

Ag Equipment Intelligence's

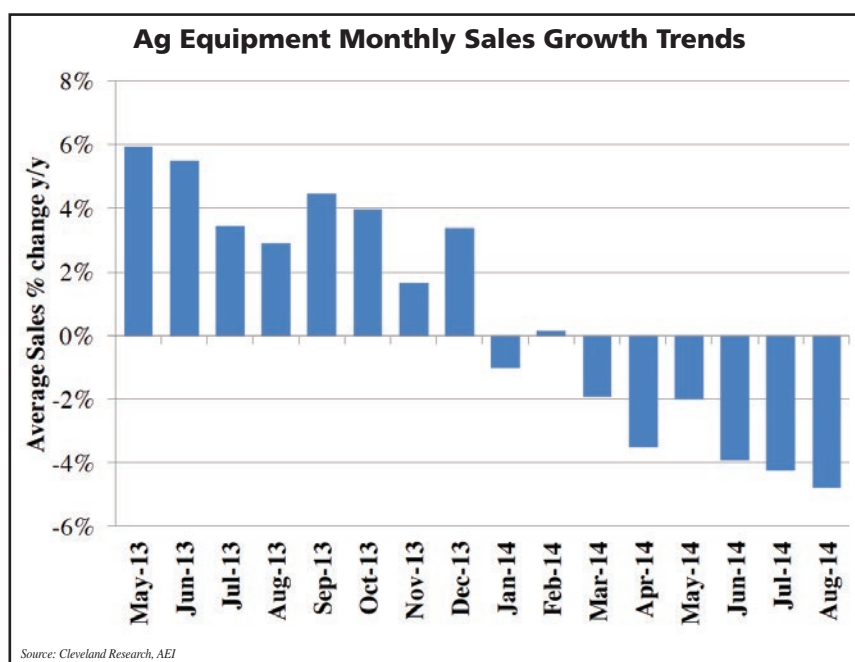
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 5% in August, Inline with Dealers' Expectations

- ✓ Ag equipment dealers reported sales were down 5% year-over-year on average in August.
- ✓ 'Other' dealers bucked the trend of declining sales, reporting double-digit growth for the month on average up 11% year-over-year.
- ✓ Sales were inline with plan in August, similar to last month, as most dealers were expecting modest declines.
- ✓ A net 24% of dealers categorize their new equipment inventory as "too high" (38% too high; 47% about right; 14% too low), inline with last month.
- ✓ A net 59% of dealers reported used combines inventories were "too high", compared to a net 51% last month.
- ✓ Incoming orders declined 9% on average in August, inline with the 9% decline in July.



Results vs. Expectations																
	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	July-14	Aug-14
Better than expected	23%	19%	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%	26%	28%
In line with expectations	57%	58%	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%	49%	47%
Worse than expected	20%	23%	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%	26%	25%
Net % (Better - Worse)	3%	-4%	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%

## 2014 Dealer Outlook Down Slightly

- ✓ For 2014, dealers are expecting an 8% sales decline, slightly below the 6% sales decline expected last month.
- ✓ "Other" dealers were again the most optimistic, projecting modest growth in 2014, while Case IH dealers are forecasting the largest sales declines at down 9% year-over-year on average for 2014.

Dealer Outlook																		
(% chg y/y)	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	Jul-14	Aug-14		
2013 Outlook					2014 Outlook													
Overall	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%	-3%	-4%	-4%	-6%	-6%	-8%		
By Brand	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	Jul-14	Aug-14		
AGCO	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%	2%	0%	0%	-1%	2%	-4%		
John Deere	8%	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%	-3%	-3%	-2%	-6%	-6%	-6%		
New Holland	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%	-1%	-6%	-9%	-3%	-3%	-6%		
Case IH	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%	-5%	-6%	-9%	-11%	-9%	-14%		
Kubota	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%	-2%	-2%	-10%	-3%	-4%	-7%		
Shortlines	3%	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%	-4%	1%	-2%	-8%	-2%	-5%		
Other	3%	1%	4%	1%	2%	2%	NA	0%	3%	3%	7%	NA	NA	-4%	3%	2%		

## Dealer Optimism Improves

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw a slight increase in August. A net 26% of dealers reported a less optimistic outlook for the year (12% more optimistic, 50% the same, 38% less optimistic). This compares to a net 28% of dealers who reported a less optimistic outlook in July.

Optimism/Sentiment vs. Last Month																
	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	Jul-14	Aug-14
More Optimistic	27%	26%	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%	13%	12%
Same	52%	50%	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%	45%	50%
Less Optimistic	21%	24%	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%	42%	38%
Net % Dealer Optimism	6%	2%	1%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-28%	-26%

## COMMENTARY

### USDA Forecast Remains at 12% Decline for 2013-14 Cash Receipts

The updated September USDA cash receipts outlook for 2013-14 was unchanged at down 12% year-over-year. The 2014-15 cash receipts outlook was revised to down 15% vs. down 10% last month. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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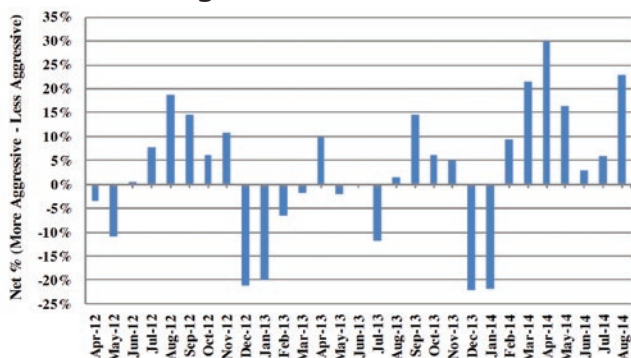
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# NEW EQUIPMENT TRENDS

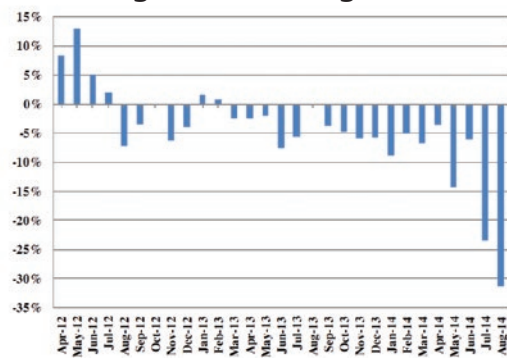
**Current Manufacturer Incentive Programs vs. Last Month**



Source: Farm Equipment Magazine Survey

A net 23% of dealers report manufacturers were more aggressive with incentives in August (31% more aggressive; 61% the same; 8% less aggressive), up significantly from the net 6% reporting more aggressive incentives last month.

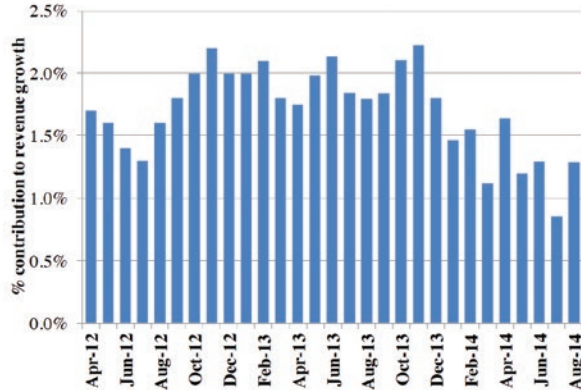
**Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production**



Source: Farm Equipment Magazine Survey

A net 31% of dealers report factory production was down compared to last month's net 23% of dealers reporting lower product levels in July.

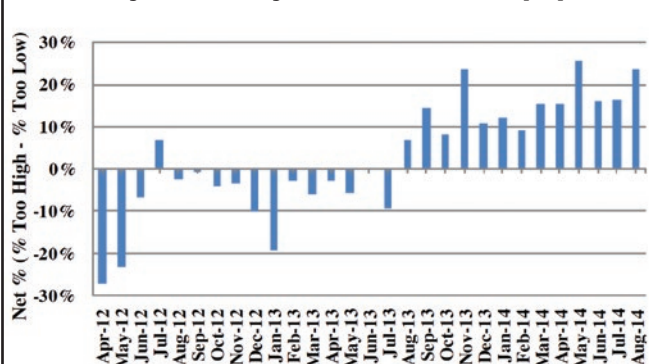
**Price Contribution to Sales**



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1.3% to total July revenue growth vs. the 0.9% in the previous month. Final Tier 4 price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

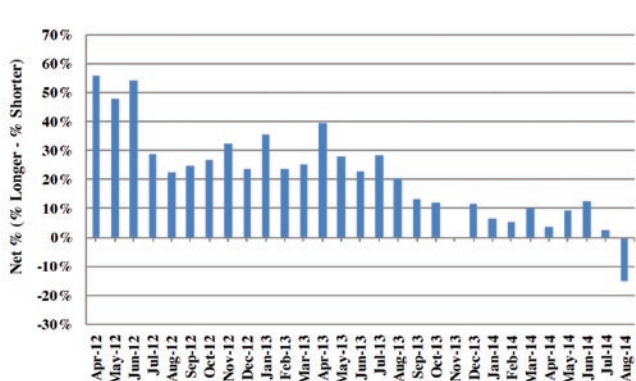
**Industry Inventory Levels — New Equipment**



Source: Farm Equipment Magazine Survey

A net 24% of dealers categorize their new equipment inventory as "too high" (38% too high; 47% the same; 14% too low), up from the net 17% last month.

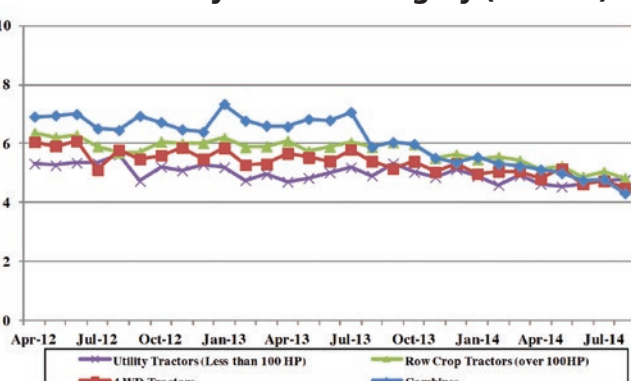
**Lead Times vs. Prior Month**



Source: Cleveland Research, AEI

Overall, a net 15% of dealers report shorter factory lead times compared to last month (15% longer; 55% the same; 30% shorter). August marks the first month in the history of our survey where lead times were reported as "shorter."

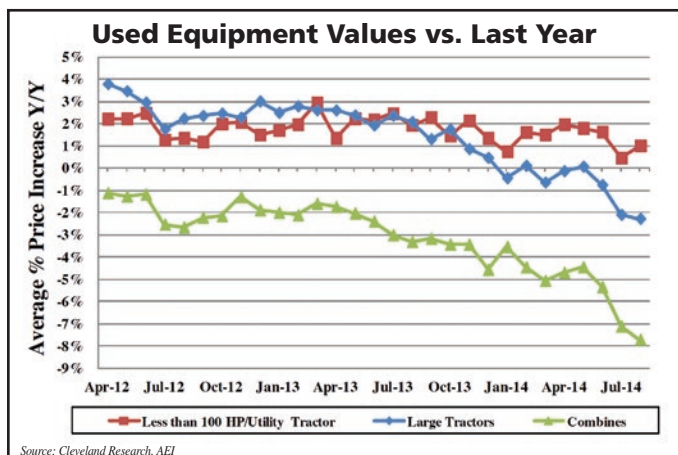
**Lead Times by Product Category (Months)**



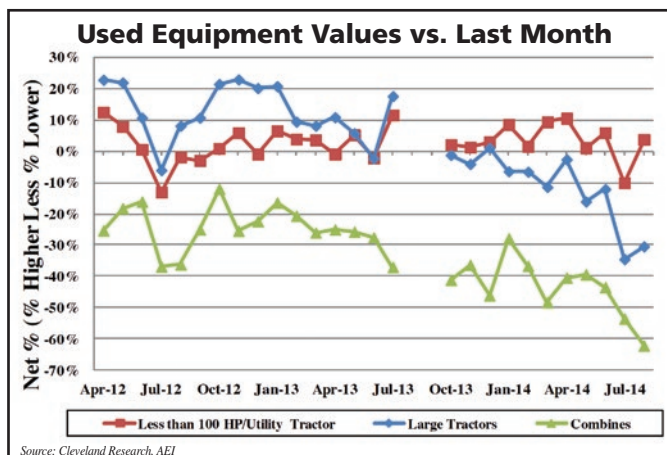
Source: Cleveland Research, AEI

Combine lead times were reported at 4.3 months on average vs. 4.8 months last month, row-crop tractor lead times were 4.8 months vs. 5 last month, and 4WD tractors were 4.5 months vs. 4.7 last month.

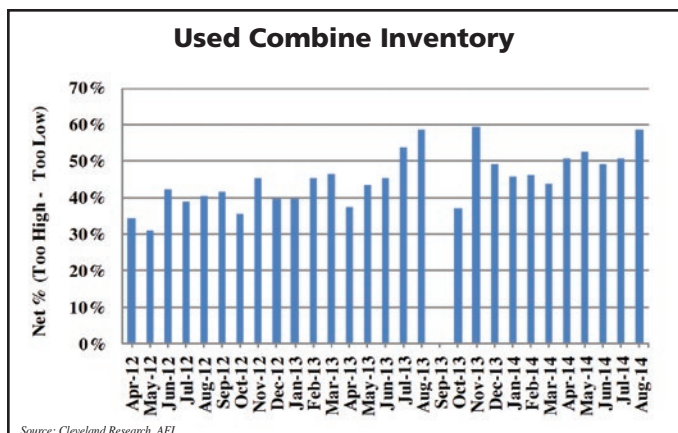
## USED EQUIPMENT TRENDS



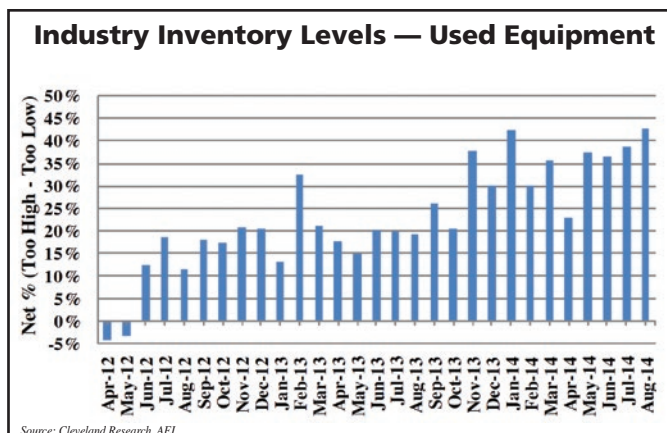
Used equipment values in August took another step down vs. July. Combine values are reported at down 7.7% year-over-year vs. down 7.1% last month, while used HHP tractors values are reported at down 2.3% year-over-year vs. down 2.1% last month.



Comparing August to July, a net 62% of dealers reported used combine values took a step down.

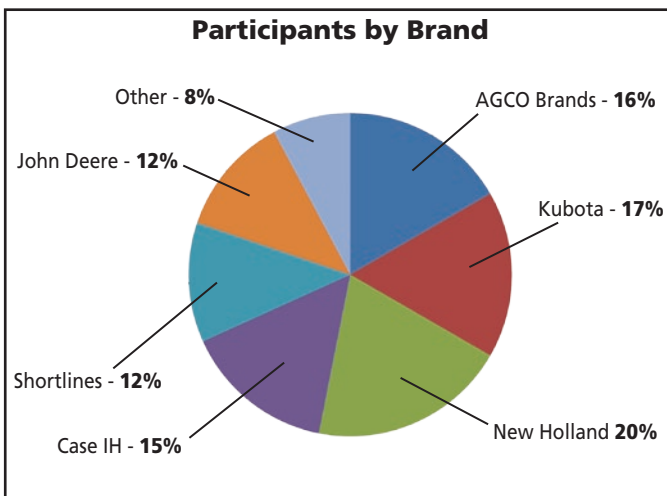
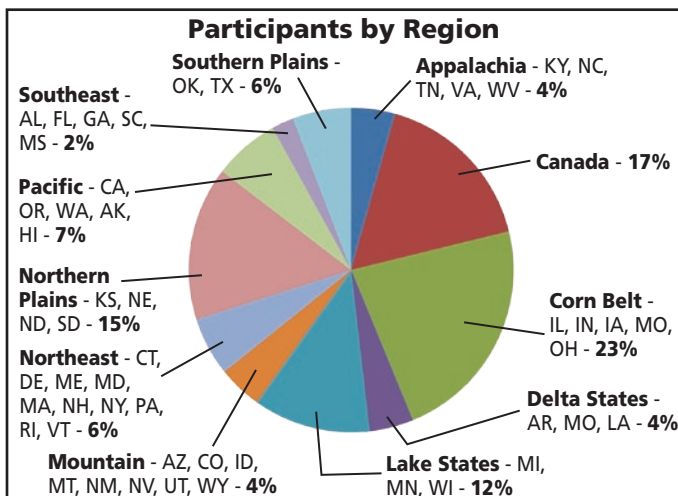


A net 59% of dealers reported used combines inventories were "too high" compared to a net 51% last month.



A net 43% of dealers reported used equipment inventory as "too high" in August (54% too high; 36% about right; 11% too low), up from the net 39% last month.

## SEPTEMBER 2014 SURVEY RESPONDENTS



The September survey had 139 respondents representing combined annual revenues of roughly \$6.1 billion, covering a broad cross section of geographies and brands.