July 2014
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Ag Equipment Intelligence's

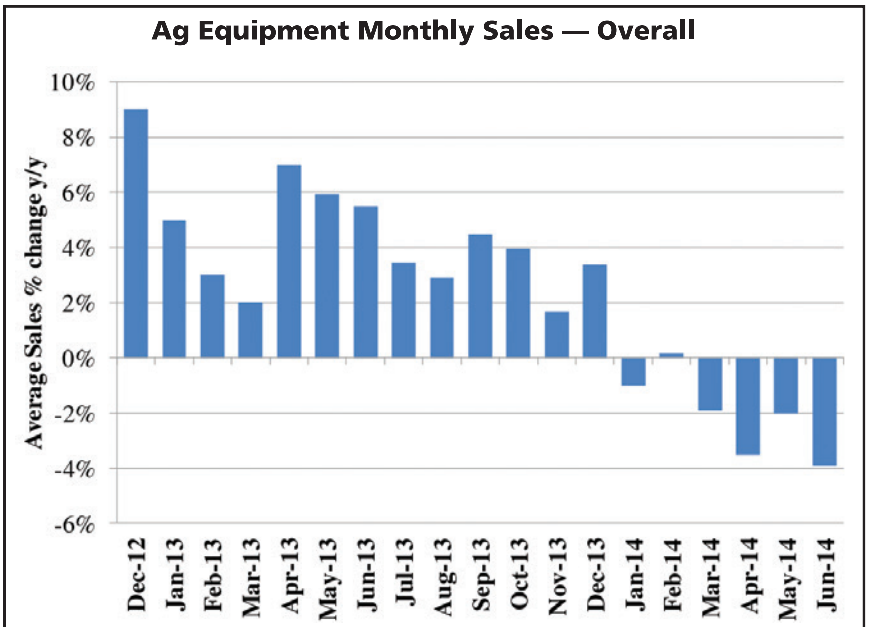
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 4% in June, Incoming Orders Decline 8%

- ✔ Ag equipment dealers reported <u>sales were down 4%</u> year-over-year on average in June.
- ✔ Dealers of all brands reported low single digit declines on average for the month. Case IH dealers reported the largest declines at 10% year-over-year.
- ✔ Sales were relatively inline with plan for the month, compared to a net 10% of dealers who reported beating plan last month.
- ✔ A net 16% of dealers categorize their new equipment inventory as "too high" (33% too high; 50% about right; 17% too low) vs. 26% last month.
- ✔ <u>A net 49% of dealers reported used combines inventories were "too high"</u> (54% too high, 41% comfortable, 5% too low), similar to the previous month.
- ✔ <u>Incoming orders declined 8%</u> on average in June, a significant drop off from the mid single digit declines over the past several months.



Source: Cleveland Research, AEI

Results vs. Expectations

	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Better than expected	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%
In line with expected	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%
Worse than expected	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%
Net %	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%

2014 Dealer Outlook Drops to Down 6%

✔ For 2014, dealers are expecting a 6% sales decline, down from the 4% decline dealers were anticipating last month.

✔ AGCO dealers were the most optimistic regarding 2014 growth, projecting sales to be down only 1% vs. last year. Case IH dealers were the least optimistic, projecting an 11% decline in sales in 2014.

Dealer Outlook

(% chg y/y)	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	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
	2012 Outlook			2013 Outlook								2014 Outlook									
Overall	2%	4%	2%	4%	4%	3%	5%	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%	-3%	-4%	-4%	-6%
By Brand	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**Jul-13**	**Aug-13**	**Sep-13**	**Oct-13**	**Nov-13**	**Dec-13**	**Jan-14**	**Feb-14**	**Mar-14**	**Apr-14**	**May-14**	**Jun-14**
AGCO	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%	2%	0%	0%	-1%
John Deere	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%	-3%	-3%	-2%	-6%
New Holland	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%	-1%	-6%	-9%	-3%
Case IH	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%	-5%	-6%	-9%	-11%
Kubota	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%	-2%	-2%	-10%	-3%
Shortlines	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%	-4%	-1%	-2%	-8%
Other	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%	2%	2%	NA	0%	3%	3%	7%	NA	NA	-4%

Dealer Optimism Declines

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw a drop in June after an improvement in May. A net 12% of dealers reported a less optimistic outlook for the year (23% more optimistic, 42% the same, 35% less optimistic). This is compared to a net 5% of dealers who reported a less optimistic outlook in May.

Optimism/Sentiment vs. Last Month

	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-13
More Optimistic	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%
Same	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%
Less Optimistic	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%
Net %	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%	0%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%

COMMENTARY

USDA Forecast Lowered to 12% Decline for 2013-14 Cash Receipts

The updated July USDA cash receipts outlook for 2013-14 was revised down, implying the 10% expected declines last month will now be closer to a 12% decline. The additional 9% decline in 2014-15 is largely a result of lower corn and soybean price expectations. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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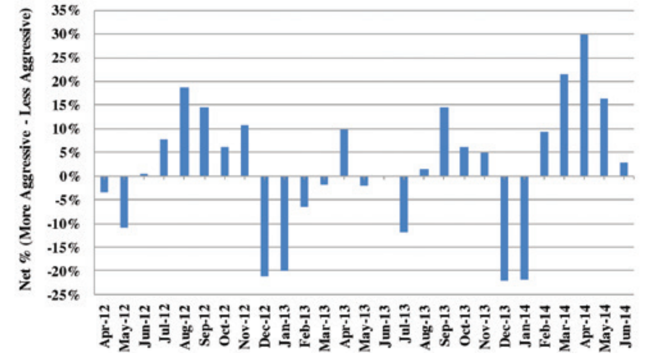
NEW EQUIPMENT TRENDS

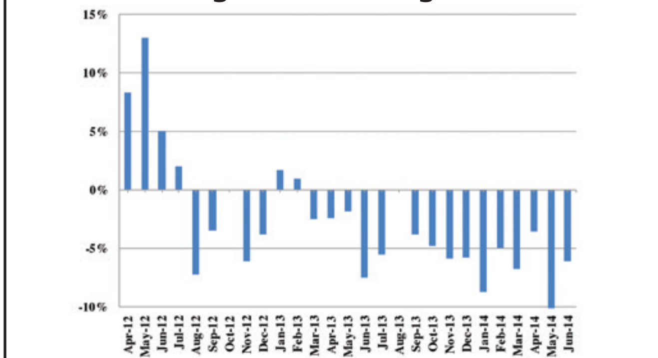
Current Manufacturer Incentive Programs vs. Last Month



Source: Cleveland Research, AEI

A net 3% of dealers report manufacturers were more aggressive with incentives in June (25% more aggressive; 53% the same; 22% less aggressive) vs. a net 16% reporting more aggressive incentives last month.

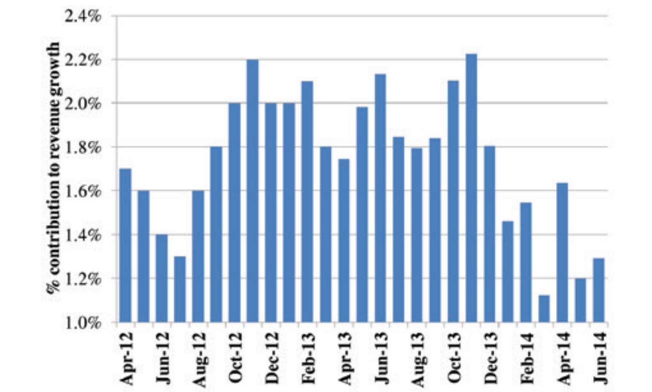
Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production



Source: Cleveland Research, AEI

A net 6% of dealers report factory production was down compared to last month (6% increasing production; 82% no change in production; 12% decreasing production).

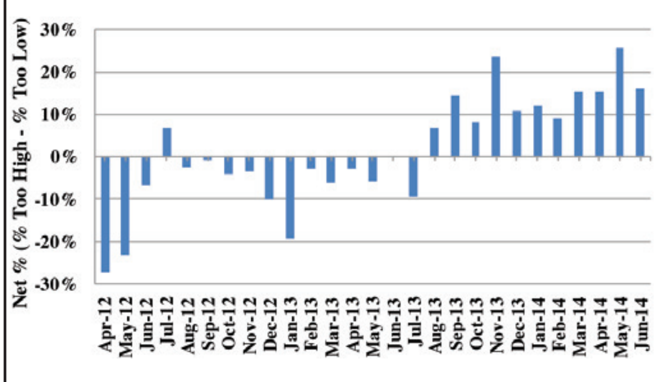
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1.3% to total June revenue growth vs. the 1.2% in April. Final Tier 4 price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

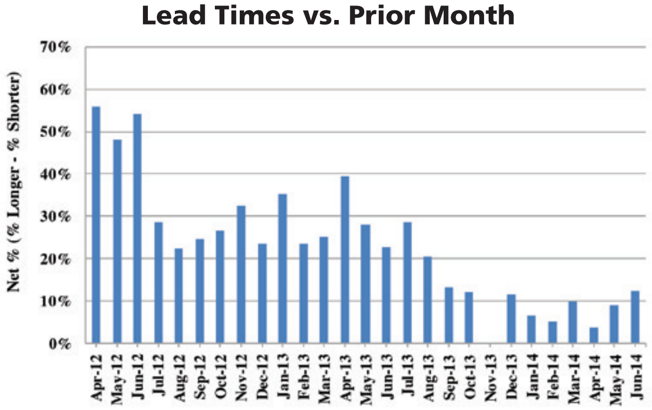
Industry Inventory Levels — New Equipment



Source: Cleveland Research, AEI

A net 16% of dealers categorize their new equipment inventory as "too high" (33% too high; 50% about right; 17% too low), better than the net 26% last month who reported inventory was too high.

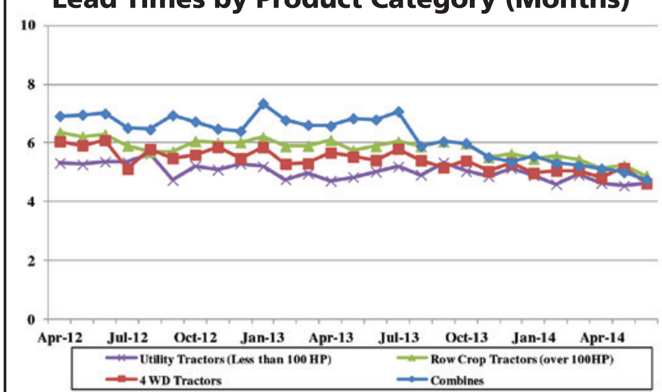
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 12% of dealers report longer factory lead times compared to last month (28% longer; 56% the same; 16% shorter), above the 9% who reported longer lead times last month.

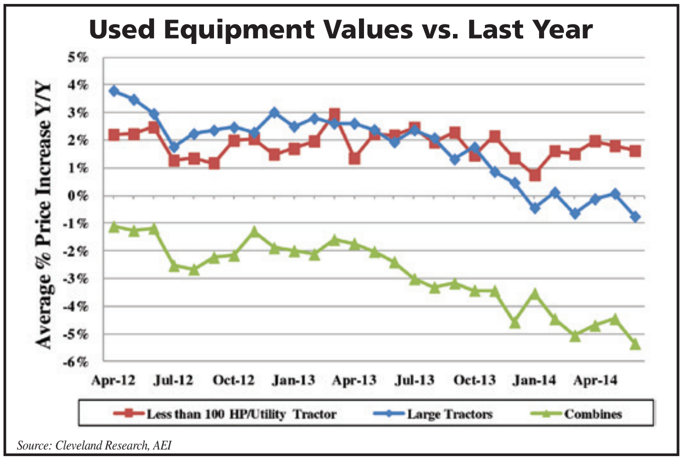
Lead Times by Product Category (Months)



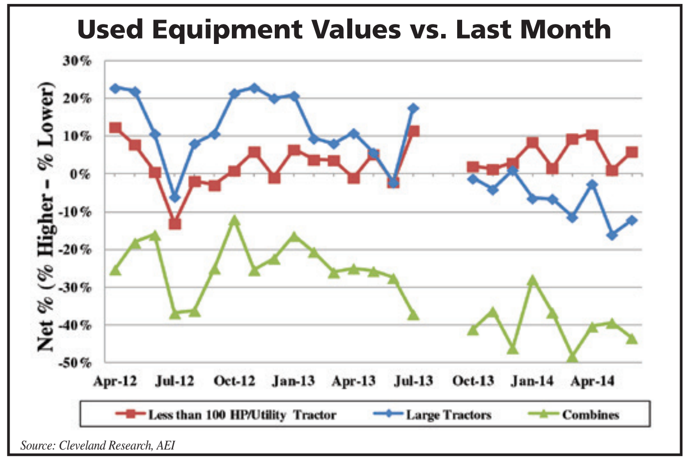
Source: Cleveland Research, AEI

On average, lead times in June were a bit longer vs. May, although large product categories appear shorter. Combine lead times are 4.7 months on average, row-crop tractor lead times are 4.9 months and 4WD tractors are 4.6 months.

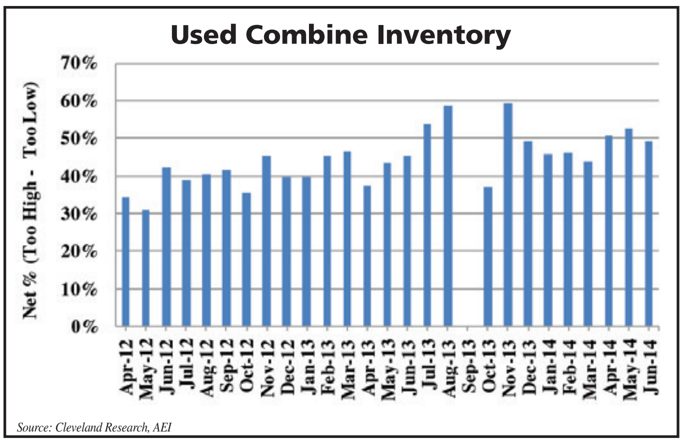
USED EQUIPMENT TRENDS



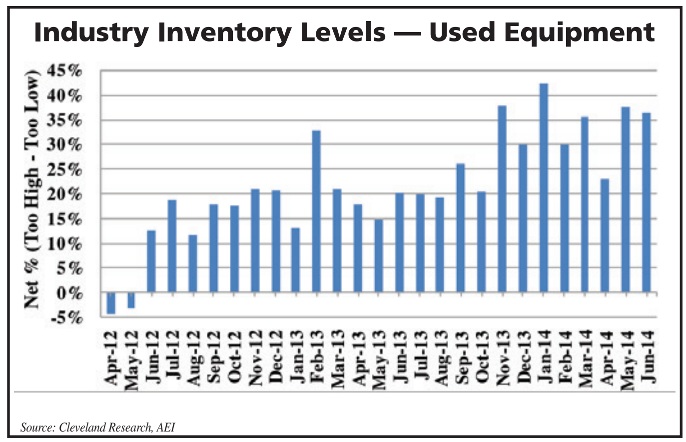
Dealers reported used combine values fell in June compared to May on a year-over-year basis (down 5.4% year-over-year vs. down 4.5% last month.) Used high horsepower tractors values also fell vs. last month to down almost 1%.



Used tractor values under 100 HP are still positive year-over-year and were up 1.6% in June vs. up 1.8% in May.

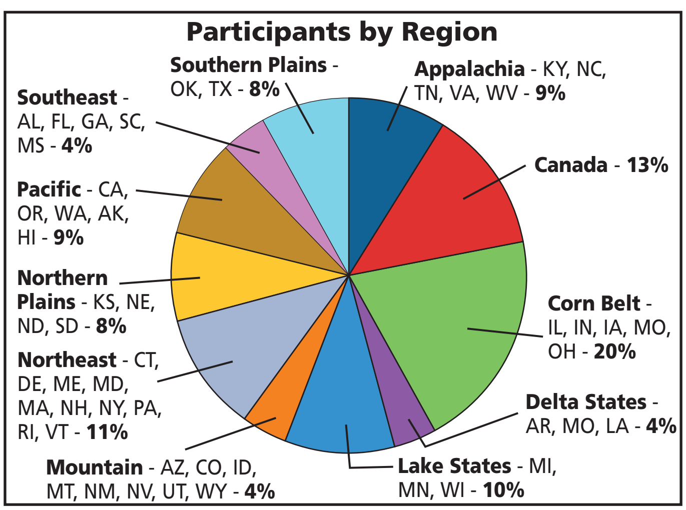


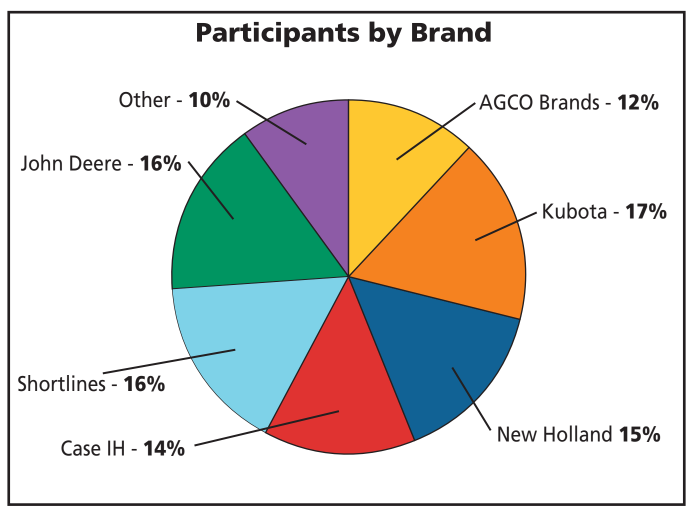
A net 49% of dealers reported used combines inventories were "too high" in June (54% too high, 41% comfortable, 5% too low), similar to the previous month.



A net 36% of dealers reported used equipment inventory as "too high" in June (46% too high; 44% about right; 10% too low), similar to last month.

JUNE 2014 SURVEY RESPONDENTS





The June survey had approximately 133 respondents representing combined annual revenues of roughly $5.1 billion, covering a broad cross section of geographies and brands.