

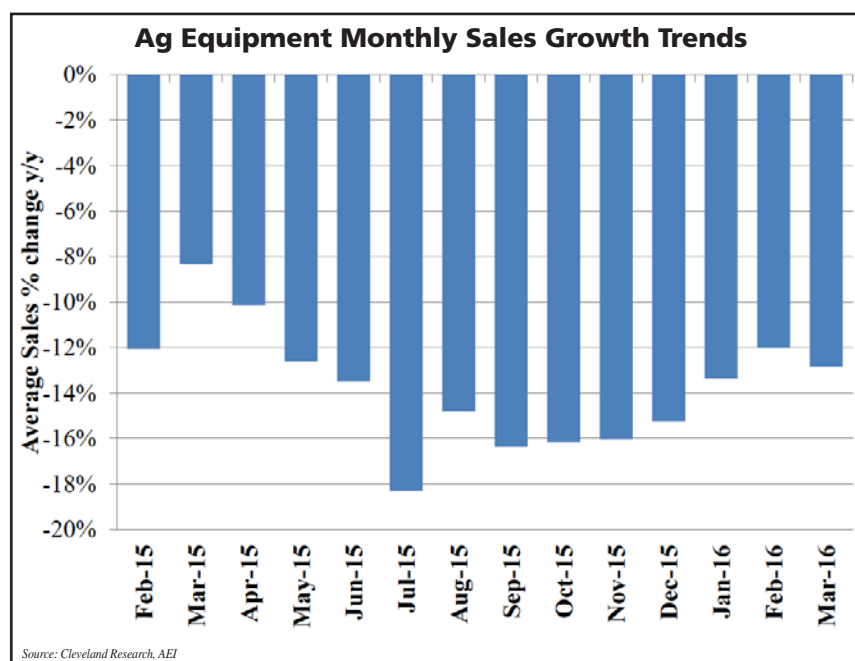
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 13% in March

- ✓ North American ag equipment dealers reported their sales, on average, were down 13% year-over-year in March, slightly worse than the 12% decline the month before.
- ✓ A net 39% of dealers say their new equipment inventories are "too high," an improvement from the net 42% the previous month.
- ✓ Used equipment inventories for March were improved, with a net 27% of dealers reporting inventory was "too high" vs. 40% the month prior.
- ✓ Dealers reported relatively flat new equipment pricing following a slight uptick in the 4Q as Tier 4 sales and OEM price increases have been offset by greater discounting at the dealer level. Used large tractor pricing is reported down 6% year-over-year on average. Used combine prices were reported down 11%, a slight improvement from the 14% drop reported in February.



Results vs. Expectations														
	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Better than expected	13%	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%
In line with expectations	59%	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%
Worse than expected	28%	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%
Net % (Better - Worse)	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%

## 2016 Full-Year Outlook: Down 11%

- ✓ On average, dealers are forecasting 2016 sales to be down 11% year-over-year, a slight deterioration from the 10% drop forecast in February. A net 32% of dealers are forecasting a sales decline (25% increase, 19% about the same, 57% decline).
- ✓ Kubota dealers were once again the only group to forecast a sales increase for 2016, calling for sales to be up 9%. AGCO dealers are calling for the largest drop in sales, forecasting a 15% decline.

Dealer Outlook — 2016							
(% chg y/y)	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
AGCO	-9%	-8%	-7%	-9%	-10%	-6%	-15%
John Deere	-6%	-10%	-9%	-8%	-12%	-10%	-12%
New Holland	-5%	-12%	-9%	-13%	-6%	-11%	-12%
Case IH	-7%	-8%	-10%	-10%	-12%	-15%	-11%
Kubota	3%	3%	4%	2%	-7%	5%	9%
Shortlines/Other	-9%	-15%	-8%	-6%	-12%	0%	-14%
Overall	-6%	-9%	-9%	-9%	-11%	-10%	-11%

## Dealer Optimism Improves Again

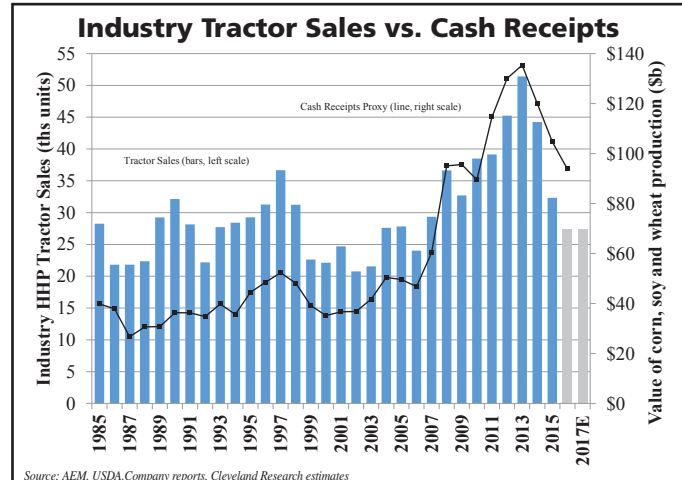
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 11% of dealers being less optimistic (17% more optimistic, 55% same, 28% less optimistic) in March compared to a net 24% who were less optimistic in February and a net 31% who were less optimistic in January.

Optimism/Sentiment vs. Last Month														
	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
More Optimistic	9%	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%
Same	50%	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%
Less Optimistic	41%	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%
Net % Dealer Optimism	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%

## USDA Outlook for Cash Receipts

This chart illustrates the historical relationship between the value of production of U.S. corn, soybeans and wheat compared to the annual industry sales of high horsepower tractors.

USDA's April crop report was slightly worse than March, with our cash receipts proxy forecast down 11% year-over-year in 2015-16 vs. a projected 10% decline last month and a 13% decline in the 2014-15 crop season. The lower forecast resulted from lower average corn and wheat price estimates, as anticipated usage declined for both crops.



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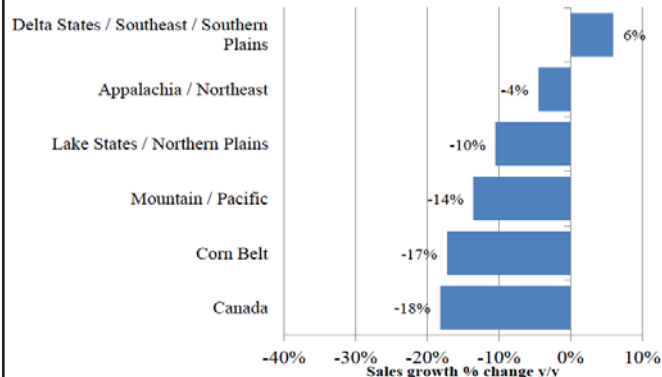
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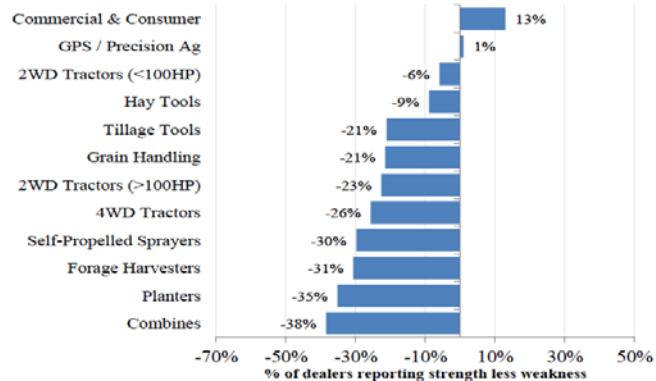
# NEW EQUIPMENT TRENDS

## Average Sales Growth by Region



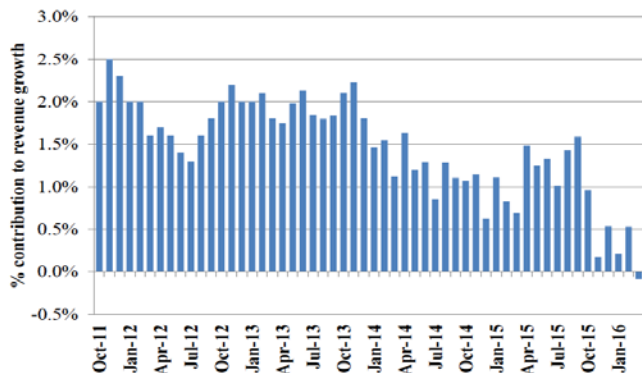
Sales were down in most regions in March with the Delta States/Southeast/Southern Plains being the exception with 6% year-over-year growth. The Mountain/Pacific region showed the greatest change in the month falling 14% year-over-year after only declining 2% in February.

## Equipment Category Sales Trends



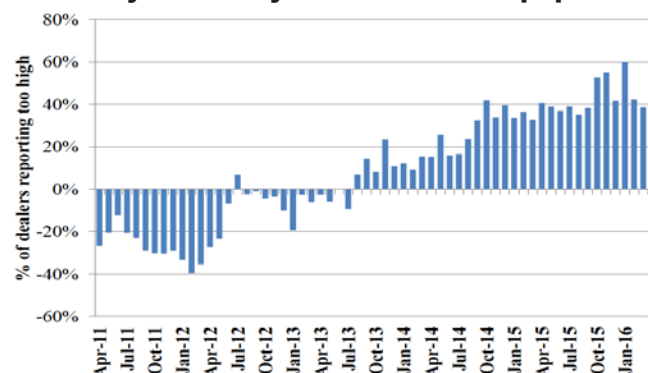
Commercial and consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). We continue to see significant headwinds to large equipment sales.

## Price Contribution to Sales



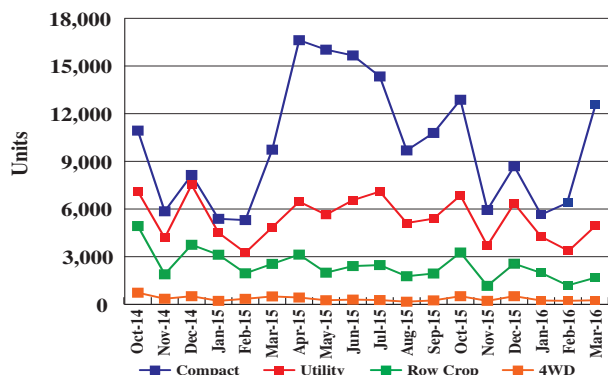
Dealers report several OEMs pushed through small price increases in 4Q (0.5-1%), with respondents reporting pricing in March was flat. The effect of the strong U.S. dollar on Canadian exchange rates continues to play a part in pricing inflation within North America.

## Industry Inventory Levels — New Equipment



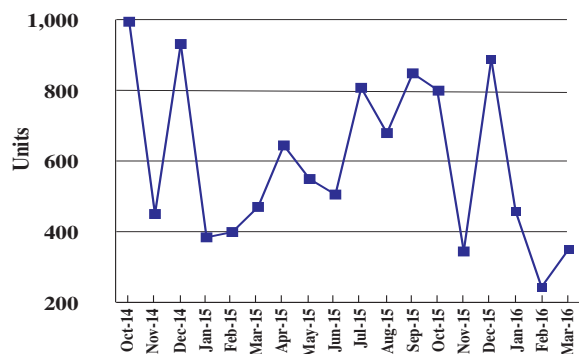
A net 38% of dealers reported new equipment inventories are "too high" (45% too high, 48% about right, 7% too low) vs. 42% in February and an average 47% in 1Q. This marks 19 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

## North American Tractor Sales



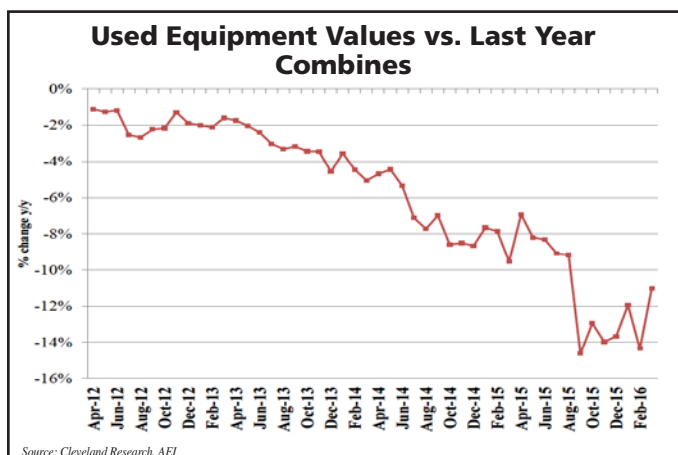
Total North American tractor sales were up 13% year-over-year in March, with sales for <40 horsepower tractors up 28% and sales of utility tractors up 7%. Sales for row-crop tractors were down 25% and 4WD tractor sales were down 48%.

## North American Combine Sales

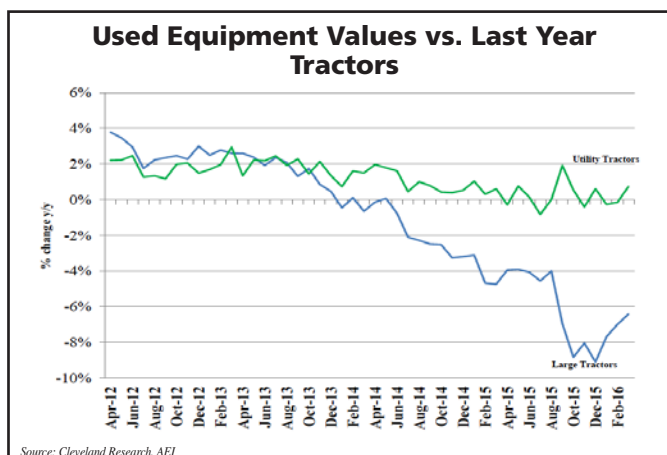


North American combine sales came in at 350 units in March compared to 470 units in March 2015. On a year-over-year basis, combine sales were down 26%.

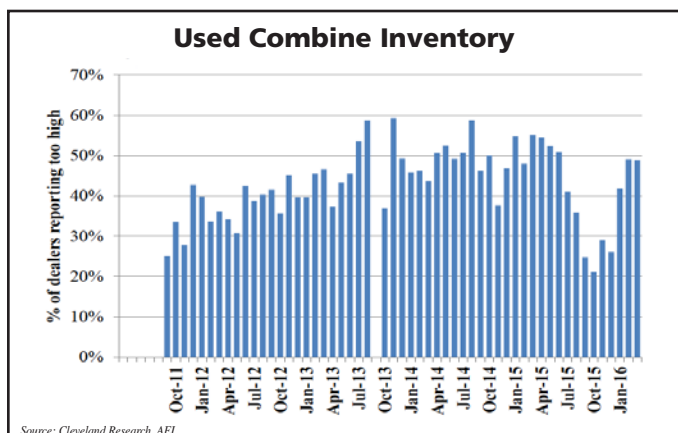
## USED EQUIPMENT TRENDS



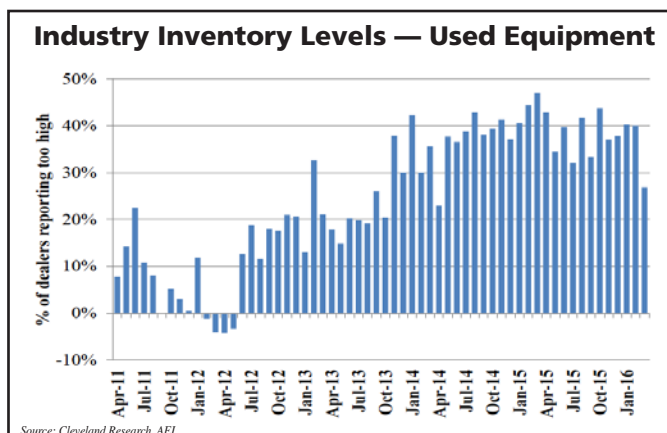
Used combine pricing was down 11% year-over-year in March, an improvement from the prior few months.



March saw slight pricing improvement for small tractors, which is in line with the past few months. On average, large tractor pricing was reported down 6% year-over-year, slightly better than the previous month.

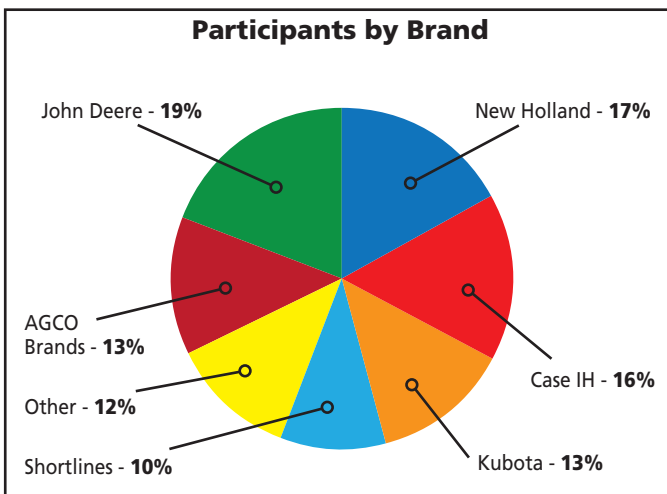
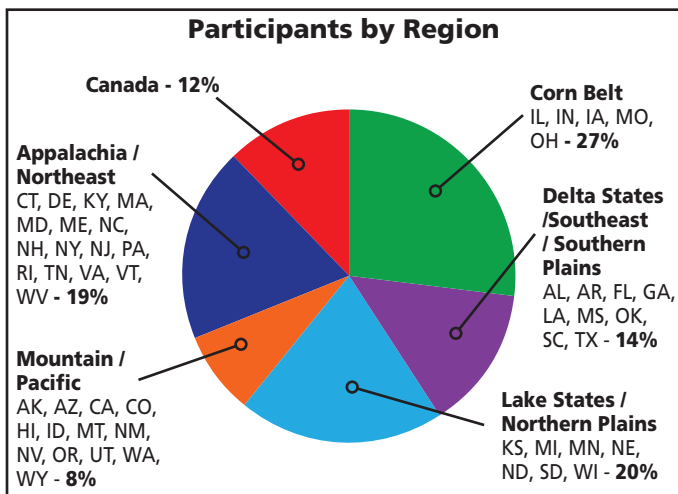


Used combine inventory levels were reported as too high by a net 49% of dealers in March, in line with February's results. Combine inventory appears to have reversed trend from 2H15, as inventory remains challenged vs. the modest improvements seen in overall used equipment levels.



A net 27% of dealers reported used equipment inventory as "too high" (39% too high, 48% about right, 12% too low). This is the best reading in 2016, but is unlikely to represent a material improvement in the used equipment market, as about 40% of dealers continue to report elevated inventory levels.

## APRIL 2016 SURVEY RESPONDENTS



The April survey had 275 respondents representing combined annual revenues of roughly \$8 billion, covering a broad cross section of geographies and brands.