From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

February 15, 2015
Vol. 21, Issue 2

- **Kubota NA Sales Up**
- **CNHI Lowers Outlook**
- **Sales Normalize in '14**

Commercial Loans for Farm Machinery Continue to Decline

A year ago at this time, *Ag Equipment Intelligence* reported that commercial bank lending for non-real estate farm loans dipped in the fourth quarter, driven in large part by a decline in farm capital spending. At that time, the Federal Reserve Bank of Kansas City reported the volume of loans for farm machinery and equipment purchases had dropped to its lowest level in more than 2 years.

According to the most recent edition of the Agricultural Finance Databook from the Kansas City Fed (Jan. 28), which was authored by Nathan Kauffman and Maria Akers, farm lending at commercial banks remained well above year-ago levels and bank profits edged higher. Commercial bank call report data showed farm debt outstanding at commercial banks was 6.7% higher than the previous year, as of Sept. 30.

Loan growth was driven by a 6.9% annual increase in the volume of loans secured by farm real estate and a 6.6% annual increase in the volume of loans to finance agricultural production. Increased lending pushed loan-to-deposit ratios at agricultural banks to their highest levels since 2010.

"In 2014, a large U.S. corn and soybean harvest placed downward pressure on prices and limited cash receipts for fall crop sales," the report authors said. "With production expenses holding at high levels, reduced farm income

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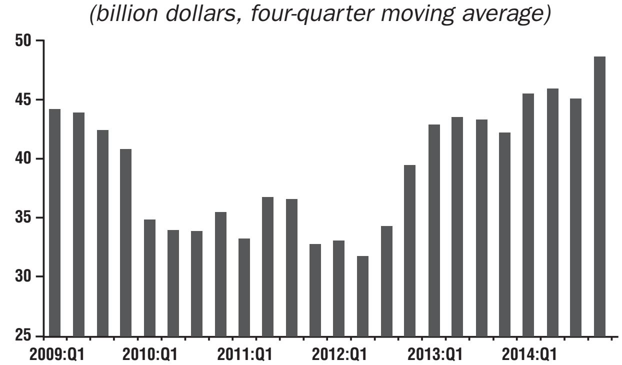
Operating Farm Loan Volume

(billion dollars, four-quarter moving average)



The total volume of non-real estate farm loans rose significantly compared with the same period in 2013. Most of the gains were driven by increased borrowing for current operating expenses.

Source: Agricultural Finance Databook

AGCO's Cost Reduction Softens Fall Off in Sales

Despite reporting a decrease in net sales of $2.5 billion for the fourth quarter of 2014, a drop of 13% compared to 2013's $2.9 billion, and forecasting continued softness in the market for ag machinery in 2015, analysts expected worse. As a result, AGCO shares surged for more than a week following its earnings report.

Analysts apparently liked the fact that the company got out ahead of the downward trend in sales by reducing costs and inventory. "Despite softening market demand in the fourth quarter, we made solid progress with both inventory reduction and our expense savings program," Martin Richenhagen, AGCO's chairman, president and CEO, said. "By lowering production approximately 20% compared to the fourth quarter of 2013, inventories ended the year well below Dec. 31, 2013 levels." Full year production is expected to be 7-10% lower compared with 2014.

"We also took steps to adjust our cost structure in response to lower demand and production levels. Our restructuring plan to significantly reduce SG&A and manufacturing support costs is on track to achieve our 2015 targets. Through a combination of layoffs, temporary furloughs and the dismissal

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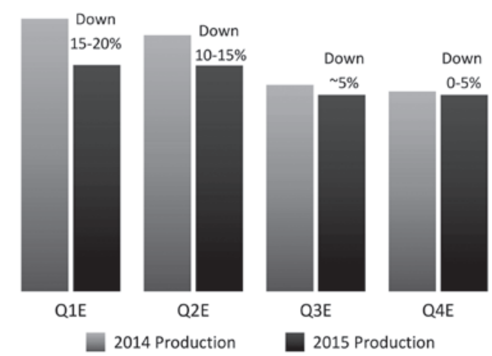
AGCO Production Hrs.
2014 vs. 2015

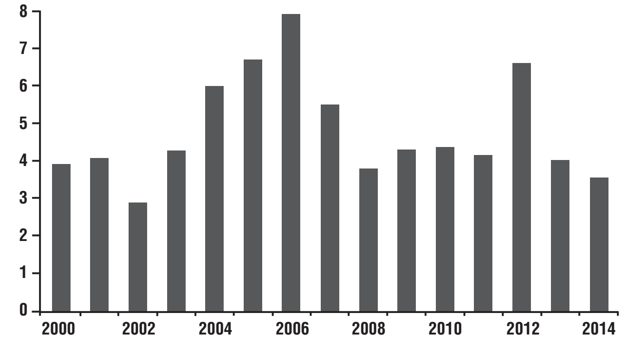


AGCO's 2014 full year production was reduced by 15% compared with 2013. The company expects to decrease production by 15-20% in the first quarter of 2015 vs. the first quarter of 2014. Full year production is forecast to be reduced by 7-10%.

Source: Company reports

Farm Equipment Loan Volumes — 2000-14

(billions of dollars)

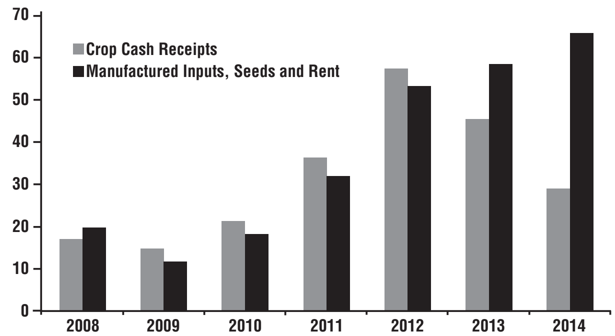


As short-term borrowing in the farm sector ramped up, intermediate-term loan volumes for farm equipment purchases fell further. Demand for farm equipment weakened as record crops led to lower prices.

Source: Agricultural Finance Databook

U.S. Crop Cash Receipts & Input Costs

(percent change from 2007 levels)



The large 2014 corn and soybean harvest placed downward pressure on prices and limited cash receipts, while high production expenses increased the need for loans to pay for next year's crop inputs.

Source: USDA

increased the need for financing to pay for next year's crop inputs. Despite a slight rebound in crop prices from the October low, corn and soybean prices have remained significantly below those of recent years."

Equipment Loans Drop. As short-term borrowing in the farm sector ramped up, intermediate-term loan volumes for farm equipment purchases fell further. "Demand for farm equipment weakened as prospects of a record crop, and lower prices, appeared more certain heading into harvest," said Kaufman and Akers.

The Assn. of Equipment Manufacturers reported that while 2014 combine and 4WD tractor sales in the U.S. began on par with 2013 levels, they slowed steadily and ended the year down 26%.

"Tighter profit margins for crop producers drove increased lending to the agricultural sector for production loans but trimmed farm capital spending and demand for equipment loans," said the report authors. "Agricultural bankers reported sufficient funds were available to satisfy a rise in loan demand but also noted some deterioration in loan repayment rates and indicated collateral requirements had tightened slightly. After narrowing in 2014, the direction of farm sector profit margins in 2015 will be a key factor in determining whether agricultural credit conditions improve or worsen in the coming year."

Cropland Values Slip. The report goes on to point out that reduced profitability in the crop sector has been accompanied by a slowdown in cropland price appreciation and, in some cases, a slight reduction in values, particularly in the Corn Belt. Agricultural bankers reported that non-irrigated cropland values edged down from recent peaks in several states while year-over-year value gains have moderated in others. "Ranchland values, however, continued to rise with strong demand for high-quality pasture. While the majority of Federal Reserve survey respondents expected cropland values would stabilize, some anticipated additional declines in 2015."

(How farm lending practices have changed since the 1980s, p. 8 in this issue of Ag Equipment Intelligence) **AEI**

U.S Farmland Avg. Sale Prices Per Acre

Jan. 2015 vs. Jan. 2014 — Selected States

State	Jan. 2014	Jan. 2015	% Change
Arkansas	$5,000	$5,000	0%
Illinois	$12,500	$12,000	–4%
Indiana	$10,250	$9,950	–2.9%
Iowa	$12,000	$11,000	–8.3%
Kansas	$4,500	$4,000	–11.1%
Kentucky*	$4,200	$4,000	–4.8%
Michigan*	$6,800	$6,600	–2.9%
Minnesota*	$10,000	$9,200	–8%
Mississippi**	$4,500	$5,000	+11.1%
Missouri*	$6,400	$6,275	–2%
Nebraska**	$12,000	$11,500	–4.2%
North Dakota	$8,000	$7,200	–10%
Ohio	$8,000	$7,750	–3.1%
South Dakota	$9,000	$8,100	–10%
Tennessee	$3,600	$3,750	+4.2%
Texas	$3,500	$3,500	0%
Washington	$7,850	$10,000	+27.4%

**non-irrigated; **irrigated*

Source: Famers National Company Agent Survey

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AGCO's Cost Reduction Softens Fall Off in Sales...Continued from page 1

of temporary employees, we lowered our workforce by over 9% from year-ago levels. Our short-term focus will remain on managing working capital, reducing expenses and generating free cashflow while balancing near-term cost reductions with continued investment in longer-term growth initiatives."

Regional Results. For the full year of 2014, net sales came in at $9.7 billion, a drop of 9.9% compared to 2013. Excluding the unfavorable impact of currency, net sales for the full year were off by 7.5%. On a regional basis, sales were off in North America by 15.6% and in Europe/Africa/Middle East (EAME) by 6.1%. Overall sales in South America were up by 2.2% and in Asia/Pacific (APAC) by 12.7%. Regional operating margins were 9.8% in EAME, 5.6% in North America, 9.6% in South America and -4% in APAC.

2015 Outlook. AGCO says it expects net sales for 2015 to range from $8.1-$8.3 billion, reflecting the impacts of softer market conditions and unfavorable currency translation. Gross and operating margins are expected to be below 2014 levels due to the negative impact of lower sales and production volumes along with a weaker sales mix.

"We expect weaker end market demand and currency headwinds to make 2015 more challenging than 2014," said Richenhagen. Regionally, AGCO's outlook is for a 5-10% sales decline in North America, about a 10% drop in South American and a 5-10% fall off in Western Europe. AEI

AGCO Regional Net Sales — 4Q & Full Year 2014

(in millions)

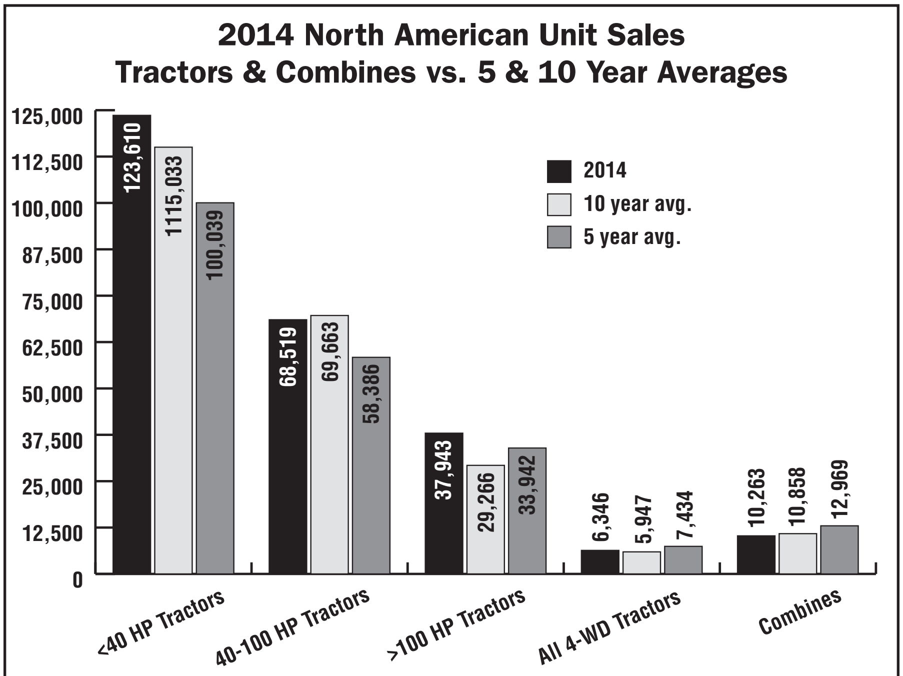
	3 Months Ended Dec. 31		% Change from 2013	Full Year		% Change from 2013
	2014	2013		2014	2013	
North America	$ 549.2	$ 658.1	(16.5)%	$2,414.2	$2,757.8	(12.5)%
South America	414.6	461.7	(10.2)%	1,663.	2,039.7	(18.4)%
EAME	1,374.7	1,602.9	(14.2)%	5,158.5	5,418.5	(5.9)%
APAC	146.7	137.0	7.1%	487.6	507.9	(4.0)%
Total	**$2,485.2**	**$2,859.7**	**(13.1)%**	**$9,723.7**	**$10,786.9**	**(9.9)%**

Source: Company reports

FARM MACHINERY TICKER (AS OF 2/12/15)

MANUFACTURERS	Symbol	2/12/15 Price	1/9/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$51.35	$55.00	$57.99	$41.45	27.91	31,848	675.33M
AGCO	AGCO	$48.81	$43.17	$59.18	$41.56	11.19	1,408,960	4.43B
AgJunction Inc.	AJX	$0.53	$0.60	$1.12	$0.51	N/A	51,106	38.33M
Alamo	ALG	$48.07	$48.89	$60.65	$37.93	16.43	78,129	542.88M
Art's Way Mfg.	ARTW	$4.86	$4.99	$7.08	$4.51	21.13	5,595	19.67M
Blount Int'l	BLT	$15.74	$16.17	$17.97	$10.84	44.84	391,105	777.79M
Buhler Ind.	BUI	$5.76	$5.75	$7.04	$4.86	11.52	2,343	144.0M
Caterpillar	CAT	$83.53	$87.68	$111.46	$78.81	14.21	6,444,020	50.6B
CNH Industrial	CNHI	$8.10	$7.48	$11.84	$7.35	11.92	967,303	10.37B
Deere & Co.	DE	$89.37	$85.62	$94.89	$78.88	10.36	2,854,920	30.77B
Kubota	KUBTY	$75.68	$70.13	$80.69	$62.95	17.37	21,345	18.95B
Lindsay	LNN	$88.96	$85.13	$92.24	$73.01	23.08	119,147	1.07B
Raven Industries	RAVN	$21.78	$22.86	$40.06	$20.75	23.67	170,332	828.6M
Titan Int'l	TWI	$9.59	$10.26	$19.64	$8.87	N/A	567,605	514.38M
Trimble Navigation	TRMB	$27.26	$25.62	$40.17	$23.68	33.65	1,667,950	7.07B
Valmont Industries	VMI	$123.22	$125.79	$163.23	$116.71	16.49	282,916	3.03B
RETAILERS								
Cervus Equipment	CVL	$19.20	$19.34	$24.30	$17.80	15.48	16,160	294.72M
Rocky Mountain Equipment	RME	$8.57	$8.97	$13.04	$8.20	11.10	33,671	165.29M
Titan Machinery	TITN	$13.84	$12.39	$20.40	$10.69	N/A	169,616	290.54M
Tractor Supply	TSCO	$83.26	$79.92	$85.67	$55.95	31.30	970,069	11.34B

U.S. Tractor Sales 'Normalized' in 2014



Compared with the 5 and 10 year average unit sales for each category of tractor and combines, 2014 turned out to be a pretty average year for sales.

Source: Assn. of Equipment Manufacturers

A little over a year ago, Jim Tibbles, executive vice president of Osmundson Mfg., a manufacturer of tillage tools in Perry, Iowa, told us that he believed softening ag equipment sales in 2014 would represent a return to normal levels rather than a falloff.

"We talk about a softening in farm equipment, but what it's really doing is 'normalizing,'" Tibbles says. "With high commodity prices and depreciation rules, it was crazy for American farmers to not invest in their machinery in recent years. Commodity prices are going to normalize; it will be somewhere between the $4 corn we're at now and the $7 peak."

Looking back, it would appear that Tibbles was right on the money. At the same time, compared with farm machinery sales the past few years, it's easy to see why most industry observers would view 2014 sales levels as a significant dropoff.

The Assn. of Equipment Manufacturer's North American unit sales for each tractor category, as well as for combines, show that 2014 sales were as good as or better than their 5 and 10 year averages.

Compared to the 10 year average, 2014 sales of compact tractors (<40 horsepower) were up by 7.4% and up by 23.6% when compared with the 10 and 5 year average sales, respectively. Mid-range tractor (40-100 horsepower) sales in 2014 were down 1.6% vs. the 10 year average, but up 14.7% compared with the 5 year average.

High horsepower tractors (100 horsepower plus) were up 29.6% last year vs. the 10 year average and up 11.8% compared to the 5 year average. For 4WD tractors, unit sales in 2014 were up 6.7% vs. the 10 year average, but down 14.6% compared to the 5 year average sales.

Combine sales is where the dropoff was most evident. Unit sales of combines in 2014 were down about 5.5% compared with the 10 year average and down 21% vs. the 5 year average.

In a note to *Ag Equipment Intelligence*, one large Canadian dealer may have summed up last year's sales levels best: "While crop prices are affecting sentiment at the farm, we have had a pretty good year overall. It is easy to forget how good the past few years have been going when we compare to the last year. We should remember that we have had double-digit growth for the past 5 years, so flattening out, or some decrease in sales, should not be unexpected." **AEI**

Strong U.S., European Sales Keeps Kubota in the Black

Continuing solid sales of farm equipment and industrial machinery in North America and Europe, together with the effect of a depreciating yen produced strong results for Kubota Corp. in its recent third quarter and 9 months ended Dec. 31, 2014.

On Feb. 6, the company reported a 5.4% increase in revenue to $9.6 billion for the 9 months of its current fiscal year vs. the same period a year ago. Operating income was up 3.2% and net income increased by 3.2%.

Despite a dropoff of 23.4% in domestic sales, overall revenues from its Farm Equipment & Engine operations rose during the period by 3.6% on the strength of Kubota's overseas business, which increased by 13.7%.

When consolidated with its Construction Machinery segment, the company's Farm & Industrial Machinery business was up by 5.7% for the 9-month period as overseas revenues grew by 15.4%.

During the quarter ended Dec. 31, 2014, Kubota's total revenues were up by 12%, operating income increased by 10.8% and net income rose by 23.4%. The company's overseas farm equipment business was key during the third quarter as well, increasing by 26.4% while domestic for the segment fell by 27.3%.

2015 Outlook. Kubota is projecting consolidated revenues for the full year ended March 31, 2015, to reach $12.7 billion.

Domestic revenues are forecast to decrease due to the anticipated adverse reaction to the front-load-

Continued on page 5

Strong U.S., European Sales Keeps Kubota in the Black ...Continued from page 4

ed demand in Farm & Industrial Machinery, while revenues in the company's Water & Environment segment are expected to increase.

Overseas revenues are forecast to increase due to higher revenues in Farm & Industrial Machinery, as well as in Water & Environment.

Overseas revenues in Farm & Industrial Machinery are expected to increase mainly in North America and Europe. Net income attributable to Kubota Corp. is forecast to be $1.1 billion. AEI

Kubota Corp. Selected Financial Data — 3Q & 9 Months 2015

	3 mos. ended Dec. 31		Change %	9 mos. ended Dec. 31		Change %	Full-Year Outlook March 31, 2015
	2014	2013		2014	2013		
Revenues	$3,369	$3,008	12.0	$9,650	$9,154	5.4	$12,718
Operating Income	$414	$374	10.8	$1,259	$1,219	3.2	$1,707
Net Income	$298	$241	23.4	$855	$809	3.2	$1,110
Farm & Industrial Machinery Segments — Domestic & Overseas							
Farm Equip. & Engines	$2,217	$1,963	12.9	$6,538	$6,312	3.6	$8,455
Domestic	$356	$490	-27.3	$1,323	$1,727	-23.4	$2,459
Overseas	$1,861	$1,473	26.4	$5,215	$4,585	13.7	$5,995
Const. Machinery	$355	$296	19.9	$1,087	$898	21.0	$1,266
Domestic	$105	$114	-8.0	$263	$250	5.0	$344
Overseas	$251	$183	37.3	$834	$648	27.2	$922
Farm & Ind. Machinery	$2,573	$2,260	13.8	$7,624	$7,211	5.7	$9,721
Domestic	$461	$604	-23.7	$1,585	$1,978	-19.8	$2,804
Overseas	$2,111	$1,655	27.6	$6,039	$5,233	15.4	$6,917

Converted from JPY to US$. As of Feb. 9, 1 Japanese yen equal 0.0084 U.S. dollars.

Comparing 10 Years of Farm Commodity Prices

U.S. Calendar Year Average Prices Received

Commodity	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Corn ($/bu.)	1.96	2.28	3.39	4.78	3.75	3.83	6.01	6.67	6.15	4.11
Soybeans ($/bu.)	5.96	5.65	7.75	11.32	10.05	9.97	12.52	13.95	14.07	12.48
Wheat ($/bu.)	3.36	4.04	5.76	8.01	5.29	5.12	7.44	7.60	7.32	6.34
Cattle ($/cwt)	95.18	92.39	95.39	94.39	85.36	97.18	117.17	126.25	126.83	154.33
Hogs ($/cwt)	50.03	46.85	47.36	48.39	42.27	55.27	66.98	64.67	67.36	77.10
Milk ($/cwt)	15.15	12.90	19.13	18.32	12.81	16.29	20.14	18.57	20.03	23.98

Source: National Agricultural Statistical Service (NASS) of USDA

This table shows the average prices received for the major farm commodities over the past decade. It was compiled as reference for *Ag Equipment Intelligence* subscribers. For each of the three major grains covered, the highest per bushel price for corn was in 2012 and in 2008 for wheat, while highest per bushel price for soybeans was in 2013.

Corn: Compared to 2005, the average price received for corn in 2014 was up about 110%. But compared to the highest average annual price received in the past decade ($6.67 in 2012), the average price in 2014 was down by 38%. In its Jan. 12 World Agricultural Supply and Demand Estimates report, USDA projected 2014-15 marketing year pricing for corn to range between $3.35-$3.95 per bushel.

Soybeans: The average price received for U.S. soybeans in 2014 was $12.48. This compares to the price received 10 years earlier by about 109%. When compared to the highest average annual price received ($14.07 in 2013), it is down 11.3%. USDA's latest outlook for soybean price in 2014-15 ranged between $9.45-$10.95 per bushel.

Wheat: The average calendar year price received for U.S. wheat last year was $6.34 vs. $3.36 a decade earlier. This represents a gain of nearly 89%. The highest price received for wheat since 2005 was $8.01 in 2008, which means the 2014 price was down nearly 21% vs. wheat's highest level in the past decade. The price of wheat is projected to range from $5.90-$6.30 per bushel during 2014-15.

Cattle: The price received per hundredweight of cattle hit a new record in 2014 of $154.33. This compares to the $95.18 received 10 years earlier, which is a gain of 62%. The lowest price received for U.S. cattle in the last decade occurred in 2009 when the price per hundredweight came in at $85.36. Compared to last year, that was down by 81%. In the December *World Agricultural Supply and Demand Estimates*, USDA suggested the average price of fed steers will be between $160-$172 per hundredweight.

Hogs: The price of U.S. hogs per hundredweight has seen a nice run up in recent years, as well. Compared to the price received in 2005 ($50.03), hogs, $77.10 last year, were up by 35%. The lowest price for hogs occurred in 2009 when it fell to $42.27 per hundredweight. The 2014 price represented an 82% increase over that low. Hog prices are expected to average $60-$65 per cwt this year, according to USDA.

Milk: Dairy farmers saw a decade high price for milk of $23.98 per hundredweight last year. Compared to 10 years earlier ($15.15), that was a jump of 58%. The lowest price received for milk took place in 2009, when it dropped down to $12.81. Compared to the low, milk per hundredweight in 2014 was up by 87%. As of Jan. 12, USDA'S all-milk price forecast for 2015 had been reduced to $17.75-$18.55 per cwt. AEI

CNHI Lowers Outlook for 2015 Further

After reporting a 3.8% fall in consolidated revenues to $32.6 billion and a drop in net sales of 4.5% to $31.2 billion, CNH Industrial expects it sales of tractors and combines to fall more than its previous forecast.

In reporting its fourth quarter and full year 2014 results on Jan. 29, the company says it is projecting a falloff in high horsepower tractors — those over 140 horsepower — of 15-20% in 2015. Earlier CNHI estimated sales of these units would decline by 10-15%. It also lowered its outlook for combine sales by 15-20% vs. 10-15% it had projected previously.

According to U.K.-based agrimoney.com, the data imply the combine market shrinking at roughly the same rate as in 2014, when it contracted by 18%, but some reduction in the pace of decline in the market for high-horsepower tractors, which tumbled by 25% last year.

Machinery markets in North America and Latin America had been particularly weak last year, although the European tractor market saw a "significant deceleration in demand" in the October-to-December quarter.

CNHI Ag Equipment
4Q & Full Year Net Sales & Operating Profit
(in millions $)

	4Q		Change	Full Year		Change
	2014	2013		2014	2013	
Net Sales	3,403	4,142	-17.8%	15,204	16,763	-9.3%
Operating Profit	241	312	-71	1,770	2,008	-238
Operating Margin (%)	7.1	7.5	-0.4 p.p.	11.6	12	-0.4 p.p.

Source: Company Reports

Ag Results. Net sales for ag equipment were $15.2 billion for 2014, down 9.3% from 2013 "driven by unfavorable volume and product mix, particularly in LATAM and NAFTA with a significant decrease for high horsepower products. This impact was partially offset by positive pricing," the company says. Geographic distribution of net sales for the year was 45% NAFTA, 31% EMEA, 13% LATAM and 11% APAC. Ag's operating profit was $1.8 billion for the year vs. $2.1 billion in 2013. Operating margin was 11.6% compared to 12% in 2013.

The company reports that farm machinery's worldwide market share performance was in line with the market for tractors but below the market for combines, mainly due to transition to Tier 4 Final engine compliant products in NAFTA and a negative market mix in APAC. Ag equipment's worldwide production units were 5% higher than retail sales during 2014 but 19% below retail sales for the fourth quarter, as CNHI implemented its planned production slowdown to reduce company and dealer inventory.

For the fourth quarter, net sales totaled $3.4 billion, a decrease of 17.8% compared to the same period in 2013. Operating profit was $241 million for the period, compared to $312 million for fourth quarter of 2013, with an operating margin of 7.1% vs. 7.5% in the last quarter of 2013. The decrease was driven by unfavorable volume, mix and production curtailments to realign inventory to market demand, partially offset by favorable pricing, as well as SG&A and R&D expense reductions. AEI

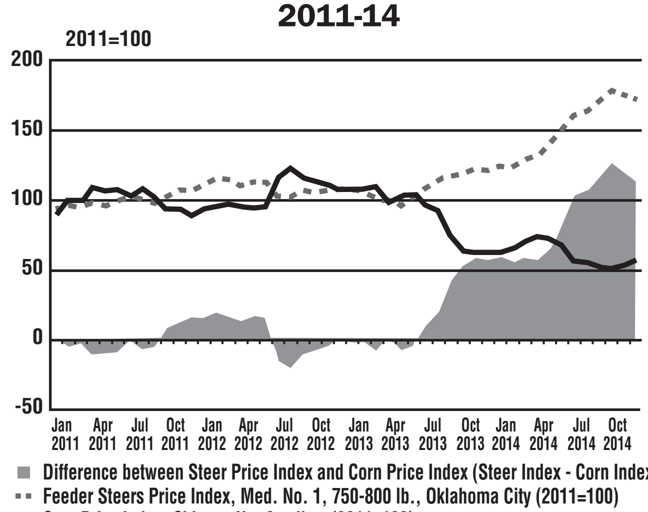
Cattle Producer Returns Bolstered by Higher Price, Lower Feed Costs

All signals point to continued strong cattle pricing going into 2015. This trend should bode well for the sale of mid-range tractors (40-100 horsepower), which have experienced solid growth during the past 2 years, and it may even give a lift to high horsepower equipment. Unit sales of mid-range tractors were up year-over-year by 12.1% in January.

Strong feeder cattle prices *(see p. 5 "Comparing 10 Years of Farm Commodity Prices")* and declining feed costs are supporting high returns for cow-calf producers. The price of 750-800 pound feeder steers at the Oklahoma National Stockyards exceeded $220 per hundredweight at the end of 2014, up $65 since January and over $100 since May 2013. At the same time, the price of corn (a major component of cattle feed) fell from above $7 per bushel in mid-2013 to under $4 per bushel by December 2014, reflecting a record 2014 crop projected at 14.4 billion bushels.

Despite weaker demand, beef prices are at record high levels due to tight supplies and historically low cattle inventories. Expanding the cattle herd is a long-term process due to the time it takes cattle to mature. It also requires holding some heifers off market for breeding purposes. Recently released data from USDA's Cattle report suggests that inventories are beginning to grow and cattle prices have begun to retreat. With corn prices forecast by USDA to average around $3.50 per bushel for the 2014-15 marketing year, returns to cow-calf operators should remain favorable into 2015. AEI

Feeder Steer Index vs. Corn Price Index
2011-14



Note: Data through December 2014.

Source: USDA Economic Research Service

Ag Equipment Sales Continue to Struggle

Conditions continue to be challenging for large ag equipment sales, as highlighted by the latest sales report released by the Assn. of Equipment Manufacturers.

Total tractor and combine sales for January were up 3.1% year-over-year vs. down 4.1% in December. C. Schon Williams, analyst with BB&T Capital Markets, says inventories have continued to build amid ongoing weakness in ag equipment demand. Williams maintains a negative outlook "as sales continue to disappoint and the latest WASDE report points to continued pressure on farm cash receipts in the near term."

U.S. combine sales declined 47.1% year-over-year in January, which marks the fourth consecutive month with declines that exceeded 40%. Canadian combine sales fared even worse, with a 77.6% decrease year-over-year.

For high horsepower tractors, sales continued to drop while inventories continued to build. U.S. demand for row-crop tractors fell again in January, but did improve from December (-5.6% vs. -22.4% in December). Canadian sales had similar results with a 4% decrease. "High horsepower tractors have now posted 6 consecutive months of year-over-year declines, however we note that January's sales drop was a noticeable improvement from 3 straight months of more than 20% decline during the fourth quarter of 2014," Williams says.

Total tractor inventories posted a 5.4% increase over January of 2014.

On a positive note, U.S. 2WD tractors sales increased 9.6% year-over-year in January vs. 0.7% in December on the strength of rising sales of compact tractors (+18.4%) and mid-range tractors (+12.1%).

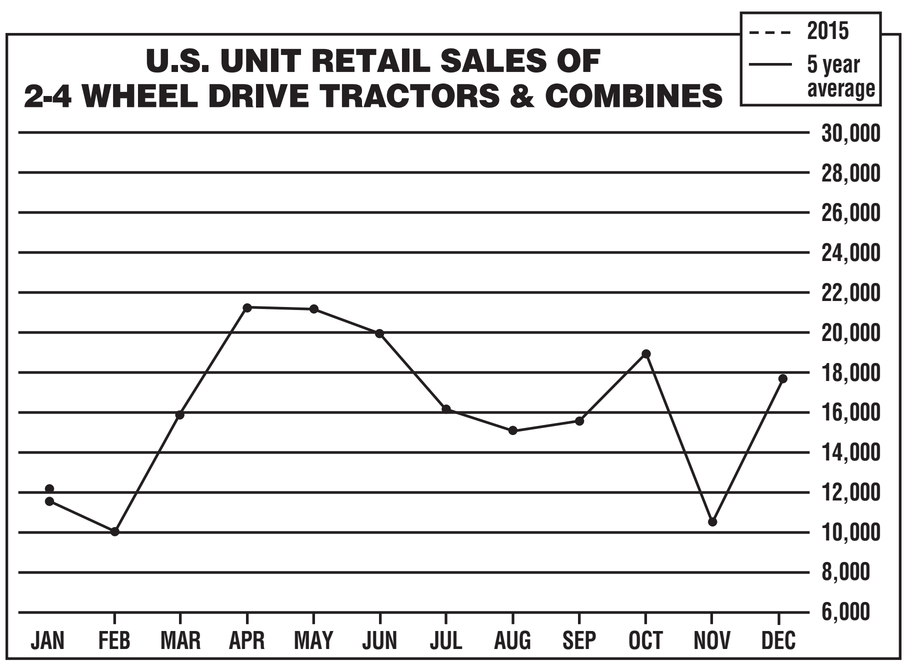
Overall, tractors under 100 horsepower saw a 15.4% increase for the month in the U.S. In Canada, this same category struggled in January, posting a 13.2% year-over-year drop in sales, as compact tractor sales fell by 15%, mid-range equipment declined by 17.3% and high horsepower units slipped by 4% on a year-over-year basis. AEI

JANUARY U.S. UNIT RETAIL SALES

Equipment	January 2015	January 2014	Percent Change	YTD 20 15	YTD 2014	Percent Change	December 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,755	4,027	18.4	4,7555	4,0017	18.4	62,927
40-100 HP	4,086	3,644	12.1	4,086	3,644	12.1	31,985
100 HP Plus	2,767	2,931	-5.6	2,767	2,931	-5.6	12,304
Total-2WD	11,608	10,592	9.6	11,608	10,592	9.6	107,216
Total-4WD	192	540	-64.4	192	540	-64.4	1,075
Total Tractors	11,800	11,132	6.0	11,800	11,132	6.0	108,291
SP Combines	346	654	-47.1	346	654	-47.1	1,195

JANUARY CANADIAN UNIT RETAIL SALES

Equipment	January 2015	January 2015	Percent Change	YTD 2015	YTD 2014	Percent Change	December 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	627	738	-15.0	627	738	-15.0	6,949
40-100 HP	420	508	-17.3	420	508	-17.3	3,565
100 HP Plus	357	372	-4.0	357	372	-4.0	2,334
Total-2WD	1,404	1,618	-13.2	1,404	1,618	-13.2	12,848
Total-4WD	28	91	-69.2	28	91	-69.2	351
Total Tractors	1,432	1,709	-16.2	1,432	1,709	-16.2	13,199
SP Combines	38	170	-77.6	38	170	-77.6	479



— Assn. of Equipment Manufacturers

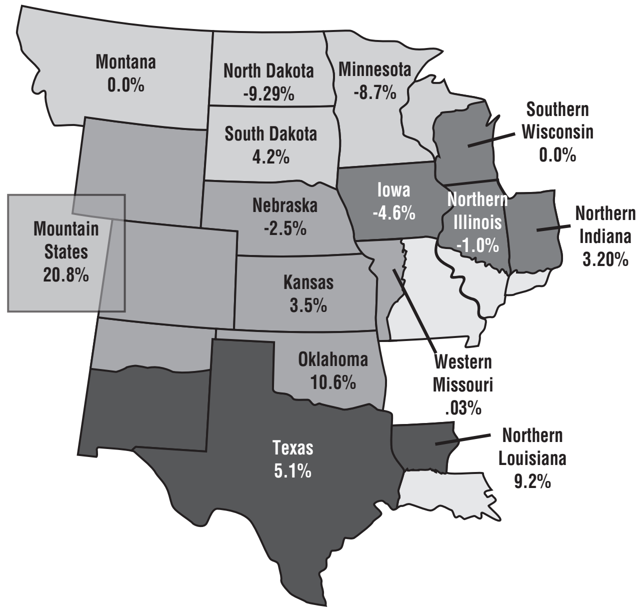
How Criteria for Farm Lending Have Changed Since the 1980s

While some industry people are still fretting that the current slowdown in the sale of farm machinery is setting the stage for a return of the farm crisis of the early 1980s, in large part because of declining land values, Ryan Larsen says, "Perhaps we should be more concerned with the impact of falling intermediate asset prices."

In his recent NDSU Agriculture Communication, "Monitoring Asset Values in 2015," Larsen, who is an assistant professor in North Dakota State University's Agribusiness and Applied Economics Department, says, "The recent boom in land values and subsequent drop in commodity prices have many worried about the impacts of falling farmland values. Land value data coming from the Kansas City Federal Reserve show that land prices have leveled off and even are showing a slight reduction." (*See map*)

Value of Non-Irrigated Cropland — 3Q 2014

(% change from previous year)



Ag bankers reported that non-irrigated cropland values have edged down from recent peaks in several states while year-over-year value gains have moderated in others. Ranchland values, however, continued to rise with strong demand for high-quality pasture. While the majority of survey respondents expected cropland values would stabilize, some anticipated additional declines in 2015.

Source: Federal Reserve District Agricultural Credit Surveys (Chicago, Minneapolis, Kansas City and Dallas)

But Larsen says one of the most significant impacts brought on by the farm crisis of the 1980s were the changes it forced in farm lending practices. "Prior to the farm crisis, lenders relied heavily on asset values to justify granting credit. The drastic reduction in farmland values highlighted the danger of relying solely on assets.

According to Larsen, in response to the farm crisis, lenders began using cashflow-based financial measures to justify loan decisions. At the same time, to justify loans, they also began to rely heavily on farmers' balance sheets, with specific focus on ag assets, as the main criteria in their loan decisions.

"Agricultural-related assets complicate the standard accounting definitions," says Larsen. "Traditionally, assets are grouped into two categories: current and long-term assets. The categorization of assets is based on how quickly an asset can be converted to cash. For example, crop inventory is considered to be a current asset because it can be sold and converted to cash quickly. On the other hand, land would take time to convert to cash, so logically it is considered to be a long-term asset.

Because many ag assets fall somewhere between current and long-term, lenders have also adopted the use of intermediate assets, which are those that have a life of 3-10 years. These types of assets include machinery, breeding stock and other equipment.

"Intermediate assets are the largest asset category on the average farmer's balance sheet. They make up roughly 38% of total asset values," says Larsen. "An average farmer's intermediate assets have grown from $337,796 in 2007 to $727,633 in 2013. This is a change of more than 120%. Long-term assets also have grown during the same time period but only by 84%."

The NDSU assistant professor points out that recent machinery sales data reveal that, on average, there has been a 16% reduction in the sale price of farm machinery during the past year, which, he says, may be a conservative estimate.

Larsen suggests that farmers and lenders closely monitor farmland and machinery values in 2015. "Low commodity prices are going to make it difficult for many farmers to have a positive cashflow. Lenders are going to have to use the strength of the farmer's balance sheet to help support the loan justification. Throughout 2015, if necessary, the balance should be adjusted to capture the most recent asset values and provide a more accurate picture of the strength of the balance sheet," he says. **AEI**

55% of Farm Loans Financed with New Debt

On average, lenders in the Eighth Federal Reserve District reported that 55% of the value of recent farmland transactions was financed with new debt, 30% supported by a pledge of existing equity and 15% paid in cash, according to latest *Agricultural Finance Monitor* published by the Federal Reserve Bank of St. Louis on Feb. 12. The Federal Reserve Bank of St. Louis surveyed 39 ag banks in all or parts of 7 Midwest and Midsouth States to assess underwriting practices and loan portfolio exposure to a sizable decline in farmland values.

More than 80% of lenders reported that their portfolios contained less than 50% of real estate loans made to borrowers who are most exposed to an unexpected plunge in farmland prices.

"Overall these responses, in aggregate, suggest that the credit underwriting of recent farmland secured transactions remains sound and less than half of farm real estate loans are held by more exposed or highly leveraged borrowers," the report said. **AEI**