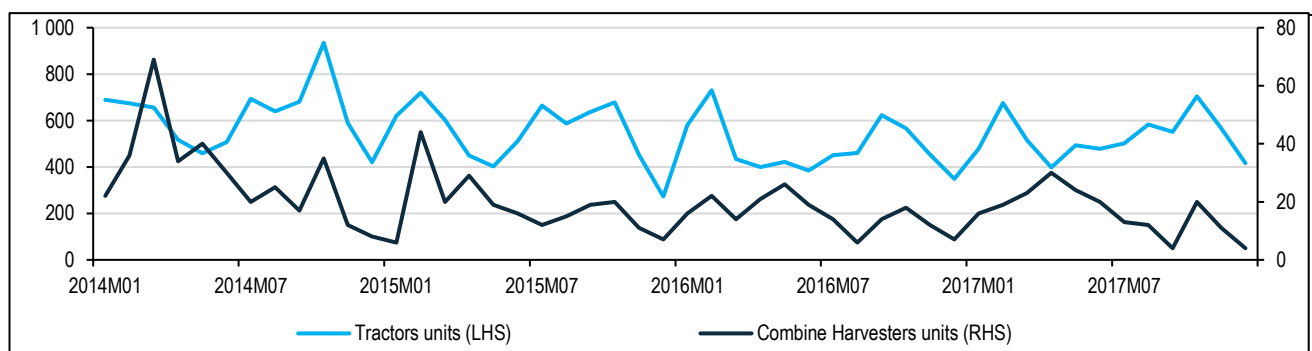


## South African tractor sales grew by 19% y/y in December 2017

South African tractor sales expanded by 19% y/y in December 2017, with 417 units sold. However, this was down by 26% when compared to the previous month, which mirrors a slowdown in field activity as summer crop planting was almost complete in most areas. Disappointingly, the combine harvester sales fell by 43% y/y and 64% m/m with only 4 units sold. This is somewhat unsurprising following poor yields in the winter crop producing areas of the country, particularly the Western Cape province. The overall agricultural machinery sales are likely to soften in the near term due to reduced activity in the fields.

- While there are planting delays in the western parts of the country due to the lack of rain in the past few weeks, South African farmers had planned to increase the total area plantings for summer crops by 1% from the 2016/17 production season to 4.03 million hectares. Therefore, the increase in tractor sales is somewhat reflective of farmers' intentions at the time. This uptick also suggests that some farmers were in a relatively better financial position after the 2016/17 large grain and oilseed harvest. Admittedly, agricultural commodity prices remain depressed, but the higher yields per hectare have, to some extent, compensated for the losses.
- The decline in combine harvester sales can be explained by both lower winter crop output in the Western Cape and Free State provinces, as well as the fact that a large share of the crop was harvested in November 2017. To demonstrate, South Africa's winter wheat production is estimated at 1.48 million tonnes, down by 23% from the previous season owing to disappointing yields in the aforementioned provinces.
- Looking ahead** - We expect tractor and combine harvester sales to soften in the near term due to reduced activity in both summer and winter crop producing areas. An important factor to monitor in the long term is the cost of servicing the farm debt as that would have direct implications on the agricultural machinery sales<sup>1</sup>.

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**Chart 1: South African Agricultural Machinery Sales**

Source: SAAMA, Agbiz Research

<sup>1</sup> In 2016, South Africa's total farm debt was at R144.9 billion, which is a record level in a database starting from 1980.