From the editors of *Farm Equipment*...

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

May 15, 2013
Vol. 19, Issue 5

- AGCO 1Q Sales +5.7%
- CNH 1Q Sales +1.3%
- Deere 2Q Sales +9%

Are Farmers Becoming Overleveraged?

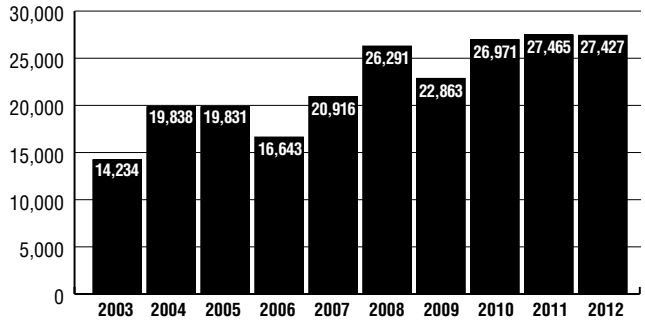
Are farmers repeating the mistakes of the 1970s, when rapidly rising investment in capital goods led to an overleveraged industry?

This is the question being examined by Jason Henderson, vice president and Omaha branch executive, and Nathan Kauffman, economist of the Federal Reserve Bank of Kansas City, as they delve into the boom-bust cycles of U.S. agriculture.

According to the authors of "The Wealth Effect of U.S. Agriculture," which appeared in a recent issue of the *The Main Street Economist,* the stage could be set for another wealth effect and leveraging cycle in U.S. agriculture.

The authors note that, "As measured by capital expenditures, farm investment since 2006 has risen at its fastest pace since the 1970s farm boom. With booming farm profits, farmers have made a range of real estate investments, building new structures such as grain bins and machine sheds and improving productivity through expanded pivot irrigation and tiling. In addition, non-real-estate investments have soared as farmers purchased new vehicles and upgraded their equipment and machinery."

Sales of high horsepower tractors throughout the past decade would bear these assertions out. According to sales figures from the Assn. of Equipment Manufacturers, unit sales of high horsepower tractors in 2012 were nearly double that of 2003.



As shown here, U.S. farmers have maintained a high level of spending for new machinery for most of the past decade. Since 2006, farm investment has risen at its fastest pace since the 1970s farm boom.

Boom & Bust. According to Henderson and Kauffman, following the farm booms in the 1910s and 1970s, lower incomes and higher interest rates led to the farm financial crisis in the next decade. They say they don't necessarily see the same scenario in 2013, but similar trends are developing that could result in a depletion of overall farm wealth in the

Continued on page 8

Big Dealers Continue Expanding Their Reach

The ink was barely dry on *Ag Equipment Intelligence*'s "2013 Big Dealer" report when a spate of new acquisitions were announced that underlined our analysis that even medium-size dealers with multiple locations are targets for the biggest farm equipment dealer groups. On May 6, we received word that Ag-Pro Companies was acquiring GreenSouth Equipment. The combined company will have more than $500 million in annualized sales operating 25 John Deere locations, while employing more than 500 people.

GreenSouth Equipment had 13 locations throughout Georgia, Florida and South Carolina.

Ag-Pro is short for Agricultural Productivity Co. and was first used by the Frank Lyon Co. in 1981 after the purchase of three John Deere dealerships in Arkansas. In September 2010, partners from the Boston Tractor group, which was established in 1958 in Georgia, acquired Ag-Pro.

With 25 farm equipment locations, Ag-Pro will be among Deere's five largest dealer networks.

Then it was announced on May 11, that Waterloo Implement Inc., a three-store chain of John Deere dealerships was being sold to Enid, Okla.-based Deere dealer P&K Equipment. Waterloo Implement Co. included Waverly Implement, which was purchased in 1997, and Sumner Implement, which the company acquired in 1997.

Barry Pollard and Wendell Kirtley started P&K in 1985, and the company now owns 10 locations in Oklahoma. Last year, the company opened six Iowa locations under the P&K Midwest banner. AEI

Italian Equipment Makers Look to Exports for Growth

First quarter sales revealed a negative trend domestically for Italian tractors, other self-propelled machinery and trailers, continuing the downward trend of the last 5 years, according to Italy's FederUnacoma. Combines, however, showed positive growth for Italian equipment manufacturers.

Following the close of 2012 with a 17.4% decline in tractors sold, a number slightly over 19,300 units and an historic low since 1954, the 4,751 tractors moved in the first three months of the current year mark a further drop of 3.14% vs. the same period in 2012. Also losing ground were transporters, down 24.5%, and trailers, off by 8.8%. While sales of combines were up 32.3%, Unacoma said the increase is not significant because of the modest number of machines sold in the first quarter, 45, compared to 34 in the same period in 2012.

Despite slow domestic sales, exports by Italian manufacturers continued to provide a source for growth. National Statistics Institute (ISTAT) reports tractor exports increased by 8.8% in 2012. Other types of farm machinery also saw growth of 7.7% for the year. According to this current ISTAT data, a balance of trade surplus was generated by 17,362 tractors with a value of 412 million Euro imported in 2012, compared with Italian exports of 74,762 tractors for a value of 1.664 billion Euros.

"For years, foreign markets have been the best outlet for Italian agricultural machinery manufacturers, which supply highly appreciated technologies abroad and are forced to compensate for the grave contraction of the domestic market," said FederUnacoma President Massimo Goldoni. "But it's unthinkable for the agricultural mechanization industry to give in to a demobilization on the home market because Italy has an important agricultural sector which, without the arrival of new technologies and without the renewal of the machinery inventory, would lose competitiveness and efficiency." AEI

Goodyear to Exit European Ag Tire Market

While European farm tire manufacturers target North America for growth, Goodyear Tire & Rubber Co. has given up on its production facilities in the European agricultural market as it proposes to close a manufacturing facility in France with the loss of 1,200 jobs.

Goodyear has been exiting the global farm tire business for several years; first in 2005 by selling its U.S. tractor tire range and production facilities to Titan International. The company followed that up in 2011 by striking a deal for its Latin American interests.

Titan also wanted to acquire Goodyear's European farm tire base in the French city of Amiens but walked away from a deal that the plant's labor union refused to accept. Titan chairman Maurice Taylor now famously derided French labor rules and rebuked union officials for throwing away an opportunity to save 540 jobs *(see Ag Equipment Intelligence, April 2012).*

Taylor said at the time, "The French workers are very good at what they do when they work, but as I told the union personnel, you cannot get paid 7 hours for 3 hours of work."

Managers at Goodyear and Goodyear Dunlop Tire Europe have put forward their closure plan for consultation, as required by European law. The labor unions can counter with an alternative proposal but the likelihood is that the Amiens North plant, which accounts for 60% of Goodyear farm tire production for the Europe, Middle East and Africa region, will be closed.

"The company's intention to exit the EMEA farm tire business is consistent with our strategy to strengthen Goodyear's focus on its core businesses," explains Arthur de Bok, president of Goodyear EMEA and chairman of Goodyear Dunlop Tire Europe.

Goodyear Tire & Rubber recorded a $100 million net rationalization charge for the exit project in its latest accounts, and notes that EMEA region operating income is expected to improve by approximately $75 million post closure. Current production at the Amiens North plant, including some consumer tires, is around 1.3 million units a year when it has capacity to make 6 million.

Across all automotive sectors, Goodyear's EMEA unit sold more than 64 million tires, generating net sales revenues of more than $6.8 billion in 2012, with an operating income of $252 million. Worldwide, Goodyear revenues amounted to $21 billion, with an operating income of $1.2 billion. AEI

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Will Sugar Beets Be America's Next Big Energy Crop?

Equipment makers and dealers that offer equipment for producing and harvesting sugar beets may soon have the opportunity to grow their sales.

Researchers at North Dakota State Univ. are reporting that progress continues on a project to develop a new industrial crop in North Dakota called energy beets, which are sugar beets bred for the biofuel market and industrial purposes, such as high-value chemicals.

Progress includes research that shows how energy beets can be successfully grown outside of the traditional production area of North Dakota's Red River Valley, according to Blaine Schatz, North Dakota State Univ. Carrington Research Extension Center director and member of the research team.

"Our demonstration and yield trial plots are showing how energy beets can produce high yields in many different soil types and conditions," Schatz says.

"That includes the extremely dry conditions that North Dakota experienced in 2012. Despite below-average rainfall at most of the trial sites last summer, the root yields and sugar content results often were as good, or better, than our trials in previous years."

Along with tolerating dry soils, energy beets also can help farmers by improving soil health.

"Each plant could create 23 jobs and require 30,000 acres of beets for feedstock ..."

"Farmers who raise energy beets may see improved soil health because the tap root penetrates as deep as 6 feet to use nutrients, nitrogen and water that most other crops don't reach," Schatz says.

"Energy beets also improve internal soil drainage and are relatively tolerant to alkaline (saline) soils. Growers who add energy beets into a four-year rotation could expect another profitable income opportunity."

The energy beet project is a partnership between Fargo-based Green Vision Group (GVG) and Iowa-based Heartland Renewable Energy. "The project is in its final research phase, which will contribute to future commercialization efforts," says Maynard Helgaas, GVG president. "Commercialization may begin in 2014 or 2015 and be followed by a series of up to 16 plants across the state. These plants could produce sugar for industrial purposes or produce advanced biofuel. Each plant could create 23 jobs and require 30,000 acres of energy beets for feedstock."

Other energy beet research by NDSU focuses on feedstock storage methods that will enable biofuel processing throughout the year and front-end processing methods that will maximize sugar yields while minimizing production costs. AEI

FARM MACHINERY TICKER (AS OF 05/13/13)

Manufacturers	Symbol	05/13/13 Price	04/12/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$34.26	$33.12	$38.73	$27.80	24.83	30,298	427.32M
AGCO	AGCO	$56.24	$50.92	$56.32	$38.09	10.65	1,160,140	5.46B
Alamo	ALG	$43.31	$38.87	$44.13	$27.07	17.97	27,412	522.88M
Art's Way Mfg.	ARTW	$7.06	$6.32	$8.80	$5.23	8.71	6,234	28.50M
Blount Int'l	BLT	$14.02	$13.55	$17.49	$12.46	16.30	230,083	690.05M
Buhler Ind.	BUI	$6.13	$6.00	$7.25	$5.20	7.86	4,794	151.50M
Caterpillar	CAT	$88.07	$85.05	$99.70	$78.25	11.87	7,068,690	57.90B
CNH Global	CNH	$42.61	$41.35	$49.99	$34.36	8.58	511,141	10.35B
Deere & Co.	DE	92.58	$86.14	$95.60	$69.51	11.57	2,905,380	36.07B
Hemisphere GPS	HEM	$0.77	$0.80	$0.98	$0.56	N/A	72,589	16.17M
Kubota	KUB	$83.14	$73.70	$83.20	$40.61	111.45	110,885	104.42B
Lindsay	LNN	$80.21	$80.28	$94.90	$52.68	16.71	254,308	1.03B
Raven Industries	RAVN	$34.04	$32.04	$37.73	$23.01	23.64	109,975	1.24B
Titan Int'l	TWI	$23.53	$20.71	$27.12	$16.86	16.27	1,014,820	1.26B
Trimble Navigation	TRMB	$29.06	$28.78	$32.03	$20.01	39.54	1,431,730	7.43B
Valmont Industries	VMI	$154.56	$145.13	$164.93	$106.52	15.97	183,625	4.14B
Retailers								
Cervus Equipment	CVL	$20.05	$20.10	$21.39	$16.90	12.15	8,753	299.09M
Rocky Mountain Equipment	RME	$13.56	$13.40	$13.97	$10.07	10.59	41,627	257.36M
Titan Machinery	TITN	$23.43	$21.89	$34.15	$19.07	11.72	497,265	488.19M
Tractor Supply	TSCO	$114.02	$107.36	$114.15	$75.46	29.36	671,738	7.96B

With Healthy 1Q Revenue, Margin Gains, AGCO Raises 2013 Forecast

With strong first-quarter sales performances in North and South America, AGCO beat both top and bottom line estimates, improved its operating margins, but still fell short on profits. With its fast start to the new business year, the company raised its full-year earning estimates to $10.5-10.7 billion from $10.2-10.4 billion in its previous forecast.

Outlook Full-Year 2013			
	North America	South America	Europe
AGCO Corp.	flat to +5%	up 10%	flat to –5%
CNH Global	flat to +5%	up 10-15%	down 5%
Deere & Co.	flat to +5%	up 10-15%	down 5%

The number three worldwide farm equipment maker posted net sales of $2.4 billion for the period ended March 31, up 5.7% from the same period last year. At the same time, the company reported its net income dropped 3.4% to $117.1 million vs. the same period of 2012.

AGCO saw solid revenue growth in South America (+26%), North America (+10%) and in its Asia/Pacific region (+31%). But sales were soft in the biggest market for its equipment, Europe, Africa and the Middle East, which were down 1%.

Improved Margins. In a conference call with analysts, Andy Beck, AGCO's CFO and senior vice president, said North American operating margins exceeded 11% in the first quarter of 2013, up over 250 basis points compared to the first quarter of 2012, due to higher sales, a favorable sales mix and cost control initiatives. Beck attributed this to "a little better volume than expected" as well as improving control of material costs.

"With some good price increases, we're able to drive those margins up. So we were pleased with our performance in North America in the first quarter," said Beck. "When you look at the second quarter, there is a typical seasonal increase in margins that we would expect to see. We're looking right now that North American margins for the second quarter should be relatively flat to the year before."

Improving Outlook. With sales and margin improvement, AGCO increased it sales forecast for 2013 to $10.5-10.7 billion, up 6% from its previous outlook. During the conference call, Beck pointed out that AGCO's forecast assumes price increases of approximately 2.5% on a consolidated basis. It also includes about a 15% hike, or $50 million, in engineering expenses for new product development and Tier 4 emission requirements. "We also look for new products and our productivity and purchasing initiatives to drive improved gross margins," Beck said.

"AGCO beat on both revenues and margins, and had good execution in the quarter," said Steven Fisher, analyst for UBS Global Equity Research. "Margins improved sequentially in Europe, as expected. With strong sales in North and South America, there could be positive read across to Deere on the ag side of Deere's business." AEI

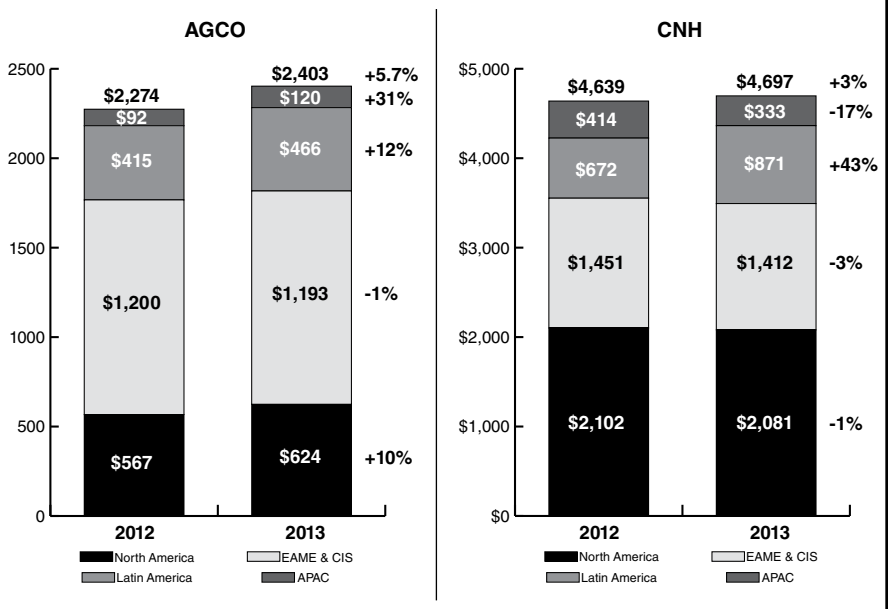
USDA Outlook 'Bearish' for Machine Sales

Most analysts agree that USDA's May 10 World Agricultural Supply and Demand Estimates could be a headwind for farm equipment sales in 2013. The biggest hit came in USDA's estimates for corn ending inventories, which were raised by 164% from the year prior. The ag agency also raised ending inventories for soybeans by 13%. Wheat inventories remained in line with the previous forecast.

With its most recent outlook, USDA dropped its price estimates for all three crops.

The agency now expects 2013 corn prices to decline by $2.20 per bushel year-over-year to a midpoint of $4.70, soybean prices to decline $3.80 per bushel, with a midpoint of $10.50 per bushel and wheat prices to decline by $1 per bushel to a midpoint of $6.80 per bushel. AEI

Net Sales Change Year-Over-Year by Geographic Region (millions US$)



AGCO's sales for North America in the first quarter rose by 10% to $624 million, while CNH's North American sales slipped 1% to $2.08 billion. Both companies experienced a drop off in sales to Europe, Asia, Middle East and CIS countries; AGCO by 1% to $1.2 billion and CNH by 3% to $1.4 billion. South American sales were strong in the quarter, with AGCO showing a 12% rise to $466 million and CNH a 43% increase to $871 million. CNH sales included construction machinery, while AGCO's were purely ag equipment. AEI

Despite Solid 1Q Ag Earnings, CNH Sees Softer Sales for Year

CNH Global turned in a solid performance for the first quarter of 2013, but the heavy equipment maker doesn't expect the same results in terms of unit sales for the remainder of the year.

Overall, the manufacturer of Case IH and New Holland Ag farm machinery saw revenue from the sales of ag equipment rise 9% during the first three months of the year, but sales of construction equipment continue to struggle with a 26% decline vs. the same period of 2012. Total equipment revenues rose 1.3% year-over-year.

The company earned $326 million for the quarter that ended March 31. This compares with $269 million earned in the first quarter last year. Its revenue increased slightly to $4.95 billion from $4.9 billion.

Outlook 2013. CNH said it expects agricultural sales volume to be flat to down 5% in 2013 and its construction equipment volume is expected to be down 5-10%. In terms of revenue, CNH is projecting about a 5% bump with operating margins coming in at 8.5-9%.

In a conference call with analysts, Richard Tobin, CNH president and CEO, said ag equipment sales will be "a little bit stronger than we would have expected for the year." He added that market demand has "held up quite nicely and our product mix has been beneficial."

Steven Fisher, analyst for UBS Global Equity Research, in a note said, "CNH lowered its outlook for global ag equipment volumes to flat to down 5% in 2013, vs. the prior estimate of flat to up 5%. It also expects 2013 revenues to increase ~5%. Both financial guidance metrics remain unchanged sequentially, hence we expect discussion of how volume guidance falls while financial metrics remain strong."

Fleet Age Impact. Questioned by an analyst about the impact all of the new equipment that's come into the market in recent years might have if farmers' income starts to decline, Tobin said he's seen various different studies on the age of the farm equipment fleet. "The fact of the matter is the age of the fleet is newer than it has been over the last 10 years or so. The proxy is to look at the pricing of used equipment in the marketplace.

"So you've got newer turn-ins than you've seen historically, especially in high horsepower segments, but that's really farmers chasing productivity and capacity. So, what they're doing is trading in a lower capacity machine for a higher capacity machine and extracting the productivity out of it. So, that's good news in a certain way," said Tobin. AEI

Deere's 2Q Net Income Up 2.7%, Projects Ag Equipment Growth of 5% for Year

Deere & Co. saw another strong quarter, reporting on May 15 that its net income for the period ended April 30 was $1.084 billion compared with $1.056 billion for the same period last year, or up 2.7%. Through the first six months of its fiscal year, the company produced net income of $1.7 billion vs. $1.6 billion last year.

Net income of the company's equipment operations was $953 million for the second quarter and $1.5 billion for the first 6 months, compared with $947 million and $1.4 billion in 2012.

Worldwide net sales and revenues increased 9% to $10.9 billion for the second quarter and increased 10% to $18.3 billion for first 6 months of the year. Net sales of equipment were $10.3 billion for the quarter and $17.1 billion for 6 months, compared with $9.4 billion and $15.5 billion for the periods last year. Sales included a price hike of 3% for the quarter and year-to-date and an unfavorable currency translation effect of 2% for the quarter and 1% for 6 months.

Ag & Turf. Sales of agricultural and turf equipment rose by 12% for the quarter and 14% for 6 months largely due to higher shipment volumes and price realization.

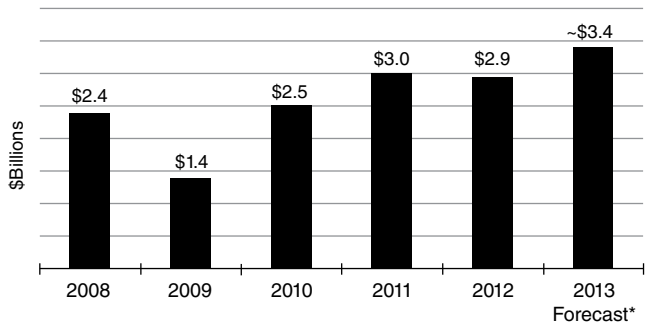
Operating profit for this segment was $1.58 billion for the quarter and $2.35 billion year to date, compared with $1.4 billion and $1.97 billion, respectively, last year. Improvement in both periods was primarily driven by the impact of higher shipment volumes and price realization.

"Ag and turf results in the second quarter were better than UBS' estimates on stronger volumes, offsetting sales/margins below UBS estimates at Construction & Forestry," Steven Fisher, analyst for UBS, said in a note to investors.

He also noted that Deere's 12% sales gain in the segment was 7% above UBS estimates, and 18.2% operating margins were flat year-over-year.

"Deere expressed some near-term caution, citing North American weather that has delayed crop planting, slowed construction activity and hurt sales of turf care equipment. AEI

Deere & Co. Fiscal Year Cash Flows from Operations



** No change from previous forecast*
Deere & Co. Forecast as of May 15, 2013
(Previous Forecast as of February 13, 2013)

Deere has demonstrated strong performance from its equipment operations through into 2013. Sales of ag and turf equipment rose by 12% for the quarter and 14% for 6 months of FY2013.

Cervus 1Q Revenues Rise, Profits Drop; Outlook 'Stable'

For the period ended March 31, Cervus Equipment Corp. (CVL), the publicly held John Deere dealership based in Calgary, reported its first-quarter revenue increased by 35.7% to $148.9 million from $109.8 million vs. the same period of 2012. At the same time, the dealership group said its profit decreased by $896,000 or 64.2% to $500,000 for the quarter from $1.4 million in 2012.

According to a note from Ben Cherniavsky, analyst for Raymond James, the bottom line "miss" can be attributed to weak gross margins, elevated finance costs and drought conditions in New Zealand.

"By segment, ag equipment sales grew 29% year-over-year driven by a 55% surge in sales of new 2WD and 4WD tractors. Commercial and Industrial (C&I) sales increased 49% year-over-year, but declined 2% organically resulting from decreased activity in the oil and gas sector in Alberta," Cherniavsky said.

"Consolidated gross margin came in 180 bps lower year-over-year at 19.2%. This also fell short of our 19.5% forecast. Gross margin of 15.9% in the ag segment was particularly weak and represented the second lowest quarterly result since 2007. Unfavorable sales mix and margin pressure on used equipment were cited as reasons for the weakness. In fact, Cervus' desire to draw down used equipment inventory levels is expected to weigh on margins for the next couple of quarters."

Cervus Equipment Corp.
Selected Quarterly Financial Data 1Q13 vs. 1Q12

(C$ millions)	1Q13	1Q12	YoY Change
Revenue			
Equipment Sales	104,492	78,316	33.4%
Parts	25,462	17,329	46.9%
Service	15,651	11,330	38.1%
Rentals & Other	3,327	2,807	18.5%
Total Revenue	148,932	109,782	35.7%
COGS	120,410	86,727	28.8%
Gross Profit	28,522	23,055	23.7%
Net Earnings (Loss)	500	1,396	-64.2%

2013 Outlook. "Cervus continues to generate year-over-year organic growth," said Graham Drake, president and CEO of Cervus. "Looking forward, we expect stable near-term commodity prices and sustained high farm incomes to contribute to another fairly strong year in our agricultural segment. We anticipate overall performance will remain relatively stable in our commercial and industrial segment, with weakness being felt in the construction sector."

In his outlook for the year, Cherniavsky said, "While ag markets remain resilient, the near-term margin pressure associated with used equipment sales tempers our current enthusiasm. This, coupled with end-market uncertainty in western Canada and a lack of any near term catalysts for Cervus have turned us more cautious on the company's outlook." AEI

Rocky Mountain 1Q Profits Rise Along with Revenues

Rocky Mountain Equipment (RME), Case IH's largest dealer group in western Canada, saw a healthy bump in both sales and earnings in the first quarter of 2013 compared to the same period a year earlier.

On May 13, the dealer group posted a 7.5% increase in revenues to $206.5 million for the quarter, up from $192 million in 2012. The firm's gross profit increased by 17.2% to $32.5 million. Rocky's net earnings rose from $2.84 million from $2.2 million a year ago. The increase in net earnings came from increased sales activity and gross margin improvement.

Overall, new farm equipment sales rose to $102.5 million for the quarter, up from $96.1 million last year. Used equipment revenues for the quarter also increased to $69.4 million from $56.3 million last year.

Analysis. "In our view, the positive highlight from the first quarter was the visible improvement in gross margins, which rose 130 bps year-over-year on a constant revenue mix," said Ben Cherniavsky, analyst for Raymond James. "Improving profitability has been a focal point for management over the past 2 years, but progress to-date has been slow. We are encouraged to see this variable move in the right direction.

Rocky Mountain Equipment
Selected Quarterly Financial Data 1Q13 vs. 1Q12

	1Q13	1Q12	YoY Change
Sales (C$ millions)			
New Equipment	115,075	112,432	+2%
Used Equipment	71,305	58,004	+23%
Parts	13,299	13,840	-4%
Service	6,211	6,640	-6%
Other	616	1,135	-46%
Cost of Sales	174,015	164,331	+6%
Gross Profit	32,491	27,720	+17%
Net Earnings	2,838	2,159	+31%
Total Sales	206,506	192,051	+8%

"We believe the demand outlook for ag equipment still looks attractive (vs. construction), especially in light of the first quarter revenue slippage that a late spring thaw rendered. However, the supply side of the equation remains problematic and will likely continue to weigh on dealer results for the rest of the year," Cherniavsky said. AEI

Solid Combine Sales Lead the Way in April

North American sales of ag machinery continued to see upward growth in April, with row-crop tractors and combines leading the way with a 26.7% and 63% increase year-over-year, respectively.

According to Mircea (Mig) Dobre, machinery analyst with RW Baird, while overall sales were strong, 4WD tractor sales fell 3.6% and mid-range tractor sales fell 6.1% compared to the same period last year. Inventory levels continue to rise, though supported by strong unit sales growth, Dobre says.

- U.S. and Canada large tractor and combine retail sales increased 26% year-over-year in April, decelerating slightly from the 29% increase in March. U.S. sales increased 34% vs. this period last year; Canadian sales declined 4%.
- Combine retail sales remained strong, posting a 63% increase in April following a 67% rise in March (though both months had relatively easy prior year comparisons). Last three month (L3M) sales increased 66% on a year-over-year basis. U.S. combine inventories were 19.9% higher year-over-year in absolute terms in March compared with up 26.3% last month.
- Row-crop tractor sales continue to grow, up 26.7% compared to this time last year, decelerating slightly from the 28.2% increase in March; L3M sales increased 27.3%. April has been a relatively important month for row-crop tractor sales over the last 5 years, typically accounting for 11.3% of annual sales.
- 4WD tractor sales fell 3.6% year-over-year in April, improving slightly from a 5% decrease in March. U.S. dealer inventories of 4WD tractors increased 22.1% year-over-year in March, while days-sales of inventory was unchanged year-over-year at 65.
- Mid-range/utility tractor sales decreased in April, down 6.1% year-over-year, after an 8.4% increase in the previous month.
- Compact tractor sales increased 4% vs. last year, up from the 3.2% decline last month. AEI

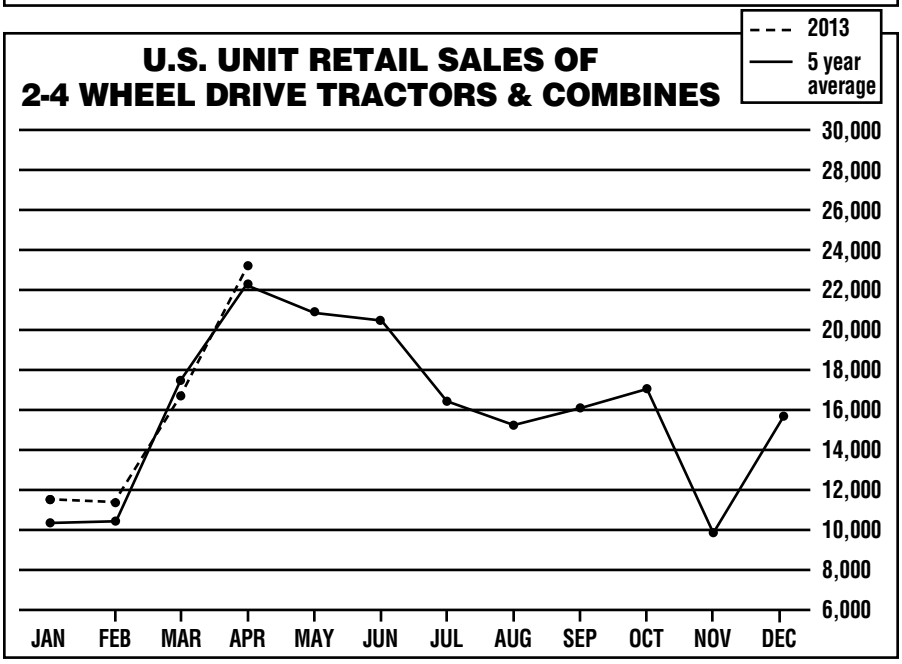
APRIL U.S. UNIT RETAIL SALES

Equipment	April 2013	April 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	April 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	12,593	12,075	4.3	28,863	27,516	4.9	63,727
40-100 HP	5,158	5,355	-3.7	16,661	15,954	4.4	27,528
100 HP Plus	3,753	2,761	35.9	11,623	8,951	29.9	9,279
Total-2WD	21,504	20,191	6.5	57,147	52,421	9.0	100,534
Total-4WD	640	618	3.6	2,289	1,938	18.1	1,299
Total Tractors	22,144	20,809	6.4	59,359	54,359	9.3	101,833
SP Combines	920	580	58.6	2,980	1,896	57.2	1,662

APRIL CANADIAN UNIT RETAIL SALES

Equipment	April 2013	April 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	April 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,290	1,269	1.7	3,096	2,670	16.0	8,772
40-100 HP	494	661	-25.3	1,718	1,825	-5.9	3,341
100 HP Plus	516	608	-15.1	1,660	1,484	11.9	2,421
Total-2WD	2,300	2,538	-9.4	6,474	5,979	8.3	14,534
Total-4WD	215	269	-20.1	620	535	15.9	632
Total Tractors	2,515	2,807	-10.4	7,094	6,514	8.9	15,166
SP Combines	229	125	83.2	609	420	45.0	856

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



—Assn. of Equipment Manufacturers

years following.

"In 2013, historically high farm incomes are projected to keep U.S. farm debt and leverage low. Yet, longer-term projections suggest that farm incomes could fall dramatically in 2014," they say. "If agriculture's historical wealth effect holds true, farm enterprises might use existing wealth to finance and smooth investment spending, sowing the seeds for another round of debt accumulation."

The report goes on to point out that farmers rely on both profits and wealth for capital expenditures and historically lenders have tended to support this practice.

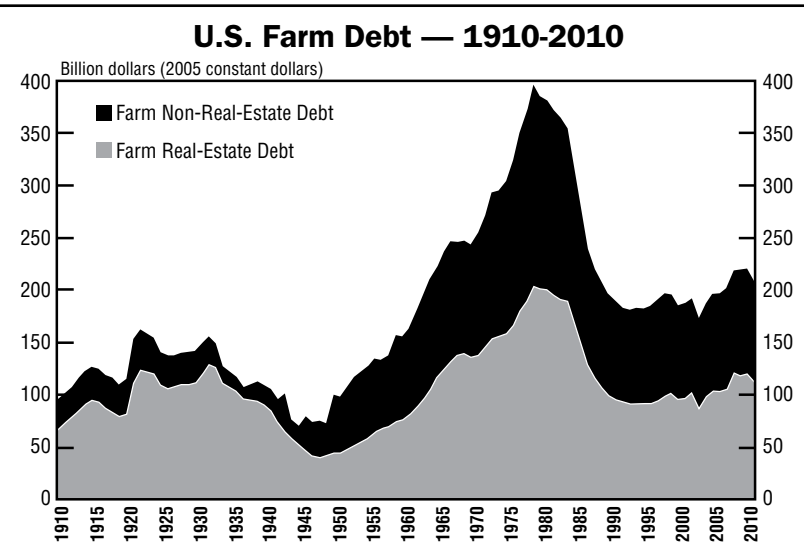
"During less-profitable times, instead of allowing investments to fall with profits, farmers tap their existing wealth to finance and maintain their capital investments near previous levels. In addition, absent financial market stress, lenders also can contribute to the wealth effect by being more willing to lend to farm enterprises that have greater levels of equity to use as collateral for loans."

The most significant boom-bust cycle embedded in veteran farm equipment dealers' memories was initiated in 1972 with soaring crop exports as real farm net income doubled by 1973. While profits quickly fell back to normal levels, farmers continued their annual capital expenditures at a rate of 5.8% through the remainder of the decade.

"To upgrade their equipment and machinery, farmers accelerated their investments on vehicles, machinery and equipment. Farmers also increased their investments in structures and land improvements," says Henderson and Kauffman.

"In fact, capital spending did not peak until 1979, when it reached $20,000 per farm, double the 1970 level and 6 years after the spike in farm profits."

Mike Boehlje, professor in the Dept. of Agricultural Economics and Center for Food and Agricultural Business at Purdue Univ., told *Ag Equipment Intelligence* that while farm bankruptcies captured most of the headlines in the 1970s, farm equipment dealers felt the bigger brunt of the crisis. He estimates that one-quarter of all farm equipment dealerships during that decade either closed their doors or were forced to merge with other dealers.



Note: Calculations based on USDA and Federal Reserve data on farm net returns, capital expenditures and farm debt. Nominal data are deflated by the consumer price index from the Federal Reserve Bank of Minneapolis.

The most significant boom-bust cycle embedded in veteran farm equipment dealers' memories was initiated in 1972 with soaring crop exports as real farm net income doubled by 1973. While profits quickly fell back to normal levels, farmers continued their annual capital expenditures at a rate of 5.8% through the remainder of the decade, and maintained a heavy debt load.

Different Today? The report authors indicated that most signs point to a similar cycle developing since the middle 2000s buoyed by strong ag exports and further supplemented by demand for biofuels. "Rising profits have spurred capital investments to the highest level since the 1970s with real capital expenditures per farm topping $12,000 per year in 2011," report Henderson and Kauffman.

At the same time, they say, farmers "have been conservative in their capital investments, at least when compared with past farm booms. Over the past two decades, average annual farm capital expenditures have equaled roughly 40% of average annual returns to farm operators, down from 80% during the 1970s farm boom."

All of the press coverage of the world's expanding population and rising incomes in developing nations is raising expectations about escalating ag commodity demand. But the authors warn this isn't necessarily the case, as the laws of supply and demand will tend to maintain the balance.

"Farmers have responded by increasing production capabilities through capital investments. As a result, projections of farm profits indicate that the combination of rising supplies and higher production costs could cut farm profits by 2014."

U.S. dealers should also note that Henderson and Kauffman's observation about increased production also takes into consideration worldwide trends in crop production.

Reduced U.S. Share? As USDA points out in its most recent "Feed Outlook" report (April 12, 2013), while projected world corn trade was virtually unchanged [in April] at 96.4 million tons, the U.S. share is reduced. U.S. sales and shipments remain sluggish despite recent dramatic declines in domestic corn prices.

March 2013 corn export inspections were 1.8 million tons, down 41% from a year ago. Much of this is the result of growing export competition, primarily from Argentina, Brazil and the Ukraine. While the long term outlook for agriculture remains solid, escalating worldwide competition is expected to increasingly challenge U.S. producers in the years ahead.

In 2013-14, the U.S. will likely regain its top place among corn exporters, but at a 32% share, it will be the lowest on record going back to the 1960s, according to USDA. AEI