

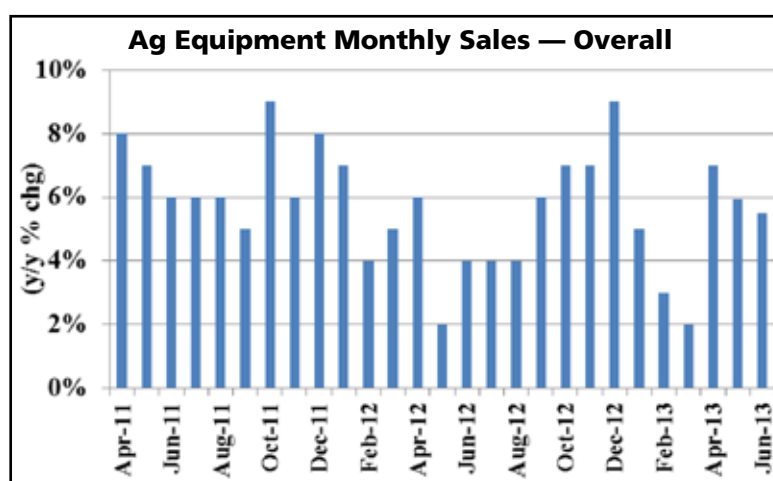
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Decelerate to 5% in June, Incoming Orders Flat

- ✓ Ag equipment dealers reported year-over-year sales grew 5% on average in June, down from 6% the prior month.
- ✓ Kubota dealers saw the highest growth at 10%, while AGCO dealers expect the lowest with sales up 1%.
- ✓ A net 4% of dealers categorized June results as "worse-than-expected" (19% better-than-expected; 58% in-line with expectations; 23% worse-than-expected), compared to 3% "better-than-expected" the prior month.
- ✓ A net 45% of dealers reported used combine inventory levels are "too high" (48% too high; 48% about right; 3% too low). This is only the fourth time used combine inventory reached levels this high since we initiated this survey in April 2011.
- ✓ Nine out of 11 regions showed positive average monthly sales growth in June with Appalachia being the only region showing negative growth (-22%) after showing the best performance last month (19%). On a sequential basis, the Lake States saw the most significant acceleration (8%).
- ✓ Incoming orders were flat (0%) on average in June, down from 2% in May. John Deere dealers produced the highest orders growth at 2%, while Case IH saw orders decline 2%.



Results vs. Expectations																									
	Jul-11	Aug-11	Sep-11	Oct-11	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	
Better than expected	27%	30%	29%	35%	32%	41%	28%	19%	20%	24%	22%	23%	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	
In line with expected	54%	52%	56%	48%	54%	47%	56%	54%	66%	63%	52%	51%	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	
Worse than expected	19%	18%	15%	17%	13%	12%	16%	26%	14%	14%	25%	26%	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	
Net %	8%	13%	14%	18%	19%	29%	12%	-7%	7%	10%	-3%	-3%	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	

## 2013 Dealer Outlook Drops to 3%

- ✓ For 2013, dealers are forecasting 3% sales growth. This is down from 5% last month.
- ✓ Of the major manufacturers, Kubota dealers have the most optimistic outlook (8%) for 2013 and Case IH dealers are the least optimistic (0%).
- ✓ Ten out of 11 regions projected a positive full year 2013 sales outlook in June, up from 9 last month. The Pacific is the most optimistic (13%), while the North-east is the only region expecting sales to remain flat in 2013.

Dealer Outlook																						
(% chg y/y)	Oct-11	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	
	2012 Outlook												2013 Outlook									
Overall	4%	4%	3%	5%	5%	4%	6%	3%	4%	3%	4%	3%	2%	4%	2%	4%	4%	3%	5%	5%	3%	
By Brand	Oct-11	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	
AGCO	9%	8%	4%	6%	7%	3%	8%	7%	6%	2%	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	
John Deere	2%	3%	2%	6%	6%	4%	9%	5%	9%	7%	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	
New Holland	5%	5%	4%	2%	3%	4%	3%	1%	1%	0%	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	
Case IH	5%	4%	3%	3%	2%	3%	3%	-1%	-1%	-1%	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	
Kubota	4%	4%	6%	4%	4%	3%	3%	4%	6%	-1%	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	
Shortlines	1%	2%	2%	2%	3%	6%	4%	7%	5%	2%	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	
Other	6%	4%	7%	5%	3%	4%	3%	5%	-2%	2%	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	

## Dealer Optimism Falls in June

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, dropped in June following a decline in May as well. A net 2% of dealers reported a more optimistic outlook for the year (26% more optimistic; 50% same; 24% less optimistic.) This compares to a net 6% in May who reported a more optimistic outlook.

Optimism/Sentiment vs. Last Month																									
	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	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
More Optimistic	31%	32%	30%	25%	36%	33%	30%	38%	29%	25%	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%
Same	44%	49%	55%	58%	55%	55%	54%	53%	57%	59%	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%
Less Optimistic	25%	20%	15%	17%	9%	12%	16%	10%	14%	17%	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%
Net %	6%	12%	15%	8%	26%	21%	14%	29%	15%	8%	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%

## COMMENTARY

### USDA Forecast Calls for 12% Decline in 2013-14 Cash Receipts

The updated July USDA cash receipts outlook is now for a decline of (12%) compared to the (13%) decline projected last month. 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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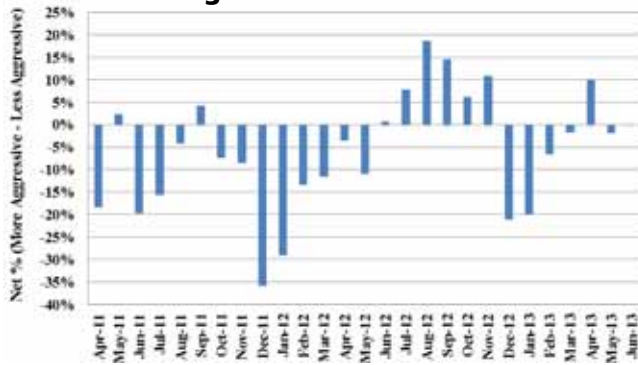
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# NEW EQUIPMENT TRENDS

## Current Manufacturer Incentive Programs vs. Last Month



A net 0% of dealers report that manufacturers were more aggressive with incentives in June (15% more aggressive, 70% same; 15% less aggressive) compared to a net 2% who reported manufacturers were less aggressive in May.

## Factory Production vs. Last Month Net % Increasing vs. Decreasing Production



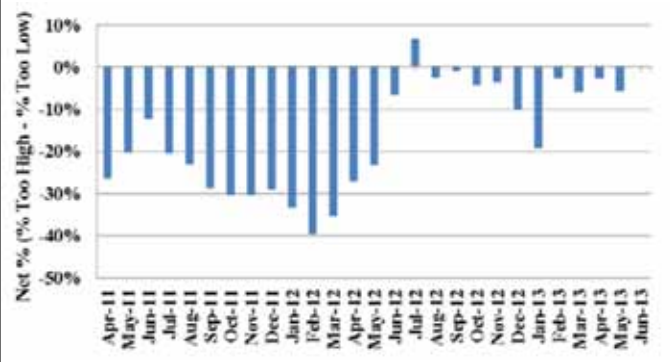
Dealers report that factory production was down compared to last month, reporting decreasing production levels of 8% (5% increasing production; 83% no change in production; 12% decreasing production).

## Price Contribution to Sales



Price contributed roughly 2.1% to total June revenue, up slightly from 2% the prior month. *This trend is expected to move higher in the coming months as new model year price increase announcements are made.*

## Industry Inventory Levels New Equipment



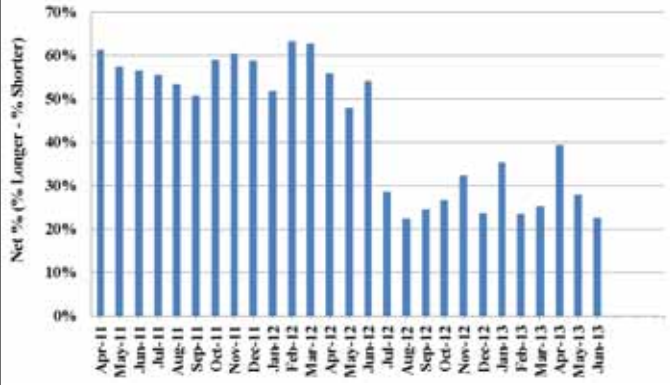
A net 0% of dealers categorize their new equipment inventory as "too high" (23% too high; 54% about right; 23% too low), vs. 6% of dealers last month who categorized their new inventory as "too low."

## Lead Times by Product Category (Months)



Overall, a net 22% of dealers report longer factory lead-times compared to last month (28% longer; 66% same; 6% shorter), down from a net 28% last month.

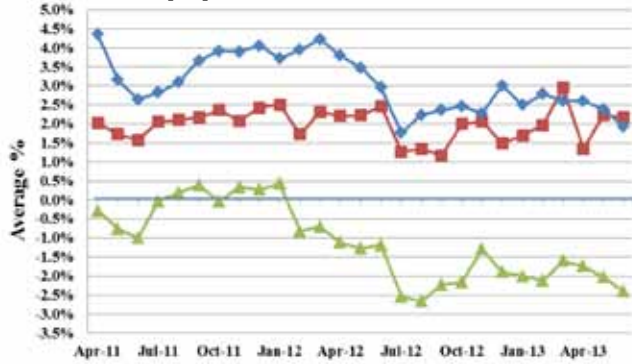
## Lead Times vs. Prior Month



Trends in lead times were mixed this month. On average, combine lead times are 6.8 months; 4WD are 5.4 months; row-crop tractor lead times are 5.9 months; and smaller tractors (<100 HP) lead times are 5 months.

## USED EQUIPMENT TRENDS

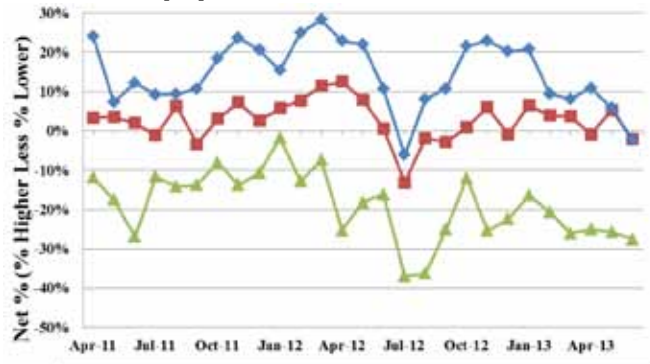
**Used Equipment Values vs. Last Year**



Source: Cleveland Research

By category, the value of used tractors over 100 HP are up 1.9% year-over-year on average, down from 2.4% reported last month. Prices for used tractors under 100 HP are up 2.2%, which is flat from the prior month. Used combine values are down -2.4%, down from down -2% last month.

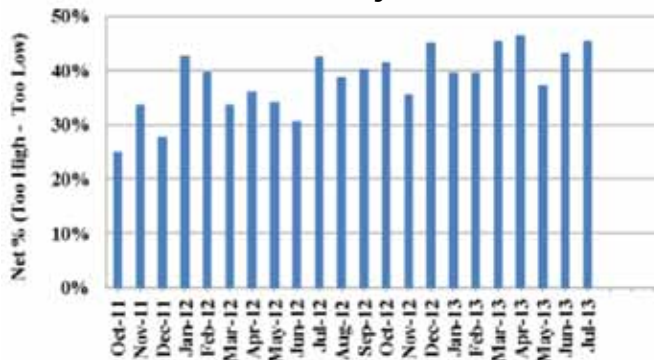
**Used Equipment Values vs. Last Month**



Source: Cleveland Research

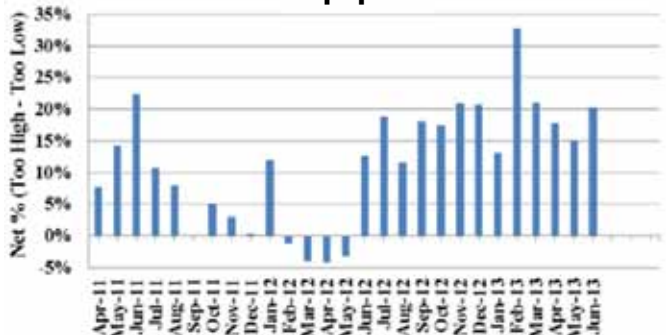
Relative to last month, a net 2% of dealers report lower values for under 100HP/utility tractors. For over 100 HP tractors, a net 2% of dealers report lower values vs. the previous month. Finally, a net 28% of dealers report used combine values are lower than last month.

**Used Combine Inventory vs. Last Month**



A net 45% of dealers reported used combine inventory levels are "too high." This is the second highest net percentage of dealers reporting high used combine inventory since we started tracking this data point in October of 2011.

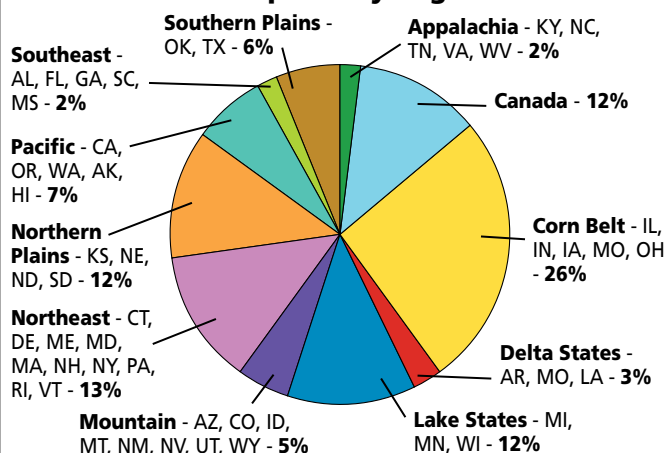
**Industry Inventory Levels Used Equipment**



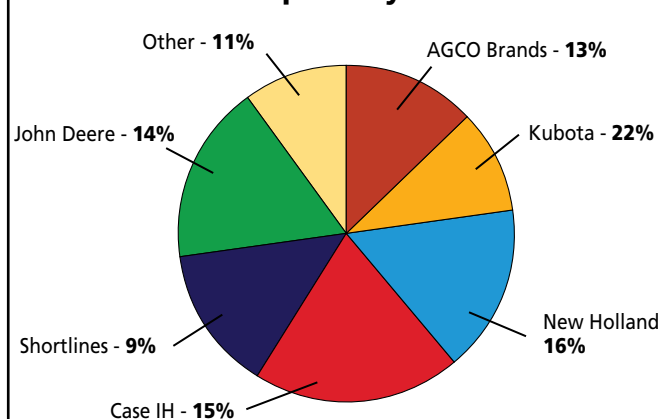
Used equipment inventory remains high as a net 20% of dealers categorize their used inventory levels as "too high" (34% too high; 52% about right; 14% too low), up from 15% last month.

## JULY 2013 SURVEY RESPONDENTS

**Participants by Region**



**Participants by Brand**



The July survey had 128 respondents representing combined annual revenues of roughly \$5.3 billion, covering a broad cross section of geographies and brands.