From the editors of *Farm Equipment...*

# Ag Equipment Intelligence

*News, Information & Analysis for the Ag Equipment Marketer*

March 15, 2012
Vol. 18, Issue 3

- Tractor Sales Rise
- Crop Expenses Flat
- Huge Ethanol Exports

## Cervus Equipment Makes Strides Toward $1B Target

Cervus Equipment (CVL-TSX), John Deere's largest farm equipment dealer network in Western Canada, took a major step toward its goal of achieving $1 billion in revenue by 2018 by posting a 19.3% revenue increase for the full year of 2011. Overall, Cervus saw its revenues rise by $90.5 million for the year, with $53.7 million coming from the ag equipment segment and $36.8 million from the construction and industrial (C&I) segment.

Same-store revenue increased $80.2 million or 17.6%; $43.4 million or 12.7% from the agricultural equipment segment and $36.8 million or 32.5% from the C&I equipment segment.

Overall, total revenues for the year came in at $559,598 compared with $469,131 (19.3%) in the previous year and $377,475 (48.2% vs. 2011) in 2009.

For the year ended December 31, 2011, Cervus' overall gross margin increased slightly to 19% from 18.9% reported in the same period of 2010.

The increase in sales, combined with the marginal change in overall gross profit margins, resulted in an increase in Cervus profits for 2011 vs. 2010 of $6.6 million or 57.4%. Selling, general and administrative expenditures decreased to 14.8% of total revenue in 2011 when compared to 15.3% of total revenue for 2010.

EBITDA increased by $7.4 million to $35.6 million in 2011. The most significant factor contributing to the increase in EBITDA for the year was the increase in net profit before income taxes, which amounted to $6.6 million increase over 2010.

**Ag Revenue.** Revenue for the agricultural equipment segment increased by $53.7 million or 15.1% ($43.5 million or 12.7% on a same store basis) for the year ended December 31, 2011 when compared to the same period of 2010. Same store sales exclude the results of Agriturf, which was acquired in July 2010.

New equipment sales increased by $25.3 million or 13.9% (same store increased by $21.2 million or 12.1%) and used equipment sales increased by $18.3 million or 16.7% (same store increased $16.7 million or 15.6%).

According to the company, the primary reason for the increase in same store sales in the quarter is related to increases seen in both large agricultural equipment and consumer products, including compact utility tractors and lawn mowing equipment.

Parts revenue increased by $6 million or 14.9%, as same store increased $3.5 million or 9.4%. Service revenue grew by $3.5 million or 14.9% with same store increasing $2.2 million or 10% for the full year of 2011 vs. 2010. The overall

*Continued on page 2*

## Outlook: Crop Receipts Down, Planted Acreage Up

While total 2012-13 U.S. crop receipts are forecast to slip by 4%, total planted acreage is expected to be up by 3.6% for the year, according to the USDA.

The outlook for crop receipts for the marketing year ahead indicates that a falloff to $122,402 million vs. $126,977 in 2011-12, which was up 11% compared with 2010-11.

USDA is anticipating that planting of corn acreage will increase to 94 million acres in 2012-13 vs. 91.9 million in the previous year. Soybean acreage is expected to be flat for the year at 75 million acres vs. 2011-12. Wheat acreage is forecast to increase to 58 million compared with 54.4 for the previous marketing year.

The outlook for total planted acreage for the year is 227 million acres, up 3.6% year-over-year.

According to Ann Duignan, the current picture for crop receipts and planted acreage remains a positive for ag equipment sales for the remainder of 2012.

"Using these forecasts, our model suggests that 2012-13 crop cash receipts will be $128.9 billion, down 3% from 2011-12 but still above 2010-11," Duignan said in a February 27 note.

"Major-crop acreage is expected to increase 4%, a positive for ag machinery sales given that these crops are machine-intensive. Meanwhile, U.S. production of meat and poultry is expected to decline in calendar year 2012, supporting prices in the livestock sector; and lower corn prices are expected to increase the use of corn for feed.

"Overall, the data released points to continued growth in the machinery-intensive grain crops and a relatively robust year for U.S. farmers. As such we continue to favor the agricultural equipment space," says Duignan. **AEI**

*Cervus Equipment Makes Strides....Continued from page 1*

increase in parts and service sales was a combination of our continued effort to market our over-the-counter products and services as well as parts and service required as a result of our increase in new and used equipment sales. Rental revenue increased $687 thousand or 30.1% as same store decreased by $101 thousand or 5.8% during the year.

**Analyst' Pick.** "Cervus continues to be our 'top pick' among the equipment stocks we cover," says Raymond James analyst Ben Cherniavsky. "Revenues came in at $141 million, ahead of our $124 million forecast and up 29% year-over-year. Ag revenues increased 25% year-over-year due to a relatively short harvest season, which gave farmers more time for purchasing. Construction revenues increased 38% resulting from continued strength in Alberta's oil and gas and transportation markets.

"Overall, we view Cervus' fourth quarter 2011 results positively and have no reason to alter our favorable investment thesis," says Cherniavsky. "We expect the company will continue to benefit from sustained strength in Western Canada's ag and construction markets, which are being fuelled by high commodity prices, strong farm cash receipts and healthy growth in overall GDP. In addition, we estimate the recent Frontier acquisition (*see AEI, December 2011*) will add about $60 million of revenues and $3.5 million of EBIT (prorated for eight months) to the company's 2012 financial results.

"These factors — combined with Cervus' strong balance sheet, solid pipeline of acquisition opportunities, impressive management track record of generating shareholder value and attractive share price valuation — form the basis of our 'Strong Buy' rating." **AEI**

### Cervus Equipment — Quarterly Income Statement Summary

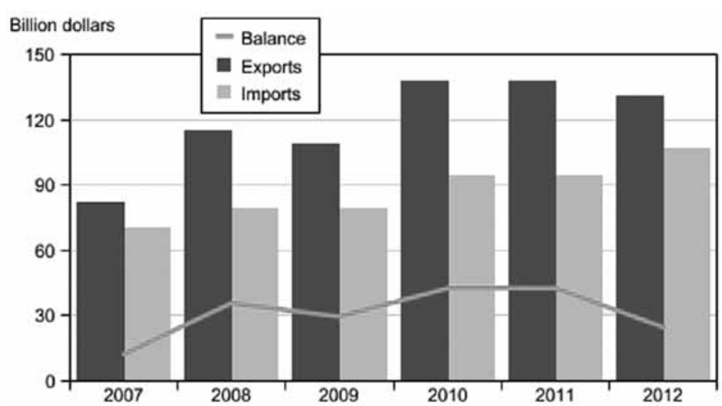
| Year-Ended December 31 | 4Q11 | 4Q10 | YoY% | 2011 | 2010 | YoY% |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| Equipment Sales | 109,635 | 78,157 | 40.3% | 429,442 | 355,557 | 20.8% |
| – Parts | 17,034 | 17,330 | -1.7% | 73,172 | 63,017 | 16.1% |
| – Service | 11,623 | 10,875 | 6.9% | 45,852 | 40,572 | 13.0% |
| – Rentals & Other | 3,064 | 3,180 | -12.6% | 11,132 | 9,985 | 11.5% |
| Total Revenue | 141,356 | 109,541 | 29.0% | 559,598 | 469,131 | 19.3% |
| COGS | 113,209 | 86,962 | 30.2% | 453,263 | 380,402 | 19.2% |
| Gross profit | 28,147 | 22,579 | 24.7% | 106,335 | 88,729 | 19.8% |
| SG&A | 22,024 | 19,682 | 11.9% | 82,601 | 71,874 | 14.9% |
| | 6,123 | 2,897 | 111.3% | 23,734 | 16,855 | 40.8% |
| Net Earnings (Loss) | 4,526 | 2,097 | 115.8%- | 18,126 | 11,513 | 57.4% |
| **Statement Analysis** | | | | | | |
| Gross profit (%) | 19.9 | 20.6 | | 19.0 | 18.9 | |
| SG&A (%) | 15.6 | 18.0 | | 14.8 | 15.3 | |
| EBIT (%) | 5.0 | 3.4 | | 4.8 | 4.3 | |
| Tax Rate (%) | 28.0 | 35.6 | 38.1 | 7.6 | 30.4 | 38.1 |
| **EBITDA ($)** | **9,150** | **5,944** | 53.9% | **34,872** | **27,799** | 25.4% |
| **EBITDA (%)** | **6.5** | **5.4** | | **6.2** | **5.9** | |
| **Segment Analysis** | | | | | | |
| Revenue | | | | | | |
| – Agriculture | 94,688 | 75,651 | 25.2% | 409,822 | 356,115 | 15.1% |
| – Construction | 46,668 | 33,891 | 37.7% | 149,776 | 113,016 | 32.5% |
| Gross Profit (%) | | | | | | |
| – Agriculture | 18.1 | 17.9 | | 16.6 | 16.1 | |
| – Construction | 23.6 | 26.6 | | 25.6 | 27.8 | |

*Source: Cervus Equipment Corp., Raymond James Ltd.*

# Ag Trade Balance Expected to Decline in 2012

**Fiscal 2012 agricultural exports are forecast at $131 billion, down $1 billion from the November forecast and $6.4 billion below fiscal 2011. The fiscal 2012 import projection is $106.5 billion. This represents a 13% increase from 2011. Given that the forecast for exports is down while imports are rising, the trade balance for 2012 is a surplus of $24.5 billion, down from the $43 billion for 2011.** **AEI**

*Source: USDA Outlook for U.S. Agricultural Trade, AES-73, February 23, 2012. Reflects forecasts in the February 9, 2012, World Agricultural Supply and Demand Estimates report. Compiled by USDA using data from Census Bureau, U.S. Dept. of Commerce.*

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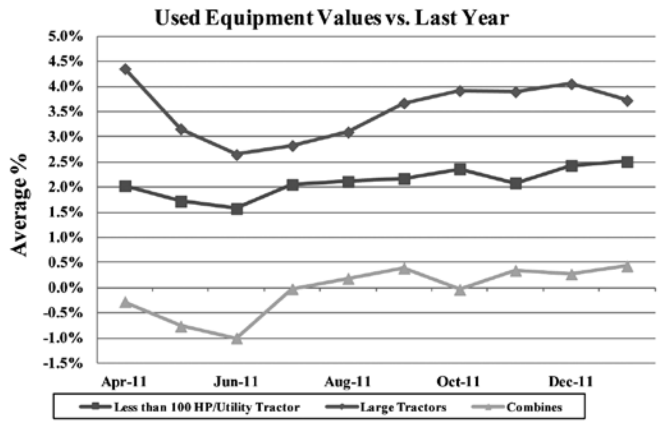
# Used Equipment Pricing Edges Up in January

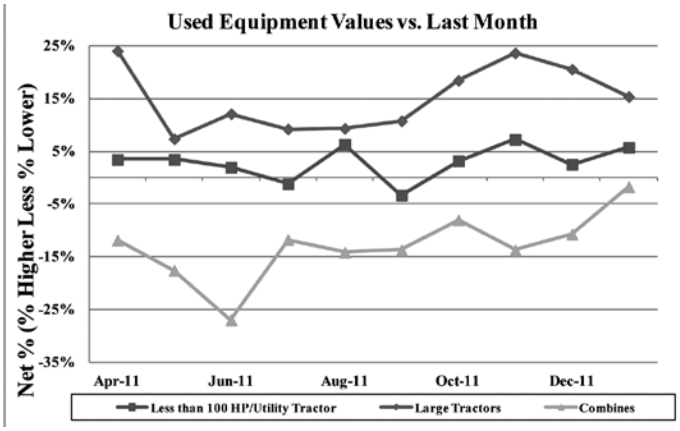
By category, used tractors prices for over 100 horsepower were up 3.7% year-over-year on average in January, down from 4.1% in December. Prices for used tractors under 100 horse-power were up 2.5% in January, down slightly from 2.4% in December. Used combine values rose by 0.4% in January, up slightly from 0.3% in December 2011.

Relative to the previous month, a net 6% of dealers report higher values for under 100 horsepower tractors, up from a net 3% in December. For over 100 horsepower tractors, a net 15% of dealers report higher values vs. last month, down from a net 21% in December. Finally, a net 2% of dealers report used combine values are lower than last month.

Used equipment inventory appears to have decreased, as a net 12% of dealers now categorize their used inventory levels as "too high" compared to a net 1% last month.

These results are based on a survey of 249 dealers in February. AEI




*Source: Ag Equipment Intelligence & Cleveland Research survey*

## FARM MACHINERY TICKER (AS OF 03/13/12)

| Manufacturers | Symbol | 03/13/12 Price | 2/13/12 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|---|---|---|---|---|---|---|---|---|
| Ag Growth Int'l. | AFN | $34.45 | $34.19 | $50.09 | $28.11 | 16.40 | 50,593 | 427.56M |
| AGCO | AGCO | $50.98 | $52.81 | $59.81 | $30.11 | 8.57 | 1,524,030 | 4.95B |
| Alamo | ALG | $27.86 | $28.72 | $30.37 | $19.71 | 10.40 | 21,771 | 331.87M |
| Art's Way Mfg. | ARTW | $7.90 | $9.25 | $11.18 | $4.80 | 25.48 | 11,241 | 31.82M |
| Blount Int'l | BLT | $16.94 | $16.90 | $18.62 | $12.46 | 16.77 | 256,369 | 828.43M |
| Buhler Industries | BUI | $5.54 | $5.35 | $6.12 | $5.20 | 18.05 | 10,048 | 138.50M |
| Caterpillar | CAT | $113.30 | $113.70 | $116.95 | $67.54 | 15.31 | 7,071,940 | 73.37B |
| CNH Global | CNH | $41.33 | $43.53 | $50.62 | $22.19 | 10.57 | 381,848 | 9.91B |
| Deere & Co. | DE | $81.66 | $88.68 | $99.80 | $59.92 | 12.10 | 3,751,040 | 32.81B |
| Hemisphere GPS | HEM | $0.81 | $0.90 | $1.46 | $0.56 | N/A | 149,234 | 49.27M |
| Kubota | KUB | $48.63 | $48.67 | $53.40 | $36.81 | 18.81 | 38,348 | 12.31B |
| Lindsay | LNN | $62.64 | $63.36 | $85.87 | $46.03 | 22.48 | 136,062 | 795.47M |
| Titan Int'l | TWI | $24.71 | $25.01 | $31.42 | $12.97 | 20.98 | 605,438 | 1.04B |
| Trimble Navigation | TRMB | $53.03 | $51.64 | $52.50 | $31.88 | 44.19 | 617,476 | 6.60B |
| Valmont Industries | VMI | $117.04 | $110.13 | $114.55 | $73.00 | 13.61 | 149,902 | 3.10B |
| **Retailers** | | | | | | | | |
| Cervus Equipment | CVL | $17.75 | $17.00 | $18.40 | $13.60 | N/A | 9,707 | N/A |
| Rocky Mountain Dealerships | RME | $10.84 | $10.00 | $10.95 | $8.35 | 10.41 | 23,205 | 203.45M |
| Titan Machinery | TITN | $25.49 | $28.17 | $32.03 | $15.58 | 13.65 | 191,041 | 524.38M |
| Tractor Supply | TSCO | $88.29 | $84.65 | $88.65 | $49.02 | 29.33 | 701,710 | 6.30B |

# Kverneland Reports 18% Gain in Revenues in 2011

The second-best fourth quarter for earnings in the past 10 years and the beginning of a big infrastructure investment program for the Kverneland Accord seeding equipment production facility in Germany are among the highlights of Kverneland Group's 2011 year-end report.

Ingvald Loyning, CEO of the Norway-based group that Kubota wants to acquire, emphasized a strong order book and fast recovering eastern European market as grounds for optimism for the full year of 2012.

"Our order book ended 35% up on the previous year at more than $198 million, while revenues increased 18% overall to $589 million," he said. "EBITDA ended at $31 million vs. $6 million, despite a $2.6 million negative impact from currency exchange."

France, Europe's biggest farm machinery market, led Kverneland's charge with a marketing campaign that helped lift revenues by 52%. Sales to North America, which still represents a modest 7% of group sales, were up 18% at $24.8 million, the best result of the past three years.

**North America Potential.** "Canada and the USA remain important markets for Kverneland and we have seen some positive development there in the recent period," said Loyning in response to *Ag Equipment Intelligence*'s (*AEI*) request for comment. "We have ambitions to increase our presence in these markets, especially with grass equipment, but what those ambitions are and how we intend to achieve them will have to wait for another time."

Loyning also deflected *AEI*'s question on the synergies that might arise from a close relationship with Kubota (*AEI, February 2012*): "It would be inappropriate to comment until after the outcome of Kubota's public share offer has formally been announced," he said.

**All Segments Up.** All business areas of the group contributed to the positive story in 2011 sales and profitability, with improved milk and meat prices in Europe reflected in significant growth in sales of Kverneland grass equipment — up more than 38% to $35.5 million. The Crop Care business unit, which produce sprayers, also continued its recovery from disappointing earlier results, gaining 17.5% growth to $14 million.

Kverneland's tillage machinery segment recorded a 14.5% increase in revenues to $46.5 million and saw an accelerating order book ending the year 43% up on 2010. Tillage equipment production will be bolstered in future by what CFO Friedrich Pehle describes as the biggest tangible assets investment in the group's history.

"New state-of-the-art painting and related facilities at our Soest factory in Germany will not only improve paint finish quality but also remove some bottlenecks that will significantly increase production capacity," he explained. "There will also be a new R&D workshop of more than double the capacity we have now."

That facility will be operational in the second quarter, while the new paint line is scheduled to begin operations by the end of the year. In all, the multi-stage project will cost $13-16 million. AEI

# Dutch Firm Invests in Kolnag Russian-European JV

Working with fellow manufacturers producing complementary products to tackle the vast potential of the Russian agricultural machinery market is paying off for a group of companies from Belgium and The Netherlands.

Together, they formed a joint venture with a Russian engineering firm that makes the companies' products for sale to farmers in Russia and Eastern Europe.

"Because of high import duties, the Russian market can only be treated successfully if part of the production takes place locally," says Robert Liet, CEO of Trioliet. "From the start of the cooperation, most of the technical knowledge and machine parts were being forwarded from The Netherlands and Belgium but now there is a balance between components manufactured locally and imported."

**JV Partners.** In addition to the Dutch company Trioliet, which claims to be the world's largest manufacturer of tub-type cattle mixer-feeders, the joint venture partners include Kolnag's local management team; Miedema, a Dutch company that makes conveying, handling and crop storage machinery for potatoes, carrots and other vegetables; and AVR a Belgian manufacturer of tillage equipment and harvesters for these crops.

The companies have worked together successfully in the Russian market for more than 10 years. They are now investing in a new factory to increase production efficiency and capacity with a view to developing their market share and exploit opportunities in other countries of the region with high potential, such as Kazakhstan.

"This investment will allow Kolnag to provide the market with machinery that helps farms achieve more efficient production," says Sergey Tubolev of Kolnag. "This is necessary to achieve higher quality and a higher quantity of food supply in Russia."

**Gov't Investment.** The partners have attracted almost $4 million investment from a Dutch government-backed entrepreneurial development fund that supports sustainable private sector growth in developing and emerging markets. Agribusiness is one of four high development impact sectors on which its $6.6 billion (€5 billion) investment portfolio is focused.

"The Kolnag investment fits very well within our portfolio because knowledge will be transferred to a foreign company and the export position of several Dutch companies will improve," says Paul Wolff, senior investment officer. "We are pleased to contribute to the development of agriculture and the improvement of rural lives in Russia as the country aims to become more self-sufficient and less reliant on imports for its food supply." AEI

# February Crop Prices Set Tone for Year's Planting

Historically, crop future prices in February have been the most critical factor for farmers in determining how much of what they'll be planting for the year ahead.

In JP Morgan's Global Commodities Research's March 8 *Agriculture Weekly* report, Jonah Waxman, commodity analyst says, "The average of the closing prices of corn and soybean new crop futures throughout February are important in helping U.S. farmers make decisions about what to plant — the February averages help give farmers an idea of the insurance payout they will receive if their harvest falls below expectations."

Waxman points out that this year, the average December 2012 CBOT corn futures price during February was $5.68/bushel. This is the second highest average February price in the past two decades. The average November CBOT soybean futures price during February was $12.55/bushel, the third highest in the past two decades. "Taking these prices into account, we slightly adjust our U.S. corn and soybean planted acreage estimates. For the 2012-13 crop year, we forecast that in the U.S., 93.5 million acres of corn and 75.2 million acres of soybeans will be planted," says Waxman.

"This reflects a shift of 0.3 million acres from corn planted area to soybean planted area because of higher harvest prices of soybeans relative to corn than we had originally expected. Leaving our other assumptions unchanged, this brings our forecast for U.S. corn ending stocks for 2012-13 to 1.2 million bushels and soybean ending stocks to 277 million bushels," says Waxman. AEI

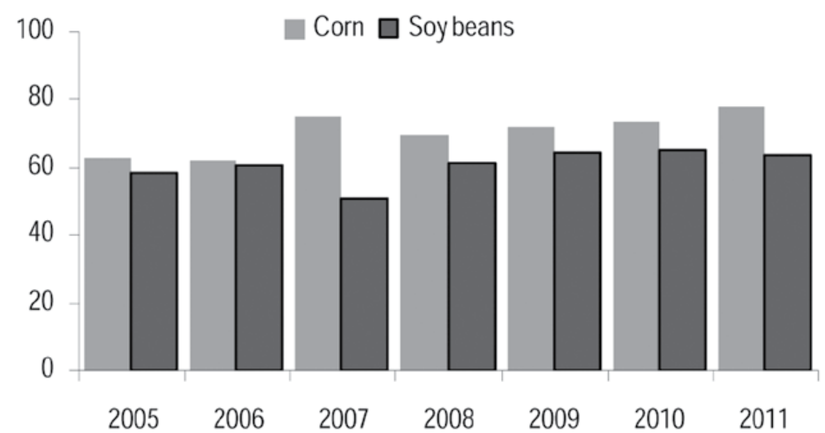
**Yield Protection (example case Iowa corn)**

| APH yield | 150 bu./acre |
|---|---|
| New crop futures during February | $5.68/bu. |
| Price election | 100% |
| Yield election | 70% |
| Yield guarantee | 150 bu./acre x 70% = 105 bu./acre |
| Actual yield | 90 bu./acre |
| Indemnity | (105 bu./acre – 90 bu./acre) x $5.68/bu. = $85.20/acre |

**Revenue Protection (example case Iowa corn)**

| APH yield | 150 bu./acre |
|---|---|
| New crop futures during February | $5.68/bu. |
| Revenue election | 70% |
| Harvest price | $6.00/bu. |
| Revenue Guarantee | $6.00/bu. x 150 bu./acre x 70% = $630/acre |
| Actual yield | 90 bu./acre |
| Indemnity | $630/acre – ($6.00/bu. x90 bu./acre) = $90/acre |

**Insured Corn & Soybean Acres in the U.S. (millions acres)**




*Source: RMA, J.P. Morgan Conodities Research*

# New Database Developed to Tackle Precision Ag Compatibility Issues

A new web-based database designed to encourage more farmers to adopt Isobus tractor-implement communication technology with confidence should also make it easier for dealers to tackle service and compatibility issues.

When it goes live this Spring, the new online database constructed by AEF, the Agricultural Industry Electronics Foundation, will enable farmers to check compatibility between tractors, universal terminals and implements that use Isobus-standard electronics to exchange data and present operators with information in a common format.

"The database comprises information on all products certified as conforming to the Isobus standard," explains AEF's European spokesman Carsten Hühne. "Farmers will be able to determine which compliant implements can be used with an existing tractor to make full use of Isobus functionality, or to check that existing implement functions can be used with a new tractor."

Access to such data should address many of the questions farmers ask when faced with an Isobus equipment option — and help dealers come up with informed answers.

"Uncertainties and ignorance about the functionality of Isobus equipment lead to frustration in the buying process, and dissatisfaction with equipment if it does not function as promised," Hühne points out. "There is also the question of who is responsible — the tractor manufacturer or the implement maker — when something is not functioning. The website should help with all these issues and more."

The database will automatically

be updated with new and improved hardware and software because it's also to be used for the AEF's certification process. Dealers will benefit from the site by speeding up error diagnostics and manufacturers (as well as dealers and end users) will benefit from the "knowledge bank" that will accumulate as problems are explored and resolved.

AEF (www.aef-online.org) was formed in 2008 as an industry-wide organization to establish the electronic compatibility of tractors, implements and software used on farms across different manufacturers. It now has more than 120 member organizations contributing to AEF's work as there is no subscription fee to participate in the twice yearly "plugfest" compatibility events.

More recently, AEF has formed a specialist group to standardize an interface for tractors providing implements or components with electric power.

Project leader Harald Dietel, a specialist in control engineering, says the use of electric drives in agricultural machinery will soon overcome the limitations of mechanical and hydraulic drives.

"The intention of Athe EF High Voltage project group is to produce an interface specification that would become an industry standard," says Dietel. "Any implement with electric motor drives could then be used on any tractor with a suitable electrical power source." AEI

### 2011 Ethanol Exports 'Huge'

Last year was huge for ethanol exports. The annual total for 2011 was 1.19 billion gallons, more than triple the 2010 export total of 396 million gallons. Exports accounted for approximately 8.6% of U.S. ethanol production in 2011, up from 3% in 2010 and 1% in 2009.

Brazil was the leading importer of U.S. ethanol in 2011, receiving 33% of total shipments, or 395.6 million gallons. Canada was the second-leading importer of U.S. ethanol, taking in 297.3 million gallons. The Netherlands (124.1 million gallons) and United Kingdom (119.4 mg) ranked third and fourth, respectively for the year. The United Arab Emirates, an OPEC member country, ranked fifth with 64.8 million gallons of imports from the U.S.

# Deutz Forms Third Ag Diesels JV in China

Engine maker Deutz aims to further increase its revenues from investments in China by forming a third joint venture in the country.

The diesel specialist will own and operate 70% of Deutz (Shandong) Engine Co. Ltd. in partnership with Shandong Changlin Machinery Group, the agricultural machinery and construction equipment manufacturer that formed a JV with Same Deutz-Fahr last year (*Ag Equipment Intelligence, November 2011*).

That 50/50 agreement involves the manufacture and distribution in China of Deutz-Fahr tractors from 110-300 horsepower; the venture with Deutz is at the opposite end of the power scale, producing compact Deutz 2011 Series two- to four-cylinder engines of 30-75 horsepower output from early next year.

"The Chinese market offers us the greatest potential for growth in Asia," says Dr Helmut Leube, Deutz chairman. "Producing engines with capacities of less than four liters in China makes a logical and beneficial addition to our existing operations in a region where we have been building larger engines for many years."

He refers to the company's production facility in Dalian, which has capacity potential for 200,000 units annually while the new venture based in Linyi, Shandong province is designed to achieve around 65,000 units a year in the medium term.

The Dalian plant is operated in partnership with FAW Automotive and has been manufacturing Deutz 4-8-liter engines for agricultural and construction machinery since 2007. The JV with Weichai Power serves mainly on-highway applications.

These operations contribute most to the $530 million revenues from overseas engine joint ventures that Deutz earned in 2010. Total revenues that year reached $1.5 billion. By the end of the third quarter of 2011, revenues were 37% ahead of the prior year, with unit sales up 45%.

Deutz typically earns 16% of group revenues from engines used in agricultural tractors and equipment. AEI

### Same Deutz-Fahr Denies Rumors of Kubota Takeover

The British web-based publication *Stackyard* reported in its February 24, edition that Same Deutz-Fahr, one of the world's leading manufacturers of tractors, combines, specialized harvesters, diesel engines and other farm machinery, in response to the recent rumors published on the Internet regarding Kubota's interest in potentially buying the group, denies that there are any such negotiations underway and adds that there has never been any contact between SDF and Kubota in this regard.

"We are determined to pursue our strategy for growth, which requires us to stay independent and keep developing new products and expanding into emerging markets through joint ventures and acquisitions," says Lodovico Bussolati, CEO of Same Deutz-Fahr.

Products manufactured by the Same Deutz-Fahr Group of Treviglio, Italy, are marketed worldwide under the Same, Deutz-Fahr, Lamborghini, Hurlimann and Gregoire brands. The group makes tractors ranging from 30-300 horsepower and harvesters from 100-400 horsepower. SDF has more than 2,800 employees all over the world and owns more than 25% of the shares in Deutz AG, one of the world's biggest independent diesel engine manufacturers, listed on the Frankfurt Stock Exchange.

# Total Tractor Sales Rise in February

February North American unit sales increased of row-crop tractors (+16%), utility tractors (+16%) and 4WD tractors (+6%), while sales declined for combines (-53%) and small tractors (-2%), according to the Assn. on of Equipment Manufacturers.

Inventory trends mixed, with row-crop tractors and combines posting additional year-over-year declines, while compact, mid-range and 4WD tractors posted increases.

"Performance was primarily driven by growth in row-crop tractors, while combine sales continued to weaken, according to Robert McCarthy, analyst for RW Baird. "Four-wheel drive tractors posted higher sequential growth on a considerably easier year-over-year comparison.

- Combine sales saw another big falloff in February, compared with strong sales a year earlier. Overall, retail sales of combines dropped by 52.7% year-over-year following January's 43.5% decline. U.S. combine inventories decreased 32% year-over-year in absolute terms in January vs. a 41% decrease last month. February is historically the least important month for combine sales, accounting for 5.2% of annual sales over the last five years.
- Row-crop tractor sales increased 16.1% in February, up from a 1.7% year-over-year increase in January. Last threee months sales increased 8.4%. Inventories of U.S. row-crop tractor fell 2% year-over-year in January vs. a 5% decrease in December. Typically, February sales of row-crop equipment accounts for only 6.6% of annual sales.
- 4WD tractor sales increased 5.9% year-over-year in February, much improved from a 29.1% decrease in January, but also reflective of a much easier prior-year comparison. U.S. dealer inventories of 4WD tractors increased 5% year-over-year in January.
- Mid-range tractor sales comparisons improved in February, increasing 16.1% year-over-year after 6.8% growth last month. Utility tractor sales, however, decreased 2.3% year-over-year.

AEI

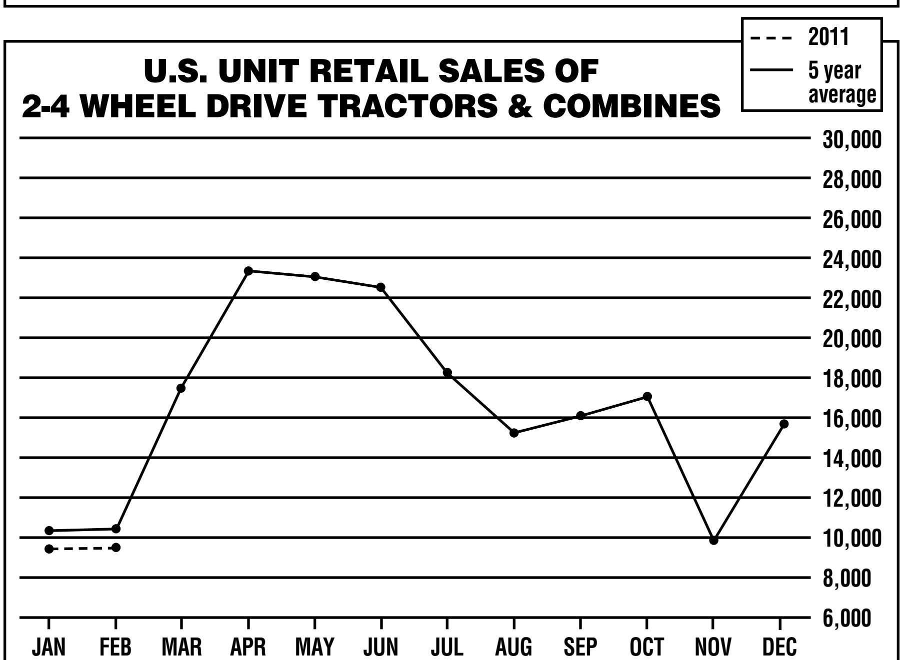
## FEBRUARY U.S. UNIT RETAIL SALES

| Equipment | February 2012 | February 2011 | Percent Change | YTD 2012 | YTD 2011 | Percent Change | February 2012 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 3,988 | 4,065 | -1.9 | 7,484 | 7,336 | 2.0 | 54,547 |
| 40-100 HP | 3,156 | 2,755 | 14.6 | 6,463 | 5,938 | 8.8 | 24,084 |
| 100 HP Plus | 1,797 | 1,577 | 14.0 | 3,918 | 3,681 | 6.4 | 5,655 |
| **Total-2WD** | 8,941 | 8,397 | 6.5 | 17,865 | 16,955 | 5.4 | 84,286 |
| **Total-4WD** | 421 | 376 | 12.0 | 735 | 825 | -10.9 | 921 |
| **Total Tractors** | 9,362 | 8,773 | 6.7 | 18,600 | 17,780 | 4.6 | 85,207 |
| **SP Combines** | 311 | 672 | -53.7 | 756 | 1,562 | -51.6 | 933 |

## FEBRUARY CANADIAN UNIT RETAIL SALES

| Equipment | February 2012 | February 2011 | Percent Change | YTD 2012 | YTD 2011 | Percent Change | February 2012 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 372 | 397 | -6.3 | 743 | 814 | -8.7 | 7,420 |
| 40-100 HP | 391 | 301 | 29.9 | 738 | 580 | 27.2 | 3,214 |
| 100 HP Plus | 249 | 186 | 33.9 | 464 | 378 | 22.8 | 1,622 |
| **Total-2WD** | 1,012 | 884 | 14.5 | 1.945 | 1,772 | 9.8 | 12,256 |
| **Total-4WD** | 67 | 85 | -21.2 | 112 | 142 | -21.1 | 301 |
| **Total Tractors** | 1,079 | 969 | 11.4 | 2,057 | 1,914 | 7.5 | 12,557 |
| **SP Combines** | 56 | 104 | -46.2 | 139 | 148 | -6.1 | 405 |

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




*—Assn. of Equipment Manufacturers*

# Increases in Crop-Related Production Expenses Should Level Off in 2012

After rapid rises in costs since 2002, total farm production expenses are forecast to rise $12.5 billion (3.9%) this year. This increase is far less than the $35.7 billion (12.5%) growth projected in 2011. The growth in crop-related expenses (seeds, fertilizer, pesticides), livestock-related expenses (feed, livestock/poultry purchases), and fuel and oil expenses are all expected to slow following a decade of very rapid expansion, though recent rises in diesel expenses may change this outlook somewhat.

According to USDA's "Farm Income and Costs: 2012 Farm Sector Income Forecast," which was updated in February, the slowdown in the rise in crop-related expenses is dramatic. These expenses have been rising rapidly since 2002, with a downturn only in 2009. The increases have been driven by increases in input prices. The rise in prices in 2012 is projected to be small.

**Heavy Users.** The other factor determining crop expenses — the number of planted acres — is expected to be down 1.3% in 2012. Further, acreage of heavy users of these inputs will be constant (corn) or down (soybeans, cotton). Wheat is the only major crop that shows a significant projected increase in acreage, and it does not use these inputs as heavily as other crops.

Two major seed producers have already said that seed prices will rise 5-10% in 2012. They justify this increase by citing improved yields and stronger disease and pest resistance, which they believe will help producers to optimize returns. Availability should not be a problem.

The annual average prices paid index for fertilizer rose nearly 30% in 2011, and some prices rose to historically high levels. In 2012, the prices-paid index is forecast to rise by about only 1.5%.

To the extent that fertilizer prices are tied in part to commodity prices, they are both likely to abate in 2012. Availability of nitrogen-based fertilizers might be a problem, however, which could lead to a greater rise in prices for these products. At present, agricultural chemical prices are projected to increase by roughly 6% in 2012. Agricultural economists at Purdue Univ. forecast a rise of 12-16% in total variable costs for producing corn, soybeans and wheat.

**Fuel Prices Dropping?** While USDA is projecting prices for diesel and gasoline to be flat during the year, the agency adds this market is volatile, however, so it is difficult to pinpoint where prices will go during the year.

According to the USDA report, the slowdown in the rise in fuel and oil prices is as striking as that in the major crop-related expenses.

The annual average prices-paid index for fuels and oils registered eight double-digit percentage increases starting in 2003, with only one precipitous drop in 2009. In 2012, that index is projected to rise 2.5%, mainly as a result of a 2% hike in the Refiner Acquisition Cost (RAC).

On the other hand, in its January 13 report, the U.S. Energy Information Admn. (EIA) said, if 2011 trends for the price of fuel hold, farmers may be paying significantly higher prices for diesel by the time spring planting begins. Diesel pricing continued to edge up in early 2012.

The average price paid for gasoline and diesel during 2011 never fell below $3 per gallon, marking the first time the national pump price for both transportation fuels topped $3 per gallon throughout a calendar year, according to the EIA. Crude oil, which accounted for more than 60% of the cost of making the fuels, was the main reason prices were higher at the pump. At the same time, the difference between the prices of gasoline and diesel reached its widest level on record due mostly to stronger demand for diesel.

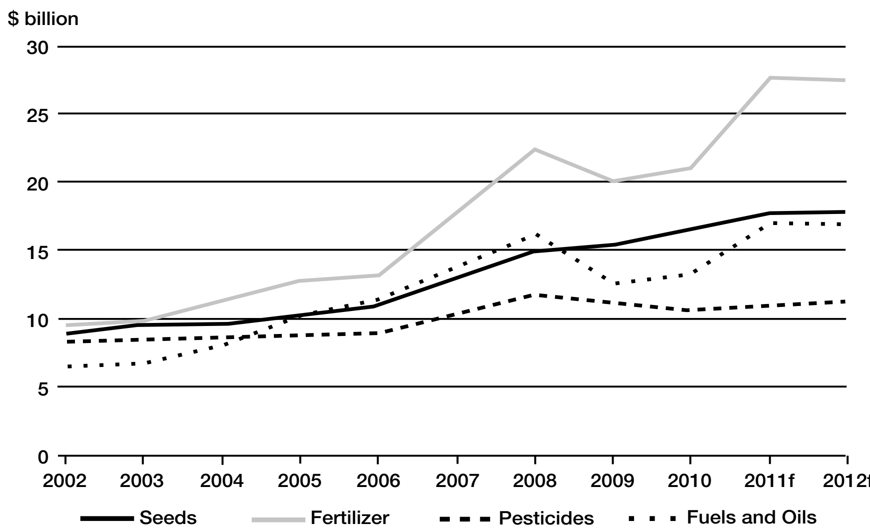
The lowest price for diesel fuel in 2011 was $3.33 per gallon during the first two weeks of January, while the highest price was $4.12 per gallon on May 2, during a six week period when diesel averaged more than $4 per gallon. The national pump price for diesel has not been under $3 per gallon since September 27, 2010.

As of March 12, the EIA reports the average price for diesel in the U.S. was $4.123, up 0.215 from a year ago.

**Overall Increases.** The three manufactured inputs — fertilizer, pesticides and fuels and oils — together are forecast to be $56 billion in 2012, putting them $655 million (1.2%) higher than their level in 2011.

This increase is miniscule compared to the $10.5 billion (23.4% percent) rise in 2011, according to USDA. In 2012, these expenses will constitute 16.8% of total expenses, slightly less than in 2011. **AEI**

**Crop-Related Expense Trends — 2002 – 2012**




*Source: Economic Research Service, USDA.*