December 2013
Vol. 1 • No. 8

Ag Equipment Intelligence's

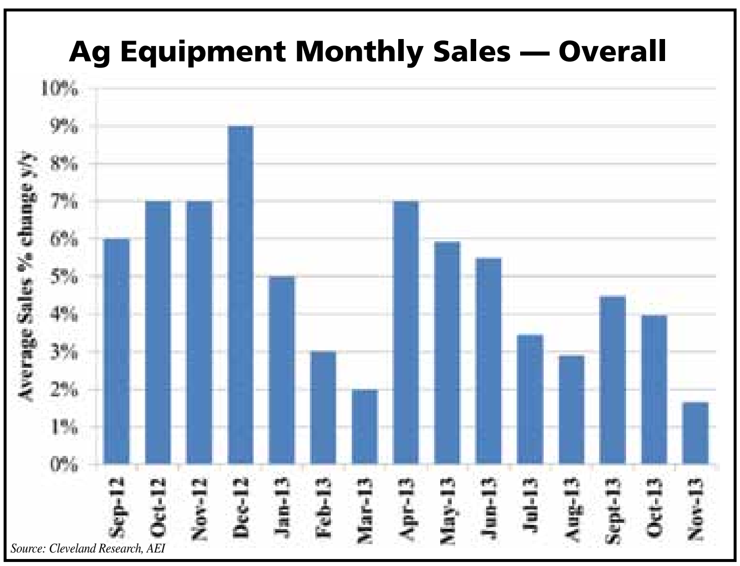
Dealer Sentiment & Business Conditions Update

From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Growth Slows in November, Incoming Orders Down 2%

- ✔ Ag equipment dealers reported sales grew 2% on average in November, down from the 4% sales growth reported in October.
- ✔ All brands of dealers reported average sales growth for the month was up by low to mid single digits (2-5%).
- ✔ A net 4% of dealers reported better than expected results for November, down from the net 16% beating plan in October.
- ✔ A net 24% of dealers categorize their new inventory as "too high" (31% too high; 62% about right; 7% too low), vs. 8% of dealers last month who categorized their new inventory as "too high." This marks the fourth consecutive month that new inventories are "too high" and the highest net percentage since this survey began in April 2011.
- ✔ A net 59% of dealers reported used combines inventories were "too high" (59% too high, 41% comfortable, 0% too low) vs. a net 37% last month. The November number is tied with August for the highest net percentage reporting combine inventories "too high" in the history of the survey.
- ✔ Incoming orders declined 2% on average in November, down from 1% growth seen in October.



Results vs. Expectations

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13
Better than expected	41%	28%	19%	20%	24%	22%	23%	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	38%	33%	27%	32%	24%
In line with expected	47%	56%	54%	66%	63%	52%	51%	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	48%	47%	54%	51%	56%
Worse than expected	12%	16%	26%	14%	14%	25%	26%	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	14%	20%	19%	17%	20%
Net %	29%	12%	-7%	7%	10%	-3%	-3%	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	23%	13%	8%	16%	4%

2014 Dealer Outlook Drops Slightly

- ✔ For 2014, the average dealer outlook is for a 1% decline in sales, down from the 1% growth outlook reported last month.
- ✔ Deere is forecasting the North American ag equipment market to be down 5-10% in 2014, while AGCO recently forecast the market to decline 0-5%.
- ✔ No particular brand is meaningfully more or less optimistic than the others. All dealers are expecting sales to be between flat and down 3% in 2014.

Dealer Outlook

(% chg y/y)	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13
2012 Outlook							2013 Outlook												2014 Outlook		
Overall	4%	6%	3%	4%	3%	4%	3%	2%	4%	2%	4%	4%	3%	5%	5%	3%	3%	3%	0%	1%	-1%
By Brand	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**Jul-13**	**Aug-13**	**Sept-13**	**Oct-13**	**Nov-13**
AGCO	3%	8%	7%	6%	2%	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%	-1%	-3%	-2%
John Deere	4%	9%	5%	9%	7%	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%	2%	2%	0%
New Holland	4%	3%	1%	1%	0%	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%	2%	1%	-2%
Case IH	3%	3%	-1%	-1%	-1%	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%	-3%	0%	-1%
Kubota	3%	3%	4%	6%	-1%	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%	-1%	-1%	-3%
Shortlines	6%	4%	7%	5%	2%	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%	4%	6%	-3%
Other	4%	3%	5%	-2%	2%	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%	2%	2%	na

Dealer Optimism Dropped Again in November

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, once again declined in November. A net 27% of dealers reported a less optimistic outlook for the year (14% more optimistic; 45% same; 41% less optimistic). This is compared to a net 11% of dealers in October who reported a less optimistic outlook.

Optimism/Sentiment vs. Last Month

	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13
More Optimistic	33%	30%	38%	29%	25%	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%	21%	19%	14%	15%	14%
Same	55%	54%	53%	57%	59%	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%	58%	50%	62%	60%	45%
Less Optimistic	12%	16%	10%	14%	17%	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%	21%	31%	23%	25%	41%
Net %	21%	14%	29%	15%	8%	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%	0%	-12%	-9%	-11%	-27%

COMMENTARY

USDA Forecast Holds Steady at 13% Decline for 2013-14 Cash Receipts

The updated December USDA cash receipts outlook for 2013 is calling for a drop off of 13% vs. 2012, consistent with the November forecast. If historical trends hold, this would imply that 2014 could be a challenging year for equipment demand vs. 2013, as the correlation between equipment sales and cash receipts has provided a good proxy for future equipment demand.

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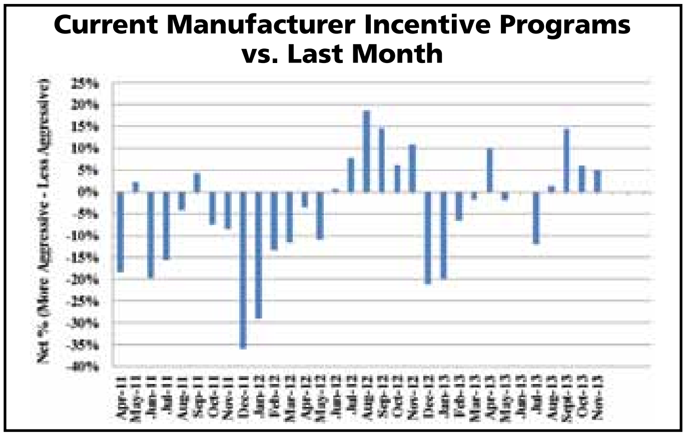
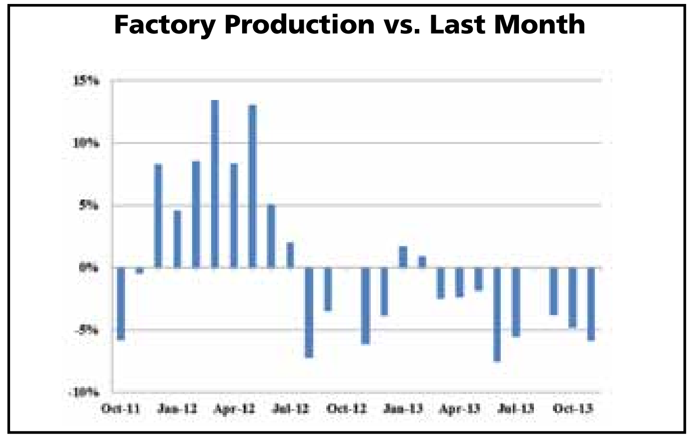
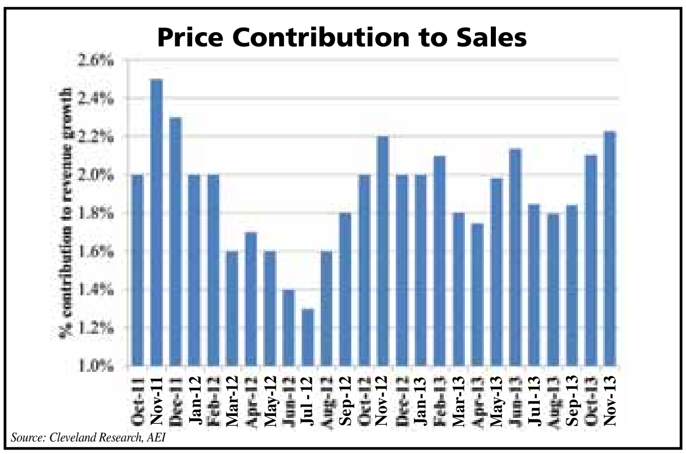
NEW EQUIPMENT TRENDS



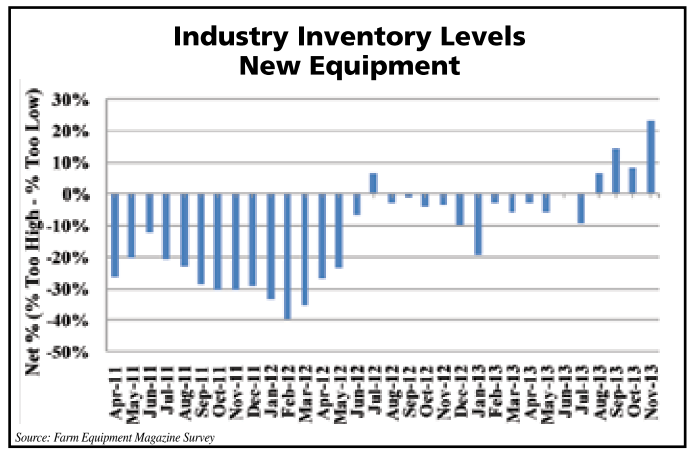
A net 5% of dealers report that manufacturers were more aggressive with incentives in November (21% more aggressive; 63% same; 16% less aggressive) compared to 6% reporting more aggressiveness in October.



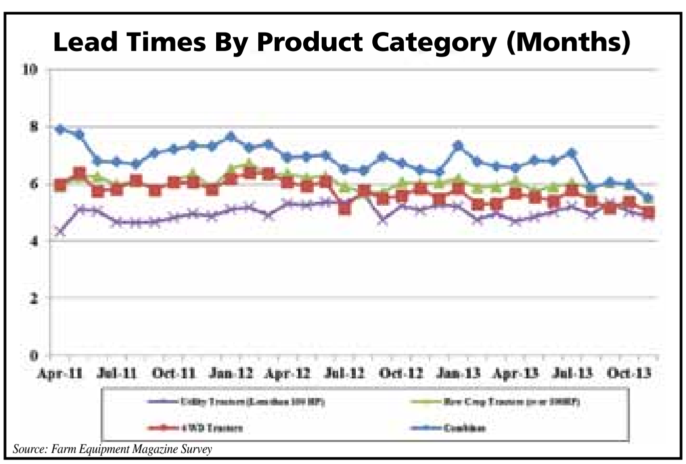
A net 6% of dealers report factory production was down compared to last month (8% increasing production; 78% no change in production; 14% decreasing production).



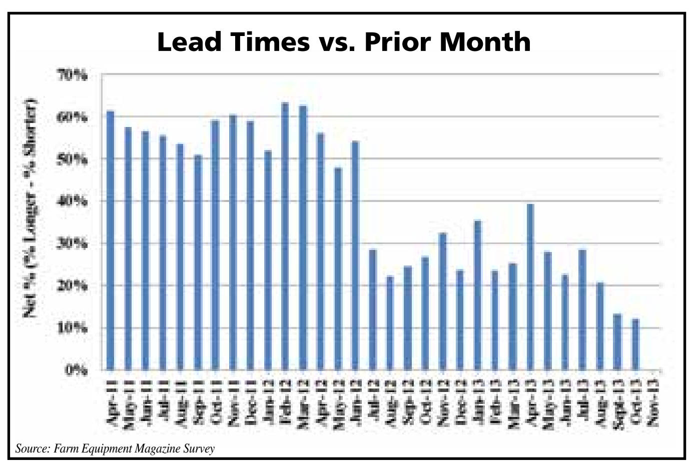
Dealers report price contributed roughly 2.2% to total November revenue growth, the highest rate since November of 2012. It's likely this trend will continue to move higher in the coming months as new model year price and Tier 4 Final price increases announcements are made.



A net 24% of dealers categorize their new inventory as "too high" (31% too high; 62% about right; 7% too low), vs. 8% of dealers last month who categorized their new inventory as "too high."



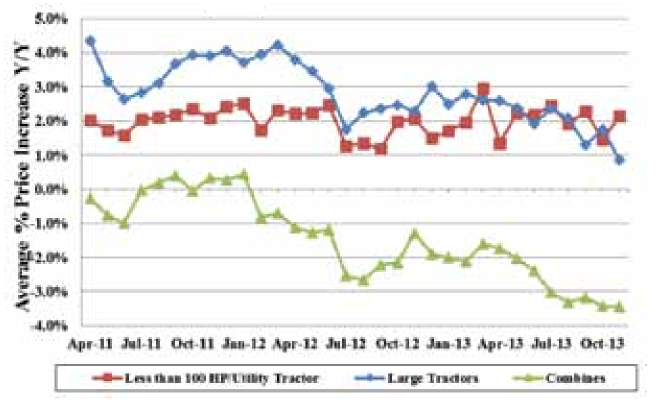
On average combine and row-crop tractor lead times are 5.5 months; 4WD are 5 months; and smaller tractors (<100 HP) lead times are 4.9 months.



Overall, a net 0% of dealers report longer factory lead times compared to last month (16% longer; 67% same; 16% shorter), similar to last month.

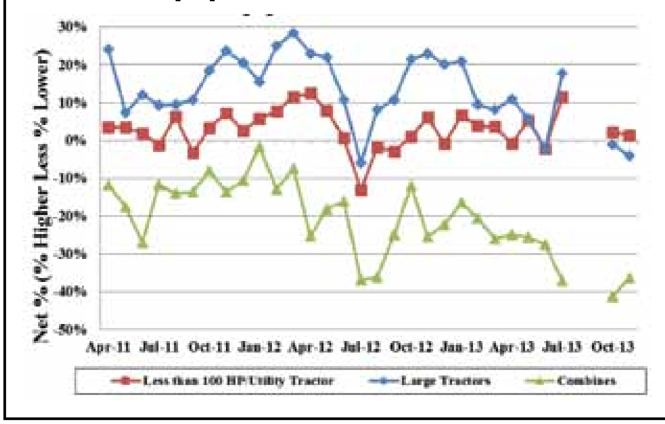
USED EQUIPMENT TRENDS

Used Equipment Values vs. Last Year



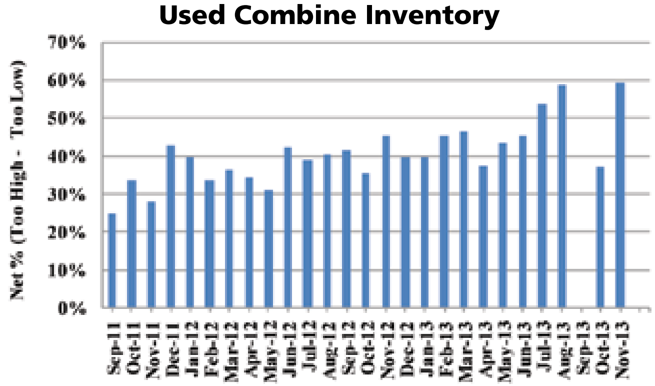
By category, used prices for tractors over 100 HP are up 1% year-over-year on average, down from 1.7% reported last month. Prices for used tractors under 100 HP are up 2.1%, while used combine values remained down 3.4% year-over-year.

Used Equipment Values vs. Last Month



A net 36% of dealers reported used combine values were lower in November compared to October, up slightly from the net 41% who reported used combine values were lower in October than September.

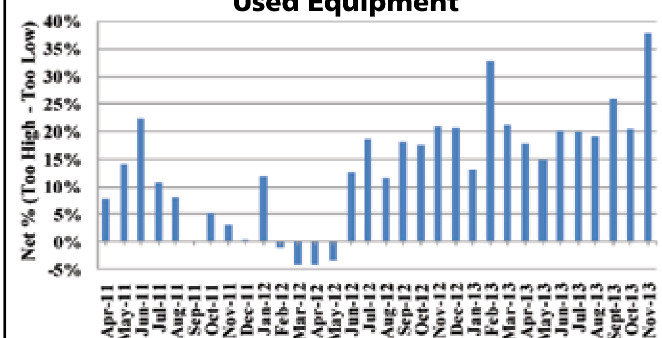
Used Combine Inventory



Source: Farm Equipment Magazine Survey

A net 59% of dealers reported used combine inventories were "too high" (59% too high, 41% comfortable, 0% too low) vs. a net 37% last month.

Industry Inventory Levels Used Equipment

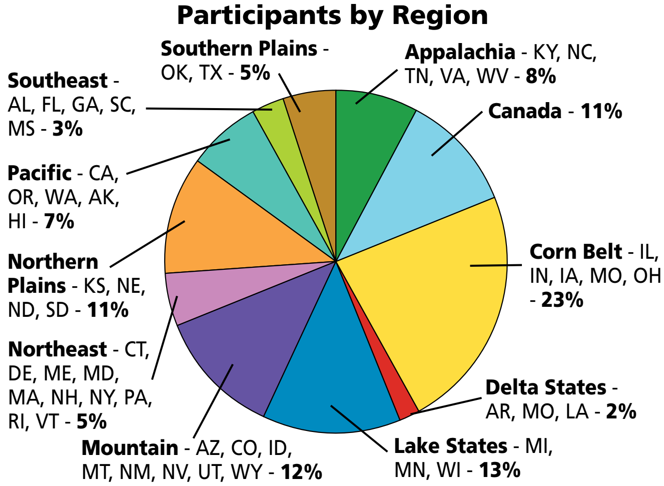


Source: Farm Equipment Magazine Survey

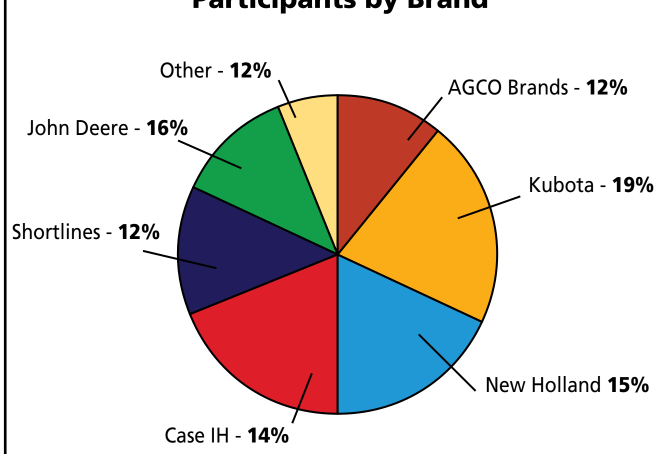
Used equipment inventory overall rose to the highest level in the history of the survey with a net 38% of dealers reporting used inventories as "too high" (48% too high; 43% about right; 10% too low), well above the net 20% reporting "too high" last month.

DECEMBER 2013 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The December survey had approximately 101 respondents representing combined annual revenues of roughly $4.9 billion, covering a broad cross section of geographies and brands.