

Will the robust performance of SA agricultural machinery sales be sustained in the second half of the year?

South Africa's agricultural sector currently faces numerous challenges, ranging from foot-and-mouth disease, protectionism in the EU, rising farm input costs, and deteriorating network industries, amongst others. Still, the benefits of the solid production performance of the sector in the past two years, when commodity prices, specifically for grains and oilseeds, were elevated, are reflected in the machinery sales, which have been robust in the first half of the year. For example, tractor sales amounted to 4 133 units in the first half of this year, up 18% from the corresponding period last year. At the same time, combine harvester sales amounted to 213 units, up by 37%.

Nevertheless, we remain doubtful about the outlook for the sector. In addition to the core challenges, we mentioned above, three major factors could slow agricultural machinery sales in the second half of the year. First, the higher farm input costs, such as fertilisers, fuel and agrochemicals, and increasing interest rates could weigh heavily on farmers' finances in the coming months. Second, the strong agricultural machinery sales in 2020 and 2021 could lead to a lower replacement rate this year. South Africa's tractor sales for 2021 amounted to 7 680 units, up 26% from the previous year. Combine harvester sales amounted to 268 units in the same period, up by 46% from 2020. Notably, 2020 was also an excellent year for South Africa's agricultural machinery sales, so surpassing it meant 2021 was exceptional. In 2020, tractor sales were up by 9% from 2019. Combine harvester sales increased by 29% from 2019. Last, the 2021/22 summer crop harvests are down from the 2020/21 season, which will likely have negative financial implications for farmers.

In sum, we see the robust agricultural machinery sales of the first half of this year at a tail end of the good financial gains of the past years. The coming month, and probably the coming year, will bring some level of normalisation in the agricultural machinery market.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

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