

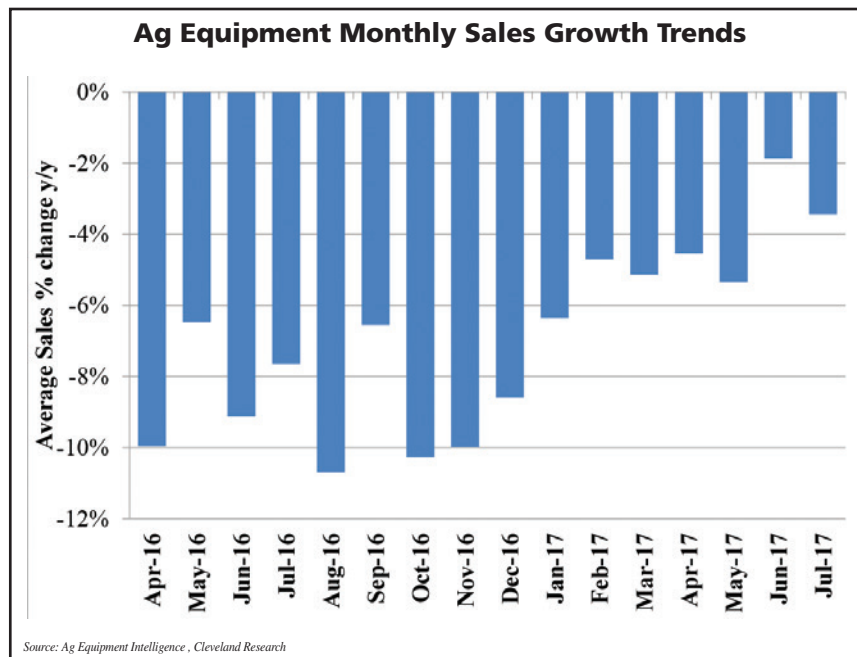
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 3% in July

- ✓ Average North American dealer sales were down 3% year-over-year in July, below the 2% decline in June.
- ✓ A net 32% of dealers reported their new equipment inventories are "too high," worse than the 25% the previous month.
- ✓ A net 27% of dealers reported their used equipment inventories were "too high," in line with the 26% in June.
- ✓ Dealers once again reported relatively flat pricing for new equipment as OEM price increases have been offset by discounting at the dealer level. Prices on used large tractors were down 4%, vs. the 5% declines in June. Used combine pricing was in line with June at down 6%.



Results vs. Expectations															
	Jul-14	Jul-15	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Better than expected	26%	18%	15%	14%	14%	16%	8%	11%	16%	11%	12%	16%	19%	16%	16%
In line with expectations	49%	45%	43%	44%	44%	40%	61%	57%	59%	58%	58%	54%	52%	65%	48%
Worse than expected	26%	36%	42%	41%	42%	44%	31%	32%	25%	31%	30%	30%	30%	19%	36%
Net % (Better - Worse)	0%	-18%	-28%	-27%	-28%	-28%	-24%	-22%	-9%	-20%	-18%	-15%	-11%	-3%	-19%

2017 Full-Year Outlook: Sales Down 3%

- ✓ The 2017 sales growth forecast was reported at down 3% in July, in line with the year-to-date average of down 3% but below June's flat forecast.
- ✓ Kubota dealers were the most optimistic, forecasting 11% sales growth in 2017, and was the only group forecasting sales growth.

Dealer Outlook — 2017													
(% chg y/y)	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
AGCO	-1%	-2%	-20%	-10%	-8%	-2%	-1%	2%	-5%	-3%	-6%	-4%	-6%
John Deere	-11%	-4%	-15%	-1%	-6%	-5%	-3%	-3%	-3%	0%	0%	3%	-4%
New Holland	-4%	-3%	-21%	-3%	-5%	-4%	-6%	-3%	-5%	-11%	-4%	0%	-2%
Case IH	-14%	-6%	-20%	-12%	2%	-13%	-7%	-3%	-6%	-4%	-3%	-6%	-6%
Kubota	6%	-24%	4%	-3%	-6%	-2%	-8%	3%	4%	1%	1%	3%	11%
Shortlines/Other	-3%	-5%	-19%	-2%	0%	-10%	1%	-2%	-6%	-10%	2%	0%	-3%
Overall	-8%	-7%	-8%	-5%	-4%	-4%	-4%	-2%	-4%	-4%	-2%	0%	-3%

Dealer Optimism Drops Double-Digits in July

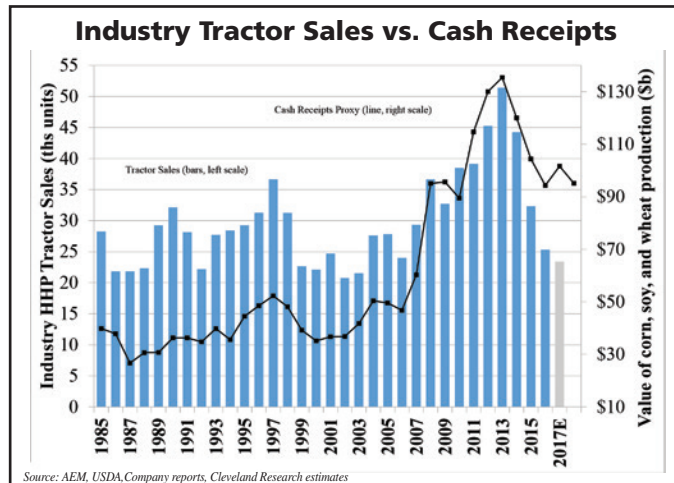
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw a big drop in July. A net 11% of dealers reported being less optimistic (21% more optimistic, 47% same, 32% less optimistic) compared to a net 4% who reported being more optimistic in June.

Optimism/Sentiment vs. Last Month																
	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
More Optimistic	15%	22%	11%	16%	11%	14%	13%	15%	17%	31%	21%	26%	17%	19%	23%	21%
Same	59%	51%	60%	44%	52%	49%	53%	60%	58%	48%	60%	47%	53%	61%	58%	47%
Less Optimistic	26%	27%	30%	40%	36%	38%	34%	25%	26%	20%	19%	27%	30%	20%	19%	32%
Net % Dealer Optimism	-11%	-4%	-19%	-24%	-25%	-24%	-21%	-10%	-9%	11%	1%	-1%	-13%	-2%	4%	-11%

USDA Outlook for Cash Receipts

Since 2009, the value of U.S. corn, soybeans and wheat production has correlated very closely to the annual industry sales of high horsepower tractors. This chart shows the historical relationship between the value of U.S. corn, soybeans and wheat production vs. annual industry sales of high horsepower (>100 HP) tractors.

USDA's August crop report was similar to July with cash receipts proxy forecast down 6% year-over-year in 2017-18. Wheat cash receipt forecasts fell slightly to down 7% year-over-year vs. down 6% in July, soybean forecasts improved to down 1% from down 3%, while corn cash receipt forecasts were unchanged at down 9%. Corn yield forecasts were higher than expected and were only reduced slightly from July.



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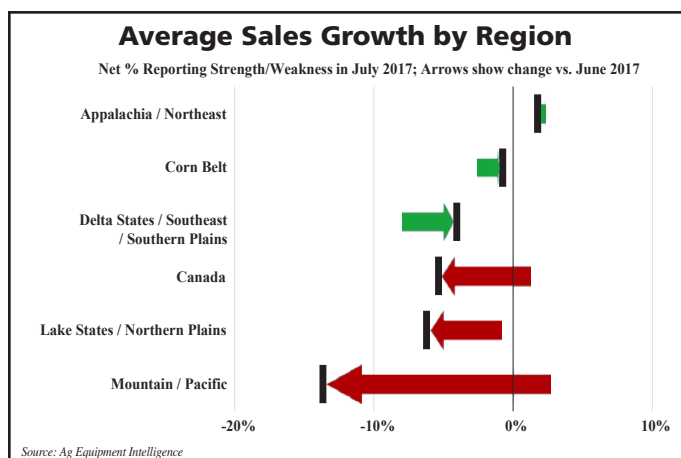
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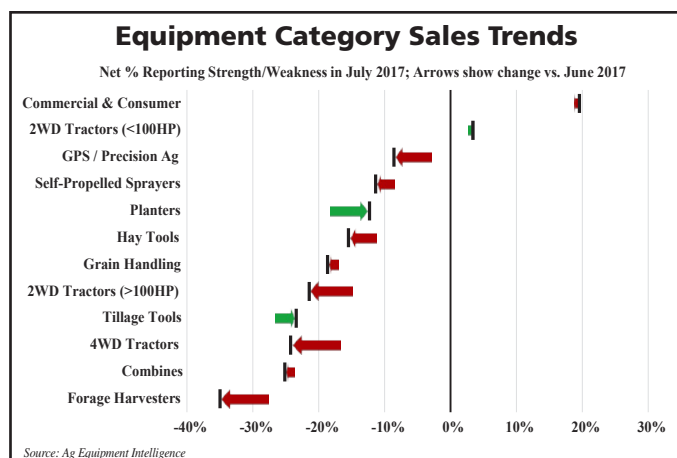
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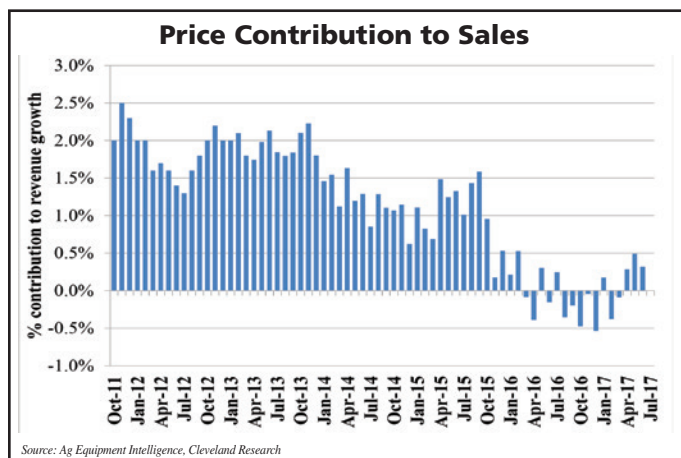
NEW EQUIPMENT TRENDS



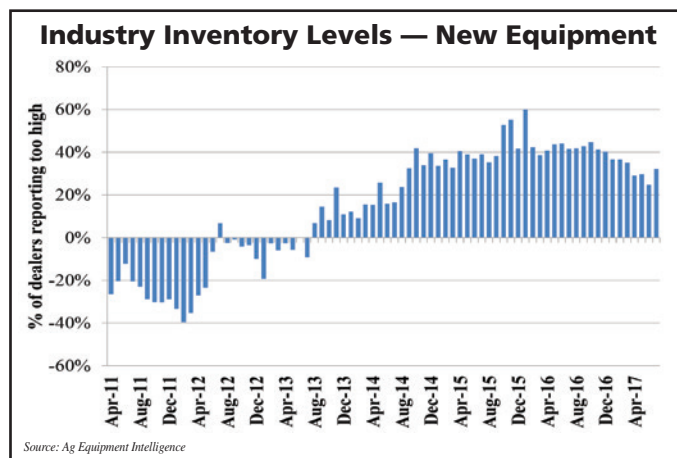
Sales trends by region were mixed in the month. Trends in the Mountain Pacific region saw the greatest deterioration from June, while the Corn Belt region saw sequential improvement. Sales growth by region in 2Q improved from 1Q with forecasts in the down 5% to down 1% range vs. the down 8% to down 1% range in 1Q.



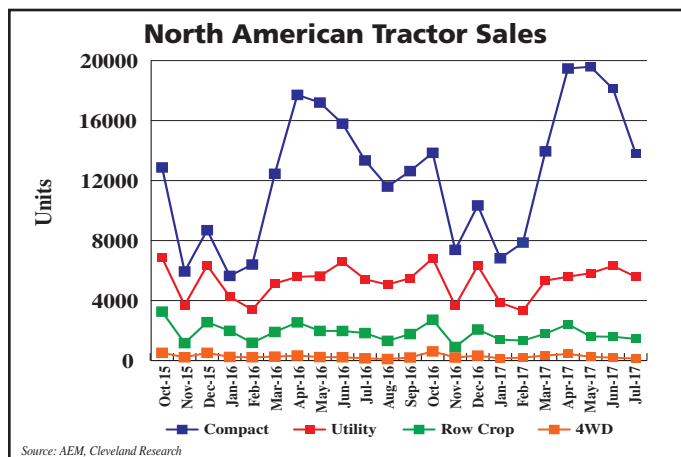
Sequentially, the bulk of equipment category sales softened in July, with planters showing the greatest improvement from June. In 2Q, 9 of 12 categories saw sequential improvement from 1Q compared to 11 categories improving from 4Q to 1Q.



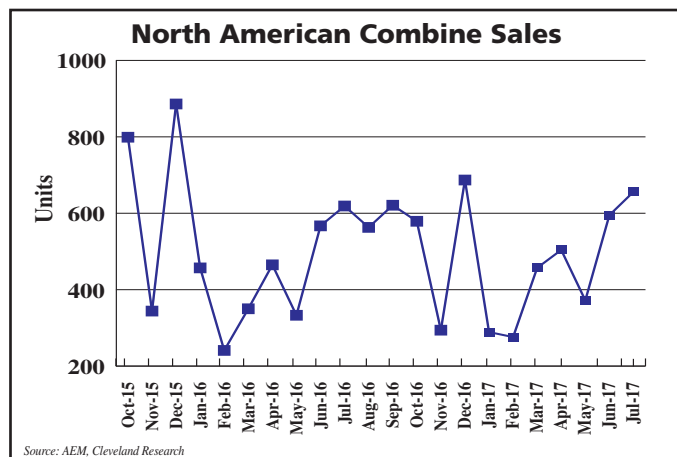
Dealers reported relatively flat pricing over the last year as incentive programs have more than offset list price increases. Pricing fell to flat in the month following sequential improvement over the prior 5 months.



A net 32% of dealers reported new equipment inventories "too high" (49% too high, 35% about right, 17% too low), worse than 25% in June. New inventory levels have come down over the past 9 months.

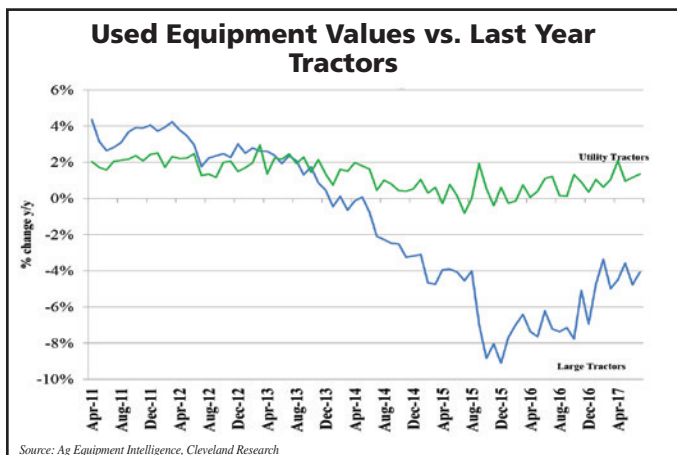


Total North American tractor sales were up 1% year-over-year in July, but row-crop tractor sales were down 23% and 4WD sales were down 11%.

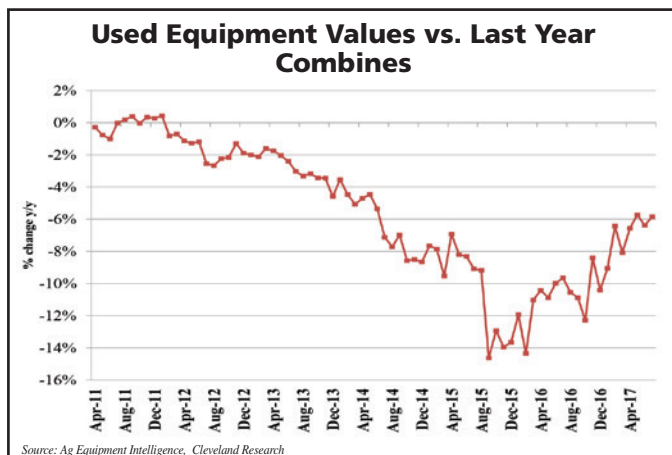


Total North American combine sales were up 6% in July. North American combine sales have seen positive growth for the last 6 months following declines for all but two months over the last 3 years.

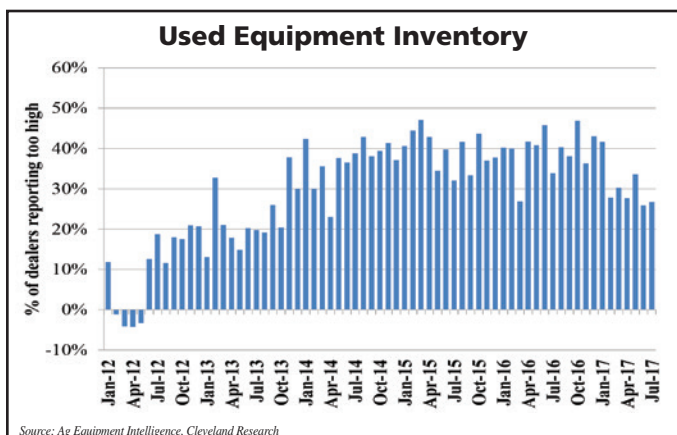
USED EQUIPMENT TRENDS



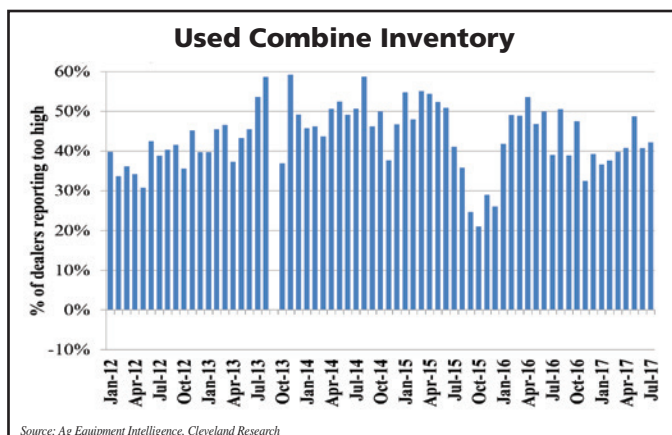
Pricing trends were mixed in the month. Large tractors were reported down 4% year-over-year, an improvement from the 5% decline reported in June.



Used combine pricing remained the same as last month with values reported down 6% year-over-year.

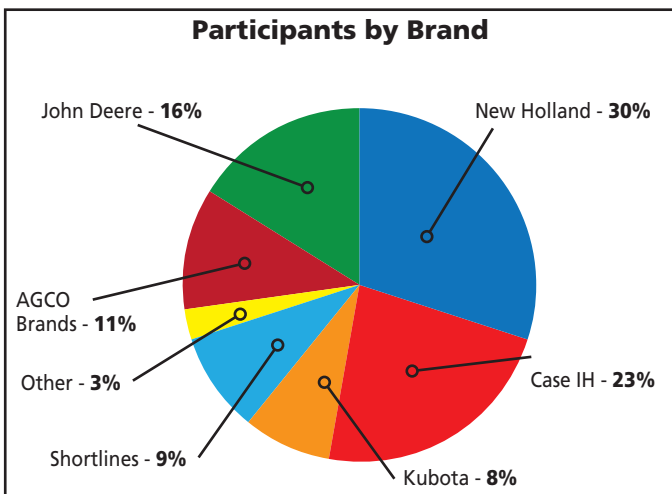
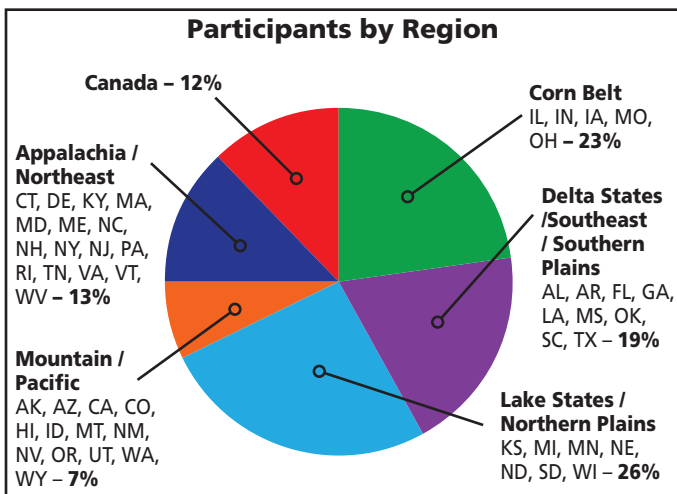


A net 26% of dealers reported used equipment inventory as "too high" (38% too high, 50% about right, 12% too low), in line with the 26% reporting heightened inventory in June (35% too high, 55% about right, 9% too low).



Used combine inventory levels were reported as "too high" by a net 42% of dealers in July, in line with in the previous month.

AUGUST 2017 SURVEY RESPONDENTS



The August survey had about 160 respondents representing combined annual revenues of roughly \$5 billion. By brand, 30% of respondents were New Holland dealers, 23% Case IH, 16% John Deere, 8% Kubota and 11% AGCO dealers.