Economic Committee

Tractor Market Report

Calendar year 2014

1. Global trend

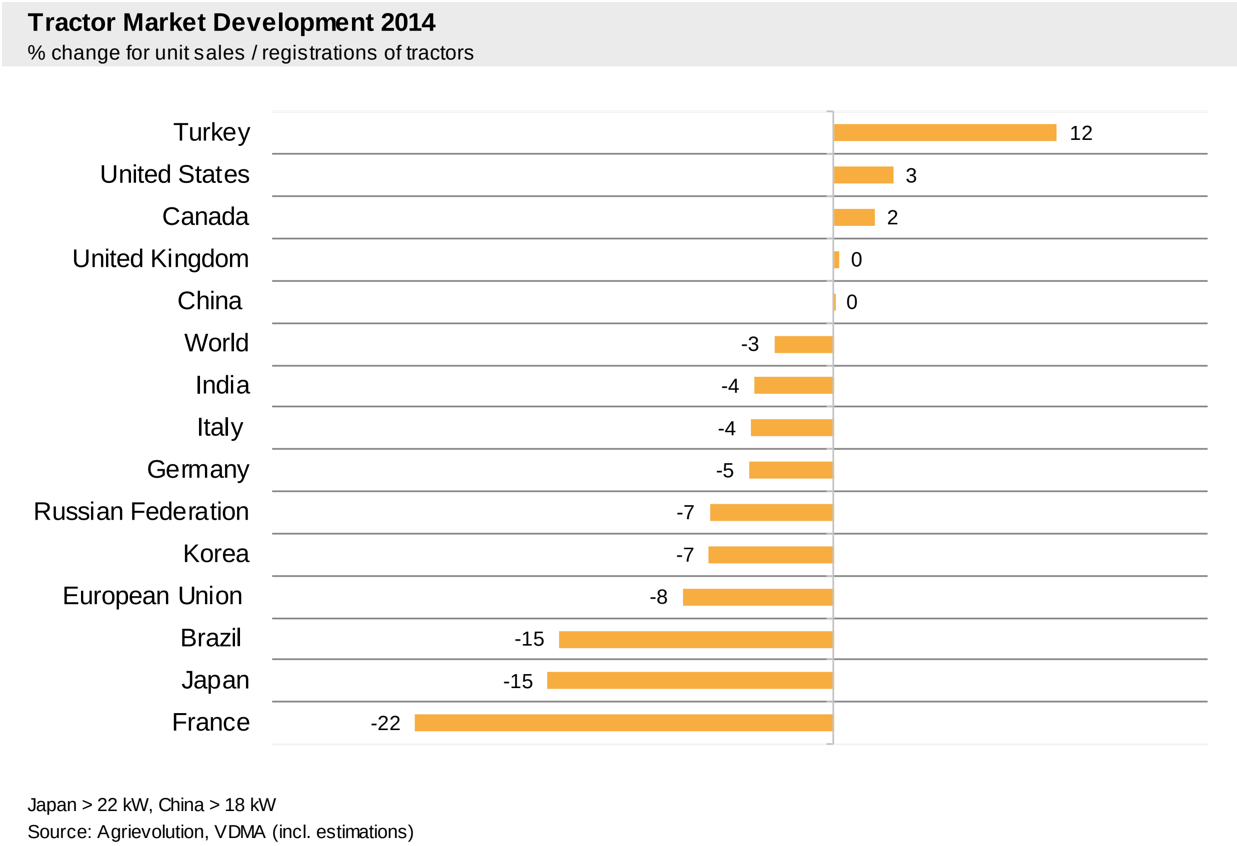
The number of new tractor sales is estimated to be 2.1 million units[1] for the year 2014. The world market trend was a slight decline though, but with high regional variation. The “big volume markets” continue to be China and India, where ca. 50% of the units sold worldwide are registered. On the other hand, most of these tractors have much lower average power (and price) than the tractors used in the mainly large scale farming structures in major agricultural countries like the US, Brazil and Russia or the intensive farming sites in Western Europe. The European market represents a considerably high weight for global industry turnover. According to preliminary calculations for 2014, the turnover value with tractors in the EU was EUR 8.2 billion (2013: 8.7 billion), which might correspond to 20-25% of the global industry turnover with tractors. On the other hand, the EU only represents 8% of total units sold. The average value (invoice level to dealers) of a tractor sold in the EU was EUR 43,000[2] – much higher than in most of the other markets and more than double of the estimated world average.

Sales of new tractors in the Agrievolution countries (in units)

	2010	2011	2012	2013	2014	%
Canada	22.834	24.117	25.449	27.542	28.144	2
United States	164.894	168.013	185.333	201.851	208.274	3
Brazil	56.420	52.296	55.810	65.089	55.537	-15
Japan (> 22 kW)	16.363	17.222	19.001	24.721	20.944	-15
China (> 18 kW)	320.000	367.000	416.000	524.500	524.600	0
Korea (> 22 kW)	15.280	14.291	13.471	12.853	12.000	-7
India	520.073	612.687	529.956	619.159	592.942	-4
Russian Federation	21.085	36.997	41.827	40.158	37.500	-7
Turkey	36.072	60.466	50.320	52.285	58.500	12
European Union	167.517	187.352	184.255	184.335	169.500	-8
of which: France	29.123	35.409	38.754	42.656	33.127	-22
of which: Germany	28.587	35.977	36.264	36.248	34.611	-5
of which: Italy	23.323	23.431	19.343	19.018	18.178	-4
of which: United Kingdom	14.486	15.217	14.964	13.490	13.526	0
World	**1.700.000**	**1.900.000**	**1.950.000**	**2.200.000**	**2.130.000**	**-3**

China: statistic definition changes in 2013 and 2014
Source: Agrievolution, VDMA

[1] Referring to „agricultural tractors“, with Chinese production > 25 hp and Indian production over all hp segments included
[2] Market volume EUR 8.2 billion deduced by an estimated 10% of second-hand imports and divided by 169,500 units



2. The Americas

During 2014, a pronounced upswing on the American tractor market came to an end. With more than 235,000 tractors sold in North America (USA and Canada), the volumes approached the very high levels at the beginning of the 2000s again. In both countries, the “semi-professional segment” below 40 hp stands for around 50% of the market volume respectively. While demand for these lower power categories had calmed down considerably between 2009 and 2011, i.e. in the course of the financial and subprime crisis, a clear recovery could be observed in the past two years, with sales exceeding the 100,000 units mark again in the US alone.

In **Canada**, the overall tractor market was “flat”. The 28,000 units in 2013 and 2014 were clearly above the long term average, which is 24,500 (5 years) respectively 23,500 units (10 years). The outlook on 2015 is cautious, as investment need is supposed to be much lower than in previous years and income of the arable farms has become less due to the price drops – despite a bumper crop harvest in 2014.

The **US** market showed a clear downward trend for the high horsepower units (32,200 units were -34% compared to 2013 in the segment > 100 hp), but one has to admit that these high sales figures never have been reached before. The average annual sales number over the past decade in this category was 25,000.

A realistic estimation for the entire North American market could be a decrease by one fifth in 2015, towards previous average levels. Tax incentives are much reduced now in the US. The major obstacle is the over-supply of the market, so that much depends on movements towards a market clearance for the high second-hand machinery stocks.

The third country forming part of the Agrievolution Alliance on the American continent is **Brazil.** The last peak of this market was – similar to the US for the professional farming segment – in 2013. More than 60,000 tractors were sold, many of them with smaller engines due to a special subsidy scheme for small family farms. In 2014, the market came back to the levels of 2010-2012 with around 55,000 units, of which ca. every third has an engine >100 hp. The Brazilian market remains highly subsidized (although only for domestic production machines) mainly through its loan subsidy programs (e.g. FINAME).
2015 is supposed to show a weaker market trend, though the general conditions on the market remain favorable. The general Brazilian economy might have difficulties and the industry facing certain obstacles, but the farming sector will continue growing. So a decline by “only” 5-10% for tractors might be realistic at the moment.

3. Europe

While sales on the American and Asian markets have gone up amazingly over the past years, sales on the European continent “underperformed” in most cases. The manufacturers always find very different circumstances here from country to country, so that the growth rates are getting balanced out when we look on the total European sales. Nevertheless, with a decline by 8%, the trend was quite clear in the past year. On the other hand, a sharper drop of demand in 2015 does not seem to be realistic.

The formerly biggest market is **France** with a still relatively high number of potential customers (> 450,000). In 2013, the number of tractor sales went down to 33,000 units (respectively 30,000 units above 30 hp), a decline by more than 20%. So the French market probably has experienced the highest decline among the major tractor markets in the world in 2014. But the comparison level was astonishingly high. Over the whole period from 2008 to 2013, with exception of 2010, the French farmers invested heavily in their machinery park with an average tractor sales number of ca. 40,000 units. This number will hardly be reached again in the near future. In 2015, another drop by up to 10% could be possible – depending on the general market trends as commodity prices, but also the transformation impact for the agricultural sector under the new agricultural policy scheme.

According to the weak trends in the neighbor country, **Germany** has become the biggest tractor market in Europe in 2014. In the European context, the trend here was more flat with only 5% decline of the market, more pronounced in the segment below 100 hp. It is an illustration that the medium sized dairy farms have become more cautious in the course of the price drop for their milk production. The average size of a new tractor sold in Germany for the agricultural purpose is currently 155 hp, and every fifth tractor has more than 200 hp of engine power. According to customer surveys, demand for new tractors in 2015 will be 10% lower, so that Germany ranks within the European markets with the highest decline rates this year.

The **Italian** association mentioned in their press communication that the “lowest figure in the entire postwar history of mechanization in Italy” has been reached in 2014. Especially November and

December were quite disappointing months, with barely more than 1,000 units registered. Indeed, the number of 18,000 units sold for the full year seems very little considering the high number of farms that exist in this country. The market trend was a constant decline over the past years, and many market analysts ask themselves where the bottom line is supposed to be. Compared to Germany, where 20% of the tractors were equipped with a minimum 200 hp engine, this share in Italy was 4% in 2014. In the past year, the decline for the higher hp segments was even above the total trend. Much demand is concentrated on the strongly diversified small scale agricultural sector including the cultivation of fruit, vegetables and wine.

After a contrary downward trend in 2013, tractor sales were "flat" in 2014 for the **United Kingdom.** A stronger upswing in the first half of the year was followed by weaker trends in the second half – an effect that could be seen in the context of falling commodity prices for farmers. 17% of the tractors were above 200 hp (compared to 15% in 2013). An assumption for 2015 would be that the British market does not deviate too much from the slight downward trend for Europe.

Some recovery occurred on the **Spanish** market in the last year – the 10,000 unit threshold was surpassed again. **Poland** experienced another decline by 5% to 14,000 units, and **Austria** surprised with a 19% decline to only 6,500 new tractors on the market in one year. The forecast for 2015 in the European Union is a 7% decline to 158,000 units.

In **Russia,** tractor sales in 2014 decreased by ca. 6% to 37,500 units. But the total number does not reflect the market development for professional farming: Especially in the course of the second half of the year, the number of tractors in the segment between 50 and 100 hp went down sharply, by more than 30%, while sales of very small tractors below 30 hp increased. On the other hand, the top power range tractors were "flattish", with certainly more tractors sold from Belarussian production (typically in the 120 hp range).

4. Asia

Japan experienced only a short-term boom period on the agricultural machinery and tractor market in 2013. After the last spring season, tractor sales went down very sharply. At the end, -15% was the result for the calendar year 2014, but 40% of the annual sales were made in the first three months!

From the analytic point of view, the **Chinese** tractor figures are difficult to manage. Without doubt, in 2014 the Chinese agricultural machinery market in total left its permanent and solid growth of the past decade behind. Especially in the first half of the year, declines by more than 10% were reported, with higher decreasing rates in the small power ranges. The total reported tractor number of 2.2 million (including one-axle tractors and many other devices) is showing an 11% drop over 2013. On the other hand, the professional farming sector continued to invest in new tractors and machines, so that the indicated "flattish" tendency by the national association for the bigger tractors, or at least an only slight decline, seems a realistic result of the relevant market segment for 2014. Dynamics in sales increased somewhat in the second half of the year again. Professional users (co-operatives, contractors) are gaining ground on the market, but there are also certain profitability problems in the sector, e.g. among the dairy farms in the North of the countries, that may have a slowdown effect on the market in 2015.

Representatives from **India** tend to mention with certain pride that their market has the leading position for tractors worldwide. Indeed, the numbers are always impressive. In the calendar year 2014, 593,000 units of tractors were sold on the subcontinent. After a strong first half of the year, sales went down from month to month, especially in the last quarter of the year. But this trend was stronger for the very small size categories, which are predominant on the market. It seems that the Indian market could reach similar levels again in 2015.

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