From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- ‘Concept’ Tractor Year
- Deere-USDA Outlook
- TITN Makes Progress

Deere’s Short-Term Outlook Outshines USDA

Comparing Deere & Co.’s outlook for 2017 issued on Nov. 23 to that of USDA’s issued earlier this year, you would have to conclude that the world’s largest manufacturer of farm equipment is a bit more optimistic about the year ahead than is the U.S. ag agency. Nonetheless, both forecasts are well down from the $404 billion in cash receipts and $136 billion in net cash income levels the industry achieved in 2013.

If nothing else, recent trends in commodity prices, while still weak, are somewhat improved compared to a year ago. Declines in ag equipment sales are also expected to moderate. During a call with analysts following its earnings report on Nov. 23, a Deere spokesperson said, “There are signs that the large ag market is nearing bottom as indicated by the fact that the decline expected in 2017 is less than we saw in 2016.”

Crop Receipts Up? Based on USDA’s most recent (Dec. 9, 2016) World Agricultural Supply and Demand Estimates, Michael Shlisky, analyst for Seaport Global Securities,

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5-Year Avg. Major Crop Prices & Projected Net Farm Income

	5-Year Avg.	Current Value 2016**	Change
Corn*	$4.82	$3.32	–31%
Soybeans*	$12.10	$10.16	–16%
Wheat*	$5.93	$3.89	–34%
Net Farm Income	$101 billion	$71.5 billion*	–29%

**USDA Spot Price as of Nov. 25, 2016; **Projected Net Farm Income USDA Farm Sector Income Forecast, Sept. 12, 2016*

Manufacturer M&A: Possibilities to Ponder

Kubota made big news last spring when it announced it was acquiring Great Plains (*“Kubota Takes Another Major Step in Move into ‘Big Ag’ with Acquisition of Great Plains Mfg.,” Ag Equipment Intelligence, May 15, 2016*). The acquisition came 4 years after it purchased Kverneland. With its public intent to become the big player in the global ag market, Kubota has continued to keep the industry playing “what if” scenarios, and the ripples throughout the ecosystems that will accompany any of its moves.

More recently, New Holland acquired Kongskilde to fill in the tillage hole in its equipment offerings, as well as some additional hay and forage tools (*“Kongskilde Acquisition Fills Out New Holland’s Product Lineup,” Ag Equipment Intelligence, Nov. 15, 2016*).

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Versatile President Puts End to Rumors About Buying or Selling

The Russian-owned and Canadian-based ag equipment manufacturer Versatile has been an interesting company to follow in its goal to become a full-line farm equipment manufacturer. Today, the company’s product lineup includes tractors, self-propelled sprayers, seeding and harvesting equipment and recently it introduced a line of vertical tillage tools.

Ag Equipment Intelligence editors caught up with Versatile President Dmitry Lyubimov during the 2016 Versatile Dealer Meeting in Winnipeg on Nov. 17. During our conversation, Lyubimov put some rumors to rest, specifically those about acquisition on both sides of the equation. He says the Russian ownership is committed to the company and its dealer network.

“There are a lot of questions if the company is for sale or is not for sale, or if we want to buy something,” Lyubimov said. “The answer is we’re not going to buy any other companies or product lines. We are more than comfortable with what we have. The Russian shareholders are very committed to this company. We will be here for several years. Maybe we’ll investigate some opportunities to work with another company, but not our direct competitors. So some kind of partnership with another company is possible. The opportunity for the company to be sold or for us to buy somebody is not.”

During the meeting, Versatile officially announced the company’s new branding efforts. According to the company, “The return to the heritage Versatile colors had always been discussed but it wasn’t until the success of the Legendary Limited Edition that confirmation was received that the true Versatile colors are red, yellow and black, which will be incorporated into the 2017 models.”

A long time farm equipment industry executive, who did not wish to be identified, shared his take on some of the stories that are being bandied about at industry events with *Ag Equipment Intelligence*.

He pointed out that in almost all cases, the biggest challenge confronting equipment manufacturers that want to expand is distribution. There just aren't enough well capitalized and qualified dealers to go around. Often times, a merger or acquisition is the only way around the problem. A manufacturer with established distribution/dealer channels can make it an attractive takeover target.

Kuhn. The executive said Kuhn is one of the more interesting companies. "There are some strong independent companies in Europe (citing Lemken in the tillage sector) but no one is as strong in the breadth of implements as Kuhn — with hay tools, planters and tillage. The only thing missing is a tractor and harvesting equipment.

"Kuhn wants to be in a leadership role. They don't have Kubota-like aspirations to be bigger than Deere but want to make moves so that they can control their own destiny — and that requires distribution." He notes that the acquisition in 2014 of Brazilian-based self-propelled sprayer manufacturer Montana showed that Kuhn is open to entering new markets. "They have plenty of capital to think big."

Claas. The number one problem for Claas North America is distribution. "They'd love to bring tractors (Claas announced a limited introduction to North America in 2014 with its Xerion) here, but their biggest dealers are CAT dealers, and they don't want to bring a tractor to dealers that would have to compete with their AGCO mainline. The current distribution situation is going to limit Claas' growth potential — big-time."

An interesting scenario for Kubota would be the acquisition of Claas, he says. "Kubota is still missing the big harvesting sector, so Claas would be a natural place to look. Again, for Claas North America, their biggest hurdle is distribution. They tried Caterpillar but that didn't work out. Now they're having to put in company stores in order to find distribution."

In the past year, Claas stepped outside of traditional North American dealer channels and signed agreements with BayWa Ag of Munich, Germany, and MirTech (Mirovaya Technika) of Russia for sales and service support. BayWa will service the province of Alberta. MirTech will establish itself in the Western Delta region, where Holt CAT had withdrawn its Holt

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Claas + Kubota: What If?

This is pure speculation, but think about what a powerhouse would emerge if Claas and Kubota decided to get together?

In its September 2015 report, "Contraction Today, Consolidation Tomorrow?" Rabobank analysts Ken Zuckerberg and Harry Smit, discussed the possibilities and opportunities that could come from the current ag downturn.

The report authors note that during the past 25 years, consolidation of manufacturing and sales of high value-added, self-propelled farm field equipment manufacturers has resulted in six large global players based on 2014 ag equipment revenue. These include Deere & Co., CNH Industrial and AGCO, followed by Kubota Claas and Mahindra & Mahindra.

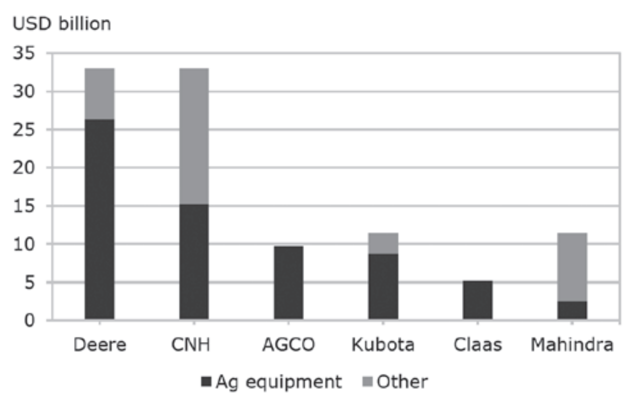
"When taking a closer look at relative size and market share, it is noteworthy to mention that Deere is similar in size measured by total revenue to CNH; however, its agriculture equipment business is 40% larger. Deere is more than 2.5 times larger than Kubota and AGCO, the next leading producers of farm tractors and combines. It seems logical that a strategic transaction among this peer group could occur in order to create a more formidable challenger to the market leader," said the analysts.

A partnership of Claas and Kubota would appear to be complementary. The Claas part of the equation would give Kubota the high horsepower tractors and combines it needs to meet its goal of taking on the industry's biggest players. Kubota, on the other hand, has far more North American dealers than Claas.

Using 2014 revenue numbers, the combination of Kubota and Claas were very close to CNH Industrial's total ag revenue of about $14 billion. Together, the two would, in all likelihood, still need to build a bigger, more encompassing distribution network to compete with Deere and CNH Industrial.

If you want to take such a scenario even further, bring AGCO into the Kubota and Claas deal. The new group would have ag revenues of $20 billion-plus, making it larger than those of CNH Industrial and approaching that of Deere. It would also go a long way in providing the new ag juggernaut a more complete North American distribution channel.

Tier 1 Ag OEMs Ranked by 2014 Revenue



Revenue wise, it would take a combination AGCO, Kubota and Claas to rival Deere and surpass CNH Industrial.

Source: Bloomberg, Rabobank, Company Reports, 2015

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Manufacturer M&A: Possibilities to Ponder...Continued from page 2

Agribusiness branches in Jonesboro, Ark., and Sikeston, Mo.

While the company is doing well financially (he noted that the company sold out its interests in the aviation industry and has not reinvested that capital yet), he views Claas as both a potential buyer and seller. "They realize the need to be full line; that they will have to broaden themselves and cannot be tied to another major as is the case with Caterpillar and AGCO."

Interestingly, he notes that Claas has taken on representation of Kinze in the Italian market. Kinze, which has fallen on hard times, is another frequently mentioned company that has something to offer an acquirer. One of the primary problems with Kinze, he believes, is the sheer size of the company's production capacity that is sitting idle currently. "There's so much production capacity out there, it will limit offers to only those who have biggest capacity needs."

"Kubota, Kuhn and Claas are all strong companies. They realize that success down the road is dependent on a first-class global distribution network that offers a full line of equipment to support itself." He added that the CNH acquisition of Kongskilde in late October also points toward a trend toward something more representative of North America's full-line model taking hold in Europe. **AEI**

Is 2016 the Year of 'Concept' Tractors?

First Case IH and New Holland rolled out their concept autonomous (driverless) tractors during the Farm Progress Show in Boone, Iowa, at the end of August. As would be expected, their introduction sparked a whole range of reactions, from spirited conversations and conjecture, to skepticism and indifference.

Now it's John Deere's time in the spotlight as it introduces its own "concept" tractor. This one isn't autonomous, it's totally electric.

Deere announced it would be showing its high-powered SESAM tractor (Sustainable Energy Supply for Agricultural Machines) at SIMA 2017 in Paris next February.

According to the show's organizers, "John Deere's commitment to electric mobility-based carbon-neutral farming is confirmed, with the all-electric high-powered SESAM tractor (up to 300 kW, or about 400 horsepower). Electrical energy is supplied by a set of 130 kWh/670 V Li-ion batteries." Power distribution is delivered by the two 150 kW electric engines respectively to the traction and the other components, like the PTO.

They went on to say that, beyond the benefits of an electric engine, the SESAM tractor retains the benefits of a mechanical transmission for torque-to-wheel distribution, without the costs of an electrical transmission for high power. Ergonomics of its system are close to that of the most advanced electric road vehicles. **AEI**

FARM MACHINERY TICKER (AS OF 12/13/16)

MANUFACTURERS	Symbol	12/13/16 Price	11/11/16 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$55.08	$46.55	$57.69	$24.68	302.64	58,892	813.27M
AGCO	AGCO	$59.23	$52.22	$61.22	$42.40	30.56	895,480	4.75B
AgJunction Inc.	AJX	$0.53	$0.58	$0.74	$0.42	N/A	40,198	65.81M
Alamo	ALG	$75.00	$72.93	$76.17	$48.26	19.74	50,527	863.3M
Art's Way Mfg.	ARTW	$3.15	$2.95	$3.30	$2.46	N/A	2,747	12.94M
Buhler Industries	BUI	$4.50	$4.69	$6.00	$4.40	N/A	877	112.5M
Caterpillar	CAT	$96.01	$93.01	$97.40	$56.36	93.39	5,332,430	56.17B
CNH Industrial	CNHI	$8.76	$7.94	$9.25	$5.67	N/A	1,140,010	11.91B
Deere & Co.	DE	$101.33	$91.10	$104.83	$70.16	21.07	3,193,850	31.86B
Kubota	KUBTY	$74.18	$76.53	$82.97	$58.99	0.14	12,433	18.52B
Lindsay	LNN	$86.96	$78.52	$89.98	$62.99	47.01	111,166	924.39M
Raven Industries	RAVN	$26.50	$24.95	$26.86	$12.88	104.74	127,558	958.21M
Titan Int'l.	TWI	$11.76	$11.55	$12.14	$2.50	N/A	469,878	635.433M
Trimble Navigation	TRMB	$29.89	$27.40	$30.53	$18.36	63.60	1,577,010	7.49B
Valmont Industries	VMI	$153.85	$138.85	$156.05	$96.50	48.29	136,242	3.46B
RETAILERS								
Cervus Equipment	CVL	$16.09	$15.35	$16.52	$10.41	13.91	12,211	253.09M
Rocky Mountain Equipment	RME	$9.49	$9.30	$9.89	$5.50	12.55	31,306	183.96M
Titan Machinery	TITN	$15.18	$10.76	$15.93	$7.87	N/A	110,448	321.61M
Tractor Supply	TSCO	$76.72	$71.10	$97.25	$61.50	24.35	1,881,310	10.07B

GKN to Break Up Ag, CE Components Division

GKN plc will disband its 6 year old operating division that encompasses components and assemblies used by agricultural and construction OEMs and reposition its activities in other operating divisions.

The restructuring of GKN Land Systems, revealed during a 9 month group trading update, follows the agreement to sell the division's Stromag brakes, specialized clutches and flexible couplings business unit, which accounts for around 17% of division revenues. (*See Altra Industrial Motion to acquire GKN Stromag below.*)

Starting in 2017, GKN's Walterscheid shafts, couplings and gearboxes operation will become part of GKN Drivelines, which serves the automotive market. The structures and off-highway wheel operations will fall under GKN's "Other Businesses."

The move is part of a wider reorganization as GKN seeks to focus on core businesses with potential for growth, building on its position as a leading supplier of driveline and other components to the automotive sector and as a growing player in aerospace engineering.

GKN Land Systems Division, GKN plc — Revenue & Earnings Summary

Year	Revenues	Change	Trading Profit	Group revenues %	Agriculture	Division %
2010	£699m	18%	£37m	12.8%	£260m	37%
2011	£885m	26%	£67m	14.5%	£338m	38%
2012	£933m	5%	£88m	13.5%	£366m	39%
2013	£899m	–4%	£75m	11.8%	£402m	45%
2014	£776m	–6%	£44m	10.4%	£349m	45%
2015	£693m	–6%	£24m	9.0%	£312m	45%

Source: GKN plc annual reports. GKN Land Systems was formed in 2010 from GKN OffHighway, GKN AutoStructures and GKN Industrial & Distribution Services. 2011 revenues excluding Stromag contribution of £38m were £847 million, up 21%.

While smaller ag, construction and industrial equipment manufacturers have accounted for around 60% of division revenues, the rest is generated by big OEMs, which in the ag sector includes Deere (9% of total division revenues), CNH Industrial (7%), Claas (4%), AGCO (3%), JCB (2%) and specialized tractor maker Carraro Agritalia (1%).

In 2010, the new division recorded sales of $872 million and a trading profit of $46 million. Sales increased to $1.06 billion plus $47 million from the acquisition of Stromag in September of that year. Trading profit climbed to $83.5 million.

Further growth in 2012, albeit at a slower pace, appeared to vindicate the strategy as GKN Land Systems revenues peaked at £933 million ($1.2 billion) and trading profit jumped to $109.6 million)

Ag OEM's contributed $456 million in revenues that year, a figure that grew to $501 million in 2013. But lower revenues from other sectors dropped division performance to $1.1 billion and thereafter, total revenues fell at a faster rate (6% annually) as agricultural machinery manufacturers slashed volumes to reflect market conditions.

In 2015, GKN Land Systems' profit slumped to $30 million on revenues $863.5 million. The agricultural sector accounted for $389 million, down $46 million compared to its 2014 performance, but maintained its 45% contribution to division revenues of the previous two years. AEI

Altra Industrial Motion to Acquire Ag Component Maker GKN Stromag

Altra Industrial Motion Corp., Braintree, Mass., is acquiring GKN Stromag, a business of GKN Land Systems that supplies brakes, specialized clutches and flexible couplings to agricultural, construction and industrial machinery manufacturers.

The deal, which is expected to complete the usual formalities in the first quarter of 2017, will complement Altra's existing activities in the OEM supply market, says Carl Christenson, chairman and CEO. "The acquisition of Stromag will provide complementary products, greater presence in key geographic regions and penetration into new growth end markets," he explains. "Stromag possesses a very strong brand reputation and its highly engineered products serve as excellent extensions for Altra."

Altra Industrial Motion is a NASDAQ (AIMC) listed corporation with revenues of $746 million in 2015 comprising a group of companies that make components and assemblies for drivetrain applications in a wide range of industries.

Huco Dynatork, TB Wood's and Warner Electric are among group enterprises making clutches and brakes, gearing, torque-limiting devices, belted drives, linear actuators and castings utilized in fixed and mobile farming equipment. Their products are used on combines and other harvesters, conveyors, augers, cleaners and dryers, tractors, sprayers, planters and spreaders.

Stromag has headquarters and operations in Germany, as well as operations in France, the U.K., U.S., Brazil, India and China. It generated sales of £117 million ($145.6 million) in 2015, about 17% of GKN Land Systems revenues.

Altra is paying £164 million ($204 million) in cash and taking on debt-like obligations of approximately £13 million ($16 million) for a total enterprise value of £177 million ($220 million). GKN bought the business for £170 million ($212 million) in 2011.

Nigel Stein, GKN plc CEO comments: "I am confident that Altra is an excellent home for Stromag as it is well positioned to invest in the business to meet the future growth opportunities in its markets. For GKN, this sale helps sharpen our focus and allows us to redeploy capital into our core aerospace and automotive businesses." AEI

Dana Acquires Italian Component Manufacturer Brevini Group

A strategic acquisition that will complement and broaden Dana Corp.'s product lines for off-highway vehicles is expected to conclude early next year with the purchase of an 80% stake in the Italy-based Brevini Group.

Dana has an option to purchase the remaining 20% by 2020 and values the total business at €325 million ($343.5 million), including the assumption of around €100 million ($106 million) of net debt.

Brevini Group, headquartered in northern Italy, is nearing the completion of merging its power transmission and fluid power divisions, which manufacture axle hub drives and bevel, epicyclic and other types of gearboxes; gear and axial piston pumps, and hydraulic distribution valves and control systems.

These are used for a wide range of industrial, marine and mining applications, with construction and earth moving machinery accounting for around 15% or €58 million ($61 million) of the group's €388 million ($410 million) sales recorded in 2015.

Agricultural OEMs producing harvesters, feed mixers and other types of farm equipment account for around 7% or €27 million ($28.6 million) of group sales.

James Kamsickas, president and CEO of Dana, said, "Brevini is a strong, well run business that shares Dana's commitment to serving customers with advanced technologies that deliver exceptional performance and durability. The acquisition will immediately expand Dana's product portfolio with adjacent technologies and establish Dana as the only off-highway solutions provider that can manage the power to both move the equipment and perform its critical work functions."

Renato Brevini, president of Brevini Group SpA, said, "Dana's global footprint, operational excellence, deep industry knowledge and position as a top tier supplier to manufacturers will raise the profile and market penetration of our products." **AEI**

Pressure Still On, but Titan Machinery Makes Progress on Equipment Inventories

While acknowledging that low commodity prices continue to dampen demand for new farm machinery, David Meyer, Titan Machinery's chairman and CEO, noted that high crop yields had improved sentiment among the dealership group's farm customer base in the third quarter. He added the company took advantage of the more upbeat attitude to "aggressively retail" and accelerate its used equipment reduction efforts.

The Fargo, N.D.-based firm, the world's largest farm equipment dealer group, said in its third-quarter earnings release on Nov. 30, that it had reduced its used equipment inventory by $86 million, or 32%, through the first 9 months of its fiscal year ended Oct. 31.

In his analysis of Titan's fiscal year 2017 third-quarter earnings, Mircea (Mig) Dobre, senior research analyst for RW Baird, said in a note: "Titan aggressively cleared out used inventory which drove sales but also pressured equipment margins … which should improve as aged used inventory is finally cleared, while the highly profitable parts and service business can return to growth."

For the third quarter of fiscal 2017, revenue was $332.3 million vs. $345 million in the third quarter last year.

Titan Machinery — 3Q FY2017
Revenue Analysis & Segment Review
(in millions $)

	Q3 FY2017	Q3 FY2016	Change
Total Revenue	$332.3	$345.0	–3.7%
Equipment	$212.2	$215.7	–1.6%
Parts	$69.3	$73.8	–6.2
Service	$33.8	$34.1	–1.0%
Rental & Other	$17.0	$21.3	–20.1%
Agriculture	$205.5	$211.3	–2.7%
Construction	$80.8	$87.0	–7.2%
International	$45.9	$46.7	–1.5%

Source: Titan Machinery

Equipment sales were $212.2 million compared to $215.7 million in the same period a year ago. Parts sales were $69.3 million vs. $73.8 million a year earlier. Service generated revenues of $33.8 million compared to $34.1 million and revenue from rental and other was $17 million compared to $21.3 million in the third quarter last year.

In a note to investors, Rick Nelson, analyst for Stephens Inc., said, "Inventory levels were reduced to $608 million vs. $689 million at year-end. The decrease included a $77 million reduction in equipment inventory comprised of used inventory declines of $86 million increase and new inventory increases of $8 million. The company indicated it was on plan to reduce equipment inventory by $125 million vs. prior goals of $100 million in fiscal 2017.

"We think the company is taking the right steps to combat industry challenges. After 3 years of sales downturn we look for declines to narrow in F17 but acknowledge there is no evidence the operating environment may be stabilizing or bottoming," said Nelson.

Margins in 2017 are expected to be 6.2-6.8% (7.2-7.8% previously). **AEI**

While Crop Receipts Held Steady in 2016, Livestock Receipts Took a Dive

USDA's Economic Research Service is projecting 2016 net cash farm income will slip to $90.1 billion and net farm income to $66.9 billion, largely the result of declining animal and animal product receipts. Both measures are forecast to decline for the third consecutive year after reaching record highs in 2013 for net farm income and 2012 for net cash income. Net cash farm income is expected to fall by 14.6% in 2016, while net farm income is forecast to decline by 17.2%. These declines follow the 19.8% and 12.7% reductions in net cash income and net farm income, respectively, that occurred in 2015.

Overall, cash receipts are forecast to fall $23.4 billion (6.2%) in 2016 due to a $23.4 billion (12.3%) drop in animal/animal product receipts; crop receipts are forecast essentially unchanged from 2015. Nearly all major animal specialties — including dairy, meat animals and poultry/eggs — are forecast to have lower receipts, including a 14.8% drop ($11.6 billion) in cattle/calf receipts. The slight gain in crop cash receipts is driven largely by a $5.3 billion increase in soybeans.

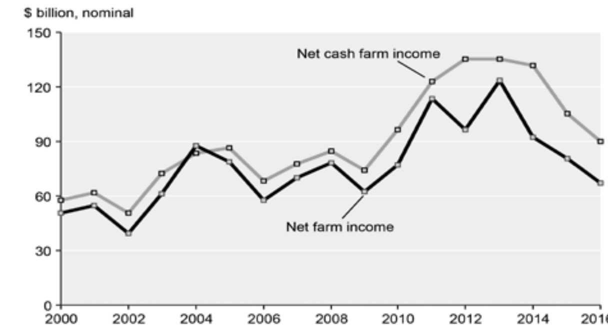
Crop Receipts Unchanged. Crop cash receipts are forecast essentially unchanged in 2016 as prices continue to decline for most field crops. The crop cash receipts forecast of $186.5 billion represents a decline of over 24% in inflation-adjusted terms from the all-time high in 2012. For corn receipts, the 2012-16 decline is forecast at about 36%, reflecting lower U.S. corn prices. Expected further weakening of corn prices in 2016 more than offset production gains, resulting in corn cash receipts to fall by almost $2 billion (4%) from 2015. Wheat receipts have also declined since peaking in 2012, and are expected to decline almost $1 billion (10%) from 2015 as price declines accompany strong harvests. Increased soybean production is expected to be complemented by higher prices in 2016, buoyed by strong export commitments and indications of higher priced, forward sales. Thus, soybean cash receipts are expected to increase over $5 billion (16%) in 2016.

Livestock Receipts Sinking. According to the latest ERS report, cash receipts from animal products are expected to fall $23.4 billion (12.3%) in 2016. Relative to 2015, prices are expected to fall for almost all major animal and animal product commodities, especially eggs.

Since reaching a record high of $49.4 billion in 2014, milk receipts are forecast to drop $15.4 billion (31.2%) over 2015-16 as declining prices continue to outweigh expected increases in milk production. Cash receipts from cattle and calves are also expected to decline in 2016, falling $11.6 billion (almost 15%) from 2015. Hog production is expected to continue rising in 2016 as the industry recovers from the porcine epidemic virus (PEDV) in 2014. Hog prices are expected to drop in 2016, leading to a forecast drop in hog cash receipts of nearly 7%. On the other hand, turkeys (up $0.6 billion or 10.6%) and miscellaneous livestock (up $0.2 billion or 2.9%) are both expected to grow in 2016. Poultry and egg cash receipts are expected to fall over 18% in 2016, due primarily to a decline in egg receipts. **AEI**

Net Farm Income & Net Cash Farm Income

(2000-2016F)



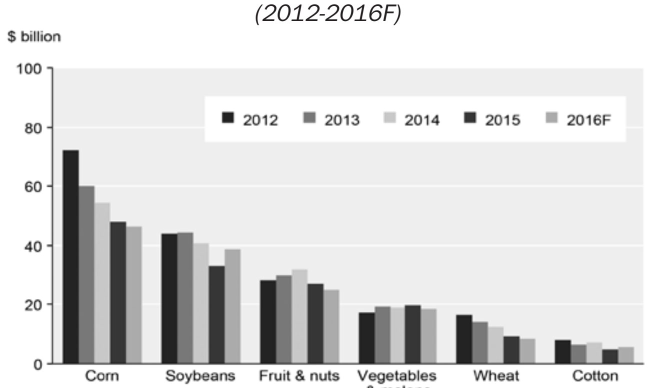
USDA expects 2016 net cash farm income to come in at about $90 billion (down by 15%) and net farm income to hit nearly $70 billion (down 17%) vs. 2015.

Data as of Nov. 30, 2016; F = forecast

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

U.S. Cash Receipts for Selected Crops

(2012-2016F)



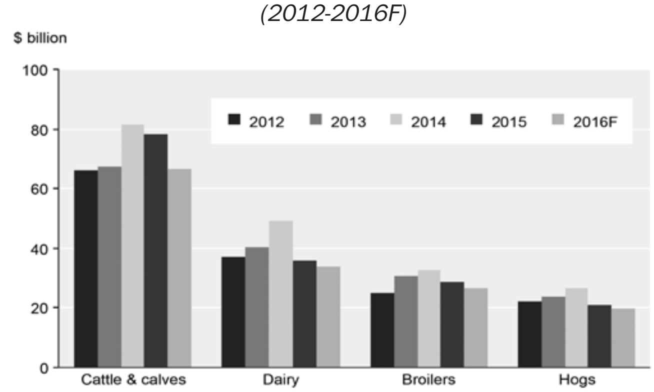
While the 2016 crop cash receipts forecast of $186.5 billion signals little change vs. 2015, it represents a decline of over 24% in inflation-adjusted terms from the all-time high in 2012.

Data as of Nov. 30, 2016; F = forecast

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

U.S. Cash Receipts for Selected Animals Products

(2012-2016F)



Cash receipts from animal products are expected to fall $23.4 billion (12.3%) in 2016. Relative to 2015, prices are expected to fall for almost all major animal and animal product commodities.

Data as of Nov. 30, 2016; F = forecast

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics

Large Ag Equipment Sales Remain Soft

Typically, November is a seasonally slow month for North American large ag equipment sales, and that held true once again this year, according to the latest numbers released by the Assn. of Equipment Manufacturers. November marked the 34th consecutive month of large ag year-over-year declines (November 2015 and November 2014 both down 36%), Mircea (Mig) Dobre, an analyst with RW Baird notes.

There was a bit of positive news in the latest release, however. For the first time in nearly 3 years, last three months (L3M) sales for 4WD tractors were up.

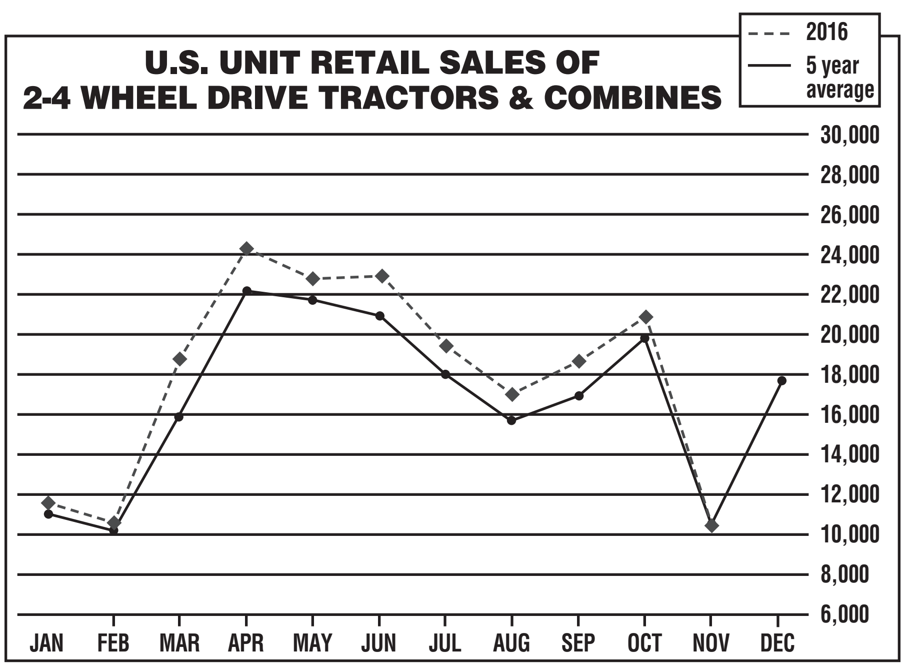
- U.S. and Canada large tractor and combine retail sales decreased 18% year-over-year in November, down from the 15% decrease the previous month. U.S. sales were down 25% year-over-year, while Canadian sales were down just 1%.
- 4WD tractor sales dropped 7.7% year-over-year in November vs. an 18.8% increase in October (U.S. -4.2%, Canada -13.9%). L3M sales increased 3.4% year-over-year after declining for 33 consecutive months and 41 of the past 42 months. U.S. dealer inventories of 4WD tractors decreased 19.3% year-over-year in October. Combine sales posted a 14.3% year-over-year decline in November following October's –27.3%. L3M sales declined 24.7% on a year-over-year basis following a 24% L3M decrease the month prior. U.S. combine inventories were 30.4% lower year-over-year in October vs. down 34.4% the month before. November is typically a below-average month for combine sales, accounting for 5.4% of annual sales the last 5 years.
- Row-crop tractor sales were down 21.7% year-over-year compared with a 16.7% decrease in October. U.S. row-crop tractor inventories decreased 6% year-over-year in October vs. a 0.2% decrease during the previous month.
- Mid-range tractor sales decreased in November, down 1.9% year-over-year after a 0.4% increase last month. Compact tractor sales increased 20.8% year-over-year, following a 7.4% increase last month. AEI

NOVEMBER U.S. UNIT RETAIL SALES

Equipment	November 2016	November 2015	Percent Change	YTD 2016	YTD 2015	Percent Change	October 2016 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	6,442	5,254	22.6	123,891	110,909	11.7	69,457
40-100 HP	2,974	3,131	–5.0	51,422	53,685	–4.2	34,758
100 HP Plus	663	909	–27.1	16,791	21,727	–22.7	9,207
Total-2WD	10,079	9,294	8.4	192,104	186,321	3.1	113,422
Total-4WD	137	143	–4.2	2,074	2,703	–23.3	755
Total Tractors	10,216	9,437	8.3	194,178	189,024	2.7	114,177
Combines	142	203	–30.0	3,485	4,690	–25.7	750

NOVEMBER CANADIAN UNIT RETAIL SALES

Equipment	November 2016	November 2015	Percent Change	YTD 2016	YTD 2015	Percent Change	October 2016 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	940	858	9.6	10,844	11,983	–9.5	8,152
40-100 HP	682	597	14.2	5,246	5,439	–3.5	4,330
100 HP Plus	244	250	–2.4	3,347	4,014	–16.6	2,210
Total-2WD	1,866	1,705	9.4	19,437	21,436	–9.3	14,692
Total-4WD	68	79	–13.9	736	773	–4.8	258
Total Tractors	1,934	1,784	8.4	20,173	22,209	–9.2	14,950
Combines	152	140	8.6	1,592	1,749	–9.0	368



— Assn. of Equipment Manufacturers

expects major crop receipts to be up about 7%, but the firm's model suggests that total cash receipts will be down by 2% in calendar year 2016 followed by an incremental decline of 2% in 2017. Both Deere and USDA anticipate livestock receipts to decline in 2017: USDA down 3.6% and Deere down less than 2%.

During its call with analysts following the release of its fourth-quarter fiscal year 2016 earnings on Nov. 23, Deere's spokesperson said, "Given the large crop harvests in 2015 and consequently lower commodity prices we are seeing today, our 2016 forecast calls for cash receipts to be down about 6% from 2015 levels. Moving to 2017, we expect total cash receipts to be approximately $367 billion, about the same as in 2016 as lower livestock cash receipts are offset by higher crop receipts."

Overall, Deere's forecast for 2016 calls for net cash income of $94 billion, increasing to $102 billion in 2017. Since issuing its long-term outlook earlier this year, USDA has since revised its forecast for net cash farm income for 2016 to nearly $90 billion. The agency's outlook for net cash income for 2017 has yet to be revised from its February 2016 forecast, which estimated it to be at that time $84.7 billion, nearly $15 billion below Deere's most recent forecast.

Deere's Year. For the year, Deere & Co. reported net sales of its worldwide equipment operations declined 9% vs. fiscal year 2015. Equipment net sales in the U.S. and Canada decreased 13% for the full year. Outside the U.S. and Canada, net sales increased 11% for the fourth quarter, but were down 3% for the full year. For fiscal 2017, the company is projecting equipment sales to decrease about 1% and about 4% for the first quarter of the year.

Ag and turf sales fell 5% for the quarter and 7% for the year due to lower shipment volumes. Deere's worldwide sales of agriculture and turf equipment are forecast to decrease by about 1% for fiscal year 2017. Industry sales for agricultural equipment in the U.S. and Canada are forecast to be down 5-10% for 2017. The decline, which reflects the continuing impact of low commodity prices and weak farm incomes, is expected to be felt in the sale of both large and small equipment, according to the company.

In a note to investors, Mircea (Mig) Dobre, senior research analyst with RW Baird, remarked, "Guidance surprised to the upside — equipment sales guided flattish year-over-year after a 33% decline the past 3 years and net income guidance of $1.4 billion 16% above consensus. Consistent with our recent upgrade, a large ag equipment bottom is in sight with profitability remaining remarkably resilient." **AEI**

Crop 2016-17 Price Estimates

	Deere & Co.*	USDA**
Corn	$3.30	$3.05 - $3.65
Wheat	$3.70	$3.60 - $3.80
Soybeans	$9.20	$8.70 – $10.20

**Deere & Co. forecast as of Nov. 23, 2016; **USDA Agricultural Projections to 2025*

Deere vs. USDA Outlook for 2016 & 2017

	2016 Forecast		2017 Forecast	
	Deere & Co.*	USDA**	Deere & Co.*	USDA***
Total Cash Receipts	$367.0	$352.9	$376.1	$366.8
Crops	$182.3	$186.5	$186.2	$188.8
Livestock	$171.2	$166.4	$168.4	$178.0
Government Payments	$13.5	$12.9	$12.5	$13.6
Other Farm-Related Income	$33.7	$31.8	$34.3	$34.1
Gross Cash Income	$400.8	$397.5	$401.4	$414.5
Cash Expense	$315.9	$307.4	$299.0	$329.8
Net Cash Income	$94.1	$90.1	$102.4	$84.7

**Deere & Co. forecast as of Nov. 23, 2016; **USDA U.S. Farm Sector Financial Indicators – 2011-2016; ***USDA Agricultural Projections to 2025, as of February 2016*

A 'Turning Point' in 2017?

According to a Dec. 13 report in Agrimoney.com, MetLife thinks the official estimates for this year's U.S. harvest may be too large and that there will be a global production "pullback," that could result in the new year being a "turning point" for grain prices.

"The insurance giant, whose agriculture division is one of North America's top farm mortgage lenders, said that market ideas of this year's record corn and soybean harvests appear 'too high,'" and questions USDA assumptions. The ag agency estimated this year's corn yield at a record 175.3 bushels per acre, and soybeans at a record 52.5 bushels per acre, "We view that smaller-sized ears and pods could trim final yields," MetLife said. Downgrades could "bring the size of the 2016 harvest only slightly above the 2015 record."

MetLife also sees lower acreage as playing a part in higher grain prices, forecasting the U.S. plantings "should pull back in 2017 leading to lower excess supplies of major crops."

The Agrimoney.com report says MetLife is forecasting corn acreage to decline by 3.5 million acres next year after rising to 94.5 million acres in 2016, according to USDA estimates.

MetLife added that an acreage pullback is unlikely to be an isolated U.S. event. "Other major crop producing countries … are also likely to pull back on planted acres … after 4 successive years of supply increases, next year could prove to be the turning point with a global supply pullback leading to improved pricing." Agrimoney.com said, "The group forecast that grain and oilseed [prices] will start to recover in 2017."