After a solid performance in 2020, SA agricultural machinery sales to cool off in 2021

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Higher agricultural output gains in 2020, coupled with relatively higher commodity prices, improved South African farmers' finances. The allied industries benefited from this windfall. A case in point is South Africa's agricultural machinery market which registered a notable improvement from the previous year. Tractor sales amounted to 5 738 units, up by 9% from 2019, with combine harvester sales up by 23% from the same year, amounting to 184 units. These sales are nearly as high as in 2018, which was also supported by higher grains output in the 2016/17 production season.

As recorded in the 2020 fourth-quarter results of the Agbiz/IDC Agribusiness Confidence Index (ACI), the agricultural market sentiment remained positive. The ACI rallied to 61 from 51 points in the third quarter, its highest level since the third quarter of 2014. A level above the neutral 50-point mark implies that agribusinesses are optimistic about business conditions in South Africa. The optimism is on the back of both the above-mentioned higher agricultural output in 2019/20 production season, coupled with higher commodity prices and optimism about the production conditions in 2020/21 production season.

Ordinarily, in a year of higher agricultural output, commodity prices would soften. But in 2020 and into the beginning of this year, the rising demand for grains in China provided support to global prices, which influenced the domestic market. Most recently, an added factor is the persistent dryness in parts of Argentina and Brazil, which has also supported the rally in grains prices. The rising demand for South Africa's grains in Southern Africa and the Far East markets, coupled with the relatively weaker domestic currency, also supported domestic grain prices. Farmers were on the right side of having supplies, in an environment with favourable prices, and thus the slight improvement in the finances that supported the increased machinery sales.

The higher sales were also a sign of confidence about the 2020/21 production season's planting conditions. As early as October 2020, farmers already intended to increase the area plantings for summer crops by 5% year on year to 4.15 million hectares. These planting data comprise yellow and white maize, sunflower seed, soybeans, groundnuts and dry beans. There is an expected increase in area plantings of most of these crops, except for sunflower seed, where the area plantings were set to decline by 4% y/y to 480 500 hectares, which would be the smallest area planted in nine years. This likely decline in sunflower seed planting is mainly on the expected shift in some hectares to white maize, in part, due to attractive prices.

As best as I can tell, farmers have followed through with these planting intentions, and the crops are in good shape across South Africa. The preliminary indications suggest that the 2020/21 season might be better than the previous season, at least for certain crops such as maize. At the end of February, the Crop Estimates Committee will release its first production estimates which will provide insights to this view.

However, the large harvest in 2020/21 production season might not lead to another year of higher agricultural machinery sales. Typically, a relatively good sales year is likely to be followed by a somewhat lower sales period as the replacement rate of machinery with new ones would ordinarily be down from the previous years. Moreover, there will likely be pressure from weak exogenous macroeconomic fundamentals such as the weaker domestic currency, which will lead to higher prices for imported agricultural machinery.

In summary, while a sizeable agricultural output supported the allied industries such as farm machinery in 2020, another essential factor is that it followed a year of reasonably low sales, which meant that a need for replacement of some machinery was slightly higher. These fundamentals are different this year. I also think that the stock of machinery imported at a weak exchange rate will be more available this year, pushing prices higher and discouraging buying by some farmers. I am therefore not optimistic about the near-term agricultural machinery sales. However, the agricultural output promises to be a good harvest, and the sentiment in the sector is generally positive as illustrated in the ACI results.

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