

Farm Equipment Demand Mixed

Conflict in the ME Still Weighing on Sentiment

BLUF (Bottom Line Up Front): The War in the Middle East was starting to weigh differently on farmers. All segments are getting hit with higher input prices (diesel, fertilizer, etc.) and difficult trade environments were still affecting exports. But lingering on the horizon is some bailout optimism from Federal Funds, some thawing in relations with China which could lead to improvements in exports, and a strong cattle market that continues to underpin many operations. But the war is concerning for all, and at the time of writing, was still ratcheting up. This could work in US' favor if the world relies more heavily on US products to fill stockout risk from elsewhere.

Favorable Economic Conditions:

- **Economic Growth – Can You Say Volatile?** – The latest estimates for Q2 remain positive – sitting at 3.8% according to the GDPNow charts prepared by the Atlanta Fed. They have been between 3.0% and 4.0% for the bulk of the quarter and expectations for Q3 are similar. This is in spite of all those much discussed “headwinds”. What gives? The bottom line is that the US economy is huge and diverse and that allows for spectacular growth in one area and sluggish performance in others. Unfortunately, the growth is not manifesting in the farm sector.
- **Looking at TFP** – The most common technique used to measure the productivity of agriculture in the US is Total Factor Productivity, it measures how efficiently farmers convert inputs into final outputs. Basically, this is the equivalent of GDP data. There has been a 1.49% increase in TFP and the majority of that growth has come from more intense use of inputs such as capital, labor and technology, especially the latter. This means the agricultural sector is more sensitive than ever to shifts in technology, labor availability and the overall supply chain.

Risks Creating Headwinds for Sales:

- **Farmer Sentiment Starts to Fade and Fast** -The Purdue/CME Group Ag Economy Barometer has been more or less stable at the 121 level, better than earlier in the year but a far cry from a year ago when the index was at 150 and lower than a month ago when it was at 127. The decline was driven by the Future Expectations Index falling by 4 points and this reading is now 16 points lower than it was a year ago. The Current Conditions Index fell by 16 points. The impact of the oil crisis has started to affect farmer sentiment as it has driven input prices quickly much higher. The Farm Capital Investment Index dipped significantly as well – down to 44, the lowest level since October of 2024. The bottom line is that global conditions have thrown a lot of uncertainty into the mix and the agricultural community is getting a lot more nervous – wondering when all this inflation really starts to affect consumer trends.
- **Harvest Predictions – Not All That Promising** – The year started with some promise in key agriculture sectors as there was a break in some of the drought areas, but other factors have not been so benign. The tariffs interfered with many key export markets and then there has been the oil crisis that drove diesel prices to record levels (as well as many other petrochemical based products). Wheat will see the smallest crop since 1972 – 1.56 billion bushels (down from 1.98 billion last year). Only 28% of the crop is rated in “good” condition. Corn will decline to 16 billion bushels. This is down from last year’s record of 17 billion but that still leaves supply in decent shape. Soybeans show a better outcome – on track for a record of 4.43 billion bushels. That will be the second largest crop on record, but the downside is that there have been record crops all over the world and that has imposed a great deal of price pressure. Livestock prices are up slightly – but not as far as one would assume. The consumer is seeing record prices, but this has not been reflected in the bank accounts of the producers.
- **The Oil and Supply Chain Crisis** – While all the attention has been focused on the impact of the Iran War on transportation there has been an even more profound impact on the farm sector given the role that petrochemicals play in agriculture. Fully one third of the world’s urea fertilizer comes from Saudi Arabia, Qatar, UAE and Iran. One quarter of the world’s ammonia comes from Qatar and Saudi Arabia. Over twenty percent of all petrochemicals come from Saudi Arabia, Iran and UAE. Diesel prices are flirting with all time highs and will likely stay that high through harvest time.

Conclusions:

1. Both indexes slipped again this month as the farm community goes through some uncertain times.
2. Input cost inflation is the new dominant risk. Petrochemical exposure is severe: one-third of the world's urea fertilizer originates in the Gulf region, and diesel prices are near record highs heading into harvest. That pressure is compressing margins at exactly the moment farmers need cash-flow confidence to commit to equipment.
3. Long-term recovery remains intact, but the timeline is shifting right. The 5–7% growth trajectory toward 2027–2030 is still plausible, but the Middle East conflict has added a new layer of uncertainty that pushes the meaningful rebound further into 2027.

Related Macro Items We are Watching:

1. **What Do the Big Economic Trends Hold for Farmers?** – The key issue will be inflation as this issue ripples through a great deal of economic decision-making. There is the obvious impact on the price of fuel and diesel prices are already near record levels. But there’s more. These higher inflation numbers will likely push the rate to 3.5% or perhaps 4.0% and that is far higher than the Fed is comfortable with. The mood of the Fed has changed, and it now seems unlikely that rates will fall until late summer at the earliest (and perhaps not at all this year). There has been pressure on the Fed to lower rates from the White House but most of the decision-makers on the Open Market Committee are considered to be hawks and favoring higher rates.
2. The consumer has been reacting to these higher prices in a predictable manner. They are switching to cheaper cuts of meat, eating out far less often and looking for food deals. The very high price of meat has altered many summer expectations. If the pattern of high food inflation continues there will be a multi-billion-dollar contraction in the overall food sector.
3. The pressure from inflation is the final straw for many small and even medium sized farming operations and bankruptcy rates are already spiking. Credit managers in the agriculture sector report that over 76% of applicants now have bad credit and no longer qualify for the credit they require for new machinery or even the basics such as seed, fertilizer, herbicides and insecticides. In the developing world there is already a full-blown food crisis emerging and the US is not in a position to address these shortages as there is likely to be an anemic harvest in many areas

Index Remains Rangebound

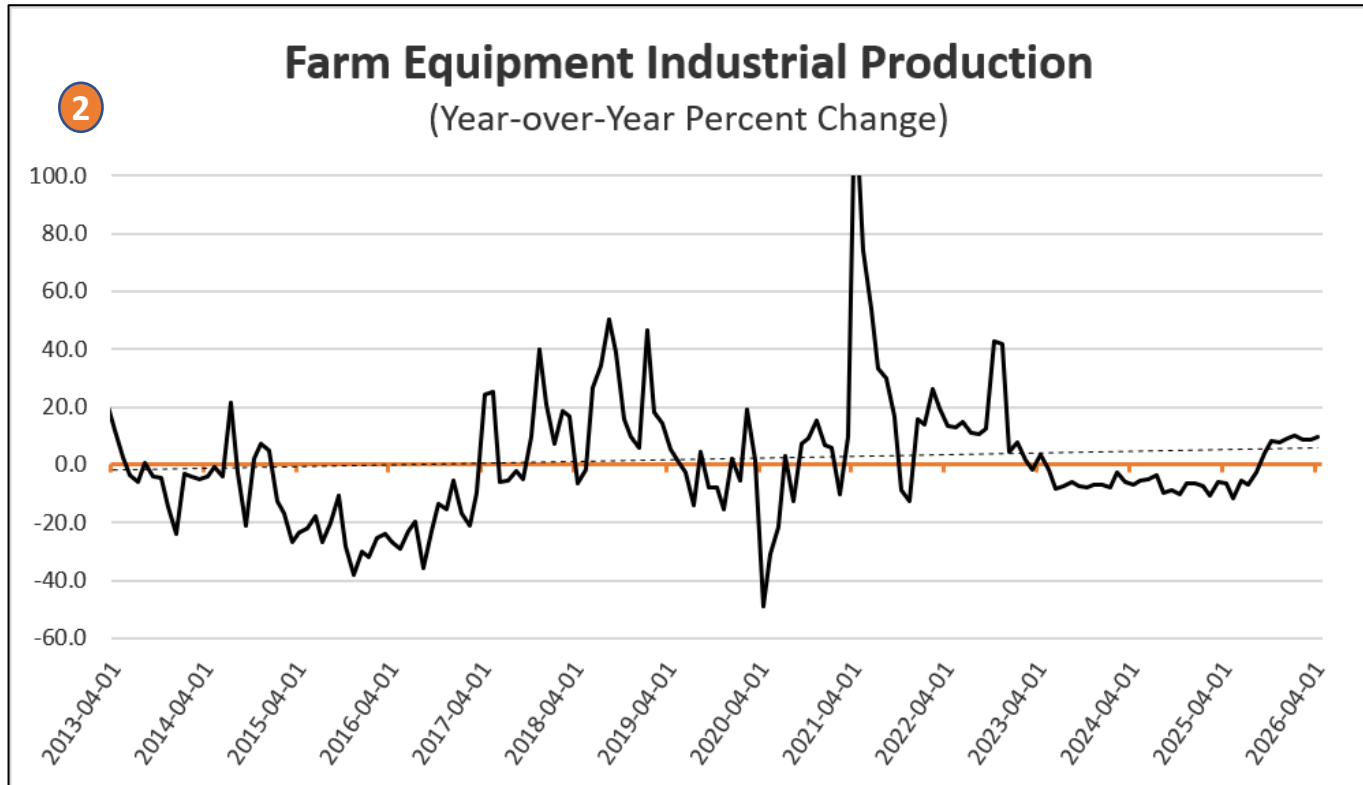
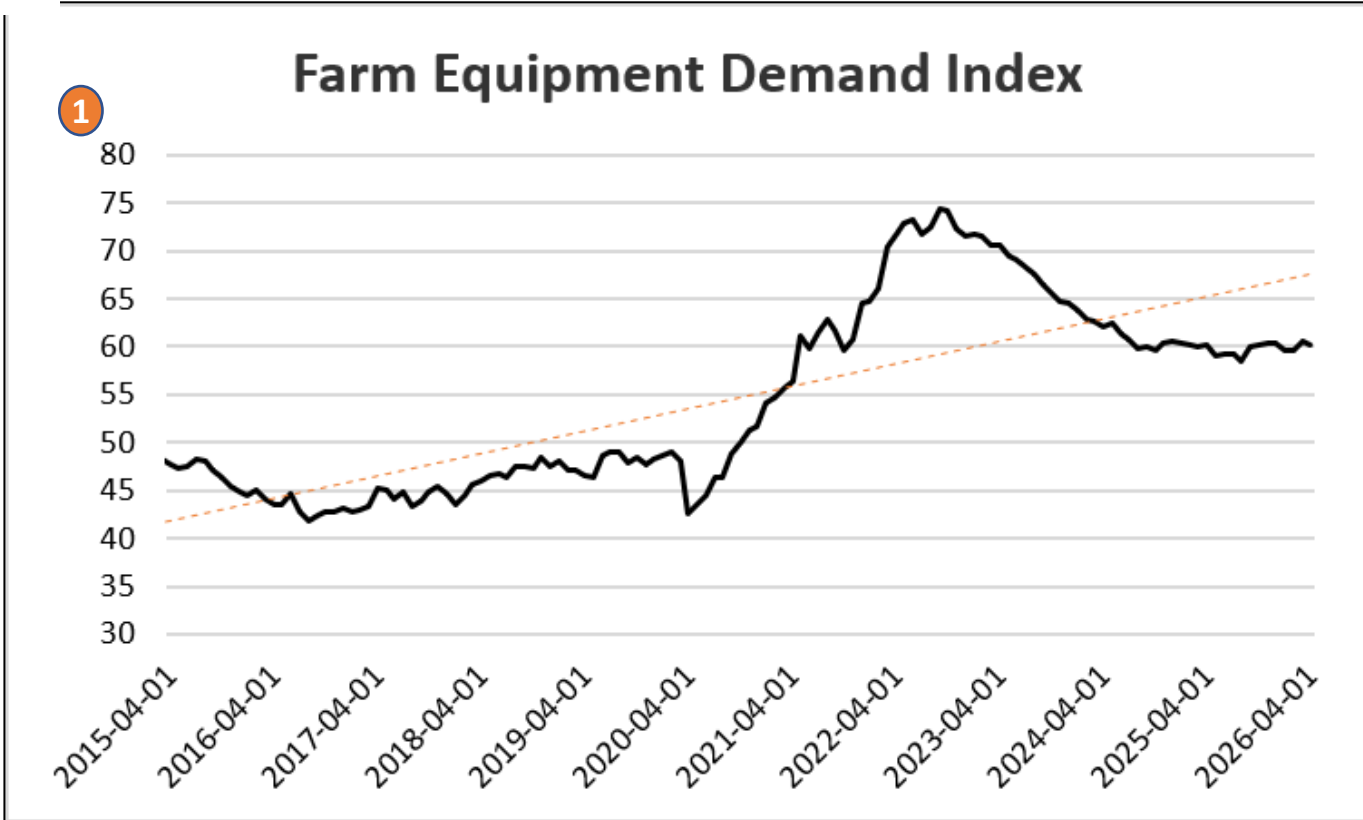
Index at 60.2

BLUF (Bottom Line Up Front): the NCM Farm Equipment Demand Index for larger equipment came in relatively unchanged in April (latest available); but it remained significantly below the long-term trend. This index uses multiple metrics to gauge demand for farm equipment over 100HP over the six months ahead. Much like a leading economic index, the metrics were still sending a flattening, but sluggish signal. Any changes in foreign exports (as a result of a trade deal) or emergency bailout funds, etc. would not be included in this data-driven demand index.

Demand Index:	
• April	60.2
• March	60.6
• February	59.7
• January	59.6
• December	60.3
• November	60.4

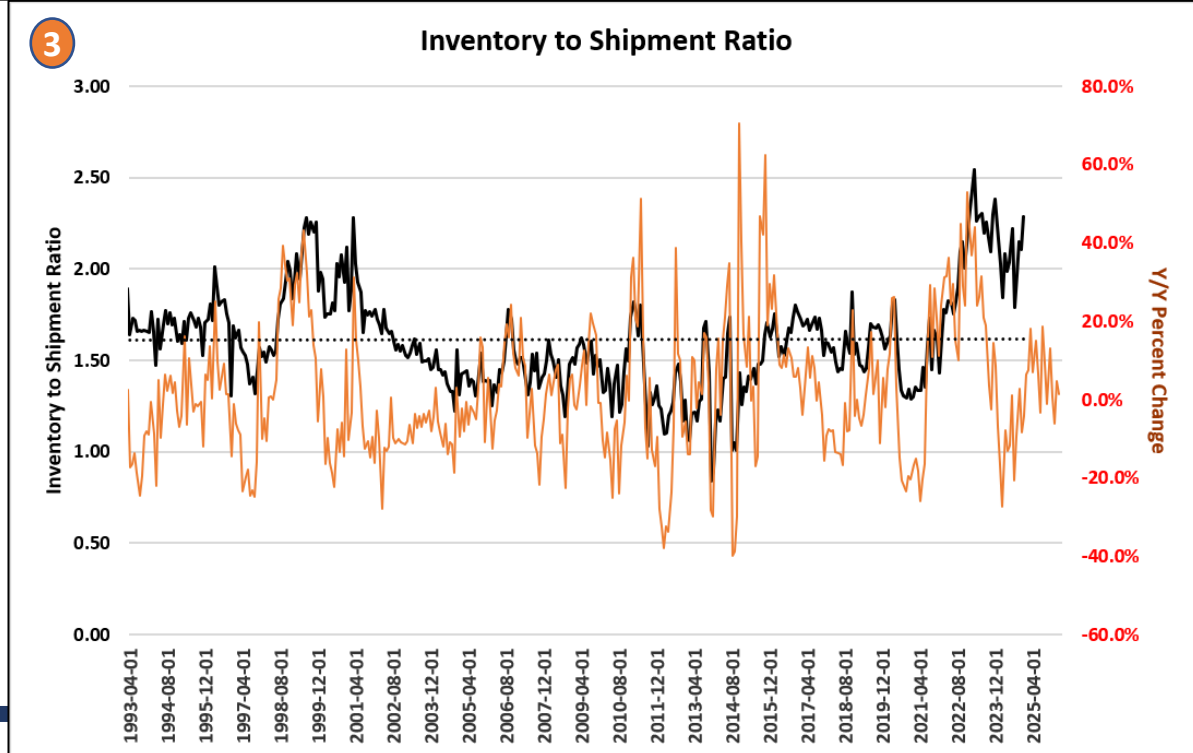
Farm Equipment Demand Index:

- 1 **Demand Index Comes in at 60.2.** The Farm Equipment Demand Index came in at 60.2 in April (latest available), it was slightly lower by 0.6% M/M. But it was modestly higher by 0.2% against the same period last year (-0.6% last month after adjustments). Data shows demand remained well below the long-term trendline.
- 2 **Production Surprises on the Upside.** Farm equipment manufacturing activity in the United States was higher against last year by 9.7% year-over-year through April (latest available and was 8.9% higher month-over-month). Industrial Production in the farm equipment complex can be volatile as the chart in area #2 shows, but production has improved in the past 2-3 monthly data releases.
- What is Pushing the Demand Index?** The index uses a variety of variables to gauge demand, and it was looking for direction again this month. : The large-equipment cycle is finding a floor, but it has not yet found a bottom that translates into orders. Sentiment improved in the Purdue/CME Barometer, but 70% of producers still called it a bad time to invest in machinery or buildings. The market is stabilizing in attitude before it stabilizes in transaction volume.



Looking Forward:

- 2026 is still considered to be a trough-building year, not a recovery year. OEM guidance has largely converged on late 2026 stabilization with meaningful recovery beginning in 2027. A number of factors will help fuel that recovery period, but notably some improvement in foreign trade agreements and actual shipments of grains leaving the US in higher volumes will help with overall pricing support, boost farmer sentiment and lead to stronger equipment demand.
- Used inventory is still the gating factor. High-horsepower used stocks are down 6.7% Y/Y in Q1 (latest available), but monthly accumulation remains flat. Until trades move, dealers will stay cautious on new commitments for new equipment. At some point in time, many larger farms will have been well beyond replacement cycles, and even mild signs of improvement in demand will help put many of them back on showroom floors.
- ARC/PLC payments remain the clearest near-term catalyst. The \$13.1B 2H 2026 disbursement window is the single event most large-acre operators are explicitly timing decisions around. Dealers who get financing pre-approvals and trade appraisals completed now will be best positioned to convert intent to transactions when payments hit.



Executive Briefing

Equipment Under 100HP Insights

Briefing Date: May 2026

Index Fighting Against Weak Sentiment

Index Remains in Expansion Territory

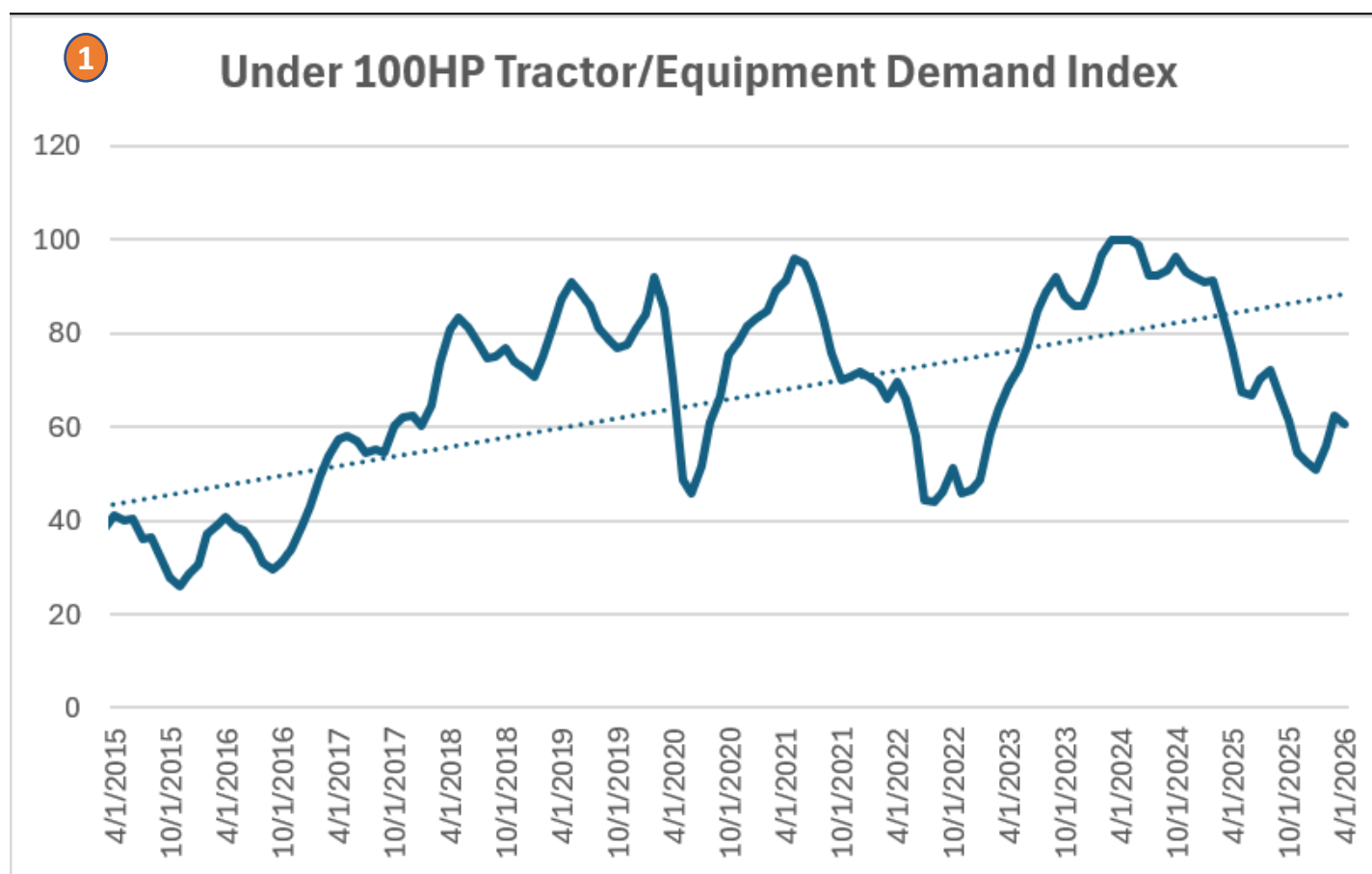
BLUF (Bottom Line Up Front): the NCM Farm Equipment Demand Index for equipment under 100HP was maintaining some mild momentum in April, despite difficult headwinds. The new, adjusted index came in at 60.5, down from 62.5 last month but the second strongest reading since Q3 of last year. The index is a bit misleading in one sense; it is still well below the 12-year trendline and is weaker than recent peaks. The conflict in the Middle East has killed consumer sentiment and has slowed purchases of hobby farms and small acreages. That will temper sales in the under 100HP category temporarily across broader markets, pockets of regional strength will still be evident in some regions of the country where migration is active.

Demand Index:

• April	60.5
• March	62.5
• February	55.9
• January	51.0
• December	52.2
• November	54.6

Farm Equipment Demand Index:

- 1
Demand Index Soft. The index has been reworked, to better capture the narrow category of tractor under 100HP. That is also why more detail in the index is now available. The latest reading shows the index slightly weaker and is below the long-term average. At 60.5, the index is slightly lower than the prior month but remains higher than any time since Q3. A reading above 75 is generally considered to be a rapidly expanding market but anything over 50 is in expansion. At 60.5, the outlook is fundamentally stable, but it needs help to return to some of the prior strong sales periods. The index was 3.2% lower than it was a month ago.
- What is Pushing the Demand Index?** Consumer Sentiment has hit near record lows in the past 60 days on conflict fears and interest rates on long-term loans have reversed course and have started to increase. This higher borrowing expense will keep some buyers out of the market, unless they are in a tough situation and absolutely need equipment. The used market should remain strong for quality equipment. At the same time, diesel prices are higher, construction material costs for new rural construction are much higher, and many hobby farmers have decided to temporarily hang on to existing equipment. As mentioned, some regions of the country are still seeing strong demand due to migration (moving to lower tax states).



Looking Forward Insights:

- Here are some insights for the look ahead in the <100HP category:
 - The under-100HP market is split into two different demand sectors. Work-use buyers tied to livestock, hay, and operational property needs remain comparatively resilient. Cattle markets have been tremendous and many ranchers are finding themselves in flush financial capital to invest in new equipment. But lifestyle, hobby-farm, and acreage buyers are pulling back as consumer sentiment slides, long-term financing costs rise, and household budgets tighten. An end to the conflict in the Strait of Hormuz and subsequent improvement in the 10-Year bond market, easing fuel prices, and generally better sentiment would go a long way in quickly improving the market.
 - Consumer Sentiment Is the Dominant Headwind Here. University of Michigan consumer sentiment has been in a sustained decline, dropping to levels comparable to the June 2022 trough. That matters disproportionately for the under-100HP segment because so much of its demand base — estate buyers, rural residential, new landowners, lifestyle operations — is discretionary. The historical threshold before this cohort reliably commits to equipment purchases is a UMich reading above 65. The current read sits well below that.

Looking Forward Cont'd:

- Here are some additional insights for the look ahead in the <100HP category:
 - Livestock and Hay Operations Are Still Buying. The 60–100HP band tied to cattle, ranching, and hay production remains the most durable pocket of demand in the segment. Cattle economics have stayed elevated enough to sustain equipment replacement cycles in this use case even as the broader consumer-facing side of the market weakens. This is where dealer activity will be most concentrated for the next several months.
 - Regional migration trends still offer pockets of strength. Markets benefiting from net in-migration and rural residential growth will outperform the national average, particularly in lower-tax Sun Belt and mountain states.
 - Used equipment and value-tier financing will outperform new unit sales. Buyers have not stopped needing equipment — they are stepping down in price point, stretching replacement cycles, and waiting for rates and confidence to improve.
 - Used baler sales were up 30%+ in 2025, which is a strong signal that buyers are still working their land, they are just doing it more cheaply and need a strong growth catalyst like a strong cattle market to underpin it.