

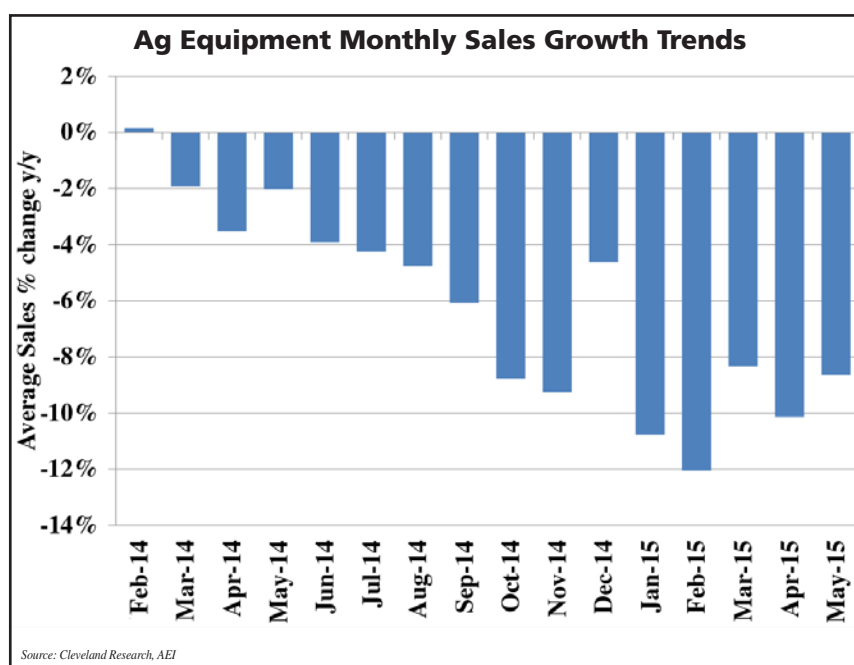
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 9% in May

- ✓ Ag equipment dealers reported **sales were down 9%** year-over-year on average in May.
- ✓ AGCO dealers reported the best results with sales up 3%, while John Deere dealers reported the largest decline with sales down 15%.
- ✓ A net 13% of dealers reported missing their sales budget in May, with more dealers reporting sales were worse than expected than we've seen since November 2014.
- ✓ A net 40% of dealers reported new equipment inventories were "too high" in May, in line with the April survey.
- ✓ Used equipment inventories appear to have improved in May, **with only 34% of dealers reporting inventory levels were "too high" vs. 43% in April.**
- ✓ Incoming orders declined 17% year-over-year on average in May, an improvement from the 19% decline reported last month but a notable deterioration from the first quarter pace.



Results vs. Expectations															
	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Better than expected	21%	21%	29%	25%	26%	28%	24%	22%	21%	29%	26%	13%	20%	27%	24%
In line with expectations	54%	54%	52%	53%	49%	47%	47%	51%	30%	47%	57%	59%	50%	44%	39%
Worse than expected	26%	25%	19%	23%	26%	25%	29%	27%	39%	23%	18%	28%	28%	29%	37%
Net % (Better - Worse)	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%	6%	8%	-14%	-8%	-2%	-13%

## 2015 Dealer Outlook Unchanged

- ✓ For 2015, dealers are expecting sales to decline 13% year-over-year on average, unchanged from their forecast from the previous 2 months. Overall, 32% of dealers forecast a sales decline for the year, similar to the April survey results.
- ✓ AGCO dealers were the most optimistic, calling for a 3% decline in sales. John Deere and Case IH dealers were the least optimistic of the dealers surveyed, expecting sales to be down 18%.

Dealer Outlook								
(% chg y/y)	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
AGCO	0%	-9%	0%	-10%	-11%	-12%	-5%	-3%
John Deere	-14%	-9%	-9%	-11%	-18%	-8%	-15%	-18%
New Holland	-8%	-10%	-3%	-6%	-11%	-10%	-4%	-9%
Case IH	-11%	-16%	-11%	-14%	-17%	-17%	-14%	-18%
Kubota	-6%	-14%	-6%	-11%	-13%	-17%	-10%	-12%
Shortlines/Other	-4%	-16%	-9%	-7%	-10%	-19%	-10%	-4%
Overall	-11%	-10%	-8%	-11%	-13%	-13%	-13%	-13%

## Dealer Optimism Holds Steady

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, was unchanged in May from April. A net 26% of dealers reported a less optimistic outlook for the year (13% more optimistic, 48% the same, 39% less optimistic). This compares to a net 29% of dealers who reported a less optimistic outlook in March.

Optimism/Sentiment vs. Last Month															
	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
More Optimistic	26%	24%	25%	23%	13%	12%	16%	8%	9%	12%	12%	9%	14%	14%	13%
Same	51%	44%	45%	42%	45%	50%	46%	48%	38%	39%	52%	50%	42%	47%	48%
Less Optimistic	23%	32%	30%	35%	42%	38%	38%	44%	53%	49%	36%	41%	43%	40%	39%
Net % Dealer Optimism	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%	-26%	-26%

## COMMENTARY

### USDA Forecast Calls for 11% Decline in 2015-16 Cash Receipts Outlook

The updated WASDE USDA report suggests cash receipts will be down 11% for 2015-16 in our simplified cash receipts proxy. This follows a 13% decline in cash receipts last year and an 11% decline in the prior crop year. North American high horsepower tractor and combine sales are on a one-year lag vs. the cash receipts proxy, which is based on the three largest crops – corn, soybeans and wheat.

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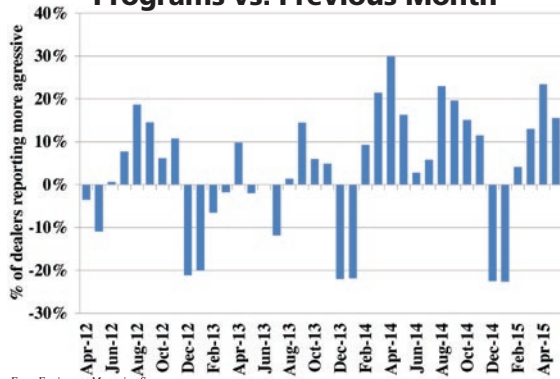
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# NEW EQUIPMENT TRENDS

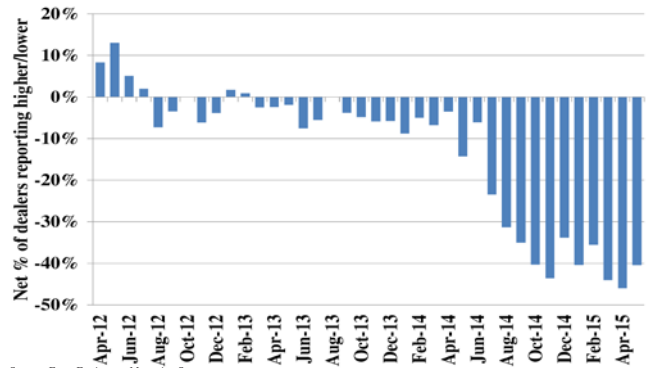
**Current Manufacturer Incentive Programs vs. Previous Month**



Source: Farm Equipment Magazine Survey

A net 16% of dealers report manufacturers were more aggressive with incentives in May, which is down from the net 23% in April.

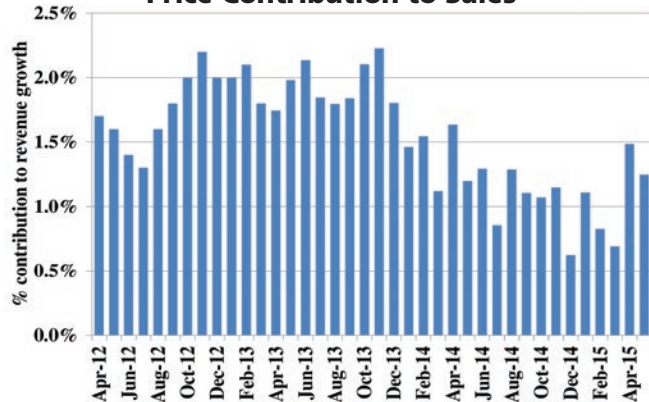
**Factory Production vs. Previous Month**  
**Net % Increasing vs. Decreasing Production**



Source: Farm Equipment Magazine Survey

A net 40% of dealers report factory production was down in May, similar to the trend seen over the last several months.

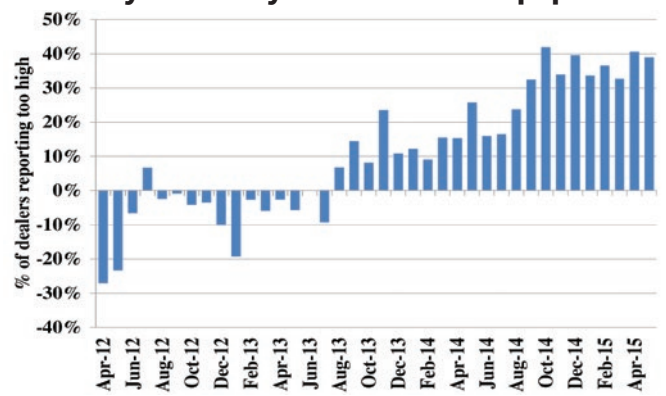
**Price Contribution to Sales**



Source: Cleveland Research Company Surveys

Dealers report several OEMs pushed through small price increases in recent months, which pushed up the average new equipment price realization across the dealer sample to 1-1.5% over the last 2 months. Tier 4 Final emissions related price increases are also noted as driving higher pricing recently.

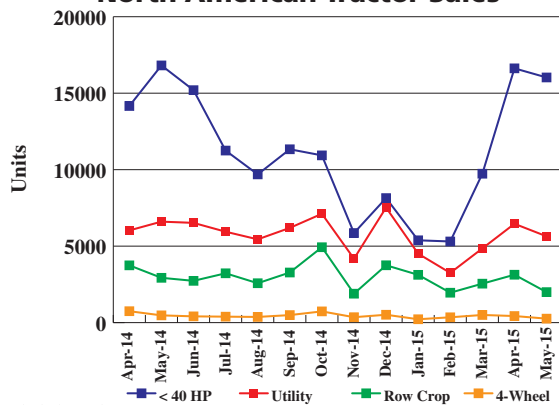
**Industry Inventory Levels — New Equipment**



Source: Farm Equipment Magazine Survey

A net 40% of dealers reported new equipment inventory as "too high" in May, in line with the April survey and remaining at the high end of our survey history.

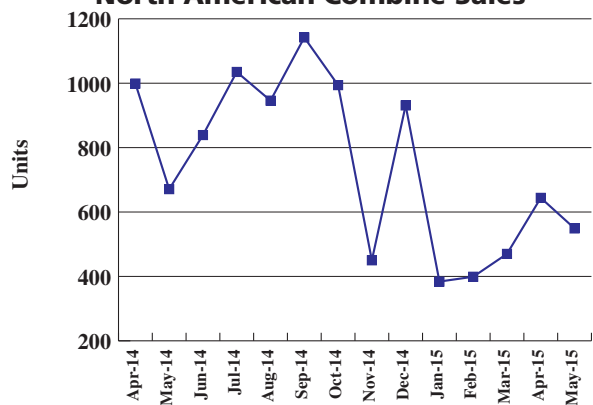
**North American Tractor Sales**



Source: Cleveland Research, AEI

Total North American tractor sales were down 11% in May, with row-crop and 4WD tractors down 32% and 45%, respectively. Utility tractors saw a 14% year-over-year decline in May and <40 horsepower tractors decreased 5%.

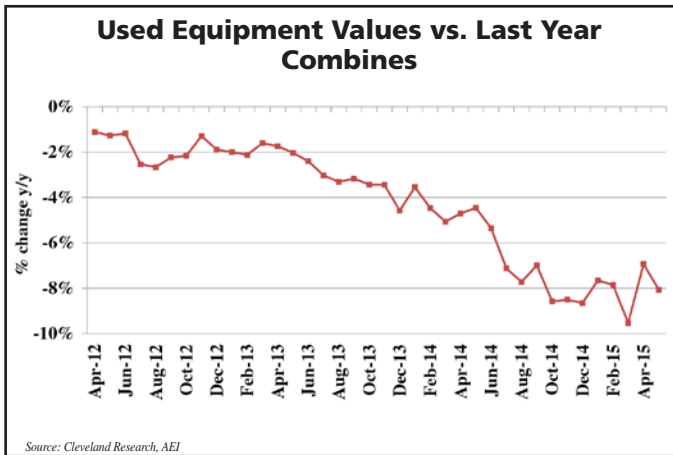
**North American Combine Sales**



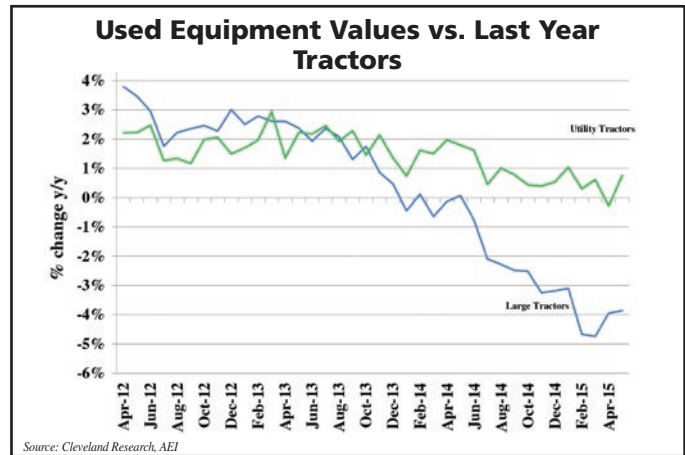
Source: Cleveland Research, AEI

North American combine sales came in at 549 units in May, compared to 664 the previous month. On a year-over-year basis, combine sales are down 18%.

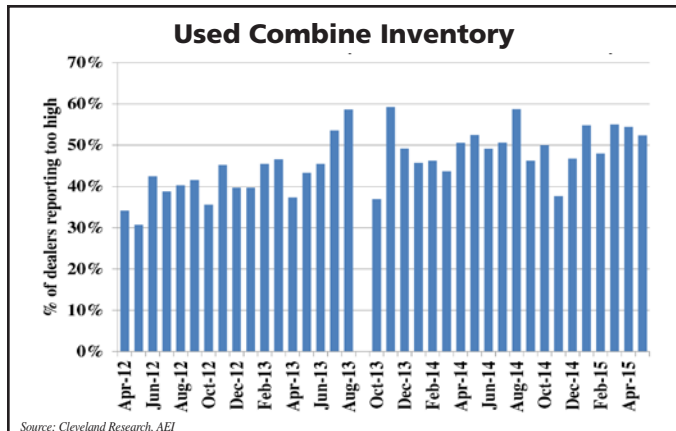
## USED EQUIPMENT TRENDS



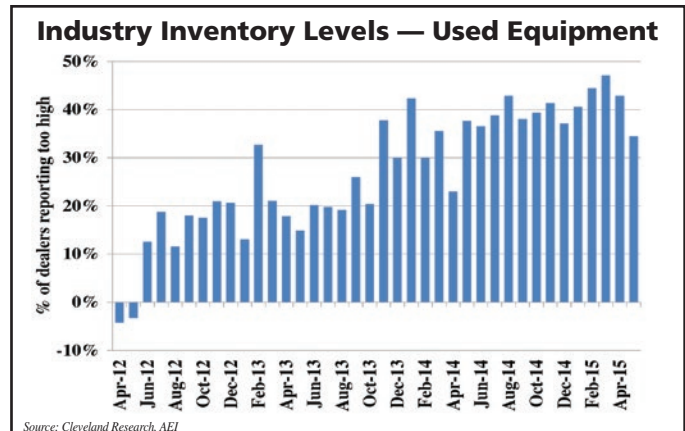
Used combine values are reported down 8% year-over-year in May, falling from a 7% decline reported the previous month.



Dealers reported large tractor pricing is down 4% year-over-year, in line with April, while utility tractor used pricing improved slightly in the month to up almost 1% year-over-year.

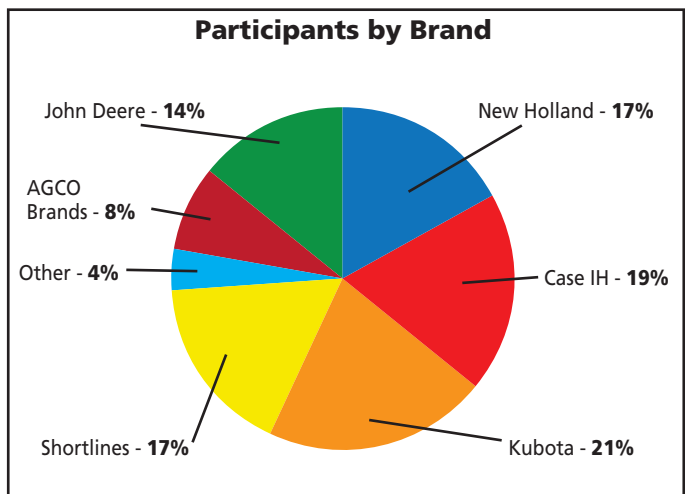
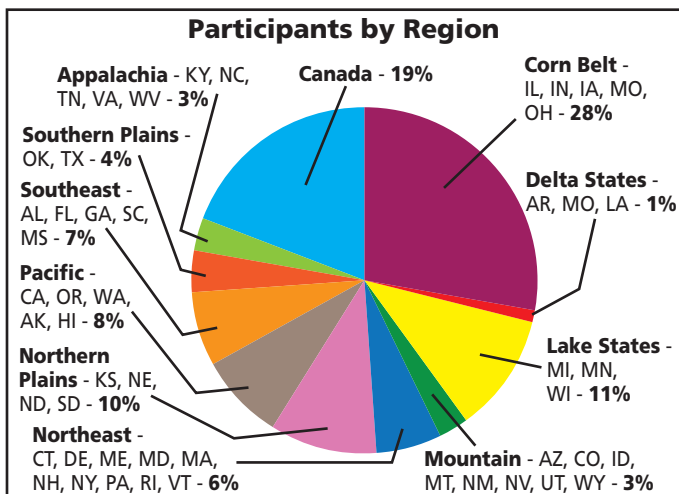


Used combine inventory levels remain "too high" with over a net 50% of dealers reporting inventories are above where they would like them.



Used equipment inventories appear to have improved in May, with only 34% of dealers reporting inventory was too high vs. 43% in April. Anecdotally, many dealers report their efforts to sell used equipment inventory instead of new has been helpful in recent months.

## MAY 2015 SURVEY RESPONDENTS



The May survey had 95 respondents representing combined annual revenues of roughly \$3.8 billion, covering a broad cross section of geographies and brands.