

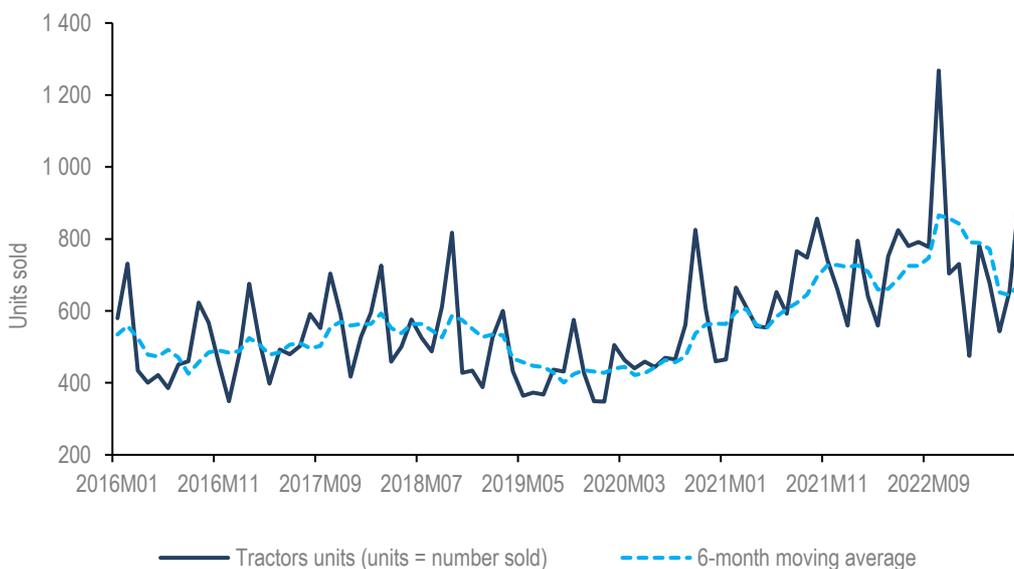
SA agricultural machinery sales remained reasonably strong in June 2023 but will likely soften in the coming months

Surprisingly, South Africa's agricultural machinery industry reported solid sales in June 2023. For example, tractor sales were up by 13% y/y, with 930 units sold – see the chart. Additionally, the combine harvester sales were at 64 units, up 28% y/y. We think these orders were made in the past few months when farmers were still enjoying the gains of the past few seasons' ample harvests combined with higher prices, thus improving farm profitability.

The environment currently has changed. While we have a large grain harvest on the horizon, 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, the prices of these commodities have declined by roughly 15% y/y. Moreover, agricultural machinery sales have been robust in the past few years. Therefore, farmers will likely slow the purchases in the future as the need for replacements of older machinery may not be as high. Moreover, unlike the past few years, where interest rates were more accommodative, the rising interest rates will continue to pressure farmers' finances. Also worth noting is that the relatively weaker rand/dollar exchange rates will negatively influence the farmers' machinery buying decisions.

As we approach the 2023/24 summer crop production season, the farmers' focus will be the input costs. While other input costs prices, such as fertilizer and agrochemicals, have softened in recent months, the current price levels are still well above long-term levels, thus adding pressure on farmers' finances. These are all the factors we believe will slow agricultural machinery sales in the coming months. However, the purchases made earlier in the year may still appear in the recent month's sales, thus giving an impression of continued robust sales, which we think is not the case.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

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