From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

October 15, 2016
Vol. 22, Issue 10

- Kubota Dealers Optimistic
- Deere Takes on DOJ
- Ag Sales at a Bottom?

Dealers a Bit More Positive About 2017 Prospects

As a group, more North American farm equipment dealers appear to be more hopeful about their prospects for increasing revenues going into 2017 than they did going into 2016.

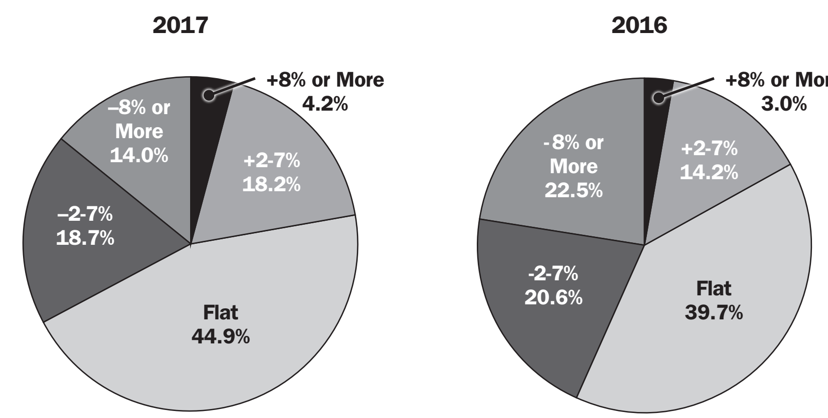
Based on the results of *Ag Equipment Intelligence*'s 2017 Dealer Business Outlook & Trends survey vs. those of a year ago, the difference in dealers' outlook for the year ahead is that only a net 10.3% expect 2017 revenues from new equipment sales to decline vs. 2016. A year ago, a net 26% of dealers projected declining revenues during 2016 compared to 2015.

Overall, 22.4% of dealers see 2017 revenues from the sale of new equipment increasing, with 4.2% expecting an improvement of 8% or more and 18.2% forecasting revenues to be up in the range of 2-7% for the year. Last year at this time, only 17.2% were projecting higher revenues for the year; 3% projected improved revenues of 8% or more and 14.2% expected revenues for 2016 to increase by 2-7%.

On the opposite side of the ledger, it seems dealers, overall, do not expect slumping sales of new units to be as severe next year as they were in the past few years. Nearly one-third of dealers expect their revenue from new equipment to be down during the coming year, as 18.7% see sales dipping by 2-7% and 14% anticipate sales falling by 8% or more. A year ago, 43.1% of dealers expected declining revenues during 2016; 20.6% foresaw revenues dropping 2-7% and 22.5% anticipated a fall off of 8% or more.

A few more dealers (45%) are forecasting little or no change in revenues in the year ahead vs. a year ago, when 40% projected flat new equipment revenues.

North American Dealers' Outlook for New Equipment Revenue
2017 vs. 2016



On a weighted average basis, more ag equipment dealers expect 2017 to be a better year than 2016. Overall, more than 22% expect new equipment sales to improve in the year ahead compared to only 17% who were projecting improved sales a year ago.

New Equipment Inventories. While the large backlogs of used farm equipment have gotten a lot of the attention this year, according to the monthly Dealer Sentiments & Business Conditions surveys conducted by *Ag Equipment Intelligence* and Cleveland Research, dealers are equally concerned with their new equipment inventories.

According to the most recent poll, a net 42% of dealers reported new equipment inventories are "too high" (48% "too high," 45% "about right," 6% "too low"), which is in line with the previous months. In fact, new inventory levels have been reported as "too high" for nearly 3 years running.

Replacement Cycles. In all likelihood, the slightly more optimistic results from *Ag Equipment Intelligence's* 2017 survey vs. those of a year earlier shouldn't be construed as a sign that dealers expect a near-term turnaround in the ongoing sales slump.

On the other hand, it may be an indication they believe sales of production farm machinery are finally hitting bottom.

There has also been some speculation that many farmers are reverting back to their traditional equipment replacement cycle of 3-5 years, and away from flipping machines on an annual basis that had become so prevalent prior to the sales downturn. With the sales slump in farm equipment approaching its fourth year, perhaps the timing is right for some necessary replacement purchasing by farmers, which could produce the pick up in sales dealers have been looking for.

If, in fact, equipment sales do pick up in 2017, it will go against the current macro-economic signals, which

Continued on page 2

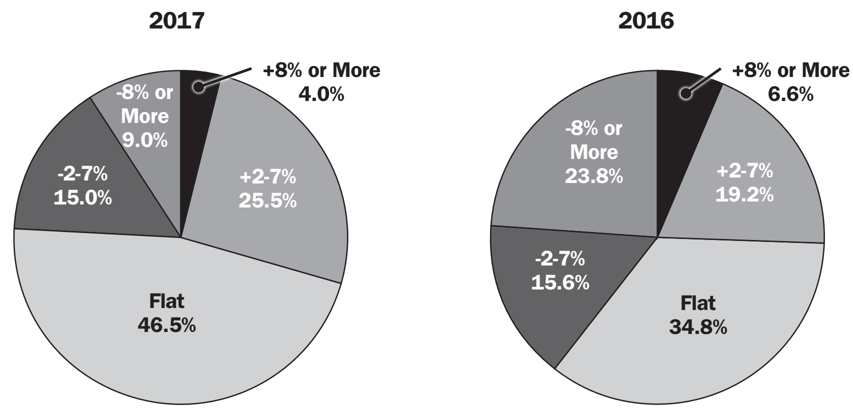
Dealers a Bit More Positive About 2017 Prospects...Continued from page 1

indicate lower crop cash receipts and net farm incomes for 2016 that is expected to carry over into 2017.

Summarizing his feelings about prospects for increasing sales in 2017, one dealer said, *"If crop prices don't increase, I do not see large equipment selling in 2017. There may be even more used equipment for sale as farmers are leaving the business altogether. It is going to take some unforeseen event to increase sales."*

Used Equipment Doldrums. While more dealers are reporting that their backlog of used machines appears more manageable this year, many also acknowledge that, overall, inventory of previously used equipment is still too large. And while there was a hopeful increase in used equipment pricing in late spring and early summer, it didn't hold.

Dealers' Outlook for Used Equipment Revenue
2017 vs. 2016



While the percentage of dealers projecting improved used equipment revenues for 2017 increased from 25.8% for 2016 to 29.5% for 2017, the biggest shift came in dealers expecting a fall off in revenues, from 39.4% a year ago to 23% this year.

Asked how they would rate their used equipment inventory, 45% of dealers said it was "too high" (35.5%) or "way too high" (9.7%). This is somewhat better than last year when 49.5% of dealers said their used backlogs were "too high" (38.9%) or "way too high" (10.6%).

This is in line with the results of the latest Dealer Sentiments & Business Conditions Update survey (September 2016), which indicated that 40% of dealers reported their used equipment inventory as "too high." And it is little changed from a year earlier, when 42% of dealers rated used backlogs as "too high."

Depressed Prices. The large back-

Continued on page 3

Nearly Half of Kubota Dealers Expect Higher New Equipment Sales in 2017

Compared to dealers carrying other major brands of equipment, and even the independents that specialize in shortline products, Kubota dealers are easily the most optimistic going into 2017 — by a long shot.

More than 47% of dealers handling Kubota-branded ag machinery are projecting increased revenues for the new selling season. A healthy 32% expect their revenues to pick up by 2-7% and about 16% see them increasing 8% or more. A little over one-quarter (26.2%) project flat sales. That leaves only 26% who are anticipating a drop off in overall revenues in 2017.

Dealer Projections for New Equipment Sales Revenues by Major Line Carried — 2017

Mainline	Up 8% or More	Up 2-7%	Little/No Change	Down 2-7%	Down 8% or More
AGCO	4.2%	12.5%	62.5%	8.3%	12.5%
Case IH	4.5%	14.9%	49.3%	16.4%	14.9%
John Deere	0.0%	18.9%	40.6%	21.6%	18.9%
Kubota	15.8%	31.6%	26.2%	21.1%	5.3%
New Holland	2.3%	14.0%	41.9%	30.2%	11.6%
Independent	5.0%	25.0%	40.0%	10.0%	20.0%

It's a split for the independent dealers, with 30% expecting revenues to increase and 30% expecting revenues to decrease.

Otherwise, it appears dealers handling the other brands of farm equipment are hoping for "little or no change" from the revenue levels they saw this past year.

During the past few years, Case IH dealers have typically been the most dour in their outlook. This year, they just might be the most optimistic of the four other major brands. On the positive side, more than 19% of Case IH dealers anticipate improved revenues for 2017. Close behind are the John Deere dealers, 18.9% of which see increasing revenues in the year ahead. Nearly 17% of AGCO dealers and 16.3% of those handling New Holland products are projecting higher revenues for the year ahead.

On the other hand, more than half (50.5%) of John Deere dealers are forecasting declining revenues. They're followed by New Holland (42%), Case IH (31%) and AGCO (21%) dealers who are expecting lower new equipment revenues in 2017.

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Media, 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@lessitermedia.com.

logs of used machines continue to depress prices of previously used equipment. While compact and mid-range tractors have managed to hold their value, high horsepower tractors and combines continue to sell at depressed pricing levels. According to the most recent Dealer Sentiments survey, on average, used tractors were reported down about 8% year-over-year. Used combine pricing was down 11% year-over-year in August.

Dealer comments like the following appear to reflect overall industry sentiment. *"It is hard to sell new equipment when the manufacturer is dumping low hour lease returns in your market. Why should I take a trade to sell a new machine at low or no margin if there is no place to sell it?" ... "There is too much used inventory, so we are decreasing new equipment [orders] until used levels are manageable."*

Used Equipment Outlook. Nearly half (47.6%) of all dealers who responded to the 2017 Dealer Business Outlook & Trends survey said they used an auction or auction service (on-site or online) to help move their used equipment during 2016. Two years ago, the last time we asked whether or not dealers utilized an auction to sell used machines, 43% said they utilized an auction to help reduce their inventories of used.

> ***"It may be an indication dealers believe sales of farm equipment are finally hitting bottom …"***

Of course, using auctions for used equipment is usually synonymous with lower margins.

Currently, 45.2% of dealers describe their used equipment inventories as "too high" (35.5%) or "way too high" (9.7%). This is down somewhat from a year ago when 49.5% of dealers said their used backlogs were "too high" (38.9%) or "way too high" (10.6%).

In terms of revenue from the sale of used machines, 29.5% of North American dealers expect revenues to increase in 2017, with 25.5% looking for improvements in the 2-7% range and 4% expecting gains of 8% or more. This compares with 25.8% of dealers who were looking for a bump in used machinery revenues last year. Broken out, 6.6% were anticipating gains of 8% or more and 19.2% projecting increases of 2-7%.

The major swing came in the percentage of dealers forecasting a decline in used equipment revenues between this past year and the year ahead. For 2016, nearly 40% of dealers said they expected declining revenues from the used equipment segment of their business. Nearly 16% projected a fall off of 2-7% and 24% were calling for a decline of 8% or more. For 2017, less than one-quarter (24%) of dealers are forecasting less revenue from their used machinery, with 15% anticipating a drop off of 2-7% and only 9% forecasting a decrease of 8% or more. AEI

FARM MACHINERY TICKER (AS OF 10/12/16)

MANUFACTURERS	Symbol	10/12/16 Price	9/12/16 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$46.55	$43.63	$46.77	$24.68	N/A	36,497	684.84M
AGCO	AGCO	$52.00	$47.48	$56.00	$42.40	23.37	733,657	4.22B
AgJunction Inc.	AJX	$0.68	$0.71	$0.74	$0.42	N/A	57,590	84.4M
Alamo	ALG	$65.24	$63.78	$68.04	$44.15	16.57	50,515	750.13M
Art's Way Mfg.	ARTW	$2.95	$2.82	$3.40	$2.46	N/A	5,080	12.1M
Buhler Industries	BUI	$4.40	$4.85	$6.00	$4.40	N/A	1,413	110M
Caterpillar	CAT	$87.58	$81.92	$89.87	$56.36	58.39	4,360,070	51.17B
CNH Industrial	CNHI	$7.54	$7.27	$7.91	$5.67	N/A	1,234,480	10.27B
Deere & Co.	DE	$86.94	$83.09	$89.34	$70.16	17.42	3,369,440	27.34B
Kubota	KUBTY	$75.12	$71.02	$86.30	$58.99	13.49	16,425	18.68B
Lindsay	LNN	$69.30	$71.19	$79.27	$62.99	83.29	75,589	736.67M
Raven Industries	RAVN	$22.04	$23.03	$25.47	$12.88	87.11	283,046	796.94M
Titan Int'l.	TWI	$10.42	$9.10	$10.49	$2.50	N/A	444,565	563.16M
Trimble Navigation	TRMB	$28.22	$26.61	$28.99	$17.08	61.35	1,134,820	7.03B
Valmont Industries	VMI	$127.53	$128.29	$145.94	$96.49	51.86	113,549	2.89B
RETAILERS								
Cervus Equipment	CVL	$13.10	$11.73	$15.35	$10.41	17.44	6,214	206.06M
Rocky Mountain Equipment	RME	$9.48	$9.19	$9.59	$5.50	14.47	32,673	183.76M
Titan Machinery	TITN	$9.55	$10.97	$13.29	$7.87	N/A	67,652	202.33M
Tractor Supply	TSCO	$68.27	$69.11	$97.25	$66.43	21.90	1,741,290	9.13B

GKN and Carraro See 1H16 Sales Decline, But Maintain Solid Margins

Power transmission businesses supplying agricultural and construction machinery to OEMs are continuing to feel the pinch as their customers moderate production to match demand. But cost-saving measures that are helping to maintain or even improve margins should place them in a good position to benefit when market buoyancy returns.

Britain's GKN Land Systems, which supplies power transmission and hitch components — its largest product is the chassis for JCB Fastrac tractors — has reported first-half 2016 sales down £24 million ($31.6 million) or 6% off the £371 million ($488 million) recorded in the same period the year before.

The business held its own in Europe, seeing a lower reduction in sales than the industry as a whole, according to management estimates, but its North American business suffered more than the substantial 20% industry decline.

However, trading profit improved 13% from £15 million ($19.7 million) in the first half of 2015 to £17 million ($22.3 million) this year as a result of a 0.6% improvement in margin.

Managers led by Adam Walker, chief executive, expect sales to continue falling off in the second half due to softer ag and construction equipment markets, but at a slowing rate of decline. In 2015, GKN Land Systems booked full-year revenues of £694 million ($913.6 million), down 6% on the year prior.

Carraro Group's Drivetech division, which manufactures axles and complete drivetrains for tractors, loaders and other agricultural vehicles, has recorded a 14.4% drop in comparable turnover to €279 million ($313 million) in first-half 2016 but it improved its overall financial performance.

Enrico Carraro, chairman, reports, "We are finally seeing the fruits of some of our restructuring activities, particularly at Drivetech and Agritalia, which have both returned to profitability in the last 6 months."

In contrast to Drivetech, the Agritalia division saw a 5.3% increase in revenues to €71.3 million ($80 million) as the market for orchard and vineyard tractors held firm and the business shipped 2,451 units, principally to OEM customers. In 2015, the unit had full-year revenues of €120.4 million ($135 million), up 17% compared to 2014, and managers are optimistic for 2016 prospects given a positive response to the new, more efficient specialized tractor platforms that are being developed.

The net result for the Carraro group's mechanical engineering activities was a 10.6% downturn in the first-half of 2016, resulting largely from a near 42% drop in sales in North America, in contrast to gains in India (3%) and France (19.5%), which resulted in India overtaking the U.S. as Carraro Drivetech's biggest geographical market.

At group level, finances have been bolstered by a €14 million ($15.7 million) capital injection from main shareholder Finaid SpA — controlled by the Carraro family — and €20 million ($22.4 million) from new shareholder Julia Arduini, whose family has substantial automotive industry businesses in Brazil and has been represented on the Carraro Group board since the end of last year. AEI

Brexit Pays Off for Irish Deere Dealer

Northern Ireland's largest John Deere dealership says that Brexit has been very good for his business, according to a publish account in the Irish publication *Independent.ie*. The "County Down tractor dealership is enjoying a major boost in trade and has increased its customer base thanks to the British electorate's decision to vote for Brexit," says the Oct. 12, 2016 report.

Brexit is an abbreviation for "British exit," which refers to the June 23, 2016, referendum where British citizens voted to secede from the European Union. The decision has caused the British pound to fall to its lowest level in decades.

In his account of the situation, Chris McCullough reports that prior to Brexit, the dealership had built up a large stock of used tractors and machinery valued at more than £2 million.

Randal McConnell, managing director of the dealership, Johnston Gilpin & Co Ltd., explained, "When the Brexit vote was announced the pound-euro currency exchange started to become more favorable for tractor buyers in the Republic of Ireland and other countries that used the euro. Since the currency slide, thanks to Brexit, we have sold a large number of used tractors to customers in the Republic of Ireland and even into Spain. Brexit has meant our business has increased its used tractor sales and we have added more customers to our database. I am not saying these customers will all return for more business, but we certainly are expanding our reach," said McConnell.

The report went on to say that Brexit has pushed up the prices of new tractors and other large machinery by around 6% due to the pound sterling exchange rate. "However, we are buying the majority of our tractors direct from the manufacturers in Germany and prices of the new equipment have increased by 6%."

The *Irish Farmers Journal* reported in September the "market for new tractors in Ireland is see-sawing by the month with the registration figures for August showing a decline of 30% compared with the same month last year, with a total of 86 new tractors registered.

"The figures released by the Farm Tractor and Machinery Trade Assn. (FTMTA) also show that the new tractor market for the year to date is just 2% ahead of last year at 1,662 units. They also show a steady increase in the numbers of used tractors being imported from Britain as sterling values stay low. There was almost a 30% increase in the numbers of used tractors imported into Ireland since the start of June, compared with the same 3 month period last year," said Michael Moroney, who wrote the report. AEI

Banks Agree to Restructure Maschio Gaspardo Debt

Senior managers at Maschio Gaspardo, the Italian farm equipment group with a North American operation based at DeWitt, Iowa, have successfully negotiated debt restructuring with 24 creditor banks in line with a new business plan formulated last year.

Massimo Bordi, chief executive officer, says, "The signing of this agreement with the banks is a key step in the group's consolidation and development plan, and it enables us to look to the future with great optimism."

Between 2009 and 2014, the Maschio Gaspardo group undertook significant expansion through new partnerships and acquisitions, which broadened the product range with hay tools and crop protection machinery to complement the existing tillage products range, which was also expanded.

Investments in new and improved manufacturing and distribution facilities included a new manufacturing plant inaugurated in China last year, and the logistics center and planter assembly facility in DeWitt, Iowa, that opened a little over 2 years ago.

"For Maschio Gaspardo, North America is a strategic and very important market, where sales are growing and are expected to continue growing in the next years," says Bordi.

The group's rapid expansion took sales revenues from €118-€324 million ($131-$361.5 million at current exchange rates), representing compound annual growth of more than 22%. But since the appointment of Bordi by the Maschio family just weeks before the tragic death of chairman and co-founder Egidio Maschio last June, the emphasis has been on consolidation and rationalization of company operations.

One example of this is the parts warehouse opened ahead of schedule earlier this year at the group's Campodarsego headquarters in northern Italy to centralize parts logistics from various locations.

"Customer satisfaction has always been a strategic goal for the Maschio Gaspardo Group and after-sales services have a fundamental role in achieving that objective," says Luigi Casetta, chief service officer.

"The new spare parts management system and central warehouse will guarantee professional support and improved timeliness of deliveries."

Regarding the agreement on group financing, CEO Bordi emphasizes that the Maschio family remains the 86% majority shareholder, with family members retaining seats on the board and filling key technical and commercial management roles (*see Ag Equipment Intelligence*, October 2015).

"The banks confirmed their trust in the group and in the new management team, renewing credit lines for a period of 3 years and redefining the amortization plans of medium and long [term] debt. This will allow management to focus its efforts on pursuit of ambitious targets and aim to strengthen the group's position as a global leader, based on the 2015-18 business plan."

Principle guidelines of the plan include simplification of the company structure with the disposal of non-core assets; rationalization of plants and warehouses; improvement of EBITDA through higher sales margins and containment of general overhead; and reduction of the net financial position — the difference between cash and equivalents, and total debt.

The latter has improved significantly, says Bordi, being reduced from €240 million ($267 million) in 2014 to €198 million ($221 million) by Dec. 31, 2015, when Maschio Gaspardo recorded consolidated turnover of €298 million ($332.5 million) and EBITDA of €25 million ($28 million). AEI

TAFE Touts Massey Ferguson as Its 'Premium Brand'

In what is perhaps a first for the Indian tractor market, Tractors and Farm Equipment (TAFE) is initiating a "premiumization strategy" for its tractors, reports *BS Motoring*, an Indian publication. To set itself apart from other tractor manufacturers in India, TAFE, the second largest tractor maker in the country, is introducing brand variations, a new strategy for India's ag equipment market.

According to the report, tractor sales are typically driven by the state of the weather, primarily monsoons, and the power and price of the equipment. TAFE is aiming to change how the market views farm tractors. It recently launched a new "smart series" range of tractors and India's first premium compact utility tractor under the Massey Ferguson brand. The company says it wants to engage consumers with more than just price-led promotions. But given the nature of consumption in rural India, the challenge will be to convince customers of the differentiation strategy at work.

"We are positioning [the] Massey Ferguson brand to showcase our technology, while [our] Eicher brand for its robust performance," said Mallika Srinivasan, chairman and chief executive of TAFE. Designed to appeal to the young consumer, 'smart series' tractors come in the 40-60 horsepower range. TAFE currently has three brands: Massey Ferguson, Eicher and TAFE. The first two are sold in the domestic market and the TAFE branded tractors are for export markets like Africa, Sri Lanka, Bangladesh and parts of Europe.

"I believe we are creating a new segment, given the evolving needs of young farmers and their changing expectations with regard to versatility and ease of use, through the year," said Srinivasan. AEI

Wells Fargo Analyst Sees Bottom for Ag Sales in Next 12-18 Months

The farm equipment demand cycle will reach a bottom in the next year to 18 months, according to Andrew Casey, analyst with Wells Fargo & Co.

An Oct. 10 report from Bloomberg cites Casey's note to investors that raised the bank's valuation of Deere & Co. shares from $85-$88 to $100-$103. "That turnaround will mean improved sales volumes and margins in Deere's fiscal 2017 and 2018," Casey said.

The report went on to say that Deere may already be seeing improved demand in Brazil, parts of Europe, Ukraine, Russia and India. According to the Wells Fargo note, the company will also see better returns than competitors over the next 10 years due to reductions in structural costs, and its initiatives in agricultural technology. "Demand appears to be flattening as dealer pricing drops" in the U.S. and Canada, Casey wrote.

Such a recovery would bring much-needed relief to Deere, which has cut production amid a recession in the agricultural economy. When the company reports earnings next month, it's expected to post a third consecutive year of falling revenue and net income, he said.

The Wells Fargo analyst also raised his price target for AGCO from $46-$49 to $60-$63. In doing so, Casey wrote in a note, "After 3 years of demand decline, the company will benefit from an anticipated bottoming in global farm equipment demand. More favorable indications in Brazil and Europe should benefit approximately 70% of the company's revenue mix." **AEI**

Deere's Ag Leader Deal Aims to Head Off Battle with DOJ

With Deere & Co.'s deal that would allow Ag Leader to sell Precision Planting products, the world's largest farm equipment manufacturer appears to be tightening its gloves before it climbs in the ring to go head to head with the U.S. Dept. of Justice.

Deere, which is trying to finish up the acquisition of Precision Planting from the Climate Corp., is attempting to fight off claims by the DOJ that the deal would allow the company to monopolize the high speed planting market. On Aug. 31, Deere announced that it would contest the DOJ's attempts to block the acquisition on the grounds that it stifles competition for technology that allows for the planting of crops at enhanced speeds.

DOJ is taking the action at the request of an unnamed competitor.

On Oct. 13, Deere issued its formal response to the Justice Department. Key points from the response include:

- The case is designed to protect a competitor, not competition
- An incorrect interpretation of the market is jeopardizing options for growers
- The Deere-Precision Planting deal would create more choices for growers and increase access to technology

The day before it issued its response to DOJ, Deere announced that it had reached an agreement to enable Ag Leader, a precision agriculture competitor, to offer products currently sold by Precision Planting. The agreement would be contingent upon Deere completing the acquisition of Precision Planting from Climate Corp., a subsidiary of Monsanto Co.

Ken Golden, director of global public relations for Deere & Co., told *Ag Equipment Intelligence* in a telephone interview that, the agreement, if completed, would broaden market availability for high speed planter technology.

"This action is being taken in direct response to the need to have a more competitive environment. If we are able to complete the acquisition of Precision Planting, Ag Leader will take the technology and the intellectual property and continue to advance these products on their own, independently of Deere, whichever direction they want to go with it and Deere and Precision Planting will move forward. This will create more competition as well as the fact that the Precision Planting products will be still included in the potential for adding and retrofitting to all brands of equipment."

> ***"The Dept. of Justice's complaint against Deere is based on an incorrect interpretation of the market, and is designed to protect a competitor, not competition..."***

Asked what impact the Ag Leader deal could have on dealers, a Deere dealer who spoke with *Ag Equipment Intelligence*, but asked to remain anonymous, said, "As a Deere dealer I'm OK with this. I feel we have a superior product in the ExactEmerge brush belt system. There may also be a thinning of the independent Ag Leader dealers, as we thought could be the case with the independent Precision Planting dealers when Deere announced its acquisition of Precision Planting."

A potential scenario, according to the dealer, is that Ag Leader dealers would be "rolled into Case dealers and the latter [Precision Planting dealers] into Deere dealerships.

"I knew Deere was willing to fight the DOJ on this, but it may have looked at the potential timeline of a court battle and decided they needed to have everything buttoned up by this winter so they could integrate the older Precision Planting monitors into their data stream to get that information to MyJohnDeere.com. So they took option B and divested the main roadblock to the merger in hopes of having it wrapped up by end of harvest, because as we all know, it's all about the data right now."

While the planned agreement with Ag Leader could expedite an end to the pending litigation, the civil trial is scheduled to begin on Feb. 27. **AEI**

Ag Equipment Slump Continues

North American large ag equipment sales remain weak, according to the latest numbers released by the Assn. of Equipment Manufacturers. During September, 4WD tractor sales decreased 18.5% year-over-year while combine sales were down 26.5%. Row-crop tractor sales declined 8.5% vs. the same period last year, but improved from August's 25.6% drop. Mid-range tractor sales were up 2.7% following August's slight decline.

Compact and mid-range tractor inventories remain elevated. Mig Dobre, analyst with Baird Equity Research, said in a note to investors that September 2016 marked the 32nd consecutive month that large ag equipment sales saw year-over-year drops. However, he notes the declines in sales did moderate again.

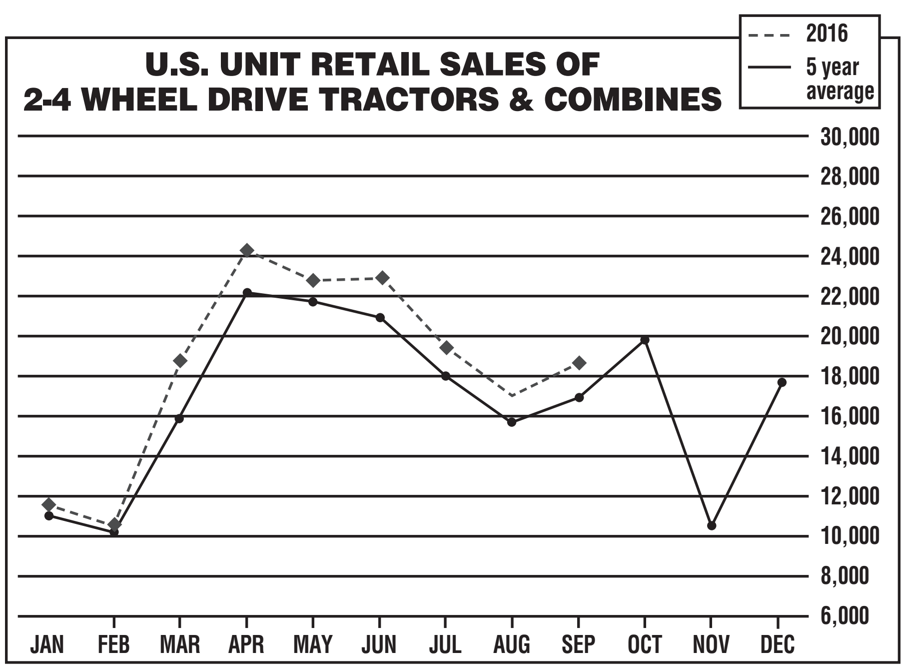
- U.S. and Canadian large tractor and combine sales were down 14% year-over-year in September, which was up from the 24% decline the month prior. U.S. sales dropped 16%, while Canadian sales declined 8%.
- 4WD tractor sales decreased 18.5% year-over-year in September vs. a 28.9% decline in August. U.S. sales were down 17.9% and Canadian sales were –21.6%. U.S. dealer inventories of 4WDs were down 24% year-over-year in August.
- Combine sales worsened in September, posting a 26.5% year-over-year decline, following August's –17.1% reading. U.S. combine inventories were 25.8% lower in August vs. down 27.4% the previous month. September is usually an above average month for combine sales, accounting for 11.1% of annual sales the last 5 years.
- Row-crop tractor sales posted an 8.6% drop year-over-year, an improvement from the 25.6% decline in August. U.S. dealer inventories of row-crop tractors increased 2.9% year-over-year in August vs. a 2% increase in July.
- Mid-range tractor sales increased in September at up 2.7% year-over-year after seeing a 0.4% drop the previous month. Compact tractor sales were up 15.7% year-over-year vs. up 18.4% the month before. **AEI**

SEPTEMBER U.S. UNIT RETAIL SALES

Equipment	September 2016	September 2015	Percent Change	YTD 2016	YTD 2015	Percent Change	August 2016 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	11,675	9,994	16.8	105,144	94,172	11.7	70,434
40-100 HP	5,016	4,826	3.9	42,749	44,690	–4.3	36,917
100 HP Plus	1,475	1,592	–7.3	13,995	18,102	–22.7	10,413
Total-2WD	18,166	16,412	10.7	161,888	156,964	3.1	117,764
Total-4WD	174	212	–17.9	1,467	2,169	–32.4	763
Total Tractors	18,340	16,624	10.3	163,355	159,133	2.7	118,527
Combines	451	690	–34.6	3,051	4,027	–24.2	1,176

SEPTEMBER CANADIAN UNIT RETAIL SALES

Equipment	September 2016	September 2015	Percent Change	YTD 2016	YTD 2015	Percent Change	August 2016 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	957	923	3.7	8,340	9,712	–14.1	9,389
40-100 HP	475	522	–9.0	3,521	3,916	–10.1	4,766
100 HP Plus	293	342	–14.3	2,516	3,217	–21.8	2,549
Total-2WD	1,725	1,787	–3.5	14,377	16,845	–14.7	16,704
Total-4WD	29	37	–21.6	520	570	–8.8	235
Total Tractors	1,754	1,824	–3.8	14,897	17,415	–14.5	16,939
Combines	170	155	9.7	1,162	1,272	–8.6	495



— Assn. of Equipment Manufacturers

KC Fed: Ag Downturn Spilling Over to Main Street

America's Main Street is starting to feel agriculture's pain, according to a Sept. 28 quarterly report from the Federal Reserve Bank of Kansas City, which represents the Tenth Federal District.

Nathan Kauffman, assistant vice president and Omaha Branch executive, and author of the report, said, "Bankers in the Kansas City Fed District also continued to point to spillover effects from the softening farm economy to Main Street business activity. As the downturn in the farm economy began in earnest in 2014, only 40% of District bankers indicated that the downturn was having a negative effect on their broader business environment at that time. Halfway through 2016, however, more than 80% of District bankers had indicated the downturn was causing ripple effects on Main Street in their rural lending area."

The Tenth District includes Western Missouri, Kansas, Nebraska, Oklahoma and the Mountain States of Wyoming, Colorado and northern New Mexico.

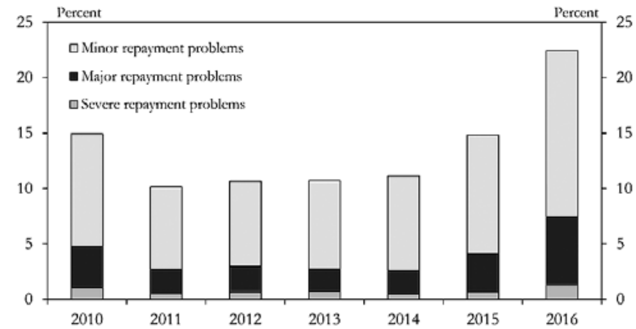
In reviewing the quarter, Kauffman said, in August, expectations for 2016 farm income were revised up modestly from the February forecast, but income was still expected to decline notably from a year ago.

"The U.S. Dept. of Agriculture's August revision can be interpreted as both positive and negative for the farm sector. On the positive side, farm income expectations for 2015 and 2016 were revised up by 43% and 31%, respectively. On the negative side, however, the expected decline in farm income from 2015-2016 widened from 3% earlier in the year to 11% in the most recent report. Essentially, farm income was higher than initially forecasted, but the deterioration from a year ago is now believed to be sharper than expected," said Kauffman.

The ag economy downturn is also affecting credit conditions, according to the report. "From 2010-2014, borrowers had few problems repaying loans. Since 2014, though, bankers in the Tenth Federal Reserve District have consistently reported an increase in the severity of loan repayment problems. As of the second quarter of this year, Tenth District bankers indicated that more than 7% of their agricultural loans were experiencing either 'major' or 'severe' repayment problems, an increase from just 4% in 2015."

Kauffman went on to say that the outlook for the farm

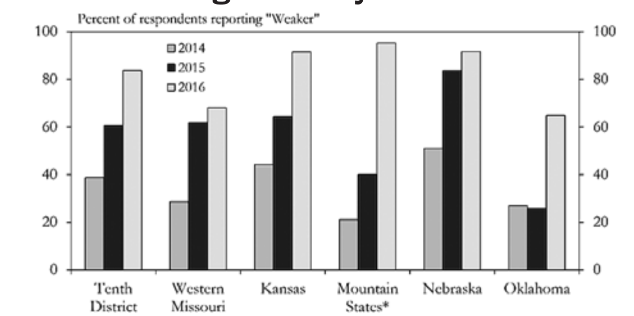
Tenth District Loan Repayment Problems



In the 2015, only 4% of ag loans in the 10th District were having major or severe repayment problems. This rose to 7% in 2Q16.

Source: Federal Reserve Bank of Kansas City

Effect of Ag Economy on Main Street



By mid-year 2016, 80% of District bankers indicated the ag downturn was causing ripple effects on Main Street in their rural lending areas.

Source: Federal Reserve Bank of Kansas City

economy has continued to worsen through 2016, despite some occasional rebounds in income and profit margins. "As 2016 winds down, there will be increasing focus on the outlook for 2017 and likely more questions about the ability of some producers to continue to operate after experiencing losses for multiple consecutive years. Many producers have relied more heavily on short-term financing and restructured debt to get through 2016, but if the outlook for cashflow remains poor during the next loan renewal season, some producers may need to consider more aggressive alternatives to shore up depleted working capital." AEI

Pottinger Expands Despite Market Conditions

Challenging market conditions and a dip in revenues (*see Ag Equipment Intelligence*, September 2016) have not deterred tillage and hay tools manufacturer Pottinger from continuing investment in expanded production and parts distribution facilities.

The Austrian group is in the midst of project PlantWORLD, as part of an ambitious investment program to improve cost efficiency and working conditions, as well as to increase capacity. Pottinger has made significant investments in its manufacturing plants over the past few years. This year, a €25 million ($28 million) expansion of the factory in Grieskirchen, northern Austria, where hay tool production is focused, will provide a 40% increase in production space through a 39,000 square foot extension.

Work also commenced on a new parts logistics center 4 miles to the west of the factory. Once completed early next year, this 23,000 square foot facility on a 7.5 acre site will house 50,000 spare and wear parts. "Rapid and long term availability of parts is a key factor for farmers and contractors," says Heinz Pottinger, managing director. The facility is can process up to 800 customer orders each day and dispatch 3.5 million parts every year. AEI