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Economic Boom for Five Years

For the agricultural machinery industry, the positive economic cycle is continuing with undiminished vigour. The largest growth ever achieved in the industry is expected in 2008: a sales plus of 25% to more than € 7.5 billion. While other branches of the mechanical engineering industry recorded their strongest growth in 2007, the agricultural machinery industry is still fully using its capacities. Customers feel a clear tailwind in the sales of agricultural products and use higher incomes to invest in modern technology. Thus, they are well positioned for the increasing worldwide competition on the agricultural markets.

In addition to the big sites in North and South America, the agricultural machinery industry, which produces for the world market is located mainly in Western Europe. In 2007, the approximately 1,000 agricultural machinery manufacturers in the European Union had a production volume of about € 23 billion, which accounts for 40 % of the estimated worldwide production value of € 57 billion. Germany is the largest producer of agricultural machinery in Europe with a current share of 25 %, followed by Italy, France and the UK. While agricultural machinery or at least its components are manufactured in almost all European countries, tractors are produced and assembled in only nine countries of the European Union. In the past three years, the production volume amounted to approximately 230,000 units per year with Italy being the largest location with regard to unit numbers. Production is mainly destined for the European market.

So far, Western European markets have been considered saturated. Since farmers have been making more money selling grain, oilseeds, meat and milk, however, they continue to invest in machinery despite a comparably high degree of mechanization and thus strengthen the positive economic development in the agricultural machinery sector. In the past weeks, however, pictures of protesting dairy farmers who spread their milk on the fields and block access routes to dairies showed across Europe that the cus-

tomers' income situation is not untroubled. Even though the price of one litre of milk is higher than it was two years ago, many farmers consider their existence threatened due to sharply rising operating costs and regard strong price fluctuation as a great danger.

The world market needs more food and feedstuff. Perhaps not least as a result of the high mechanization degree, the Western European market is decisive for worldwide agriculture and is expected to keep this leading position due to constant renewal of its machinery. The discussion about the great volatility of the agricultural markets and insecurities in the supply of the population with food, especially in poorer parts of the world, has led to the widely adopted conviction that only better utilization of the areas intended to be used for agriculture can keep the situation on the market and thus keep food prices at an affordable level. Thus, a sufficient number of high-capacity combines is necessary for harvesting, or electronically aided implements are required for the demand-oriented, resource-protecting distribution of fertilizer and pesticides.

Development in Germany

In 2008, the production of agricultural machinery in Germany will increase as never before: by ca. 25%. In the first quarter, growth amounted to 24%, and the increase on the domestic market was even over-aver-

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Literature

Business report 2007 and 2008 of the VDMA Agricultural Machinery Association. This report can be called up on the internet under www.vdma.org/landtechnik in the section "Economic Affairs".

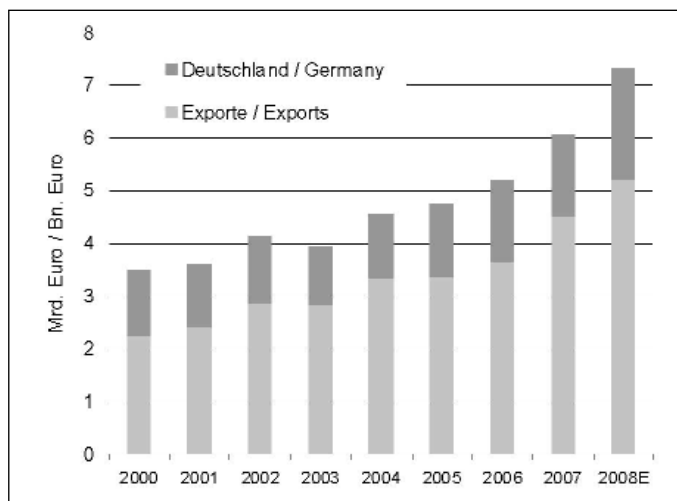


Fig. 1: Sales of the German agricultural machinery industry

age. For approximately one year, virtually all manufacturers have been working at the upper limit of their capacity and are now significantly increasing their staff in the form of temporary workers and hired employees in the second consecutive year. However, qualified personnel is missing both at the level of skilled workers and in particular at the engineer level.

Within the past six months, average delivery times have increased by three months. Especially some manufacturers of tillage equipment are "booked up" until the end of next year. The customers adapt to these delays by placing their orders earlier than usual. In addition, surveys showed a rather relaxed attitude among customers with regard to this bottleneck. The reasons for the delays are well-known and understandable. Moreover, joy over the boom of agribusiness and the resulting greater self-confidence of the agricultural industry in society seems to be prevailing.

Global Market Development

Central and Eastern Europe was and is the boom region of the past ten years. Since the dissolution of the Soviet Union, agriculture was severely neglected, and resources which are unique with regard to soil quality and the enormous areas remained unused. Only almost ten years later did a remarkable wave of investments begin: Since the year 2000, the annual growth rates of exports have clearly been in the two-digit range. German manufacturers were always ahead. Later, manufacturers from Italy, France and the UK also took advantage of the enormous potential. In 2007, the export value of agricultural machinery exported from Germany to Russia reached € 600 million, which is a sevenfold increase over the value of the year 2000. In the first months of the year 2008, the increase in exports to the main markets Russia and Ukraine continued. By the end of the year, however, growth is expected to slow down.

On the Central European markets, which included Poland as an important grain producer with a large number of farms or Hungary as a country which specializes in maize and renewable raw materials, accession to the European Union played a key role. At the beginning, scepticism prevailed among farmers before they began to receive large amounts of subsidies for the development of rural structures after their countries started to participate in the agricultural policy of the European Union. Since then, investment decisions and, hence, the entire economic cycle in the agricultural machinery sector have largely been dependent on subsidy programmes. For the entire region from the Bal-

Fig. 2: The agricultural machinery manufacturers are currently operating at their capacity limits (Photo JCB)



tic states to Slovenia, slight growth can be expected again in 2008. In some regions, satisfaction with the general conditions has diminished, which is partly the result of continuously low pig prices. Currently, however, a good harvest is expected.

Development in Western Europe

Western Europe still provides the largest market volume for European manufacturers. Here, the most important influencing factors remain positive: in addition to high or at least increased producer prices for important agricultural products (meat and grain) and the resulting growth in the customers' incomes, expanding farms still require investments while the total number of farms continues to decrease. Regarding income, however, the cost situation of the farmers is a big drop of bitterness. Nevertheless, France and Germany as the largest markets are going to grow significantly this year. Italian agriculture, however, showed a rather backward-oriented development in the past years and invested only little in new machinery. In 2008, no upswing is expected. In Spain, however, the situation is better. Business development in the UK is also surprisingly good with an increase by one fifth in the past year and another two-digit growth in 2008. The smaller markets, such as Belgium, Denmark, and Austria also show a very positive overall development. Here, the mood in agriculture has for the most part not been this good in a long time. Pig-rearing regions in Denmark and the Netherlands, where higher feed costs and low prices lead to losses, are likely to be the only exception.

Altogether, the Western European market could grow by 5% this year. In the first four months, the number of tractor registrations on large markets, such as France and Ger-

many, showed a clear two-digit increase. Over the course of the year, however, this growth trend is going to weaken.

Development overseas

For the European industry, Asian and South American countries are only marginally important. In South America (mainly limited to Argentina and Brazil), the agricultural machinery industry is currently experiencing a significant upswing after the market had shrunk by up to 50% in 2004 and 2006 and production had to react accordingly. The potential of the region for the cultivation of soya and renewable resources, which have meanwhile become highly controversial, is enormous and will lead to a greater demand for forage harvesters and other harvesting machines or direct drilling implements. European industry is already looking at some Asian countries. Currently, numerous Western component manufacturers, which produce locally and also equip national agricultural machinery manufacturers are trendsetters.

For the German agricultural machinery industry, North America currently only accounts for about 9% of the export value. In 2007, sales decreased by 7%. This is mainly the result of the unfavourable exchange rate of the euro. Given the greater importance of bioenergy and the good incomes achieved with grain, the market is growing at a similar rate as in Europe. In the current situation characterized by full capacity utilization, however, the domestic agricultural machinery manufacturers rather continue to focus on the domestic markets or the east in 2008.