From the editors of *Farm Equipment*...

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

August 15, 2006
Vol. 13, Issue 4

- **AGCO Down 11.3%**
- **CNH Up 29%**
- **Buhler Slips 26%**

AGCO and CNH: Is Any Press Good Press?

There appears to be a strange dichotomy developing in the ag equipment world. While this could be a really big week for AGCO, for CNH it appears to be just another day at the office

As AGCO prepared for what could be big news coming out of St. Louis when they roll out their '07 product line to their dealers on August 16 and the press on August 17 and 18, the airwaves are abuzz with speculation.

Despite the earlier news that the company had missed Wall Street's projections for earnings during the second quarter, followed by a significant dropoff in its stock price, AGCO appears to be hogging the headlines with what it "might" be doing in terms of streamlining its many brands into possibly only three. One financial analyst recently referred to the company as the "second largest" farm equipment maker in the world.

At the same time, the financial fortunes of CNH soared in the second quarter as its earnings for the period rose by nearly 30%, but you would be hard pressed to find much coverage of what the company's up to these days.

One analyst who *Ag Equipment Intelligence* questioned recently about the lack of coverage of CNH replied, "What's to talk to about? With Fiat holding a 90% equity stake in the company, it makes me wonder why it doesn't buy the rest. At CNH, it's one reorganization after another."

A dealer who handles both Case IH and New Holland brands told AEI that one of his biggest concerns as a dealer is the direction of his major supplier.

Dealer Concerns. "I'm concerned about the stability of our supplier," he says. "With the constant revolving leaders with our major manufacturers, at our level, it's very difficult to discern their direction. I think it would be nicer if Case IH and NH weren't controlled by CNH. If something goes sour, it's bound to go sour for both."

AGCO isn't without its distribution issues, either. One grower recently wrote on an industry message board that he would be interested in AGCO products if he could only find a dealer nearby.

"The dealer will make or break AGCO," he writes. "I have been interested in the CVT transmission tractors and have checked with an AGCO dealer. He said he had sold a couple, but he is over 50 miles away. The next closest AGCO dealer is 75 miles away.

"Within that 75 miles from the farm, we have eight Deere dealers and eight Case dealers, five New Holland, five Kubota, one MF and two AGCO. Wonder who we trade with? It's mainly red or green. Not so much that we like the equipment but when you need parts it's only a 15-minute drive to a Deere or Case dealer. When the tractors are rolling who wants to drive an hour or more for a part that they might not have in the old gas station building dealership?"

Nonetheless, AGCO is making

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A New Name for AIW: Ag Equipment Intelligence

Not to worry. You're reading the same newsletter, compiled by the same editors and correspondents that you've come to rely on each month. Only this time it has a new name: *Ag Equipment Intelligence*.

Ag Equipment Intelligence, formerly known as *Ag Industry Watch*, has been published by Lessiter Publications since it was acquired with the *Farm Equipment* properties in 2004. Since that time, the newsletter has grown significantly. With such rapid growth come continuing discussions on mission, niche segmentation and editorial refinement. As a result of the discussions held with dealers, manufacturers and industry analysts, the new name is being introduced with this edition.

Ag Equipment Intelligence better reflects the true mission of the publication and its niche in the agricultural world — farm machinery. The publication doesn't cover crop or livestock reports — which are available via myriad sources — unless they directly affect the sales and marketing of ag equipment. Instead, the publication unearths insight, trends and analysis on the iron side that is difficult to otherwise to find.

Readers will continue to receive the same type of focused coverage of the ag equipment market — including analysis that demonstrates what the news means to you.

Along with the 12-monthly issues, during the next year you will also receive two free special bonuses — independent management reports on the "Chinese Ag Machinery Market" and the "2007 Forecast & Trends."

Your input is always welcome. Let us know what you think. AEI

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news with its equipment and much interest surrounds the planned launch of its new high-output combine for Europe. AEI reported last month that the company plans to build the new hybrid combines at its Randers, Denmark, plant. The rollout of the new unit is expected to coincide with the North American launch of its new Class VIII rotary machine, which is claimed to be a high-capacity machine for corn, soybeans and wheat. Second quarter financial results for both firms are covered on p. 2 and 4 of this issue of *AEI*. **AEI**

AGCO's Second Quarter Profits Down 11.3%, Chairman Retires

AGCO Corp.'s second-quarter profits fell as sales declined in the company's North America, South America and Asia/Pacific regions as reported on August 2. At the same time, the company announced that Robert J. Ratliff, chairman, would be retiring from the AGCO board effective August 15. Martin Richenhagen, AGCO's president and CEO, assumed the additional role of chairman of the board.

The Duluth, Ga., ag equipment maker had net income of $40.9 million on $1.5 billion in sales, compared with net income of $46.1 million on $1.6 billion in sales in the second quarter of 2005.

Net sales dropped in the North America, South America and Asia/Pacific regions, but were partially offset by sales increases in the Europe/Africa/Middle East region, particularly in Europe. In North America, net sales were significantly lower for the first half primarily due to lower dealer deliveries implemented to achieve a reduction in dealer floorplan inventories. In South America and Asia/Pacific, weaker market conditions contributed to the sales decline.

Shares Take A Hit. According to TheStreet.com, "AGCO was among the biggest losers on the NYSE, with shares sliding 13% after the company's second-quarter results came in well below Wall Street's expectations. Sales declined to $1.45 billion from $1.57 billion, missing Wall Street's target of $1.49 billion."

Through 6 months, AGCO had net income of $58.2 million on $2.6 billion in sales, compared with net income of $67.6 million on $2.8 billion in sales through 6 months of 2005.

"In the second quarter, we accomplished our goal to reduce seasonal working capital requirements by smoothing our production schedule in 2006," said Richenhagen. "Our focus on working capital for the first half of 2006 drove an improvement of approximately $113 million in free cash flow when compared to the first half of 2005. Second quarter sales and operating margins were pressured by our actions to strengthen our balance sheet, particularly in North America, where our efforts to reduce dealer inventories resulted in lower sales."

Slowing Sales For '06. AGCO said its net sales for the full year of '06 are expected to be slightly below 2005 levels based on lower industry demand, planned dealer inventory reductions and currency translation.

In North America, demand is expected to decline in the second half of 2006 due to concerns about projected declines in farm income in 2006. In Europe, 2006 equipment demand is expected to be slightly below 2005 levels due to the continuing impact of last year's drought in Southern Europe and changes in subsidy programs. In South America, equipment demand is expected to decline due to the impact of the strong Brazilian Real on exports of commodities and high farm debt.

Ratliff Key Figure. During his tenure, Ratliff guided the growth of AGCO from a small North American company into one of the world's largest makers of farm equipment. He led the management team that purchased Deutz-Allis Corp. in 1990 as part of the formation of the company. Ratliff guided the company through a total of 21 acquisitions as it grew sales from $200 million in 1990 to more than $5.4 billion in 2005. **AEI**

AGCO NET INCOME BY WORLDWIDE SEGMENTS

Three Months Ended June 30, 2006 (in millions of dollars)

	North America	South America	Europe/Africa/ Middle East	Asia/ Pacific
2006				
Net sales	$343.2	$160.6	$911.0	$35.7
Income from operations	2.3	8.9	86.3	3.6
2005				
Net sales	$465.2	$185.3	$876.1	$47.7
Income from operations	19.9	10.8	83.3	7.7

Six Months Ended June 30

	North America	South America	Europe/Africa/ Middle East	Asia/ Pacific
2006				
Net sales	$664.0	$301.8	$1,586.2	$68.3
Income (loss) from operations	(3.1)	20.1	137.6	7.3
2005				
Net sales	$858.0	$337.6	$1,542.4	$93.2
Income from operations	22.5	23.3	128.7	15.2

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Buhler Third Quarter Revenues Slip 26.4%

Third quarter revenues for Buhler Industries, Winnipeg, Manitoba, fell by 26.4% to $42.9 million compared with $58.3 million for the same period in 2005. Through the first 9 months of the current fiscal period, revenues declined by 15.9% to $141.4 million compared with $168.1 million last year.

"Revenues slipped to $43 million, well below our $57 million estimate," says Ben Cherniavsky, financial analyst for Raymond James, Ltd. "Stable gross margins of 18.6% and a $600,000 SG&A reduction to $3.7 million were not enough to offset a top-line miss of this magnitude."

Cherniavsky also notes that the company's inventories also grew, leading to a 179% increase in interest expenses to $691,000 vs. James' estimate of $500,000.

"A myriad of factors conspired against the company to produce these results," says the analyst. "The most notable include lingering effects of the company's falloff in international orders, higher operating costs for farmers that have slowed industry sales; and some isolated, but material cases of market share erosion for the Versatile product in the U.S."

Cherniavsky says that Buhler management has seen some signs of end-market improvements, as orders this far into the fourth quarter are up, and they have also implemented a drastic cost-cutting program.

"We believe, however, that it will take several quarters before the company's results show material improvement. In the meantime, the best we can anticipate is a stabilization of the recent problems."

Annual Dividend On Hold. As part of its belt-tightening measures, Buhler warned it might postpone increases in the annual dividend due to its falling financial performance.

The disclosure represents a reversal by the firm as it said 3 months ago it still planned to increase payment of the annual dividend for fiscal 2006 ending this September 30 despite a drop in profitability and measures to be taken for the rest of the year to conserve cash.

The company also said at the time that it was placing restrictions on its R&D spending for the rest of fiscal 2006 to conserve cash in the wake of sharp decline company profitability. Buhler is also scrutinizing its S,G&A costs to conserve more cash for the balance of fiscal 2006. AEI

Titan Machinery, Champlain Valley Earn Top Dealer Honors

Farm Equipment magazine has recognized North America's 2006 "Dealerships of the Year," as determined by an independent judging panel. Taking the top positions in the annual program were:

- Titan Machinery, a 29-site Case IH and New Holland dealership organization covering the Dakotas, Minnesota and Iowa that did $228 million in sales last year with a 25% return on equity.
- Champlain Valley Equipment, a New Holland and Case IH dealership organization with two Vermont locations that did $18.1 million in 2005 with a 7.6% return on assets.

The finalists in the program represented an average absorption rate of 74%, a 7% return on assets and sales per employee of $453,854.

More in-depth coverage of these two firms, along with the four "Best-in-Class" dealerships will be found in the August/September issue of *Farm Equipment*. AEI

GOT NEWS, OPINIONS, IDEAS?

Do you have news that should be covered in *Ag Equipment Intelligence* or a story lead that you want us to follow up? Contact Dave Kanicki, managing editor, at 800-645-8455 ext. 414 or at dkanicki@lesspub.com.

FARM MACHINERY TICKER (AS OF 8/11/2006)

Mfr.	Symbol	8/11/06 Price	7/11/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$23.09	$26.93	$28.69	$14.60	79.62	2.04 M	2.10 B
Alamo	ALG	$24.81	$23.90	$26.00	$18.04	20.50	28,500	241.92 M
Art's Way	ARTW	$5.42	$6.66	$9.19	$4.50	11.78	7,600	10.69 M
Caterpillar	CAT	$67.03	$73.40	$82.03	$48.25	13.76	5.37 M	43.95 B
CNH	CNH	$20.04	$22.73	$30.50	$15.79	20.66	139,100	4.72 B
Deere	DE	$69.07	$82.26	$91.98	$56.99	12.08	2.49 M	16.25 B
Gehl	GEHL	$25.44	$27.31	$40.73	$20.58	11.46	174,300	309.22 M
Kubota	KUB	$40.72	$46.60	$60.60	$30.69	10.03	44,900	10.59 B

CNH Net Income Up $33 Million from Second Quarter '05

On July 24 CNH Global N.V., Lake Forest, Ill., reported second quarter 2006 net income of $147 million, up 29% compared to net income of $114 million in the second quarter of 2005. Results include restructuring charges, net of tax, of $7 million in the second quarter of 2006, and $4 million in the second quarter of 2005.

"CNH's renewed focus on customers and dealers is delivering increasingly better results," said Harold Boyanovsky, CNH president and CEO. "Our equipment operations' gross margin improvement has continued into the second quarter, up 2.7% compared with last year, and we are firmly on track to meet our targets for the year."

Net sales of equipment, comprising the company's ag and construction equipment businesses were $3.5 billion for 2006, compared to $3.4 billion for the same period in 2005. Net of currency variations, net sales increased by 2% over the prior year.

Ag Sales Slip. Ag equipment net sales were $2.3 billion, down 1% from the prior year or down 2% excluding currency variations. Excluding currency variations, sales in Latin America were up 16%, sales in rest-of-world markets were up 8%, and up 2% in Western Europe.

Excluding currency variations, sales in North America declined by 9%, in line with the company's actions to reduce working capital by under-producing retail unit sales of major agl products by 15%, to reduce inventories in a declining industry environment.

Total retail unit sales of CNH's agricultural tractors and combines increased by 7% compared to last year. Worldwide production of tractors and combines was 4% lower than retail, following the company's normal seasonal pattern to decrease company and dealer inventories during the spring selling season.

Worldwide Sales Increase. CNH believes that worldwide industry unit retail sales of tractors will be 5-10% higher than in 2005, driven by an expected 20-25% increase in rest-of-world markets. Industry unit retail sales of under-40 hp tractors in North America are expected to be about the same as in 2005. Sales of over-40 hp tractors in North America also are expected to remain the same or slightly higher than in 2005, but with sales of 40-100 hp tractors up slightly and sales of over 100 hp tractors down. Tractor markets in Western Europe and Latin America could be down as much as 5%.

Worldwide industry unit retail sales of combines may be down 5-10%. North American, Western European and rest-of-world markets could be down as much as 5%. Industry sales in Latin America are expected to be down 35-40%. AEI

CNH GLOBAL N.V

Estimates of Worldwide Retail Industry Unit Sales Performance (1)

	Worldwide '06	N.A. '06	W.E. '06	ROW '06	L.A. '06
Second Quarter 2006 Industry Unit Sales Preliminary Estimate Compared with Second Quarter 2005 Actual					
Tractors:					
- Under 40 horsepower	n/a	(2)%	n/a	n/a	n/a
- Over 40 horsepower	n/a	(3)%	n/a	n/a	n/a
Total Tractors	10%	(3)%	(3)%	(7)%	37%
Combines	(3)%	(2)%	(2)%	(46)%	8%
Total Tractors and Combines	10%	(3)%	(3)%	(9)%	36%
2nd Half 2006 Industry Unit Sales Forecast Compared with 2nd Half 2005 Actual					
Tractors	0-5%	0-5%	(0-5)%	0-5%	5-10%
Combines	(10-15)%	(5-10)%	(0-5)%	~(35)%	(20-25)%

(1) Excluding India

FIAT: NO PLANS TO BUY REMAINING CNH SHARES

Chief Executive Sergio Marchionne of Fiat S.p.A. of Italy said during a conference call with analysts on July 24 that the company has no immediate plans to buy the remaining outstanding shares it does not already own in CNH Global N.V., the parent company of Case IH and New Holland equipment. Fiat currently owns a 90% equity stake in CNH Global.

Asked by an analyst whether Fiat would buy the shares in CNH that it does not own, Marchionne said: "I have no intention of buying the remainder of CNH."

Marchionne also said he "was happy with the division's performance" and, instead of boosting ownership share in the company, Fiat sought to "focus on future alliances and other issues."

Kubota First-Quarter Profits Up 17.7 %, U.S. Tractor Sales Stay 'Steady'

Kubota Corp., Osaka, Japan, says its earnings during the first quarter of fiscal 2006-07 ending June 30 rose by 17.7% on a 13.2% increase in sales as demand for its vehicles rose in overseas markets.

Kubota said its earnings during the period expanded to $19.3 billion from wider sales of $214 billion — a 9%profit margin. A year ago, it netted $16.4 billion from narrower turnover of $189 billion.

The company said its U.S. farm tractor sales remained "steady" during the first quarter of fiscal 2006. Diesel engine sales "increased due to favorable order from major client in the U.S. and Europe," it added.

Despite its strong showing, Kubota still foresees its earnings during all of fiscal 2006-07 ending March 31, 2007, falling by 5% to $66 billion on wider sales of $937 billion due to adverse currency translation. Kubota said last May 12 the outlook is based on an exchange rate of ¥113.00.

The firm says it still sees a profit of $36 billion on a turnover of $464 billion during the first-half of fiscal 2006-07 ending September 30. AEI

Second Quarter Net Sales Up 8% for Art's-Way

Art's-Way, Armstrong, Iowa, saw its net sales grow by 8% in the second quarter and by 14% on a year-to-date basis.

The company attributes much of the increase to the inclusion of Art's-Way Vessels, Inc., net sales of $1,484,511, for the 6-month period.

Art's-Way Vessels, Inc., was acquired Oct. 4, 2005, and was included in sales for the previous year. The company had revenues totaling $6,929,306 for the first 6 months, compared to $7,391,716 last year.

Overall, the company's gross profit is down from 31% to 29% year to date. The compnay says this slight decline is due to a reduction in sales of grinder mixers, which have a slightly higher margin than some of its other product offerings.

The farm machinery company also indicates that it expects the engineering work required to get an exportable beet harvester ready for production will be completed by this summer.

The company's backlog as of May 31, 2006 was $5,790,000 compared to $3,042,000 one year ago. AEI

German Equipment Maker, Rabe, has New Owner

Rabe, the German tillage and seeding equipment manufacturer placed in administration earlier this year, has been bought as a going concern by private investors.

The new business — Rabe Agri GmbH — is now owned by the Rau family, which is understood to have few if any links with the agricultural equipment industry and is unrelated to the Rau operations of the Kverneland Group.

Nonetheless, Stephanie Egerland-Rau, Rabe's new managing director, an MBA business graduate with many years experience in manufacturing and service industries, is confident that building on the re-organization instigated by the company's previous owners will secure its future.

According to export manager, Sieghard von Pannwitz, the company's fortunes in the short term are underpinned by a sizeable order book valued at around $13 million.

"We have recently won three tenders for the supply of equipment to Russia, and these orders have been placed despite knowledge of the company's financial situation," he explains.

"They are major orders, for more than 600 units of moldboard plows, seed drills and power harrows."

The healthy order book situation is further illustrated by the fact that Egerland-Rau says the new company will employ all current staff and that the Bad Essen site is likely to be expanded.

Rabe Agri's predecessor company had a turnover target of $46 to $49 million for 2005. AEI

Farm Equipment Industry Notes & Newsmakers

Art's-Way Manufacturing Co., Inc., Armstrong, Iowa, announced the appointment of Michael B. Hilderbrand as president and CEO on July 31. Hilderbrand brings to Art's-Way over 25 years of diverse business management experience including 10 years in agribusiness, most recently with Case New Holland (CNH) where he was senior director — marketing, intelligence and analytics. His career at CNH included stints in strategic marketing, corporate governance, quality, dealer network development, and customer relations, as well as 4 years on the corporate staff based in London, England.

Western Peterbilt, Seattle, Wash., the largest operator of heavy-duty truck dealerships in the Pacific Northwest, named Frank Anglin president and CEO. Anglin was previously Case IH VP North American Agricultural Business.

Kuhn Knight, Inc. broke ground on June 28 for a 78,000 square foot building expansion of its manufacturing facilities at its North American headquarters in Brodhead, Wis. The project is scheduled for completion by the end of this year.

Titan Machinery, Fargo, N.D., one of the country's largest dealers of Case IH farm equipment has broken ground for its newest dealership in Moorehead, Minn. The new store will serve as the relocated site of its Fargo Case store. The company will maintain its headquarters in Fargo. It expects the new location to be up and running before the end of 2006. Titan is also building another new facility in Grundy Center, Iowa, which will consolidate the Iowa operations in Dike (the former Walterman Implement that Titan has been the Case IH operating agent for since its bankruptcy) and Whitten (Hauser Implement).

Travis Stallkamp has been promoted to director of parts and service, for **McCormick** and **Landini Tractors, USA**, Norcross, Ga. He has relocated to Atlanta, Ga., and reports to E.W. Muehlhausen, president.

Equipment Technologies, Mooresville, Ind., makers of the Apache line of self-propelled sprayers, has announced the opening of a new dealership in Oreana, Ill. The new dealership, known as Illini Sprayer Co. is a full sales and servicing dealer for Apache sprayers in Illinois.

Bourgault Industries, Ltd., is implementing a major 36,000 square-foot expansion at its manufacturing facility in St. Brieux, Saskatchewan, to improve production and to accommodate larger equipment. Completion is slated for March 2007.

GKN, plc., based in the U.K., has acquired Rockford Powertrain, a producer of high-speed driveshafts focused on the construction and mining equipment sector. Rockford's high-speed driveshafts are complementary to GKN's current low-speed products, which are aimed primarily at the agricultural equipment market. AEI

Titan Int'l Aiming to Increase Sales 10-15% in '07

With the acquisition of two tire manufacturing facilities in 2006, Titan International, Inc., Quincy, Ill., plans to build on its growth for 2007 and integrate its subsidiaries.

This year, Titan acquired Goodyear's North American farm tire manufacturing facility in Freeport, Ill., and Continental Tire North America, Inc.'s off-the-road (OTR) facility in Bryan, Ohio. Yearly estimated sales for the facilities, $215 million and $125 million, respectively, will add a combined $340 million in sales for Titan.

Over the next 18 months, Titan will reorganize the Freeport and Bryan facilities to obtain maximum synergies. The Titan Tire facilities in Des Moines, Iowa, and Freeport will gain added sales volume through the addition of the Bryan facility in order to expand Titan's new OTR mining business.

"For 2006, I have set management objectives for my staff at $720-735 million in sales and an EBITDA range of $75-80 million," says Titan Chairman and CEO Maurice Taylor Jr. "Looking ahead to 2007, I have increased management objectives to $800-825 million and an EBITDA range of $105-115 million."

Agriculture, Titan's largest market, has been down in the first half of 2006. With the Bryan acquisition, Titan will sell General-branded large mining tires paired with Titan wheels.

"Though we've seen a dip in the ag market, large farm tractor demand will start to pick up in 2007, once everyone sees that corn harvest will not keep up with the demand of new ethanol factories," says Taylor.

Titan also expects that end users who previously relied on inexpensive tires imported to North America will realize the relationship between quality and cost.

"Once OEMs understand that they lose market share with no-name brand tires on their equipment, Titan will continue to pick up business," says Taylor. "We also offer the largest dealer network in North America, with the combination of Goodyear, Titan and Continental/General brands."

Titan purchased the Bryan tire facility for $41.4 million in property, plant and equipment, and $11.5 million for inventory. Titan currently has excess capacity and has the possibility to increase the output volume of OTR tires by a minimum of 30% over the next 12 months. AEI

Bridgestone-Firestone to Raise Tire Prices

Bridgestone Firestone North American Tire, LLC, announced on July 28 that it would raise prices on its Bridgestone, Firestone, Fuzion, Dayton, associate and private brand tire lines. Prices for all tires including agricultural uses will rise up to 4%, effective Sept. 1.

The increases will affect the replacement, original equipment and export channels, say officials.

"We are seeing an unprecedented combination of factors that simply cannot be managed through the enhanced efficiencies and increased productivity that we are continually implementing at all levels of our company," says Asahiko "Duke" Nishiyama, vice chairman and president.

"With the cost of petroleum rising at unprecedented rates and natural rubber at record levels, we have no choice but to take this action."

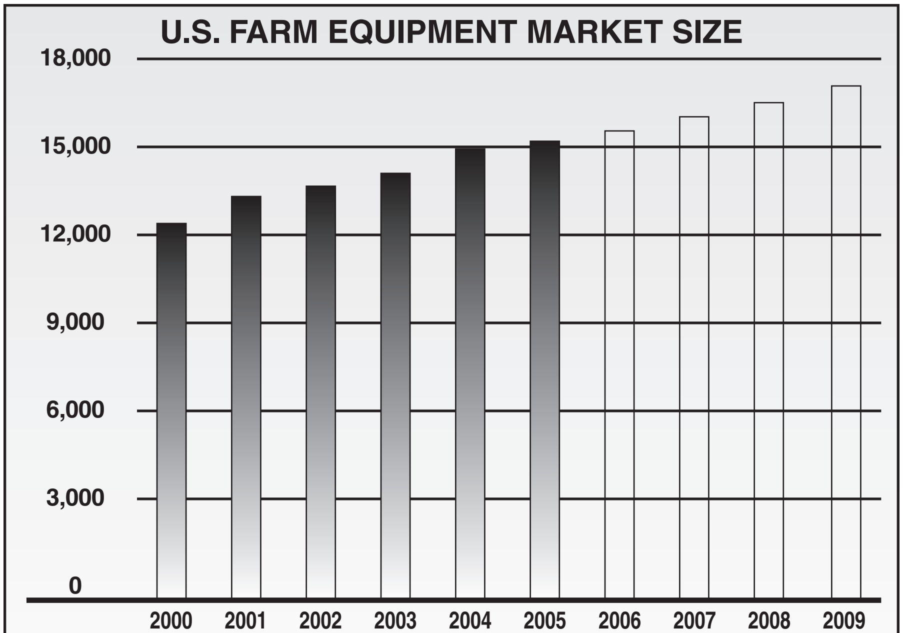
Tillage Tool Sales Off in '06

Recent discussions by Ag Equipment Intelligence editors with several shortline tillage tool manufacturers indicate the segment won't be setting any records this year.

Field cultivator sales may be off as much as 30% compared with 2005 sales levels. Deep tillage tool sales are probably down 25% compared with year-earlier levels.

The reason is that farmers are hit with higher costs, especially for fuel, seed and fertilizer, across the board and are watching new equipment dollars much more closely.

It's also likely that strip-till and no-till acres increased this year in many areas due to higher fuel costs and other input considerations. However, no one seems sure how much impact these two conservation tillage practices have really had on overall crop production. AEI



The U.S. market for agricultural equipment was approximately $15 billion in 2005 and is expected to grow to more than $17 billion by 2009. U.S. gross farm receipts remain strong, with 2006 expected to see the third highest level in history.

John Deere, which holds a 38% market share, and CNH, with 31%, dominates the U.S. farm equipment market. AGCO with a 12% market share, Caterpillar with 11% follow them and other manufacturers hold the remaining 8%.

Source: Euromonitor International

Strong Canadian Tractor Sales Can't Offset U.S. Dropoff

As the Canadian sale of tractors continued its surge through July — up 13.3% compared with the same period a year ago — it wasn't enough to offset the continued fall off of sales in the U.S. Combined, sales of all classes of tractors across North America continue soft on a year-to-year basis.

"Year-to-date farm equipment sales remain mildly below pervasive industry forecasts for 5-10% declines in 2006," says Robert McCarthy, ag equipment analyst for Baird.

"Prior-year comparisons ease as the year progresses, albeit in less seasonally important months for tractors. July sales suggest the relatively listless demand environment persists."

The breakdown of July retail sales of tractors and combines from the Assn. Equipment Manufacturers shows the trendline continuing to slope downward:

- North American retail sales of row-crop (2WD, larger than 100 hp) tractors declined 23% year-to-year in July after a similar decline in June. Year-to-date row-crop tractor sales are now 12% below 2005 levels. July is a below-average sales month seasonally, contributing just 6% of annual sales, according to McCarthy.
- North American retail sales of 4WD tractors declined 4% year-to-year in July after a 10% decline in June. 4WD tractor sales are down 12% year-to-date.
- July combine retail sales slipped 1% year-to-year but are still up 1% year-to-date. July is the start of the most important selling season for combines, which typically peak in September prior to the harvest season.
- Row-crop and 4WD dealer inventories increased significantly on a days-sales basis in June, jumping by 10 days-sales for row crop tractors and 15 days-sales for 4WD tractors

"However," says McCarthy, "rolling last-12-months sales (the denominator in the calculation) no longer includes the relatively stronger sales from June 2005, likely inflating the inventory increase somewhat." AEI

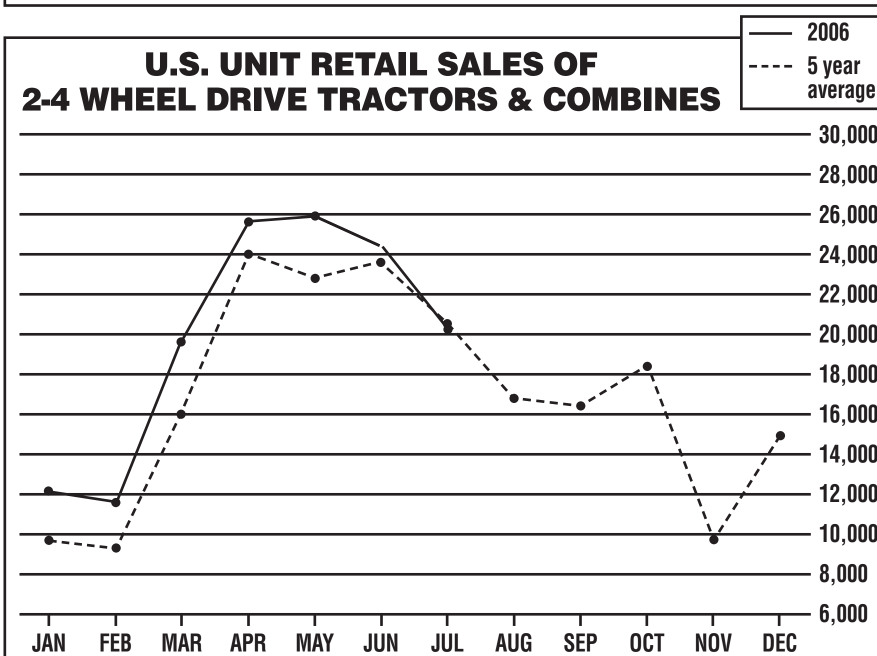
JULY U.S. UNIT RETAIL SALES

Equipment	July 2006	July 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	June 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	11,207	11,431	+2.0	79,257	79,914	–0.8	66,687
40-100 HP	7,264	7,654	+5.1	46,445	45,700	+1.6	34,318
100 HP Plus	954	1,379	–30.8	10,459	12,330	–15.2	6,100
Total-2WD	19,425	20,464	+5.1	136,161	137,944	–1.3	107,105
Total-4WD	209	224	– 6.7	1,854	2,185	–15.1	989
Total Tractors	19,634	20,688	–5.1	138,105	140,129	–1.5	108,094
SP Combines	661	744	–11.2	3,136	3,161	–0.8	1,700

JULY CANADIAN UNIT RETAIL SALES

Equipment	July 2006	July 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	June 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	942	778	+21.1	5,964	4,925	+21.1	5,306
40-100 HP	582	519	+12.1	3,960	3,680	+7.6	3,190
100 HP Plus	276	226	+22.1	2,244	2,103	+6.7	1,579
Total-2WD	1,800	1,523	+18.2	12,168	10,708	+13.6	10,075
Total-4WD	22	16	+37.5	407	391	+4.1	186
Total Tractors	1,822	1,539	+18.4	12,575	11,099	+13.3	10,261
SP Combines	348	276	+26.1	860	784	+9.7	901

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



—Assn. of Equipment Manufacturers

JCB Group Reports Record Profits, Targets Land Speed Record

JCB, the U.K.-based farm and construction equipment manufacturer, earned record profits last year and recorded all-time high production figures and sales turnover.

In the company's 60th anniversary year, pre-tax profits rose to almost $204 million — twice that of the year before — global production increased to more than 45,000 machines (up 21% over 2004) and sales turnover climbed 23% to $2.6 billion.

Sales of JCB's Fastrac tractors and Loadall 'Agri' telescopic handlers are believed to have accounted for around 11% of group turnover, mainly in the U.K., France, Germany, North America and Australia.

Last year also saw full-scale production of JCB's first diesel engine — the 4.4-litre, 4-cylinder unit assembled by the JCB Power Systems division. More than 50% of JCB's products, including all the firm's Loadall telescopic handlers, have been switched from Perkins to the home-produced power unit.

Output of the 74-125-hp engine is now running at more than 100 units a day and JCB has begun efforts to make third-party sales, which it expects to eventually account for 20% of production.

Next month, JCB hopes to underline the engine's performance credentials by setting a new world speed record for diesel-engine vehicles at the famous Bonneville Salt Flats in Utah. The company's DieselMax streamliner uses two modified JCB444 engines, bored out to 5-litres capacity and tuned to produce 750 hp each to propel it toward the 300 mph target, some 65 mph faster than the current record. AEI

Facts and Stats Show Hobby Farm Market is Still Growing

The hobby farmer is alive and well — and growing.

When *Farm Equipment* magazine polled dealers last fall, 64% reported that sales of compact tractors (45 hp or less) had grown by 25% since 2000 when 80,000 units were sold. Last year, sales of the smaller tractors rose to nearly 130,000, easily making this the fastest growing equipment sector in the ag market.

While a fair share of these are sold to professional farmers, a significant majority of compact tractors are being purchased by "hobby farmers" or for use on "lifestyle" farms. The U.S. Department of Agriculture estimates that there are about 1.2 million lifestyle farms in the U.S. and 1.6 million if farms that produce less than $1,000 in annual income are included.

Studies conducted by Rural Lifestyle Marketing, LLC, a research-based company recently formed to provide marketing services to companies attempting to penetrate the growing rural lifestyle market, show some interesting characteristics of hobby farmers. (see adjacent table)

And here's something else that Darren Boyle of Pioneer of Pierre, a Case IH and New Holland dealer in Pierre, S.D. has discovered about these lifestylers that is worthy of note by other ag equipment dealers.

According to Boyle, if someone with a hobby farm grew up on a farm but now has an off-the-farm job, they are more likely to look at used small-horsepower tractors and implements. But those hobby farmers with no farm background are much more likely to want all new equipment. AEI

CHARACTERISTICS OF HOBBY FARMERS

25.8%......own horses
81.7%......own a tractor
58.4%......grow vegetables or fruit
30.3%......have cattle
81.4%......own a pickup
25.9%......own an ATV
52% ....hunt
55% ....fish

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