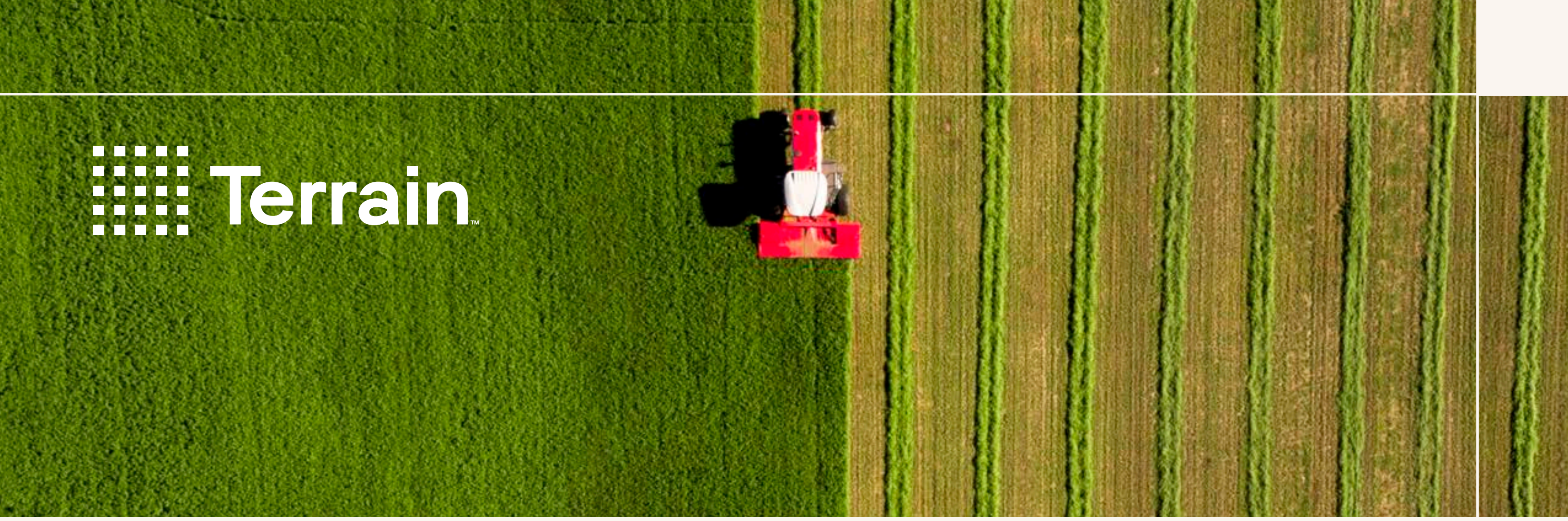


Q3 2025 OUTLOOK

Farm Equipment Outlook: A Downshift That Opens Doors

By Matt Clark

BACKGROUND

Outlook: While new farm equipment prices will continue to increase, the increase is expected to be less dramatic than in recent years, and used farm equipment prices will remain subdued.

Impact: In a time of elevated interest rates, tight crop cash flows and lower intermediate asset values, equipment deals will require cash.

As we move into the second half of the year, farmers typically take stock of their equipment fleet and begin to plan for needed upgrades. Recent declines in used equipment values and higher dealer inventory-to-sales levels could offer opportunities for upgrades; however, farmers will need to balance the tension of lower trade-in values, elevated financing costs and longer maturities against their balance sheets and cash flow projections should they seek to take advantage of this window of opportunity.

NEW EQUIPMENT SALES DOWN

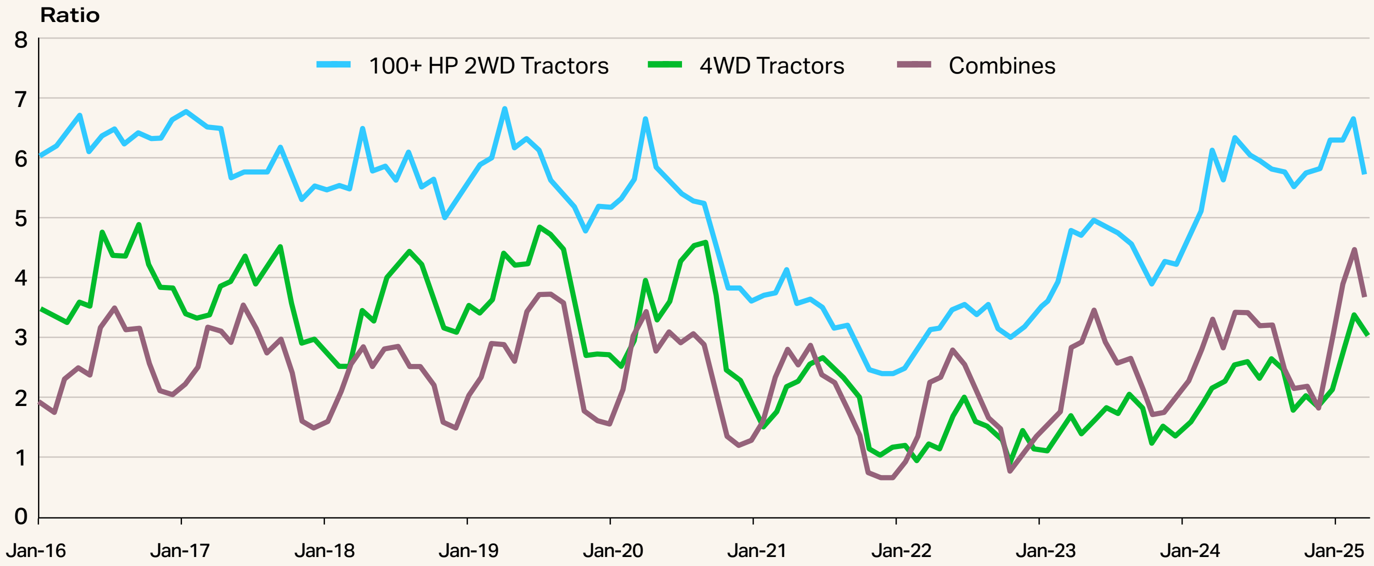
Driven by a sharp pullback in crop farm profitability, farm equipment sales have sharply contracted over the last year following a very robust 2023 and early 2024. Sales of new combines and two-wheel drive farm tractors with more than 100 horsepower have declined 13 months in a row, compared to the year before.[1] Sales of new four-wheel drive tractors have declined for 7 months in a row. Creighton University's Mainstreet Economy survey also indicates contracting farm equipment sales over the same 13-month period.[2]

Sales Are Down Year-to-Date

- ↓26% Two-wheel drive 100+ horsepower tractors
- ↓38% Four-wheel drive tractors
- ↓43% Combines

Inventory levels have pulled back in response to slower sales, but the decline in sales has outpaced the decline in inventories. Therefore, in April the inventory-to-sales ratios reached the highest level since 2020 but pulled back very slightly in May.

Elevated Inventory-to-Sales Ratios Could Create Opportunity



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Note: Ratio is calculated by beginning inventory-to-average sales over 6 months.
Sources: Association of Equipment Manufactures, Terrain

UPGRADE WINDOW OPENS FOR FARMERS

Elevated inventory-to-sales ratios typically spur slower price increases in new farm equipment; however, this cycle has a few nuances.

First, manufacturers are indicating higher costs may be on the horizon due to the impact of import tariffs onto their supply chain.[3]

Second, this cycle is also exacerbated by tight crop cash margins that are expected to continue into 2026. The cumulative effect of a push and pull in equipment prices should also help tame price increases.

Moreover, used equipment values have been in decline for more than a year. For example, data collected from Machinery Pete's auction results indicate that sale values for recent John Deere and CaseIH tractors with more than 300 horsepower and less than 2,500 hours have declined several years in a row.[4] Auction results for combines show similar declines.

My expectation is that while new farm equipment prices will continue to increase, the increase will be much less dramatic than in recent years and used farm equipment prices will remain subdued over the next 3 to 6 months.

Slower increases in new equipment prices and declines in used equipment prices can provide farmers with a window to upgrade their equipment lines. However, in preparation for new purchases, farmers should factor the following considerations when working with their Farm Credit relationship manager (in addition to traditional banking metrics):

Lower Trade-in Values

As noted above, used equipment prices have declined significantly at auctions, and farmers should expect to receive a markedly lower trade-in value on their equipment. In some cases, farmers may need to sell their old equipment privately if the dealership is unwilling, or unable, to take it. In either case, farmers should expect to offset the lower value with cash and/or other pledged equity.

Higher Interest Rates

Interest rates for machinery and equipment remain elevated. According to the Federal Reserve Bank of

Kansas City, the average machinery and equipment fixed interest rate is just under 8%, down only 0.50% from the recent high.[5]

My expectation is for only minor cuts to the Federal Funds interest rate over the next 6 months, which means that rates for farm equipment are likely to decline only somewhat by the end of the year. Therefore, when running cash flow scenarios make sure to estimate potential payments given elevated interest rates and do not bank on steep cuts.

Farm Credit relationship managers can calculate payments under different scenarios, assess different rate structures and may provide other alternatives such as leasing to compare the impact on your cash flow.

The Maturity Dance

The Federal Reserve Bank of Kansas City also notes that the average maturity on farm equipment loans is around 40 months, or about 3.25 years, down slightly from the recent high of 50 months but above the 2010-2019 average of 34 months.[5] However, there is significant anecdotal support that, more recently, maturities have been stretched even further in attempts to reduce near-term payments, while at the same time taking aggressive depreciation for cash flow purposes.

The advantage of working with Farm Credit loan officers is that they can match maturity schedules with farm balance sheets, cash flows and planned depreciation schedules to limit financial and equity position gaps.

The Value of Cash

In a time of elevated interest rates, tight crop cash flows and lower intermediate asset values (like equipment), deals on equipment, land and other assets will require cash. Make sure to assign a value, beyond the dollar amount, to having dry powder available to quickly consummate those deals. That may mean passing on some equipment upgrades to preserve dry powder for better deals down the road.

In short, my expectation is that used farm equipment prices will remain subdued over the next 3 to 6 months and the increase in new farm equipment prices will be less severe than in previous years. This could provide a window of opportunity for farmers who are looking to upgrade their equipment line; however, the decline in trade-in values, elevated interest rates and the mismatch between increasing loan maturities, aggressive depreciation and balance sheet concerns warrants careful planning with your Farm Credit relationship manager to make sure your farm is able to meet your financial goals.

ENDNOTES

[1] Associate of Equipment Manufacturers, "AEM United States Ag Tractor and Combine Report," April 2025, https://www.aem.org/getattachment/8946f321-f026-4bf1-8d98-075a1b6f74e3/US-Month-Ag-Report-4-2025.pdf

[2] Creighton University, "Mainstream Economy," May 2025, https://www.creighton.edu/economicoutlook/mainstreeteconomy

[3] Wall Street Journal, Mark Maurer, "Deere's Plans for Offsetting $500 million in Tariff Costs," May 2025, https://www.wsj.com/articles/deeres-plans-for-offsetting-500-million-in-tariff-costs-79ae52d8?gaa_at=eafs&gaa_n=ASWzDAg2CX60qmFfAUkVTSDgY6fIVxT_2gZxcAFPOEYKaqsZBiVOZU8ST191Y5rK0gA%3D&gaa_ts=68403c2e&gaa_sig=hU0N2KyF2BGWz6yjfIRkivRPc_NwgD4kkOHUhd-VjCDJ4hVRD1_fWDjixJwa5APNe1O_84dCuqUw-AxlTj_qKg%3D%3D

[4] Machinery Pete, "Auction Price Data," https://www.machinerypete.com/auction_results

[5] Federal Reserve Bank of Kansas City, "Ag Finance Updates," https://www.kansascityfed.org/agriculture/agfinance-updates/

ABOUT THE AUTHOR

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