

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

May 15, 2012  
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- Cervus Sales Up 30%
- Ag on Solid Footing
- Lely Opens Iowa Ops

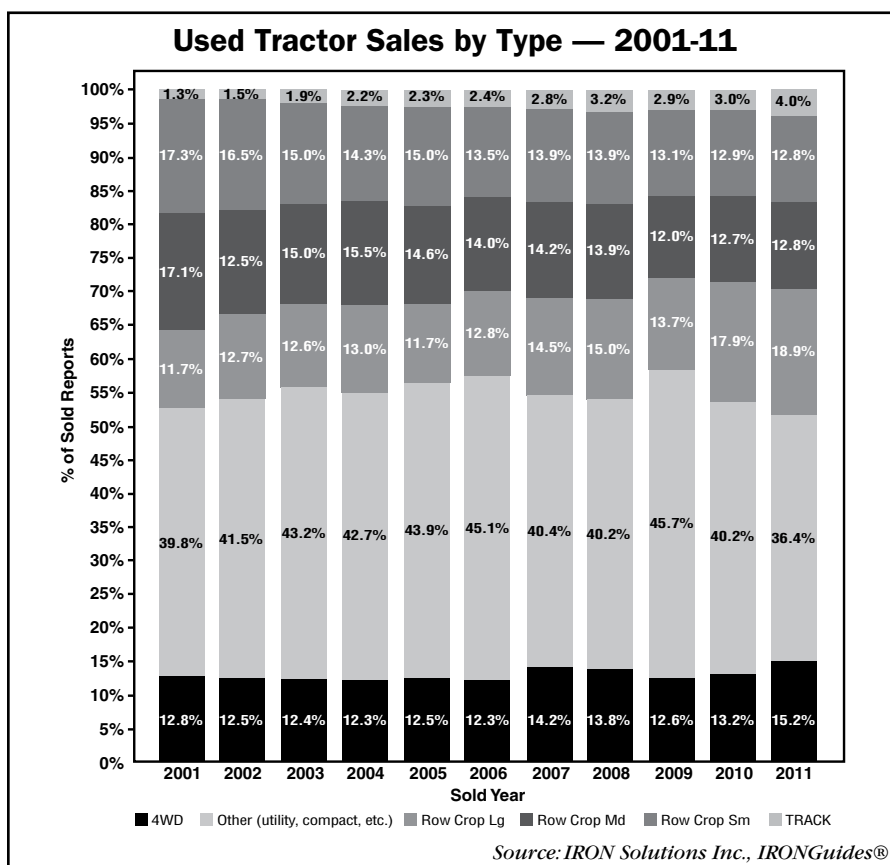
## Used Equipment Mix Changing as Farmers Move to Larger Equipment

As the size of farm machinery has grown, so has the riskiness of taking trades in on new equipment. "Our used equipment sales have grown probably faster than any other part of our business over the last three years," says Graham Drake, president and CEO of Cervus Equipment Corp., one of John Deere's largest farm equipment dealer networks. "It's the biggest financial risk out there."

Besides the robust market for new ag machinery during the last decade, the physical size of the equipment has grown significantly during this same time period. As the big farms have gotten bigger, not only are growers demanding larger more productive machinery, they're also looking to turn their equipment over more quickly. Dealers tell *Ag Equipment Intelligence*, that with the multi-unit discounts being offered by manufacturers together with roll programs, the big buyers of new equipment are trading relatively new, low-hour equipment before warranties expires to avoid traditional repair and upkeep costs.

The trend toward larger equipment is verified by data developed over the last decade by IRON Solutions, the industry's major source for valuation information on used farm and construction machinery. According to Dallas Blome, vice president of IRON Guides for IRON Solutions, the data represents tens of thousands of used equipment sales transactions reported by dealers throughout North America.

The most significant trend noted in the adjacent chart is the growing percentage of large row-crop (180-plus PTO horsepower), four-wheel drive and track tractors that make up the used equipment mix as the decade progressed.



In 2011, these three tractor categories accounted for more than 38% of all reported sales vs. 25.8% in 2001. At the same time, medium row-crop (140-179 PTO horsepower) and small row-crop (100-139 PTO horsepower) units decreased as a percentage of total reported sales of used tractors during the same period. Overall, the percentage of total tractor trades reported by dealers has declined to 25.6% in 2011 compared to 34.4% in 2001.

"Farming operations are getting larger and require the efficiencies of high horsepower tractors to cover more acres in the time available," says

Blome. "Ideal planting and harvest seasons represent a small window of opportunity, so larger operations have to cover more acres within those windows of opportunity. The strong ag economy in recent years has provided the means for buyers to afford the large equipment needed to stay within these windows of opportunity."

Blome says he sees this trend toward larger used tractors remaining intact "as long as commodity prices remain strong and smaller operators continue to be absorbed by larger farming operations."

*Continuing sidebar on page 3*

## Expanding Demand for CVT Transmissions Powers ZF's 23% Revenue Rise

Growing demand for tractors with stepless drive, or continuously variable transmissions (CVTs), helped fuel sales growth for ZF's agricultural machinery systems business unit last year.

Now part of the Industrial Technology division of the \$20 billion automotive components supplier following reorganization into sector-focused divisions, farm vehicle technology revenues grew by more than 23% from the equivalent of \$386 million in 2010 to \$476 million in 2011, as the recovery in farm tractor sales and production continued in most markets.

"Fluctuation in the agricultural machinery industry has been much more moderate in recent years than in other industries," says Wilhelm Rehm, head of the Industrial Technology division in ZF's annual report. "This trend largely continued in 2011, when all markets recorded higher production figures — with the exception of South America, which suffered a decline of 10% following overheating that had already become evident in 2010."

More widespread acceptance of tractor CVT transmissions, which variably combine mechanical and hydraulic drives, helped sales of ZF Ecom and S-Matic stepless transmissions.

"Although the positive customer response is not yet fully reflected in the sales figures, it promises strong growth in the coming years," says Rehm. "Demand in China and Korea, and also in Russia and Italy, provide good grounds for optimism."

While most of the major tractor OEMs utilize their own transmissions, ZF's agricultural systems business unit supplies a number of smaller tractor manufacturers with conventional gearbox transaxles and front drive axles.

One of its biggest customers, however, is Same Deutz-Fahr Group, which takes conventional and CVT units for tractors of 115-275 horsepower. John Deere buys Ecom CVT units for its AutoPowr tractors between 115-250 horsepower and Claas uses the S-Matic and Ecom transmissions in Axion C-Matic and Xerion tractors ranging from 180-520 horsepower.

ZF has now racked up 10 years' experience with tractor CVTs, producing more than 60,000 units in that time. Last fall, it unveiled the next-generation design. Its Terramatic is said to combine the best features of the current transmission with improved efficiency in power and torque delivery.

Also, the Terramatic CVT design has a modular housing structure to simplify adaptation to different engines, says ZF, and a rear axle interface that matches ZF gearbox transmissions. That will make it easier for OEMs to produce the same model tractor with the two different types of transmission.

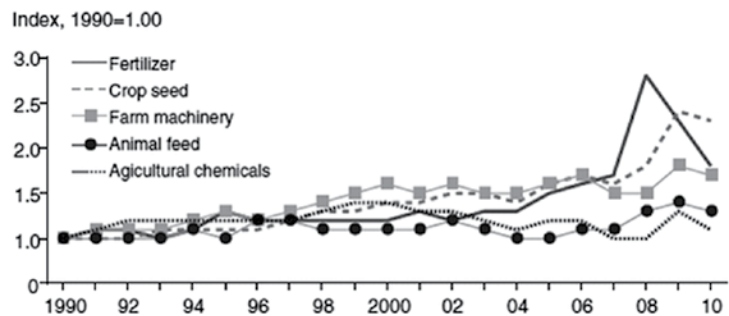
Electronic and electro-hydraulic controls have been standardized across all variants, the first of which cover the power range 200-320 horsepower.

The new CVT is also designed to accommodate ZF's new Terra+ generator module. This provides electrical power to the tractor and can also be used to drive light-load implement systems, such as fertilizer broadcast spinners and air-drill fans, as an alternative to the power take-off shaft. **AEI**

### Seed Prices Saw Steepest Price Rise of Major Crop Costs Since 1994

Relative to crop commodity prices that U.S. farmers received since 1994, agricultural input prices have risen consistently with seed prices almost doubling. According to USDA's Economic Research Services, this increase was due, at least in part, to the increase in value-added characteristics developed by private seed and biotechnology companies through R&D programs. The sharp rise in the price of fertilizer in 2008-09 was driven by a significant increase in the cost of energy and materials used to manufacture nutrient products, as well as rising transportation costs and the falling value of the U.S. dollar. For agricultural chemicals, prices rose relative to commodity prices during 1994-99 but have since fallen. The recent decline partly reflects the rise in crop commodity prices after 2005 as well as an increasing market share for off-patent (generic) crop protection chemicals. (ERR-130, December 2011) **AEI**

**U.S. Agricultural Input Prices Relative to Prices Received for Agricultural Products Sold by Farmers (1990-2010)**



Source: USDA, Economic Research Services. Indexes of prices paid and received by farmers from USDA (various issues).

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## Nearly Half of Dealers Say Used Inventory Remains 'Too High'

North American farm equipment dealers continue reporting that their new equipment inventories are "too low" and the used equipment portfolios remain "too high," according to the most recently dealer survey conducted in April by Ag Equipment Intelligence and Cleveland Research Co.

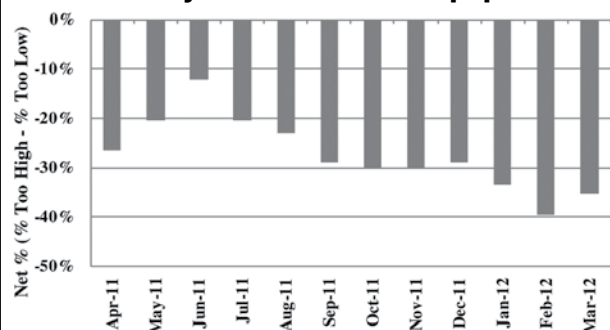
**New Equipment.** New equipment inventory remains tight as a net 35% of dealers categorize their new inventory as "too low" (9% too high; 46% about right; 45% too low) down from a net 40% last month.

**Used Equipment.** Dealers continue to express concerns about their used equipment catalogue as a net 4% of dealers now categorize their used inventory levels as "too high" (25% too high; 47% about right; 29% too low) compared to a net 1% last month.

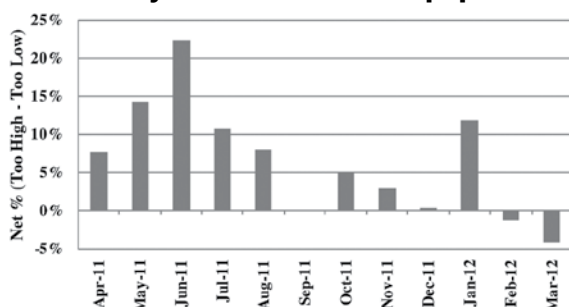
**Used Combines.** Within their used equipment lineups, a net 34% of dealers also reported used combine inventory levels are still "too high" (43% too high; 47% about right; 9% too low).

**AEI**

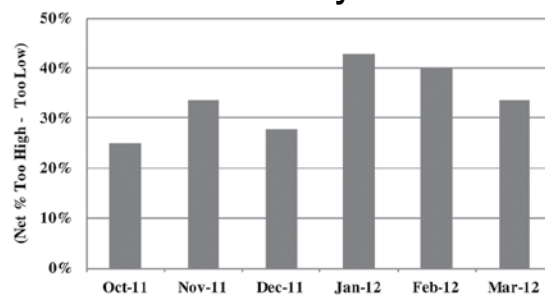
### Inventory Levels — New Equipment



### Inventory Levels — Used Equipment



### Used Combine Inventory vs. Last Month



Source: Ag Equipment Intelligence Survey

## FARM MACHINERY TICKER (AS OF 05/11/12)

Manufacturers	Symbol	05/11/12 Price	4/11/12 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l	AFN	\$39.04	\$40.62	\$49.47	\$28.11	18.58	31,358	484.53M
AGCO	AGCO	\$43.85	\$43.78	\$54.44	\$30.11	6.91	1,371,000	4.26B
Alamo	ALG	\$31.76	\$30.01	\$34.23	\$19.71	11.47	29,234	378.48M
Art's Way Mfg.	ARTW	\$7.25	\$7.04	\$9.69	\$4.80	15.15	8,068	29.17M
Blount Int'l	BLT	\$13.70	\$16.22	\$18.62	\$12.46	16.75	282,203	671.74M
Buhler Industries	BUI	\$5.49	\$5.40	\$5.99	\$5.04	17.88	480	137.25M
Caterpillar	CAT	\$95.50	\$101.70	\$116.95	\$67.54	12.04	6,583,200	62.30B
CNH Global	CNH	\$44.01	\$39.52	\$47.74	\$22.19	10.02	483,786	10.56B
Deere & Co.	DE	\$79.07	\$77.55	\$90.59	\$59.92	11.72	3,875,230	31.77B
Hemisphere GPS	HEM	\$0.72	\$0.83	\$1.35	\$0.56	N/A	64,051	43.79M
Kubota	KUB	\$45.07	\$47.72	\$51.97	\$36.81	16.98	30,408	11.32B
Lindsay	LNN	\$62.12	\$62.58	\$73.03	\$46.03	21.44	141,026	789.55M
Titan Int'l	TWI	\$26.56	\$22.48	\$29.95	\$12.97	14.67	768,432	1.12B
Trimble Navigation	TRMB	\$50.72	\$52.88	\$55.95	\$31.88	39.59	630,467	6.31B
Valmont Industries	VMI	\$117.62	\$117.15	\$128.40	\$73.00	12.27	204,506	3.12B

### Retailers

Cervus Equipment	CVL	\$18.36	\$18.71	\$19.25	\$13.60	N/A	10,403	N/A
Rocky Mountain Dealerships	RME	\$11.90	\$11.50	\$12.13	\$8.35	11.43	35,510	223.34M
Titan Machinery	TITN	\$33.00	\$32.05	\$36.92	\$15.58	15.14	432,326	683.23M
Tractor Supply	TSCO	\$98.64	\$92.30	\$101.20	\$49.02	29.62	757,863	7.06B

## Growing North American Business Fuels Improving Fortunes for Carraro

A 40% increase in sales to North American OEMs last year contributed to the recovery of one of the industry's component suppliers hardest hit by the financial crisis of recent years.

Italy-based Carraro saw group revenues improve by almost 29% to the equivalent of \$1.2 billion in 2011 — close to the record figure achieved in 2008 — as agricultural and construction vehicle manufacturers bought more of its axles, drivelines, gears and other components.

The group also posted its first profit in three years; the net income figure of \$6.54 million is in stark contrast to the \$60 million loss recorded in 2009 and a significant improvement on the \$9.4 million loss posted in 2010.

"With a considerable increase in turnover and above all a return to profits, 2011 has produced results thanks to the Carraro 2.0 Strategic Plan, which has generated a gradual and important recovery at all levels," says

new group chairman Enrico Carraro.

"Today, we are leveraging our international production platform to an even better extent and focusing on product solutions with even greater added value," he continued. "The recovery trend has been maintained in the first few months of 2012; in March, our core business increased by over 20% compared to 2011 and consequently, visibility for our orders portfolio also confirmed this trend for the first half of the year."

About 10% of group revenues are generated in North America — Carraro's second biggest market after Germany (13%) and Italy (23%) — where sales are handled through an office in Virginia Beach, Va., and supported by a parts and logistics center in Belvidere, Ill.

Drivelines and axles produced by the group's Carraro DriveTech division for farm and construction vehicles such as telescopic handlers made the biggest contribution to group revenues at \$8 million in 2011, a gain

of almost 42% on the year prior.

The Gear World division, which has a manufacturing facility in Virginia Beach, brought in \$2.5 million of business last year (up 26%) and Carraro Agritalia generated \$116 million, up 58%, assembling light utility and fruit tractors for OEMs including AGCO, Claas and Deere.

Having come through a torrid period of streamlining and restructuring after revenues fell by half in 2009, a new generation has taken the helm at the Italian group, alongside CEO Alexander Bossard.

Enrico Carraro, who took over as chairman from his father Mario at the shareholders' annual meeting pledged to continue the group's long standing growth strategy, investing in technologies to support development from the foundations that have been laid. His brother Tomaso, chairman and CEO of Gear World, was elected deputy chairman. **AEI**

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## Higher Value Engines Add to Deutz's Increased Revenues

Selling pricier diesel engines that meet new emissions rules will help Deutz gain double-digit revenue growth this year on top of record figures posted in 2011, say Deutz managers.

The positive outlook is also based on a return to more favorable forecasts for the global economy and the impact of "global megatrends" such as growing world population, continued urbanization and the industrialization of agriculture.

Deutz also cites its commitment to business in China, where a third joint venture for diesel engine production was recently signed (see *Ag Equipment Intelligence*, March 2012), as another factor in the company's optimistic outlook.

In 2011, Deutz racked up global sales of \$1.97 billion, an increase of 28.6%, to achieve a new high for the current business. It also became a profitable business once more, posting \$97 million net income — one of the best in the company's history — vs. a net loss of more than \$20 million 12 months earlier.

In the agricultural sector — where principle users of Deutz engines for tractors are AGCO's Fendt unit and Same Deutz-Fahr, which has a 25% stake in the engine maker — sales grew by more than \$72 million (30%) to \$314 million.

That figure exceeds the 2008 record achieved in one of the most robust markets for agricultural vehicle sales in recent years.

It helped the Compact Engines business unit, which makes liquid-cooled diesels of up to 8-liters capacity for on- and off-highway applications, increase shipments by 36% to 204,161 units. Revenues increased 30% to \$1.56 billion.

In the Americas, agricultural and construction machinery OEM customers increased spending on Deutz engines by \$80 million, up 52% to almost \$232 million.

The Cologne, Germany-based manufacturer has rolled out a number of new engines over the past year, claiming increased power density and a 5-10% reduction in fuel consumption

for each of the designs. The new TCD 2.9-liter engine has been shown in Tier 4 Final prototype form, along with twin-turbo versions of the 6.1- and 7.8-liter diesels already in service.

Refined combustion and exhaust gas recirculation mechanisms spearhead the company's emissions control focus to complement a flexible approach to after-treatment. Deutz describes its DVERT programme (Deutz Variable Emissions Reduction Technology) as a "modular, slimline system of technical components compatible with different engine configurations."

Elements include oxidizing catalytic converters, open and sealed design particulate filters, regeneration burners and selective catalytic reduction (SCR), which can be combined as required to achieve engine performance, compliance with emissions limits and competitiveness.

Each is designed with upgrade capability, says Deutz, to meet the more stringent standards that will come with U.S. EPA Tier 4 Final and European Stage IV regulations. **AEI**

## Cervus Equipment Sees 30% Rise in 1Q Revenues

On May 9, Cervus Equipment, one of John Deere's largest dealership groups in North America, reported its revenue grew by \$25.5 million or 30.3% to \$109.8 million in the first quarter ended March 31, 2012. Same-store sales increased by \$22.1 million 26% during the period compared with the first quarter of last year. Cervus operates 42 dealership locations in Western Canada. In addition to Deere ag equipment, the group also handles Bobcat and JCB construction equipment; Clark Sellick and Nissan and Doosan material handling equipment; and Peterbilt transportation equipment.

Both of the company's operating segments reported increases in revenues with the ag equipment segment increasing by 29.7% and the commercial and industrial equipment segment increasing by 31.4%. For the quarter, overall gross margin decreased slightly to 21% from 21.5% reported in the same period of 2011.

The increase in sales, combined with the marginal change in overall gross profit margins resulted in an increase in profit for the three-month period. Profit increased by \$1.6 mil-

Cervus Equipment — Selected Quarterly Information, (Period Ended March 31)			
	1Q 2012	1Q 2011	Change
Ag Equipment	\$71,429	\$55,091	+29.7%
C&I Equipment	\$38,353	\$29,182	+31.4%
Equipment Sales	\$78,315	\$57,287	+36.7%
Parts	\$17,329	\$14,629	+18.5%
Service	\$11,331	\$9,920	+14.2%
Rentals	\$2,807	\$2,437	15.2%
Total Revenue	\$109,782	\$84,273	30.3%
Source: Company Reports			

lion to \$1.4 million from a loss of \$155 thousand in 2011. Selling, general and administrative expenditures decreased to 17.9% of total revenue compared to 20.3% for the same last year.

According to Graham Drake, newly appointed president and CEO of Cervus, the gains we driven by higher sales of industrial and agricultural equipment as a result of greater consumer confidence and higher commodity prices when compared to last year. "We believe these trends will continue well into 2012, and, along with healthy indicators of expansion in the oil and gas industry, expect

healthy unit sales in both of our operating segments this year."

**Analyst View.** "The quarter's results were clearly positive and reflect continued strength in western Canada combined with (consistently) solid execution," Ben Cherniavsky, analyst for Raymond James, said in a note to investors. "Going forward, higher input costs and lower program payments are forecasted to reduce farm income. However, cash receipts continue to be strong due to high grain prices which is evidenced by robust demand for new vs. used equipment and product support services." **AEI**

## Corn Stocks Surge, Soybeans Fall, Equipment Still Bullish

Despite a projected 121% increase in 2012 corn ending inventories, which is expected to lower the per-bushel price farmers get from their crop, and a 3% decline in major stock receipts vs. last year's record level, most analysts remain firm in the outlook for another solid year for ag equipment sales.

Meanwhile, a more bullish stock-to-use forecast for soybean stocks is expected to increase its per-bushel pricing for the year.

**Corn Acres & Yield.** On May 10, USDA issued its first estimates for this year's harvest and next year's demand. The agency's forecast showed that domestic corn stocks would swell from last year's near record low to the highest level in seven years by the end of the 2013 harvest. In addition to earlier than

normal planting this spring and increased corn acreage — (4 million acres vs. last year), USDA also expects record corn yields for 2012-13. The agency forecast corn yields to reach 166 bushels per acre vs. 147.2 bushels last year.

With that, USDA also expects 2012-13 corn prices to decline year-over-year by \$1.50 per bushel to a midpoint of \$4.60, or down 25% vs. 2011-12.

**Soybean Prices Up.** USDA lowered its estimate of 2011-12 ending stocks by 40 million bushels to 210 million bushels. As a result, the ag agency is forecasting a 2% decline in inventories as a result of the 2011 crop. Its initial forecast for soybean yields is 43.9 bushels per acre, up from 41.5 bushels last year. USDA maintained its expected planted acre-

age of 73.9 million acres.

Soybean pricing for 2012-13 is projected in the range of \$12.00-14.00 per bushel, with a midpoint \$13.00, or \$0.65 per bushel above last year's estimated price of \$12.35 per bushel.

**Strong Crop Receipts.** "Our model forecasts that cash receipts from major crops will be \$130.1 billion in the 2011-13 crop year, down 3% year-over-year from \$133.4 billion for 2011-12, which was up 11% year-over-year," Ann Duignan, machinery analyst for JP Morgan, said in a May 11 note. "While this is down slightly year-over-year, when combined with robust crop prices and accumulated farmer income from the past several years, the environment for continued purchases of agricultural equipment is favorable." **AEI**

## McCormick Tractor Parent Sees 16% Sales Rise

The Italian manufacturer of Landini and McCormick products, ARGO Tractors, achieved a 16% increase in sales revenues in 2011 as production volume increased 18% to meet demand.

Sales revenues grew to the equivalent of \$630 million in 2011, with measures to reduce production costs and working capital significantly improving the company's break-even position.

Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by more than 50% from \$34 million in 2010 to \$52 million in 2011. Earnings before interest and taxes (EBIT) doubled to \$34.5 million and the 2011 net operating result amounted to \$11 million.

"The results achieved in 2011 confirm our company's ability to create value, with a two-digit increase in both turnover and profitability," says Valerio Morra, president of ARGO Tractors. "The actions taken to limit overhead costs and reduce working capital improved our margins, despite the relentless competitive pressure on prices implemented by our competitors."

The 2011 performance follows significant re-structuring at the ARGO Group, which also encompasses smaller businesses making tillage equipment and walk-behind implements.

The 50% stake it held in combine harvester maker Laverda was sold to AGCO for \$85 million and the losing transmissions operation in France was liquidated. ARGO's independent Valpadana unit, making specialist orchard, vineyard and grounds care tractors, was absorbed into the Landini and McCormick operation to gain economies of scale and reduce headcount.

"Substantial investment in new products, increased attention to markets with high growth potential and improved, more efficient manufacturing processes are providing solid foundations," says Morra. "That will hopefully enable U.S. to achieve incremental results with regard to future revenue and profitability."

Facility investments in recent months include acquiring full control of the joint venture that produces operator platforms and cabs

for Landini and McCormick tractors, while a new transmissions test center at the Fabbri headquarters plant reproduces field-operating conditions on tractors up to 300 horsepower.

ARGO Tractors continues to design, engineer and manufacture transmissions for 35-160 horsepower tractors but sources bigger units from its former plant in France, now owned by YTO of China.

The tractor maker is continuing its policy of using more than one engine supplier — Yanmar and Perkins for three- and four-cylinder engines; FPT Industrial for six-cylinder units.

Incorporating Tier 4i emissions technology is a high priority for the product development program. ARGO is in the process of launching its X70 Series replacements for the XTX and TTX tractors with SCR-equipped engines. But it will also yield new transmissions, upgraded hydraulic systems and increased availability of axle and cab suspension in the future, with the aim of improving productivity, versatility and driver comfort. **AEI**

## Lely Group Opens Milking Equipment Operations in Iowa

The Netherlands-based Lely Group shared the opening of its first North American production facility with 400 dairymen who heard about the company's ambitions to strengthen its position in the milking sector.

Lely justifiably claims world leadership in robotic milking: more than 12,500 Astronaut systems have been supplied to dairy farms since the early 1990s and annual production currently runs at around 3,000 units.

"The expansion of our presence with this production facility will significantly increase Lely's services to the North American market," says Els Versluis, international marketing and communications manager.

"It will help U.S. meet increasing demand by operating faster and more efficiently, and by reducing transport costs."

CEO Alexander van der Lely opened the 3,133 square-meter production plant, plus 572 square-

meters of office space. It is located on Vermeer premises in Pella, Iowa; Vermeer has been Lely's strategic partner in forage equipment for more than 20 years and Lely located its North American headquarters there eight years ago.

Milking robots will be assembled using locally sourced parts, creating more than 20 full-time jobs initially, to serve a market that van der Lely sees holding great potential for sales of dairy equipment in general and robotic milking and feeding systems in particular.

"We're getting interest in our dairy products from enterprises of all sizes — from family farms to large scale dairy herds," adds Versluis.

Lely's philosophy is to create a sustainable, profitable and enjoyable future in farming for its customers and is working on concepts to ensure energy-neutral operations in the dairy sector, according to Versluis.

The group is active in more than 60 countries and employs 1,500 people generating annual sales of around \$618 million.

Construction of a new headquarters plant in the Netherlands is underway to bring Lely's two production facilities under one roof by the middle of 2013. **AEI**

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## Equipment Sales Slip Again in April

U.S. and Canada retail sales of high-horsepower tractors and combines fell by 3% year-over-year in April. Overall, U.S. sales dropped 7% last month, while sales in Canada declined by 18%.

"U.S. and Canada large tractor and combine retail sales weakened again in April, falling 3% year-over-year, but showing improvement from a 5% decline in March," Robert McCarthy, analyst for RW Baird said in a May 10 note. "Combine sales remained quite weak, falling 25%, though in a seasonally unimportant month, offset by improving row-crop, mid-range and utility tractor comparisons. Of note, combine comparisons will become considerably easier starting with the month of May," says McCarthy.

- Combine retail sales decreased 24.7% year-over-year following March's 25.8% decline. Last three month (L3M) sales remained negative on a year-over-year basis, the eleventh straight month of negative comparisons. U.S. combine inventories decreased 9% year-over-year in absolute terms in March vs. a 24% decrease last month; days-sales (57) actually increased year-over-year, from 49 last year. April sales accounted for 6% of annual sales over the last five years.

- Row-crop tractor sales increased 1.9% in April, up from a 2.9% year-over-year decline in March; L3M sales increased 3.4%. Inventories of U.S. row-crop tractor inventories increased 1% year-over-year in March vs. a 4% increase in February. On a days-sales basis, inventories were lower year-over-year at 83 vs. 86 in March 2011. February is a historically important month for tractor sales, typically accounting for 12.2% of annual sales.

- 4WD tractor sales increased 0.6% year-over-year in April, declining from a 19.4% increase in March. U.S. inventories of 4WD tractors increased 20.1% year-over-year in March; days-sales of also increased year-over-year to 65 from 55 in March 2011.

- Mid-range tractor sales comparisons improved in April, increasing 11.9% year-over-year after a 7.3% decline last month. Utility tractor sales jumped 17.4%.



### APRIL U.S. UNIT RETAIL SALES



Equipment	April 2012	April 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	April 2012 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	12,107	10,328	17.2	27,559	25,849	6.6	59,634
40-100 HP	5,389	4,818	11.9	16,037	15,157	5.8	25,547
100 HP Plus	2,774	2,878	-3.6	8,978	8,969	0.1	6,261
<b>Total-2WD</b>	<b>20,270</b>	<b>18,024</b>	<b>12.5</b>	<b>52,574</b>	<b>49,975</b>	<b>5.2</b>	<b>91,442</b>
<b>Total-4WD</b>	<b>618</b>	<b>648</b>	<b>-4.6</b>	<b>1,938</b>	<b>1,981</b>	<b>-2.2</b>	<b>1,064</b>
<b>Total Tractors</b>	<b>20,888</b>	<b>18,672</b>	<b>11.9</b>	<b>54,512</b>	<b>51,956</b>	<b>4.9</b>	<b>92,506</b>
<b>SP Combines</b>	<b>581</b>	<b>763</b>	<b>-23.9</b>	<b>1,899</b>	<b>3,084</b>	<b>-38.4</b>	<b>1,386</b>

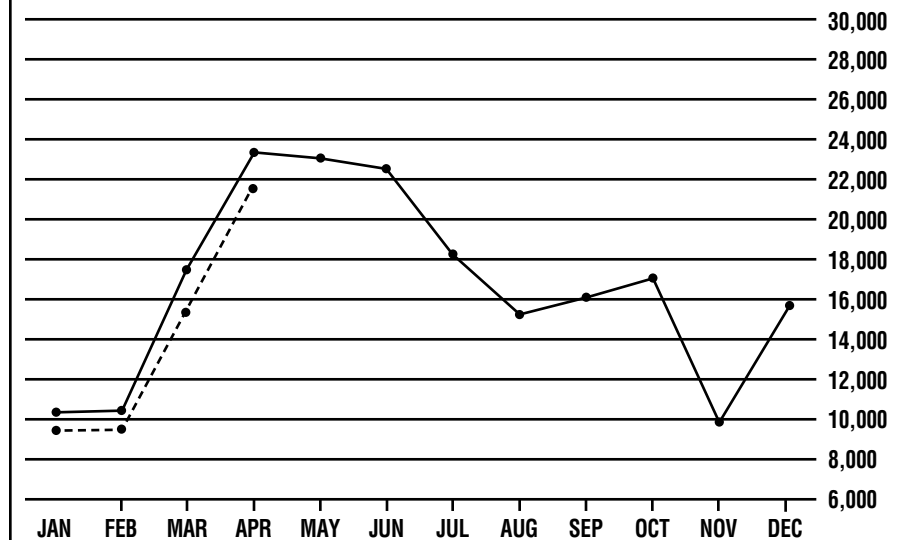
### APRIL CANADIAN UNIT RETAIL SALES



Equipment	April 2012	April 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	April 2012 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	1,286	1,081	19.0	2,701	2,657	1.7	9,122
40-100 HP	661	591	11.8	1,833	1,718	6.7	3,597
100 HP Plus	608	442	37.6	1,485	1,212	22.5	1,938
<b>Total-2WD</b>	<b>2,555</b>	<b>2,114</b>	<b>20.9</b>	<b>6,019</b>	<b>5,587</b>	<b>7.7</b>	<b>14,657</b>
<b>Total-4WD</b>	<b>269</b>	<b>234</b>	<b>15.0</b>	<b>540</b>	<b>492</b>	<b>9.8</b>	<b>454</b>
<b>Total Tractors</b>	<b>2,824</b>	<b>2,348</b>	<b>20.3</b>	<b>6,559</b>	<b>6,079</b>	<b>7.9</b>	<b>15,111</b>
<b>SP Combines</b>	<b>125</b>	<b>175</b>	<b>-28.6</b>		<b>534</b>	<b>-21.3</b>	<b>569</b>

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

--- 2012  
— 5 year average



— Assn. of Equipment Manufacturers

# Ag Equipment Fundamentals Still Not Well Understood

Despite robust U.S. tractor sales in recent years, overall tractor sales remain far from their 2004 and 2005 peak. Nonetheless, in terms of dollars, ag equipment shipments remain strong and healthy.

In a May 11 note to investors, Ann Duignan, machinery analyst for JP Morgan, says, "ag fundamentals are not well understood" by many observers of the industry.

She points out U.S. sales of high horsepower tractors last peaked in 2004 and 2005, when crop receipts increased 15% year-over-year and livestock receipts increased 18%. But as shown in the charts below, farmer cash receipts troughed in 2009, when

crop receipts declined 8% and livestock receipts declined 15%.

"From 2009 to 2011, crop receipts increased a total of 24% and livestock receipts increased a total of 36%. During this same period, 100 horsepower and larger tractor sales increased 20%.

"Near term, we see opportunities for 100 horsepower and larger tractor sales to grow further in 2012 given increased corn-on-corn planting." According to USDA, planted corn acreage is expected to increase 4% or by 4 million acres this year.

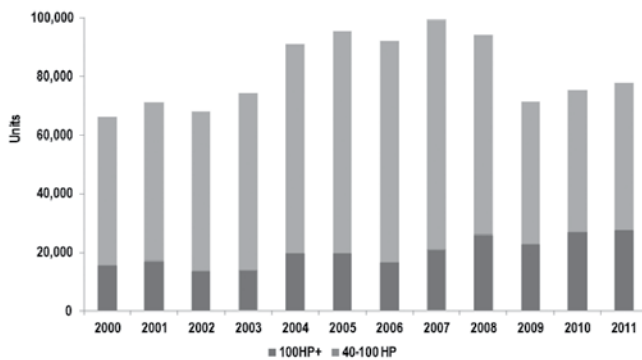
Through April, sales of these high horsepower units are up 3% in North America, and according to

Duignan, increased sales of tractors in the 40-100 horsepower range (up 6% year-to-date) are a result of strength in the livestock sector.

She also points to "the effect of increased horsepower, emissions changes and opportunistic pricing on U.S. shipments of farm equipment, in U.S. dollars, as reported by the U.S. Census Bureau.

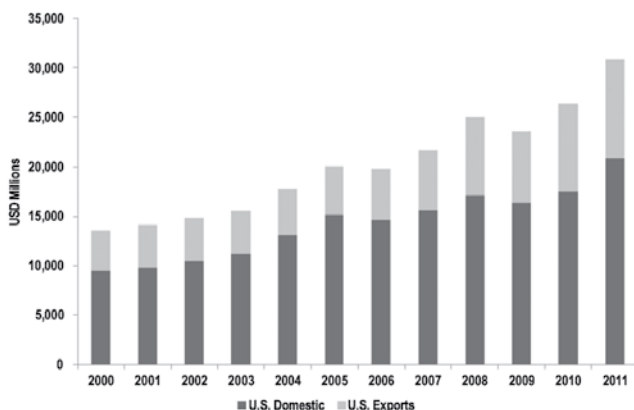
"In 2011, overall shipments increased 17%, aided in part by exports, which increased 13% year-over-year, according to the U.S. Bureau of Economic Analysis. Shipments in dollars increased 24% in the first quarter of 2012, suggesting a solid start to the year." **AEI**

**U.S. Tractor Sales Not at Peak (Units)**



Source: AEM and J.P. Morgan

**U.S. Farm Machinery Shipments Aided by Exports (Dollars)**



Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis and J.P. Morgan

## Farm Equipment Executive Concerned About Supply Trends

Despite the "high times" that the ag equipment business is enjoying these days, one shortline equipment manufacturer told *Ag Equipment Intelligence* that he's seeing signals that indicate a slowdown isn't too far down the road.

This executive says that farmers' equipment purchases of the last couple of years have put them well beyond satisfying "needs," and that growers are deep into their "wants." He believes with high farm incomes and the depreciation advantages of recent years, farmers who planned to reinvest in machinery and equipment have already done so. Even if the good times continue, he sees equipment investments waning, as the luxury-type (want) equipment purchases have already been met. Real estate, he says, will likely be the next place that farmers' put the cash they're accumulating.

He also says recent developments, like the growth of natural gas fueling stations will have "macro-level impacts" on the industry. As fleet operations and consumers capitalize on the record-lows of natural-gas fuels, the overall demand for biofuels feedstocks, such as soybeans, will decline.

On the equipment manufacturing side, he shared recent dialog with suppliers that reveal how far things have changed in the suppliers' view of the ag markets. For example, with the many foundry closures over the last decade, coupled with higher overall demand and work returning from offshore operations, metalcasters are operating at a very high capacity not seen in many years.

Several casting suppliers who were hungry for ag work just a year or two ago now have chosen not to quote on new work for farm equipment manufacturers and/or are relinquishing current jobs. At the same time, lead-times are at unheard-of levels, he said, with some foundries quoting up to 28 weeks deliveries by several suppliers.

One of his iron casting suppliers is deliberately reducing its exposure to agriculture by 5% this year so as not to be exposed should the market turn down as the foundry believes has already started. He also reported that major manufacturers are paying above-market price just to gain capacity, as these same foundries are getting busy producing parts for the rebounding truck markets.