

AEA



The Agricultural Engineering Market

Scope

The agricultural engineering market consists of two main components:

- Equipment primarily required for professional use by farmers in producing foods and contractors carrying out such work on their behalf.
- Equipment used in forestry, lawn care and sports grounds, along with other similar places

The farm equipment sector mainly covers machinery used in the field, either for the growing of crops or for the management of grassland, or in processing material once it has been harvested. The market ranges from large, expensive machines like combine harvesters, tractors and balers, which can sell for six figure sums, to much smaller implements like mowers, rakes and loaders which are pulled by or attached to tractors.

Some agricultural equipment, including much of what is used in livestock husbandry, is not provided by AEA members, although milking equipment is covered by our sister organisation the [Milking Equipment Association](#).

The outdoor power equipment sector includes equipment such as mowers, chainsaws, hedge-trimmers and compact tractors. There are also some types of equipment which are used by both farmers and others, such as ATVs, utility vehicles and telescopic handlers.

Examples of the main types of equipment covered by AEA member companies can be found in the directory [LINK TO BE ADDED]

Influences

Farm structures

The state of the UK market for farm equipment is very closely linked to the fortunes of farming. There are a little under 220,000 farm holdings in the UK, although many of these are relatively small. Around 75,000 of the holdings have a total size of 50 hectares or more and they account for nearly 90% of agricultural land between them. In 2016, out of the total of 200,000 farms, just over 50,000 grew cereals crops, 82,500 had cattle (including just under 21,000 with dairy cows), 77,000 had sheep and 10,900 had pigs.

Over time, the trend has been for fewer, larger farms and this trend is expected to continue. In addition, there has been an increase in the number of businesses owning multiple farm holdings, including some with large numbers of holdings. Therefore, the number of farming businesses will be smaller than these numbers indicate. There has also been a rise in the use of contractors within farming. In some cases, this involves contracting out the job of managing a farm to another farm business, usually referred to as “contract farming”. In other cases, it involves the employment of

contractors to carry out particular tasks, for example harvesting, often where large, expensive machinery is needed, which would otherwise sit idle for most of the year.

Weather

UK prices for crops, and particularly cereals and oilseed rape, are heavily influenced by global market prices. These, in turn, are largely driven by weather and its effect on crop yields. A series of weather issues led to several poor harvests between 2008 and 2013, which meant that prices for many crops were elevated.

Since then, the last five harvests have seen more favourable weather conditions across the world. This has allowed production to recover, with prices adjusting downward quite sharply. Stock levels are currently high and this will mean that, even weather conditions are less favourable in 2018/19, prices may not rise that quickly. However, with demand ever-rising, markets could quickly return to volatility if output does decline over a longer period.

Local weather also has an influence on crop prices, affecting the level of UK prices relative to the global market. The last couple of years have seen relatively tight supplies on the domestic grain market, meaning UK prices have been towards the upper end of the range of global market prices, even before taking into account the effect of currency (see below).

Although slightly less exposed to the rest of the world, the market for livestock products, such as milk and dairy products, is also influenced by global trends. Dairy markets have been through periods of both high and low prices of late, due to fluctuations in both production (influenced by weather conditions) and demand. Prices were particularly low during 2015 and 2016 but have since recovered to some extent and ended 2017 not far short of their record high.

Local weather conditions are also influential on the outdoor power equipment market. As many of the products involved are used in connection with leisure purposes, demand for them rises when weather conditions are good and falls when weather is poor.

Politics

As for the impact of politics, the dominant issue for UK farmers recently has, of course, been Brexit. The most obvious impact so far has been the depreciation of the pound against other currencies, notably the euro. This has the effect of increasing prices for UK farm produce, as it makes imports more expensive and exports more competitive. Added to this, the currency movement has also increased the value of support payments to farmers under the EU's Common Agricultural Policy (CAP), as these are based on euros. Farm incomes are projected to be much higher since the referendum, as a result.

The value of the pound also has an influence on the price of agricultural engineering equipment, given that much of it is imported. A weaker pound means that prices will be higher and a stronger currency has the opposite effect. This applies to both farm and outdoor power equipment and could be an important influence on how both markets develop in the coming months.

There are many issues around Brexit which will impact on farming in the longer-term. Among the most important are the trading relationships with the EU and with major non-EU countries (some of the most important are the USA, China, Brazil, Australia and New Zealand); the availability of

migrant labour (farming being a major employer of migrants, both permanent and seasonal); future UK agricultural policy (which may differ in England, Scotland, Wales and Northern Ireland); and the approach to regulation. Many of these issues will also impact directly on machinery manufacturers, along with customs-related issues such as rules of origin.

Until the Brexit vote, the CAP had been the key influence, with recent developments including the considerable emphasis on 'greening' measures to encourage environmental outcomes. This has led to some changes to farming practices and, thus, to the type of machinery required.

Economics

Farming does not always march to the same beat as the rest of the economy (people still need to eat, after all) 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.

However, the market for outdoor power equipment is much more dependent on the general state of the economy. Many of its sales are to individual consumers while others are to industries which are highly dependent on consumer demand (e.g. golf courses). There are also sales to public sector organisations which are dependent on the level of public spending and have struggled as a result of austerity policies.

Other influences

Beyond the fortunes of farming, there are naturally a number of other factors that impinge on the farm machinery market and are therefore issues that occupy the industry; these include:

- Wider legislative changes
- Meeting noise and emissions limits
- Environmental objectives
- International trade agreements
- Global commodity prices

Industry structure

Competitive forces, such as those outlined above created pressure for farmers to gain efficiencies and to reduce unit costs. One effect of this is that the customer base for farm machinery is shrinking but larger businesses have greater dependency upon reliable mechanisation. The increased use of contractors, who have a need for a larger number and wider range of machinery than would be the case for individual farms, has also contributed to the overall trend for the number of units sold to reduce over the long-term but with an increase in size and sophistication largely compensating for this.

Just as the client profile consolidates so too does the supply industry, in fact at a greater speed. Widespread acquisitions mean that there are now a handful of multinational companies that have a tractor range at the heart of their offering. It has also led to a modest number of multi-range

machinery suppliers, supplemented by a still numerous but reducing set of national players or niche specialists.

This structure means that most new agricultural engineering equipment sold in the UK is imported. The number of companies manufacturing equipment in the UK has reduced but many of those which remain are exporting, to countries both inside and outside the EU. In addition, there are significant exports of used machinery.

The distribution network is also 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 to be worth around €100 billion. A precise figure is difficult to come by as much business in the developing world is conducted locally.

Of the measured sales volumes, over a quarter of agricultural equipment by value is recorded as being produced in the EU while nearly another quarter is produced in North America. China now produces at least 15% of global output and Latin America and India account for some 15% between them, while Eastern Europe makes up perhaps 6% and Japan less than 5%.

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. Perhaps as many as 1.5 million units of lower power are produced in Asian countries such as India, China and Korea, plus other developing areas. Annual European sales of tractors are typically between 150,000 and 200,000, showing that a large part of global tractor production of larger agricultural units as we recognise them took place there.