November 2014
Vol. 2 • No. 11

Ag Equipment Intelligence's

Dealer Sentiment & Business Conditions Update

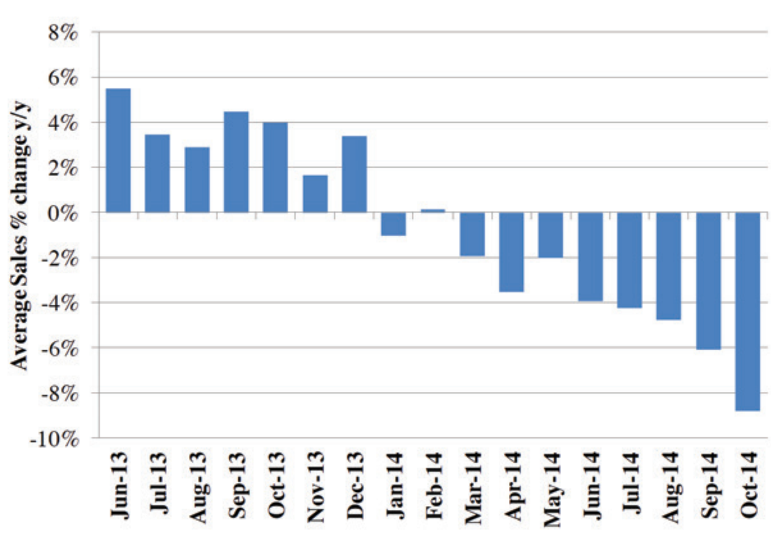
From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Down 9% in October

- ✔ Ag equipment dealers reported sales were down 9% year-over-year on average in October.
- ✔ AGCO dealers reported the strongest sales growth of up 5% year-over year on average, while Case IH dealers reported the largest declines at down 15%.
- ✔ Sales were slightly below plan again in October and in line with September.
- ✔ A net 42% of dealers categorize their new equipment inventory as "too high" (48% too high; 46% about right; 6% too low), up significantly over the past several months.
- ✔ A net 50% of dealers reported used combines inventories were "too high" in October, compared to a net 46% the previous month.
- ✔ Incoming orders declined 15% year-over-year on average in October, down from the 10% decline on average in September.

Ag Equipment Monthly Sales Growth Trends



Source: Cleveland Research, AEI

Results vs. Expectations

	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	Jul-14	Aug-14	Sep-14	Oct-14
Better than expected	19%	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%	26%	28%	24%	22%
In line with expectations	58%	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%	49%	47%	47%	51%
Worse than expected	23%	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%	26%	25%	29%	27%
Net % (Better - Worse)	-4%	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%

2015 Dealer Outlook Worsens

- ✔ For 2015, dealers are now expecting sales to decline 11% year-over-year on average, which is slightly below the down 9% forecast last month.
- ✔ AGCO dealers were the most optimistic (expecting sales flat to up slightly), while Deere and Case IH dealers are forecasting sales declines in the 10-15% range.

Dealer Outlook

(% chg y/y)	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Sep-14	Oct-14
	2014 Outlook										2015 Outlook	
Overall	-4%	-2%	-3%	-4%	-4%	-6%	-6%	-8%	-4%	-9%	-9%	-11%
By Brand	**Jan-14**	**Feb-14**	**Mar-14**	**Apr-14**	**May-14**	**Jun-14**	**Jul-14**	**Aug-14**	**Sep-14**	**Oct-14**	**Sep-14**	**Oct-14**
AGCO	-2%	-1%	2%	0%	0%	-1%	2%	-4%	2%	10%	6%	0%
John Deere	-2%	-1%	-3%	-3%	-2%	-6%	-6%	-6%	-4%	-10%	-12%	-14%
New Holland	-5%	0%	-1%	-6%	-9%	-3%	-3%	-6%	1%	0%	9%	-8%
Case IH	-5%	-5%	-5%	-6%	-9%	-11%	-9%	-14%	-7%	-16%	-12%	-11%
Kubota	-3%	-1%	-2%	-2%	-10%	-3%	-4%	-7%	-1%	3%	7%	-6%
Shortlines	-4%	-3%	-4%	1%	-2%	-8%	-2%	-5%	1%	-9%	3%	-12%
Other	3%	3%	7%	NA	NA	-4%	3%	2%	NA	19%	0%	3%

Dealer Optimism Sees Big Drop

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, took a big drop in October. A net 36% of dealers reported a less optimistic outlook for the year (8% more optimistic, 48% the same, 44% less optimistic). This compares to a net 22% of dealers who reported a less optimistic outlook in September.

Optimism/Sentiment vs. Last Month

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
More Optimistic	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%	13%	12%	16%	8%
Same	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%	45%	50%	46%	48%
Less Optimistic	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%	42%	38%	38%	44%
Net % Dealer Optimism	1%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%

COMMENTARY

USDA Forecast Improves to 15% Decline for 2014-15 Cash Receipts Outlook

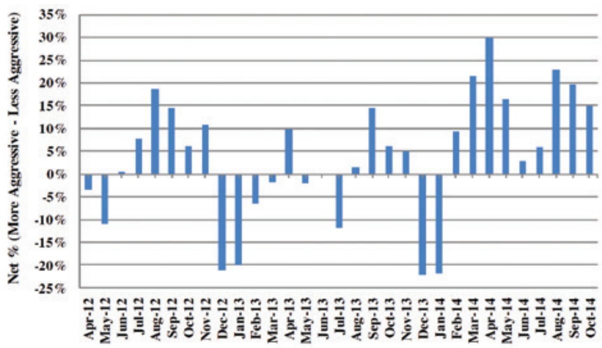
The updated November USDA report left the outlook for 2013-14 unchanged at down 11% from last month. The 2014-15 cash receipts outlook, however, was revised slightly upward to down 15% vs. down 17% last month. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is a joint project of the editors of *Farm Equipment* and research team at the Cleveland Research Co. DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is published monthly and distributed to subscribers of *AG EQUIPMENT INTELLIGENCE* as well as to dealers participating in the survey by Lessiter Publications Inc., 225 Regency Ct., Suite 100, Brookfield, WI 53045.

Please send any address changes as soon as possible to the address shown above. U.S., Canada and Mexico print subscriptions are $299 per year. International subscriptions are $399 per year. Send subscription orders to: *Ag Equipment Intelligence*, P.O. Box 624, Brookfield, WI 53008-0624. Fax: 262-786-5564. Phone: 262-782-4480 or 866-839-8455 (U.S. only). E-mail: info@lesspub.com.

NEW EQUIPMENT TRENDS

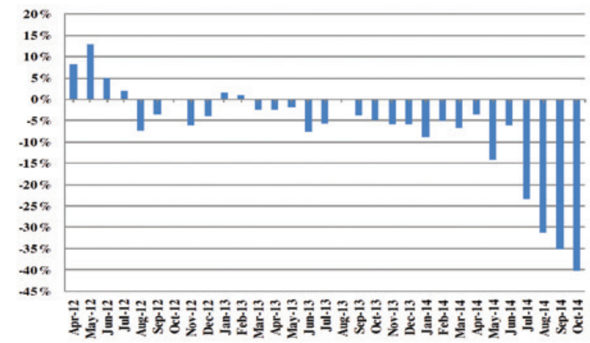
Current Manufacturer Incentive Programs vs. Last Month



Source: Farm Equipment Magazine Survey

A net 15% of dealers report manufacturers were more aggressive with incentives in October (23% more aggressive; 69% the same; 8% less aggressive), compared to the net 20% of dealers reporting more aggressive incentives last month.

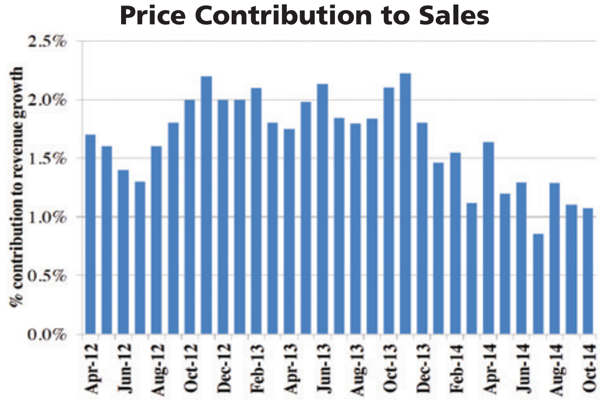
Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production



Source: Farm Equipment Magazine Survey

A net 40% of dealers report factory production was down in October compared to September, up from the net 35% reporting lower production volume last month.

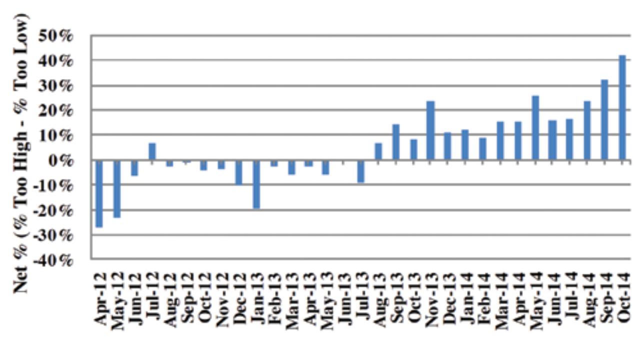
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1.1% to total October revenue growth, similar to last month. Tier 4 Final price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

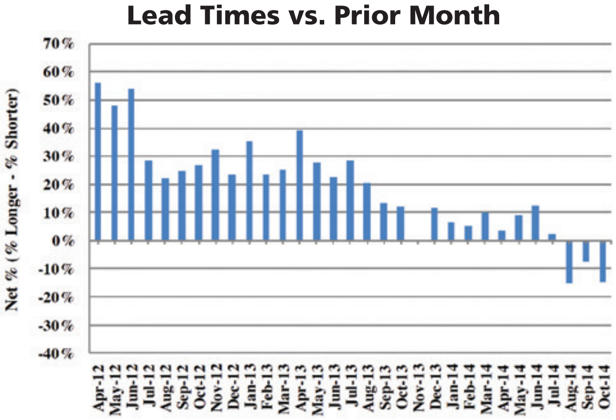
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 42% of dealers categorize their new equipment inventory as "too high" (48% too high; 46% the same; 6% too low), up significantly over the past several months.

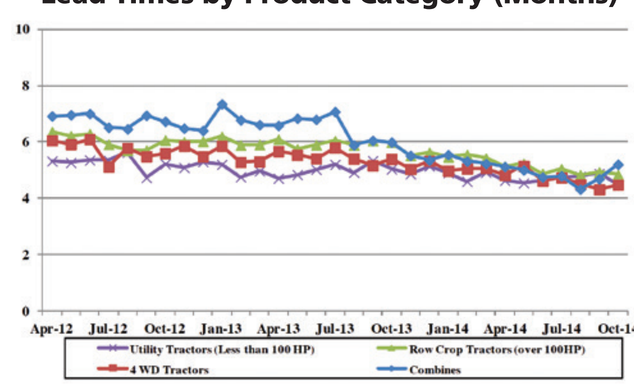
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 15% of dealers report shorter factory leadtimes compared to last month (17% longer, 52% the same; 31% shorter).

Lead Times by Product Category (Months)

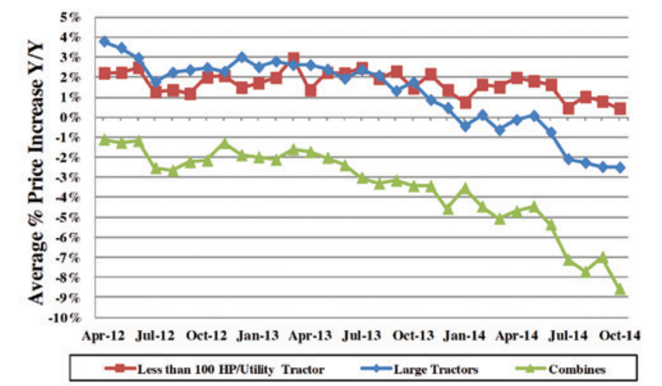


Source: Cleveland Research, AEI

Combine and 4WD tractor lead times were slightly longer on average, but were offset by shorter lead times for rowcrop and utility tractors.

USED EQUIPMENT TRENDS

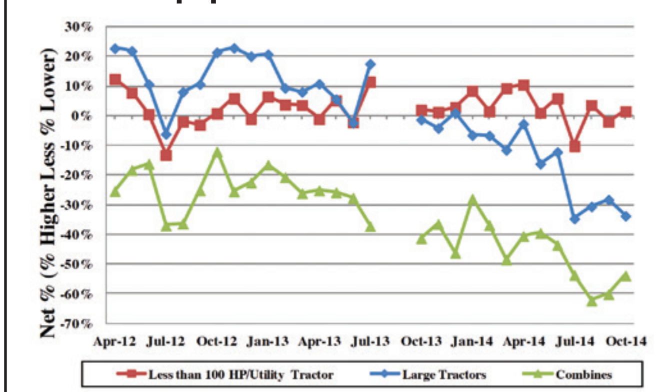
Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Used combine values continue to decline and are reported at down 9% year-over-year vs. down 7% last month. Large and small tractor values were relatively steady on a year-over-year basis from September to October.

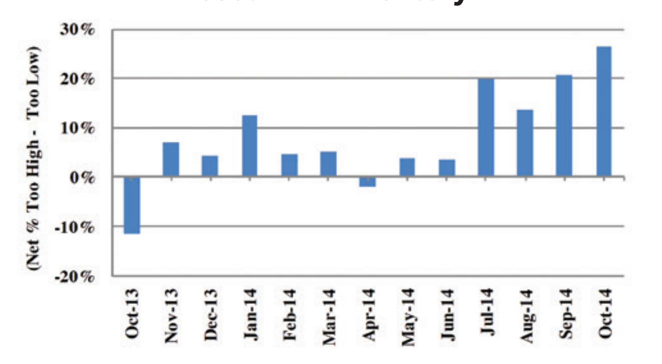
Used Equipment Values vs. Last Month



Source: Cleveland Research, AEI

On an absolute basis, combine and large tractor values continue to decline month-over-month while used values of tractors under 100 horsepower were steady to slightly higher.

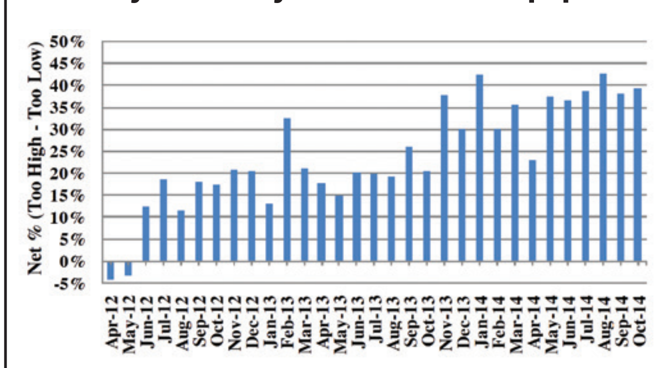
Used HHP Inventory



Source: Cleveland Research, AEI

A net 27% of dealers reported used high horsepower tractor inventories were "too high," up from the net 21% last month.

Industry Inventory Levels — Used Equipment

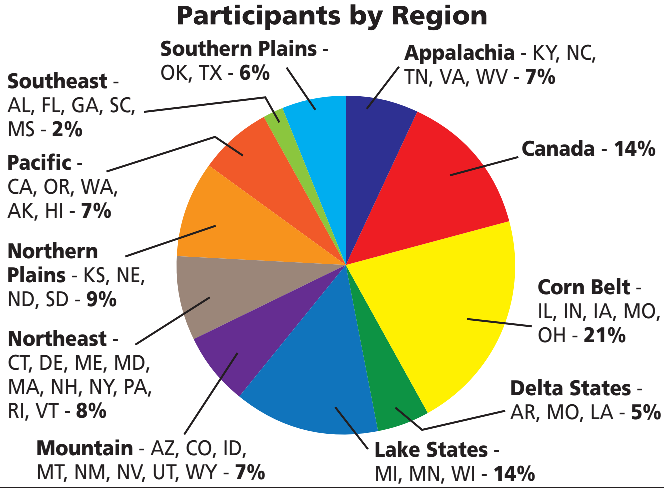


Source: Cleveland Research, AEI

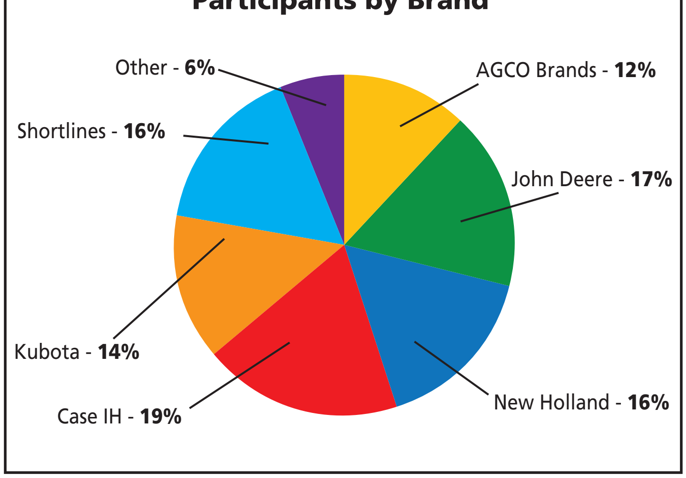
A net 39% of dealers reported used equipment inventory as "too high" in October (48% too high; 46% about right; 6% too low), similar to the net 38% last month.

OCTOBER 2014 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The October survey had 151 respondents representing combined annual revenues of roughly $6.4 billion, covering a broad cross section of geographies and brands.