

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Fewer AGCO Dealers
- Italy's Exports Grow
- More Corn, More Iron

## Speculation, Rumors Swirl Around Major Equipment Makers

Is John Deere set to be sold to a private equity firm? Is AGCO really going to acquire CNH? Or will Claas beat them to the punch?

The silly season is upon us.

With the unexpected runup in shares of Deere & Co. to all-time highs, AGCO shares doubling in value since the start of 2005, and the ethanol boom well underway, it appears that the major farm machinery makers are ripe for high-intensity speculation that spread rumors like wildfire.

**Is Deere for Sale?** During a meeting with New York stock analysts on December 6, Robert Lane, Deere's chairman and CEO, acknowledged that the Moline, Ill.-based company has received buyout interest from private equity investors.

Lane dismissed the rumor that Deere was interested in pursuing such a course of action.

"Lane acknowledged Deere has been approached by private equity investors — which we believe could be said by senior management at many, if not most, of the companies we cover — but did not confirm any real dialogue and effectively dismissed the potential for outsiders to realize economic returns at a premium to the current equity valuation," says Robert McCarthy, Baird analyst who participated in the breakfast meeting.

But that vague hint of potential buyout interest helped push Deere shares up 2.8% to a close of \$98.14 that same day. That is the stock's highest ever closing price.

The absence of a firm denial from

Deere can't be taken as implying the company is even mildly interested in pursuing a deal, as firms are expected to entertain proposals that could be in stockholders' best interest.

**Is AGCO Buying CNH?** With the turmoil and instability in the top levels at both Case IH and New Holland — both have new presidents in the last 2 months — it's no wonder that the Amsterdam-based equipment maker seems to be a likely acquisition candidate. With Fiat owning nearly 90% of CNH shares, there's little wonder why the group is the center of so much speculation.

One source of the rumor is a November 15th report from the *Financial Times of Deutschland*, in which AEI obtained a translated copy. In it, AGCO CEO Martin Richenhagen

*Continued on page 2*

## Ethanol Will Fuel Increased Equipment Sales, But Beans Will Also Play a Role

Ag analysts generally agree that the current ethanol rage will ultimately fuel increased demand and sales of farm machinery, but the bigger question is when will we see its effects and, just as important, how long will it last?

Investors are already betting that high corn prices farmers are getting for their crop will spur increased sales of ag equipment. Speculation of near \$5 per bushel for corn have pushed shares of John Deere up by 40% since mid-August and the price of AGCO shares has nearly doubled since the beginning of the year.

Despite the run-up in stock pricing, sales for both Deere and AGCO slowed during the second half and for

the year in total.

Robert McCarthy, machinery analyst for Baird, notes that "While longer-term agricultural equipment demand fundamentals continue to improve — higher crop prices, historically low

---

***"We see corn peaking at more than \$5 a bushel and then we see relatively greater soybean price percentage gains as 2007 progresses..."***

---

forecast ending stocks and increased forecast corn demand for ethanol production — it may take time for improved demand fundamentals to translate into significantly-improved agricultural equipment sales."

Several farm equipment analysts share the belief that machinery sales will pick up in 2008 after taking a hiatus in '07.

**What's Next?** Following an expected rebound in ag equipment sales in '08, some industry observers see strong farm machinery continuing through the end of the decade, but not because of corn. In fact, Barry Bannister, managing director of Stifel Nicolaus & Co., sees soybeans playing

*Continued on page 8*

Continued from page 1

was quoted as saying he was interested in Case IH and had talks on the matter with Fiat's CEO Sergio Marchionne.

From there, the rumor mill took over and speculated on the potential of AGCO buying its larger competitor.

Says one observer: "It doesn't surprise me. Fiat has been struggling and needs to focus on staying afloat. The acquisition would be like Chrysler buying Ford. That would create mass turmoil in the dealer networks for both companies. Historically when this type of thing has happened (i.e. Case's purchase of IH, and New Holland's purchase of Case), Deere has gotten stronger, and of course, AGCO as they would have no real competition other than Deere, who is not much of a 'price' competitor."

He also added, "Martin Richenhagen maybe is in 'interested' in having AGCO acquire CNH, but I don't think they will. If there was any substance to his talks with Fiat's CEO Sergio Marchionne, it would be inappropriate for him to be saying any-

thing to the media."

Another industry observer added, "AGCO has \$643 million in debt whereas CNH has \$6.43 billion in debt and that is more than the value of Fiat's stock. So maybe AGCO can somehow work out a deal for acquiring CNH assuming Fiat takes on the responsibility of that big debt."

In some part, these rumors are fueled by the fact that AGCO and Case IH, in effect, traded top managers during the last year when Bob Crain left New Holland to become AGCO's number-two man. Jim Walker, who was essentially replaced by Crain, left AGCO and joined Case IH shortly after.

**Or Will Claas Make a Move?** Just prior to the rumors flying about AGCO, *Ag Equipment Intelligence* learned while at the EIMA Show in Bologna, Italy, in mid-November that rumors were again circulating about Claas buying Case IH from CNH.

The source pointed out that the arrangement that made sense because of Claas' success in large-scale, high-ticket equipment. He also shared that

the separate silos for Case IH and New Holland indicates that CNH is not committed to keeping the group together. "They wouldn't continue to keep the unnecessary, duplicate overhead unless there was a plan to spin one of them off," he told *AEI*. "If they were to consolidate these operations, and one day sell one off, they knew they'd be in trouble."

Charles Rentschler, analyst with Wall Street Access, doesn't think the rumor holds up. "I have the impression that Fiat wants to sell its car division, then turn its attention to its industrial businesses, such as fixing up CNH and Iveco," he says. "I don't quite see how you'd easily separate Case IH from NH — they've commonized manufacturing locations as well as product platforms. Also, there could be anti-trust issues in the EU, like when Case and NH merged. And I believe Claas-Renault is a good deal smaller."

After chasing these rumors for several days, all *AEI* can offer is "nothing's happening so far, but stay tuned." **AEI**

## CORRECTION

### Missing 'Corn Belt' Data

In the 44-page *Ag Equipment Intelligence* special report *Business Outlook & Trends — Farm Equipment Forecast — 2007* that all *AEI* subscribers received last month, it was discovered that the data for "Corn Belt" region was omitted from p. 12. Here is the missing data.

#### CORN BELT

**Coverage:** Illinois, Indiana, Iowa, Missouri, Ohio

**Average Employment:** 23.9

**Expecting Revenue Gains:** 31.2%

**Expecting Revenue Losses:** 38.0%

**Weighted Average Gains (Losses):** (0.61%)

**Increasing Capital Spending:** 31.2%

**Most Promising Opportunities:** GPS, Lawn & Garden, Farm Loaders, 2WD Tractors (<40 hp), Planters, Round Balers, 2WD Tractors (40-100 hp), Mowers/Conditioners, SP Sprayers, PT Sprayers

**Major Concerns:** Energy/Fuel Costs, Increasing Cost of New Equipment, Affordable Health Care, Manufacturer "Purity" Efforts, Shrinking Farm Customer Base

This special management report was based on the responses from more than 400 North American ag equipment dealers surveyed by *AEI*. **AEI**

## U.K. Combine Sales Down, Growers Buying 'Bigger'

End-of-season statistics, which cover the period of September '05 through August '06, reveal that combine sales in the U.K. fell 13.3% to 555 units from 640 units in the same period of 2004-05.

According to *Profi News*, a U.K.-based publication, "Manufacturer feedback suggests that many U.K. buyers are still looking for a larger harvester to replace numerous combines on their own or group farms.

"There's no doubt that as new combine sizes and capacities continue to increase, numbers are unlikely to ever again see a considerable jump," says Chris Evans of AEA. "But most manufacturers now reckon the market is reasonably stable." **AEI**

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications Inc., P.O. Box 624, Brookfield, WI 53008-0624. © 2006 by Lessiter Publications Inc. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher. 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.

## Parent Company to Put Hardi Sprayers Up for Sale

The world's biggest manufacturer of crop sprayers — Hardi International — could soon be on the market. Its current owner, Denmark's Auriga Industries A/S, is contemplating a sale of the business it acquired in 1997.

Hardi is suffering from difficult trading conditions in its main markets, but Auriga's decision appears to be based more on plans for its core business than concerns about the performance of the crop sprayer operation.

In reporting third quarter financial results, the company reiterated plans for Cheminova, the group's agrochemical business, to increase sales by 50% and improve profitability.

Auriga's board states: "The best way to create long-term value is through focused resource allocation to Cheminova. Consequently, we will investigate the possible divestment of Hardi."

In 2005, Hardi International generated sales revenues equivalent to \$177 million at current exchange rates, representing just fewer than 20% of Auriga's group sales. Pre-tax profit at \$2.74 million equivalent was just over 3% of the group's result.

Earlier this year, 2006 results were expected to come in at around \$178 million in terms of sales, with a pre-tax profit of \$5 million. That forecast has been substantially revised in light of continuing market conditions, such that Hardi is now expected to generate \$160 million in sales and record a pre-tax loss of \$2.6 to \$3.4 million.

Auriga states: "The large decrease in revenue relative to the year before is attributable to the fact that, for the

first time ever, Hardi has been affected by unfavorable market conditions simultaneously in its three major markets: France, Australia and the U.S."

Revenue in France, which is Hardi's largest market, fell by 10% in the third quarter. In addition to climatic conditions and poor crop

---

***"Sales in North America this year have been impacted by high demand in 2005..."***

---

prices, the sales decline is blamed on uncertainty among French farmers regarding the European Union's new farm subsidy rules.

Hardi's sales in Scandinavia for the period are described as "satisfactory;" likewise in the new EU countries and especially the Central Independent States (CIS), which are identified as holding "considerable

potential" for the company.

Ironically, sales in North America this year have been impacted by high demand in 2005 as farmers geared up to defend soybeans against the potential threat of Asian rust disease.

Continuing drought in Australia, resulting in wheat yields expected to plummet by as much as 40% and barley by 60% relative to the prior year, inevitably impacts the ability of farmers to invest in new machinery.

Hardi International's main manufacturing and assembly facilities are located in Denmark, but it also has assembly and sales operations in Australia and Spain, as well as France. It owns the Evrard, France, operation building self-propelled and trailed sprayers.

There are also sales and distribution subsidiaries in Norway, Sweden, the UK, Germany, Spain, Canada and the U.S.

Last month, Hardi North America appointed Rex Guthland as president & CEO to succeed Tom Kinzenbaw, who left after 18 years with the company. **AEI**

### CNH Appoints New NH President, Supply Chain Manager

CNH Global N.V., Lake Forest, Ill., announced on December 5 the appointment of Lorenzo Sistino as president of New Holland agricultural brand, and assigned Georg Richartz, responsibility for Supply Chain and Logistics of CNH. Sistino takes over from Marco Mazzù, who will assume other responsibilities within the Fiat Group, while Richartz replaces Randal (Randy) Wayne Baker, who had retained — ad interim — his previous Supply Chain and Logistics responsibility when he was named president of the Case IH agricultural brand on September 13. **AEI**

#### FARM MACHINERY TICKER (AS OF 12/13/2006)

Mfr.	Symbol	12/13/06 Price	11/13/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$31.20	\$30.89	\$35.57	\$16.25	NA	2.28 M	2.84 B
Alamo	ALG	\$23.62	\$22.25	\$26.00	\$19.25	22.37	5,586	230.55 M
Art's Way	ARTW	\$6.73	\$6.95	\$9.19	\$4.87	16.03	4,277	13.28 M
Caterpillar	CAT	\$61.49	\$59.52	\$82.03	\$56.36	12.15	7.80 M	40.00 B
CNH	CNH	\$28.08	\$28.85	\$30.60	\$17.44	25.03	323,466	6.62 B
Deere	DE	\$94.70	\$88.62	\$101.40	\$66.90	13.18	2.78 M	21.89 B
Gehl	GEHL	\$27.89	\$26.35	\$40.73	\$22.16	16.32	115,175	339.50 M
Kubota	KUB	\$44.74	\$40.70	\$60.60	\$38.51	15.53	18,192	11.59 B

## New Holland Reduces Service Regions as Case IH Adds Regional Reps

In the continuing shakeup at CNH, both New Holland and Case IH are reorganizing their service structures.

In a December 8 letter to New Holland dealers from David Clarke, vice president of New Holland Agricultural Business, that *AEI* obtained, the "blue" equipment division will be reducing its U.S. service regions from six to four.

Clarke wrote: "One of the most critical keys to your success as a New Holland dealer is the support and face-to-face contact you have with New Holland field personnel. In order to strengthen our business relationship and to drive more consistency

across regions, we will be reorganizing the current regional structure, which has been in place since 2003.

The change will take place January 1. Canada's two regions will not change.

In a conference call to Case IH dealers on December 8, Case announced that it is expanding its service regions to 9 from five in its previous structure.

"Each regional director will have responsibility for a smaller geographic area. That means they can more effectively manage their Case IH sales team and establish close professional relationships with dealer principals," says

Jim Walker, vice president, Case IH North America.

A Case IH dealer that spoke with *AEI* said, "I'm told Case is going in the other direction and is increasing its district coverage in order to get closer to its retail points."

The dealer, who did not want to be identified, found it "ironic" that New Holland was reducing its regional representation while Case IH is increasing theirs. He speculates that with Case's decision to focus on big equipment is finding it to be more important to have more regional salesmen available to the larger commercial customers. **AEI**

---

## More Corn Equals More Iron Sales

The good news about commodity prices, net farm income and the increase in corn plantings will all help ring the cash register at dealerships in the corn belt. It is estimated that corn acres will increase by 7-10% in 2007 compared with '06.

Mark Foster, ag sales manager at Birkey Farm Store's 10 operations in Illinois and Indiana, told *AEI* on December 8 that each acre that comes out of soybeans and into corn increases the odds of making an equipment sale by 10-15%. According

to Foster, Birkey's has sold all the chisel plows that they could get their hands on, and has been seeing brisk interest in MFWD tractors, spring-tillage tools and strip-till. "There are definitely better prospects for buying in 2007," he says.

Gary Schnitkey, ag economist for the Univ. of Illinois, agrees with Foster's assessment, noting that a same-size farm has plenty of incentive to go with larger equipment. "In Illinois, you want to be done planting by April 30," he says. "If you go from

50% corn-soybeans to two-thirds corn on a 1,500-acre farm, that's 240 more acres you need to get planted, reducing the probability of getting it done with current equipment," he says.

Like Foster, Schnitkey sees improved markets for tillage and chisel-plowing and higher horsepower tractors, as well as harvest. "Corn harvests 10-15% slower than beans, so farmers will need larger equipment for the same-size farm, and will also need to match their hauling equipment." **AEI**

---

## Buhler Industries' Year-End Revenue Down 13.5%

Buhler Industries, Inc., Winnipeg, Manitoba, reported on December 8 that its year-end revenue fell by 13.5% and earnings were down 52.1%.

Revenue for the year was \$175.1 million compared to \$202.3 million last year. Earnings for the year ending September 30 were \$4.6 million compared with \$9.6 million last year. Gross profit was \$34 million (19.4% of sales) for 2006 compared to \$37 million (18.3% of sales) last year.

The company reports that during fiscal 2006, two unfavorable factors came into play, including the market for tractor sales, which declined by 20%. The continuing devaluation of the U.S. dollar caused the profitability of Buhler's grain augers, front-end

loaders, compact implements and other shortline products to decline, according to the company.

Inventory reduction efforts began earlier this year and, despite decreased sales, inventory was reduced by \$11 million during the past 6 months. According to Buhler management, the company is committed to further inventory reduction, favorably reducing both bank debt and interest expenses.

"We have streamlined several administrative areas and relocated our head office to the tractor factory to reduce costs and work more efficiently. Our industry is forecasted to experience flat or slightly decreased large tractor sales over the next 12

months. We also anticipate that revenues from shortline products will remain flat or slightly increased," the company states in its quarterly financial statement.

"In spite of the fragile North American market last year, we are confident that our new high-horsepower tractor series and price competitive attachments will be attractive to the farmers. We will also continue to expand our Eastern European marketing efforts and maintain a healthy working capital in order to pursue acquisition opportunities. We are determined to improve our financial performance and return to our traditional level of earnings in the foreseeable future." **AEI**



## USDA Raises '06 Forecast for Net Farm Income by 8%

On November 30, the USDA raised its forecast of 2006 net farm income to \$58.9 billion, 8% above its prior forecast on August 31. The revised 2006 net farm income forecast is now 20% below USDA's forecast of 2005 net farm income, but is 3% above the average net farm income from 1996 to 2005.

The agency also increased its 2006 crop cash receipt forecast by 4%, with 2006 cash receipts from

crops now expected to increase 6% from 2005. The USDA also revised its government payment forecast downward by \$1.7 billion from the August estimate, which is 32% below 2005 levels. The previous estimate was 25% below '05 levels.

The elevated cost of inputs, particularly fuels and fertilizer, along with higher interest rates will inhibit equipment sales through most 2007 in the view of UBS analyst David Bleustein.

"Although we acknowledge that there remain numerous variables that could impact farm machinery sales in 2008, including weather, final demand for farm commodities, and the resolution of the next (2007) farm bill in the U.S., our initial expectation is that farm machinery sales will improve by 10% in 2008, driven by a surge in farm commodity prices in 2007, coupled with some moderation in both energy prices and interest rates," says Bleustein. **AEI**

## Italy Continues Aggressive Export Program, Non-Tractor Segment Growing Fastest

Italy, the world's second largest manufacturing nation of farm equipment behind the U.S., released its new export data through UNACOMA (farm machinery trade association) at the EIMA show in Bologna, Italy, in mid-November. The January-July period of 2006 vs. 2005 shows increases in exports of 6.9% in weight and 3.5% in value. Tractor exports fell by 3.2% in weight and 1.8% in value, while other ag machinery increased by 12.4% in weight and 6.7% in value.

By year-end 2006, tractor production was estimated to come in at 87,100 units, an increase of 0.7% over 2005. Despite the fact that 70,000 tractors were expected to be exported (an increase of 3.7%) in 2006, UNACOMA predicted that there would a year-end loss of 1.8% loss in value (to 1,309 million Euro), illustrated in part by a 3-4% loss in tonnage (smaller

models). Other ag machinery was expected to fare better, with an increase of 13.1% in tons (to 420,000 tons) and a 6.8% increase in value (to 2,100 million Euro).

In 2007, unit exports of tractors are expected to fall 0.1%, resulting in a tonnage loss of 1.1% and 1.5% loss in value. The expected slowdown in

tractor exports is due to the weak demand of machines in Western Europe and the U.S. Other agricultural machinery is forecast to grow in weight (0.7%) and value (0.3%) in 2007. This slight increase is being forecast due to the projected demand increase in Eastern European nations. **AEI**

### JANUARY-JULY 2005 VS. JANUARY-JULY 2006

Region	Import Value*	% Change	Export Value*	% Change
EU	422,059	-1.8%	1,105,878	-3.8%
All Europe	465,351	-0.6%	1,550,264	4.0%
Africa	437	157.1%	104,828	17.3%
America	30,201	0.3%	318,649	5.1%
Asia	54,857	12.2%	123,061	-2.4%
Oceania	1,456	-10.9%	42,537	-27.0%
World Total	552,302	0.6%	2,139,339	3.5%

\*value in thousands of Euro

## Vaderstad, Seed Hawk Establish Distribution Partnership

A seeding technology and distribution partnership has been forged between Canada's Seed Hawk and Swedish tillage equipment specialist Vaderstad.

The new partnership, which has been underscored by the acquisition by Vaderstad-Verken AB of a 49% stake in the Canadian firm for an undisclosed sum, has far-reaching implications for both companies.

Seed Hawk gets one of Europe's fastest-growing implement firms as its international distributor for all markets outside North America. It also earns access to Vaderstad's seed drill technology and a new manufacturing

plant to be built at its Langbank, Saskatchewan base that will triple current capacity.

The Swedish company gains access to proven broad-acre seeding technology and manufacturing expertise and resources. This will enable it to compete in the burgeoning markets for such equipment across eastern Europe and mature markets in western Asia and Australia.

Crister Stark, CEO of the family-owned company that has taken Europe's cultivator and seed drill market by storm over the past 12 years, explained his interest in Seed Hawk.

"Eastern Europe and Russia have become some of our largest markets, even though we haven't had the type of air seeders that we'll get by buying into Seed Hawk," he said. "Toward the east, the growing climate is drier and more like that in Canada, with yield restricted by lack of water."

Sales have grown from \$14 million in 1994 to \$134 million currently. Its growth has been built largely on the range of 3-6m-wide minimum-tillage disc drills and spin-off sales of cultivation implements, both in Sweden and in export markets that take 85% of its production. **AEI**

## AGCO 'Internal Initiatives' for '07 Include Dealer Consolidation, Indian Tractors

Hosting an investor meeting in New York on December 12, Duluth, Ga.-based AGCO, made it clear its emphasis for the coming year will revolve around "internal initiatives" that will include higher R&D spending, brand and dealer consolidation, targeted growth markets and cost reduction.

The company says that it is now more focused on organic growth and operational improvements than acquisitions. Debt reduction remains the near-term priority along with improving its balance sheet.

The company plans to cut its North American dealer network by about 20% and add three lines of tractors built in India for sale in the U.S.

"We're too fragmented, too incon-

sistent and we lack a strong identity in the market," AGCO CEO Martin Richenhagen said in describing dealership cutbacks. The company will trim its number of dealers to about 1,000, from 1,400 now, shedding smaller outlets gained through acquisitions.

After seeing sales fall this year, AGCO expects sales growth of 3-5% in 2007, finance chief Andrew Beck told investors.

The company is targeting overseas markets such as Russia, China and Brazil for growth, while moving to foreign-supplied components or models for U.S. sales to hold down costs.

**North American Dealers.** Seth Weber, Bank of America, says, "AGCO sees the North American ag equipment

industry as flat in 2007, with increases anticipated in 2008 driven by higher farm income and crop prices. AGCO will look to improve upon its relatively small share in tractors and combines by driving higher volume through a more focused channel. The company continues to focus on driving the Challenger brand, streamlining its North American dealer network and focusing on larger operators that will carry more of its products.

"This ongoing reduction (targeting 1,000 dealers in 2008) could make AGCO's goal of growing market share more challenging near-term. The company also plans to work on improving dealer support for combines," says Weber. **AEI**

## Deere Posts 19% Gain in Fourth Quarter, Warns of 'Flat' '07

On November 20, Deere & Co. posted fourth-quarter results that showed its profits rose 19% as higher prices offset sluggish sales. At the same time, the company cautioned that it expects the sales slowdown to continue into 2007.

Deere's agricultural division sales fell 1% for the quarter and 3% for the full-year. The firm said sales for the quarter and for the year were down as a result of lower shipments, partially offset by improved price realization.

Operating profit was \$143 million for the quarter and \$882 million for the year, compared with \$57 million and \$970 million for the same periods last year. Quarterly profit was higher mostly as a result of higher prices, lower warranty costs and lower retirement-benefit costs.

The full-year operating profit improvement was primarily due to improved price realization, margin on increased shipments and efficiencies from stronger production volumes.

Revenue grew to \$5.12 billion from \$4.99 billion during the same period a year ago. Analysts expected revenue of \$4.79 billion.

**A Sluggish '07.** The company expects to earn \$150 to \$175 million in the first quarter of fiscal year 2007 and about \$1.33 billion for the entire

year, down 5% from 2006. Revenue grew 3% to \$5.12 billion from \$4.99 billion during the same period a year ago. The company said it anticipates a slowdown in sales due to declines in construction and forestry production in the U.S. and Canada.

On the other hand, Deere forecasts a 4% increase in worldwide farm equipment sales, spurred in part by growth of ethanol and other renewable fuels. But the company projects flat sales in the U.S. and Canada, citing uncertainty over U.S. farm legislation and whether recent crop price gains will hold.

Analysts think Deere's forecast of flat sales next year is too conservative. With crop prices on the rise and ethanol boosting demand for corn, farm income could grow and boost sales of Deere's farm machinery.

Deere officials agreed the outlook for farm income is encouraging, but said farmers won't realize the impact of higher crop prices until later next year. They also said uncertainty over a new U.S. farm bill and high levels of used farm equipment on the market will hold back sales.

Alexander Blanton, an analyst with Ingalls & Snyder, said the buying surge defies past logic that made Deere shares less attractive when

commodity prices are high. Historically, he said, high prices have been followed by production increases that led to surpluses and caused prices to fall, giving farmers less money for equipment purchases.

"But the demand for farm commodities in the past has been related to food and that market doesn't grow very rapidly. Now we have this ethanol thing and that's a new equation for corn, so we don't know if farm prices are going to follow the old cycle," Blanton says.

Worldwide for 2007, Deere forecasts ag equipment sales up 4% overall. Its projections for sales around the globe include:

- Sales flat in the U.S. & Canada.
- Flat to down slightly in Western Europe.
- Down 10% in South America.
- Down 25% in Australia.

USB analyst David Bleustein points out that Deere is positioned to quickly ramp-up capacity, if necessary.

"Its restructured manufacturing facilities, more flexible labor agreements and improved supply chain enables the company to continue its emphasis on inventory reduction and maintain the ability to rapidly ramp-up capacity if market conditions dictate," says Bleustein. **AEI**

## Ag Equipment Sales Remain Weak in November

North American agricultural equipment industry retail sales were weak again in November, with all tractor classes posting double-digit year-to-year losses, while combine sales fell 5%, according to the latest figures released by the Assn. of Equipment Manufacturers.

Sales in November of all tractors dropped from 227,842 through the first 11 months of '05 to 220,624 for the same period in '06.

For the year, Canadian sales of tractors are up 10.8% compared with the same 11-month period of '05. Overall, U.S. sales of tractors is down 4.4% January to November.

"November's soft comparisons suggest that relatively recent, though substantial, crop price increases may take time to translate into stronger agricultural equipment demand," says Baird analyst Robert McCarthy.

- North American retail sales of row-crop tractors (2WD, >100 hp) declined 25% year-to-year in November after a 10% drop in October. Sales were down 14% year-to-date. Seasonally, November is one of the least important months for row-crop tractor sales (5-year average is 5% of annual sales).

- Retail sales of 4WD tractors fell 37% in November compared with the same period a year ago. This was the fourth straight 15%-plus monthly decline, leaving year-to-date 4WD tractor sales 14% below prior-year levels. November is also a seasonally weak month for 4WD tractor sales (5-year average is 6% of annual sales).

- Retail sales of combines declined 5% in November after increasing 13% in October and sales were down 7% year-to-date. October is an average month for combine sales and typically contributes 8% of annual sales.

- Dealer inventories declined in November, as well. Row-crop tractor inventories declined 18% on a year-to-year basis and were down 6% year-to-year on a days-sales basis. Combine inventories were off 16%, down 12% in days-sales terms.

- 4WD dealer inventories decreased 16% year-to-year, but actually increased by two days-sales year-to-year to 90 days-sales.

**AEI**

### NOVEMBER U.S. UNIT RETAIL SALES



Equipment	November 2006	November 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	October 2006 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	5,582	7,153	-22.0	114,231	119,432	-4.4	59,377
40-100 HP	3,828	4,451	-14.0	69,047	69,429	-0.6	35,720
100 HP Plus	712	975	-27.0	14,881	17,783	-16.3	5,750
<b>Total-2WD</b>	<b>10,122</b>	<b>12,579</b>	<b>-19.5</b>	<b>198,159</b>	<b>206,644</b>	<b>-4.1</b>	<b>100,847</b>
<b>Total-4WD</b>	<b>108</b>	<b>183</b>	<b>-41.0</b>	<b>2,719</b>	<b>3,376</b>	<b>-19.5</b>	<b>759</b>
<b>Total Tractors</b>	<b>10,230</b>	<b>12,762</b>	<b>-19.8</b>	<b>200,878</b>	<b>210,020</b>	<b>-4.4</b>	<b>101,606</b>
<b>SP Combines</b>	<b>263</b>	<b>285</b>	<b>-7.7</b>	<b>5,369</b>	<b>5,892</b>	<b>-8.9</b>	<b>1,102</b>

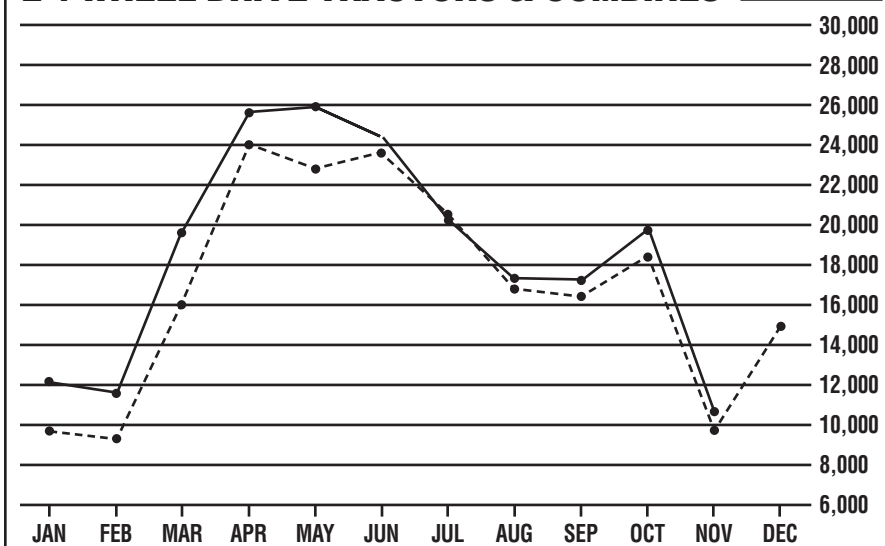
### NOVEMBER CANADIAN UNIT RETAIL SALES



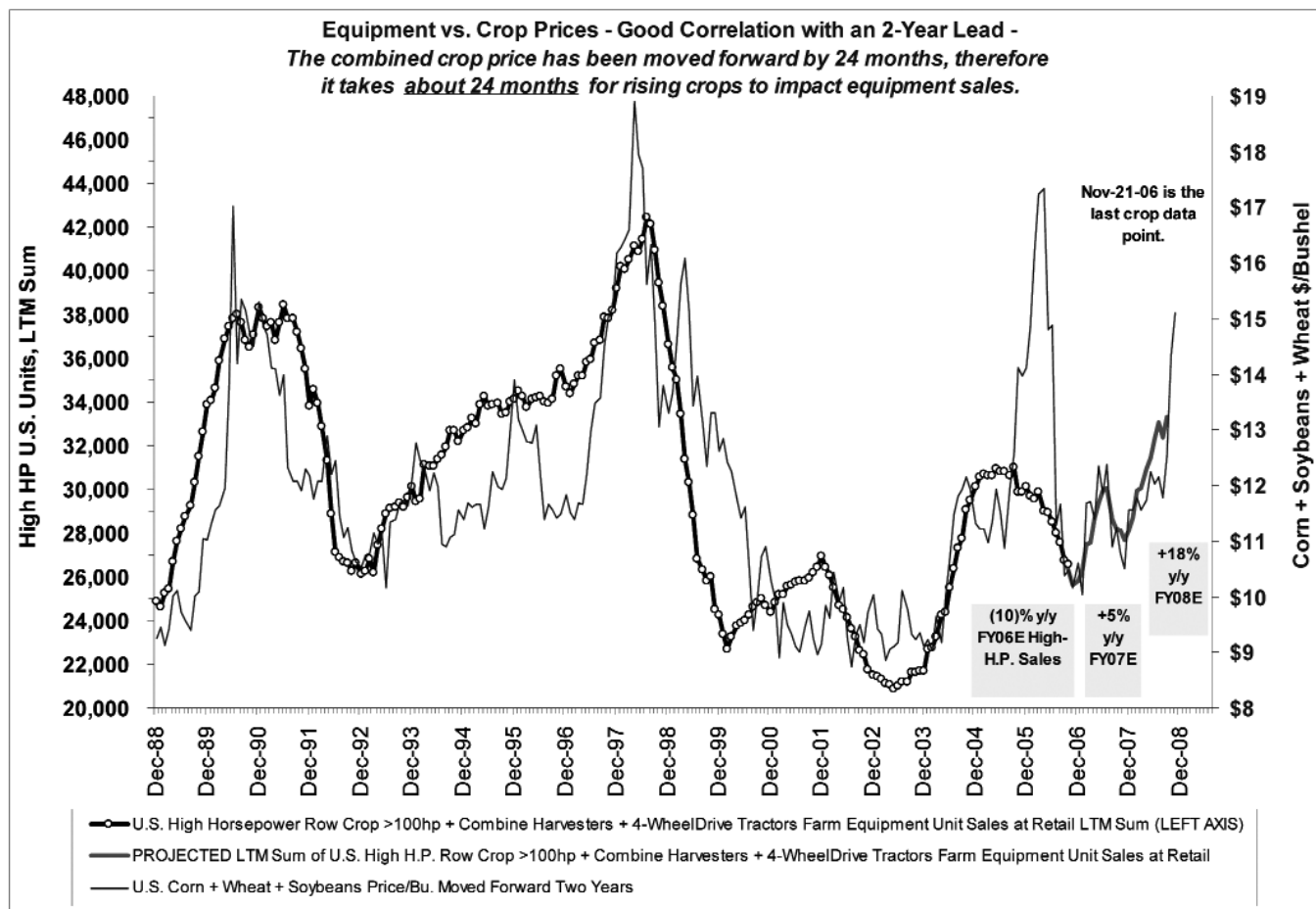
Equipment	November 2006	November 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	October 2006 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	518	562	-7.8	9,142	7,605	+20.2	4,665
40-100 HP	546	632	-13.6	6,656	6,187	+7.6	3,062
100 HP Plus	271	335	-19.1	3,360	3,462	-2.9	1,598
<b>Total-2WD</b>	<b>1,335</b>	<b>1,529</b>	<b>-12.7</b>	<b>19,158</b>	<b>17,254</b>	<b>+11.0</b>	<b>9,325</b>
<b>Total-4WD</b>	<b>40</b>	<b>50</b>	<b>-20.0</b>	<b>588</b>	<b>568</b>	<b>+3.5</b>	<b>159</b>
<b>Total Tractors</b>	<b>1,375</b>	<b>1,579</b>	<b>-12.9</b>	<b>19,746</b>	<b>17,822</b>	<b>+10.8</b>	<b>9,484</b>
<b>SP Combines</b>	<b>78</b>	<b>74</b>	<b>+54</b>	<b>1,464</b>	<b>1,416</b>	<b>+3.4</b>	<b>389</b>

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

— 2006  
- - - 5 year average



—Assn. of Equipment Manufacturers



**Farm equipment sales remained weak into the fourth quarter of 2006 compared to the same period of the previous year. The crop price strength since January 2005 may portend equipment sales that bottom in the fourth quarter of '06. Stifel Nicolaus & Co. believes this cycle for farm equipment sales, which never got above the average of the past 15 struggling years, could move higher in 2007 and beyond, "possible eclipsing the 1998 peak by 2009." The firm bumped up its 2008 estimate of growth from 15% to 18% as crops have strengthened in recent months.**

a more integral role in equipment sales following the cool-down from the ethanol boom.

According to Bannister, the U.S. share of corn exports has risen from about half of global exports 4 years ago to 70% in 2006. At the same time, he says, "We believe that the U.S. cannot feed the world and its own gas tanks at the same time. With Argentina, the world's number two corn exporter, indefinitely suspending corn exports, we believe the hoarding has begun."

"The 3-year ramp in ethanol from 11% of the crop in 2004 to an estimated 26% in 2007 is a 1,500 basis point increase, equal to the entire 15-year average corn inventory of 15% of the crop," says Bannister.

This, he explains, is why corn prices have doubled during this period. But, he adds, "As corn rises, even though ethanol appears to be the

highest and best use for corn, we do see ethanol economics gradually being undermined by the rising price of corn, and ethanol capacity leveling after 2007 at 8.5 billion gallons."

In the longer term, the analyst says other factors may be just as important to the sale of farm equipment.

The "next thing" that will drive machinery sales, he says, will be the actions of American livestock producers and the rising price of soybeans.

"We think the meat industry is going to accelerate a large reduction in supply that significantly reduces feed usage in 2007, preventing the U.S. from running out of corn provided there is no major drought that impacts corn yield," says Bannister.

"Before that happens, however, we see corn peaking at more than \$5 a bushel by the first half of '07 and then we see relatively greater soybean price percentage gains as 2007 progresses."

He lists the drivers behind the rising value of soybeans as:

- Expectations for the diversion of 5 million acres from soybeans to corn in 2007. Bannister believes CRP acres will hold steady and not contribute, at least for now, to needed corn acres.
- The falloff in Brazilian production of beans will also provide a major catalyst to rising soybean prices. Bannister notes that "Lagging Brazil, which tried to devalue its way to prosperity — and lost — may be unable to respond to the declining U.S. soybean supply and export share with its own ample planting until 2008, because farmers there are a bit cash-strapped."

With these factors in mind, Bannister sees "strong acreage and favorable crop pricing through the latter part of this decade, which usually boosts farm equipment sales." **AE**