From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

March 15, 2010
Vol. 16, Issue 11

- High Price of Tier IV
- New Dealers Survey
- February Sales Mixed

New Engines, Pricing Concerns Could Impact 2011 Tractor Sales

All of the major farm equipment makers have now publicly declared how they'll meet the interim Tier IV diesel engine off-road air emissions standards that take effect next January. And the things that are certain are:

- Farmers will have a choice between two distinct diesel engine technologies.
- Whichever high-horsepower tractor a farmer chooses, it's going to be significantly more expensive.

These two factors along with growing uncertainty about farm commodity prices in the coming year will, in all likelihood, slow the sales of new farm machinery in 2011. At the same time, look for the prices of good used equipment to rise for the remainder of 2010 — if you can find any.

John Deere and engine maker Cummins say they'll pursue exhaust gas recirculation (EGR) technology for their new engines. AGCO, Case IH and New Holland, on the other hand, are responding with a selective catalytic reduction (SCR) system for their high-horsepower engines. CNH says it will continue to offer EGR engines on its smaller equipment, but AGCO is going with SCR on all new tractors and other self-propelled machinery.

Both technologies will enable equipment makers to meet the 45% decrease in nitrogen oxides (NOx) and the 90% reduction in particulate matter (PM) in their 2011 engines as required by EPA's 2011 Tier IV air-emission regulations.

But this isn't the end of it because the "final" Tier IV standards, which are even more stringent, don't kick in until 2014. Things could change between now and then, and it's a pretty good bet that they will.

The Technologies. The two technologies — EGR and SCR — represent dramatically diverse approaches to solving the same emissions challenge. EGR works by cooling the exhaust gas and reintroducing it into the engine cylinder. Because the gas has a lower moisture content and is cooled in conjunction with precise fuel injection, it is able to control NOx.

Diesel engines utilizing SCR capture and treat the NOx by injecting diesel exhaust fluid (DEF) — a blend of urea and ionized water — into the engine's exhaust stream. Oxygen combines with the urea to form ammonia and carbon dioxide, which react with the NOx to produce the harmless byproducts of nitrogen gas, water and carbon dioxide.

To capture the particulate or soot generated by the combustion of diesel fuel, both EGR and SCR require aftertreatment. These systems may involve an "active" particulate filter that requires regeneration or cleaning to maintain its effectiveness.

While EGR systems will be an integral part of the engine design and largely unnoticeable to equipment operators, SCR is an add-on to the engine including the additional tank for the DEF, which is clearly visible to the operator.

Surprising Benefits. Proponents of either approach say, compared with Tier III engines, both interim Tier IV EGR and SCR systems will significant-

Continued on page 2

What If a Mega Dealer Gets in Trouble?

With the proliferation of large ag equipment dealer networks springing up in recent years, it's a logical question to ask: what happens if (when?) one of them falls on hard times?

It hasn't happened in the ag equipment business yet, but Case Construction is finding out and, according to published reports, it's in process of rebuilding its dealer network in the southeastern U.S.

A March 9 report from *Dow Jones Newswires* says Case Construction has been without dealers in Florida, the Carolinas and Georgia since January when Briggs Equipment closed the last of its 19 stores. Briggs is believed to be largest dealership group to fail so far.

At one time, Briggs claimed to be one of the largest Case construction dealers in the U.S.

While Briggs's parent company, privately held Sammons Enterprises of Dallas, has not publicly said why it closed its dealerships, the collapse of the housing market and fall off in commercial building is suspected to be the overriding factor.

CNH has assembled a group of investors under Trekker Tractor to operate the locations abandoned by Briggs. The group consists of Silvani Capital LLC, the operator of a hedge fund, along with principals in machinery dealerships in Puerto Rico and Venezuela that handle CNH, Kobelko and New Holland equipment.

CNH, which is owned by Fiat, is ranked as the fourth largest construction equipment manufacturer behind

Continued on page 4

Continued from page 1

ly improve engine fuel efficiency. But according to AGCO, results of recent Nebraska tests confirmed that SCR engines would produce fuel savings of 4-16% compared with competitive engines without SCR.

Unless EGR advocates come up with a major breakthrough before 2014, look for SCR's fuel economy advantage along with EGR's need for "active" diesel particulate filters to push off-road diesel engine design in the direction of SCR

Referring to SCR technology, one manufacturer says, "This is really the first time that emission regulations have given something back to the farmer. Every other time it's been a tradeoff in power or a tradeoff in productivity and their costs have gone up." **AEI**

Tier IV Engine Pricing Will Affect Farmer Buying Decisions

Last month, Caterpillar called its Tier IV engine program "the most aggressive and expensive product development initiative" in the company's history. Farm equipment makers tell the same story. So it won't take an economist or accountant to figure out that's going to translate into higher priced equipment in 2011.

With higher prices for new equipment, the real questions become how much higher and what impact will it have on equipment sales in the next 18 months.

The major tractor makers have not commented publicly on the pricing of their 2011 machinery. But polls of farm equipment dealers and off-the-record conversations with retailers as well as manufacturers indicate that Tier IV requirements will add 2% to as much as 15% to the price tags of new machinery next year.

Caterpillar has gone on record as saying, "While the details have not yet been finalized, price actions associated with recovering the costs of Tier IV Interim/Stage IIIB for our machines in the 130-560 kW power range may increase prices by as much as 12% over our Tier IV Interim//Stage IIIB introduction time frame."

A Caterpillar spokesman added, "We anticipate the first increase, starting January 1, 2011, to be about one third of the 12% increase. We plan to initiate broad-based emissions related price actions also starting January 1, 2011 for all products, including those utilizing transitional provisions."

What Dealers Say. One Tennessee dealer told *Ag Equipment Intelligence*, "We're told that the final Tier IV will put a 5-15% increase on the invoice price. New Holland told this to their dealers and are asking for a orders to beat the deadline."

In a web poll conducted by *AEI*, half of the dealers that responded say they expect price increases of 5-9%.

One commented, "Deere dealers are taking a price increase now and we'll get another one when the Tier IV engines come out. Add it up and you're talking about a lot of money."

Another dealer reports, "We just received a 2.5-3.5% price increase on tractors as of March 15. The November increase will likely be the same."

Off the Record. A tractor manufacturer that *AEI* spoke with acknowledged that Tier IV regulations would add 2-4% to farmer's invoices in 2011 depending on the machine. "We're looking at about $7,000-$8,000 of extra cost on the machine. That's what the customer would see on the price of the tractor."

He added, "Like other manufacturers, we're going to tie as many value-added options to the new tractors as possible to justify the additional costs created by Tier IV."

Effect on Sales. Ann Duignan, machinery analyst for JP Morgan is anticipating that the uncertainty and price of new tractors will influence farmer purchase decisions.

After attending a January meeting with 600 farmers in Chicago, Duignan wrote in a note to investors, "Most farmers that we spoke with said they would either pre-buy in 2010 or skip the next few years altogether. One farmer noted that his dealer told him that tractor prices would be up $20,000 in 2011.

"We would expect some pre-buying in 2010 and a significant drop in industry sales into 2011 as a result. Additionally, a number of farmers noted that they will invest in grain-storage/drying facilities rather than equipment in 2010," she says. **AEI**

New Ag Equipment Engines: SCR vs. EGR

Selective Catalytic Reduction
- + Improved engine combustion
- + At least 5% fuel efficiency improvement
- + Converts NOx to harmless nitrogen & water
- – DEF is an extra cost, but returned in fuel savings
- – Urea freezes at about 18F (-8C)
- – Most efficient at constants speeds, not start/stop
- – Meet 2014 PM standards will require some degree of aftertreatment

Cooled Exhaust Gas Recirculation
- + No additional fluid requirements
- + No impact on service intervals
- + No operator intervention for compliance
- – Requires greater cooling capacity
- – Decreases power density and fuel efficiency
- – Less combustion efficiency means increased particulate matter and need for diesel particulate filters

Source: Farmers Weekly

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications Inc., 225 Regency Ct., Suite 100, Brookfield, WI 53008-0624. Please send any address changes as soon as possible to the address shown above.

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

Chinese Tractor Maker Invests $20 Million in Romania

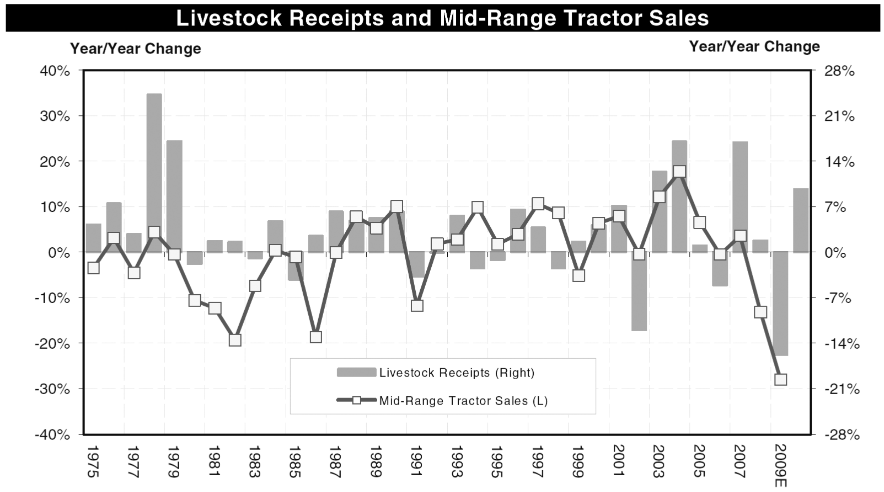
Chinese tractor maker Shantuo Agricultural Machinery Equipment has reportedly invested more than $20 million in a production start-up project in Romania.

According to the web site of the Romanian consulate in Boston, Mass., Shantuo's new Hoyo tractor unit in Rasnov plans to supply the domestic market initially before embarking on long-term plans to export. Shantuo, which was reorganized into a semi-public company 4 years ago, sells tractors in Russia,Africa and Southeast Asia, as well as the U.S. and Canada.

In China, Shantuo tractors are distributed under the TS and KM brands. Its compact models have been sold in the U.S. carrying the Kama name and the new venture's brand is Hoyo.

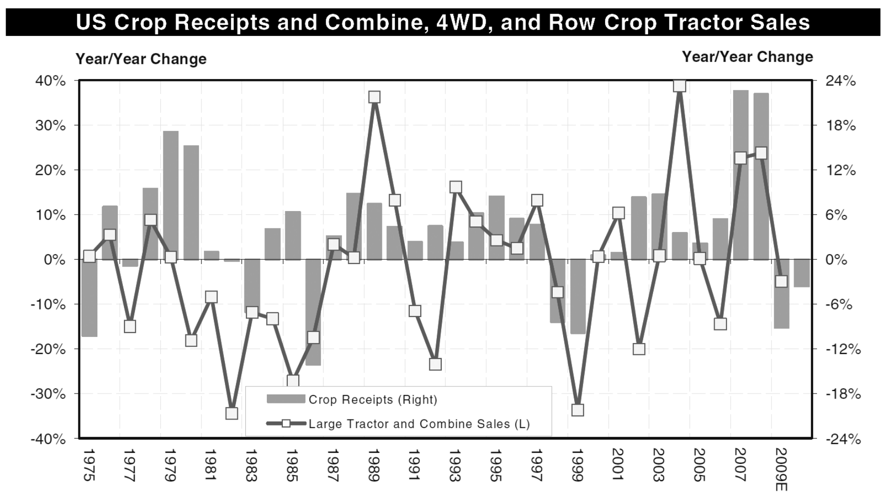
A ready supply of employees with necessary skills likely influenced the choice of Rasnov as the location for the Romanian venture since it is within 15 km of Brasov, where Universal tractors were once built.The state-owned enterprise was liquidated 2 years ago and the site sold for development.

Denisa Vasilescu, executive director of the new venture, plans to import parts from China once the assembly facility is complete. Production is scheduled to begin in April of this year with plans to build 3,000-4,000 units a year. AEI



Source: USDA, AEM, RW Baird

Mid-range tractor (40-99HP) sales have closely followed livestock receipts in the past. The 10% increase forecast in 2010 suggests a possible recovery. Since 1975, in years where livestock receipts increased 5%, mid-range tractor sales have increased an average of 6%.



Source: USDA, AEM, RW Baird

A second consecutive year of declining crop receipts bodes poorly for large equipment sales, On average, from 1975-2009, large tractor sales have declined 13% in years where crop receipts declined.

FARM MACHINERY TICKER (AS OF 3/11/2010)

Mfr.	Symbol	3/11/20 Price	2/11/10 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	$34.20	$33.46	$37.41	$16.11	23.72	994,216	3.16 B
Alamo	ALG	$17.99	$17.90	$18.91	$9.22	24.75	48,426	211.31 M
Art's Way	ARTW	$5.60	$4.00	$6.35	$3.06	207.41	6,672	22.34 M
Caterpillar	CAT	$58.90	$56.15	$64.42	$ 25.27	41.19	8.66 M	41.19 B
CNH	CNH	$26.58	$24.39	$29.11	$7.99	NA	224.979	6.31 B
Deere	DE	$57.73	$52.32	$60.16	$27.43	26.90	4.47 M	24.48 B
Kubota	KUB	$46.78	$45.29	$51.08	$23.69	32.94	140,015	11.90 B
Titan Machinery	TITN	$12.80	$12.16	$17.00	$7.78	14.80	165,311	227.49M

Continued from page 1

Caterpillar, Komatsu and Deere.

To allow its dealers to clear out equipment inventories, CNH has cut back its production to about half of what it was in 2009.

Even more pressing than the question of what happens when a mega dealer gets in trouble may be what happens when the principal/owner of a huge privately held dealership group wants to retire or just get out of the business?

Agri-Service, one of AGCO's largest dealers with 8 locations in Idaho, Utah and Oregon, may have partially answered that question last month when its owner, Cleve Buttars, turned the company into an ESOP (Employee Stock Ownership Plan).

Under such an arrangement, each employee receives the value of stock in the company that is redeemed when he or she retires or leaves the company. AEI.

Carlisle Tire & Wheel Consolidating & 'Onshoring' Its Manufacturing

Carlisle Tire & Wheel is on the leading edge of a trend known as "onshoring" or "reshoring" as it moves some of its overseas production back to the U.S. The company is also consolidating its agriculture and construction production to a new plant in Jackson, Tenn.

The manufacturer of specialty agriculture, construction, power sports and outdoor power equipment tires and wheels says that it's consolidating its operations from 3 existing plants in China, Pennsylvania and Georgia to enable it to employ lean manufacturing techniques. Carlisle also has a power trasmission belts and off-road specialty braking business, and supplies belts and specialty brakes to ag and construction manufacturers worldwide.

Company President Fred Sutter told *Ag Equipment Intelligence* there were a number of factors leading to the company's decision to merge its manufacturing.

"One of the primary drivers was our desire to transform our manufacturing operations to a lean model," Sutter says. "Our main plant for producing ag tires in Carlisle, Pa., was built in 1917 and wouldn't support lean concepts like single-piece flow. For us to transform the operation, we needed to look at a new footprint."

In addition, Carlisle's Georgia semi-pneumatic factory for seeding macines gage and press wheels burned down in November 2008, which lent additional urgency to the need to consolidate operations.

Sutter says that relocating to Tennessee also put the company in closer proximity to its primary customers. "We're selling product primarily to ag and construction OEMs, and the Tennessee location is more centrally located to OEM and aftermarket distribution channels."

Onshoring Production. Perhaps the biggest surprise was Carlisle's decision to return some of its Chinese operations to the U.S.

"We firmly believe that we should be manufacturing in the U.S. for the U.S. market," Sutter says.

"As part of our lean manufacturing transformation, we believe it's more economical for us to bring the manufacturing of some products made in China back to the U.S.

"By deploying lean manufacturing principals, we believe we can be competitive with off-shore suppliers. This, together with manufacturing in Tennessee, will allow us to do a better job of providing products to customers in a timely manner," says Sutter.

Room to Grow. Further testament to the effectiveness of lean manufacturing, Sutter points out that the three operations the company is consolidating encompasses nearly one million square feet of manufacturing space. "We'll be producing all of those products in our new facility that's only 568,000 square feet. This will also leave us room to expand capacity when it's needed." AEI

Kverneland Bolsters Hay Line with Acquisition

Kverneland Group has begun rebuilding its hay products line by purchasing all rights to the self-loading forage wagons built by the Dutch firm Veenhuis Machines.

The trailers, which chop and load grass swaths and can be used as forage transport trailers, are distributed under the Kverneland Taarup and Vicon brands.

"This is the first step in an ambitious strategy to broaden and expand the future product range within forage harvesting," says Claus Udengaard Thomsen, managing director of Kverneland Group's forage equipment business area. "The acquisition provides immediate access to many years of knowledge and experience in loader and transport wagons, and to a highly recognized and strong product range."

Veenhuis Machines will concentrate its business on manure handling equipment but will also continue manufacturing forage wagons for Kverneland Group during the next 2 years.

Kverneland is keen to rebuild its forage equipment line since it has only one more year selling the balers, wrappers, mowers and tedders it sold to Kuhn along with the Dutch factory that builds them. However, its dealers have access to parts for another 9 years.

Partly as a consequence of that deal, Kverneland handed its U.S. sales and distribution activities to two distributors last year, leaving Kverneland Group USA, based in Syracuse, N.Y., to focus on marketing. (See *Ag Equipment Intelligence*, December 2009.) AEI

RME Finishes Strong Year, But Late Harvest Hits 4Q Revenues

While the dealer group missed analyst's targets for the fourth quarter, Rocky Mountain Dealerships (RME) finished the year ended December 31, 2009 with revenues of $555.8 million. That's up 38% compared with the same period in 2008. The full-year earnings from operations also rose 21% to $22.2 million.

Rocky Mountain is one of Canada's largest ag and construction equipment dealerships with 25 locations throughout Alberta, Saskatchewan and Manitoba. Its primary brands include Case Construction, Case IH and New Holland.

Slower 4Q. For the fourth quarter, RME, reported revenues of $148 million, which was $14 million below analyst Ben Cherniavsky's forecast. The analyst reports for Raymond James, an independent investment dealer based in Canada.

"The main factor contributing to the top-line miss this quarter was Western Canada's late harvest," Cherniavsky said in a note to investors. "Due to a mild summer and a warm fall, farmers had their machinery in fields several months later than usual, resulting in less time for product support and year-end purchases typical of the fourth quarter."

The analyst also pointed to the weak demand for construction machinery that resulted in much lower levels of rental revenue, which, in turn, led to fewer year-end sales conversions.

Cherniavsky added that the "miss" in the fourth quarter "does not change our positive view of the stock. We continue to like Rocky's promising acquisition opportunities — which the Roydale New Holland acquisition most recently bolstered, price, proven management team, recurring revenue and strong balance sheet."

Expanding Sales. RME's growth in annual revenue was due to improved sales from each of the company's primary revenue sources. New equipment sales were $92.9 million and $300.9 million for the 3- and 12-month periods for 2009 compared to $90.5 million and $240.4 million in the prior periods.

Used equipment sales were $32.5 million and $156.6 for the those same periods of 2009, relatively similar compared to $32.8 million and $79.9 million for the same periods of 2008. Revenue generated from product support was $21.2 million and $93.7 million in the 3- and 12-month periods of fiscal 2009 compared to $22 million and $75.7 million for the same period of 2008. AEI

RME Quarterly Income Statement Summary

Year End December 31	4Q09E	4Q09	Variance($)	4Q08	YoY (%)
Sales					
New Units	83,379	93,463	10,084	90,513	3.3
Used Units	47,681	32,526	(15,155)	32,758	(0.7)
Product Support	29,685	21,203	(8,482)	22,013	(3.7)
Finance and insurance	520	644	124	432	48.9
Rental and leases	649	(163)	(812)	1,190	(113.7)
Total Sales	161,914	147,673	(14,241)	146,906	0.5
Reported Cost of Sales	135,725	123,150	(12,575)	122,296	0.7
Gross Profit	26,190	24,524	(1,666)	24,610	(0.3)
Expenses					
Selling and Administrative	13,549	13,903	354	14,780	(5.9)
Interest on short-term debt	1,514	1,541	27	1,259	22.4
Interest on long-term debt	231	240	9	344	(30.1)
Amortization on PPE	905	898	(7)	681	31.9
Earnings before Tax (EBT)	9,991	7,941	(2,050)	6,789	17.0
Income Taxes:					
Current Income Taxes	-	2,183	2,183	2 ,547	
Future Income Taxes	-	34	34	(5,089)	(99)
Subtotal Taxes	3,355	1,916	(1,439)	(2,542)	(138)
Net Income (loss)	6,334	5,724	(610)	(93,456)	(325)

Manitou Realigns Gehl, Sees Few Signs of Pick Up

The new president & CEO at materials handling specialist Manitou believes the slide in demand for ag and construction loaders has bottomed out. Yet he's not optimistic that the sales environment will improve significantly any time soon.

"Fourth quarter 2009 results show some evidence of organic growth again and we're pleased with the results of our December 2009 inventory push-out program," says Jean-Christophe Giroux. "But with little sign of a pick up in demand, either in agriculture or construction, we don't expect any significant growth in the first half of this year from current levels."

Giroux's appointment as CEO was confirmed at an extraordinary general meeting late last year. He replaced Marcel-Claude Braud, son of the non-executive chairman and a member of the main shareholding family in the French concern.

Reported fourth quarter net sales were down 39% vs. the year prior at the equivalent of $245 million, bringing the full-year decline vs. 2008 to 54% at $936 million. Sales in the Americas recorded a 65% hit vs. 56% in Europe and 44% in Manitou's rest-of-world markets.

In financial terms, the impact of the world economic crisis on building and construction, as well as ag more recently, has hit Manitou more severely than most because of its acquisition of Gehl Corp. only months before the recession took hold.

"In the coming weeks, Gehl will adopt a leaner management structure in line with changes in operating conditions," says Giroux. "Discussions are continuing with Gehl's lenders to find a long-term solution to its financing requirements following the company's breach of certain covenants." AEI

Takeaways from Ag Day in New York…

On March 3, *Ag Equipment Intelligence*, along with the investment-banking firm of Morgan Joseph & Co., co-sponsored the annual Ag Day conference in New York.

Now in its third year, this conference is designed to give investment fund managers a first-hand look at the farm equipment business. This year's meeting drew 65 managers representing 48 different investment funds, and featured growers from Ohio, Indiana, Wisconsin and Illinois, along with execs from the farm equipment industry. Here are the key takeaways from the conference.

Best Ag Market in 35 Years

Veteran crop consultant Joe Nester of Bryan, Ohio, says, "This is the most exciting time I've seen in agriculture in my 35 years in the business."

Nester and his staff oversee more than 300,000 acres of land with a typical client farming 4,000 acres.

Nester sees advanced technologies, like global positioning satellite (GPS) and variable-rate application, playing a key role in future farm productivity and crop yield gains as well as helping to solve environmental issues confronting American farmers.

He estimates GPS equipment is used on 10% of Midwest farm acres, but believes that between 50-60% of farmers in the region are getting ready to invest in GPS systems.

Nester cites one grower who uses variable-rate fertilization within 100 soil and fertility zones in a 320-acre field to evaluate soils, elevation, fertility and yield potential in a 320-acre field. This has boosted profits by $30,000 per year.

He also talked about how northwestern Ohio growers are receiving $40 per acre up to 100 acres in government funds over 3 years to improve water quality. EPA funding allows growers to invest in GPS technology to improve the quality of water flowing into Lake Erie through more accurate placement of phosphorus to avoid serious algae concerns.

"It's hard for some folks to believe, but the GPS technology will do more than anything else to improve water quality in Lake Erie," Nester says. "The yield monitor in the combine is probably the most productive tool to come out in the past 20 years."

Expanding Demand for GPS

Steven Koles, president of Calgary-based Hemisphere GPS, reports the company has expanded its marketing efforts in the U.S. and Australia to match the growing demand for GPS products. He says that GPS signal effectiveness and availability has been greatly expanded with Russia's launch of a series of commercial satellites.

Ag applications account for 77% of Hemisphere's sales. Koles estimates the firm has 50% penetration in the guidance market and is moving quickly into the auto-steer market with new products and an expanded dealer network..

The company recently introduced the Outback eDriveX auto-steering system that offers farmers enhanced precision steering and control for planting, strip-tilling and other applications that require centimeter-level accuracy at a wide range of speeds. Koles says growers can now get into auto-steer for $7,000 compared to buying a new tractor equipped with a $20,000 guidance unit.

"We're seeing more steering sales today, where it used to be mainly guidance systems," Koles says. The firm reported a 16% increase in revenues for the fourth quarter that ended on December 31.

Rising Land Prices

Demand for more corn acres for ethanol, food and exports is fueling higher prices for farm ground.

Allen Berry reports that some farmland in his area recently sold for $8,000 per acre. "There's no way a buyer can make that kind of an investment and maintain his cash flow," says the Nauvoo, Ill., farmer. He and his son, Spencer, grow 3,100 acres of corn and soybeans, 120 acres of pasture and hay and also do some custom farming for area landowners.

"We have $1 million in annual expenses with this ground, along with the equivalent of $600,000 in cash rent value," he says. "So we need $1.5 million in annual sales just to cover our expenses."

Berry says seed costs are a big item and increasing dramatically with some GMO seed now costing over $400 per bag. "We pay $100 per acre for GMO seed and $50 per acre for non-GMO seed corn," he says. "Since we can earn a 50 cents per bushel premium for non-GMO corn, we can boost our income by $150 per acre by not using biotech seed."

However, he uses GMO seed for soybeans and some corn, since it's much easier to control weeds with Roundup Ready. "But I rotate my herbicide chemistry every year to avoid weed resistance problems," he says. "I'll use Roundup Ready one year and Liberty Link seed the next year."

Troy Prescott has seen the same pricing trends in his area in Indiana, where he grows 2,500 acres of corn and soybeans. He helped put together a deal that includes 1,200 stockholders in Cardinal Ethanol, a huge ethanol plant located at Winchester, Ind., that produced $168 million in ethanol sales in 2009.

"With 75-80% of our expenses going for corn, this has definitely increased the value of farm ground in our area," he says. But he doesn't believe the trend will be long term.

"I bought ground in the 1980s during the land crash. I see this happening again and want to be prepared to buy more lower-cost ground when it does."

High fertility farmland is also fetching top prices, according to the Bryan, Ohio, crop consultant Joe Nester. As a director of a local bank, he has seen the value of requiring soil tests on farms that a grower wishes to purchase with financing.

"On two different pieces of $5,000/acre land, one farm may have as much as $1,000 more plant nutrients laying in the soil," Nester says.

"We haven't had any non-performing loans in our bank and there are some really strong opportunities out there right now in agriculture." AEI

Equipment Sales Mixed in February

North American large farm equipment sales were mixed during February, which is one of the seasonally weakest months of the year for ag machinery sales.

"Combine sales comparisons turned negative (down 8%) for only the second time in 15 months, while 4WD tractor sales showed strength (up 19%), but in a month that represents less than 6% of annual sales," says Robert McCarthy of RW Baird.

"Strong January sales appear to have alleviated a portion of the dealer inventory overhang, however, with positive implications for ag equipment production schedules."

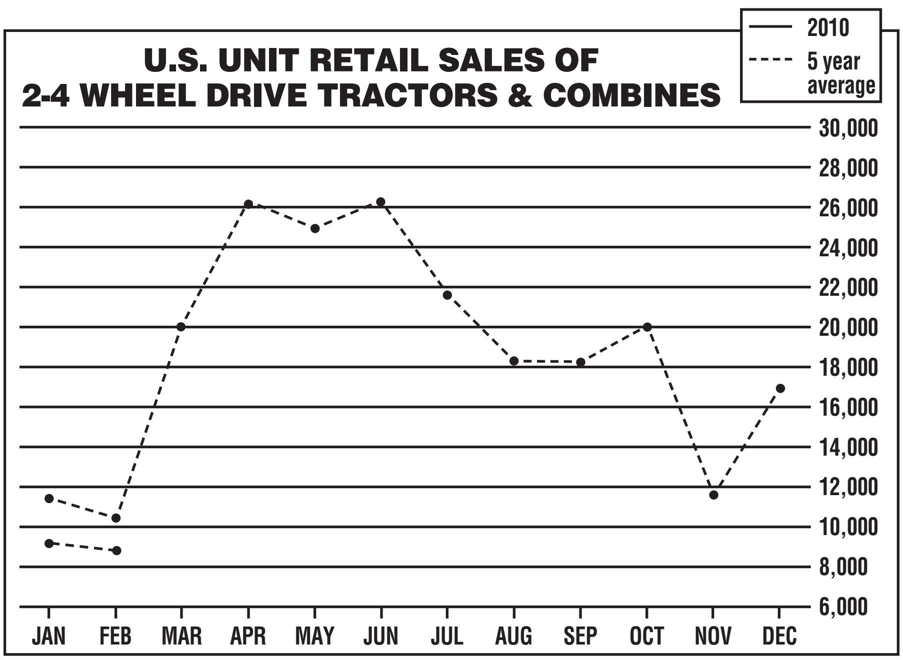
- Row-crop tractor sales moderated in February from January's robust 31.6% increase, but were still up 8.6% year-over-year. On average, February activity typically represents only 6.2% of annual sales.
- Row-crop inventories increased 6.1% year-over-year on an absolute basis in January, but inventories declined sequentially — from 128 days-sales to 112 days-sales — reflecting strong January retail sales activity.
- U.S. and Canada combine sales declined 7.7% in February following a double-digit increase in January. Seasonally, February is the weakest month of the year for combine sales.
- Combine inventories increased to 3.9% year-over-year, a significant moderation from the +30% increases seen in the past 2 months; inventory levels are now at 32 days-sales, well below the January average of 51 seen from 2006-2009.
- 4WD tractor sales comparisons improved in February, increasing 19.4% year-over-year vs. a 4.5% increase in January.
- Inventories increased 4.6% year-over-year in January, a moderation from the double-digit growth of the past 10 months.
- U.S. and Canada mid-range tractor sales remained extremely weak, declining 18.1% in February following a 7.3% year-over-year decline last month. This was the 17th consecutive year-over-year decline. **AEI**

FEBRUARY U.S. UNIT RETAIL SALES

Equipment	February 2010	February 2009	Percent Change	YTD 2010	YTD 2009	Percent Change	February 2010 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	3,613	3,860	-6.4	6,836	7,121	-4.0	45,016
40-100 HP	2,377	2,872	-17.2	5,184	5,936	-12.7	24,092
100 HP Plus	1,742	1,601	8.8	4,112	3,385	21.5	7,207
Total-2WD	7,732	8,333	-7.2	16,132	16,442	-1.9	76,315
Total-4WD	373	284	31.3	633	522	21.3	776
Total Tractors	8,105	8,617	-5.9	16,765	16,964	-1.2	77,091
SP Combines	475	534	-11.0	1,056	1,042	1.3	854

FEBRUARY CANADIAN UNIT RETAIL SALES

Equipment	February 2010	February 2009	Percent Change	YTD 2010	YTD 2009	Percent Change	February 2010 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	280	398	-29.6	735	879	-16.4	6,291
40-100 HP	293	390	-24.9	665	758	-12.3	3,014
100 HP Plus	205	192	6.8	436	388	12.4	1,729
Total-2WD	778	980	-20.6	1,836	2,025	-9.3	11,034
Total-4WD	83	98	-15.3	150	173	-13.3	240
Total Tractors	861	1,078	-20.1	1,986	2,198	-9.6	11,274
SP Combines	109	99	10.1	161	146	10.3	242



—*Assn. of Equipment Manufacturers*

Senate Passes 'Tax Extenders' Package

On March 10 the U.S. Senate voted 62-36 in favor of extending a number of popular tax provisions, including a 1-year extension of the 5-year depreciation schedule for agricultural equipment.

The Assn. of Equipment Manufacturers, along with other industry groups, worked to have the depreciation schedule shortened from 7 years, which was in effect for 2009 and was expiring at the end of the current year.

The Senate-passed tax extenders package must now be reconsolidated with the version passed by the House of Representatives in December. The House bill also contains the 5-year depreciation schedule.

Once signed into law, the benefits will be made retroactive to the beginning of the year. The $31 billion tax package also extended the research and development tax credit and the additional standard deduction for state and local property taxes and the deduction of state and local general sales taxes.

Source: Assn. of Equipment Manufacturers

Dealers See Commodity Prices as Biggest Risk to Equipment Sales

Nearly half the dealers responding to UBS Investment Research's latest survey expect 2010 farm equipment sales to fall below the levels seen in 2009. And while they believe commodity prices pose the biggest hurdle to increased sales this year, they also see several positive factors developing, including tight inventories and firm equipment pricing.

"Other risks to higher farm equipment demand in 2010 include the investment tax credit and the impending interim Tier IV engine emissions changeover," says Henry Kirn, machinery analyst for UBS. "That said, given lower cash net income in 2009 — USDA expects a 27% year-over-year decline — and robust demand over the last few years, we expect flattish U.S. farm equipment demand in 2010."

This was the 26th survey of U.S. farm equipment dealers conducted by UBS. More than 400 dealers participated in the January poll.

Declining Sales. The chief finding of the survey is that 43% of dealers expect ag machinery sales to decline throughout 2010, while 27% believe business levels will increase. The remaining 30% project sales to be flat compared to 2009.

For the first quarter of the year, 39% of equipment retailers anticipate that sales will be lower compared to year-ago levels, while 17% expect sales to increase during the period. The rest — 43% — are forecasting sales to be flat or at about the same levels as the first quarter of '09.

Stable Equipment Pricing. "While roughly two-thirds of dealers indicated that pricing is stable, 23% of farm dealers indicated that new equipment prices were firming while only 11% indicated that pricing is weakening.

On average, dealers expected manufacturer price increases in the 1-2% range," says Henry Kirn, machinery analyst for UBS.

Some 19% of the respondents reported that used equipment prices are firming, while another 19% reported that used prices were weakening. The remaining 62% reported stable used equipment prices.

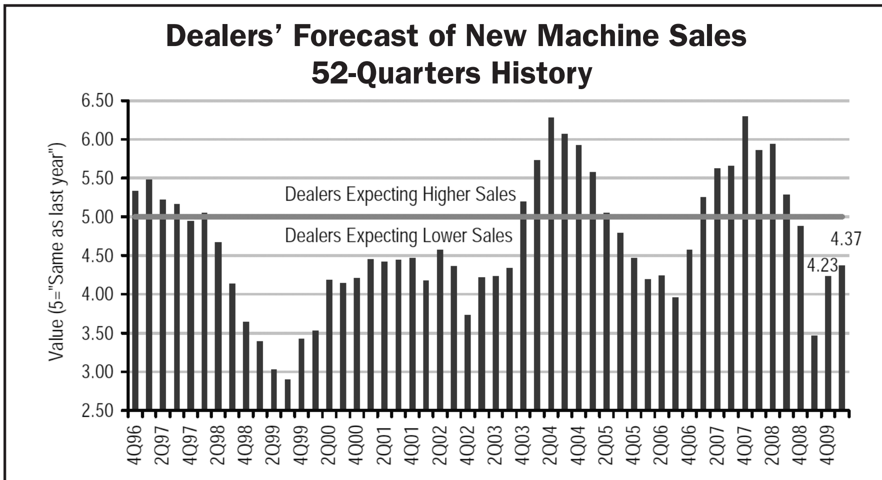
Tight Inventories. Another significant finding of the UBS study showed that 57% of dealers saw new equipment inventories as "Much lower than normal" or "Lower than normal," while 16% saw inventories as "Higher than normal" or "Much higher than normal."

All dealers, regardless of brand, reported lower than normal inventory levels. Used equipment inventories were also slightly below normal levels, according to Kirn, as 34% of the survey respondents see used equipment inventories "Much lower than normal" or "Lower than normal." About 26% saw inventories as "Higher than normal" or "Much higher than normal."

Slightly Slowing Sales. Generally, ag equipment dealers expect agricultural business conditions to deteriorate slightly over the next 6 months.

Of 412 responses to the question, 26% of dealers believe that farmers expected agricultural business conditions to "Improve" over the next 6 months, while 28% of dealers that believe farmers expect agricultural business conditions to "Deteriorate."

The remaining 46% believe that conditions will "Not change." Kirn also notes that New Holland dealers were much more optimistic than were Case, Deere or AGCO dealers.



Source: UBS Agricultural Dealer Surveys #1-26

The 4.23 average responses for the fourth quarter of '09 and 4.37 for the first quarter of 2010, indicate that dealers believed farm machinery sales would decline in both quarters.