

South Africa saw robust agricultural machinery sales in 2022

Although we expect South Africa's agricultural gross value added for 2022 to have contracted, the year was generally favourable for the sector. The squeeze we anticipate results from mild declines in critical crop harvests such as maize, production challenges in the sugar industry, trade friction in fruits, vegetables, beef and wool, and widespread foot-and-mouth disease weighed on the sector's performance this year. In a slightly more technical sense, the strong growth in the previous two years -- 14,9% y/y in 2020 and 8,8% y/y in 2021 -- created an exceptionally high base, setting the ground for some pullback.

Still, the interlinked industries like the agricultural machinery industry benefited from generally good activities in various commodities of the sector where farmers were in a better financial condition. For example, South Africa's tractor sales for 2022 amounted to 9 184 units, up 17% from the previous year and the highest annual sales for the past 40 years. The combine harvester sales amounted to 373 units in the same period, up 38% from 2021 and the highest yearly sales figure since 1985. The ample crop harvest of the 2021/22 production season (and the 2020/21 and 2019/20 seasons), combined with generally higher commodity prices, specifically grains and oilseeds, helped boost farmers' incomes and, after that, their ability to procure new agricultural machinery.

However, the outlook for this year remains uncertain. On the positive side, the crops, specifically grains and oilseeds, are in reasonably good condition, supported by favourable weather conditions, increasing the prospects of another decent harvest. Admittedly, some regions planted way beyond the optimal planting period because of excessive rains at the start of the season. Still, we believe the crop will be in reasonably good condition. Notably, the farmers planned to mildly increase the area plantings at the start of the 2022/23 season by 0,2% to 4,35 million hectares. With that said, the actual impact of the rain on planting and yields will be clear on 26 January 2023 in terms of plantings data and 28 February in the case of production prospects.

On the negative side, with such large tractor sales in 2022 and solid activity in the two years prior, we are inclined to believe that the 2023 agricultural machinery sales will likely be more muted than the previous season. The possible replacement rate of older machinery will likely be lower this year as the past three years saw increased new machinery sales. Therefore, 2023 will, in all likelihood, not be a repeat of robust agricultural machinery sales, even if commodity prices could remain elevated for some time, as could be the case from the preliminary indications in the global grains and oilseeds market.

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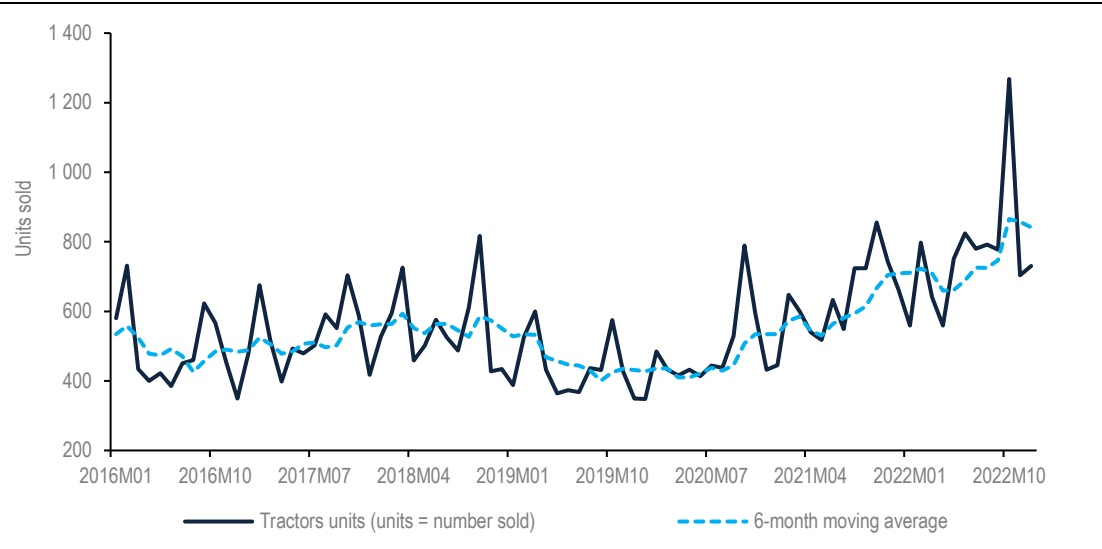
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Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research