

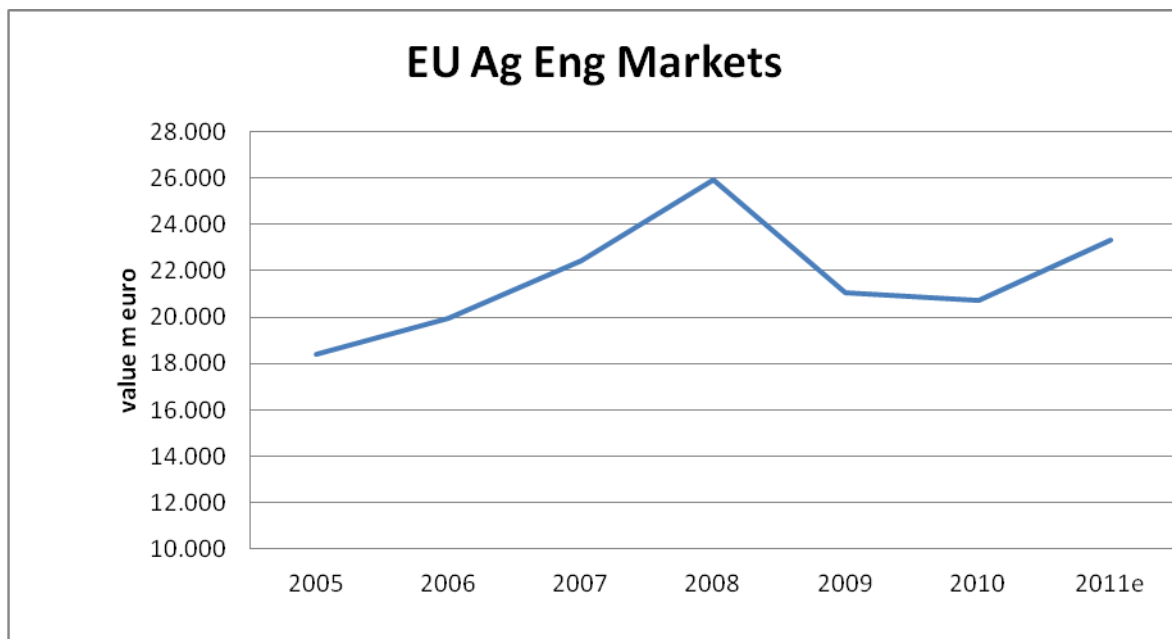
Economic Report

EU Farm Equipment Markets Mid-2011

4 August 2011

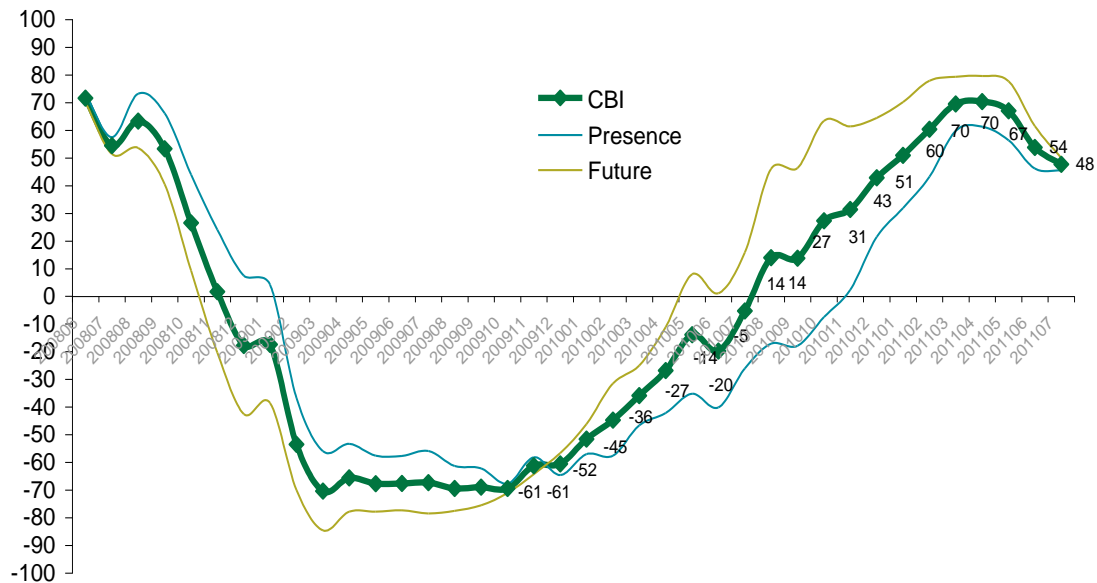
The last few years have been turbulent for agricultural equipment with significant shifts in demand and trading conditions. The sector is less affected than others by the general industrial economic environment as it depends on the fortunes of agriculture, which can be influenced by other forces such as climatic conditions, but it cannot stand in isolation. In 2008 the industry enjoyed very strong trading with high product prices encouraging investment but the combination of the financial crisis and declining crop prices led to sharp retraction evident in 2009 when the total value of EU markets for farm machinery plunged by nearly 20%. During 2010 some recovery emerged but at different times in various markets with the main stimulus coming when grain prices all but doubled from July onward. Taken on an annual basis the overall value of EU farm equipment markets dropped marginally, by an estimated 1- 2% to some €20.7 billion, but there was a distinct difference between the first and second half years as the markets latterly began to bounce upward.

The expectation is that recovery will continue through 2011 and a growth of 10-15% is projected, although in some markets there begins to be evidence of a slowdown as harvest begins.



This has always been a volatile sector – from feast to famine it could be said – as farmers can easily choose to postpone investment at times they lack confidence whilst in contrast an improvement in cash flow can lead to rather immediate decisions to purchase. It is certainly true that farming is becoming more professional with greater long term planning but there remains a sizable element which reacts to short term results. As farm prosperity is strongly impacted by weather, as well as political decisions, it is hard to predict future demand and this is one reason CEMA established a ‘Barometer’ of industry conditions during 2008 and the results show most graphically the huge drop in business only to be followed by a mirror recovery plus an easing over recent months.

CEMA Business Climate Index (CBI)



Source: CEMA Business Barometer

Index = sum of 1) evaluation of the current business situation and 2) turnover expectation

Within the total markets tractors constitute about one-third of the value of total machinery purchases, although the importance in terms of production is greater as Europe supplies many markets outside the EU. In 2010 tractor markets are estimated to have declined by some 4% to approximately €6.6 billion whereas sales of other farm equipment remained almost static at around €14.2 billion. For 2011 tractor markets are expected to rise at a slightly faster rate, of 14%, than other machinery (+12-13%).