

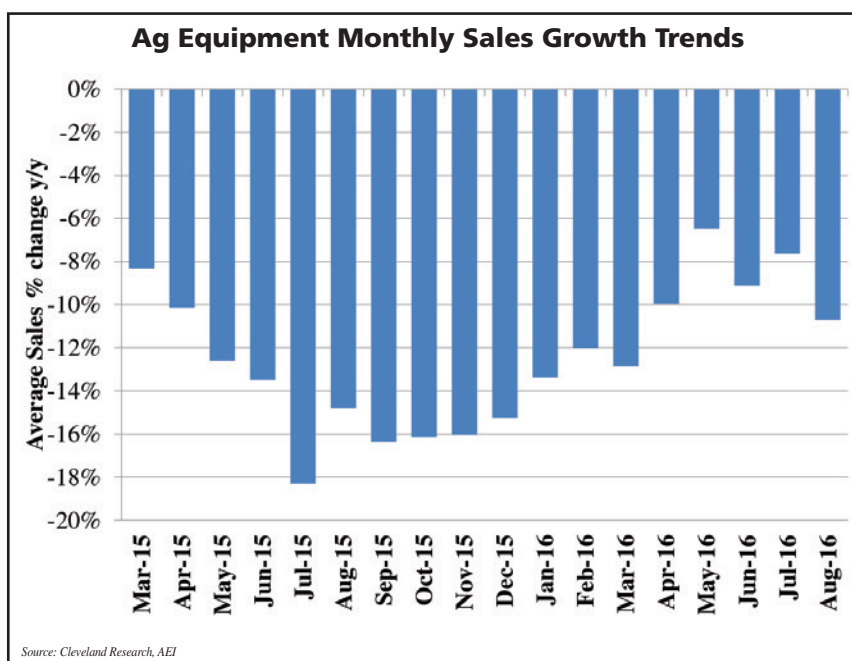
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 11% in August

- ✓ North American ag equipment dealers reported their sales, on average, were down 11% year-over-year in August vs. the 8% decline reported in July.
- ✓ A net 42% of dealers say their new equipment inventories are "too high," in line with the month prior.
- ✓ Used equipment inventory levels were reported higher than in July, with a net 40% of dealers reported inventory as "too high" in August vs. 34% the previous month.
- ✓ Dealers reported relatively flat new equipment pricing as OEM price increases have been offset by greater discounting at the dealer level. Used tractors were reported down 8% year-over-year on average, slightly worse than the 7% reported in July. Used combine pricing was down 11% year-over-year, slightly worse than the 10% decline the month before.



Results vs. Expectations																	
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Better than expected	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%	14%
In line with expectations	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%	44%
Worse than expected	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%	41%
Net % (Better – Worse)	–2%	–13%	–10%	–18%	–12%	–9%	–26%	–25%	–15%	–23%	–22%	–8%	–5%	–13%	–17%	–27%	–27%

## 2016 Full-Year Outlook: Down 15%

- ✓ Dealers forecast 2016 sales to be down 15% year-over-year, below July's forecast of down 12%. A net 45% of dealers are forecasting a sales decline (20% increase, 15% about the same, 65% decline).
- ✓ The 2017 sales growth forecast was reported at down 13% on average, a decline from the initial forecast of an 8% decline last month.
- ✓ Kubota dealers were the only group forecasting growth, expecting sales to increase 2%. Shortline/other dealers were the least optimistic, forecasting sales to be down 26%.

Dealer Outlook — 2016											
(% chg y/y)	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
AGCO	-8%	-7%	-9%	-10%	-6%	-15%	-6%	-7%	-8%	-14%	-17%
John Deere	-10%	-9%	-8%	-12%	-10%	-12%	-10%	-6%	-11%	-15%	-14%
New Holland	-12%	-9%	-13%	-6%	-11%	-12%	-8%	-2%	-11%	-14%	-21%
Case IH	-8%	-10%	-10%	-12%	-15%	-11%	-15%	-23%	-11%	-15%	-15%
Kubota	3%	4%	2%	-7%	5%	9%	2%	0%	1%	7%	2%
Shortlines/Other	-15%	-8%	-6%	-12%	0%	-14%	-24%	-6%	-4%	11%	-26%
Overall	-9%	-9%	-9%	-11%	-10%	-11%	-11%	-9%	-10%	-12%	-15%

## Dealer Optimism Drops Slightly

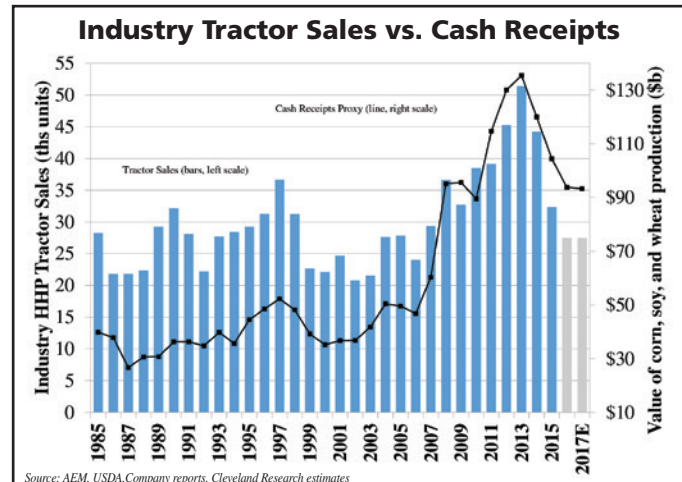
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 25% of dealers being less optimistic (11% more optimistic, 52% same and 36% less optimistic) in August compared to a net 24% who were less optimistic in July.

Optimism/Sentiment vs. Last Month																	
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
More Optimistic	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%	11%
Same	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%	52%
Less Optimistic	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%	36%
Net % Dealer Optimism	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%

## 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 September crop report was slightly better than August, with cash receipts proxy forecast up 1% year-over-year in 2016-17 vs. the prior estimate of down 1%. Declines on corn yields fell from August's forecast of 175 to 174 bushels per acre. Corn price forecasts increased 2%, while soybean pricing fell 1% and anticipated beginning stock levels declined for soybeans while increasing slightly for corn.



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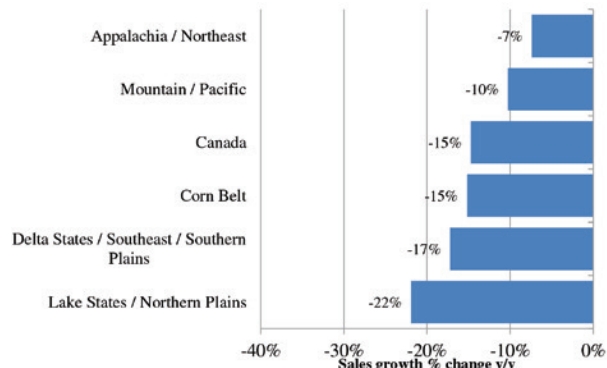
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# NEW EQUIPMENT TRENDS

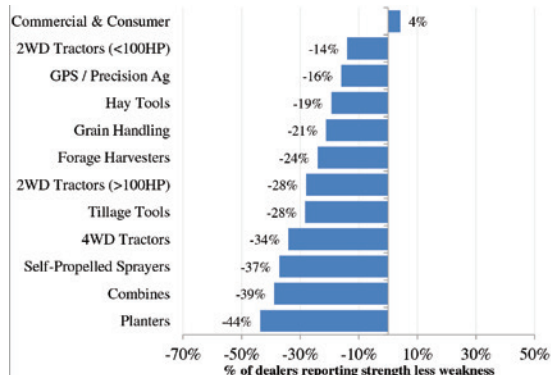
## Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends by region were negative overall in the month, with Canada showing the largest sequential decline. There was slight improvement in the month in the Delta States/Southeast/Southern Plains and Mountain/Pacific regions.

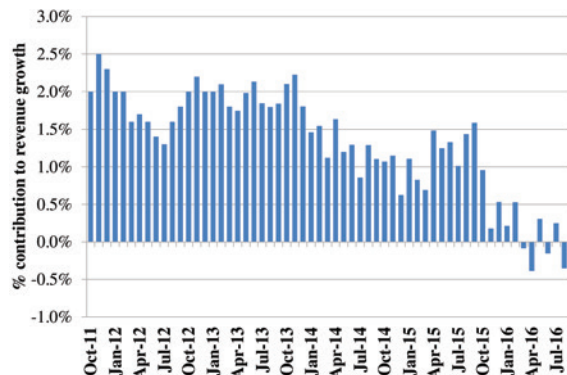
## Equipment Category Sales Trends



Source: Farm Equipment Magazine Survey

Commercial & consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters, and sprayers in particular). While GPS/Precision Ag equipment has seen strength in the 1H16, trends have deteriorated over the past few months.

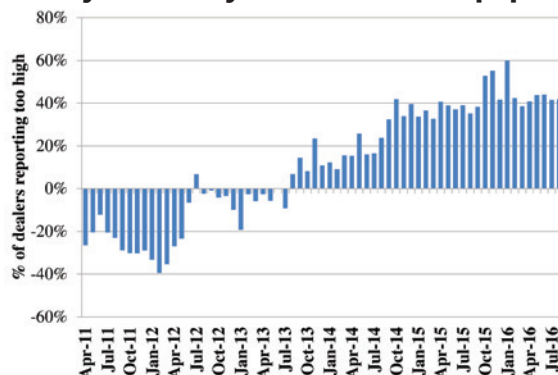
## Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers reported relatively flat pricing over the last few months as incentives programs have more than offset list price increases back in 4Q15. The effect of the strong U.S. dollar on Canadian exchange rate has also played a part in pricing inflation within North America.

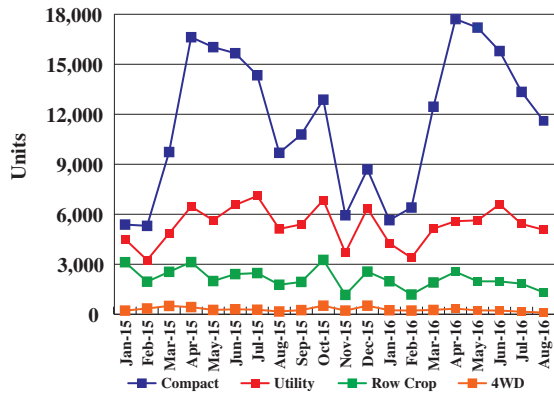
## Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 42% of dealers reported new equipment inventories are "too high" (48% too high, 45% about right, 6% too low), in line with the previous month. New inventory levels have been reported as "too high" for nearly 3 years.

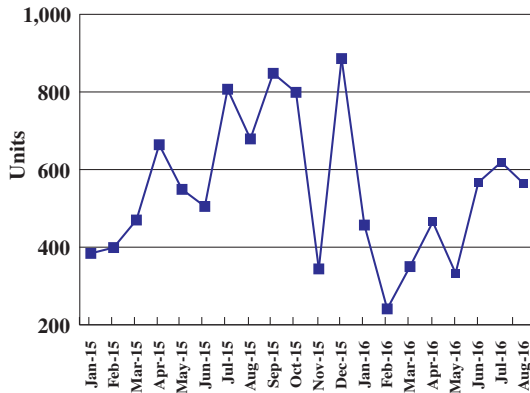
## North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were up 8% year-over-year in August, largely due to flat utility tractor sales and an 18% increase in <40 horsepower tractors. The largest sales decline came from 4WD tractors, which were down 39%.

## North American Combine Sales



Source: AEM, Cleveland Research, AEI

North American combine sales came in at 563 units in August. On a year-over-year basis, combine sales were down 17%.

## USED EQUIPMENT TRENDS

**Used Equipment Values vs. Last Year  
Combines**



Source: Cleveland Research, AEI

Used combine pricing was down 11% year-over-year during the month, slightly worse than the 10% decline the previous month.

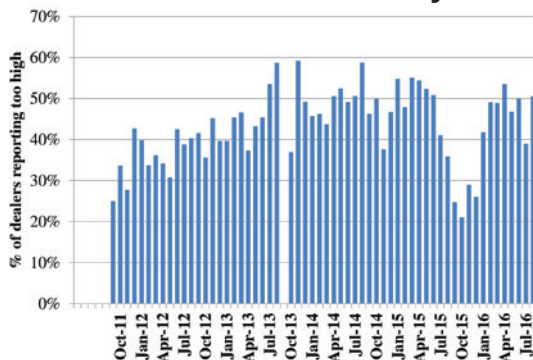
**Used Equipment Values vs. Last Year  
Tractors**



Source: Cleveland Research, AEI

August saw slight declines in pricing for small tractors. Used tractors were reported down approximately 8% year-over-year on average, slightly below the 7% reported in July.

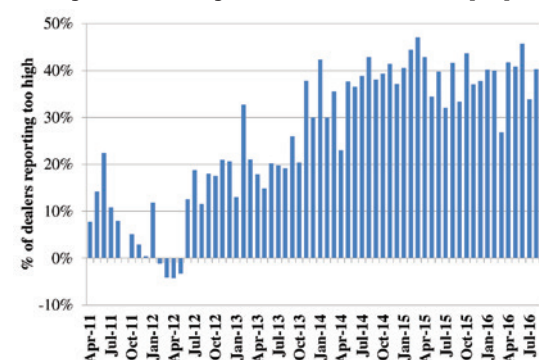
**Used Combine Inventory**



Source: Cleveland Research, AEI

Used combine inventory levels were reported as "too high" by a net 51% of dealers in August, compared to July's reading of 39% and June's 50%.

**Industry Inventory Levels — Used Equipment**

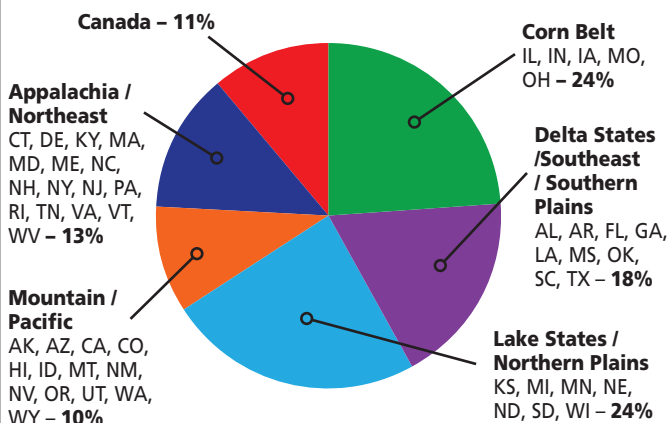


Source: Cleveland Research, AEI

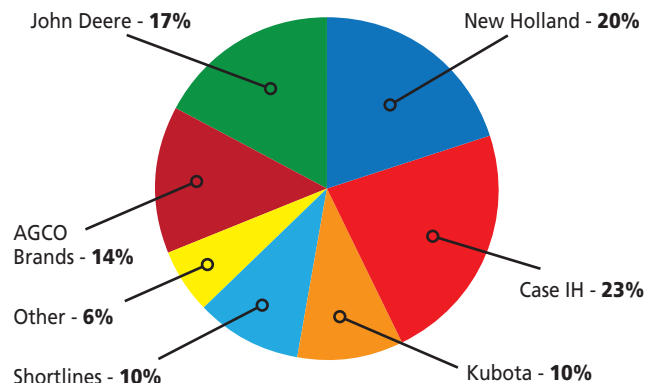
A net 41% of dealers reported used equipment inventory as "too high" (49% too high, 43% about right, 8% too low), worse than the 34% who reported heightened used equipment inventory in July (44% too high, 47% about right, 10% too low).

## SEPTEMBER 2016 SURVEY RESPONDENTS

**Participants by Region**



**Participants by Brand**



The September survey had about 170 respondents representing combined annual revenues of roughly \$6 billion, covering a broad cross section of geographies and brands.