From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- SDF Volvo Agreement
- Farm Bill Disparities
- WASDE Report

Current Drought Could Slow 2013 Equipment Sales

"I'm simply a messenger here. So you can guess what I'm going to say. I'm going to confirm your worst fears. I'm sorry," said Dr. Dev Niyogi, state climatologist for Indiana, in his presentation during the Brock Associates Decisions 2012 Summer Seminar in Bloomington, Ill.

It's a harsh reality, he said, that the drought covering most of the Midwest is expected to expand farther west and north if the region continues to stay so dry, and it doesn't look like much improvement is on the horizon. According to Niyogi, above average temperatures are expected to intensify over the next seven weeks and below normal perspiration will continue. Over the next few weeks, Niyogi said, the drought is expected to move westward.

A look at the U.S. Drought Monitor shows nearly all of the Corn Belt in moderate drought, with some

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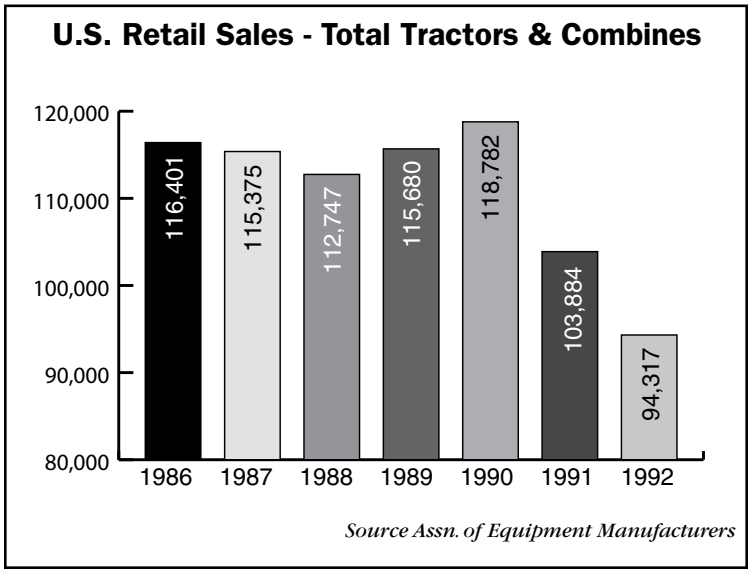


With 80% Growth, JCB Ag Looking for More NA Dealers

An 80% increase in sales to farmers and custom operators in North America is fuelling growth at JCB Agriculture, the farm equipment arm of Britain's construction machinery giant.

Speaking at the launch of Tier 4i compliant JCB Loadall telescopic handlers and Agri wheeled loaders (*AEI* February, 2012), managing director Richard Fox-Marrs revealed that having seen revenues grow 50% in 2011 over the prior year, JCB Agriculture sales are up 30% so far in 2012.

"North America is making a big contribution to that performance, with sales up 80% on 2011 so far," he says. "JCB used to be an unknown brand in agriculture, but it's becoming better known and we now have good product alignment with North American customer expectations."

The introduction of a more comprehensive range of skid steer loaders has played a major part, he said, but so too have efforts to appoint more dedicated agricultural dealers.

"We've applied the same strategy that's worked in Europe by appointing individual mixed franchise farm equipment dealers to increase coverage on the ground," says Fox-Marrs. "Farmers expect to do business with dealers who specialize in agriculture and they don't want to travel too far to get to their nearest dealer."

JCB Agriculture now has approximately 40 such outlets, mainly in the key dairy and livestock farming areas of the U.S., while continuing to supply units through its industrial and construction machinery dealers.

"Linking our United States parts facility to the World Parts network has helped demonstrate to potential dealers that we're serious about agriculture; it's improved our parts coverage and response rates are much better," says Fox-Marrs. "The new skid steer loader range is also having an impact — with 18 wheeled and track models having capacities from 590 kg to 1450 kg, the range is now relevant to many more potential customers, particularly in the dairy sector."

The unique single arm design of these machines gives them exceptional operator visibility while the side door cab access makes getting aboard easier and safer, Fox-Marrs points out. Nor can it do JCB's sales prospects any harm that the new machines were designed and engineered at the company's North American headquarters in Savannah, Ga., where they are now in full-scale production. AEI

areas in severe to extreme drought.

Due to the warm temperatures and dry conditions, planting occurred earlier than usual, Niyogi says, and because of this he believes that current yield estimates are "rosier than reality." He estimates yields are off by at least 15%, especially for corn, and soybeans are probably off by 2-5%, based on the weather conditions.

According to *The Brock Report*, "In weather markets, crop problems usually are quickly factored into futures prices and in most cases, markets will overreact to the perceived problems.This weather market should be no different.The market will anticipate much worse yield loses than the actual outcome.This will lead to emotional buying and a price move to the upside that reaches higher levels than most expect."

Niyogi made a number of comparisons to the droughts of both 1988 and 1991. "I don't want to say we're entering '88, but things don't look good, and could be at least like '91," Niyogi cautions.

Even if the drought does mirror 1988 as Niyogi fears, equipment dealers may recall that in 1989 the year-over-year change for total tractor and combine sales was actually positive.A look at machinery sales for the years following those droughts (see chart p. 1) provides some insight on what's to be expected in the New Year.

In 1989, according to the Assn. of Equipment Manufacturers there was a 2.6% year-over-year increase in combined total tractor and combine sales. That's following three years of negative change (-6.2% in 1986, -0.9% in 1987 and -2.3% in 1988).The numbers for 1992 cast a darker shadow, however. There, year-over-year change for four-wheel drive tractors was -34.7% and for combines -20.7%. The combined year-over-year change for total tractor and combines was -9%. AEI

Condition of U.S. Corn Deteriorating, But Equipment Sales Should Rise

Not everyone sees ag equipment sales declining as a result of the current poor crop conditions.

On July 9, USDA reported that for the fifth consecutive week, and the sixth week out of the last seven, the condition of the U.S. corn crop deteriorated. According to the ag agency, only 40% of the corn crop is in "good" or "excellent" condition, below the previous week's 48% and last year's 69%. The 8% drop, following last week's 8% drop, should be bullish for corn, according to Henry Kirn, machinery analyst for UBS Investment Research.

At the same time, corn, soybeans and wheat futures prices rose during the first week of July and that momentum appears to holding moving toward mid-month.

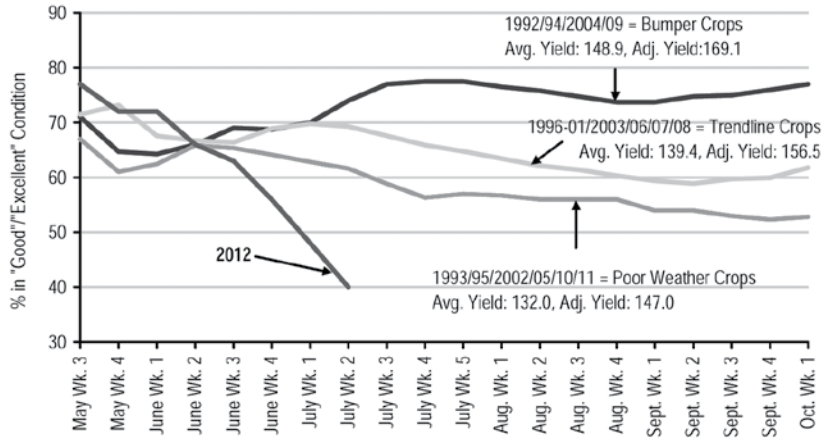
According to Kirn in a July 9 note to investors, on crop condition concerns, nearest corn futures rose 12% last week, while soybeans and wheat rose 9% and 7%, respectively. At that point, corn, soybean and wheat prices were up 14%, 23% and 27% above year-ago levels, respectively.

Based on the rising commodity prices, Kirn expects North American farm equipment sales to grow in the second half of this year.

"Corn, soybean and wheat prices remain well above historical averages," says Kirn. "While USDA forecasts 2012 farm cash net income to be down 6.5% year-over-year, 2012 is still forecast as the second highest farm income year on record, behind only 2011. We see strong income as likely to lead to strong equipment demand in 2012 and solid demand in 2013.

"We believe the key concern weighing on shares of ag equipment OEMs is the potential for the North American ag equipment cycle to turn down in 2013. Despite strength in recent years, we are bullish on ag equipment stocks as our channel checks, including our recent 30th semiannual ag dealer survey, suggest the cycle has longer legs than investors generally expect," says Kirn. *(Highlights from the UBS dealer survey are on p. 4 in this issue of AEI.)*

Corn Condition from End-of-Planting to Harvest



This "tracking" chart was developed by UBS Investment Research to compare the current year's corn crop condition with that of prior growing seasons. For reference, UBS groups the prior years into "Bumper Crops" (defined as 1992-94 and 2004-09), "Trendline Crops" (defined as 1996-01 and 2003, '06, '07and '08) and "Poor Weather Crops" (defined as 1993-95 and 2002, '05, '10 and '11). "While we caution that it is still early in the growing season," says Henry Kirn, UBS analyst, "the chart indicates that the current condition of the 2012 corn crop is consistent with a potentially low yield."

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SDF to Sell Majority Stake in Deutz to Volvo

Tractor maker Same Deutz-Fahr will get a $161 million windfall by selling most of its majority shareholder in engine maker Deutz.

The Italy-based group has agreed to sell more than 22 million shares to AB Volvo, the trucks, coaches, aerospace and construction machinery group. The price of 5.88 euros per share represents a 12% premium on the average over the three months preceding the agreement.

"Deutz has been and remains an important supplier and strategic partner for us," says Lodovico Bussolati, CEO of Same Deutz-Fahr. "The new shareholding structure reflects the reinforcement of AB Volvo's commercial cooperation with Deutz, while also confirming the existing long-term co-operation with SDF."

Volvo will become the biggest shareholder in Deutz, increasing its position from 6.7% to a little over 25%. Same Deutz-Fahr's holding will drop from 26% to 8.4%.

Early last year, SDF reduced its position in Deutz stock from around 45% by selling 24 million shares, worth around $180 million, to institutional investors. This move increased the proportion of shares in free float to more than 66%.

"Deutz has been and remains a strategic partner for us..."

Deutz chairman Dr. Helmut Leube welcomes the Swedish group's investment, which is subject to approval by antitrust authorities and is expected to be concluded in the third quarter of 2012.

"It underlines that Volvo seeks to deepen its long-standing co-operation with Deutz and plans to further develop jointly with us the successful strategy of recent years," he says. "We also look forward to continuing the successful cooperation with our partner Same Deutz-Fahr."

Earlier this year, Deutz and AB Volvo agreed to explore joint development of the next generation of medium-duty engines for off-road applications and for their production in China to support the Volvo Group's anticipated growth in off-road applications in Asia. AEI

FARM MACHINERY TICKER (AS OF 7/10/12)

Manufacturers	Symbol	7/10/12 Price	6/11/12 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$38.00	$33.93	$47.38	$28.11	19.29	30,327	476.75M
AGCO	AGCO	$43.73	$41.32	$54.00	$30.11	6.86	1,580,680	4.24B
Alamo	ALG	$31.85	$31.37	$34.23	$19.71	11.50	42,529	379.68M
Art's Way Mfg.	ARTW	$7.50	$6.95	$9.69	$4.80	15.69	6,573	30.22M
Blount Int'l	BLT	$14.20	$13.92	$18.43	$12.46	17.36	289,098	695.00M
Buhler Industries	BUI	N/A	$5.55	$5.90	$5.04	7.84	810	137.25M
Caterpillar	CAT	$80.27	$87.05	$116.95	$67.54	10.12	7,089,440	52.36B
CNH Global	CNH	$38.89	$37.51	$47.74	$22.19	8.86	1,026,846	9.33B
Deere & Co.	DE	$78.60	$74.06	$89.70	$59.92	10.90	3,650,330	31.26B
Hemisphere GPS	HEM	$0.2850	$0.73	$0.50	$0.17	N/A	119,027	38.61M
Kubota	KUB	$45.60	$43.22	$51.97	$36.81	14.90	16,733	11.45B
Lindsay	LNN	$68.64	$57.35	$72.09	$46.03	21.70	196,717	872.76M
Titan Int'l	TWI	$24.48	$21.15	$29.95	$12.97	13.52	892,889	1.03B
Trimble Navigation	TRMB	$44.87	$46.34	$55.95	$31.88	35.03	1,044,730	5.61B
Valmont Industries	VMI	$126.82	$111.43	$130.78	$73.00	13.23	198,737	3.37B
Retailers								
Cervus Equipment	CVL	$18.70	$17.70	$19.25	$13.60	13.75	8,394	274.48M
Rocky Mountain Dealerships	RME	$11.61	$11.15	$12.13	$8.35	9.52	25,505	218.04M
Titan Machinery	TITN	$29.64	$26.94	$36.92	$15.58	13.98	647,097	614.20M
Tractor Supply	TSCO	$83.60	$87.92	$101.20	$49.02	25.11	1,213,770	6.02B

Most Dealers Expect Higher Sales in Second Half and In 2013

Based on nearly 300 responses from its most recent ag equipment dealer survey, UBS Investment Research found that 61% of North American retailers expect overall sales in 2012 to increase compared to 2011. On average, 35% of the dealers surveyed also believe their sales in 2013 will be higher than those in 2012.

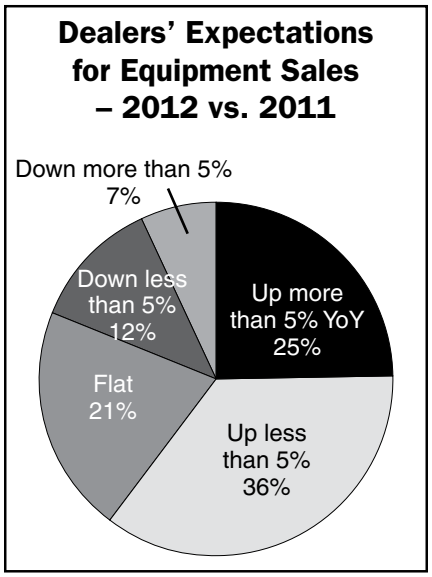
Along with the 61% of dealers who see higher sales this year vs. the previous year, only 19% are forecasting lower sales for the current year, while the remaining 21% expect sales to be flat in the second half.

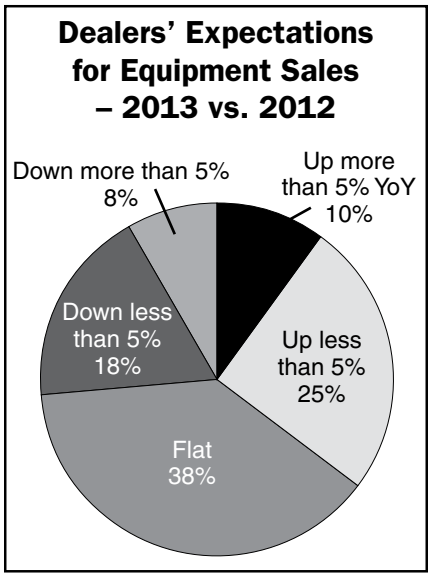
Dealers' outlook for 2013 isn't quite as optimistic, with slightly over one-third, or 35%, anticipating higher sales next year compared with 2012. About 26% of the dealers surveyed see sales in 2013 falling below 2012 levels, with the remaining 38% of farm equipment retailers forecasting "flat" sales next year compared with 2012.

Brand Differences. When it comes to dealers responses broken out by brand, Deere dealers are the least optimistic, with 26% projecting lower sales in 2012 compared with 2011. AGCO dealers, on the other hand, are the most optimistic with 64% of their dealers expecting increased sales in 2012 vs. 2011.

Comparing 2012 sales to those forecast for 2013, Deere dealers again are the least optimistic, with one-third (33%) expecting sales to be lower next year than in the current year. New Holland dealers are the most optimistic for 2013 vs. 2012, as 44% anticipate higher sales next year.

Strong Pricing. Overall, farm equipment dealers say that the pricing environment for both new and used farm machinery is strong. More than half, or 53%, of dealers reported new equipment prices were "firming," while 1% responded they were "weakening." According to UBS analyst Henry Kirn, "Aggregate responses on new equipment pricing were in line with our prior survey. While, 44% of dealers responded that used equipment prices are 'firming,' only 5% responded that used equipment prices are 'weakening.' Dealer responses on used pricing were the strongest received in the history of our survey," he says.





On average, dealers indicated new equipment prices are up 4.7% from 2011 levels, with the strongest average response reported by Case IH and New Holland dealers, at 5.3% and 5.2% higher respectively. This was followed by AGCO and Deere dealers with average responses of 4.7% and 3.6%, respectively.

Used equipment pricing is also firming, according to the UBS survey. Among 273 dealer responses to the question, 44% reported firming used equipment prices, while only 5% indicated weakening. The remaining 51% of dealers reported used equipment prices are stable.

"Responses from our last three surveys have indicated firming used equipment prices," Kirn says. "Dealer responses to the current survey though, were the strongest received

Continued on page 5

Dealers' Expectations for Equipment Sales

2012 vs. 2011

	Down More Than 5%	Down Less Than 5%	Flat	Up Less Than 5%	Up More Than 5%
Brand					
AGCO	6%	10%	20%	33%	31%
Case IH	4%	14%	21%	33%	28%
Deere & Co.	11%	15%	13%	40%	22%
New Holland	6%	9%	25%	38%	22%
Total	**7%**	**12%**	**21%**	**36%**	**25%**

2012 vs. 2013

	Down More Than 5%	Down Less Than 5%	Flat	Up Less Than 5%	Up More Than 5%
Brand					
AGCO	5%	18%	50%	20%	7%
Case IH	9%	19%	40%	19%	13%
Deere & Co.	11%	22%	36%	24%	7%
New Holland	7%	15%	34%	33%	11%
Total	**8%**	**18%**	**38%**	**25%**	**10%**

Source: UBS Agricultural Dealer Survey #30

Most Dealers Expect Higher Sales...Continued from page 4

in the history of our survey. While we see this as a result of increasing demand for equipment overall, we believe the impact of higher new equipment prices, including Tier 4, may be helping to drive the improvements in used equipment pricing."

Crop Pricing Impact. UBS researchers asked dealers for a range over which crop prices could fluctuate before impacting the outlook for 2012 machinery sales, positively or negatively. "Encouragingly, corn, soybean and wheat prices are each at the top end or above the average range provided by dealers, implying potential upside to the 2012 equipment demand outlook," Kirn says.

Dealers reported corn prices could fluctuate between $5.29 and $6.19 before impacting their outlook for 2012 machinery sales. Dealers also reported soybean prices could fluctuate between $10.99 and $12.15 and wheat prices between $5.34 and $6.51 before impacting their 2012 outlook. AEI

Univ. of Illinois Study Focuses on Potential Disparities in Farm Bill

A new analysis from the Univ. of Illinois suggests a target price-based risk management program that could accompany the House Agriculture Committee's 2012 Farm Bill may offer a far more favorable safety net for some crops than for others. Some believe this ultimate disparity could result in farmers planting certain crops simply because of higher government subsidies. This could also alter farm machinery demand.

Gary Schnitkey, an agricultural economist at the Univ. of Illinois, issued a recent study showing the benefit to producers in each commodity group under the target price-based program included in the Farm Bill crafted by the House and Senate Agriculture Committees as part of the Super Committee process last fall. These target prices may serve as the starting point for the House Ag Committee's proposal.

In the analysis, target prices for soybeans and corn are significantly lower than those for other crops and the relative projected prices for each crop under the Congressional Budget Office (CBO) 10-year baseline. While soybean and corn target prices in the proposal would be set at 77% of projected prices, requiring a 23% drop in price before triggering a payment, target prices for rice and peanuts would be set at 106% of projected prices, triggering more frequent payments.

When Schnitkey looked back at historical prices for commodities during the 37-year period from 1975 to 2011 and set the soybean and corn target prices at 77%, wheat at 93%, and rice and peanuts at 106% of those average historical prices, he found that this disparity in treatment of commodities resulted in dramatic differences in the safety net support offered to producers of crops. Schnitkey's analysis showed:

Super Committer Target Prices & Long-Run

		Super Committee Target Price*	CBO Projected Price**	Target as Percent of Projected Price
Corn	$ per bu.	$3.64	$4.72	77%
Soybeans	$ per bu.	$8.31	$10.86	77%
Wheat	$ per bu.	$5.50	$5.94	93%
Rice	$ per bu.	$13.98	$13.13	106%
Peanuts	$ per ton	$534.00	$505.24	106%

*Target prices come from Farm Bill as part of Super Committee compromise.
**Avg. projected prices from 2013 to 2022 contained in Congressional Budget Office, March 2012 baseline.

- A target price for soybeans that is 77% of long-run price results in payments in only two out of 37 years, representing a payment in 5% of the years.
- A target price for corn that is 77% of the long-run average would have made payments in four out of 37 years, representing a payment in 11% of the years.
- A target price for wheat that is 93% of long-run price results in payments in 12 out of 37 years, representing a payment in 32% of the years.
- A target price for peanuts that is 106% of long-run price results in payments in 20 out of 37 years, representing a payment in 54% of the years.
- A target price for rice that is 106% of long-run price results in payments in 23 out of 37 years, representing a payment in 62% of the years.

According to Danny Murphy, first vice president of the American Soybean Assn., and a farmer from Missouri, "Our top priority in this entire Farm Bill process has been to maintain planting flexibility. We want the marketplace to influence our planting decisions, not the potential for a payment through a government program. If farmers see that there's a lopsided and likely government payment coming in one crop or group of crops, there's real potential there for significant planting distortions. The inequitable safety net among crops also could cause farmers or their lenders to favor the planting of certain crops."

An Alternative. As an alternative to the target price program espoused by the House, soybean farmers have advocated the revenue-based Agriculture Risk Coverage (ARC) program currently in the Senate's version of the bill. It's been suggested that if a target price program is to be included in the House bill, it should be fully decoupled from current year planting decisions, similar to the current Counter Cyclical Payment program that uses target prices.

"What the Schnitkey analysis tells us is that inequitable target price levels among crops will result in real disparities in safety net protection for farmers. Such disparities in government safety net support is bound to influence planting decisions," adds Murphy.

In all likelihood, it would also influence equipment buying decisions. AEI

USDA Raises Crop Price Estimates, Lowers Stock-To-Use Projections

The USDA World Ag Supply & Demand Estimates for the 2011/12 and 2012/13 crops, released on July 11, lowered U.S. stocks-to-use projections for 2012/13 for corn, soybeans and wheat as a result of declining crop conditions in key growing states.

In addition, the USDA raised 2012/13 average price forecasts for corn, soybeans and wheat.

USDA lowered its forecast of 2012/13 corn yields to 146.0 bu. per acre, down from 166 bu. per acre previously. As a result, USDA lowered its corn production forecast by 12% to 12,970 million bu. (4% below consensus) and lowered its ending corn stocks forecast by 37% to 1,183 million bu. (2% below consensus of 1,210 million bu.).

Additionally, USDA raised the midpoint of its corn price estimate to $5.90, raising the range to $5.40-$6.40, from $4.20-$5.00.

Ethanol use was lowered by 100MM bu. given high inventories and blend wall issues. According to Ann Duignan, an analyst with JP Morgan, further cuts in ethanol use estimates are expected as we go through the year.

Forecast for 2012/13 ending soybean stocks were lowered by 10 million bu. to 130 million bu., which is below consensus of 140 million bu. In addition, USDA raised the midpoint of its soybean price estimate to $14.00, which raises the range to $13.00-$15.00, from $12.00-$14.00.

For wheat stocks, the USDA lowered its forecast by 30 million bu. to 664 million bu., which is 5% below the consensus of 700 million bu. The midpoint of the USDA's wheat price estimate was raised to $6.80, raising the range from $6.20-$7.40, from $5.60-$6.80.

"We see strong income as likely to lead to strong equipment demand in 2012 and solid demand in 2013..."

"Overall, our estimate for major-crop cash receipts for 2012/13 is $140.5B, up 4% year-over-year given the higher crop-price estimates. This suggests a second consecutive record year for crop receipts, though we anticipate a broad downshift in farmer sentiment as farmers are facing the prospect of half-empty grain bins," Duignan says in a note.

However, it could still be a strong year for ag equipment demand.

Henry Kirn, a machinery analyst for UBS Investment Research says in a note, "Corn, soybean and wheat prices remain well above historical averages. While USDA forecasts 2012 farm cash net income down 6.5% year-over-year, 2012 is still forecast as the second highest farm income year on record (behind only 2011).

"We see strong income as likely to lead to strong equipment demand in 2012 and solid demand in 2013."

Kirn notes that the key concern weighing on shares of ag equipment OEMs is the potential for the North American ag equipment cycle to turn down in 2013.

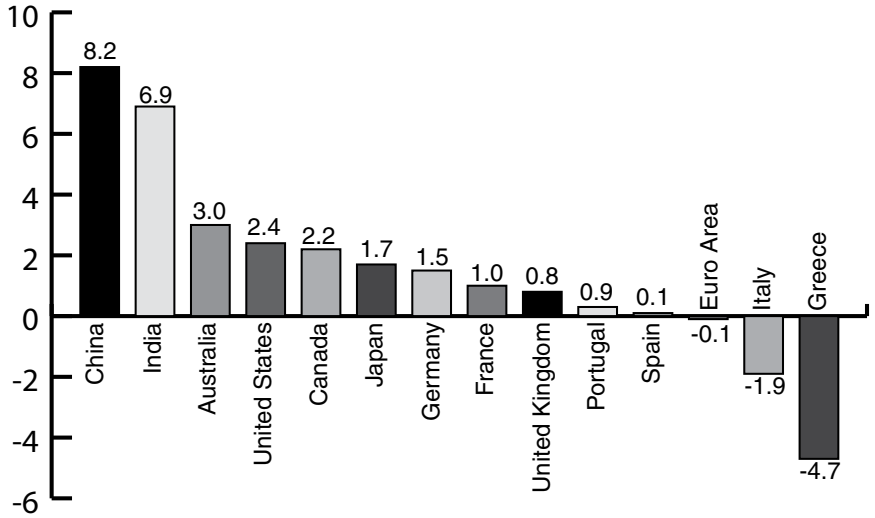
According to Kirn, the primary risk to farm machinery stocks is that deterioration in agricultural commodity prices could result in weaker machinery sales and earnings, which could put downward pressure on stocks.

"We believe the primary risk to AGCO is its exposure weakness in the European farming sector and the timing and form of changes the European Common Agricultural Policy (CAP)," he says. "We believe a primary risk for CNH is its limited float and liquidity of CNH common shares, given that Fiat remains the 89% owner of the company.

"We believe a primary risk to Deere Co. is weakness in the North American construction equipment market, which could negatively impact Deere's earnings potential and Deere's stock price," Kirn notes.

"Despite strength in recent years, we are bullish on ag equipment stocks as our channel checks (including our recent 30th semiannual ag dealer survey) suggest the cycle has longer legs than investors generally expect," he said. AEI

GDP Growth Rates by Country



Global economic growth is languishing at low historical levels, and many countries are in recession. Chinese economic growth is high in absolute terms, but low relative to its own history and to levels needed for social stability. According to the International Monetary Fund World Economic Outlook, April 2012, the total 2011 global GDP was $69.7 trillion, with the U.S. making up 21.7% of that. The Euro area accounted for 18.8%, China for 10.5%, Japan for 8.4%, Brazil for 3.6%, Canada for 2.5%, Russia for 2.7%, India for 2.4%, and the rest of the world making up the remaing 29.5%.

June Equipment Sales Post Strong Gains

North American large tractor and combine retail sales demonstrated continued strength in June according to the latest figures released by the Assn. of Equipment Manufacturers.

Row-crop tractor sales increased by 25% year-over-year following an 11% increase in May.

"Combine sales rebounded, increasing 33%, in a seasonally important month, in part benefiting from easier comps," Robert McCarthy, analyst for RW Baird said in a note. "All other major equipment categories posted positive growth during the month. Increasing inventory levels across all equipment types merit some attention, but are supported by healthy sales trends in all categories."

- U.S. and Canada large tractor and combine retail sales increased 25% vs. June 2011. U.S. sales increased 13% year-over-year, but Canadian sales fell 1%.
- Combine retail sales posted its first increase in seven months, benefiting in part from an easier prior-year comparison as well as major OEM product deliveries, according to McCarthy. Combine sales increased 32.7% year-over-year following May's 15.1% decline. Last three month (L3M) sales remained negative on a year-over-year basis, the 13th straight month of negative comparisons. June is a relatively important month for combine sales, accounting for 9.6% of annual sales over the last five years.
- Row-crop tractor sales continue to grow, posting a 24.5% year-over-year increase up from the 21.3% seen in May; L3M sales increased 13.9%. June is an average month as far as tractor sales seasonality, typically accounting for 8.9% of annual sales.
- 4WD tractor sales increased 17.8% year-over-year in June, improving from a 3.9% increase in May, helped by an easier prior-year comparison.
- Mid-range tractor sales growth moderated in June, increasing 2.7% year-over-year after a 17.2% increase over the previous month. Compact tractor sales were up 3.1% year-over-year. AEI

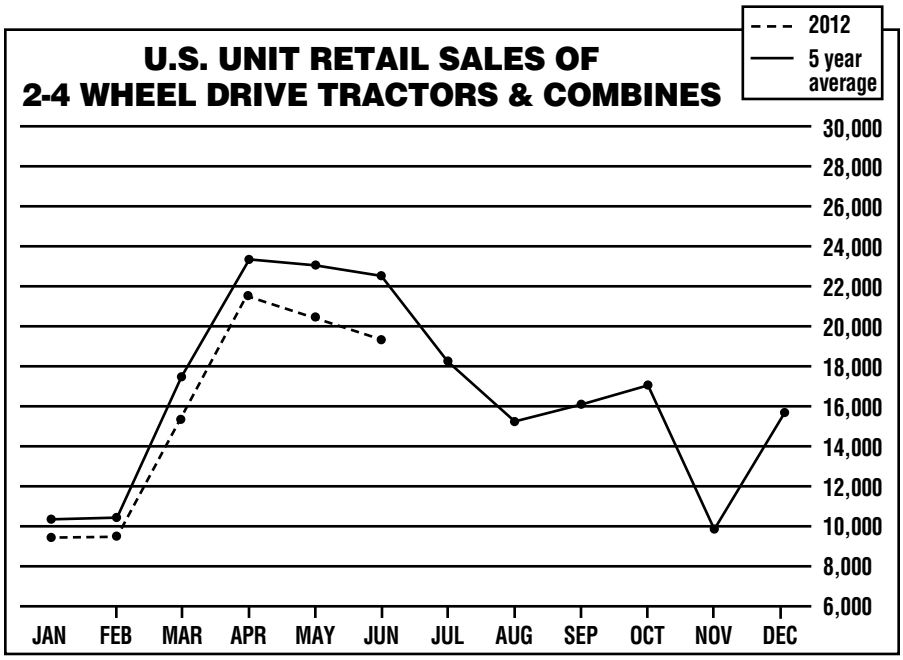
JUNE U.S. UNIT RETAIL SALES

Equipment	June 2012	June 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	June 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	10,960	10,536	4.0	50,138	47,247	6.1	56,481
40-100 HP	5,537	5,333	3.8	26,904	24,967	7.7	24,705
100 HP Plus	2,218	1,706	30.0	13,592	12,572	8.1	7,067
Total-2WD	18,715	17,575	6.5	90,634	84,795	6.9	88,253
Total-4WD	432	362	19.3	2,800	2,751	1.8	1,270
Total Tractors	19,147	17,937	6.7	93,434	87,546	6.7	89,523
SP Combines	710	468	51.7	3,130	4,086	-23.4	1,498

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2012	June 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	June 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,543	1,589	-2.9	6,152	6,020	2.2	8,707
40-100 HP	581	622	-6.6	3,018	2,961	1.9	3,617
100 HP Plus	353	359	-1.7	2,319	2,073	11.9	1,863
Total-2WD	2,477	2,570	-3.6	11,489	11,054	3.9	14,187
Total-4WD	70	64	9.4	787	732	6.9	389
Total Tractors	2,547	2,634	-3.3	12,276	11,790	4.1	14,579
SP Combines	244	251	-2.8	833	1,065	-21.8	760

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



—Assn. of Equipment Manufacturers

Is Ethanol's Long Boom Stalling?

According to a June report in the *Wall Street Journal*, "Ethanol demand is topping out. The amount used in gasoline is near federal mandates, and gasoline consumption is declining. After 15 straight years of growth, ethanol production this year will fall slightly and will be roughly flat next year, according to the U.S. Energy Information Administration's May forecast."

Just a few days ago, the Renewable Fuels Assn. (RFA) issued a press release aimed at refuting rumors that the EPA was going to waive down the Renewable Fuel Standard (RFS) by 20%, presumably based on concerns about the U.S. corn crop.

There's little doubt that corn-based ethanol is on the political and economic firing line these days, which means farm equipment sales could see slower growth in the year ahead. Many industry observers attribute much of the sales momentum of ag machinery in the past five years directly to the increased production of corn for ethanol.

"The market will sort out any imbalances in supply and demand. Much like the petroleum industry, ethanol producers will read market signals and make decisions accordingly..."

In a July 2 note, Ann Duignan, machinery analyst for JP Morgan, says given high inventories and elevated corn prices, ethanol producer margins were negative in June, despite low natural-gas prices and elevated prices for DDGS.

"We estimated a -1.9% margin per bushel of dry-milled corn in mid-June, the lowest since 2008. As a result, numerous producers have been temporarily or permanently shutting down capacity over the last few months, as ethanol makers await better economic conditions. That said, the approval of an E15 labeling system in June represents another step toward commercial availability, and we believe blenders will utilize the option to blend up to 15% ethanol given its current profitability, which we estimate to be approximately $0.08 per gallon."

But Duignan also notes "several barriers to implementation." As a result, she says, E15 will be a longer-term driver of corn usage.

Describing the recent pressures faced by ethanol producers, the RFA said in a statement, "Ultimately, the market will sort out any imbalances in supply and demand. Much like the petroleum industry, ethanol producers will read market signals and make decisions accordingly." AEI