May 2015
Vol. 3 • No. 5

Ag Equipment Intelligence's

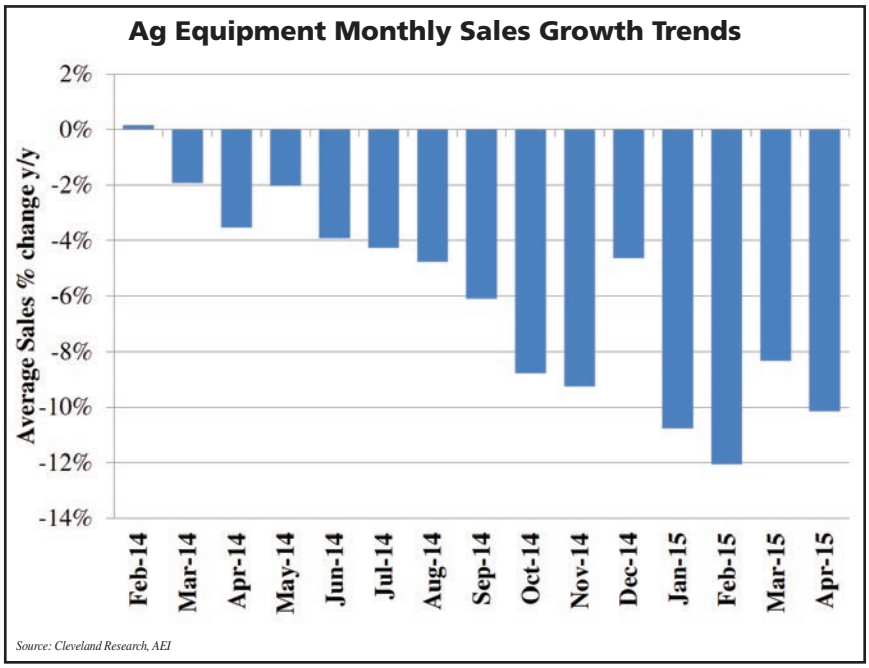
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 10% in April

- ✔ Ag equipment dealers reported **sales were down 10%** year-over-year on average in April.
- ✔ Kubota dealers reported the best results with flat sales, while Case IH dealers reported the largest decline at down 17%.
- ✔ Sales were slightly below dealer expectations, with a net 2% of dealers missing their sales budgets for the month, the third consecutive month of sales below plan.
- ✔ A net 41% of dealers reported new equipment inventories were "too high" in April, compared to a net 33% the previous month.
- ✔ **A net 43% of dealers reported used equipment inventories were "too high"** in April, down from the net 47% level the previous month.
- ✔ Incoming orders declined 19% year-over-year on average in April, a deterioration from the 12% decline in March.



Results vs. Expectations

	Feb-14	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
Better than expected	20%	21%	21%	29%	25%	26%	28%	24%	22%	21%	29%	26%	13%	20%	27%
In line with expectations	55%	54%	54%	52%	53%	49%	47%	47%	51%	30%	47%	57%	59%	50%	44%
Worse than expected	25%	26%	25%	19%	23%	26%	25%	29%	27%	39%	23%	18%	28%	28%	29%
Net % (Better - Worse)	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%	6%	8%	-14%	-8%	-2%

2015 Dealer Outlook Unchanged

- ✔ For 2015, dealers are expecting sales to decline 13% year-over-year on average, unchanged from their forecast last month. Overall, 23% of dealers forecast sales growth for the year, while 61% forecast sales declines.
- ✔ New Holland dealers are the most optimistic, forecasting sales to be down 4% for the year. John Deere dealers, who were the most optimistic last month, were the least optimistic in April, calling for sales to be down 15% vs. their forecast of down 8% in March.

Dealer Outlook

(% chg y/y)	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
AGCO	6%	0%	-9%	0%	-10%	-11%	-12%	-5%
John Deere	-12%	-14%	-9%	-9%	-11%	-18%	-8%	-15%
New Holland	9%	-8%	-10%	-3%	-6%	-11%	-10%	-4%
Case IH	-12%	-11%	-16%	-11%	-14%	-17%	-17%	-14%
Kubota	7%	-6%	-14%	-6%	-11%	-13%	-17%	-10%
Shortlines/Other	1%	-4%	-16%	-9%	-7%	-10%	-19%	-10%
Overall	**-9%**	**-11%**	**-10%**	**-8%**	**-11%**	**-13%**	**-13%**	**-13%**

Dealer Optimism Improves

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved in April. A net 26% of dealers reported a less optimistic outlook for the year (14% more optimistic, 46% the same, 40% less optimistic). This compares to a net 29% of dealers who reported a less optimistic outlook in March.

Optimism/Sentiment vs. Last Month

	Feb-14	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
More Optimistic	24%	26%	24%	25%	23%	13%	12%	16%	8%	9%	12%	12%	9%	14%	14%
Same	50%	51%	44%	45%	42%	45%	50%	46%	48%	38%	39%	52%	50%	42%	47%
Less Optimistic	26%	23%	32%	30%	35%	42%	38%	38%	44%	53%	49%	36%	41%	43%	40%
Net % Dealer Optimism	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%	-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.

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., 16655 W. Wisconsin Ave., Brookfield, WI 53005.

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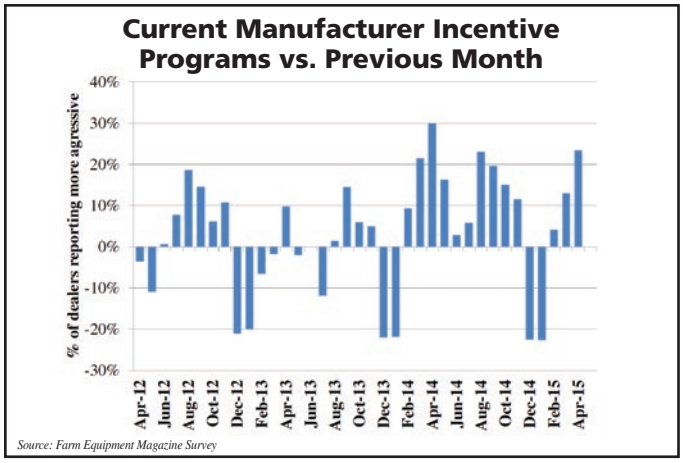
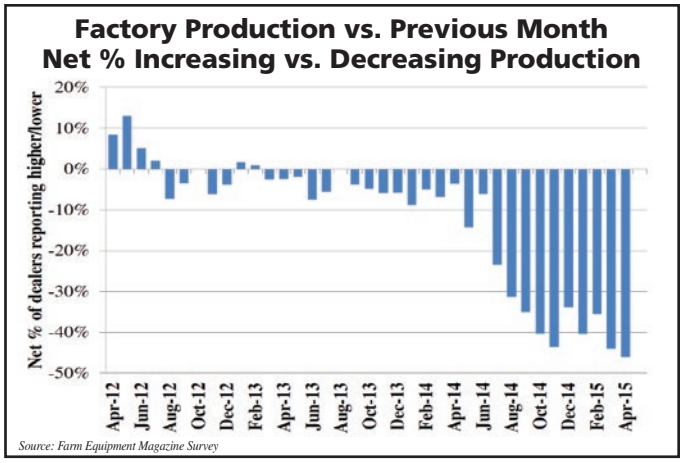
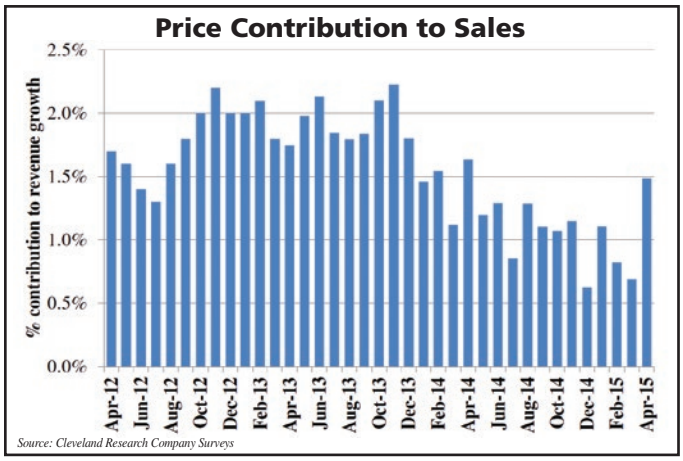
NEW EQUIPMENT TRENDS



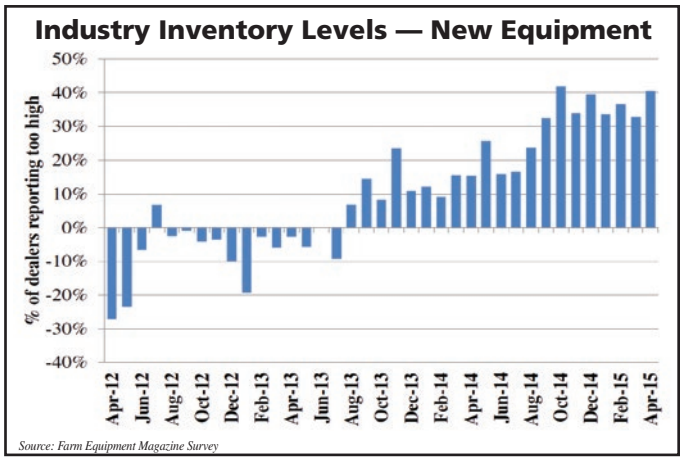
A net 23% of dealers report manufacturers were more aggressive with incentives in April, up from the net 13% in March. The relative magnitude of incentives is reported to be relatively low, as underlying equipment demand remains weak.



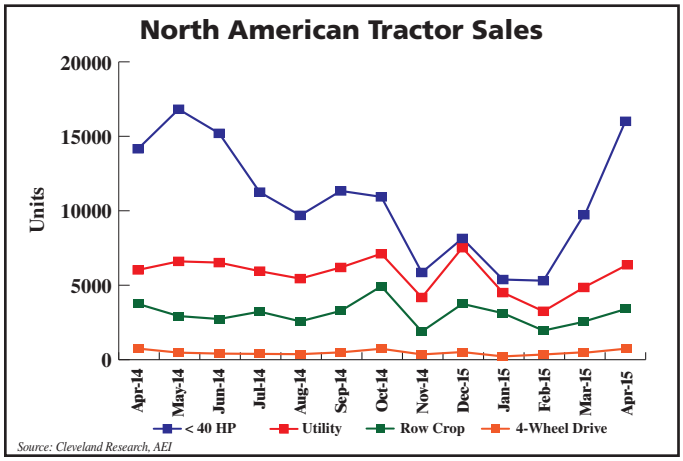
A net 46% of dealers report factory production was down in April, the lowest level in our survey history and below a net 44% reporting factory production being down the previous month.



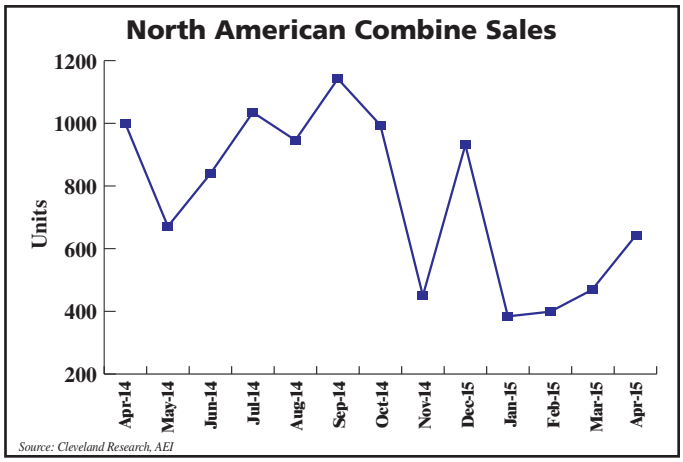
Pricing increased notably in April, rising to a 1.5% contribution to sales growth from between 0.5-1% over the last several months. The improved price realization is generally happening in Canada, where several dealers reported price realization over 10% to address significant currency swings so far this year.



A net 41% of dealers reported new equipment inventory as "too high" in April compared to a net 33% the previous month, trending toward the high end of a fairly even range over the last 6 months.

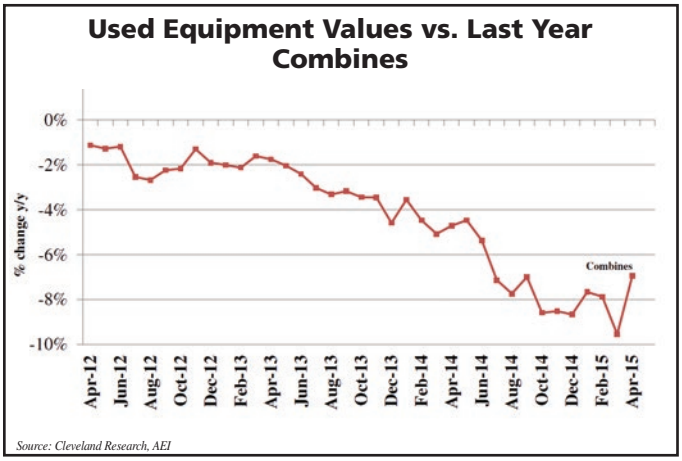


Total North American tractor sales were up 8% in April year-over-year, but row-crop and 4WD tractors were down 17% and 42%, respectively.

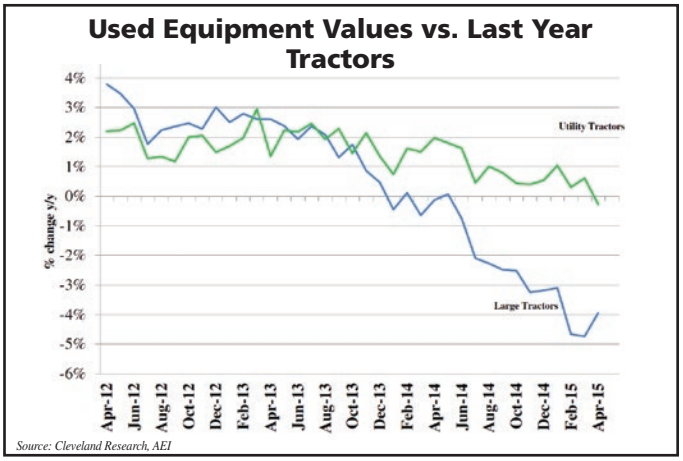


North American combine sales came in at 664 units in April, compared to 470 the previous month. On a year-over-year basis, combine sales are down 33%.

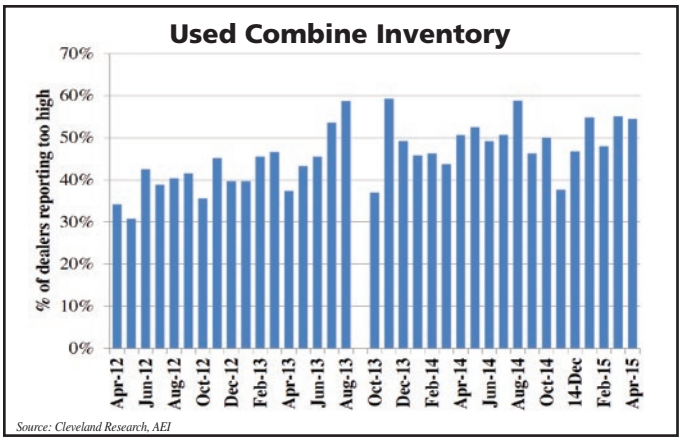
USED EQUIPMENT TRENDS



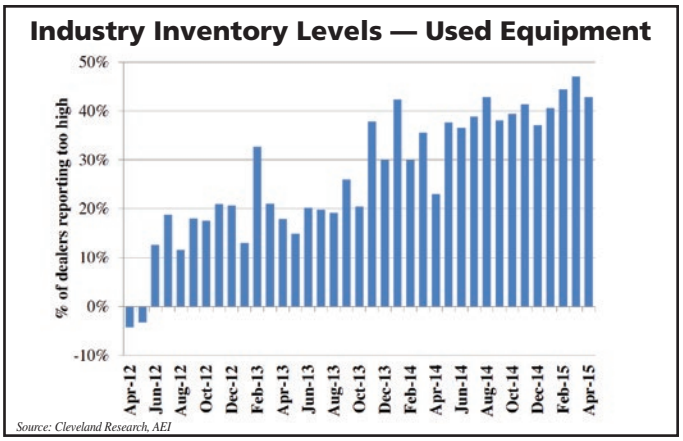
Used combine values are reported at down 7% year-over-year in April, an improvement from the 10% year-over-year decline reported the previous month.



Dealers reported large tractor sales are down 4% year-over-year, a slight improvement from the 5% decline the previous month. Small tractor values have been flattish recently.

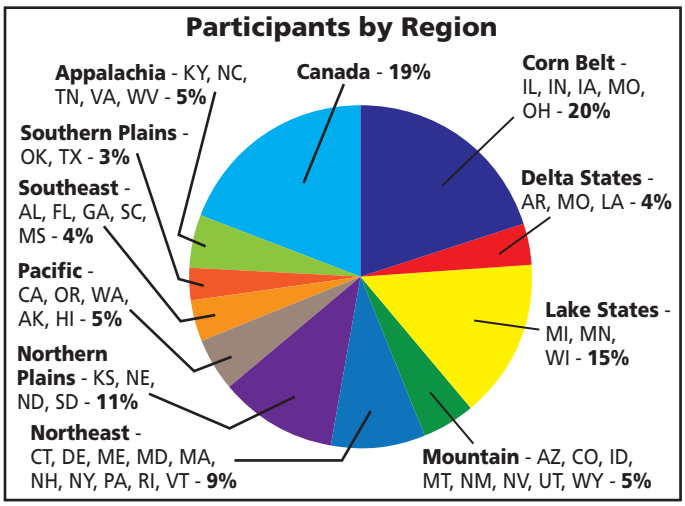


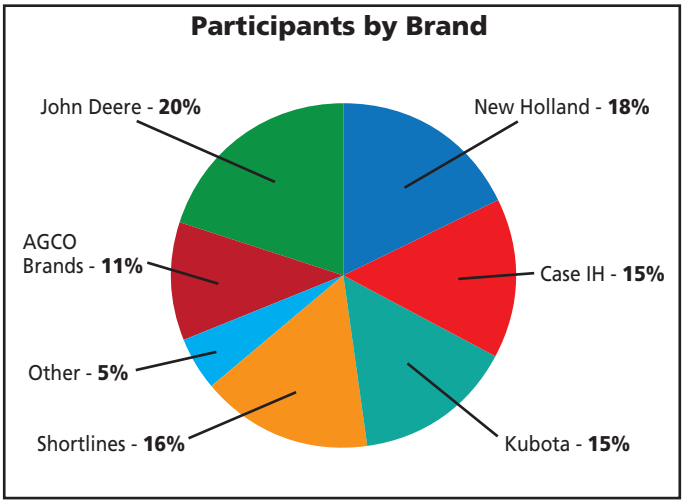
Used combine inventory levels have ticked up over the last 2 months to a net 54% of dealers reporting inventories as too high.



A net 43% of dealers reported used equipment inventories were "too high," down from the net 47% who said inventories were too high the previous month.

APRIL 2015 SURVEY RESPONDENTS





The April survey had 101 respondents representing combined annual revenues of roughly $4.5 billion, covering a broad cross section of geographies and brands.