

Machinery, E&C and Waste

Farmer sentiment weakens - takeaways from Purdue call

Industry Overview

Farmer anxieties are high: Call with Purdue's Center of Ag

Last Thursday, we hosted a call with James Mintert, Director of Purdue University's Center of Commercial Ag to discuss the state of the farmer and his survey work. *Please reach out for slides/transcript.* The Ag Economy barometer (i.e., farmer sentiment) ticked down in March (117 vs 125 last month) with future expectations falling to 113 (vs 121 in February). Mintert acknowledges the weak sentiment (particularly around machinery purchasing) is at odds with healthy farmer economics today. Ultimately, farmers are concerned about a potential squeeze down the road – rising rates, input costs remain stubbornly elevated, higher machinery prices, and crop prices revert back to the mean. While sentiment is not the same as actual ordering activity, we would not be dismissive (rollover of sentiment index has correlated with multiple de-rating of OEMs). We remain selective on our farm equipment coverage across Deere, CNH Industrial, and AGCO.

Farmer sentiment falls in March – key factors

On April 5th, the Purdue University-CME Group Ag Economy Barometer (a reading of US farmer sentiment) released March results of its survey. The barometer decreased due to lower current and future expectations. Jim Mintert highlighted key reasons include: i) weaker financial performance in 2023 vs 2022 (2022 was a record year of profitability), ii) higher input costs, iii) concerns on higher rates, and iv) fears of lower crop prices.

Higher rates impact: driving fear but no 'credit crunch'

To be clear, Mintert does not see a 'credit crunch' in ag economy right now – farmers are coming off strong income last two years (i.e., some are self-financing own working capital) and consolidation trend (i.e., larger farms) are better capitalized. That said, farmer sentiment is being weighed down by fear of rising rates potentially impacting i) operating loans based on prime, ii) farmland values (largest capital asset). The % of farmers concerned about rates impacting operations continues to go up each survey.

Machinery purchasing expectations: sentiment vs reality

Farm capital investment index remains under pressure with the view that it is a "bad time to make a large investment machines/buildings". March was the first month farmers cited 'rising interest rates' over 'increase in prices for machinery' as the primary reason. That said, Mintert is not observing weak sentiment translating into lower orders – large farmers in growth mode do not want to fall behind on equipment that can drive higher capacity, minimize labor constraints and elevated trade-in values provide support.

Commodity sell off - \$5/bushel is key psychological level

According to Mintert, farmers are likely to become increasingly pessimistic if corn falls to ~\$5.5/bushel and anything below ~\$5/bushel is likely a critical psychological (and breakeven) level for farmers. So far, 2022 crop prices have been strong but bids for the fall are softer than expected. There remains uncertainty with where prices end 2023 with tightening farmer margins. Encouragingly, input costs are moderating yet not likely to roll back to 2017-19 levels and remain a headwind to farmer expenses.

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OEM – original equipment
manufacturer

P&L – profit & loss

Feb – February

\$/bu = dollar per bushel

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