What tractor sales tell us about the state of South Africa's agriculture

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In a typical summer season, where there are favourable weather conditions, South African farmers plough roughly four million hectares for summer grains and oilseeds. This comprises maize, sunflower seed, soybeans, groundnuts, sorghum and dry beans. While there remains some uncertainty about the weather conditions for the upcoming summer crop production season, which begins in October, it is fair to say farmers are optimistic and are gearing up for it. The early indicator we have thus far is tractors sales which have remained robust since mid-2020.

Just last week, the data from the South African Agricultural Machinery Association showed that the tractors sales were up by 43% y/y in June, with 633 units sold. If we consider the total tractors sales for the first half of this year, we are already 27% ahead of the corresponding period in 2020, with 3 385 units. However, it is worth noting that sales in the first half of last year were negatively affected by lockdown restrictions, so the base is slightly distorted. Still, 2020 was also a good year in South Africa's tractors sales, and so surpassing it means that we are witnessing some good momentum this year. In 2020, the tractor sales amounted to 5 738 units, up by 9% from 2019.

The large summer grains and oilseeds harvest in 2019/20, and yet another good agricultural season in 2020/21, both of which coincided with higher commodities prices boosted farmers finances, and subsequently, the tractors sales. The relatively stronger exchange rate has also been a positive buffer for the imported agricultural machinery, particularly this year.

Earlier in the year, I was somewhat pessimistic that the 2020 tractors sales' momentum would extend into 2021. I viewed the large grains and oilseeds harvest of the 2020/21 season as insufficient to support the sales. The train of thought was that, typically, a relatively good sales year, such as 2020, would likely be followed by a somewhat lower sales period. This was in anticipation that the replacement rate of machinery with new ones would usually be down from the previous years.

Another factor to kept a close eye on was the exchange rate. Although the current firmer levels supported the sales, I felt that any changes into a weaker domestic currency would likely lead to higher prices for imported agricultural machinery and discourage sales.

Still, while there is always uncertainty about the exchange rate due to numerous domestic and global factors influencing it, farmers improved finance seem to be continuously supporting the exuberance in tractors sales. I am now inclined to revise my view and take a more optimistic one that the tractors sales could maintain a generally positive path this year compared to last year's levels.

I see a similar pattern with harvesters' sales, which in June 2021 were up by 76% y/y with 30 units sold. In the first half of the year, we have seen 154 harvesters, which is a third higher than a corresponding period last year. The previous year was also as favourable as in the tractors sales, with harvester sales up by 23% from 2019. The tractors and combine harvesters' sales tend to go in tandem in times of optimism – large area plantings typically lead to a large harvest. Hence, I hold a similarly view of optimistic view about the harvesters sales this year.

These numbers show us a picture of optimism about the following season and general agricultural conditions from farmers' perspective. After all, we cannot doubt the optimistic picture as this was clear also from agribusiness confidence levels in the second quarter of the year. The Agbiz/IDC Agribusiness Confidence Index, which measures the sentiment amongst agribusinesses and major farming entities, reached a record high (since its inception in 2001) of 75 in the second quarter of this year from 64 in the first quarter of 2021. These results reflected favourable conditions for all subsectors of agriculture, with various crops set to reach record output levels in the 2020/21 season.

The planting season beings in October for summer grains and oilseeds; as such, the sales for the next two or three months will be worth watching. Where I am somewhat pessimistic about the sales is in the last quarter of the year. I fear that the rising input costs, such as fertilizers, herbicides and fuel, could add pressure on farmers finance and thus lead to a change in machinery buying decisions.

Also, the planting will be in full swing, and there would be limited incentive to bring more new machinery. Still, the pace of sales in the first half of the year convinces us that, in aggregate, the annual sales for 2021 could still be larger than the previous year.

Importantly, I believe that the 2021/22 season could see a slight increase in planting. The current season of 2020/21 was 4,2 million hectares, to be exact, a 5% increase from the previous year. We will likely remain at much higher levels or even see a slight inch up in the area planted.

The one factor that we all look forward to right now is the weather outlook. To this end, a positive note is that there aren't prospects of an El Niño or La Niña. The data from the Australian Bureau of Meteorology paint possibilities of a neutral season. This is a view also held by the local weather authorities, who noted on the 28th of June 2021 that "the El Niño-Southern Oscillation is currently in a neutral state, and the forecast indicates that it will most likely remain in a neutral state for the remainder of winter and most of the spring."

In sum, farmers are spending more on agricultural machinery, and I view this not merely as the result of improved finances but also confidence in the coming 2021/22 production season.

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