From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

June 15, 2015
Vol. 21, Issue 6

- Titan Beats Estimates
- Precision Sales Slow
- VDMA's 12-Point Plan

Global Ag Equipment Sales to Fall by 10%; 'Party Mood' Over in U.S.

Worldwide production and sales of farm machinery are expected to decline by 10% in 2015, according to the VDMA Agricultural Machinery Assn. based in Frankfurt, Germany. After reaching an all-time sales high of $116 billion in 2013, sales of ag equipment fell slightly to about $114 billion last year.

VDMA is forecasting a drop in global sales to about $102 billion in 2015. The deciding factor is the weak economic cycle in America and Europe, as well as in part of the Asian continent, especially in India, according to VDMA.

On a regional basis, the European Union and North America (NAFTA) account for 50% of worldwide production of farm equipment and 48% of sales. In total, all of Europe produced slightly over one-third (34%) of farm machinery globally, while North American manufacturers contributed 22% of ag equipment worldwide.

North American Bubble? According to revised estimates by VDMA for 2014, the market volume for North America came to about $26 billion at current

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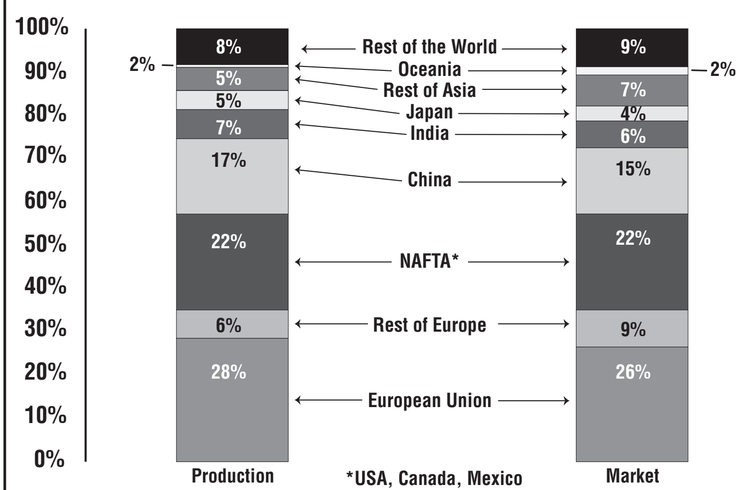
Worldwide Production of Ag Machinery



Overall, the European Union and North America account for one-half of the total global farm equipment production and slightly under one-half of sales.

Source: VDMA estimates

Another Shake Up at the Top of New Holland

While it appeared that New Holland North America was finally demonstrating some stability in its top leadership ranks, apparently this wasn't the case. Brad Crews, COO, CNH Industrial NAFTA, told the company's dealers in a June 8 letter that, "Abe Hughes is no longer with the company as he has elected to pursue other interests outside CNH Industrial." Hughes was New Holland's top executive for both agriculture and construction in North America. The change was effective immediately.

Crews went on to tell the dealers he would "assume responsibility for the New Holland Agriculture and Construction brands in North America on an ad interim basis."

Since the 2006 departure of Bob Crain, who left New Holland to become senior vice president and general manager in North America for AGCO Corp., the company has had six different top executives heading up the firm. They included Dennis Recker, David Clarke, Marco Mazzù, Lorenzo Sistino, Barry Engle and Abe Hughes, who had the longest tenure of any of the others on the list.

Prior to being named vice president for all of New Holland North America, Hughes had served as vice president-sales and marketing for New Holland Agriculture. Before that he had been vice president/director-business development of the Americas for CNH.

In its official statement on the matter emailed to *Ag Equipment Intelligence*, the company said, "Abe Hughes had a significant impact at New Holland over the past 8 years, but is no longer with the company as he has elected to pursue other interests outside CNH Industrial. We wish him the best of luck in his next role."

Dealer Perspective. One dealer who *Ag Equipment Intelligence* spoke with said his initial reaction was "Oh no. Here we go again." But with some perspective, he thinks the change could be a positive move.

"Our New Holland organization and dealers, though experiencing growing sales, have had low morale

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for awhile. Abe took us back to profitability, but he has been unable to significantly move the stick on the organizational climate.

"I think finding the next leader from within our organization, one who understands the challenges dealers face, who has some institutional knowledge and will not repeat past mistakes, and one who has a strong bond with our dealer organization could be a real positive for both the New Holland brand and our dealer organization," said the dealer.

Rejuvenating the Brand. During an interview with *Ag Equipment Intelligence* during the 2014 Farm Progress Show, Hughes said he was focusing on "rejuvenating the New Holland brand" and in large part that effort needed to start with its dealers.

"A lot of our focus during this time has been on our strongest dealers to make sure that they were growing and expanding and have what they needed to keep growing. What we didn't do is think about the rest of our dealers, but with this initial rejuvenation period somewhat behind us, we are now building for the future," Hughes said.

"Going forward we need to focus on the rest of our dealer network and, frankly, how do we bring them up to the level of our strongest dealers? Also, we're looking at how to fill some open points in key markets in the U.S. In Canada, I think we're in good shape. But how do we cover some of those open points where we aren't well covered and bring in some good dealers, new entrepreneurs into this business?"

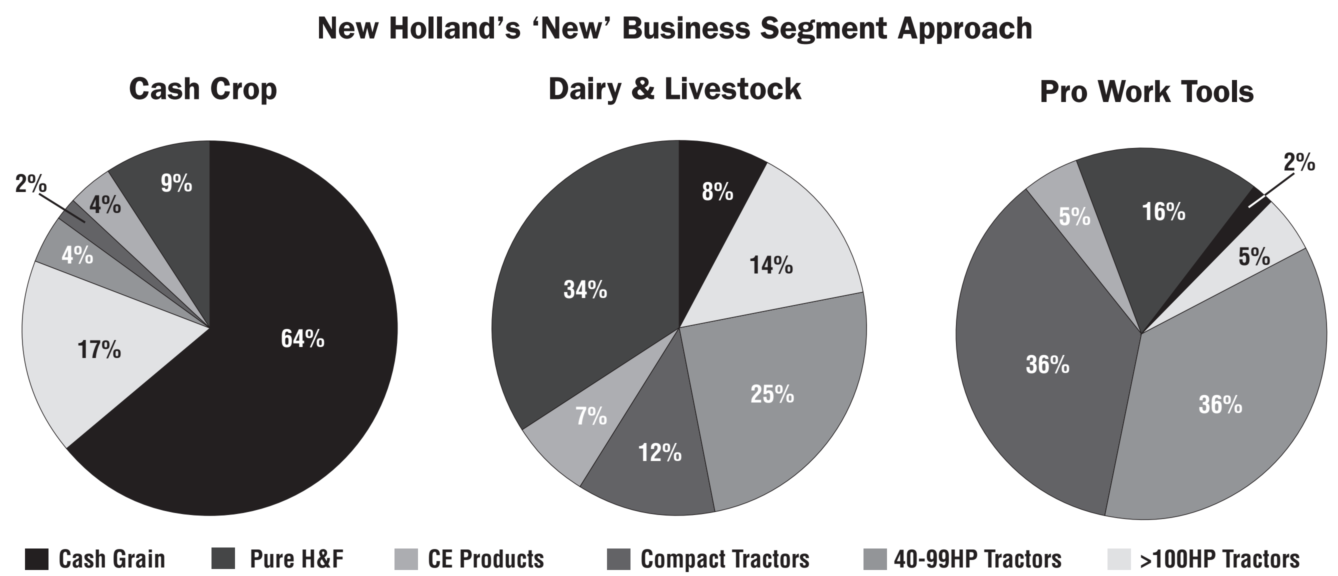
Regarding dealer consolidation, Hughes explained, "Let me say up front that we're not going to be like Deere and Case where we force consolidation and get some dealer group to own 80, 90, 100 stores. That's not the New Holland way. We tend to be a little more conservative and take our own path. We value that independent local dealer."

Size & Scope. At the same time, Hughes added, "We think there needs to be a certain scale and scope in this business. We have some single store dealers who do a remarkable job for us. But frankly speaking, we think a dealer is going to need 2 or 3 stores so that they can grow the right way."

"We want to encourage the small local entrepreneurs who are connected to the community," he said.

"That's a different model than you see out there today. We're starting to get some customer feedback that they don't even know who their local sales rep is, or they don't even know who the owner of the dealership is. And we think that's a warning sign. That's not how we want to do business; we still want to do business on a handshake, but we want to do business in a modern way, so that means we have got a lot of upgrading of our dealers to do.

"A key focus point for us is service. If you have a good service organization, then the rest of the business will come to you," said Hughes. "That includes the right facility and the right people with the technical skills required by today's advanced technology." **AEI**



Under the leadership of the recently departed Abe Hughes, New Holland adopted a business development plan based on customer type. During an interview at the 2014 Farm Progress Show, Hughes told *Ag Equipment Intelligence*, "Everything we do at the 'new' New Holland is by business segment. Our three segments include our traditional dairy and livestock, which is our core business, where we typically deal with mid-range farmers. We have great market share in this area. Then we have our cash crop segment, which is more of the high-end corn and soybean producers. And we've got our pro work tools that include our consumer and contractor lines." Hughes said the company's best growth opportunities are with, what he called, "mixed farming.":

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications, Inc., 16655 W. Wisconsin Ave, Brookfield, WI 53005. Please send any address changes as soon as possible to the address shown above. U.S., Canada and Mexico print subscriptions are $499 per year. International print subscriptions are $599 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.

Equity Firm Acquires Significant Shares of Ingersoll Tillage Group

Ingersoll Tillage Group (ITG) and its majority owned subsidiary, Corporacion Patricio Echeverria announced the sale of a substantial portion of ITG's shares to ONCAP, a mid-market private equity firm, on June 1. The investment was made in partnership with Robert "Butch" Mandel, a Canadian entrepreneur with ownership interests in several steel processing and distribution businesses in addition to his shareholdings in ITG. The terms of the transaction were not disclosed. The investment will be made by ONCAP III, a $800 million fund.

ITG is a global manufacturer of precision consumable wear components for soil preparation as well as seeding equipment implements, which are marketed under the Ingersoll Tillage and Bellota AgriSolutions brands and serves both the OEM and aftermarket channels. Bellota Hand Tools division is also a leading manufacturer and distributor of branded manual hand tools for the agriculture, construction and gardening end markets in Europe, North America and Latin America under leading brands including Bellota and Corona. The company is currently based in Hamilton, Ont., and Legazpi, Spain. The combined company has over 1,500 employees in 14 countries with products sold in over 80 countries around the world.

In a June 11 interview with *Ag Equipment Intelligence* Ingersoll Tillage Group's Vice President of Sales & Marketing Roger Murdock said, "We are excited that one of our current shareholders, Butch Mandel, decided to increase his shares in the company and partner with ONCAP with a desire to grow the company even more than it already has in recent years. It's not often that you come across a shareholder who is intent on growing a company in a down market. He and ONCAP are very enthusiastic, not only about the ag market, but also the hand tool market that was brought to us through Bellota a year and a half ago."

The investment represented ONCAP's first in an ag company, said Murdock. "ONCAP was looking to get into ag for quite some time. Not only does this deliver the OEM segment, but also the aftermarket and a presence in tillage products globally, which they're very enthusiastic about." **AEI**

FARM MACHINERY TICKER (AS OF 6/11/15)

MANUFACTURERS	Symbol	6/11/15 Price	5/12/15 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$49.90	$50.49	$57.99	$41.45	N/A	45,797	714.29M
AGCO	AGCO	$51.41	$51.00	$57.46	$41.56	13.89	1,053,550	4.53B
AgJunction Inc.	AJX	$0.60	$0.67	$0.84	$0.51	N/A	52,543	43.39M
Alamo	ALG	$55.10	$52.48	$64.45	$37.93	15.78	48,594	626.4M
Art's Way Mfg.	ARTW	$5.27	$4.91	$7.08	$4.27	15.94	30,864	21.36M
Blount Int'l.	BLT	$11.29	$11.78	$17.97	$11.14	16.13	400,727	549.01M
Buhler Industries	BUI	$4.70	$5.00	$6.75	$4.44	24.74	786	117.5M
Caterpillar	CAT	$88.17	$88.16	$111.46	$78.19	14.12	5,155,520	53.25B
CNH Industrial	CNHI	$9.02	$8.56	$10.76	$7.35	15.31	1,481,700	12.26B
Deere & Co.	DE	$93.22	$90.41	$94.88	$78.88	12.72	2,644,400	31.12B
Kubota	KUBTY	$81.47	$76.81	$84.15	$63.70	18.66	17,912	20.36B
Lindsay	LNN	$81.28	$77.08	$90.30	$73.01	22.84	137,861	958.34M
Raven Industries	RAVN	$20.49	$19.96	$34.56	$16.91	29.91	174,936	774.54M
Titan Int'l.	TWI	$11.11	$11.14	$17.20	$8.77	N/A	559,292	597.5M
Trimble Navigation	TRMB	$23.10	$25.04	$38.99	$22.51	33.97	1,398,720	5.99B
Valmont Industries	VMI	$123.65	$123.52	$163.23	$116.36	19.67	237,883	2.92B
RETAILERS								
Cervus Equipment	CVL	$16.31	$18.19	$22.69	$16.29	16.07	14,952	252.76M
Rocky Mountain Equipment	RME	$9.20	$9.41	$11.55	$8.20	9.09	11,929	178.33M
Titan Machinery	TITN	$14.58	$13.98	$16.73	$10.69	N/A	140,203	307.5M
Tractor Supply	TSCO	$90.12	$86.82	$91.90	$55.95	32.92	710,675	12.29B

Despite Headwinds, Titan Machinery's Results Surpass Analysts' Target

While Titan Machinery saw its first quarter 2016 revenue drop by 24% vs. the same quarter last year, its earnings per share of $0.13 surpassed analysts' forecast of $0.09. According to Rick Nelson, analyst with Stephens, the company beat the consensus outlook for the first time in 6 quarters.

"Titan has reduced its cost structure by eliminating headcount, altering compensation and closing stores, with further inventory reductions planned," Nelson said in a note to investors.

Titan, which is CNH Industrial's largest dealer of farm machinery, also reduced its year-end new and used equipment inventories by $168 million compared to the fourth quarter of fiscal year 2014.

Following the release of the company's fourth quarter fiscal 2015 and full-year results, *Ag Equipment Intelligence* interviewed David Meyer, Titan's chairman and CEO, and Mark Kalvoda, the company's CFO, to discuss the progress the 108-location dealership group had made during the fourth quarter. With the downturn in ag equipment sales in 2014, Titan has been focusing on reducing equipment inventories, improving cashflow and strengthening its balance sheet, to minimize the impact on the company's 2016 fiscal year performance.

Kalvoda told *Ag Equipment Intelligence*, "We anticipate a further $150 million reduction in fiscal 2016 and expect the quarterly inventory stocking trend to be similar to that of fiscal 2015, with most of the reduction occurring in the fourth quarter. We were able to decrease our used inventory in fiscal 2015 and will continue to focus on moving used equipment in fiscal 2016."

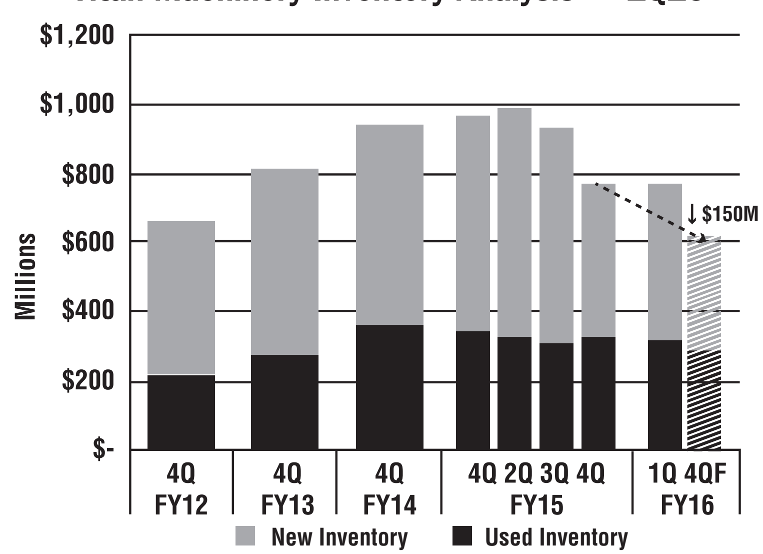
For the first quarter of fiscal 2016, Titan had decreased its inventory by over 20% compared to equipment inventory at the same time in fiscal 2015. This inventory change includes a decrease in new equipment of $166 million and a decrease in used equipment of $30 million.

Titan Machinery 1Q16 Selected Data
(millions of dollars)

	Q1 FY2016	Q1 FY2015	Change
Total Revenue	$353.2	$465.5	-24.1%
Equipment	$245.0	$345.0	-29.0%
Parts	$61.5	$68.4	-10.0%
Service	$32.9	$37.1	-11.3%
Rental & Other	$13.8	$15.0	-7.8%
Segment Overview			
Agriculture	$239.9	$344.4	-30.4%
Construction	$81.2	$91.8	-11.5%
International	$32.2	$29.3	+9.7%
1Q16 Financials			
Gross Profit	$60.4	$75.9	-20.4%
Gross Profit Margin	17.1%	16.3%	+80bps
Operating Expense Margin	16.2%	15.3%	-90bps
Non-GAAP Adjustments	$4.2	$6.3	—
Floorplan/Other Interest Expense Margin	2.4%	1.7%	-70bps

"During the first and second quarters, we tend to stock more, but we continue to make some progress on the new and used. There is still more to go as we're expecting to get down $150 million for the year, but we continue to make progress in that regard," Kalvoda told analysts.

Titan Machinery Inventory Analysis — 1Q16



Titan Machinery's management said it expects to further reduce its equipment inventory by $150 million during its current fiscal year.

Source: Company reports:

Titan management isn't expecting a significant turnaround in ag equipment business levels during fiscal 2016, and are projecting ag same-store sales to decline 20-25%, reflecting lower anticipated results from equipment revenues and a slight decrease in revenues from parts and sales.

The modeling assumption for equipment margins for the full-year are projected to be in the range of 7.7-8.3%. "We expect to be profitable on an adjusted diluted earnings per share basis for fiscal 2016," Kalvoda said.

As for the outlook for additional acquisitions, Meyer told *Ag Equipment Intelligence* the opportunity is probably better down the road than in the near term. "Our main focus right now is hitting our revenue targets, expense reduction, reducing inventory and growing our cash. Down the road there is going to be some consolidation, but we think our ability to do a good job with quality acquisitions is going to be dependent on getting our balance sheet in great shape, putting us in the position to capitalize on these opportunities." **AEI**

Dealers Project Slower Precision Growth in 2015

In the midst of a downturn in the agricultural equipment market, precision farming dealers are faced with a changing landscape for technology sales, as customers become more discerning with their immediate on-farm expenditures.

By no means is precision farming a shrinking industry, but dealerships are adapting and evolving business strategies to emphasize recurring services and complementary products rather than one-time equipment sales.

The 3rd Annual *Precision Farming Dealer* benchmark study reflects this ongoing transition. The magazine is a sister publication of *Ag Equipment Intelligence* and *Farm Equipment*.

While this year's results continue the trend of dealers incorporating more perpetual revenue streams and data management services, the long-term outlook appears to have shifted somewhat as dealers search for profitable — and perhaps undervalued — pockets of the precision industry to capitalize on.

Based on responses gathered during the first quarter of 2015 from 21 different states and Canada, fewer dealers expect this year to be as profitable as 2014. More than 58% of dealers reported precision revenue increases of at least 2% in 2014 vs. 2013, with about 30% indicating a jump of 8% or higher.

But dealers are less optimistic this year. Only 19.7% of respondents forecast precision sales of 8% or more in 2015, while the percentage of dealers who expect revenue growth in the 2-7% range remained the same at 28.8% year-over-year.

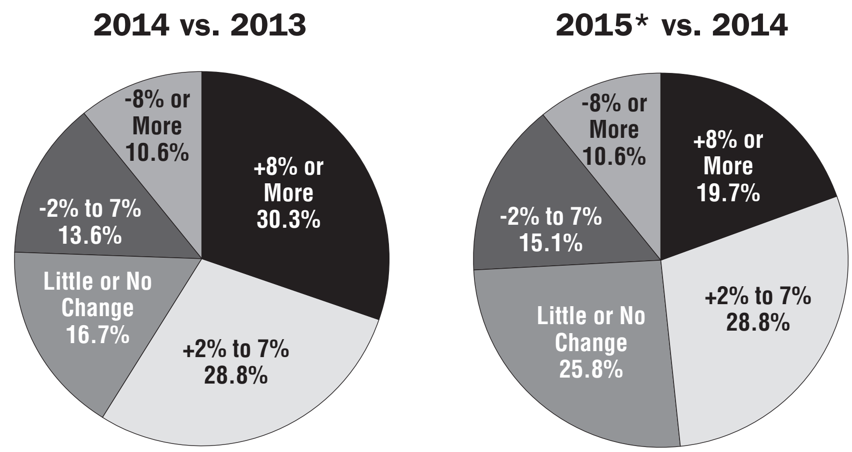
The percentage of respondents who anticipated little or no change in revenue this year, compared to 2014 increased to 25.8% from 16.7% between 2013 and 2014.

Perhaps some good news is that the percentage of dealers who expect revenue to decline this year is less than 2% higher than in 2014. And those forecasting a revenue decline of 8% or more remained unchanged at 10.6% compared to 2014.

Overall, nearly one-half of dealers (48.5%) expect revenues from the sales of precision ag equipment and service to increase 2% or more in 2015. This compares with 59.1% of dealers who indicated increases of 2% or more a year ago.

The complete 2015 benchmark study report can be found in the summer print edition of *Precision Farming Dealer* and at precisionfarmingdealer.com. AEI

Precision Farming Revenue Comparison



**2015 percentages are based on 1st quarter projections*

Dealers forecast a slower market for precision farming equipment sales in 2015, compared to the prior year, as the ag industry navigates through an economic downturn.

Source: Precision Farming Dealer

Belarus Making Broad Strides in Production of Farm Machinery

In opening the 25th International Belagro Expo in Minsk earlier this month, Vladimir Semashko, deputy prime minister of Belarus, said that 20 years ago the country's manufacturers produced only 16-17% of the equipment required for growing staple crops.

"We manufactured an incomplete line of tractors, forage harvesters, tractor trailers. Today, we produce a full lineup of agricultural machinery," Semashko said.

He added that between 2007-2013 Belarus produced agricultural machinery worth more than $22 billion. About one-third of the output was sold domestically and two-thirds internationally. This suggests, Semashko noted, that the equipment is competitive. The country's biggest export markets include Russia and other CIS countries.

"Today, the average age of the equipment used in the agricultural sector is approximately 6 years. The process of upgrading the equipment is ongoing. We never stop," said Semashko. "If you stop today, you will lose competitiveness tomorrow. Therefore, the academic institutions affiliated with the Industry Ministry and the Ministry of Agriculture and Food are constantly working on the equipment, on the new philosophy for the agricultural industry. Our ministers and their deputies regularly attend various European and international expos. Everything new they see, they try to bring to Belarus and adjust to local conditions."

According to the 2015 Agricultural Machinery Report released last month from VDMA Agricultural Machinery Assn. based in Frankfurt, Germany, over the past year, about 73% of combines imported to Russia were from Belarus. VDMA also reports that tractor production in the country declined from 60,386 units in 2012 to 41,814 in 2014. AEI

VDMA Pushes U.S. TTIP Proposal; Issues 12-Point Plan to Promote Free Trade

In his introduction to the "Economic Report — 2015" on agricultural machinery issued in May by the VDMA Agricultural Machinery Assn. based in Frankfurt, Germany, Dr.-Ing. Hermann Garbers, chairman of the group, strongly urges European manufacturers to continue working toward more open free trade policies and standardization of electronic components.

"Open markets are absolutely crucial if we are to continue our growth trajectory well into the future," Garbers said. "However, the idea of an international free trading system is still a long way off for some. Current developments in Eastern Europe alone ought to be a warning to us, as well as the situation in large parts of South America and Asia.

"This is why," he said, "it is all the more important for us to come to grips with tackling the status quo prevalent in so many places, challenging those areas with room for improvement, especially in established sales markets."

Garbers cited the Transatlantic Trade and Investment Partnership (TTIP), which is currently under consideration by the U.S. Congress. This action, he said, "will create huge potential for business with the U.S., which cannot be overestimated. The United States, with its export volume of almost €1 billion, is now the second largest sales market for tractors and agricultural machinery produced in Germany.

"A strategic heavyweight of this kind, accounting for 13% of our overall sales as an industry, must be seen as a partner of equal standing. To ensure that this relationship has a lasting basis, however, is a job that needs to be tackled by the industry as a whole."

12-Point Plan. According to Garbers, VDMA intends to systematically address all aspects relevant to the TTIP negotiations process, and "also lend some much needed objectivity to a debate that has frequently become rather overheated." He said, VDMA's has developed a 12-point plan that includes:

1. Completely eliminating all tariff barriers
2. Business-friendly rules of origin
3. Facilitating customs clearance
4. Simplifying transatlantic mobility
5. Transparent access to the public procurement market at all levels
6. Comprehensive investor protection
7. Transparency and harmonization of intellectual property rights
8. Abolishing extraterritoriality (exemption from local laws)
9. Transparent development of technical regulations on product safety
10. Strengthening regulatory cooperation
11. Mutual recognition of conformity assessment procedures
12. Accreditation according to internationally recognized accreditation rules. **AEI**

Tractor Production & Markets in Selected Countries — 2012-14
(units)

Country	Production			Sales		
	2012	2013	2014	2012	2013	2014
Brazil	64,456	77,613	64,794	55,819	65,089	55,623
USA	154,705	160,170	157,870	185,164	201,770	207,833
Italy(1)	71,021	67,000	N/A	19,339	19,017	18,176
Germany	59,213	63,599	51,349	36,264	36,248	34,611
France	28,364	28,300	24,000	38,764	42,646	33,127
Belarus	60,386	53,146	41,814	N/A	N/A	N/A
Turkey	53,982	56,407	64,342	50,320	52,285	59,458
>30HP	51,200	53,500	61,000	48,170	48,100	56,500
China	NA	NA	NA	2,230,000	1,815,000	1,858,000
>30HP	499,200	505,200	525,000	416,000	421,000	515,000
India	578,690	696,901	612,994	590,672	696,828	626,839
>30HP	524,159	628,298	551,721	535,166	625,672	565,649
S. Korea	49,980	42,629	49,515	12,246	11,688	10,548
Japan	158,668	157,864	148,226	44,993	51,778	46,157
>30HP	86,764	95,078	N/A	16,539	22,025	20,994

[1] *includes crawlers*

Data compiled by VDMA Agricultural Machinery Assn. based in Frankfurt, Germany, shows that, on a unit volume basis. China and India remain the biggest producers of farm tractors worldwide.

Source: VDMA

Sales Decline Across the Board in May

North America large ag equipment sales declines continued in May, with 4WD tractor sales down 30.5%, combine sales down 17.9% and row-crop tractors down 31.9%, according to the latest numbers from the Assn. of Equipment Manufacturers.

Mid-range tractor sales joined in the downward trend in May as well with sales down 14.3% year-over-year following a 7.5% increase the previous month, said Mircea (Mig) Dobre, analyst with RW Baird, in a note to investors. Compact tractor sales saw a 4.8% year-over-year decline as well.

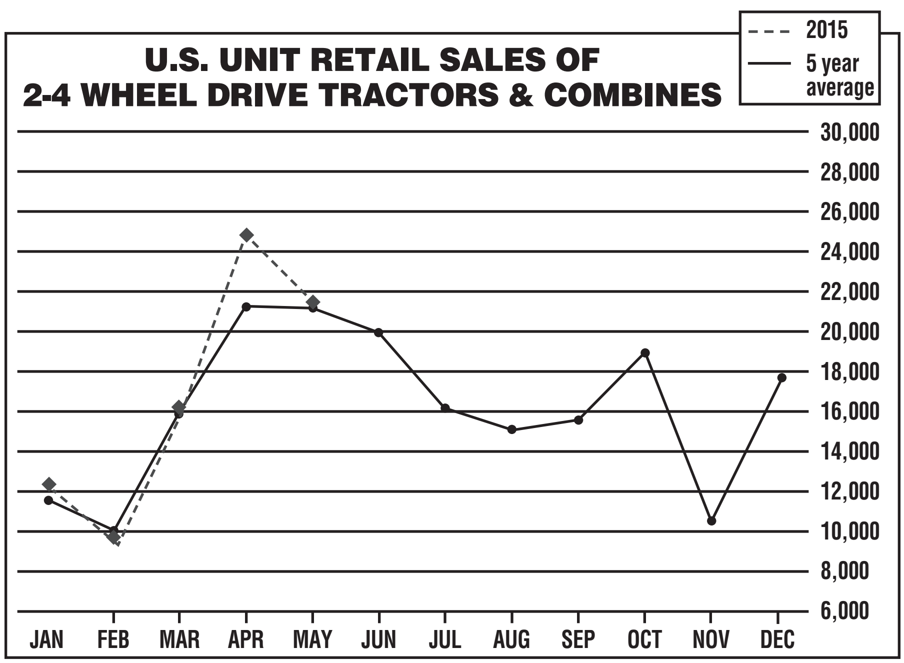
- U.S. and Canada large tractor and combine retail sales decreased 29% year-over-year in May, down from the 23% drop in April.
- Combine retail sales fell in May, posting a 17.9% drop following a 33.3% decrease the previous month. Last three month sales declined 34.4% year-over-year following a 36.7% decrease the previous month. U.S. combine inventories were 19.7% lower year-over-year in April vs. down 21.5% the month prior. Days-sales were up at 71 vs. 58 last April. May is typically a below-average month for combine sales, accounting for just 6.1% of annual sales over the last 5 years.
- Row-crop tractor sales saw a 31.9% year-over-year decline vs. down 16.6% in April. U.S. row-crop tractor inventories were up 2.1% year over-year in April vs. a 1.8% increase in March. On a day-sales basis, inventories were higher year-over-year at 128 days-sales vs. 104 days-sales in April 2014. May is typically an average month for row-crop tractor sales, accounting for 8.2% of annual sales over the last 5 years.
- 4WD tractor sales declined 30.5% year-over-year in May compared to a 42.3% decrease in April. Year-over-year, U.S. dealer inventories were down 35% in April.
- Mid-range tractor sales decreased in May, down 14.3% year-over-year following a 7.5% increase the previous month. Compact tractor sales decreased 4.8% year-over-year, down from the 17.1% increase in April. **AEI**

MAY U.S. UNIT RETAIL SALES

Equipment	May 2015	May 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	April 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	14,276	14,908	-4.2	48,082	46,152	4.2	71,069
40-100 HP	5,152	5,975	-13.8	22,561	23,122	-2.4	32,857
100 HP Plus	1,673	2,372	-29.5	10,801	13,363	-19.2	10,610
Total-2WD	21,101	23,255	-9.3	81,444	82,637	-1.4	114,536
Total-4WD	199	358	-44.4	1,315	2,475	-46.9	991
Total Tractors	21,300	23,613	-9.8	82,759	85,112	-2.8	115,527
SP Combines	391	570	-31.4	1,979	3,292	-39.9	1,333

MAY CANADIAN UNIT RETAIL SALES

Equipment	May 2015	May 2014	Percent Change	YTD 2015	YTD 2014	Percent Change	April 2015 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,725	1,920	-8.8	5,006	5,030	-0.5	9,279
40-100 HP	491	611	-19.6	2,092	2,381	-12.1	4,190
100 HP Plus	321	556	-42.3	1,935	2,198	-12.0	2,583
Total-2WD	2,564	3,087	-16.9	9,033	9,609	-6.0	16,052
Total-4WD	61	116	-47.4	442	605	-26.9	362
Total Tractors	2,625	3,203	-18.0	9,475	10,214	-7.2	16,414
SP Combines	158	99	59.6	489	622	-21.4	783



— Assn. of Equipment Manufacturers

exchange rates. In its "Economic Report — 2015" covering agricultural machinery, VDMA notes that, of the three countries Mexico, U.S. and Canada only Canada has a net import requirement.

In its analysis of the current economic environment in the U.S., VDMA says, "The party mood is most definitely over on the United States markets. This development was to be expected on account of the huge increases over the past few years. However, the current economic slump will set this year's market back by about 3 years. The main problem is not so much the lack of purchasing power on the part of customers — although this has been significantly reduced by the weak grain and soybean prices — but the low level of investment needs."

In reference to the generous Section 179 and Bonus Depreciation schedules available to U.S. farmers in recent years, the VDMA report goes on to say, "For many years, politicians tried to address this by creating incentives such as tax breaks on the purchase of new machinery, so farmers were able to write off the purchase value against a generous tax allowance in the first year of purchase. This measure coupled with decent incomes — firstly from arable farming and then also from milk production — has allowed sales figures of combine harvesters, tractors and other machinery to rise sharply for years and created a kind of bubble."

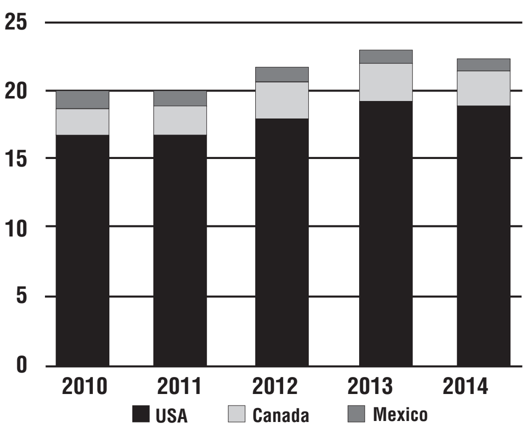
Used Equipment Backlog. As a result of the sharp increase in new equipment sales, "U.S. machinery dealers now have large stocks of used machinery on their hands, which have to be sold off at correspondingly low prices. This will be at the expense of the new machinery business and it is not yet clear how long it will be affected. The price difference between new and used machinery had already increased by several percentage points in 2014, so the mood among manufacturers is subdued."

In reference to used farm equipment prices, VDMA cited data from Iron Solutions, which estimates a used combine costs about 76% of the price of a new machine in 2014. This compares to 2013 when the figure was approximately 80%. According to Iron Solutions data, the highest prices for used machinery were last paid in 2010.

"It's not possible to tell at the moment if and when the trend will reverse. In general, the recession is expected to continue in 2016," says the VDMA report. Forecasts by the major full-line agricultural machinery companies indicate a drop of up to 30% in 2015. "However we can assume that the market is not currently suffering from any capacity or wear and tear issues and that following the boom of the last couple of years, things will settle down to a new, lower baseline over the medium term." **AEI**

North American Ag Equipment Market

(value of sales)

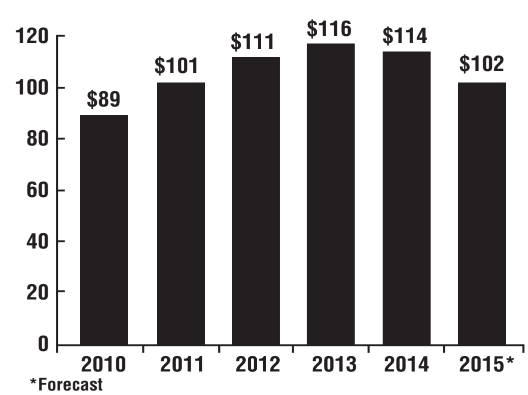


VDMA estimates that North American manufacturers accounted for $26 billion of the total $114 billion market in 2014.

Source: VDMA

Global Farm Equipment Production & Sales

(billions U.S.$)



Globally, the manufacture and sales of agricultural machinery in 2015 is expected to decline by about 10% compared with 2014.

Source: VDMA

U.S. Exports of Ag Equipment Fall in 1Q

The fall off in worldwide farm machinery sales has shown up in the export of U.S.-made ag equipment, according to a June 5 report from the Assn. of Equipment Manufacturers. AEM is reporting that through the first quarter of 2015, U.S. exports have declined 16.7% vs. the first quarter of last year.

With the exception of Central America, all world regions recorded declines. Europe experienced the deepest drop, citing U.S. Department of Commerce data it uses in compiling its global markets reports.

Results for the first quarter 2015 showed U.S. ag equipment exports by major world regions compared to first quarter 2014:

- Canada dropped 16.7%, for a total $582 million
- Europe declined 34.7%, for a total $410.5 million
- Central America gained 6.4%, for a total $273.3 million
- South America dropped 21.8%, for a total $187.8 million
- Asia fell 22.2%, for a total $178 million
- Australia/Oceania fell 16.2%, for a total $120.7 million
- Africa decreased 6.3%, for a total $67 million

"This quarter decline of 16.7% was quite steep, though less harsh than the 29% decline in the last quarter or the 19.3% decline in the first quarter of 2014," said Benjamin Duyck, director of market intelligence for AEM. "As global market drivers had not changed much from last year, declines in the exports of farm equipment were expected."

He added, while exports have decreased, the U.S. domestic market is moving in different directions. Small equipment used for landscaping services, hobby farmers and livestock continues to grow, while sales of larger tractors and combines, used in production ag, continue to decline.