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FARM EQUIPMENT's Ag Industry Watch

News, Information & Analysis for the Ag Equipment Marketer

August 15, 2005

Farm Bill 2007: A Perfect Storm Brewing or Just More Hogwash?

The Assn. of Equipment Manufacturers AgExecutive Forum held in July in Rosemont, Ill., featured an expert panel on the 2007 farm bill. This topic was of concern to all of the 70-plus executives in attendance, considering the president has gone on record saying there will be no farm subsidies by the year 2010.

Sara Wyant, AgriPulse Communications, says a case is being made for negative change in 2007, in large part because two-thirds of U.S. agriculture receive no commodity payments, although they may participate in different ways. Add to that the current farm prosperity (record farm income in 2004, strong balance sheets and another healthy year projected), and there are a lot of questions about the wisdom of farm payouts. Wyant also cited the disconnect between farm payments and rural prosperity, and the outside forces applying pressure, including world trade issues.

John Blanchfield, director for the ABA Center for Agriculture and Rural Banking, says that "a perfect storm is brewing for the ag programs." In addition to record farm incomes, he cited a record national deficit, a president not running for reelection who is willing to spend political capital and

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OPPORTUNITIES FOR EQUIPMENT IN FARM BILL TALKS

Nick Yaksich, AEM vice president, global public policy, says opportunities exist with the 2007 farm bill in regard to equipment issues. "We have about a year before things get real serious," he says.

Depreciation — With similar use and values, there's no reason that farm equipment, with a 7-year depreciation schedule, should not have the same 5-year schedule as construction equipment. A look at the tax provisions of the bill might allow a leveling of the field on depreciation issues. *(see p. 4 for more information)*

Nebraska Tractor Testing — Other nations provide federal support for their tractor testing functions. AEM wants to explore whether the federal government can play a role in supporting it.

Energy Coalitions — Things like biodiesel fuels and retrofitting will have an impact on equipment and its ability to perform. Availability of such alternative fuels for the farmer also must be supported.

Equipment Inventories 'Below Normal' As Lead Times, Deliveries Add to Dealer Woes

If 2005 ag equipment sales don't match up to the levels reached in '04, there may be more than a sagging farm economy to point fingers at. According to the recent UBS Agricultural Dealer Survey, dealers are facing "below normal" inventories due to long and unpredictable equipment deliveries.

Of the more than 500 dealers responding to the survey, 47% are reporting "much lower than normal" or "lower than normal" levels of new equipment on hand. On the other end of the scale, only 17% said their inventories of new machines were "higher than normal" or "much higher than normal."

Equipment deliveries appear to be at the heart of the issue and are plaguing equipment of all colors. Dealer comments include: "CNH has very poor delivery." "NH-Case is terrible at getting equipment delivered on time." "JD availability is terrible." "Agco is an extremely long wait." Adds another dealer: "Case, IH, NH and Deere are all having a problem providing product. The only manufacturer that seems to meet orders is McCormick."

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DEALERS' VIEWS ON NEW EQUIPMENT INVENTORIES

Company	Much Lower Than Normal	Lower Than Normal	Normal	Higher Than Normal	Much Higher Than Normal
Agco	9%	38%	41%	11%	1%
Case IH	6%	35%	41%	17%	1%
Deere & Co	9%	57%	22%	11%	2%
New Holland	4%	36%	39%	21%	1%
Total	**6%**	**41%**	**36%**	**16%**	**1%**

Farm Bill 2007...*Continued from page 1*

critical farm state legislators that may cause fits for ag programs as we've known them. "We face the impression that the payments only benefit a few and the increased dependence on global trade," he says. "And although it's not very good, the opposition has gotten organized."

While Wyant and Blanchfield believe there's cause for concern, veteran farm bill analyst Barry Flinchbaugh, ag economics professor, Kansas State Univ., takes a different viewpoint.

"Two years out from the farm bill, it's time for pundits and to scare the hell out of farmers, suppliers and bankers," says Flinchbaugh, who has worked on farm bills back to the Johnson administration. "It's the same old story since 1968 — there won't be enough money for farmers in this era of record deficits."

Despite the rhetoric, he says the federal budget remains irrelevant to the farm programs. "There's never been any correlation between the deficit and how much we spend on farm programs," he says. "When has revenue had anything to do with spending?" According to him, the politicians "want to scare us, say there's no money and then come home and be a hero. They were doing it in 1968, and they'll be doing it again."

Voting patterns have a great bearing on Flinchbaugh's predictions. Showing the presidential election map and the states with Bush's greatest voting polarity in 2004, the top 6 states are those with the greatest dependence on farm programs. "This proves that there will be a farm bill, that there will be farm programs and they will be well funded," he says. The only question is how the dollars will be spent, not how much will be spent.

He also showed a map depicting the estimated reduction in land values with the elimination of government programs. "There's a direct correlation with the political map," he says. The result is the same six states: Oklahoma (-45.3%), North Dakota (-44.9%), Texas (-37.7%), Kansas (-36.3%), Nebraska (-30.7%) and South Dakota (-30.0%). Louisiana would also be expected to see a significant land value loss (-39.1%).

One of the big myths, he says, is that ag lacks the necessary political power to protect the farm programs. "There are 5 sugar-growers who attempted to hold up major trade legislation. There's more power today than ever, so there will be a farm bill."

On the argument by deficit watchers, he maintains that the budget is only a perceived threat. Another is the WTO, although he says the impact the WTO will make will come in how dollars are spent, not in limits. What does concern him, however, is the "divided house" in agricultural itself, between farmers and ranchers.

"We've never been so divided as we are today. Ag is making so much money that groups can't agree on anything," Flinchbaugh says, citing examples like two cattlemen associations that don't speak to one another. "If we want to get a farm bill that works for farmers and suppliers, we need to learn the meaning of compromise. A house divided will not stand, and that's the real threat to farm bill."

The Bottom Line

Wyant says new domestic and international forces will shape the next Farm Bill. "The focus will be on more green and rural programs," she says.

Noting that 2002 was the greatest ever in terms of conservation, Flinchbaugh says, "it will be funded sufficiently again in the '07 bill." He disagrees with Wyant over the significance of rural development, however. "It has been the poor stepchild since 1933," he says. "We laud it and pass it, but then we starve it."

He does believe that energy will be front and center, and cited the 25 x 25 program that promotes 25% of the U.S. energy consumed in the U.S. would be provided by ag by the year 2025. "This initiative won't steal from commodities, though. Maybe on paper, but not on appropriations."

When asked about payment limits, which recent studies show farm state voters support by nearly a 2-to-1 margin, Flinchbaugh says, "Why are we wasting any time on this stupid argument? Going from $360,000 to $280,000 will affect three farmers in Iowa, 11 in Nebraska and 27 in Kansas." AIW

Farm Equipment Industry Newsmakers

The just-completed **Farm Equipment Manufacturers Assn.** Membership Survey showed that of the 49 member company respondents (primarily shortline equipment manufacturers), 25% had less than $2 million in farm equipment sales in 2004, 33% sold $2-$8 million and 42% sold more than $8 million. The average employee sizes in these three sales groups were 17, 50 and 180, respectively.

Kim Robinson has been appointed president of **McCormick International USA**. Robinson will be responsible for all McCormick business in the U.S.

Claudia B. Garber has been promoted to director of strategic marketing for **CNH North American Agricultural Business**. In her new role, she will lead brand communications, marketing intelligence and strategic planning efforts for the Case IH and New Holland brands.

Indian tractor maker **Mahindra USA** is opening a 30,000 square foot warehouse near its corporate headquarters in Tomball, Tex. The new facility will serve as a parts warehouse and will house Mahindra's staff of service technicians.

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Equipment Inventories...*Continued from page 1*

Comments from dealers also indicate that along with the increasingly long lead times, the predictability of the actual deliveries is also adding to their woes. "New goods have a several-month lead time and lead times are more indefinite too." "Some products are only available on retail order basis with lead times that vary by factory, but all lead times are lengthening and delivery times are less definite." "Unpredictable deliveries — as usual."

Dealers say that manufacturers point to part shortages, most notably tires, as at least part of the reason that lead times are increasing. "NH called me today [and said] if I wanted Firestone tires to add 60 days to get a new tractor." "They blame [long delivery times] on tire shortages and slow port approval for unloading."

All this adds up to big headaches for many dealers as deliveries are stretching out to 160 days to 6 months on some lines and some products leading to lost sales. "It's always been longer on large equipment, but now it's the same on 60 hp and below." "It's taking 6-8 months on new, sold orders." "We cannot get deliveries before the season." "We're receiving products after the season of use."

'Used' Inventories Shrinking, Prices Up

Difficulties with new equipment inventories and deliveries are contributing to a shortage of used equipment, as well. Survey results show that 54% of those responding indicate that used equipment inventories were either "much lower than normal" or "lower than normal." This compares with only 12% who responded "much higher than normal" or "higher than normal."

"All this adds up to big headaches for many dealers as deliveries are stretching out to 160 days to 6 months on some lines and some products leading to lost sales."

As a result, the price and demand for good, used equipment is on the rise, driven to some degree by higher priced new equipment. "Used tractor [prices] higher than ever." "JD used equipment 20-25% higher." "Good, low-hour tractors are holding their value." "Good, used equipment is hard to come by." "Good demand on late model equipment." "Higher new, makes higher used."

Based on these trends and other factors, UBS projects equipment sales to be flat or rise slightly, possibly 5%, during 2005. Other factors expected to affect sales throughout the rest of the year include generally lower farm commodity prices that will be offset by stronger livestock profitability, strong farm balance sheets, low interest rates, a countercyclical farm program and multiple years of weak demand. AIW

DEALER'S VIEWS ON USED EQUIPMENT INVENTORIES

Company	Much Lower Than Normal	Lower Than Normal	Normal	Higher Than Normal	Much Higher Than Normal
Agco	5%	48%	30%	16%	1%
Case IH	11%	48%	32%	10%	0%
Deere & Co	7%	46%	36%	11%	0%
New Holland	7%	42%	38%	13%	0%
Total	**8%**	**46%**	**34%**	**12%**	**0%**

DEALERS' VIEWS ON EQUIPMENT DELIVERY LEAD TIMES

	Become Longer	Remained the Same	Become Shorter
Agco	85%	14%	1%
Case IH	70%	25%	5%
Deere & Co	65%	28%	7%
New Holland	71%	28%	2%
Total	**71%**	**25%**	**4%**

FARM MACHINERY TICKER (AS OF 8/11/2005)

Mfr.	Symbol	8/11/05 Price	7/12/05 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$20.78	$20.63	$23.13	$16.50	13.15	950,800	1.88 B
Alamo	ALG	$19.85	$19.56	$29.23	$16.60	15.04	23,900	193.48 M
Art's Way	ARTW	$6.00	$8.43	$11.50	$3.98	7.50	20,600	11.75 M
Caterpillar	CAT	$55.02	$98.72*	$55.59	$34.93	16.28	5.28 M	37.24 B
CNH	CNH	$20.96	$19.60	$21.55	$16.18	32.75	58,700	2.80 B
Deere	DE	$72.57	$69.38	$74.73	$56.72	11.50	1.64 M	17.58 B
Gehl	GEHL	$50.47	$44.00	$50.75	$17.79	18.63	75,600	340.13 M
Kubota	KUB	$32.53	$28.50	$32.24	$22.10	79.34	4,500	8.47 B

**Caterpillar implemented a 2-for-1 stock split on July 13, 2005.*

Making a Case for Speeding Up Depreciation Recovery Periods for Ag Equipment

The obvious discrepancy between the allowable depreciation schedules for farm machinery and construction equipment has, for years, been a sore point for ag equipment manufacturers, dealerships and farmers alike. According to Nick Yaksich, Assn. of Equipment Manufacturers, the major differences in the schedules, which is disadvantageous to the owners of farm equipment, include:

- ✔ The current depreciation system classifies construction equipment as having a 5-year life for depreciation purposes.
- ✔ The same structure was applied to agricultural equipment. However, due to the "cliffs and plateaus," a 7-year life was assigned.
- ✔ A study by the Treasury Department indicates that mapping class lives into the current system creates "cliffs" that give very different depreciation allowances to assets with similar lives. This is where the difference between construction and agricultural equipment became apparent.
- ✔ Property assigned a class life of 9.5 years or less became 5-year property. Property assigned a 10-year life (ag equipment) became 7-year property. The 6-month difference in class life causes a two-year difference in the cost recovery period.

"Discussions with the Treasury highlighted the issues that must be addressed in order to affect change," says Yaksich. "These include the fact that class lives do not appear to be based on a consistent concept of useful life, and Treasury officials indicated that they could not find any data to indicate 'why' construction and agricultural equipment is classed differently.

"The current depreciation system should create a separate sub-class for agricultural tractors and equipment allowing a 5-year depreciable life similar to construction equipment. But combining ag equipment with other property such as grain bins and fencing is not reasonable," Yaksich says.

Congress attempted to address the issue in 1998 when it authorized a study of the depreciation system to be conducted by Treasury. In July 2000, Treasury released a comprehensive study of the recovery periods and depreciation methods under IRC Section 168.

The study concluded that a less comprehensive approach could improve the current system. Issues that could be addressed include determination of the appropriate recovery period for real estate or the reduction of Modified Accelerated Cost Recovery System (MACRS) recovery period cliffs and plateaus. Congress has yet to act on the Study recommendations.

According to Yaksich, "We can conclude that for many types of equipment, the depreciation allowance depends not on the type of asset, but on the activity in which it is used. Treasury has not conducted an in-depth review of ag equipment class life, and ag equipment appears to be an afterthought in the guidelines that are completely outdated.

"A case can also be made," says Yaksich, "that ag equipment today is used in a similar fashion to construction equipment in that it is used on larger farms and used year-round. Ag equipment and construction equipment has become interchangeable."

The AEM lobbyist also offered several "talking points" for those who wish to contact their legislators on the subject. Other similarities between ag and construction equipment include:

- ✔ Usage patterns are similar.
- ✔ Ag equipment has been upgraded in terms of flexibility and adeptness.
- ✔ Components such as software and tracking/guidance systems are subject to frequent technological changes that require replacement.
- ✔ Safety in farming is a major reason to push for replacement of older equipment.
- ✔ Environmental issues have played a strong role in the changes to ag equipment over the past decade. These "high tech" changes requiring different components and systems affect the life of the equipment as machinery is constantly enhanced.
- ✔ International competitiveness presses U.S. producers to enlarge their agribusinesses in order to achieve economies of scale. As farm subsidies decrease, it has increased the need for more efficient use of equipment.
- ✔ A new combine can cost over $200,000 plus the cost of attachments. Accurately depreciated equipment in terms of efficient useful lives is essential to sound business practices. AIW

Bridgestone/Firestone Aims to Increase European Ag Tire Market Share

With the goal of increasing its share of the European agricultural tire market, Bridgestone/Firestone has invested $90 million in the Puente San Miguel plant in northwest Spain, its main ag tire facility in Europe. The sum includes $1.6 million spent in the past 12 months specifically on agricultural tire production facilities.

The productivity and quality initiatives underpin efforts to raise Bridgestone/Firestone's ag tire market share in Europe to around 25%. The company's share currently stands at 17%, up from 12% since 1998.

The plant makes passenger car and van tires and a growing number of 4 x 4 and off-highway industrial tires. But Firestone crossply and radial agricultural tractor and implement tires account for about 30% of the plant's output, 55% in terms of raw rubber tonnage.

Production manager Javier Ansorena says new tread-stitching machinery and factory-engineered tire building systems are aimed at increasing automation in the facility. Together with increased operator monitoring/training and revised shift patterns, this has helped lift output from 27 to 150 tires per day, on average, for each of the six agricultural tire assembly lines. AIW

Kuhn Doubles Size Since Knight Acquisition, Eyes Future Expansion

Ag Industry Watch attended the Kuhn and Kuhn Knight Dealer Convention held in Wisconsin in early August. The first time such an event was held by the manufacturer of hay tools, tillage tools, mixers and spreaders, it drew more than 365 dealerships and more than 750 officials.

Since Kuhn acquired Wisconsin-based Knight Manufacturing and its line of TMR mixers and manure spreaders 2.5 years ago, the transition has been smooth and working well, said several dealers. The late 2002 acquisition of Knight was just one of several acquisitions that has spurred the firm's impressive growth curve, including: Huard (rollover plows, 1987), Audureau (TMR mixers and bedding equipment, 1993), Nodet (vacuum planters, 1996) and most recently, Metasa SA of Brazil (planting/seeding, 2005).

Today, Kuhn produces more than 64,000 implements per year (40% more than in 2003), with sales of more than $600 million. The 3,000-employee firm has four plants in France, two in the U.S. (Brodhead, Wis., and Greeley, Colo.) and 1 in Brazil. It is averaging 5% annual growth rates, including 10% yearly increases in the U.S.

According to Thierry Krier, president/CEO, Kuhn North America, 4.5% of net sales are being reinvested in R&D with another 4% reinvested in new manufacturing processes and capacity improvements.

Krier says more than $9 million has been invested since the Knight acquisition, including $7 million in facilities and machine tools. Another $8 million investment is on the table now, including a doubling of the size of the Greeley, Colo., plant. The Brodhead, Wis., facility recently added 64,000 square feet of manufacturing space (180,000 in total), which consolidated manufacturing and assembly under one roof. The investment included laser and plasma cutting, increasing workflow efficiencies. Shift manager Terry Bumstead noted that the plant has cut work in progress by 75% using kaizen and kanban systems, and now has parts inventories down by 25% to 7-10 days' in stock. The Brodhead facility is now on a permanent fourth weekend shift since January to keep up with demand.

Kuhn is owned by Swiss-based Bucher Industries, which does $1.25 billion sales with additional business sectors in municipal equipment, fruit processing, hydraulics and glass. About 40% of Bucher's sales come from Kuhn, and North America represents 25% of that pie, demonstrating the firm's commitment and resources that it is putting into the North American market.

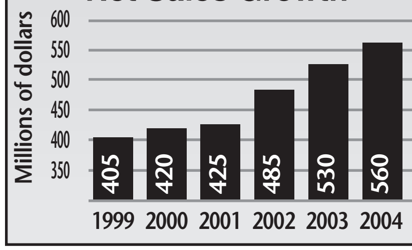
Kuhn's Dick Kurtz, general sales manager, notes that about 25% of the firms' 1,000 North American dealers handle both lines of equipment. "There's no timetable as of yet to make them all dual dealers," he says, noting that some dealerships are located close together and will be protected, while others are better served handling only one line of product.

"With the acquisition of Knight, we aimed to double the size of the company in 10 years. After 3 years, we will soon meet this goal," says Krier, noting that the firm has tripled in size over two decades. Added Michel Siebert, President/CEO, Kuhn group, "Our goal is to double again in the next 10 years." AIW

2006 OUTLOOK

"We see a good dairy picture continuing for 2005, but lower prices to come after the highest 6-month average prices on record. Beef looks like it will remain soft. As a result, we expect softer pricing and a resulting softer equipment sales picture in 2006," says Frank O'Brien, marketing manager, Kuhn North America.

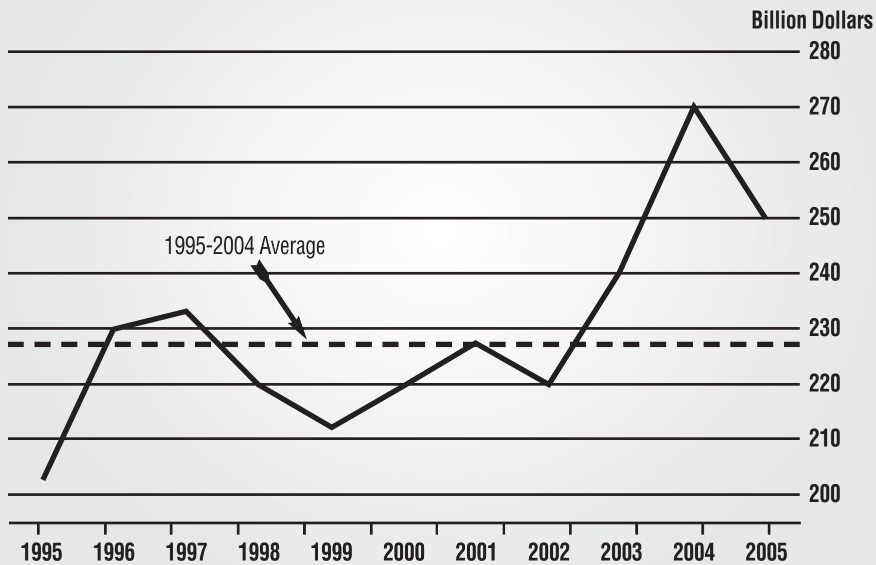
Kuhn/Kuhn Knight Net Sales Growth



FARM INCOME RECORDS

Value of farm sector production, 1995-2005

This chart shows just how strong the U.S. farm economy has been in recent years, with production values nearly 20% above 5-year averages.



—Economic Research Service/USDA

FARM FACT

U.S. agricultural exports reached a record $62.2 billion in fiscal '04. Illinois moved ahead of Texas to rank third among agricultural exporting states after California and Iowa.

Strong 2004 Sales Carrying Over to '05 for Ag Equipment Makers

Several publicly traded ag equipment manufacturers reported second-quarter results in the past few weeks, and it is apparent that the strong year for farm machinery sales in 2004 is carrying over to the current year.

Gehl 2nd Quarter Profits Surge 45%

Gehl Co., the West Bend, Wis.-based maker of equipment used in agriculture and light construction, reported July 25 that its profit rose 45% in the second quarter to $138.2 million up from $95.5 million. This was despite a one-time warranty charge that reduced results by $1.5 million. Gehl construction equipment sales rose 59%, while its ag equipment sales grew 19%.

According to Robert McCarthy, Baird, U.S. Equity Research, "Gehl's year-to-year sales growth, especially for its compact construction equipment, continues to proceed at a remarkable pace. While we acknowledge that industry-wide sales of compact construction equipment are progressing at a solid pace in general, Gehl's year-to-year sales growth appears to remain persistently above that of the industry."

The Baird analyst says that despite Gehl's strong growth trends, management's outlook still appears to be conservative. "Gehl now forecasts 2005 sales to be $465-475 million, up from $440-460 million previously, implying 17% second-half sales growth. Given the strong recent sales growth trend, a backlog that we understand remains quite healthy especially for telehandlers) and the additional sales that Gehl should reap from capacity expansion in the second half, we believe management's sales forecast is conservative. Our new estimate incorporates 27% sales increase in the second half of '05."

Gehl also announced it will initiate a 3-for-2 stock split on Aug. 24 that will be effected as a 50% stock dividend. The transaction will raise the number of outstanding shares to 10.3 million. Looking ahead, the company confirmed 2005 projections for earnings of $2.70 to $2.80 per share on sales of $465 million to $475 million.

Buhler Reports Gains in 3rd Quarter Revenue

Winnipeg, Manitoba-based Buhler Industries reported on July 22 that its third quarter revenue rose by 0.9% to $58.3 million compared with $57.7 million last year. Revenue for 9 months increased by 3.3% to $168.1 million compared with $162.7 million last year.

Third quarter net earnings decreased by 38.8% to $2.7 million compared with $4.4 million last year. Net earnings for 9 months decreased to $8.4 million compared with $10.4 million last year. Last year's third quarter earnings were higher due to the $1.6 million gain on the sale of capital assets.

In his analysis, Ben Cherniavsky, analyst for Raymond James, sees the potential of a couple of big years for ag equipment sales in Canada during 2006 and '07. "We believe that the reopening of the U.S. border to Canadian beef makes this a distinct possibility, if not an outright inevitability. However, management thinks it will likely take its customers 12 months before regaining enough confidence to start buying again.

"We think this is a reasonable, albeit somewhat conservative, expectation. The upside is that a significant amount of pent-up demand could hit Buhler in 2007," Cherniavsky says.

Revenue for the next 5 quarters are expected to match the previous year's levels as the company expects continued slow and steady gross margin improvement in the range of 18-20% through the end of fiscal year 2006.

Profits Increase by 37% for CNH

CNH Global reported on August 1 a net income of $114 million for the second quarter 2005, an increase of 37% compared to last year.

Results include restructuring charges, net of tax, of $4 million in the second quarter of 2005, and $24 million in last year's second quarter. Much of the CNH increase in the period resulted from a 13% increase in construction equipment and a slight increase in revenue from sales of its ag equipment.

According to David Bleustein, UBS Investment Research, "Sales of farm machinery of $2.3 billion increased slightly from the second quarter of 2004 (down 3% excluding currency) driven by an $82 million benefit from pricing (3-4%) and the benefit of currency, partially offset by lower volume and an adverse mix, including lower combine sales in Brazil and Western Europe. Sales (excluding currency effects) declined by 60% in Latin America and 10% in Europe, but were partially offset by increases of 12% in rest-of-world markets and 4% in North America."

CNH has reduced its full-year 2005 profit forecast to 10-15% growth from its original 15% projections. This assumes an increase in equipment sales by up to 5%.

Agco Reports 12% Sales Gain for the Quarter

Agco Corp., Duluth, Ga., on July 26 reported net sales of $1.57 billion and net income of $46.1 million for the second quarter of 2005. Net sales for the first 6 months of 2005 reached $2.83 million, net income of $67.6 million.

The company's net sales increased 11.9% for the second quarter and 12.2% for the first 6 months of 2005 primarily due to sales growth in the North American and Europe/Africa/Middle East regions, as well as positive currency translation impacts. This growth offset significant sales declines in South America due to weaker end markets. AIW

TAFE Tractors Sale Increase 53% in July

Indian manufacturer Tractors and Farm Equipment, Ltd. (TAFE) reported that sales of its brands grew 53% in July. Two months after the acquisition of Eicher's tractor division, TAFE reported sales of 4,003 tractors in July 2005 as compared to 2,624 tractors sold in July 2004. Its marketshare for the month is also greater than the pre-acquisition joint-marketshare of 22%. A number of initiatives are underway at both TAFE Motors and Tractors, Ltd., which handles the Eicher tractors, to further improve marketshare in the Indian market.

Tractor Sales 'Flat' in July vs. 2004 Levels

UBS Analyst David Bleustein is calling the July sales of row-crop tractors "flat" while acknowledging that comparisons to the same period a year ago are difficult at best, because '04 sales levels remain nearly unprecedented.

According to the Assn. of Equipment Manufacturers, year-to-year sales of U.S. agricultural machinery in July 2005 were higher for utility tractors (up 1.6%), 4-WD drive tractors (up 0.9%) and combines (up 12.2%). Sales were lower for small tractors (down 27%). Row-crop tractor sales were "flat" compared to July of last year, which were up 71% in July 2004.

Robert McCarthy, analyst for Baird, U.S. Equity Research, also acknowledges the tough comparisons to 2004. "Retail demand for large farm tractors remained lackluster in July, when comparing it to 2004. Weak retail demand and drought-stunted crop yields probably create downside risk to expectations for industry tractor production rates for the second half of '05. Combine sales comparisons were stronger and combines remain the best performing product class thus far in 2005."

McCarthy also offers these insights for the U.S. and Canadian ag equipment market:

✘ North American retail sales of row-crop tractors declined 2% year-to-year in July following a 7% June decline. Their sales were still up 2% during the last 3 months due to a 19% increase in May. July is a seasonally less important month, contributing only 6% to annual sales over the last 5 years.

✘ North American 4-WD tractor retail sales also declined 2% in July but were up 3% on a last 3-month basis. July contributed only 5.7% to total annual sales during the past 5 years.

✘ On a brighter note, combine retail sales increased 20% in July despite facing a 33% comparison from July '04. July typically accounts for around 9% of total combine sales for the year. The next 3 months are the most seasonally important for the combine market.

✘ Sales of mid-range (40-100hp) tractors increased 2% in July while compact tractor sales declined a staggering 25%. AIW

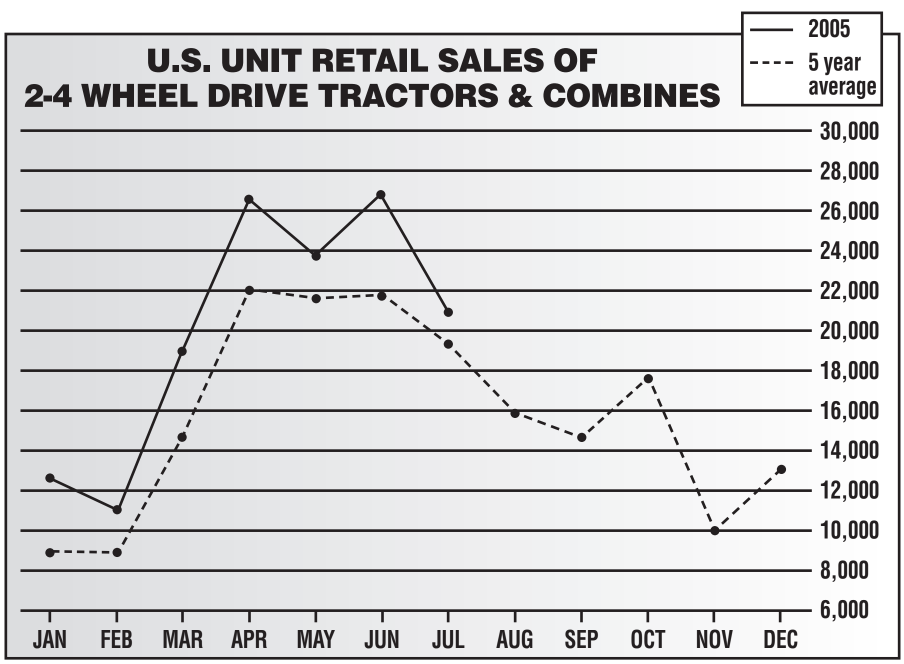
JULY U.S. UNIT RETAIL SALES

Equipment	June 2005	June 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	June 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	11,289	15,463	-27	79,613	88,387	-9.9	61,852
40-100 HP	7,697	7,578	+1.6	45,864	41,359	+10.9	33,001
100 HP Plus	1,411	1,411	0	12,401	12,162	+2	6,651
Total-2WD	20,397	24,452	-16.6	137,878	141,908	-2.8	101,504
Total-4WD	224	222	-0.9	2,186	2,027	+7.8	1,061
Total Tractors	20,621	24,674	-16.4	140,064	143,935	-2.7	102,565
SP Combines	746	665	+12.2	3,168	2,758	+14.9	1,977

JULY CANADIAN UNIT RETAIL SALES

Equipment	June 2005	June 2004	Percent Change	YTD 2005	YTD 2004	Percent Change	June 2005 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	749	686	+9.2	4,816	4,284	+12.4	4,253
40-100 HP	524	476	+10.1	3,676	3,398	+8.2	3,042
100 HP Plus	229	259	-11.6	2,112	2,032	+3.9	1,549
Total-2WD	1,502	1,421	+5.7	10,604	9,714	+9.2	8,844
Total-4WD	16	22	-27.3	392	464	-15.5	224
Total Tractors	1,518	1,443	+5.2	10,996	10,178	+8	9,068
SP Combines	277	187	+48.1	788	672	+17.3	734

U.S. UNIT RETAIL SALES OF 2-4 WHEEL DRIVE TRACTORS & COMBINES



—*Assn. of Equipment Manufacturers*

Total Farm Production Expenditures Continue Upward Trend

The latest data from the U.S. Department of Agriculture, National Agricultural Statistics Service, shows that U.S. farm production expenditures totaled $210.7 billion in 2004, up 5.1% from the revised 2003 total of $200.5 billion. The largest contributors to the increase were tractors and self-propelled farm machinery, up 24.3%; fuels, up 19.4%; fertilizer, up 14%; feed, up 9.1% and labor up, 5.5%.

Farm services and interest were the only expenditure categories to show a decrease, as they fell 2.2% and 4.3%, respectively.

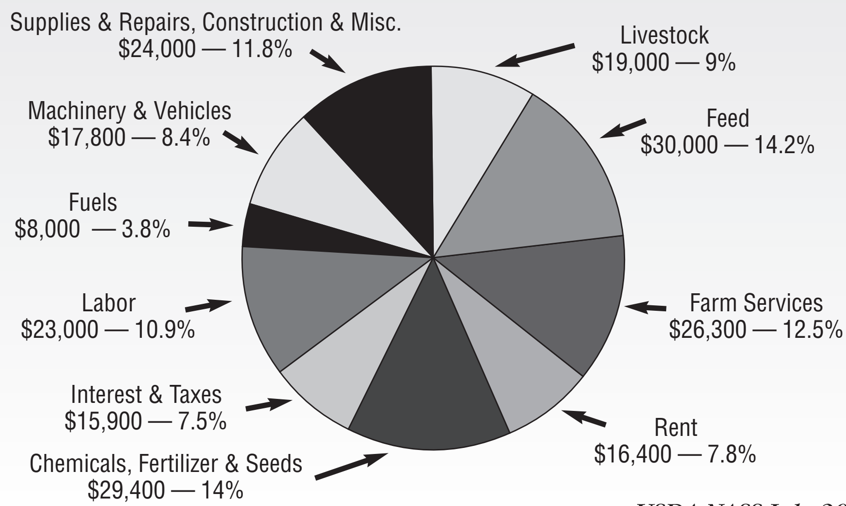
The largest two expenditure categories were feed, which accounted for 14.2% of the U.S. total production expenses and farm services, which accounted for 12.5% of the total. Farm services include expense items such as custom work, utilities, marketing charges, veterinary services, transportation costs, and miscellaneous business expenses.

Average expenditures per U.S. farm in 2004 were $99,983 compared to $94,542 for 2003. On the average, U.S. farm operations in 2004 spent $14,236 on feed; $12,480 on farm services; $10,914 on labor; $9,016 on livestock and poultry purchases; and $7,782 on rent. Revised estimates for 2003 indicated U.S. farms spent an average of $12,967 on feed; $12,684 on farm services; $10,279 on labor; $8,723 on livestock and poultry purchases; and $7,733 on rent.

Expenditures by farm production region in 2004 reveal that total expenditures were up in each region except the West. The region contributing most to the total 2004 U.S. farm production expenditures was the Midwest, with expenses of $59.9 billion, 28.4% of the U.S. total. Expenditures in the Midwest were up 6.8% from the 2003 level of $56.1 billion. Following the was the West, at $47.7 billion (2003 - $48.4 billion); Plains, at $47.5 billion (2003 - $43.5 billion); Atlantic, at $32.1 billion (2003 - $29.6 billion); and South, at $23.6 billion (2003 - $23 billion). AIW

U.S. FARM PRODUCTION EXPENDITURES

By major input items (% of total) U.S. 2004



—USDA-NASS July 2005