

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- CNH Closing 2 Plants
- Michelin's Radial Push
- Corn-on-Corn Outlook

Both Expect Sales to Slip in '07, But Dealers Look for Better Year Than Ag Equipment Makers

While both farm machinery manufacturers and ag equipment retailers are reading from the same book when it comes to their outlook for sales in 2007, they're not necessarily on the same page when it comes to the markets that will shape next year's results.

Separate surveys conducted by *Ag Equipment Intelligence (AEI)*, which measures equipment dealers' sentiments about unit sales for 20 categories of machinery for the coming year, and the Assn. of Equipment Manufacturers (AEM), that annually polls farm equipment manufacturers about their expectations for overall unit sales for 23 different equipment categories, reflect similar outlooks by both groups that sales will be flat or

decline modestly in 2007.

While the scores of each survey are measured differently, results of the *AEI* survey generally indicate a higher level of optimism among equipment retailers than that of the manufacturers. At the same time, the manufacturers polled in the AEM study feel that sales will be much more robust in the U.S. than in Canada. On the other hand, *AEI's* Canadian dealers display a higher level of confidence for improved conditions in '07 than their U.S. counterparts.

Because they are measured differently, it isn't possible to draw a direct correlation between the two studies, but the trends are apparent. Both studies note that the numbers should be

put in the historical perspective that they follow 3 years of strong sales for tractors and combines.

Of all tractor classes, both polls indicate that 2WD units over 100 hp are expected to experience the biggest decline in sales, though the Canadian dealers see sales in this category rising slightly.

Overall, manufacturers are planning for a small unit decreases in the sale of all sizes of tractors, while, excluding the 2WD over 100 hp machines, dealers see tractor sales rising to some extent. The best case sales scenario for dealers comes with the under 40 hp tractors, where they believe unit sales will rise somewhat.

Canadian equipment sellers split

Continued on page 2

Phoenix Rotary Equipment Closes Doors, Enters Bankruptcy

Ag Equipment Intelligence was told on November 8 that Phoenix Rotary Equipment, Nisku, Alberta, Canada, was in receivership to Price Waterhouse Cooper, who had started bankruptcy proceedings on November 7. Management was immediately let go. A voice recording indicated that the office was closed and did not provide an option to speak with a live body.

From what *AEI* learned, one of the firm's primary accounts payable was Revenue Canada (similar to the U.S.' Internal Revenue Service). There had been an agreement several months ago with Revenue Canada and Phoenix's bank stating that when the firm received funds from the sale of the U.S. grain dryer rights, the bank

would take some of the money and the rest would pay off the firm's balance with Revenue Canada. When the funds did come in, the bank apparently did not release the available dollars and Revenue Canada began garnishing accounts receivable. The main account receivable was an oil-field customer, who pulled all work from the firm. Prospective investors retreated, leaving the firm with no cash or income.

It remains unclear what is next for the firm or what will happen with existing warranty claims with dealers. It seems logical that someone could purchase the lines, but whether or not that route is taken may have to do with the whims of the receiver. The other major player in the rotary har-

row market, Precision Metal Fabricating, Saskatoon, Saskatchewan, was acquired earlier this year by Kelley Manufacturing, Tifton, Ga.

Phoenix was well known for its rotary harrow for the management of chemical and seed incorporation, leveling, trash and pasture requirements. It was a major player in the no-till market for dealing with residue management.

The use of rotary harrows will become more critical with the growing residue management concerns that comes in producing continuous corn. This should bode well for Landoll Corp., Marysville, Kan., which announced last month it acquired the "To The Max" harrow that was originally designed and marketed by Precision Planting. **AEI**

Continued from page 1

with their U.S. colleagues on the potential for a better year for 4WD tractors, believing sales will improve with the larger equipment as well.

Despite the equipment manufacturers' projections for a slight increase in U.S. sales of combines, overall it appears that prospects for improved sales levels are slim at best.

Other Farm Equipment

For farm equipment other than tractors and combines, dealers and manufacturers differ dramatically in the outlook for specific machinery lines.

Manufacturers see the strongest growth overall for air seeders/air drills, which they predict will show gains of 8% for the U.S. and 17.3% for Canada. North American dealers, on the other hand, see these types of products declining overall in 2007 (-0.32%), though Canadian retailers project a slight increase (+0.34%).

Of the product categories covered in both surveys, dealers see their best potential for '07 with mower conditioners (+2.7%) and farm loaders (+1.25%). At the same time, farm machinery manufacturers see the Canadian market for mower conditioners gaining by +2.6%, but in the U.S. they see unit sales falling by -2.3%. The equipment makers also see both markets for farm loaders slipping by -0.2% and -0.5% respectively.

Two markets projected to show significant growth by dealers during the coming year that aren't included in the AEM poll are GPS systems and lawn and garden equipment. GPS is forecast to show a strong 2.46% growth level. Dealers also forecast the sales of lawn and garden equipment to be healthy as well, projecting a +1.46% overall growth rate. The manufacturers poll does include electronic components, which is forecast to show gains for '07.

Lines where dealers and manufacturers agree is with tillage tools — chisel plows, field cultivators, disc harrows — which are projected to show continued sales declines.



AEM AND AG EQUIPMENT INTELLIGENCE FARM EQUIPMENT OUTLOOK – 2007 RETAIL SALES FORECAST (IN UNITS VS. 2006)

Equipment	AEM Mfrs.' Survey			AEI Dealers' Survey	
	U.S. Percent	Canada Percent	NA Wt. Avg.	U.S. Wt. Avg.	Canada Wt. Avg.
2WD Drive Tractors (<40hp)	-0.5	-0.3	+1.04	+0.83	+2.56
2WD Drive Tractors (40-100hp)	-0.2	-0.8	+0.69	+0.56	+1.49
2WD Drive Tractors (>100hp)	-3.1	-4.5	-0.40	-0.54	+0.55
4WD Tractors (all)	-2.5	-10.3	+0.14	+0.11	+0.37
SP Combines	+1.1	-4.8	-0.74	-0.94	+0.59
Air Seeders/Drills (all)	+8.0	+17.3	-0.32	-0.44	+0.34
Rectangular Balers	-1.0	-2.6	+0.21	-0.34	+0.34
Round Balers	-0.3	+0.7	+0.29	+0.15	+1.26
Chisel Plows	-1.2	-6.3	-1.15	-1.22	-0.14
Disk Harrows	-0.6	-2.3	+7.0	-0.55	+0.11
Farm Loaders	-0.2	-0.5	+1.25	+0.50	+2.26
Field Cultivators	+3.0	-4.3	-1.15	-1.25	-0.39
Forage Harvesters	-1.4	-0.8	-0.90	-0.99	-0.41
Mower Conditioners	-2.3	+2.6	+2.7	+0.26	+0.40
Planters (all)	-4.7	+3.3	-0.13	-0.19	+0.24
SP Sprayers	-3.6	-1.4	0.01	-0.05	+0.39
PT Sprayers	na	na	+0.21	+2.8	-0.22
Windrowers/Swathers	-2.3	-1.6	-0.44	-0.64	+0.80
GPS	na	na	+2.46	+2.30	+3.50
Lawn & Garden	na	na	+1.62	+1.50	+2.49
Electronic Components	+4.8	+4.7	na	na	na
Hydraulic Components	+1.0	+2.0	na	na	na
Box Scrapers	-2.5	-2.4	na	na	na
Milking Parlors	+1.0	+4.3	na	na	na
Cooling Tanks	-4.0	-2.0	na	na	na
Post Hole Diggers	+1.0	-2.5	na	na	na
Rotary Cutters	+2.0	-2.2	na	na	na
Tractor Backhoes	+0.7	-3.8	na	na	na

The AEM forecasts represent the average of responses from companies in each product line and industry-wide expectations rather than individual company performance. AEM notes that projections are for unit sales and not company profitability. The AEI results, on the other hand, reflect a weighted average of responses from more than 400 dealers that participated in the 2007 Outlook & Trends survey. The AEI survey covers 20 farm equipment categories, while the AEM ag industry outlook for 2007 covers 23 types of farm field and farmstead type equipment as well as electronic and hydraulic components.

Gehl 3rd Quarter Profit Soars by 62.7%

Gehl Co., West Bend, Wis., reported its earnings during the third quarter of this year soared by 62.7% on a 12.7% rise in sales as demand for its construction-type machinery continued to expand.

Gehl earned \$8.3 million during July-September 2006 on sales of \$121 million. That compares to a year-ago gain of \$5.1 million on a turnover of \$107.3 million. Since the year began, the company's profit was \$15 million on sales of \$382.5 million. One year earlier, it netted \$15.6 million from revenue of \$344.5 million.

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CNH to Close Two Facilities, Plans Expansion for Saskatoon Plant

In a move that surprised employees and local management alike, CNH announced on October 25 that it plans to close its manufacturing facilities in Goodfield, Ill., and Belleville, Pa.

CNH says the plant closings are part of its plan to accelerate cost reduction activities and initiate new global initiatives to improve manufacturing efficiencies. Production from these two plants will be relocated to other existing facilities in North America and Poland, which will assume full responsibility for production of European balers. More than 600 jobs will be lost with the plant closures.

"The terminations won't happen overnight, but over the course of the next year," says Tom Witom, head of news and information for CNH. "It is likely to be completed by the end of 2007."

The Goodfield plant produces tillage equipment, including disc harrows, field cultivators and fertilizer applicators. Production of the equipment will be shifted to a CNH facility in Saskatoon, Saskatchewan, Canada, where the company builds air seeders and corn planters. CNH says it will add 130 jobs at its Saskatoon plant and will be investing \$10 million toward the expansion effort.

"All of these will be transferred to the Saskatoon plant," said Gualberto Ranieri, vice president of global communications for CNH.

It's the second time in 5 years that CNH has moved a product line to Saskatoon. The company earlier moved

production of corn planters to Saskatoon from an American facility. The Goodfield plant was built in 1961, and originally operated by DMI until it was purchased by Case IH in 1998.

Plans to close the Belleville facility also came as a surprise, according to local officials. The news is a severe blow to Mifflin County and the region's economy, says Robert Postal, executive director of the Mifflin County Industrial Development Corp. "It was pretty much of a blindside. It came as news to everybody."

CNH spokesperson Kesler said

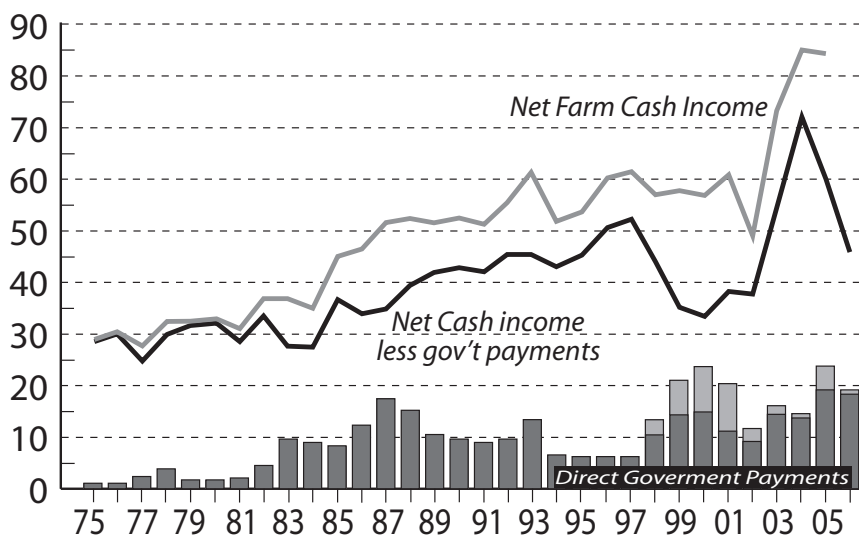
the closings are not based on employee performance but are focused on costs, market demands and excess capacity at facilities.

New Holland owned the 540,000-square-foot Belleville facility since 1942, when it purchased it from Hertzler and Zook Manufacturing. Kesler said Belleville's production of self-propelled windrowers and bale wagons will be moved to Grand Island, Neb., while pull-type hay tool manufacturing will be moved to the company's New Holland, Pa., plant to increase synergy and reduce overhead.

AEI

Farm Income Under Pressure in 2006

Billion dollars



Despite an \$8 billion drop in net cash income in 2006, the 3 previous record years has allowed American farmers pay down large amounts of debt.

FARM MACHINERY TICKER (AS OF 11/13/2006)

Mfr.	Symbol	11/13/06 Price	10/13/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$30.89	\$27.75	\$31.19	\$15.69	NA	1.54 M	2.81 B
Alamo	ALG	\$22.25	\$21.34	\$26.00	\$19.25	21.07	8,815	217.18 M
Art's Way	ARTW	\$6.95	\$6.75	\$9.19	\$4.50	16.55	4,571	13.71 M
Caterpillar	CAT	\$59.52	\$69.08	\$82.03	\$54.28	11.76	7.80 M	38.72 B
CNH	CNH	\$28.85	\$20.70	\$30.60	\$15.79	25.71	313,217	6.81B
Deere	DE	\$88.62	\$88.90	\$91.98	\$62.55	12.81	2.78 M	20.49 B
Gehl	GEHL	\$26.35	\$28.27	\$40.73	\$22.16	15.42	103,600	320.76 M
Kubota	KUB	\$40.07	\$42.83	\$60.60	\$37.58	14.62	20,690	10.45 B

CNH Third Quarter Net Income Up 148%, Rises to \$67 Million

CNH Global N.V., Lake Forest, Ill., on October 25 reported that third quarter 2006 net income of \$67 million was up 148% compared to net income of \$27 million in the third quarter of 2005.

Overall, the company reported net sales of equipment, including the company's ag and construction equipment businesses, were \$2.7 billion for 2006, compared to \$2.8 billion for the same period in 2005. Net sales decreased by 6% compared with the prior year.

"We were pleased at the continued strength of our construction equipment markets in the quarter outside of North America," says Harold Boyanovsky, CNH president and CEO. "Our equipment operations gross margin improvement has continued into the third quarter, up 1.8% compared with last year, despite slightly lower revenues, and is up 2.2% for the first 9 months compared with last year. These results strengthen our confidence in our full year targets."

Ag Equipment Sales Down

CNH reports that the increased sales of tractors, specialty harvesting and hay and forage products were offset by lower sales of combines, reflecting the combine industry declines in the North and Latin American and rest-of-world markets, resulting in a 7% decline in ag equipment net sales to \$1.7 billion, compared with the prior year. Excluding currency variations, net sales were down 10%.

Net sales were up 16% in Latin America and up 3% in Western Europe, excluding currency variations. Net sales in North America and rest-of-

world markets declined by 23% and 2% respectively, excluding currency variations.

Worldwide production of tractors and combines was 7% lower than retail unit sales in the quarter, following the company's normal seasonal pattern to decrease company and dealer inventories after the spring selling season.

Full-Year Outlook

CNH says that worldwide industry unit retail sales of agricultural tractors will be 5-10% higher than in 2005, driven by an expected 20% increase in rest-of-world markets. Industry unit retail sales of under-40 hp tractors in North America are expected to be down as much as 5% from 2005 levels. Sales of over-40 hp tractors in North America also are expected to be down as much as 5% from 2005, with industry sales of 40 to 100 hp tractors at about the same level as last year and sales of over-100 hp tractors down 15-18%. Tractor markets in Western Europe are expected to be at about the same levels as in

2005 and markets in Latin America could be down as much as 5%.

Worldwide unit retail sales of combines could be down 10-15%. Western European and rest-of-world markets are expected to be flat to down as much as 5%, while industry sales in North America could be down as much as 10%. Industry sales in Latin America are expected to be down 35-40%.

Gross Margins Improve

Equipment operations gross margin for ag and construction equipment increased by 8% to \$470 million, compared to the third quarter of 2005. As a percent of net sales, gross margin increased 1.8% to 17.5%. Ag equipment gross margin increased in both dollars and as a percent of net sales compared to the prior year. Positive price recovery and other actions, more than offset the impact of company actions to reduce dealer and company inventories and weaker combine industry volumes. **AEI**

FIAT CEO TO STEP DOWN FROM CAR-MAKING UNIT

Sergio Marchionne, CEO of Fiat S.p.A., the financially troubled maker and seller of cars, trucks, farm machinery and construction equipment, reportedly said on November 9 during an analyst presentation that he would step down as chief executive of the firm's car-making unit Fiat Auto next year. Fiat controls as much as 90% of CNH shares. Marchionne reportedly said he will appoint someone within the group to take his place, as he plans to remain at the head of Fiat through 2010.

CASE IH TO DISCONTINUE 20-HP TRACTOR LINE

Industry sources report that Case IH has notified its U.S. dealers that effective immediately, the company will cease production of its line of tractors that are 20 hp or smaller. A Case IH executive reported that the company and its dealers agreed that they should concentrate on the commercial ag market where the company has a strong foothold and has room to grow its market share.

Kubota Six-Month Net Income Rises, Revenues Up 10.6%

Kubota Corp. reported on November 7 that its six-month net income rose 16.1% from the previous year quarter with a 10.6% increase in net sales. The Japan-based company's net income for the period rose \$5.8 billion to \$37.8 billion from the previous-year period. Net sales for the period rose \$49.5 billion to \$462 billion from the comparable period last year. On a segmental basis, domestic sales decreased 1.7% to \$233 billion from the corresponding period in the prior year. Overseas sales increased 26.5% to \$233.2 billion from the same period last year. **AEI**

GOT NEWS?

Do you have news that should be covered in *Ag Industry Watch* 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.

AGCO Third-Quarter Profits Tumble Nearly 81%

Weaker markets for farm equipment in North America and the Asia/Pacific region resulted in a sharp decline of 80.5% in AGCO earnings during the third quarter of 2006.

The Duluth, Ga., company reported on November 1 that it earned \$5.4 million on lower sales of \$1.18 billion. This compares to a year-ago gain of \$27.8 million from revenue of \$1.23 billion.

Since the beginning of the year, AGCO has netted \$63.6 million on a sales turnover of \$3.8 billion. One year earlier, it earned \$95.4 million on sales of \$4.06 billion.

"Our results were negatively impacted by weaker markets in both our North American and Asia/Pacific segments," Martin Richenhagen, chairman, president and CEO says. "In addition, the continued reduction of dealer inventories in North America resulted in lower sales and operating income in the region. This reduction is part of our plan to reduce both inventory and accounts receivable throughout the year."

In North America, income from operations decreased \$20.9 million in the third quarter and \$46.5 million for the first 9 months of 2006 compared to 2005. Income from operations in the third quarter and the first 9 months of 2006 was lower mostly due to a 27% and 24% reduction in net sales, respectively, excluding currency impact, compared to 2005. The sales decline is a result of lower retail sales of AGCO products due to weaker industry conditions as well as the impact of dealer inventory reductions.

Income from operations in the Asia/Pacific region decreased \$4.1 million in the third quarter and \$12 million for the first 9 months of 2006 compared to 2005 due to lower sales in Australia, New Zealand and Asia.

According to AGCO, 2006 North American farm income is projected to be below the prior year resulting in lower demand for equipment. In South America, the strength of the Brazilian currency and high farm debt levels are expected to continue to result in lower retail sales. Industry demand in Europe is expected to be flat to up slightly up compared to 2005.

AGCO's situation was expected to be worse, according to David

AGCO ACTUAL AND ESTIMATED REVENUES AND NET INCOME — 2004-08 (IN MILLIONS OF \$)

	12/04	12/05	12/06E	12/07E	12/08E
Revenues	5,273	5,450	5,280	5,180	5,582
EBIT*	300	240	188	146	302
Net Income*	161	136	92	83	181

*UBS estimates

Bleustein, UBS analyst. Despite the falloff, AGCO's third-quarter earnings exceeded the Street consensus estimate by 7 cents per share.

"Excluding the impact from foreign currency, the sales decline was driven by weakness in North America (down 27%), Asia-Pacific (down 25%) and South America (down 4%), partially offset by strength in Europe/Africa/Middle East (up 3%). Parts sales were \$199 million, compared to \$204 million in the third quarter of last year," reports Bleustein.

"Unit volumes of worldwide tractor and combine production were 8% below the third quarter of 2005, following a 20% reduction in the second quarter. We calculate that segment operating margins declined to 4.2%, from

5.9% in the third quarter of last year. In the quarter, AGCO reported that pricing improved roughly 2%. Management expects some pricing pressure in the fourth quarter, but expects full-year 2006 price realization of roughly 2%. AGCO expects to achieve 'normal pricing' in 2007," he says.

AGCO says it reduced third quarter production of tractor and combines by 8% from last year and now expects production to increase roughly 15% in the fourth quarter. This would represent an 8% decrease in production for the full year 2006. AGCO expects 2006 Challenger sales to remain flat to up roughly 5% from 2005 levels, but still expects to incur a loss in 2006. The company says Challenger will become profitable in 2007.

AEI

Titan Reports a 52% Increase in Third Quarter Net Sales

Titan International, Inc. reported on October 30 that its net sales rose 52% in the third quarter of 2006. Net sales were \$156.1 million compared to \$102.7 million in the third quarter of 2005.

The higher sales level was attributed to the expanded agricultural product offering of Goodyear farm tires and earthmoving/construction products resulting from the Continental OTR acquisition. In July, Titan Tire Corp. of Bryan, a subsidiary of Titan International, Inc., purchased the OTR tire assets of Continental Tire North America Inc. in Bryan, Ohio.

The company also recorded a gross profit of \$17.1 million, a 56% increase when compared to the \$11 million of gross profit in third quarter '05. Year-to-date gross profit was \$70.6 million for 2006, as compared to \$57.6 million for 2005. Titan's income from operations increased 110% in the third quarter 2006 to \$4.7 million, compared to \$2.2 million in last year's third quarter. Year-to-date income from operations totaled \$33.7 million in 2006, as compared to \$29.3 million in '05.

"We are pleased to see how the Bryan OTR acquisition has offset the drop in farm revenue," says Titan Chairman and CEO Maurice Taylor, Jr.

"Since corn futures for December 2006 have gone above \$3 per bushel, we believe the large farm equipment market will be better in 2007 than in 2006. With a farm market holding in 2007 and an increase in output of OTR tires, we are excited about next year."

Net income was \$.5 million for the third quarter of 2006, compared to \$1.2 million in third quarter last year. Year-to-date, net income was \$14.7 million in 2006 and \$16.6 million year-to-date in 2005.

Michelin's Push to Ag Radial Tire Use in North America Paying Off

Michelin, the French tire-making giant, claims to be making steady progress in the U.S. ag sector as it continues to promote the benefits of high specification radials in a market still dominated by traditional cross-ply construction.

In an exclusive interview with *AEI* during the launch of the company's latest low-profile traction radial in France, Philippe Miret, the worldwide head of Michelin's farm tire operations, claimed year-on-year market share gains in the U.S. but acknowledged the company still has some way to go.

"We are taking a pragmatic and patient approach; convincing farmers to adopt a different technology can take a long time," he says. "In the U.S., radial farm tires account for a slowly growing 23-24% of the market. In Europe, 70% of tractor tire sales are radial."

Michelin's market-leading position in Europe has been won by driving ag tire radial technology and backing it with on-farm technical specialists giving advice and guidance on tire selection and inflation pressure management. Miret is convinced the same formula will work in the U.S.

"It's a different market, high-performance radial tires have not been pushed in the way they have in Europe," he says. "But it is noticeable how our competitors are responding to our activities by also promoting radial tires more actively."

Michelin faces two issues — distribution exposure and the willingness of farmers to pay a premium for the performance, extended service life and ride comfort advantages claimed for high-spec radials like the MachXBib R1+ design.

"On the first point, good distribution is strategically important and, understandably, our competitors try to protect their networks," says Miret. "But we are opening doors and use lower-priced BF Goodrich branded radial and cross-ply tires made in Hungary and Poland to give distributors a range of products."

As for the prices farmers are prepared to pay for the Michelin products, Miret says: "They are not where we would like them to be and don't reflect the value of our tires. But we have to be patient, keep demonstrating the tires to individual farmers and make steady progress."

It's a costly process and Miret concedes that its North American ag operation, established in 1997 and based in Greenville, S.C., is not profitable. But it is "on plan" in terms of investment and returns, he insists.

The main geographical focus of the company's all-American U.S. sales and service team is on the Midwest states, California and Texas, where big farming operations running high-horsepower tractors are the principal target.

"In terms of volume, the Agribib

standard profile radial is our leading product in North America, just as it is in Europe," says Miret. "But the large volume MachXBib tire for big rigid-frame tractors is also important. In Europe, this type of tire generates the higher proportion of our revenues."

Convincing U.S. large-acre farms to switch to such tires from dual cross-plys or older design radials is no easy task. But Michelin has allies among premium-brand tractor manufacturers who recognize that modern radials not only look good on their machines, but also can make the most of their performance potential.

AGCO's Challenger 400-570 hp articulated tractor, for example, is fitted with Michelin radials as standard equipment and starting next year will be first to have the new AxioBib large-volume radial as an option. This tire is said to have 20% more load capacity, up to 22% bigger footprint area and is built to withstand travel speeds of up to 40 mph.

Although Miret says he can no longer be specific about Michelin's ag tire market share in the States as competitors stopped exchanging product sales data 2 years ago, he maintains the business is gaining ground.

"Our measured approach is working. We are no longer a 1-1.5% market share player but a real challenger to the established North American tire manufacturers," he concludes. **AEI**

Corn-on-Corn to Brighten Tillage's Gloomy Picture

Charlene Finck, *Farm Journal* editor and analyst, shared a bullish forecast not only for agriculture at-large, but also tillage tool manufacturers during her Tillage Council speech at the Farm Equipment Manufacturers Assn. annual meeting on November 4. Her news was welcome to this sector of the industry, as one tillage company executive told *Ag Equipment Intelligence* that the first 9 months of 2006 has been nothing but brutal. "The tillage industry is off 19 consecutive months in a year to year comparison," he said.

Finck confirmed ag's bullish outlook due to the corn's "Perfect Storm," in which demand will outstrip sup-

ply. She expects more acres, more bushels, larger volumes of residue from increased yields, tougher stalks (due to BT and rootworm hybrids) and higher populations. She expects more than 12 million more corn acres to go in during over the next 2 years.

Her firm's test plot program is concluding that the key to success is reaching, and maintaining, uniform soil densities (which can add up to 27 bu./acre to corn yields), something that bigger farmers are already finding isn't possible with just one tillage system. The farmer of tomorrow, particularly the expanding one, will be employing many tillage practices, depending on

the needs of the field, she says.

She encouraged tillage tool manufacturers to "ride the corn-on-corn wave." Farmers want to add corn acres as fast as possible," she said. "Expect a run on tillage tools that can handle the tough residue without monster horsepower requirements and offer in-the-field flexibility for the farmer." Dealer inventories may continue to be a problem, she noted.

Finck believes that the higher farm incomes will bring more tillage. "As there's a movement toward more corn and \$3 corn, it's going to be a lot more palatable to write a check for a modern tillage tool," she predicts. **AEI**

NA Sales of Tractors, Combines 'Mixed' in October

The four-month decline in U.S. sales of tractors and combines finally came to an end — barely — in October, and the 6-month run up in Canadian turnover of ag equipment continued on its positive course during the month, according to the latest figures released by the Assn. of Equipment Manufacturers.

North American retail sales comparisons were mixed in seasonally important October, with higher mid-range tractor (+5%) and combine (+13%) sales offset by the 10.5% year-to-year drop in large tractor (row-crop and 4WD) sales. "Comparisons benefited from generally weak sales in October 2005, so the retail environment clearly remains challenging," says Baird analyst Robert McCarthy.

"However, surging crop prices suggest farmers' financial outlooks are improving, and that machinery demand could be approaching a near-term bottom," he says.

U.S. sales of tractors and self-propelled combines ended a 4-month skid after rising slightly by 0.2% to 19,765 units from 19,723 units one year earlier.

Turnover of tractors fell to 19,128 units vs. 19,177, as sales of combines increased to 637 units compared to 546 sold in 2005.

For the year, farm machinery sales declined by 3.5% to 195,648 units from 202,879 units sold a year ago. Tractor sales also dropped to 190,541 units vs. 197,269, while sales of combines decreased to 5,107 compared to 5,610 units.

Canadian sales of tractors and combines increased for the sixth consecutive month after rising by 9.8% to 3,165 units from 2,881 in 2005. Turnover of tractors rose last month to 3,000 units vs. 2,715 a year ago, as sales of combines fell to 165 compared to 166 units.

Since January, overall sales of farm machinery in Canada increased to 19,733 units from 17,586 units, rising 12.2%. Tractor sales grew to 18,353 units compared with 16,244 units, as combine sales rose to 1,380 units from 1,342.

AEI

OCTOBER U.S. UNIT RETAIL SALES



Equipment	October 2006	October 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	Sept. 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,503	9,529	-0.3	108,477	112,279	-3.4	60,371
40-100 HP	7,109	6,827	+4.1	65,270	64,987	+0.4	35,695
100 HP Plus	2,093	2,292	-8.7	14,179	16,810	-15.7	6,168
Total-2WD	18,705	18,648	+0.3	187,926	194,076	-3.2	102,234
Total-4WD	423	529	-20.0	2,615	3,193	-18.1	978
Total Tractors	19,128	19,177	-0.3	190,541	197,269	-3.4	103,212
SP Combines	637	546	+16.7	5,107	5,610	-9.0	1,521

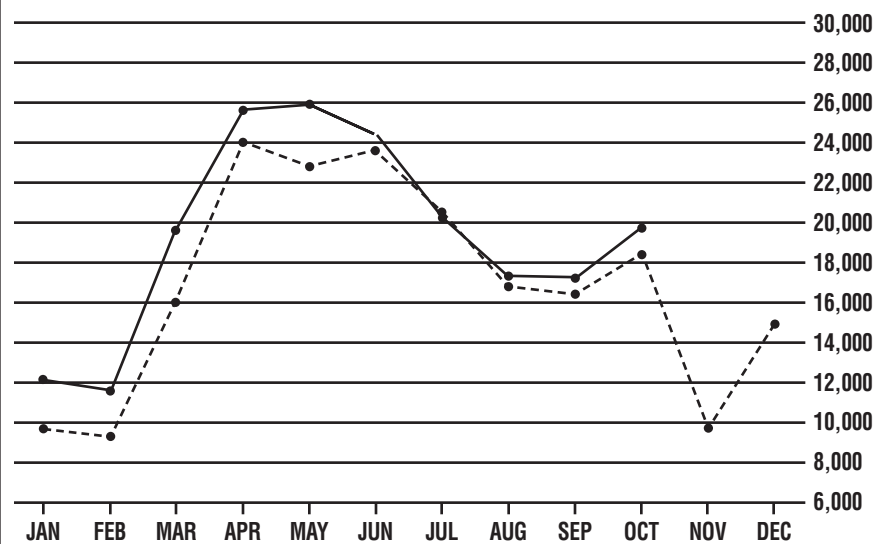
OCTOBER CANADIAN UNIT RETAIL SALES



Equipment	October 2006	October 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	Sept. 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,188	981	+21.1	8,588	7,043	+21.9	5,050
40-100 HP	1,226	1,088	+12.7	6,125	5,555	+10.3	3,593
100 HP Plus	494	567	-12.9	3,092	3,128	-1.2	1,698
Total-2WD	2,908	2,636	+10.3	17,805	15,726	+13.2	10,341
Total-4WD	92	79	+16.5	548	518	+5.8	209
Total Tractors	3,000	2,715	+10.5	18,353	16,244	+13.0	10,550
SP Combines	165	166	-0.6	1,380	1,342	+2.8	513

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

— 2006
--- 5 year average



—Assn. of Equipment Manufacturers

No Easy Answer to Where More Continuous Corn Acres Will Come From

Even with a significant increase in continuous corn acres forecast for 2007, Palle Pedersen says no-tillers who raise high-yield soybeans are in a favorable position to capitalize on higher prices.

"I don't think we will lose any soybean acres in Iowa," says the soybean specialist at Iowa State University. "As corn prices go up, so will soybean prices. And I think some ethanol plants may have difficulty getting enough corn."

Part of the anticipated increase in corn acres may come from land moving back into row crop production from the Conservation Reserve Program. The USDA recently reported that renewal rates for 10-year contracts are running about 84%, 6% less than in recent years.

In the short term, Duane Martin believes, increased corn acres will come out of the soybean acreage. The herbicide brand manager at Syngenta anticipates there could be a minimum of 87 million acres of corn and only 71 million acres of soybeans by 2010, a change from the current 82 million acres of corn and 74 million acres of soybeans.

He believes \$7 to \$8 per bushel soybean prices are possible with fewer soybean acres. While he believes \$6 per bushel bean prices will eventually lead to less wheat production, there could be as many as 4.6 million more acres of wheat next year.

He says a move to more continuous corn in the Corn Belt may also result in a shift of soybean acres to

southern states and could even lead to more soybean production in South America to meet worldwide needs.

While many in the ag industry are extremely optimistic about utilizing corn for expanded ethanol production in an effort to reduce oil imports, Charlie Rentschler is concerned that the U.S. may soon run out of corn.

"The math just doesn't add up for all this increased ethanol production that is on the horizon," says the research analyst with New York City's Wall Street Access. The accompanying chart points out his concerns.

While Rentschler believes ethanol production from corn will continue to grow, he believes the idea is overhyped, and he isn't fully convinced that it is here to stay and investing in plants may not turn out to be a good deal for farmers.

"I'd guess that we could end up with almost a record low for carry-

over stocks of corn," says Rentschler. "If we get a huge drought in the next 4 years or greatly expand ethanol production as anticipated, we could be in serious trouble."

He also maintains that producing enough ethanol from corn to shift to an E-85 transportation system is simply not in the cards at this time. Instead, he sees the North American transportation industry settling for only 10 or 15% of its energy needs eventually coming from ethanol under current crop production conditions. **AEI**

ONE ANALYST'S VIEW ON ETHANOL

While we can't (yet) predict a bust, we can say, with certainty that the ethanol industry will reach its peak in 2-3 years as U.S. corn production is maxed out — and this assumes everything goes smoothly.

The industry's progress could stall, or shrink, even sooner, if things started to go wrong — if the new Congress unsweetened the tax, tariff and other benefits, if oil prices drop, if drought afflicts the Corn Belt, if farmers won't put more acreage into corn production, and/or if corn prices shoot through the roof (due to competition within the ethanol refiners themselves or from exports). Due to the prospective boom we see coming in exports, corn, itself, in our thinking, will do fine, creating some exceedingly prosperous years for purveyors of farm machinery, nitrogen fertilizer and such.

But we see an end coming to the ethanol boom, putting a cap on the amount of corn going to that sector and a virulent shake-out and consolidation among the refiners.

Note in our model that U.S. corn production reaches a probably very optimistic peak in 2010 of 16 billion bushels — farmers can only push this further, in our thinking, via increasing yields, which will be a slow process. At that 16 billion bushel production level, the most we see going to ethanol is 4.2 billion bushels, which is the equivalent of about E20. At a rate of 2.8 gallons of ethanol per bushel, this would represent 11.8 billion gallons of gasoline in 2010, far surpassing the Renewable Fuel Standards mandate of 7.5 billion by 2012, for sure, but likely very optimistic.

— Charlie Rentschler, Sr. Analyst
Wall Street Access

WORLD COARSE GRAIN EXPORTS* (ESTIMATED 2006 FIGURES)

Country	Millions of Tons
U.S.	62
Argentina	12
Australia	3
Other Nations**	28
Total	105

Source: CF Industries,

*Includes corn, sorghum, barley, and oats.

**Includes China (4million tons)

HOW THE U.S. CORN CROP WILL BE USED

	2005A	2006E	2007E	2008E	2009E	2010E
Acres Harvested (Mil)	75.1	71.0	75.9	83.0	91.0	100.0
Yields (bu./acre)	148	154	155	158	160	160
Corn Supply & Use						
Beginning Stocks (mil./bu.)	2,114	1,971	996	416	270	740
Production	11,112	10,905	11,759	13,114	14,560	16,000
Total Supply	13,237	12,886	12,766	13,530	14,830	16,740
Usage						
Ethanol	1,600	2,150	3,000	3,500	4,000	4,200
Other Domestic Uses	7,475	7,490	7,300	7,500	7,600	7,800
Total Domestic Use	9,075	9,640	10,300	11,000	11,600	12,000
Exports	2,150	2,250	2,050	2,260	2,490	2,730
Total Usage	11,225	11,890	12,350	13,260	14,090	14,730
Ending Stocks	2,012	996	416	270	740	2,010

Source: CF Industries, Doane's, USDA, WSA estimates