

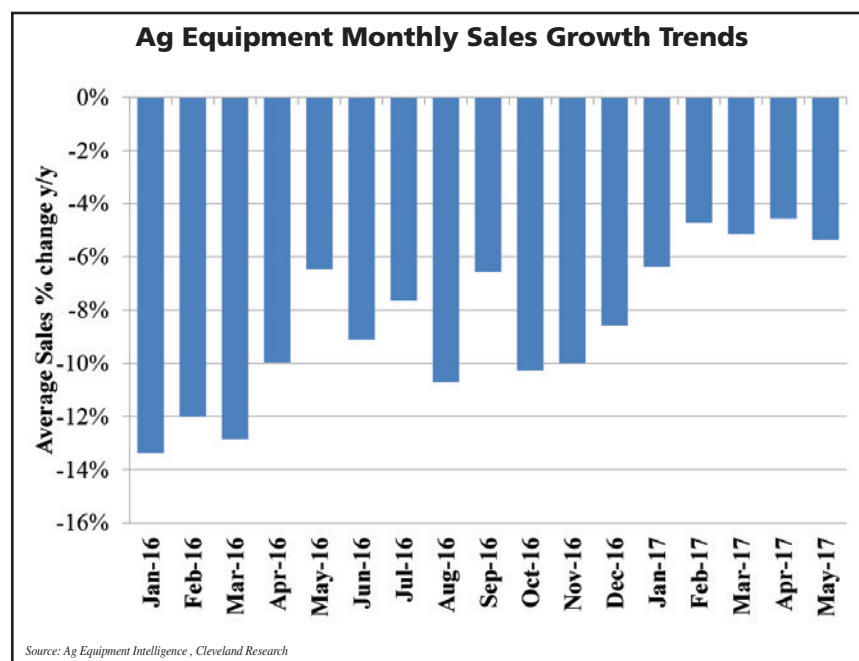
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 5% in May

- ✓ Average North American dealer sales were down 5% year-over-year in May, in line with April.
- ✓ A net 30% of dealers reported their new equipment inventories are "too high," relatively in line with the 29% in April.
- ✓ A net 34% of dealers reported their used equipment inventories were "too high," above the 28% the previous month.
- ✓ Dealers once again report mostly flat pricing for new equipment during the past month. Prices on used large tractors were down 4%, in line with April. Used combine pricing was down 6% year-over-year vs. down 7% the month before.



Results vs. Expectations																		
	Dec-15	Jan-16	Feb-16	Mar-16	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
Better than expected	19%	12%	15%	20%	24%	21%	22%	15%	14%	14%	16%	8%	11%	16%	11%	12%	16%	19%
In line with expectations	47%	52%	47%	52%	48%	46%	40%	43%	44%	44%	40%	61%	57%	59%	58%	58%	54%	52%
Worse than expected	34%	35%	38%	28%	29%	34%	38%	42%	41%	42%	44%	31%	32%	25%	31%	30%	30%	30%
Net % (Better - Worse)	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-28%	-27%	-28%	-28%	-24%	-22%	-9%	-20%	-18%	-15%	-11%

## 2017 Full-Year Outlook: Sales Down 2%

- ✓ The 2017 sales growth forecast was reported at down 2%, an improvement from the year-to-date average of down 3% and down 4% in April. Commentary suggests weather and low commodity prices remain headwinds in the near term, but dealers are more optimistic about customer activity in the second half of the year.
- ✓ Shortline/Other and Kubota dealers are the most optimistic, forecasting sales to be up 2% and 1%, respectively. AGCO dealers were the least optimistic this month, calling for sales to be down 6% in 2017.

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
AGCO	-1%	-2%	-20%	-10%	-8%	-2%	-1%	2%	-5%	-3%	-6%
John Deere	-11%	-4%	-15%	-1%	-6%	-5%	-3%	-3%	-3%	0%	0%
New Holland	-4%	-3%	-21%	-3%	-5%	-4%	-6%	-3%	-5%	-11%	-4%
Case IH	-14%	-6%	-20%	-12%	2%	-13%	-7%	-3%	-6%	-4%	-3%
Kubota	6%	-24%	4%	-3%	-6%	-2%	-8%	3%	4%	1%	1%
Shortlines/Other	-3%	-5%	-19%	-2%	0%	-10%	1%	-2%	-6%	-10%	2%
Overall	-8%	-7%	-8%	-5%	-4%	-4%	-4%	-2%	-4%	-4%	-2%

## Dealer Optimism Improves in May

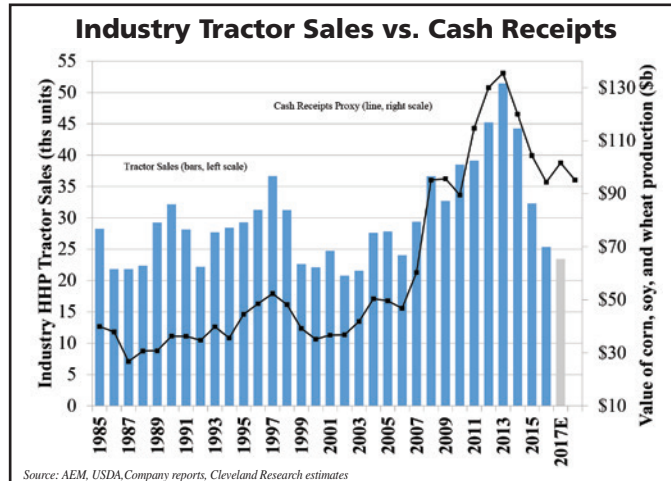
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, showed a large improvement in May. A net 2% of dealers are less optimistic vs. a net 13% in April.

Optimism/Sentiment vs. Last Month																	
	Jan-16	Feb-16	Mar-16	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
More Optimistic	11%	13%	17%	15%	22%	11%	16%	11%	14%	13%	15%	17%	31%	21%	26%	17%	19%
Same	46%	51%	55%	59%	51%	60%	44%	52%	49%	53%	60%	58%	48%	60%	47%	53%	61%
Less Optimistic	43%	36%	28%	26%	27%	30%	40%	36%	38%	34%	25%	26%	20%	19%	27%	30%	20%
Net % Dealer Optimism	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%	-24%	-21%	-10%	-9%	11%	1%	-1%	-13%	-2%

## 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 June crop report was similar to May with cash receipts proxy forecast down 6% year-over-year in 2017-18. Wheat cash receipts are now forecast down 13% year-over-year vs. down 14% in May, while corn and soybean forecasts were unchanged.



The contents of this report represent our interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies, but is not guaranteed as to accuracy or completeness. It does not contain material provided to us in confidence by our clients.

Individual companies reported on and analyzed by Lessiter Media, may be clients of this and other Lessiter Media services.

This information is not furnished in connection with a sale or offer to sell securities or in connection with the solicitation of an offer to buy securities.

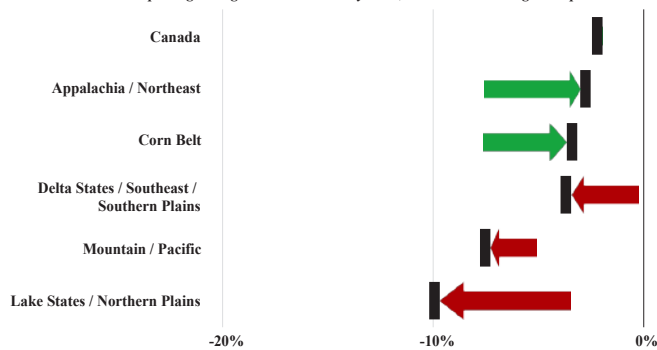
DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is a joint project of the editors of *Farm Equipment* and research team at the Cleveland Research Co. DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is published monthly and distributed to subscribers of *AG EQUIPMENT INTELLIGENCE* as well as to dealers participating in the survey by Lessiter Media, 16655 W. Wisconsin Ave., Brookfield, WI 53005. © 2017 by Lessiter Media. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher.

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 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](mailto:info@lessitermedia.com).

# NEW EQUIPMENT TRENDS

## Average Sales Growth by Region

Net % Reporting Strength/Weakness in May 2017; Arrows show change vs. April 2017

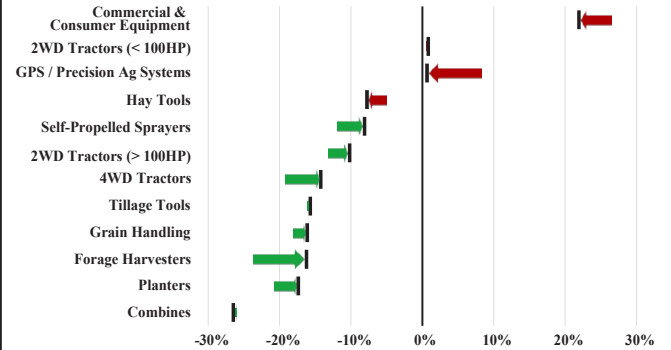


Source: Ag Equipment Intelligence

Sales trends by region were mixed in the month. The Appalachia/Northeast and Corn Belt regions improved from last month's results. Sales growth by region in May was broadly similar to 1Q with forecasts in the down 1% to down 10% range.

## Equipment Category Sales Trends

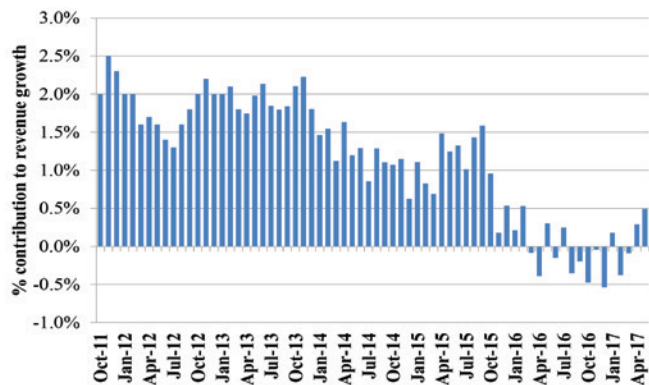
Net % Reporting Strength/Weakness in May 2017; Arrows show change vs. April 2017



Source: Ag Equipment Intelligence

Sequentially, equipment category sales saw a reversal of the prior trend in May as commercial & consumer lawn equipment and GPS/precision farming saw softening in contrast to improvement in other categories. In May, 6 of 12 categories saw sequential improvement from April compared to 11 categories improving from 4Q to 1Q.

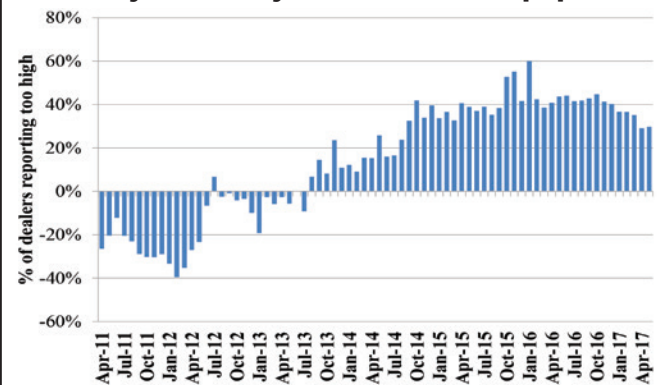
## Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers reported relatively flat pricing over the last year as incentive programs have more than offset list price increases. Pricing has shown sequential improvement over the past 4 months and saw the highest reading in 14 months.

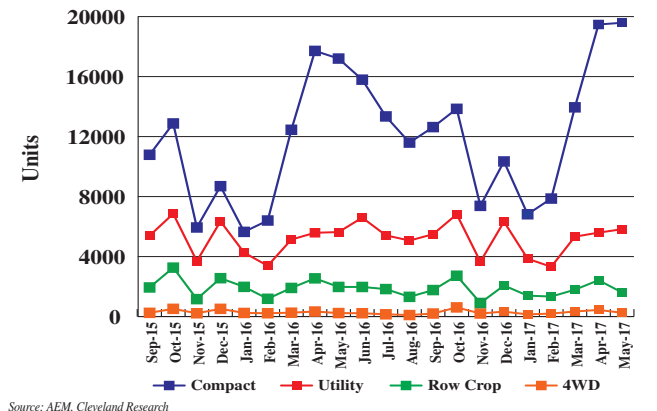
## Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 30% of dealers reported new equipment inventories "too high" (40% too high, 50% about right, 10% too low), relatively in line with the 29% in April. New inventory levels have been elevated for over 3 years, but have come down over the past 6 months.

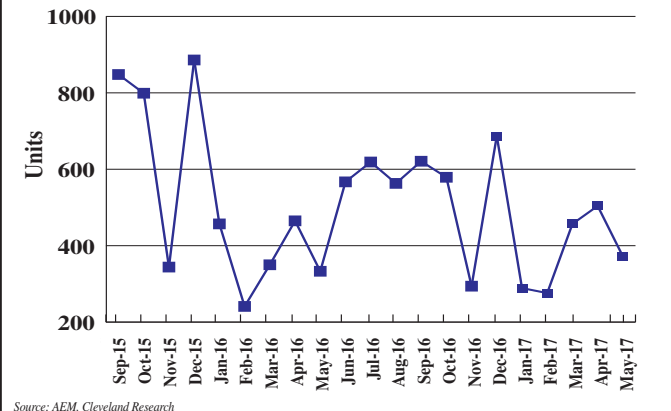
## North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 9% year-over-year in May on the strength of <40 horsepower tractors, which were up 14% year-over-year. Row-crop tractors were the only tractor category to see a year-over-year decline in May at down 18%.

## North American Combine Sales

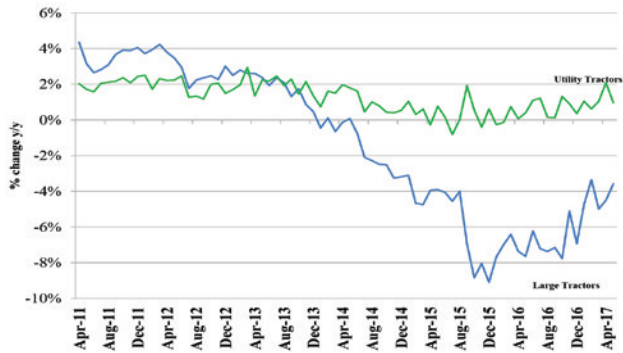


Source: AEM, Cleveland Research

Total North American combine sales increased 12% year-over-year in May following an increase of 9% the month before. This is the 4th month in a row of year-over-year improvements for combine sales.

## USED EQUIPMENT TRENDS

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



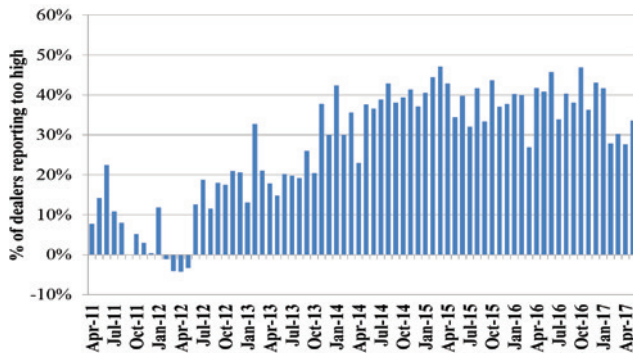
Pricing trends saw slight improvement in the month. Large tractors were reported down 4% year-over-year, in line with the 4% decline reported in April.

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



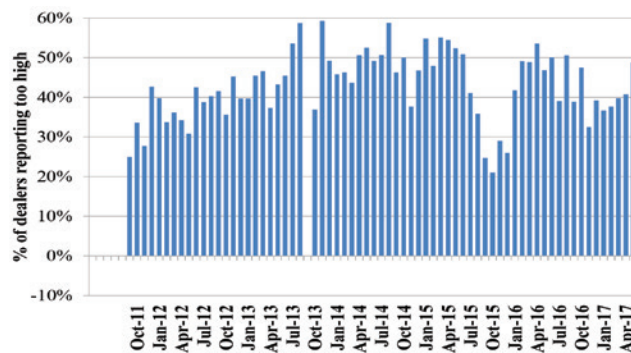
Used combine pricing improved in May with values reported down 6% year-over-year vs. the 7% decline the month before.

**Used Equipment Inventory**



A net 33% of dealers reported used equipment inventory as "too high" (41% too high, 51% about right, 8% too low), worse than the 28% reporting heightened inventory in April (40% too high, 48% about right, 12% too low).

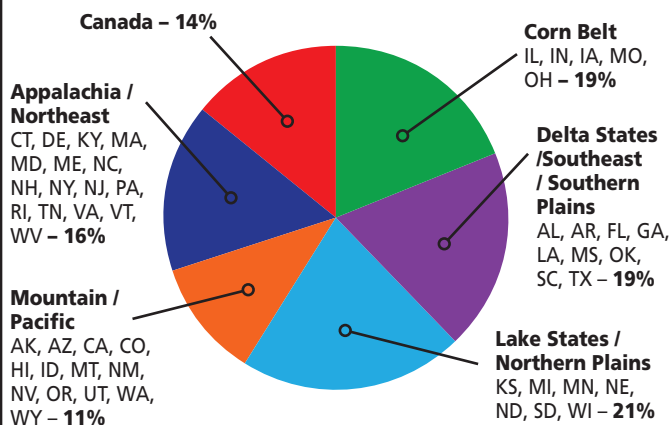
**Used Combine Inventory**



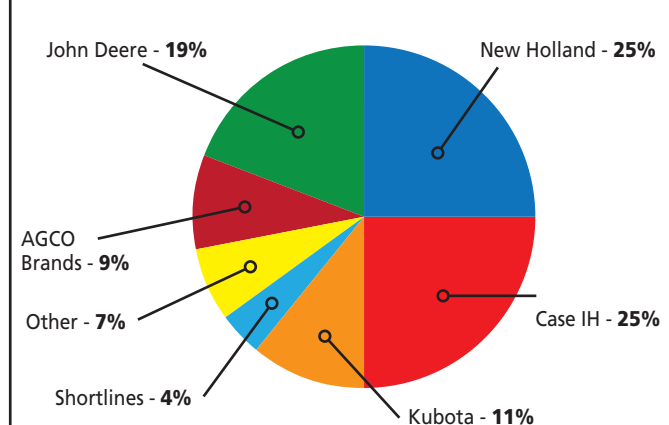
Used combine inventory levels were reported as "too high" by a net 49% of dealers in May, higher than the 41% in April.

## JUNE 2017 SURVEY RESPONDENTS

**Participants by Region**



**Participants by Brand**



The June survey had about 140 respondents representing combined annual revenues of roughly \$5 billion. By brand, 25% of respondents were New Holland dealers, 25% Case IH, 19% John Deere, 11% Kubota and 9% AGCO dealers.