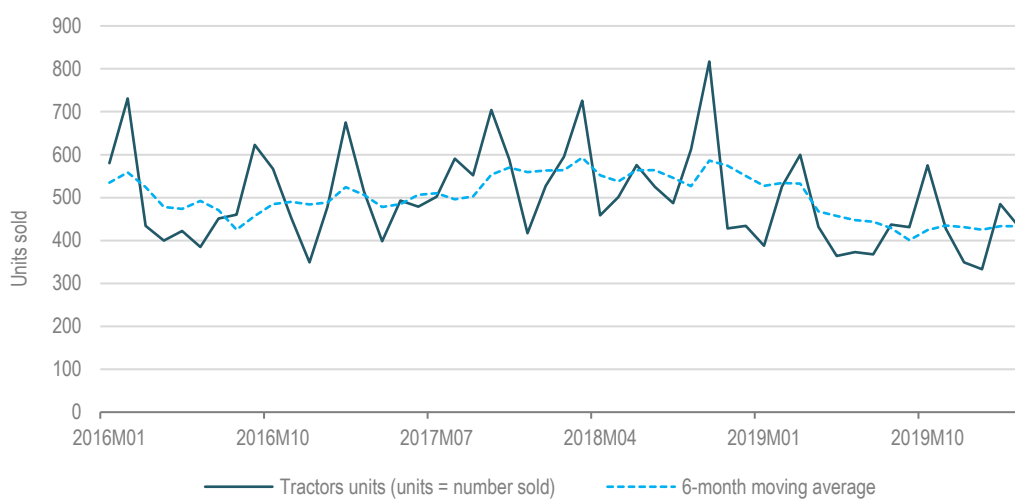


## SA tractor sales to remain weak over the foreseeable future

South Africa's tractor sales have been under pressure since the start of the year. The data released this morning by the South African Agricultural Machinery Association show that tractors sales were down by 28% y/y in March 2020, with 433 units sold. This is the lowest sales level for this particular month on record in a dataset starting from 2014.

### Exhibit1: South Africa's tractor sales



Source: SAAMA, Agbiz Research

The subdued tractor sales are a continuation of the 2019 trend when farmers' finances were constrained because of poor harvest on the back of a drought. Another key point to highlight is that the lower tractor sales of the past couple of months are preceded by robust sales in 2018.<sup>1</sup> This implies that the rate of replacement in 2019 was expected to be low.

Ordinarily, in a year where there are expected bumper summer grains and oilseed harvest, one would expect farmers' incomes to improve somewhat and subsequently an increase in tractor sales. But the uncertainty brought by the COVID-19 pandemic and the weakening domestic currency following the downgrade of South Africa's sovereign credit rating to sub-investment grade could lead to continuous weaker tractor sales performance in the near-to-medium term.

Also, worth noting is that the aforementioned dynamics are unfolding at a time where South Africa's farming sector is heavily in debt. As of 2018, the total farm debt was at record R168 billion. About 60% of the debt is with the commercial banks, 29% is with the Land Bank, with the rest spread between agricultural cooperatives, private persons and other institutions. The escalation of debt, particularly in more recent years, was because of both the expansion in area farmed, specifically in horticulture and to some extent, the financial pressure brought by frequent droughts, which have limited agricultural output on various farms.

<sup>1</sup> South Africa's total tractors and combine harvesters' sales for 2018 amounted to 6 687 units and 200 units, up by 4% y/y and 2% y/y, respectively.

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