

FARM EQUIPMENT'S

Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

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While '05 Sales Exceeded Expectations, Manufacturers Remain Cautious About '06

A year ago at this time, few ag industry observers believed that equipment sales would come anywhere close to the levels seen in the "generational" year of 2004. But as the final results for '05 came in, it became abundantly clear that forecasting is difficult, and the year just ended finished up much stronger than what most had anticipated.

Nonetheless, ag equipment manufacturers continue to cast a wary eye toward 2006. Like last year, they again expect retail sales to slow throughout the year.

The Assn. of Equipment Manufacturer's initial 2006 outlook for farm equipment reveals low expectation again for retail sales across all major product categories: compact,

mid-range and 4WD tractor sales down 7%; row-crop tractor sales down 9%, and combine sales down 7%.

Baird analyst Robert McCarthy notes, "While AEM forecasts have proved conservative in each of the

*"Few believed
2005 sales would come
close to 2004..."*

part 2 years, they nonetheless suggest a cautious outlook. Likewise, survey attitudes regarding factors related to equipment purchases, including crop prices net farm cash receipts

and income, have softened on a year-to-year basis."

2005 in Review

In summing up sales in '05 McCarthy says, "Retail demand for farm equipment was mixed in December, with strong performance in row crop tractors and combines offset by weak results in mid-range and 4WD tractors. Nonetheless, 2005 sales of most product categories remained up for the year despite headwinds that included summer drought conditions, generally low crop prices and hurricane-related transportation disruptions."

Comparing the 12-month sales results in '05 with '04 levels reveals the following:

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New EU Markets Boost Europe's Ag Equipment Industry

"In the last year, the production volume of the European Union (EU) approached \$25 billion. This year, the largest producers, Germany, Italy and France, will achieve an increase of approximately 6% again," says Dr. Bernd Scherer, Managing Director of the VDMA Agricultural Machinery Assn. Much of the expected growth is a result of improving export markets in Central and Eastern Europe and the newer EU nations.

Overall, the farm machinery market in the EU grew by 4% to \$22.1 billion in the past year, despite a generally sluggish market in Western Europe. A big part of the improved market activity resulted from increased capital spending in the new member states

of the EU.

According to VDMA, the sales forecast for Germany calls for a 5% increase in sales of farm machinery, which would give it a market value of \$5.8 billion. The stimulus for German growth is coming from the domestic market this year, whereas the increase in the export business is weaker after years of significant growth. On the other hand, Italy's manufacturers profited from an 8% growth in exports during the first half of 2005. Sales by agricultural machinery manufacturers in France exceeded the level of the previous year by 7% as exports comprised 62% of the sales of French ag equipment.

In total, the entire Western European production volume is fore-

cast to increase by 5% despite a stagnating domestic market, as exports to the Central and Eastern European countries continues a healthy growth trend. In addition to strengthening its position in this region of the world, the European agricultural machinery industry is also experiencing growth in North America as well, despite an unfavorable exchange rate.

After several weak years, the demand for harvesting machines rose dramatically in most European markets in '05. The volume of combines sold during the period, slightly more than the 6,800 units, matched the levels reached in '04. Only in the U.K., Spain, and Italy did the sales volume fall significantly below the volume of

Continued on page 2

the previous year, whereas in Germany a 19% increase compensated for slow years in 2003-04.

Market growth in '05 was led by round balers (6%), big balers (3%), and mowers/conditioners (1%). The positive trend in economic activity for the forage harvester in Germany was generally due to the construction of new biogas plants. Otherwise, a 15% reduction in the final numbers for the year is expected for the markets outside of Germany.

For the Western European tractor market, a decrease of approximately 3% to 176,500 units is predicted. In the segment of 50 hp and larger tractors, sales of 153,000 units are expected, generally remaining at levels of the previous year. In addition to the shrinking French market, tractor sales in the U.K., Netherlands and Spain are also expected to drop off. So far, the Italian market has remained stable. Good growth in Germany will compensate for the reduction elsewhere to a limited extent.

France — Since March 2005, the tractor market in France was continuously below the level of the year before. It must be taken into account, however, that the market grew by 5% in 2004 and had reached a level of 40,000 new registrations, which is second only to 1999 in terms of total registrations. At 37,500 units, the prognosis for 2005 was that it would end 7% below the level of the previous year.

For the entire year of 2005, a sales volume of approximately \$4.6 billion is predicted for French manufacturers. This figure is only slightly below the high sales levels seen in the previous year. The outlook for 2006 is slightly more cautious, with a drop of 5% projected.

United Kingdom — In the U.K., 4 years of growth from very low levels of sales activity were followed by falloff in the ag equipment market in '05. During the first 9 months of 2005, the tractor market shrank by 12.5%. By the end of the year, a dropoff to

approximately 13,000 new registrations is expected. By August, the market for agricultural machines had fallen by 3%, as well.

Beyond tractors, other ag equipment also saw significant dropoffs in 2005. After an equivalent growth in the previous year, the combine market shrank by 15% to 630 units. The baler market exhibited a very slight decrease, and the forage harvester market diminished significantly to only 114 units sold. So far, the outlook for the coming months continues to be less favorable as farmers put a hold on their purchasing decisions.

Germany — In 2005, the German market saw a significant recovery. By the end of the year, the total market volume will exceed the level of the previous year by 10-15% and approach 2002 levels, the best recent year for sales.

It is projected that tractor sales will have increased by nearly 6% to 23,500 units in '05. The sale of the harvesting machines grew considerably in the past season, as well. Following slow years, prior to 2005, additional investments were required as the volume and yield of grain and forage grew dramatically. The enormous demand in Eastern Germany pushed combine sales up by 29% to 2,228 units.

While the sales of other ag equipment also rose, the rate of growth was lower than that of tractors and combines. The most noticeable trend was the purchases of larger equipment, which helped mitigate a slight fall off in volume.

Other European Markets

Scandinavian markets continue on a healthy trend, as sales levels in '05 will meet or exceed 2004 levels. Like Germany, Denmark expects its markets to grow significantly throughout '06. The Belgian market will continue to shrink, though the demand for machinery is expected to pick up again by year's end. The Dutch market is also incurring a heavy decline.

This year, the Iberian peninsula was affected by the impact of the drought. Consequently, farmers' investments in new machinery were low. For example, 370 combines were sold in Spain in 2005 compared with 620 units were sold in the previous year.

The Italian market has exhibited an astonishingly stable development in some markets. For tractors, for example, the market is expected to stabilize at 31,500 units. However, the relatively good 2005 harvest was collected using 20% fewer new combines. Markets in Switzerland and Austria are stable to growing slightly this year.

Central and Eastern Europe

Once again, the agricultural machinery market in new EU nations showed good growth in 2005. For most countries, Germany is the main supplier, especially of harvesting machinery. Therefore, German exports are considered a good indication of market development in Central and Eastern Europe. This year, they skyrocketed after growing moderately the past 2 years.

From January through August, German exports to the 8 new Eastern European EU member countries increased by 42% to \$420 million. The Polish market, which absorbed 38% more German agricultural machinery in '05 than in '04, accounted for 30% of this amount. However, growth was achieved in all countries.

Comparatively, Slovenia and Hungary, where imports picked up only during the last 3 months, exhibited the most moderate growth rates.

At least for the German ag equipment industry, business in Russia and Ukraine, which has developed into important partners, is also developing well. In Romania and Bulgaria, the SAPARD funds for the preparation the entrance of these countries into the EU are also exerting a positive influence on investments in agriculture. *AIW*

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Claas Sets Record for Equipment Sales

A 12.5% increase in agricultural equipment revenues took Claas to within a whisker of selling 2 billion euros (\$2.4 billion) worth of farm tractors and machinery for the first time last year.

Sales of Claas tractors, combines and forage harvesting equipment contributed nearly \$2.4 billion, by the end of 2005 to group sales that did exceed the 2 billion euros mark for the first time.

The rest came from vehicle drive-line and hydraulics components, up 21.7% at \$34.68 million, and production systems for the aerospace and automotive industries, which were up 15.4% to \$176 million.

NA Market a Challenge

Although Claas reports a "substantial improvement" in the performance of its Omaha-based companies that assemble Caterpillar-branded Lexion combines and sell Claas forage and hay tools, managers acknowledge that achieving a stronger position in the North American combine market remains a challenge.

Still, they can take comfort from having doubled sales of Lexion combines in the U.S. last year, which contributed to an impressive 37.6% increase in sales revenues for the two companies.

Elsewhere, Claas claims to have gained market share in all of its core markets. It now sells well over a third of all combines retailed in Europe while enjoying a 50% market share in Germany. In France, where Claas inherited a retail network with its

controlling stake in Renault Agriculture 3 years ago, it became market leader for the first time.

Tractor sales gains were more restrained, but particular progress was achieved again in Germany with unit sales up from around 1,000 to 1,350 in the second year of the Claas-branded range.

Market Trends

According to Rüdiger Günther, Claas executive president, the global agricultural engineering market was stable on the whole, though development varied by region. While Europe and North America experienced growth of approximately 5%, the South American markets were quite weak in comparison with the performance of previous years.

On a group basis, the German manufacturer's domestic market, which accounts for a quarter of sales, delivered a 22.4% improvement following a weak year in 2004. This offset mixed trends in other Western Europe markets, resulting in an overall 0.6% decline in Claas sales revenues from the region.

In Western Europe, individual market performance was mixed. In addition to improved agricultural equipment sales in Germany, high 2004 sales volumes in France, the group's biggest export market, were surpassed thanks to significant gains in harvest machinery. Substantial growth was also achieved in Scandinavia, says the company.

But in the U.K., an important market for the biggest capacity, highest margin Claas combines, high wheat stocks and lower prices trimmed harvester orders, while a long period of drought caused a noticeable sales slide in Spain and Portugal.

Elsewhere, Claas gained significantly, with sales in Central/Eastern Europe up 43% and in the rest of the world by 37%. Each of these regions accounts for some 13% of group business.

Claas sales "rose considerably" in the Baltic countries of Central Europe, such as Latvia, Lithuania and Estonia, as well as in the Czech Republic and Slovakia. They continued at a high level in Hungary, the most important Central European market for the company.

In Eastern Europe, agricultural equipment sales growth matched the previous year's 25%, thanks largely to major contributions from Belarus and Kazakhstan, while sales in Russia, where Claas now has a combine assembly plant, and Ukraine remained stable.

Gross profit on sales rose by the equivalent of just over \$94 million to \$664.35 million, mainly as a result of the \$294 million increase in sales compared to the previous year. Gross profit margin improved by approximately 1% to 25.6%.

Operating income rose by \$50 million to \$125 million, a disproportionate increase resulting mainly from improvements in expense structures. *AJW*

FARM MACHINERY TICKER (AS OF 1/12/2006)								
Mfr.	Symbol	1/12/06 Price	12/12/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$16.78	\$17.03	\$21.46	\$14.60	10.90	925,600	1.52 B
Alamo	ALG	\$21.78	\$22.73	\$29.23	\$18.04	16.25	8,900	212.29 M
Art's Way	ARTW	\$ 6.10	\$ 5.24	\$11.50	\$ 4.50	8.97	3,400	11.97 M
Caterpillar	CAT	\$62.21	\$58.03	\$61.68	\$41.31	17.19	3.26 M	42.32 B
CNH	CNH	\$18.15	\$18.14	\$22.38	\$15.79	26.30	119,000	2.43 B
Deere	DE	\$69.28	\$68.00	\$73.98	\$56.99	11.80	1.64 M	16.37 B
Gehl	GEHL	\$28.07	\$25.82	\$34.53	\$14.83	16.04	85,700	336.90 M
Kubota	KUB	\$44.55	\$44.30	\$45.90	\$24.20	10.97	20,600	11.74 B

JCB to Increase Production of Telescopic Loaders, Introduces High-Powered Fastrac Tractor

JCB's Loadall division, which produces a range of telescopic boom loaders for farming and construction, is in the final stages of planning a new assembly line at the group's headquarters plant in England.

Significant investments in new fabrication machinery have already helped improve efficiency and output at the plant. The first robot chassis welder was installed 3 years ago. More recently, \$2.6 million has been invested in robotic welders for booms and smaller assemblies, and \$3.5 million in a new high-precision laser cutter and metal press.

"More than 90% of fabrication

required for Loadall production is carried out in-house," says Keith Berryman, marketing manager. "It helps us keep on top of quality control issues, which are managed using a 'no faults forward' philosophy of checks and corrections during fabrication and assembly processes."

Currently, the Rochester facility produces 44 units a day (up from 32) and has set an ambitious production target of 8200 handlers in 2005.

New Tractor Launch

JCB's agricultural division, meanwhile, has launched its most powerful tractor and the first designed as a

high-speed tillage component as opposed to a hauling vehicle that can also tackle fieldwork.

The 8250 Fastrac utilizes much of the same design features as previous models: axle suspension front and rear, ABS disc brakes all round and up to 40 mph road speed. But the newcomer has bigger tires, a bigger engine delivering up to 280 hp and a CVT transmission.

In Britain, current Fastrac models up to 220 hp account for more than 20% of 200-300 hp tractor sales behind Deere's 8020 Series and the Case-IH MX Magnum. AJW

Deere Names New CFO, Reassigns Four Others

Deere & Co., Moline, Ill., on Jan. 6 announced several changes at the executive level following the retirement of two of its unit chiefs. The company reported the changes were made to strengthen its global operations.

Deere named Michael Mack, Jr., 49, senior vice president and chief financial officer. Mack, formerly vice president and treasurer of the firm, replaces Nathan Jones, 49, who was appointed president of Deere's Worldwide Commercial & Consumer Equipment Division.

Deere also named James Israel, 49, president of its finance unit, Deere Credit. Israel succeeds Jon Volkert, 60, who will retire from his position.

Other assignments include: David Everitt, 53, was named president, Agricultural Division of North America, Australia, Asia and Global Tractor and Implement Sourcing, while H.J. Markley, 55, was promoted to president of Agricultural Equipment Division—Europe, Africa, South America and Global Harvesting Equipment Sourcing.

John J. Jenkins, 60, is retiring as president of Worldwide Commercial & Consumer Equipment division. AJW

Crain Leaves Post at New Holland to Join AGCO

New Holland Vice President Robert B. Crain left the firm to join AGCO, headquartered in Duluth, Ga., as senior vice president and general manager, North America. He replaces James Seaver, who retired from the position on December 31, 2005.

AGCO President and CEO Martin Richenhagen, said "Crain will assume the responsibility for all AGCO brands, including Challenger, within the U.S., Canada and Mexico. He will be a member of my executive staff and an officer of the company. In this expanded role, he will be responsible for the implementation of all business strategies within North America, including sales and marketing, manufacturing, product management, materials, engineering and the dealer organization. Bob will be supported by the other senior vice presidents who have functional responsibilities within our North America operations."

To join AGCO, Crain left his position at New Holland where he was vice president for New Holland's North America Agricultural Business. He has over 20 years experience in the agricultural equipment business, having started with Ford's tractor operations in 1981.

He held various management positions within New Holland and later CNH Global. Besides his assignments in North America, Crain was responsible for CNH's worldwide

crop harvesting operations headquartered in Zedelgem, Belgium.

Charlie Rentschler, analyst for Foresight Research, notes that this is a significant move for both AGCO and CNH. "As a 20-year insider at CNH," Rentschler says, "Crain, who was highly thought of at New Holland and Case IH, will bring much to the AGCO table. It appears that AGCO is looking to put more energy into the Challenger silo."

Another industry observer notes that "It looks like Martin (Richenhagen) is putting his fingerprints on AGCO. This is probably another step in AGCO installing a more European style 'matrix' management structure. Crain is a manager of a geographic region as is Gary Collar in Europe (AGCO's EAME geography – Europe Africa Middle East). One or more new regional/geographic management slots will be created as this structure is built. There have also been several retirements, regroupings and hirings in the past month or so."

On January 9, Dennis D. Recker has been named as the new vice president of New Holland Agricultural Business in North America to replace Crain. Recker will oversee the sales, marketing and support functions of the New Holland brand of agricultural products in North America. He joined the company in 1972. AJW

Market for Italian Ag Equipment Remains Stable, Growth Seen for '06

Italian tractor and agricultural machinery makers saw continuing growth in both domestic and export markets in 2005 and are expecting slow, steady growth into '06, according to the National Union of Construction and Agricultural Machinery.

Reports from UNACOMA indicate that in 2005, tractor production, incomplete tractors, spare parts and agricultural machinery will reach 928,100 tons compared with 926,835 tons in 2004 for a value of \$8,424 million in '05 and \$8,325 million in '04. This represents an increase of 0.1% in weight and +1.2% in value compared to 2004. Table 1 shows the breakdown of the total Italian agricultural equipment market. (Values are based on retail prices, excluding VAT, while exports, imports and trade balances are expressed on CIF and FOB values.)

Italian ag equipment manufacturers expect both exports and imports in 2005 to have risen. Preliminary numbers for the year indicate that exports grew to 608,500 tons versus 599,011 tons in 2004 for an increase of 1.6%. Value of exported equipment is expected to be in the range of \$4.431 billion compared with \$4.332 billion, up 2.3% compared to 2004.

Expectations for imports suggest that there will be an overall decrease in shipments and value of the equipment for '05. The totals for imports show shipments are forecast to fall 21,600 tons compared to 126,594 tons in 2004 (-3.9%). At this level, value of imports will be \$1 billion versus \$1.031 billion, -2.9% in 2004.

Italian analysts say that the trade balance should display an overall surplus for tractors, incomplete tractors and spare parts and agricultural machinery of 486,900 tons compared with 472,417 in 2004, or +3.1%. The value of imported ag equipment is estimated at \$3.431 billion compared with \$3.303 billion in 2004, or +3.9%.

Exports by Region

Between January and July 2005, exports increased by +4.4% in weight and +9.2% in value. A detailed breakdown of the results for the 7 months shows that tractors increased by 7.1% in weight and 12.0% in value. Exports of other agricultural machinery grew by 3.0% in weight and 7.6% in value.

Imports decreased by 9.9% in weight and 5.8% in value.

The value of imports and exports of tractors and agricultural machinery broken down by geographic area is shown in Table 2.

Through the first 7 months of 2005, Europe continues to be the largest export market for Italian farm equipment, accounting for 72.1% of the total value compared with 71.6% in '04. The Americas followed with a 14.7% share, up from 13.8% in the previous year. Asia's share of Italian exports slipped to 6.1% compared to 6.7% in '04, Africa's share grew to 5.2%, up from 4.3%. Oceania accounted for 2.8% of Italian exports, the same level of the year prior.

2006 Forecast

Table 3 shows the forecast for ag equipment exports in 2006. The expected slow down in exports of

tractors are forecast largely due to stagnant demand in Western Europe and the U.S. At the same time, exports are expected to increase to Central Eastern Europe.

The outlook for the domestic market for tractors is 34,500 machines versus 35,500 in 2005 (-2.8%). For other agricultural machinery, components and spare parts a decrease of about 0.6% can be expected (356,000 tons versus 358,305 tons in 2005). *AJW*

TABLE 1. 2005 PRODUCTION AND VALUE OF ITALIAN AGRICULTURAL EQUIPMENT

Production	Units (+/- vs. '04)	Tons (+/- vs. '04)	Value (millions of \$) (+/- vs. '04)
Tractors	84,500 (+2.3%)	223,500 (+0.4%)	\$2.76 (+2.6%)
Incomplete Tractors & Spares		75,600 (-2.9%)	\$897 (-0.4%)
Agricultural Machinery		629,000 (+0.4%)	\$4.77 (+0.7%)

TABLE 2. VALUE OF ITALIAN IMPORTS AND EXPORTS OF AG EQUIPMENT

	Imports	%	Exports	%
EU-15 countries	\$524,463	-4.8	\$1,378,922	+9.1
All Europe	\$571,330	-8.2	\$1,818,347	+10.0
Africa	\$207	-65.2	\$109,011	-8.7
America	\$374,661	+7.2	\$369,720	+16.3
Asia	\$59,637	+13.7	\$153,877	-0.4
Oceania	\$1,961	+83.4	\$69,955	+10.2
World Total	\$669,887	-5.8	\$2,522,076	+9.2

(Value in thousands of dollars and percentage variations are for the same period in 2004)

TABLE 3. 2006 OUTLOOK

	Units	Weight (tons)	Dollars (Millions)
Production (1)			
Tractors	83,900	223,700	\$2.78
2006 vs. 2005	-0.7%	+0.1%	+0.7%
Agricultural Machinery, Components and Spares		703,000	\$5.72
2006 vs. 2005		-0.2	+0.9
Exports (2)			
Tractors	65,250	182,000	\$1.56
2006 vs. 2005	0.4%	0.8%	1.2%
Agricultural Machinery, Components and Spare		430,500	\$2.89
2006 vs. 2005		0.6%	1.6%

(1) Figure estimated on retail prices, VAT not included

(2) CIF and FOB prices.

TABLE 1. 2006 TRACTORS & COMBINES FORECASTS
(Including 2004 Actuals and 2005 Forecast)

2006 Forecast	U.S. 2006	U.S. Actuals 2004	U.S. 2005 Forecast	Canada 2006	Canada Actuals 2004	Canada 2005 Forecast
2WD Tractors						
Under 40 PTO hp	117,139	133,774	137,800	7,026	7,004	7,631
40-100 PTO hp	70,666	71,135	71,123	6,045	6,568	6,965
100 PTO hp-Plus	18,029	19,885	18,925	3,504	3,477	3,518
Total 2WD Tractors	205,834	224,795	227,848	16,575	17,049	18,114
4WD Tractors	3,401	3,604	3,287	17,187	718	680
Total Farm Wheel Tractors	209,325	228,399	231,135	612	17,767	18,764
Self Propelled Combines	6,232	6,683	6,489	1,490	1,564	1,460

TABLE 2. U.S. & CANADA FARM MACHINERY RETAIL SALES
(Actual versus AEM Forecasts)

Machinery Category	Original 2004E Jun-03	Revised 2004E Jan-04	2004 Actual	Original 2005E Jun-04	Revised 2005E Jan-05	2005 Actual
Mid-range Tractors*	61,618	66,200	77,586	72,989	78,088	82,747
Variance to Actual	-20%	-15%		-12%	-6%	
Row Crop Tractors**	18,482	18,037	23,302	20,597	22,443	23,786
Variance to Actual	-21%	-23%		-13%	-6%	
4WD Tractors	3,568	3,690	4,310	4,021	3,967	4,320
Variance to Actual	-17%	-14%		-7%	-8%	
Combines	6,573	6,247	8,226	6,987	7,862	8,294
Variance to Actual	-20%	-24%		-16%	-5%	

*2WD, 40-100hp; **2WD, ≥100hp. Data in units.
Source: AEM.

- North American retail sales of row-crop tractors increased 11% year-to-year in December but were down 1% during the 4th quarter

of '05. For full year 2005, row-crop tractor sales increased 2%.

- North American 4WD tractor retail sales declined 25% year-to-

year in December and fell 18% during the 4th quarter. Retail sales were flat for the full year.

- Combine retail sales increased 23% year-to-year in December but were down 16% during the last quarter. December is typically the third-most seasonally important month for combine sales, averaging 11.2% of annual sales during the last 5 years. Combine sales increased 1% in 2005.
- Retail sales of mid-range (40-100hp) tractors slipped 5% year-to-year in December but were flat in the 4th quarter. Full-year sales increased nearly 7% year-to-year.

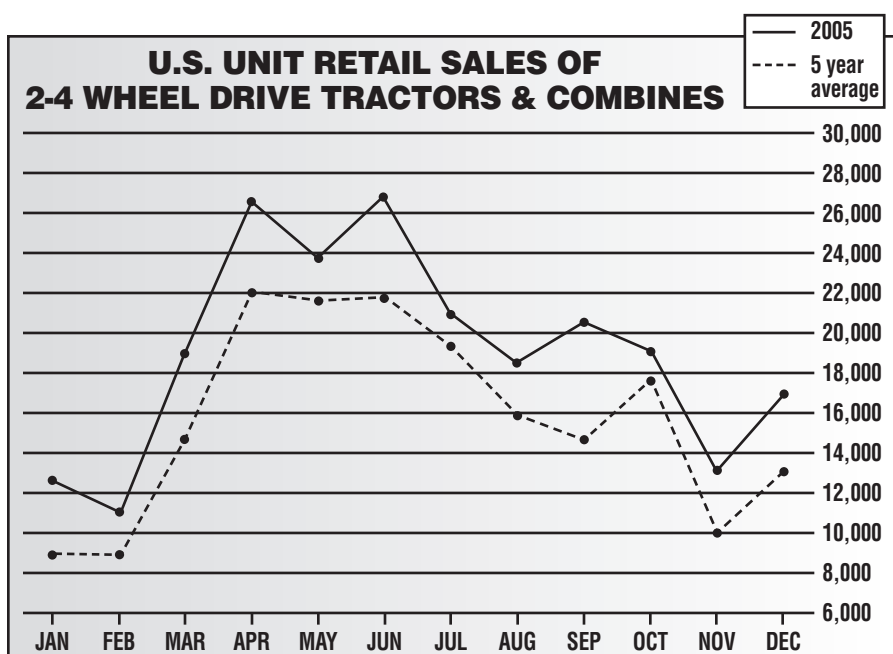
- Compact tractor sales increased 5% year-to-year in December but were down 6% for the full-year 2005.

McCarthy also notes that "December 2004 sales were boosted by expiring tax depreciation incentives, making the year-to-year comparison period more challenging across equipment categories in the 4th quarter of '05." U.S. dealer inventories for large tractors remained flat on a days-sales basis suggesting manufacturers' adjusted 4th quarter production to reflect softer retail demand.

Table 1 shows ag equipment sales trends in 2004 and 2005, as well as projections for 2006. Table 2 shows actual U.S. and Canadian ag equipment sales compared with AEM forecasts.

2006 Outlook

The AEM 2006 outlook is based on its survey of 41 manufacturers that account for a majority of ag equip-



—Assn. of Equipment Manufacturers

ment sold in the U.S. and Canada. Forecasts are for unit sales, and not company profitability.

Tractors and Combines — According to the AEM 2006 forecast, manufacturers expect total sales of 2WD tractors to reach 205,834 units in the U.S. and 16,575 units in Canada. For 4WD tractors, unit sales of 3,401 are anticipated for the U.S. market and 612 in Canada.

Looking at the various types of 2WD tractors, the expected 2006 sales of under 40 PTO hp units is 117,139 for the U.S. and 7,026 for Canada; 2006 sales of 40-100 PTO hp units are predicted to be 70,666 for the U.S. and 6,045 for Canada; and anticipated 2006 sales of 100 PTO hp and over 2WD tractors are 18,029 for the U.S. and 3,504 for Canada.

For self-propelled combines, the forecast for 2006 sales is 6,232 units for the U.S. and 1,490 units for Canada.

"If the trend of actual sales for 2005 continues through year end, we are looking at the overall market for tractors and combines to trend down in 2006," says AEM Senior Vice President John Smylie. "To put this in perspective, however, this comes after two years (2003-04) of historically high sales growth."

Factors Influencing Equipment Sales

Manufacturers also predicted changes in 20 factors that have emerged as significant influences on machinery sales.

U.S. — 79% expect a moderate increase in interest rates and 71% see no change in credit availability. About half anticipate a moderate decrease in farm cash receipts and net farm income.

Some 75% predict that the amount of planted acreage will remain the same. Some 45% see no change in the level of grain exports, while 32% expect a moderate increase. Beef prices are expected to stay the same (39%) or rise moderately (32%). A majority see no change in hog prices (60%) and dairy prices (56%).

More than 60% of manufacturers predict a moderate increase in the price of new equipment and an additional 14% expect significant price increases. Used equipment prices will also increase moderately, according to 54% of survey respondents, with 3% seeing a significant price increase.


Some 47% expect no change in replacement demand while 19% predict demand will rise moderately.


Canada — Interest rates are predicted to increase moderately, according to 85% of survey respondents, and 62% expect credit availability to remain the same. Net farm income is expected to stay the same by 27% of survey respondents while another 38% predict a moderate increase. For farm cash receipts, 31% forecast no change, 31% see a moderate increase and 31% expect a moderate decline.

As with the U.S., a majority of the Canadian equipment makers expect little change in planted acreage on sales (81% of survey respondents). Grain exports are predicted to

increase moderately, say 50% of manufacturers, while 40% of respondents expect no change. Some 67% forecast a moderate increase in beef prices; 67% expect no change in dairy prices; and hog prices are anticipated to be about the same by 48% and moderately up by 38%.

New equipment prices are predicted to rise moderately (58% of respondents) or increase significantly (15% of respondents). Used equipment prices are predicted to rise moderately (54% of respondents) or stay the same (35%). Replacement demand should stay about the same, say 54% of manufacturers, while 23% predict a moderate increase in demand and 23% expect demand to moderately decrease. *AJW*

DECEMBER U.S. UNIT RETAIL SALES							
Equipment	December 2005	December 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	November 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,820	7,523	3.9	127,240	133,965	- 5.0	56,249
40-100 HP	6,251	6,538	- 4.4	75,781	71,027	6.7	30,345
100 HP Plus	2,002	1,801	11.2	19,831	19,838	0.0	7,302
Total-2WD	16,073	15,862	1.3	222,852	224,830	- 0.9	93,896
Total-4WD	262	359	- 27.0	3,655	3,593	1.7	941
Total Tractors	16,335	16,221	0.7	226,507	228,423	- 0.8	94,837
SP Combines	811	614	32.1	6,713	6,666	0.7	1,334

DECEMBER CANADIAN UNIT RETAIL SALES							
Equipment	December 2005	December 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	November 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	577	456	26.5	8,138	7,063	15.2	3,718
40-100 HP	568	613	- 7.3	6,766	6,538	3.5	2,612
100 HP Plus	325	302	7.6	3,797	3,459	9.8	1,445
Total-2WD	1,470	1,371	7.2	18,701	17,060	9.6	7,775
Total-4WD	71	85	- 16.5	641	716	- 10.5	216
Total Tractors	1,541	1,456	5.8	19,342	17,776	8.8	7,991
SP Combines	140	157	- 10.8	1,559	1,559	0.0	373

Goodyear Completes North American Farm Tire Asset Sale to Titan

After months of wrangling, the Goodyear Tire & Rubber Co., Akron, Ohio, the world's largest tire company, finally completed the sale of its North American farm tire assets to Titan Tire Corp., a subsidiary of Titan International, Inc.

The sale includes Goodyear's farm tire manufacturing plant, property, equipment and inventories in Freeport, Ill. It also includes a licensing agreement with Titan to pay a royalty to manufacture and sell Goodyear-branded farm tires in North America. None of the 800 jobs involved in the sale are expected to be lost, say Titan officials.

Buying the tire business has been a long-haul project that promises to help Goodyear regain its status as the top brand of agricultural tires on the continent, says Morry Taylor, chairman and CEO of Titan. It will be good for Titan as well, he added.

Goodyear received \$100 million from Titan for the assets. It expects to record a loss of approximately \$65 million on the sale, including charges for the curtailment of employee pension and post-retirement medical plans, of which approximately \$60 million will be recorded during the fourth quarter of 2005 and the remainder will be recorded during 2006.

On an on-going basis, the sale will reduce revenue in Goodyear's North

American Tire segment by about \$200 million annually, but will eliminate the need for further investment in the farm tire business and position the company to enhance the segment's profitability.

Industry analysts say the acquisition will be good for both companies. Goodyear gets to focus on its core consumer and commercial tire business, while Titan gets to pair up agricultural rims with tires, creating products of better quality.

Jonathan D. Rich, president of the Goodyear's North American Tire business expressed his confidence that

***"If the merger occurs,
Titan would become a
privately owned company..."***

Titan Tire, for whom farm tires are a core business, will seek to maintain relationships with Goodyear farm tire dealers and the farming community."

The Next Move

Taylor plans to market Goodyear as the top U.S.-owned farm tire manufacturer. He said Firestone, which is Japanese owned, has sold more farm tires in the U.S. in recent years. Consumers seldom realize that several other top tire companies are owned by

foreign corporations, says Taylor.

According to Taylor, "In 2006, this acquisition is expected to increase Titan sales by approximately \$250 million."

Titan International also received a cash merger offer on Oct. 11, from One Equity Partners, LLC. The offer was for \$18 per share of Titan common stock. Just before the offer, Titan stock was trading for \$13.28 per share. It has sold recently for about \$17.50 per share.

There are more than 19 million shares outstanding, making One Equity's offer nearly \$350 million. A special committee also has been formed to entertain competing offers for the company.

Taylor said that One Equity's cash merger would give Titan the financial backing to make several large acquisitions that are expected in the near future.

Titan would become a privately held company if the merger occurs, making it easier to acquire competing tire, wheel or related operations. Eventually, Titan might return as a publicly traded company, Taylor said.

"We're a half-billion dollar company and in order to do our next few acquisitions" a venture capital partner will be needed, Taylor said in October. With the acquisition of Goodyear's Freeport operation, the company is now considered a \$750 million-a-year company. **AIW**

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