From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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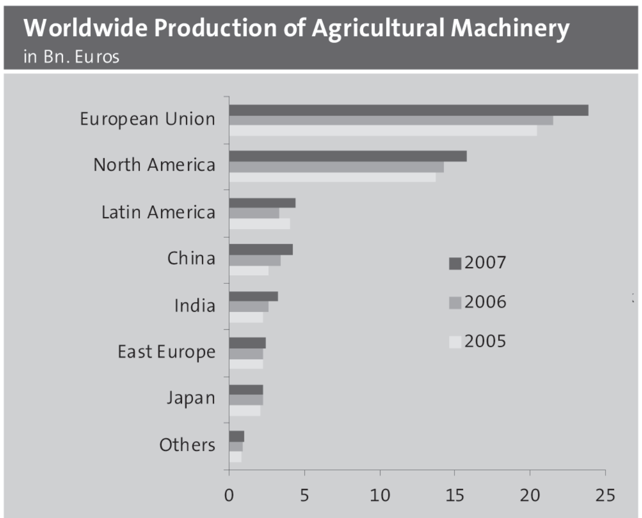
- **Rising Cost Concerns**
- **Majors' Sales All Up**
- **New Capacity at GP**

U.S., Germany on Pace for 20% Gains in Ag Equipment Sales in '08



The U.S. and Germany, the two largest manufacturers of farm machinery worldwide, are on pace to increase equipment sales by as much as 20% in 2008, according to the 2008 Economic Report on agricultural machinery from the German Engineering Federation's (VDMA) Agricultural Machinery Assn., which was released in July. North American manufacturers claimed 28% of worldwide sales in 2007, while German equipment makers accounted for 11%.

This follows on the heels of a 5% increase in global sales in 2006 and 13% last year, when worldwide sales of farm equipment reached $87 billion.

As a trading block, the European Union (EU) accounted for 42% of the total production of ag machinery last year, down 1% from the previous year due in large part to growing manufacturing in South America, China and India.

According to VDMA, the current bottleneck in the global

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New Study Projects World Demand for Ag Machinery to Reach $112 Billion by 2012

In another study of the rapidly escalating world demand for ag equipment, the Cleveland-based Freedonia Group is forecasting sales of farm machinery to rise 3.8% per year through 2012 to $112 billion.

Gains will be paced by the accelerating mechanization of agricultural in large markets such as China and India, but the U.S. will lag the world average and Western Europe will post "anemic growth" coming off a particularly strong 2007.

The rapid rise in staple food crop prices throughout the world, as well as localized shortages in 2007 and early 2008, indicate the growing need for increasing farm productivity and efficiency in developing countries, according to the study's author, Anand Mehta.

Strongest growth in ag equipment demand will be in developing countries, with China and India holding the best prospects. Other large developing nations with sizable ag sectors, such as Brazil, Indonesia, Russia and Thailand, will also post healthy gains.

In addition to their need to improve agricultural productivity, which will largely result from the replacement of old equipment and draft animals, "rising wages in many of these countries as well as large-scale migration to urban areas will necessitate the replacement of human capital with fixed capital," says Mehta.

Developed Countries Lag. Sales of equipment in the developed nations of the world and those countries that supply a majority of farm machinery — most notably the U.S. and Western Europe — will experience much smaller gains during the next few years.

According to the study, the U.S. will feel the effects of decelerating growth in economic and agricultural sector output.

Throughout the industrialized world, demand will largely be based on replacing and updating old equipment, as the farming sectors of most of these countries are not growing in terms of number of farms, acreage harvested and similar physical variables.

Meanwhile, growth in equipment production in Western Europe will fall off compared to a strong 2007 when

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demand (in dollars) was bolstered by a strong euro and other less significant factors such as Germany's boom-related forage harvester purchases for biofuels.

In the short-term, particularly in 2008 and 2009, the Western European farm machinery market should continue to register strong growth as a result of rising farmer incomes due to high global crop prices.

"In the short-term, in the next two years or so, U.S. agricultural output levels should continue to rise," Mehta told *Ag Equipment Intelligence*. "However, my forecast is for the year 2012, and I think that current high farm machinery purchase levels cannot be sustained for 5 more years. I did not project negative growth rates, as I am assuming purchases of higher end products will more than offset declines in unit purchases.

"The ethanol-related crop boom in the U.S. and high global food prices have spurred machinery purchases in the U.S., but both factors should be less significant in 2012," he says.

"In Western Europe, farmers have been replacing many lower-horsepower products with fewer higher horsepower products. In fact, unit tractor and combine sales in Western Europe declined from 2002 to 2007 even though value demand grew rapidly. This trend will be less significant by 2012," says Mehta.

"Of course this study is in dollars and fluctuations in the euro-to-dollar exchange rates could change growth rates for Western Europe."

Precision Ag's Role. The study also takes into consideration the role of precision ag practices and equipment in its short-term projections, as the major suppliers of farm machinery continue to have a significant edge in technology compared with emerging producers in China and India.

"Demand will also be aided by the development and growing use of nascent higher value precision agriculture products that make extensive use of modern technologies such as Global Positioning Satellite (GPS) systems and wireless sensors," say Mehta.

This — along with the major suppliers' expertise in manufacturing larger, more sophisticated machinery — will also provide them with an edge for at least the short term.

"China's exports of lower-end products to the West will continue to rise, while Western exports of higher-end products to China will also continue to increase," he says.

"I don't believe that China will be able to export higher horsepower, technologically advanced products, like GPS-inclusive $100,000 tractors, in the short term. Even the more advanced South Korean market continues to import higher-end products. While AGCO, CNH and Deere all offer tractors with advanced GPS systems, most Chinese manufacturers aren't capable to doing so right now."

China Closing In. While the U.S. remains the largest global supplier of ag equipment, with shipments of $17 billion in 2007, China, now the second biggest supplier, is closing the competitive gap.

Between 2002 and 2007, China's agricultural equipment industry more than doubled in size to $14.5 billion in 2007 — and the country should overtake the U.S. as the largest equipment provider by 2012, according to the Freedonia Study.

Chinese manufacturers to watch, according to the report, include Changzhou Dongfung, Foton Lovol, Shandong Shifeng and YTO Group. **AEI**

WORLD AGRICULTURAL EQUIPMENT DEMAND
(BILLIONS OF DOLLARS)

	2002	2007	2012	2017	% Annual Growth* 2002-07	2007-12
World Agricultural Equipment Demand	68.4	93.2	112.1	132.8	6.4	3.8
North America:	**14.7**	**20.9**	**24.1**	**27.0**	**0.2**	**2.9**
United States	2.4	17.6	20.3	22.7	7.2	2.9
Canada & Mexico	2.3	3.3	3.8	4.3	7.5	2.8
Western Europe	20.0	24.6	25.6	26.4	4.3	0.8
Asia/Pacific:	**23.5**	**34.4**	**45.4**	**58.4**	**8.0**	**5.7**
China	6.5	13.0	19.2	26.7	15.1	8.1
India	3.8	5.8	7.9	10.2	8.9	6.3
Japan	4.7	4.5	4.6	4.7	-0.7	0.3
Other Asia/Pacific	8.6	11.1	13.8	16.9	13.6	4.5
Other Regions:	**10.2**	**13.3**	**16.9**	**20.9**	**5.5**	**4.9**
Latin America	2.9	3.7	4.6	5.6	4.6	4.5
Eastern Europe	3.2	4.2	5.4	6.7	5.9	5.2
Africa/Mideast	4.1	5.5	7.0	8.6	5.8	5.0

**Growth rates based on unrounded numbers.* *Source: The Freedonia Group Inc.*

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USDA Ups Yields for Corn, Acres for Beans

On August 12, the USDA issued its first survey-based supply and demand report of the season. Last month, the agriculture agency resurveyed farmers who were affected by the flood, and its most recent report reflects the impact of the near-perfect weather the Midwest has experienced since the floods.

As a result, USDA is now forecasting 155 bu./acre for corn, a large swing from 148.4 bu./acre last month and well above market expectations.

Demand for feed and ethanol were increased and ending inventories were raised from 833 million bushels to 1.1 billion bushels. Average prices were lowered for the marketing year by $0.60 to a range of $4.90-$5.90.

For beans, USDA raised its harvested acres, lowered its yields and still ended up with about the same ending inventories at 136 million bushels. Average prices were lowered by $0.50 to $12.25.

In a note to investors, Ann Duignan, analyst for JP Morgan, says, "We forecast cash receipts from these major crops to reach $126.6 billion, up 25% year-over-year. With corn at $5.40 and beans at $12.25, farm incomes are still at close to record levels and should put them in a good position for continued spending.

"Additionally, the battle for corn/bean acres is likely to mount again in spring 2009 as corn prices will likely lag beans this year." AEI

State of Apache Sprayer, Supply Challenges Shared at Dealer Meeting

Ag Equipment Intelligence attended Equipment Technologies' (ET) Dealer Sales Meeting in late July in Indianapolis. Based in Mooresville, Ind., ET is the manufacturer of the Apache self-propelled sprayers.

2008 Review. Prior to the ride-and-drive that unveiled the firm's sprayer offering for the 2009 model year, CEO Matt Hays provided a "Year in Review" update to dealers, which now totals 40. Among the points he made with dealers were:

- ✔ ET experienced a unit sales increase of 70% for model year 2008.
- ✔ Sales of optional equipment increased, particularly with precision products.
- ✔ A six-fold increase was seen in auto-steer, which is expected to continue at a rapid pace.
- ✔ The firm's market share (calculated by units sold per planted acre) increased at an impressive rate. Hays explained that there was an overall increase of 40% in units sold per planted acre and that the firm's top-5 dealers in market share saw an increase of 58% in units sold per plated acre. All but 9 dealers in the network sold more units in 2008 than in prior year, he says.

What's Ahead for 2009. Looking ahead, Hays describes the supply environment as "the most inflationary I've seen in 23 years. It's a vicious, perpetuating cycle where all suppliers want to raise prices at the drop of a hat. Plus, there's a scarcity issue on top of all of this."

Noting that virtually all supply material (500-some parts at his firm) is increasing and becoming extremely hard to source (especially difficult in steel, rubber and freight), Hays shared that Apache saw annual increases in driveboxes, booms and axle tubes of 72%, 50% and 25%, respectively. Year-over-year cost increases were well into double digits, and may worsen, he says. During the meeting, dealers were told that they no longer can rely on one price for a full 12 months, and that current 2009 pricing would be guaranteed only through December.

The firm is limiting its 2009 list price increase to 9.8%, while at the same time adding 33% more capacity to the Mooresville plant. Expecting most other manufacturers to imple-

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FARM MACHINERY TICKER (AS OF 8/12/2008)

Mfr.	Symbol	8/12/08 Price	7/10/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$56.94	$47.88	$71.95	$36.66	15.87	2.14 M	5.22 B
Alamo	ALG	$20.00	$20.99	$26.60	$16.77	12.52	42,370	195.92 M
Art's Way	ARTW	$16.50	$26.58	$19.88	$6.33	24.70	25,421	65.54 M
Caterpillar	CAT	$71.81	$68.42	$85.96	$59.60	11.80	7.33 M	43.71 B
CNH	CNH	$35.34	$29.21	$70.00	$27.65	12.07	497,078	8.39 B
Deere*	DE	$69.35	$65.84	$94.89	$56.96	14.80	6.34 M	29.89 B
Kubota	KUB	$34.53	$33.43	$43.41	$28.34	14.39	51,892	8.84 B
Titan Mach.**	TITN	$21.55	$27.13	$34.49	$11.50	26.77	847,591	379.97 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.*

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ment higher price increases, Hays says, "We're betting on our own ability to be more efficient in the most difficult environment we've faced," says Hays. "Increasing the value proposition for the customer at this time will deepen and widen the 'moat' around Apache Sprayer, making us harder to compete with."

In describing ET's approach to business, Hays cited its ownership (six shareholders) as a significant and competitive strength. "There's no push to pull capital out of the business," he says. "They're never so focused on the next quarter that they make decisions that could jeopardize future potential." AEI

AGCO's Net Sales Rise 27%, Sees Strong Demand in Second Half

On July 29, AGCO Corp. reported record sales of $2.4 billion and record net income of $1.34 per share for the second quarter of 2008. Net sales for the period increased 27% compared to the same period in 2007.

For the quarter, net sales were $2.4 billion compared to $1.7 billion for the same period of 2007. The company also reported net income of $133.1 million for the second quarter of '08 compared to $63.8 million in '07.

Net sales increased 26.6% in the second quarter of the year compared to the same period in 2007. For the first six months of 2008, net sales grew 24.2% compared to the first six months of 2007.

Tractor and combine production levels were up 19% in the second quarter of 2008 compared to the second quarter of the previous year. The company's forecast for all of '08 calls for unit production of tractors and combines to increase 16% to 18% compared to 2007 levels.

Second Half Mixed. AGCO says it expects 2008 farm equipment demand to increase from strong 2007 levels and is projecting its earnings to improve as a result of a net sales growth of between 26% and 28%. The impact of raw material cost inflation is expected to also increase in the second half of the year, with much of it hitting in the third quarter.

In a note to investors, Stifel, Nicolaus & Co. analyst Barry Bannister, reported that AGCO's $1.34 EPS easily beat the Street's ($0.97) and his own EPS projections of ($1.10). But he sees some "surprises" in the company's outlook for the remainder of the year.

New Challengers? "Citing materials costs temporarily above pricing, as well as Europe, Asia and Middle East production comparisons and seasonal shut-downs, AGCO management's guidance calls for a softer third quarter but a strong fourth quarter," Bannister says. "Another surprise was the effect of currency — exports from Brazil to the region — and competitive pressure on South American margins."

JP Morgan analyst Ann Duignan also noted that the company lost $13 million in North America in the first quarter of '08 but lost only $1.3 million in second quarter "as likely mix and volume of high-end equipment supported the business."

On the other hand, she also points to lower margins in South America, which came in at 9.6% vs. 11.8% last year. "A key question for management is whether the lower South American margins are a result of Deere's recent opening of its manufacturing base in the region." AEI

Despite Record-Setting Quarter, CNH Takes Softer View of Rest of '08

With second quarter revenues of $5.6 billion and $347 million in net income, CNH Global, parent company of Case IH and New Holland equipment brands, easily surpassed its record-setting first-quarter performance and beat Wall Street projections for earnings in the period.

CNH reported that strong worldwide agricultural equipment industry retail unit sales growth, combined with improved market share, drove net sales of ag equipment up 38% during both the second quarter and first half of 2008.

The company also reported that farm machinery sales, product mix improvements and pricing actions also drove a 28% increase in CNH's gross profit in the second quarter compared with 2007 and offset weakness in its construction equipment segment. Ag equipment operating margins reached a record 12.8% in the second quarter.

Full-Year Outlook. Despite its continuing strong performance through the first 6 months of the year, CNH's outlook for the remainder of 2008 is more conservative than expected, according to some analysts.

"Second-quarter revenue was $5.6 billion vs. the consensus of $4.8 billion and our view for $5.1 billion," Ann Duignan, analyst for JP Morgan wrote in a note to investors.

"Ag revenues were 15% above our expectations at $3.8 billion vs. $3.3 billion, while construction revenues were 5% above our expectations at $1.44 billion. Ag equipment margins were very strong at 12.8%, while construction delivered weaker margins at 6.5%. The company cleanly beat [projections] with strong ag equipment leverage."

CNH raised its outlook for 2008, forecasting revenue growth of 25% vs. 20-25% earlier. It also projected EPS of $3.40-$3.60 vs. prior guidance of $3.45, according to Duignan. "This compares with our prior EPS of $3.53. With the beat of analysts' estimates in second quarter we are now at $3.82 vs. guidance of $3.50 and consensus is at $3.69, implying that back half is likely lower than currently forecast — or conservative."

Solid Margins. She also noted that equipment gross margins "were below our expectations at 20.2% vs. 21.3% and operating margins were 11.1%, above our forecast of 10.5%." AEI

Could Rising Crop Costs Dampen Growers' Equipment Spending?

Will the volatility of grains commodity pricing seen in early August, together with the rapidly rising costs of growing corn and soybeans, be the combination of factors that puts the brakes on the record-setting equipment sales seen in 2007 and '08? Farm equipment makers and dealers don't want to find out.

But based on the projected run-up in the costs of inputs, "Large income losses would occur if commodity prices returned to historical averages," says Gary Schnitkey, farm financial management specialist for the Univ. of Illinois Extension Service.

Schnitkey is the author of the report, "Dramatic Increases in Corn and Soybean Costs in 2009," released in mid-July, which concludes that significantly higher production costs in 2009 are facing Illinois corn and soybean farmers. The cost increases were projected for central Illinois farms having high-productivity farmland.

"These cost increases will lead to higher breakeven prices for both corn and soybeans," says Schnitkey. "Higher costs will cause farmers to more closely examine how much to adjust cash rent bids. Higher costs also may influence marketing and crop insurance decisions."

And without a doubt, it will influence equipment-buying decisions.

Corn Costs Rise 85%. For corn, non-land production costs for 2009 are projected at $529 per acre, a $141 per acre increase from 2008 levels of $388 per acre. Between 2003 and 2007, non-land production costs averaged $286 per acre.

Production costs for 2009 are projected to be $243 per acre higher than the 2003-07 average, an increase of 85%.

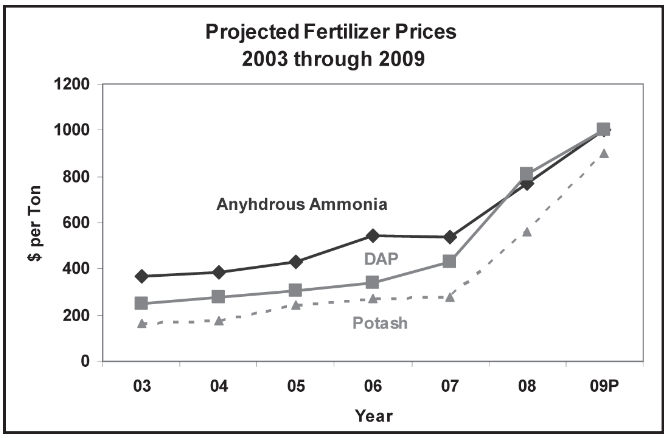
For soybeans, non-land production costs for 2009 are projected at $321 per acre, up by $82 over 2008 costs of $239 per acre. Between 2003 and 2007, non-land costs for soybeans averaged $180 per acre. Productions costs for 2009 are projected to be $141 higher than 2003-07 levels, an increase of 78%.

"Fertilizer is the input with the largest cost increase," says Schnitkey. "For corn, fertilizer costs in 2009 are projected at $215 per acre, an increase of $97 per acre over the 2008 projected level of $118 per acre.

"For soybeans, fertilizer costs in 2009 are projected at $98 per acre, a $53 increase over the 2008 level of $45 per acre."

Other Rising Costs. Besides fertilizer, seed costs are projected to increase, according to the study. Also up in the 2009 projections are insurance and power costs.

Based on yield expectations of 191 bushels per acre, the 2009 breakeven price for corn is $3.82 per bushel. The soybean breakeven price is $9.65 per bushel. **AEI**



Fertilizer is the input with the largest expected cost increase for 2009, according to a recent Univ. of Illinois report.

FARMERS WILL HAVE MONEY TO SPEND

With all the rising costs that farmers are seeing in seed, fertilizer, fuel, cash rent and machinery, some dealer salespeople may be reluctant to go out and give the customer 2009 machinery pricing.

At the 2008 Great Plains National Dealer Meeting, Tom Evans provided an analysis that demonstrates his belief that farmers will indeed have the dollars to reinvest in their iron at year's end, despite rapidly rising input costs that are creating psychological obstacles for both farmers and their dealers.

Using Univ. of Illinois data (which includes operator and land return), Evans showed that the cost per bushel of corn was $2.62 in 2003 vs. $4.70 in 2008 — a striking difference. However, with the average price per bushel for 2001-2005 being $2.40, the difference was -22 cents per bushel. Looking at the 2008 budget, the average price per bushel of corn is $6.25, reflecting a positive margin of $1.55/bushel.

If the average yield is 186 bushels per acre at a margin of $1.55, the profit per acre is $288.30. Over 1,000 acres, that's a $288,300 profit.

Using the same approach to examine soybeans (average cost/bushel for 2001-05 was $6.90 with an average sales price of $6), farmers experienced a net loss of -90 cents/bushel. The budget for 2008 showed a net of $2.45/bushel (calculated by sales price of $14 minus costs of $11.55 per bushel). With an average yield of 54 bushels/acre at $2.45, the profit per acre is $132.30, or a total profit of $132,300 on a 1,000-acre operation.

Evans also added that with the economic stimulus package, a buyer of farm equipment can write the entire $250,000 purchase off in one year, bringing a strong end-of-year sales environment. Evans' message to dealers at the meeting: "Innovation and technology sell in any market."

RISING PRICES IMPACTING AG EQUIPMENT MANUFACTURERS

Item	Avg. Price Increase
Steel Tubing	80%
Steel Plate	76%
Flat Disk Blades	36%
Coulter Blades	26%
Imported Coulter Blades	47%
Tire & Wheel Assemblies	22%
Hub & Spindle Assemblies	12%
Springs	31%
Cylinders	22%
Castings	20%
Curved Disk Blades	45%

Source: July 2008 Great Plains Manufacturing National Dealer Meeting

Great Plains Manufacturing Adding New Plant Capacity to Meet Demand

In addition to seeing a number of planter, drill and tillage tool new product introductions for 2009 at Great Plains Manufacturing's National Dealer Meeting in Kansas City in mid-July, *Ag Equipment Intelligence* also got insight into the sales growth and manufacturing plans of the farm equipment manufacturer. Founded by current owner Roy Applequist in 1976, the firm has 8 manufacturing locations in Kansas for its large ag and smaller equipment (Land Pride) divisions.

Sales Growth. While the privately-owned Great Plains does not share financial information, it is widely recognized as the largest and fastest-growing shortline implement maker in the U.S. Rick Hanson, president, told the dealers in attendance that the firm sustained double-digit growth in six out of the last seven years. He also added that sales doubled since the last dealer convention in the summer of 2006.

If the firm's projections for 52% sales gain in 2009 (on the heels of a 44% gain in 2008) are on target, Great Plains will have realized an average annual growth rate of 30% per year over the past 5 years. Projections for 1,200 employees in 2009 will represent a 43% increase over 5 years ago.

Applequist cited three market factors for the firm's impressive growth: the Land Pride-Kubota marketing alliance, the rising grain prices boosting farm profits, and the extremely strong exports over the last several years, which has led the firm to doing business in 25 nations. Applequist's son-in-law, Daniel Rauchholz, is leading the export business as international sales manager.

Investing in Plant Capacity. As concerns over equipment availability increased, one of the messages Great Plains wanted its dealers to hear loud and clear was that it was making necessary investments to help them get the equipment to sell. Applequist explained that the firm was adding three major new assembly lines between now and February, including two lines in Salina as well as a dedicated Turbo-Till and Disc Harrow line in the new Ellsworth location it purchased earlier this year. "There have not been many new tillage plants built in the U.S.," says Applequist, noting that the renovation was nearing completion and that production should commence in Ellsworth by the last week of August.

The firm plans to add three more robotic welders (to 27), has a laser cutter on order (bringing total CNC cutting units to 13) and has two new paint lines in process (to 10 total). The firm also has 23 CNC machining centers.

With the 2009 expansions in Salina (increase of 209,000 square feet) and Ellsworth (increase of 148,000 square feet), Great Plains' total plant space is now 936,000 square feet. Combined with Land Pride (which is adding 37,000 square feet of capacity at its Lucas plant), the firm will have a total of 1.3 million square feet of plant space next year. AEI

Deere's Ag Sales Rise 35% in Quarter, But Misses Street's Estimate

While Deere & Co. announced a record worldwide net income for its fiscal third quarter of 2008 of $575.2 million compared with $537.2 million for the same period last year, it still failed to meet the expectations of Wall Street analysts.

For the first 9 months, net income was $1.708 billion compared with $1.4 billion. Worldwide net sales and revenues increased 17% to $7.739 billion for the third quarter and were also up 17% to $21.036 billion for the first 9 months. Net sales of the equipment operations were $7.07 billion for the quarter and $19.07 billion for 9 months, compared with $5.985 billion and $16.066 billion for the respective periods last year.

Higher Expectations. "Deere reported $1.32 for the third quarter vs. the consensus of $1.37 and our projection of $1.38," Ann Duignan, the machinery analyst for JP Morgan says in a note to investors. "The miss vs. our estimates came entirely from non-ag businesses. Commercial and consumer equipment had revenues on par with our forecast of $1.3 billion, but Deere reported weak operating profit of 6.8% vs. our forecast of 8.4%."

Stifel Nicolaus analyst Barry Bannister also noted that Deere's worldwide ag profit margin was 14% vs. the consensus of 12.8% on a 35% increase in sales, producing an agriculture segment 17% incremental margin. He called it "a bit light vs. the strong sales increase."

Ag Sales Strong. Sales of farm machinery increased 35% for the quarter and 34% for 9 months, with the improvement in both periods due to higher shipment volumes, the favorable effects of currency translation and improved price realization.

Operating profit was $634 million for the quarter and $1.748 billion for 9 months, compared with $431 million and $1.055 billion last year.

A Robust Outlook. Worldwide sales of the company's agricultural equipment are forecast to increase by about 38% for full-year 2008. This includes about 8% related to currency translation.

Farm-machinery industry sales in the U.S. are forecast to be up 20 to 25% for the year, led by a substantial increase in large tractors and combines.

Deere's net income is forecast to reach $425 million in the fourth quarter. Escalating raw material costs are expected to have an impact on margins for the quarter.

Duignan notes that fourth quarter sales will likely be supported by tax-related spending. "Inventories have grown to 58 days-on-hand, likely to support anticipated demand from tax-related spending." AEI

Large Tractor, Combine Sales Continue Sales Surge

North American retail sales of row-crop tractors grew nearly 40% in July, following a 13% increase in June, and are up 28% in the last 3 months. Combine sales were up by 31% during the same period, according to the latest figures from the Assn. of Equipment Manufacturers.

"Industry retail sales of large agricultural equipment retail sales comparisons remained quite robust in July, as row-crop tractor sales jumped 38% while 4WD sales increased 49%," says Robert McCarthy, machinery analyst for RW Baird.

"As the key selling season continues to gather steam, combine sales remained strong. Year-to-year declines in inventory levels appear to be accelerating on a days-sales basis, suggesting large agricultural equipment retail demand is likely outstripping manufacturers' production capacities," he reports.

Combine sales in the last 3-month period were up 22% compared with the same period a year ago. July is the second month in a series of increasingly important months for combine sales, which culminates in September and October, contributing an average of nearly 12% of annual sales over the past 5 years, according to McCarthy.

Retail sales of 4WD tractors increased 49% in July, vs. a 64% increase in June, driven by a 78% year-to-year increase in Canadian tractor sales. U.S. sales increased a more modest 13%. Total sales of 4WD tractor were up 46% in the last 3-month period.

Sales of compact (<40 HP) and mid-range (40-100 HP) tractors remained weak in July and declined 12% and 7% year-to-year, respectively.

Dealer inventories of large agricultural equipment continued to decline year-to-year on an absolute basis and were down significantly on a days-sales basis in June. Row-crop tractor inventories fell to 73 days-sales vs. 105 days-sales in the prior year, the lowest inventory levels (on a days-sales basis) since at least 1997. **AEI**

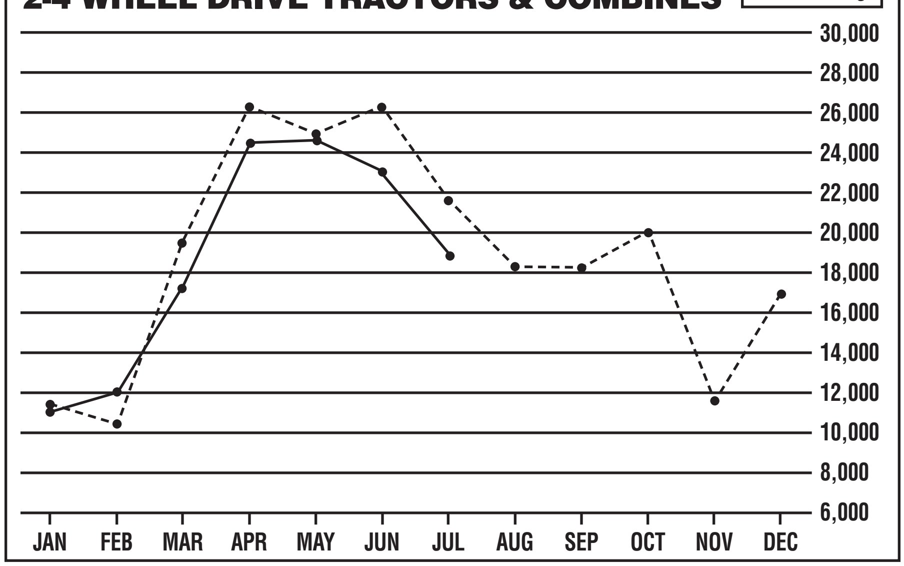
JULY U.S. UNIT RETAIL SALES

Equipment	July 2008	July 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	July 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,185	10,885	-15.6	66,550	76,595	-13.1	59,949
40-100 HP	6,518	7,176	-9.2	42,473	48,145	-11.8	35,501
100 HP Plus	1,759	1,178	+49.3	14,996	11,884	+26.2	4,696
Total-2WD	17,462	19,239	-9.2	124,019	136,624	-9.2	100,146
Total-4WD	293	205	+42.9	2,257	1,990	+13.4	650
Total Tractors	17,755	19,444	-8.7	126,276	138,614	-8.9	100,796
SP Combines	857	750	+14.3	3,852	3,402	+13.2	1,074

JULY CANADIAN UNIT RETAIL SALES

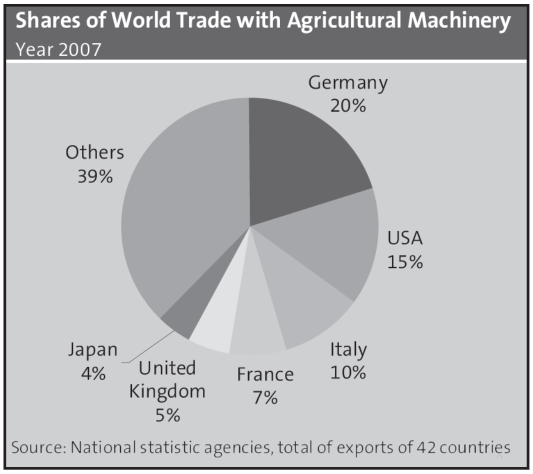
Equipment	July 2008	July 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	July 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,416	1,096	+29.2	8,649	7,159	+20.8	6,274
40-100 HP	624	540	+15.6	4,694	3,924	+19.6	3,225
100 HP Plus	240	270	-11.1	2,658	2,183	+21.8	1,221
Total-2WD	2,280	1,906	+19.6	16,001	13,266	+20.6	10,720
Total-4WD	56	30	+86.7	801	450	+78.0	137
Total Tractors	2,336	1,936	+20.7	16,802	13,716	+22.5	10,857
SP Combines	497	282	+76.2	1,203	770	+56.2	765

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



—Assn. of Equipment Manufacturers

Continued from page 1



Germany and the U.S. are the leading suppliers of agricultural machinery, providing 35% of the world's needs.

agricultural market and the growing pressure to produce more is intensifying and giving an additional impetus to business in the agricultural machinery sector.

Trade Volume Up 12%. Along with growing domestic demand for farm equipment in the countries that produce the largest share of machinery for agriculture, globalization of the industry is fueling significant growth of exports worldwide. In 2007, the trade volume (exports) in the agricultural machinery sector amounted to $49.5 billion, up 12% compared with the previous year.[1]

German equipment makers were the largest exporters of farm equipment last year, followed by those in the U.S. and Italy. Despite the falling value of the dollar, the share of U.S. share of global exports (in euros) fell by 1.5% to slightly less than 15% during the past 3 years, while Germany was able to increase its share slightly during the same period to 20%.

At the same time, Chinese exports grew by 44% to nearly $2 billion. China, which focuses on pump technology, lawn mowers and small tractors, now occupies eighth place among the nations that export agricultural machinery, according to VDMA.

While India is an emerging player in the global trade of ag machinery, it only accounts for an estimated 6% of global production and its export level remains relatively low at only 6%, or $383 million. This is largely due to the growing needs of its domestic market, which provides great potential for its manufacturers. In addition, its leading firms, like Mahindra & Mahindra, are also pursuing the strategy of serving foreign markets by building local production facilities, like the two factories they operate in the U.S.

Currency Favors U.S. "While the export-oriented industry in Europe is moaning about the high exchange rate of the euro, the U.S. has gained a considerable advantage by devaluing its own currency in recent years," says the VDMA. "However, these advantages have obviously not changed the U.S. position on the global market significantly."

In terms of value, exports of ag machinery from the U.S. increased by 19% to $6.48 billion in 2007[2]. Nonetheless, even with a 14% increase to $1.3 billion, the increase in the value of exports into the EU did not improve significantly.

Most of the increase in U.S. exports came from rapid escalation of farm production in Russia, Ukraine, Kazakhstan, Brazil and Argentina, which have become major importers of large tractors from the U.S.

In 2007, the number of combines manufactured and assembled in the U.S. by AGCO, Claas, John Deere and Case-New Holland rose by a remarkable 22% compared to 2006, reaching 8,500 units. In the first 5 months of 2008, 4,000 combines were assembled in the U.S., an increase of 11% over '06.

Brazil Booming. Following particularly difficult years in 2005 and 2006, production of ag equipment in South America skyrocketed last year with the momentum carrying over into the first half of '08. Brazil, which dominates the market on the South American continent, saw its production rise by 48% to $3.02 billion. At this level, Brazil's useful capacity is being utilized at a rate of 77%, with employment rising to 41,000 from 35,000 in 2006. **AEI**

[1]Volume is based on the sum of exports from 42 countries worldwide, which represent an estimated 95% of global agricultural machinery trade.

[2]Calculated in euros, U.S. exports grew by only 9% (average rate for 2007: 1 US dollar= 0.7297 euros).

IS RUSSIA'S AG BOOM LOSING STEAM?

In 2007, sales of new agricultural machinery in Russia grew by 78% to more than $2.5 billion. According to the German Engineering Federation's (VDMA) Agricultural Machinery Assn. report released last month, this growth will be far more moderate during the next several years.

VDMA points to several actions taken by the Russian government, including a price freeze on some food items and import tariffs imposed on the most important grain varieties. In addition, in February, the Russian Ministry of Economy and Trade initiated protective measures to limit the imports of combines into the country.

Earlier in the year, these had little effect on farmer expectations as most had already sold their harvest. They also assumed that export tariffs for grain would be abolished following the election. However, the tariffs were extended in April.

And, while prices of basic food staples were artificially frozen, the cost of fuels and fertilizer have grown significantly. At the same time, government subsidy programs for machinery financing are continuing without restrictions.

With few exceptions, Russian manufacturers are profiting from these programs, but financing through private banks, which played a major role in the boom of Russian agriculture in recent years, is continuing "only to a limited extent," as the refinancing instruments of the banks are no longer as efficient as they were previously. Experts believe that this is partly a result of the U.S. financial crisis and the global scarcity of money. In addition, profit expectations have been lowered due, in large part, to political interference.

The VDMA report also notes that, in contrast to agriculture, the raw material sector is offering more lucrative investment possibilities because of skyrocketing prices. This, it says, also applies to construction given that market's boom in Moscow, St. Petersburg and the Black Sea region.