From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

March 15, 2007
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- CNH to Spin Off Autos?
- Claas Exec Departing
- M&M Keeps Pushing

Late '07, Early '08 Equipment Sales Pickup Seen as Pricing, Increased Corn Acreage Gains Momentum

On March 6, 3 days ahead of the USDA's crop report, Bank of America (BofA) raised its outlook for corn pricing by $0.10 a bushel to $3.40 for 2006-07 and $0.30 to $3.60 for 2007-08. This, according to BofA analyst Eric Brown, holds "positive implications" for increasing ag equipment sales in late 2007 or early 2008.

"We have become incrementally more positive on the ag machinery opportunity recently, given resilient corn prices, the prospect of sustained low crop inventories, and improvements in Brazil. For now, our positive longer-term view of the global ag cycle is tempered by valuation, as high crop prices are not expected to translate to a significant rise in machinery sales over the intermediate term."

In their March 6 "Corn Report," BofA indicated that it was revising its projections for corn pricing and acreage based on the increasing demand, especially for ethanol.

"As the result of strong corn pricing, we have also increased our corn acreage outlook for 2007-08 by 1.5 million acres to 87.5 million acres and for 2008-09 by 1 million acres to 90 million acres," says the BofA analyst.

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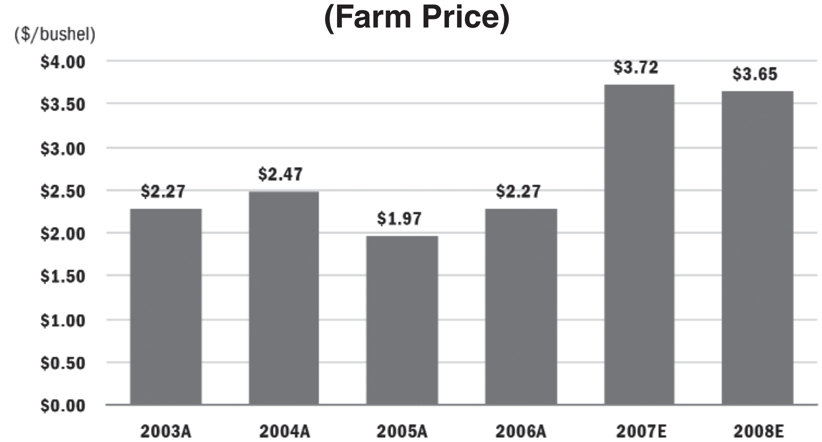
BANK OF AMERICA CORN FORECAST (Farm Price)



Source: USDA, Bank of America Securities estimates

Dealers Say Prices are Rising for New and Used Equipment

Dealers report new and used farm equipment prices are now rising, according to the results of the UBS 21st Semi Annual Agricultural Equipment Dealer Survey. Part 2 of the survey, released on February 20, indicates that new equipment prices continue to firm. Dealers also indicated that used equipment prices are now slightly stronger.

"The stronger pricing environment increases our confidence in higher farm equipment manufacturer earnings in 2007," says UBS analyst David Bleustein.

Dealers responding to the survey also noted that new equipment inventories remain at normal levels and used equipment inventories have now loosened slightly to normal levels. Equipment delivery lead times are still becoming longer, which we believe is another factor that will keep farm equipment prices firm, according to Bleustein.

"Although we expect farm machinery sales to remain soft in the first few months of 2007, we expect a recovery to begin around the time of corn/soybean plantings (April/May). Our optimism is supported by the sharper than expected rise in farm commodity prices and the optimistic results from our current dealer survey," says the UBS analyst.

Prices are Rising. Given a choice of ""weakening," "stable" or "firming," when it comes to current pricing trends, 30% of the 500+ dealers participating in the survey, say machinery prices are "firming," while 11% responded that prices were "weakening," which indicates that dealers believe new equipment pricing continues to firm. The remaining 59% of the respondents indicated that prices were "stable."

The dealers also indicate that used equipment pricing has improved since the last UBS survey and now consider prices to be "firming." Roughly 23% of the dealers say that

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Strong Ag Fundamentals. In its report, BofA indicates that the fundamentals are in place for a sustained global agricultural cycle that will drive the sales of tractors, combines and other farm machinery as higher corn prices should "eventually" translate to higher farm cash receipts.

"Machinery demand typically reacts to cash receipts and farm income, which reflect commodity prices, acreage planted, crop yields and government payments," says BofA. "Further, high corn prices are likely to stimulate more corn planting." The report also notes that corn requires more intensive/advanced machinery for harvest vs. other crops.

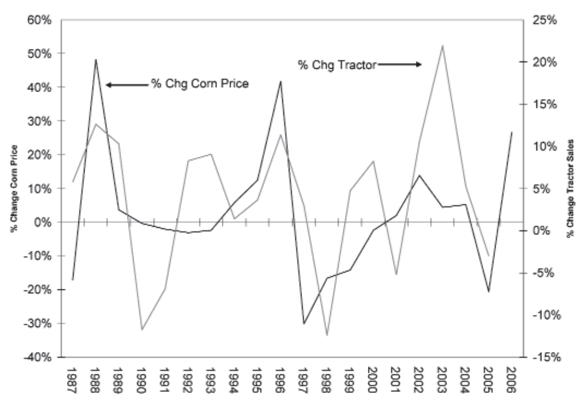
In projecting a late-year pickup in sales, the BofA report cites the typical lag in machinery purchases vs. crop prices, resilient farmer operating costs and uncertain government subsidies. "Although the market appears to be discounting a significant ag machinery recovery, we believe it could be late 2007 or into 2008 before a snap-back in demand consistent with previous cycles takes place," it says. AEI

U.S. FARM CASH RECEIPTS
(in billions of $)

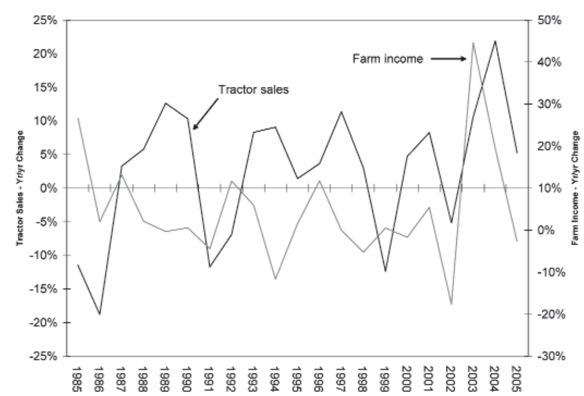
Year	2005	2006	2007F
Crops	114	122	134
Livestock	125	121	125
Gov't Subsidies	24	16	12
Total	**263**	**259**	**271**

Source: USDA

% CHANGE IN CORN PRICE VS.
% CHANGE IN TRACTOR SALES (1-Year Lag)



TRACTOR SALES (> 40HP) VS.
FARM CASH INCOME



Source: USDA, AEM, Bank of America Securities LLC estimates, Haver, Wall Street Journal

Will CNH Parent Spin Off Autos?

As early as last year, speculation about Fiat, the Italian parent company of Case IH and New Holland, had the firm divesting itself of its farm and construction equipment operations in order to focus on rebuilding its long-suffering automobile division. The word now is that the company may be ready to shed its auto unit instead.

According to a report in the February 26 *Wall Street Journal*, Fiat is cleaning up the balance sheet of the holding company that controls the auto division with an injection of $8 billion. According to industry observers, this may be a signal that Fiat is setting the stage to spin off it sautomotive operations.

Under CEO Sergio Marchionne, Fiat has come out of bankruptcy and is now showing healthy profits.

Fiat is Italy's biggest manufacturing company by revenue with a wide variety of brands like Ferrari, Case IH and New Holland — all of which have much higher trading profit margins than Fiat's mass-market auto operations.

According to the *WSJ* article, "Marchionne has said several times during presentations for 2006 earnings last month, that one of Fiat's goals is to restore the finances of the auto business to the point where they would match those of a stand-alone company, stopping short of ruling out a spin off."

In light of Fiat's net debt of $2.32 billion, analysts say a recapitalization of the auto business would probably be a condition for any spin off. Marchionne, though, told analysts earlier that there is no commitment to embark on a spinoff.

AEI reported in its November 2006 issue that Marchionne told analysts on November 9 that he plans to step down as CEO of Fiat Auto sometime in 2007. AEI

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TABLE 1: DEALERS' VIEWS ON CURRENT EQUIPMENT PRICING TRENDS

	New Equipment			Used Equipment		
Company	Weakening	Stable	Firming	Weakening	Stable	Firming
AGCO Corp.	13%	53%	34%	23%	59%	18%
Case IH Corp.	8%	62%	30%	12%	58%	31%
Deere & Co.	10%	68%	22%	15%	57%	28%
New Holland	12%	55%	33%	25%	60%	15%
Total	**11%**	**59%**	**30%**	**19%**	**59%**	**23%**

Source: UBS Agricultural Dealer Survey #21

Figures may not equal 100% due to rounding.

TABLE 2: DEALERS' VIEWS ON EQUIPMENT PRICE INCREASES IN 2007

	1%-2% Decrease	No Change	1%-2% Increase	2%-3% Increase	3%+ Increase
AGCO Corp.	0%	5%	32%	47%	17%
Case IH Corp.	0%	2%	22%	53%	22%
Deere & Co.	0%	1%	31%	56%	12%
New Holland	1%	2%	19%	52%	26%
Total	**0%**	**2%**	**25%**	**52%**	**20%**

Source: UBS Agricultural Dealer Survey #21

Figures may not equal 100% due to rounding.

prices are "firming," while 19% responded that used machinery prices were "weakening." The remaining 59% reported that pricing for used equipment was "stable."

Prices Increasing 2% or More. Equipment manufacturers are implementing price increases of 2% or more, according to 73% of the dealers in the survey. Increases of 1-2% are expected by 25% of the machinery retailers, while only 2% say they expect "no change" in the prices of new ag equipment.

Inventories Remain "Normal." Nearly one-third (30%) of the dealers surveyed say that new equipment inventories are either "much lower than normal" or "lower than normal," while 30% say inventories are either "much higher than normal" or "higher than normal." The remaining 40% rated current inventories of new machinery to be "normal." The aggregate results indicate that new equipment inventories remain at normal levels, which is roughly consistent with the results from the prior survey.

The level of used equipment on dealers' lots is returning to "normal" after a period of below normal conditions, according to the survey participants. Some 32% say used machinery inventories are either "much lower than normal" or "lower than normal" and 32% responded either "higher than normal" or "much higher than normal." The remaining 36% responded "normal." Overall, the results indicate that dealers believe used equipment inventories are now at normal levels, following indications that inventories were at below-normal levels in the prior survey.

Delivery Times are Increasing. In addition to equipment pricing and inventories, the survey also explores delivery times, which dealers indicate have become longer.

Of those retailers participating, 29% reported that delivery lead times had "become longer" vs. 19% who reported "become shorter." The remaining 51% reported that lead times "remained the same."

In total, the results indicate that delivery lead times were still becoming longer, but marked a slight improvement from the prior survey in which 34% of dealers indicated that lead times were becoming longer and 18% indicated that lead times were becoming shorter. **AEI**

TABLE 3: DEALERS' VIEWS ON EQUIPMENT INVENTORIES

	New Equipment					Used Equipment				
	Much Lower Than Normal	Much Lower Than Normal	Higher Than Normal	Higher Than Normal	Normal	Much Lower Than Normal	Much Lower Than Normal	Higher Than Normal	Higher Than Normal	Normal
AGCO Corp.	3%	24%	40%	28%	4%	5%	37%	34%	24%	0%
Case IH Corp,	3%	24%	42%	27%	3%	1%	29%	41%	27%	2%
Deere & Co.	7%	42%	35%	15%	%	3%	21%	27%	45%	5%
New Holland	2%	19%	42%	31%	6%	3%	30%	39%	25%	3%
Total	**4%**	**26%**	**40%**	**26%**	**4%**	**2%**	**29%**	**36%**	**30%**	**2%**

Source: UBS Agricultural Dealer Survey #21

Figures may not equal 100% due to rounding.

FARM MACHINERY TICKER (AS OF 3/12/2007)

Mfr.	Symbol	3/12/07 Price	2/12/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$37.28	$35.16	$39.50	$18.32	NA	1.87M	3.40 B
Alamo	ALG	$23.87	$23.54	$26.00	$19.25	20.63	5,926	233.00 M
Art's Way	ARTW	$8.10	$7.14	$9.19	$4.87	17.16	5,940	16.02 M
Caterpillar	CAT	$64.57	$64.75	$82.03	$57.98	12.48	6.08 M	41.70 B
CNH	CNH	$39.48	$34.03	$41.09	$18.76	32.02	343,648	9.33 B
Deere	DE	$113.01	$102.91	$116.50	$66.90	15.56	2.26 M	25.64 B
Kubota	KUB	$49.89	$48.09	$60.60	$38.51	19.26	25,558	12.92 B

World Ag News

2007 U.S. Farm Income Expected to Rise 10%. The USDA is forecasting farm income will increase 10% in 2007. The agency released its initial projections for the year in mid-February and expects total net farm income to reach $66.6 billion, up 10% from its revised 2006 forecast of $60.6 billion — which was originally $58.9 billion.

The USDA forecast a 7% increase in cash receipts in 2007, from revised 2006 levels, driven by a 10% increase in crop receipts and a 3% increase in livestock receipts. At the same time, USDA is projecting a 24% decline in direct government payments in '07, driven by lower countercyclical payments and loan deficiency payments, partially offset by higher ad hoc and emergency payments.

2005-06 Equipment Sales Slip in Australia. According to the Tractor and Machinery Assn. of Australia, despite relatively strong livestock prices, overall investment in new machinery slumped by 9% to $1.63 billion compared with $1.81 billion in 2004-05. Much of the fall off in sales was attributed to a slowdown in sales of row-crop type machinery.

Sale of hay tools, on the other hand, rose by 8% and compact tractors (under 41 hp) turnover also grew by 10%. Mower and ATV sales both increased during the past year, by 5% and 16%, respectively. Total tractor sales for 2005-06 of 12,508 surpassed unit sales during the previous year, which came in at 12, 472 units.

German Tractor Sales Climb by 15.8%. Tractor sales in Germany rose by 15.8% through the first 10 months of 2006 compared with the same period in '05. The breakdown by brand was:

- John Deere..............21.5%
- Fendt 16.9%
- Deutz 10.8%
- Case IH 9.2%
- New Holland 6.0%
- Claas 5.7%
- Others 29.9%

Sales of self-propelled forages were also up by nearly 5%, to 504 units.

Tractor Sales in U.K. Surge in Last Quarter of '06. A late surge in the sale of tractors (>40 hp) in 2006 unexpectedly pushed total unit turnover past that of the previous year. As reported in *Profi*, a total of 746 tractors of 40 hp and larger were registered in December alone, which took the total for the year to 13,874 units, up 4.3% over the 13,301 tractors sold in 2005.

With '05 sales down 11% from the previous year, many observers were expecting a continued falloff in 2006, according to the industry publication. If the "U.K. arable commodity markets hold up, there is quiet optimism in the sector" for 2007.

Industry Study: U.S. Ag Equipment Revenues Valued at $62 Billion. With direct revenues of approximately $20.1 billion from manufacturing and nearly $43 billion from dealers and wholesalers, the total ag equipment industry contributed $63.1 billion in direct revenues to the U.S. economy in 2005. Discounting the distribution side, the manufacturing of farm machinery ranks 33 among 234 individual U.S. manufacturing industries.

This was among the findings of a study jointly released by three major off-road equipment industry associations earlier this month. The study, "U.S. Agricultural Equipment: Powering Jobs and Dollars," was undertaken by the Association of Equipment Manufacturers (AEM), the Farm Equipment Manufacturers Association (FEMA), and the North American Equipment Dealers Association (NAEDA). The economic consulting firm Global Insight, Inc. conducted it.

According to its sponsors, the study was developed to present to Congress as it prepares to reauthorize the current farm bill, which expires on September 30, 2007.

Distribution Doubles Revenue. When the dealer/wholesale distribution network is included, from a revenue perspective, the entire agricultural equipment industry moves considerably higher than other sectors in the U.S. economy. With revenues of $43 billion, generated from the dealer/wholesale distribution network, dealer sales are 2.14 times its manufacturing base. Few other manufacturing sectors can claim as extensive a spin-off support system.

Even the construction equipment industry, a close peer of agricultural equipment, has a relatively smaller dealer/wholesale distribution network. It is only 1.75 times its manufacturing base, according to the study.

The 49-page study analyzes the direct and indirect economic activity of the industry as well as sector employment and agriculture equipment exports. More information is available www.aem.org, www.farmequip.org and www.naeda.com.

South Korea's Farm Equipment Exports Reach $351 Million in 2006. Fueled by solid demand for small tractors and rice planters, South Korea's farm machinery exports reached record-high numbers in 2006, according to a March 11 report from *Yonhap News*.

The Ministry of Agriculture and Forestry said the country shipped $351 million of equipment, including tractors, combines and rice planters to 123 countries. During the same period, the country imported $332 million worth of farm equipment from 51 countries, posting a trade surplus of $19 million.

According to the South Korean Ministry of Agriculture and Forestry, the surplus marks the seventh straight year that the country has exported more farm-related equipment than it imported.

"Last year's export figures reflected efforts made by local farm equipment manufacturers to meet the individual requirements of foreign markets," a ministry official said. He cited steady demand for small tractors (under 50 hp) from the U.S. and Chinese customers buying large numbers of rice planters for the strong export trend.

Tractor sales accounted for the bulk of the exports, reaching $205.8 million last year. Overseas sales of rice planters, combines and engines reached $14.1 million, $12.1 million and $9.7 million, respectively. AEI

Deere Reports Higher Than Expected 1Q Results

On February 14, Deere & Co. reported worldwide net income of $238.7 million for the first quarter ended January 31, compared with $235.9 million for the same period last year. Income from continuing operations was $238.7 million for the quarter, vs. $223.9 million last year.

Worldwide net sales and revenues increased 5% percent to $4.425 billion for the first quarter compared with $4.202 billion a year ago. Net sales of the equipment operations were $3.815 billion for the quarter compared with $3.691 billion last year.

Strong operating performance and a positive customer response to the company's advanced products and services contributed to the quarter's results, noted Robert W. Lane, chairman and CEO. “Exciting new equipment and services are helping John Deere attract customers and expand our market presence throughout the world,” Lane said.

“In addition, our focus on rigorous asset management is allowing Deere to serve a growing global customer base while maintaining lean, efficient inventory levels. In fact, for the last 27 quarters, trade receivables and inventories in relation to sales have declined, compared with the same quarter of the prior year.”

Solid Outlook for 2007. Deere sales are projected to be up slightly for full-year 2007 and to increase approximately 5% for the second quarter. Net income is forecast to be around $1.4 billion for the year and in a range of $525 million to $550 million for the second quarter. AEI

Key Exec, CFO Gunther, Leaving Claas

One of Claas Group’s top executives, Rudiger Gunther, will leave his post at the end of March to take a similar position with semiconductor manufacturer Infineon Technologies in Munich, Germany.

As CFO, a member of the Claas board and official management spokesman, Gunther has played a key role in the continued growth of the German tractor and harvesting machinery manufacturer.

In particular, he has been instrumental in introducing new forms of financing, using the capital market to finance long-term projects like a public company while maintaining the private family-owned status of the group.

Over the past 7 years, Claas sales revenues have grown by almost 120% to the $3 billion generated in 2005-06 while net profit has grown to last year’s $172 million.

Dr. Theo Freye, group vice president of marketing and strategy, will fill Gunther’s role as management spokesman. As president of Claas North America, Freye set-up the Omaha-based operation that builds and distributes Lexion combines. AEI

‘Cultural Change’ Coming for Cat Dealers?

Caterpillar chairman and CEO Jim Owens told the *Wall Street Journal* recently that the construction equipment giant wants to get away from the automotive model of stuffing dealers’ inventories with products.

“We want to keep some dealer inventory out there so they can see it and buy it and try it, but we want to get away from having them carry significant amounts of inventory,” said Owens. “If you look back, dealer inventory swings have in every case aggravated the business cycle for Caterpillar. We work overtime to build inventory in the up cycles, and then [in down cycles] help them get it moved by price discounting or other bad practices.

“We’ve got to convince them that they don’t need to hold the inventory. This is a huge cultural change.” AEI

BANK OF AMERICA SECURITIES CORN MODEL
(millions of bushels)

	WASDE* Feb. Estimates 06/07	BofA New Estimates 06/07	BofA New Estimates 07/08	BofA Old Estimates 06/07	BofA Old Estimates 07/08
Supply:					
Planted acres (millions)	78.3	78.3	87.5	78.3	86.0
Harvested acres (millions)	70.6	70.6	80.1	70.6	78.7
Yield (bushels/acre)	149.1	149.1	151.3	149.1	151.3
Stocks:					
Beginning stocks	1,967	1,968	828	1,968	842
Production	10,535	10,535	12,116	10,535	11,909
Imports	10	10	10	10	10
Total Supply	**12,512**	**12,513**	**12,954**	**12,513**	**12,760**
Demand:					
Feed & residual	5,975	5,987	5,802	5,987	5,778
Ethanol	2,150	2,173	3,125	2,159	3,083
Other food, seed, & indrl	1,385	1,378	1,378	1,378	1,378
Exports	2,250	2,147	1,957	2,147	1,962
Total Demand	**11,760**	**11,685**	**12,262**	**11,672**	**12,202**
Ending stocks	752	828	693	842	558
Stocks/use ratio, percent	6%	7%	5%	7%	4%
Corn Price ($/bushel)	**$3.00-3.40**	**$3.40**	**$3.60**	**$3.30**	**$3.30**

Based on higher pricing, Bank of America has raised its planted corn acreage outlook for the 2007-08 to 87.5 million acres from 86 million acres previously. Its planted acreage estimate represents an expected increase of 8.9 million acres (+11.7%) from its 2006-07 estimate of 78.3 million acres. BofA’s higher corn acreage estimate for 2007-08 is predicated on the expectation of acreage shifts from soybeans to corn and does not anticipate that CRP acres will meaningfully contribute to higher corn acreage until the 2008-09 season, when the forecast increases to 90 million acres. (**World Agricultural Supply Demand Estimates)*

Source: USDA, Bank of America Securities estimates

European Manufacturers Looking East and West to Expand.

Aiming to grow beyond the borders of their own "continent," European farm machinery manufacturers are looking west and, in some cases, to the east, in search of opportunities to expand their marketing reach. In most cases, their first choice is across the Atlantic to North America.

While opportunities appear boundless in the U.S. and Canada markets, economic and logistical barriers can be significant for many smaller manufacturers hoping to stake their claim in the huge U.S. market.

Nonetheless, many of the exhibitors at SIMA, the Paris International Agri-Business Show, told *Ag Equipment Intelligence* that's where they need to be if they're to substantively expand their manufacturing enterprises. This year's exposition, held March 4-8, showcased the latest in worldwide ag technology from more than 1,200 exhibitors from over 40 countries.

Penetrating the Market. European manufacturers say the value of the U.S. dollar isn't the only hurdle they face in establishing a significant presence in the North American market. The lack of effective distribution channels can also present logistical challenges that deter some farm equipment makers from attempting the big leap across the Atlantic pond.

Without a stateside presence, overseas manufacturers need to rely on distributors to market and service their products to U.S. and Canadian dealerships. Several exhibitors told AEI they've had little success in establishing wholesale relationships.

At the same time, several also acknowledge that, given the sheer size of North American farms relative to those in Europe, they need to develop larger-sized equipment to meet the requirements of the North American market.

Many SIMA exhibitors note that a positive factor in favor of European equipment is the fact that the European Union imposes the most stringent environmental regulations on its growers. The European Norm (EN), standards set by the EU for equipment compliance, are far ahead of those in the U.S. and Canada. As a result, machinery brought to the North America market is well ahead of domestic compliance requirements.

Eastern Europe Potential. SIMA exhibitors also see market potential to the east, most notably in the emerging economies of Eastern Europe and Russia. In many cases, equipment will need to be modified to meet the needs of the extremely large acreage farms found in many of these countries.

As for the Russian ag market, European manufacturers openly say that close scrutiny is required. While the market holds tremendous potential, "Seller beware" is how they describe the situation there. As one exhibitor put it, "The Russian states lack the judicial system to protect companies selling" into this fast-changing and fast-growing market.

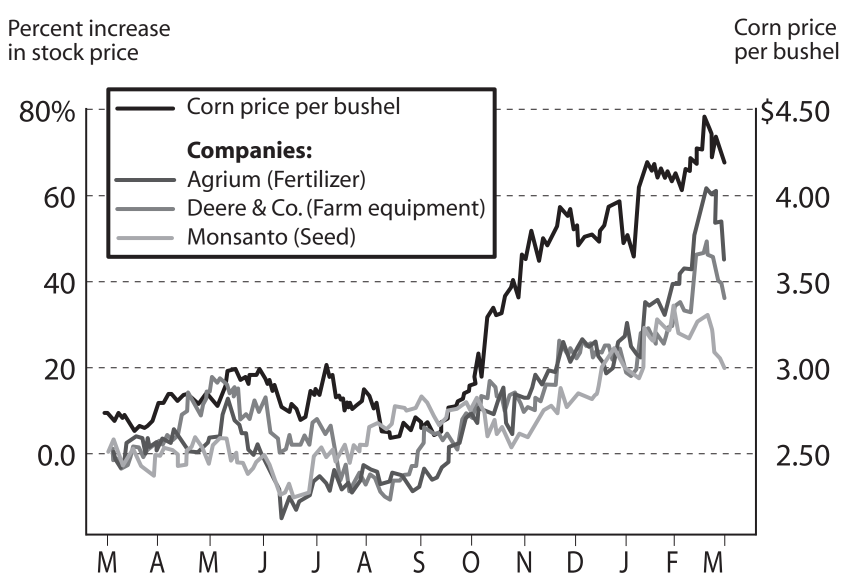
Opportunity abounds for suppliers, not only in the North American market, but also in the Eastern European and, in particular, the Russian states. With the value of the dollar making it difficult for European suppliers to penetrate the U.S. market, many are looking toward the Russian states for growth. But, as several exhibitors told *AEI*, "seller beware."

Expanding Telehandler Markets. *AEI* has been reporting on the telescopic handler market in Europe for some time. The reality is that telehandler use is more widely accepted in Europe, and is slowly gaining momentum in North America (with the exception of eastern Canada where telehandlers are already widely used).

The manufacturers say that the next generation of telehandlers is being marketed as small tractors with telehandler capabilities. If telehandler use grows in North America, it will most likely be because these units will have evolved beyond their initial purpose. North America, in effect, will skip a generation of equipment.

AEI found SIMA exhibitors eager to expand their marketing efforts to North America. It's clear that opportunities to partner with European manufacturers are growing for importers capable of marketing advanced ag technologies and equipment to North America. **AEI**

Stocks Gain on Rising Corn Prices



Source: Bloomberg, Chicago Tribune

Farmers aren't the only ones benefitting from the rising prices they're getting for their corn crops. As ethanol fuels the demand for corn, it's also pushing up the price of other commodities like soybeans and wheat, which in turn is propelling the share prices of firms related to the agricultural industry. As shown in this graph, companies making equipment, seed and fertilizer are also experiencing boom times. **AEI**

Sales of Row-Crop Tractors Rise 6% in February

Along with the USDA's March 9 forecast for a 10% increase in net farm income and 3% expansion in major crop acreage in 2007, the sales of row-crop tractors improved for the first time in several months, growing 6% on a year-to-year basis. Sales of combines also jumped by 29%, though 4WD tractor sales slipped by 29%.

"Recent industry data points continue to signal improving agricultural equipment demand fundamentals spurred by higher crop prices," says RW Baird analyst Robert McCarthy.

February equipment sales data released by the Assn. of Equipment Manufacturers on March 12 indicates that larger horsepower tractors are beginning to move off dealer's lots, while sales of smaller units continue in the doldrums. McCarthy's summary of February sales activity includes:

- ✘ North American retail sales of row-crop tractors (2WD, >100 hp) increased 6% year-to-year in February after declining 18% in January; sales have declined 7% during the last 3-month period. On average, February sales contributed 7% of annual sales during the past 5 years.
- ✘ Sales of 4WD tractors declined 29% year-to-year in February after falling 8% in January. In the last 3 months, 4WD tractor sales have declined 11%. February is a relatively less important month for 4WD tractor sales, contributing only 5% of average annual sales.
- ✘ Retail sales of combines increased 29% on a year-to-year basis, up from January's 18% increase. February is the seasonally least important month for combine sales, contributing only 4% of annual combine sales on average.
- ✘ Dealer inventories of row-crop tractors, 4WD tractors and combines all declined significantly in January (down 10%, 11% and 24%, respectively), the fifth consecutive month in which dealer inventories for each was down by double-digit percentages. On a days-sales basis, industry inventories increased year-to-year for both row-crop (123 vs. 116) and 4WD tractors (90 vs. 84); and declined year–to-year for combines (55 vs. 67). **AEI**

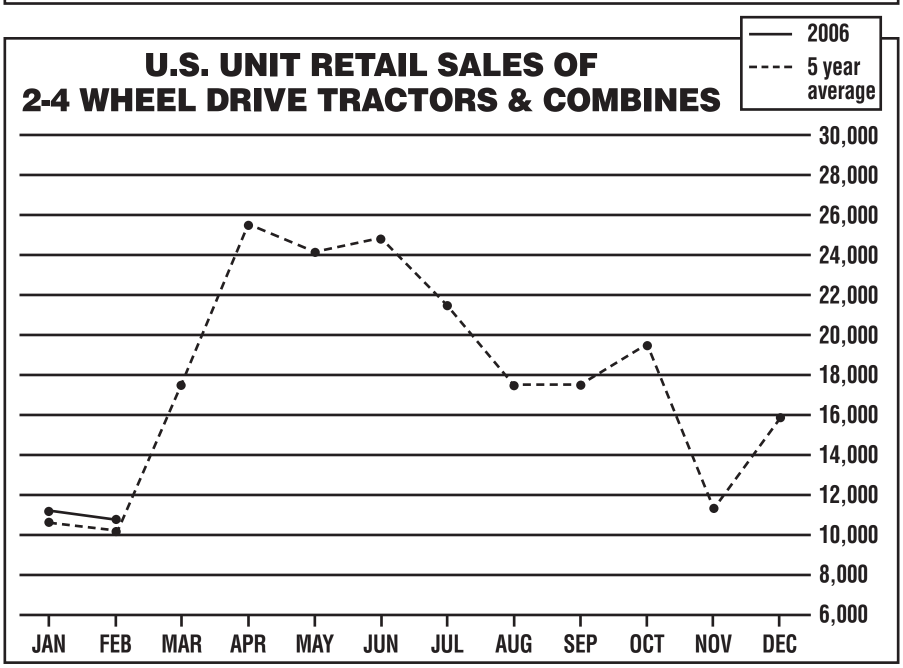
FEBRUARY U.S. UNIT RETAIL SALES

Equipment	February 2007	February 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	January 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	5,042	6,334	-20.4	9,809	11,755	-16.6	61,392
40-100 HP	4,265	4,086	+4.4	8,825	8,724	+1.2	37,217
100 HP Plus	1,137	1,017	+11.8	2,495	2,712	-8.0	5,531
Total-2WD	10,444	11,437	–8.87	21,129	23,191	–8.9	104,140
Total-4WD	165	236	–30.1	369	458	–19.4	738
Total Tractors	10,609	11,673	–9.1	21,498	23,649	–9.1	104,878
SP Combines	339	252	+34.5	742	587	+26.4	943

FEBRUARY CANADIAN UNIT RETAIL SALES

Equipment	February 2007	February 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	January 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	297	273	+8.8	602	569	+5.8	5,054
40-100 HP	246	345	–28.7	557	741	–24.8	2,924
100 HP Plus	124	171	–27.5	291	329	–11.6	1,485
Total-2WD	667	789	–15.5	1,450	1,639	–11.5	9,463
Total-4WD	22	28	–21.4	50	57	–12.3	122
Total Tractors	689	817	–15.7	1,500	1,696	–11.6	9,585
SP Combines	50	49	–2.0	83	84	-5–1.2.7	383

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



—Assn. of Equipment Manufacturers

Mahindra Continues Its Push Into World Markets; Iran, Romania, South Africa Next

India's market-leading tractor manufacturer, Mahindra & Mahindra, Ltd., continues its aggressive plan to become one of the world's largest makers of farm tractors and other vehicles, announcing that it has completed an alliance agreement with the Iran Tractor Manufacturing Co (ITMCo). But the firm's efforts to move into the Romanian market remain stalled over labor and financial issues. M&M has also announced plans to move into the tractor market in South Africa.

Iranian Agreement. M&M's agreement with ITMCo is initially for a single model — the 59-hp Mahindra 6000 DI. ITMCo is a government-owned tractor manufacturer and claims an 80% market share in Iran. The firm is said to have a well-established distribution network equipped to handle customer service support and parts.

"Iran is a focus market in our strategy to put Mahindra tractors on farms across the world," says Anjanikumar Choudhari, president of M&M's farm equipment division. "We see immense synergy between our two organizations."

Romanian Roadblocks. Meanwhile, workers at Romania's state-owned tractor plant took to the streets in protest of redundancy notices served on 1,800 employees — believed to be the majority of staff — as the government's privatization agency struggles to find take-over terms acceptable to M&M.

In a statement, the Government of Romania said the dismissals, which followed a first round of layoffs 12 months earlier, were necessary for the restructuring of Tractorul UTB Brasov, the company that makes Universal-branded utility tractors.

The stumbling block in negotiations between the AVAS privatization agency and Mahindra remains Tractorul's $232 million in debts. Mahindra says it wants the debt written off, but the government is unable to provide such a guarantee due to European Union legislation regarding state support for commercial enterprises.

Speaking at the World Economic Forum in Davos, Switzerland, in February, vice chairman Anand Mahindra revealed that talks had collapsed for the second time on this issue.

"If opportunities arise in China, we are interested. We believe China will be a bigger market for tractors than India..."

More recently, a spokesman indicated that a deal could still be struck: "The acquisition of Tractorul is still in our mind and it's not failed yet," he told Indian business news website DNA Money. "We will be going to a fresh round of talks on different possibilities and will definitely find a solution soon."

Plans for South Africa. According to reports out of Pretoria, M&M will expand its local business investments beyond the automotive sector in May and enter the ag equipment market. Vijay Nakra, Mahindra South Africa's chief executive, says it will launch a range of tractors ranging from 30-80 hp at the Nampo Agricultural Trade Show, the largest agricultural show on the African continent.

"The niche we are looking to secure is that of farmers looking for smaller, value-for-money tractors. We'll ensure our tractors will be competitively priced and will not be looking for a price premium," he said.

The launch of the smaller horsepower tractor range follows the statement last year by the vice chairman and managing director of Mahindra that the group intended to expand in the next 3 years beyond South Africa's automotive sector into farming equipment, rural finance, time sharing and telecommunications.

Nakra said the tractor line would be marketed out of dealerships if there was synergy to do so, but it would not "force fit" this into dealerships. He was reluctant to comment on Mahindra's sales targets in the tractor market.

"We believe the proposition we are talking about will take 12 to 18 months to gain visibility. But I'm not able to talk about volumes and market share. We believe we'll be able to gain a significant presence," he said.

China Initiatives. M&M is also making clear its intentions regarding plans to expand into China. "If any opportunities arise in China, we are very interested," he said. "We believe China will eventually be a bigger market for tractors than India."

India's Tractor Market. Mahindra has been the top tractor brand in India for 23 years and currently claims a 30% share of a market of more than 220,000 units. In 2004-05, M&M sold 65,400 tractors, up 32% from the previous year and in 2005-06 increased this figure to 85,000 units.

First-half figures for the 2006-07 financial year, indicate unit sales are up 29% and revenues 42% compared to the same period in the prior year. AEI

M&M TOP BIDDER FOR PUNJAB TRACTOR

According to a March 8 Reuters report, Mahindra & Mahindra, Ltd. Mumbai, India, has emerged as the highest bidder for a 43.5% stake in Punjab Tractors, Ltd. The offer from Mahindra is estimated at $7.64 a share, or $470 million.

Ashok Leyland, Ltd., India's second-biggest bus and truck maker, and Tractors and Farm Equipment, Ltd. (TAFE), also bid on Punjab.

Private equity firm Actis put its 29% stake in Punjab Tractors up for sale. A member of the Burman family, which holds 14.5%, told media they were still undecided about selling their stake, but were likely to if Actis did sell.

Tata Construction Co, with Fiat affiliate farm and construction equipment maker CNH Global NV, decided not to bid after doing due diligence.