From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Dealers Pursue LPOs
- Corn Inventory Too Low
- Vermeer Finalizes Buy

Escalating Material Costs Forcing Equipment Price Hikes

If ag equipment dealers haven't already felt the impact of increased prices for new machinery, chances are good that they will soon.

Confronted with the rising costs of materials and components, manufacturers say they are being forced to increase the pricing of their equipment in the face of dramatically rising costs of basic materials and components.

Many attendees at the Farm Equipment Manufacturers Assn. (FEMA) and Assn. of Equipment Manufacturers (AEM) meetings held during the first week of April told *AEI* that they already have or will raise the price of their equipment between 7-11%.

In late March and early April, construction equipment makers, including Caterpillar, Hitachi and Komatsu, announced price hikes ranging from 5-10%. This is a signal that farm machinery suppliers will soon follow suit.

Caterpillar announced on April 1 that it is increasing prices up to 5% on products worldwide, citing current general economic conditions and industry factors, according to David Bleustein, analyst for UBS. "CAT further noted that the action includes adjustments to list prices and merchandising support. We note that these price increases are in addition to increases (0%-5% on most machinery and 0%-6% on most engines) that went into effect in January," Bleustein noted in a report to investors.

In late January, Bridgestone Firestone North American Tire announced price increases of 8% on all of the company's tire lines, including ag products.

Ag Equipment Following Suit. Nearly all of the manufacturers and suppliers attending the FEMA and AEM meetings told AEI that they have already implemented price increases or will do so in the next few months.

All indicated they were "significantly ahead" of where they were at this time a year ago. Meeting attendees noted that ag is one of just two shining sectors in the economy, with the other being oil.

One supplier of steel components to farm and construction machinery makers has indicated that they are planning a price hike of up to 8% in May depending upon the product and customer. The company also said that their order book is currently out 180 days compared to 90 days at this time in 2007.

Continued on page 2

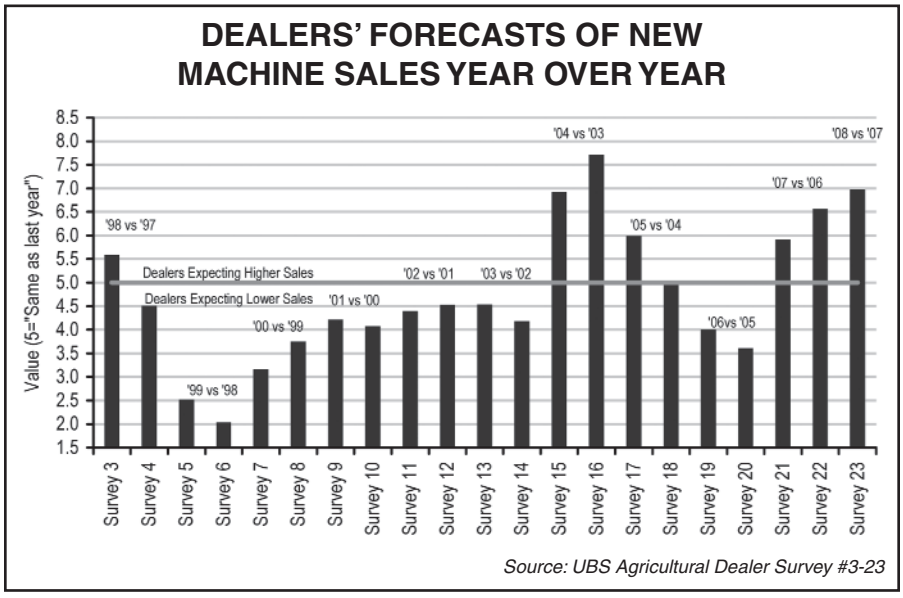
Dealers Optimistic, But Equipment Availability Limiting Upside in 2008

It appears that the stars are lining up in 2008 for those farm machinery manufacturers that have been pushing dealers to presell equipment in order to more effectively manage manufacturing schedules and control product inventories.

With rising commodity prices improving growers' balance sheets, demand for new ag machinery — particularly large equipment — is outpacing manufacturers' capability to supply it. In many cases, dealers are reporting that machinery shortages are limiting new sales. "If it was not sold early, it is not available," says one dealer responding to UBS Investment Research's 23rd Agricultural Dealer Survey.

Nonetheless, dealers participating

Continued on page 3



Source: UBS Agricultural Dealer Survey #3-23

Continued from page 1

Other observations *AEI* picked up from attendees at the FEMA and AEM meetings include:

- Most conversations centered around concerns over steel pricing. One equipment manufacturer reported steel prices have shot up 50% in recent months.
- The exchange rate is killing European manufacturers who had planned for good years here after working to gain a foothold over the last 4 years.
- One component manufacturer said business is up 40% from last year at this time. He added that the second half of 2007 was 20% higher than the previous year and that December through June was up 40%. He expects the second half of 2008 to be the same as last year, which was an outstanding year.

Other Costs Increasing. While most manufacturers and suppliers cite the rapidly escalating cost of steel, copper and other commodities as the prime factor behind price increases, others note less obvious costs as a reason to increase prices.

One Midwest iron casting producer laid out in detail why it's imposing surcharges of 29 cents per pound of gray iron and 30 cents for ductile iron parts effective on May 2.

The foundry's current cost, base cost, amount of change and surcharges of metal, alloy, binder and energy surcharges are noted in the following table.

WHAT'S BEHIND IRON CASTING PRICE INCREASES?

	Current Cost	Base Cost	Amount of Change	Surcharge Amount
Ductile	$425.60	$128.00	$297.60	0.1222
Gray	$394.98	$117.00	$277.98	0.1142
Alloys	$0.2531	$0.1443	$0.1088	0.1000
Energy/Gas	$7.7738	$3.61	$4.1638	0.0037
Energy/Electric	$0.07103	$0.0442	$0.02683	0.0268
Airset Binders	$1.0469	$0.6158	$0.4311	0.0425
Ductile Iron				0.2952
Gray Iron				0.2872

Demand Supports Increases. Bleustein notes that rising demand support the price hikes. "Pricing actions reflect the manufacturers' belief in the demand environment. We believe the recently announced price actions indicate that the current environment for machinery demand is viewed as strong enough to absorb price increases." AEI

Italian Tractor Sales Continue to Fall

Italian tractor and farm machinery manufacturers have welcomed gains in export sales, which are helping keep factories busy in the face of a domestic market that continues to slide.

Last year, the third biggest tractor market in Western Europe — after France and Germany — slipped 9.8% to 26,830 units, according to transport ministry figures. That followed a 6.2% sales drop in 2006.

The machinery manufacturers' association UNACOMA contrasts this with the 7.6% increase in tractor purchases by farmers in France last year, the 3.9% market growth in Spain and a near 15% rise in the U.K.

"The sales crisis in Italy is the result of structural factors, in particular the falling number of farms, which reduce demand for machinery," says association president Massimo Goldoni. "But there is also the reform of the European Union's support payments system, which creates uncertainty and limits investment by farmers."

An apparent shift to increased use of custom operators could be another factor. While they represent only 1% of equipment buyers in Italy, they account for 30% of the value of all sales. Last year, all tractor power categories were down except for tractors of more than 200 horsepower, which increased 22%.

However, UNACOMA also identifies a lack of fiscal incentives behind farmers' reluctance to invest. Italian growers are accustomed to various mechanisms introduced to support machinery purchases. The latest proposals by regional Italian governments to the European Commission were only approved at the end of last year.

Machinery purchases may also have been put off in the hope of national government measures to help fund the renewal of outdated machinery. However, they failed to materialize in the country's 2006 or 2007 budgets.

"We expect support from politicians, not just concessions, to help the purchase of machinery, even if this is needed to start a renewal of the fleet of machines on which Italian agriculture's competitiveness depends," says Goldoni. "But also the application of a true mechanization policy, which attributes importance to research and looks on machinery as the key to new agro-industrial lines of production."

As it is, manufacturing members of UNACOMA must take comfort from a 7.6% increase in exports of farm implements and equipment last year and a 5.6% increase in export sales from Italian tractor factories. AEI

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Continued from page 1

in the survey expect sales to continue improving in 2008 following a strong year in 2007.

"Our expectation is that U.S. farm machinery sales will improve significantly in 2008, driven by elevated farm commodity prices, healthy farmer balance sheets and expected record levels of net farm income," says David Bleustein, an analyst for UBS.

The main risk that could blunt growing equipment demand this year, according to Bleustein, is the rising costs for fuel and energy.

Growing Dealer Optimism. Despite the equipment supply squeeze, most dealers participating in the UBS study expect sales to continue to improve this year. "The level of dealer optimism regarding full-year sales increased for the third consecutive survey and now marks the highest level of dealer optimism since the survey conducted in April/May 2004, regarding 2004 sales," Bleustein says.

He also noted that while results to the current survey bode well for expected demand, the dealer commentary reflected of caution. "While the general dealer commentary regarding farm conditions was upbeat — including continued mentions of elevated commodity prices — dealers indicated that limited equipment availability and high inputs costs were tempering some of the optimism."

Bleustein also pointed out that in an earlier UBS survey conducted in April/May 2007, "there was only slight mention of limited equipment availability, which is now the overwhelming concern on dealers' minds, based on the comments we received."

Rising Expectations. Following a strong sales year in 2007, dealers are projecting an even better year in 2008. Roughly 68% of ag equipment retailers are forecasting that machine sales will either be "up more than 5%" or "up less than 5%" vs. only 15% that indicated they expect sales to be either "down more than 5%" or "down less than 5%." The remaining 17% of the dealers are projecting "flat" sales throughout '08.

On a regional basis, dealers from the Northern Plains, Corn Belt and Lake State regions display the strongest outlook for full-year 2008. Those in the Southeast exhibited the most weakness.

Customer Outlook Positive. At least part of dealer optimism for the rest of 2008 is derived from their customer's positive view of near-term prospects. Only 10% of dealers say that farmers expect agriculture to deteriorate during the remainder of the year. The large majority of equipment sellers — 90% — say customers believe conditions will improve (44%) or remain the same (46%) during the next six months.

At the same time, skyrocketing costs for fuel, energy, feed and fertilizer are tempering strong commodity prices. One dealer commented, "Farmers faced with huge input costs in '08 will take away a lot of the fun of $4 corn, $11 beans and $20 milk."

Another added, "Small farmers can't afford increased fertilizer and fuel costs, and rising interest rates. Grain prices are good, but livestock producers take a hit because of that."

The escalating cost of inputs "have producers looking at alternative farming methods," offers another dealer.

Two Sides of Machine Shortage. While John Deere was cited most often in dealer comments, Case IH also received mention in regard to tight equipment supplies. But not all dealers are complaining about the equipment shortage.

"Deere cannot supply demand, so northern dealers will see no increase in sales," said one dealer. Another added, "[This year] would be better but Deere cannot deliver more."

On the other hand, some dealers seem to like the position they're in when it comes to inventories. "Case IH is sold out on combines and tractors through April. Dairy equipment is sold way out. These are times we have dreamed about."

But a great majority of dealers note that sales are being stunted by the lack of new equipment inventory. "Machine shortage is limiting our new sales." Another commented that it "would be our 'best ever' if we could get new machines from the factory."

The UBS survey also looked at the replacement cycle for high-horsepower tractors. To view their findings, go to www.farm-equipment.com. AEI

FARM MACHINERY TICKER (AS OF 4/10/2008)

Mfr.	Symbol	4/10/08 Price	3/12/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$64.23	$60.03	$71.95	$35.71	25.19	1.96 M	5.88 B
Alamo	ALG	$21.39	$19.88	$28.37	$16.77	17.22	18,187	209.54 M
Art's Way	ARTW	$22.72	$17.90	$39.75	$7.02	20.18	27,968	45.10 M
Caterpillar	CAT	$75.71	$75.25	$87.00	$59.60	14.10	6.99 M	47.24 B
CNH	CNH	$56.00	$51.88	$70.00	$36.00	23.76	808,073	13.28 B
Deere	DE	$86.91*	$83.98*	$94.77	$53.39	20.09	5.76 M	37.90 B
Kubota	KUB	$31.87	$31.29	$48.30	$28.34	11.63	82,649	8.21 B
Titan Mach.**	TITN	$22.11	$17.10	$22.44	$11.50	23.88	396,062	295.48 M

**On November 14, 2007 Deere & Co. shareholders approved a two-for-one stock split in the form of a 100% dividend.*
*** Titan Machinery undertook its IPO with approximately 6 million shares on December 6, 2007 at $8.50/share.*

Ag Growth Income Fund Grows Sales 18% in 2007

Ag Growth Income Fund, manufacturers of portable and stationary grain handling equipment, finished '07 with sales of $130.7 million. The Winnipeg, Manitoba-based firm reported that nearly $35 million in sales resulted from acquisitions made in the last year. Excluding the impact of acquisitions, sales in 2007 were $96 million, compared to $81.5 million in 2006.

The 18% sales increase over 2006 is largely due to:

- Improved sales in the U.S., which increased $10.7 million or 20% over the prior year
- Sales in Canada increased $2.7 million or 11% over 2006
- International sales increased $1.1 million due to an expanding market in Europe and improved agricultural conditions in Australia.

Analyst Concerned about Corn Ending Inventories

While the USDA's Prospective Plantings report released on March 31 didn't catch many industry observers off guard, the agency's monthly supply and demand update for the 2007-08 crop year issued on April 9 sent a clear message, according to Ann Duignan, analyst for Bear Stearns:

"Corn inventories are falling precariously low!" she says.

"Although this is still an old crop report, the market was focused on corn ending inventories for this marketing year."

Her key takeaways from the update included observations that if the projected scenario plays out during 2008, corn inventories would come in at about 1.283 billion bushels.

"Earlier in the week, we ran a scenario analysis with lower than expected 2007-08 corn ending inventory of 1.350 billion bushels," says Duignan.

"Using our original scenario and the new ending inventory gets us to 75 million bushels of ending inventory. The market will not let this happen as it feels comfortable with 1 billion bushels of ending inventory. We expect corn futures to rally."

She also noted that total major crop gross revenues — corn, wheat and soybeans — for the 2007-08 marketing season are expected to increase 56% year-over-year to $102 billion vs. 51% in the prior estimate.

This comes on the back of a +17% year-over-year vs. 17% in prior estimate increase in major crop gross revenues for the 2006-07 marketing season.

"Given the strong correlation between cash receipts and equipment sales, we reiterate our 'outperform' ratings on Deere ($105) and AGCO ($70).

CNH CEO Sets Record Straight on New Holland Branding

In a letter to New Holland dealers, Harold Boyanovsky, president and CEO of CNH and president and CEO of New Holland, responded to a news item that recently appeared in *Ag Equipment Intelligence*. (*See "CNH: Differentiating 'Big Red' from 'Little Blue,' AEI, March 2008, p. 5*)

In the article, *AEI* reported that CNH CFO Rubin McDougal discussed the restructuring of Case IH and New Holland brands during an interview with *Investor's Business Daily*.

In the article, McDougal was quoted as saying, "Case IH is a high-end brand in terms of performance and features, while New Holland is a value brand."

In his letter to New Holland dealers, Boyanovsky says, "As part of the interview, McDougal discussed the strategy to differentiate the New Holland and Case IH brands. Unfortunately, his comments were misconstrued by the reporter.

"Some comments the newsletter attributed to McDougal as direct quotes, were in fact, assumptions made by the original reporter from *Investor's Business Daily*."

Boyanovsky went on to explain that CNH did not view its New Holland products as being a "value" brand, calling it "an industry leader — a dynamic brand that provides equipment and support that are setting the standards in the industry."

After citing the many awards and recognition New Holland equipment has received in recent years, Boyanovsky said, "The brand differentiation strategy introduced in 2007 has been working for New Holland as seen by increased market share and sales."

He added, "If anyone questions you about New Holland being a 'value' brand, tell them this: the 'value' of New Holland is in our state-of-the art engineering, our high-quality products and our top-notch dealers — which equates in anyone's book to the 'best value.'"

Deere Plans $80 Million Facility in Russia

Deere & Co. announced on April 1 that it is planning to invest nearly $80 million in a central operations center in Russia. The new facility will include a distribution center for replacement parts, training facility and the possibility for local production in the Kaluga region, southwest of Moscow. The new 98-acre facility is scheduled to be operational in 2010.

"The site will leave room for further expansion potential as our business in Russia continues to grow," says Mark von Pentz, president of Deere's ag division for Europe, Africa and South America. "As an interim step for further investments, it also contains a provision for local assembly and manufacturing at a later stage."

Farmtrac Liquidating Assets to Repay Debt

Farmtrac North America LLC, the Tarboro, N.C.-based manufacturer of compact and utility tractors, has reportedly begun the process of liquidating nearly 4,900 units of fully assembled farm tractors. Quoting a "knowledgeable industry source," Starks News Service reported on April 4 that liquidation will be used to help repay debt of more than $13 million to Textron Financial Corp.

Farmtrac, which is in receivership, listed over 900 units of farm tractors with LewPack International Inc., an export import group that specializes in selling vehicle inventories worldwide.

The source disclosed to SNS Interactive that Farmtrac plans to liquidate 2,800 units of farm tractors in inventory at U.S. dealer outlets. Another 1,200 units of fully assembled farm tractors remain in storage. The company is reportedly selling the units for $8,000 each, well below dealer cost. AEI

Vermeer-Lely Finalize Welger Acquisition, Aims to Double Sales Volume

Vermeer Manufacturing Co. of Pella, Iowa, and the Dutch-based Lely Group have finalized their joint acquisition of hay baler and bale-wrapper manufacturer Welger Maschinenfabrik GmbH of Germany that was announced on December 17. *(See "Vermeer and Lely to Acquire Welger, Creating 'Premier Brand' of Haying Equipment, AEI, January 2008, p. 5)*

While Vermeer's agricultural operations manufacture a line of hay tools, it is best known for and derives the largest part of its revenues from the manufacture and sales of round balers. Lely also makes a line of hay tools, including tedders, mowers and rakes.

Mark Core, Vermeer's vice president of forage solutions and corporate marketing, says that Vermeer and Lely combined expect to achieve a significant growth in round balers and other haying equipment they produce and market worldwide.

"The goal of the partnership and purchase of Welger is to create a bigger organization without a complete acquisition or merger. There now are two partners with different strengths that will allow us to work more globally from a distribution and R&D standpoint," Core says.

He points out that the partnership includes Vermeer's forage products and not its industrial lines or the milking lines of Lely.

Global Distribution. The partnership and acquisition will accomplish several things for the two companies, according to Core. "It broadens the breadth of our product line, gives us better global distribution opportunities than we've had in the past, as well as more resources to devote to R&D with all three companies working together.

"We've not been as strong internationally as what we need to be. Lely has a strong presence in Europe, Australia and New Zealand and we have a strong presence in the U.S. This acquisition and working with Lely gives us the capability to be a player in a larger and far more diverse marketplace."

While Vermeer works through hundreds of independent dealers throughout North America, Core points out that Lely owns many of its distributors in Europe and Oceania, which should provide the American manufacturer with instant access to the market in Western Europe. At the same time, a significant portion of Welger's distribution is already handled through Lely-owned distributors.

> ***"There now are two partners with different strengths that will allow us to work more globally from a distribution and R&D standpoint..."***

"Ultimately, we also hope the partnership and acquisition of Welger allows us to leverage our R&D between the three companies to better maximize our efforts within the grassland markets. The goal of the partnership is to bring products, under the Vermeer and Lely brand to the marketplace that are more innovative than anyone else," Core says.

No Single Branding. While marketing strategies are still evolving, Core doesn't expect the Vermeer and Lely products to evolve into a single brand.

"The branding is a little different because it's not going to be one identified brand. Hopefully, customers will see us based on what they experience locally, as offering enhanced technology through our relationship with a key partner and a German-based company," Core says. "But we will not be one brand to all markets. We're fairly certain of this."

International Flexibility. In addition to achieving wider channels of distribution, Core says partnering with Lely should also bring a greater degree of manufacturing capability and flexibility to both parties.

"From our standpoint, working with Lely to acquire Welger doubles our round baler volume, it diversifies us in terms of where our sales revenue comes from, as well as giving us manufacturing flexibility and ability to produce in markets that utilize the world's two most significant currencies."

He adds that having a European partner will give both companies some manufacturing options in working with fluctuating exchange rates as well.

"This is certainly part of the strategy, but we recognize that it isn't simply a matter of turning a switch and manufacturing products here one day and somewhere else tomorrow," he says.

Core adds that plans call for continuing to build round balers in Pella and in the Welger facilities in Germany.

"Ideally, as we start to merge the technologies and manufacture products that fit worldwide markets, then the decision will be made where to manufacture some of the newly developed products." AEI

Kuhn Sales Rise 19% in 2007

A 19% year-over-year increase in sales of Kuhn agricultural products — the equivalent of $902 million in 2007 — is backed up by a healthy order book that is nearly 30% up on the prior year at just over $1 billion.

"The solid performance was underpinned by favorable market and weather conditions, coupled with rising prices for agricultural products," says Philip Mosimann, CEO of Kuhn's parent, the Swiss-based Bucher Industries group. "This was reflected in good sales volumes in the principal markets of Western Europe, North America and the strongly growing countries of Eastern Europe."

The agricultural implements business, which accounts for 38% of Bucher group sales, merged its two North American operations into a single entity at the end of 2007.

Kuhn North America Inc., Brodhead, Wis., combines the operations of the former marketing and distribution arm with the manufacturing company Kuhn Knight, acquired in 2002. Despite the move, the European- and U.S.-built product lines are still branded individually and sold through separate dealer networks.

Manitou Sales Grew 12% in 2007

Buoyant demand for rough-terrain materials handling vehicles helped Manitou lift sales by 12% to the equivalent of $1.94 billion at current rates of exchange, continuing a 3-year trend that has delivered a 65% growth in sales.

Manitou has diversified its activities to some extent, adding industrial forklifts and access platforms to its range. But masted and telescopic rough-terrain handlers remain its core product line.

While last year's demand from the building and construction sector held steady, sales to agriculture accelerated, resulting in a 9% increase (to $1.31 billion) in revenues from rough-terrain handlers.

Manitou's outlook for 2008 calls for a further 10% growth in group sales, despite an economic outlook described as "more uncertain."

The company plans to intensify its international presence, push ahead with the renewal and expansion of its product range and improve component sourcing. This should eliminate supply problems that impacted production at times last year and complete a complete a reorganization program that was initiated 2 years ago.

China Increasing Farm Payments to Its Farmers

The Chinese government, in an attempt to raise its production of rice and wheat and slow the pace of inflation, says that it will increase payments to growers. The Beijing government has put a hold on the prices of rice, cooking oil and other agricultural goods in an effort to solidify food costs that surged 23% in February compared to the same period in 2007.

According to published reports, this move is aimed at raising "farmers' enthusiasm" for growing grain and make progress in the development in grain production," said the cabinet's National Development and Reform Commission. It indicated that minimum grain prices paid to farmers would rise as much as 9%.

Food costs in China began rising in mid-2007 as the country began running short of grain and pork, the country's staple meat.

Dieci Eyes Doubling Output of Telescopic Handlers

Italian manufacturer Dieci aims to double its output of telescopic handlers and light construction machines by 2010. The strategy, built around a new $36 million factory, will include a determined push into the agricultural telehandler market, which currently accounts for 30% of the company's sales.

Dieci wants to increase output from the nearly 1,700 machines built in 2006 to 4,000 units by 2010. Of these, 80% will be telehandlers. That still makes it a small player alongside competitors like JCB, which built 10,000 telehandlers in 2006, and the likes of Manitou and JLG Industries. But the Italian firm intends to make its mark.

In the U.S., Dieci's larger telehandlers are branded "Xtreme" and sell alongside the machines built by Xtreme Manufacturing of Las Vegas, Nev. In Canada, they are distributed in Dieci colors by Degelman Industries, Regina, Saskatchewan.

Product plans include a gearbox-plus-torque converter driveline to give customers a unique alternative to the current hydrostatic system. A 7m/3.7 tonne model similar to the current 37.7 Zeus will likely be the first handler to use the Dieci-developed mechanical four-wheel drive. It will be aimed at the agricultural market and powered by a 4.5-liter Iveco four-cylinder diesel.

Claas Ag Equipment Revenues Improve 14%

Increasingly buoyant markets in Western Europe and continued growth in demand from Russia and Central European states helped raise Claas sales and revenues last year.

In its 2006-07 fiscal year ended September 30, Claas recorded sales for agricultural equipment of $3.56 billion, up 14% over the previous year. Sales of axles, gearboxes, cabs and other technologies rose 22.7% to $59.4 million. With the addition of production engineering sales to automotive and aviation manufacturers, Claas Group sales totaled $3.83 billion, an increase of 13.1% on the prior year.

Improved margins and cost-efficiencies helped lift the company's profitability as well. EBITDA increased by 26.6% to $450 million, while pretax profit rose 34.5% to more than $253 million.

All Claas agricultural product groups recorded improved sales, with Jaguar self-propelled forage harvesters seeing particularly strong demand in Germany thanks to the continued expansion of on-farm electricity generation fueled by biogas. Sales in the U.S. for harvesting corn for ethanol production also improved.

Claas regards North America as a core market. It claims to have expanded its already strong position in the forage harvester sector with a market share similar to its global position, especially among large-acreage growers.

It also claims to be making "steady progress" with sales in the North American combine market, where it competes in the high-capacity sector. AEI

March Sales Slow from February's Torrid Pace

Retail sales of farm equipment in North America weakened in March compared to the pace set in February, according to the latest figures released by the Assn. of Equipment Manufacturers.

Row-crop tractor sales were up 16% compared to March 2007, following a 67% increase in February. Sales of 4WD tractors were also down (+31% year-over-year) compared to February (+53% year-over-year).

"March is the first seasonally important month of the year for most types of equipment, accounting for about 11% of annual sales over the past 5 years. However, two fewer year-to-year selling days in March and an extra year-to-year selling day in February likely exaggerated both comparisons," says Baird analyst Robert McCarthy.

Also, with large equipment being in such short supply this year, farmers may have made their purchases earlier, which may explain why March sales look relatively weak compared to February.

- The 16% increase in sales of row-crop tractors in March pushed sales up 30% during the first quarter of 2008 compared with the same period last year.
- Retail sales of combines increased 12% year-to-year in March and were also up 12% during the first quarter. March is a seasonally weak month for combine sales, typically contributing 5% of annual sales.
- Sales of 4WD tractors increased 31% year-to-year in March. Compared to the first quarter of '07, sales were up 33%.
- Dealer inventories of combines increased 7% year-to-year in February — the first year-to-year increase in 2 years.

However, inventories declined 6% on a days-sales basis and are 32% below the 5-year February average at 49 days. Absolute inventories of row-crop and 4WD tractors declined slightly in February and were down 29% and 26% year-to-year, respectively, on a days-sales basis. AEI

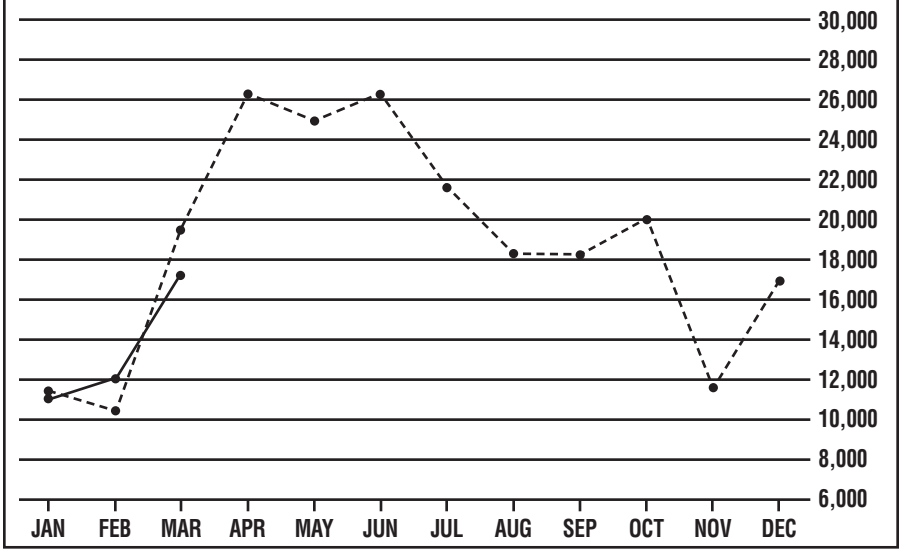
MARCH U.S. UNIT RETAIL SALES

Equipment	March 2008	March 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	March 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	8,277	11,961	-30.8	17,260	22,138	-22.0	62,584
40-100 HP	5,715	7,806	-26.8	13,580	16,643	-18.4	35,075
100 HP Plus	2,572	2,287	+12.5	6,127	4,776	+28.3	5,837
Total-2WD	16,564	22,054	-24.9	36,967	43,557	-15.1	103,496
Total-4WD	468	363	+28.9	957	731	+30.9	844
Total Tractors	17,032	22,417	-24.0	37,924	44,288	-24.0	104,340
SP Combines	443	410	+8.0	1,275	1,151	+10.8	965

MARCH CANADIAN UNIT RETAIL SALES

Equipment	March 2008	March 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	March 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	853	686	+24.3	1,869	1,322	+41.4	6,174
40-100 HP	649	611	+6.2	1,511	1,167	+29.5	3,085
100 HP Plus	442	310	+42.6	853	604	+41.2	1,629
Total-2WD	1,944	1,607	+21.0	4,233	3,093	+36.9	10,888
Total-4WD	120	86	+39.5	192	136	+41.2	195
Total Tractors	2,064	1,693	+21.9	4,425	3,229	+21.9	11,083
SP Combines	108	82	+31.7	204	168	+21.4	363

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



—Assn. of Equipment Manufacturers

Study Shows Dealers Embracing Lifestyle Markets

Despite some tough sledding for housing sales and starts and the credit crunch — indicators linked with the sale of small tractors and other equipment used by hobby farmers and large property owners (LPOs) — 51% of dealers polled by *Ag Equipment Intelligence* and *Rural Lifestyle Dealer* (*RLD*) magazine expect sales of equipment to rural lifestyle customers to increase more than 2% during 2008.

Together with those equipment retailers that believe that 2008 sales to rural lifestylers will improve or be at least as good or better than they were in '07, 90% of the dealers expressed optimism for gaining business in this growing market.

More than 160 dealers participated in this first-ever survey by RLD, a supplemental publication of *Farm Equipment*. This primary research study was aimed at determining how farm equipment dealers are faring in the rural lifestyle market and what they see ahead for the remainder of the year.

Embracing Rural Lifestylers. Results of the study indicate that many dealers that initially struggled with how to serve the needs of this new customer base are turning the corner and embracing this growing clientele, which represents a new, vital source of sales revenue.

In this survey, dealers were asked what percentage of their revenue comes from the hobby farm, LPO and landscape contractor market. They report that 42% is resulting from rural lifestyle customers and nearly 16% is originating from commercial contractors.

Biggest Gainers. In terms of the product lines where dealers see the most potential for increased sales in 2008, power hand tools, front-end loaders, wood handling gear, fertilizer spreaders and post-hole diggers claimed the top spots.

When it comes to equipment categories where dealers forecast gains of 2% or more, front-end loaders, compact tractors, UTVs/ATVs, rotary cutters and utility tractors lead the way in '08.

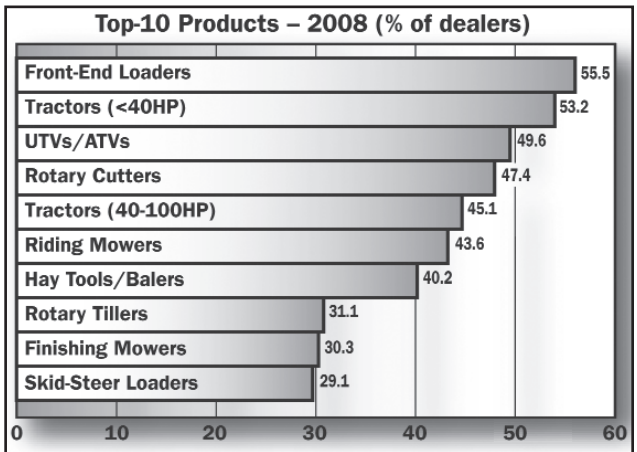
Product Diversity. What some dealers used to see as complicating the selling and servicing aspects of their business — a wide range of diverse products — others now view as an opportunity to appeal to a larger customer base and provide a cushion when bigger equipment isn't moving.

Nearly 40% of the dealers polled say they are planning to expand their product lines during the coming year.

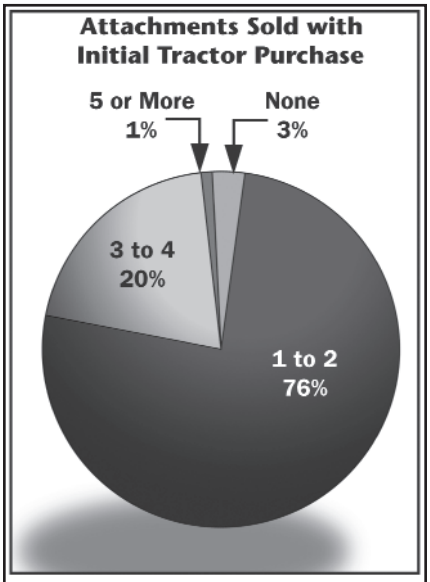
Perhaps even more important is the fact that 20% of these dealers report that their first-time tractor buyers will add as many as three or four implements and/or attachments to their initial purchase. Selling "packages" have become essential, in many cases, to improving margins in selling to the rural lifestyle customer.

Dealers are getting the message that "if you don't have it, you can't sell it."

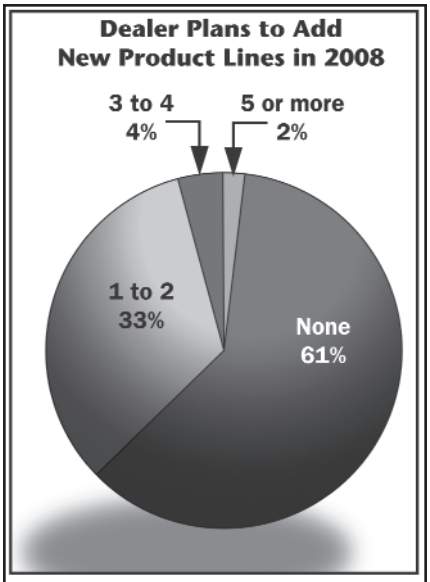
For complete coverage of the study, see "Dealers See Solid Prospects for Rural Lifestyle Markets," Rural Lifestyle Dealer, Spring 2008, p. 27-34. AEI



In terms of "best bets" for improvement in 2008 vs. 2007, dealers rated these 10 product categories as having the greatest potential for increasing unit sales by at least 2% during the coming year.



Nearly all — 97% — initial tractor purchases by rural lifestyle customers include at least one or more attachments or implements. Loaders were noted as the attachment most often acquired during that first purchase.



Of the dealers surveyed, 39% say they expect to add new brands to their product lineups in 2008. One-third plan to add 1-2 new lines, while 4% indicate that they'll expand their offerings by 3-4 new products.

A Word of Caution