From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Equipment Sales Down
- Lexion Changes Colors
- Landini in Brazil

AGCO Kicks Off its 'Cornerstone Brands' Strategy

With 21 brands already under its corporate umbrella, AGCO, the Duluth, Ga.-based manufacturer of farm machinery is ready to streamline the number of brands carried by its dealers in North America. This is part of a wide-ranging strategy to strengthen brand recognition, improve distribution channels and reduce costs, say company officials.

During its largest-ever dealer meeting in St. Louis on August 16 and 17, AGCO announced that it will build its dealer distribution network around three "cornerstone brands" — Massey Ferguson, AGCO and Challenger. Some dealers have taken to calling them the ROY brands — Red (Massey), Orange (AGCO) and Yellow (Challenger).

With rapid acquisition of the 21 brands in less than 16 years, AGCO had inherited an agglomeration of an estimated 1,900 dealers across North America. Some carried the AGCO tractors and implements, while others handled Massey Ferguson equipment.

> *"It's time for us to grow up and to build our identity, and that's what we're doing..."*

Still others carried only Hesston or Gleaner combines. Other dealers carried only implements and machinery like Sunflower or Spra-Coupe. Still others sold and marketed Fendt or White-New Idea tractors.

Cornerstone Brands. In an exclusive interview with *AEI*, Bob Crain, AGCO's North American senior vice president and general manager, explained the new brand strategy. "We want a distribution network that's tied to one of our cornerstone brands so it's an ACGO dealer, a Massey dealer or a Challenger dealer.

"But our product strategy is going to continue to leverage the equity of names like Hesston and White-New Idea and Gleaner combines and so on. So we really have a product strategy that will leverage the brand names typically associated with those products, but we will also have a distribution strategy anchored around the three cornerstone brands."

Crain likens the new AGCO strat-

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CNH: Trouble at the Top?

Another New Face at New Holland: Clarke Named VP N.A. Ag Business

In another significant shift in its top leadership ranks, New Holland has named David Clarke as its new vice president of agricultural business in North America. The move was effective as *AEI* went to press and the abruptness of Clarke's appointment caught some New Holland dealers off guard.

Clarke, who reports directly to Marco Mazzú, global president of New Holland Agricultural Equipment, replaces Dennis Recker, who will retire at the end of 2006 after more than 32 years of service. In his new position, Clarke oversees the sales, marketing and support functions of New Holland agricultural products in North America.

The move comes just 8 months after Bob Crain left the position to join AGCO as its senior vice president and general manager. Crain had been with the company since 1981. CNH also turned over the same position on the Case IH side earlier this summer.

Prior to beginning his career with New Holland as

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Case IH Replaces Top Executives Ferla and Sharp

In an after-hours announcement on September 13, CNH, Lake Forest, Ill., reported that it was replacing both its president of the Case IH brand, Mario Ferla, and Jim Sharp, its president of parts and services for the entire CNH organization.

CNH appeared to be downplaying the changes in its top leadership positions, saying the new appointments were "designed to further strengthen its leadership team."

Replacing Ferla, who had been with CNH for 5 years, as president of the Case IH brand is Randal (Randy) Wayne Baker, senior vice president for Logistics and Supply Chain since October 2005. In the interim, Baker will also retain his previous logistics and supply chain responsibilities, according to the statement released by CNH.

The published statement also said that Rubin J. McDougal has been appointed chief financial officer effective October 13, 2006. "McDougal brings to CNH a wealth of experience encompassing finance, strategic planning

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egy to that of its biggest competitor, John Deere.

"If you look at them, you have a John Deere dealer but what are they doing with some of their implements and attachments? They're marketing their Frontier line. They're not trying to tell everyone that it's a Frontier dealer. It's a John Deere dealer that carries Frontier implements.

Crain says the main purpose of the new initiatives are to anchor AGCO's business and the dealers' business around those three cornerstone tractors, while taking advantage of the equity and value in these existing brands.

"We're going to have a Massey Ferguson dealer that carries Massey Ferguson-Hesston, Massey Ferguson tractors and Massey Ferguson-White equipment. The same goes for our AGCO tractor dealers. So the cornerstone is really the dealer more so than the product."

Responding to industry criticism of its fragmented dealer network, Crain says, "We have more dealers than anyone. Maybe more than we should have because of our acquisition strategy, which was a great strategy. But it left us with Sunflower dealers and Hesston dealers that aren't identified as ACGO dealers. Well, its time for us to grow up and to build our identity, and that's what we're doing."

As part of the new strategy, the company revamped its distributor structure across North America, dividing the territory into 9 districts. Each district manager now has responsibility for sales, parts and service. The company will also recognize through its dealers the difference between large, commercial farmers and lifestyle farmers.

Existing Shortline Dealers. In light of the new branding strategies in place and the menagerie of dealers that make up the AGCO distribution network, Crain makes it clear that the company will not disregard those businesses that handle only shortline equipment, but will encourage them to expand their AGCO product lines.

> ***"We can approach CNH, in terms of size…"***

"We're making it very clear that we believe that we have a lot of excellent dealers out there that don't carry cornerstone tractor contracts today," says Crain. "We're happy to keep doing business with our shortline partners, if that's what they want to do. On the other hand, we want the dealers to be aware that we want to talk to them about how and when we can start expanding our business products with them. We do not intend to strong-arm them. We just need to be clear that in the long term we want them to be a full-line partner of ACGO."

When it comes to total AGCO dealer numbers in the future, Alistair McLelland, newly appointed vice president of sales, says, "Without a doubt, it will certainly be less than where we're at today. We probably need a lesser number of dealer owners with more locations. Does that that mean 1,200 locations or 800 or 900? We can't answer that question right now.

"To eliminate all of the in line competition that we have today through our acquisitions strategy, we will need to reduce the number of dealers," says McLelland. "Those are decisions that both the dealers, and we, will need to make."

Crain adds, "Our focus is not on recruiting new dealers, with the possible exception of compact utility outlets. It is to evaluate who will be long-term, high-potential dealers from our existing network while focusing our resources on helping them."

The Push to Grow. From a North American standpoint, Crain believes AGCO has a lot of room to grow from its current annual sales of $5.5 billion. Globally, the company already ranks as the second-largest ag equipment maker, but with its construction equipment sales figured in, CNH finishes in overall sales behind Deere.

Crain make it clear that the goal is to pass CNH in sales without getting in the construction equipment business. "I would say we'll be getting significantly bigger. Much larger than where we're at today."

Does he think they can double their annual sales at some point down the road? "Well, I think we can approach CNH, in terms of size," he says. **AEI**

Deere Tractor Sales Outperforms Industry in August

Deere's dealer retail sales comparisons for large-horsepower tractors outperformed the industry in August, but Deere's combine sales lagged in a seasonally important month.

Deere reported a single-digit decline in utility and row-crop sales while 4WD tractor sales were down less than the industry (industry 4WD sales were down 38%). Combine sales were down "a bit more" than the industry, according Baird analyst Robert McCarthy.

Deere's dealer inventories remained below those of the industry on a days-sales basis across all equipment types. This is consistent with Deere's working capital reduction efforts and previously announced fourth-quarter '06 production cuts.

Deere reported on Aug. 15 that its earnings during the fiscal 2005-06 third quarter ended July 31 rose 12.6% on a 7.6% increase in sales as the firm benefited from raising prices. It expects to earn $200 million during the fourth quarter and forecasts a 1% jump in equipment sales. **AEI**

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vice president of global product marketing earlier this year, Clarke served as vice president for marketing at NACCO Material Handling Group, which manufactures and markets Hyster and Yale forklift trucks.He also worked for PACCAR Inc., manufacturer of heavy-duty, over the road trucks including Kenworth and Peterbilt brands. According to New Holland, his background includes proficiencies in distribution, purchasing, material planning, product marketing, service and sales.

One New Holland dealer who spoke with *AEI* expressed "surprise and shock" when told of the change in leadership. "No one seems to know him, so it leaves me wondering what's going on there," says the long-time ag equipment dealer.

The dealer also expressed surprise at the "abruptness" of the change."I think Recker may have stayed if there was a better relationship with the Italian group that's running the company. But I just don't know," he says. "No one's been around long enough lately to establish a protocol. I'll bet the John Deere people are sitting around laughing at us."

Case IH Continued from page 1

and business development, which he has acquired through his over 20 years of experience in North America, Europe and Asia for Whirlpool Corp," according to CNH. Most recently, he was vice president of finance for the North American region.

McDougal will take over from Michel Lecomte, who has been CNH CFO since 2000. Lecomte assumes an operational role as president of parts and services for the whole of CNH, taking over the position previously held by Jim Sharp.

Both Ferla and Sharp reportedly left CNH to "pursue other interests."

In making the announcements, CNH President and CEO Harold Boyanovsky says, "Consistent with our clearly defined strategy, we are resolute about achieving our company's targets according to the timetable we have set that will allow us to be a best-in-class industry leader. Key to obtaining such results is a strong leadership team. The appointments we announced today are consistent with our strategy to target the best talent, focusing both externally and internally." AEI

CNH realigns Case IH strategy in Europe

Managers of CNH Global's European agricultural business have revamped a "common platforms" strategy that has not worked as well as hoped. Although out-of-sight components and assemblies will continue to be shared where there are cost-savings, the main purpose of the revamp is to re-establish a stronger and more distinctive identity for the Case IH, New Holland and specialized agricultural lines.

Instead of being "CNH" people, more of the company's staff will be identified with one brand, including product managers who can now plan product and marketing strategies by brand rather than across platforms.

According to Volker Brein, who heads the Case IH division in Europe, CNH tractors in the future will have closer to 50% commonality than today's 85%. While engines, transmissions, hydraulics and cab frames will continue to be shared, more effort will be made to reinforce the brand differentiation established through different styling, appearance, product mix and specifications — by introducing different cab interiors, for example.

In addition, products will be more closely identified with assembly facilities. The St. Valentin plant in Austria is set to become the focus of Case IH tractor production in Europe, making models that today are mostly assembled at the Basildon plant in England. The Basildon facility is more closely identified with New Holland products.

Output at St. Valentin, which has received more than 20 million Euro worth of investment over the past 5 years, should rise from 8,000 to 10,000 units a year, says Brein.

In the harvesting sector, Case IH managers have decided to abandon co-branding of certain New Holland combines built in Belgium and Poland. Instead, they will focus on the machines for which Case IH is best known — the Axial-Flow rotary combines assembled in Grand Island, Neb. AEI

FARM MACHINERY TICKER (AS OF 9/13/2006)

Mfr.	Symbol	9/13/06 Price	8/11/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$25.39	$23.09	$28.69	$14.60	87.55	1.58 M	2.31 B
Alamo	ALG	$22.93	$24.81	$26.00	$18.04	19.27	14,600	223.84 M
Art's Way	ARTW	$6.33	$5.42	$9.19	$4.50	13.76	5,900	12.49 M
Caterpillar	CAT	$66.33	$67.03	$82.03	$48.25	13.62	5.54 M	43.30 B
CNH	CNH	$21.80	$20.04	$30.50	$15.79	22.47	180,100	5.14B
Deere	DE	$81.26	$69.07	$91.98	$56.99	13.52	2.83 M	18.79 B
Gehl	GEHL	$25.87	$25.44	$40.73	$20.58	11.65	131,000	314.45 M
Kubota	KUB	$39.75	$40.72	$60.60	$30.10	9.78	34,200	10.32 B

Landini Moving into Lucrative Brazilian Market

Landini, part of the Italian-based ARGO group, has established a satellite tractor assembly operation to exploit the volatile but potentially lucrative Brazilian market. The new plant will also be a base for Landini commercial operations in Central and South America.

At present, U.S. manufacturers dominate the Brazilian tractor market, having established full manufacturing capability within the country. Local assembly and sourcing of some components reduces the impact on retail prices and margins of significant import taxes.

Industry figures put AGCO's Massey Ferguson marquee brand in the number one slot approaching 40% all tractors sold in Brazil. Another AGCO unit, Valtra, is the second-biggest supplier with up to 30% of sales. CNH's New Holland operation and John Deere also have tractor manufacturing plants in Brazil and account for more than 15% and around 8%, respectively.

Landini's joint venture with local crop sprayer manufacturer Montana mirrors a similar joint venture in Mexico set up by McCormick, its associate tractor firm within the ARGO group.

The Landini Montana, Ltd. operation includes a 76,000 square meter facility at Montana's headquarters at Sao Jose dos Pinhais, close to the city of Curitiba in southern Brazil. Tractors are assembled from CKD kits produced at Landini's Fabbrico factory in Italy.

Brazil is an ideal market for platform and cab versions of the Powerfarm utility range of tractors, says Landini, as well as the 140-160 hp Landpower models. The production schedule calls for 300 units in the first year, but Landini is aiming for an ambitious 15% share of the 30,000-unit domestic market within 4 years. AEI

Italian Manufacturers Strengthen 'Hold' in U.S. Market in 2006

Speaking at the Italian Farm Machinery Convention held in Newport, R.I., on September 8, Carlo Tonutti of Tonutti Group, Remanzacco, Udine, Italy, shared the latest statistics on the Italian farm machinery manufacturers' growing market share within the U.S.

According to Tonutti, vice president of the Italian ag machinery manufacturers association (known as Unacoma), Italy accounts for 10% of all American farm machine imports, with a strong presence in tractors and components for tractors, forage equipment and tilling machines. "Imports from Italy have grown consistently in the last 5 years, and further growth is expected," he says.

In 2005, Italian tractor exports to the U.S. totaled 10,250 units at a value of $250 million, up 4% from 2004. Other types of machines accounted for 23,000 tons at a value of $190 million, up 2% from 2004.

Tonutti shared that through the first quarter of 2006, tractor exports totaled 3,900 units, valued 7.5% more than in the same period of 2005, with other machines up 10% to 14,000 tons.

Unacoma and the Italian Trade Commission started "Project USA" in 1980 to assist Italian manufacturers penetrate the American machinery market. AEI

Flexi-Coil Branding Re-Introduced in Australia

The restructuring of CNH's New Holland and Case IH operations and consequent review of brand management in different markets has resulted in the return of the Flexi-Coil name and its traditional gray color as CNH Australia's sole tillage and seeding brand.

"We have aggressive plans to return Flexi-Coil to its number one position in the highly competitive Australian market," says John Lloyd, who heads CNH agricultural operations in Australia and New Zealand.

"This strategy exclusively applies to tillage and seeding equipment and in no way affects the dual-brand distribution strategy that is in place for New Holland and Case IH tractor, harvester, hay and forage equipment."

CNH Global acquired the Canadian manufacturer in 1999 and production of seed carts, air drills, cultivators, coil packers, ground-engaging tools and trailed sprayers continues at its Saskatoon, Saskatchewan, facility.

Former Flexi-Coil employee Steve Mulder has been appointed to support and develop sales of the seeding and tillage equipment in Australia as part of CNH's precision agriculture unit.

Reverting to the Flexi-Coil identity opens new distribution opportunities for the products. While both Case IH and New Holland dealers are being encouraged to handle the products, so are dealers who are not aligned with CNH. AEI

Caterpillar Raising Prices in '07

Is it a sign of what's ahead for the ag equipment industry? Caterpillar, Inc., on September 6, announced it would raise prices of its engines and construction-type machinery, effective January 2007.

The firm said in a filing with the U.S. Securities & Exchange Commission that prices for machinery will be raised up to 5% and up to 7% for engines. The price increases are in line with expected economic conditions and industry factors, Caterpillar says.

It's not unusual for Cat to lead the way on these announcements, so it's probably a sign of things to come for farm equipment in '07 as well.

The company predicted in July that sales of its construction machines and diesel engines for the North American market are now expected to rise by nearly 15% for 2006 compared with a previous forecast of 12%. AEI

Kirovets Aims to Ward Off Western Competition

The Russian manufacturer of Kirovets tractors is investing in new designs and production facilities to defend its position in domestic and traditional export markets within Eastern Europe. In addition, the company is preparing an export drive into the West.

In addition to the high horsepower articulated 4WD tractors that the St. Petersburg Tractor plant has built in the past, production of a rigid chassis 140-160 hp tractor was started 12 months ago and plans have been revealed for a 220-280 hp design. Both use engines, transmissions and axles from leading Western component suppliers.

"We are trying to ensure that Kirovets has the place it deserves in the Russian market," says sales director Alexander Petrov, in an interview with *Trekker en Werktuig*, a Dutch farm machinery magazine. "We will not be pushed out of the market by imported Western tractors. Within 10 years, we will have a complete range of tractors from 140-490 hp."

The K 3000 ATM and proposed K 5000 ATM designs were developed by engineers at Russia's Kirov plant in partnership with AgroTechMash (ATM), the plant's distributor in Russia and Germany, and Berlin-based engineering consultant United Technologies.

The smaller of the two tractors uses a Valtra transmission while the larger one has a ZF transmission. Both designs use Deutz engines, Carraro front axles and Bosch electronic controls for the hydraulics system.

According to general director Alexander Krikunov, these components and the Kirov plant's new assembly line will ensure quality standards equivalent to those seen in tractors built in Europe and North America.

"Our strong points are that these tractors are 15% cheaper than comparable machines built in the West and we build tractors that are easy to repair and maintain," he says. "That is of great importance to our customers in Russia and neighboring markets because there is still a lot of emphasis on the driver being able to maintain and repair his tractor."

Kirovets articulated 4WD drive tractors, currently with Mercedes-Benz engines up to 450 hp, will continue to be developed, says Petrov.

"We realize there is now huge interest in rigid-frame tractors — it is evident from the number of imported models and this is the reason we started work on our own versions," he says.

Other News Out of Russia

✔ McCormick is the latest Western manufacturer with a presence in Russia. It has appointed a distributor — and has delivered an initial batch of XTX200 and ZTX280 tractors.

✔ The Ukraine government wants to sell its 27% stake in Kharkov Tractor Plant (KTP), which in addition to producing armoured military vehicles, makes wheeled and crawler tractors from 16-35 hp.

KTP reportedly has built 3 million tractors, operating as an industrial combine to manufacture most of its own components, including engines and transmissions. A private investor owns 26% of the company's shares. AEI

Lexion Changes Colors in Australia

New distribution arrangements for Challenger and Claas farm equipment in Australia have been triggered by the decision of a Caterpillar dealer to wind down its network of farm machinery outlets.

Westrac has resigned its Claas Lexion and AGCO Challenger franchises for Western Australia, New South Wales and Queensland to focus on the booming mining and construction industries.

AGCO's Australia office in Melbourne has appointed independent dealers in these areas for its Challenger combines and wheeled and track tractors. In other parts of the country it continues to be represented by the multi-branch Cat dealer William Adams.

Claas, however, has negotiated to withdraw its franchise from the William Adams network and is now selling Lexion combines in its own colors through Victoria-based Landpower Australia. This is an established distributor of Claas tractors, hay tools and handlers.

This brings an end to sales of Lexion combines in Caterpillar colors in Australia, which mirrored the ongoing arrangement in North America. This was established when Claas and Caterpillar set up their joint venture to complete assembly of Lexion combines in the U.S. and sell them through the Caterpillar dealer network.

The Claas Omaha operation is now wholly-owned by the German harvest machinery specialist following Caterpillar's decision to step back from the agricultural market. However, the Cat-colored machines are still sold across the U.S. through Caterpillar dealers.

Landpower Australia, which has two retail centers and trades with a network of more than 100 independent dealers, will cease to represent Deutz-Fahr at the end of this year. It is understood that this German firm, owned by the Italian Same Deutz-Fahr Group is still seeking a replacement distributor.

In New Zealand, where the company services the territory with 13 of its own retail branches, Landpower managing director Geoff Maber says his group will continue representing Deutz-Fahr for the foreseeable future. AEI

Case IH Gets $55 Million Order from Turkmenistan

Case IH, Racine, Wis., reported on Aug. 22, that it obtained a $55 million order to supply Turkmenistan, via a local distributor, with 220 farm tractors and 100 cotton pickers by the end of this year. The Case IH tractors will be built at an existing plant in the U.S. The cotton pickers will be sourced from another company-owned site in Benson, Minn. AEI

Kuhn Plans Production Revamp in France

Kuhn Group is closing one of its manufacturing facilities in France and relocating production to other Kuhn facilities across the country to reduce costs and improve efficiencies.

Key objectives of the plan, say Kuhn Group managers, are to "end the high losses made for years" at the Kuhn-Nodet facility. The integration of seed drills with power harrows and tillers should lead to more efficient assembly of implements.

The Kuhn-Nodet operation, based at Montereau, 85 miles south of Paris, will be closed. It was acquired by Kuhn in 1996 and makes pneumatic fertilizer distributors, crop sprayers and seed drills.

The manufacture of soil preparation machines at the current locations in Saverne, eastern France, where Kuhn Group has its headquarters, and Chateaubriant in western France will be merged with the seeding equipment lines of Kuhn-Nodet.

Kuhn-Nodet has 145 employees and last year generated sales equivalent to $30.6 million, almost 5% of Kuhn Group's $642.6 million global sales turnover. This was generated by a workforce of 2,800 at production facilities in France, the U.S. and Brazil.

Kuhn Group's parent, the Swiss technology group Bucher Industries, has made a $9.7 million provision for the restructuring program. Reporting on the first 6 months of this year, Bucher says Kuhn sales were up 1% compared with the same period in 2005, with the value of sales orders up 4.6% (2% when currency differences are taken into account). It also reports a weaker operating profit for the agricultural business beyond the costs of the restructuring provision. AEI

The preliminary view of the 2007 Dealer Business Trends Survey indicate dealers confidence level (or lack thereof) by mainline representation. Deere dealers led the way with pessimism with 41% projecting declines of 2% or more next year. Conversely, the survey's weighted averages showed that Kubota, independent and New Holland dealers are all expecting unit sales increases in 2007. Look for more details in the forthcoming special report of 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 Equipment Industry Notes & Newsmakers

AGCO Corp., Duluth, Ga., has appointed Gretchen DeCoster as vice president, customer support North America. DeCoster will be responsible for the North American Parts Division in Batavia, Ill., and Product Reliability located in Hesston, Kan., and Jackson, Minn.

Leon Malinowski, president of farm equipment maker **Leon's Mfg. Co.** in Yorkton Saskatchewan, died on August 23, 2006.

The **North American Equipment Dealers Assn.** Fenton, Mo.,has hired Roger Peach to fill the newly created position of advocacy and communications specialist. In his new position, Peach will conduct industry research as well as monitor and report about U.S. and Canadian legislative issues.

Harper Industries, Harper, Kan., manufacturer of agricultural, hydraulic and commercial turf equipment, has announced that Roger Maisch has joined the company as vice president, sales & marketing.

Textron, Inc., Providence, R.I., a low-volume producer of Jacobsen-branded lawn care equipment, has sold the assets of Schiller-Pfeiffer, Inc. for undisclosed terms. The asset sale excludes products made for the golf and professional turf-related markets, including utility-type vehicles.

CNH, Lake Forest, Ill., formally broke ground on August 16 on a new state-of-the-art parts distribution center in Cameron, Mo. The 500,000-square-foot facility is expected to be completed by early 2007, and fully operational by mid-year 2007. The new CNH parts operation will eventually employ 150 workers. AEI

N.A. Ag Equipment Sales Fall for Third Consecutive Month

North American retail sales fell on a year-to-year basis across all tractor classes again in August. Year-to-date farm equipment sales remain mildly below pervasive industry forecasts for 5-10% declines in 2006.

The drop off in sales was the result of the slowing U.S. market, which slipped 10.9% to 17,137 units from 19,236 units one year earlier, according to the Assn. of Equipment Manufacturers At the same time, Canadian turnover of ag machinery-increased in August by 15.2% to 1,591 units from 1,381 units during the same period in 2005.

"Though August is a seasonally less important month for row-crop and 4WD tractor sales, the 14% year-to-year decline in combine retail sales during the first month of the peak selling season underscores the relatively tepid demand environment," says Baird analyst Robert McCarthy. "August is an average sales month seasonally, contributing 8% of annual sales."

North American retail sales of row-crop (2WD; 100 hp and larger) tractors in August declined 21% compared to the same period of '05. Following a 23% decline in July, year-to-date row-crop tractor sales are now 13% below 2005 levels.

Sales of 4WD tractors declined 38% on a year-to-year basis in August after a 4% decline in July, leaving year-to-date 4WD tractor sales 15% below prior-year levels. Sales during August contribute an average of only 4.1% of annual sales.

Combine sales slipped 14% compared to the same period of 2005 and are now down 2% for the year. Unlike tractor sales;August is a relatively important month for combine sales, contributing 12% to average annual sales.

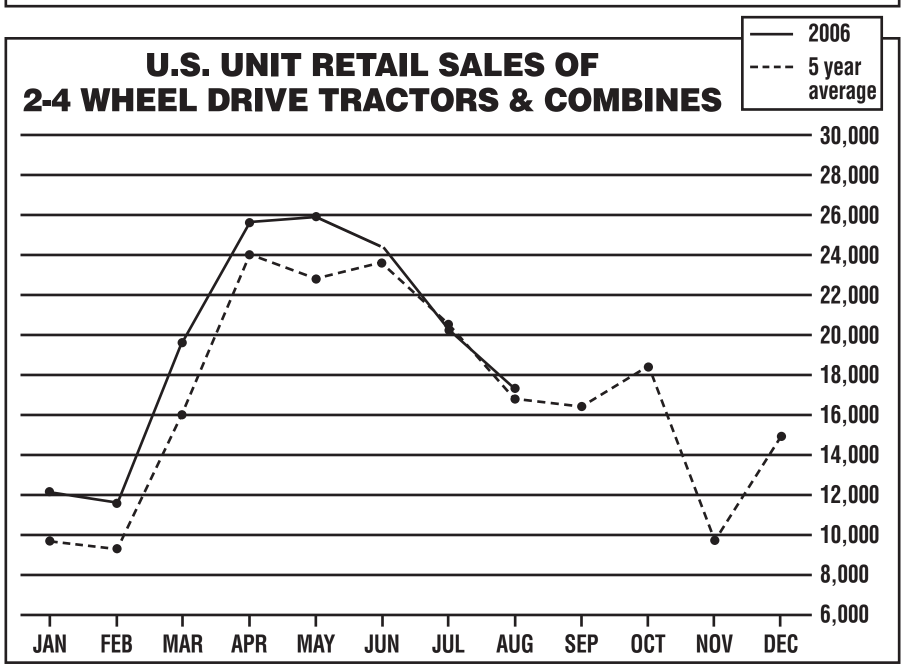
Row-crop and 4WD dealer inventories increased on a days-sales basis in August, increasing by 5 days-sales for row-crop tractors and one day-sales for 4WD tractors. "However, relatively soft sales volumes in the last several months have pushed rolling last-12-months sales — the denominator in the calculation — lower, contributing to the days-sales inventory increase," adds McCarthy. **AEI**

AUGUST U.S. UNIT RETAIL SALES

Equipment	August 2006	August 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	July 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,654	11,141	– 13.3	89,103	91,052	– 2.1	63,310
40-100 HP	5,985	6,195	– 3.4	52,351	51,894	+0.9	34,717
100 HP Plus	838	1,008	–16.9	11,277	13,338	– 15.5	6,227
Total-2WD	16,477	18,344	– 10.2	152,731	156,284	– 2.3	104,254
Total-4WD	128	214	– 40.2	1,980	2,399	– 17.5	994
Total Tractors	16,605	18,558	– 10.5	154,711	158,683	– 2.5	105,248
SP Combines	532	678	– 21.5	3,666	3,839	– 4.5	1,683

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	August 2006	August 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	July 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	714	520	+37.3	6,690	5,445	+22.9	5,102
40-100 HP	459	363	+26.4	4,414	4,043	+9.2	3,126
100 HP Plus	150	243	– 38.3	2,390	2,346	+1.9	1,564
Total-2WD	1,323	1,126	+17.5	13,494	11,834	+14.0	9,792
Total-4WD	23	29	– 20.7	430	420	+2.4	188
Total Tractors	1,346	1,155	+16.5	13,924	12,254	+13.6	9,980
SP Combines	245	226	+8.4	1,104	1,010	+9.3	752



—Assn. of Equipment Manufacturers

South African Tractor, Baler Sales Up, Combines Stay Flat

Tractor sales in South Africa staged a recovery over the first 6 months of this year. This followed a slump in 2005 brought about by a record corn harvest in the preceding year that caused prices to drop below profitable levels.

According to retail sales figures compiled by the South African Agricultural Machinery Assn. (SAAMA), 2005 tractor sales ended 11% lower than the previous year with 4,677 units. Combine sales slumped 35% from 277 units in 2004 to 180 last year.

Through the end of July 2006, tractor sales were 21% ahead of the same period in '05. However, SAAMA Chairman Nick Sanders notes that this encouraging situation is tempered by the fact that the strongest demand is for lower-tech and pre-price rise models.

"With the weakening of the rand, corn prices have improved significantly during the second quarter and initial expectations are that a much bigger maize crop will be planted this year," he says.

"But with the inevitable equipment price increases following the rand devaluation, farmers who needed tractors for the summer cropping season brought forward their purchase decision and have been buying up older, lower-priced stock."

Current industry expectations call for 5,000 to 5,500 new tractor sales to South African farmers this year.

SOUTH AFRICAN FARM EQUIPMENT SALES – JANUARY TO JULY

	Tractors	Combines	Balers
2006	3,194	116	290
2005	2,647	180	230
Change	20.7%	– 35.4%	26.1%

In contrast, combine sales have yet to show any signs of recovery, with first-half figures recording purchases at the same level as last year. Baler sales are more buoyant, especially for conventional small-bale models, thanks to early season demand. First-half sales were up 26%, reports SAAMA, with the upward trend strengthening through August.

At the association's annual meeting last month, Sanders reflected on the South African farming industry's fortunes, noting that net farm income fell for the third consecutive year. It dropped 20.9%, or $1.5 billion for the 12 months ending December 31, 2005.

"This again created pressure on the cash flow of farmers and debts increased to an estimated $4.66 billion from $4.43 billion in 2004," he reported. "The reduction in prices received by farmers, particularly for field crops, had the largest influence on their cash flow position, which decreased 12%."

Forecasts for the 2005-06 agricultural season were confirmed by this past year's results, he added. The imbalance of supply and demand, which created surplus stocks and low prices, meant farmers were urged to reduce corn plantings.

SOUTH AFRICAN ANNUAL TRACTOR SALES

2006	5,000-5,500*
2005	4,677
2004	5,280

"A total of 1,567,200 hectares, with an expected yield of 6.04 million tons, were planted for the 2005-06 crop, a reduction of 44% from the near 2.8 million hectares grown in the prior year, which yielded 11.45 million tons," explained Sanders. "This caused a negative effect on the sales of tractors and implements and without exception, agricultural machinery companies had to adjust to the circumstances."

Common measures included maintaining lower inventory levels and diversifying equipment offerings. In the case of local manufacturers it meant reducing staff or diversifying into non-agricultural equipment.

On other issues, the SAAMA chairman reported that legislation defining a new class of vehicle — Haulage Tractor — should be promulgated by Parliament either later this year or early in 2007. This will legalize a vehicle type that has been widely used in the sugar and timber industries for nearly 25 years.

In addition to lobbying relevant government bodies, SAAMA has used publicity initiatives to make consumers aware of the inferiority of "gray" products. It hopes that South Africa's forthcoming Consumer Protection Bill, which aims to protect consumers from being exploited by unethical business and marketing practices, like failing to disclose counterfeit brands, will also help. AEI

Equipment Costs Lagged Other Farm Expenditures in 2005

Overall U.S. farm production expenditures totaled $223.1 billion in 2005, up 5.3% from the revised 2004 total of $211.8 billion. However, figures released by USDA's ag statistical services in August shows that that the total equipment-related expenditures fell as a percent of the total for 2005 vs. 2004.

The largest contributors to the increase were fuels up 26.3%; taxes up 14.3%; fertilizer, lime and soil conditioners up 12.3% percent; livestock and poultry purchases up 11.5%; farm services up 9.7%; and interest up 9%. AEI

U.S. FARM PRODUCTION EXPENDITURES -- 2004-05

Expenditure	2004 Total Expenditure (millions)	2004 % of Total	2005 Total Expenditure (millions)	2005 % of Total
Tractors and Self-Propelled Farm Machinery	$8,700	4.1	$8,500	3.8%
Other Farm Machinery	$4,300	2.0	$4,100	1.8