Executive Briefing
Farm Equipment Sector

Farm Equipment Demand Sluggish

Briefing Date: June 2025

Demand Stable, Unchanged M/M

BLUF (Bottom Line Up Front): Farm equipment demand was slightly higher month-over-month. The index came in at an adjusted rate of 62.8, slightly higher from last month's adjusted 62.6. Some of the relief funds that have been allocated to the farm community are now being spent in the market, an estimated $3 billion of that will be filtered through the equipment sector over the next 6 months. In addition, the biggest highlight this month is the first trade agreement struck with the UK, and the impact on the farming sector and farm sector exports that will come as a result.

Favorable Economic Conditions:

- **Q2 GDP Surges** – The current trend for second quarter GDP is much hotter than expected. The Atlanta Fed is showing the GDPNow estimate at 3.8%, much higher than Blue Chip Economist estimates for 1%. Consumer spending and commercial investment was leading the surge. This runs contrary to general sentiment and concerns over potential recession risk. Most of the outlook has now turned, and it would accelerate if the budget bill is passed and the remaining 17 trade agreements are signed before July 7th. The risk of economic slowing is still possible; the environment is still highly volatile and is being buffeted by key factors that can affect economic growth (both positive and negative). But for now, the overall economic signals are good for big ticket item purchases.

- **Timing on ECAP Payments to Hit Second Half 2025.–** Farmers have until August 15, 2025 to file 2024 acreage reports which will then be followed up with relief payments. The initial payments will be 85% of the calculated amounts and will be distributed late this summer or early this fall. That could generate an expected $500 million in new equipment sales at some point in the second half of the year.

- **Farmer Sentiment Surges.** The Purdue CME Group Ag Economy Barometer reports that overall sentiment surged in May to 158 points, up from the previous reading of 148. Given the timing of the survey, many of these farmers were likely seeing the UK deal (mentioned and commented in at right) and were sensing more optimism amid the $5 billion boost in US exports to the UK as promised.

  The Farm Capital Investment Index (which is most important for equipment dealers) was still weaker in May, it fell 6 points between April and May. But it continued to be in a range that was at its highest rates in more than 3 years. Concerns over interest rates and trade uncertainty (tariff impacts on manufacturers) were playing a bit of a role. But weaker commodity prices were the primary factor holding back spending. But again, optimism was building and hopefully that will translate into better investment expectations in the near future.

Risks Creating Headwinds for Sales:

- **Non-Tariff Trade Risk.–** One of the reasons why the farm sector has been seeing declining incomes over the past several years is that some prior trading partners have created non-tariff trade barriers that are essentially "in the way". Starting in 2023, US exports were down 11% Y/Y at the time. They rebounded and were somewhat flat against weak 2023 levels last year, but US ag/livestock exports fell 19.3% year-over-year in Q1 2025. The U.S. ag trade deficit is projected to widen to a record $42.5 billion in FY2025, up from $30.5 billion in 2024. And 23.5% of farmers cite higher tariffs as a top risk for the rest of 2025.

- **Interest Rates Still Prohibitive.** Many consumers are still waiting on interest rates to move lower. At this time, long-term interest rates are still higher than they have been over the past two decades. The US 10 Year Treasury is still near 4.4%, which makes most lending rates closer to 6.5% or higher.

  The Federal Reserve (which controls short term interest rates) may have gotten some improvement in inflation data, but it could still use good GDP and stable labor data as rationale to keep interest rates unchanged. Most analysts are still predicting two quarter-point cuts this year and this could help with RV interest rates, but that might be elusive for another quarter.

Conclusions:

1. New farm equipment demand was slightly higher M/M, but it remained lower Y/Y. We still expect this to change as disaster relief payments continue to hit farmers.

2. The first trade agreement with the UK brings a lot of promise for the farm community, with 17 more "deals" right behind it.

3. Farmer interest in capital spending was still muted; it fell by 6 points month-over-month. But most farmers were waiting more on improving interest rates and a few more trade deals before making the decision to invest and spend.

Related Macro Items We are Watching:

1. **Positive Signs in the UK Trade Deal?** The United Kingdom (UK) was granted the first trade agreement between the US and foreign trading partners. It was perhaps one of the easiest "deals" to strike, the US had a trade surplus with the UK and the countries are tied together in a close alliance. With that in mind, the latest trade deal brought forth an unexpected boost for the farm community.

   Based on many estimates, the trade agreement will open up nearly $5 billion in incremental agricultural exports to the UK. More than $250 million in beef exports alone are projected to begin as soon as the deal is ratified and finalized this summer.

   But this was just one of more than 17 special trade agreements that are expected to be signed. Most of those agreements will have strong agriculture components to them and open even more US exports. Those exports will also be a combination of new machinery exports and grain/meat products.

   Estimates suggest that this could yield an immediate $27 billion in new export volumes with more than $7 billion of that being in equipment exports.

   In any event, it will increase demand for farm commodities and should be put into effect almost immediately (upon signing and ratification of those new trade agreements).

   There is still a lot of volatility associated with the outlook. But the direction is positive if these negotiations are able to continue.

NCM ASSOCIATES

Executive Briefing
Farm Equipment Sector

Index Inches Higher

Briefing Date: June 2025

Index Remains Weaker Y/Y

BLUF (Bottom Line Up Front): the **NCM Farm Equipment Demand Index came in slightly higher in April (latest available); but it remained below the long-term trend.** This index uses multiple metrics to gauge demand for farm equipment over the six months ahead. Much like a leading economic index, the metrics were showing some soft optimism building for equipment demand. It is difficult to know what the extra disaster relief payments will do for the farm community and how much of that will translate into new equipment purchases.

Demand Index:

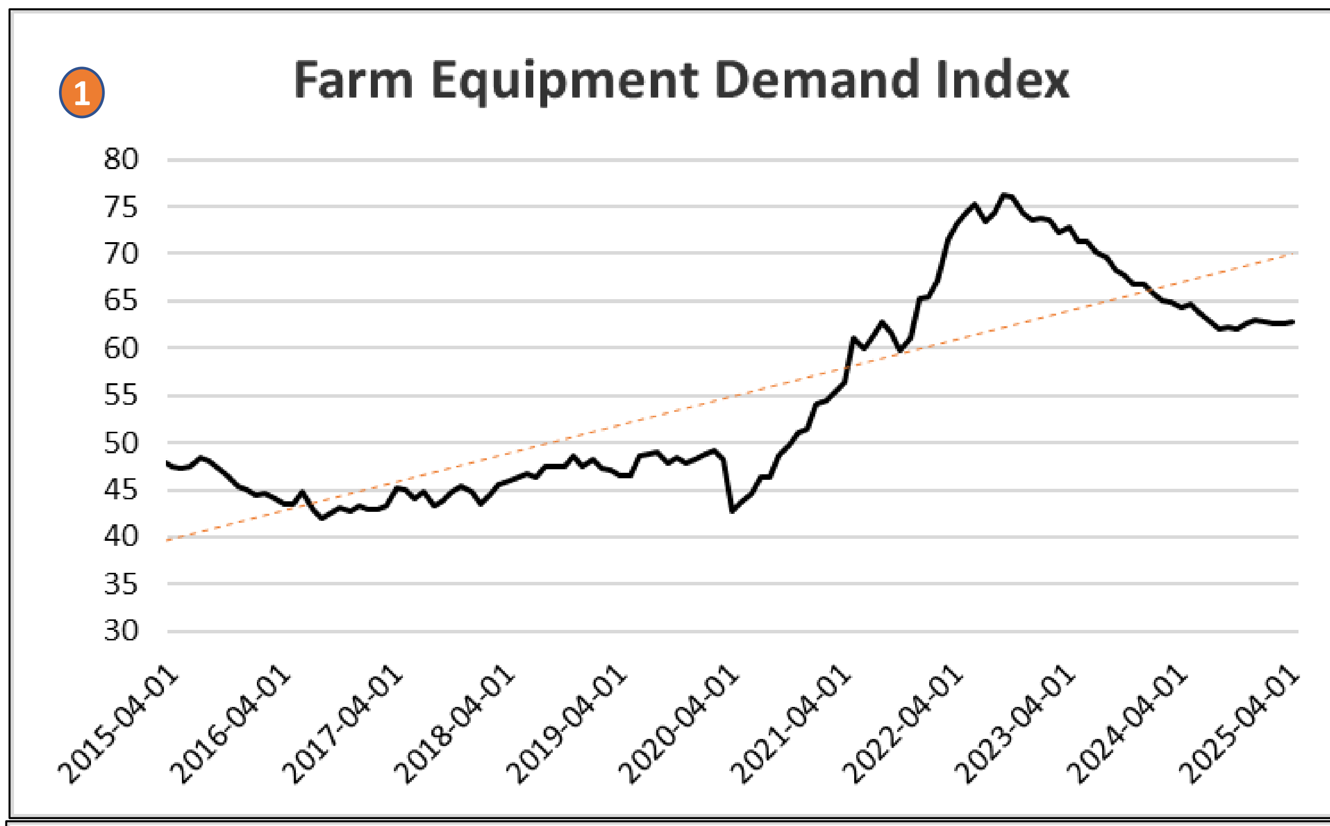
April	62.8
March	62.6
February	62.6
January	62.9
December	63.0
November	62.7

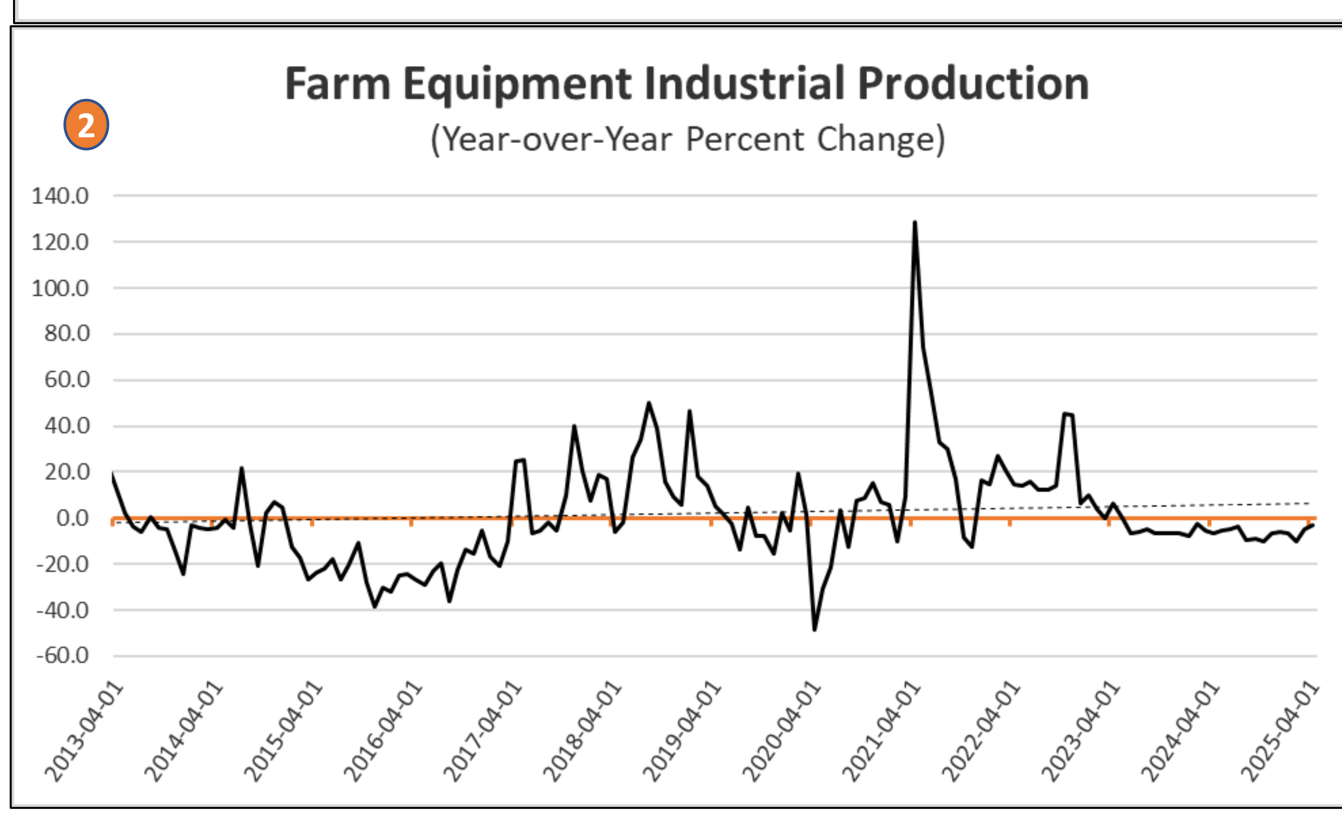
Farm Equipment Demand Index:

- **Demand Index Comes in at 62.8.** The Farm Equipment Demand Index came in at 62.8 in April (latest available), up slightly M/M by 0.4% vs. the March level. But it was 2.3% lower than it was in the same period last year (-3.6% in the last briefing). Data shows demand improved slightly and 1) it remained above pre-pandemic levels and yet 2) it continues to remain under the long-term trendline (dotted line in chart at right).

- **Production Snaps Back in April.** Farm equipment manufacturing activity in the United States was still lower against last year by 3.0% year-over-year through April (latest available and 4.9% lower in the last month). But it was higher again month-over-month by 3.0% (1.3% in the last report). Industrial Production in the farm equipment complex can be volatile as the chart in area #2 shows.

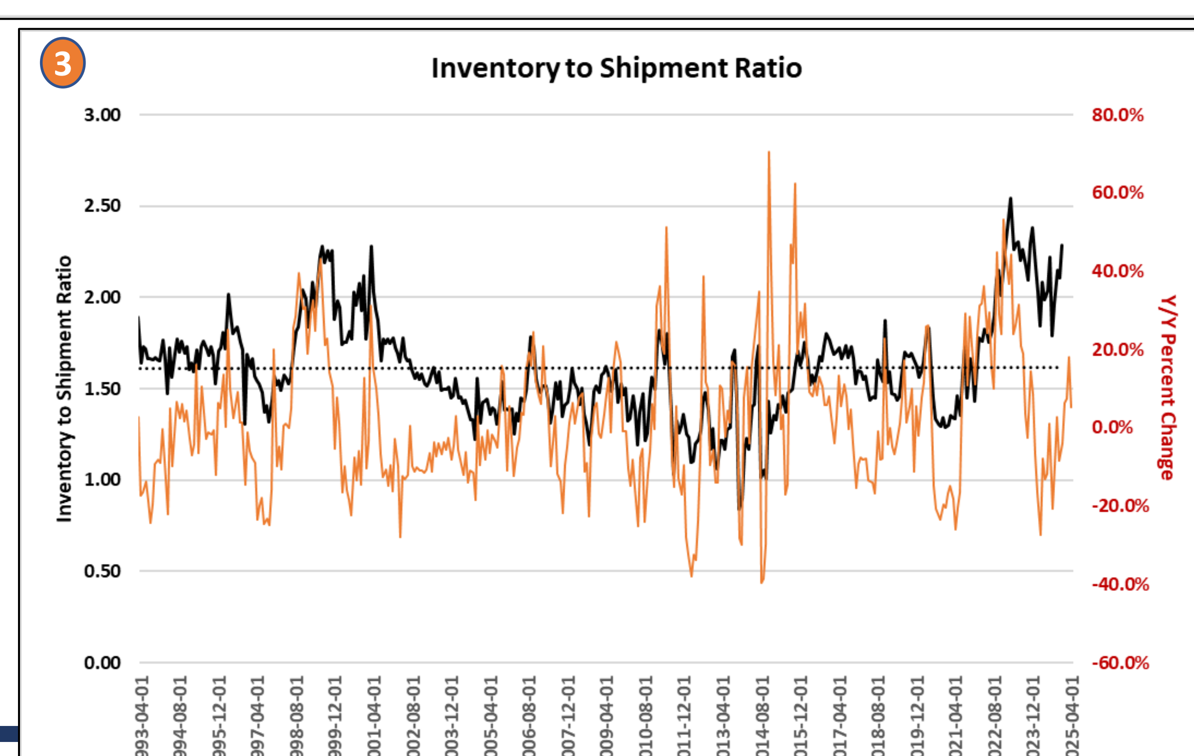
- **What is Pushing the Demand Index?** The index uses a variety of variables to gauge demand, and it was looking for direction this month. Although payouts are likely to help with future purchases, the exports being negotiated will be the real drivers of growth – but it will take time.





Looking Forward:

- **Inventory to Shipment Ratios Still Elevated.** Inventory levels relative to shipments are still elevated, suggesting that too much inventory is still sitting unsold. That's obvious to anyone in the industry, but when we adjust this for seasonal changes, inventories inched up and were 5.2% higher than they were a year ago. Again, they remain elevated at the moment relative to periods prior to the pandemic and they have some distance to cover before returning to "average" levels. This will also keep competitive pressures in place on pricing.



- **Commodity Prices Volatile.** Many commodity prices are once again following the market lower on weaker US and global economic forecasts (which theoretically reduces global ag commodity demand).

  - Wheat -5.93% YTD -22.03% Y/Y
  - Corn -6.40% YTD -11.13% Y/Y
  - Soybeans 2.30% YTD -10.61% Y/Y

  Meat prices are still elevated however on the smallest US cattle herd since 1951. Analysts are also concerned that the current replenishment rate (newborns and holding onto breeder stock) is not sufficient to increase herd size in the next 2-3 years. This should keep prices high.