

SA agriculture machinery sales remained robust in July

We continue to be surprised by the solid agricultural machinery sales, which have remained robust in the first seven months of 2022. The data released by the South African Agricultural Machinery Association this past week show that in July 2022, tractor sales were up by 32% year-on-year (y/y), with 662 units sold. Combine harvester sales were at 36 units, significantly up from eight units sold in the same month a year ago. The generally healthy sales are a welcome development, as they indicate a primary agricultural sector still in a reasonably better financial condition and continues to invest in movable assets.

This builds upon the solid momentum of the past two years. When farmers have a good year, allied industries benefit from 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 and the first half of 2022. The farmers, specifically grain and oilseed producers, expanded their area planted in the past two years and maintained a decent area in 2022. Weather conditions were favourable, specifically in the past two seasons, 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. These years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grains and oilseeds prices, along with the Russia-Ukraine war, which disrupted the supplies.

Nevertheless, we remain doubtful about the outlook for the sector. Three major factors could slow agricultural machinery sales in the year's second half. First, the higher farm input costs, such as fertilisers, fuel and agrochemicals, and increasing interest rates could weigh heavily on farmers' finances in the coming months. Second, the solid agricultural machinery sales in 2020 and 2021 could lead to lower replacement rate this year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

22 August 2022

Wandile Sihlobo

Chief Economist

+27 12 807 6686

wandile@agbiz.co.za

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any loss or damage incurred due to the usage of this information.