Poor machinery sales for South Africa

By Jyothi Laldas |15 February 2024 | 10:06 am

With another potentially massive fuel price increase on the cards for the country in March, South Africa's poor agricultural machinery sales may be set to continue into the year.

According to the latest unaudited data from the ***Central Energy Fund,*** 95 Unleaded petrol may rise by about R1,35/ℓ, with 93 Unleaded increasing by R1,31/ℓ. Even more bleak is the outlook for diesel, which mainly powers agricultural machinery, predicted to rise by between R1,44/ℓ for 500ppm and R1,58/ℓ for 50ppm.

The estimated increases follow on the heels of increases of 75c/ℓ for petrol and up to 73c/ℓ for diesel in February.

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The wholesale price of 50ppm diesel could go up to approximately R22,30/ℓ at the coast.

This does not bode well for general inflation, owing to the transport costs associated with most products, especially in the agricultural value chain.

Meanwhile, according to Agbiz chief economist Wandile Sihlobo, South Africa’s tractor sales were down 26% year-on-year (y/y) in January 2024, with 353 units sold. At the same time, combine harvesters were down 50% y/y, with eight units sold.

“At face value, this could be viewed as a worrying agricultural machinery sales report, indicating difficulties in the sector. But we have a different reading of it. This is more of a normalisation after a few years of robust sales,” Sihlobo said.

“For example, South Africa‘s tractor sales for 2022 amounted to 9 181 units, up 17% y/y and the highest annual sales for the past 40 years. Combine harvesters also had an excellent performance of 373 units in 2022, up 38% y/y and the highest yearly sales figure since 1985. The sales for the year before were also exceptional.

“Generally strong agricultural machinery sales over the past few years were primarily on the back of large grain and oilseed harvests. In 2023, tractor sales were down marginally from the previous year, while the combine harvester sales held the last year’s momentum. Thus, we think the January 2024 sales begin a correction period.”

He said, while in the past, agricultural machinery sales would be read as one of the early indicators of the health of the farming sector, this time around, the sales should be read differently for the reasons stated.

Sihlobo said the summer crop production conditions were relatively robust in the fields across South Africa.

“We currently expect harvests that will be broadly above the long-term average levels in major summer crops, which again illustrates that the weak sales are not mainly about production conditions, but a lower replacement rate of machinery after years of excellent sales.”

He said the rising interest rates have added pressure to farmers’ finances.
“Machinery sales will likely remain subdued despite the promising agricultural season in 2023/24.”