/y, with 43 units sold.

This builds upon the solid momentum of the past two years. As we set out in the previous month, when farmers have a good year, allied industries benefit from farmers' spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020 and 2021. The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years.

Weather conditions were favourable, 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. The financial gains of these years went to improvement in agricultural equipment, among other activities on the farms.¹

Looking ahead, however, we still believe that 2022 will likely change the trend and show moderate agricultural machinery sales compared to the past year, as the new machinery replacement rate will probably be weak. Moreover, the crop harvest, especially grains and oilseeds, which were the primary drivers of sales in the past few years, will mainly be lower than in the past two seasons. The second production estimates already show a 7% y/y decline with an expected harvest of 17,8 million tonnes of all summer crops in the 2021/22 season. Additionally, the Russia-Ukraine war has led to a notable rise in other farming input costs, such as fertilisers, fuel and agrochemicals, which will strain the farmers' finances.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

¹ For example, South Africa's tractor sales for 2021 amounted to 7 680 units, up by 26% from the previous year. Combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year in South Africa's agricultural machinery sales, so surpassing it means 2021 was indeed an exceptional year. In 2020, tractor sales were up by 9% from 2019. Combine harvester sales increased by 29% from 2019.

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