From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

December 15, 2008
Vol. 15, Issue 8

- Russia to Add Duties?
- Art's-Way's New Plant
- Titan's Revenues Up

Most Still See a 'Solid' Year for Ag Equipment Sales

While overall North American sales of farm equipment slowed somewhat (down 1% year over year in November), most industry observers continue to see 2009 producing solid results for ag machinery.

As total unit sales slipped, row-crop tractors (>100 horsepower) were up nearly 13% and sales of 4WD tractors rose more than 24% compared with November 2008. (*For more detail, please see page 7.*)

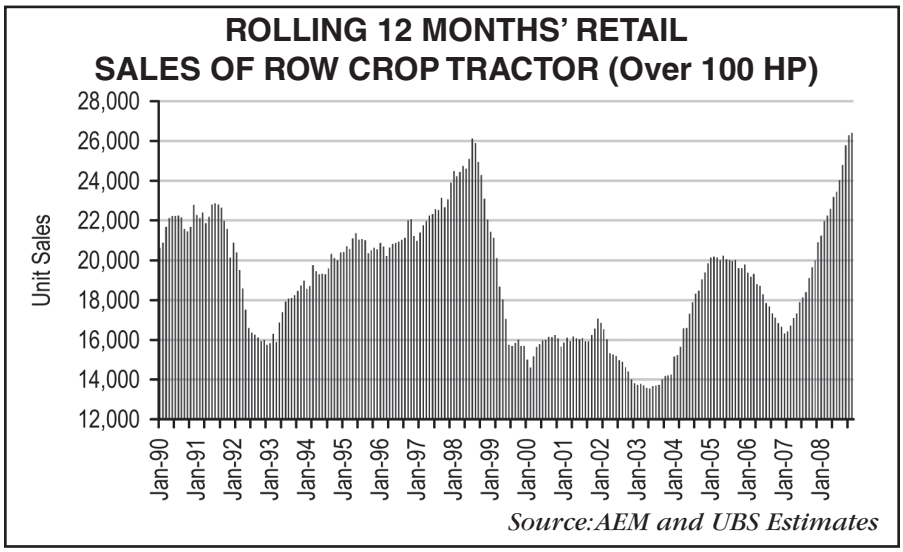
Despite OEM constraints and "an increasingly difficult macroeconomic environment," Henry Kirn, machinery analyst for UBS Investment Research, told investors, "We expect U.S. farm machinery sales to remain solid, driven by still healthy farm commodity prices, solid farmer balance sheets and expected record levels of farm income."

Two of the largest makers of ag equipment also told *AEI* that a robust "presell" season has produced strong order books for the new year. They also noted that extremely low used equipment inventories — due in large part to new equipment shortages throughout 2008 — also increases demand going into 2009.

Strong Going In. "Pre-sell programs on the high-horsepower equipment look very strong for the first 6 months," says Jim Walker, vice president of Case IH North American Agricultural Business. "Farmers traditionally purchase input costs for next year by this time, and many booked a portion of next year's crop at a favorable commodity pricing. With that, most farmers remain willing to make investments for core products for the first half. After that, we expect there to be a 'wait and see' attitude," he says.

Extremely low inventories of good used equipment are also expected to help prop up sales of new equipment in 2009. "One of the factors in the increased dealer sales levels during the past 2 years has been

Continued on page 8



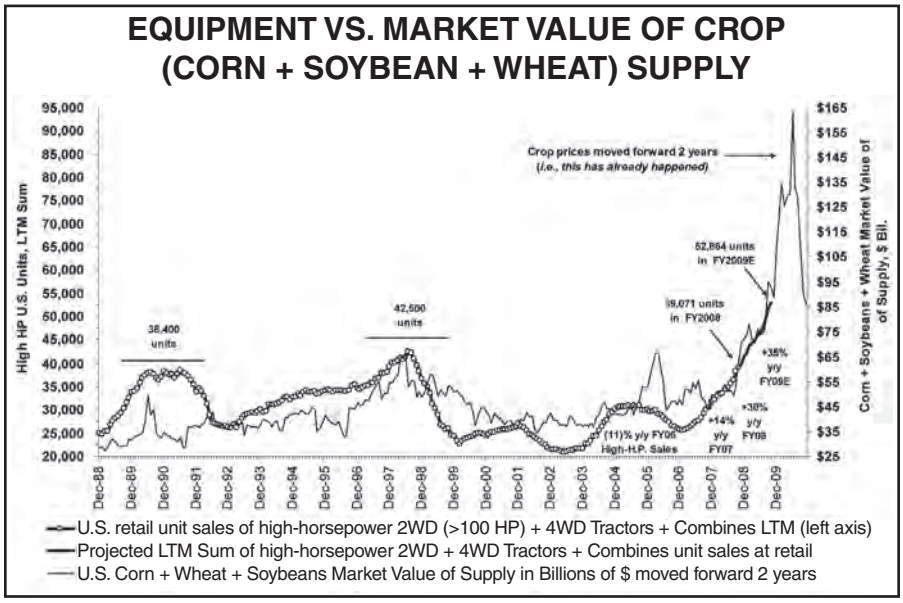


Fig. 1. The value of U.S. crop production (lagged 2 years in this chart) aligns with past peaks for unit sales of high-horsepower U.S. farm equipment. In the past two cycles, 1990 and 1998, sales of this equipment did not peak until crop values, moved forward 2 years, peaked, which implies sales should rise strongly until the first half of 2010. "We remain bullish on energy prices and thus crop values as we look to fiscal year 2009," says Barry Bannister of Stifel Nicolaus.

Russian Prime Minister Proposes Temporary Duty on Ag Equipment Imports

Following a visit to Rostselmash, one of Russia's largest makers of farm equipment and a major employer in the Rostov region on December 10, Russian Prime Minister Vladimir Putin proposed a temporary customs duty on imports of agricultural equipment in order to support domestic producers, according to a December 11 report from Prime-Tass, Russia's business news agency.

"I think that it is possible during the financial crisis to support domestic producers of agricultural equipment by raising custom duties on imports of new and used agricultural equipment for a period of 9 months," Putin said at a meeting organized to discuss measures to help Russian agricultural equipment makers.

The proposed import duty would be 15% of the equipment's customs value, but no less than 120 euros per 1 kilowatt ($161 per 1.34 horsepower) of engine capacity, Putin said. Imports of parts required by Russian producers of farm machinery will be exempt from the duty, he added.

Russia's Industry and Trade Ministry may allocate $11-18 million in 2009 to subsidize interest payments on loans taken out by Russian agricultural equipment producers to upgrade their production facilities, Putin said. However, the government will not subsidize interest payments on loans taken out to buy foreign agricultural equipment, he said.

Falling Equipment Sales. The Rostselmash plant in Rostov-on-Don has laid off 1,300 of its 11,000 workers as demand for machinery plummets amid growing uncertainty for Russia's agricultural producers.

The factory has been hit hard as farmers face difficulties raising credit, with many simply abandoning plans to buy new equipment.

"We are not going to see a rise in equipment purchases," said Ivan Nikolayev, an analyst at Renaissance Capital. "Farms are going to spend the little money they have just to sow crops and survive."

Russia has witnessed massive layoffs as big industrial enterprises move to slash production amid plunging demand for metals, construction materials and other industrial goods.

The Kremlin has pledged to increase pensions and unemployment benefits while at the same time investing huge amounts of cash to shore up its shattered banking system and bail out indebted companies. It has also spent tens of billions of dollars propping its national currency.

The government will also inject $900 million (25 billion rubles) into Rosagroleasing, a state company that leases agricultural equipment.

In addition, the government will consider injecting more capital into Rosselkhozbank, the state-owned Russian Agricultural Bank.

Rostselmash in NA. Rostselmash claims to be the biggest combine manufacturer in Russia, Ukraine and Kazakhstan, with a 65% market share in these three countries.

In October 2007, the Russian firm acquired Buhler Industries of Winnipeg, Manitoba, best known for its Versatile brand of high-horsepower tractors, which are ideally suited to the Russian market. In large part, the acquisition was made to enable Rostslemash to export tractors to the former Soviet Union.

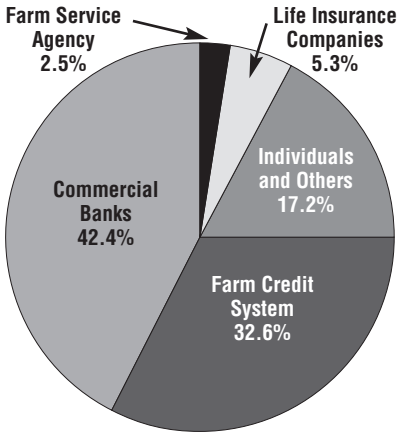
In an interview with *AEI* last spring, Dmitry Lyubimov, president of Buhler Industries, said that the heavy tractor market in Russia was growing 33% annually. *(See 8 Months Later: New Buhler President Discusses Changes, June 2008 Ag Equipment Intelligence, pages 3-4.)* Adding tractors to the Rostselmash product line would help the firm maximize significant growth opportunities ahead.

Following the acquisition of Buhler, the firm dispelled rumors that it was planning to move production of the Versatile tractors to Russia. Lyubimov told *AEI*, "We've invested $140 million in the facility, technology and people. This facility has very good capacity — 40 tractors per day. It wouldn't make any sense to move it."

He also said that Buhler planned to ship 55% of the tractors overseas, with 45% reserved for North America. He expected that percentage to remain about the same in 2009, though the company was ramping up tractor production by nearly 50%, which means more units would be available for U.S. and Canadian dealers.

It's not clear if the proposed duty would be applied to products manufactured by Russian-owned companies that are based in other countries, like Buhler. AEI

Sources of Farm Credit in the U.S.



Source: American Bankers Assn.

Commercial banks and the farm credit systems account for 75% of farm credit and lending in the U.S. AEI

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Art's Way Opens Grain Auger Facility in Now-Defunct Feterl Mfg.'s Backyard

Publicly-traded farm equipment manufacturer Art's-Way Manufacturing Co. Inc., Armstrong, Iowa, announced on December 3 that it formed a new location in Salem, S.D., to produce grain augers.

Salem is the same town where the 50 year-old Feterl Manufacturing, which closed in October, was located. J. Ward McConnell, Jr., Art's-Way chairman, told *AEI* that former Feterl employees approached the firm about setting up a division and locating it in Salem, where a workforce skilled in grain auger production was readily available.

The company has rented a 15,000 square-foot facility that is already open and shipping parts. "It's big enough to get started," says McConnell. He said the immediate focus is meeting the urgent needs for parts, finished products and service of the dealers and farm customers.

The expansion into portable grain augers expands Art's-Way's product line and provides greater access to the large grain producer market. Within a week of the announcement, McConnell says the company has received positive feedback from nearly half of the 277 Feterl dealers who've expressed an interest in doing business with Art's-Way for parts and wholegoods.

The closing of the Feterl facility is a culmination of problems in recent years, which had also closed in 2001 before reopening with different investors. The plant laid off nearly half of its 100 employees again in 2006.

The *Argus Leader* has reported on the lawsuits filed this fall against Feterl management. According to the newspaper, civil documents from the 1st Judicial Circuit Court filed in McCook County describe 25 Feterl customers in South Dakota and several other states who allege that the company accepted payment for, but failed to deliver, $1.2 million of prepaid farm equipment orders. According to court documents, Feterl owes at least $2.48 million to a total of 45 prepaid customers, including the 25 who have filed the lawsuit.

With the financial mess surrounding Feterl and the potential judgment against its properties, sorting out the fate of the Feterl assets could take time. With Art's-Way now operating in the area, the company would be a natural candidate for any physical assets that go to auction should foreclosure be the next course of action. AEI

Mahindra Cuts Farm Equipment Output

Due to slowing demand, Mahindra & Mahindra announced that it would cut production in its farm equipment division, according to a December 12 report in *India's Business Line*.

In a published statement, Mahindra said, "In line with the suppressed market demand for tractors and taking into account the inventory, the farm equipment sector of the company has made necessary adjustments to moderate its manufacturing activities at plants at Kandivali, Nagpur and Rudrapur during the month of December."

Although Mahindra's farm equipment sector posted a 2% cumulative growth by selling 70,288 tractors from April to November this year, the sales of late started showing a declining trend.

In November, sales fell to 5,487 units from 8,062 during the same month last year, showing a 32% decline. In October, Mahindra's tractor sales at 11,539 were marginally higher than the year-ago period.

"We expected much bigger sales in October and November. We developed inventories. So we are taking corrective measures," said Gautam Nagwekar, COO of Mahindra.

"We are aligning production with the downturn in the market," he said. A 30% production cut in December was anticipated. AEI

FARM MACHINERY TICKER (AS OF 12/15/2008)

Mfr.	Symbol	12/15/08 Price	11/11/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$21.47	$26.28	$71.94	$21.27	5.61	2.60 M	1.97 B
Alamo	ALG	$12.27	$11.41	$26.46	$10.63	7.56	79,626	121.64 M
Art's Way	ARTW	$3.94	$4.27	$19.52	$2.92	6.92	18,826	15.66 M
Caterpillar	CAT	$42.21	$36.88	$85.96	$31.95	6.95	12.6 M	25.46 B
CNH	CNH	$15.72	$16.32	$70.00	$11.00	4.52	511,418 M	3.73 B
Deere	DE	$36.36	$35.12	$94.89	$28.50	7.73	7.6M	15.35 B
Kubota	KUB	$31.41	$27.29	$43.41	$17.72	12.08	62,501	8.03 B
Titan Mach.*	TITN	$14.10	$11.49	$34.49	$7.75	17.94	374,235	248.67 M

** Titan Machinery undertook its IPO with approximately 6 million shares on December 6, 2007 at $8.50/share.*

USDA Raises Ending Corn Stocks Forecast by 31%

USDA raised its forecast of 2008-09 ending corn stocks to 1.474 billion bushels, from 1.124 billion bushels, as lower forecasts for ethanol use and exports offset a higher forecast for feed and residual use.

It also raised its wheat ending stocks forecast to 623 million bushels from 603 million bushels, but maintained its soybean ending stocks forecast at 205 million bushels. AEI

Montana Tractors Closes on Farmtrac Acquisition

While it looked like LS Mtron, the South Korean manufacturer of Farmtrac and other compact tractors sold in the U.S., had the inside track in acquiring the assets of bankrupt Farmtrac North America LLC, a surprising eleventh-hour bid of $14.1 million gave the sale to Montana Tractors of Springdale, Ark.

On December 1, Montana Tractors announced that it had closed on the acquisition of Farmtrac's assets located in Tarboro, N.C.

Montana believes that the acquisition of assets should allow its dealer network to remain competitive during a very tough economy.

It's believed the Montana acquisition did not include any of the company's $52 million outstanding debt, much of which was owed to Textron Financial and LS Mtron. It appears that Montana's acquisition will be more advantageous for Textron. Book value of Farmtrac's assets was estimated at $16 million, which represented machinery, real estate and inventory, including farm tractors and other vehicles, parts and an in-house dealership.

According to published reports, Farmtrac was the eighth largest brand of farm tractors in North America, with 2007 sales of 3,650 units, accounting for 1.5% share of overall industry-wide business. AEI

Look for Producers to Increase Soybean Acres in 2009

Rising production costs and uncertain profit margins have risk-averse farmers ready to cut corn plantings in 2009 in favor of soybeans, which could see another substantial jump next spring, according to the results of the latest *Farm Futures* survey released on December 11.

The email survey included responses from 840 growers received between November 24 and December 8.

The survey projects that corn acreage could fall 1% to 85.1 million acres, down from 85.9 million in 2008. However, harvested acreage might actually increase, because severe flooding caused farmers to abandon an unusually high number of fields last year.

Tight stocks also raised the ratio of soybean-to-corn prices to encourage farmers to plant 20% more soybean acres.

Current soybean-to-corn ratios actually favor corn, says Arland Suderman, *Farm Futures* market analyst. "But, in these uncertain times, producers appear reluctant to invest the extra dollars needed to plant corn," says Suderman.

As a result, soybean acreage could increase to a record 80.1 million acres in 2009, a jump of more than 5%. In addition to shifting corn acres, soybeans could pick up ground from wheat, cotton and land coming out of the Conservation Reserve Program.

The survey also puts wheat acreage at 61.7 million acres, down 2.2% from 2008. Winter wheat seedings appear to be down the most, to 45 million, compared to 46.2 million last fall, with spring wheat and durum each declining around 1%. AEI

TAFE Plans New Tractor Plant in Turkey

Chennai, India-based Tractors and Farm Equipment Ltd. (TAFE) announced that is investing in a Greenfield plant in Manisa, Turkey, to manufacture 15,000 tractors a year, according to published reports.

TAFE claims to be the second largest manufacturer of tractors under 100 horsepower with production and sales of nearly 80,000 tractors per year.

Mallika Srinivasan, director of TAFE said, "The tractor market in Turkey is of significance to us in that its composition is well within our experience and manufacturing range. Over 2000 TAFE tractors are already in operation in Turkey, giving us a good understanding of the market and its needs. Turkey is an investor-friendly country and we have been welcomed and facilitated in our investment proposals by the authorities in Turkey.

"With this support we expect the first tractors to roll out of the new plant in the first quarter of 2009."

TAFE manufactures a range of tractors that are being distributed by AGCO in the American market. TAFE's export revenues have seen consistent growth year after year and have doubled over the past 3 years. AEI

SDF and ARGO Enter Rotary Combine Market

Acquiring the "know-how" of an Argentinian combine has given Italy's Same Deutz-Fahr Group a rapid entry into the high-capacity rotary market.

The technical and commercial agreement signed with Vassalli Fabril, Argentina's combine manufacturer with annual sales equivalent to $60 million, was signed last May. But the two parties kept it under wraps until the Vassalli AX 7500 axial combine could be tested through a European harvest.

"The agreement has now been made public following the positive outcome of performance, reliability and quality tests," says SDF CEO, Massimo Bordi. "The 'know-how' related to this machine is now the exclusive property of the two companies and our agreement will allow us to share future R&D investment."

All the major manufacturers supplying Europe and North America now have rotary grain and oilseed harvesters at the top of their ranges, with sales in Europe accounting for more than a quarter of the market. In areas with larger "professional" farms, the proportion is much higher: in Great Britain, for example, walker and rotary separation combines sell roughly 50/50.

Adding higher-capacity machines to the Deutz-Fahr range is an important part of a turn-around plan for the SDF harvester line, which was originally built in Germany, then in Scandinavia on a sub-contract basis and is now produced in an SDF-owned plant in Croatia in Eastern Europe.

It is here that production and assembly of the Deutz-Fahr 7500 series combine will be established, with Deutz engines replacing the Cummins unit used in the Argentinian version. AEI

Laverda Launches Rotary Combine Line

Laverda, the ARGO Group's crop harvesting arm half owned by AGCO, has launched its first rotary combine into the Italian market, trumpeting the North American character of the machine, which is built in AGCO's Hesston, Kan., plant.

The same machine has been launched in selected Western European markets in Massey Ferguson and Fendt colors and in Eastern Europe through Challenger.

Laverda has been supplying AGCO with combines for the European market since 2004 and became a 50/50 joint venture last year.

The Breganze plant in Italy built more than 800 harvesters in 2007 and was scheduled to complete more than 1,000 by the end of 2008 to meet a continuing upswing in demand. The Italian combine market grew 36% this year and by 50% in France, says Laverda CEO, Mario Scapin.

GKN Targets North America for Significant Sales Growth

British engineering group GKN, which identified North America as a key element of its growth strategy for its OffHighway components division, is seeing steady gains in sales and profitability from the tractor hitches-to-drivelines business. It's a satisfactory outcome for managers who previously saw a board-level decision to sell the business.

"At the time, it was a predominantly European, agricultural-biased operation recording flat sales at around the $405 million level," explains sector CEO Andrew Reynolds Smith. "But after assessing various bids, it became clear the value-creation potential was greater through retaining the business."

There are two main strands to the business: distribution of non-GKN and GKN products (such as Waltersheid-branded implement PTO shafts and other driveline components) to the after-market through dealers; and supplying drive shafts and gearboxes, tractor attachment systems, trailer running gear and steel rims to OEMs.

A strategic plan to rejuvenate the division calls for less reliance on Europe and agriculture, concentration on higher-value products, new technology development and acquisitions that would locate manufacturing assets closer to customers.

The balance is shifting: Europe now contributes 71% of revenues, down from 78%; the Americas 26%, up from 21%. Further adjustment toward increased sales in North America and Asia is planned.

Agricultural OEMs, including most major tractor manufacturers and leading implement firms such as Claas, Kverneland, Krone and Kuhn, remain the major customer base but new business is being won from construction vehicle OEMs.

New power transmission products making headway include a novel harvester transmission and the ICVD high-torque hydrostatic drive being used by wheel loader and telehandler manufacturers.

On the production front, an acquisition in southern China saw GKN Wheels Liuzhou start production last year, joining existing manufacturing operations for steel rims, tractor attachment systems, driveshafts and implement gearboxes in the U.S., Canada and Europe.

Global production output, according to GKN's 2007 annual review, runs to 3.5 million steel wheels, 665,000 drive shafts, 530,000 implement PTO shafts, 120,000 tractor three-point linkage sets and 150,000 tractor drawbar/hitch assemblies.

Sales last year represented 10% of group revenues at $680 million, up almost 19% from $572 million in 2006. First-half figures for 2008 show revenues up 21% in North America and 16% in Europe (with trading profit 19% ahead of 2007), as the business heads towards the $1.2 billion revenue target set for 2012. AEI

Two Russian Projects on the Drawing Board for SDF

The announcement of plans to start local assembly of tractors and combine harvesters has underlined the determination at the Same Deutz-Fahr Group to secure a solid foothold in the Russian market.

SDF chief executive Massimo Bordi has revealed details of two separate projects — one for SDF to build Deutz-Fahr branded tractors in Russia; another to partner the industrial group Concern Tractor Plants in the production of SDF tractors and combines to be distributed under a local brand.

"We have always considered the Russian market to be one with the highest potential and to be very attractive for investment," says Bordi.

For its Deutz-Fahr tractors, SDF plans an assembly facility that will start production of 165-270-horsepower models during the first half of 2009.

At first, this will involve merely completing tractors built in Germany by fitting locally-sourced components, such as wheel rims, tires and hydraulic fixtures and fittings. A more comprehensive second phase will involve building tractors using major components from Germany with local content.

"Our plan is to reach and quickly exceed a localized component value of 20%, with the longer-term aim of increasing production capacity in Russia along with the local added value to optimize production costs," says Bordi.

SDF expects to sell around 300 tractors in Russia and neighboring states in 2009 and to increase this to 1,500 by 2013.

In parallel, Same Deutz-Fahr has signed a memorandum of cooperation with Concern Tractor Plants, the group producing industrial, construction and agricultural machinery that recently secured a deal to assemble and distribute AGCO Sisu Power diesel engines in Russia.

SDF and CTP will investigate three joint projects. One would produce Class 6/7 combines using core technology components from the Italian group's harvester factory in Croatia. Another would jointly produce wheeled tractors using SDF components. The third project calls for the company to jointly engineer a 350-horsepower wheeled tractor derived from CTP's crawler tractor design.

To underpin the plans, CTP's distribution arm, AgroMashHolding, has agreed to a 5-year purchasing plan for the combines and 150, 210 and 270-horsepower tractors carrying the company's own brand.

In addition to the production plans, the proposed agreement would also see Same Deutz-Fahr supporting the training of assembly and after-sales service employees. AEI

ARGO Planning Tractor Project with Kamaz

The Italian ARGO Group is understood to be planning a 300-horsepower tractor project with its Russian partner Kamaz. ARGO Chairman Valerio Morra reportedly confirmed plans for the high-horsepower design to be delivered to Kamaz for testing by the end of 2009. Kamaz started final assembly of the 200-horsepower T-215 tractor (based on the McCormick XTX215) earlier this year and is preparing to add a T-85 model. The two parties are looking into further cooperation on agricultural machine production with local Government officials.

Titan Machinery's 3Q Revenues Rise 62% to $214 million

Titan Machinery, one of the largest farm equipment dealer groups in North America, reported on December 15 that its third-quarter revenues rose by 62% compared with the same period of 2007.

The company, which retails Case IH and New Holland agricultural and construction equipment, said its 2008 third-quarter revenue increased to $214 million from $132.2 million in the same quarter of '07.

Equipment sales were $168 million, compared to $103.4 million in the same period last year. Parts sales were $29.8 million in the third quarter, up from $18.4 million in the prior-year period. Revenue generated from service improved to $12.9 million in the quarter, compared to $7.9 million in the third quarter of last year.

Operating income for the fiscal third quarter increased to $14.2 million compared to $6 million in the same period a year ago. Pre-tax income for the fiscal third quarter increased to $13.9 million, compared to $4.5 million in the same period last year. Net income for the fiscal third quarter was $8.2 million, compared to net income of $2.7 million in the third quarter last year.

First 9 Months. For the 9-month period ended October 31, 2008, revenue increased to $501.4 million from $297.8 million for the same period last year. Net income for the first nine months of fiscal 2009 was $14.9 million, compared to $4.9 million, in the same period last year.

The company also closed on two acquisitions in the third quarter consisting of four stores with historical revenues of $63 million.

Wolf's Farm Equipment Inc., with one store in Kintyre, N.D., handles New Holland-brand ag equipment. It reported revenues of nearly $3 million in its most recent fiscal year ended December 31, 2007.

Pioneer Garage Inc., with 3 stores in Pierre, Highmore and Miller, S.D., retails both Case IH and New Holland farm equipment. It reported revenues of $60 million in its most recent fiscal year ended September 30, 2008.

Outlook. Based on better than anticipated third-quarter results and increased growth expected in the fourth quarter, Titan raised its revenue outlook for the full year ending January 31, 2009 to a range of $635-$675 million, compared to previously issued guidance of $590 million to $635 million.

It also raised its fiscal year ending January 31, 2009 EPS guidance to a range of $1.07 to $1.11 from a range of $0.89 to $0.94. AEI

Big Equipment Sales Moderate in November

Retail sales of ag equipment slowed in November, according the latest sales figures from the Assn. of Equipment Manufacturers.

"Retail sales comparisons generally moderated in November, though two fewer year-over-year selling days this November exaggerated the deceleration," says Robert McCarthy, analyst for RW Baird. "But even after adjusting for selling-day differences, large agricultural equipment unit sales volume growth appears to be easing. While improved pricing can help offset moderating volume growth, risks to 2009 agricultural equipment expectations appears to be increasing."

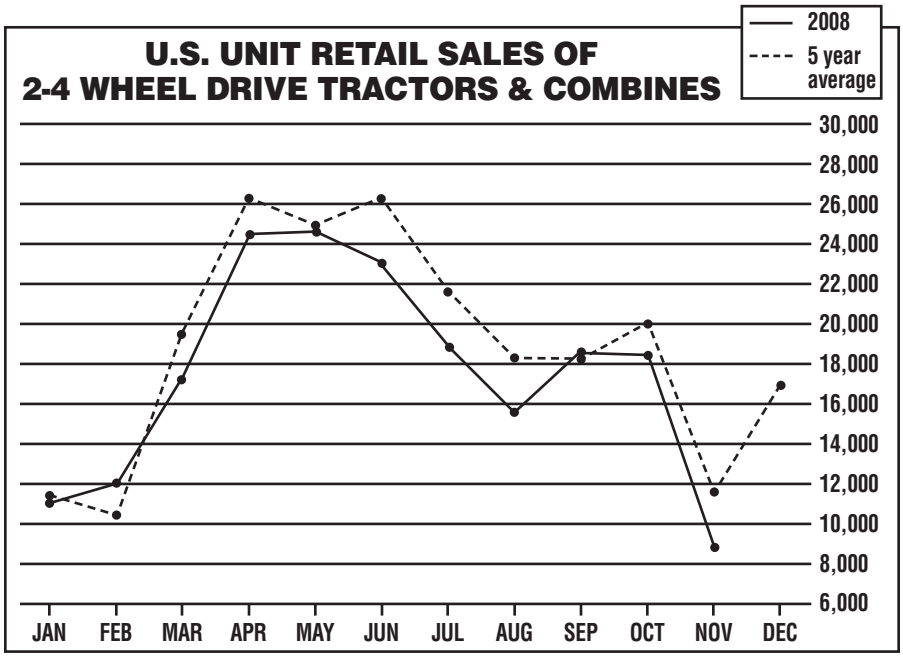
- North American retail sales of row-crop tractors increased just 2% year-over-year in November, following a 19% increase in October. Sales were up 26% in the latest 3-month period. Adjusted for fewer days, more comparable sales growth likely exceeded 10%. November typically contributes only about 5% of annual sales.
- Retail sales of combines declined 2% year-over-year vs. a 38% increase in October. This was the first negative year-over-year comparison since April 2007. The last 3-month sales were up 39% year-over-year as November is a relatively unimportant month seasonally for combine sales after peaking seasonally in July-October.
- Sales of 4WD tractors rose 26% in seasonally less important November, vs. a 9% decline in October. During the past 3 months, 4WD tractor sales were up 22%.
- Dealer inventories of large tractors continued to decline year-over-year on both an absolute and days-sales basis in October. Row-crop tractor inventories fell 4% year-over-year on an absolute basis to 76 days-sales vs. 106 days-sales in the prior year.
- 4WD inventories fell 31% year-over-year on an absolute basis — 54 days-sales vs. 99 in October 2007, while combine inventories declined 15% to their lowest levels since at least 1993. Inventories fell to 34 days-sales from 49 in the prior year. AEI

NOVEMBER U.S. UNIT RETAIL SALES

Equipment	November 2008	November 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Nov. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	3,854	5,176	-25.5	93,846	109,009	-13.9	55,154
40-100 HP	3,135	3,817	-17.9	62,941	71,679	-12.2	32,775
100 HP Plus	1,214	1,078	+12.6	23,642	18,212	+29.8	5,466
Total-2WD	8,203	10,071	-18.5	180,429	198,900	-9.3	93,395
Total-4WD	250	201	+24.4	4,046	3,292	+22.9	646
Total Tractors	8,453	10,272	-17.7	184,475	202,192	-8.8	94,041
SP Combines	410	375	+9.3	7,521	6,194	+21.4	779

NOVEMBER CANADIAN UNIT RETAIL SALES

Equipment	November 2008	November 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Nov. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	764	758	+0.8	13,293	10,799	+23.1	6,437
40-100 HP	769	713	+7.9	8,127	6,694	+21.4	3,482
100 HP Plus	321	424	–24.3	4,305	3,663	+17.5	1,168
Total-2WD	1,854	1,895	–2.2	25,725	21,156	+21.6	11,087
Total-4WD	92	70	+31.4	1,040	695	+49.6	159
Total Tractors	1,946	1,965	–1.0	26,765	21,851	+22.5	11,246
SP Combines	104	148	–29.7	2,064	1,506	+37.1	159



—Assn. of Equipment Manufacturers

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how much used equipment has been exported," says Dennis Heinecke, AGCO's vice president of sales operations. "The weak dollar provided a huge discount on the demand worldwide for used equipment. We need to keep an eye on financial markets to make sure that there are funds for foreign buyers to continue to purchase dealers' used inventory. It's amazing to see what's getting exported — it's cleaned the lots out. The key is when we see the lots start filling up again. That's something we'll be watching."

For How Long? "We don't see any reason for a retreat of the 50% gain [in sales] we've experienced over the last 2 years," says Walker. "We expect a stable and sound level of industry purchases, with a good demand for equipment manufacturers."

Despite volatile commodity prices, Case IH doesn't see them falling below profitable levels. "Overall, we see a stable, sound marketplace with predictable net farm incomes," Walker says.

Heinecke expects a similar scenario. "The professional producer side still looks very positive from a standpoint of commodity prices. With the population trends and the diets changing, food demand is the key to agriculture."

Ann Duignan, analyst for JP Morgan also told investors, that despite continuing strong fundamentals, she sees 2009 likely peaking given the current global environment.

"Using our proprietary pricing model, total industry revenues are up 16% year-to-date. However, we may be seeing the beginning of the peak of the equipment cycle, as cash receipts from major crops are now expected to be up only slightly in 2009 — 4% — and input costs, while falling, remain elevated."

She adds that the dynamics are changing daily with corn prices trading with oil and input costs falling rapidly. "Additionally, planting in key crops in Brazil has been lower than expected, making next spring a critical year for U.S. farm risk management, likely putting downward pressure on equipment purchases."

Strong Sales to 2010. Uncertainties aside, Barry Bannister, analyst for Stifel Nicolaus, sees farm equipment sales maintaining momentum through the first half of 2010. In a report to investors, Bannister bases his analysis on historic trends for the Producer Price Index, which he says has not yet peaked, as well as the average age of the American farm fleet, which he says is "old."

Figures 1 through 4 were developed by Bannister to support his analysis of the ag equipment market. AEI

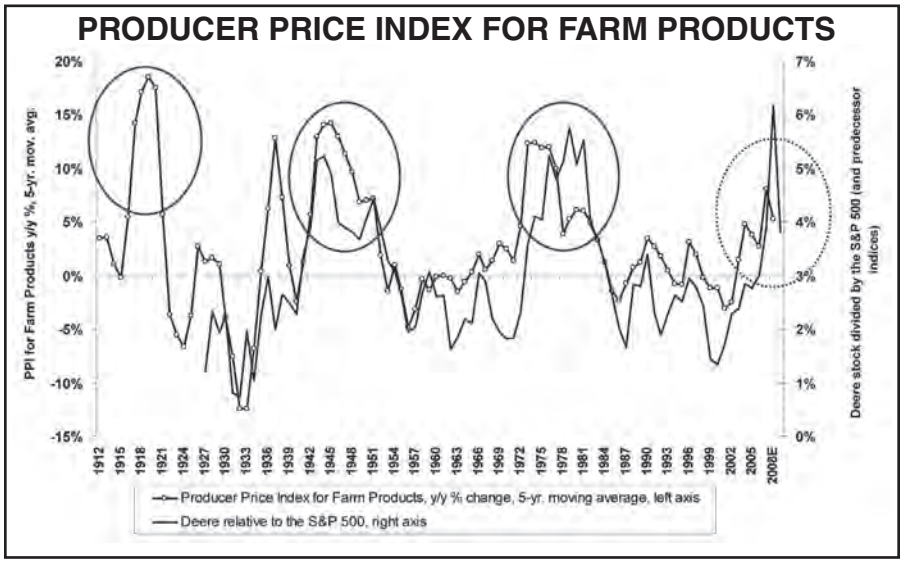

Fig. 2. Using Deere & Co. as a benchmark, this chart shows how the stock rises and falls with the PPI for farm products. "We don't think the PPI has peaked, as there has not been the prolonged pricing power needed to replenish the aging agriculture fixed assets in this cycle," says Bannister.

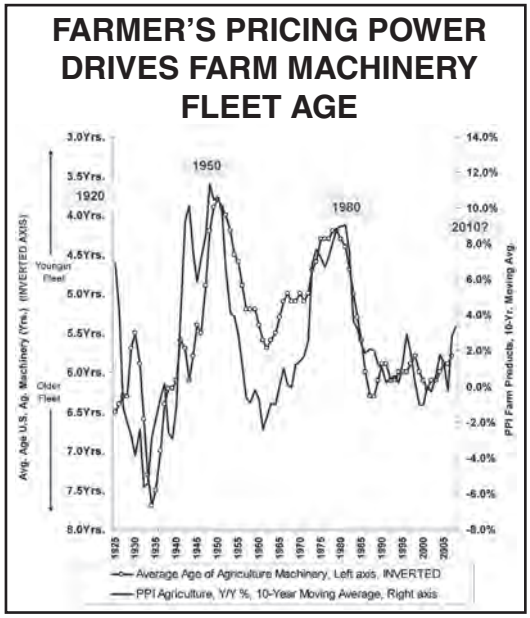

Fig. 3. This chart depicts the replacement cycle of ag machinery. Historically, it has taken prolonged pricing power, or lack thereof, to replenish or deplete capital goods engaged in the production of natural resources. This chart show the U.S. tractor fleet age (on an inverted scale) moving in tandem with the PPI for ag products for the past 8 decades, highlighting 3 cycles of farm fleet replenishment (1920, 1950 and 1980). Another such cycle should emerge, continuing from last year until 2010, according to Bannister.

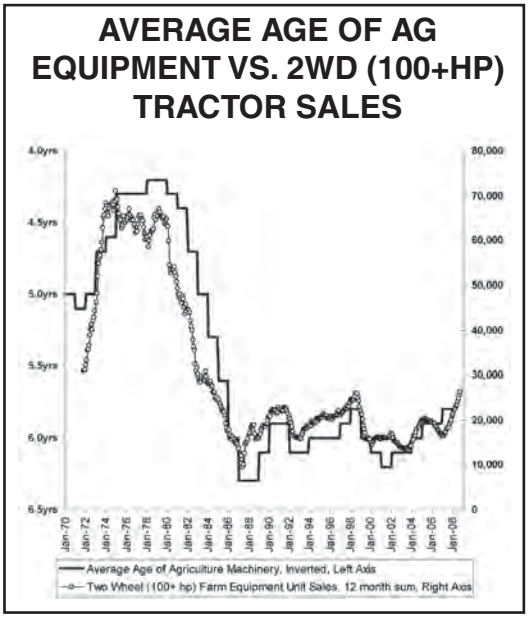

Fig. 4. U.S. unit sales of high-horsepower tractors rise and fall as part of a fleet replacement cycle that renders the fleet alternately "old" and "young" again, as demonstrated since 1970. "Although total unit sales of large U.S. farm tractors may not return to the 1970s level, even after the recent increase in large tractor sales, fleet ages are still 'old,' as shown in the chart," says Bannister. "This example is illustrative since global sales of larger farm equipment are supported by farm consolidation and demand for technologies that improve crop production."