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## THE INSIDER

JAN  
2020



### FARMERS' WILLINGNESS TO INVEST ENDS ON HIGH NOTE IN 2019

The Ag Economy Barometer drifted sideways in December to a reading of 150 compared to 153 in November.

The Farm Capital Investment Index, which reflects farmers' willingness to invest in equipment and other capital, ticked up to 72, which concluded 2019 at the highest investment index value for the year.

Although the overall reading changed little, the survey revealed a shift in producers' perspective regarding both their farms' and the production ag sector's economic health. Producers expressed less confidence than a month earlier

about current economic conditions; the Index of Current Conditions declined by 12 points to 141 from November to December.

In contrast, producers' expectations for the future remained strong; the Index of Future Expectations rose slightly from 153 in November to 155.

A slim majority (52 percent) of farmers on the December barometer survey indicated that their farm's financial performance in 2019 matched their initial budget projections.

### ***FAST FACT***

Brazil is expected to displace the U.S. as the world's top soybean producer during the 2019/2020 season. Brazil's soybean crop is projected to be the largest ever at 123.5 million metric tons. The U.S. harvest is expected to drop by nearly 20 percent from the previous year to less than 100 million metric tons.  
*Source: USDA*

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To better assess the level of financial stress among U.S. farms, researchers asked producers in November and December whether they expected their farm's operating loan in 2020 to be larger than, about the same, or smaller than in 2019. About one in five farmers expect to have a larger operating loan in 2020. About three in 10 of those operations indicated the reason for the larger operating loan is that they expect to carry over unpaid operating debt from 2019. Responses to these two questions suggest that about 6 percent of farms surveyed in late 2019 were experiencing significant financial stress.

The Purdue University/CME Group Ag Economy Barometer is a nationwide measure of the health of the national agricultural economy. Results are based on responses from a survey of 400 agricultural producers



As one decade ends and another one is about to start, the farm machinery industry is at the beginning of a technical revolution.

The last 10 years has once again seen tractor makers forced to spend many millions on strict engine emissions regulations, the latest being Stage 5. However, this has not deterred several makers from developing alternative power and driveline solutions.

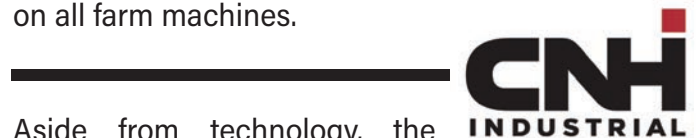
In particular, the recent Agritechnica machinery show in Germany saw a flurry of developments. This

included several diesel-electric hybrids, the most stylish being Steyr's Konzept tractor, confirming the leaner and greener theme will continue to play an important role for the next 10 years.



Similarly, what makes John Deere's latest 8 Series tractors' eAutoPowr gearbox (first continuously variable transmission with an electro-mechanical power split) interesting, other than the claimed increased efficiency, is it provides surplus electricity which can be used on implements. Famous transmission manufacturer ZF also showed a similar electric CVT, which we understand will be in a tractor by the next Agritechnica in 2021, so our tip is to expect to see more electric implements quite quickly.

In addition, numerous autonomous vehicles, the most powerful of which was on the John Deere stand. The technology already exists for one operator to supervise several unmanned vehicles, but legislation and farmer acceptance are perceived by many to be the two main obstacles. Love it or hate it, there is no stopping technology, so expect increased levels of automation on all farm machines.



Aside from technology, the stands of the big four – John Deere, CNH Industrial, AGCO and Kubota – at Agritechnica also gave us some strong clues as to which way these manufacturers are heading when it comes to product line development and brand strategy.

The strategy at CNH Industrial, which sees the separation of the on- and off-highway divisions, was recently outlined in a five-year business plan by senior

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management at the New York Stock Exchange.

Part of the plan to grow the company's farm machinery sales revenues by 5 per cent each year is to reposition and strengthen the three brands of Case IH, New Holland and Steyr, and increase the levels of differentiation. What this means from a product perspective is unclear, but CNH Industrial stresses Case IH will focus on large-scale 'professional farms'; New Holland on orchards, mixed livestock and arable farms; and Steyr will be repositioned as a premium European 'short-liner'.

The wind of change saw CNH Industrial group all its farm machinery brands (Case IH, Kongskilde, New Holland and Steyr) on one large stand at Agritechnica, the central focal point being clearly on the parent company. When an opportunity arises, CNH Industrial is keen to make further acquisitions, such as the recent ones of Australian company cultivation equipment specialist K-Line Ag and ATI Track Systems, which produces rubber track systems for high-HP tractors and combines.

Another recent acquisition was farm management information system company AgDNA. Added to the AgXtend precision farming software solutions portfolio which launched at the end of 2018, we are told to expect a significant expansion of the number of products during the next few years



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The most notable Agco acquisitions in the past decade were GSI in 2011, and the same year the company acquired the remaining 50 per cent stake in Laverda (and Fella) Argo group.

Major news in 2017 was the purchase of Lely's grassland equipment business, followed the same year by Precision Planting. Agco remains the only one of the big four which is a pure-play farm machinery business, but the positioning of the Fendt brand has changed.

It is not long ago that Massey Ferguson was the company's undisputed 'full liner'. Not anymore, because Fendt has quickly evolved from a German

wheeled tractor specialist to a mainstream brand, with a wide portfolio which includes nature green versions of the Challenger tracked tractors and self-propelled and trailed sprayers.

Fendt also has combines, self-propelled forage harvesters, grassland equipment, a planter (made in Brazil and available in the US and Canada in 2020) and, from Agritechnica, a telehandler.

Fendt reckons to have sold 18,000-plus tractors last year [2019] and it aims to sell 20,000 tractors in 2020. It will be interesting to know what the business plan is for the next few years.

Looking forward, it will be interesting to see whether AGCO plans to complete the Fendt portfolio with arable equipment? This is not unthinkable, following CNH Industrial's acquisition of Kongskilde Agriculture in 2017.

Valtra is the first tractor maker to offer head's up display and we are informed a similar system is included in the MF concept tractor.

Joystick steering, commonplace on construction machinery, looks set to make inroads on farm machines, judging by the systems on the Ideal 10 combine and MF concept tractor.



**JOHN DEERE**

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New tractors, including the eagerly-awaited rubber-tracked 8RX, and the surprise reveal of the 9X combine were the main talking points on the company's Agritechnica stand. Equally interesting was the fascinating glimpse of the future and working prototypes of nine different electrification, automation and artificial intelligence projects.



The most striking, the autonomous electric vehicle, combined a rubber-tracked 500kW (680hp) electric drive unit with an integrated disc harrow. How the



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## OSHA<sup>®</sup> UPDATE

For 27 years, from 1990 to 2016, OSHA citation penalty amounts remained the same. In 2016, citation amounts increased 78%, a significant increase to make up for the inflation over that 27 years. Starting in 2017, OSHA began to increase the penalty amounts each year in line to keep up with inflation and 2020's increase was just announced.

According to the announcement from OSHA, the official maximum penalty amounts for citations in 2020 will be as follows:

- Serious, Other-Than-Serious, and Posting Requirements: \$13,494 (up from \$13,260 in 2019)
- Failure to Abate: \$13,494 (up from \$13,260) per day after due date
- Willful or repeat: \$134,937 (up from \$132,598)

The increases amount to a 1.78% year over year, which is lower than last year's 2.5% increase. States who have their own safety and health plans are required to at least match these increases.

OSHA also released a memo explaining how penalty amounts are assessed. There are many levels to decision, but in general, the higher the severity and probability of injury, the higher the penalty that will be given.

electrical power is generated is still up for debate, but it shows how tractors could evolve into 'power units' which could be integrated with a number of different implements to effectively create one machine.

Another stunning concept, the 9.2-metre diameter VoloDrone, was developed with German firm Volocopter. Equipped with two, 60-litre liquid tanks, a pump and a 10m spray boom, the 18-rotor VoloDrone is ready for its first test flight.

Business-wide, John Deere has completed numerous strategic acquisitions during recent years, including sprayer manufacturers Hagie, Mazzotti and PLA.

John Deere's 2017 purchase of California-based artificial intelligence firm Blue River Technology gave the company see and spray technology, and an example of this was also in the future technology zone.

However, the most visually stunning example of another direction field spraying could take in the future was a 2.7-tonne autonomous self-propelled vehicle fitted with a 560-litre spray tank, 9m spray boom and a barrage of sensors and cameras.

Powered by a 37hp petrol engine, it is envisaged that two or three of the autonomous units could work in a field. The vehicle was shipped back to North America once the show ended for further tests. Will we ever see it, or any of the other prototypes again? We will have to wait and see.



Tractors were not the only exhibits on Kubota's Agritechnica stand, which also included Kverneland, acquired in 2012, and Great Plains, bought in 2016, as a show of strength.



Kubota brought an autonomous prototype tractor and showed a bolt-on electric pto generator at the last show

in 2017. From a new product perspective, but for a

Stage 5 engine in the M7003 Series, there were no spectacular prototypes at this year's Agritechnica.

But you can be sure that Kubota is actively developing a wide range of new technologies behind the scenes as it continues to work quietly to achieve its long-term business plan to take a larger share of the global tractor and farm machinery markets.

The Japanese manufacturer has never made a secret of its intentions to grow tractor power above the 170hp French-produced flagship. It remains to be seen whether the M8000 Series (175-210hp) produced for



Kubota by Russian-owned Canadian tractor maker Buhler Industries, will make it across the North Atlantic by the next Agritechnica.

Ultimately, Kubota has ambitions to grow the power levels still further to 250hp, most likely using its own European manufacturing facilities, but could Buhler provide Kubota with articulated tractors in the future for certain markets?

You can be quite certain the big three farm machinery players are closely following the proceedings.

### **AEM, EDA SURVEY SHOWS MFRS. & DEALERS AGREE CURRENT INVENTORY 'ABOUT RIGHT'**

Comparing the dealer results of the AEM/EDA study to Ag Equipment Intelligence's monthly Dealer Sentiments & Business Conditions Update survey shows the results of the two studies track fairly closely, at least when it comes of dealer inventories being "just about right." The AEM/EDA results indicate that of the dealers surveyed showed almost 58% of

dealers say their new equipment inventories are "about right." The AEM press release didn't offer any additional details of the dealers' response beyond the "just about right" response.

In the most recent Ag Equipment Intelligence survey of dealers (December 2019), 66% of dealers report that new equipment inventory levels improved in November with a net 19% of dealers reporting inventories too high (27% too high, 66% in line, 8% too low) vs. 24% of dealers reporting inventories too high (32% too high, 60% about right, 8% too low) in the previous month.

A building series of circumstances, from weather to trade policy, are putting downward pressure on the agriculture sector of the economy, however, ag equipment dealers and manufacturers believe dealer inventory levels are "about right," and are primarily expecting flat results in the coming year.

According to the latest survey conducted by the Association of Equipment Manufacturers (AEM) and the Equipment Dealers Association (EDA), manufacturers and dealers are more in agreement on new-equipment inventory levels than they have ever been in the past. Half of manufacturers say dealer inventories of new equipment are "about right," while almost 58% of dealers say the same. That reduces the amount of separation from last year's already-record level of agreement by nearly half.

Meanwhile, roughly 43% of both groups are planning for a flat performance next year. From there, 36% of dealers are planning on normal growth or better, while about 9% of manufacturers say the same. The reasoning for those disparities in thought may come from market exposure.

"The data shows manufacturers are noticeably more concerned about trade issues and economic performance globally, where economic data is showing headwinds especially in Europe and China," said AEM senior VP of ag services Curt Blades. "Fortunately, the trade issue is one that can be controlled, and we're optimistic U.S. and world leaders will resolve these disputes in the near future."

"Ag equipment dealers are echoing the concerns of their clientele, the farmers," said EDA VP of industry relations Joe Dykes. "Their biggest concern is the

challenging weather conditions that have made planting and harvesting difficult and even impossible in some regions. Tariffs on end-user markets is their next largest concern, and you can see that especially in the dairy sector."

Both manufacturers and dealers are looking to reduce costs to adjust to conditions, with dealers focusing on smaller equipment orders, and manufacturers focused on containing headcount.

## **RURAL MAINSTREET INDEX SHOWS GROWTH**

The Creighton University Rural Mainstreet Index (RMI) for December remained above growth neutral for the fourth consecutive month. It was the tenth time the monthly index suggested economic expansion in rural communities in 2020.

The overall index dipped from 54.2 in November to 50.2 in December but remained above 50, which indicates growth.

Bank CEOs who responded to the survey expect about 12.5 percent of grain farmers to experience financial losses for 2020, which is an improvement over projections for 2019, when bankers expected more than 15 percent of grain farmers to experience negative cash flows for 2019.

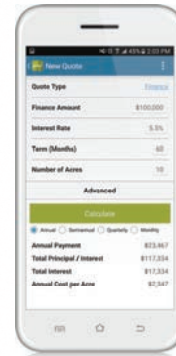
The November farm equipment-sales index sank to 27.9 from November's 37.5.

Survey findings also revealed that bankers expect farm loan defaults to increase in 2020. Almost two-thirds of survey respondents indicated their bank had increased collateral requirements, and just over 34 percent said their bank had rejected a higher percentage of farm loan applications.

## **IOWA, ILLINOIS SURPASS BILLION-DOLLAR MARK IN TRADE AID**

The USDA is expected to make a decision soon about whether to issue a third round of Market Facilitation Program payments. If authorized, checks would start going out in January. USDA's Farm Service Agency has paid out nearly \$11 billion in 2019, with Iowa, Illinois,

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and Minnesota receiving the most. **A breakdown of state totals:**

Arkansas: \$330 million	Missouri: \$472 million
Illinois: nearly \$1.1 billion	Nebraska: \$716 million
Indiana: \$542 million	Ohio: \$389 million
Iowa: \$1.18 billion	S. Dakota: \$400 million
Kentucky: \$172 million	Tennessee: \$176 million
Michigan: \$194 million	Wisconsin: \$254 million
Minnesota: \$801 million	

Source: *Brownfield Ag*

## MANUFACTURER NEWS

### TORO ACQUIRES VENTURE PRODUCTS

Bloomington-based Toro is spending \$167.5 million to broaden its portfolio of turf equipment and snow- and ice-management products.

Toro is acquiring Venture Products Inc., which makes a variety of tractors and attachments under the Ventrac brand. Privately held Venture is based in Orrville, Ohio, which also is home to jam maker J.M. Smucker Co.

Ventrac products are used in the turf- and grounds-management industry and known for handling tough terrain like steep hillsides and soft ground. Its versatile small-tractor platform also accepts 30 attachments that tackle a variety of jobs including snow and ice management, grass and brush mowers and a variety of specialty soil and site-preparation needs.

"Ventrac is well recognized in the industry for its market-leading innovation and commitment to meeting the diverse needs of customers," said Toro's chairman and chief executive, Richard Olson, in a statement.

"This acquisition supports our growth strategy in the professional market with the addition of a strong brand and expanded product offering to customers in the turf, landscape, and snow and ice maintenance categories.

Venture is owned and run by the Steiner family, which had developed and made agricultural equipment and tractors before starting the Ventrac brand in 1996. The company has 325 employees and about \$100 million in annual revenue.

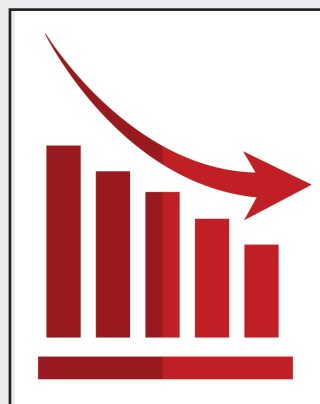
"We are excited to become a part of the Toro Company and its family of leading brands," said Dallas Steiner, chief executive of Venture Products Inc. "The Toro Company is committed to a culture that aligns with our employee values, has a rich history of success in the marketplace and a proven track record of growing their brands."

The Ventrac products complement many Toro products. The articulated design of some Ventrac tractors and implements offer additional maneuverability and the ability to handle steep hillsides fits one of the few applications that existing Toro turf and grounds equipment don't manage as well.

Toro, which outsources some of the attachments that fit its products, also picks up a manufacturer that produces its own attachments.

This is the largest acquisition by Toro since the company announced it was buying another private family-run company, the Charles Machine Works Inc., for \$700 million in February 2019.

### MAHINDRA'S TRACTOR EXPORTS DROP 13 PERCENT



Mahindra & Mahindra's farm equipment sector sold 17,213 units of tractors in the domestic market in December 2019, up 4 percent from December 2018. The company's exports dipped by 13 percent in December compared to December 2018. The company sold

nearly 27,000 fewer units from April to December, a 10 percent decline from 2018. Source: ETAuto.com  
New Holland to Partner with Hemp Group Will Focus on Shortage of Equipment  
New Holland has begun a partnership with the National Hemp Association (NHA).



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The NHA will join New Holland at farm shows in North America, delivering educational sessions and panel discussions and exhibiting products produced from hemp.

The alliance will also work toward solving the industry's biggest challenge: the absence of commercial scale harvesting and decortication equipment needed to meet demand. In order to begin laying the foundation of an integrated North American hemp supply chain, the alliance will call on other industry partners to join a "Hemp Pledge" and commit to purchasing hemp grown and processed in the U.S.

"We see this exclusive partnership as a way to bring the nation's leading hemp advocates and educators to events where they can respond to the issues of most concern to farmers, manufacturers, processors and the general public," said Brett Davis, vice president, New Holland North America.

"It will also provide New Holland with the opportunity to hear from our dealer network, our customers and the more than 115,000 farmers who are looking to New Holland to bring forward supply chain solutions," Davis said. *Source: CNH*

## AG ECONOMY AFFECTS BUHLER, NEW TRACTOR COULD IMPROVE 2020

Revenue at Buhler Industries in 2019 decreased by about 25 percent compared to 2018.

The company said its lower sales levels were a result of trade uncertainties, bad harvest conditions, and poor crop yields coupled with low commodity prices. Sales to North America and Eastern Europe are below historical levels, while other markets have remained steady.

The company implemented cost-saving measures in 2019 that improved gross margin by 3.3 percent and reduced selling and administrative spending. The company also saw significant improvement in its net loss for the year.

In its forward-looking earnings statement, Buhler said it expects the challenges that faced farmers in 2019 to continue this year. Despite these circumstances, the

company expects to achieve higher gross margins in the next year as it continues to focus on margin improvement. Buhler also expects improved sales when it begins full production of its new mid-range front-wheel assist tractor.

## KINZE MANUFACTURING AND AG LEADER TECHNOLOGY INTRODUCE NEW HIGH-SPEED PLANTING TECHNOLOGY

Kinze Manufacturing has developed a new high-speed meter and seed tube to provide row crop farmers with accurate seed placement at speeds up to 12 miles per hour. The new planter technology, called True Speed™, is planned for introduction in the 2021 planting season.

The system was developed with support from Ag Leader Technology, which will market it as SureSpeed™. The two companies will distribute the technology through their respective dealer networks.

"We are a company that values technology and simplicity," said Susanne Veatch, president of

Kinze. "I'm very proud of this simple, exceptionally accurate Kinze high-speed planting solution. As a farmer myself, I know this product will provide our customers with more flexibility and productivity during planting season."

**"As a farmer myself, I know this product will provide our customers with more flexibility and productivity during planting season."**

Susanne Veatch, Kinze President

While many factors can influence planting speed, farmers should not be limited by their ability to accurately place seeds in the ground. Eric Nettleton, associate director of product management for Kinze, said: "Kinze's new system uses an electric meter and delivery tube that operate accurately at planter speeds from 3 to 12 mph allowing farmers to 'Plant at Your Speed' without compromising singulation accuracy or spacing. The result is precise seed spacing at various speeds with multiple seed shapes and sizes. The system design also allows for easy maintenance saving farmers time and money."

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Kinze's meter, and its unique orientation on the row unit, allows seed to move seamlessly between the meter and seed tube, resulting in superior accuracy at all speeds. This enables farmers who have appropriate field conditions to increase the acres they can plant in a typical day. Additionally, Kinze's meter eliminates the need for singulator adjustments, which allows for quick seed type changeover and the ability to handle a variety of corn and soybean seed shapes and sizes.

When paired with Kinze's downforce technology, True Depth™, which provides instant row unit response to field conditions, continual ground contact can be maintained for consistent accuracy at all speeds.

Nettleton noted that True Speed is controlled by Kinze's Blue Vantage™ display, which is optimized for planters and offers a highly intuitive user interface that displays all the information farmers need on one screen. It also features a comprehensive diagnostics screen, high-definition mapping and graphs, and a quick setup enabling farmers to go from turning on the display to planting in just three clicks.

## AEM AG TRACTOR COMBINE REPORT SHOWS POSITIVE GROWTH IN 2019

December 2019 saw a return to positive overall results in U.S. sales of tractors and self-propelled combines, marking an upward end to a year that saw overall growth in the tractor and combine space. Total U.S.

farm tractor sales for calendar 2019 grew 3.6 percent to 244,637 units, while self-propelled combines notched down 0.7 percent to 4,807, a decline of 32 units for the year. December tractor sales climbed 1.1 percent compared to December of last year while combines fell by 12.3 percent, according to the latest data from the Association of Equipment Manufacturers (AEM).

Total U.S. sales of 2-wheel-drive tractors were roughly flat in the month of December rising less than 1 percent compared to December last year: under 40 HP 2-wheel-drive tractors grew 5.2 percent, and sales of 40-100 HP tractors fell almost 9 percent, while sales of 100-plus HP tractors led the segment with 6.4 percent growth. Total December U.S. 4-wheel drive tractor sales was a highlight with almost 28 percent sales growth to 322 units.

All sectors fell in Canada for 2019, with 4-wheel-drive tractors leading the decline falling 37 percent (from 885 to 570 units sold year-over-year) and self-propelled combine sales falling 19.4 percent to 1,695 units for the year. Two-wheel-drive tractor Canadian sales in 2019 were helped by the sub-40hp category (3.6 percent increase for under 40 HP, 8.2 percent decrease for 40-100 HP, and 18 percent decrease for 100-plus HP).

"While growth hit a bump toward the end of the year, ag tractor and combine sales overall for 2019 ended relatively flat," said Curt Blades, senior vice president of Ag Services at the Association of Equipment Manufacturers. "On top of that, from survey data we gathered along with the Equipment Dealers Association, majorities of both manufacturers and dealers agree inventory levels are sitting about right at the moment, which should put our members and the overall ag sector in a positive place for the near future." ■

## AEM United States Ag Tractor and Combine Report December 2019

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	December			YTD - December			Beginning Inventory Dec 2019
	2019	2018	% Chg	2019	2018	% Chg	
<b>2WD Farm Tractors</b>							
< 40 HP	10,958	10,416	5.2	163,079	155,269	5.0	94,482
40 < 100 HP	5,458	5,975	-8.7	60,086	60,231	-0.2	35,708
100+ HP	1,821	1,712	6.4	18,583	17,952	3.5	8,704
<b>Total 2WD Farm Tractors</b>	<b>18,237</b>	<b>18,103</b>	<b>0.7</b>	<b>241,748</b>	<b>233,452</b>	<b>3.6</b>	<b>138,894</b>
<b>4WD Farm Tractors</b>	<b>322</b>	<b>252</b>	<b>27.8</b>	<b>2,889</b>	<b>2,736</b>	<b>5.6</b>	<b>758</b>
<b>Total Farm Tractors</b>	<b>18,559</b>	<b>18,355</b>	<b>1.1</b>	<b>244,637</b>	<b>236,188</b>	<b>3.6</b>	<b>139,652</b>
<b>Self-Prop Combines</b>	<b>536</b>	<b>611</b>	<b>-12.3</b>	<b>4,807</b>	<b>4,839</b>	<b>-0.7</b>	<b>757</b>

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