

FARM EQUIPMENT'S

Ag Industry Watch

December 15, 2004

Commerce Dept. Lists Top 10 Markets for U.S. Ag Equipment Exports

The Office of Machinery (OM), part of the U.S. Department of Commerce's International Trade Administration, assists U.S. businesses in the exportation of production machinery.

According to OM analysts, the current Top 10 leading markets for U.S. exports of agricultural machinery are:

1. China
2. Saudi Arabia
3. Poland
4. India
5. South Korea
6. United Kingdom
7. Canada
8. Australia
9. Thailand
10. Mexico

To further the International Trade Administration's goal of aiding U.S. businesses competing abroad, OM's trade specialists work close with other Commerce offices, other agencies, industry trade associations, and individual companies in developing and expanding export markets. Visit the Office of Machinery at: <http://www.ita.doc.gov/td/machinery/> **AIW**

Weaker Dollar Helps Domestic Ag Manufacturers

The weak dollar is proving a bonanza for farm equipment exporters. The majors are cashing in quite nicely. Look no further than John Deere's fourth quarter sales figures for proof (see page 5). Question is: Why aren't more short-liners cashing in? A weak dollar means equipment sells more cheaply overseas. It also means that foreign competitors

have to absorb a much higher cost in the U.S.

The dollar's 24% drop against the British pound over the past two years has been a particular boon for U.S. exporters to Great Britain and Ireland. Analysts agree that the Bush administration's relaxed attitude toward the long sliding U.S. dollar is calculated to

benefit U.S. manufacturers. American tourists overseas may be paying more for hotel rooms and souvenirs, but U.S. manufacturers are enjoying significant and sustained gains in market share across the globe.

Exports rose to a record \$70.2 billion in September, 15% higher than a year earlier. **AIW**

Increased Sprayer Sales Forecast Due to Arrival of Soybean Rust

Spores of soybean rust are likely to infect fields in the Midwest by spring. Farmers in places like Ohio, Indiana, Illinois and Iowa who grow soybeans have only a few months to prepare for battle against a potentially devastating fungus that is likely to hit the Midwest next year.

Soybean rust was reported for the first time in this country last month in several southern states. Its spores are carried by wind and water and, because it spreads so rapidly, the chances that it will reach the Midwest during the next growing season have been reported in the 70 - 80% range.

Failure to prepare for it would expose soybean growers to a big risk.

When it caught Brazilian farmers off guard several years ago, many of them lost as much as 80% of their soybean yield. Rust control strategies eventually lowered the average loss to 20%.

There are fungicides that prevent rust from spreading, fungicides that can treat soybean plants to reduce the impact of rust and fungicides that do both. Farmers used to spraying herbicide probably will need different sprayer nozzles for fungicide to achieve proper coverage. The right equipment will be a key component of good control and will lend to increased sprayer sales.

Midwest winters can be expected to kill off soybean rust, but winters are

mild enough along the Gulf Coast for soybean rust to winter there and spread to other parts of the country during the spring, summer and fall. So every year, there's a chance it could return, with a single Southern storm system carrying it to the Midwest in a matter of days. Multiple storms could bring multiple outbreaks.

If the rust disease builds up exponentially, with the most expansive outbreaks occurring during the second half of the growing season, early-variety beans might escape some of that last really explosive part, but the shorter season varieties generally have lower yields. **AIW**

USDA Releases 2005 U.S. Agricultural Exports Forecast

Fiscal 2005 U.S. agricultural exports are forecast at \$56 billion, according to report AES-44, released last month by the USDA. Interestingly, imports are also forecast at \$56 billion. Forecasts are best guesses, of course, and because forecasts

change month by month, there's no telling whether exports ultimately will exceed imports, or vice versa. But the last time U.S. agricultural trade hovered between surplus and deficit was nearly a half century ago, in the late 1950s.

What does it mean for U.S. producers and farm equipment manufacturers? There's a huge market in the U.S. for ag products that domestic producers are unable or unwilling to supply. Read more on page 6. *AIW*

"Farm Prices Received" Index Up 1 Point

The preliminary "All Farm Products Index of Prices Received by Farmers" in November rose 1 point above October. The Crop Index remained unchanged from October while the Livestock Index increased 1 point (0.9%). Producers received higher commodity prices for tomatoes, eggs, hogs, straw-

berries and grapes. Lower prices were received for lettuce, oranges, soybeans, corn and cattle. The seasonal change in the mix of commodities farmers sell, based on the past 3-year average, also affects the overall index. Increased average marketings of dairy, cattle, and cotton offset decreased marketings of

soybeans, peanuts, and potatoes. The preliminary All Farm Products Index is down 2 points (1.7%) from November 2003. For the full report, or to learn more about the All Farm Product Index, go to the National Agricultural Statistics Service (USDA) website at: www.usda.gov/nas/ *AIW*

Deere Board Authorizes \$1 Billion Buyback

Deere announced that its board authorized a share repurchase program of up to \$1 billion of common stock. Deere noted that under the plan, share repurchases "will be made from time to time, at the company's discretion, in the open market and through privately negoti-

ated transactions." At fiscal year end 2004, Deere had roughly 247 million common shares outstanding.

According to Deere management, the share repurchase program is expected to be carried out over a period of 12 to 18 months. Assuming that Deere

earns roughly 2% on cash and that shares are repurchased at \$70 per share, each 1 million share reduction in full-year shares outstanding will increase earnings by roughly \$0.02 per share. *AIW*

Florida May Eliminate Tax on Farm Equipment Purchases

Florida should eliminate a tax on farm equipment for more than a year to help the state's farmers recover from the four hurricanes that devastated crops and ruined equipment this year, the chairman of the state's Senate Agriculture Committee says.

Sen. Rod Smith, the Democratic chairman of the panel, says he will propose that the Legislature consider abolishing the 2.5% sales tax on tractors and other farm machinery, as well as some equipment bought by related industries, such as fruit packing houses.

The committee received a report from the state Department of Agriculture estimating farm losses from Hurricanes Charley, Frances, Ivan and Jeanne at more than \$2.1 billion. The biggest impacts were on the nursery industry, which is expected to have \$700 million in damages, and on citrus, which sustained an estimated \$500 million loss.

Smith says many farmers are facing large insurance deductibles or have uninsured equipment that needs to be replaced. And without a crop to sell, many will have a hard time.

Smith hasn't worked out the specifics of what would be tax exempt, so the cost is not yet entirely clear, but he estimates it at \$15 million. The time frame hasn't been set either, but Smith envisions making equipment tax free for 18 months. And he wants the Legislature to consider the idea this month.

The farm lobby has been trying to eliminate the tax for years, saying it's not fair to Florida farmers because neighboring states either don't tax agricultural equipment — like Georgia — or have lower taxes on machinery. *AIW*

AG INDUSTRY WATCH is published monthly for the farm equipment industry by Lessiter Publications Inc., P.O. Box 624, Brookfield, WI 53008-0624. © 2004 by Lessiter Publications Inc. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher. Please send any address changes as soon as possible to the address shown above.

U.S., Canada and Mexico print subscriptions are \$320 per year. Save \$40 by receiving *Ag Industry Watch* each month via E-mail Internet access at only \$280 per year. International print subscriptions are \$420 per year. Send subscriptions to: *Ag Industry Watch*, P.O. Box 624, Brookfield, WI 53008-0624. Fax: 262/782-1252. Phone: 262/782-4480 or 800/645-8455 (U.S. only). E-mail: info@lesspub.com.

Analyst: "Is Deere Caught in the Headlights?"

At least one analyst believes the decades-old method used by Deere and CHN to sell farm machinery in the U.S. — many small stores, owned by thinly-capitalized dealers — is in trouble due to cost/revenue squeeze. Charlie Rentschler of Langenberg & Company, an industrial sector research arm of Soleil Securities Corporation, says that the Challenger model of well-financed Caterpillar dealers distributing private-branded farm machinery built by AGCO and serviced by mobile mechanics, seems to make more sense.

The analyst cites the success of an Illinois/southeastern Iowa Cat dealer who helped boost AGCO's Challenger sales from 900 to 4,000 tractors and combines with the help of 16 service mechanics in mobile-dispatched trucks.

Rentschler suggests in a report that

"Deere ought to stop obsessing about share, give its dealers franchised (or "protected") territories (as Caterpillar does) and oversee a radical restructuring of its distribution system to end up with fewer, larger dealers and many fewer locations." With 65% market share to CHN's 25%, Rentschler says Deere has more to lose by not responding to Challenger and, indeed, Deere is now "doing (more) repairs in the field."

"Though we have enormous respect for Deere — 40 years running-away the market leader by dint of offering well-built, feature-rich products through a ubiquitous number of dealers — the string looks in some jeopardy," concludes Rentschler's report.

In only its third year at AGCO, Challenger is doing well, according to a second report from Rentschler. Sales are

running "something over \$200 million, and AGCO's goal is to be doing \$500 million in 2005." Challenger dealers indicate 10-15% market share is a realistic objective in 3-4 years.

Not sure we at AIW agree (Challenger lost money in 2004, estimated at \$10 million), but Rentschler gives us something to chew on. By comparing the marketing strategies between Deere and Challenger, it appears farmers now have more choice. While both companies have bent over backwards to provide excellent service, Rentschler prefers the big, heavily capitalized CAT dealer model over the many-smaller-store Deere model with its "unusual costs for pension and medical benefits."

Deere, far from losing money, is having a record year (see "Deere Finishes Blockbuster Year," p. 5). AIW

David Bleustein: Higher Corn Prices in 2005

David Bleustein at Merrill Lynch believes key farm commodity prices are bottoming out. Over the summer, the prices of corn and other key farm commodities, including soybeans and wheat, dropped severely in price under the weight of record corn and soybean crops. Bleustein continues to believe that we are currently in the process of a bottoming out of these key commodity prices, given seasonal factors and strong demand drivers.

"We expect 2005 corn inventories

to decline and prices to rise in view of key 2005/06 crop fundamentals, which we believe could lead to a 500-plus million bushel reduction in corn inventories and a significant increase in corn prices," he says.

On the negative side, China has been more active than previously anticipated in the export markets, which could reduce potential U.S. corn exports. On a brighter note, wheat exports are running ahead of USDA's expected pace, which could support an

increase in the USDA estimate.

Bleustein's report shows that, historically, corn prices and Deere's stock performance have moved in the same direction 73% of the time since the mid-1970s. "We believe investors would respond to higher corn prices by increasing the earnings on Deere's (and other farm equipment) stock."

In terms of tractor sales in 2005, Bleustein forecasts a 2% increase over the healthy sales of 2004. AIW

FARM MACHINERY TICKER (AS OF 12/13/2004)

Mfr.	Symbol	12/13/04 Price	11/12/04 Price	1-Year High	1-Year Low	P/E Ratio	Volume	Market Cap.
AGCO	AG	\$21.63	\$21.65	\$23.13	\$16.11	13.00	1,210,000	1.95 B
Alamo	ALG	\$22.45	\$21.02	\$22.82	\$14.40	17.18	3,500	217.55 M
Art's Way	ARTW	\$5.75	\$5.00	\$7.20	\$3.98	6.25	4,000	11.14 M
Caterpillar	CAT	\$92.35	\$89.64	\$93.20	\$68.50	17.83	490,000	31.46 B
CNH	CNH	\$18.10	\$18.63	\$21.90	\$14.04	n/a	5,100	2.45 B
Deere	DE	\$70.75	\$67.91	\$74.93	\$56.72	12.64	364,800	17.38 B
Gehl	GEHL	\$24.49	\$20.92	\$27.90	\$12.06	12.33	16,294	159.22 M
Kubota	KUB	\$22.75	\$23.90	\$27.90	\$18.40	53.76	1,900	6.06 B

Commercial Sprayers Battle Farmers in Kansas

Ag retailers in Kansas are up in arms against farmers, of all people. Is this a case of retailers biting the hand that feeds them? The issue is over spraying.

Seems 80% of self-sprayers are purchased by farmers. But that's not what bothers ag retailers. Commercial sprayers are angry because some farmers are free-lancing their large-capacity sprayers without proper licensing or business

insurance.

Farmers are not bound by the same rules as retail sprayers and the Kansas Agribusiness Retailers Association has taken offense at the unlevel playing field, if not the growing source of competition. A bill made its way through the state legislature that would have required farmers who own sprayers to jump through the same regulatory

hoops as retailers. Naturally, farm groups opposed more regulations and the bill died in committee.

Until the issue is resolved, however, what happens to customers of uninsured sprayers in the case of misapplication, drift or worse? Instead of filing for damages with an insurance company, they may be forced to sue another farmer. *AIW*

Merrill Lynch: CNH Agricultural Equipment Sales Mixed

In the over 100 hp sales category, CNH's retail sales in October decreased to low double digits while industry sales increased 26.8%.

In the 4WD tractor sales category, CNH's retail sales in October increased to low double digits, but significantly less than the industry-wide sales increase of 38%. In October, CNH's retail

sales in the Combine sales category increased triple digits, moderately more than the 96.2% industry-wide increase.

Merrill Lynch analysts believe that CNH's underperformance in large tractors came as a result of a push by John Deere dealers at the end of Deere's October fiscal year.

In October, CNH outperformed the

industry in the smaller tractor categories. In the under 40 hp tractor category, CNH's retail sales increased by low single digits versus an industry-wide decrease of 6.1%. In the 40-to-100 hp tractor category, CNH's retail sales increased by moderate double digits, moderately better than the industry's 15.7% increase. *AIW*

Manufacturers Continue to Face High Steel Prices in 2005

Michael Siegal, Chairman and CEO of Olympic Steel (flat-rolled steel service center) sees robust demand in 2005, with a 10% increase in end-user product demand, versus a 25%-30% increase in 2004, according to David Bleustein. He notes strength in the infrastructure, farm machinery and (somewhat in) construction end markets, partly offset by potential auto weakness.

Siegal sees steel prices up by \$125 per ton in 2005, driven by strong

demand and low inventory levels. He has observed that steel mills are preferring to participate in the spot market and are more reluctant to enter into contracts with customers. He also sees contract base prices increasing at least 20%, excluding any surcharges.

Farm equipment manufacturers indicate that the price they pay for steel has risen by a median of 81% over the past year, according to a recent industry survey. About 62% of respondents say

they have had to absorb these costs because customers refuse to pay higher prices for finished goods. More than a third of respondents report they were either reluctant or postponed hiring new employees because of the steel shortage; about 16% said they have either terminated or reduced workers' hours.

Almost half the respondents predict that steel prices will continue to climb in the foreseeable future. *AIW*

Kubota Plans Manufacturing Expansion in Georgia

Kubota is once again extending business capabilities in North America. This new facility, located in Jackson County, Ga., will contribute to the company's overall growth in the U.S., and will become Kubota's fifth facility in the state.

Kubota's tractor business has grown significantly in the U.S. since the establishment in 1988 of Kubota Manufacturing of America (KMA) in Gainesville, Ga. As a result, KMA's production capabilities have been

stretched to the limit. The current manufacturing and assembly line-up includes tractor implements such as loaders and backhoes, as well as sub-compact BX Series tractors, lawn and garden tractors, zero turn mowers and the new RTV900 utility vehicle.

The new operation will give Kubota significant U.S. production capabilities. Initially, the plant will manufacture tractor implements such as loaders and backhoes. This expansion comes in

direct response to increasing sales and production demands.

About half of the Kubota units sold in the U.S. now come from the KMA plant in Gainesville, Ga.

Construction will begin soon, and is slated for completion in September of 2005. The 400,000-sq.-ft. facility on 88 acres will produce 70,000 tractor implements annually when fully operational. Within the first year, the plant will employ about 500 people. *AIW*

Alamo Group To Purchase Spearhead Machinery

Alamo Group Inc. announced (Nov. 30) that its wholly owned European subsidiary, Alamo Group (EUR) Limited, has agreed, subject to a definitive Purchase Agreement and certain other requirements, to acquire Spearhead Machinery Limited. The Company anticipates the transaction will close in early 2005.

Spearhead designs, manufactures and sells a range of tractor-mounted

vegetation maintenance equipment, including reach mowers, flail mowers, rotary cutters and rotary swipes. The Company's annual sales are approximately \$10 million and it is located in Pershore, Worcestershire, England.

Alamo Group products include tractor and truck mounted mowing and other vegetation maintenance equipment, street sweepers, agricultural

implements, front-end loaders, backhoes and related after market parts and service. The Company, founded in 1969, has over 1,875 employees and operates 14 plants in North America and Europe. The corporate offices of Alamo Group Inc. are located in Seguin, Texas and the headquarters for the Company's European operations are located in Salford Priors, England. *AJW*

Deere Finishes Blockbuster Year in 2004

When the receipts were all counted for 2004, Deere's full-year earnings more than doubled that of 2003. Net income was \$1.406 billion, versus \$643.1 million in 2003. For the fourth quarter alone, worldwide net income quintupled from a year earlier, \$356.7 million compared to \$70.6 million in 2003.

Worldwide net sales and revenues grew 32% to \$5.207 billion for the fourth quarter, and increased 29% to \$19.986 billion for the year. Net sales of the equipment operations were \$4.612 billion for the quarter and \$17.673 billion for the year, compared with \$3.375 billion and \$13.349 billion for the periods last year.

Summary of Operations

The company's equipment divisions generated higher sales for both the quarter and full year primarily due to increased shipments. Equipment sales in the U.S. and Canada rose 39% for the quarter and 33% for the year. Outside the U.S. and Canada, sales increased by 25% for the quarter and 20% for the year, excluding currency translation, and by 32% and 30%, respectively, on a reported basis.

Company equipment operations reported operating profit of \$449 million for the quarter and \$1.905 billion for the year, compared with \$39 million and \$708 million last year. For both periods, the operating-profit improvement was primarily due to increased shipments and price realization.

Deere's asset-management efforts are continuing to yield positive results, especially in light of the strong increase in sales.

Trade receivables and inventories

at the end of the year were \$5.206 billion, or 29% of fiscal-year sales, compared with \$3.985 billion a year ago, which was equal to 30% of sales.

Company Outlook for First Quarter 2005

As a result of the factors and conditions outlined below, company equipment sales for 2005 are expected to increase by 2-7% with net income forecast to be around \$1.5 billion. First-quarter

"Company equipment sales for 2005 are expected to increase by 2-7% with net income forecast to be around \$1.5 billion."

equipment sales are currently forecast to be up 20-25% in comparison with the same period last year. Production levels are expected to increase by 11-13% for the quarter. Consolidated net income for first-quarter 2005 is forecast to be in a range of \$200 million to \$225 million.

Agricultural Equipment Division

Agricultural Equipment Division sales increased 35% for the quarter and 31% for the full year. The sales increase for the quarter and the year was mainly due to higher shipments, reflecting strong retail demand, improved price realization

and the impact of currency translation.

Operating profit was \$267 million for the quarter and \$1.072 billion for the year, compared with \$8 million and \$329 million last year. The operating-profit improvements were primarily driven by higher worldwide sales, efficiencies related to stronger production volumes, and improved price realization, partially offset by a larger provision for performance bonuses and increased raw-material costs.

Market Conditions and Outlook for 2005

On a worldwide basis, sales of John Deere agricultural equipment are forecast to be up 2-5% for the year. Despite a downturn in commodity prices, U.S. farmers are benefiting from record production of corn and soybeans. In addition, the livestock and dairy sectors are strong and government payments are expected to increase substantially in 2005. As a result, U.S. farm cash receipts are forecast to be about the same as 2004's record level. Given these conditions, Deere expects industry retail sales in the U.S. and Canada to be up about 5% for fiscal 2005 in comparison with the very strong levels of the prior year.

In other parts of the world, industry retail sales in Western Europe are forecast to be flat to down 5% next year. Farmers in the region have benefited from a good harvest this fall; however, they are expected to see little change in income as a result of lower grain prices, higher input costs and flat government support payments. In South America, industry sales are forecast to be down 10-20% on the basis of lower commodity prices, increased input costs and a weaker U.S. dollar. *AJW*

USDA Issues 2005 Outlook for U.S. Agricultural Trade

U.S. agricultural exports and imports are expected to balance out in 2005 at \$56 billion each. That's the prediction of USDA report AES-22, issued last month.

The export forecast is down from the record \$62.3 billion in 2004. The last time U.S. exports declined from the previous year was 1999. Exports also declined in 1997 and 1998. But it has been 46 years since the U.S. imported more than it exported. What's behind the changing dynamic?

Starting in 1960, the U.S. trade balance between agricultural imports and exports climbed slowly in favor of exports. Between 1960 and 1972, trade surpluses grew gradually to \$2.5 billion. Then it jumped suddenly to \$7.25 billion in 1973, the same year OPEC enforced its will on world oil supplies.

While American commuters waited in line at the gas station, agricultural exports rose from \$8.25 billion to \$14.98 billion, in part to help alleviate a growing overall trade imbalance. In the years that followed, exports experienced more dramatic jumps during the 1970s, in 1980 and 1995. Agricultural imports continued to rise, but at a much slower, more uniform pace. That changed between 2002-04, when imports rose faster than at anytime in history, from \$41 billion to \$52 billion.

Since 2001, imports have grown at a faster rate than exports, partly contributing to the current balance between the two. With exports forecast to decline by more than \$6 billion in 2005, and imports projected to increase by \$3 billion, expect a trade balance for the first time in half a decade.

What will cause export dollars to drop markedly in 2005, according to the analysts' forecast? The USDA report cites the following: large U.S. and foreign crops, lower grain prices and increased foreign competition.

Large crops worldwide will drive down prices even as bulk export

volume is expected to rise 2.3 million tons over 2004, according to the report. Both corn and soybean shipments will increase, although forecasters have adjusted their bulk numbers downward by 1.3 million tons since August. Horticultural exports (bulk) are also projected to rise in 2005.

Forecast 2005 U.S. agricultural imports are led by wine, beer, fruits, vegetables and beef, although increases will be somewhat slower than in recent years. A weaker dollar and rising U.S. household incomes make imports attractive to consumers. Some signs indicate that global economic growth will slow a bit in 2005 due to rising industrial commodity prices.

But growth will remain relatively substantial, projected at 3.4% in the U.S. and 3.5% worldwide. By comparison, 2004 GDP exceeded 4% in the U.S. and globally, making 2004 the fastest growth year of the past 5 years, according to the report. Higher industrial commodity prices and probable higher interest rates pose a risk to robust global growth.

World Economy and The Chinese Engine

China's economic growth is critical to world economic growth. The roaring Chinese economy is expected to exceed 9% growth for the second year in a row. To curtail inflation, however, the Chinese government has been forced to ration credit. Nevertheless, China's total imports will be comparable to those of the U.S., making prospects for world growth very good in 2005.

In developing countries, economic growth is projected to exceed 6% in 2004 and 5.5% in 2005. Asia continues to be the fastest growing region at 7% in 2004 and 6% in 2005. India's GDP growth continues to soar near 7% both years. South Korea and Southeast Asia will be in the 5-6% range, with Vietnam exceeding 7%.

In Latin America, the five major economies of Argentina, Brazil, Mexico, Venezuela and Chile are experiencing strong growth around 4%. Africa's GDP growth has improved markedly to an average rate of more than 4%.

What does all this mean for U.S. agricultural exports in 2005?

The Federal Reserve Board is raising short-term interest rates in a measured fashion from historically low rates. The U.S. dollar continues modest depreciation against foreign currencies making overall U.S. exports more attractive to trading partners. The weaker dollar should also support agricultural exports and, at the same time, slow the value of import growth.

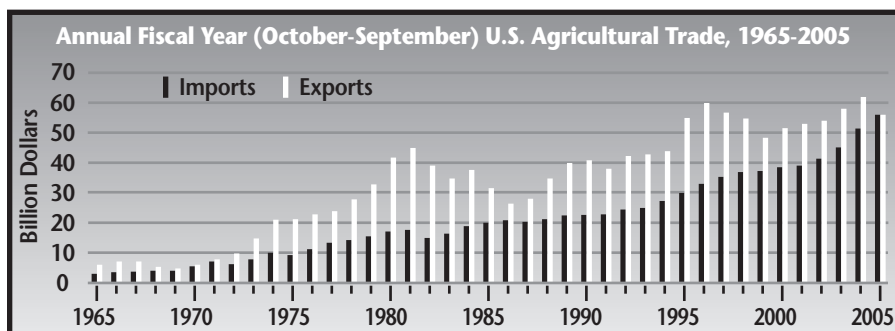
Canada, our leading trade partner, is enjoying its strongest dollar since 1991, encouraging imports from the U.S. Supported by a growing GDP and boom in industrial commodity prices, exports to Canada should remain strong in 2005.

Japan's growth rate will probably hover around 2% in 2005, as will the European Union (EU). The rapid appreciation of the euro has undermined the competitiveness of European exports. According to the USDA report, the euro has strongly appreciated against the dollar and has moved above its original issue rate in excess of 1.3 dollars per euro.

The forecast for fiscal 2005 U.S. wheat and flour exports is \$4.1 billion. Falling prices are offset by volume increases. Canadian wheat exports have been forecast downward against a stronger Canadian dollar, improving prospects for U.S. wheat shipments. But production recovery across Europe and the Black Sea region leads to greater competition in North Africa and Middle East markets, and will lead to record world wheat production. U.S. export values will likely fall along with world wheat prices.

A somewhat weaker outlook is projected for U.S. corn and coarse grain shipments in 2005. Large global feed grain supplies and an upward revision in the U.S. corn crop are expected to drive prices lower. The export value of total coarse grains is forecast down \$1.1 billion from the August forecast, to \$5.5 billion. Fiscal 2005 U.S. rice exports are

Continued on next page



lowered by 100,000 tons and \$100 million to 3.6 million tons valued at \$900 million. Broad value declines of export forecasts for oilseeds and products, from \$9.9 billion to \$8.8 billion, is due largely to a \$900 million reduction in soybean exports. In cotton, an increase in exports is offset by lower prices to leave export value unchanged from the August forecast at \$3.1 billion. Livestock, poultry, and dairy product exports are forecast to reach \$10.8 billion. U.S. horticultural product exports remain unchanged at a record \$13.8 billion, with tree nuts rising by \$100 million to \$2 billion, and fruit declining \$100 million to \$3.9 billion. *AJW*

Deere Acquires Polish Company

John Deere Company continues its European expansion efforts by acquiring 100% ownership of its heretofore joint venture company, John Deere-Rolimpex Sp.z o.o., from the Polish Rolimpex Group. The joint venture was established in January 2000 for the distribution and support for Deere products in Poland, the second largest agricultural market within the EU. The Poznan based company will be converted to John Deere Polska, a wholly-owned subsidiary of Deere, pending government approvals. The company currently supports 17 dealerships throughout the country. *AJW*

Farm Machinery Exports to Pakistan Up 68%

According to Pakistan's Federal Bureau of Statistics (FBS), farm machinery represented a significant portion of the imports brought into the country from July to October of 2004, which grew 37% over the same period one year ago.

From 2003 to 2004, capital goods imports rose 39.8% overall. The biggest gainer within this capital goods category was farm machinery, which enjoyed an increase of 68%. *AJW*

NOVEMBER U.S. UNIT RETAIL SALES



Equipment	November 2004	November 2003	Percent Change	YTD 2004	YTD 2003	Percent Change	October 2004 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	6,941	5,632	+23.2	126,265	118,383	6.7	50,953
40-100 HP	4,404	3,089	+42.6	64,619	55,010	17.5	27,159
100 HP Plus	998	630	+58.4	18,090	12,890	40.3	5,975
Total-2WD	12,343	9,351	+32.0	208,974	186,283	12.2	84,087
Total-4WD	192	126	+52.4	3,248	2,560	26.9	975
Total Tractors	12,535	9,477	+32.3	212,222	188,843	12.4	85,062
SP Combines	291	272	+7.0	6,065	4,070	49.0	1,187

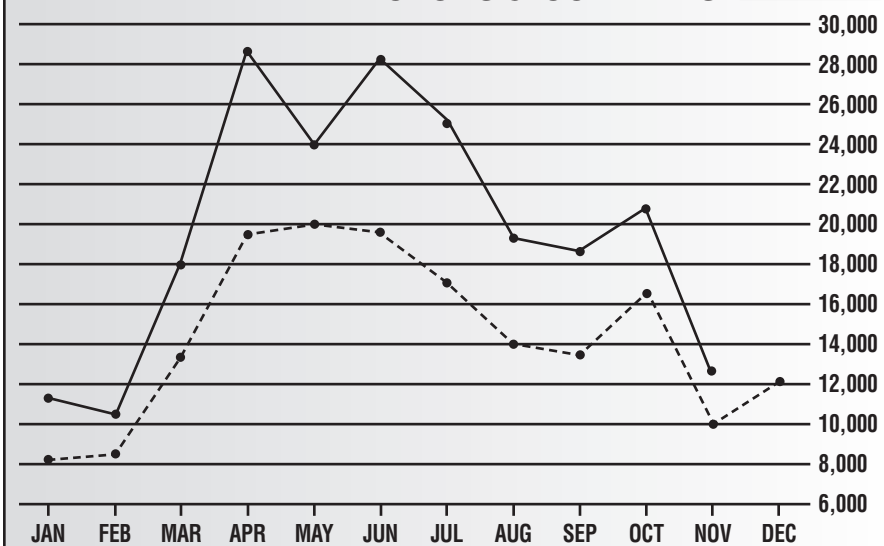
NOVEMBER CANADIAN UNIT RETAIL SALES



Equipment	November 2004	November 2003	Percent Change	YTD 2004	YTD 2003	Percent Change	October 2004 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	394	467	-15.6	6,579	5,322	23.6	2,804
40-100 HP	574	515	+11.5	5,960	6,045	-1.4	2,625
100 HP Plus	215	208	+3.4	3,183	3,556	-10.5	1,541
Total-2WD	1,183	1,190	-0.6	15,722	14,923	5.4	7,041
Total-4WD	35	32	+9.4	634	614	3.3	180
Total Tractors	1,218	1,222	-0.3	16,356	15,537	5.3	7,221
SP Combines	58	50	+16.0	1,408	1,107	27.2	375

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

— 2004
--- 5 year average



M&M Announces Plans to Expand to Higher Horsepower Tractors

Tractor major Mahindra & Mahindra (M&M) plans to launch new tractor models that could go up to 120 hp on the higher end in the next 2 to 3 years. The company is also contemplating entering the lower end of the market, though officials did not divulge what the lowest power tractor the company was looking at.

The Indian tractor market, during

the first half of the current financial year, had witnessed growth in excess of 45% and is expected to close the year with growth of about 28-30%, according to M&M executives.

The company's executive director and president of its farm equipment sector, K. J. Davasia, said that the total tractor market in India is expected to

return to its 2001 volumes of 250,000 units per annum in the next two years. The current financial year is expected to close with overall industry sales of 230,000 units. The company's market share for the current financial year so far is 26.5%. M&M officials said that its 7-year-old U.S. operations sold 10,000 units last year, valued at \$100 million. *AIW*

2004 Report: More U.S. Farmers Choosing Conservation Tillage

The 2004 National Crop Residue Management Survey released in November confirms that 41% (113 million acres) of all cropland is now under a conservation tillage system, meaning that farmers leave the stubble or residue from the previous crop to cover at least one-third of the soil's surface after planting.

No-till, the most environmentally friendly production system, is used to the greatest extent, covering 62.4 million acres in 2004. By reducing or eliminating tillage trips, farmers protect the soil from water and wind erosion, conserve moisture, reduce runoff, improve wildlife habitat, and limit output of labor, fuel and machinery. With no-till management, most of the soil is undisturbed, and seeds are placed into the soil with minimal soil

and residue disturbance.

No-till acres increased 7.1 million acres to 62.4 million, up from 55.3 million acres in 2002, according to the survey. That means that no-till is used on almost 23% of all cropland in the country, up from 20% in 2002 and 17.5% in 2000. *AIW*

NUMBER OF NO-TILL ACRES (IN MILLIONS) BY CROP

No-till soybeans.....	29.3
No-till corn	15.8
No-till winter wheat	6.7
No-till spring small grains	4.4
No-till cotton.....	2.4
No-till sorghum	1.7

TOP NO-TILL STATES

According to the 2004 National Crop Residue Management Survey, coordinated by the Conservation Technology Information Center, the top 10 no-till states (in millions of acres) for 2004 are:

1. Illinois	6.7
2. Iowa	5.2
3. South Dakota	5.0
4. Indiana	4.6
5. Ohio	4.4
6. Nebraska	4.3
7. Kansas	4.2
8. North Dakota	3.3
9. Missouri	3.1
10. Montana	2.0

Subscribe Today To *Ag Industry Watch*!

Receive the best news coverage and analysis of the agricultural equipment industry each month.

Fill out and mail or fax your subscription today to 262/782-1252

☐ Please start a 1-year print subscription for U.S., Canada or Mexico for \$320.

☐ Please start a 1-year E-mail subscription (12 issues) for \$280.

☐ Please enter my 1-year International subscription (12 issues) for \$420.

Name: _____

Address: _____ City: _____

State/Province: _____ Zip/Postal Code: _____ Country: _____

Phone: _____ Fax: _____

E-mail: _____

Enclosed is: ☐ Check for \$ _____

☐ MasterCard ☐ Visa ☐ American Express

Card #: _____ Expires: _____

Name on Card: _____

Signature: _____

MAIL TO:

Ag Industry Watch

P.O. Box 624

Brookfield, WI 53008-0624

FOR FASTER CREDIT CARD SERVICE:

Call: 800/645-8455 (U.S. only)

262/782-4480

Fax: 262/782-1252

E-mail: info@lesspub.com

PRIORITY CODE: AIW124