

# The Agricultural Machinery Industry – An Overview

## *Scope*

Agricultural equipment is primarily required for professional use by farmers in producing foods, and to a growing extent by contractors carrying out such work on their behalf. However, with farmers diversifying, non-food activities have grown and some agricultural machinery is being used to a greater extent outside pure agriculture, for example by local authorities.

Additionally the standard definitions of the sector also cover non-agricultural mowers so any statistical material will normally include items used for the care of lawns, parks and sports grounds.

Nevertheless farming still provides the central requirement and at the core of the variation of demand is the development of farm incomes. Eurostat data show that, for the aggregated EU, farm incomes remained almost static in 2013, declining by 1.3%, largely due to product prices falling by 2% whilst input costs rose, albeit by a modest 0.7%.

## *Influences*

It is often said that the two main influences on the fortunes of farming are those of the weather and politics.

Global weather patterns have been very variable over recent years. Until the 2012/13 season grain supplies had been tight, with correspondingly elevated prices, but harvest 2013 saw more favourable weather conditions that have allowed output to recover with cereal prices adjusting downward quite sharply.

In similar vein dairy products went through an excess demand period where output was constrained at a time of increased global demand with the consequential boost to prices. However, there has since been a recovery in milk output at a time of some easing of demand, notably from China, which has resulted in a plunge in commodity prices.

As for the impact of politics, the reform of the CAP has been paramount with a complex set of arrangements being negotiated with considerable emphasis on 'greening' measures to encourage environmental outcomes. Whilst for the majority of farmers the changes will not be devastating there will over time be less financial support whilst restrictions on farming operations will increase.

Farming does not always march to the same beat as the rest of the economy but it does not stand isolated either. Whilst it suffered less in the economic crisis it will also experience the impact of reduction of public expenditures as governments seek to tackle financial deficits. One area where it does benefit is in its access to credit as the sector has a strong balance sheet which satisfies lenders.

For UK farmers the movement of sterling remains a vital issue. Support payments are determined in euros and converted at an exchange rate at the end of each September. In 2014 sterling appreciated against the euro leading to a loss of 7% of payments in sterling terms.

One crucial structural trend is that farms are consistently reducing in number as output is consolidated and this is likely to continue as cost efficiencies are sought.

## *Issues*

There are naturally a number of other factors that impinge on the market and are therefore issues that occupy the industry; these include:

- the economic constraints
- legislative changes
- meeting noise and emissions limits
- currency movements
- land usage concerns
- environmental objectives

### *Consolidation*

All these forces encourage greater adaptation to the market and create pressure to gain efficiencies and to reduce unit costs. The customer base is shrinking but the dependency upon reliable mechanisation becomes ever greater. The trend in the number of units sold may reduce each year but the increase in size and sophistication largely compensates.

Just as the client profile consolidates so too does the supply industry, in fact at a greater speed. There are now a handful of true multinational companies that each have a tractor range at the heart of their offering, plus a modest number of multi-range machinery suppliers, all supplemented by a still numerous but rapidly reducing set of national players or niche specialists.

### *Distribution*

The distribution network is equally consolidating and shrinking but dealers remain a crucial element in the relationship between manufacturer and customer – few companies sell direct. For larger products, notably tractors, a single franchise remains the norm but smaller products are handled by many competitive outlets. A major challenge lies in the ability of dealers to fully support products of growing complexity whilst struggling with limited profitability.

### *Global market*

The annual world market for agricultural machinery has been estimated at €96 billion in 2013 (over £75 billion at today's exchange rates). A precise figure is difficult to come by as much business in the developing world is conducted locally. What we can say is that 2013 was probably at a record level and a small contraction is likely for 2014.

Of the measured sales volumes, over a third of agricultural equipment by value is recorded as being produced in the EU whilst a further quarter is produced in North America. China now produces at least 10% of global output and Latin America and India account for some 15% between them whilst Japan and Eastern Europe take less than 5% each.

### *Tractors*

In terms of tractor output, the picture is clouded by the existence of small units in developing economies but in round terms the global output of tractors of a size considered as agricultural in developed markets is of the order of 500,000 units each year whilst another perhaps as many as a million units of lower power are produced in Asian countries such as India, China and Korea plus other developing areas. The output of tractors in the EU27 in 2013 was estimated at over 200,000, showing that a large part of global tractor production of larger agricultural units as we recognise them took place there. However, the production in Asia is increasing rapidly and rising through the power range.

For major UK companies see members' directory.