After four years of decline, the global agricultural machinery market is expected to show a modest recovery in 2017. For the years to come, we expect demand to stabilise, as farmers can no longer put off replacing older machines. A return to the exceptionally high peak sales levels of 2012 is unlikely however, as agri commodity markets are far below the 2012 level.

A modest recovery

Going forward, the farmer income picture is not looking very positive, especially not for North American crop farmers. This leads us to conclude that the recent recovery in agricultural machinery sales is predominantly driven by replacement demand: farmers increasingly need to replace their old machinery. This means that the recovery in the agricultural machinery market will be modest at best. A return to the record sales levels of 2012 is not likely, because agri commodity prices today stand at 25% to 45% lower than 2012 levels.

Machinery getting old

In the past few years, farmers responded to the lower commodity prices by postponing machinery investments. The main reason was the lower availability of liquidity and credit, but the diminishing urgency to buy the latest technology because of lower marginal returns given low commodity prices also played a part. As a result, the average age of machinery at farms is increasing.

Declining sales for the big three

The combined sales of agricultural machinery for the industry’s big three—Deere, CNH Industrial, and AGCO—have declined since 2013 (see Figure 1). The second quarter typically shows the highest sales. Sales in Q2 2016 were around 38% lower than in Q2 2013. When comparing sales for the full years 2013 versus 2016, we see a similar decline. The decline in like-for-like sales was more severe, because these companies’ acquisitions disturb the picture somewhat. For 2017, the three largest companies expect sales to recover between 3% and 8% compared to 2016. Q1 2017 marked the first time in recent years that sales were higher than the same quarter in the previous year, at around 4%.

Figure 1: Agricultural machinery sales for Deere, CNH Industrial, and AGCO, Q1 2013 – Q1 2017
Machinery sales drivers

The main drivers for agricultural machinery sales—corn, wheat, and soybean prices—are still in decline, with a neutral to negative outlook for this year’s crop. This is what the key regions are looking like:

- US farmers in particular face significant continued margin pressure, with on-average negative net returns for crop farmers.
- In Europe, margin pressure is somewhat lower, with crop farmers realising approximately break-even levels in 2017, which is an improvement on 2016 due to an expected recovery in yield.
- In Brazil, crop farmers are relatively well off due to relatively attractive crop prices in Brazilian reais.

Dairy is a sector that seems to have left the lows behind, with milk price recovery supporting farmer margins in almost all important production regions.