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FARM EQUIPMENT's Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer June 15, 2005

Dealers Express Their Preferences When It Comes to Working with Shortliners

Ag equipment dealers know who they want to deal with when it comes to the shortline manufacturers and don't hesitate to let you know when asked. This is evident in their responses to a recent *Ag Industry Watch* survey.

As part of a larger survey, we asked 4,000 top managers and sales officials in the U.S. and Canada, to evaluate and rank which shortline manufacturers were best to work with overall. In total, 212 dealers from 38 states and 8 Canadian provinces named more than 200 different shortliners. At left is the ranking of the top-20 shortline manufacturers based on the survey question "Which three farm equipment shortline manufacturers are the best to work with overall?"

SHORTLINE MANUFACTURERS THAT DEALERS MOST LIKE TO WORK WITH

1. Bush Hog	**11.** Hardi
2. Woods	**12.** Krause
3. Land Pride	**13.** MacDon
4. Unverferth	**14.** Degelman
5. Kinze	**15.** Buhler
6. Kuhn Knight	**16.** H&S
7. Sunflower	**17.** McCormick
8. Rhino	**18.** Bobcat
9. Gehl	**19.** Meyer
10. Great Plains	**20.** Vermeer

When evaluating competing shortline manufacturers, ag equipment dealers indicate that product reliability, warranty and personal relationships and trust were their chief criteria in deciding which equipment makers they want to work with. Based on the responses to the survey, their top-12 criteria are listed at right.

And if the shortliners want to expand their dealership network, the dealers offered several suggestions for earning their business. Chief among these are better terms and policies, specifically, warranties that pay at the shop rate, protected territories and improved product quality and reliability.

For the complete 14-page article and survey results, see the June/July issue of *Farm Equipment* magazine. To view the original survey questions, and to glimpse a sampling of the reasons why the dealers ranked their preferred shortliners in the way they did, visit www.farm-equipment.com/ff/feonline. AIW

DEALERS' SELECTION CRITERIA FOR SELECTING SHORTLINE MANUFACTURERS

1. Product Reliability
2. Warranty
3. Personal Relationship/Trust
4. Image of Brand
5. Product Innovation
6. Protected Trade Areas
7. Parts Return Policies
8. Advertising/Marketing Support
9. Training for Staff
10. Depth/Scope of Product Line
11. Financing Programs
12. Service Tools Requirements

Little or No Change Expected for Equipment Sales in '05

According to preliminary results of UBS' 18th Semiannual Agricultural Dealer Survey, farm equipment dealers believe 2005 machinery sales will be roughly flat with 2004 — 0% to 5% — which is significantly less optimistic than they were 6 months ago. Although dealers expect sales to increase in the June quarter, they expect sales to decline in the September quarter.

Dealers cited commodity prices among several negative factors expected to slow sales in coming months. Dealers also cited the following negative factors for slower sales of farm equipment:

- ✦ Lower farm commodity prices
- ✦ End of accelerated depreciation in December 2004
- ✦ Difficult comparisons because 2004 was so good
- ✦ Limited machine availability
- ✦ Higher fuel/input costs

2004 vs. 2005

When dealers were asked for their projection for machinery sales for the full year 2005, versus the full year 2004, 43% responded that sales in '05 are expected to be up. Another 19% responded that sales are expected be "Flat" and the remaining 37% answered that year-end sales are expected to be down versus last year. Table 1 shows a breakdown of dealers' sales expecta-

Continued on page 2

tions by major equipment manufacturer for 2005 compared with 2004.

As seen in Table 2, the national average response to this question was 5.01, indicating that the dealers anticipate roughly flat retail sales in '05. In the survey conducted in November-December 2004, the national average response was 6.00, thus pointing to a less optimistic outlook for sales for the remainder of this year.

On a regional basis, as shown in Table 2, dealers located in the Pacific region are easily the most optimistic about machinery sales during the current year, followed by those in the Southern Plains, Lake States and Mountain region. Dealers in the Delta States and Northern Plains showed the least optimism of all regions surveyed.

In terms of projected sales in 2005 by manufacturer, the AGCO dealer network had the most positive response, while CNH dealers were the least positive, well below the national average.

A Difficult Comparison

Many of the dealers surveyed found it difficult to compare their expectations for 2005 with their known results of last year. Their comments provide a clear indication that because sales in 2004 were so strong many don't believe they can or will stay at such strong levels. "Farmers have gotten over the good 2004 income and now are concentrating on 2005. Last year spoiled them," reported one dealer.

Another added that "2005 will be a good year, but will not duplicate 2004, which was the best year in the past 25. Also, 2004 will be remembered as the best year in the next 10 years."

Dealers also cite two critical factors that will play significant roles in how the year pans out. These include growth that could be constrained by equipment availability, as well as higher fuel and other input costs.

Comments about how manufacturers are responding to demand seem to reflect a fair level of dealer frustration: "we just have to work harder to sell out of an empty wagon," "delivery of equipment is very, very slow— companies are not responding to equipment needs," "manufacturers are not building equipment until it's sold," "more and more companies are building to order only, and terms are getting shorter."

Equipment sellers are already feeling the effects of rising fuel and other standard material costs: "higher fuel and fertilizer prices are slowing sales," "fuel and fertilizer prices are higher — rent went up this year, and I look for slower and less purchases this fall and at year end," "our area farmers are not making the profit that is needed to keep up with the increasing cost of doing business."

Add this to lower commodity prices and it's not difficult to understand why ag equipment dealers aren't quite as enthused as they were last year at this time: "lower commodity prices will be negative to business," "weather and grain prices are affecting our marketing," "$1.75 corn is hurting."

On the other hand, dealers also pointed to strength in cattle and dairy prices as a positive: "dairymen are making more capital purchases this year," "high cattle prices are the reason for higher sales."

With all of the factors mentioned here, UBS concluded that equipment sales will grow between 0% to 5% in 2005 or "flat" compared with the good year of 2004. AIW

TABLE 1. DEALERS' EXPECTATIONS FOR EQUIPMENT SALES IN 2005 VS. 2004

Company	Down More Than 5%	Down More Than 5%	Flat	Up Less 5%	Up Less Than 5%
Agco	12%	12%	19%	38%	19%
Case IH	27%	13%	22%	25%	13%
Deere & Co	21%	20%	15%	26%	17%
New Holland	21%	16%	21%	31%	11%
Total	**21%**	**16%**	**19%**	**29%**	**14%**

TABLE 2. DEALERS' EXPECTATIONS FOR EQUIPMENT SALES IN 2005 VS. 2004 BY REGION

Region	Agco Corp.	CNH Global Case IH Div.	Deere & Company	CNH Global NH Div.	Total
Appalachian	6.88	5.63	3.28	3.44	4.32
Corn Belt	5.95	3.55	3.98	5.18	4.66
Delta States	3.75	1.79	5.00	5.00	3.61
Lake States	6.00	5.00	5.88	5.52	5.46
Mountain	5.31	4.25	6.39	5.83	5.45
Northeast	6.67	3.89	3.61	5.42	4.79
Northern Plains	5.36	2.95	5.23	3.64	4.19
Pacific	7.14	7.92	7.05	4.75	6.54
Southeast	4.50	5.94	5.83	4.50	5.37
Southern Plains	6.88	6.41	4.17	4.55	5.57
Total U.S.	**6.04**	**4.59**	**4.94**	**4.92**	**5.01**

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Kubota Posts 12.9% Revenue Gain in Tractors & Engines in 2004

Kubota, the Japanese manufacturer of tractors, engines, construction and grounds care machinery, saw a 12.9% increase in sales for its engine and machinery division in 2004 over the year prior. The division's earnings of Yen 930.2 billion (approx. $8.6 billion) represent just over 50% of group consolidated net sales.

The hike in sales resulted from strong performance in all of Kubota's major geographic and product market sectors, with exports growing 18.3% to represent just over 50% of the division's earnings. Sales in Japan grew by a steadier 7.7%.

While construction machinery contributed bigger earnings to division results than in the year prior, tractors and engines remained by far the biggest segment. Sales last year of Yen 450.7 billion ($4.17 billion) were up 12.9% and reflected aggressive domestic sales campaigns on new models with improved performance and price competitiveness, says Kubota, as well as a "significant increase" in sales of tractors in North America.

Sales of farm equipment in Asia — especially China and South Korea — grew favorably, says the corporation, while increased engine sales resulted from growing demand from European OEMs for Kubota diesels, as well as continued buoyant business in North America. AIW

KUBOTA SALES – INTERNAL COMBUSTION & MACHINERY DIVISION (BILLIONS)

	2003		2004		%
	Yen	$	Yen	$	Change
Farm Equipment & Engines	399.4	3.70	450.7	4.17	12.9
Construction Machinery	44.8	0.41	50.8	0.47	13.4

Agco in Talks with Chinese to Build Massey Ferguson Tractors

If everything falls into place, Agco hopes to have a final joint-venture agreement with China's largest tractor manufacturer by year's end to produce Massey Ferguson tractors in that country. The agreement would call for producing tractors in the range of 40 to 100 hp.

Because Chinese farms tend to be much smaller operating units than those of North America and Europe, the smaller tractors would best meet the nation's current needs for agricultural use.

The planned-manufacturing facility would initially produce 2,000 to 3,000 tractors per year, but capable of building as many as 10,000 units annually. It is estimated that it could reach its full production capacity in 2-4 years.

Agco plans to use the Massey Ferguson nameplate in China because it is already well established worldwide. The British company was purchased by Agco in 1994. In all likelihood, the tractors manufactured in China would be designed at an Agco research and development facility in India.

Agco, the third largest maker of farm equipment in the world, follows Deere & Company's lead in building ag equipment in China. Deere has been building tractors there for 5 years and has also begun building combines there as well. AIW

Indian Tractor Sales Surge 30%

Tractor sales by Indian manufacturers rose at a 30% rate in 2004, and recorded their best year since 1999. Including exports, they shipped some 249,000 units compared with 191,000 tractors in 2003. Exports comprised 27% of total shipments. Mahindra & Mahindra remained the leading tractor maker in India with a 26.5% market share, followed by Chennai-based Tractor and Farm Equipment (TAFE) with 14% of the market. They were followed by Punjab Tractor and Escorts, Ltd. AIW

FARM MACHINERY TICKER (AS OF 6/13/2005)

Mfr.	Symbol	6/13/05 Price	5/12/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$18.86	$17.79	$23.13	$16.50	11.57	1.07 M	1.71 B
Alamo	ALG	$20.00	$19.24	$29.23	$14.48	14.39	19,200	194.88 M
Art's Way	ARTW	$6.90	$5.92	$11.50	$3.98	7.84	113,900	13.37 M
Caterpillar	CAT	$97.58	$88.88	$99.96	$68.50	15.76	2.56 M	33.34 B
CNH	CNH	$18.59	$17.16	$21.08	$16.18	21.13	70,400	2.49 B
Deere	DE	$67.03	$60.51	$74.73	$56.72	10.62	1.92 M	16.24 B
Gehl	GEHL	$36.91	$28.70	$37.29	$16.55	15.51	25,600	249.59 M
Kubota	KUB	$28.60	$26.30	$29.10	$22.00	69.76	4,800	7.67 B

Ag Machinery Operating Costs Rising Reports University of Illinois Study

Since 2003, operating costs of agricultural machinery have risen 21%, according to the latest report from the University of Illinois. Their figures show that costs for most operations rose dramatically in 2005 compared with two years earlier, the last time the report was updated.

The report, prepared by the Department of Agricultural and Consumer Economics, University of Illlinois, indicates, for example, that the cost of harvesting corn and soybeans produced the most significant increases due in large part to the higher costs of new combines. According to the study, the cost of combining corn is estimated to be $31.10 per acre. Estimated cost for harvesting soybeans is $26.30 per acre.

LIST PRICES AND ESTIMATED COSTS PER HOUR FOR TRACTORS OF DIFFERENT SIZES

Tractor[1]	List Price[2] $/tractor	Costs$ (per hour) Total[3] =	Overhead[4] +	Fuel[5] +	Labor[6]
65 PTO Hp Tractor	43,000	33.55	14.00	4.70	14.85
95 PTO Hp Tractor	62,000	41.55	20.20	6.50	14.85
105 PTO Hp Tractor	66,500	44.15	21.70	7.60	14.85
115 PTO Hp Tractor	72,500	46.85	23.70	8.30	14.85
140 PTO Hp Tractor	93,000	55.25	30.30	10.10	14.85
155 PTO Hp Tractor	99,500	58.55	32.50	11.20	14.85
170 PTO Hp Tractor	127,000	68.15	41.40	11.90	14.85
190 PTO Hp Tractor	135,000	72.55	44.00	13.70	14.85
215 PTO Hp Tractor, FWA	149,000	78.95	48.60	15.50	14.85
235 PTO Hp Tractor, FWA	162,000	84.65	52.80	17.00	14.85
255 PTO Hp Tractor, FWA	174,500	90.15	56.90	18.40	14.85
280 PTO Hp Tractor, 4WD	144,000	82.05	47.00	20.20	14.85
325 PTO Hp Tractor, 4WD	164,000	91.85	53.50	23.50	14.85
375 PTO Hp Tractor, 4WD	190,000	103.95	62.00	27.10	14.85
425 PTO Hp Tractor, 4WD	206,500	112.95	67.40	30.70	14.85
450 PTO Hp Tractor, 4WD	230,500	122.55	75.20	32.50	14.85
500 PTO Hp Tractor, 4WD	244,000	130.55	79.60	36.10	14.85

1 *"FWA" indicates a front-wheel assist tractor. "4WD" indicates a four-wheel drive tractor.*
2 *List prices for 2005. Purchase price is assumed to be 85% of the list price.*
3 *Sum of overhead, fuel and labor costs.*
4 *Includes depreciation, interest, insurance, housing and repair costs. These per hour charges are appropriate for calculating rental costs when the person renting the tractor provides fuel and labor.*
5 *Fuel costs are based on a price of $1.50 per gallon for diesel fuel. Fuel costs vary depending on fuel use. Use varies with load on tractor.*
6 *Labor costs are based on $13.50 per hour labor charge. Labor time is assumed to be 10% higher than tractor hours.*

Calculating Costs

The table at left shows the estimated costs for different sized tractors. Estimates include charges for depreciation, interest, insurance, housing, repairs, fuel and labor. Not included are allowances for profit.

Formulas developed by the American Society of Agricultural Engineers (ASAE) were used to calculate costs. All costs are based on buying a new tractor, owning the tractor for 10 years, and using the tractor about 300 hours per year. The breakdown of these costs are as follows:

Purchase price — 85% of list price
Interest rate — 7% of remaining value
Insurance and housing — 1% of remaining value
Diesel fuel — $1.50 per gallon
Lubrication cost — 10% of fuel costs
Tractor hours — 300 per year
Years of life — 10 years
Labor charge — $13.50 per hour
Labor time — 1.10 times tractor hours

This report covers Farm Tractors only. *Ag Industry Watch* will present other equipment categories in upcoming issues. AIW

Farm Equipment Industry Newsmakers

Italian specialist tractor maker **Antonio Carraro** increased revenues by 7% to Euro 71 million ($86.7 million) in 2004. Marcello Carraro, sales chief, says the privately owned company, which makes small tractors from 21-87 hp for orchard, vineyard and horticultural operations, has set out to improve sales and profitability by investing in new models and leaner production methods.

Austrian tractor manufacturer, **Lindner**, earned Euro 51 million ($62 million) in its 2004-05 financial year, 5% more than in the previous 12 months. Lindner makes 1,450 Geotrac "alpine" tractors and transporters a year. These machines utilize Perkins-engines that range from 65-99 hp, and have a particular following in Austria where it maintained a 14.2% market share last year to hold the number 3 slot behind CNH Global's Austrian brand Steyr (18.3%) and New Holland (16.6%).

Agco Corp. has shipped it 100th Challenger MT700B and MT800B unit, built at the firm's Jackson, Minn. manufacturing facility. The Challenger model was introduced earlier this year.

Maurice M. Taylor, Jr., has been elected chairman and CEO of **Titan International**. Former chairman **Erwin H. Billig** was elected vice chairman.

According to Daryl Bouwkamp, director of international sales, **Vermeer Manufacturing**'s exports support 250 of the company's 1,900 jobs. The firm exports its products to 60 countries, with the greatest concentration in business to Western Europe, Australia and Japan.

Claas Begins Combine Assembly in Russia

Claas has begun assembling combines in a new plant in south Russia. Some 200 Claas Mega 350 and 360 straw walker harvesters are scheduled to be completed in time for this year's harvest, mainly using components shipped from the headquarters factory in Harsewinkel, Germany.

At a ceremony held to mark the opening of the new facility, Helmut Claas, chairman, highlighted the importance of the Russian market and the agricultural potential of the Krasnodar region in which the plant is located.

He described the operation as a win-win project for German-Russian co-operation, creating local employment while generating additional volumes for the manufacturing plants in the German manufacturer's production network.

The new venture, which builds on a commercial presence established in Moscow in 1992 (the Claas Vostok parts centre created in 1999 and an extensive service and distribution network), represents a Euro 20 million ($24.5 million) investment in the Russian harvest machinery market.

Current capacity is around 1,000 combines a year, but Claas says that investment could grow to Euro 30 million ($36.7 million) within the next few years. Ultimately, Claas envisions building a second factory for the local manufacture of harvester components and assemblies. AIW

Dealers Report Market Share Gains by Deere and Kubota

Both John Deere and Kubota gained ground during the last year in the battle for market share, according to preliminary results of the UBS 18th Semiannual Agricultural Dealer Survey.

Based on 445 responses from ag dealers, Deere and Kubota gained share while Agco, Case IH and New Holland apparently lost ground compared to study results from six months ago.

Dealer responses were split fairly evenly on significant market share changes in their regions, with 47% indicating significant market share changes had occurred, slightly below the results of the most recent survey in which 51% of the dealers indicated significant share changes had occurred.

Roughly 340 dealers responded to the survey question "Who has been gaining market share?" Given that some selected more than one brand (among Agco, Case, Kubota, Deere and New Holland), more than 400 responses were received. Of the total, 35% and 31% indicated that Deere and Kubota were gaining share, respectively, with 12% indicating that each Agco and New Holland were gaining share, and 10% indicating that Case was gaining share.

Between the Lines

Despite Deere's apparent market share gain, it is noted that the 35% response rate is just about the same (36%) as the survey from six months ago. At the same time, it is significantly below the 57% and 71% reported in the UBS 2001 and 2000 surveys, respectively. Kubota received 31% of the "gaining share" responses in this most recent survey compared with 30% in the previous survey.

In addition to the dealers' quantitative analysis of ag equipment market share, their commentary also revealed underlying issues confronting the mainline farm equipment manufacturers. Dealers offered their comments on these issues and trends:

✔ **Issues at Case/New Holland:** "Case is discounting tractors to gain market," "NH is not satisfying dealers in spite of what they claim to be doing — they have aggravated dealers too long."

✔ **Positive Management Changes (most notably at Agco):** "I believe Agco's new management and their emphasis on growing the business is going to make Agco a bigger player in the farm equipment industry."

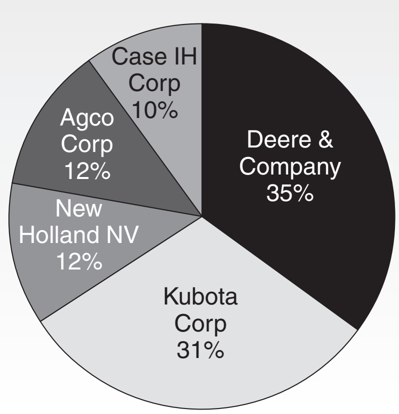
✔ **Deere Buying Share:** "Deere is target marketing and buying business, leaving a lot of money on the table," "Deere has been overly aggressive in the competitive discounting."

✔ **Caterpillar/Agco's Aggressively Targeting Sales:** "Agco is selling out its loyal Hesston, Massey Ferguson dealers for the opportunity to be associated with CAT," "Agco is currently trying to promote the Challenger line with its Massey Ferguson and Hesston dealers in an uproar — giving unfair advantage to the Challenger folks with price."

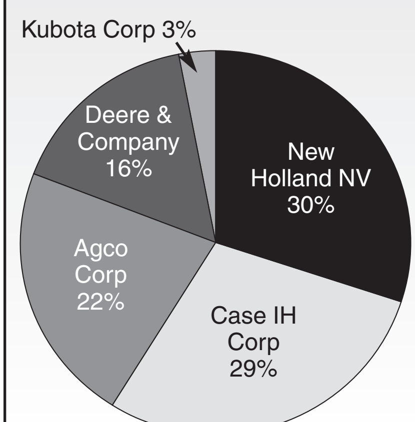
✔ **McCormick Gaining Share:** "McCormick is impacting the market — great privately owned company," "the McCormick tractor line has brought new life to our dealership and is a breath of fresh air after having all of our eggs in the Agco basket for years."

✔ **Inroads of Foreign Competition:** "More foreign tractors entering the market, chipping away at market share," "Presence of more foreign models especially compact size." AIW

FARM EQUIPMENT MANUFACTURERS GAINING MARKET SHARE



FARM EQUIPMENT MANUFACTURERS LOSING MARKET SHARE



Manitou Posts Solid Gains While Increasing Its Stake in Gehl

Sales and marketing strategies aimed at opening new agricultural material handling markets in North America, Australia and New Zealand will contribute to continued growth at Manitou, predicts the French handling machinery specialist. Its strategy included increasing its holdings in Gehl, the Wisconsin-based maker of compact construction and agricultural equipment.

Reporting a 20.6% increase in group sales revenues in 2004, Marcel Claude Braud, executive committee president, added that the continued concentration of farms into larger units in Western Europe and the increased mechanization of cereal and livestock production in Central and Eastern Europe should be important factors underpinning continued growth in sales of telescopic handlers, Manitou's principal product line.

The Manitou group, which in addition to telehandlers, manufactures hydraulic access platforms, masted forklifts and truck-mounted forklifts, earned Euro 822.2 million (approx. $1billion) last year and made a net profit of Euro 59.4 million ($72.5 million).

"Despite a difficult environment marked by tougher competition and significant pressure on the cost of raw materials and components, the group maintained its margins," says Braud. "Operating margin was up 0.5 points to 10.3% while the net margin rose 0.2 points to 7.2%. The group is in a strong position, now more than ever, to benefit from renewed growth in its markets."

Sales to agriculture, which represent just under 30% of the total, increased by 15% thanks largely to more buoyant demand in France, the United Kingdom, Belgium, Netherlands and most countries in Eastern Europe. Overall, including construction and other industries, sales of Manitou all-terrain handlers were up 24%, boosted by significant market recovery in the U.S. — up 40% — with increased purchases from major leasing networks.

Manitou's strategic alliance with Gehl, which included a $19.8 million purchase of Gehl stock to increase the company's holding to almost 15%, should improve its position in the North American construction handler market this year. In 2004, Manitou sales were up 20% calculated on a constant exchange rate basis or 10.1% at current rates with revenues of Euro 13.5 million ($16.4 million).

Industrial sub-contracting in Manitou plants also grew significantly last year, driven largely by a 49% increase in the production of New Holland telescopic handlers for CNH Global worth Euro 27.4 million ($33.4 million). AIW

MANITOU GROUP SALES INCREASE 2003 VS. 2004

	2003		2004		%
	Euro	$	Euro	$	Change
Net sales (million)	682.0	830	822.2	1000	20.6
Net profit (million)	47.4	58.1	59.4	72.5	25.3

BREAKDOWN OF MANITOU'S BUSINESS

BY MARKETS

Construction	45%
Agriculture	28%
Industry	27%

BY LOCATION

France	42.0%
United Kingdom	13.2%
Spain & Portugal	12.2%
Other European Union countries	20.3%
North America	4.2%
Others	8.1%

BY PRODUCT MIX (% of 2004 net sales)

Rough terrain handlers *	67.0%
Access platform	3.3%
Other industrial equipment	7.6%
Spare parts	11.4%
Industrial sub-contracting **	6.9%
Other activities	3.5%

Note:

** Telescopic handlers and all-terrain forklifts.*

*** Toyota industrial forklifts and New Holland telescopic handlers.*

Demand for Lawn and Garden Equipment Forecast to Reach $10.7 Billion in 2009

Expansion of the key 55 to 64-year old age group will drive U.S. demand for power lawn and garden equipment, which is projected to rise more than 3% per year through 2009, reaching $10.7 billion, according to a new study from The Freedonia Group, a Cleveland-based market research firm. According to the study, this age group typically trades up from old, less expensive equipment to higher end products or engages professional lawn care services.

Other contributing factors to the growing demand for lawn and garden machinery will also result from product innovations and upgrades, driven by consumer demand for equipment with increased horsepower, additional features and less weight. The popularity of golf will also present opportunities as golf courses compete for the best playing surfaces.

The residential market dominates power lawn and garden equipment sales, representing nearly two-thirds of the total in 2004. However, advances in the commercial market have outpaced the residential market in recent years, bolstered by the tremendous growth in sales of zero-turn radius turf mowers. In addition, the continuing rise in the number of professional landscapers, in part a byproduct of an aging population, has boosted commercial demand.

Although gas-powered equipment will remain dominant, electric-powered products are expected to post significantly larger gains through 2009. Battery-powered equipment will fare particularly well, as improved battery technology is introduced. Cordless products are easy to use and have a better environmental image, and they appeal to women, who account for a growing portion of equipment sales and use. AIW

Despite Steady Pace, Outlook for Year-End Sales Hard to Predict

As the North American sale of all farm tractors remained strong through the first five months of 2005, what lies ahead for the remainder of the year remains fuzzy at best. Keep in mind that May 2004 levels were down by 9%, perhaps inflating the monthly sales performance a bit (only under 40 hp tractors in the U.S. and combines in Canada failed to match last May's sales levels.)

Through May of 2005, tractor sales in the U.S. and Canada rose 1.5%, thanks to significant U.S. growth in the 4WD segment (+11.3%) and high growth in 2WD tractors (+9.7%) in Canada.

For May, North American sales of tractors under 40 hp, though, dropped by nearly 1200 units from last year, or about 7%. This drop is despite the fact that Canadian year-to-date sales (+11.7%) are significantly ahead of last year.

Breaking the current sales number down further, Baird's Robert McCarthy, notes in his analysis that "North American retail sales of row-crop tractors (100 hp plus) increased 19%" on a year-to-year basis in May following two consecutive months of year-to-year declines. "While row-crop tractor sales are up 5% year-to-date, the 50%-plus jump in June-August of 2004 over the prior year make for a markedly more challenging year-to-year sales comparisons of coming months."

Total North American combine sales in May remained almost identical to May of 2004, but remain 17% above the first 5 months of last year. And as pointed out by McCarthy, "Nearly 75% of annual combine sales are generated in the June-December months. So, historically, the most critical months for combine sales lay ahead."

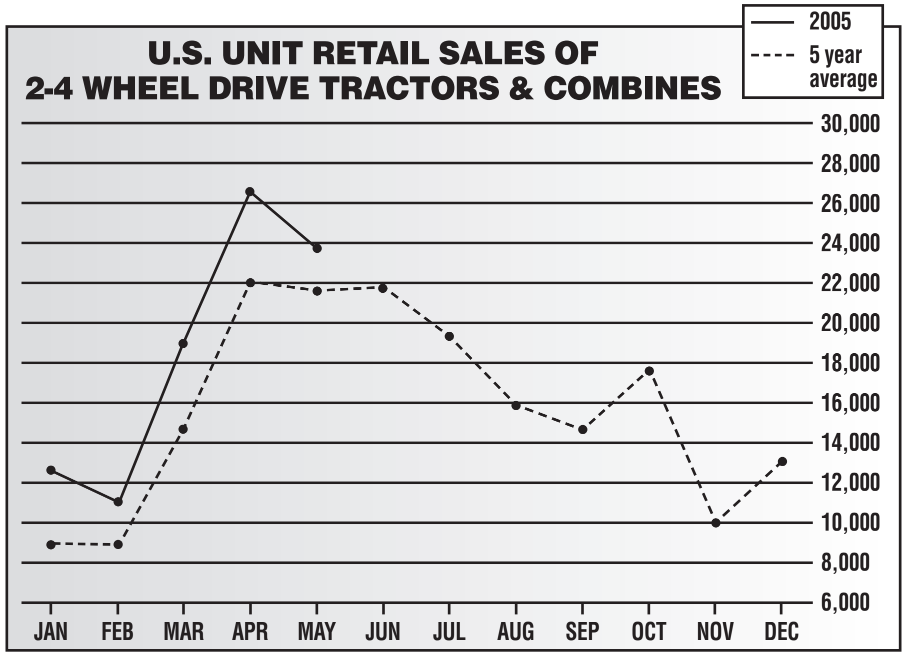
As far as inventories go, McCarthy points out that "April U.S. dealer inventories of farm tractors and combines appeared stretched relative to historical levels." Row-crop tractor inventories dropped 21% year-to-year and 4WD tractor inventories fell 19% year-to-year. Combine inventories, meanwhile, were down 27% compared to historical levels and down 40% from the prior year. AIW

MAY U.S. UNIT RETAIL SALES

Equipment	May 2005	May 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	April 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	15,045	16,326	-7.8	51,603	55,290	-6.7	65,709
40-100 HP	7,361	6,048	+21.7	29,605	25,574	+15.8	33,195
100 HP Plus	1,439	1,203	+19.6	9,421	8,979	+4.9	6,051
Total-2WD	23,845	23,577	+1.1	90,629	89,243	+0.9	104,955
Total-4WD	270	212	+27.4	1,686	1,515	+11.3	985
Total Tractors	24,115	23,789	+1.4	92,315	91,358	+1.0	105,940
SP Combines	407	369	+10.3	1,785	1,482	+20.4	1,464

MAY CANADIAN UNIT RETAIL SALES

Equipment	May 2005	May 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	April 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,107	998	+10.9	2,819	2,524	+11.7	4,462
40-100 HP	685	573	+19.5	2,423	2,209	+9.7	3,083
100 HP Plus	386	326	+18.4	1,488	1,400	+6.3	1,561
Total-2WD	2,178	1,897	+14.8	6,730	6,133	+9.7	9,106
Total-4WD	82	78	+5.1	350	388	-9.8	257
Total Tractors	2,260	1,975	+14.4	7,080	6,521	+8.6	9,363
SP Combines	70	110	-36.4	352	342	+2.9	450



—Assn. of Equipment Manufacturers

Model Legislation Creating Rift Between Dealers, Shortline Manufacturers

"Model" dealer legislation drafted by the Southwestern Assn. (representing farm equipment dealerships in Kansas, Missouri, New Mexico, Oklahoma and Texas), has created continued sparring among members of the Farm Equipment Manufacturers Assn. (FEMA), and several dealer associations, which are part of the North American Equipment Dealer Assn. (NAEDA) federation.

The proposed language, designed to serve as uniform legislation that could be applied universally, is similar to what exists in many states with respect to motor vehicles, which was intended to protect auto dealers from a single manufacturer's economic leverage. FEMA, which has only recently become involved in such legislative matters, responded to the language after an understanding was already reached between the dealer associations and the major-line manufacturers, and was endorsed by NAEDA.

FEMA says that the proposed model legislation is onerous on small farm equipment manufacturers because:

- It restricts the manufacturer's ability to terminate a dealer relationship.
- It forces the manufacturer to repurchase parts and inventory upon all terminations, regardless of who initiates it and without a "good cause" limitation.
- It redefines and rewrites successor liability provisions. Suppliers would inherit liability from other companies if they buy the inventory, assets in a private sale or otherwise. Thus, a manufacturer buying inventory, assets or stock of another company can inherit liability to dealers it never had any relationship with.

> ***"Without a settlement, the alternative result could be a courtroom situation in which manufacturers are testifying before their own dealer customers..."***

- The proposal states that if the dealer prevails in any litigation under the statute, the supplier must pay the dealer's attorney fees. Because the reverse is not true, FEMA feels that it promotes legal action against small manufacturers.

FEMA would like to see a "carve out" for shortline equipment manufacturers, which would allow statutes to apply to a dealer's mainline supplier, but not to manufacturers who represent less than a certain percentage (such as 10-20%) of the dealer's business.

The carve-out is problematic for an array of reasons, and FEMA's best hope appears to be through negotiation. Without a settlement, the alternative result could be a courtroom situation in which manufacturers are testifying before their own dealer customers. From *Ag Industry Watch's* perspective, this course of events, and the pitting of shortliner vs. dealer, is playing right into the majors' hands. As a result, tensions have increased between the dealer associations and the shortline equipment manufacturers, whom the majors do not want their dealers spending time and resources on anyway.

On May 16, FEMA representatives and those of NAEDA and four other dealer associations gathered to express concerns face-to-face. Legislation, we have been told, is going to move forward this fall, with or without manufacturer agreement. AIW