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Ag Equipment Intelligence's

Dealer Sentiment & Business Conditions Update

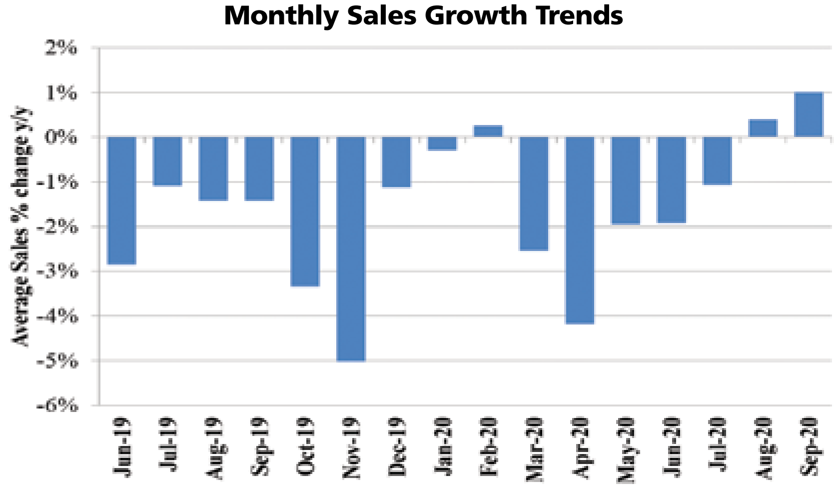
From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Net 28% of Dealers Report New Inventory Levels 'Too Low'

- ✔ **Average dealer sales were reported up 1% year-over-year in September vs. flat year-over-year last month.** A net 33% of dealers beat their sales budgets in September vs. the net 31% who beat their sales budgets in the previous month.
- ✔ **The 2020 forecast is up 2% year-over-year vs. flat last month**. A net 2% of contacts are expecting growth, in line with the last 3 months. The 2021 dealer forecast is up 1% year-over-year, in line with last month.
- ✔ **New equipment inventory levels were down in September with a net 28% of dealers reporting inventories "too low"** vs. a net 19% reporting inventories "too low" in the previous month. Used equipment inventory levels were down in September with a net 18% of dealers reporting used inventory "too low" vs. a net 14% of dealers reporting used inventory "too low" last month.
- ✔ **Used equipment pricing was up 1% in September, in line with the previous month.** New equipment pricing was up around 1.4% year-over-year vs. up around 0.8% year-over-year last month. Used large tractor pricing saw its second positive uptick since around 2015 and was up around 1% year-over-year in September.
- ✔ **Used combine inventory was down in September, with a net 8% of dealers reporting inventories "too high"** compared to a net 40% reporting inventories "too high" in the previous month.

Monthly Sales Growth Trends



Source: Ag Equipment Intelligence, Cleveland Research

Dealer Sales Growth

% Change y/y	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
AGCO	7%	–12%	–2%	7%	–2%	5%	7%	–8%	3%	–7%	0%	–4%	–1%	–6%	–4%	1%
John Deere	–4%	1%	–1%	3%	5%	–5%	–3%	4%	2%	1%	–5%	1%	0%	0%	4%	9%
New Holland	8%	0%	–3%	–2%	0%	–17%	–32%	–11%	–1%	–2%	–4%	–1%	0%	–1%	–1%	–3%
Case IH	–7%	–4%	–3%	–10%	0%	–7%	5%	–1%	3%	–2%	–9%	1%	0%	–2%	–4%	–4%
Kubota	1%	5%	3%	–11%	5%	–6%	2%	0%	–2%	–11%	0%	2%	–3%	2%	3%	7%
Shortlines/Other	–3%	4%	3%	2%	–20%	–15%	3%	–1%	–3%	–8%	3%	–3%	–4%	–2%	6%	7%
Total	**–3%**	**–1%**	**–1%**	**–1%**	**–3%**	**–5%**	**–1%**	**0%**	**0%**	**–3%**	**–4%**	**–2%**	**–2%**	**–1%**	**0%**	**1%**

Source: Ag Equipment Intelligence, Cleveland Research

2020 Outlook: Dealers' Sales Forecast Up 2% in September

✔ The 2020 average dealer sales forecast was up 2% year-over-year in September vs. flat in the previous month.

2020 Sales Forecast												
% Change y/y	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**
AGCO	–2%	1%	–3%	2%	–1%	3%	2%	1%	–4%	3%	–1%	1%	6%
John Deere	0%	–2%	–1%	0%	2%	–1%	–9%	–6%	0%	0%	–5%	2%	–5%
New Holland	–3%	–1%	0%	–3%	–12%	–3%	3%	–12%	–8%	–3%	–3%	–2%	–2%
Case IH	–7%	–3%	–3%	0%	6%	2%	–5%	–12%	–2%	–1%	–1%	3%	6%
Kubota	–5%	–3%	2%	3%	1%	1%	–9%	–3%	2%	–5%	–5%	–2%	8%
Shortlines/Other	–2%	0%	1%	4%	2%	–4%	–2%	4%	7%	–2%	1%	–4%	7%
Overall	**–2%**	**–2%**	**–2%**	**0%**	**0%**	**0%**	**–6%**	**–7%**	**–3%**	**–3%**	**–1%**	**0%**	**2%**

Source: Ag Equipment Intelligence, Cleveland Research

✔ A net 2% of dealers in September expect growth in 2020, in line with those expecting growth in the previous 3 months.

Net % of Contacts Forecasting Growth in 2020													
% of Dealers Reporting	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**
Positive Sales Growth	31%	44%	48%	52%	55%	45%	36%	40%	37%	45%	42%	44%	42%
Flat Sales	33%	24%	25%	21%	10%	21%	16%	14%	17%	12%	18%	14%	18%
Negative Sales Growth	37%	32%	27%	27%	35%	34%	48%	46%	46%	43%	40%	42%	40%
Net % Expecting Growth	**–6%**	**12%**	**21%**	**25%**	**20%**	**11%**	**–12%**	**–6%**	**–9%**	**2%**	**2%**	**2%**	**2%**

Source: Ag Equipment Intelligence, Cleveland Research

✔ AGCO and John Deere's 2020 forecast for North America ag is down 10%. CNH's tractor forecast is down 10% for over 140 horsepower and up 5% for under 140 horsepower tractors, while combines are forecast down 10%.

2020 Ag Equipment Industry Sales Outlook (units)			
Geography	**Deere**	**CNH Industrial**	**AGCO Corp.**
N. America	Down 10%	Tractors (10%)-5%, Combines (10%)	Down 10%
Western Europe	Down 5-10%	Tractors (15%)-(10%), Combines (15%)	Down 10%
Latin America	Down 10-15%	Tractors (10%), Combines (10%)	Flat to Down 5%
Asia	Down Moderately	Tractors Flat to (5%), Combines 5%	NA

Source: Company reports, Cleveland Research estimates

Dealer Optimism Rises Again in September

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, rose in September for the third month in a row. Sentiment was up to +16% in September (32% more optimistic, 52% in line and 16% less optimistic) from +13% (31% more optimistic, 51% in line and 18% less optimistic) in the previous month.

Optimism/Sentiment vs. Last Month																
	Jun-19	**Jul-19**	**Aug-19**	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**	**Jul-20**	**Aug-19**	**Sep-20**
More Optimistic	18%	24%	13%	10%	13%	17%	27%	27%	24%	6%	13%	34%	27%	25%	31%	32%
Same	50%	42%	54%	61%	51%	63%	48%	60%	49%	22%	34%	41%	50%	60%	51%	52%
Less Optimistic	32%	35%	33%	29%	36%	20%	25%	13%	27%	72%	53%	25%	23%	15%	18%	16%
Net % Dealer Optimism	**–14%**	**–11%**	**–20%**	**–19%**	**–23%**	***–3%**	**2%**	**14%**	**–3%**	**–66%**	**–40%**	**9%**	**4%**	**10%**	**13%**	**16%**

Source: Ag Equipment Intelligence, Cleveland Research

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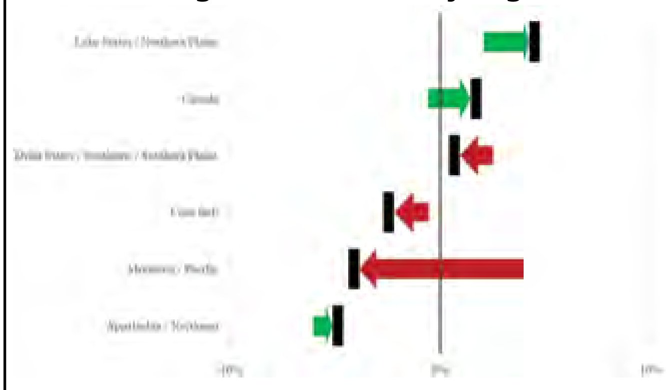
NEW EQUIPMENT TRENDS

Average Sales Growth by Region



Source: Ag Equipment Intelligence, Cleveland Research

Of the 6 regions, 3 saw sequential improvement in September vs. the previous month. Sales trends by region were strongest in the Lake States/Northern Plains, while Appalachia/Northeast was the weakest region in the month. In the third quarter, the Lake States/Northern Plains region and Canada were the strongest, while the Appalachia/ Northeast and Mountain/Pacific regions were the weakest.

Equipment Category Sales Trends

Source: Ag Equipment Intelligence, Cleveland Research

By product category, 7 of 12 categories showed improvement in September. The most notable sequential improvements came from grain handing and tillage tools, while commercial & consumer showed the greatest deterioration. In the third quarter, 10 out of 12 product categories showed improvement with commercial & consumer being the strongest and forage harvesters the weakest.

New Price Realization

Source: Ag Equipment Intelligence, Cleveland Research

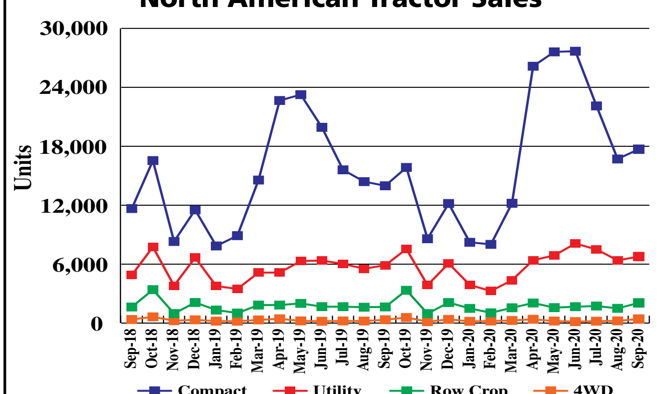
Price contribution was up 1.4% in September vs. up 0.8% in the previous month. Commentary suggests the increase in price is the result of standard seasonal price increases by manufacturers.

New Equipment Inventories

Source: Ag Equipment Intelligence, Cleveland Research

New equipment inventory levels were down in September with a net 28% of dealers reporting inventories "too low" (8% too high, 56% in line, 36% too low) vs. 19% of dealers reporting inventories "too low" (13% too high, 55% in line, 32% too low) in the previous month.

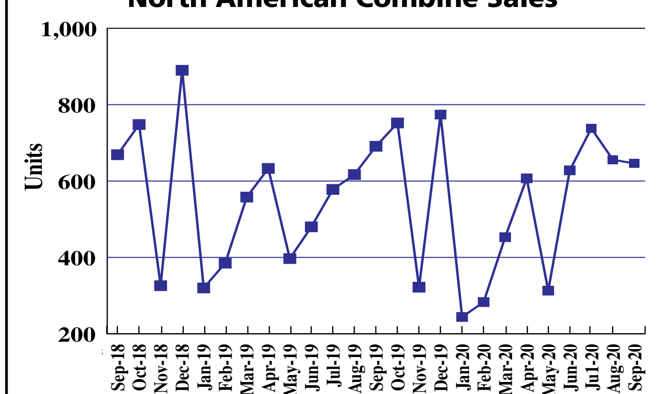
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 23% in September, compared to up 13% in the previous month. Row-crop tractor sales were up 25% in September, compared to down 7% in the previous month. Under 40 horsepower tractors were up 27% in September vs. up 16% in the previous month.

North American Combine Sales



Source: AEM, Cleveland Research

Total North American combine sales were down 7% year-over-year in September, compared to up 6% in the previous month.

USED EQUIPMENT TRENDS

Used Tractor Pricing Trends

Source: Ag Equipment Intelligence, Cleveland Research

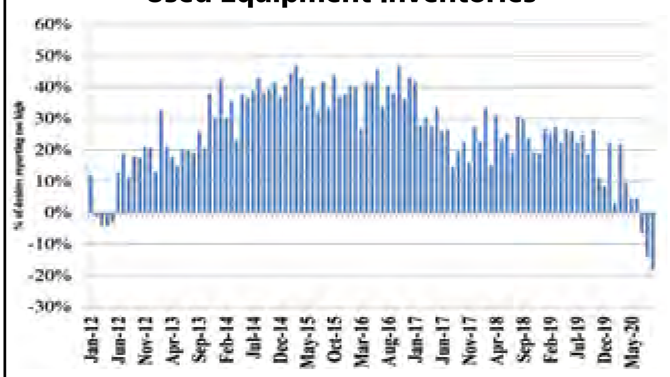
Dealers reported used equipment pricing was up 1% in September, in line with last month. Used large tractor pricing was up 1% year-over-year in September, in line with last month. Compact tractor pricing was up 3% in September, compared to up 5% in the previous month.

Used Combine Pricing Trends

Source: Ag Equipment Intelligence, Cleveland Research

Used combine pricing was down 2% year-over-year in September, in line with the previous month.

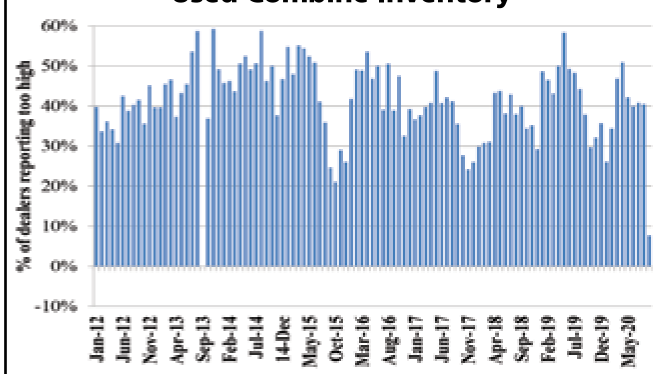
Used Equipment Inventories



Source: Ag Equipment Intelligence, Cleveland Research

A net 18% of dealers reported used equipment inventory was "too low" (13% too high, 56% in line, 31% too low) in September compared to 14% of dealers reporting used equipment inventory "too low" in the previous month (14% too high, 58% in line, 28% too low).

Used Combine Inventory

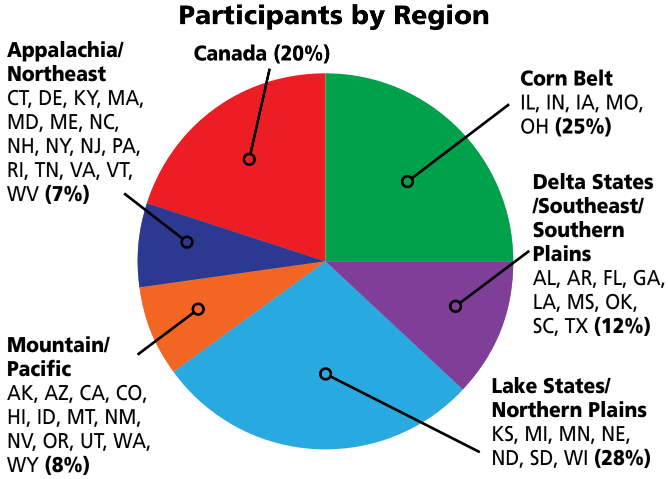


Source: Ag Equipment Intelligence, Cleveland Research

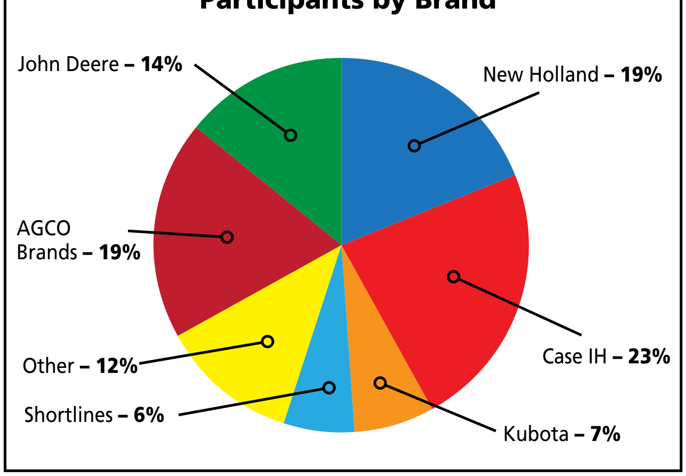
A net 8% of dealers reported their used combine inventories "too high" (23% too high, 62% in line, 15% too low) in September, compared to 40% reporting inventories "too high" last month. This was the lowest percentage of dealers reporting used combine inventories "too high" since 2012.

OCTOBER 2020 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The October survey had about 70 respondents representing combined annual revenues of roughly $2.5 billion. By brand, 14% were John Deere dealers, 19% AGCO, 19% New Holland, 23% Case IH, 7% Kubota and 18% shortline/other.