

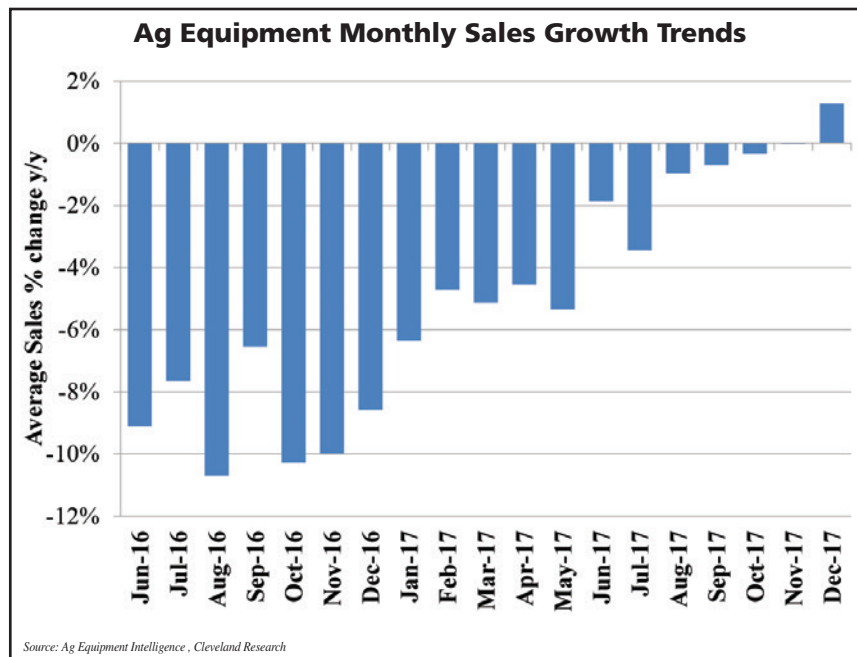
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Up Slightly in December

- ✓ Average dealer sales were reported up 1% year-over-year in December, better than the flat sales in November and 4Q.
- ✓ A net 22% of dealers reported their new equipment inventories are "too high," higher than the 16% in November.
- ✓ A net 27% of dealers reported their used equipment inventories were "too high," up from 16% last month.
- ✓ Dealers have reported improvements in pricing for new equipment over the past few months following 2 years of relatively flat pricing. Used pricing improved slightly in the month with contacts reporting large tractors down 3% year-over-year vs. down 4% in November. Used combine pricing was unchanged from November at down 5% year-over-year.



Results vs. Expectations															
	Dec-14	Dec-15	Dec-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
Better than expected	29%	19%	11%	16%	11%	12%	16%	19%	16%	16%	21%	21%	18%	21%	18%
In line with expectations	47%	47%	57%	59%	58%	58%	54%	52%	65%	48%	52%	47%	55%	60%	62%
Worse than expected	23%	34%	32%	25%	31%	30%	30%	30%	19%	36%	27%	32%	27%	20%	20%
Net % (Better - Worse)	6%	-15%	-22%	-9%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%	-8%	1%	-1%

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

- ✓ The 2018 forecast is for 2% year-over-year growth, in line with November, with a net 33% of dealers expecting growth in 4Q vs. the 26% of contacts expecting growth in 3Q. Dealer commentary suggests more conviction on sales growth in 2018 due to increased customer spending as a result of tax reform.
- ✓ Case IH and shortline dealers were the most optimistic, forecasting sales to improve by 4%, while New Holland dealers were the least optimistic and anticipate sales to be down 2% in 2018.

Dealer Outlook — 2017													
(% chg y/y)	Dec-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
AGCO	-2%	-1%	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%	-7%	3%	-1%
John Deere	-5%	-3%	-3%	-3%	0%	0%	3%	-4%	3%	1%	0%	4%	2%
New Holland	-4%	-6%	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%	-14%	2%	-2%
Case IH	-13%	-7%	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%	-1%	3%	4%
Kubota	-2%	-8%	3%	4%	1%	1%	3%	11%	3%	-3%	-1%	1%	2%
Shortlines/Other	-10%	1%	-2%	-6%	-10%	2%	0%	-3%	-1%	2%	-1%	-5%	4%
Overall	-4%	-4%	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%	-2%	2%	2%

## Dealer Optimism Stays Positive in December

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved once again in November. A net 9% of dealers reporting being more optimistic compared to the month before. This is down slightly from November when a net 10% of dealers were more optimistic and the third month in a row with a positive reading.

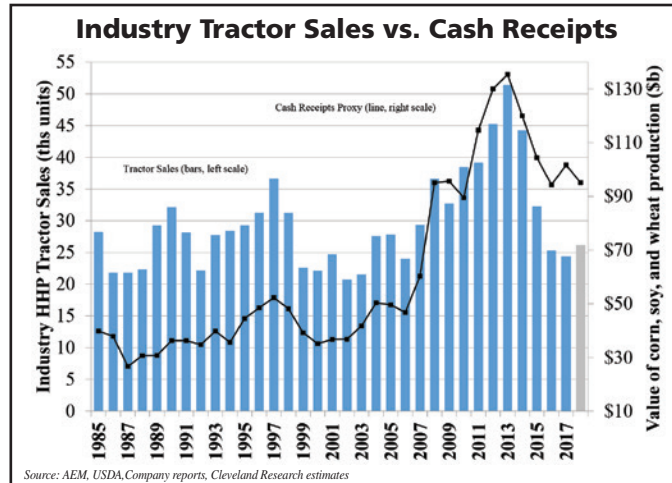
Optimism/Sentiment vs. Last Month													
	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
More Optimistic	17%	31%	21%	26%	17%	19%	23%	21%	23%	23%	22%	24%	28%
Same	58%	48%	60%	47%	53%	61%	58%	47%	52%	51%	56%	63%	53%
Less Optimistic	26%	20%	19%	27%	30%	20%	19%	32%	26%	26%	22%	14%	19%
Net % Dealer Optimism	-9%	11%	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%	0%	10%	9%

## USDA Outlook for Cash Receipts

Since 2009, the value of U.S. corn, soybeans and wheat production has correlated 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 January crop report showed an improvement from December with cash receipts proxy forecast down 5% year-over-year in 2017-18 vs. down 6% previously.

Corn cash receipt forecasts improved to down 8% vs. down 9%, wheat forecasts were unchanged at down 11%, and soybean forecasts fell to down 1% vs. flat previously.



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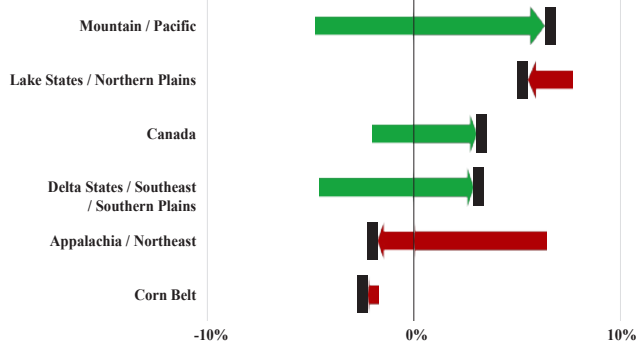
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# NEW EQUIPMENT TRENDS

## Average Sales Growth by Region

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

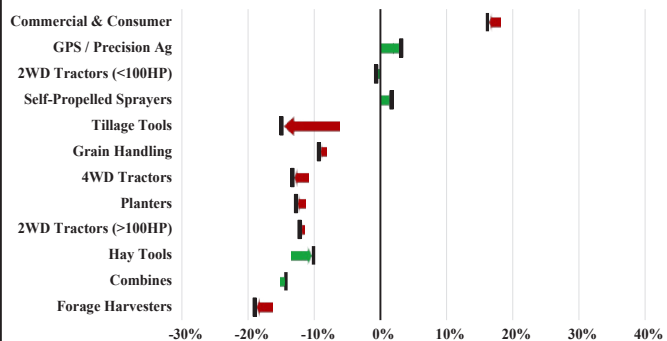


Source: Ag Equipment Intelligence

Sales trends by region improved sequentially in half of the regions in December and 5 of the 6 regions in 4Q from 3Q. The Mountain/Pacific region was the strongest region in the month and saw the greatest improvement from November. Trends in the Corn Belt region saw sequential softening in both December and 4Q, but growth rates remain well above prior trend.

## Equipment Category Sales Trends

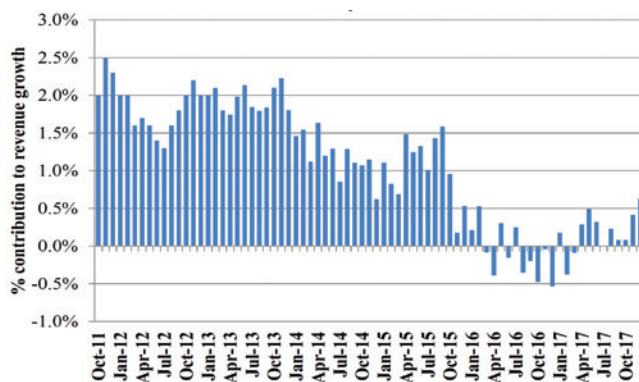
Net % Reporting Strength/Weakness in December 2017; Arrows show change vs. November 2017



Source: Ag Equipment Intelligence

Sales by product category were relatively unchanged from the prior month, while nearly all product categories saw sequential improvement from 3Q to 4Q. Commentary suggests large equipment demand improved in December and dealers are optimistic that this trend will continue into 2018.

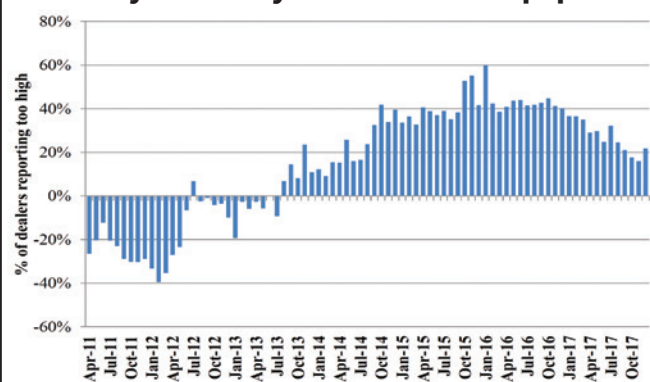
## Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Survey results have seen pricing tick up over the last few months following over 2 years of relatively flat pricing. Commentary suggests some manufacturer list price increases in the 2-3% range.

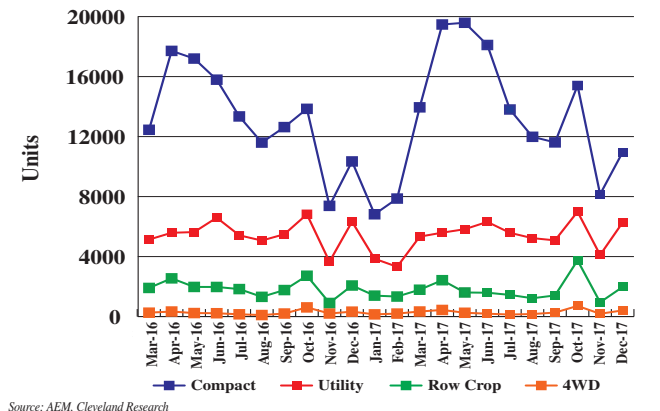
## Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 22% of dealers reported new equipment inventories "too high" (32% too high, 57% about right, 11% too low), higher than the 16% in November. New inventory levels have been elevated for over 3 years, but have come down over the past year.

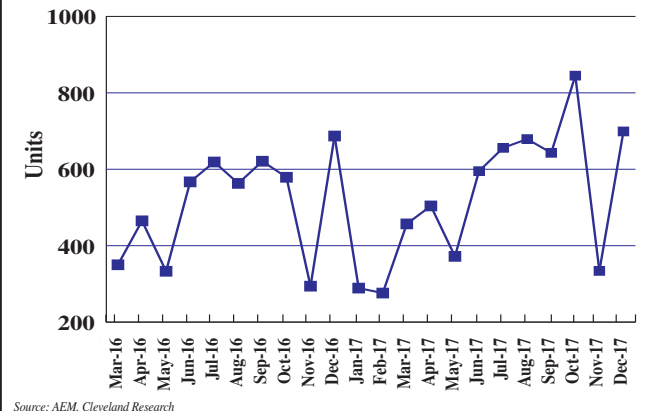
## North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 3% year-over-year in December, with 4WD tractors up 27%. Row-crop tractors were the only tractor category with a year-over-year decline at -4%.

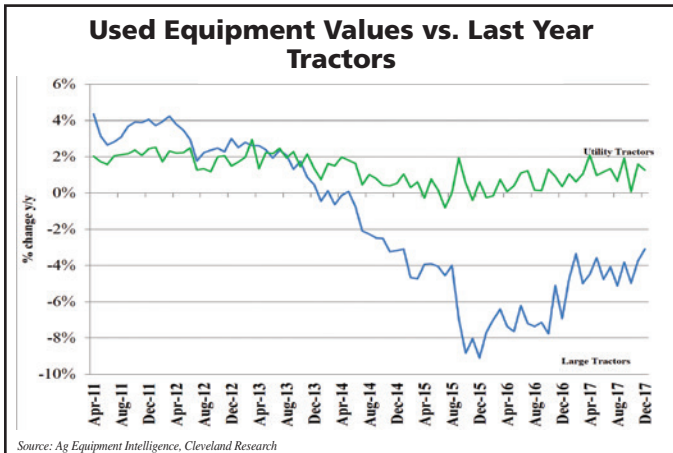
## North American Combine Sales



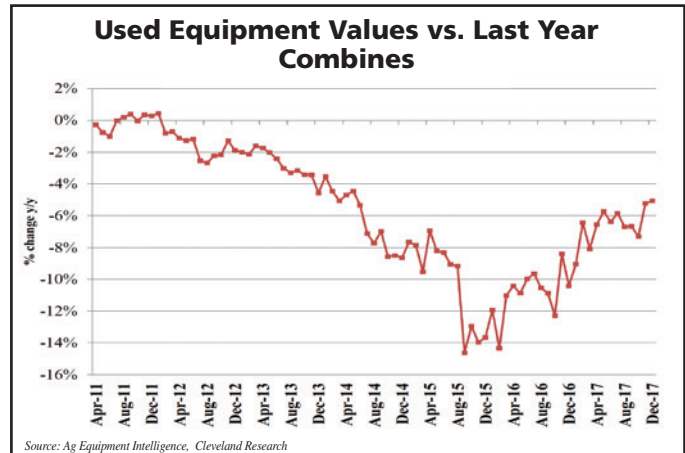
Source: AEM, Cleveland Research

Total North American combine sales were up 2% in December, following the 14% gain in November.

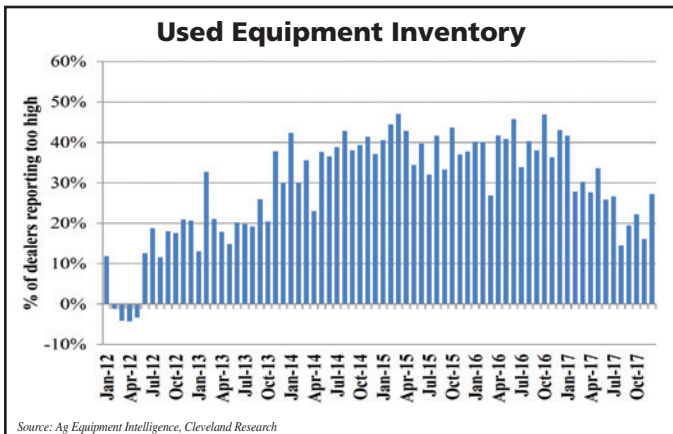
## USED EQUIPMENT TRENDS



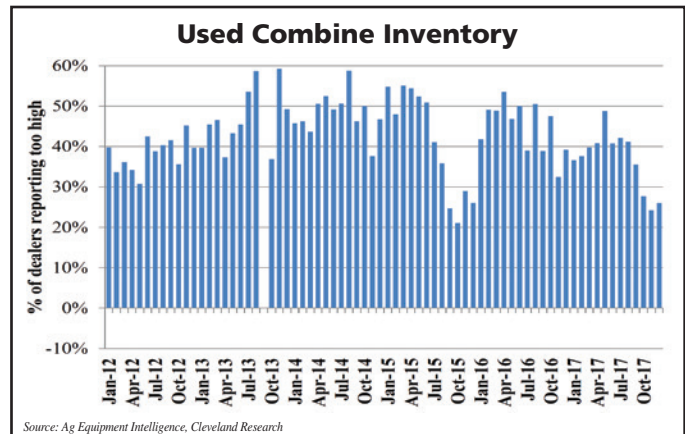
Pricing trends improved in the month. Large tractors were reported down 3% year-over-year, an improvement from the 4% declines in November.



Dealers report combine pricing was unchanged from last month at down 5% year-over-year.

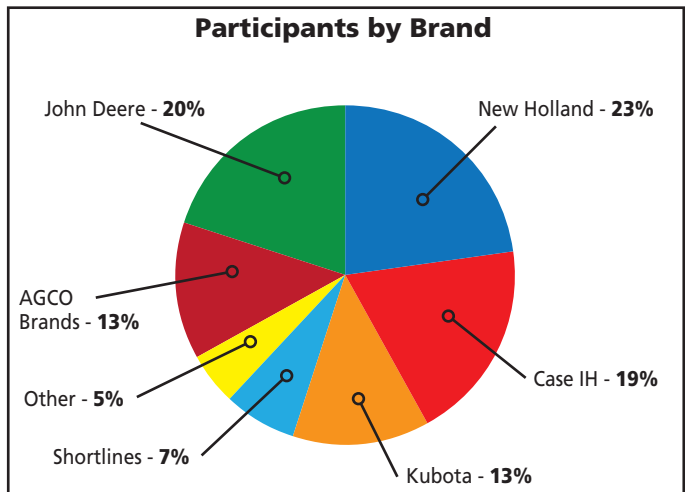
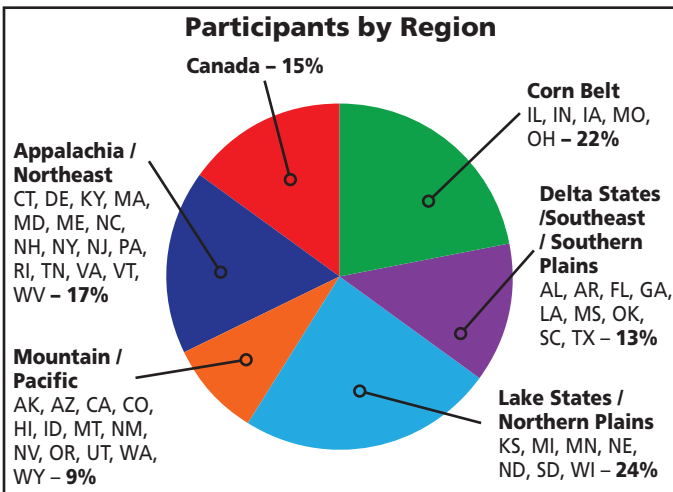


A net 27% of dealers reported used equipment inventory as "too high" (34% too high, 60% about right, 7% too low), higher than the 16% reporting heightened inventory in November and in line with the 26% average in 2017.



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

## JANUARY 2018 SURVEY RESPONDENTS



The January survey had about 190 respondents representing combined annual revenues of roughly \$7 billion. By brand, 23% of respondents were New Holland dealers, 19% Case IH, 20% John Deere, 13% Kubota, 13% AGCO dealers and 12% independent dealers.