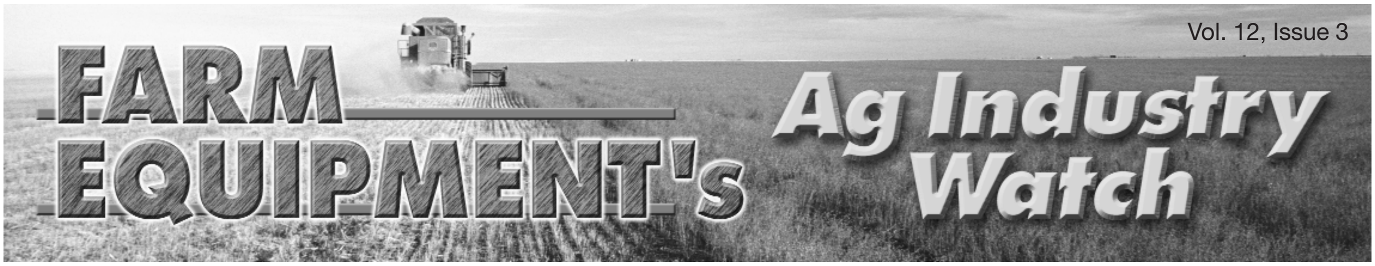


Vol. 12, Issue 3

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

Equipment Pricing Expected to Firm in '05 But 'Adjustments After Orders' on the Rise

Pricing increases for ag equipment is expected to firm somewhat during the remainder of 2005, but dealers are increasingly seeing price adjustments after orders are placed, according to a recent UBS Agricultural Dealer Survey.

Results show that more than 90% of responding dealers believe that ag equipment pricing is either "stable" or firming," and only 9% report a general weakening in the overall price of machinery.

More than 80% of the dealers reported that price increases for new equipment in '05 will range from 3% to more than 4%, with the rest indicating new pricing this fall will be below 3%. In total, dealers expect equipment prices to rise more than 3%.

Those who commented on rising prices feel it will negatively impact sales levels. "I have never seen a year (2004-05) where the price of farm equipment has gone up so much." "Deere has increased some prices as much as 10%." "Most are raising list prices and eliminating steel surcharges." "Prices are increasing, floor plan is decreasing." "Add 5% to orders." "Major manufacturers are charging dealers for more services that they used to cover.""Deere added 12% on all tillage on top of 12% in January '05. That is 24% in six months. That will hurt." "Prices on new whole goods are going up monthly from manufacturers."

Surging steel prices in 2004 and in early '05 are most often cited as the chief culprit in rising equipment costs, but higher prices for other inputs are cited as well. "Double-digit price increase due to steel pricing." "Steel

Continued on page 2

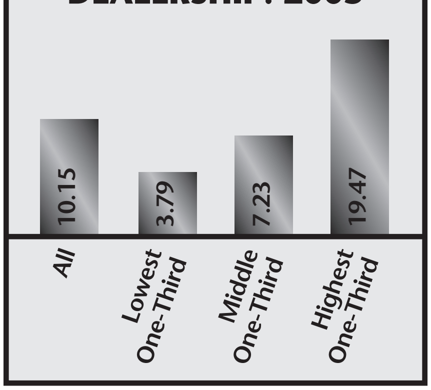
DEALERS' VIEWS ON NEW EQUIPMENT PRICES

Mainline	Weakening	Stable	Firming
Agco	10%	34%	56%
Case IH	8%	45%	47%
Deere & Co	9%	33%	58%
New Holland	10%	52%	38%
Total	**9%**	**43%**	**48%**

Ag Dealers Scrutinizing Number of Shortlines They Carry

North American ag equipment dealers are taking a hard look at the number of shortline manufacturers and which equipment makers they will be carrying in their stores during the next few years. An exclusive *Ag Industry Watch/Farm Equipment* survey shows that dealers, as a whole, are planning to carry slightly fewer shortline brands during the next 3 years than they are carrying now.

NUMBER OF SHORTLINE MANUFACTURERS REPRESENTED PER DEALERSHIP: 2005



More than 200 dealers from 38 states and 8 Canadian provinces responded to the survey. Their responses showed that the average number of shortline brands carried overall is slightly more than 10, and ranged between a low of about 3.8 lines per dealer to a high of nearly 19.5 brands in 2005.

During the next 3 years, the dealers expect the number of lines they carry to decline somewhat. On average, they expect to be carrying about 9 shortline brands by 2008. The range of equipment lines that dealers project they will be selling in 3 year was a low of 3.5 to a high of 17.5.

The dealers freely acknowledge that the fewer lines they carry, the fewer headaches they have. Among the reasons they give for reducing the number of shortline brands they will be selling during the next few years include:

- ✔ Expected industry consolidation
- ✔ Simplicity
- ✔ Pressure from majors
- ✔ Too much duplication
- ✔ Costs of representing multiple lines

Continued on page 2

Equipment Pricing Expected to Firm...(Continued from page 1)

DEALERS' VIEWS ON PERCENTAGE OF PRICE INCREASES MANUFACTURERS ARE IMPLEMENTING ON NEW EQUIPMENT IN 2005

Mainline	0-1%	1-2%	2-3%	3-4%	4%+
Agco	1%	1%	22%	41%	35%
Case IH	0%	5%	21%	37%	37%
Deere & Co	0%	1%	8%	26%	65%
New Holland	1%	3%	12%	43%	41%
Total	**0%**	**3%**	**15%**	**37%**	**45%**

DEALERS' VIEWS ON FREQUENCY OF PRICE ADJUSTMENTS FROM MANUFACTURERS AFTER ORDER IS PLACED

Mainline	Very Often	Often	Rarely	Very Rarely	Never
Agco	5%	47%	36%	9%	1%
Case IH	5%	47%	38%	8%	2%
Deere & Co	11%	48%	28%	12%	2%
New Holland	10%	54%	26%	9%	1%
Total	**8%**	**49%**	**32%**	**9%**	**1%**

prices and weak dollar are driving up prices." "Steel, fuel, freight prices are skyrocketing." "Steel prices are killing everything." "Manufacturers continue to shift costs to distributing dealers. Watch for floor planning expenses to be completely moved to the dealers. The process has already begun."

While a majority of the dealers (57%) indicated that manufacturers were adjusting prices after orders were placed, their comments didn't necessarily mirror the practice or seemed to indicate that pricing changes were limited. "If ordered 'sold retail' it was price protected." "Preseason orders are covered." "If marked 'retail,' they can't; if placed on inventory they change programs every month." "Companies always use price increases to force an order and lock in the older price."

On the other hand, some dealers say price adjustments are a standard procedure. "Not even sold orders are truly price protected." "Case IH did it even on orders they classified as 'price protected'." "Orders are billed when shipped and any price increase is added." AIW

Ag Dealers Scrutinizing Number of Shortliners...(Continued from page 1)

At the same time, dealers are willing to add new shortline brands to their stores if it's worth the hassle. The reasons they would bring some brands into their stores include:

- ✘ Diversification and product expansion
- ✘ Market nice/specialization
- ✘ Attitudes of majors
- ✘ Becoming shortline-only dealers
- ✘ Changing customer base (includes hobby farms)
- ✘ New technology
- ✘ Better profit potential

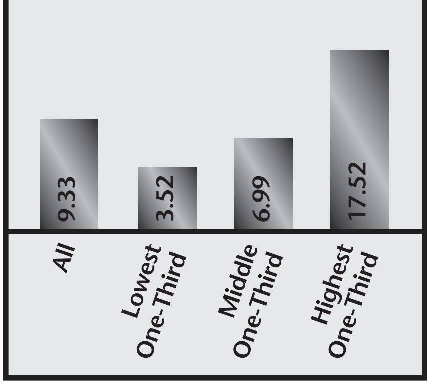
Some dealers are happy to see some consolidation among the shortline equipment makers. Dennis Davit, manager, Greenfield Implement Co., Greenfield, Iowa, is one who likes the trend. Speaking about Alamo's acquisition of Rhino, M&W and Fuerst, he says, "It means we have fewer reps calling on us, which is good. It takes less time, and you can order from one rep and get better part margins."

But adding shortliners to their current lineup of equipment will still be a tough decision for most dealers who will be asking themselves "is it worth the hassle."

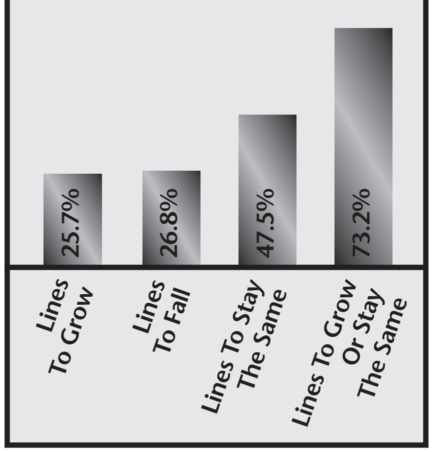
For one, John Bare, HB Buvall, Inc. of Frederick, Md., will be a tough nut to crack for shortliners wanting him to carry their machinery. "I simply don't like dealing with so many different warranty, sales, parts ordering and programs," he says.

The complete results and more in-depth details from this survey can be found in the June-July issue of *Farm Equipment*. See "Special Report: Selecting, Evaluating Shortline Manufacturers." AIW

NUMBER OF SHORTLINES TO SHRINK SLIGHTLY OVER NEXT 3 YEARS



INDIVIDUAL DEALERS' SHORTLINE PLANS



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Will Falling Steel Prices Reduce Steel Costs for Ag Manufacturers?

While the rapid rise of steel products during the last year is the most often cited reason for the increasing cost of farm equipment, will its just-as rapid descent in the last few moths be reflected in the price of ag machinery? This remains to be seen.

The June price of sheet steel alone reflected a drop of 35% since last September, when it is was going for a record $756/ton, according to *Purchasing* magazine. A glut of scrap metal used to produce new steel, along with a cut in production by U.S. automakers, is forcing steelmakers to scale back their production schedules.

Scrap steel prices have dropped even more rapidly than that of finished steel products. Last November, prime scrap was going for as much as $430/ton. By June this had dropped to $150/ton and included a $120 decline since May alone.

The price of steel worldwide has also dropped as Chinese production continues to grow. In the first quarter of 2005, China moved into second place as the world's second-largest steel exporter, producing nearly as much steel as Japan. The stronger U.S. dollar also resulted in increased imports, also contributing to the drop in steel prices. AIW

Krone Set to Produce 980-Horsepower Forage Harvester for American Market

German manufacturer, Maschinenfabrik Bernard Krone, has announced ambitious plans to manufacture one of the largest self-propelled forage harvesters available. With the stated goal of winning a slice of the top-end market for hay tools, Krone will soon begin producing a unit that will feature a nearly 1,000-hp model.

Krone started its first self-propelled machines project with the introduction of the Big M wide-working hay mower 10 years ago and has found particularly strong demand for the model in the U.S. and in parts of Europe.

Commercial operators in Europe started using the first Big X self-propelled grass and maize forage harvesters 3 years ago; Krone North America, Memphis, Tenn., made its first sale last fall to a New Mexico custom operator. With more than 150 machines now in the field, mainly in Europe, Krone has scheduled a production run of 200 units for the 2006 season, plus 150 Big M mowers.

"We decided to overtake the competition from the start and produce the most powerful self-propelled forage harvester in the market," says Josef Horstmann, who heads Krone's manufacturing and R&D operations. "This was essential to compete successfully with existing suppliers like Claas, which has up to 50% of the world market for self-propelled forage harvesters, New Holland and John Deere."

The first Big X models had a 605-hp engine to match the most powerful Claas Jaguar and a 780 HP, V-12 diesel-engine version to compete with Class units. For next season, Krone is finalizing development of a lower cost 6-cylinder model of 490 hp for the European market, but also a 980-hp Variant model powered by two 6-cylinder engines.

"This machine is designed primarily for the North American market, for custom operators harvesting forage maize," Horstmann says. "It will run with one engine for economy when traveling between fields and two engines when maximum power is needed."

It appears that Krone is intent on going it alone in this market, despite regular overtures from Agco, which has made no secret of its interest in buying the business outright or at least negotiating a marketing agreement that would enable the Georgia-based firm to add the self-propelled machines to its Challenger and Fendt product lines.

Farm machinery operations earned $211 million or 24% of the Krone Group's $878 million 2004 turnover. The balance resulted from its machinery retailing, and Europe's second largest road truck trailer manufacturing business. AIW

FARM MACHINERY TICKER (AS OF 7/12/2005)

Mfr.	Symbol	7/12/05 Price	6/13/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$20.63	$18.86	$23.13	$16.50	12.66	1.05 M	1.87 B
Alamo	ALG	$19.56	$20.00	$29.23	$15.72	14.07	28,400	190.59 M
Art's Way	ARTW	$8.43	$6.90	$11.50	$3.98	9.58	17,500	16.34 M
Caterpillar	CAT	$98.72	$97.58	$102.98	$68.50	15.95	2.28 M	33.73 B
CNH	CNH	$19.60	$18.59	$21.00	$16.18	22.29	53,600	2.62 B
Deere	DE	$69.38	$67.03	$74.73	$56.72	10.99	1.81 M	16.79 B
Gehl	GEHL	$44.00	$36.91	$44.50	$17.79	18.49	60,000	297.53 M
Kubota	KUB	$28.50	$28.60	$29.85	$22.00	69.51	3,900	7.42 B

Keeping Up With Dealer Consolidations, Expansions

While the farm equipment market, Case IH and New Holland in particular, appear to be going through a period of dealership consolidations, other industries are taking a different approach to consolidating their dealer networks.

Consolidation of ag dealerships in the Midwest region of the U.S. appears to be picking up steam (see items below). Some of the biggest consolidators include:Titan Machinery – 18 stores; RDO – 11 stores; Birkey's Farm Store – 10 stores; Stoller International – 5 stores.

As these Midwest ag dealers continue to add to their sales networks, Harley-Davidson the Milwaukee-based motorcycle maker continues to reduce its total worldwide dealerships in an effort to improve its sales network. In the last 10 years, Harley dealers in the U.S. have gone from about 700 to 650 while the number of motorcycles sold has increased.

Now Harley is instituting a similar strategy in Germany. In the past 18-24 months, it has seen a 25% turnover in the ownership of its 65 German dealerships, the largest European market for Harley equipment.

In Europe, the number of new Harley motorcycles sold dropped 1.7% in 2004 compared with the previous year. In the first quarter of '05, that number has increased more than 20% compared with the same period in '04.

Titan Adds to Its Dealership Network

Titan Machinery, Fargo, N.D., has added HC Clark Implement, Aberdeen, S.D., to its growing roster of ag dealers in the Midwest. HC Clark was founded in 1947 by Harland Clark as a New Holland equipment dealership. The store is now a dealer for New Holland, Kubota and IR Bobcat products and employs 18 full-time workers.

"We have watched the success of Titan Machinery over the years and feel their customer philosophy parallels that of HC Clark," says Byron Hilgemann, manager of the HC Clark store.

While HC Clark will be part of the Titan group, which now includes 18 dealerships, it will keep the HC Clark Implement name because of the business heritage and solid reputation, Titan officials says.

David Meyer, CEO, Titan Machinery, says the decision was made to purchase HC Clark because of the Aberdeen market. "Aberdeen is a regional trade center. It is in the center of an excellent agricultural area, and we are excited about the potential."

One of the reasons behind the purchase, according to Meyer, is the consolidation within the farm implement sales market. "We are seeing consolidation throughout the farm equipment industry," he said. "Our industry is experiencing an exciting era of new products and technology."

Meyer said that Titan is always looking for opportunities to grow, but added that the focus is on keeping the present stores in good order. "We're focusing on running the stores we have the best we can," he said. "But when an opportunity comes, we'll look at the place."

Birkey's Farm Store Purchases Two More Dealers in Illinois

With the purchase of two farm equipment dealerships in Polo and Prophetstown, Ill., Birkey's Farm Store, Inc., Rantoul, Ill., now owns and operates nine farm equipment stores in Illinois and one in Indiana.

In addition to the new stores in Polo and Prophetstown, Birkey's, a full-line Case IH dealer, also has dealerships in Galesburg, Gibson City, Hoopeston, Hudson, Macomb, Oakland and Urbana in Illinois, and Williamsport in Indiana.

"This is a great opportunity for the company to expand our presence in northwest Illinois," said Ron Birkey, president and CEO of Birkey's, who have been selling ag equipment for 50 years.

In addition to these nine farm equipment facilities, Birkey's also operates two Case Construction equipment dealerships, a Chrysler automotive dealership, and is a Jacobsen golf and turf distributor for about two-thirds of Illinois and the eastern one-third of Missouri.

Stoller International Breaks Ground For New Dealership in Ottawa, Ill.

Stoller International has broken ground for a new farm equipment dealership in Ottawa, Ill. Stoller also owns and operates ag dealerships throughout central Illinois, including sites located in Pontiac, Streator, Herscher and Minonk.

A full-line Case IH dealer, Stoller will also carry Kinze planters, Blu-Jet subtillers, Jacto sprayers, Woods mowers and batwings, Bush Hog cutters and Hustler zero-turn mowers. at the new location.

"We will be offering the entire line of Case IH farm equipment from their 18-hp DX compact tractor to the STX 500, a 500-hp four-wheel drive tractor," says Stoller sales manager, Mike Noonan. "In addition, we will also sell the Axial Flo combine and the complete line of Case IH planters and tillage equipment."

Pete Bailey of Case IH says the opening of the Ottawa facility was meant to provide for the "strong farm market here. We wanted representation north of Interstate-80." He added that the facility will also provide equipment for the growing compact tractor market. AIW

Mahindra Launches Chinese Operations Through Joint Venture with Jiangling Motor Co.

Mahindra & Mahindra kicked off production of tractors in China on July 2 in the Nanchang province, located in south central China. The operation is a joint venture between Mahindra (China) Tractor Co., Ltd. and the Jiangling Motor Company Group. The Chinese arm of M&M has an 80% stake in the joint-venture company and is investing $8 million of the estimated $10 million total investment in the operation.

The facility has an annual production capacity of 12,000 tractors. Mahindra (China) will serve the Chinese market with 18-33-hp tractors under the Fengshou brand, and 60-hp models under the Mahindra brand. The plant plans to export tractors to North America, Europe and India. AIW

New Study Highlights Harvesting Equipment Costs for Corn, Soybeans

A recent report issued by agricultural economists at the University of Illinois, shows that the estimated cost of harvesting corn on 1,400 total acres now stands at $31.10 per acre. Combining soybeans, on the other hand, came in at $26.30 an acre.

Using a grain cart will save about $6.00 per acre according to the study, while grain hauling increases harvesting costs by $0.06 per bushel. These costs were developed based on operating a 265-hp combine with a 20-foot grain head and a 6-row corn head used to harvest 700 acres of corn and 700 acres of soybeans.

TABLE 1. PER ACRE COSTS FOR COMBINES OF DIFFERENT SIZES AND ACRES HARVESTED

Total Acres[1]	265-HP Combine 6-Row Corn Head 20-Ft Grain Head		35-HP Combine 8-Row Corn Head 30-Ft Grain Head		340-HP Combine 12-Row Corn Head 30-Ft Grain Head	
	Corn ($ per acre)	Soybeans ($ per acre)	Corn ($ per acre)	Soybeans ($ per acre)	Corn ($ per acre)	Soybeans ($ per acre)
600	54.10	48.50	61.30	54.10	69.70	57.00
800	43.60	38.70	48.30	42.80	53.90	44.30
1000	37.60	32.70	40.70	34.90	44.50	36.80
1200	33.70	29.00	35.70	30.20	38.30	31.80
1400	31.10	26.30	32.20	26.90	33.90	28.40
1600	29.20	24.60	29.70	24.50	30.70	25.70
1800			27.80	22.60	28.20	23.70
2000			26.30	21.20	26.20	22.10
2200			25.20	20.10	24.70	20.90
2400			24.30	19.20	23.40	19.90
2600					22.30	19.10
2800					21.50	18.40
3000					20.70	17.80

[1] *Assumes half the acres are corn and half are soybeans*

TABLE 2. PER ACRE GRAIN CART COSTS *

Total Cost	Tractor Overhead	Grain Cart + Overhead	Fuel + & Lube	+ Labor
$6.00	$1.20	$1.90	$0.90	$2.00

* *Based on a grain cart with list price of $19,000 and 10-year life, used on 1600 acres.*

TABLE 3. COMBINING COSTS WITH AND WITHOUT GRAIN CART *

Acres	Without Grain Cart: Hours of Use	Without Grain Cart: Per Acre Cost	With Grain Cart: Hours of Use	With Grain Cart: Per Acre Cost
1400	178	$29.55	156	$28.40
1600	203	$27.10	178	25.90
1800	229	25.60	201	24.00
2000	254	23.75	223	22.45
2200	280	22.65	245	21.13
2400	305	21.75	267	20.30
2600			290	19.55
2800			312	18.85
3000			334	16.10

* Based on 305-hp combine with a $217,000 list price, given that half the acres are corn and half are soybeans

Combine Size and Costs

A major portion of total costs for a combine is in overhead costs, which include depreciation, interest, insurance, housing and repair charges. On an annual basis, these costs remain relatively the same regardless of acres harvested. As acres increase, these overhead costs are spread over more acres. So, for a given size combine, costs per acre decline as acres of use increase as shown in Table 1.

Grain Cart Costs

Table 2 illustrates the costs for the grain cart divided into tractor overhead, grain cart overhead, fuel and lubrication, and labor categories. Costs are shown for a 600-bushel cart that is used for 10 years and had a list price of $19,000. It is assumed that the grain cart will be used on 800 acres of corn and 800 acres of soybeans per year, and in use for 211 hours per year, the same hours that the combine is operated. Table 3 breaks down combining costs with and without a grain cart.

Calculating Costs

Formulas developed by the American Society of Agricultural Engineers (ASAE) were used to calculate costs. All costs are based on buying new equipment. 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
Years of life ....7 years
Labor charge................$13.50 per hour
Labor time........1.10 times tractor hours

This report covers harvest costs only. Estimated costs for farm tractor usage appeared in the June 2005 issue of *Ag Industry Watch*. Other operating categories will appear in subsequent issues of *Ag Industry Watch*. AIW

Down-Sized Czech Tractor Maker Zetor Re-Starts Production

Zetor, once the leading eastern European supplier of tractors into western markets, has resumed production following its purchase by a Slovakian firm 5 years after the near-collapse of the Czech firm.

The Slovakian HTC holding group that bought Zetor from state ownership in 2002 for the equivalent of $12.2 million at current exchange rates, says it has invested $2.98 million in the "Zetor New" project over the past 9 months.

Production will be downscaled from previous levels at the site near Brno in the Czech Republic. Reportedly, the plant will be capable of producing 10,000-15,000 tractors a year. Employment levels have been halved to around 1,200, production and assembly processes brought under one roof and more components and assemblies are being outsourced.

"The old area was far too big, which resulted in poor communication and management," says managing director Vojtech Panik. "We had to have an efficiency drive to compete in the open market."

Production slumped to barely 1000 units during the firm's financial crisis, which was widely blamed on a poor response to the opening up of Zetor's stronghold East European markets to the West.

Production recovered to just over 5400 units in 2004, a figure the management team plans to double over the next 3 years. Zetor will continue to make its own transmissions and cabs, as well as engines, 1,200 of which it sold to other OEMs last year.

Panik reports that sales turnover has grown since the takeover from $85.5 million to $117.6 million and that the business has made an operating profit, despite increased steel prices.

Zetor currently sells 80% of its production within the European Union, with the United Kingdom, Belgium, Netherlands, Luxemburg and Poland among its principal markets. The U.S., market handled by the Zetor North America division of American Jawa, Harrisburg, Pa., has traditionally been Zetor's biggest market outside Europe. AIW

Gehl Included in Russell 3000 Index for Coming Year

Gehl Co., the West Bend, Wis.-based manufacturer of compact agricultural and construction equipment, joined the Russell 3000 Indexes when the Russell Investment Group reconstituted its family of 23 U.S. indexes in late June.

The membership in the Russell 3000 that will remain in place for 1 year means automatic inclusion in the small-cap Russell 2000 as well as other appropriate growth and style indexes. Russell determines membership for its equity indexes primarily by objective, market capitalization rankings and style attributes.

"Inclusion of Gehl Co. in the index recognizes the positive growth the company has accomplished over the last several years," says Gehl chairman and CEO, William D. Gehl.

Russell indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for both passive and active investment strategies. More than $2.5 trillion in assets are currently benchmarked to them.

Annual reconstitution of Russell indexes captures the 3,000 largest U.S. stocks as of the end of May, ranking them by total market capitalization to create the Russell 3000. AIW

Dealers See Growth Coming from Younger, 26-45 Age Group

Fertilizer and ag chemical dealers responding to an informal poll conducted by *Dealer & Applicator* magazine say they are seeing their largest increase in business coming from their customers in the 26-45 year old age group.

Here are the results of their poll that asked the question, "From which age group are you seeing the most increase in business among your customers?

- ✔ 35 and younger 14%
- ✔ 36-45 .... 44%
- ✔ 46-55 .... 35%
- ✔ 56 and above 7%

AIW

Farm Equipment Industry Newsmakers

Roger Purdy has ended a 40-year career at the former Case tractor works in Doncaster, England, by handing over the reins of the McCormick Tractors International business. His successor as managing director is **Mario Sapin**, former engineering director of the Agco Group, McCormick's parent company.

Francesco Carozza, eldest son of Same Deutz-Fahr group chairman **Vittorio Carozza**, has been appointed to head the group's manufacturing and distribution activities in Germany. Carozza previously led marketing activities in the group's North American operation and, more recently, handled strategic projects at the firm's headquarters in Treviglio, Italy.

Agco Corp. has announced the appointment of **Matti Ruotsala** as its vice president and managing director, Valtra Europe, Africa and the Middle East.

CNH Global NV has elected **Ferruccio Luppi** as a director to fill the vacancy left when **Eugenio Razelli** resigned. Luppi is senior vice president, business development for Fiat SPA. AIW

Large Tractor Sales Weaken in June, Point to a Difficult-to-Project 2nd Half

Consistent with expectations, U.S. retail demand for large farm tractors moderated in June, says Baird's Robert McCarthy in his July 12 analysis of June farm equipment retail sales figures. He did qualify, however, that year-to-year interpretations will be difficult in this year's second half due to the impact of last year's depreciation tax incentives.

Tractors

After a 19% increase in May, North American retail sales of row crop tractors fell 7% in June '05 vs.'04.

North American retail sales of 4WD tractors fell 10% in June '05 vs. '04, but were still up 12% in the second quarter of '05 due to strong comparisons in April and May, which are important sales months.

Although North American large farm tractor sales were down a combined 7% this month vs. June of '04, McCarthy notes that June is a less important month for these units, averaging only 6-7% of annual sales over the last 5 years.

Year-to-date sales of large farm tractors were up 3% through June, which bodes well vs. AEM's forecast for a 5% decline.

On mid-range tractors (40-100hp), McCarthy notes that June '05 retail sales rose 4% while compact tractor sales fell 8%. Year-to-date, mid-range tractor sales are up 13%.

Combines

North American combine retail sales rose 6% in June '05 vs. last year and were up 3% in the second quarter. Year-to-date sales were up 14% year-to-year, with the important selling season yet to come, as two-thirds of combines are sold in the second half of the year.

U.S. Inventories

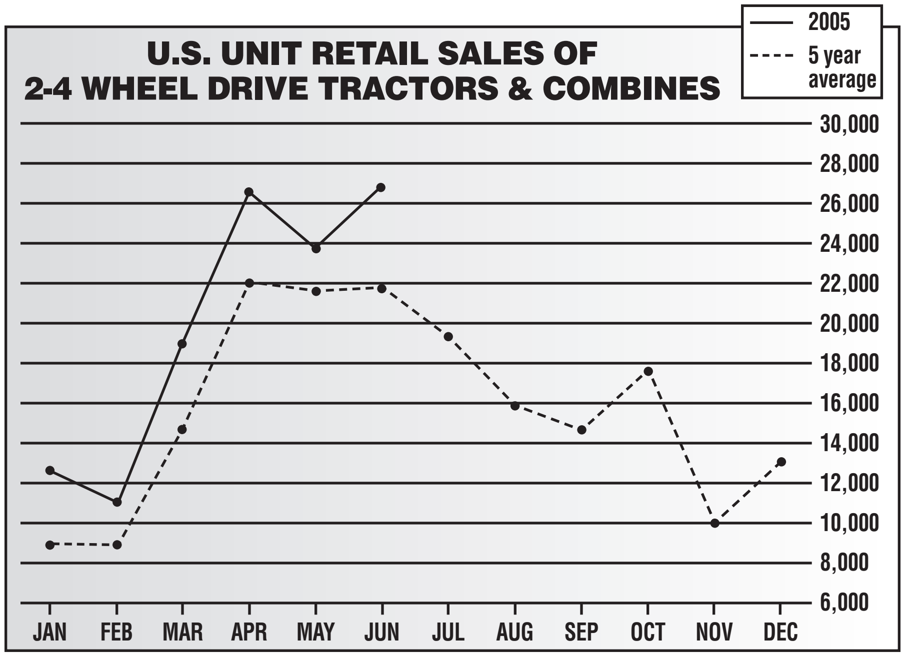
May dealer inventories of farm tractors were generally up compared to the prior year, but remained well in line on a days-sale basis. Combine inventories appear significantly higher at only 94 days (compared to 138 days in May '04). *AIW*

JUNE U.S. UNIT RETAIL SALES

Equipment	June 2005	June 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	May 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	16,065	17,632	-8.9	67,976	72,973	-6.8	64,732
40-100 HP	8,531	8,213	+3.9	38,120	33,786	+12.8	33,926
100 HP Plus	1,601	1,772	-9.7	11,012	10,751	+2.4	6,417
Total-2WD	26,197	27,617	-5.1	117,108	117,460	-0.3	105,075
Total-4WD	280	290	-3.4	1,966	1,805	+8.9	1,043
Total Tractors	26,477	27,907	-5.1	119,074	119,265	-0.2	106,118
SP Combines	639	611	+4.6	2,423	2,093	+15.8	1,812

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2005	June 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	May 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,226	1,074	+14.2	4,059	3,598	+12.8	4,452
40-100 HP	726	712	+2.0	3,149	2,922	+7.8	3,146
100 HP Plus	398	373	+6.7	1,883	1,773	+6.2	1,583
Total-2WD	2,350	2,159	+8.8	9,091	8,293	+9.6	9,181
Total-4WD	30	54	-44.4	377	442	-14.7	234
Total Tractors	2,380	2,213	+7.5	9,468	8,735	+8.4	9,415
SP Combines	159	143	+11.2	511	485	+5.4	602



—Assn. of Equipment Manufacturers

Deutz-Fahr Prepares to Enter the Telehandler Market

Italian tractor and harvest machinery manufacturer, Same Deutz-Fahr, has entered the growing European market for agricultural telescopic handlers with two new models. The machines, which are being sold under the group's Deutz-Fahr brand, were developed in partnership with the European arm of JLG Industries, the McConnellsburg, Pa.-based manufacturer of materials handling and aerial access machinery.

The 2.6-ton and 3-ton Agrovector handlers are a European design, built at JLG's assembly plant in Belgium and are smaller than current JLG group machines, which are aimed at plant and construction markets. Both are powered by engines from Deutz.

Same Deutz-Fahr estimates the value of the European telehandler market at $1.2 billion, which is why it has joined other tractor manufacturers in adding them to their portfolio. Joint-venture production is a common solution: John Deere makes its own handlers (in Germany) but CNH sources its New Holland machines from Manitou and Agco buys its Massey Ferguson models from an IR Bobcat facility in France.

Distribution will be a key factor in the venture's success. Many of the group's dealers already have telescopic handler franchises with independent manufacturers such as Britain's JCB, Manitou of France and Italy's Merlo.

Lemken Eyes Russian Expansion, Purchases German Sprayer Manufacturer

With increasing demand for farm equipment and improving credit positions, Russia has become the number one export market for Lemken, the German tillage implement manufacturer. The firm is also currently evaluating opportunities for local assembly of implements from its range of moldboard plows, disc and tine cultivators and drills. The company already assembles implements in Samara, some 1,000 km southeast of Moscow.

Lemken is also pursuing growth through acquisition and by extending its product line. Having successfully established a range of crop seeders in recent years that now account for 15% of its turnover, Lemken is moving into crop protection by acquiring German sprayer manufacturer Jacoby.

"We expect continued good demand for professional agricultural machinery in Russia," says Franz-Georg von Busse, managing director. "Accordingly, we are investing in marketing and service personnel there and this year we will build a spare parts depot near Moscow."

Group sales turnover during the first 5 months of this year is up 7%. But this growth has come entirely from exports. With continued uncertainty over future machinery investments by farmers and contractors in Lemken's domestic market, von Busse is cautious about whether the company will exceed its record 2004 turnover of $109 million, a 19% increase over the previous year.

To help maintain its competitive position, the company made a $1.78 million investment in new production facilities, mainly laser cutting and CNC machinery to improve production.

It is also now out-sourcing much of its component welding to a neighboring business that is staffed mainly by ex-Lemken employees. This will add about $4.7 million to turnover, based on last year's figures, and strengthen Lemken's strategic relationship with both its dealers and distributors.