From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

October 15, 2007
Vol. 14, Issue 6

- **New Dealer Markets**
- **Strong Sept. Sales**
- **Land Pride-Kubota Deal**

AGCO Re-thinking Its Strategy After Being Stymied in China

AGCO Corp. is re-thinking its options for establishing a manufacturing foothold in the burgeoning Chinese tractor market after its plans were stalled to acquire a controlling stake in Hong Kong's First Tractor Co., the largest farm tractor manufacturer in China. They have been negotiating since mid-2005 to acquire a controlling interest in the publicly held firm that is traded on the Hong Kong stock exchange.

"We are now confronted with the decision to continue with take-over negotiations or abandon the talks and set up a greenfield operation," says Martin Richenhagen, AGCO's chairman and CEO. "We anticipated acquiring a 51% shareholding, but that has since been reduced to 50% and officials and politicians say only 45% is achievable."

Another factor that has stalled AGCO's ambitions is the divergent opinion on the value of the First Tractor business.

"The difference is such that the Chinese believe their company is worth twice as much as our due diligence report would indicate," says Richenhagen.

"The price being asked is too high; and in any case, would we want a minority stake in a public Chinese company?"

In June 2005, when news of initial talks between AGCO and First Tractor Co. emerged, Richenhagen envisioned a joint venture, probably making 40-100-hp tractors and carrying AGCO's worldwide Massey Ferguson brand.

Progress has been slow since then, however, and AGCO has seen Deere & Co finalize the acquisition of Ningbo Benye Tractor Co. in August of this year.

Deere's acquisition provides a manufacturing source for 20-50-hp tractors and complements its existing activities in the country. Deere already builds 60-120-hp tractors in China at a joint venture factory. AEI

DEERE BECOMES A TARGET AS CHINA DEFENDS QUALITY PROBLEMS

Stung by U.S. criticism of the quality of a growing number of its products, the Chinese government is fighting back and taking aim at some of America's largest companies, including General Electric, the U.S. unit of Philips Electronics and John Deere.

In an interview with *The Wall Street Journal* (October 10), Li Changjiang, China's senior quality control official and head of the government's 30,000-person inspection service, presented a list of defects and dangers he said have turned up in products shipped by U.S. companies.

According to Li, earlier this year, Chinese quality control inspectors discovered a broken crankshaft on an imported cotton-picking machine made by Deere and attributed the problem to a design defect. Deere ultimately agreed to replace the parts on the $17.9 million shipment of 100 machines.

Ken Golden, a spokesman for Deere, of Moline, Ill., says the company recognized a "quality issue" in the engine model for the No. 9970 cotton pickers shipped to China. Deere was told that only one machine had actually failed, he says. The company replaced the part on all 100 cotton pickers "even though the probability of engine failure was low," Golden says. "At no time could the defect have endangered the users of the equipment," he adds.

A U.S. Ethanol Glut? Don't Tell the Rest of the World

Despite the recent cancellations of several planned expansions of U.S. ethanol plants and pointed comments about an ethanol glut and rising feed and food prices, it doesn't appear that the rest of the world is taking notice.

Plans to expand the use of biofuels — ethanol and biodiesel — in both South America and Europe are moving ahead rapidly and increased production is underway.

Ann Duignan, analyst for Bear Stearns, toured Brazil's ethanol and sugar cane operations in August and reports that the country is rapidly expanding its production capabilities. This, she says, is a positive catalyst for ag equipment makers, like AGCO.

Cane Ethanol Demand Booming. According to Duignan, there are 47 new mills being built in Brazil and each will require about 100 new tractors as well as sugarcane harvesters for every 700 million metric tons of sugarcane. "Additionally, there are a total of 90 mills being discussed and financed for construction by 2010 — requiring about an additional 9,000 tractors. The government in Sao Paulo has also mandated the use of mechanized harvesting of sugarcane over the next decade.

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"Today, less than 20% of the crop is harvested mechanically," says Duignan. "The long-term growth opportunity for agricultural machinery in the region is compelling."

AGCO has a 60% market share of the Brazilian tractor market and South America accounted for about 12% of the company's 2006 revenues, most of which came from Brazil.

"Its Valtra product range is the tractor of choice in the sugarcane industry," says Duignan. She also notes that John Deere is building a new facility in Brazil and is likely to gain market share as time progresses.

Europe is already well ahead of the U.S. when it comes to utilizing biofuels and has recently increased mandates for increasing their use for cars and trucks. (*See "France's Exel Industries Banking on Ethanol Demand" on p.4 in this issue of AEI.*)

U.S. Ethanol Production, Imports Expand. A report by the U.S. Dept. of Energy's Energy Information Administration on October 2 showed that ethanol production in July reached 13.05 million barrels, up 518,000 from the previous month. Daily production surged to 421,000 barrels in July compared to 418,000 barrels in June.

In addition to the increased production, imports also grew. The U.S. imported 1.227 million barrels in July to the East Coast, up 470,000 barrels from June. Imports to the West Coast increased from 126,000 barrels in June to 220,000 barrels in July. Even the Midwest imported 2,000 barrels of ethanol compared to 1,000 barrels in June. Ethanol supplies in the U.S. at the end of July jumped to 9.696 million barrels versus 629,000 barrels in June. **AEI**

Fendt Tractors Closing in on Sales Milestone

AGCO's Fendt tractor operations are on target to reach the one billion euro mark for the first time as investment in the Bavarian plant in southern Germany begins to lift production capacity. Last year, the factory sold 12,157 Fendt tractors, 7% more than in 2005. Revenues totaled $1.25 billion at current exchange rates.

"The prevailing mood of our customers this year is better than I have ever experienced in my career and the investment sentiment is very buoyant," says Hermann Merschrott, Fendt vice president. "Despite some supplier bottlenecks experienced at the beginning of the year, I'm confident we will reach the planned target of 13,400 units and go through the billion euro threshold in 2007."

AGCO will spend $61 million at Fendt this year, including more than $44 million on product research and development.

Germany remains the biggest market for Fendt, where it has a 19% share of the total market and vies with Deere for leadership. However, in Fendt's principle market — the 'professional farmer' segment for tractors of more than 100 hp — it leads with a 25% share.

Despite expectations that sales in Germany will fall back from the 2006 high of 29,000 units — up 5,500 in the year prior — to around 28,500 in 2007, Merschrott is planning a 200-unit increase to 5,000 sales of Fendt tractors by year-end.

Fendt sales in most other European markets will also be up, he says; and it's something he can predict with some certainty given that this year's production is already sold out.

Shipments to North America of fewer than 200 units will be higher than last year but continue to disappoint, says Peter Paffen, vice president for sales and marketing.

"Fendt is still not very well known, we have limited distribution and despite modifying the transmission to fit bar axles and achieve suitable track settings, we don't build a typical row-crop tractor," he explains. "Essentially, we are competing in a small, niche segment in geographical areas where the farming methods and mindset are closer to European norms. The weak dollar vs. the euro also makes life difficult, of course."

Fendt has a stronger presence than is evident, however, when sales of tractors equipped with its CVT transmission technology are taken into account. Nearly 30% of the Vario hydro-mechanical transmission units assembled at the Marktoberdorf tractor plant go into sister brands Massey Ferguson, Challenger and AGCO. Some also go into JCB's 8250 Fastrac model. **AEI**

Irish Farm Machinery Forecast to Grow 8%

The Irish farm machinery market is expected to grow by 8% this year, according to figures released by the Farm Tractor and Machinery Trade Assn. The numbers show a growth in new tractor sales with more than 4,500 units sold in the first 8 months of the year.

"Sales of new tractors are running 18% ahead of last year and this could bring the market to exceed 5,000 units by the year end. This would the highest level of new tractor sales in 30 years," said spokesman Richard Harris.

The analysis of the total machinery market also shows a significant growth in sales of combines for 2007. New figures show that close to 40 new combines were sold in 2007, a 50% increase compared to 2006.

The market for new tractors is expected to continue to be strong into 2008, with increased sales of farm machinery, especially tillage equipment, surpassing 2007 levels. **AEI**

AG EQUIPMENT INTELLIGENCE (ISSN: 1934-3272) is published monthly for the farm equipment industry by Lessiter Publications Inc., P.O. Box 624, Brookfield, WI 53008-0624. Please send any address changes as soon as possible to the address shown above.

U.S., Canada and Mexico print subscriptions are $349 per year. Save $50 by receiving *Ag Equipment Intelligence* each month via E-mail Internet access at only $299 per year. International print subscriptions are $449 per year. Send subscriptions to: *Ag Equipment Intelligence*, P.O. Box 624, Brookfield, WI 53008-0624. Fax: 262/782-1252. Phone: 262/782-4480 or 800/645-8455 (U.S. only). E-mail: info@lesspub.com.

Land Pride-Kubota Deal Worries Shortline Manufacturers

A month after Land Pride inked a strategic marketing alliance with Kubota (which allows the more than 1,000 U.S. Kubota dealers to offer "Kubota performance-matched" implements) in response to worries over the perceived shortline exodus from Deere dealerships caused by Deere's push for its Frontier product line (*Land Pride, Kubota Seek 'One-Stop' Synergies, AEI September 2007*), there's now even more concern for shortline equipment manufacturers. Sources tell *AEI* that manufacturers like Woods Equipment are very concerned, as it gleans nearly half of its business from Kubota dealers.

It is also rumored that Case New Holland is in discussions with rotary cutter manufacturers for a similar arrangement to what Land Pride and Kubota now have.

Part of the concern is that Kubota, which has historically offered 0% financing to tractor buyers up to 125% of the base tractor's purchase price, will now offer 0% financing on Land Pride products, leaving little room for other manufacturers' equipment. Some dealers have also expressed concern that the manufacturer, which has historically been hands-off with regard to line selection, is following the lead of its major-line peers when it comes to what lines receive resources at the dealer level. Some of that independence may now be disappearing, though in the form of financing incentives.

So, this arrangement may bring more repercussions than originally thought. Several affected manufacturers will see the first round of early-order programs coming due this month, which will provide a first-glance at the effect that Kubota-Land Pride deal may have on other manufacturers.

"If CNH inks a deal with a rotary cutter manufacturer, it won't be long before it spreads to other products," says *AEI's* source. "This causes concerns that if you're not supplying one of the major-line manufacturers, you could be left in the cold." AEI

As Acres Drop, Cotton is Poised for Biggest Jump Since 2003

Equipment manufacturers and dealers take note: with everything going against it, cotton, the least profitable crop for U.S. farmers, is poised for its biggest advance in 4 years on demand for T-shirts and blue jeans from China and India, according to a *bloomberg.com* report.

While Chinese textile manufacturers buy more cotton, farmers in the U.S. are planting less.

Farmers' Profits Rise. If cotton futures for delivery in December 2008 stay below 70 cents a pound, U.S. farmers may cut sowings by 2 million acres, to about 9 million acres, the lowest since 1983, says John Robinson, an economist at Texas A&M Univ. in College Station.

Schroders, the $1 billion London-based commodity fund, has 2.9% of its assets invested in cotton and may buy more. Speculators anticipate prices will rise, and the Schroders Agriculture Fund expects cotton may more than double during the rally. Growers in the U.S., the world's biggest exporter of the fiber, may plant the smallest crop in 2 decades to produce higher-priced wheat, corn and soybeans.

"Cotton is one of the cheapest commodities around,'' says Roland Jansen, whose $129 million Mother Earth Resources fund in Liechtenstein gained 28% last year, more than double the returns of commodity indexes. Cotton may gain 66% to $1 a pound in 2008 from 60.30 cents now, Jansen says. The commodity's last increase of that magnitude was between 2001 and 2003.

"King Cotton" on the Comeback? "I'm more optimistic on cotton than on most things because cotton is so far, maybe 50%, below its all-time high," says speculator Jim Rogers.

World cotton output will fall 2.3% to 25.4 million tons in the year that started August 1, which will lead to the largest annual deficit in 5 years, the Washington-based International Cotton Advisory Committee forecasts. Consumption will rise 2.7% to 27 million tons, says the group, which represents 44 governments. AEI

FARM MACHINERY TICKER (AS OF 10/11/2007)

Mfr.	Symbol	10/11/07 Price	9/12/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$52.45	$43.96	$53.60	$24.57	NA	1.04 M	4.80 B
Alamo	ALG	$24.24	$24.17	$28.37	$20.95	26.55	27,998	237.33 M
Art's Way	ARTW	$24.54	$16.21	$26.78	$5.30	33.57	134,237	48.54 M
Caterpillar	CAT	$79.44	$72.77	$87.00	$57.98	16.16	6.89 M	50.77 B
CNH	CNH	$59.95	$52.90	$63.90	$25.55	33.53	439,459	14.20 B
Deere	DE	$152.78	$137.83	$155.04	$83.01	20.88	2.72 M	33.90 B
Kubota	KUB	$41.41	$36.76	$53.83	$35.32	16.05	55,563	10.69 B

Finnish Combine Manufacturer to Invest $4 Million to Upgrade Production Facilities

Fifty years of combine production has been celebrated at Sampo-Rosenlew's Pori works in Finland with plans to invest $4 million on improved production facilities.

Financial results for the engineering group, which also makes forest machinery and hydraulic motors, show sales increased by $9.5 million to $103 million last year, with combines and forest machines accounting for the lion's share at $72 million, up 8% over the previous year.

Sales at Sampo Hydraulics, which produces Black Bruin radial piston hydraulic motors and rotators, increased 15% to $27 million, while a new components manufacturing enterprise started in 2005 achieved net sales of $6.8 million.

At just under $1 million ($3.3 million in the year prior), net profit was disappointing, admits group managing director Timo Prihti.

"Our result was weakened by major product development projects and non-recurring product adjustments," he says.

"We also suffered from the strengthening of the euro, which particularly affected returns from export sales to North America."

Combine sales in Scandinavia, where Sampo-Rosenlew has 60-70% of the market, fell from around 400 to 300 units last year and Prihti expects demand in western countries to remain sluggish.

He is more positive about prospects for increased demand from Russia and Ukraine, the Middle East and from Turkey, where Sampo-Rosenlew has signed a marketing agreement with leading tractor and farm machinery firm Uzel to supply combines, which are now being distributed under the Turkish company's name. AEI

France's Exel Industries Banking on Ethanol Demand in Acquiring Sugar Beet Harvester Firm

French farm equipment group Exel Industries has expanded its sugar beet equipment division by acquiring the assets of harvester manufacturer Moreau. With sales in 2006 of just over $21 million at current exchange rates, Moreau is the market leader in France, with significant exports to other West European countries.

The Moreau acquisition more than doubles the size of Exel's involvement in the sugar beet sector, which is expected to profit in coming years from the development of biofuels, especially ethanol — for which beets are one of the main raw materials.

The European Union wants to see 5.75% of road transportation using biofuels by 2010 and France, which is one of Europe's biggest growers of beet for sugar production, has set its own goal of 7%.

Exel already owns 2 beet harvester manufacturers in France: Matrot, which also makes self-propelled sprayers, was acquired in 2001; Herriau, which manufactures precision planters for grain, oilseeds and vegetable crops in addition to beet harvesters, was acquired in 2003.

Their two locations in northern France will be sold for development and production will be moved to Moreau's facility at Beauvais, southwest of Paris. The real estate sale will help recoup some of the $12.1 million spent on the Moreau acquisition and the reorganization of the three companies' operations.

"Given their very similar activities, these three businesses are extremely compatible industrially," says Exel CEO, Patrick Ballu. "They also have potential for technological and commercial synergies, particularly in Eastern Europe." AEI

Despite Companywide Sales Losses, Mahindra USA Farm Tractor Sales Rise

Mahindra & Mahindra Ltd. reported on October 1 that its global farm tractor sales fell last month by 10.9% to 8,668 units from 9,729 units last year, hurt primarily by poor sales in India. Exports fell to 567 units vs. 729 units. During the April-September period of this fiscal year, the firm's farm tractor sales slipped to 49,518 units compared to 50,923 units in the same period for fiscal 2007.

Mahindra USA Inc., the Tomball, Texas, based subsidiary of Mahindra & Mahindra, saw different results. Mike Hilderbrand, head of marketing, reported that in July, Mahindra USA's tractor sales "were up 12.8% over the same month last year, and in August, sales were up by 4.4% over the prior year. Year-to-date, Mahindra USA sales are up 2% from 2006, even while the industry for our horsepower range is down 3%." AEI

Brazil Soybean Production Estimate Rise

According to the Brazilian Vegetable Oils Industry Assn. (Abiove), Brazil's 2007-08 soybean crop could hit a record 64 million metric tons, up 6-8% from last year's crop.

Abiove's current forecast is larger than that of Brazil's government agency, Conab, which is estimating the crop at 59.1 million to 61.9 million metric tons.

Local consultants, Agroconsult, has pegged Brazil's new soy crop at 62.3 million metric ton. The consulting firm Celeres, released its new forecasts for the crop to be 63 million metric tons due to an 8.2% increase in planted area from last year.

The country's soy sector is trying to recover from its struggles during the past few years. From 2004 to 2006, lower global soybean prices and weakness in the Brazilian currency has hurt growers' profitability. AEI

AEI Study: New Markets Add to Equipment Dealers Bottom Lines

During the last decade or more, ag equipment dealers that have traditionally relied solely on professional farmers for their livelihood have had to reach out to — or have been reached by — new markets to enhance or sustain their bottom lines. Among these new customers are hobby farmers or rural lifestyles, turf, lawn and landscape contractors, municipalities and parks departments, as well as construction and utility contractors.

AEI's just-released 48-page *2008 Business Outlook & Trends Report — Farm Equipment Forecast 2008*, which is included with this issue for paid subscribers, shows that these emerging market segments are becoming increasingly important to the financial well-being of dealers throughout North America — regardless of their size.

Today, sales of wholegoods to production farmers make up about 57% revenues generated by dealers in the U.S. while hobby farmers and rural lifestylers account for 21% of wholegood sales.

On a regional basis, dealers in the Northern Plains report that production farming easily accounts for the largest share of their wholegood sales — about 80%. Other regions where the professional farmer still dominates include the Corn Belt (62.5%), the Lake States (60.9%), Mountain region (58%), the Delta States (54.4%) and in the Pacific region (53.1%).

On the other hand, equipment sellers in the Southeast Region say that rural lifestylers and hobby farmers account for more than one-third, or 37% of their wholegoods sales. Other regions where this market segment accounts for more than one quarter of sales revenue include the Southern Plains, Appalachia, the Pacific and Delta states.

Market Segments Affect Manufacturers. When it comes to wholegoods sales to production farmers, the "majors" dominate. But when it comes to the other market segments, Kubota equipment heads the list in every case.

Both Canadian and U.S. Case IH dealers say that more than 75% of their wholegoods revenue is derived from production farming operations.

John Deere follows where 66.3% of dealer revenue is generated by sales of equipment to the traditional full-time farmer. AGCO dealers report that nearly 61% of sales come from production farming, followed by

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U.S. MARKET SEGMENTATION

Production Farmers	56.6%
Hobby Farmers	20.9%
Turf/Lawn/Landscape Contractors	9.7%
Municipalities/ Park Departments	4.9%
Construction Contractors	5.3%
Utility Contractors	1.8%

Major Equipment Supplier Analysis by Market Segment

	AGCO	John Deere	Kubota
Production Farmers	60.80%	66.30%	37.30%
Hobby Farmers	20.90%	12.30%	29.90%
Turf/Lawn/Landscape Contractors	7.30%	10.80%	13.90%
Municipalities/Park Depts	4.20%	5.30%	7.60%
Construction Contractors	4.90%	3.60%	8.30%
Utility Contractors	1.30%	1.20%	3.20%

	Case IH	New Holland	Independent
Production Farmers	75.20%	59.10%	47.50%
Hobby Farmers	11.70%	19.30%	28.30%
Turf/Lawn/Landscape Contractors	5.40%	7.10%	10.50%
Municipalities/Park Depts	2.50%	5.80%	4.50%
Construction Contractors	4.00%	6.00%	5.50%
Utility Contractors	1.60%	2.00%	1.70%

Segment Analysis by Major Equipment Supplier

Production Farmers

Case	75.20%	1
John Deere	66.30%	2
AGCO	60.80%	3
New Holland	59.10%	4
Independent	47.50%	5
Kubota	37.30%	6

Turf/Lawn/Landscape Contractors

Kubota	13.90%	1
John Deere	10.80%	2
Independent	10.50%	3
AGCO	7.30%	4
New Holland	7.10%	5
Case	5.40%	6

Construction Contractors

Kubota	8.30%	1
New Holland	6.00%	2
Independent	5.50%	3
AGCO	4.90%	4
Case	4.00%	5
John Deere	3.60%	6

Hobby Farmers

Kubota	29.90%	1
Independent	28.30%	2
AGCO	20.90%	3
New Holland	19.30%	4
John Deere	12.30%	5
Case	11.70%	6

Municipalities/Parks Dept

Kubota	7.60%	1
New Holland	5.80%	2
John Deere	5.30%	3
Independent	4.50%	4
AGCO	4.20%	5
Case	2.50%	6

Utility Contractors

Kubota	3.20%	1
New Holland	2.00%	2
Independent	1.70%	3
Case	1.60%	4
AGCO	1.30%	5
John Deere	1.20%	6

Continued from page 5

New Holland, where dealers report slightly more than 59% of wholegoods sales go to professional farmers.

In fact, Kubota dealers report that less than 40% of their equipment sales are derived from production farm operations, while nearly 44% come from hobby farmers and landscape contractors.

Independent equipment dealers report that nearly half (47.5%) of their wholegood sales come from production farming operations, nearly 40% are derived from hobby farmers and landscape contractors.

Employment Size Reflects New Markets. The larger a dealership is in terms of number of employees, the more reliant they are on traditional farming operations for a bulk of equipment sales.

For dealers employing between 1-20 employees, 54% of wholegood sales come from the production farmer, while dealers with 21-40 employees derive nearly 62% of revenues from sales to professional growers.

Dealerships with 41-60 staffers rely on production farming operations for 71% of equipment sales, more than 73% of sales for the largest dealers result from purchases by traditional farmers.

The reverse is true when it comes to sales to hobby farmers: the smaller the dealership, the more dependence it has for equipment sales from the rural lifestyler/hobby farmer.

For example, dealerships employing 20 or fewer employees derive nearly a quarter (23.6%) of wholegoods sales from the hobby farmer or large property owners.

At the same time, dealerships with 21-40 staffers rely on hobby farm customers for nearly 16% of equipment sales, while stores with 41-60 employees report that less than 12% of sales come from this customer base.

The largest dealerships, those with 61 or more employees derive only about 6% of wholegoods sales from hobby farmers or rural lifestylers.

The 48-page Business Outlook & Trends — Farm Equipment Forecast — 2008 report is available only to AEI subscribers. AEI

New Investment in Horsch Anderson Brings Needed Resources to Min-Till Manufacturer

The North American joint venture set up in 2001 between German tillage and seeding equipment manufacturer Horsch and Anderson Machine Inc., to tackle the broad-acre crop establishment market has attracted a new investor.

Through its investment, Harper Industries Inc., — manufacturer of DewEze agricultural and hydraulic equipment and Goosens turf equipment — has acquired a seat on the board to provide both management expertise and resources.

Saying the company "felt privileged to join the partnership," Tim Penner, president of Harper Industries, adds, "We feel that we can assist with its growth and expansion, in the way Harper has grown over the past 8 years."

Horsch Anderson LLC, based in Andover, S.D., was set up to combine the cultivation and air seeding expertise of Horsch Maschinen of Schwandorf, Germany, and the no-till opener design produced by Anderson Machine.

"The Horsch line of equipment is the leading minimum tillage planting technology in Europe and is very appropriate to the North American market," says Kevin Anderson, president of Horsch Anderson. "Together with the ideas provided by Anderson Machine, we can provide innovative technology that addresses the seeding needs of today's farmers."

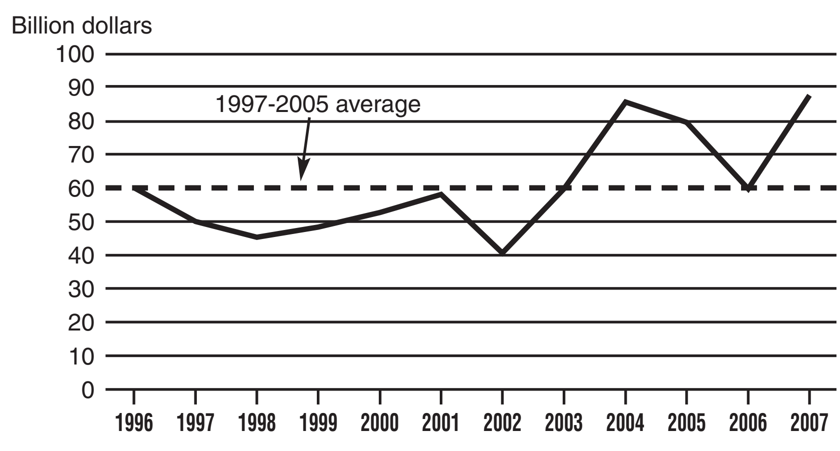
The family-owned Horsch business is enjoying double-digit growth as it exploits the rapidly expanding market for broad-acre farm machinery, particularly in Eastern Europe, which is on its doorstep.

In the company's 2005-06 fiscal year, excluding a Russian joint venture and the U.S. operation, revenues amounted to $96 million, a 16% increase compared to the year prior.

Production capacity has been expanded through the $21 million construction of a new manufacturing and assembly plant in Germany, while the Horsch Agro-Soyuz operation at Dnepropetrovsk in the Ukraine is supplying its domestic market and neighboring Russia and Kazakhstan.

"In Germany, we have gained considerable market share with our seeding and soil preparation equipment, which account for two-thirds and one-third of revenues, respectively," says Horst Keller, CFO. "But exports are growing — they now account for 60% of revenues — and we look forward to making further progress with our partners in North America." AEI

CASH INCOME EXPECTED TO INCREASE IN 2007 (net farm income — 1996-2007)



Source: Economic Research Service, USDA.

The net farm income projections for 2007 ($87.1 billion) are $28.1 billion more than in 2006, and $30 billion above the 10-year average of $57.4 billion.

Equipment Sales Continue on Upward Path

North American retail ag equipment sales comparisons were strong in September, according to Baird analyst Robert McCarthy, as row-crop tractor sales jumped 73% on a year-to-year basis. The latest sales figures from the Assn. of Equipment Manufacturers show 4WD-tractor sales increased 26%, while combine retail sales continued their recent strength, up 21% in September — the seasonally most important month of the year for combine sales. "Year-to-date large agricultural equipment sales are now up double-digits while dealer inventories continue to fall, supporting an improving outlook for machinery production schedules," says McCarthy.

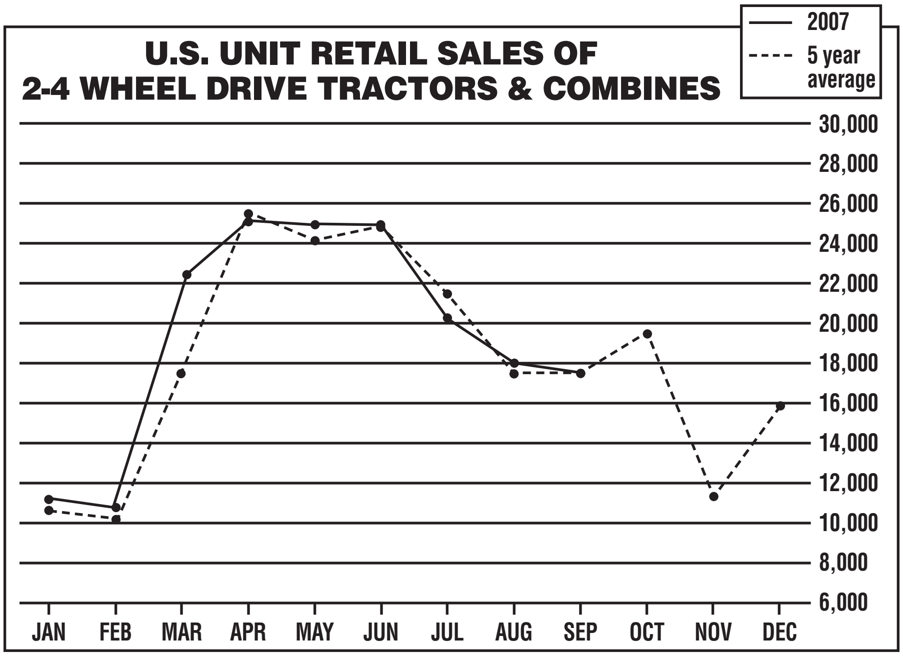
- North American retail sales of row-crop tractors (2WD >100 hp) soared in September, increasing 73% on a year-to-year basis after jumping 32% in August. Retail sales have increased 41% year-to-year during the last 3-month period. September is a less seasonally important month for row-crop tractor sales, contributing an average 6% of annual sales during the previous 5 years.
- North American retail sales of 4WD tractors increased 26% year-to-year in September after a 7% increase in August. Sales of 4WD units increased 14% year-to-year in the last 3-month period. September is also a less seasonally important month for 4WD tractor sales, contributing 6% of annual sales on average.
- Retail sales of combines increased 21% year-to-year in September after rising 32% in August. September is the seasonally most important month of the year for combine sales, contributing an average of 14% of annual sales.
- Dealer inventories of row-crop tractors, 4WD tractors and combines continued to decline on a year-to-year basis in August, falling 7%, 16%, and 11%, respectively. On a days-sales basis, inventories of row-crop tractors (110 days-sales vs. 125), 4WD tractors (97 days-sales vs. 114), and combine inventories (92 days-sales vs. 105) also declined significantly year/year. AEI

AUGUST U.S. UNIT RETAIL SALES

Equipment	Sept 2007	Sept 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	August 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	8,401	9,690	-13.3	94,276	99,001	-4.8	53,254
40-100 HP	6,012	5,883	+2.2	60,815	58,096	+4.7	31,906
100 HP Plus	1,543	836	+84.6	14,518	12,067	+20.3	5.582
Total-2WD	15,956	16,409	–2.8	169,609	169,164	+0.3	90,742
Total-4WD	275	214	+28.5	2,410	2,186	+10.2	843
Total Tractors	16,231	16,623	–2.4	172,019	171,350	+0.4	91,585
SP Combines	977	809	+20.8	5,154	4,469	+15.3	1,683

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	Sept 2007	Sept 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	August 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	787	729	+8.0	8,771	7,426	+18.1	5,133
40-100 HP	446	495	-9.9	4,798	4,891	–1.9	3,298
100 HP Plus	269	209	+28.7	2,654	2,591	+2.4	1,531
Total-2WD	1,502	1,433	+4.8	16,223	14,908	+8.8	9,962
Total-4WD	28	26	+7.7	496	456	+8.8	151
Total Tractors	1,530	1,459	+4.9	16,719	15,364	+8.8	10,113
SP Combines	154	123	+25.2	1,163	1,218	–4.5	507



—*Assn. of Equipment Manufacturers*

Rising Input Costs May Reduce Farmers' Income

Farmers enjoying robust corn and soybean prices might be surprised to find themselves earning less for their crops, says Mike Boehlje, a Purdue Univ. agricultural economist. As crop prices have risen — especially corn to feed the burgeoning ethanol industry — so, too, has the cost to produce those crops, says Boehlje.

The overall effect could be to dampen grower's enthusiasm to invest in new equipment.

"Even though high prices might infer higher profits, they actually have the potential, at the same time, to create higher risk," Boehlje says. "We're now seeing some fairly significant increases on the cost side in agriculture. It isn't unusual when you get better prices that you may be more willing to pay a little bit more cash rent for land and more for fertilizers, seed and chemical products.

Margin Compression Effect. "What we see happening increasingly is what is often referred to in the business world as 'margin compression.' When you combine that with the fact that we are moving our entire price structure up and we aren't adjusting the government program on top of that, we also have more of what we call margin risk, or risk exposure," says Boehlje.

The 2007 Purdue Land Values and Cash Rent Survey found that Indiana land rental rates were up about 10% from 2006, to between $110 and $171 per acre depending on land quality and could continue rising. Seed, fertilizer and chemical costs are likely to increase from 5-20% this fall and in 2008, according to Purdue estimates.

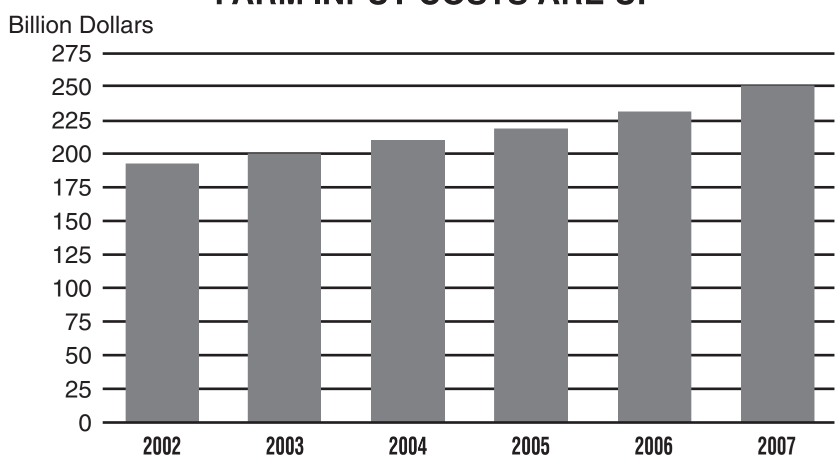
Meanwhile, for the market year, corn and soybean cash prices are averaging well above $3 and $7 per bushel, respectively — too high for farmers to receive government subsidies as loan deficiency payments (LDP) and counter cyclical payments.

The bottom line is that higher production costs and lost government support payments are reducing the crop price gains, Boehlje said.

He cites an example of how a farmer could be worse off even with higher crop prices. "With a $3 price for corn and the cash cost per bushel of approximately $2.30, margins per bushel would be approximately 70 cents. In this situation, the potential of a negative margin is almost zero since the government support price system of LDPs, counter cyclical payments and direct payments provides a safety net price equivalent to almost $2.30 per bushel — assuming the farmer gets normal yields or protects the yield risk with crop insurance.

"On the other hand, if cash costs increase by 20% to $2.75 in 2008, average margins would decline to 25 cents per bushel assuming $3 corn. The margin risk exposure increases, as well, because prices could decline below the cash cost of production of $2.75. In a worst-case scenario, assuming no change in the government program, the government safety net of $2.30 per bushel results in the potential of an up to 45-cent loss if prices were to decline below the cost of production." AEI

FARM INPUT COSTS ARE UP



Source: Economic Research Service, USDA.

Input costs for 2007 are expected to represent the 5th straight year of 4% or higher cost increases. Feed expenses represent the biggest increase, rising 7.5% over 2006.

Switchgrass Plant Scheduled for 2009 Production

Mascoma Corp., Cambridge, Mass., announced on September 27 that it will establish the nation's first operating facility producing cellulosic ethanol from switchgrass. The project represents one of the largest commitments of capital made in support of cellulosic biofuels industry. It is scheduled to be operational in 2009. AEI

Art's-Way's Net Sales Rise 32%

Armstrong, Iowa-based Art's-Way manufacturing is reporting a 32% increase in net sales for the 9 months ended August 31 compared with the same period last year. Net sales improved to $19.2 million during the period from $14.5 million a year ago. Year-to-date gross profit grew by $1.9 million.

The firm, which manufactures a variety of agricultural and other equipment, also reports that its order backlog as of October 2007 is $12,453,000 compared to $4,210,000 a year ago. Its manufacturing backlog stands at $2.8 million as of October vs. $980,000 at the same time last year.

During the quarter ending August 31, net sales improved to $8.2 million compared with $6.1 million for the same period in 2006. Gross profit for the quarter also rose to $2.8 million, doubling from $1.4 million a year ago.

The company announced on September 5 that it closed on its asset purchase agreement with Miller–St. Nazianz, in which Art's-Way acquired all inventories, tooling and other proprietary rights to the hay and forage line of Miller Pro. AEI