

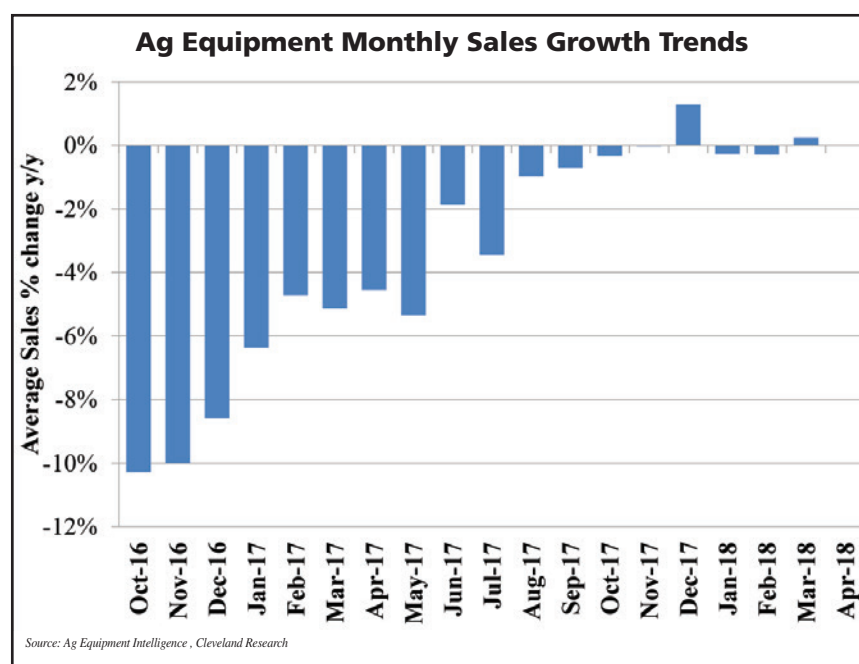
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Flat in April

- ✓ Average dealer sales were reported flat year-over-year in April, in line with the first 3 months of the year.
- ✓ A net 23% of dealers reported their **new equipment inventories** were "too high," an improvement from a net 28% reporting heightened inventory in March.
- ✓ A net 31% of dealers reported their **used equipment inventories** were "too high," a marked uptick vs. 15% the previous month. Overall, inventories have come down from 2016 levels.
- ✓ Dealers reported both **new and used equipment** pricing was stable in the month. Large tractor prices were down 2% and combine prices were down 3%, both of which were in line with March.



Results vs. Expectations															
	Apr-15	Apr-16	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Better than expected	27%	24%	16%	19%	16%	16%	21%	21%	18%	21%	18%	13%	13%	11%	10%
In line with expectations	44%	48%	54%	52%	65%	48%	52%	47%	55%	60%	62%	65%	61%	60%	61%
Worse than expected	29%	29%	30%	30%	19%	36%	27%	32%	27%	20%	20%	22%	26%	29%	29%
Net % (Better - Worse)	-2%	-5%	-15%	-11%	-3%	-19%	-6%	-11%	-8%	1%	-1%	-9%	-13%	-18%	-18%

## 2018 Full-Year Outlook: Sales Up 1%

- ✓ The 2018 forecast is for 1% year-over-year growth, in line with March. A net 10% of dealers are expecting growth, below both the 15% in March and the 16% of dealers expecting growth in 1Q. More than half of dealers responding to the survey do not believe the tax bill will have an impact on sales in 2018.
- ✓ Major ag equipment manufacturers forecast NAFTA ag equipment sales to be flat to up 10% in 2018.

Dealer Outlook — 2018													
(% chg y/y)	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
AGCO	-3%	-6%	-4%	-6%	-8%	-7%	-7%	3%	-1%	-4%	4%	0%	-2%
John Deere	0%	0%	3%	-4%	3%	1%	0%	4%	2%	4%	1%	3%	-5%
New Holland	-11%	-4%	0%	-2%	-4%	-8%	-14%	2%	-2%	1%	0%	0%	3%
Case IH	-4%	-3%	-6%	-6%	-3%	-8%	-1%	3%	4%	0%	-4%	-5%	5%
Kubota	1%	1%	3%	11%	3%	-3%	-1%	1%	2%	1%	-1%	2%	3%
Shortlines/Other	-10%	2%	0%	-3%	-1%	2%	-1%	-5%	4%	1%	-3%	3%	3%
Overall	-4%	-2%	0%	-3%	-1%	-3%	-2%	2%	2%	2%	1%	1%	1%

## Dealer Optimism Back into Positive Territory

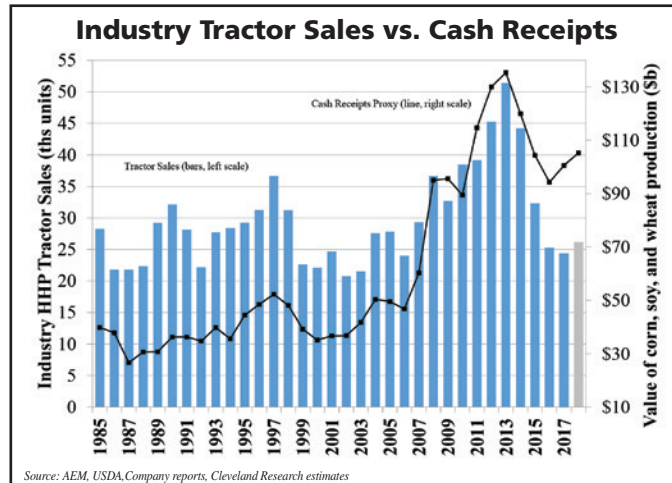
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, rose to 6% in April, an improvement from the -1% recorded in March and 0% in 1Q. Commentary suggests cold, wet weather in April deterred equipment purchases.

Optimism/Sentiment vs. Last Month													
	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
More Optimistic	17%	19%	23%	21%	23%	23%	22%	24%	28%	21%	21%	24%	26%
Same	53%	61%	58%	47%	52%	51%	56%	63%	53%	58%	58%	51%	54%
Less Optimistic	30%	20%	19%	32%	26%	26%	22%	14%	19%	21%	21%	25%	20%
Net % Dealer Optimism	-13%	-2%	4%	-11%	-3%	-3%	0%	10%	9%	0%	0%	-1%	6%

## 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 May crop report was strong, with cash receipts proxy forecast down 2% year-over-year in 2017-18 and up 5% in 2018-19. Corn cash receipt forecasts are for 5% growth, wheat forecasts are up 1%, and soybean forecasts are up 4% year-over-year.



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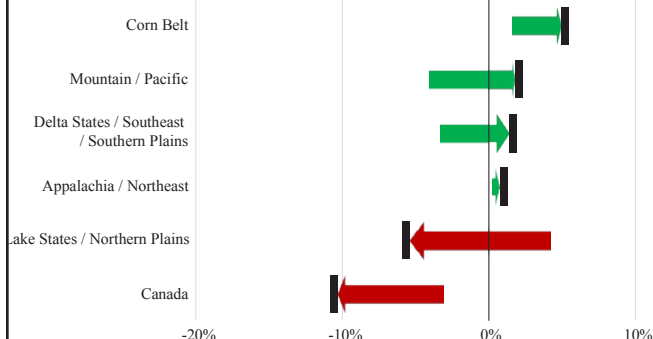
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# NEW EQUIPMENT TRENDS

## Average Sales Growth by Region

Net % Reporting Strength/Weakness in April 2018; Arrows show change vs. March 2018

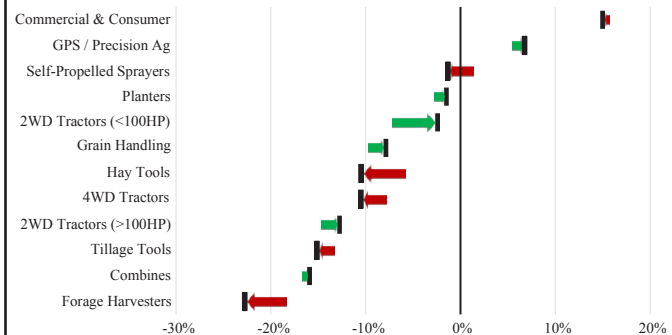


Source: Ag Equipment Intelligence

Sales trends by region improved in 4 of the 6 regions in April vs. declines in 5 of the 6 regions in 1Q. The Corn Belt was the strongest region in April while the Mountain/Pacific region saw the greatest improvement from March. Canada saw a sequential deterioration in the month and was the weakest region in April and 1Q.

## Equipment Category Sales Trends

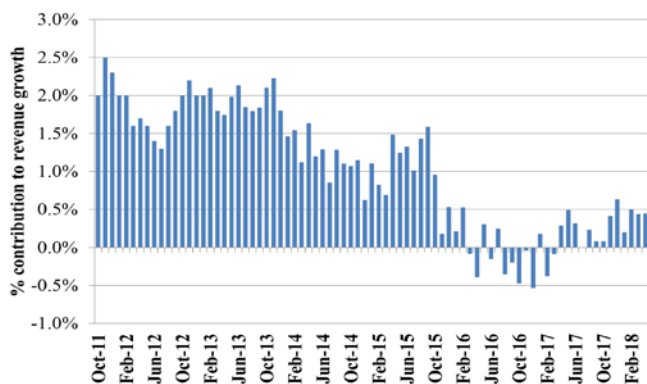
Net % Reporting Strength/Weakness in April 2018; Arrows show change vs. March 2018



Source: Ag Equipment Intelligence

Sales by product category were mixed in April, while nearly all product categories saw improvement from 4Q17 to 1Q18. Small 2WD tractors (<100 hp) showed the greatest improvement from March, while hay tools and forage harvesters saw the greatest declines.

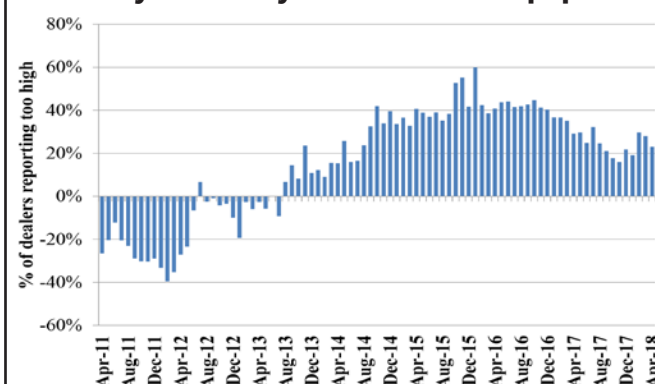
## Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends were stable in the month, suggesting 1Q price increases have been implemented. Commentary suggests dealers continue to receive price increases from manufacturers in the 2-5% range due to steel surcharges.

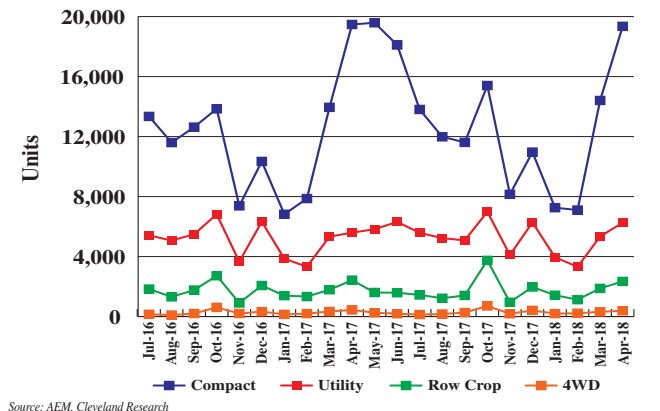
## Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 23% of dealers reported new equipment inventories were "too high" (32% too high, 59% about right, 9% too low), compared to 28% in March. Commentary suggests dealers have prioritized used equipment sales to work down inventories.

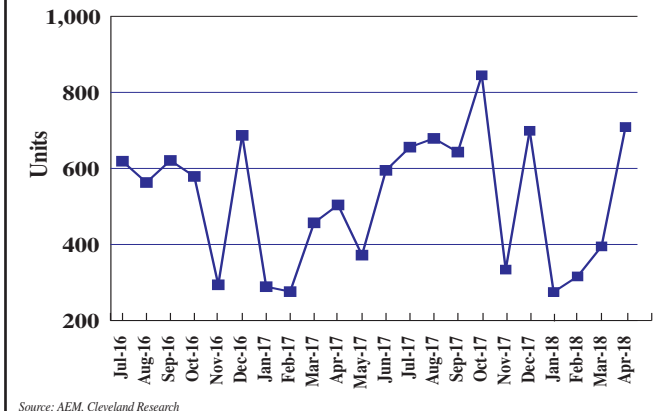
## North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 1% year-over-year in April, with <40 horsepower unchanged and row-crop tractors unit sales down 3% year-over-year. Utility tractor sales were up 6% for the month and 4WD tractors were down 9%.

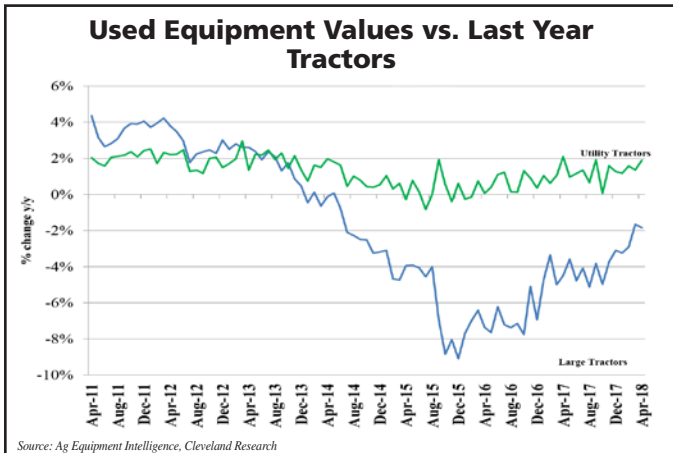
## North American Combine Sales



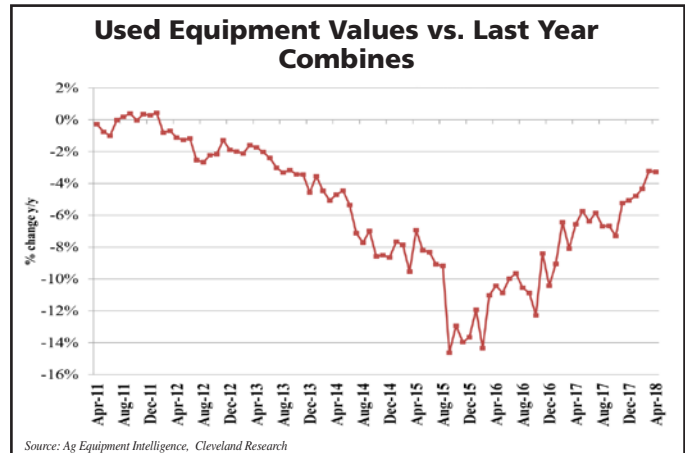
Source: AEM, Cleveland Research

Total North American combine sales were up 41% in April, a notable uptick from being down 14% in March.

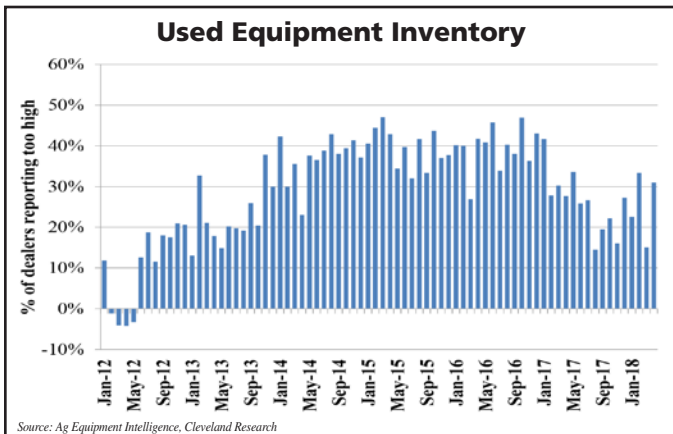
## USED EQUIPMENT TRENDS



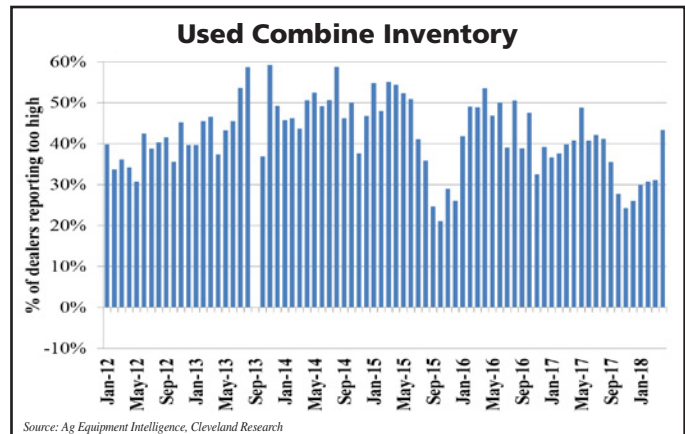
Used equipment pricing trends remain solid and unchanged from last month, with large tractor pricing forecast down 2% year-over-year, the same as in March.



Used combine prices were reported down 3% year-over-year, also mirroring the previous month.

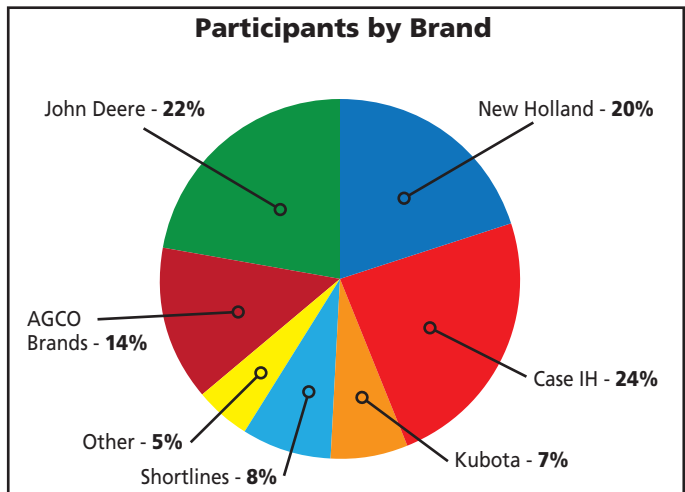
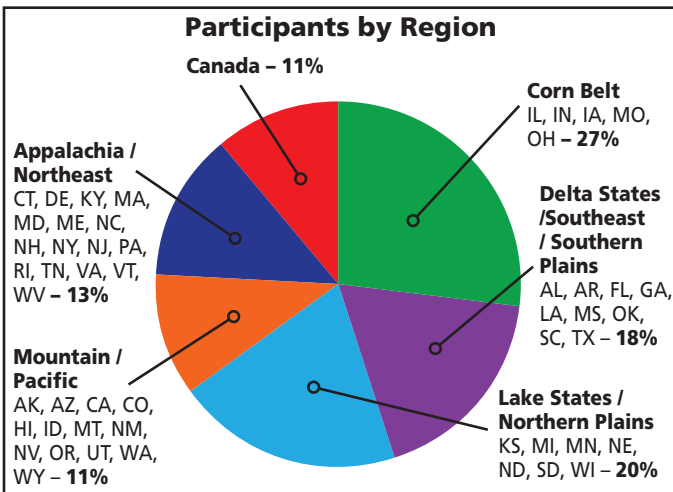


A net 31% of dealers reported used equipment inventory as "too high" (37% too high, 57% about right, 6% too low), increasing from the 15% reporting heightened inventory in March and the 26% average in 2017.



Used combine inventory levels were reported as "too high" by a net 43% of dealers in April, up from 1Q and the 37% average in 2017.

## MAY 2018 SURVEY RESPONDENTS



The May survey had about 160 respondents representing combined annual revenues of roughly \$5 billion. By brand, 24% of respondents were Case IH dealers, 22% John Deere, 20% New Holland, 14% AGCO, 7% Kubota, and 13% were Shortline/Other dealers.