Ag Equipment Intelligence

Dealer Trends and Business Outlook
January 2012

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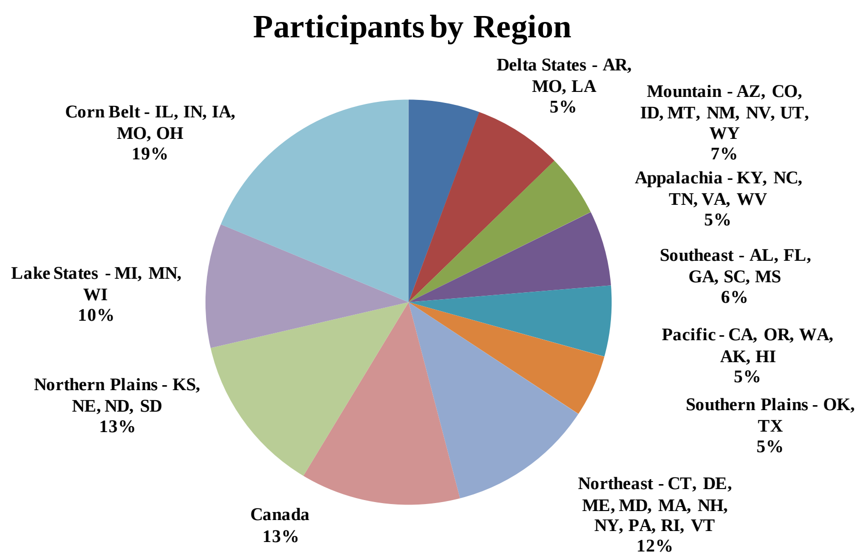
Thank You for Participating in Our Monthly Ag Equipment Intelligence North American Dealer Survey

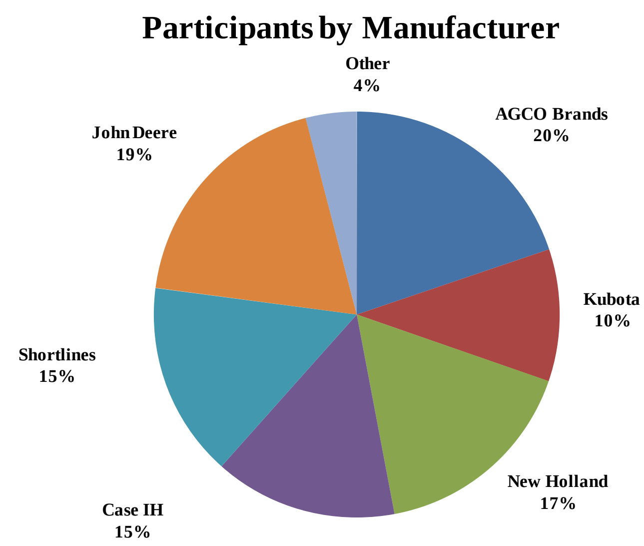
Background:

- We are pleased to announce the results of the December Ag Equipment Intelligence survey conducted in partnership with Cleveland Research Company. We hope this monthly survey will provide valuable and timely insight into industry trends and fundamentals.

- The November survey had ~290 respondents representing combined annual revenues of roughly $9.5 billion. Participants representing a broad cross section of geographies and brands are summarized in the charts below.

- It is important to note Challenger, Fendt, Massey Ferguson, and Valtra are included under AGCO while the “other” category includes manufacturers with relatively few respondents.





Source: Farm Equipment Magazine Survey

Highlights / Summary Thoughts

- **Industry Sales Growth Accelerates to 8% in December but 2012 Outlook Moderates Slightly –** Ag equipment dealers reported year-over-year sales grew to 8% on average in December, up from 6% in November. New Holland dealers' growth showed the biggest increase this month, doubling to 12% in December from 6% in November. However, for 2012, dealers slightly lowered their forecast and now expect 3% sales growth for the full year, down from 4% in November.

- **End of Year Tax Buying Due to Expiring Bonus/Accelerated Depreciation** – We asked dealers this month about the impact the expected reduction in Bonus/Accelerated depreciation had on 4Q11 sales. Our survey suggests dealers estimate that roughly 11% of 4Q11 sales were a direct result of the expected changes (reductions) in the benefits from the tax law.

- **Dealer Optimism Moderates Again but Remains Positive –** Our Dealer Optimism Index, a measure of sentiment amongst dealers compared to the prior month, moderated to a net 14% of dealers reporting they have a more optimistic outlook now versus 21% last month (30% are more optimistic; 54% same; 16% are less optimistic).

Optimism/Sentiment vs. Last Month

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
More Optimistic	33%	25%	31%	32%	30%	25%	36%	33%	30%
Same	54%	54%	44%	49%	55%	58%	55%	55%	54%
Less Optimistic	13%	21%	25%	20%	15%	17%	9%	12%	16%
Net % (More- Less)	**21%**	**3%**	**6%**	**12%**	**15%**	**8%**	**26%**	**21%**	**14%**

Source: Farm Equipment Magazine Survey

Monthly Sales Growth

- Ag equipment dealers reported year-over-year sales grew to 8% on average in December, up from 6% in November. New Holland dealers' growth seemed to double to 12% in December from 6% in November.

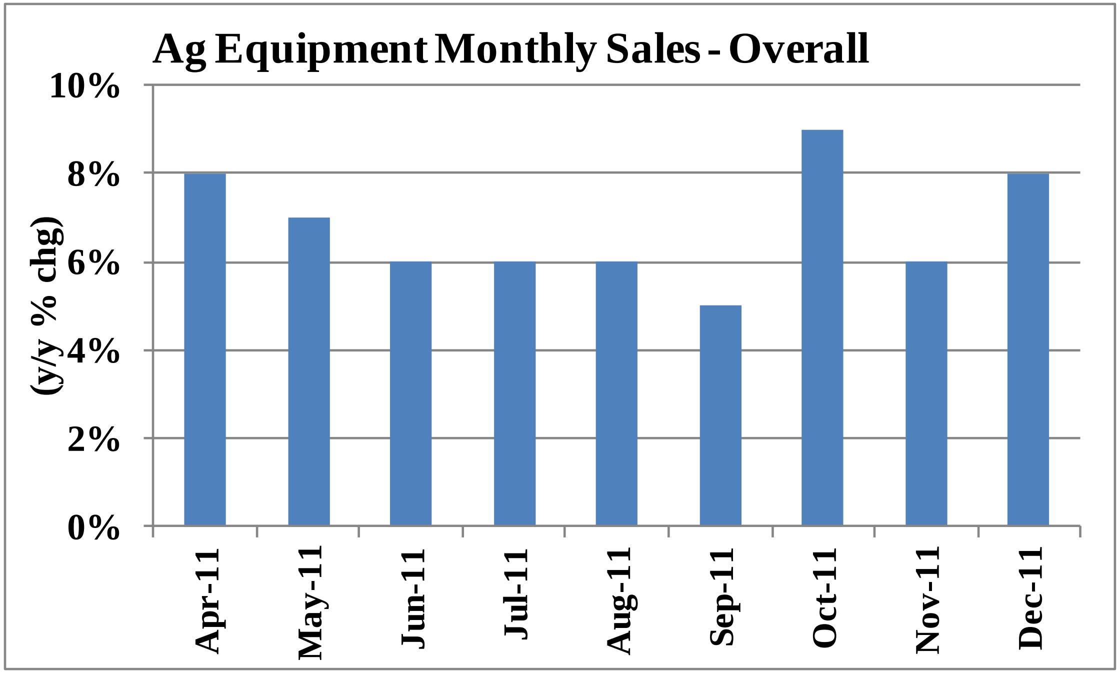
- AGCO and New Holland dealers reported the highest average sales growth again at up 12% while John Deere dealers saw the weakest results in the month with sales up 5% on average.

- A net 29% of participants categorized December results as "better-than-expected" (41% better-than-expected; 47% in-line with expectations; 12% worse-than-expected) which compares to the prior month when a net 19% report sales were "better-than-expected."

Average Sales Growth									
(% chg y/y)	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
Overall	**8%**	**7%**	**6%**	**6%**	**6%**	**5%**	**9%**	**6%**	**8%**
By Brand	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
AGCO	12%	13%	11%	9%	14%	12%	12%	10%	12%
John Deere	8%	8%	7%	5%	5%	4%	10%	5%	5%
New Holland	8%	4%	5%	7%	6%	7%	7%	6%	12%
Case IH	5%	4%	3%	8%	7%	7%	8%	8%	11%
Kubota	13%	5%	7%	12%	7%	6%	7%	9%	10%
Shortlines	n/a	-13%	3%	5%	6%	2%	6%	2%	7%
Other	n/a	n/a	n/a	2%	-3%	7%	6%	3%	11%

Source: Farm Equipment Magazine Survey

Monthly Sales Growth Continued



Percent Positive / Negative Growth

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Positive Sales Growth	69%	60%	56%	66%	67%	61%	65%	65%	76%
Flat Sales	18%	14%	23%	15%	16%	23%	20%	22%	11%
Negative Sales Growth	14%	25%	21%	18%	18%	16%	15%	13%	13%
Net % (Positive - Negative)	**55%**	**35%**	**35%**	**48%**	**49%**	**45%**	**50%**	**52%**	**63%**

Results vs. Expectations

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Better than expected	28%	26%	27%	27%	30%	29%	35%	32%	41%
In line with expectations	51%	44%	48%	54%	52%	56%	48%	54%	47%
Worse than expected	21%	30%	25%	19%	18%	15%	17%	13%	12%
Net % (Better - Worse)	**7%**	**-4%**	**1%**	**8%**	**13%**	**14%**	**18%**	**19%**	**29%**

Source: Farm Equipment Magazine Survey

Impact on Sales From Jan 1st Reduction in Accelerated/Bonus Depreciation

- This month we asked dealers about the impact Accelerated/Bonus Depreciation had on end-of-year sales. With these laws expected to be less favorable in 2012, we wanted to gauge the extent of end of year buying for tax purposes, which would imply a possible lull in demand to start 2012. The table below summarizes what percent of total sales in 4Q11 dealers attributed to the expiring tax law. Interestingly, the weighted average increase in 4Q11 sales due to the law is estimated to be just 11%, with the largest proportion of dealers (26%) estimating the law had “no noticeable impact” on their sales in the quarter. This would suggest the start of 2012 is not likely to see a major dropoff in demand, even if we assumed the full 11% was at the expense of 1Q12.

Estimated Percentage of 4Q11 Sales Driven by Expected Bonus/Accelerated Depreciation Reduction

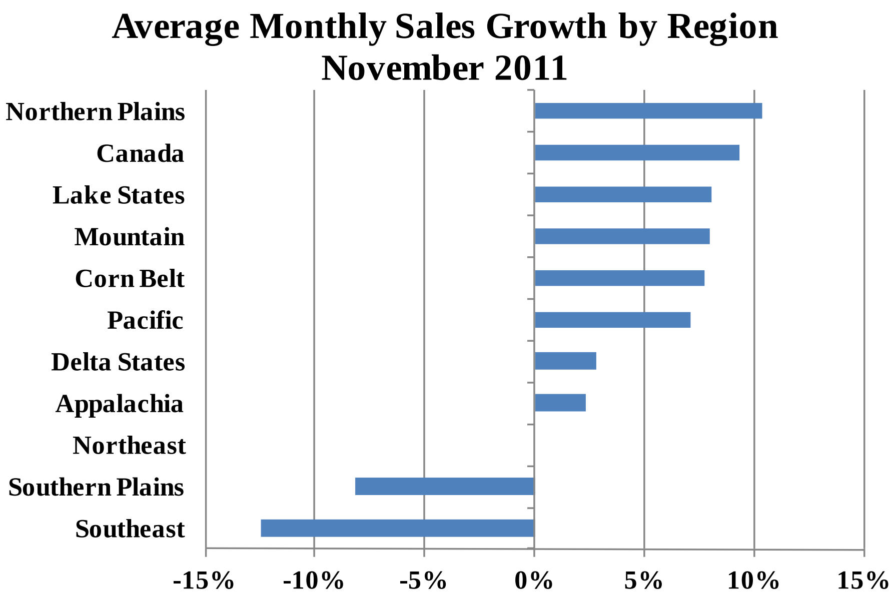
% Of 4Q11 Sales	% of Dealers
Over 25%	15%
20-25%	8%
15-20%	6%
10-15%	14%
5-10%	13%
0-5%	17%
No Noticeable impact	26%
Weighted Avg Increase in Sales Due to Expiration of Bonus/Accelerated Dep.	**11%**

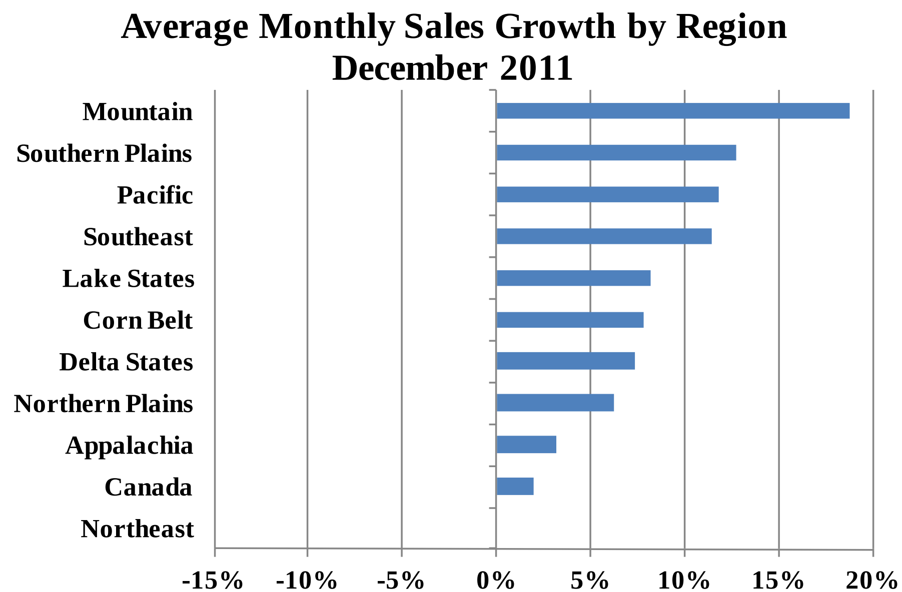
Source: AEI/CRC Survey

Monthly Sales Growth by Region

- All eleven regions showed positive average monthly sales growth in December, up from eight out of eleven in November. Mountain, Southern Plains, Pacific, and the Southeast regions head the list of best performing regions.

- On a sequential basis, the Southeast and Southern Plains showed the most significant acceleration, a reversal from last month's trend where both regions saw the most significant sequential slowing. The remaining regions were relatively stable.



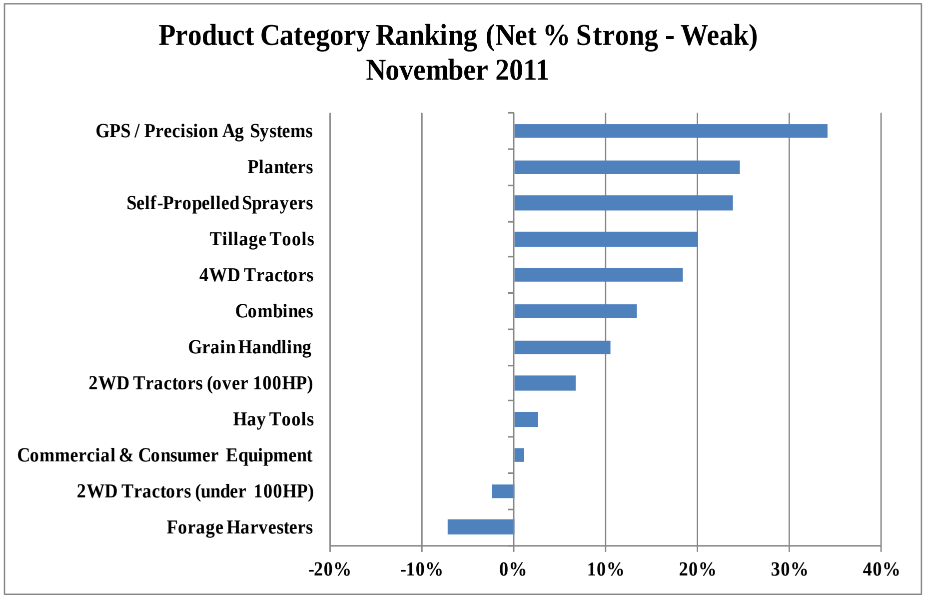


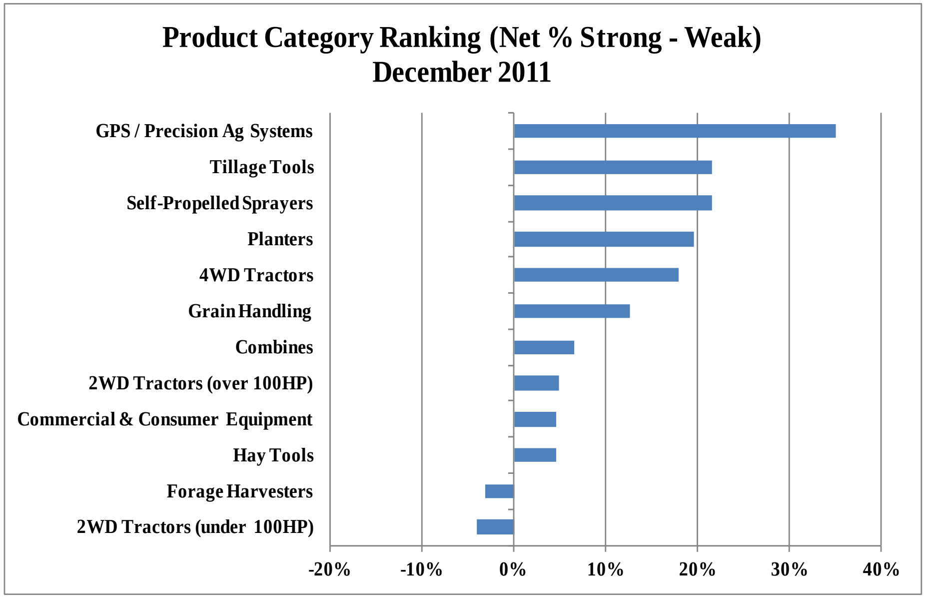
Source: Farm Equipment Magazine Survey

Equipment Category Sales Trends

- Ten out of twelve product categories ranked in positive territory in December, consistent with November and October. GPS/ Precision ag systems, tillage tools, and self-propelled sprayers head the list of top performing products while forage harvesters and 2WD tractors (under 100HP) ranked in negative territory.

- On a sequential basis, combines and planters slowed modestly while the remaining product categories were relatively consistent.



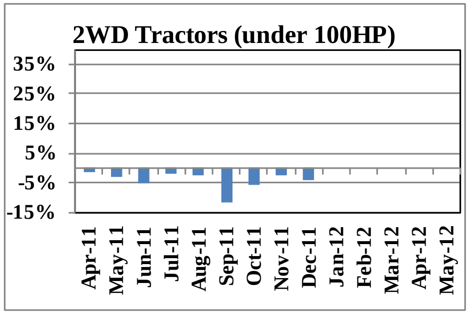


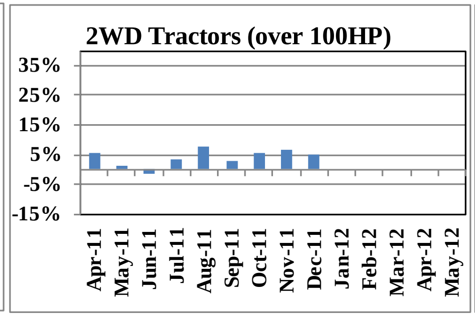
Source: Farm Equipment Magazine Survey

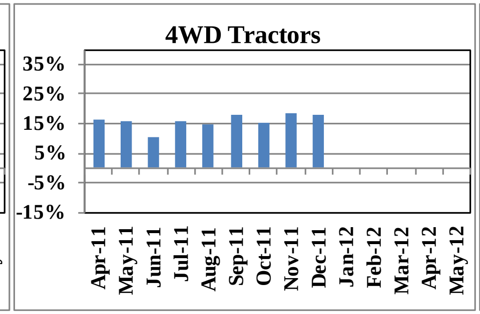
Dealer Commentary on December Sales

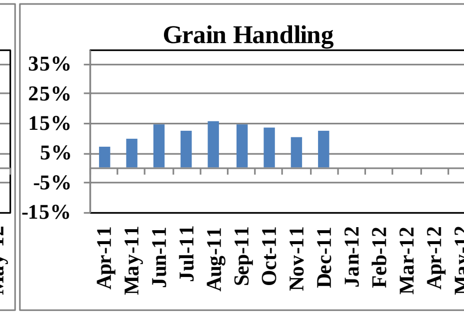
- *"It was better than expected/Above Budget. Good crop and prices. Flooded Farmers had insurance money to spend and had no combining input cost for last year's crop. But if this happens next year it may be much different as insurance is going to be 2-3 times higher*
- *Worse than expected/Below budget. We are in the southwest part of Arkansas, we had a drought just like Texas and Oklahoma. Prices of cattle are good, but a lot of us have sold off half our cattle and are buying very high priced feed.*
- *Better than expected/Above Budget. Good prices on hay and grain*
- *December was better than expected/Above Budget. End of section 179 and better than expected income by the farmer and earlier planning. Farm equipment seemed to be the purchase of the year versus trucksand trailers, dryers and storage, or new buildings.*
- *I was surprised how many last minute deals were done. Also, I had customers who purchased an item earlier in the month (Dec) and came back in and bought something else on the last couple of days of the month.*
- *Our share will be lower in 2012. It is strictly availability. Deere is allocating equipment to the mega dealers. And leaving the independent dealer out of the equation*
- *I'm less optimistic. Purchases were made on tax incentives. Most of our customers are set up well for equipment and will need a good reason to keep updating.*
- *More manufacturers now dealing with iT4 price increases which levels the playing field on equipment pricing.*

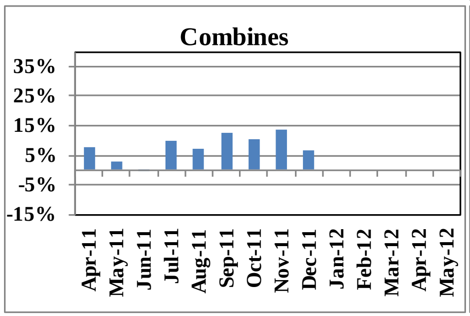
Equipment Category Sales Trends

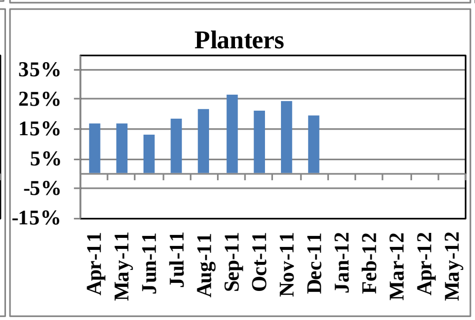


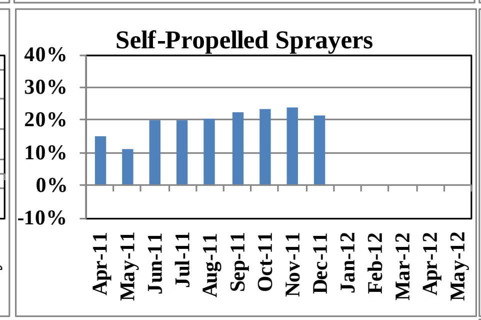


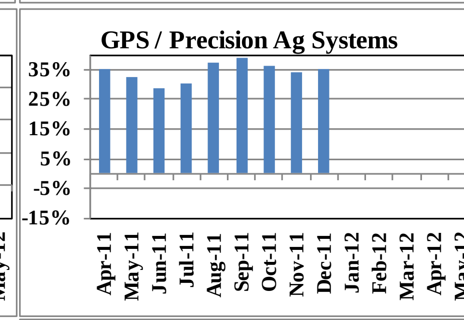


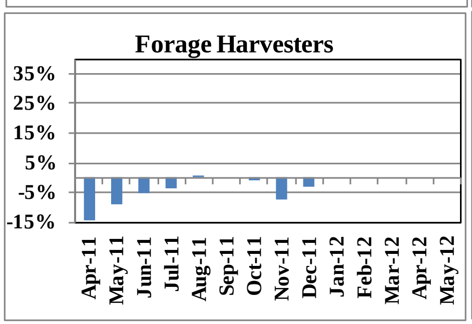


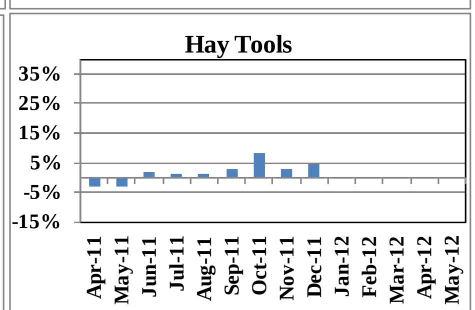


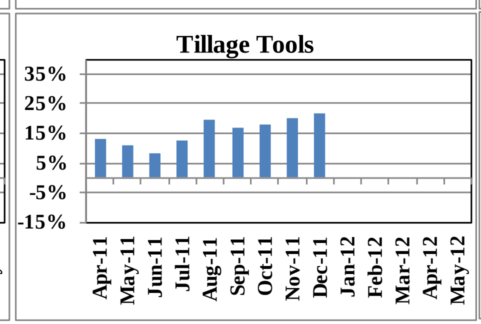


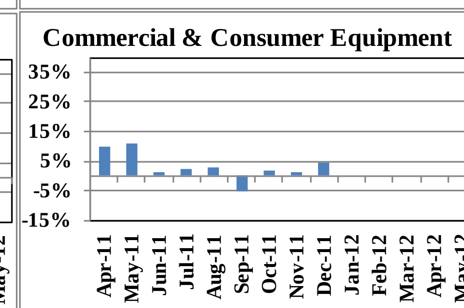












Source: Farm Equipment Magazine Survey

Order Growth

Overall Orders

- Incoming orders grew 4% on average in December, which has been stable for five consecutive months.
- Similar to sales, New Holland dealers saw order growth double to up 6% from 3% last month, while Case IH dealer orders came in at the low end at 3% on average for the month.

New Combine Order Intentions

- A net 18% of dealers believe they will order fewer combines for 2012, a drop from the net 7% last month. Used inventory and manufacturer allocation remain key factors for the lower order expectations.

New Combine Order Intentions vs. Last Year

	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
More	22%	20%	21%	20%	11%
Same	47%	48%	48%	53%	60%
Less	31%	32%	31%	27%	29%
Net % (More- Less)	**-10%**	**-12%**	**-10%**	**-7%**	**-18%**

Average Orders Growth

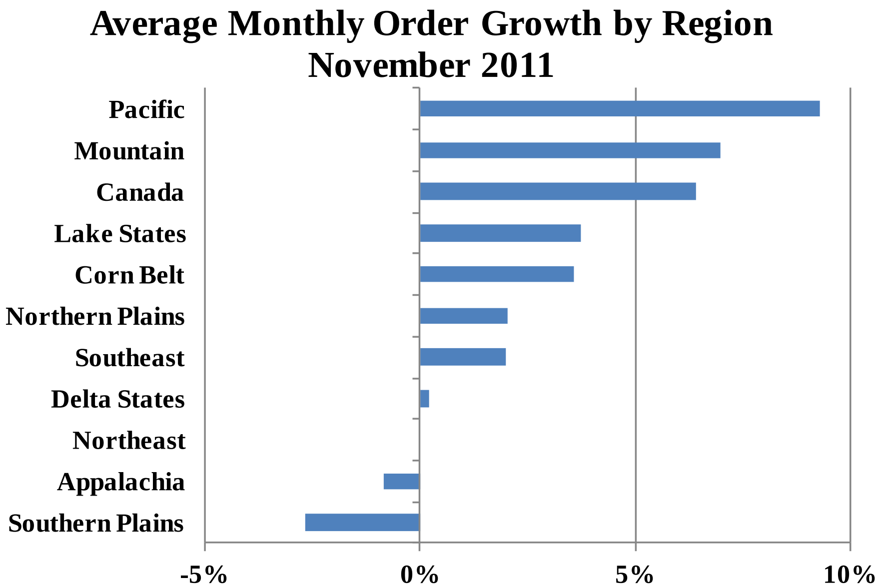
(% chg y/y)	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Overall	**3%**	**3%**	**3%**	**5%**	**4%**	**4%**	**4%**	**4%**	**4%**
By Brand	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
AGCO	4%	8%	5%	10%	10%	5%	6%	8%	6%
John Deere	4%	2%	2%	5%	3%	4%	3%	3%	4%
New Holland	4%	2%	3%	5%	5%	5%	4%	3%	6%
Case IH	1%	3%	2%	4%	3%	3%	5%	4%	3%
Kubota	9%	1%	6%	6%	6%	4%	4%	6%	7%
Shortlines	n/a	-3%	2%	2%	4%	3%	1%	2%	4%
Other	n/a	n/a	n/a	1%	-2%	2%	4%	3%	11%

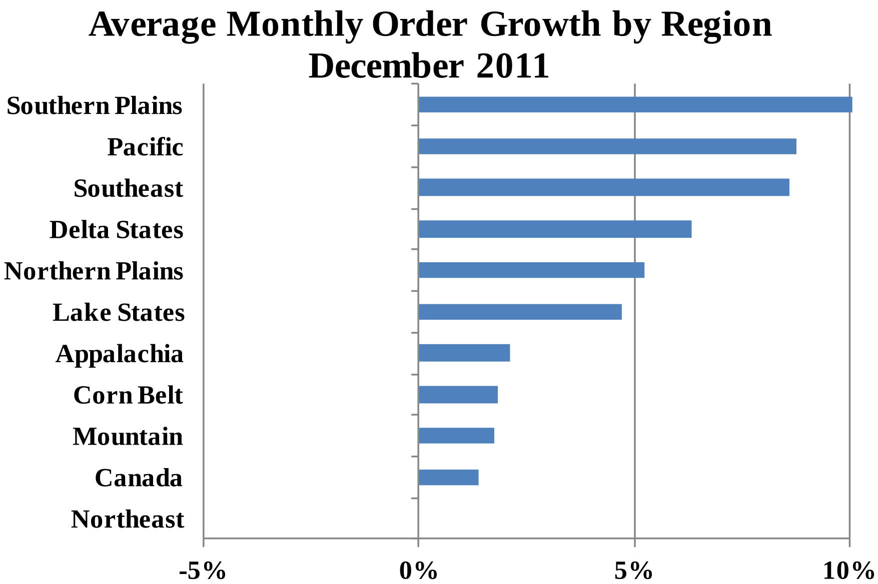
Source: Farm Equipment Magazine Survey

Order Growth by Region

- Ten out of eleven regions showed positive monthly orders growth in December, up from eight out of eleven in November. The Southern Plains, Pacific, and Southeast head the list of best performing regions this month.

- On a sequential basis, the Southern Plains showed the most significant improvement from November, while the Canada and Mountain regions showed modest sequential slowdown in order growth.





Source: Farm Equipment Magazine Survey

2012 Sales Outlook

- Looking across 2012, dealers slightly lowered their forecast and now expect 3% sales growth for the full year, down from 4% in November.

- Kubota dealers are the most optimistic reporting the highest full year growth outlook at 6% while Shortline and John Deere dealers report the least optimistic outlook at 2% on average.

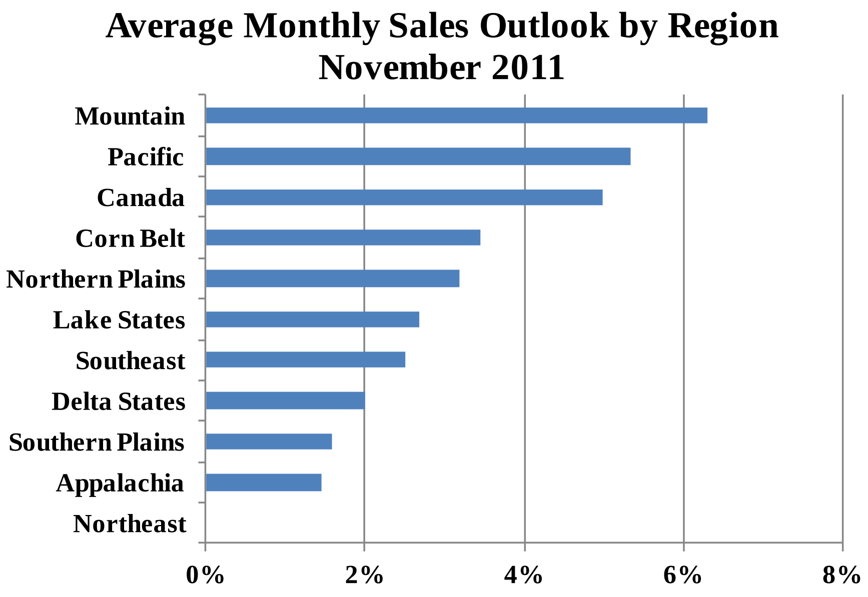
2012 Outlook					
(% chg y/y)	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
Overall	**5%**	**2%**	**4%**	**4%**	**3%**
By Brand	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
AGCO	9%	8%	9%	8%	4%
John Deere	4%	1%	2%	3%	2%
New Holland	5%	5%	5%	5%	4%
Case IH	4%	3%	5%	4%	3%
Kubota	5%	7%	4%	4%	6%
Shortlines	3%	2%	1%	2%	2%
Other	3%	4%	6%	4%	7%

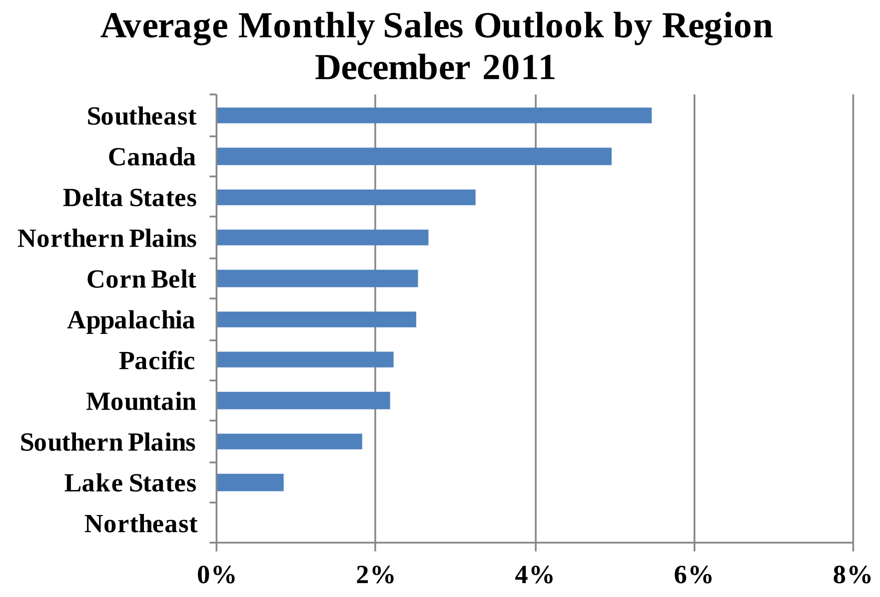
Source: Farm Equipment Magazine Survey

2012 Sales Outlook Continued

- Ten out of eleven regions are projecting a positive full year sales outlook in December, consistent with November and October. Dealers in the Southeast, Canada, and Delta States are the most optimistic while the Northeast region is forecasting sales to be flat in 2012.

- On a sequential basis, dealers have largely maintained their average outlook from last month.





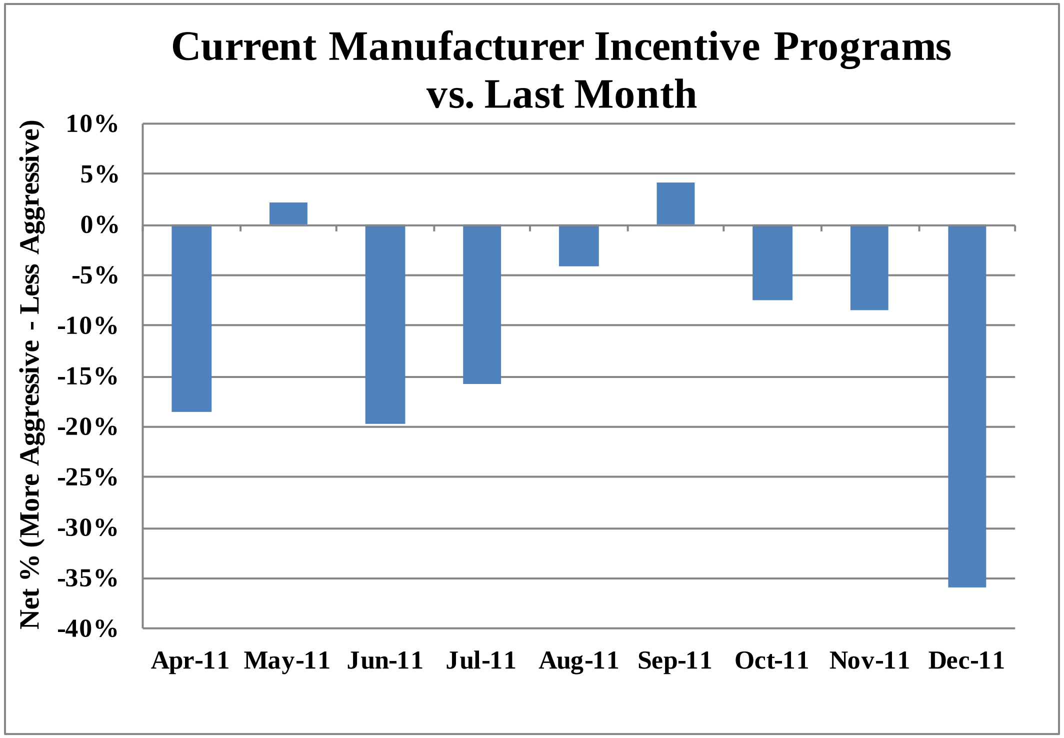
Source: Farm Equipment Magazine Survey

Dealer Commentary on 2012 Outlook

- *I’m concerned about AGCO CEO's comments about the possible relationship with Cat.*
- *Optimistic because Kubota equipment is readily available in sufficient numbers.*
- *I’m less optimistic because of inventory constraints on certain model tractors. This will effect sales growth.*
- *Equipment availability will continue to hamper new AG sales.*
- *I’m less optimistic about 2012 due to price increases.*
- *It all depends on commodity prices. It's pretty simple. When they tank we will be in trouble with all this inventory (new & used) sitting around.*
- *Tier 4 engines adding 10% to price of 80 hp plus tractors*
- *It seems as if some farmers may be directing their income towards other farm related items such as: new grain bins, new barns, buying more farm land, etc. In all honesty, how much can you update equipment when you have had years like the last three?*

Current Manufacturer Incentive Programs

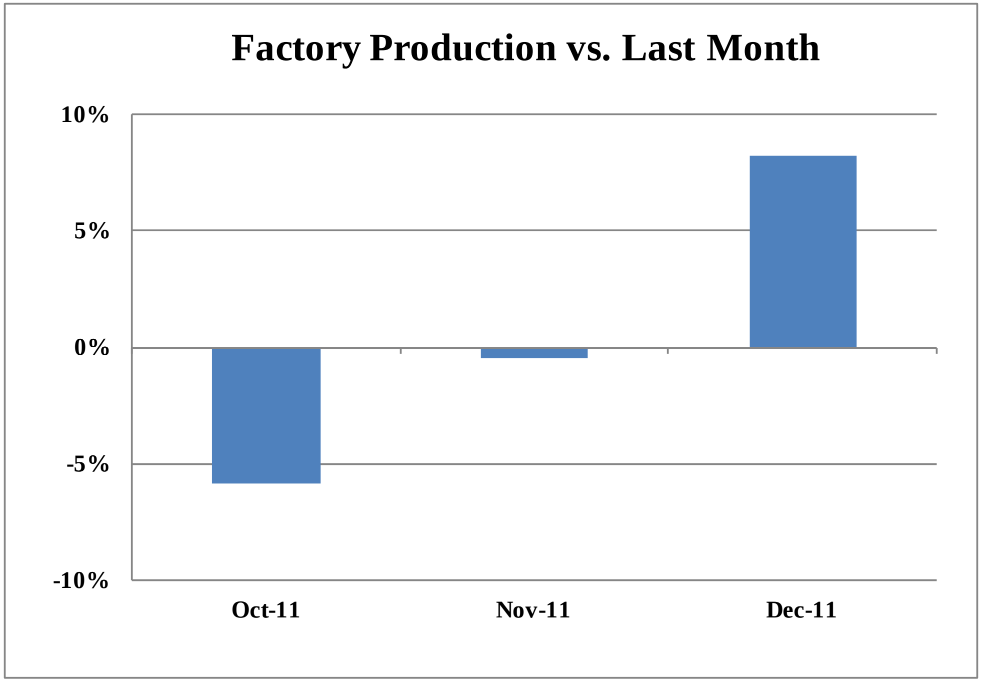
- A net 36% of dealers report that manufacturers are less aggressive with incentives in December (6% more aggressive; 52% same; 42% less aggressive) compared to a net 9% in November. This is a substantial pullback and appears to be attributed to the end of pre-sell programs and slightly higher interest rates.



Source: Farm Equipment Magazine Survey

Factory Production

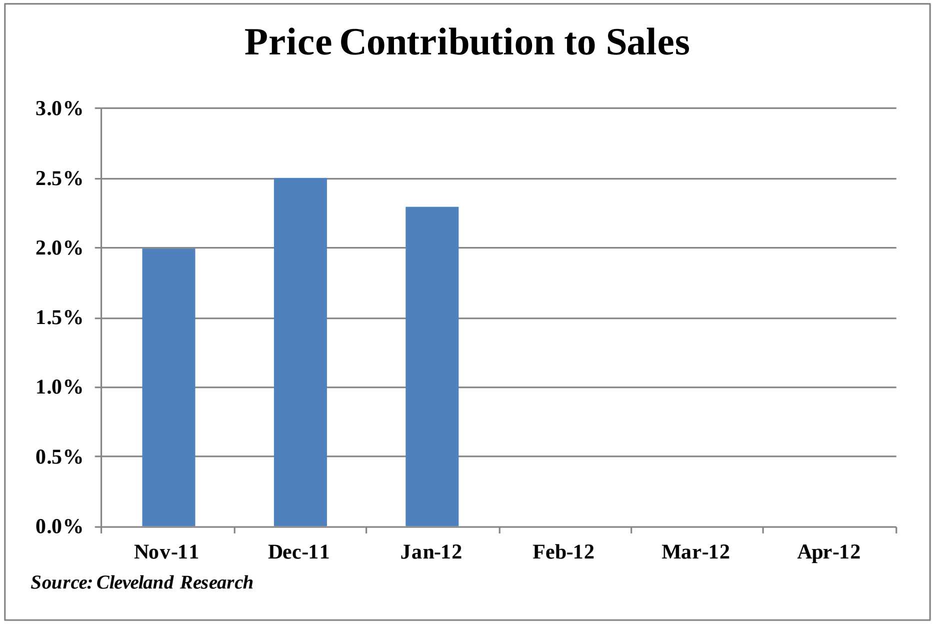
- Dealers report that factories appear to be keeping production relatively stable as a net 9% of dealers are reporting increasing production levels (15% increasing production; 79% no change in production; 6% decreasing production) compared to a net 0% last month who reported factories are neither increasing nor decreasing production.



Source: Farm Equipment Magazine Survey

Pricing Trends

- Dealers report price contributed roughly ~2.3% to total December revenue, down just slightly from ~2.5% from November.

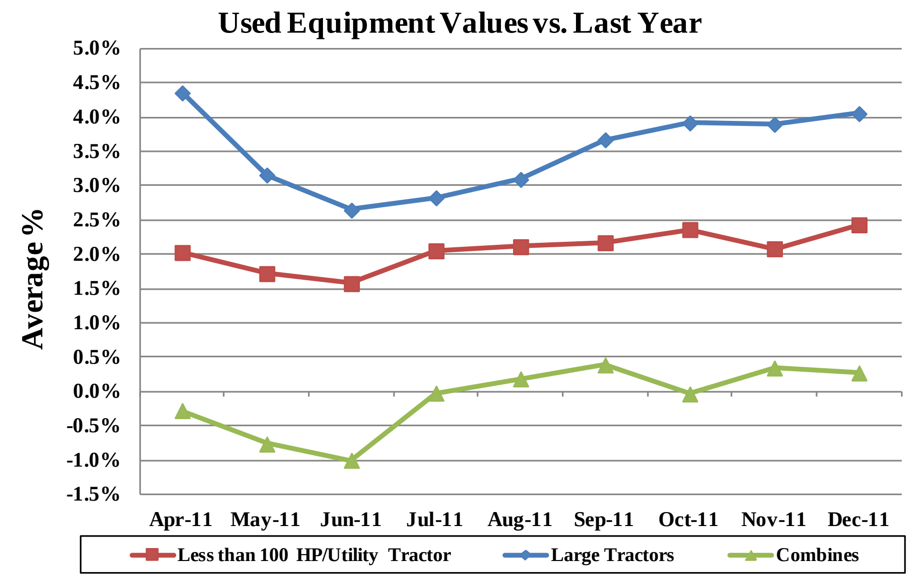


Source: Farm Equipment Magazine Survey

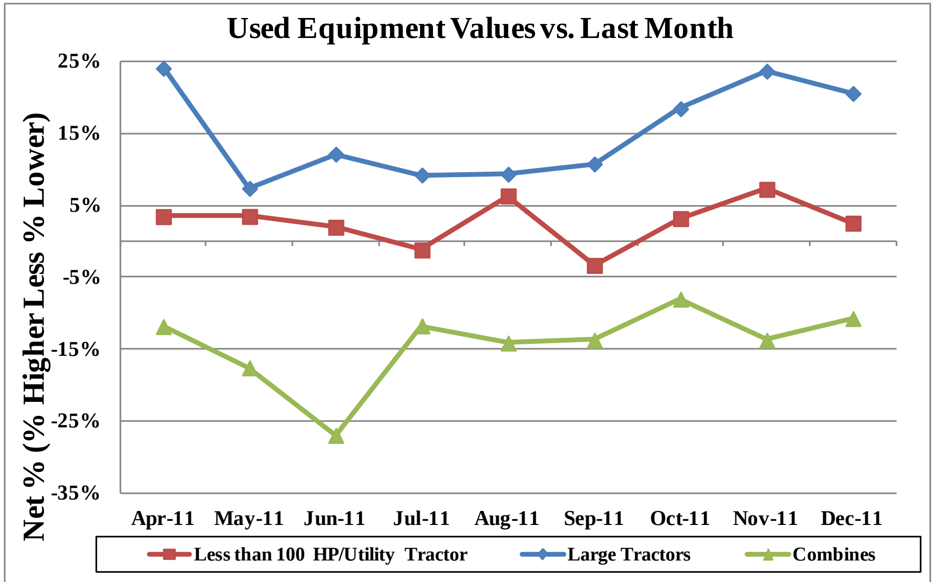
Used Equipment Pricing

- By category, tractors over 100HP are up 4.1% year-over-year on average in December, up from 3.9% in November. Prices for used tractors under 100HP are up 2.4% in December, up from 2.1% in November. Used combine values are up 0.3% in December, consistent with last month.

- Relative to last month, a net 3% of dealers report higher values for under 100HP/utility tractors, down from a net 7% in November. For over 100HP tractors, a net 21% of dealers report higher values vs. last month, down from a net 24% in November. Finally, a net 11% of dealers report used combine values are lower than last month.



Source: Cleveland Research



Source: Cleveland Research

Inventory Levels

New Equipment Inventory

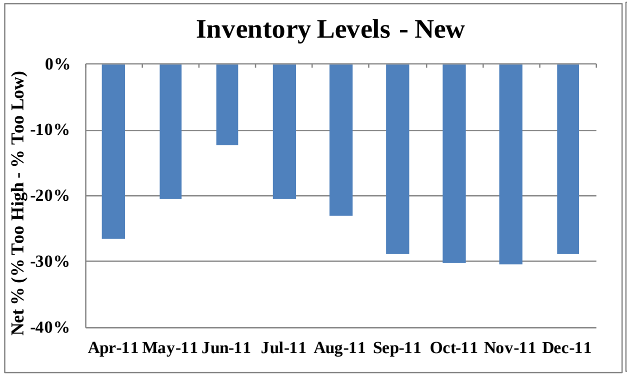
- New equipment inventory remains tight as a net 29% of dealers categorize their new inventory as “too low” (11% too high; 49% about right; 40% too low), roughly consistent with last month.

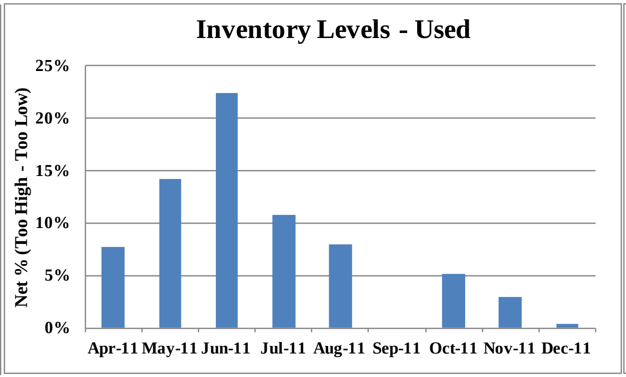
Used Equipment Inventory

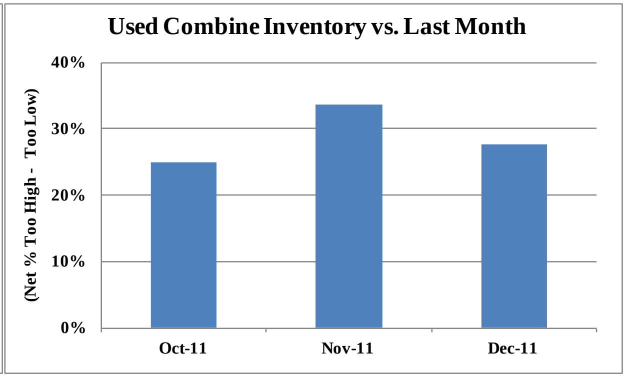
- Used equipment inventory appears to have decreased, as a net 1% of dealers now categorize their used inventory levels as “too high” (24% too high; 53% about right; 23% too low) compared to a net 3% last month.

Used Combine Inventory

- Within the used equipment categories, a net 28% of dealers also reported used combine inventory levels are still “too high” (39% too high; 50% about right; 11% too low).





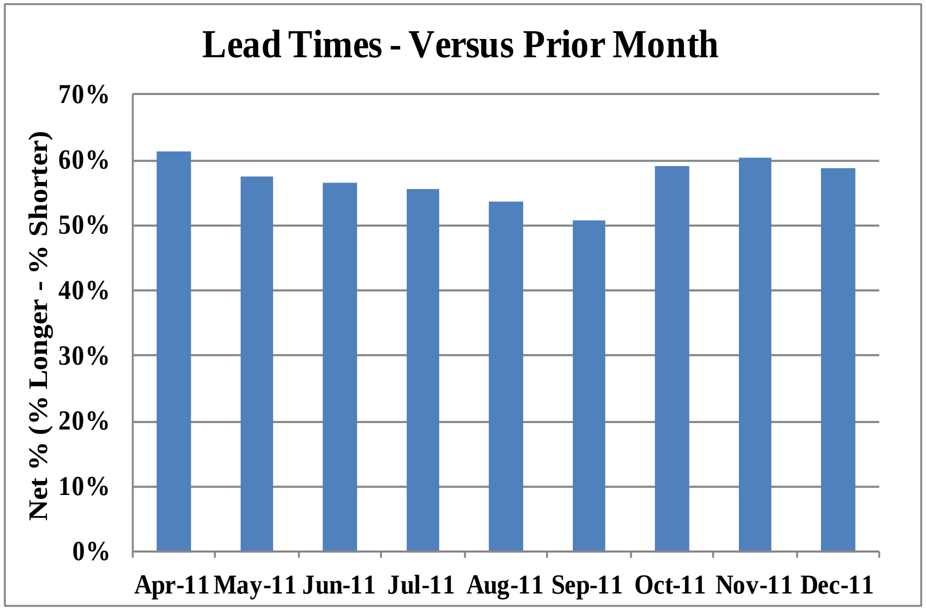


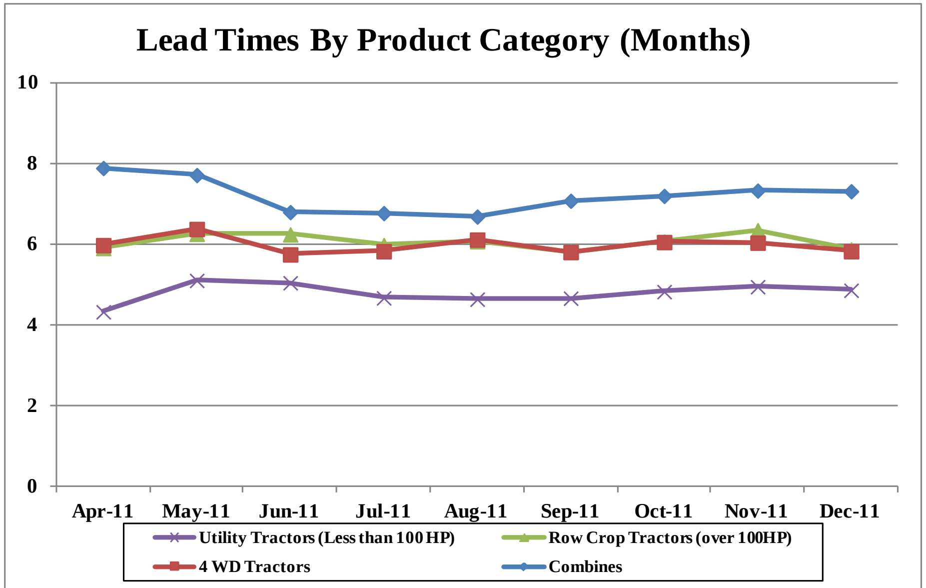
Source: Farm Equipment Magazine Survey

Equipment Availability

- Overall, a net 59% of dealers report longer factory lead-times compared to last month (63% longer; 32% same; 4% shorter), down slightly from the net 60% in November. Lead-times appear to continue to be one of the primary concerns for dealers and continue to be a constraint on the growth outlook.

- A closer look at availability by product category shows the four core product categories we measure are seeing stable to slightly shorter lead times this month. On average combine lead times are 7.3 months; 4WD are 5.8 months; row crop tractor lead times are 5.9 months; and smaller tractors (<100 HP) lead times are 4.9 months.





Source: Cleveland Research

Source: Farm Equipment Magazine Survey

Dealer Commentary on Inventory Levels

- *It's too high. As an industry, we better not get swept up in today's demand because when it turns we could take some serious hits. We need to take a deep breath and be allowing sensible amounts with a plan for profit on the trades.*
- *Too High. Lots of used round hay balers traded in during December.*
- *Too Low. People are keeping the old tractors longer and just having them repaired.*
- *Too High. Combines are the issue, like I say every month. They just haven't improved.*
- *Too high and its costing too much to sit here*
- *Too High. Used late model combines, there is many to choose from. Older combines have lost a lot of value and need to have the right buyer too move. Some of the older buyers purchased newer combines with plans to keep them longer. They used the interest free programs from the manufacturer so feel they are saving by buying newer now.*
- *We're still too high. Used combines and used hay equipment are good though.*
- *Inventory is about right for us.*
- *Too High. While our inventory is high, it is not aged. I will be very concerned if we have a slow down.*

NA Farm Equipment Industry Retail Sales and Inventory

NORTH AMERICAN FARM EQUIPMENT RETAIL SALES

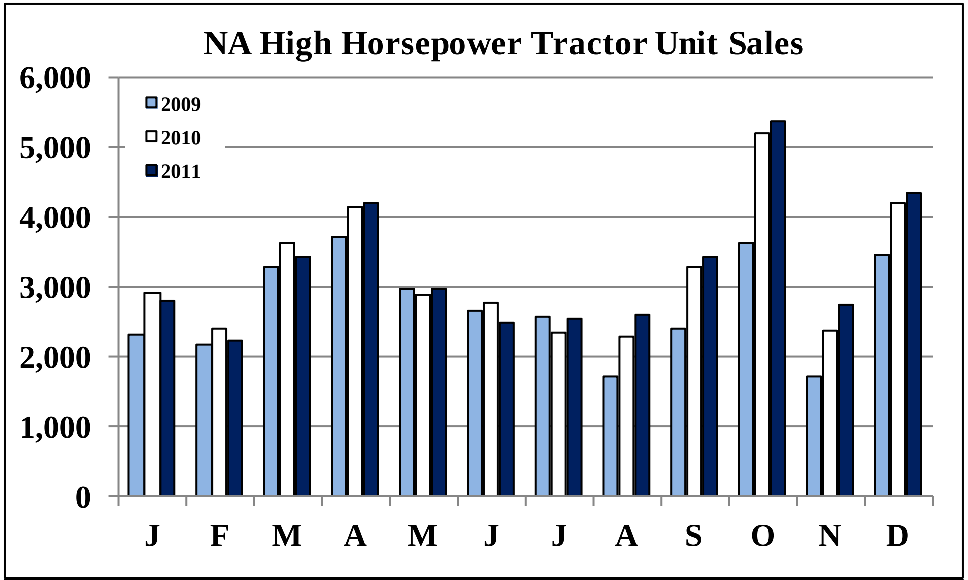
	Units							% change year-over-year						
	< 40 HP	Utility	Row Crop	4-Wheel	Total Tractor	*Memo: High hp*	Combines	<40HP	Util	RC	4-WD	Total	High hp	Comb
Jan-10	3,687	3,181	2,606	327	9,801	2,933	633	(1%)	(8%)	31%	4%	3%	27%	14%
Feb-10	3,893	2,670	1,947	456	8,966	2,403	584	(8%)	(19%)	8%	19%	(8%)	10%	(8%)
Mar-10	8,018	4,253	2,930	707	15,908	3,637	746	15%	(11%)	5%	41%	6%	10%	(2%)
Apr-10	12,604	5,743	3,287	853	22,487	4,140	825	15%	(7%)	6%	40%	8%	11%	25%
May-10	13,019	5,769	2,441	461	21,690	2,902	910	9%	5%	(1%)	(10%)	6%	(3%)	1%
Jun-10	10,726	5,750	2,195	570	19,241	2,765	1,146	(8%)	(12%)	(1%)	31%	(8%)	4%	(10%)
Jul-10	8,635	5,122	1,896	435	16,088	2,331	1,576	(2%)	2%	(11%)	(3%)	(2%)	(10%)	(7%)
Aug-10	7,150	4,111	1,887	412	13,560	2,299	1,598	3%	7%	44%	3%	9%	34%	17%
Sep-10	7,564	4,340	2,644	653	15,201	3,297	1,731	(1%)	(12%)	43%	16%	1%	37%	12%
Oct-10	7,067	5,290	4,091	1,117	17,565	5,208	1,464	3%	10%	39%	62%	15%	43%	17%
Nov-10	4,973	3,373	1,981	394	10,721	2,375	704	12%	12%	39%	25%	17%	37%	33%
Dec-10	6,633	5,620	3,445	754	16,452	4,199	1,532	17%	21%	18%	39%	19%	21%	32%
Jan-11	3,705	3,493	2,296	507	10,001	2,803	935	0%	10%	(12%)	55%	2%	(4%)	48%
Feb-11	4,448	3,074	1,764	462	9,748	2,226	777	14%	15%	(9%)	1%	9%	(7%)	33%
Mar-11	8,894	4,973	2,816	624	17,307	3,440	973	11%	17%	(4%)	(12%)	9%	(5%)	30%
Apr-11	11,412	5,413	3,325	885	21,035	4,210	941	(9%)	(6%)	1%	4%	(6%)	2%	14%
May-11	12,601	5,133	2,403	588	20,725	2,991	815	(3%)	(11%)	(2%)	28%	(4%)	3%	(10%)
Jun-11	12,102	5,966	2,076	428	20,572	2,504	722	13%	4%	(5%)	(25%)	7%	(9%)	(37%)
Jul-11	7,702	4,728	2,098	457	14,985	2,555	1,188	(11%)	(8%)	11%	5%	(7%)	10%	(25%)
Aug-11	7,318	4,180	2,152	448	14,098	2,600	1,523	2%	2%	14%	9%	4%	13%	(5%)
Sep-11	7,843	4,570	2,735	700	15,848	3,435	1,446	4%	5%	3%	7%	4%	4%	(16%)
Oct-11	7,914	5,932	4,249	1,130	19,225	5,379	1,673	12%	12%	4%	1%	9%	3%	14%
Nov-11	4,952	3,430	2,274	482	11,138	2,756	742	(0%)	2%	15%	22%	4%	16%	5%
Dec-11	7,273	6,156	3,697	662	17,788	4,359	1,101	10%	10%	7%	(12%)	8%	4%	(28%)

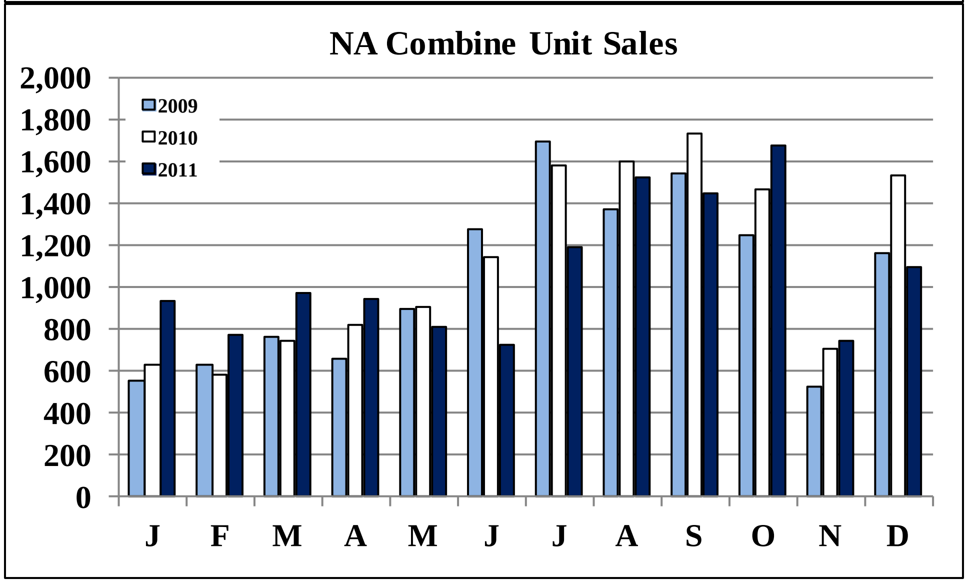
NORTH AMERICAN FARM EQUIPMENT INVENTORY

	Inventory (Units)							Inventory to 12-mo. Sales						
	< 40 HP	Utility	Row Crop	4-Wheel	Total Tractor	*Memo: High hp*	Combines	<40HP	Util	RC	4-WD	Total	High HP	Comb
Dec-09	50,702	27,289	9,697	871	88,559	10,568	984	57%	49%	36%	15%	50%	32%	8%
Jan-10	51,307	27,106	8,936	1,016	88,365	9,952	1,096	57%	49%	32%	18%	49%	30%	9%
Feb-10	53,071	27,410	9,034	1,154	90,669	10,188	1,358	59%	50%	33%	20%	51%	30%	11%
Mar-10	54,430	27,854	8,570	1,151	92,005	9,721	1,387	60%	51%	31%	19%	51%	29%	11%
Apr-10	51,559	27,766	8,127	1,023	88,475	9,150	1,507	56%	51%	29%	16%	49%	27%	12%
May-10	47,800	26,701	8,013	1,149	83,663	9,162	1,932	51%	49%	29%	19%	46%	27%	15%
Jun-10	46,417	26,475	7,868	1,094	81,854	8,962	2,202	50%	49%	28%	17%	45%	26%	18%
Jul-10	46,618	26,538	8,361	1,407	82,924	9,768	2,546	51%	49%	30%	22%	46%	29%	21%
Aug-10	47,813	26,499	9,015	1,405	84,732	10,420	2,557	52%	49%	32%	22%	47%	30%	20%
Sep-10	48,820	25,850	8,944	1,504	85,118	10,448	2,207	53%	48%	31%	23%	47%	29%	17%
Oct-10	51,598	25,735	8,411	1,171	86,915	9,582	1,317	56%	48%	28%	17%	47%	26%	10%
Nov-10	55,248	26,251	8,420	1,354	91,273	9,774	1,714	59%	48%	27%	20%	49%	26%	13%
Dec-10	58,708	24,800	7,832	1,203	92,543	9,035	1,810	62%	45%	25%	17%	49%	23%	13%
Jan-11	60,357	25,451	7,219	1,125	94,152	8,344	1,735	64%	46%	23%	15%	50%	22%	13%
Feb-11	63,810	26,495	7,200	1,221	98,726	8,421	2,083	67%	47%	23%	17%	52%	22%	15%
Mar-11	65,267	27,435	7,716	1,213	101,631	8,929	2,128	68%	48%	25%	17%	53%	24%	15%
Apr-11	63,035	26,919	7,499	1,053	98,506	8,552	2,136	67%	48%	24%	14%	52%	22%	15%
May-11	58,905	26,579	6,951	1,122	93,557	8,073	1,826	63%	48%	23%	15%	50%	21%	13%
Jun-11	55,357	25,691	7,372	1,274	89,694	8,646	2,228	58%	46%	24%	18%	47%	23%	16%
Jul-11	55,120	25,713	7,971	1,594	90,398	9,565	2,715	58%	46%	26%	22%	48%	25%	20%
Aug-11	54,880	26,320	8,584	1,740	91,524	10,324	2,607	58%	47%	28%	24%	49%	27%	20%
Sep-11	53,873	26,448	9,073	1,806	91,200	10,879	2,666	57%	47%	29%	25%	48%	28%	20%
Oct-11	54,999	25,858	8,299	1,391	90,547	9,690	1,564	58%	46%	26%	19%	47%	25%	12%
Nov-11	57,959	27,430	8,466	1,241	95,096	9,707	1,545	61%	49%	27%	17%	50%	25%	12%

Source: AEM, CRC Estimates

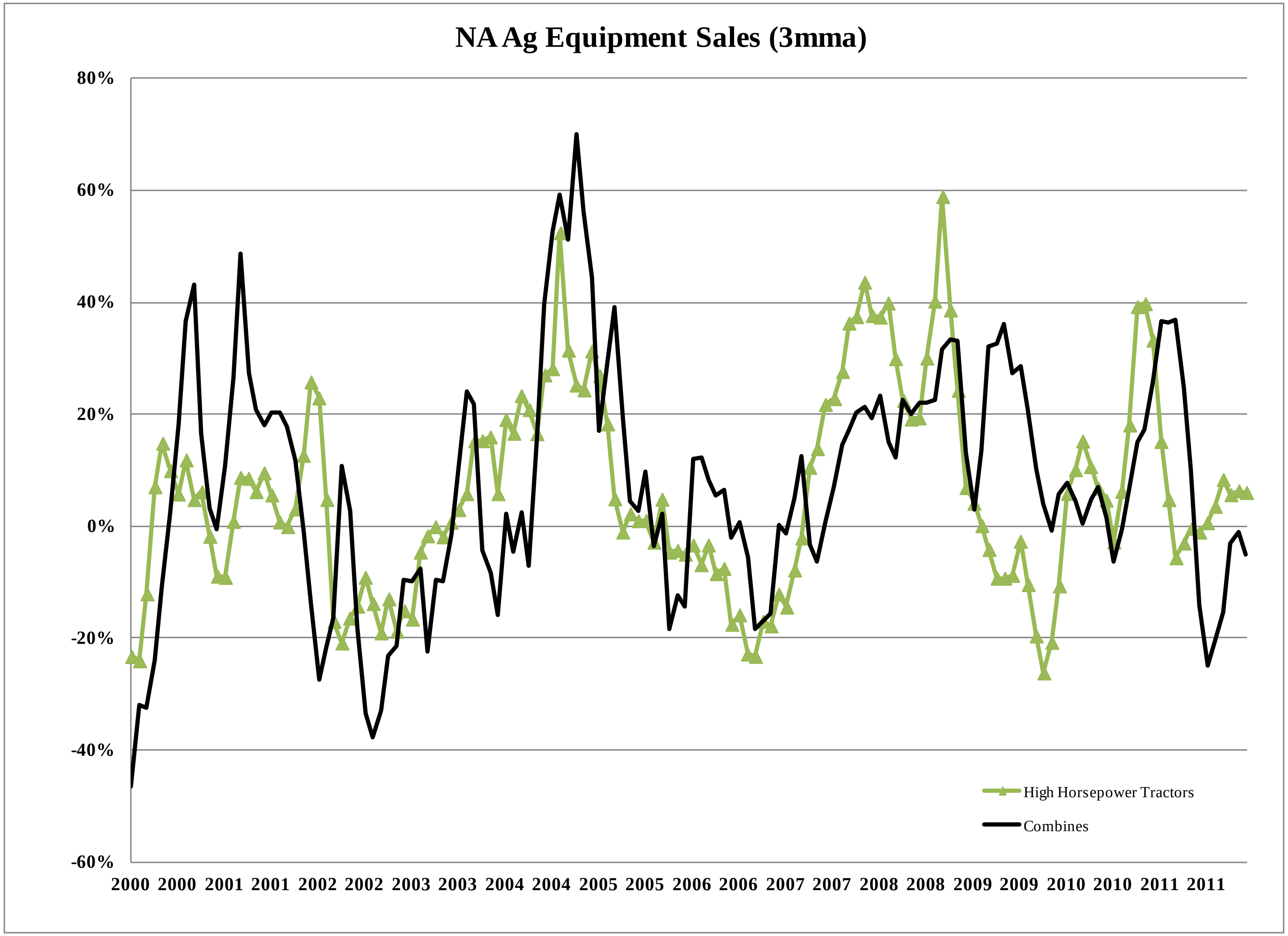
Annual Ag Equipment Industry Sales – 2009-2011





Source: AEM

NA Ag Equipment Sales



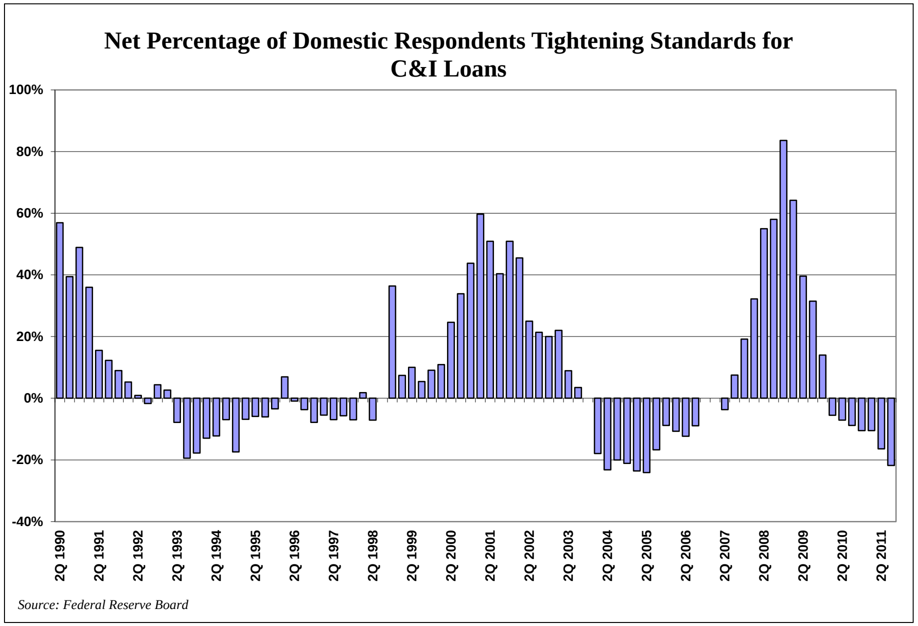
Source: AEM

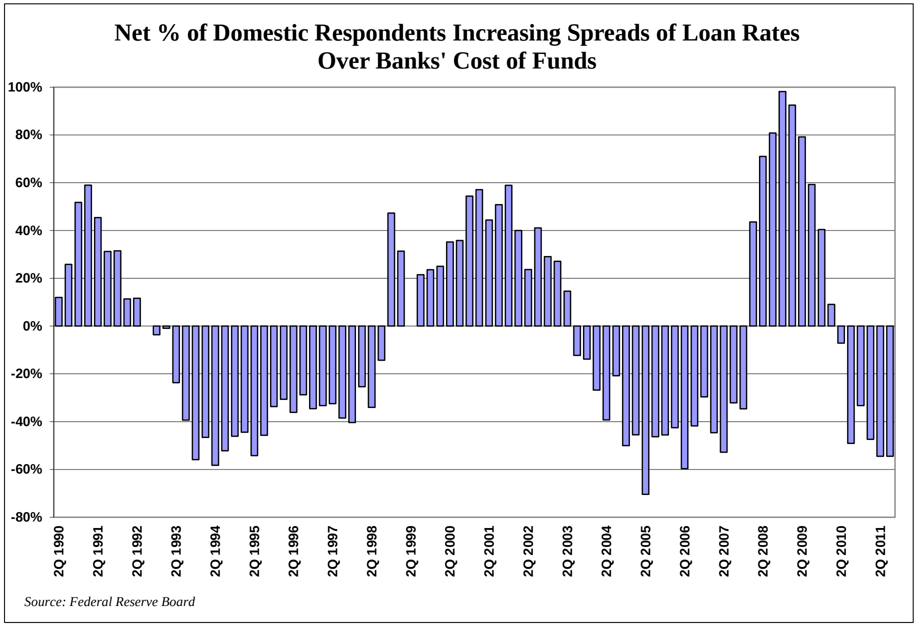
Credit – C&I Loan Demand Improves as Lending Standards Loosen

- The 3Q11 Senior Loan Officer survey saw the seventh consecutive loosening of loan standards which began in 1Q10 following a prolonged period of tightening. A net 22% of loan officers reported loosening credit standards in 3Q11 compared with a net 16% loosening in 2Q11.

- Bank rate spreads contracted again in 3Q11 with a net 55% of loan officers reporting lower lending spreads, unchanged from 2Q11.

- Along with the more favorable loan standards and cost of funds, a net 20% of loan officers reported stronger demand for commercial and industrial loans in 3Q11 down from the 27% reporting stronger demand in 2Q11 but marking the third consecutive quarter of improving demand.

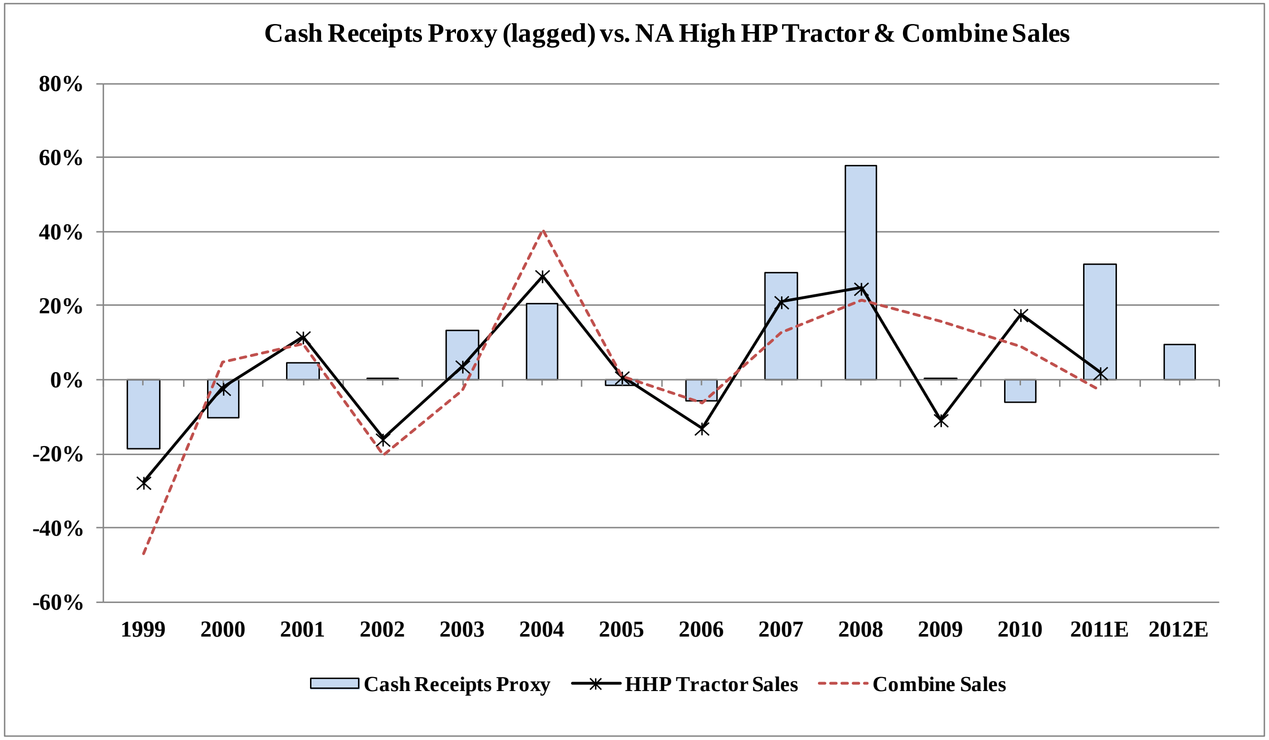




Source: FRB

Commodity Price Trends - Cash Receipts vs. Out Year Equipment Sales

- **The USDA's crop supply and demand update for the 2011/12 crop year this month shows a downward revision to prices for two out of three of the important crop categories - corn, soybeans, and wheat.** The lower price projections suggests slightly lower expected cash receipts vs. last month's forecast, as depicted in our simplified cash receipts proxy below. The impact in dollars is a decrease of $2.3Bil following a $6Bil reduced forecast last month. This brings our cash receipts proxy down to just over $126Bil, or about a 8% increase from last year's level. Farmer cash receipts are highly correlated with out-year new equipment sales as shown below, so a less optimistic outlook for 2011/2012 cash receipts is a negative indicator for 2012 NA ag machinery demand.



Source: USDA, CRC estimates

Commodity Price Trends – Simplified Cash Receipts Proxy

USDA - World Agricultural Supply and Demand Estimates (bu millions)

CORN - DOMESTIC

Year	Production	Domestic Use	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2010/11	12,447	11,550	1,900	13,450	730	6.3%	$5.10-$5.40
2011/12							
November	12,310	11,010	1,600	12,610	843	7.7%	$6.20-$7.20
December	12,310	11,005	1,600	12,605	848	7.7%	$5.90-$6.90
January	12,358	11,005	1,605	12,610	846	7.7%	$5.70-$6.70
Revision to 2011/12:						**Corn Spot Price:**	**$6.29**
m/m chg	48	0	5	5	-2	0.0%	($0.20)
y/y chg	-89	-545	-295	-840	116	1.4%	$0.95

CORN - INTERNATIONAL

Year	Production	Total Use	End Stocks	Stocks/Use
2010/11	19,652	21,464	4,081	19.0%
2011/12				
November	21,507	23,101	3,943	17.1%
December	21,843	23,191	4,159	17.9%
January	21,816	23,166	4,199	18.1%
m/m chg	-28	-25	40	0.2%
y/y chg	2164	1702	118	-0.9%

SOYBEANS - DOMESTIC

Year	Production	Domestic Use	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2010/11	3,329	3,325	1,550	4,875	170	5.1%	$11.40
2011/12							
November	3,046	3,080	1,325	4,405	195	6.3%	$11.60-$13.60
December	3,046	3,045	1,300	4,345	230	7.6%	$10.70-$12.70
January	3,056	3,011	1,275	4,286	275	9.1%	$10.95-$12.45
Revision to 2011/12:						**Soybean Spot Price:**	**$12.03**
m/m chg	10	-34	-25	-59	45	1.6%	$0.00
y/y chg	-273	-314	-275	-589	105	4.0%	$0.30

SOYBEANS - INTERNATIONAL

Year	Production	Total Use	End Stocks	Stocks/Use
2010/11	6,296	7,572	2,174	28.7%
2011/12				
November	6,468	7,836	2,140	27.3%
December	6,479	7,811	2,141	27.4%
January	6,387	7,792	2,055	26.4%
m/m chg	-92	-19	-86	-1.0%
y/y chg	91	220	-119	-2.3%

WHEAT - DOMESTIC

Year	Production	Domestic Use	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2010/11	2,208	1,180	1,275	2,455	839	71.1%	$5.65
2011/12							
November	1,999	1,178	975	2,153	828	70.3%	$7.05-$7.75
December	1,999	1,178	925	2,103	878	74.5%	$7.05-$7.55
January	1,999	1,162	950	2,112	870	74.9%	$6.95-$7.45
Revision to 2011/12:						**Wheat Spot Price:**	**$6.54**
m/m chg	0	-16	25	9	-8	0.3%	($0.10)
y/y chg	-209	-18	-325	-343	31	3.8%	$1.55

WHEAT - INTERNATIONAL

Year	Production	Total Use	End Stocks	Stocks/Use
2010/11	21,606	23,148	5,855	25.3%
2011/12				
November	23,107	23,690	6,616	27.9%
December	23,316	23,814	6,783	28.5%
January	23,409	23,876	6,847	28.7%
m/m chg	93	62	64	0.2%
y/y chg	1803	728	928	3.4%

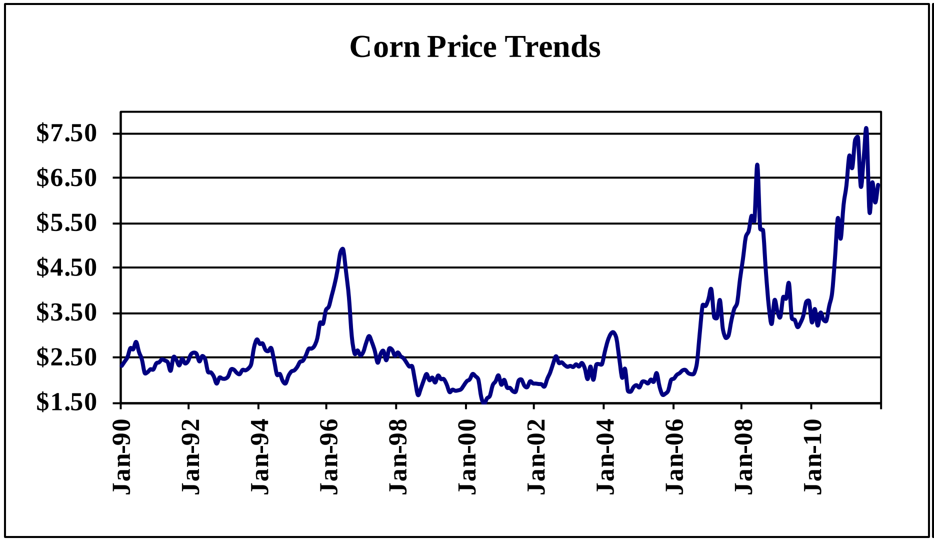
FARMER CROP RECIEPTS

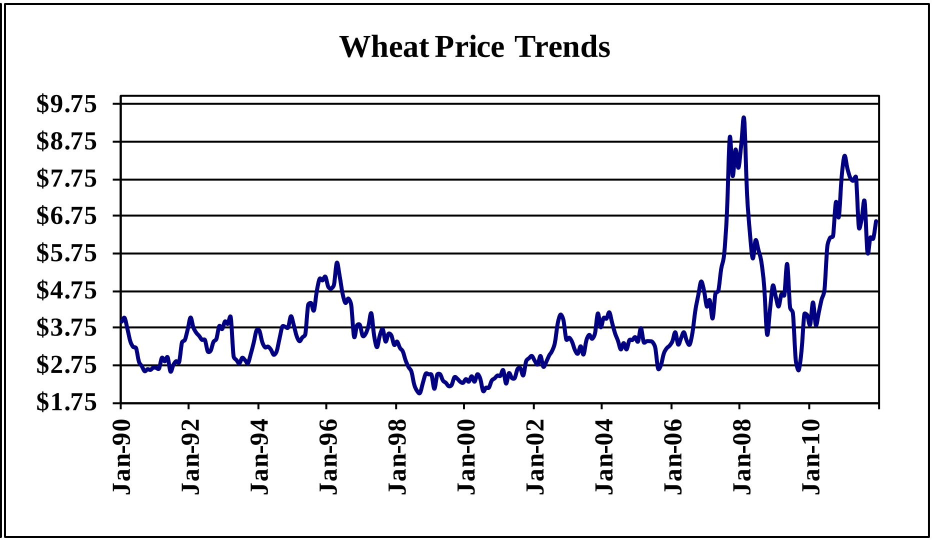
	Production:			Avg Price:			Crop Cash Receipts*				
	Corn	**Soybeans**	**Wheat**	**Corn**	**Soybeans**	**Wheat**	**Corn**	**Soybeans**	**Wheat**	**Total**	**y/y % Chg**
2010/11	12,447	3,329	2,208	$5.25	$11.40	$5.65	$65,347	$37,951	$12,475	**$115,773**	**29%**
2011/12											
November	12,310	3,046	1,999	$6.70	$12.60	$7.40	$82,477	$38,380	$14,793	**$135,649**	**15%**
December	12,310	3,046	1,999	$6.40	$11.70	$7.30	$78,784	$35,638	$14,593	**$129,015**	**9%**
January	12,358	3,056	1,999	$6.20	$11.70	$7.20	$76,620	$35,755	$14,393	**$126,768**	**8%**

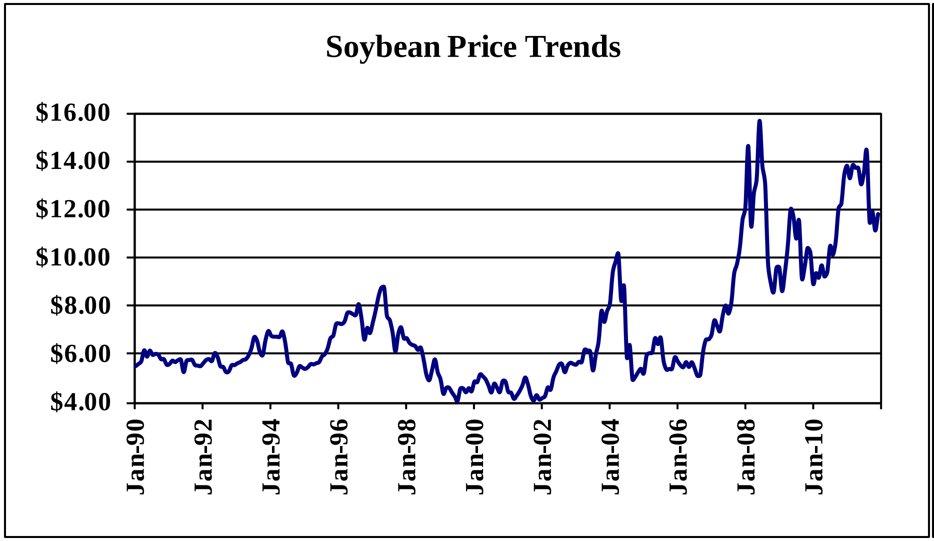
*Note: Cash reciepts estimated as USDA production X USDA average price forecast

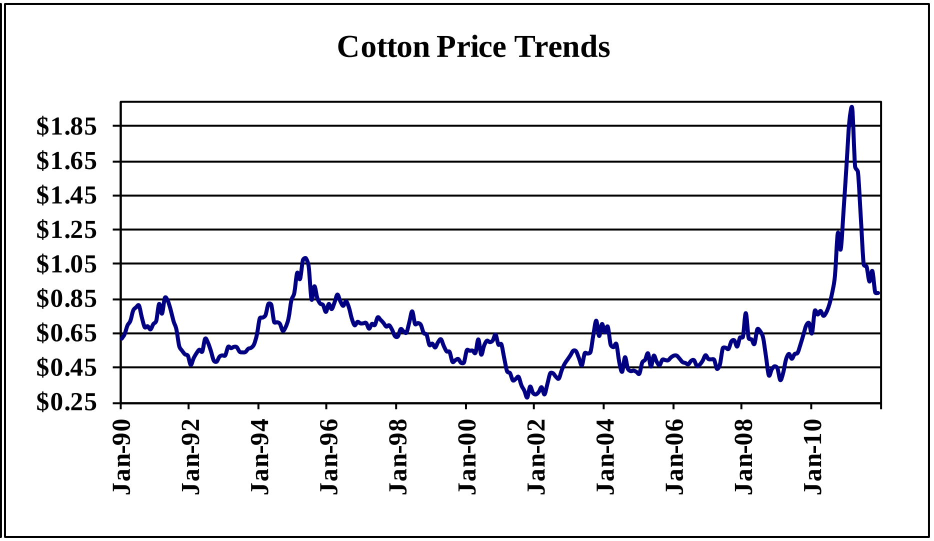
Source: USDA; Cleveland Research estimates

Commodity Price Trends – Corn, Soybean, Wheat, Cotton







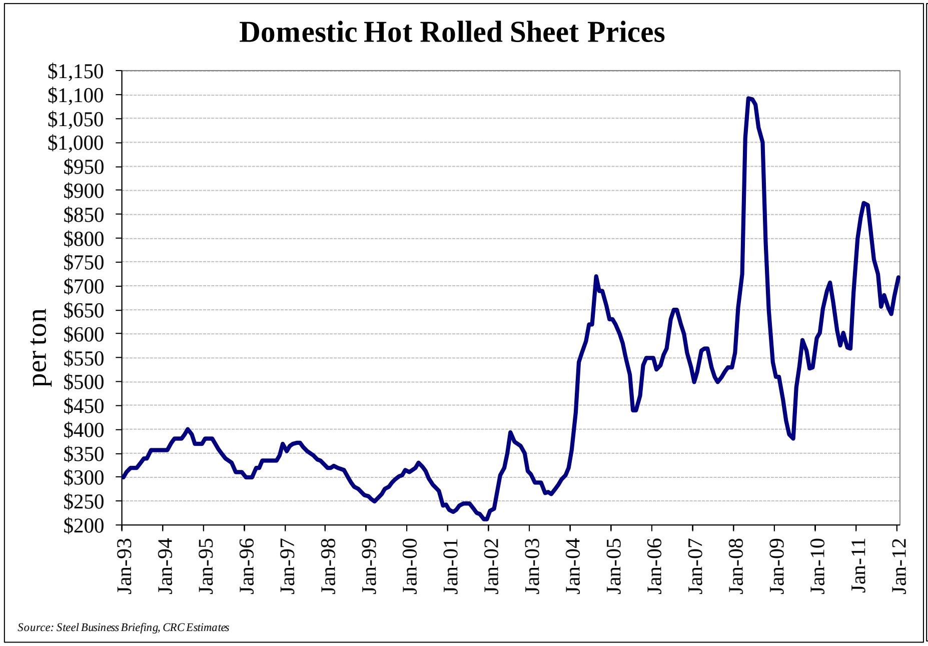


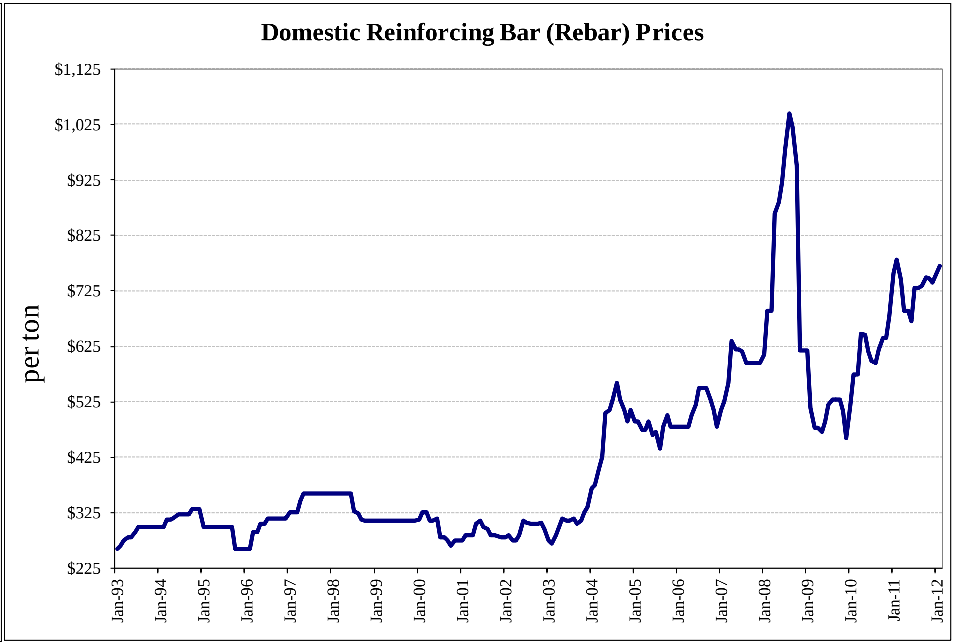
Source: USDA, Baseline

Commodity Price Trends – Steel

- The January steel distribution update was the third consecutive month of improving fundamentals and better buyer sentiment. The January comp held at +4-5%, which is in line with the December comp. The better-than-expected orders over the last 30 days appear to be driven by: 1) positive price speculation and 2) stronger order rates from service centers, heavy equipment, energy and auto.

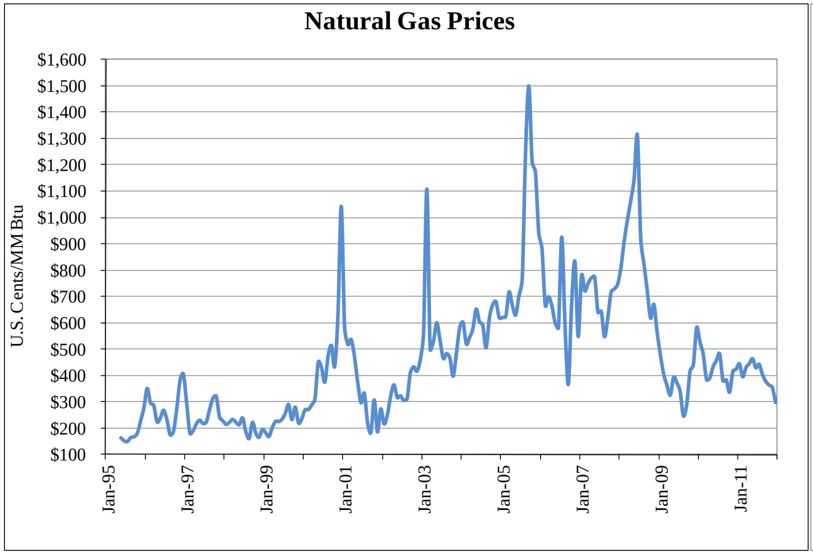
- The mills continue to be aggressive in attempting to push through price increases and have gained further success in the marketplace with their actions. Listed quotes from mills are currently between $740-770 per ton for mid-February delivery, up from $660-670 per ton last month. Transactions appear to be taking place within the $740-770 range, as supply has been partially rationalized at the mill level and real demand is improving.

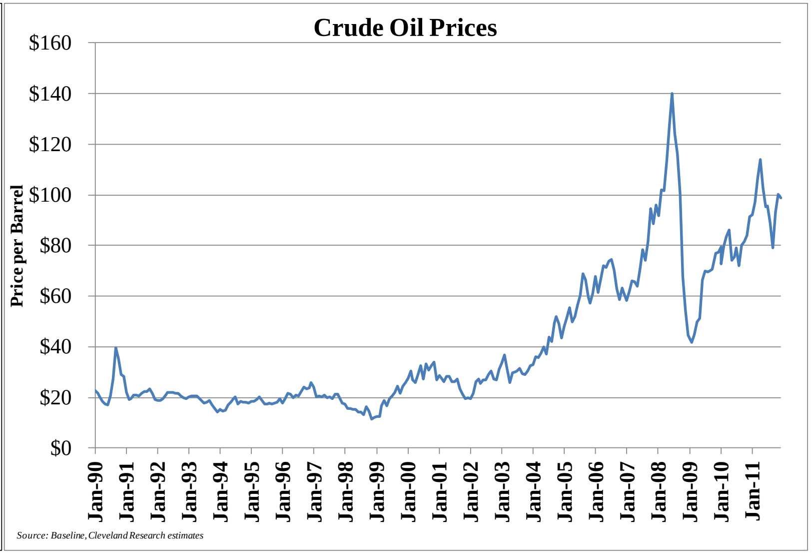


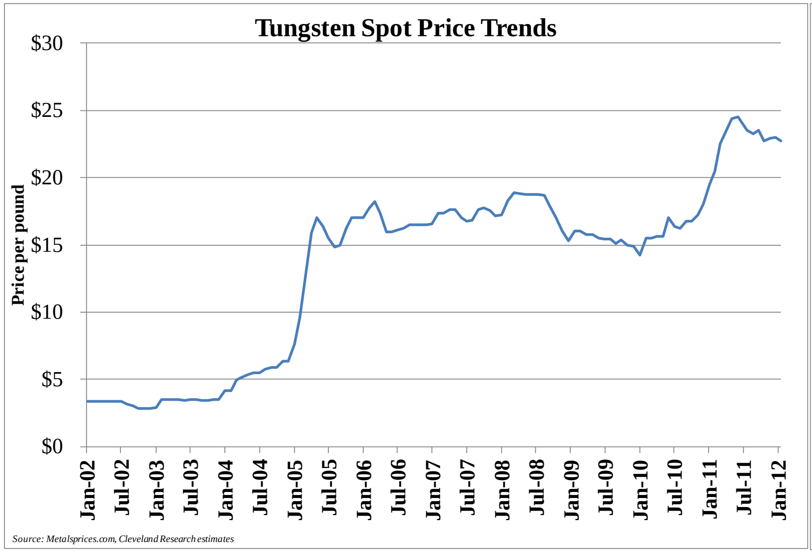


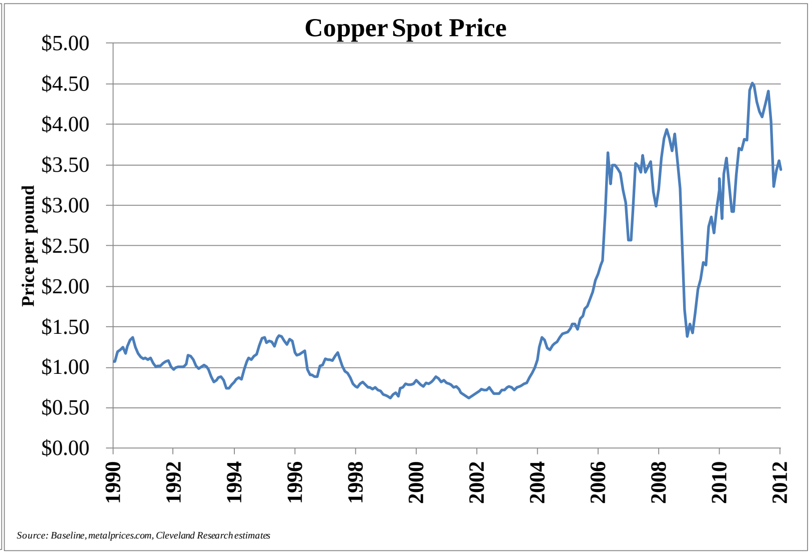
Source: Steel Business Briefing; Energy Information, Baseline

Commodity Price Trends – Copper, Tungsten, Oil, Natural Gas









Source: Steel Business Briefing; Energy Information, Baseline, Metalprices

Commodity Trends – Long Run Supply and Demand Projections

CORN - DOMESTIC

Year	Production	Domestic Use	Use for Ethanol	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2006/07	10,535	9,086	2,150	2,125	11,211	1,304	14.4%	$3.04
2007/08	13,074	10,338	3,026	2,436	12,774	1,624	15.7%	$4.20
2008/09	12,020	10,635	4,000	1,900	12,535	1,124	10.6%	$4.40
2009/10	12,685	10,820	4,200	2,000	12,820	1,004	9.3%	$4.00
2010/11	13,005	10,970	4,300	2,025	12,995	1,029	9.4%	$3.90
2011/12	13,330	11,150	4,425	2,050	13,200	1,174	10.5%	$3.80
2012/13	13,495	11,335	4,550	2,075	13,410	1,274	11.2%	$3.70
2013/14	13,660	11,520	4,650	2,100	13,620	1,329	11.5%	$3.65
2014/15	13,830	11,705	4,750	2,125	13,830	1,344	11.5%	$3.70
2015/16	13,995	11,865	4,825	2,150	14,015	1,339	11.3%	$3.75
2015/17	14,245	12,000	4,900	2,175	14,175	1,424	11.9%	$3.75
2017/18	14,410	12,135	4,975	2,200	14,335	1,514	12.5%	$3.75
2018/19	14,580	12,295	5,050	2,225	14,520	1,589	12.9%	$3.75
2019/20	14,595	12,200	5,025	2,425	14,625	1,490	12.2%	$3.65
10-yr Avg	**13,915**	**11,718**	**4,745**	**2,155**	**13,873**	**1,351**	**11.5%**	**$3.74**

SOYBEANS - DOMESTIC

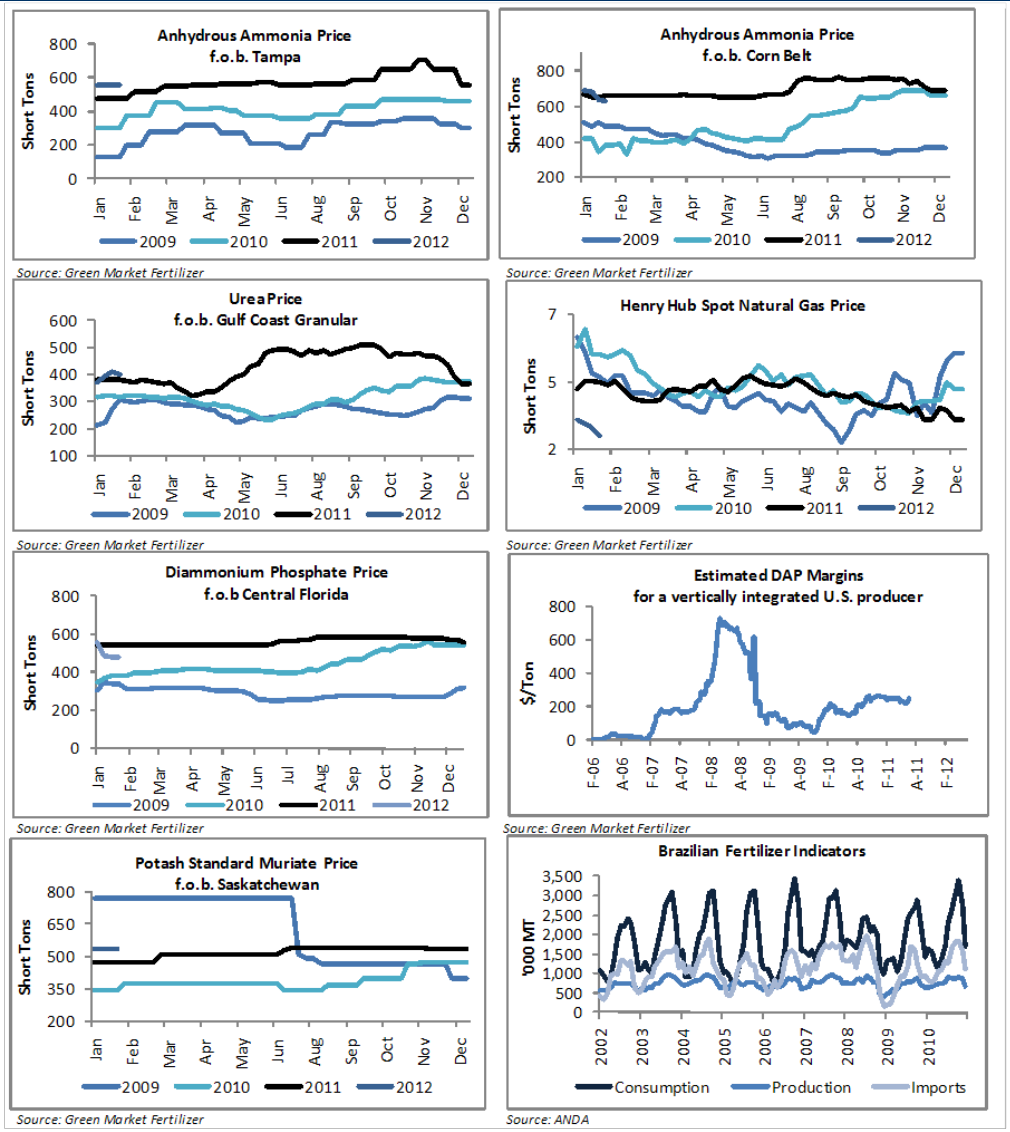
Year	Production	Domestic Use	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2006/07	3,188	1,955	1,118	3,073	573	29.3%	$9.00
2007/08	2,676	1,893	1,161	3,054	205	10.8%	$10.10
2008/09	2,921	1,907	1,020	2,927	205	10.7%	$9.85
2009/10	3,110	1,888	1,175	3,063	257	13.6%	$8.85
2010/11	3,100	1,901	1,200	3,101	261	13.7%	$8.75
2011/12	3,095	1,915	1,200	3,115	246	12.8%	$8.75
2012/13	3,100	1,936	1,180	3,116	235	12.1%	$8.70
2013/14	3,130	1,956	1,180	3,136	235	12.0%	$8.60
2014/15	3,140	1,976	1,175	3,151	229	11.6%	$8.70
2015/16	3,170	1,997	1,175	3,172	232	11.6%	$8.75
2015/17	3,195	2,017	1,180	3,197	235	11.7%	$8.75
2017/18	3,230	2,043	1,190	3,233	237	11.6%	$8.75
2018/19	3,260	2,064	1,200	3,264	238	11.5%	$8.80
2019/20	3,490	2,041	1,455	3,496	261	12.8%	$9.20
10-yr Avg	**3,191**	**1,985**	**1,214**	**3,198**	**241**	**12.1%**	**$8.78**

WHEAT - DOMESTIC

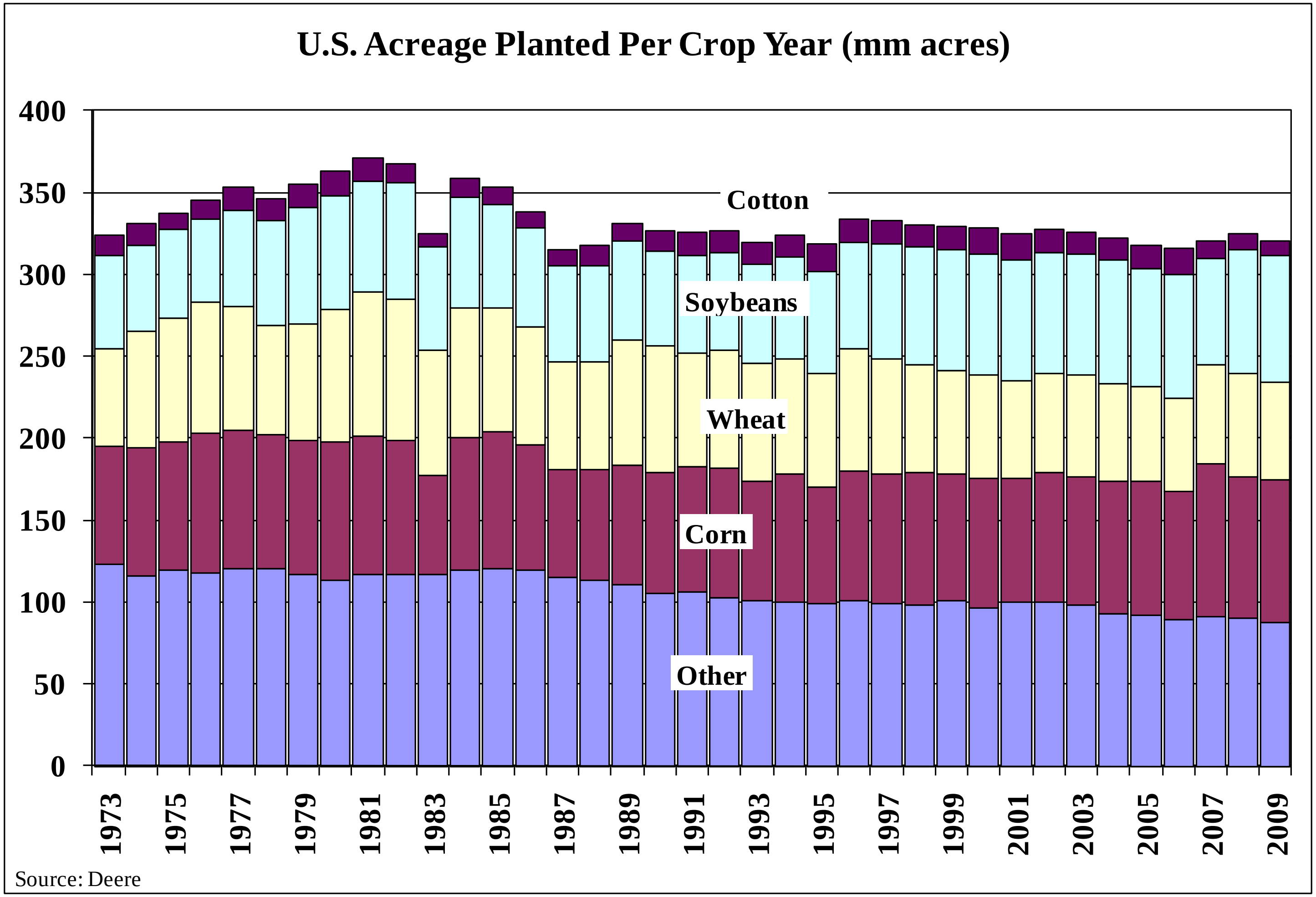
Year	Production	Domestic Use	Exports	Total Use	End Stocks	Stocks/Use	Avg Price
2006/07	1,812	1,140	909	2,049	418	36.7%	$4.35
2007/08	2,067	1,066	1,264	2,330	306	28.7%	$6.48
2008/09	2,500	1,302	1,000	2,302	603	46.3%	$6.85
2009/10	2,210	1,297	1,000	2,297	616	47.5%	$5.75
2010/11	2,225	1,301	1,025	2,326	620	47.7%	$5.60
2011/12	2,265	1,300	1,050	2,350	640	49.2%	$5.50
2012/13	2,255	1,308	1,050	2,358	647	49.5%	$5.35
2013/14	2,255	1,317	1,050	2,367	645	49.0%	$5.30
2014/15	2,270	1,315	1,075	2,390	640	48.7%	$5.40
2015/16	2,265	1,324	1,075	2,399	621	46.9%	$5.45
2015/17	2,280	1,333	1,075	2,408	613	46.0%	$5.45
2017/18	2,295	1,342	1,075	2,417	611	45.5%	$5.45
2018/19	2,310	1,351	1,075	2,426	620	45.9%	$5.45
2019/20	2,125	1,360	900	2,260	717	52.7%	$4.75
10-yr Avg	**2,255**	**1,325**	**1,045**	**2,370**	**637**	**48.1%**	**$5.37**

Source: USDA, CRC estimates

Other Input and Chemical Costs – 2008-2011



U.S. Acreage Planted Per Crop Year



Source: Deere, CRC estimates

US Farm Financial Data

U.S. Farm Financial Data ($Bil)								
Year	**Crop Receipts**	**Crop Rec % chg**	**Livestock Receipts**	**Gov't Payments**	**Total Receipts**	**Net Farm Cash Income**	**Total Assets**	**Debt to Asset Ratio**
1972	25.5	-	35.6	4.0	65.1	22.8	339.9	17.1
1973	41.1	61%	45.8	2.6	89.5	35.6	418.5	16.0
1974	51.1	24%	41.3	0.5	92.9	34.4	449.2	16.6
1975	45.8	-10%	43.1	0.8	89.7	29.1	510.8	16.4
1976	49.0	7%	46.3	0.7	96.1	29.5	590.7	15.9
1977	48.6	-1%	47.6	1.8	98.1	27.4	651.5	16.6
1978	53.2	9%	59.2	3.0	115.4	32.7	777.7	15.9
1979	62.3	17%	69.2	1.4	132.9	32.6	914.7	16.1
1980	71.7	15%	68.0	1.3	141.0	33.2	1000.4	16.2
1981	72.5	1%	69.2	1.9	143.5	31.6	997.9	17.8
1982	72.3	0%	70.3	3.5	146.1	36.8	962.5	19.1
1983	67.2	-7%	69.6	9.3	146.1	37.0	959.3	19.4
1984	69.9	4%	72.9	8.4	151.2	36.0	897.8	21.0
1985	73.9	6%	70.1	7.7	151.7	45.6	775.9	22.2
1986	63.8	-14%	71.6	11.8	147.2	46.5	722.0	21.0
1987	65.8	3%	76.0	16.7	158.5	52.6	756.5	18.3
1988	71.6	9%	79.6	14.5	165.7	53.7	788.5	16.9
1989	76.9	7%	83.6	10.9	171.4	53.5	813.7	16.1
1990	80.2	4%	89.1	9.3	178.6	53.8	840.6	15.6
1991	82.2	3%	85.8	8.2	176.2	51.4	844.2	15.6
1992	85.7	4%	85.8	9.2	180.6	56.9	867.8	15.2
1993	87.8	2%	90.5	13.4	191.7	60.8	909.2	14.8
1994	93.1	6%	88.3	7.9	189.3	53.7	934.7	14.9
1995	101.0	8%	87.2	7.3	195.5	54.5	965.7	14.8
1996	106.5	5%	92.9	7.3	206.8	60.9	1002.9	14.8
1997	111.3	5%	96.5	7.5	215.3	60.9	1051.3	14.9
1998	102.2	-8%	94.2	12.4	208.8	57.7	1083.4	15.2
1999	92.1	-10%	95.7	21.5	209.3	57.9	1138.8	14.7
2000	92.5	0%	99.6	23.2	215.2	57.4	1203.2	13.6
2001	93.4	1%	106.7	22.4	222.5	62.2	1255.9	13.6
2002	100.7	8%	93.9	12.4	207.4	51.0	1259.7	14.1
2003	110.5	10%	105.7	16.5	232.0	72.3	1383.4	11.9
2004	114.5	4%	123.5	13.0	250.3	83.7	1588.0	11.5
2005	116.1	1%	124.9	24.4	265.2	86.8	1779.4	11.0
2006	122.3	5%	118.6	15.8	255.1	68.8	1923.6	10.6
2007	149.9	23%	138.6	11.9	296.7	78.2	2055.3	10.4
2008	183.1	22%	141.1	12.2	336.6	97.5	2005.5	11.9
2009	166.3	-9%	118.8	12.9	297.9	70.8	1943.7	12.8

Source: USDA, CRC estimates