

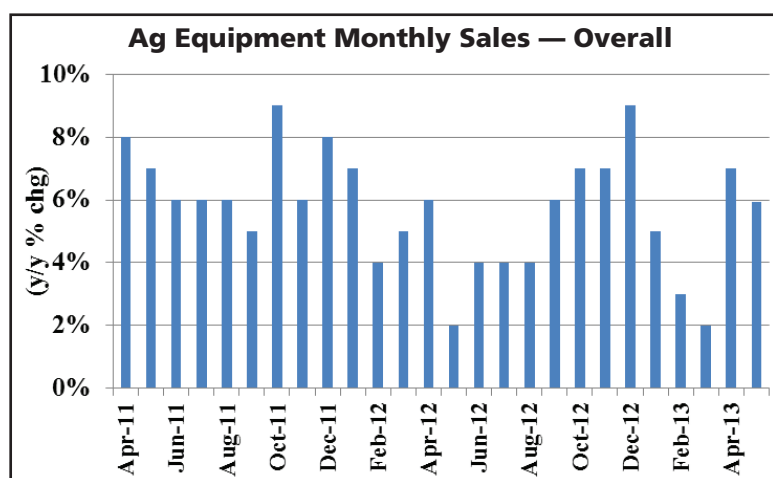
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Decelerate to 6% in May; Incoming Orders Flat at 2%

- ✓ Ag equipment dealers reported year-over-year sales grew 6% on average in May, down from 7% the prior month.
- ✓ John Deere saw the highest growth at 9%, while Kubota was the weakest with sales down 2%.
- ✓ A net 3% of survey participants categorized May sales results as "better-than-expected" (23% better-than-expected; 57% in-line with expectations; 20% worse-than-expected). This is up from a net 1% of dealers in April who said sales were "better-than-expected."
- ✓ A net 14% of dealers believe they will order fewer combines now compared to last year. This compares to a net 8% last month who planned to order fewer combines. The big news this month related to harvesting equipment is that Deere will reportedly put 2014 combines on allocation to deal with growing used inventory.
- ✓ Nine out of 11 regions showed positive average monthly sales growth in May with the Lake States being the only region showing negative growth (-1%). Appalachia posted the best performance with 19% sales growth, and on a sequential basis the Southeast saw the most significant acceleration.
- ✓ Incoming orders grew 2% on average in May, flat from April. John Deere saw the highest order growth at 4%. Meanwhile, AGCO and New Holland both saw orders decline 1%.



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

## 2013 Dealer Outlook Unchanged at 5%

- ✓ For 2013, dealers are forecasting 5% sales growth. This is unchanged from last month.
- ✓ Of the major manufacturers, John Deere dealers have the most optimistic (8%) outlook for 2013 and Case IH dealers are the least optimistic (0%).
- ✓ Nine out of 11 regions projected a positive full year 2013 sales outlook in May, flat from the previous month. Appalachia remains the most optimistic, while the Southeast is the only region expecting sales to decline in 2013.

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

## Dealer Optimism Levels Out in May

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, leveled out in May after seeing a big jump in April. A net 6% of dealers reported a more optimistic outlook for the year (27% more optimistic; 52% same; 21% less optimistic). This compares to a net 13% in April who reported a more optimistic outlook.

Optimism/Sentiment vs. Last Month																									
	May-11	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
More Optimistic	25%	31%	32%	30%	25%	36%	33%	30%	38%	29%	25%	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%
Same	54%	44%	49%	55%	58%	55%	55%	54%	53%	57%	59%	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%
Less Optimistic	21%	25%	20%	15%	17%	9%	12%	16%	10%	14%	17%	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%
Net %	3%	6%	12%	15%	8%	26%	21%	14%	29%	15%	8%	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%

## COMMENTARY

### USDA Forecast Calls for 13% Drop in 2013-14 Cash Receipts

The USDA's June crop supply and demand forecast calls for a decline of 13%, which compares to a decline of 14% in last month's initial crop forecast. This could point toward a tough year for equipment demand in 2014 vs. 2013 if historical trends hold as the correlation between equipment sales and cash receipts has provided a good proxy for future equipment demand.

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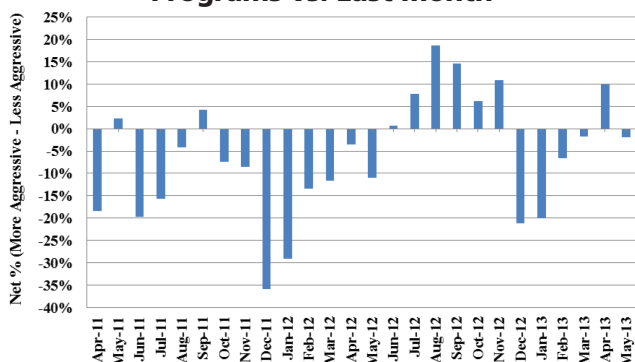
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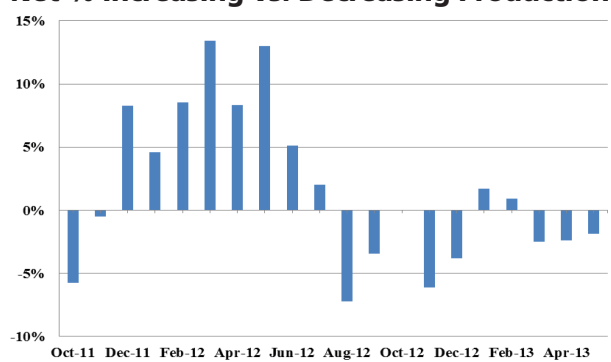
# NEW EQUIPMENT TRENDS

## Current Manufacturer Incentive Programs vs. Last Month



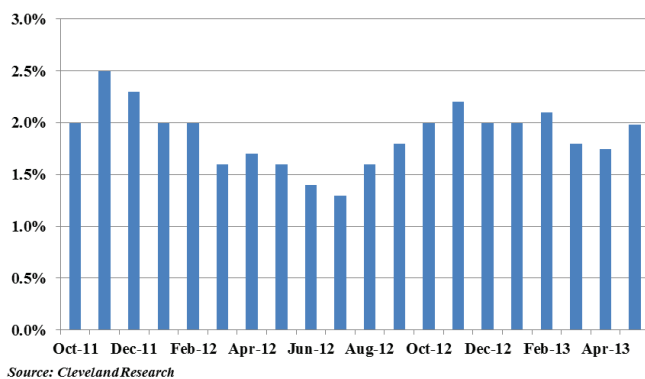
A net 2% of dealers report that manufacturers were less aggressive with incentives in May (14% more aggressive; 70% same; 16% less aggressive) compared to a net 10% who reported manufacturers were more aggressive in April.

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



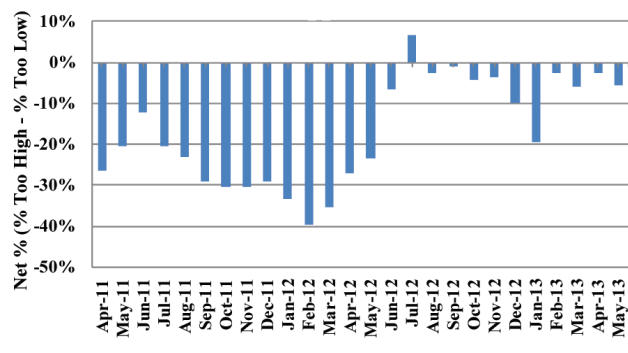
Dealers report that factory production was flat in May compared to April, reporting decreasing production levels of 2% (8% increasing production; 83% no change; 9% decreasing production).

## Price Contribution to Sales



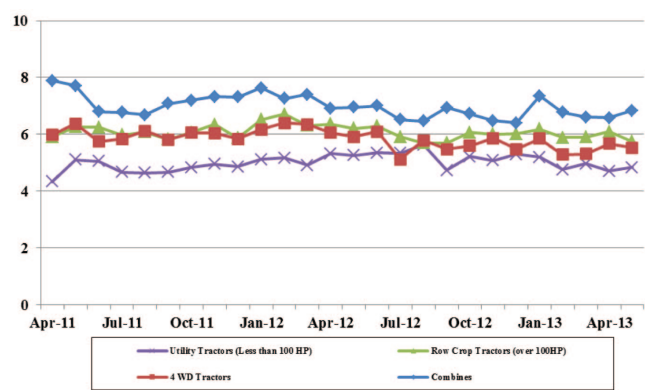
Price contributed roughly 2% to total May revenue, up slightly from 1.7% the prior month.

## Industry Inventory Levels New Equipment



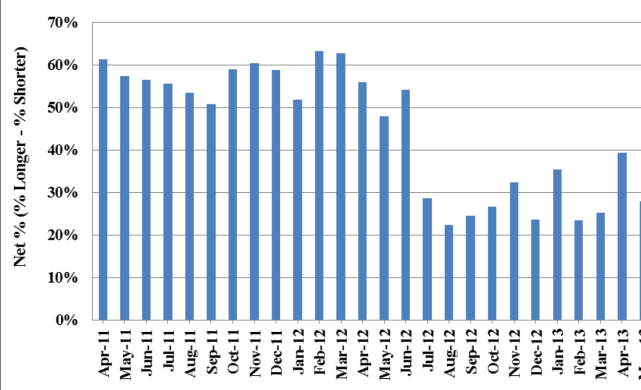
A net 6% of dealers categorize their new equipment inventory as "too low" (20% too high; 54% about right; 26% too low) vs. 3% the previous month.

## Lead Times by Product Category (Months)



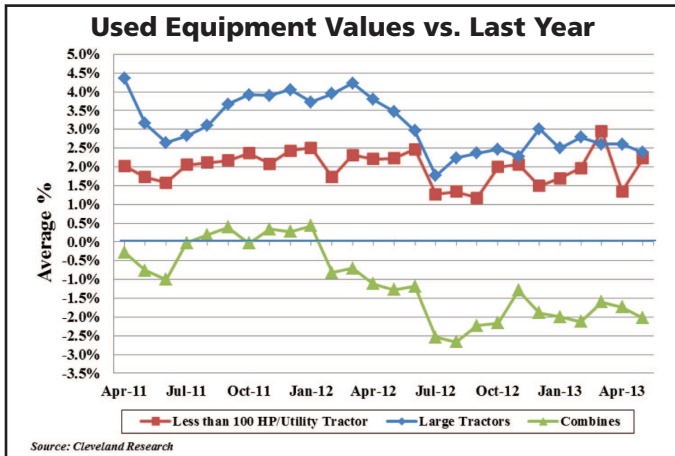
Overall, a net 28% of dealers report longer factory lead-times compared to last month (34% longer; 61% same; 6% shorter), up from a net 25% in April.

## Lead Times vs. Prior Month

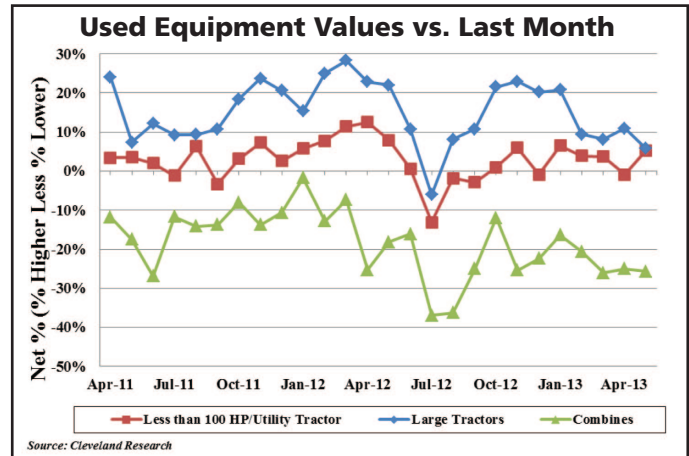


Trends in lead times are mixed this month. On average combine lead times are 6.8 months; 4WD are 5.5 months; row-crop tractor lead times are 5.7 months; and for smaller tractors (<100 HP) lead times are 4.8 months.

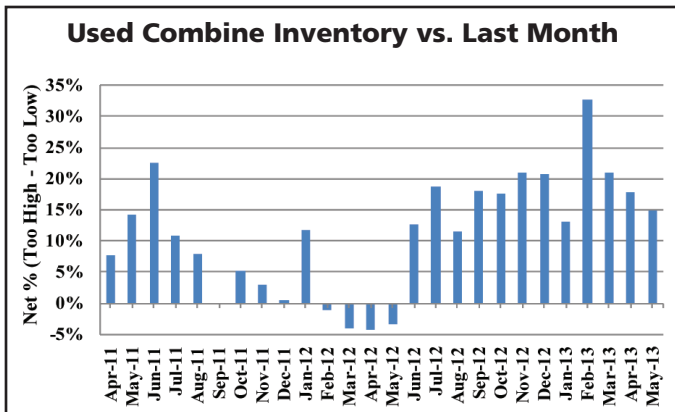
## USED EQUIPMENT TRENDS



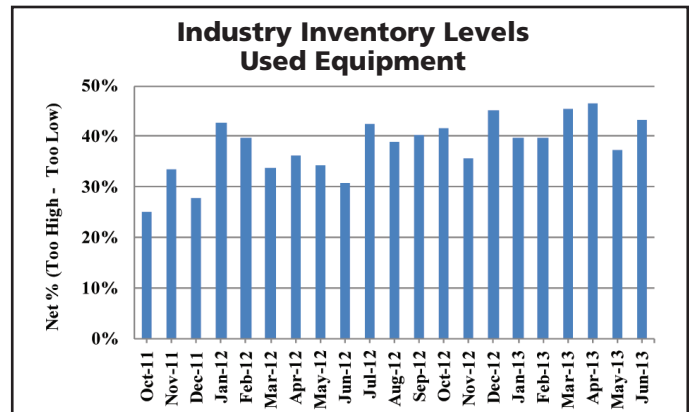
By category, tractors over 100 HP are up 2.4% year-over-year on average, slightly down from 2.6% reported last month. Prices for used tractors under 100 HP are up 2.2% vs. 1.3% in the prior month. Used combine values are down 2%, down from down 1.7%.



Relative to last month, a net 5% of dealers report higher values for under 100 HP utility tractors. For over 100 HP tractors, a net 6% of dealers report higher values vs. last month. A net 26% of dealers report used combine values are lower than last month.

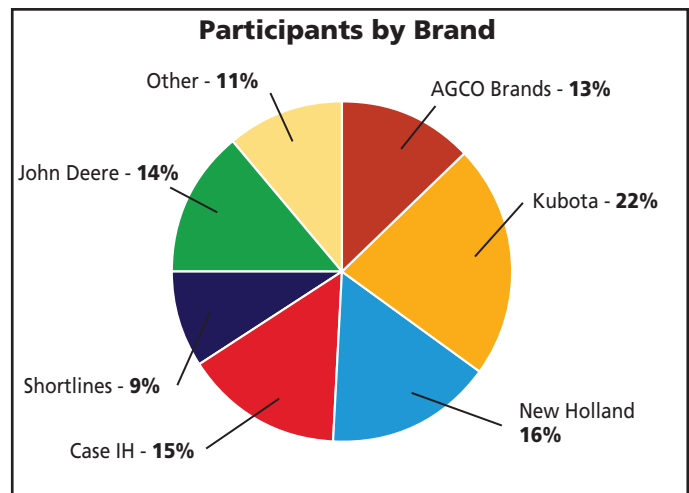
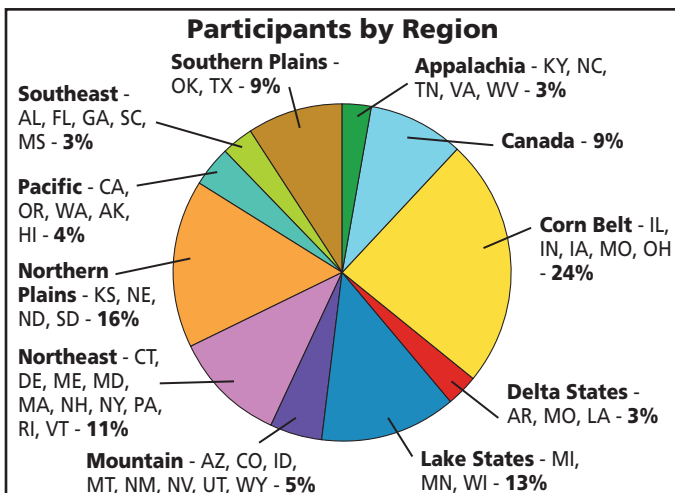


Within the used equipment categories, a net 43% of dealers reported used combine inventory levels are "too high" (46% too high; 51% about right; 3% too low). This is the key driver to Deere's decision to reduce allocation to the dealers in 2014.



Used equipment inventory remains high as a net 15% of dealers categorize their used inventory levels as "too high" (32% too high; 51% about right; 17% too low), down from 18% last month.

## JUNE 2013 SURVEY RESPONDENTS



The June survey had 128 respondents representing combined annual revenues of roughly \$5.6 billion, representing a broad cross section of major brands and geographies.