

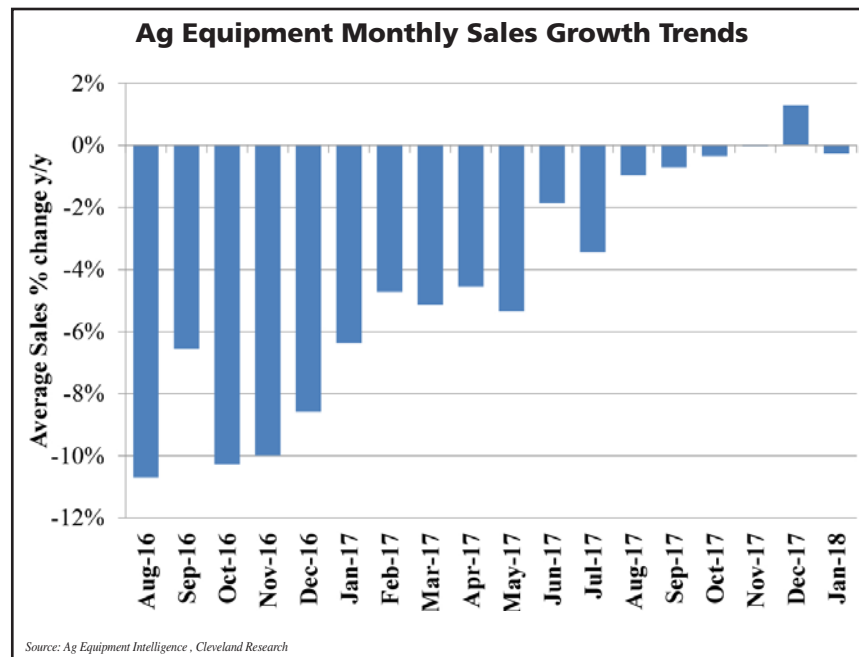
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Flat in January

- ✓ Average dealer sales were reported flat year-over-year in January, down from 1% sales growth in December.
- ✓ A net 19% of dealers reported their new equipment inventories are "too high," better than the 22% in December.
- ✓ A net 23% of dealers reported their used equipment inventories were "too high," an improvement from the 27% the previous month.
- ✓ Dealers reported flat pricing for new equipment, following an uptick in pricing during 4Q. Used pricing trends were largely unchanged from December with large tractors reported down 3% year-over-year and combine pricing down 5%.



Results vs. Expectations															
	Jan-15	Jan-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Better than expected	26%	12%	16%	11%	12%	16%	19%	16%	16%	21%	21%	18%	21%	18%	13%
In line with expectations	57%	52%	59%	58%	58%	54%	52%	65%	48%	52%	47%	55%	60%	62%	65%
Worse than expected	18%	35%	25%	31%	30%	30%	30%	19%	36%	27%	32%	27%	20%	20%	22%
Net % (Better - Worse)	8%	-23%	-9%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%	-8%	1%	-1%	-9%

## 2018 Full-Year Outlook: Sales Up 2%

- ✓ The 2018 forecast is for 2% year-over-year growth, in line with December, with a net 23% of dealers expecting growth vs. the 33% of dealers expecting growth in 4Q. Of the dealers who responded to the survey, 45% believe the tax bill will have a moderate (1-5%) positive impact on sales of machinery equipment in 2018.
- ✓ John Deere dealers are the most optimistic, forecasting sales to improve by 4% in 2018. AGCO dealers are the least optimistic, calling for sales to be down 4% this year.

Dealer Outlook — 2017													
(% chg y/y)	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
AGCO	-1%	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%	-7%	3%	-1%	-4%
John Deere	-3%	-3%	-3%	0%	0%	3%	-4%	3%	1%	0%	4%	2%	4%
New Holland	-6%	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%	-14%	2%	-2%	1%
Case IH	-7%	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%	-1%	3%	4%	0%
Kubota	-8%	3%	4%	1%	1%	3%	11%	3%	-3%	-1%	1%	2%	1%
Shortlines/Other	1%	-2%	-6%	-10%	2%	0%	-3%	-1%	2%	-1%	-5%	4%	1%
Overall	-4%	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%	-2%	2%	2%	2%

### Dealer Optimism Registers at Neutral

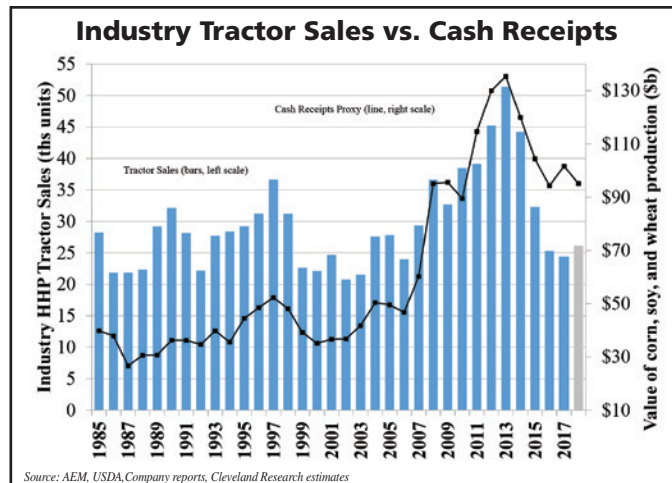
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, was neutral in January. A net 0% of dealers report being more optimistic compared to the month before. This is down from December when a net 9% were more optimistic and the fourth month in a row with a positive or neutral reading.

Optimism/Sentiment vs. Last Month													
	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
More Optimistic	31%	21%	26%	17%	19%	23%	21%	23%	23%	22%	24%	28%	21%
Same	48%	60%	47%	53%	61%	58%	47%	52%	51%	56%	63%	53%	58%
Less Optimistic	20%	19%	27%	30%	20%	19%	32%	26%	26%	22%	14%	19%	21%
Net % Dealer Optimism	11%	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%	0%	10%	9%	0%

## 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 February crop report was similar to January with cash receipts proxy forecast down 5% year-over-year in 2017-18. Corn cash receipt forecasts improved to down 6% vs. down 8% previously on better pricing, while wheat and soybean forecasts were unchanged at down 11% year-over-year and down 1% year-over-year.



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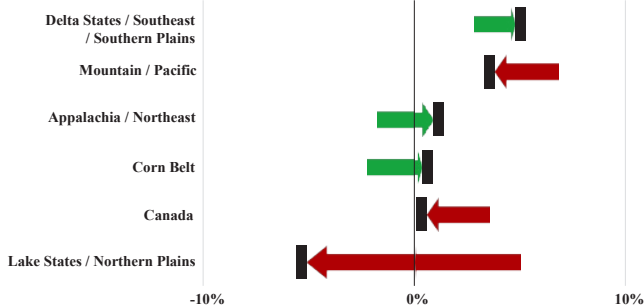
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# NEW EQUIPMENT TRENDS

## Average Sales Growth by Region

Net % Reporting Strength/Weakness in January 2018; Arrows show change vs. December 2017

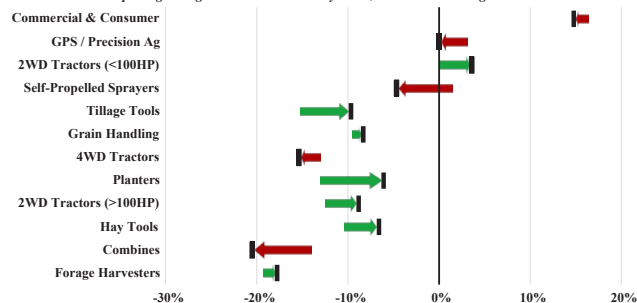


Source: Ag Equipment Intelligence

Sales trends by region improved in half of the regions in January and 5 of the 6 regions in 4Q from 3Q. Delta States/Southeast/Southern Plains was the strongest region in the month, while the Corn Belt saw the greatest improvement from December. The Lake States/Northern Plains region saw a softening from December, which commentary suggests is weather related.

## Equipment Category Sales Trends

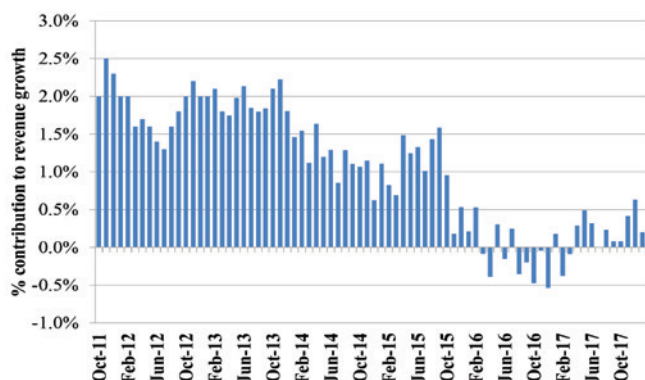
Net % Reporting Strength/Weakness in January 2018; Arrows show change vs. December 2017



Source: Ag Equipment Intelligence

Sales by product category was mixed in January, while nearly all product categories saw improvement from 3Q to 4Q. Commercial & consumer products saw continued strength. Large equipment remains weak but saw notable improvement in 2017.

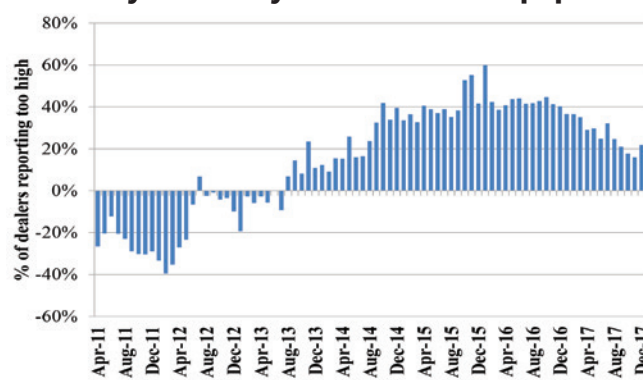
## Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends were flattish in the month following an uptick in 4Q. Dealer commentary suggests some manufacturer list price increases in the 2-3% range effective Feb. 1.

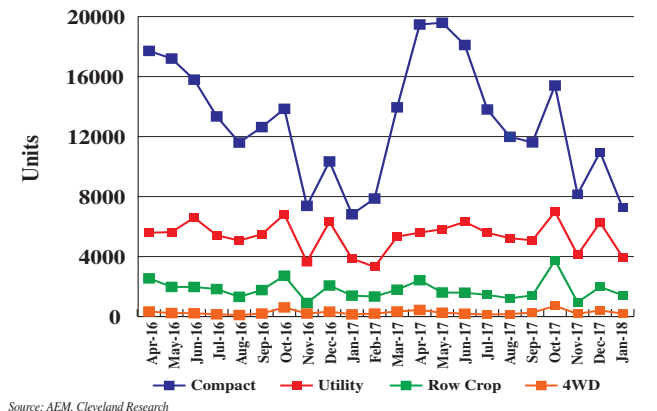
## Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 19% of dealers reported new equipment inventories "too high" (32% too high, 55% about right, 13% too low), below the 22% in December. New inventory levels have been elevated for over 3 years, but have come down over the past year.

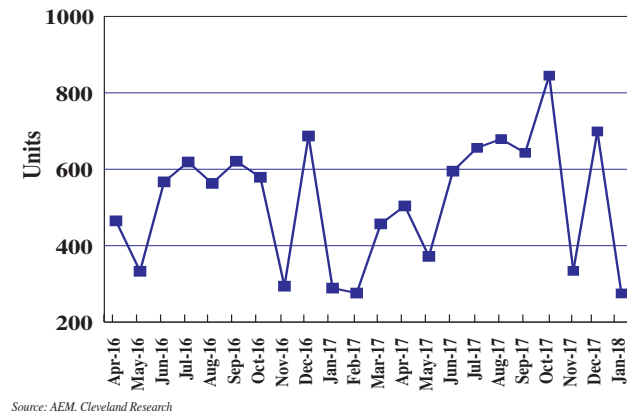
## North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 5% year-over-year in January, with 4WD tractors up 33%. Row-crop tractor sales for the month were up 2%, after being the only tractor category with a sales decline in December.

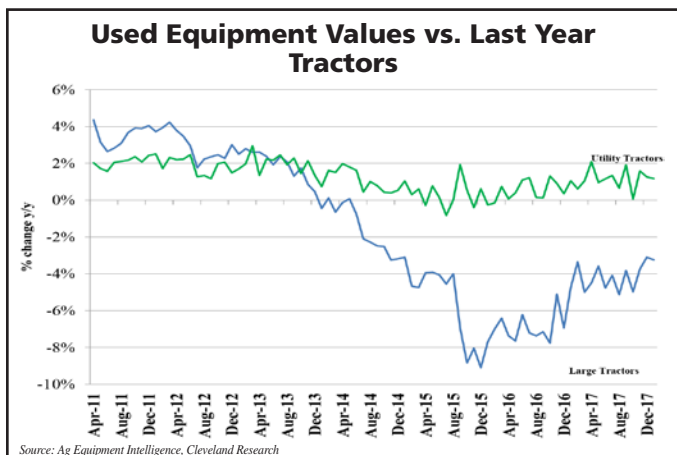
## North American Combine Sales



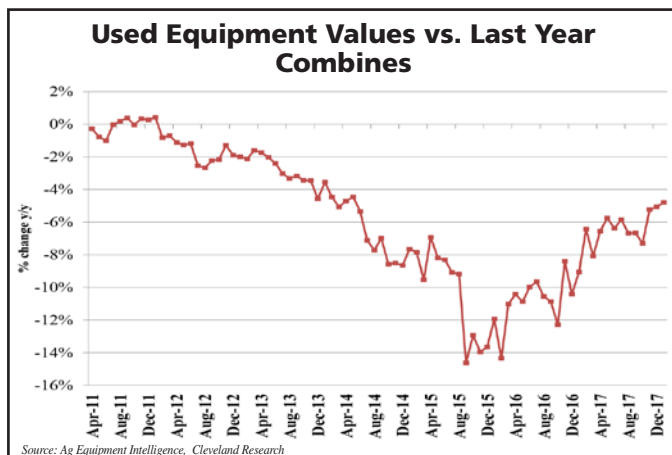
Source: AEM, Cleveland Research

Total North American combine sales were down 5% in January, following the 2% improvement in December and a 14% gain in November.

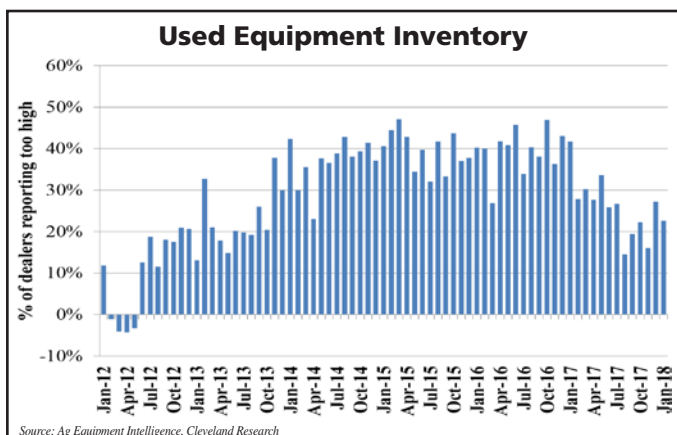
## USED EQUIPMENT TRENDS



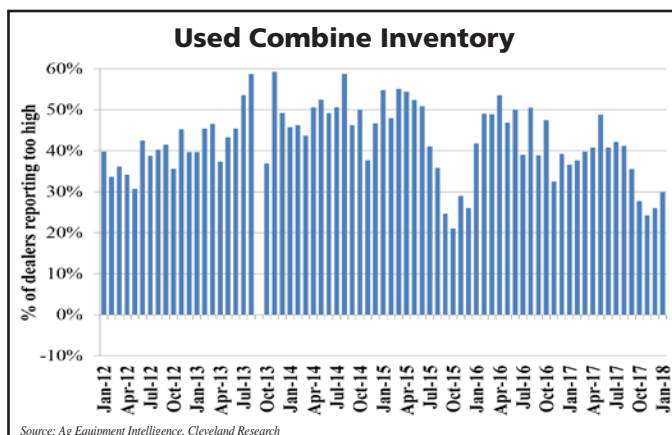
Used equipment pricing trends were largely unchanged from December. Large tractors were reported down 3% year-over-year.



Used combine prices were reported down 5% in January, unchanged from December and November.

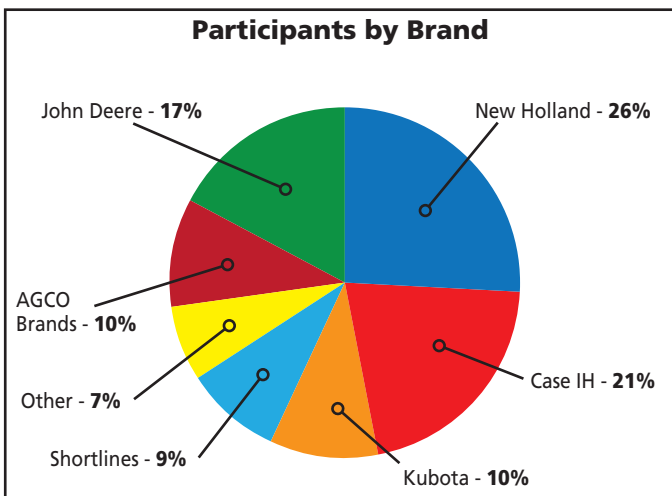
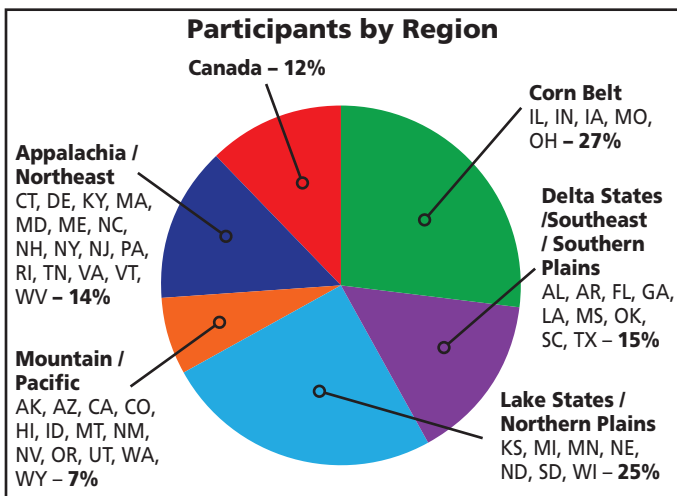


A net 22% of dealers reported used equipment inventory as "too high" (32% too high, 58% about right, 10% too low), better than the 27% reporting heightened inventory in December and the 26% average in 2017.



Used combine inventory levels were reported as "too high" by a net 30% of dealers in January, above the 26% in December, but better than the 37% average in 2017.

## FEBRUARY 2018 SURVEY RESPONDENTS



The February survey had about 170 respondents representing combined annual revenues of roughly \$6 billion. By brand, 26% of respondents were New Holland dealers, 21% Case IH, 17% John Deere, 10% Kubota, 10% AGCO dealers and 16% independent dealers.