

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

October 15, 2010
Vol. 17, Issue 5

- Brillion for Sale?
- Claas Dumps Cat Logo
- 'Best Bets' in 2011

Farm Machinery Pricing Mixed, Current Inventories 'Below Normal'

Dealers are finding new equipment pricing is "firming," but prices for used equipment are weakening heading into the last quarter of 2010. At the same time, they say their inventories of both new and used machinery are "below normal."

That's according to the most recent survey of North American dealers conducted by UBS Investment Research.

The ag machinery dealers also say that, on average, they expect a 7% price increase in equipment with the new, lower emission Tier IV engines.

According to Henry Kirn, machinery analyst for UBS, dealers believe new equipment prices are "firming," indicating that healthy farmer balance sheets and solid levels of net farm income are allowing dealers to pass through higher

prices to end users.

Some 30% of farm equipment dealers polled by Kirn reported new equipment prices were "firming," while 12% see prices "weakening." "Encouragingly, the important Corn Belt states were the most positive region for new equipment pricing," he says.

On the other hand, 23% of dealers see used equipment pricing "weakening" while 11% say it's "firming."

"We note that these results represent a more challenging pricing environment than we saw in our previous survey, and see weaker used equipment prices as a potential headwind to future price increases on new equipment," Kirn says.

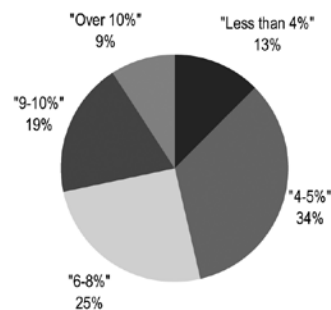
Lower Inventories. Survey results also indicate dealers are experiencing "below normal" inventories

of both new and used machinery.

Inventories of new equipment are getting tighter as 59% of dealers reported below normal inventories and 10%

Continued on page 2

Dealer Expectations for Interim Tier IV Pricing



On average, dealers expect a 7% price increase for 2011 Tier IV equipment.

Tighter Steel Supplies Keep Ag Equipment Manufacturers on Alert

With demand and orders for ag equipment on the rise, manufacturers are beginning to see steel supplies tighten, and in some cases, higher prices.

"We're so busy we can't keep up, and I don't think we're alone," says Terry Flanary, director of sales and marketing for National Tube Supply Co., University Park, Ill. "As far as supply, it's much tighter than it was last year, and our lead times continue to expand."

The steel mills are well aware of the situation, he adds, and have reacted in recent months by raising prices. According to a recent *Wall Street Journal* report, steel prices have increased 4-12% in several key categories, following a summer of

soft prices.

"It's supply and demand," says Flanary. "And the exchange rate isn't necessarily in our favor right now. A stronger dollar hurts when you're importing steel."

To keep pace, suppliers and manufacturers alike are keeping a watchful eye on steel supplies.

"We're being more aggressive with inventory and boosting tonnages when we order," says Flanary. "In many cases, we're doubling our quantities when we buy steel."

Richard Brown, the president of Krause Corp., in Hutchinson Kan., a manufacturer of farm implements, says he's been working closer than ever with his firm's suppliers to

develop accurate forecasts and avoid price increases.

"Our lead times on bearings are stretching out to a year and we're not completely clear why," he says. "We think it's due to a decrease in domestic capacity taken out and so much sourcing to China, so we're buying as much as we can."

Brown notes that keeping the cost of steel in check is the key to holding down the cost of new wholegoods. "We're not yet seeing a repeat of 2006 and 2007, when the price of steel doubled. That required our company to increase wholegood prices by about 25%, which none of us want."

Mike Irish, general manager of

Continued on page 2

saw above normal inventories. Some 39% of dealers reported below normal used equipment inventories while 29% saw above normal inventories.

Brisk Used Sales. Some dealers say a lower than normal inventory of new equipment is driving brisk sales of used machinery, particularly high-horsepower tractors. They also say some farmers are buying used tractors to avoid machines equipped with new Tier IV engines.

One dealer said, *"I believe sales of these [Tier IV] units will be slow until customers see the value and improvements."* Another offered, *"Manufacturers are making availability of new equipment so hard to get that it's driving more sales of good, reconditioned used equipment."*

Dealer commentary reflects growing concerns with the volume of used combines coming into the market. *"Used inventory levels are growing, especially for combines"... "Lots of used Deere combines out there"... "Build-up of used combine inventory is a definite concern"... "The inventory of class 7 and 8 combines continues to build"... "Inventories of*

Dealers' Views on Current Equipment Pricing

Company	NEW EQUIPMENT PRICING			USED EQUIPMENT PRICING		
	Weakening	Stable	Firming	Weakening	Stable	Firming
AGCO	12%	60%	28%	25%	63%	12%
Case IH	15%	56%	29%	22%	70%	9%
John Deere	10%	55%	35%	33%	58%	9%
New Holland	11%	60%	28%	16%	69%	15%
Total	12%	58%	30%	23%	66%	11%

Source: UBS Agricultural Dealer Survey #27

Dealers' View of Current Status of New & Used Equipment Inventories

Company	NEW EQUIPMENT					USED EQUIPMENT				
	Much Lower Than Normal	Lower Than Normal	Normal	Higher Than Normal	Much Higher Than Normal	Much Lower Than Normal	Lower Than Normal	Normal	Higher Than Normal	Much Higher Than Normal
AGCO	21%	39%	28%	12%	0%	6%	43%	35%	13%	4%
Case IH	1%	44%	37%	17%	1%	3%	32%	36%	25%	4%
John Deere	13%	42%	39%	6%	0%	4%	19%	31%	38%	8%
New Holland	15%	57%	22%	3%	2%	4%	43%	29%	23%	2%
Total	12%	47%	31%	9%	1%	4%	35%	32%	25%	4%

Source: UBS Agricultural Dealer Survey #27

used combines are higher."

The rising inventory of used combines may also reflect the high level of new combine sales over the past

couple of years. In fact, combine sales in September were the single highest monthly total since 1998. (See more detail on p. 7.) **AEI**

Steel Supplies...Continued from page 1

Brillion Farm Equipment Co., Brillion, Wis., says his company is also feeling the pinch. Lead times on round tubing are running 20 weeks, up from 12 weeks. The high-alloys materials used for ground engaging points are also getting harder to source. "We're planning far enough in advance that it's not having an impact yet," he says. "But we anticipate that prices will be going back up again in 2011, because of seasonal shortages of steel scrap."

One reason steel supplies are lower right now is because manufacturers were focused on reducing inventories in 2009. This in turn has led to a reduction in capacity at the mills, and consolidation within

the steel industry. "Now everybody's trying to get inventories back up," according to Flanary. "We're using up our supplies as fast as we can bring them in."

But with less capacity overall, inventory is especially tough to maintain. "With imports, we're talking about 5-6 months before we can get the materials," says Flanary. "We're selling the inventory even before it hits the ground."

Because some customers are having difficulty sourcing the materials they need, they're using alternative approaches, he adds. For example, they may take materials that aren't sized correctly and machine them to

meet specifications.

Fortunately for National Tube, only about 10% of its total supplies are sourced from China. China's increasing control of steel production has sparked controversy in recent years. "We don't buy much from China because our main product is mechanical tubing, and the Chinese sell bar structural plate, which we don't get involved with. That's helped us stay out of the middle of this."

The question for suppliers and manufacturers alike: is the current shortage temporary or is the industry headed for tighter supplies and higher prices in 2011? "Our gamble will come in 2011," says Flanary. **AEI**

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications Inc., 225 Regency Ct., Suite 100, Brookfield, WI 53008-0624. © 2010 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 subscription orders to: *Ag Equipment Intelligence*, P.O. Box 624, Brookfield, WI 53008-0624. Fax: 262/786-5564. Phone: 262/782-4480 or 866/839-8455 (U.S. only). E-mail: info@lesspub.com.

CNH Switch to FPT Engines Part of the Bigger Change

It's not the wholesale switch from Cummins to Fiat Powertrain Technologies (FPT) engines that has muted the characteristic exhaust bark of the latest Case IH and New Holland high-horsepower tractors, but rather the big air box that the gases now pass through.

Inside, a catalyst and a squirt of urea solution neutralize nitrogen oxides (NOx) so that gases emerging from the muffler are clean enough to meet EPA Tier IV Interim emissions requirements that become effective in January 2011.

Engineers at FPT's North American R&D center in Burr Ridge, Ill., less than 2 hours from CNH's Racine, Wis., tractor factory, have been instrumental in developing the 8.7-liter and 12.9-liter C-series (formerly Cursor) engines for CNH's 2011 model year tractors and harvesters.

They appear to be winning the war on the often-conflicting requirements of performance, fuel economy and emissions control at least as well as their competitors, if not better in some respects.

For example, FPT claims 95% NOx conversion vs. a norm of 80-85% with its Tier IV Interim selective catalytic reduction (SCR) technology, mainly thanks to advanced control systems.

Moreover, FPT says its system is

capable of meeting full Tier IV compliance without resorting to exhaust gas recirculation (EGR). Even if light EGR is required to further reduce operating costs, a passive regeneration filter with no need to increase or modify vehicle-cooling systems will control particulate matter.

Fuel Efficient. As it is, the 2011-spec SCR-equipped N- and C-series FPT engines used in next year's crop of CNH new equipment reportedly will deliver a 5-15% reduction in specific fuel consumption compared with the previous units, with service intervals extended to 600 hours.

Looking further down the road, FPT is confident of successfully transferring its award-winning MultiAir electrohydraulic intake valve management system to its heavy diesels. On auto engines, MultiAir has resulted in 10% more power and 15% more torque at low revolutions, as well as a 10% reduction in fuel consumption and CO2 emissions.

Fiat Industrial. All of which makes a strong case for CNH adopting FPT engines for its high-horsepower models and bringing to an end the long-running relationship with Cummins. However, there are also commercial considerations, not the least of which is that CNH and FPT are part of the Fiat Group.

Last year, CNH Global spent \$4.5 million purchasing 67,000 smaller 4- and 6-cylinder off-highway diesels from FPT for its farm and construction machines. Adopting the C-series for the Case IH Magnum and Steiger tractors and for equivalent New Holland T8 and T9 tractors means it will also buy plenty of bigger ticket motors in the future.

CNH and its exclusive engine supplier also will be more closely linked once FPT's Industrial & Marine product line has been transferred along with CNH to the new Fiat Industrial business, which is due to go live at the turn of the new year. This new entity, which Fiat Group shareholders recently approved, is being created to give CNH and the Iveco truck and bus operations independence from the group's automobile business.

"There is no longer any reason to keep together sectors that operate with such diverse financial and industrial logic; the concept of a conglomerate is outdated and no longer serves any useful purpose," says Fiat chairman & CEO, Sergio Marchionne. "With the new structure, the constituents of Fiat Industrial SpA will have complete freedom of movement to make the best strategic choices, including potential alliances." **AEI**

FARM MACHINERY TICKER (AS OF 10/11/2010)

Equipment Mfr.	Symbol	10/11/10 Price	9/10/10 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	\$41.58	\$38.13	\$43.27	\$25.48	33.83	1.82 M	3.87 B
Alamo	ALG	\$24.34	\$27.05	\$27.05	\$13.04	12.84	58,553	287.31 M
Art's Way	ARTW	\$9.37	\$6.00	\$9.42	\$3.42	48.07	7,017	37.42 M
Caterpillar	CAT	\$79.98	\$71.26	\$81.00	\$50.50	32.57	7.95 M	50.43 B
CNH	CNH	\$42.59	\$33.67	\$43.91	\$16.50	62.18	344,989	10.14 B
Deere	DE	\$75.31	\$67.81	\$76.83	\$42.12	27.19	4.54 M	31.92 B
Kubota	KUB	\$47.51	\$44.19	\$51.08	\$37.35	20.84	28,853	12.08 B
Dealer Groups								
Cervus Equipment	CVL	\$11.50	\$11.25	\$18.00	\$10.10	NA	13,071	NA
Rocky Mtn Dealerships	RME	\$7.68	\$8.90	\$10.83	\$5.85	NA	17,955	NA
Titan Machinery	TTTN	\$18.67	\$14.84	\$19.21	\$9.81	25.20	187,623	333.30 M

Brillion Farm Equipment on the Block — Again

Brillion Farm Equipment, the Brillion, Wis., manufacturer of seedbed preparation and seeding equipment, is up for sale again. This time it looks as if parent company, Accuride Corp., may be serious about selling it.

Accuride has been reeling from a severe downturn in commercial truck sales. In August 2009, the company reported that it had lost money for a fifth consecutive quarter. Accuride's net sales fell from \$244.9 million in the second quarter of 2008 to \$135.2 million in the second quarter of 2009.

Industry insiders that *Ag Equipment Intelligence* spoke with have long felt that the association with Brillion Farm Equipment and Accuride, a manufacturer of truck components and assemblies, which is based in Evansville, Ind., was never a very good fit.

Accuride owns both Brillion Farm Equipment and Brillion Foundry.

Both of these operations, which share a parking lot and some operations, are capital intensive. And with Accuride trying to bounce back from its October 2009 Chapter 11 bankruptcy filing and in need of cash, it appears the parent company wants to shed both operations.

According to Charlie Rentschler, analyst for the investment bank Morgan Joseph, and a former director of Accuride, neither the farm equipment or foundry business was core to Accuride's truck operations.

"Both Brillion Farm Equipment and Brillion Foundry are outside of Accuride's core business, and both are capital intensive. This is particularly true of the foundry," says Rentschler who previously owned a group of foundries. "Accuride gets most of its iron castings from Gunit Corp. in Rockford, Ill., which it also owns. There's really no reason to hang on

to these operations. With its restructuring, there's now some additional incentive to sell both of them off."

Acquisition Candidates. While Rentschler wouldn't speculate on possible buyers of the farm equipment business, he acknowledged that Accuride had held talks previously with the Russian group, Combine Factory Rostselmash. Rostselmash acquired 80% of Winnipeg-based Buhler Manufacturing, the maker of Versatile tractors and other farm implements, in November 2007. The company has made it known that it intends to become a full-line supplier to its dealers, and is in need of both tillage and seeding lines of equipment.

Besides hearing about interest in Brillion from other equipment manufacturers, *Ag Equipment Intelligence* has learned that a group of private investors has been assembled to possibly acquire Brillion. **AEI**

Kverneland Jumps Back into the Hay Baling Equipment Arena

With near perfect timing, the CEO of Kverneland Group, Ingvald Loyning, has revealed details of one of the industry's best-kept secrets of recent times — a new alliance with Italian manufacturer Gallignani.

The agreement, which will be reinforced by Kverneland purchasing 30% of Gallignani stock this fall, gives the Norway-based group immediate access to a comprehensive range of round balers and bale wrappers.

They replace the key products (and factory) sold to Kuhn parent Bucher Industries in a \$156 million deal 2 years ago. That deal allowed Kverneland to continue distributing Vicon-branded balers until the end of August 2010, when they became exclusive to Kuhn.

In the first week of September, Kverneland started a 10-day road show to introduce the products and the Gallignani factory in central Italy to 1,200 dealer and distributor personnel from 40 countries.

The deal not only gives Kverneland a group of up-to-date products, but also exclusive distribu-

tion rights in most markets. The two alliance partners make a very good fit, says a Kverneland director.

"We needed a new product line and Gallignani needed to increase its sales having invested a lot of money in a new factory and new balers," he explained. "The deal gives us access to a product line that I think has been very underrated. It offers Gallignani

"The deal not only gives Kverneland a group of up-to-date products, but also exclusive distribution rights in most markets..."

the potential to more than double its round baler production volume from 2,000 units annually to over 4,500 units if we can retain our position in the market."

Production of bale wrappers and

conventional balers — which will be a new line for Kverneland's Vicon brand — should also benefit from Kverneland's historically strong market position.

At their peak, baler sales generated around a quarter of group revenues and secured a pan-European market share of nearly 12%.

AGCO Connection. Another element of the deal is that Gallignani's existing agreement to supply balers to AGCO in Europe remains in place. But Kverneland has been awarded control of all distribution activities to Massey Ferguson and Fendt dealers, including marketing, sales and after-sales support.

"We have enjoyed a strong relationship with Gallignani for the past 8 years and wish to develop round baler sales as part of our strategy to grow our harvesting products business," says Mike Edmond, AGCO director of harvesting in Europe. "This agreement gives AGCO dealers access to Kverneland Group's extensive expertise in both sales and after-sales support of round balers." **AEI**

GPS, Auto-Steer Equipment Tops Dealers' 'Best Bets' List for 2011

For the sixth straight year, North American farm equipment dealers have rated GPS/Auto-Steer products as having the most potential for improving unit sales for the coming year. Disc harrows, field cultivators, lawn and garden equipment and mower/conditioners rounded out the top 5 products on the dealers' 'Best Bets' rankings for 2011.

The dealers' list of top products are based on the results of *Ag Equipment Intelligence's* "2011 Dealer Business Outlook & Trends" survey conducted in late August and early September.

More than 94% of dealers expect sales of GPS and auto-steer equipment to be as good or better than sales of the equipment in 2010. The strength of precision farm equipment sales is not surprising. Precision ag pricing continues to drop as the capability of the new equipment continues to expand, making it an easier choice for more farmers to purchase new equip-

ment. And manufacturers keep adding to the array of products available.

At a recent press conference, Matt Burkhardt of Raven Industries reported the top four product requests from farmers in the past year included planter controls, yield monitoring, RTK for steer-ready applications and scalable GPS. Raven is launching eight new precision farming products this fall.

Tillage Tools. Sales of tillage tools could also see significant growth. Dealers that *Ag Equipment Intelligence* spoke with say the higher yields and tougher stalks produced by Bt corn are pushing sales of tillage equipment. Nearly 90% of dealers anticipate improved sales of both disc harrows and field cultivators next year. That's up 12-13% from what dealers projected last year at this time.

Tractors & Combines. Overall, the outlook for every major product group improved going into 2011 compared to a year ago, including tractors

in each horsepower category.

Slightly over 88% of dealers expect unit sales of 2WD tractors with less than 40 horsepower and 2WD tractors in the 40-100 horsepower range to be as good as or better than sales in 2010. This compares with only 65.7% who saw the same outcome in 2010 vs. 2009 for both categories of tractors.

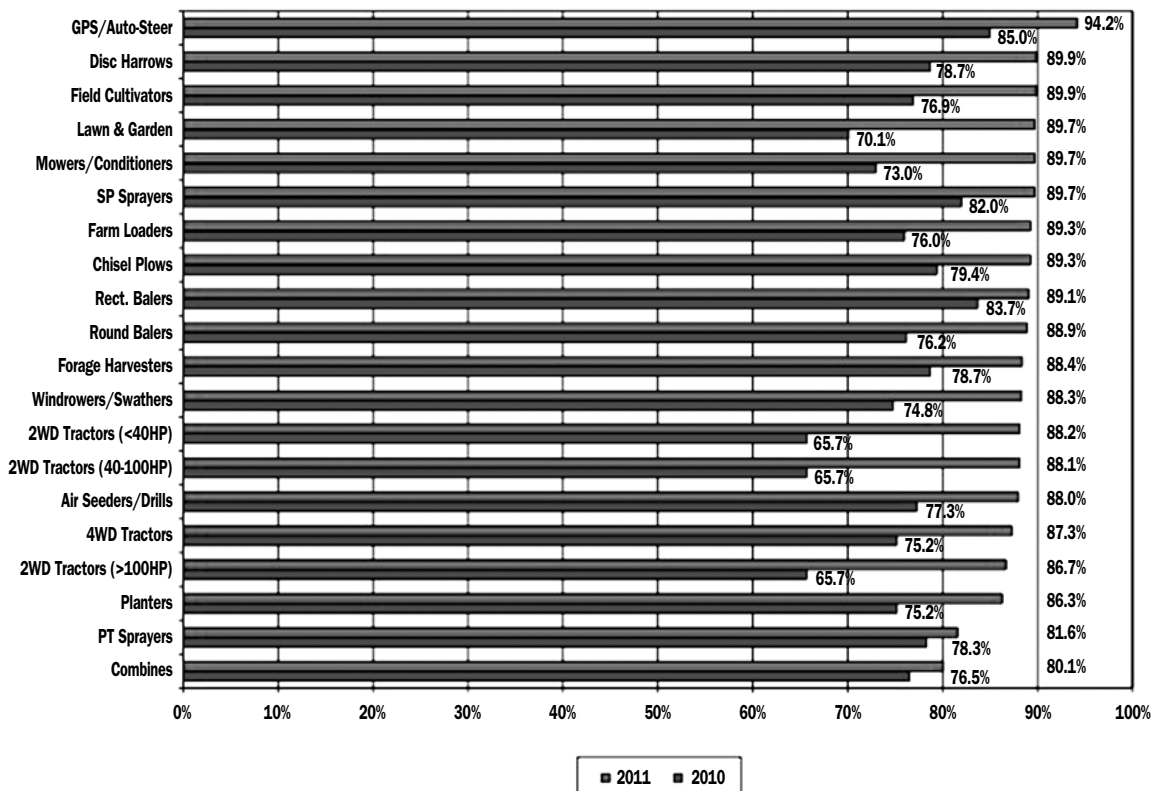
Some 87.3% of dealers see 4WD tractor sales improving and 86.7% expect unit sales of 2WD units of more than 100 horsepower to increase in 2011.

This compares with 75.2% and 65.7%, respectively, of dealers who anticipated sales to be as good as or better in 2010 as they were in 2009.

While 80.1% of dealers polled this year expect sales of combines to be as good as or better than they were last year (vs. 76.5% last year), this equipment received the lowest ranking on dealers' 'Best Bets' for improving unit sales in 2011. **AEI**

Best Bets for Improving Unit Sales in 2011

(% of dealers forecasting sales 'As Good or Better than 2010')



GPS/auto-steer equipment finished at the top of the dealers' list for the best opportunity to increase unit sales in 2011. It was followed by two tillage products, disc harrows and field cultivators. Lawn and garden equipment is also expected to pick up in the year ahead.

Art's Way Continues Rebound in 3Q, Analyst Calls Company an 'Acquisition Target'

With its third-quarter results, Art's Way Manufacturing, the shortline manufacturer of specialized farm machinery, offered further results of the continuing strength of the ag equipment industry. With the continuing strong farming fundamentals and Art's Ways expanding product line, at least one analyst says the company is a possible acquisition target.

On October 8, Art's Way, based in Armstrong, Iowa, reported net sales for the 3 months ended August 31, 2010 were \$10.6 million compared with \$5.6 million in the same period of 2009. Operating income for the period increased 495.9% and for the 9 months ended August 31 increased 166.8% compared with the same period of '09.

The company's agricultural products segment had sales for the third fiscal quarter of \$7,725,000, compared to \$4,993,000 during the same period of 2009, a 54.7% increase. Year-to-date sales were \$15,927,000, up from \$15,868,000, a 0.4% increase and a significant improvement over year-to-date results as of the end of the second fiscal quarter.

According to the company, it experienced decreased sales of its Miller Pro haying equipment and OEM

blowers, but increased sales of augers and beet equipment, which "yield higher profit margins." Year-to-date gross profit came in at \$4,348,000 compared to \$4,145,000 for the same period last year.

Improved Pricing. J. Ward McConnell Jr., executive chairman of Art's Way's board, said, "Agricultural product prices continued to improve last quarter giving a large boost to U.S. farm income. With the higher incomes and robust prices, we saw significantly more interest in new and replacement equipment than we have in some time, all of which creates sales opportunities for our expanding agricultural equipment line. We are seeing a longer-term trend as farmland and product prices improve, and we think more capital will be spent in the agricultural sector over the

next few years."

Acquisition Target? According to the October 11 LSGI Advisors Report, some analysts are starting to recognize the impressive potential of the agricultural sector and Art's Way. An article on the agricultural equipment sector published last week by Aaron Levitt, an investment analyst, mentions Art's Way as a 'possible acquisition target.'

"Long term, feeding the growing world population represents a great investment theme ... small cap, Art's-Way Manufacturing produces equipment for the raising of livestock, including grain elevators, hay and forage gear, as well as mixers and mills. The company has market cap of less than \$25 million, making it a possible acquisition target down the road," Levitt wrote. **AEI**

Art's Way Consolidated Earnings 3 & 9 Months Ended August 31, 2010

	3 Months			9 Months		
	8/31/10	8/31/09	Change	8/31/10	8/31/09	Change
Revenue	\$10,581,783	\$5,600,464	88.9%	\$22,909,802	\$19,406,975	18.0%
Operating Income	1,270,882	213,259	495.9%	1,606,163	602,033	166.8%
Net Income	751,802	64,725	1061.5%	886,707	181,238	389.3%

Source: Company reports

Claas Dumps 'Cat' Logo on New Lexion Combines

The latest Lexion combines rolled out by Claas of America Inc. at the Farm Progress Show in September not only featured a new cab, new control features, upgraded hydraulics and high-speed suspension tracks, but also the "Claas" name for the first time.

The new model launch provided a timely opportunity to finally exchange the large "Cat" logo for Lexion's own identity.

According to T.C. Truesdell, marketing coordinator at the Omaha, Neb., headquarters of Claas in North America, "We've been educating Lexion customers in preparation for bringing the 'Claas' name out of the shadows on these machines. But the

market is not yet ready for an all-new identity so we retained the familiar yellow and black color scheme rather than switching to Claas green."

Several factors make this a timely change. It is now 6 years since

"Cat is no longer the only engine supplier for Lexion combines..."

Caterpillar exited the agricultural equipment market and sold its 50% share in the Omaha operation to Claas.

Caterpillar is no longer the exclusive engine supplier for Lexion com-

bines now that top models use MTU Mercedes power units. And Caterpillar dealers are no longer the only ones selling the combines as Claas develops its own distribution network.

"Lexion combines are sold primarily through Cat dealers but not exclusively these days," notes Truesdell. "We have a handful of independent dealer outlets in areas where the Cat dealership has chosen not to be involved in the ag market."

Claas has also adopted new worldwide model numbering for the range, which more logically identifies all straw walker machines as 600 series and all rotary separation machines as 700 series. **AEI**

Combine Sales Highest in 10+ Years

North American sales of large farm equipment remained solid in September, according to the latest figures released by the Assn. of Equipment Manufacturers. "Sales of combines moderated in the seasonally most important month of the year, but still set a 10-plus year monthly high, while row-crop tractor comparisons remained strong against weak prior-year comparisons," says Robert McCarthy, analyst for RW Baird.

While third-quarter large machinery demand appears modestly stronger than expected, farmers may be cautious about the new diesel engines in 2011. The relative youth of the existing fleet may also suggest current demand may not be sustainable," McCarthy says.

- U.S. and Canada combine retail sales moderated in September, increasing 12.9% year-over-year after a 17.2% increase last month. This was the single highest monthly total in absolute sales levels since 1998, according to McCarthy.

- Inventory grew 5.5% year-over-year on an absolute basis, and represents 75 days-sales, which is up from 70 days last year.

- September sales of high-horsepower tractors were up 37% year-over-year following the 35% August increase. Row-crop tractor sales increased 43.1% year-over-year last month following a 45.2% increase in August. Row-crop tractor inventories declined 11.9% year-over-year, and now represent 108 days-sales, down from 120 in August 2009. September has accounted for 7% of annual sales over the past 5 years.

- 4WD tractor retail sales comparisons improved in September rising 16.6% year-over-year, up from 3.3% in August. Inventories increased 5% year-over-year on an absolute basis, but declined slightly to 82 days-sales from 84 last year. September is a seasonally average month for 4WD tractor sales.

- September sales of mid-range tractors fell 11.3% year-over-year compared with an 8% increase in August. **A/EI**

SEPTEMBER U.S. UNIT RETAIL SALES



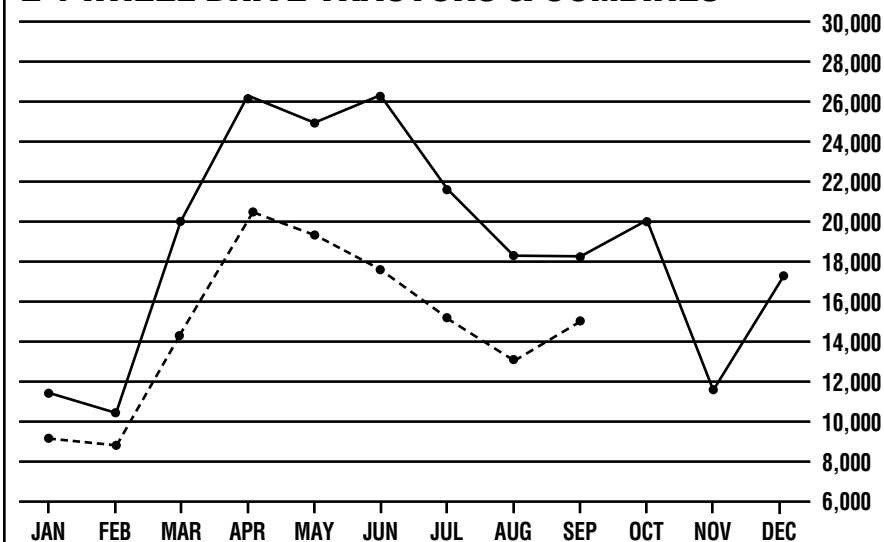
Equipment	September 2010	September 2009	Percent Change	YTD 2010	YTD 2009	Percent Change	September 2010 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	6,732	6,848	-1.7	67,861	65,317	3.9	41,142
40-100 HP	3,869	4,236	-8.7	36,403	38,415	-5.2	22,626
100 HP Plus	2,309	1,572	46.9	18,853	16,849	11.9	7,190
Total-2WD	12,910	12,656	2.0	123,117	120,581	2.1	70,958
Total-4WD	593	492	20.5	3,923	3,315	18.3	1,123
Total Tractors	13,503	13,148	2.7	127,040	123,896	2.5	72,081
SP Combines	1,506	1,350	11.6	7,705	7,447	3.5	2,008

SEPTEMBER CANADIAN UNIT RETAIL SALES



Equipment	September 2010	September 2009	Percent Change	YTD 2010	YTD 2009	Percent Change	September 2010 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	832	926	-10.2	8,108	8,201	-1.1	6,671
40-100 HP	471	656	-28.2	4,381	4,786	-8.5	3,873
100 HP Plus	335	276	21.4	2,934	2,746	6.7	1,825
Total-2WD	1,638	1,858	-11.8	15,423	15,736	-2.0	12,369
Total-4WD	60	68	-11.8	948	841	12.7	282
Total Tractors	1,698	1,926	-11.8	16,371	16,577	-1.2	12,651
SP Combines	225	183	23.0	2,006	1,923	4.3	549

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



USDA's Outlook for Lower Crop Yields No Real Surprise to Midwest Farmers

Chances are good that at least some Midwest farmers weren't too surprised at USDA's October 8 report that corn and soybean yields would probably come in quite a bit lower than anticipated just a month earlier. The report reduced corn yields by almost 7 bushels per acre.

Analysts agreed that the report was indeed bullish for farm equipment dealers in the Corn Belt, but could spell difficulty for those who service livestock producers.

When *Ag Equipment Intelligence* visited with a western Illinois farmer at the Farm Progress Show in early September, he said that, while he was hopeful that early planting this spring would produce a bumper crop of corn and beans this year, the rains that followed had dampened his outlook.

"By the time the spring rains dried out, it was obvious that I needed to replant. I'm guessing my yields for both corn and beans will be 20-30% less than they were a year ago," he said.

USDA's revised outlook wasn't quite that dramatic, as it cut its estimate of the corn crop by 4% and soybeans by 2% based on conditions on October 1. Nonetheless, what surprised some was the magnitude of the yield and production revisions.

One commodity broker remarked that it is very out of character for the USDA to lower the corn yield as much as it did.

Following the report, corn, soybean and wheat futures each rose by the maximum permitted daily amount at the CBOT. Corn for December

delivery rose 30 cents to \$5.28 a bushel, December soybeans by 70 cents to \$11.35 a bushel, and wheat by 60 cents to \$7.19.

Smaller Yields. The farm agency dropped its projected national corn yield to 155.8 bushels an acre, well below September's projection of 162.5 bushels and lower than analysts' average forecast of 159.9 bushels per acre. USDA raised its estimates of planted and harvested acreage to 88.2 and 81.3 million acres respectively, from 87.9 and 81 million acres. At the same time, it lowered its production estimate for the 2010-11 crop to 12.664 billion bushels from 13.16 billion bushels.

USDA lowered its estimate of soybean yields to 44.4 bushels per acre, from 44.7 bushels per acre, and lowered its estimates of planted and harvested acreage to 77.7 and 76.8

million acres respectively, from 78.9 and 78 million acres. Soybean production estimates were lowered to 3.408 billion bushels, from 3.483 billion bushels.

The agency also lowered its estimate of wheat yields to 46.7 bushels per acre from 46.9 bushels per acre and lowered its estimates of planted and reduced acreage to 53.6 and 47.7 million acres, respectively, from 54.3 and 48.3 million acres. Its estimated production projections were dropped for the 2010-11 crop year to 2.224 billion bushels, from 2.265 billion bushels.

USDA raised the midpoint of its corn price forecast to \$5.00/bushel, from \$4.40/bushel. It also raised the midpoint of its soybean price forecast to \$10.75/bushel, from \$9.90, and the midpoint of its wheat price forecast to \$5.50/bushel, from \$5.30. **AEI**

USDA Report a 'Positive Read' for Farm Equipment; Not So for Food

USDA's October World Agriculture Supply and Demand Estimates report was good news for ag machinery dealers, especially those in the grain regions of North America. It may not be the best news for those where dairy and livestock dominate.

Calling the news a "positive read" for ag machinery, Ann Duignan, analyst for JP Morgan told investors in a note, "Our model suggests that cash receipts from major crops will be \$118.4 billion in the 2010-11 crop year, up 24% year-over-year, an increase from our prior expectation of \$110.8 billion, which was up 16% year-over-year. Given the strong correlation between cash receipts and ag equipment sales, we think today's report is a positive read for Deere and CNH, and to a lesser extent AGCO.

"However higher crop prices could have an incrementally negative impact on the protein sector, especially dairy," she says.

Immediately following the USDA WASDE report, share prices for farm equipment makers rose sharply. Deere shares rose by as much as 6.6%, AGCO's by 10.4% and CNH shares increased more than 9%.

On the other hand, shares in food companies headed in the opposite direction. Shares in Tyson Foods fell as much 8.1%, Smithfield Foods dropped 7.4%, Pilgrims Pride by 5.7% and Sanderson Farms slipped by 6.7%.

Analysts aren't necessarily on the same page when it comes to investment strategies with ag machinery.

While maintaining a "cautious stance" on farm equipment, on the heels of the USDA's upbeat crop report, Henry Kirn, machinery analyst for UBS raised his price targets for the three majors. "Given the recent run in commodity prices, we see a more favorable environment for ag equipment stocks. Accordingly, we are raising the premium to the market used to arrive at our price targets for Deere, CNH and AGCO."

Kirn raised his target for AGCO to \$36/share from \$32; on Deere to \$75 from \$69; and for CNH to \$40 from \$29.

On the other hand, Duignan downgraded Deere to a "neutral" rating from "overweight," noting headwinds that include higher pension costs, elevated R&D spending for emissions standards, as well as its decision to allocate combines to North American dealers in 2011.

"Deere's stock is up 29% year-to-date vs. S&P 500 up 2% and we see limited upside in the near term. As a result, we are lowering our rating. Looking forward to the spring of 2011, a battle for acres could ensue, which would be one factor that could cause us to revisit our thesis," says Duignan.

AEI Copyright Notice

Ag Equipment Intelligence is a copyrighted publication of Lessiter Publications. Copying an entire issue to share with others, by any means, is illegal. Duplicating of individual items for internal use is permitted only with permission of the publisher. Licensing agreements that allow distribution of *Ag Equipment Intelligence* to a specified number of readers are available by contacting Lessiter Publications at 262-782-4480, ext. 408.