

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Strong Global Sales
- Ethanol Views Differ
- Titan's 2Q Results

Dealers Eye Another Exceptional Year for Farm Equipment Sales

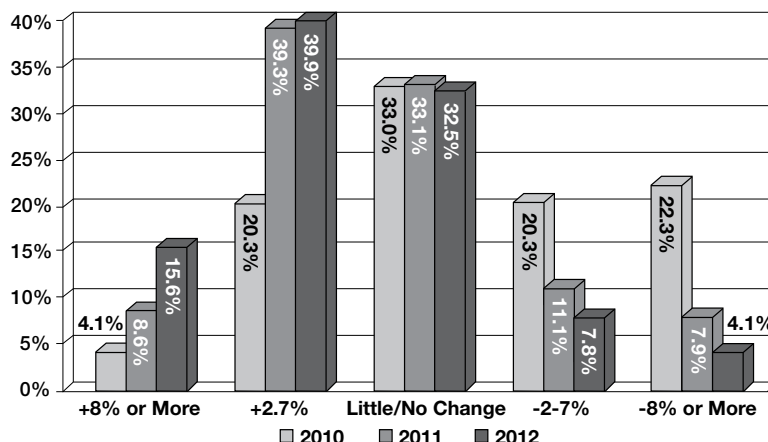
If historic farm spending patterns hold true in 2012, ag equipment dealers and manufacturers can expect another outstanding year for machinery sales.

In its August 30 report, USDA forecast both farm net income and net cash income will exceed \$100 billion for the first time during 2011. At \$103.6 billion, the revised net income projections are 31% higher than the agency's 2010 outlook. The forecast also calls for farm cash net income to increase by 16% year-over-year. The agency noted, "The 2011 forecast of net farm income is the second highest inflation-adjusted value recorded since 1973."

While crop cash receipts are expected to rise by 19% vs. 2010 levels, to \$206.5 billion, livestock pro-

Continued on page 2

**Dealers' Outlook for New Equipment Revenue
2010 vs. 2011 vs. 2012**



More than 55% of dealers expect revenues for new equipment sales in 2012 to surpass the levels seen in the past year. Overall, 88.5% of the dealers are projecting that revenues will be at least as good or better than they were in 2010.

Case IH Asking Its Dealers Where They Fit in Future

As dealer consolidation continues on its established path, Case IH executives say their urging dealers to be active in determining their future role with the company.

"We're taking a proactive approach in consulting with our dealers and asking them, 'Where do you fit?'" Jim Walker, vice president of Case IH North America, said during an interview with *Ag Equipment Intelligence* at the Farm Progress Show last month.

Walker says that dealers need to take the initiative in determining whether they're going to get bigger or "get out with their head held high."

He says, in some cases, dealers who have no succession plan

may be staying around a little longer these days because of the high level of equipment sales many have been experiencing.

"These dealers could find it much more difficult to find a buyer to acquire their company when they want to get out because of the enhanced value of the business in recent years," Walker says.

"I wouldn't say this is a big problem," says Walker, "but we're encouraging our dealers to think about and start planning for these things."

"We want them to competitively position themselves within a network footprint to prepare for a cyclical downturn. Whether a dealer has a succession plan or doesn't have a suc-

cession plan, we see consolidation as being a proactive choice."

Dual Branding. Walker also confirmed that Case IH would like to see fewer "dual-brand" dealer locations in the future.

"We certainly are not going to disrupt current business that's out there with our dealers who happen to have dual brands in the same building," he told *Ag Equipment Intelligence*.

"New Holland and Case IH have distinct drivers in the marketplace, and there's more product range differentiation every year between the brands. As we go forward, we would like to see individuality of our deal-

Continued on page 3

ducers appear to be back on solid footing as USDA forecasts an increase of 12%, to \$163.8 billion.

With the strong historic correlation between total farm net income and ag equipment sales, dealers fully expect that the momentum of 2011 will positively impact sales of ag wholegoods well into 2012.

Equipment Sales Rising. A year ago at this time, equipment dealers exhibited a high level of confidence that the sale of farm machinery would continue to strengthen throughout 2011. As it turns out, their positive view didn't go unrewarded as the demand for new equipment maintained its momentum throughout the year.

This year, their outlook is even more self-assured.

According to the results of *Ag Equipment Intelligence's* "2012 Business Trends & Outlook Survey," 55.3% of North American dealers expect revenue from new equipment sales to increase by at least 2% to more than 8% in the year ahead compared with 2011. In all, 88.5% anticipate their 2012 wholegoods revenues from new machinery will be at least as good or better than what they experienced in 2011. Only 11.5% of all dealers see their sales revenues falling below 2011 levels.

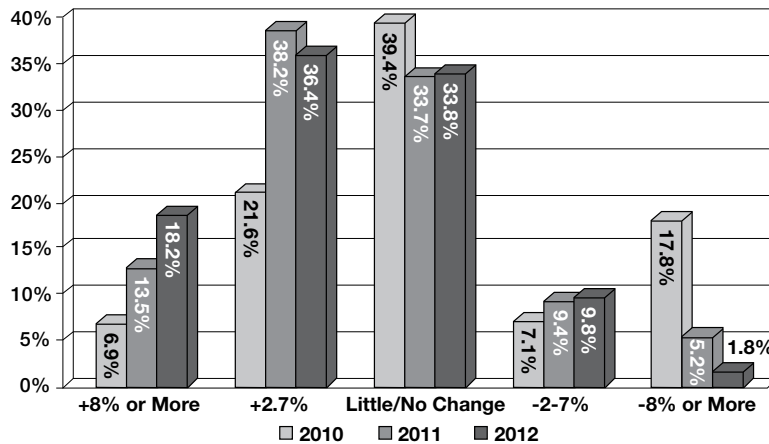
This compares with 47.9% of North American dealers who projected improved sales of new equipment in 2011 vs. 2010, and only 24.4% who expected 2010 sales to surpass those produced in 2009.

Demand for Used. Despite concerns about a buildup of used equipment inventories, dealers are confident that customer demand will hold up in the coming year.

More than half, 54.1%, of North American dealers anticipate increasing their sale of used machinery in 2012 vs. the year prior. In total, nearly 90% expect their sales of previously

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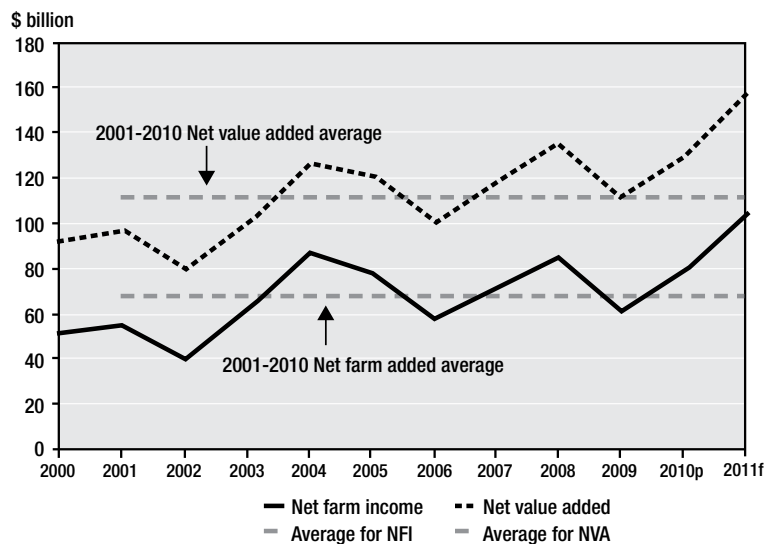
Dealers' Outlook for Used Equipment Revenue 2010 vs. 2011 vs. 2012



North American equipment dealers are anticipating a strong year in used equipment sales. Some 54% expect revenues for used machinery sales to improve by 2% to more than 8% in 2012. Nearly 90% are forecasting revenues will be at least as good or better than in 2011.

Net Farm Income Forecast to Exceed \$100 Billion in 2011

Net farm income and net value added, 2000-2011



Source: Economic Research Service, USDA.

Net farm income reflects income from production in the current year, whether or not sold within the calendar year, and is a measure of the increase in wealth from production. Net farm income is forecast at \$103.6 billion for 2011, up \$24.5 billion, an increase of 31% from 2010. The 2011 forecast of net farm income is the highest inflation-adjusted value recorded since 1973. Net value added represents the total value of the farm sector's production of goods and services, less payments to other (nonfarm) sectors of the economy. It reflects production agriculture's addition to the national economic product. Net value added is expected to increase by \$27.1 billion in 2011 to \$157 billion.

Source: USDA Economic Research Service, August 30, 2011

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owned equipment will be as good or better than levels seen in 2011. Only 11.1% believe the sale of used farm machinery will fall below what they saw in the past year.

Last year's survey results showed that slightly fewer dealers, 51.7%, projected higher levels of equipment sales vs. the previous year. This compares with only 28.5% who forecast their 2010 sale of used machinery would surpass 2009 levels. **AEI**

Editor's note: The complete 48-page "2012 Dealer Business Trends & Outlook" is available without charge to AEI subscribers and will be sent out in early October.

ers in pushing those products and those brands," Walker says.

"We have no plans to change anything for dealers currently carrying both, but we're certainly looking at separate ventures as they go forward."

Machine Population. Walker says that Case IH will continue pushing its dealers to focus on increasing their machine population along with market share.

"In the year ahead, we'll continue to emphasize the importance of building machine population," he says. "The more they can get out there from the standpoint of product range, the more they'll put themselves in a

position to improve absorption rate and to handle any downturn in new equipment sales."

Walker says building machine population and market share go hand in hand in strengthening a dealer's position in his sales area.

"Machine population is the consistent buildup of machines year after year, which increases a dealership's total penetration. Market share represents a point in time during a defined period."

Market share is important because that's how a dealer builds his accumulation of product and population, says Walker. **AEI**

Dealers Split on Value of Ethanol to Industry, Economy

More North American farm equipment dealers see the production of ethanol from corn as a bigger benefit for the agricultural industry than it is to the economy as a whole.

In *Ag Equipment Intelligence's* "2012 Farm Equipment Business Trends in Outlook" survey, dealers were asked, "Do you believe continuing and/or increasing ethanol production from corn is good for the country as a whole?"

Of the nearly 300 dealer responses, 52.9% said "Yes," while the remaining 47.1% checked off "No."

When the same question was

asked in regard to the agricultural industry, 64.2% of the dealers said, "Yes." The remaining 35.8% of respondents said, "No."

Dealer commentary ranged from, "It's a renewable source" and "U.S.A. needs energy independence from the Middle East" to "It's not efficient and creates false markets. Drill, baby drill — lots of oil out there and cheaper!" and "It's not good for anyone!"

One dealer offered, "Yields cannot accommodate the amount of corn needed to both feed and or use it to produce ethanol even though corn can be used as a feed/supple-

ment. If ethanol is put into practice, corn prices also will be regulated more to control fuel prices, which will lead back to the farmer being 'screwed' as usual."

A Kansas dealer adds, "I am in favor of continuing to produce ethanol from corn because it is good for the country, the economy, and agriculture."

"When corn goes into the ethanol plant not only does ethanol come out, but also a very valuable feed source called distillers grain." Ethanol is at the core of making agriculture sustainable and profitable. **AEI**

FARM MACHINERY TICKER (AS OF 9/12/2011)

Equipment Mfr.	Symbol	9/12/11 Price	8/11/11 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	\$39.71	\$36.16	\$59.81	\$35.09	10.72	1.82 M	3.83 B
Alamo	ALG	\$21.49	\$21.41	\$29.27	\$18.68	9.55	28,763	255.92 M
Art's Way	ARTW	\$6.21	\$6.05	\$15.95	\$4.80	34.50	6,689	24.95 M
Caterpillar	CAT	\$83.85	\$83.51	\$116.55	\$70.37	13.87	10.51 M	54.17 B
CNH	CNH	\$29.48	\$28.98	\$54.45	\$25.83	9.27	530,882	7.08 B
Deere	DE	\$75.04	\$67.99	\$99.80	\$52.73	12.35	4.38 M	31.06 B
Kubota	KUB	\$38.94	\$40.00	\$55.50	\$36.81	66.79	50,385	49.52 B
Dealer Groups								
Cervus Equipment	CVL	\$14.90	\$16.00	\$18.40	\$14.20	N/A	17,961	N/A
Rocky Mtn Dealerships	RME	\$9.24	\$8.71	\$11.00	\$7.50	10.12	24,958	173.46 M
Titan Machinery	TTTN	\$21.28	\$20.82	\$32.03	\$14.40	13.84	457,315	377.78 M

Titan Posts Solid 2Q Top & Bottom Lines, But Shareholders Note Inventory Buildup

Driven by stronger than expected wholegood revenues and higher parts and service sales, Titan Machinery posted solid top and bottom lines during the second quarter of fiscal 2012 ended July 31. Nonetheless, concerns over higher equipment inventories were enough for some shareholders to back off following Titan's earning release on September 8. One analyst called the concerns "overblown."

For the period, Titan reported revenues of \$310.8 million, up from \$209.7 million, or 48.3%, compared with the same period of 2011. This easily beat the industry consensus of \$293 million.

Equipment sales came in at \$225.3 million for the period vs. \$153.1 a year ago. Parts sales rose to \$49.3 million from \$33.9 million, and revenue from services was \$25.4 million compared with \$17.5 million during the second period of 2011.

With the acquisition of two Nebraska dealerships in the second quarter, Titan Machinery now owns 89 locations and continues to rank as Case IH's largest dealer network for farm machinery.

Margins Up. Titan Machinery's gross profit for the second quarter improved to \$55.9 million compared with \$36 million a year earlier. Its gross profit margin increased to 18% during the period vs. 17.2% for the same period of '11 due to higher margins for service and other revenue streams. Gross profit from parts and service rose to \$31.3 million from \$20.3 million last year.

Net income for the quarter was \$6.3 million compared to \$2.7 million a year earlier.

Solid Outlook. Titan says it expects to reach full-year revenues (ending January 31, 2012) in the range of \$1.33-1.405 billion compared to its previous estimate of \$1.31-1.385 billion. Net income is forecast \$31.8-33.9 million for the year vs. the previous projection of \$31.2-33.3 million.

The company looks for ag segment same-store-sales growth of 8-13% vs. its prior range of 5-10%.

Titan Machinery FY 2012 2Q & 6-Month Analysis				
	2Q FY12	2Q FY11	1st 6 Months FY12	1st 6 Months FY11
Segment Analysis				
Revenue	\$310.8	\$209.7 (+48.3%)	\$629.0	\$415.1 (+51.5%)
Agriculture	\$266.4	\$181.5	\$553.3	\$362.9
Construction	\$59.8	\$36.2	\$104.0	\$68.3
Pre-Tax Income/Loss	\$10.4	\$4.6	\$22.6	\$7.2
Agriculture	\$10.9	\$6.2	\$23.9	\$11.0
Construction	\$0.6	\$(0.9)	\$1.2	\$(2.8)
Revenue Analysis				
Equipment	\$474.5	\$303.5 (+56.4%)	\$225.3	\$153.1 (+47.1%)
Parts	\$49.3	\$33.9 (+45.2%)	\$91.2	\$69.0 (+32.2%)
Service	\$25.4	\$17.5 (+45.1%)	\$46.4	\$34.1 (+36.1%)

Construction segment same-store-sales growth is now expected to be 18-23% compared with the prior range of 12-18%. Titan continues to forecast equipment margins at approximately 9.8%.

"Ag industry growth drivers remain healthy with high crop prices due to tight global supplies and growing farm incomes, favorable crop

"Concerns about Titan's rising inventory are overblown. Some came from acquisitions, some to support stronger second-half sales ..."

growth in Titan markets and continuing depreciation tax incentives to motivate purchases," Rick Nelson of Stephens Inc. said in a note.

"We believe acquisitions remain an integral part of Titan's growth strategy and 10-15% of growth will come through acquisitions."

Nelson says he would not be surprised to see Titan enter international markets, including Eastern Europe, where the industry is ripe for consolidation. "Given Titan's successful

track record of consolidation in the Upper Midwest, we think CNH would look to Titan to bring its expertise to foreign markets."

Overblown Concerns. In a note to investors, Robert McCarthy, analyst for RW Baird commented on some shareholders who were concerned about Titan Machinery's rising inventory, calling them "overblown."

He says of the \$159 million sequential inventory increase in the second quarter, "roughly \$43 million is from acquisitions and the balance is primarily new equipment to support seasonally stronger second half 2012 equipment sales and to circumvent potential manufacturer supply constraints," says McCarthy. **AEI**

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Sales for Remainder of 2011 Centers on Crop Yields & Equipment Availability

Last week, Henry Kirn, analyst for UBS Investment Research, visited with 13 farm equipment dealerships in Iowa and Nebraska. In his subsequent report to investors, Kirn says that “Dealers reported strong new equipment pricing power and low new equipment inventories as OEM inventory strategies are working. Dealers expected low to mid-single digit price increases for 2012, including 10-12% for Interim Tier 4 combines.”

The availability of new equipment along with corn and soybean yields will tell the tale for machinery sales for the rest of the year, he says.

Crop Yields. “While farmers are waiting until they have visibility on yields before placing new orders, nearly all dealers we met expected the 100% depreciation allowance to be a catalyst for an uptick in sales in the fourth quarter. Consistent with prior visits, dealers continued to believe bonus accelerated depre-

ciation tax incentives are leading farmers to trade equipment more frequently than they have in the past,” says Kirn.

Nearly every area visited on the dealership tour was touched by weather that impacts crop yields. Dealers noted that the higher grain prices will, in all likelihood, offset the lower yields that are expected.

Available Equipment. In general, Kirn found that while new equipment inventories are low, pricing remains strong.

He says that dealers are carrying lower inventory because of three major factors:

1. OEM dealer floorplan financing terms are for shorter periods.
2. Farmers prefer to place orders for customized equipment built to their specifications.
3. Customers are getting more used to ordering early to take advantage of early order pricing discounts and advantageous interest rates.

“Farm dealers reported that this year’s mid-single-digit price increases for new equipment are sticking,” says Kirn. “As for 2012, dealers expect low to mid-single digit increases for new equipment, likely slightly lower than what they saw in 2011.”

“Encouragingly, dealers expected 10-12% price increases for the new IT4 combines in 2012, and they expect to be able to collect the full price increase,” Kirn says.

Used is Manageable. Dealers visited during the tour are seeing single-digit price increases on used equipment, which in large part is being driven by the rising prices for new equipment.

Dealers were concerned about potential impact of excess used combine inventories, but generally saw the issue as manageable going forward, according to Kirn. **AEI**

Analyst Says Crop Report ‘Neutral’ for Equipment Sales

While many industry analysts view the USDA’s latest crop report (September 12) as a positive for ag machinery sales, Adam Fleck, associate director of research for Morningstar, sees it as “neutral” for farm equipment manufacturers.

“Although the agency raised its price targets for corn a mid-single-digit percentage, driven largely by weaker U.S. production estimates from August’s update due to a continued difficult weather environment, these high prices will likely lead to some demand destruction for feed and ethanol use,” says Fleck in a September 13 note.

“The USDA still foresees the ending stocks/total usage at an incredibly low 5.3% (compared with a 5.4% forecast in August and an average 13.3% over the past 10 years), but the magnitude of the change this month was minor compared with prior reports,” says the Morningstar analyst.

He adds, “In all, the agency’s

implied U.S. cash receipts from the three major crops were just 1.6% higher than August estimates, suggesting neither an incrementally more positive nor more negative near-term environment for North American tractor and combine harvester sales.”

The agency’s estimated corn yield per harvested acre was lowered

to 148.1 bushels per acre, down from 153 bushels per acre last month.

USDA raised the midpoint of its corn price forecast to \$7 per bushel, from \$6.70. It also raised its average soybean price forecast to \$13.65 per bushel, from \$13.50. The price forecast for wheat was raised to \$7.85 per bushel from \$7.60. **AEI**

Krone Reports 77% Sales Growth for FY11

Krone, the hay and forage equipment specialist based in Spenne, Germany, is reporting sales of \$1.65 billion (1.2 billion euros) for the fiscal period of August 1, 2010 through July 31, 2011. Bernard Krone, managing director of the firm, calls the 77% increase “stunning.”

North America is Krone’s largest export market for its haying equipment, which is distributed through 350 dealerships. Its North American operations are headquartered in Memphis, Tenn., and Reno, Nev.

Krone says the company’s agricultural machinery division has seen growth in the 24% range during the past year. Revenues for the division were \$555 million (405 million euros), while its trade and services business was up by nearly 22% to \$137 million (100 million euros).

Krone’s commercial trailer division generated sales of \$1,062 million (775 euros), an increase of nearly 150%. **AEI**

Worldwide Farm Equipment Demand Continues to Strengthen

The latest accounts from around the world show that demand for ag machinery is boosting sales in nearly every agricultural region.

VDMA, the German Engineering Assn., is reporting that year-to-date tractor registrations in Germany were up 32% through June. In France, tractor registrations increased by 21% for the same period. Sales of tractors in Russia from January through July rose by 104.3% compared to the same period in 2010, according to Russia's Rosagromash agency.

"Overall, this data underscores favorable ag fundamentals in Europe," Ann Duignan, analyst for JP Morgan, said in a note. "Though we note weather and macro issues in the region, meat and dairy prices (58% of

the market) remain elevated, up 18% and 14% in June, respectively."

Meanwhile, sales data from Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA) in Brazil is reporting that total tractor shipments were down 12% and combine sales up 31%. It should be noted that Brazil's comparisons are difficult as it's coming off a record year for equipment sales in 2010.

Strengthening Europe. Both AGCO and Deere boosted market share through the first half of the year in Germany, with Deere retaining its top brand position and AGCO maintaining overall-company top share.

In June, Deere sales increased by 68% and put its overall brand share at 20.8%, up from 16.3% a year ago.

With its three brands, AGCO grew its overall market share at 27.3% compared with 25.5% last year, with its Fendt tractor brand expanding its share to 20.7% from 20% last year.

According to VDMA, CNH's share of the German market slipped from 18.5% to 13.8% in the first half of this year. This included a dropoff for the Case IH Steyr brand from 10.2% last year to 9% so far in 2011. New Holland tractors all saw a decrease to 5.8% in January through June of this year from 8.4% during the same period in 2010.

In France, registrations for standard 4WD tractors, which make up nearly 70% of the entire market, grew by 18% year-over-year in June. Total tractor unit sales grew by 12% compared with June 2010. Through the first 6 months of the year, 4WD tractor registrations in France were up by 26% and total unit sales for all tractors rose by 21%.

Russia Rising. Farm equipment sales are also rebounding nicely in Russia, where total unit sales of all tractors rose by 85.1% in July compared to July of 2010. Unit sales for the month came in at 3,444 vs. 1,861 a year ago. Also in July, combine sales of 1,159 units surpassed the same month a year ago by 84.8%.

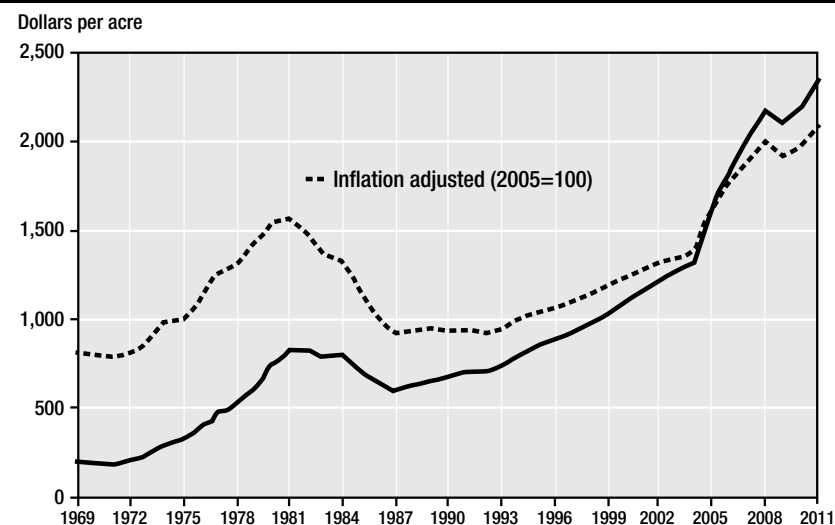
Year to date, sales of all tractors in Russia included 22,889 units through the first 7 months of the year vs. 11,205 units for the same period of 2010 (+104.3%). Combine sales are also up for the January-through-July period of this year by 59.2%, or 5,058 units vs. 3,178 last year.

Brazil Booming. While Brazilian sales of farm machinery are off the record pace of 2010, it continues to demonstrate strong ag fundamentals. "While we forecast a 10% year-over-year decline in Brazil ag equipment sales for 2011," says Duignan, "Brazil's record farm financing package passed in early June, lifts some uncertainty for farmers in the region."

In August, total farm tractor shipments in Brazil came in at 4,959 units. Combine sales reached 351 units, up 31% vs. August 2010. **AEI**

U.S. Farm Real Estate Values Continue to Climb in Most Regions

Average U.S. farm real estate value, nominal and real (inflation adjusted), 1969-2011



Note: The GDP chain-type price index is used to convert NASS current-dollar statistics to 2005=100 equivalents (Bureau of Economic Analysis, Dept. of Commerce).
Source: UADA-NASS.

Farmland values rose throughout much of the post-World War II period. From 1969 to 1981, real farmland prices increased 92% as agricultural producers responded to high returns and federal policies encouraging investment in agriculture. After 1981, farmland values began to decline in response to rapidly rising interest rates and higher energy prices. Since the farm crisis of the mid-1980s, farmland real estate values (including land and buildings) have been rising in both nominal and real (i.e., inflation-adjusted) terms. Between 1994 and 2004, real values increased between 2% and 4% annually, and in 2005 and 2006 increased by 16% and 10% respectively. Since then, real growth in farmland values has slowed, but is still increasing by 3-5% annually. States in several regions, including the Corn Belt and Great Plains, experienced double digit growth between 2010 and 2011, while many states in the Southeast and Northeast experienced declines.

Source: "Agricultural Land Values," USDA Economic Research Service, August 2011

Total Tractor Sales Up 4% in August

North American retail sales of all categories of farm tractors rose nearly 4% in August compared to the same month in 2010, but are essentially flat year-to-date. U.S. combine sales remain relatively strong, up 22.5% for the month and up 6.6% year-to-date, while Canadian sales of combines slipped, down 13.8% for the month and down 3.7% for the year, according to the latest report from the Assn. of Equipment Manufacturers.

- North American unit sales of row-crop tractors (<100 HP) were up 15% year-over-year in August compared with up 11% in July and down 5% in June.

- Sales of 4WD tractors in the U.S. and Canada in August were up 10% year-over-year, following a 5% increase in July and a 25% dropoff in June

- Unit sales of 40-100 HP equipment rose 2% in August compared with August 2010. This follows a drop of 8% in July and an increase of 5% year-over-year in June.

- Sale of compact tractors (<40HP) increased 2% during the month vs. down 11% in July and up 12% in June.

- Combine sales fell 5% year-over-year, following a 24% drop in July and a 37% fall off in June.

According to the U.S. Bureau of Census, non-seasonally adjusted shipments of ag equipment are up 9% in U.S. dollars year-to-date through July. This includes increases of 15% year-over-year in June and 13% in July.

Based upon UBS Investment Research calculations, the 2,152 row-crop tractors sold last month in the U.S. and Canada translates to a seasonally adjusted annual rate of roughly 40,600 units, based on monthly sales trends from 2000 to 2010. Over the last 12 months, row-crop tractor sales totaled roughly 31,100 units, an increase of 10% year-over-year.

The JP Morgan revenue model suggests a 3% increase for August, with tractor revenues up 10% and combine revenues down 5%. Third quarter of this calendar year revenues are down 3%, according to the company. **AEI**

AUGUST U.S. UNIT RETAIL SALES



Equipment	August 2011	August 2010	Percent Change	YTD 2011	YTD 2010	Percent Change	August 2011 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	6,467	6,491	-0.4	60,462	61,130	-1.1	48,890
40-100 HP	3,697	3,728	-0.8	32,924	35,502	1.3	22,546
100 HP Plus	1,801	1,646	9.4	16,195	16,526	-2.0	6,695
Total-2WD	11,965	11,865	0.8	109,581	110,158	-0.5	78,131
Total-4WD	364	381	-4.5	3,521	3,327	5.8	1,256
Total Tractors	12,329	12,246	0.7	113,102	113,485	-0.3	79,387
SP Combines	1,027	1,192	-13.8	5,969	6,196	-3.7	1,863

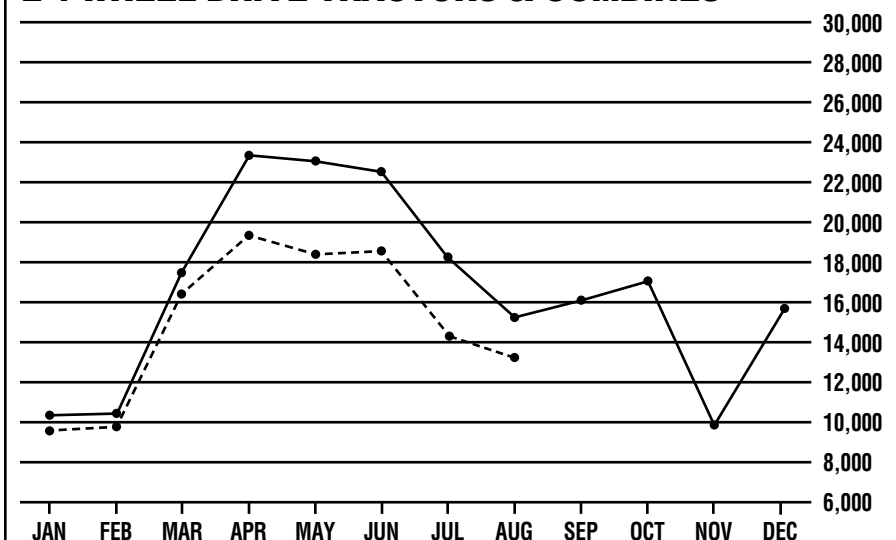
AUGUST CANADIAN UNIT RETAIL SALES



Equipment	August 2011	August 2010	Percent Change	YTD 2011	YTD 2010	Percent Change	August 2011 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	851	678	25.5	7,847	7,274	7.9	6,230
40-100 HP	483	352	37.2	3,940	3,909	0.8	3,167
100 HP Plus	351	231	51.9	2,694	2,594	3.9	1,276
Total-2WD	1,685	1,261	33.6	14,481	13,777	5.1	10,673
Total-4WD	84	30	180.0	874	888	-1.6	338
Total Tractors	1,769	1,291	37.0	15,355	14,665	4.7	11,011
SP Combines	496	405	22.5	1,898	1,780	6.6	852

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

2011
— 5 year average



—Assn. of Equipment Manufacturers

Budget Cuts Could Cripple Ag Research & Extension Services

Led by the North Central agricultural region, agriculture remains one of the few bright spots in an otherwise stagnant U.S. economy. But proposed budget cuts could undercut much of the research and many of the services that buoy the industry, according to a study conducted by Battelle, a Columbus, Ohio, research group.

"Cuts are proposed in forthcoming budgets: cuts that will ripple through a system that leverages federal funding with state and local matching financial support," according to the report.

"Ideally, recognition of the large-scale market opportunities in the agbioscience space should spur increased investment," study said.

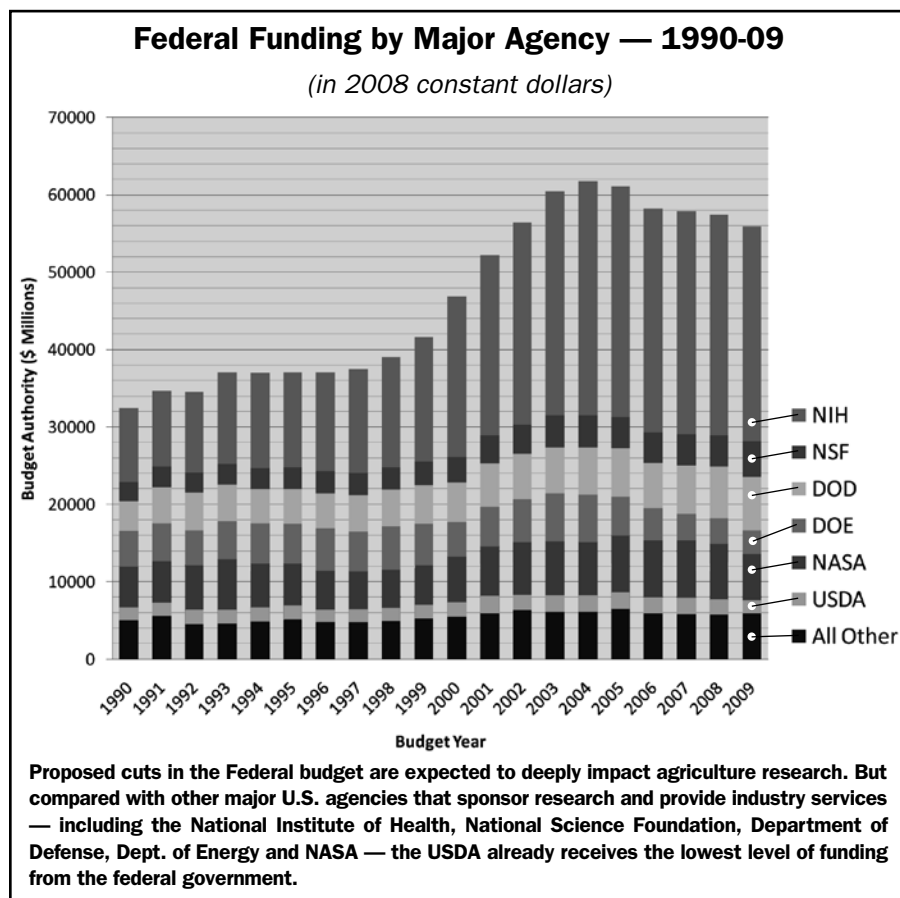
Using bio-based products as an example, it's estimated that there is a potential to replace up to two-thirds of petro-based chemicals with agricultural-based materials, representing 50,000 different products — a \$1 trillion global market, according to the Battelle study.

The study goes on to say, "Agriculture and agbioscience are directly relevant to finding solutions to key challenges facing the U.S. and the world — economic growth, food security, human health, and environmental sustainability. Within agbioscience the U.S. is a global R&D and production leader, working from a position of great strength."

A Dynamic Region. The report, sponsored by 12 universities in the north central U.S. that benefit from publicly funded agricultural research, said Europe, India, China and Korea also see agriculture as a driver of economic development. They're investing in research to provide food security, including bio-based projects.

"With funding challenges coming across multiple fronts we have a system at risk — a system in which the U.S. currently has a leading position and tremendous opportunities, but one that can be rapidly eroded by foreign competitors if the U.S. fails to support the system and its key institutions," the study said.

The region covered in the study includes Iowa, Kansas, Michigan,



North Dakota, Ohio, Indiana, South Dakota, Illinois, Minnesota, Missouri, Nebraska, and Wisconsin. These states account for a fifth of the nation's land mass but 45% of farm exports, led by grains and meat.

The farming industry in the region is valued at \$125 billion, accounting for 2.4 million jobs, with 10 of the top 25 food and beverage manufacturers based in the region, top seed and equipment companies, and 90% of ethanol production.

About 88,000 companies in the "agribusiness value-added chain," according to Battelle, support the region's 800,000 farms.

Valued Services. Battelle said the driver behind the region's world-leading farm productivity had been the land-grant universities, with their "extension" services that work with farmers and businesses on everything from crop breeding and soils to developing new markets in health, biofuels and bio-based products.

"These institutions should be considered priorities for further

strategic investment and development given their importance in realizing the intrinsic growth potential of agbiosciences for the U.S. and regional economies," said Simon Tripp, lead author of the Battelle study.

In 2009, colleges and universities in the north central region attracted \$3.6 billion in funding for academic research in agbiosciences and related disciplines, the report said.

Research Priorities. In concluding the report, Battelle researchers said, "Within the U.S. the North Central region is a clear leader in agbiosciences and production within the agricultural value-chain, a position that is supported by the R&D and education activities of agricultural experiment stations, extension systems and their 12 land-grant universities. These institutions should be considered priorities for further strategic investment and development given their importance in realizing the intrinsic growth potential of agbiosciences for the U.S. and regional economies."

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