From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

June 15, 2013
Vol. 19, Issue 6

- Small Tractor Sales Up
- No Ag Tire Shortage
- A 'Neutral' WASDE

Worldwide Ag Equipment Production Forecast to Rise 6% in 2013

Frankfurt-based VDMA Agricultural Machinery Assn. is forecasting global production of farm equipment will increase by 6% in 2013 compared with 2012, demonstrating continuing strength in the agricultural sector.

According to the trade group, "The production of agricultural machinery has experienced surprisingly dynamic development in the past 3 years. VDMA estimates the worldwide volume for 2012 at €91 billion ($119.5 billion), which represents an increase of 12% compared to the previous year."

With a 6% gain in 2013, VDMA estimates the value of worldwide production of farm machinery to reach €96 billion ($127.5 billion) for the current calendar year.

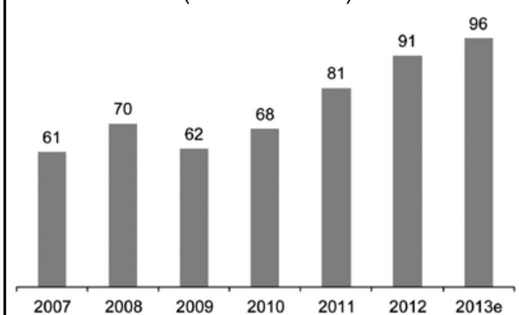
"With a market share of more than 30%, the European Union, with Germany as its most important production location, continues to play a leading role," says Dr. Bernd Scherer, managing director of the VDMA Agricultural Machinery Assn. However, the group added, last year's results for the two locations with the next largest turnover, the U.S. and China, rose even more significantly. For both countries, above-average growth is also foreseeable for this year.

A Stable EU. The association is predicting a "stable turnover level for European manufacturers this year, even in the light of the fact that overall demand in the European Union is slightly below that of last year."

According to VDMA, the business climate in the European agricultural machinery industry continues to be positive. Currently one-third of top managers anticipate growth in industry sales for the year, 40% expect stable or flat sales and one quarter

Continued on page 8

Global Agricultural Machinery Production
(in billions Euro)



A 6% gain in worldwide production of ag machinery would increase its value to €96 billion ($127.5 billion) in 2013. *Source: VDMA*

8 Factors That Signal Ag's Next Cycle is On the Way

Should farm equipment dealers and manufacturers be concerned about a downturn in sales anytime soon?

Professor Mike Boehlje says, "U.S. agriculture is notorious for its boom and bust cycles. We are increasingly concerned about what's happening right now in the markets."

Boehlje offered his comments during an interview for a special report that appears in the June issue of *Farm Equipment* magazine. The distinguished professor in the Dept. of Agricultural Economics and the Center for Food and Agricultural Business at Purdue Univ. has observed and analyzed the ag industry at its peaks and valleys during the past 4 decades or more.

"We have evidence of increased volatility, but most of the volatility we've had in the last 5 years has been on the upside and there's reasons to believe there's now some volatility on the downside that we really ought to be positioning for," Boehlje says.

He explains that he watches 8 critical areas that heavily influence the general health of agriculture. He advises dealers and manufacturers to do the same.

1. World Income Growth. "To be honest with you," says Boehlje, "worldwide income growth is slowing down." But, he adds, this is only part of the bigger picture.

The first, and most significant issue is the recession in the European Union and slowing growth in China. These are connected and, when taken together, pose a significant threat to North American agriculture. With 25% of Chinese exports going into the EU, if the current recession there is longer and deeper than anticipated, China's growth will be impacted in a big way.

"Chinese economic growth has been a major driver of the growth in our export markets for agriculture,"

Continued on page 2

8 Factors That Signal Ag's Next Cycle is On the Way...Continued from page 1

says Boehlje. "History shows that U.S. farm income is heavily dependent upon exports. If exports from the U.S. weaken, farm incomes fall and machinery sales decline."

2. Expansion of Biofuels. There's little doubt that rising commodity prices in the last decade have been impacted by expanding use of corn and other ag raw materials for biofuels. Boehlje says that demand for biofuels has been policy driven through tax incentives, import restrictions and mandated requirements with the Renewable Fuels Standard. "That mandate, in terms of corn-based biofuels, is maturing out, and the biofuels industry is hitting what's called the 'blend wall,'" says Boehlje. "There is not very much optimism for continued growth in the biofuels demand, and cellulosic is highly unlikely to come to market."

3. Value of the U.S. Dollar. A weak dollar has been a significant contributor to high agricultural exports for several years. With a weak dollar, products imported into the U.S. are more expensive and those exported from the U.S. are less expensive.

"In the last year, we've seen the falling value of the dollar flattening out and right now it's rising," says Boehlje. "So our currency values relative to other exporting countries, like Brazil, are strengthening, putting U.S. products at a disadvantage in those export markets."

4. Weather-Induced Crop Shortages. According to Boehlje, over the past 4 or more years, worldwide crop yields have not been very good generally. This, together with the 2012 drought in the U.S., left world crop supplies abnormally low. "In spite of the short supplies, and given the delay in planting we experienced in the U.S. this spring, we're seeing significant discounts for the 2013 corn and bean crop compared to the 2012 crop," he says.

"What this tells us is the market is betting that there won't be another abnormally short crop in the next year. If production comes in closer to normal in 2013 and 2014, this, combined with a slowdown in worldwide economic growth, could result in a build-up of inventories to more normal levels. This will inevitably lead to lower prices for those crops."

5. Rising Input Costs. Crop input costs have been going up rapidly over the last 5 years, according to Boehlje. "We've seen an increase in the costs and breakeven prices for corn of 54% and soybeans of 33% on a per-bushel basis from 2006 to 2012. Our best estimate of breakeven price in 2013 is $4.90 for corn and $10.67 for soybeans."

The bigger worry is that as commodity prices drop, input costs don't drop at the same rate, thus creating significant margin compression for farmers. This, he says, is already showing up in futures market prices.

6. Rising Interest Rates. Eventually interest rates will go up, says Boehlje. "We don't know when, we don't know how much, but we've been in a consistently declining interest rate environment for the last 20 years, which has made it favorable for farmers to make capital expenditures.

"They're at abnormally low levels today, and even the Federal Reserve and interest rates futures market are suggesting that we'll see a rise in interest rates in 2014 and 2015, maybe as much as 200 to 300 basis points in real interest rates above where they are today by 2016-17."

7. Growing Worldwide Competition. If North American dealers aren't paying attention to the rising international competition that will impact their customers, they're making a big mistake.

For example, the Purdue professor takes to task what he calls one of the great myths of agriculture and farmland, which is "they ain't making any more of it."

"This is absolutely not true," he says. "At a rapid pace, we are converting land that has not been tilled to tillable land in the rest of the world."

He says 123 million additional acres of land has been moved from non-tillable to tillable land in the world in the last 6 years; 30 million acres last year alone.

He also notes that producers in Brazil have caught up to and in many ways surpassed U.S. producers in terms of soybean quality.

8. Government Policies. Historically, U.S. government policy has provided a buffer for U.S. farmers in times of financial stress and other natural disasters.

"We've had a farm safety net for a very long period of time for U.S. farmers. No question about it, we're going to have reduced program payments, including no more deficiency payments. The biggest concern is what they'll do with the current crop insurance program, which could make the government's safety net either less effective and/or more costly for farmers going forward.

"In other words, farm policy may not provide as much buffering of the downside risk as we might have had in previous boom-bust cycles," says Professor Boehlje.

In light of the many dynamic changes occurring in agriculture, he says, "Dealers must position themselves for the prospects of a sales decline. They need to be very careful about not accumulating a lot of used equipment or machinery. Those dealers in the 1980s who were most severely impacted were those that had accumulated a lot of used equipment that they weren't able to move."

The complete 3-part special report, "Dealing with Ag's Boom-Bust Cycles," appears in the June 2013 issue of Farm Equipment. AEI

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Newest WASDE Report Keeps Ag Equipment Outlook in 'Neutral'

On June 12, USDA issued its monthly World Agriculture Supply and Demand Estimates. While the agency lowered it 2013-14 forecast for corn ending stocks by 3%, it remained 7% above industry consensus.

Lower Corn Stocks. The new corn estimate calls for 1,949 million bushels, down from 2,004 million bushels from its previous outlook. Consensus estimates were for 1,819 million bushels. At the same time, the ag agency raised the midpoint of its corn price forecast to $4.80 per bushel, up from $4.70 and the 2013 corn price range to $4.40-$5.20, from $4.30-$5.10.

According to Steven Fisher, analyst for UBS Global Equity Research, corn prices will depend on crop conditions going forward. "With the corn crop's progress stabilizing at the 5-year average, we believe market concern over a later than usual corn crop is likely to subside. How crop condition trends through the growing season remains an open question," he said in a note.

Wheat Price Up. USDA also lowered its wheat ending stocks estimate to 659 million bushels. This is down from the 670 million it projected earlier. The wheat price midpoint was raised to $6.90, up from $6.80. The new price range estimates for wheat is $6.25-$7.55, up from $6.15-$7.45.

Soybeans the Same. USDA maintained its soybean ending stocks forecast at 265 million bushels. While maintaining its soybean forecast, the agency raised its 2013 soybean price range to $9.75-$11.75, up from $9.50-$11.50. Its midpoint also moved up to $10.75 per bushel, from $10.50.

Equipment Neutral. UBS kept its neutral ratings on Deere, CNH and AGCO. "The relative performance of farm equipment stocks, and Deere in particular, has historically traded closely with corn. We maintain our outlook for lower corn prices, and if our forecasts come to fruition, we would expect Deere to underperform the market," Fisher told investors. **AEI**

Logistic Problems in Brazil

It's likely to be a very difficult year for agribusiness in Brazil, according to a report, "Road to Ruin? Brazil's Agribusiness Logistics in 2013," from Rabobank. The report finds transportation costs in the country have risen significantly due to three factors: new legislation impacting the working hours of truck drivers, a sharp increase in diesel prices, and rising export volumes for major ag commodities — soybeans, corn and sugar. Despite current construction projects to improve Brazil's transport and exporting capacity, virtually nothing can be done to alleviate the current pressure on the system in the short term or to prevent it from intensifying.

FARM MACHINERY TICKER (AS OF 06/12/13)

Manufacturers	Symbol	06/12/13 Price	05/13/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$34.34	$34.26	$38.70	$27.80	27.92	37,648	430.31M
AGCO	AGCO	$53.33	$56.24	$56.83	$38.09	10.10	1,066,930	5.19B
AgJunction Inc.*	AJX	$0.95	$0.77	$1.00	$0.56	N/A	36,058	65.74M
Alamo	ALG	$40.73	$43.31	$44.13	$27.07	16.9	20,902	491.73M
Art's Way Mfg.	ARTW	$7.44	$7.06	$8.80	$5.23	9.19	6,234	30.05M
Blount Int'l	BLT	$12.99	$14.02	$17.49	$12.46	15.10	204,784	639.35M
Buhler Ind.	BUI	$6.20	$6.13	$7.25	$5.20	7.95	3,592	153.23M
Caterpillar	CAT	$83.21	$88.07	$99.70	$78.25	11.22	7,031,020	54.71B
CNH Global	CNH	$42.10	$42.61	$49.99	$34.36	8.48	456,309	10.23B
Deere & Co.	DE	$84.32	$92.58	$95.60	$72.83	10.38	3,106,120	32.72B
Kubota	KUB	$78.73	$83.14	$88.38	$42.67	21.11	131,361	19.78B
Lindsay	LNN	$79.12	$80.21	$94.90	$54.91	16.49	230,039	1.02B
Raven Industries	RAVN	$29.94	$34.04	$37.73	$23.01	23.03	116,948	1.09B
Titan Int'l	TWI	$17.99	$23.53	$27.12	$16.86	12.44	849,511	962.86M
Trimble Navigation	TRMB	$26.15	$29.06	$32.03	$20.01	35.58	1,599,830	6.69B
Valmont Industries	VMI	$138.88	$154.56	$164.93	$109.21	14.35	171,845	3.72B
Retailers								
Cervus Equipment	CVL	$19.05	$20.05	$21.39	$16.90	11.91	9,247	284.17M
Rocky Mountain Equipment	RME	$13.55	$13.56	$14.88	$10.07	10.59	51,291	260.35M
Titan Machinery	TITN	$20.06	$23.43	$32.65	$19.07	12.36	497,265	423.33M
Tractor Supply	TSCO	$112.69	$114.02	$115.96	$75.46	29.01	671,738	7.86B

**Formerly Hemisphere GPS*

Titan Machinery Misses Estimate Despite 4.7% 1Q Sales Rise, Changes are Planned

While Titan Machinery reported fiscal year first-quarter revenue increased 4.7% to $442 million vs. the same period last year, its revenue was approximately $50 million lower than the dealer's initial guidance. The company says there are changes underway to address ongoing challenges.

Weather-delayed spring planting this year, as well as cautionary agriculture customer sentiment and continued challenging conditions in the construction segment, contributed to the slower growth during the period ended April 30, according to the company. Despite the slow start, Titan is anticipating revenue to level out over the next three quarters and hasn't changed the original 2014 sales guidance it issued at the end of fiscal year 2013.

"For our agriculture segment, weather conditions in the second quarter have begun to normalize and the planting progress has significantly improved," David Meyer, Titan Machinery's chairman and CEO, said in a company release.

"We expect the agriculture revenue that was delayed in the first quarter reflected primarily a timing issue and will be realized in the coming quarters. As a result, we continue to anticipate top line sales growth and are reiterating our annual 2014 sales guidance," he said.

Meyer said the late spring also affected the construction market, in addition to the challenging market conditions and the cost of expanding the dealerships distribution network. "We are focused on a number of key initiatives to drive top and bottom line improvements in our construction segment and expect to see improvements in the second quarter and the remainder of the year," he said. "We believe that our construction segment is an integral part of our long-term growth strategy and remain confident it will be a structural component of our top and bottom line growth."

According to Rick Nelson, analyst with Stephens, "turnaround strategies include personnel changes, facilities upgrades and creating a new Bakken-specific region. Hirings include a new senior manager of rental operations, additional operations managers, and in retail sales to focus on government and major accounts."

Titan Machinery Segment Results — 1Q FY14
(3 months ended April 30, 2013/in 000s $)

Revenues	2013	2012	% Change
Agriculture	$360,344	$353,580	1.9%
Construction	$82,841	$81,608	1.5%
International	$27,730	$5,930	367.6%
Segment Revenues	$470,915	$441,118	6.8%
Total	$441, 674	$421,723	4.7%

1Q Growth. During the first quarter Titan acquired one construction store in Tucson, Ariz., one in New Mexico and opened its initial operation in Ukraine. Titan now operates in four international markets in the Black Sea region of Eastern Europe. The dealer network plans to focus on the build-out of its distribution network and the newly assigned regions of Ukraine and establish a European operation center in Vienna, Austria. Analysts anticipate the international market to be the main driver of growth going forward for Titan.

For the full year ending January 31, 2014, the company anticipates revenue in the range of $2.35-$2.55 billion, net income in the range of $36.4-$42.8 million, and earnings per diluted share in the range of $1.70-$2.00.

Stephens' 2014 estimate calls for 1% same-store growth in ag and 4% growth in construction. "We expect gross margins to be relatively consistent with first quarter results, but expect SG&A ratios will widen due to weak sales and restructuring efforts in the first half. A recovery is embedded in our model for the second half but is not assured," said Nelson.

Looking Ahead. According to Mircea (Mig) Dobre, analyst with RW Baird, international ag is expected to be profitable in fiscal year 2014, helped by seasonality as the second and third quarters tend to be the strongest quarters of the year. Fiscal year 2013 international sales of $72 million may potentially grow to more than $130 million in fiscal year 2014. "Although, incremental margin is likely to be relatively low given revenue mix (more equipment rather than parts and service)," he said in a note to investors.

"We remain cautious given near-term uncertainties surrounding future North American crop receipts and machinery capital expenditure levels, but view Titan's expansion into Eastern Europe as a positive longer-term driver," Dobre said.

Baird lowered its fiscal year 2015 EPS estimate by $0.10 to $2.30. "Our estimate assumes low agriculture revenue growth (+1% organic) driven entirely by international. Construction organic growth is expected to modestly accelerate as key management hires and improvement initiatives take hold. This results in a revenue estimate of $2.42 billion, (2% growth). As a reminder, our model does not forecast additional acquisitions, which are nevertheless expected, with management actively looking to expand its current footprint in North America as well as International," Dobre said. AEI

Compact Tractor Sales Trending Toward Record-Setting Years

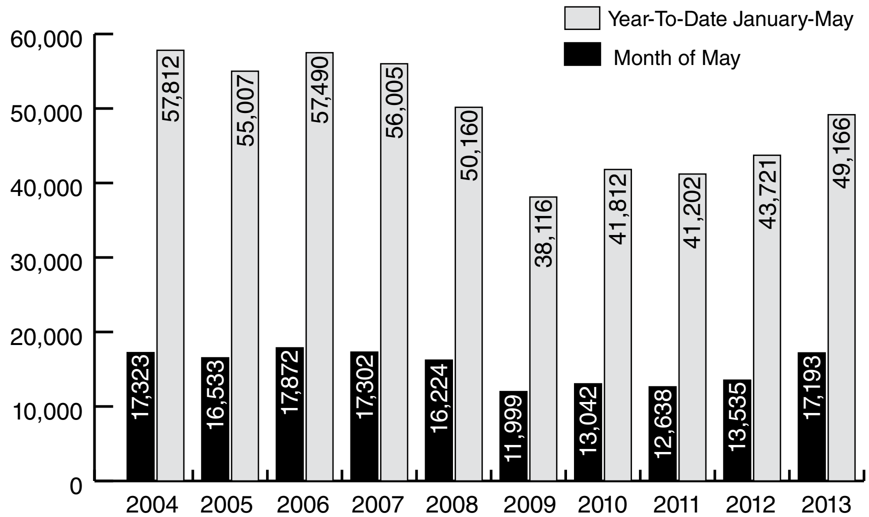
With a 27% "bump" in unit sales in May vs. a year earlier, it appears that the prospects for compact tractors are improving significantly following 5 years of relatively flat sales.

After skyrocketing from 94,000 units sold in 2001 to nearly 140,000 units in 2004, North American sales of tractors less than 40 horsepower began contracting with the overall economy in 2008. That year, sales slipped to less than 117,000 units. Starting in 2009, sales barely got by the 90,000 mark, and only surpassed 95,000 units in 2011.

In May of this year, the Assn. of Equipment Manufacturers reported 17,193 compact tractors were sold in North America. This was up from 13,535 units sold in May 2012, a 27% increase. This also approached the highest monthly sales for May since 2006 when 17,872 units were sold.

Through the first 5 months of 2013, 49,166 tractors classified as 40 horsepower or less were sold, according to AEM. This remains well below the 57,812 units sold during January through May in 2004.

North American Compact Tractor Sales in May & Year-To-Date — 2004-13



A 27% increase in sales of compact tractors (<40 horsepower) in May appears to signal a comeback for the small tractor market in North America. U.S. and Canada unit sales of compacts came in at 17,193 units for the month and 49,166 tractors year-to-date.

Source: Assn. of Equipment Manufacturers

In *Ag Equipment Intelligence*'s most recent "Dealer Sentiments & Business Conditions Update" survey, not surprisingly Kubota dealers, which specialize in smaller tractors, reported the highest sales growth at 13% (Deere +9%, Case IH +6%, New Holland +5% and AGCO +5%).

Curt Siegmeyer, analyst for Cleveland Research Co., which partners with *Ag Equipment Intelligence* in the monthly poll of farm equipment dealers, commented, "We are seeing strength in the smaller tractor market, which appears to be supporting the strength in Kubota's sales."

One dealer said, 'The strength in small tractor sales surprised me."

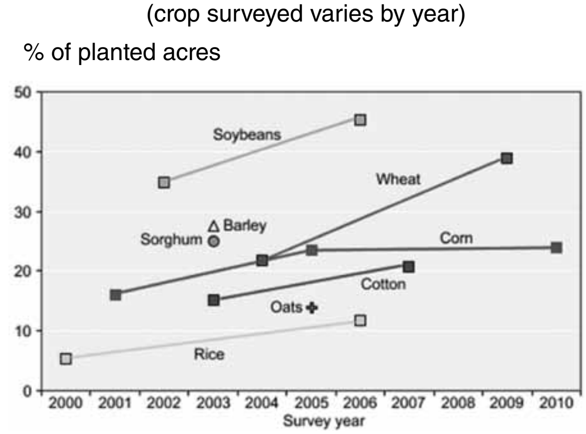
The surge in compact tractor sales also showed up for Mahindra. The Mumbai, India-based tractor maker reported that its sales for May rose by 24% to 23,626 units vs. 19,016 in May 2012. Exports of Mahindra tractors increased by 16% for the month at 1,155 units vs. 997 small tractors in May of last year. AEI

Nearly 35% of U.S. Planted Acres are No-Tilled

Recent evidence suggests that U.S. farmers continue to adopt no-till on more crop acres. Approximately 35% of U.S. cropland (88 million acres) planted to 8 major crops had no-till operations in 2009, according to ERS researchers who estimated tillage trends based on 2000-07 data from USDA's Agricultural Resource Management Survey (ARMS). The use of no-till increased over time for corn, cotton, soybeans, rice and wheat, the crops for which the ARMS data was sufficient to calculate a trend. While a more recent estimate of nationwide use of no-till by all major crop producers is not available, based on the results of recent surveys of wheat producers in 2009 and corn producers in 2010, it seems likely that no-till's use continues to spread, albeit at a much reduced pace among corn producers. (This information was gleaned from on the ERS topic page, Soil Tillage and Crop Rotation, and in the ERS report, Agriculture's Supply and Demand for Energy and Energy Products, EIB-112, May 2013.) AEI

Crop Acres Under No-Till 2000-10

(crop surveyed varies by year)



Source: USDA, Economic Research Service and USDA, National Agricultural Statistics Service, Agricultural Resource Management Survey, Phase 2, 2000-2010

Titan Int'l Set to Invest in Russia, Says There's No Ag Tire Shortage

Off-road tire maker, Titan International, confirmed that it is laying the groundwork for a cooperative venture in Russia. It also added an "I told you so" about the current tire supply that sent its stock price into a dive.

Titan says it plans to grow its tire, wheel and track footprint in Russia and the Commonwealth of Independent State (CIS) countries. Titan's customers, John Deere, CNH, AGCO and Caterpillar, are all expanding their presence in Russia and CIS, and Titan says it will be there to service them as well as their end users of equipment with locally produced tires. It is Titan's belief that the future growth of farming and mining will be in Russia and CIS countries.

At the same time, Titan's chairman, Maurice Taylor, commented on the current market situation. He said, "I have stated over and over that all the talk of tire shortages has been false. Well, in the past couple months, millions of dollars in tires have been dropped into the aftermarket from the OEMs in the farm and construction industries and also the mining companies, who had built up inventories greater than a year and are now releasing these tires. This will affect every tire manufacturer worldwide."

Writing for *Seeking Alpha*, Vince Martin said, "In other words, Titan has surplus inventory of off-road tires and are selling them at a loss to clear them. Clearly, the presence of significant numbers of new tires available at a substantial discount not just to their current price, but the cost of manufacture provides a substantial headwind to Titan and other competitors such as Carlisle Companies."

Taylor expects an off-road tire glut for a few months before market balance is restored. "We feel that this is a bump in the road as we have experienced this in the past. I think of all the overtime and weekend work to produce tires that go into building inventory and then when they see the storage cost, they discount them into the aftermarket. The selling price of all our products is going down because our material cost has been dropping. The guidelines that I gave in December of 2012 will be adjusted downward," Taylor said.

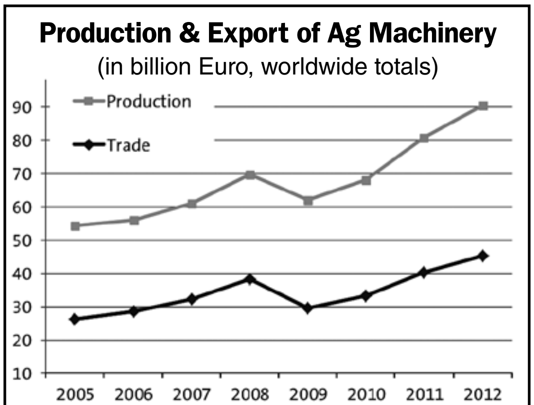
Between June 7 when Taylor made his comments and June 10, Titan International's stock fell by nearly 20%. AEI

Half of All Ag Machinery Worldwide is Exported

The total value of agricultural equipment exports in 2012 was €45 billion ($59.7 billion), approximately 50% of total worldwide production of farm machinery (€91 billion/$119.5 billion).

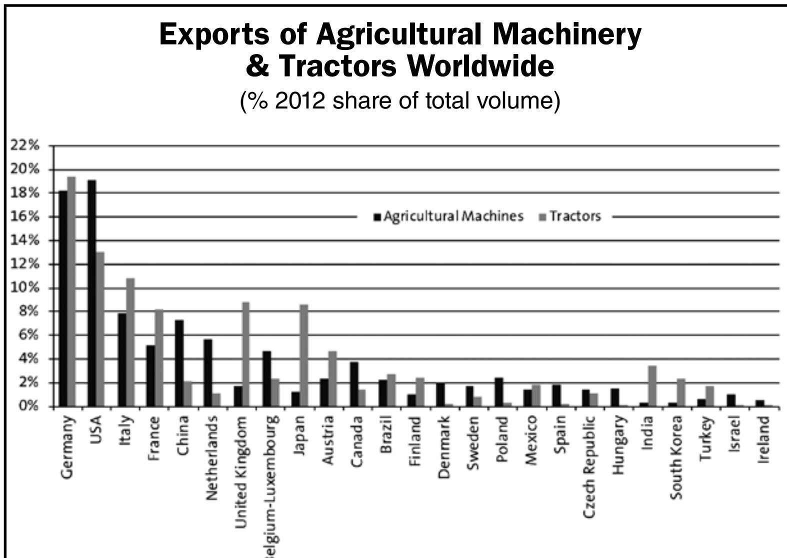
Exports could drop slightly in the coming years as local production is to be increased through political measures in important sales markets such as Russia, China and Brazil, according to VDMA Agricultural Machinery Assn. based in Frankfurt, Germany.

VDMA points out that governments in Brazil and Japan as well as India have further strengthened incentives to purchase new ag machinery and tractors. The subsidy programs are frequently associated with the condition that the machinery must be wholly or predominantly manufactured within the country. VDMA also points out that government policies aimed at curtailing imports of combines are prevalent in Russia, Belarus and Kazakhstan. When it comes to global trade of farm equipment, Germany maintains its top ranking of export nations, followed by the U.S., Italy, France and China. AEI



The trade volume more or less equalled the production trend of ag machinery, so that the export share has stabilized at approximately 50%.

Source: VDMA, totals of official exports from 46 countries



When it comes to global trade of farm equipment, Germany maintains its top ranking of export nations, followed by the U.S., Italy, France and China.

Source: official national statistics, VDMA, totals of the ex- or imports from 47 countries

Ag Sales Growth Continues in May

North American sales of large ag equipment continued to grow in May, according to data released by the Assn. of Equipment Manufacturers. The continuing rise in sales was driven by row-crop tractor and combine sales, which increased 17.8% and 28.6% year-over-year, respectively.

Meanwhile, 4WD tractor sales fell 8.9% vs. the same period last year. Mid-range tractor sales increased 6% year-over-year and compact tractor sales increased 27%. According to Mircea (Mig) Dobre, analyst with RW Baird, inventory levels continue to rise, though generally supported by continued unit sales growth.

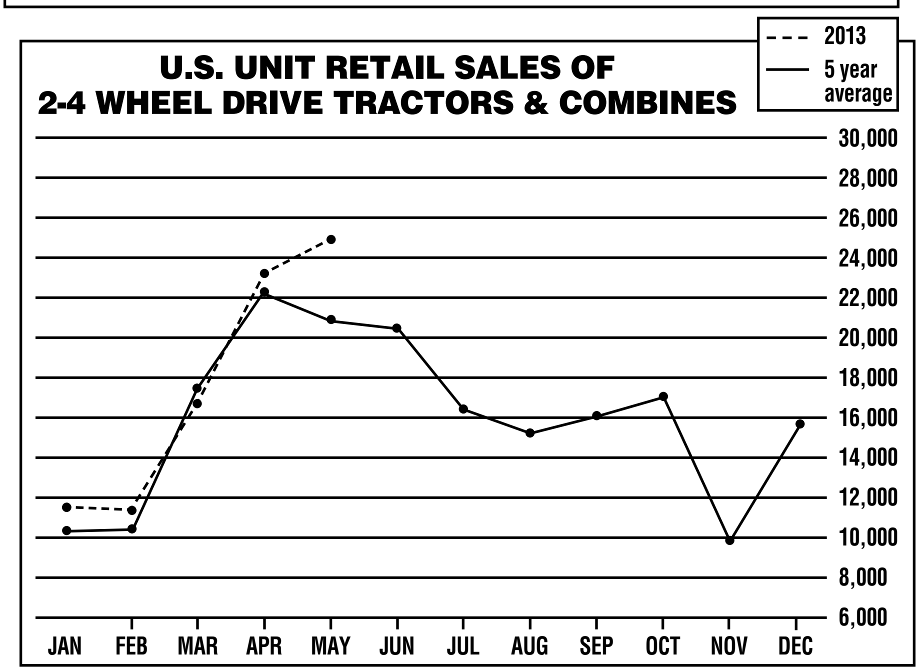
- Large tractor and combine retail sales increased 16% year-over-year in May, decelerating from the 26% rise in April. U.S. sales increased 18% year-over-year; Canadian sales increased 4%.
- Combine retail sales remained strong, posting a 28.6% year-over-year increase in May following a 63% increase in April (though both months had relatively easy prior year comparisons). Last three month (L3M) sales increased 53.1% on a year-over-year basis following a 66% increase last month. May is typically an unimportant month for combine sales, accounting for 6.7% of annual sales over the last 5 years.
- Row-crop tractor sales continue to grow posting a 17.8% year-over-year increase, decelerating from the 26.7% increase observed in April; L3M sales increased 24.3%. U.S. row-crop tractor inventories increased 54.1% year-over-year in April vs. a 48.2% increase in March.
- 4WD tractor sales fell 8.9% in May year-over-year, deteriorating somewhat from a 3.6% decrease in April. Importantly, Dobre said comparisons become progressively tougher for the remainder of the year. U.S. dealer inventories of 4WD tractors increased 18.3% in April vs. the same period last year.
- Mid-range tractor sales increased in May, up 6% year-over-year after a 6.1% decrease last month. Compact tractor sales increased 27% year-over-year, up from the 4% increase last month. AEI

MAY U.S. UNIT RETAIL SALES

Equipment	May 2013	May 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	May 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	15,181	11,640	30.4	44,058	39,156	12.5	61,719
40-100 HP	5,689	5,360	6.1	22,314	21,314	4.7	27,040
100 HP Plus	2,871	2,413	19.0	14,470	11,364	27.3	9,878
Total-2WD	23,741	19,413	22.3	80,842	71,834	12.5	98,637
Total-4WD	430	429	0.2	2,719	2,367	14.9	1,274
Total Tractors	24,171	19,842	21.8	83,561	74,201	12.6	99,911
SP Combines	685	522	31.2	3,664	2,418	51.5	1,637

MAY CANADIAN UNIT RETAIL SALES

Equipment	May 2013	May 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	May 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	2,012	1,895	6.2	5,108	4,565	11.9	8,848
40-100 HP	637	606	5.1	2,348	2,431	-3.4	3,472
100 HP Plus	535	479	11.7	2,186	1,963	11.4	2,629
Total-2WD	3,184	2,980	6.8	9,642	8,959	7.6	14,949
Total-4WD	126	181	-30.4	746	716	4.2	609
Total Tractors	3,310	3,161	4.7	10,388	9,675	7.4	15,558
SP Combines	202	168	20.2	811	588	37.9	940



—Assn. of Equipment Manufacturers

Unit Sales of Farm Machinery in Germany — 2009-12				
	2009	**2010**	**2011**	**2012**
Tractors	29,464	28,587	35,977	26,264
Combines	2,324	1,457	2,015	1,964
Balers	2,077	1,915	2,144	2,384
Forage Harvesters	456	608	695	678
Mowers	9,279	8,439	9,681	11,077
Tedders & Rakes	8,307	7,231	8,702	10,678

Source: VDMA

Unit Sales of Farm Machinery in France — 2009-12				
	2009	**2010**	**2011**	**2012**
Tractors*	36,800	31,312	35,409	39,089
Combines	2,455	1,637	2,008	2,256
Balers	4,751	3,198	4,047	4,426
Forage Harvesters	313	240	296	29

**includes telehandlers* *Source: Axema*

foresee a decline in sales through the remainder of 2013.

The agriculture giants of the EU continue to be Germany and France.

Germany Hits Highs. According to VDMA, the German agricultural machinery market reached a new all-time high in 2012 with a volume of €5.4 billion ($7.2 billion). Following a slowdown in 2009 and 2010, the country's farm equipment sales saw two exceptionally strong years with growth rates of 23% and 14% in 2011 and 2012.

On average, German farmers invested €324 ($431) per hectare of agricultural land in 2012. According to VDMA, German "investments were clearly above those of the other bigger European countries. Germany probably even occupies one of the top positions worldwide in this comparison. As mentioned, investment plans continue to be strong so that the market will remain more or less at the same level in 2013."

In value terms, tractors represent about one third of the entire German market for agricultural machinery with demand clearly directed at larger models. In Germany, the average engine output in tractors above 37 horsepower (37 kW) is 145 horsepower. The share of tractors with more than 200 horsepower has increased to 16%. Last year, of the 36,264 new tractors sold, 30,162 had an output of over 50 horsepower. This equates to every eighth farmer bought a new tractor in 2012. In addition, nearly 90,000 used tractors change owners each year.

"It is currently apparent that demand is weakening slightly after the last two record years in 2011 and 2012," VDMA reports. "In the first four months, new registrations were 3% below the level of the previous year. The forecast for the total market in 2013 is a decline of more than 5%."

Growth in France. Last year, sales of French farm machinery increased by 13% to €4.8 billion ($6.4 billion), which, together with Germany, accounted for a significant portion of the EU's overall sales. After a slow recovery from the 2009-10 recession, VDMA reports that French farmers are increasing their investment in farm equipment. During 2013, France is likely to be one of the few European countries to demonstrate significant sales growth.

Incomes of French farmers increased by 5% in 2012, which was lower than that of farmers in Germany. "It is worthy of mention that almost all farms in the very diversified agricultural sector [in France] were able to achieve higher profits," VDMA reports. "In the previous years, there were always some sub-sectors, like producers of wine, fruit and vegetables, that lost out. Only the gardening and landscaping segment battled with economic problems in 2012."

When it comes to tractor sales, France is the undisputed leader in the EU with 39,100 units and growth of 10%. According to VDMA, it was particularly surprising that French farmers purchased more tillage tools than did German producers. In 2012, French manufacturers sold more 3,000 plows, an increase of 40%. France has also strengthened its lead in the area of self-propelled sprayers.

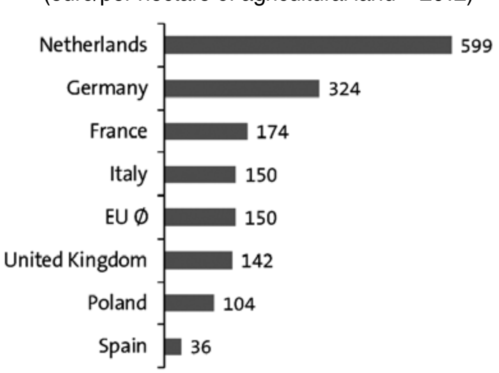
The country's market for combines increased by 12% to 2,250 units last year.

Polish Growth. VDMA's "Economic Report — 2013" made special note of strong development of the agriculture sector in Poland. According to VDMA, average farms in Poland are much larger than they were a few years ago and are equipped with modern machinery.

Total market volume grew by 14% reaching €1.5 billion ($2 billion) — one of the highest growth rates within the EU. Imports of machinery increased by almost 22% to €1.3 billion ($1.7 billion). Last year, Polish farmers purchased 19,315 units — most of which were between 75-100 horsepower. But the healthiest sales growth came in tractors between 130-160 horsepower. **AEI**

Ag Machinery Investment

(euro/per hectare of agricultural land – 2012)



The Netherlands at £599 ($800) per hectare and Germany at £324 ($430) per hectare, led all major EU countries in investment level in farm machinery in 2012.

Source: VDMA, Eurostat