

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Case IH & Bush Hog?
- Looking Up At AGCO
- Split Views on Crops

Ag Equipment Dealers Scale Back Sales Forecast for '09, But See Few Cancelled Orders

Ag equipment dealers in the U.S. and Canada aren't quite as enthused about their prospects for improving on 2008 sales as they were six months ago. But based on the bank of pre-sales they racked up in the last quarter, the first half of '09 continues to look solid. Concerns that nervous farmers may back away from early orders placed in the final quarter of '08 haven't materialized, according to the results of the most recent survey conducted by *Ag Equipment Intelligence*.

When *AEI* conducted its 2009 *Business Outlook & Trends* survey in late August, North American farm equipment dealers were in the midst of one of the best years for sales of big tractors and combines in recent

memory. The pre-selling season was just revving up and based on the new equipment shortages experienced throughout 2008 that finally enticed farm customers to "order early," most saw big things for 2009. Even a repeat of 2008 would be good enough for most.

That was in late summer, before the full impact of the disintegrating housing and financial markets was felt. As the economic house of cards built on cheap, easy credit crumbled, it took nearly every other market with it. It was inevitable that agriculture, while still demonstrating strong fundamental demand for equipment, would get caught up in the economic quagmire. The only noticeable weak

spot in the strong ag forecast for 2009 was in the sales of compact and utility tractors, which are closely tied to new construction, which continues to deteriorate.

Then vs. Now. When the results of *AEI's* survey was tallied in the last week of August and first week of September, more than 80% of North American farm equipment retailers saw sales revenues for 2009 being as least as good as or better than sales levels reached in 2008.

Of the more than 300 dealers that responded, 17% saw sales of new equipment growing more than 8%, with 37% projecting increases in sales revenues of 2-7%. Nearly 30% were

Continued on page 8

Kuhn, Kverneland Deal Could Re-Shape Hay Tool Market

Kuhn North America's announcement on January 2 that it had acquired the crop packaging division of the Kverneland Group set the stage for a major shake up in the hay tool market on both sides of the Atlantic.

With its acquisition, Kuhn North America, based in Brodhead, Wis., will also take ownership of Kverneland's factory in Geldrop, Netherlands, which specializes in the design and manufacturing of fixed- and variable-chamber round balers, big square balers, bale wrappers, rotary drum mowers, tedder-rake combinations and corn choppers.

Kuhn North America, whose parent company is headquartered in Saverne, France, says the addition of

these product lines, particularly the wide range of balers, bale wrappers and drum mowers, complements the company's current product line.

In addition to the new product lines — particularly the wide range of balers, bale wrappers and drum mowers — ideally complement the company's current product offering. The company also expects to see other benefits from entering these markets with a highly qualified research and development and manufacturing facility in the field of baling. "All of this will help reinforce Kuhn's position in the hay and forage equipment business specifically, and enable the company to continue its advances in the agricultural machinery sector as a

whole," the company said in a press release.

According to *AEI's* European analyst, it was too good an offer for Kverneland to pass up — the opportunity to raise \$152 million in cash during a period of tight credit supply and at the same time consolidate group resources by off-loading overhead at no cost.

A Strange Decision? On the face of it, the decision to sell a facility seems an odd one. Geldrop was operating profitably — with revenues of \$184 million estimated for 2008 and an EBITDA of approximately 14% — and producing a successful product range.

At \$170 million, baler sales alone

Continued on page 2

Continued from page 1

represented 26% of Kverneland's 2007 revenues, more even than from the mowers, rakes and feeders that sell in bigger volumes, but at lower average value per unit.

Kverneland has a negligible presence in the North American baler market and in the global big square baler sector; it's in fifth place, producing 220 units a year, for a 7% market share. The market leader has a 32% market share and produces 1,000 units annually.

In Europe, Kverneland claims the third largest market share for round balers at around 12% with 2,700 units sold in 2007. It was number two in the global bale wrapper market with an 18% share with 1,200 units annually.

The Geldrop Factory. But as a public company with a responsibility to its shareholders, Kverneland Group's senior management had little choice but to consider Kuhn's offer. But it's also hard to imagine how they could have turned down Bucher Industries' unsolicited offer for the Geldrop facility in Holland.

Based in Switzerland, Bucher is the parent of the Kuhn Group. In 2007, Bucher generated \$2.24 bil-

lion in sales with 7,500 employees.

By making the deal, Kverneland hands Kuhn — a key competitor — a very significant product line: the balers and bale wrappers built at the plant are about the only items missing from Kuhn's comprehensive hay tool portfolio. It also appears that the factory's expertise will be used to develop a range of forage wagons.

The transaction is expected to be completed in the first quarter of 2009. But the deal calls for a transition period of up to two years, during which the products produced at Geldrop will be simultaneously sold under the Kuhn brand name and also through the Kverneland network.

This plant, which employs more than 400 people, will continue supplying spare parts to the Kverneland Group for 10 years.

So, Kverneland has two years to prepare for the day it can no longer sell its Taarup and Vicon-branded machines. But the company has several options and a lot of ready cash. Kverneland Group senior managers met the first week of January to start considering their options and how to spend their cash windfall. They will

want to ensure they are well prepared to retain and improve on this performance starting in August 2010. It's worth noting that after the Geldrop sell-off, there will still be plenty of baling and wrapping knowledge and expertise within the group.

Competition will be tough, however, not only from established players such as Claas, Deere, Krone, Lely-Welger and New Holland but now, of course, from Kuhn.

Kuhn's Benefits. For the French company, the new acquisition will fill an important gap in its hay tool portfolio with a proven product range. It has strategic value in retaining dealers and attracting new ones, as well as good revenue-earning potential. Kuhn expects to see **\$8.9 million** in savings through group synergies.

It also expects to do a better job of selling the balers and wrappers in North America through its larger distribution network in the U.S. and Canada.

In other news, Craig Pados, previously general manager of Brillion Iron Works, Brillion, Wis., joined Kuhn North America in December as director of sales. **AEI**

Kuhn Also Acquires French Sprayer Manufacturer

Overshadowed by its acquisition of Kverneland's crop packaging division was Kuhn of France's December purchase of a manufacturer of agricultural and green-space crop sprayers that will bolster its existing products for these sectors in the European market.

The privately owned French firm, Blanchard SAS, has been making crop sprayers since the 1920s. It has 110 employees at its factory in the west of France producing mounted, trailed and self-propelled sprayers.

Apart from gaining products complementary to Kuhn's own sprayer

range, the acquisition will bring a highly qualified research and development center and a production facility, according to Kuhn President & CEO, Michel Siebert.

It will also add \$25 million in annual sales to the \$716 million that Kuhn generated last year, further consolidating the group's position as the world's biggest farm implement manufacturer by sales value.

To cope with growing demand for larger scale implements, Kuhn has also invested in a new manufacturing facility for the biggest versions of its seed drills and cultivators.

The \$34 million facility is located a few miles from the headquarters factory in Saverne in eastern France. It is scheduled to produce 7,000 high-output drills and cultivators in 2010 in anticipation of continued demand.

According to a third-quarter update from its Swiss parent, Bucher Industries, Kuhn sales were up 23.2% to almost \$730 million for the first 9 months of 2008, or 28.6% when adjusted for currency.

Kuhn also recorded a 24.6% (currency-adjusted 30.2%) increase in orders, rising to \$782 million. **AEI**

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Is Case IH Taking a Look at Bush Hog?

For the past year, ag equipment insiders say they've known that Bush Hog has been looking for a buyer for its wide range of shortline products. The company, based in Selma, Ala., manufactures and markets ag-related machinery ranging from loaders and backhoes, rotary cutters and mowers, turf and landscape tools, and utility vehicles. When the company sent workers at its Selma and Telford, Tenn., plants home for a two-week furlough following its holiday shutdown, it stoked more speculation about the company's future. The biggest rumor is that Case IH may be taking a long, hard look at acquiring the company.

A January 9 report in the *Selma Times-Journal* said the company announced that the production shut down was temporary "until the company could adjust inventory with demand."

David Middlebrooks, director of human resources, was quoted in the

report as saying, "Our owners are evaluating all of their options. We are making adjustments in these tough economic times."

Bush Hog is owned by Crown Industries of Chicago.

Why Case IH? The recent speculation that Case IH may be a likely suitor for Bush Hog is being fueled in large part by reports that the second largest worldwide farm equipment maker is getting ready to introduce a line of implements aimed at the hobby farmer and rural lifestyle customer. It would appear that Bush Hog, with its well-established product line, would be an excellent fit for the Racine, Wis.-based manufacturer.

Bush Hog is perhaps the most recognized brand of ag-related shortline equipment. With dealers and end users often using the term "bush hogging" equipment the way many use Xerox as a generic term for photocopying, the line would bring the new Case IH line instant identity.

As one industry observer told *AEI*, "When your equipment brand name becomes a verb, you know you've got a high level of industry recognition."

Another industry source contacted by *AEI* sees the advantages that a Bush Hog acquisition could give Case IH, but at the same time questions the timing of the purchase.

He says the obvious advantage is that it would provide a source of implements and attachments to take cost out of these products, most of which are bought from someone else now.

"CNH [parent company of Case IH and New Holland] has not made an acquisition in some time. But it's not a good time to invest in the consumer-related segment of the industry, given the strong drop in compact tractor sales," he says. "This segment is lead by the New Holland brand and all of the management there is new, so I'd be skeptical of the rumor unless the acquisition price is very low." **AEI**

Iowa Farmland Values Continue to Rise

The average value of an acre of farmland in Iowa reached \$4,468 in 2008, continuing to increase for the ninth year in a row, according to an annual survey conducted by Iowa State Univ. Extension. Mike Duffy, ISU Extension farm economist who conducts the survey, said the indicators toward the

end of the year imply the upward trend may be slowing as the economy battles recessionary pressures.

The 2008 average was an increase of \$560 (+14%) over last year, the second-highest dollar increase recorded in the 67 years that ISU has conducted the survey. The 2007 survey report-

ed a \$704 increase (+22%) over the previous year. Over the past 40 years, the survey has found annual changes ranging from an increase in value of 31.9% in '73 to a loss of 30.2% in '85.

Source: *Iowa State Univ., reported by Agri-Marketing Weekly, December 29, 2008* **AEI**

FARM MACHINERY TICKER (AS OF 1/12/2009)								
Mfr.	Symbol	1/12/09 Price	12/15/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$22.43	\$21.47	\$71.19	\$17.74	5.86	2.54 M	2.06 B
Alamo	ALG	\$15.15	\$12.27	\$26.46	\$10.63	9.34	73,173	150.30 M
Art's Way	ARTW	\$3.45	\$3.94	\$19.52	\$2.92	6.06	12,348	13.71 M
Caterpillar	CAT	\$41.19	\$42.21	\$85.96	\$31.95	6.78	11.9 M	24.85 B
CNH	CNH	\$16.25	\$15.72	\$65.11	\$11.00	4.67	481,822 M	3.86 B
Deere	DE	\$41.56	\$36.36	\$94.89	\$28.50	8.83	6.6M	17.55 B
Kubota	KUB	\$31.58	\$31.41	\$43.41	\$17.72	12.05	63,545	8.07 B
Titan Machinery	TITN	\$12.75	\$14.10	\$34.49	\$7.75	12.65	297,402	224.99 M

MOST MAJOR FARM COMMODITIES TO SEE STEADY GROWTH 2009-11

North American Commodity Production – 2006 - 2011 Thousands of Metric Tons

	2006	2007	2008	2009	2010	2011
Corn Production	298,938	366,392	339,309	367,884	379,640	389,198
Wheat Production	77,821	79,897	98,369	90,853	92,225	92,581
Soybean Production	90,310	75,600	83,289	87,062	90,586	93,595
Cotton Production	4,700	4,182	2,985	2,765	3,347	3,211
Livestock Production	47,604	48,483	49,900	50,287	50,703	51,026
U.S. Ethanol Capacity						
Growth (millions gallons)	4,336	5,493	7,750	11,109	13,201	14,129
U.S. Ethanol Price (\$/gallon)	2.58	2.24	2.29	2.06	2.07	2.23
U.S. Biofuels Price (\$/gallon)	3.30	3.39	4.64	4.27	4.19	4.18

Percent Change Year-Over-Year

CAGR

	2006	2007	2008	2009	2010	2011	2009-11
Corn Production	-3.9%	22.6%	-7.4%	8.4%	3.2%	2.5%	4.7%
Wheat Production	-9.6%	2.7%	23.1%	-7.6%	1.5%	0.4%	-2.0%
Soybean Production	-4.1%	-16.3%	10.2%	4.5%	4.0%	3.3%	4.0%
Cotton Production	-9.6%	-11.0%	-28.6%	-7.4%	21.1%	-4.1%	2.5%
Livestock Production	1.7%	1.8%	2.9%	0.8%	0.8%	0.6%	0.7%
U.S. Ethanol Capacity							
Growth (millions gallons)	19.0%	26.7%	41.1%	43.3%	18.8%	7.0%	22.2%
U.S. Ethanol Price (\$/gallon)	43.3%	-13.2%	2.4%	-10.2%	0.8%	7.4%	-1.0%
U.S. Biofuels Price (\$/gallon)	7.8%	3.0%	36.6%	-7.9%	-1.8%	-0.2%	-3.4%

Source: IHS Global Insight

Of the major farm commodities, only wheat is expected to see a drop off in production from 2009-11, according to a report by IHS Global Insight for the Assn. of Equipment Manufacturers. During the period, the compound annual growth rate (CAGR) of wheat production is forecast to drop 2%, while corn (4.7%), soybeans (4%), cotton (2.5%) and livestock production (0.7%) are forecast to rise throughout 2011. According to the forecasting firm, the biggest challenge for wheat will be a battle for acreage from corn and soybeans. The same holds true for cotton, but production is expected to see a healthy uptick in 2010. While ethanol production will see significant increases in 2010 and 2011, growth will slow in 2011, as lower fuel prices — both gasoline and diesel — continue to keep pressure on.

Machinery Manufacturers Benefiting from Drop in Steel Prices

Spurred by unprecedented demand for the first three quarters of last year, many suppliers of steel to the ag equipment industry enjoyed record years in 2008.

However, in the final month of the year, steel distributors saw a sharp decline in pricing, and some competitors began releasing shipments at a loss, causing others to follow.

Suppliers told AEI that steel pricing fell 20% over the last quarter of the year. Lead times are reportedly down by two-thirds as well, due to the reduced demand caused by the general economic woes. **AEI**

The 'Real' Challenge for Agribusiness Credit

If there's any sector of the American economy that isn't struggling with credit availability, it's agriculture, according to a recent article in the Northern Colorado Business Report. On the other hand, the real challenge for Farm Credit Services is finding investors willing to get in for the long term.

According to Mike Flesher, Mountain Plains Farm Credit Services vice president, the federally chartered FCS has not been hit by the Wall Street uproar and should remain relatively insulated from its repercussions. "Looking at the foreseeable future, we don't see anything to prevent us from making loans," he says.

Flesher said the only real challenge facing Mountain Plains is finding investors willing to buy long-term FCS bonds. "The funding side of it is our challenge," he says. "Investors are so spooked in the market there's no one interested in a 20-year bond. Everyone's just thinking short-term."

Those 20-year-and-longer loans may still be available but borrowers will have to pay more. "There's going to be more of a premium on longer-term loans," he says. "It's not more difficult, but it's more expensive with regard to longer-term securities."

Source: Northern Colorado Business Report, Steve Porter, January 5, 2009 **AEI**

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With Added Capacity, Ag Tire Suppliers Say They'll Meet Demand

It wasn't too long ago that ag equipment makers were blaming the unavailability of tires as the reason for slow deliveries. But coming into 2009, the tire makers say that added capacity will resolve the issue.

"The demand for large farm tires has been very robust and that's going to continue," says Titan Chairman and CEO Morry Taylor, in a recent issue of Tire Review Online. "Titan has made increases in curing capacity for large radial tires, since the market has been moving toward tractors with larger tire sizes. We added 10 new 130-inch curing presses in our facilities."

Titan has said the presses will be installed by the first quarter of 2009, with the ability to install an additional 10 presses in the second quarter if demand warrants.

"I don't expect there to be any

shortages in large tires due to that added capacity," Taylor adds. "Also, with raw material prices dropping as they currently are, I don't see any price increases in the near future."

According to Jeff Jankowski, director of sales of agriculture and forestry tires for Trelleborg Wheel Systems Americas, orders for radial tires for the spring planting season are very strong.

Jankowski says OEM's order books for new equipment are full, and as a global supplier to ag equipment OEMs, Trelleborg is also investing in increased capacity for extra large radial tires (38-, 42- and 46-inch sizes), which are produced in the company's Tivoli, Italy plant.

Manny Cicero, president of Alliance Tire USA, says that feedback from OEMs indicates "a continuation of strength into at least 2010. "We're

preparing for a more volatile year in 2009, but still one we believe will be a strong year for farm products."

With the company's change of ownership in 2007, Alliance also changed its operating strategy in North America and its production capacity worldwide. The tire maker invested \$35 million for increased production at its plant in Israel, and \$100 million for a new plant in India, which has already broken ground and will start production in the second quarter of 2009, Cicero says.

"By the end of 2009, our capacity will be close to double what it is today," he says. "We think there will be a demand strong enough to support that. Not only is the North American market strong, so are the Latin American and European markets. Globally, demand has outstripped supply."

AEI

Analyst Likes What He Sees Ahead for AGCO

On February 3, AGCO will preview for its dealers and the media its new e3 diesel engine emissions technology that it says will not only meet or exceed Tier IV standards but will be far more fuel efficient and powerful than any of its previous powertrains. But at least one analyst says he sees much more to be excited about than just AGCO's new tractors.

Calling it "a company improved," Charlie Rentschler, analyst for Wall Street Access, describes Duluth, Ga.-based company's evolution as transitioning "from a rough-looking 'roll-up' to a well-run manufacturing company which has doubled its earnings power from \$1.30 per share 4-5 years ago to the neighborhood of \$3.50 this year and next, and has set a goal of making \$5.50-\$6.00 in 4-5 years."

What's to Like? Rentschler says the metric he looks at first in measuring a company's overall performance — especially in uncertain economic times like these — is its balance sheet, something AGCO has worked very hard to improve.

"It has paid down the nearly \$1.2 billion it borrowed in 2004 to buy

Valtra — its most successful acquisition — and expects to end 2008 with *no net debt*," says Rentschler. (*For a review of Valtra's progress, see page 6 in this issue of AEI.*)

"Recognizing that its industry is essentially 'rolled up,' with only a handful of meaningfully sized companies still independent, AGCO has put tremendous emphasis on organic growth. While paying off its debt, it has authored a vigorous stream of *new products*, including powerful large wheel-type and track-type tractors and combines.

"Come 2010, it will debut its first sugar-cane harvester for Brazil, which is proceeding to outlaw cutting the crop by hand," Rentschler reports.

The analyst also likes what AGCO has done by overhauling the management of its parts business, which accounts for 13-14% of sales. Rentschler estimates that its parts business accounts for 35-40% of the company's profits.

Technology to Compete. The farm equipment maker is also leveraging its in-house expertise to develop new products with cutting-edge

technology as well as developing partnerships when it makes sense to compete with its bigger competitors and grow profits.

Rentschler points out that "The company has pursued a strategy of *vertical integration* in transmissions and engines mainly, to help differentiate its products and keep more money in its pockets.

"Also, it's developing *new technology*. Its Fendt division produces perhaps the finest tractor transmission in the world. Its Sisu division plans to introduce a unique (for mobile equipment) 7-cylinder diesel engine. And it is working with Japan's Topcon on a differentiated automatic-steering system."

Because such a large portion of its revenues result from overseas sales, foreign-currency fluctuations will continue to batter AGCO, according to the Wall Street Access Analyst — management reports FX hurt its 2008 sales by \$800-900 million.

"Overall, though," says Rentschler, "we are impressed with the condition of this company which turns 18 this spring."

AEI

Valtra Ready to Fill in Product Gaps

AGCO Corp's Valtra operation in Finland is set to get a shot in arm with the launch of new models that fill significant gaps in the company's product line. They include a high-horsepower row-crop tractor range developed in conjunction with AGCO's Massey Ferguson unit in France and new versions of the current 'N' and 'T' series mid-range tractors featuring stepless drive for the first time.

Last year, Valtra's Finnish and Brazilian operations contributed the equivalent of \$1.17 billion to AGCO's revenues. Managers expect the revamped European range to make a bigger contribution over the next few years.

"Our best-ever tractor range will help us achieve our goal, which is to increase annual production at the Suolahti factory to 15,000 units within the next 5 years," says Jari

Rautjarvi, Valtra vice-president and managing director.

With production set to hit a record 11,000 units this year and possibly overtake Valtra's Brazilian plant for the first time, that target suggests an ambitious sales and dealer recruitment campaign is being prepared.

The new models will certainly help: Valtra's previous high-horsepower tractor range was not well received and eventually was confined to a single 280-horsepower model with an out-classed semi-powershift transmission.

The new 'S' series includes 5 models with peak engine outputs from 270-370 horsepower and all have AGCO's Fendt Vario stepless drive. Mechanically, it is identical to the Massey Ferguson 8600 range currently being launched in Europe and it will be built on the same assembly line at AGCO's Beauvais plant in France.

Production of the new 'Versu' powershift and Direct CVT versions of the four- and six-cylinder mid-range tractors will remain at Suolahti, where extra capacity is being released by shifting assembly of Valtra 'A' series utility tractors to a contract operation in Turkey.

Valtra has come late to the CVT party but with good reason — cold climate trials showed proprietary systems from ZF and Fendt were intolerant of the extreme cold experienced in northern Scandinavia.

Valtra engineers developed a transmission that is disengaged from the engine to minimize drag at start-up and uses additives keep the oil viscous at very low temperatures.

To keep costs in check, the design team managed to produce a new semi-powershift transmission at the same time that uses much the same hardware as the CVT. **AEI**

Analysts Split on What Bearish USDA Crop Report Means to Equipment Sales

Not only did the USDA release its January 2009 World Agricultural Supply and Demand Report on January 12, but the Assn. of Equipment Manufacturers also reported its December sales figures for ag equipment. One machinery analyst viewed both as "bearish" for farm machinery, while another still sees strong positives for another solid year for machinery sales.

Ending Stocks Up. USDA raised its forecast of 2008-09 ending corn stocks to 1.79 billion bushels, from 1.474 billion bushels. USDA cited both higher yield and acreage in its projection of a 1% increase in corn production to 12.1 billion bushels. Total corn use was lowered by 2% to 11.95 billion bushels, largely driven by lower forecasts for ethanol, feed, residual uses and exports. The ag agency also raised its wheat ending stocks forecast to 655 million from 623 million and soybeans ending stocks to 225 million from 205 million bushels.

The agency also lowered its price

outlook for corn to \$3.90 a bushel from \$4. The midpoint of the agency's forecast for beans remain unchanged at \$9 a bushel. Wheat also remained the same from the agency's earlier forecast at \$6.70 a bushel.

December Sales. Industry equipment sales for December 2008 brought the year to close on a weaker note, as well. According to the AEM unit sales data, total U.S. 2WD tractor sales were down 20.7% compared to December '07.

Even the sales of 2WD row-crop units (>100 HP), which had shown strong growth throughout the year, slipped 0.5% in December. Sales of 4WD tractors during the month rose by 5.8% as did combine sales, which were up 3.5%.

Differing Views. "We had expected December sales to be strong on the back of the Economic Stimulus Act; however, >40-HP tractor unit sales were down 14% year-over-year in December and down 1% for full year 2008," Ann

Duignan, machinery analyst for JP Morgan, said in a note to investors. She also noted that tax incentives expired at year end.

While the analyst sees the backlog of equipment sales carrying through the first half of '09, "the back half of 2009 has much more uncertainty."

At the same time, Henry Kirn, machinery analyst for UBS Investment Research, remains unchanged in his view that the upside continues to outweigh the downside for ag equipment sales in 2009.

"We continue to expect U.S. farm machinery sales to remain solid, driven by still healthy farm commodity prices, solid farmer balance sheets and expected solid levels of farm income," Kirn says in a note.

The major risks he sees include OEM production constraints, challenging comparisons and an increasingly difficult macroeconomic environment. **AEI**

Farm Equipment Sales Continue Slow Down in December

Despite a boost from tax incentives, retail sales of ag equipment continued to moderate, according to the latest figures released from the Assn. of Equipment Manufacturers.

"After two years of robust growth, North American farm equipment volume growth is flattening out," says Robert McCarthy, analyst of Robert W. Baird & Co. "December is a relatively important month seasonally for retail sales of agricultural equipment, typically contributing roughly 10% of annual row-crop and 4WD tractor sales and 11% of combine sales," he says.

- Row-crop tractor sales declined for the first time in nearly 2 years, albeit by just 2%, while combine sales (+2%) were also roughly flat year-over-year. The 4WD tractor comparison remained robust (+23%), but still moderated from November, says McCarthy in his analysis.

- North American retail sales of row-crop tractors declined 2% year-over-year in December, following a 2% increase in November, which was understated due to two fewer days, and the first negative comparison since January 2007. Sales increased 8% in the fourth quarter of '08 compared with the same period in 2007.

- Mid-range (40-100 HP) tractor sales plunged 21% in December and 14% in the fourth quarter.

- Combine retail sales increased 2% year-over-year in December. Sales during the fourth quarter were up 14% year-over-year.

- Retail sales of 4WD tractors increased 23% in December, also moderating from November (+26%). 4WD tractor sales were up 7% in the fourth quarter compared to the same period last year.

- Dealer inventories of large tractors and combines, measured on a "days-sales" basis, continued to decline year-over-year in November. Row-crop tractor inventories increased 3% year-over-year on an absolute basis, but fell 26 days to 90 days-sales.

AEI

DECEMBER U.S. UNIT RETAIL SALES



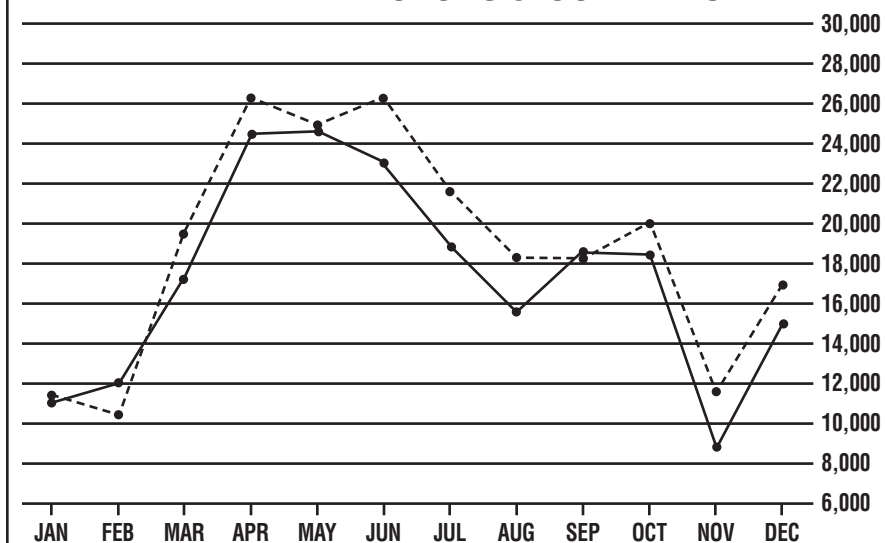
Equipment	December 2008	December 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Dec. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	5,103	6,926	-26.3	98,976	115,935	-14.6	56,853
40-100 HP	4,978	6,459	-22.9	67,885	78,137	-13.1	33,177
100 HP Plus	2,650	2,663	-0.5	26,291	20,875	25.9	6,507
Total-2WD	12,731	16,048	-20.7	193,152	214,947	-10.1	96,537
Total-4WD	386	365	5.8	4,431	3,657	21.2	693
Total Tractors	13,117	16,413	-20.1	197,583	218,604	-9.6	97,230
SP Combines	942	910	3.5	8,460	7,104	19.1	729

DECEMBER CANADIAN UNIT RETAIL SALES



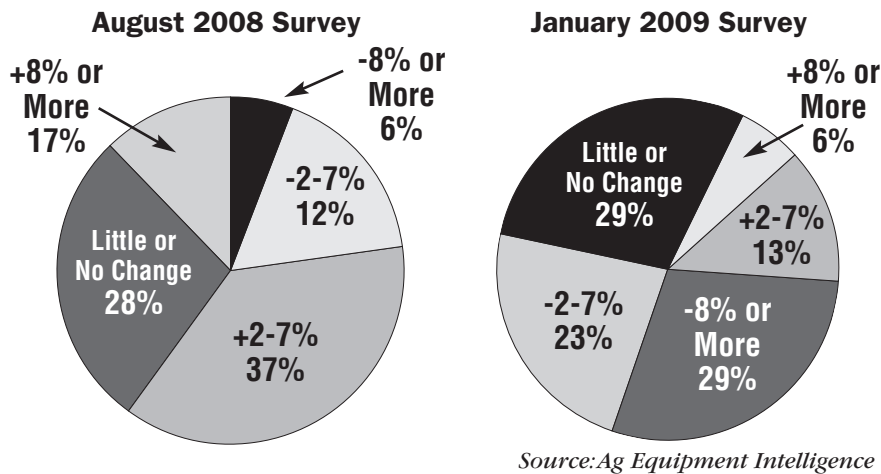
Equipment	December 2008	December 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Dec. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	850	894	-4.9	14,146	11,693	21.0	6,617
40-100 HP	647	693	-6.6	8,772	7,387	18.7	3,289
100 HP Plus	294	326	-9.8	4,593	3,989	15.1	1,179
Total-2WD	1,791	1,913	-6.4	27,511	23,069	19.3	11,085
Total-4WD	174	91	91.2	1,211	786	54.1	209
Total Tractors	1,965	2,004	-1.9	28,722	23,855	20.4	11,294
SP Combines	142	155	-8.4	2,206	1,661	32.8	143

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



—Assn. of Equipment Manufacturers

North American Ag Equipment Dealers' Projections for Sales Revenue — 2009 vs. 2008



As macroeconomic conditions deteriorated in the last quarter of 2008, North American farm equipment dealers have begun to scale back their outlook for improving sales revenues for 2009. When AEI conducted its first survey last August, more than 80% of dealers expected sales '09 revenues to be as good as or better than in the previous year. The results of the January survey indicate that 48% are projecting revenues to equal or surpass levels achieved last year.

expecting little or no change from revenues experienced in 2008. Of the remaining 18% that forecast declining sales, only 6% expected revenues to exceed 8%.

The results of an e-mail survey conducted by AEI January 7-9 indicate that the exuberance dealers were feeling back in the late summer and early fall '08 has faded significantly. More than 140 dealers responded to the survey.

This time around, less than half, or 47.4%, of the dealers surveyed see sales revenues being as good or better in 2009 than what they experienced the previous year. Of those, less than 6% are projecting revenues to rise 8% or more and 13% expect sales to improve in the 2-7% range.

At the same time, nearly 30% say they expect little or no change to revenue levels they saw last year. Just about that same number, 29.2%, are projecting sales to fall by 8% or more, while 23.4% are forecasting revenues to decline between 2-7%.

Overall, dealers are forecasting a drop off of 2.3% for total sales revenue for 2009 compared with a 1.9% increase in August 2008.

A Difficult Comparison. Several dealers offered commentary to their revised outlook for the coming year pointing out that comparing sales levels to 2008 could make almost any other year look bad. One executive of a large, multi-store dealership headquartered in Indiana, said, "We are budgeting '09 at '07 sales levels, which is down from 2008 — which was an excellent year."

An Oregon dealer also pointed out that '08 would have been even better had he been able to get all the equipment he could have sold. "Even though the economic environment

isn't as strong as it was, I think the increase in the availability of new equipment may help even out our sales goals for 2009."

A dealer in Western Canada believes that farmers are pulling in their horns and holding back on purchases based on the news they're hearing and not the realities of the ag market. "If our producers would turn off their TV's, they wouldn't know there was even talk of a recession. Commodity prices are decent, inputs are down big time and growing crops are looking good. Business should be good in '09. The true test will come in 2010," he says.

Strong Presales. The shortage of new equipment over the past 18 months has resulted in many equipment retailers having the best pre-selling season of their careers. This together with extremely low inventories of good, used equipment is leading some to believe that sales revenues during the year ahead will be decent, despite a poor macroeconomic environment.

The president of a Pennsylvania dealership said, "At this point, our pre-sales for 2009 are the strongest we've ever seen. They will offset any decreases that I anticipate for the rest of the year."

Few Cancellations. The most recent worry expressed by some industry observers is, despite the strong presales of equipment going into 2009, order cancellations could blunt the effect of what is expected to be a solid first half of the year.

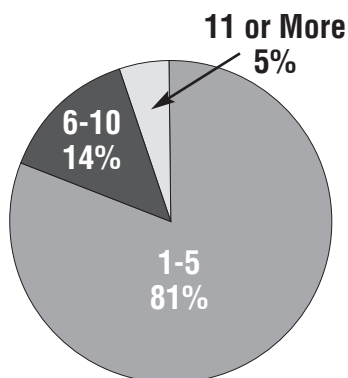
But dealers say they have not seen a significant level of cancellations as they moved into January.

In AEI's January survey, dealers were asked if they had experienced "significant" order cancellations in the past three months. "Significant" was defined as 5% or more of orders booked. More than 86% of the dealers polled said they had not seen a sizeable number of order cancellations.

Of the less than 14% of dealers that noted a "significant" number of cancelled orders, nearly 81% said that on average 1-5 unit orders had been withdrawn. Slightly more than 14% reported between 6-10 unit orders were rescinded.

AEI

Average Ag Equipment Unit Orders Cancelled



Of the farm equipment dealers surveyed in January, 86% say they did not experience significant order cancellations during the fourth quarter of 2008. On average, dealers that have seen farmers cancel their orders, 81% say lost unit sales ranged between 1-5 orders and 14% had between 6-10 orders cancelled.