

SA agriculture machinery sales paint a mixed picture in September 2022

After a solid run since the start of the year, South Africa's agricultural machinery sales painted a mixed picture in September 2022. For example, tractor sales were up by 4% year-on-year (y/y), with 777 units sold. Meanwhile, the combine harvester sales were at 17 units, down 19% from September 2021. Still, a monthly decline in the combine harvester sales does not change the fact that agricultural machinery sales have been on solid footing since the start of 2020.

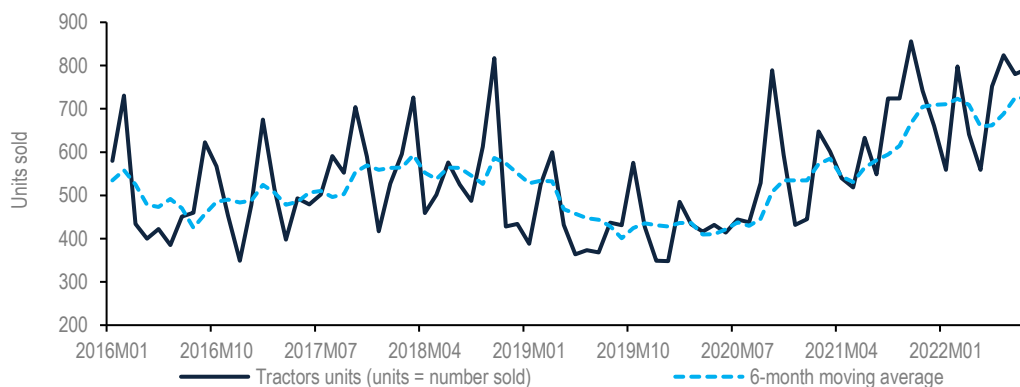
These strong sales over this period indicate a primary agricultural sector still in a reasonably better financial condition and continues to invest in movable assets. As we have previously argued, when farmers have a good year, allied industries benefit from spending the financial gains or the produce of the farming businesses. Agricultural machinery is one such industry that benefited from farmers' spending in 2020, 2021 and the first nine months 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, and that would have weighed down the profitability. Therefore, these past few years' financial gains went to agricultural equipment improvement, among other farm activities. This year, the factors above continued to support grain and oilseed prices, along with the Russia-Ukraine war, which disrupted the supplies.

Importantly, this year the reasonably higher input costs and rising interest rates did not reduce farmers' spending on machinery as we initially anticipated. In a way, this speaks also to the farmers' confidence about the 2022/23 production season which has recently started.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

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