



FARMING EQUIPMENT

CURRENT TRENDS

- Demand remains stable for both new and used agricultural equipment.
- After a difficult planting season in 2019 and a global pandemic in 2020, machinery dealers are reporting profits beating estimates for 2020; however, they are not predicting increased growth in 2021.
- Farm income for 2020 is projected to be up 43.1% over 2019, driven by an 8.6% increase in the value of crop production and a sharp rise in direct government payments.
- Uncertainty surrounds the future of a phase-two trade deal with China; however, to the extent China reaches its purchase targets for 2021 as part of the current agreement, it would benefit the industry overall.

PROJECTED VALUES (12-MONTH OUTLOOK)

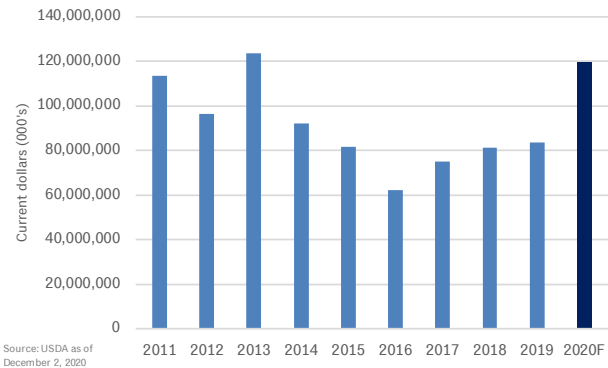


GORDON BROTHERS BY THE NUMBERS

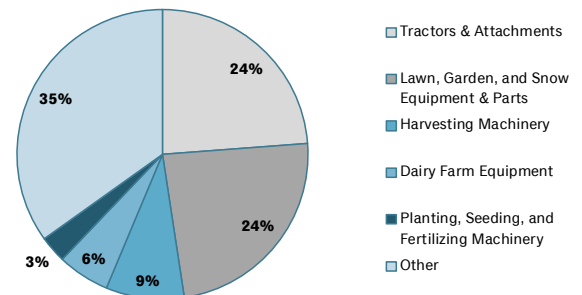
\$110B+
agricultural assets
appraised & disposed

400+
agriculture industry
appraisals completed

NET FARM INCOME



TRACTORS & AGRICULTURAL MACHINERY MANUFACTURING - INDUSTRY SEGMENTATION (2020)



Source: IBISWorld

Total Industry \$34.1B

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DEALER SENTIMENT OPTIMISTIC: After a difficult planting season in 2019 and a global pandemic in 2020, dealers are reporting profits beating estimates for 2020; however, they are not predicting increased growth in 2021. This reflects a rebound from March 2020 when the dealer optimism index, which is based on a monthly survey of North American farm equipment dealers, was at a low of negative 66% at the onset of the pandemic. The highest score in the past 12 months was recorded in August at 13%.

Despite the roller coaster year, dealer margins across all categories (new, used, parts and service) saw greater improvement in 2020 compared with 2019.

EQUIPMENT SALES FORECAST POSITIVE: According to a November 25, 2020, report by Deere and Company, worldwide sales of agriculture and turf equipment are forecast to increase 10% to 15% for fiscal year 2021, including a positive currency-translation effect of 1%. Industry sales of agricultural equipment in the U.S. and Canada are forecast to be up between 5% and 10%, driven by gains in large-frame units.

Full-year industry sales in the European Union member nations are forecast to be flat to up slightly in 2021, as are South American industry sales of tractors and combines. Similarly, sales in Asia are forecast to be slightly lower than last year. Industry sales of turf and utility equipment in the U.S. and Canada are expected to range from flat to positive 5% for fiscal 2021 over 2020.

NET FARM INCOME SOARS IN 2020: 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 in December, net farm income was expected to reach \$119.6 billion in 2020. This represents an increase of \$35.0 billion or 41.3% over 2019, and the fourth consecutive year of increases. If realized, net farm income in 2020 in inflation-adjusted terms would be at its highest level since 2013, 32% above its 2000 to 2019 average of \$90.6 billion.

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, which translates 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 improvement in new and used equipment sales, 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 used equipment prices, as a percentage of replacement cost, also rise at times of increased net farm income.

UNCERTAINTY SURROUNDS PHASE-TWO CHINA TRADE DEAL:

On February 14, 2020, phase one of the Economic and Trade Agreement Between the United States and China went into effect. The agreement stipulated that China would purchase an additional \$200 billion of U.S. goods and services through 2021 using pre-tariff 2017 sales of \$185 billion as the benchmark. Shortly thereafter, cases of COVID-19 in the U.S. began to climb, resulting in a wave of shutdowns of all non-essential businesses beginning on March 19 in California and spreading throughout the country. As the global economy struggled with the worsening coronavirus pandemic, negotiations between the U.S. and China for phase two of the trade deal fell off. In July, trade talks broke down under the prior administration.

Through November 2020, U.S. exports to China of covered products totaled \$82.3 billion, compared with a year-to-date target of \$141.7 billion, meaning purchases of all covered products represented 58% of the year-to-date target per data published by the Peterson Institute for International Economics' U.S.-China phase one tracker. For covered agricultural products, China committed to an additional \$12.5 billion of purchases in 2020 above 2017 levels, implying an annual target of \$36.6 billion in Chinese imports and \$33.4 billion in U.S. exports. For the same period, China's imports of covered agricultural products were \$19.4 billion compared with a year-to-date target of \$31.4 billion, and U.S. exports of covered agricultural products were \$22.5 billion compared with a year-to-date target of \$29.6 billion. Thus, China's agricultural purchases totaled 76% and 62% of U.S export and Chinese import year-to-date targets through November, respectively.

On the topic of trade with China, Dave Puglia, President of the Western Growers association, who serves on the Agricultural Policy Advisory Committee that deals with trade matters, noted "we should always be somewhat worried about our relationship with China and the inability to move into phase two of the current deal with the nation is concerning." It remains to be seen how or when a phase-two trade deal may be passed given the change in administration in 2021; however, to the extent China reaches its phase-one purchase targets for 2021, it would benefit the overall industry.

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Jerry Galaszewski has over 20 years of industry experience and leads Gordon Brothers' Machinery & Equipment valuation practice. He has conducted and managed hundreds of machinery and equipment valuations across a wide range of industries. Read his full bio [here](#).



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