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THE INSIDER

DECEMBER 2020

FARM EQUIPMENT INDEX HIT HIGHEST MARK SINCE 2013

For the first time since April of this year, the Creighton University Rural Mainstreet Index (RMI) declined. The overall index for November sank below growth neutral to 46.8 from October's 53.2.

In spite of that broader decline, the November farm equipment-sales index increased to 42.9, its highest level since December 2013, and up from 37.9 in October. The index ranges between 0 and 100 with 50 representing growth neutral.

"Recent improvements in agriculture commodity prices, federal farm support payments, and the Federal Reserve's record low interest rates have underpinned the Rural Mainstreet Economy. Still, only 6.5 percent of bankers reported improvements from October, while 12.9 percent detailed economic pullbacks for the month," said Ernie Goss, PhD, chair of regional economics at the university.

This month bankers were asked to forecast the share of grain farmers likely to experience negative cash flow for 2021. Bankers expect 9.2 percent of grain farmers' cash expenses to exceed cash revenue. This is an improvement from 2019 when bankers projected 12.4 percent of farmers to experience negative cash flows in 2020.

The confidence index, which reflects bank CEO expectations for the economy six months out, dipped to 50 from October's 51.6. Each month, Creighton surveys community bank presidents and CEOs in agriculturally and energy-dependent portions of a 10-state area.

Farmers Pull Back Slightly on Plans to Buy Equipment

U.S. farmer sentiment weakened in November. The Purdue University-CME Group Ag Economy Barometer fell 16 points from October to a reading of 167.

The decline in the Ag Economy Barometer was the result of farmers' weakened expectations for the future. Perceptions of current conditions improved by nine percentage points amid the ongoing rally in agricultural commodity prices.

Farmers remained relatively optimistic about making large investments in their operations.
The Farm Capital Investment Index changed little in November with a reading of 80, just two points below the index's record high set in October. However, survey respondents pulled back somewhat.

In November, 10 percent of farmers said they planned to increase their farm machinery purchases compared to a year earlier, down from 14 percent who planned to increase purchases in October. The percentage of farmers planning to keep their machinery purchases even with a year ago fell from 53 to 50 percent in November, while the percentage of respondents planning to reduce their purchases increased from 33 to 40 percent.

IRS Makes Consequential Change to PPP Tax Rules

The IRS has issued guidance around the tax deductibility of allowable Paycheck Protection Program expenses. In short, the IRS is disallowing any such tax deductions, and warning all PPP recipients they need to plan accordingly.

This is a significant change. Due to the evolving PPP loan forgiveness process, many businesses and their tax advisers planned to wait to apply for loan forgiveness in 2021. This way, a business could deduct their standard expense for tax year 2020, apply for PPP loan forgiveness in 2021 to evaluate how much is forgiven or deductible, then address tax liability on PPP forgiveness and deductions in later filings. This would retain working capital amid the uncertainty of current events.

However, the Department of Treasury and the IRS issued guidance Nov. 18 that says if "the business reasonably believes that a PPP loan will be forgiven in the future, expenses related to the loan are not deductible whether the business has filed for forgiveness or not."
A business that received a PPP loan and paid otherwise deductible expenses such as payroll, rent, mortgage, or utilities during the covered period may not deduct those expenses for tax year 2020 even if the business does not submit an application for loan forgiveness in 2020.

If a business “reasonably expects to receive forgiveness,” it automatically loses these tax deductions.

The IRS has also noted that if the loan is subsequently not forgiven, businesses can treat these expenses as deductible in an amended filing. Companies that do not intend to seek forgiveness may deduct the expenses this year.

Some businesses are supporting a bipartisan reversal of this position, which is S.3612/H.R.6821. *Source: Dady & Gardner, P.A.*

MSEDA Cancels Midwest Ag Expo and Joint Annual Meeting

The 2021 Midwest Ag Expo and MSEDA 2021 Joint Annual Meeting has been canceled due to concerns with the COVID pandemic. Even though these were difficult decisions to make, it was necessary and the right decisions.

“This is about doing the right thing for our members, exhibitors, stakeholders and the broader community in terms of health and safety—which is our top priority,” said James McCartney, Chairman of the Midwest-SouthEastern Equipment Dealers Association. “After careful deliberation among our Board of Directors and industry partners, it was decided that the COVID-19 restrictions would prevent us from delivering the type of high-quality experience the members, attendees and exhibitors have come to expect and enjoy in the past years.”

Midwest Ag Expo has been rescheduled for January 26 & 27, 2022. The Joint Annual Meeting of the Deep Southern Equipment Dealers, United Equipment Dealers and Midwest-Southeastern Equipment Dealers Association’s Joint Annual Meeting at the Marriott Savannah Riverfront in Savannah, Georgia has been rescheduled for February 27, 28, and March 1, 2022 in Savannah, GA. As usual, if you have any question please call the offices at 800-236-6332.

Record-High Ag Subsidies to Supply 39% of Farm Income

Despite the effects of the pandemic and the trade war, U.S. farm income this year will be the highest since 2013 because of the largest federal payments ever — $46.5 billion, triple the usual amount. Think tank analysts said farm income would fall in 2021 with the expiration of Trump-era bailouts, but the drop-off will be lessened by the ongoing rally in commodity prices and increased ag exports.

“Given these new farm income numbers, it is hard to make a case for more supplemental monies going to the sector,” said former USDA chief economist Joe Glauber, now at the IFPRI think tank. “Far better to put it towards those who need it more, like SNAP recipients.”

Pat Westhoff, director of the FAPRI think tank, said farm income was certain to fall next year without large stopgap assistance. “However, with commodity markets stronger than we expected back in August, I’d expect the level of net farm income to be higher in 2021 than we previously projected,” which was $82.2 billion. Westhoff calculated that the U.S. corn and soybean crops are worth $16 billion more than in August, with China returning to the U.S. market.

Government payments will account for 39% of net farm income this year, the largest share of income since 41% in 2001. The highest share ever was 65 percent in 1983, during the worst of the farm recession, said USDA economist Carrie Litkowski.

“And total direct farm government payments are forecast to increase, or to be at their highest level ever in 2020,” said Litkowski during a webinar. The estimated $46.5 billion in payments is nearly $10 billion larger than the USDA estimated on Sept. 2, due to the administration’s decision to offer a second round of coronavirus payments to farmers. Trump announced the additional aid at a campaign rally in rural Wisconsin on Sept. 7.

The USDA estimates farmers will receive $24.3 billion in coronavirus payments this year, along with $5.9 billion in Payroll Protection Program loans, which will be forgiven in most cases; $3.7 billion in trade war payments; and $10 billion or so in traditional farm subsidies and land stewardship payments. In 2019, direct payments totaled $22.4 billion, less than half of this year’s amount.

When $6 billion in indemnities from federally subsidized crop insurance programs are added to the direct payments, the government would be responsible for $52.5 billion, or 44%, of farm income this year. Crop insurance, however, is not considered a direct payment.

Besides larger federal payments, the USDA raised its estimate of crop and livestock receipts by $8.2 billion from the September forecast. Farmers held on to a bit more money by paring their expenses, which aided the income picture.

Net income of $119.6 billion this year would be well above the average of $77 billion in the preceding five years. Farm income was a record $123.7 billion in 2013 at the crest of the commodity boom.

Farm assets, mostly real estate, were forecast to rise modestly this year, to $3.12 trillion, while farm debt would rise by 4%, to $435 billion. The debt-to-asset ratio, on the rise since 2012, would increase to 13.95% this year, up from 13.61% in 2019. Still, the ratio would be relatively low, so the risk of agricultural defaults also would remain low, said Litkowski. The farm bankruptcy rate of 3 per 10,000 farms was expected to fall slightly this year.

Some $14 billion was offered to producers in the second round of coronavirus aid. The USDA estimated that $13.3 billion of it would be paid by the end of this year, meaning little would spill over as payments in the new


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year. The deadline to apply for aid is Dec. 11. As of Monday, $11.1 billion had been paid in the second round and $10.5 billion in the first round.

Shipping Containers for Ag in Short Supply

A surge in Asian imports bound for U.S. retailers preparing for Christmas is causing an acute shortage of shipping capacity for U.S. exporters, with agricultural producers struggling to find containers.

The high demand in the U.S. for imports has pushed container freight rates from China to the U.S. West Coast seaports beyond $4,000 per container. Meanwhile, the average price to ship goods by container from Los Angeles to Shanghai in recent weeks was $518.

For carriers, that means it makes more financial sense to hustle boxes back to Asia rather than wait for them to travel inland for several weeks to reach exporters and then return to the coastal gateways.

"Right now we are grappling with a true emergency—carriers refusing bookings for trans-Pacific agricultural exports and canceling those already booked," said Peter Friedmann, executive director at the Agriculture Transportation Coalition, a trade body representing U.S. farmers. "We are getting locked out of foreign markets."

The shortage is in part the result of the steep imbalance in the value of the goods moving across the Pacific. U.S. imports from China, for instance, include big volumes of electronics, apparel, toys and other manufactured goods. U.S. exports lean heavily toward bulky agricultural goods, along with food and beverages, which have a lower market value.

Container shortages aren't uncommon during the busy summer months, but it is more intense this year and has spread to ports around the world as demand swung sharply from record lows to record highs within a few months.

A report from the National Retail Federation and Hackett Associates said major U.S. ports imported 2.11 million containers in September, 12.5 percent more than the year before and the highest monthly total in records going back to 2002.

With retailers continuing to bring in goods in record numbers, industry executives expect the imbalance and the shortage in outbound equipment to continue through the holidays. *Source: Wall Street Journal*

Equipment is Built for Men, but 36 Percent of Farmers are Women

According to the USDA's most recent Census of Agriculture, roughly 36 percent of all farmers are female, a percentage that has been rising for the past decade.

The farm equipment industry appears not to have kept pace with the trend.

Dusty Spurgeon, who runs a vegetable farm in Illinois with her mother in-law, said operating equipment designed to accommodate a differently built farmer is among her biggest challenges.

Their tractor, for example, is built with a man's upper body strength in mind. When Spurgeon needs to switch an implement, she said if she doesn't make the change within a couple of minutes, she cannot continue to hold the equipment as she needs to hold it.

She also encounters problems engaging the parking brake, refueling the tractor, and lifting the safety bar. Hand tool grips are often too large, too. Equipment has historically been designed "for people of a certain weight and certain height… pretty much reflective of the male population in the United States," said Josie Rudolphi, who researches agricultural safety and health at the University of Illinois.

"Women are very, very capable of running these pieces of equipment," Rudolphi said. "Sometimes getting them started or… reaching the brake and the clutch at the same time creates a challenge just based on the size and nature of some women."

The incompatibility between a female frame and equipment design leads to a greater risk of injury among women.

Warmest wishes

for a joyful season and successful New Year!

Happy holidays from your friends at AgDirect.

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POWERED BY FARM CREDIT

Liz Brensinger and Ann Adams, farmers with backgrounds in public health, set out to find tools that were ergonomically designed for women.

“There were companies that painted crappy tools pink and called them ladies tools,” Brensinger says. “But we couldn’t find a single case of tools or equipment in the ag sector that had been scientifically designed to work well for women.”

So Brensinger and Adams co-founded Green Heron Tools, a company that focuses on researching and designing tools and machinery for women.

They use “a scientific design process to match the tool, not just to anthropometrics, kind of the size and shape and function of women’s bodies, but also how women tend to work, which is different from how men tend to work,” Brensinger said.

They trademarked the term “hergonomic” for their tools, which are generally lighter and have patented grips to accommodate smaller hands. *Source: Harvest Public Media*

Equipment Dealers Association Releases 2020 Compensation & Benefits Report

The Equipment Dealers Association (EDA) has released its 2020 Compensation & Benefits Report. This report is the industry’s most comprehensive collection of data related to benefits and wages for dealership employees in North America. Data from the report is collected every two years from agriculture and outdoor power equipment dealers in the United States and Canada.

EDA creates two reports based on dealership type: agriculture/construction and outdoor power equipment. This year more than 450 agriculture and construction dealers and more than 250 outdoor power equipment dealers provided data for the survey – a record level of participation. Their combined responses represent more than 2,100 dealership locations and provided more than 600 data points on technicians and shop rates alone.

The 2020 Report got a facelift and now includes quartiles instead of simple averages. For each position, salary or hourly wages, commission, bonus and total compensation are broken down into the 25th, 50th (median) and 75th quartiles. EDA staff feel this format is more useful for comparing positions across dealership sizes and regions.

A complimentary copy of the report has been provided to those who participated in the survey, regardless of membership status. For those who did not participate, the 2020 Compensation & Benefits report is available for purchase at both a member and non-member price. EDA extends its gratitude to those dealers who took the time to complete the survey and provide us with this valuable data.

Questions about the survey and culminating report should be directed to surveys@equipmentdealer.org.

Contact Chris Havey (614.607.2468) with any questions

MANUFACTURER NEWS

RECORD GROWTH IN U.S. OUTDOOR POWER EQUIPMENT SHIPMENTS IN 2020

The Outdoor Power Equipment Institute (OPEI) has released its December forecast, showing record growth across the industry despite an ongoing pandemic and downward market pressures, and predicting continued positive activity into 2021.

OPEI is an international trade association representing power equipment, small engine, battery power systems, portable generators, utility vehicle, golf car and personal transport vehicle manufacturers and suppliers.

"We've seen very real, significant positive market dynamics across many of the segments we track," said Kris Kiser, President and CEO of OPEI. "While this year has been very challenging, the industry has stepped up to continue making and shipping necessary equipment, helping many Americans get outside and work in and reconnect with their living landscapes."

Kiser added, "We expect demand for outdoor power equipment to remain strong into 2021 as homeowners expand their connection to their living landscape and invest in the maintenance of their outdoor spaces. Consumer demand remains high, and inventories at outdoor power equipment dealers remain tight."

Overall, the industry saw shipments of outdoor power equipment increase by more than 5 million units — a jump of 16% from last year — and those levels are expected to remain elevated in 2021.

This year has seen expansion of both gas and battery/electric equipment, with all electric and battery powered segments tracked by OPEI posting double-digit growth. "The industry continues to expand its power offerings for commercial contractors and homeowners," Kiser said. "Whether its gasoline, propane, or battery/electric power, OPE manufacturers have the equipment and the power source to get the job done."

- Consumer lawn mower shipments grew more than 15% in 2020, with 7.7 million units shipped.
- Commercial lawn mower shipments are down about 5% in 2020 compared to 2019, with more than 308,000 shipped, but are expected to grow by more than 5% in 2021.
- Handheld power equipment shipments grew by more than 17% in 2020, with 29.3 million units shipped.

"Commercial products are down a bit this year, as professional landscape contractors have been conservative during this period of uncertainty. They've been saving and will likely be in a strong cash position in the spring," Kiser said. "Manufacturers expect significant commercial investment in spring of 2021, and we expect this sector to grow by more than 5% next year."

OPEI forecasted projections use as their basis the compiled monthly shipment data reported by OPEI members, constituting more than 90 percent of all shipments in the U.S. market. OPEI projections reflect shipments of products to include all power sources (e.g., gas, battery, corded (AC), diesel, propane).

DEERE CLOSES YEAR OPTIMISTIC ABOUT AG IN 2021

Deere's net sales in agriculture and turf improved by 8 percent for the quarter that ended Nov. 1 but saw a 6 percent decline for the fiscal year.

Driving the increase for the fourth quarter were price realization and higher shipment volumes, the company said.

Worldwide net sales and revenues in all segments decreased by 2 percent for the quarter and 9 percent for the year.
Chairman and CEO John C. May said the company expects the farm economy to stabilize in this new fiscal year.

"Higher crop prices and improved fundamentals are leading to renewed optimism in the agricultural sector and improving demand for farm equipment," he said.

Sales of agriculture and turf equipment are projected to increase by 10 to 15 percent in 2021. In the U.S. and Canada, the forecast calls for a 5 to 10 percent gain in sales in farm equipment. Elsewhere in the world, Deere is calling for sales to be flat with the possibility of a 5 percent gain in the EU28 member nations. Sales of tractors and combines in South America are forecast to be up by 5 percent while Asian sales are expected to be slightly lower. *Source: Deere*

STAKEHOLDER IN AGCO SEEKS GOVERNANCE CHANGES

India-based Tractors and Farm Equipment Limited (TAFE), which owns a 16-percent stake in AGCO, reported in November it wants AGCO to separate the role of chairman of the board and CEO "to better fulfill the board's duty of oversight of the company."

The move comes in advance of a CEO transition at AGCO. In August, the company announced that its CEO for the past 16 years, Martin Richenhagen, will retire on Dec. 31. Richenhagen has also served as AGCO's chairman since 2006.

In a Nov. 12 filing with the Securities and Exchange Commission, TAFE says it believes that appointing a separate chair provides the opportunity to improve governance practices and enhances the oversight of management. TAFE also notes that such separation is being increasingly adopted by public companies. AGCO's headquarters are in Duluth, Ga. It employs 21,000 people and reported $9 billion in sales last year.

Among other recommendations from TAFE to AGCO:
- Better align compensation programs for senior management with long-term company performance.
- Rotate board committee chairs and other members of the board committees to bring fresh perspectives.
- Refresh the board on a more regular basis to bring diverse views and experience. *Source: Atlanta Business Chronicle*

DIXIE CHOPPER ANNOUNCES NEW ONLINE PARTS ORDERING WEBSITE

Dixie Chopper has announced a new online parts ordering website for Dixie Chopper customers - My Dixie Chopper Parts.

Every industry is adapting to the changing environment of how customers are interacting in the retail atmosphere. Even in the Outdoor Power Equipment industry, customers are opting for making online purchases now more than ever in the past.

If a customer is unable to make it to their local dealer due to schedule conflicts, proximity, or any other reason, Dixie Chopper has a solution with My Dixie Chopper Parts.
Some dealers have created online parts ordering options through their own website, but developing a parts ordering website is an extremely time-consuming project and requires additional resources for dealers. So Dixie Chopper has done the heavy-lifting for the dealer channel.

Dixie Chopper is excited to launch "My Dixie Chopper Parts," a brand-new online parts ordering site. This new site will allow customers* to order genuine OEM Dixie Chopper parts directly from the factory with credit going to the closest qualified dealership. My Dixie Chopper Parts is now live and ready for customers to place orders.

ALAMO GROUP ANNOUNCES CEO RETIREMENT PLAN

Alamo Group announced today that Ron Robinson, the company's president and CEO, has informed the Board of Directors of his intention to retire preferably by mid-year 2021 and upon the appointment of his successor. As part of its succession planning efforts, the Company's Board of Directors has been preparing for such a transition and anticipates naming a new President and CEO as Mr. Robinson's replacement within the next several months. It is Mr. Robinson's intention to continue on in his role as a member of the Company's Board following his retirement as president and CEO.

On behalf of the Board of Directors, Roderick R. Baty, Alamo Group's chairman said, "We would like to extend our gratitude to Ron for his extraordinary leadership during his 21 years of service as president and CEO. Under his guidance and strategic vision, Alamo Group has grown from a small domestically-focused company with 9 manufacturing locations, 9 distinct brands, 1,100 employees and sales of $177 million, to a multinational company with 27 global manufacturing locations, more than 40 distinct brands, almost 4,000 employees and sales in excess of $1.1 billion. Corresponding net income and earnings per share grew from $6.1 million and $0.63 to $63.0 million and $5.33, respectively."

NOVEMBER OPE WHOLEGOODS SALES STAY IN GROWTH MODE

Wholegood sales at independent servicing OPE dealerships took another impressive step forward in November, according to the latest exclusive data for OPE Business readers from Constellation Data Solutions, a division of Constellation Dealership Group.

Wholegood sales in the U.S. increased 15% in November vs. November 2019 on average according to Same Store Sales results at U.S. outdoor power equipment dealerships. The composite data is pulled from dealerships that use Constellation's Ideal and c-Systems DMS products. The Same Store Sales data compares November 2020 vs. November 2019 wholegoods sales at 1,106 independent servicing OPE dealerships.

Dealers in the South region experienced an average 35% increase in wholegood sales to lead the nation in November vs. November 2019, while the Northeast had an 11% increase. Dealers in the West saw an 8% wholegoods sales increase during November on average, while dealers in the Midwest saw average wholegoods sales decline 3% during November.

The percentage breakdown by dealerships that were up vs. down in wholegoods sales for November is as follows:

West: 56% up; 44% down
Midwest: 47% up; 53% down
Northeast: 49% up; 51% down
South: 74% up; 26% down
USA: 60% up; 40% down
States in each region are as follows:
Midwest — IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
Northeast — CT, MA, ME, NH, NJ, NY, PA, RI, VT, CT, DE, MA, MD, ME, NH, NJ, NY, PA, RI, VT, WV, CT, MA, ME
South — AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, WV
West — AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

FARM TRACTOR UNIT SALES CONTINUE GROWTH TREND IN U.S., CANADA

Farm tractor and self-propelled combine unit sales continue their growth across the U.S. in November 2020, while small to mid-size units continue growth in Canada according to the latest data from the Association of Equipment Manufacturers (AEM).

U.S. total farm tractor sales rose 41 percent in November compared to 2019 while U.S. self-propelled combine sales grew 33.1 percent. U.S. four-wheel-drive units nearly doubled in November, up 91.4 percent to 201 units, now up year-to-date 4.7 percent. 100+hp also grew in November, up 24.2 percent, keeping the big units positive for the year, now up 1.2 percent YTD. Total YTD farm tractors out the door are up 16.4 percent in 2020, while combines are now up 6.4 percent on the year.

For Canada, November tractor sales saw its biggest growth in the sub-40hp range, carrying overall tractor sales to a 4.4 percent growth for the month and 9.1 percent YTD, while 40-100hp stayed almost flat, only growing 0.3 percent and 100+hp units had a similarly small drop of 0.5 percent. Four-wheel-drive units fell 7.7 percent in November, while self-propelled combines took a 45 percent tumble for the month, putting YTD unit sales 11.1 percent behind their 2019 pace.

"On the whole, this sales report continues the generally positive trends we have seen since April," said Curt Blades, Senior Vice President of Ag Services at the Association of Equipment Manufacturers. "That trend includes strong growth in the smaller units, while bigger units are following along a little more slowly."

AEM United States Ag Tractor and Combine Report
November 2020

	November			YTD - November			Beginning Inventory
	2020	2019	%Chg	2020	2019	%Chg	Nov 2020
2WD Farm Tractors							
< 40 HP	10,738	7,281	47.5	182,461	152,291	19.8	49,523
40 < 100 HP	4,094	3,190	28.3	61,020	54,540	11.9	24,324
100+ HP	929	748	24.2	16,956	16,747	1.2	6,549
Total 2WD Farm Tractors	**15,761**	**11,219**	**40.5**	**260,437**	**223,578**	**16.5**	**80,396**
4WD Farm Tractors	**201**	**105**	**91.4**	**2,685**	**2,565**	**4.7**	**700**
Total Farm Tractors	**15,962**	**11,324**	**41.0**	**263,122**	**226,143**	**16.4**	**81,096**
Self-Prop Combines	**213**	**160**	**33.1**	**4,544**	**4,269**	**6.4**	**686**

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