

SA agriculture machinery sales registered solid growth in August

We continue to be surprised by the solid agricultural machinery sales. In August 2022, tractor sales were up by 3% year-on-year (y/y), with 792 units sold. Combine harvester sales were at 24 units, significantly up from 14 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. Importantly, the machinery sales have maintained a positive trajectory since the start of the year and built on 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, 2021 and the first eight 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. These 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.

We had initially thought the agricultural machinery sales this year would be softer than in 2021. But the data we have thus far show that we were wrong. We anticipated that higher input costs and rising interest rates would put financial pressure on farmers, forcing them to reduce spending. Moreover, we thought the solid machinery sales of the past two years would ensure that the rate of replacement of machinery this year would be low. But as the data shows, thus far, the momentum in sales has continued and points to a solid year.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

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