FARMING EQUIPMENT

CURRENT TRENDS

- Demand is stable for both new and used equipment.
- Tractor and combine sales for 2019 ended relatively flat, and inventory levels are in line with demand per Ag Services at the Association of Equipment Manufacturers.
- Technological advances are expected to drive new equipment sales.
- Farm income for 2019 is expected to be up approximately 10% over 2018, partly because of a 64% increase in direct government payments.

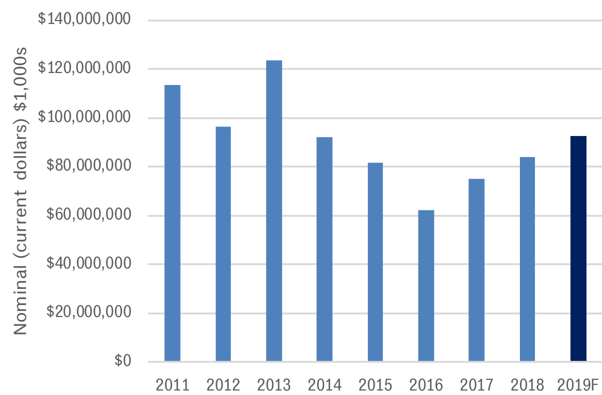
PROJECTED VALUES
(12-MONTH OUTLOOK)

GORDON BROTHERS BY THE NUMBERS

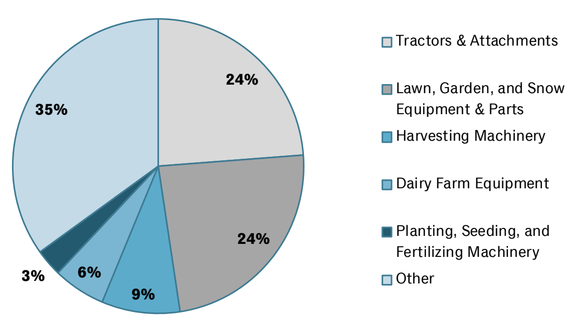
$110B+
agricultural assets appraised & disposed

400+
agriculture industry appraisals completed

NET FARM INCOME
(CURRENT DOLLARS, AS OF 11/27/2019)



TRACTORS & AGRICULTURAL MACHINERY MANUFACTURING - INDUSTRY SEGMENTATION (2019)



Source: IBISWorld

Total Industry $39.3B

Gordon Brothers 1903
GORDONBROTHERS.COM
+1.617.426.3233

TRADE DEALS ADVANCE: On January 15, 2020, a phase one U.S.-China trade deal was signed by the Trump administration. The agreement stipulated that China will purchase an additional $200 billion of U.S. goods and services through 2021 using (pre-tariff) 2017 sales as the benchmark, a year in which China spent $185 billion in total U.S. goods and services. In exchange, the United States has agreed to reduce tariffs on $112 billion of Chinese products from 15 percent to 7.5 percent and will hold off on imposing a 25-percent tariff on an additional $160 billion in Chinese goods including cellphones and computers.

Assuming the two-phased deal is executed, a significant increase in U.S. exports is projected, which should bode well for agricultural equipment sales. Under the terms of the agreement, China will buy an additional $12.5 billion of agricultural products in 2020 and $19.5 billion in 2021. When combined with the $24 billion U.S. agricultural export baseline in 2017, the 2020 total approaches the $40 billion annual goal recently noted by the Trump administration. Despite the good news of a phase one deal signing, tariffs remain in place on U.S. agricultural exports to China. Per reporting by Reuters, while Washington suspended some tariffs that would have gone into effect in 2019 and cut others in half, U.S. duties remain in effect on $360 billion of Chinese imports, representing approximately two-thirds of total. Chinese imports. The trade deal does not include an agreement for a future reduction in tariffs on Chinese goods. To the extent that ongoing tariffs continue unabated, farmers will continue to suffer the financial consequences of reduced exports to China, possibly stalling new equipment sales.

The day after the U.S.-China deal, the U.S. Senate passed the U.S.-Mexico-Canada Agreement (USMCA) by a bipartisan vote of 89-10. The trade deal was approved by the House of Representatives in December 2019 and now goes to the president for signature. According to the U. S. Department of Agriculture (USDA), the USMCA will advance U.S. agricultural interests in two of the most important markets for American farmers: ranchers and agribusinesses. Canada and Mexico are the first and second largest export markets for U.S. food and agricultural products, totaling more than $39.7 billion food and agricultural exports in 2018, according to the USDA.

FEDERAL POLICY IMPACT: Agricultural policy at the federal level remains hazy according to a report by CoBank's Knowledge Exchange division, *The Year Ahead: Forces that will Shape the U.S. Rural Economy in 2020*. Beyond the U.S.-China phase one deal, more progress with China is expected to be a challenge. As a result, it is difficult to see trade as a bright spot in 2020, according to the report. Despite progress on agricultural labor legislation and the USMCA, CoBank anticipates that a protracted partisan fight over impeachment will make it difficult to advance legislation that helps agriculture, which would give either side an advantage in the hotly contested 2020 election.

DEALER UNCERTAINTY: Poor planting conditions in major agricultural regions combined with unstable trade conditions are contributing to more uncertainty than usual for North American farm equipment dealers, based on the Ag Equipment Intelligence "Dealer Optimism Index," which measures sentiment among dealers. The index is based on a monthly survey of North American farm equipment dealers. The highest score in the past 12 months was negative 3 percent registered in March 2019. The lowest score for the year came in August when the index registered negative 20 percent.

However, despite declining confidence, an overwhelming number of dealers, 87.1 percent, are reporting that they expect 2019 to have been profitable, down slightly from the 89 percent who expected the same outcome a year ago. As for 2020, faced with more uncertainty than usual, generally dealers are slightly less optimistic than they were a year ago.

SALES FORECAST: According to a November 27, 2019, report by industry leader, Deere and Company, worldwide sales of agriculture and turf equipment are forecasted to decline 5 to 10 percent for fiscal year 2020, including a negative currency-translation effect of 1 percent. Industry sales of agricultural equipment in the United States and Canada are forecasted to be down about 5 percent, driven by lower demand for large equipment. Full-year industry sales in the EU28 member nations are forecasted to flat as are South American industry sales of tractors and combines. Asian sales are forecasted to be about the same as 2019. Industry sales of turf and utility equipment in the United States and Canada are expected to be flat. Deere expects sales of its agricultural equipment to decline by 5 to 10 percent globally in 2020 because of lower demand for big machinery. "Lingering trade tensions coupled with a year of difficult growing and harvesting conditions have caused many farmers to become cautious about making major investments in new equipment," said Chief Executive Officer John C. May.

NET FARM INCOME IMPACTS EQUIPMENT SALES: Net farm income is a comprehensive indicator of U.S. farm profitability for all crops and livestock and includes cash receipts from farming as well as farm-related income, including government payments and non-cash items like changes in inventories, economic depreciation, and gross imputed rental income, minus cash expenses. As reported by the USDA at the end of November 2019, net farm income is forecasted to increase approximately $8.5 billion (10.2 percent) over 2018 to $92.5 billion driven in part by a 64 percent increase in direct government assistance. Payments from the USDA's Market Facilitation Program are expected to surpass $19 billion, the highest level in 15 years. If estimates are correct, this could account for more than 20 percent of net farm income in 2019.

Farmers' ability and willingness to purchase new tractors or combines is heavily influenced by net income. Net farm income is dependent on a combination of the price for goods produced and the cost of production. These variables include, but are not limited to, grain commodity prices, milk prices, cattle prices, cost of feed, cost of fuel, cost of fertilizer, and other factors. Farmers will have a negative outlook and less of a willingness to purchase new assets when commodity prices are falling and/or production costs are increasing, resulting in lower net operating income, translating to less buying power. Over the course of the past 25 years, not only do net farm income increases and decreases correlate with the decline and rise in new and used equipment sales, but they also correlate with the recovery value of used equipment. Gordon Brothers maintains the largest database of used equipment transactions in the industry and a review of the past 20 years of data of large equipment transactions indicates that used equipment prices, as a percentage of replacement cost, also rise at times of increased net farm income.

The Expert: Jerry Galaszewski

Jerry Galaszewski has over 20 years of experience in the industry. He has conducted and managed hundreds of machinery and equipment valuation projects across a wide range of industries Previously was a senior manager at AccuVal-LiquiTec, which was acquired by Gordon Brothers in 2015. Read his full bio here

Gordon Brothers
1903
GORDONBROTHERS.COM
+1.617.426.3233