A Special Management Report of

Ag Industry Watch

OUTLOOK & TRENDS

FARM EQUIPMENT FORECAST — 2006

An *Ag Industry Watch* Staff Report

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Ag Industry Watch
P.O. Box 624 • Brookfield, Wisconsin
Phone: 262/782-4480 • **Fax:** 262/782-1252
www.lesspub.com/ff/AIW

2006 Farm Equipment Dealer Business Trends Survey

New survey of ag equipment's 'front line' shows dealers expect sales momentum to continue into 2006.

By Dave Kanicki, Managing Editor

During a visit to an Iowa ag equipment dealer this summer, the owner remarked that 2004 would be "the best year for equipment sales for the next 10 years." At the same time, he made it clear that through the first half of this year, he wasn't complaining about 2005 either.

When you are at the top of the mountain, it can be difficult to make yourself look down or ahead. We all want to savor the moment. And for most ag equipment dealers, 2004 was indeed the top of the mountain; a landmark year for sales.

Comparatively, 2005 has not been too bad either. By the time it's all said and done, 2005 will be remembered as a pretty good sales year, in fact. But it wasn't 2004.

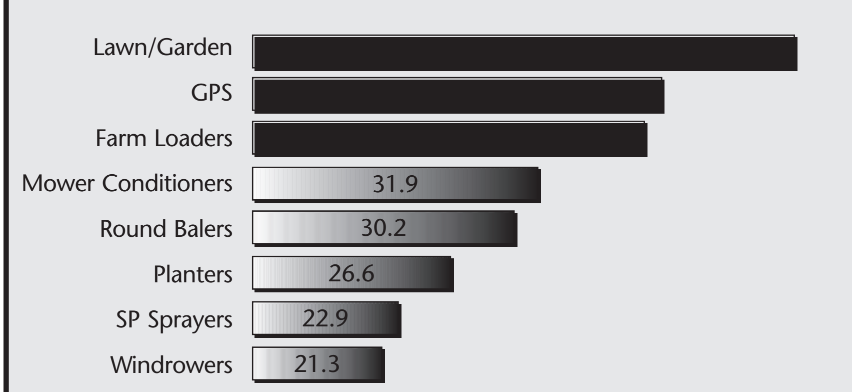
A look at the overall farm economy during the past 2 years offers a perspective on where the industry has been and provides some hint as to where it may be heading in the near term. The 2004 bumper crop of corn and soybeans, along with significantly higher beef and dairy prices, together with enhanced federal subsidies, resulted in a record-high net farm income of $73.6 billion. A cooling of the farm economy in '05 along with the 5-month Midwest drought is expected to drop net farm income to about $61 billion this year, which is still considered to be exceptional by any measure — except 2004 standards.

With that in mind, *Ag Industry Watch* surveyed North American ag equipment dealers in mid-August and asked them to look ahead to 2006 and tell us what they see for the coming year. Using '05 — a more normal year — as the baseline for comparison purposes, 341 dealers, representing an average employee size of 23.3, from the U.S. and Canada responded. If their projections hold up, it appears that the momentum from the past few years will carry the industry well into '06.

TRACTOR UNIT SALES POTENTIAL FOR 2006

Percentage of Dealers Forecasting Growth of 2% or More vs. 2005

TOP UNIT SALES INCREASE POTENTIAL FOR 2006



Percentage of Dealers Forecasting Growth of 2% or More vs. 2005

CONFIDENCE CONTINUES

Responding to this first-ever *Ag Industry Watch Dealer Business Trends Survey*, nearly 74% of the participants believe that sales in 2006 will be as good or better than the business levels seen in '05. By any means of measuring "confidence," clearly, dealers expect the coming year to be a solid one for sales.

Breaking it down further, 9% of survey respondents expect new equipment sales to improve by 8% or more in '06. Some 32% believe the sale of new ag wholegoods will increase 2-7%. One-third say they think sales for the year will come in at about the same levels seen in 2005, with "little or no change."

On the other side of the ledger, slightly more than 26% of those questioned are projecting overall sales of new equipment to decline during the year. Of those looking for a slowdown, 16% expect revenues to slip 2-7%, while another 10% of the respondents think it will slip 8% or more.

As sales of new equipment grow or remain steady, used equipment inventories tend to expand as well. Based on the results of the survey, a scenario similar to the trend in sales of new equipment is expected to develop for previously owned equipment, with expectations being even higher.

Dealers in this year's poll of business trends have high hopes for used equipment sales in '06 as 74% project that sales will be as good or better than those seen during 2005. Nearly 10% of that group say that demand for used equipment will grow 8% or more in the coming year, and 32% of the respondents feel sales will improve between 2-7%. Again, one-third say they expect there to be little or no change between 2005 and '06.

Slightly less than 17% of dealers polled look for used equipment sales fall somewhat throughout '06. Of those, about 9% see a decline of between 2-7% and 7.7% see used equipment sales slipping by more than 8%.

TRACKING THE 'MAJORS'

For the purposes of the current study, the dealers were asked to identify the equipment maker they considered their "major line," and were offered the choices of AGCO, Case IH, John Deere, New Holland or no major complete line (Independent). Their responses broke out in this way in terms of total respondents:

- ✔ AGCO 19.1%
- ✔ Case IH....................20.2%
- ✔ John Deere 19.7%
- ✔ New Holland....................25.2%
- ✔ Independent 15.8%

Breaking it out by these five manufacturer categories, the independent dealers generally came across as slightly more optimistic about their prospects in '06 than were the others. Nearly half of dealers not affiliated with the "Big 4" expect sales revenue to increase next year. Combining this with those who believe sales revenues will remain about the same during the coming year, about 77.4% forecast a pretty good year in '06.

Deere dealers came in a close second in their positive outlook for the next sales cycle. Case IH dealers expressed the most pessimistic view toward the coming year as more than 30% of them look for a downturn in sales for '06. New Holland dealers weren't far behind in their pessimism.

When it comes to used equipment sales in 2006, the independent dealers are almost schizophrenic in their outlook. While only 14% believe the sale of used equipment during the coming year will be lower than levels seen in '05, nearly 35% expect them to improve, which is the lowest confidence level of any of the five manufacturer categories surveyed. More than one-half of them (51%) forecast little or no change, which may indicate a high level of uncertainty.

Of the major line manufacturers, John Deere dealers showed the highest level of optimism for previously owned equipment sales in '06, as more than 47% are projecting improved levels compared with '05. AGCO dealers weren't far behind, as slightly more than 46% have expectations for better revenues from used equipment during the year.

TRACKING TRACTOR SALES

Over the years, the sale of tractors and self-propelled combines has typically been used as the standard for measuring the relative health of the ag equipment industry.

Using this same measure, nearly half of all dealers look for little or no change in 2006, which isn't all bad. On the other hand, those dealers looking for sales to improve in all tractor categories far outweigh those who are forecasting a downturn in tractor sales.

As has been the growing trend in recent years, in the compact tractor category (40 hp or smaller) is expected to continue to lead the way in 2006. More than a third of dealers look for the sale of compact tractors to grow 2-7%, while another 9% expect sales increases of 8% or more. About 10% of the dealers say that unit sales of the smaller tractor lines is finally going to slow down in '06.

Dealers also see a similar trend in the sale of 2-wheel drive, mid-size and utility tractors (40-100 hp), though in a slightly different breakdown. Less growth is projected for larger 2-wheel

2006 PROJECTED SALES NEW EQUIPMENT — NORTH AMERICAN AG EQUIPMENT DEALERS

+ 8% or more	8.8%
+ 2 to 7%	31.9%
Little or No Change	33.0%
– 2 to 7%	16.3%
– 8% or more	10.0%

2006 PROJECTED SALES USED EQUIPMENT — NORTH AMERICAN AG EQUIPMENT DEALERS

+ 8% or more	9.8%
+ 2 to 7%	31.7%
Little or No Change	41.8%
– 2 to 7%	9.1%
– 8% or more	7.7%

DEALER PROJECTIONS FOR NEW EQUIPMENT SALES IN 2006 (BY MAJOR EQUIPMENT LINE CARRIED)

Dealer Affiliation	Up 8% or More	Up 2-7%	Little or No Change	Down 2-7%	Down 8% or More
AGCO	7.8%	29.7%	35.9%	14.1%	12.5%
Case IH	4.5%	34.8%	30.3%	21.2%	9.15%
John Deere	7.6%	31.8%	36.4%	18.2%	6.1%
New Holland	7.0%	33.7%	29.1%	20.9%	9.3%
Independent	13.2%	32.1%	32.1%	7.5%	15.1%

DEALER PROJECTIONS FOR USED EQUIPMENT SALES IN 2006 (BY MAJOR EQUIPMENT LINE CARRIED)

Dealer Affiliation	Up 8% or More	Up 2-7%	Little or No Change	Down 2-7%	Down 8% or More
AGCO	10.7%	35.7%	30.4%	10.7%	12.5%
Case IH	11.3%	24.2%	41.9%	12.9%	9.7%
John Deere	9.1%	38.2%	41.8%	9.1%	1.8%
New Holland	7.8%	33.8%	42.9%	10.4%	5.2%
Independent	8.3%	26.5%	51.0%	2.0%	12.2%

drive tractors (100 hp and higher), as nearly 60% of dealers expect little or no change in sales levels between ‘05 and ’06.

Sale of four-wheel drive machines, too, is expected to continue plugging along at a steady pace. While over half of the dealers responding see little change in sales revenue coming from 4-WDs during the coming year, nearly 34% are forecasting increasing sales.

Overall, dealers appear to be gearing up for little or no growth in the sales of self-propelled combines in ’06. They are split evenly in their forecast with about 20% expecting some growth and nearly 20% projecting a slowdown. A big majority, 60%, project little change in combine sales between ‘05 and ’06.

OTHER GAINERS: LAWN & GARDEN, GPS

Dealers are seeing a mixed bag when it comes to the sale of other farm equipment for 2006. A couple of obvious winners are lawn and garden equipment and GPS-related equipment with nearly 40% of dealers looking for some level of growth. Even at that, nearly 54% of the dealers see little or no change in the growth of GPS systems in ’06.

More traditional farm equipment that could see fair to moderate sales growth during the coming year, according to dealer projections, will be farm loaders as 39% of dealers expect their sales to grow.

At the same time, more than 70% of North American dealers see little or no change in sales levels for implements like forage harvesters, rectangular balers, chisel plows, air seeders and drills, as well as windrowers, disc harrows and field cultivators.

And if dealers feel that their peers are good judges of equipment demand, they will want to watch inventory levels on items such as field cultivators, combines, chisel plows, disc harrows, as these are the equipment types that dealers are most often forecasting a loss over current levels in ‘06.

INVESTMENT, HIRING REMAINS STEADY

Coming off two solid sales years and projections for a pretty good year in ‘06, dealers appear to be holding steady in their plans for near-term spending on capital projects and adding staff to their organizations. Many have done so during the past few years and look at ’06 as a time for evaluating and planning for future expansion.

In any case, 44% of dealer indicate they do not intend to increase capital spending over levels in 2005. Another 40% say they will raise their spending 0-5%, and less than 9% plan to up investment in the operations from 6-10%. More than 6% of dealers intend to increase spending 10% or more in facilities and equipment during the next year.

Of those planning investments, about half will focus spending on service vehicles, 42.5% will upgrade their business information systems, and 40% will invest in improvements in their parts departments.

For dealers who are looking to add staff during the coming year, most will be searching for additional service technicians. Nearly 60% of the dealers participating in the survey indicate that they want to add more service techs to their crew. Hiring plans for ‘06 are shown above.

Few dealers plan to increase their borrowing during the upcoming year. Nearly 40% indicate they expect no change in their borrowing plans, while only 11% intend to take on more debt. And as might be expected, more dealers (30.4%) are preparing to reduce their debt load. Of the 341 dealers participating in the survey, 19% report that they carry “no” debt at this time.

PROJECTED NORTH AMERICAN SALES OF TRACTORS AND COMBINES FOR 2006

Tractor Type (Size)	Sales +8%	Sales +2-7%	Little or No Change	Sales –2-7%	Sales –8%	Forecasting Growth	Forecasting Loss
2WD (<40hp)	9.2%	33.7%	47.3%	5.8%	4.1%	42.9%	9.9%
2WD (40-100hp)	3.7%	32.7%	52.7%	8.8%	2.0%	36.4%	10.8%
2WD (>100hp)	1.7%	25.4%	57.4%	12.3%	3.2%	27.2%	15.5%
4WD (All)	7.0%	26.8%	51.4%	8.8%	5.6%	33.8%	14.8%
SP Combines	2.6%	17.7%	60.2%	11.7%	7.8%	20.3%	19.5%

PROJECTED SALES OF OTHER FARM EQUIPMENT FOR 2006

Equipment	Sales +8%	Sales +2-7%	Little or No Change	Sales –2-7%	Sales –8%	Forecasting Growth	Forecasting Loss
Rect. Balers	2.9%	14.4%	74.1%	8.6%	0.0%	17.3%	8.6%
Round Balers	3.3%	26.9%	55.3%	10.2%	4.4%	30.2%	14.6%
Forage	0.9%	8.6%	77.4%	7.7%	5.4%	9.5%	13.1%
Planters	5.2%	21.4%	58.9%	10.9%	3.6%	26.6%	14.5%
Mowers	3.8%	28.1%	58.6%	6.1%	3.4%	31.9%	9.5%
Windrowers/Swathers	3.4%	17.9%	68.9%	6.4%	3.4%	21.3%	9.8%
Field Cultivators	2.4%	9.5%	65.6%	12.3%	10.3%	11.9%	22.6%
Farm Loaders	8.7%	30.6%	49.3%	7.3%	4.2%	39.3%	11.5%
Chisel Plows	1.2%	8.5%	72.8%	10.2%	7.3%	9.7%	17.5%
Disk Harrows	2.0%	16.0%	66.4%	8.2%	7.4%	18%	15.6%
Air Seeders/Drills	2.9%	11.9%	74.1%	3.7%	7.4%	14.8%	11.1%
SP Sprayers	2.7%	20.2%	67.4%	1.7%	6%	22.9%	7.7%
Lawn/Garden	12.8%	35.8%	41.3%	6.6%	3.5%	48.6%	10.1%
GPS	15.4%	24.8%	53.7%	2.0%	4.1%	40.2%	6.1%

ISSUES AND CONCERNS

Considering the skyrocketing costs of energy and fuel, it should come as no surprise that, as a whole, North American ag equipment dealers ranked this as number one on their list of concerns going into the new year. The runup in energy costs not only affect the dealer's cost of doing business, but what makes it doubly troublesome is that it also drives up the price of farm equipment, as well as other input costs for their customers. If any one thing could put a damper on the forecast for a solid equipment sales year in '06, this will be it.

Unlike the current crisis created by the dramatic jump in the price of fuel, most of the other issues that are major concerns to ag equipment dealers are long-standing and ongoing. Affordable health care, availability of qualified technicians and the shrinking of the farm customer base all fall into the dealer's top five list of concerns.

The warranty policies of the shortline equipment manufacturers came in as the fifth most worrisome issue. It goes hand in hand with product reliability matters, which also falls into the top 10 list of things that keep dealers awake at night.

2006 DEALER HIRING PLANS

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department	29.0%	69.2%	<1%
Service Technicians	58.4%	40.6%	<1%
Wholegood Sales	27.4%	71.3%	1.3%
Adminstration	7.9%	87.5%	4.6%

ISSUES AND CONCERNS FOR 2006

Issues	Most Concerned	Concerned	Not Concerned
1. Energy/Fuel Costs	72.6%	25.5%	1.9%
2. Health Care Affordability	69.4%	22.5%	8.1%
3. Technician Availability	50.0%	39.3%	10.2%
4. Shrinking Customer Base	47.7%	40.8%	11.5%
5. Steel Price/Supplies	43.8%	51.6%	10.2%
6. Product Reliability	34.6%	42.5%	22.9%
7. Dealership "Purity" Efforts by Major Manufacturers	30.6%	37.7%	31.6%
8. Next Farm Bill	23.4%	49.0%	27.6%
9. Industry Consolidation	24.3%	46.8%	28.9%
10. Impact of Box Stores	22.0%	42.6%	35.2%
11. Succession Policies	12.9%	43.9%	43.2%
12. Internet Sales	11.8%	42.2%	45.9%
13. Shortline Warranty Policies	9.9%	42.5%	47.6%
14. Tractor Test Legislation	6.8%	40.5%	52.7%

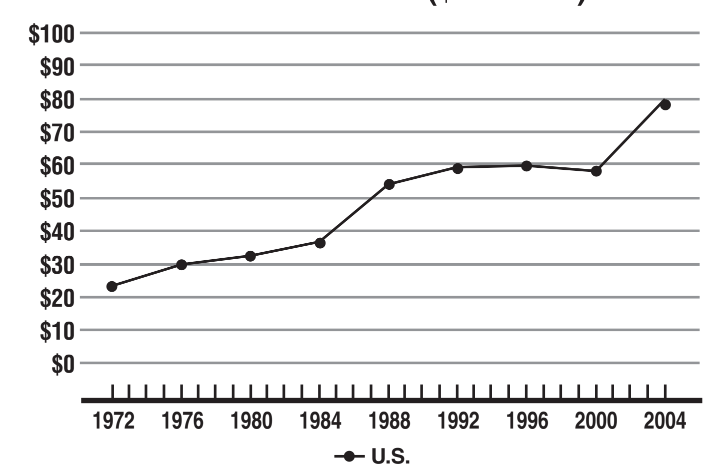
A CONFIDENT OUTLOOK

The 341 dealers that participated in the *2006 Ag Industry Watch Dealer Business Trends Survey* provide a confident sales outlook in the face of what some observers are already calling a "flat" sales year. It is important to remember that when farm industry observers and analysts refer to "flat" or "declining" sales," informed equipment dealers need to ask "Compared to what?" For example, when comparing the healthy sales levels in 2005 to a landmark year like 2004, "flat" is a good thing.

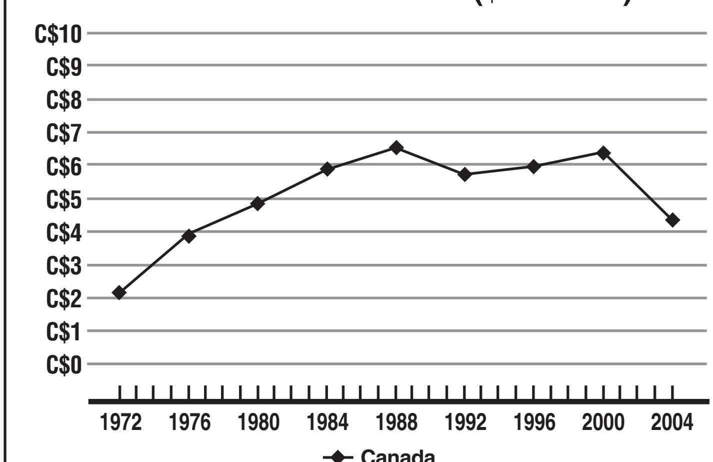
Nonetheless, in this case, it is the dealers who are speaking about their own business prospects for 2006. This group is not known for false optimism and wishful thinking. As dealers prepare for the new selling season, they see the strong momentum of '04 and '05 carrying over into the new year. Many of the hurdles that confronted business last year and the year before will continue to require attention. But the opportunities of '06 will get first priority. AIW

FARM FACTS

NET INCOME – U.S. ($ billions)



NET INCOME – CANADA ($ billions)



CANADA

To a somewhat larger degree, Canadian ag equipment dealerships are more optimistic about the coming year than all North American dealers as a whole.

Only about 9% of Canadian dealers look for sales revenue from new equipment to slip in 2006 compared with '05. Of those that are projecting lower levels, 3% see sales falling between 2-7%, and 6% express a more dire view, forecasting declines of 8% or more.

That leaves more than 90% who have moderate-to-high expectations for '06. While 39.5% of the Canadian dealers say they expect little or no change for the year, 51.5% see improving sales. Of that group, 42.4% forecast revenues to increase 2-7%, with the remaining 9% believing sales will improve by 8% or more.

On an even brighter note, not one Canadian dealer who responded to the survey expects revenues from the sale of used equipment to decline in '06. While slightly more than 42% say that used equipment sales will come in at about the same level in '06 as they experienced in '05, almost 58% see improvement in used equipment revenues during the coming year.

SURVEY SUMMARY

Expecting Sales Revenue Gains: 51.5%
Expecting Sales Revenue Loss: 9.1%
Increasing Non-Retail Capital Spending: 50%

Most Promising Equipment Opportunities: Lawn/Garden, GPS, 2WD>40 hp Tractors, Mower Conditioners, Farm Loaders, Round Balers, Windrowers
Dealer Affiliation (*% of respondents*): AGCO 23%, Case IH 20%, John Deere 14%, New Holland 23%, Independent 20%
Avg. Dealer Employment: 21.9

FACTS ABOUT THE REGION

Provinces Covered:	Farms	Hectares*	Farm Size (hectares)
Alberta	53,652	21.1 million	393
British Columbia	20,290	2.5 million	128
Manitoba	21,071	7.6 million	361
New Brunswick	3,034	388,000	128
Newfoundland & Labrador	643	40,600	63
Nova Scotia	3,923	407,000	104
Ontario	59,728	5.5 million	92
Prince Edward Island	1,845	261,000	142
Quebec	32,139	3.4 million	106
Saskatchewan	50,598	26.3 million	519

**Hectare = 2.471 acres*

MAJOR LINES

AGCO	22.9%
Case IH	20.0%
Deere	14.3%
New Holland	22.9%
Independent	20.0%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	9.1%
+2 to 7%	42.4%
Little or No Change	39.4%
–2 to 7%	3.0%
–8% or more	6.1%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	7.7%
+2 to 7%	50.0%
Little or No Change	42.3%
–2 to 7%	0.0%
–8% or more	0.0%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractor					
–2WD (<40 HP)	12.9%	29.0	48.4	6.5	3.2
–2WD (40-100 HP)	6.5%	19.4	67.7	3.2	3.2
–2WD (>100 HP)	3.2%	25.8	64.5	3.2	3.2
–4WD (All)	10.3%	24.1	44.8	20.7	0.0
SP Combines	3.4%	31.0	51.7	10.3	3.4
Rect. Balers	0.0%	17.9	78.6	3.6	0.0
Round Balers	6.5%	32.3	51.6	9.7	0.0
Forage Harvesters	3.7%	14.8	70.4	11.1	0.0
Planters (All)	6.9%	10.3	62.1	17.2	3.4
Mowers/Cond.	0.0%	42.9	50.0	7.1	0.0
Windrowers/Swathers	0.0%	35.7	57.1	7.1	0.0
Field Cultivators	3.3%	3.3	63.3	16.7	13.3
Farm Loaders	12.5%	28.1	46.9	9.4	3.1
Chisel Plows	0.0%	3.6	78.6	14.3	3.6
Disk Harrows	0.0%	7.1	75.0	17.9	0.0
Air Seeders/Drills	10.0%	13.3	63.3	10.0	3.3
SP Sprayers	7.1%	25.0	64.3	0.0	3.6
Lawn & Garden	12.9%	45.2	29.0	6.5	6.5
GPS	20.7%	24.1	51.7	3.4	0.0

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	41.9%	58.1%	0.0%
Service Techs.	61.3%	38.7%	0.0%
Wholegood Sales	31.3%	68.8%	0.0%
Administration	10.3%	86.2%	3.4%

CAPITAL SPENDING IN 2006

No Increase	50.0%
0-5%	35.3%
6-10%	11.8%
+10%	2.9%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	71.0%	29.0%	0.0%
Technician Availability	59.4%	25.0%	15.6%
Shrinking Customer Base	54.8%	38.7%	6.5%
Product Reliability	39.4%	42.4%	18.2%
Steel Price/Affordability	29.0%	64.5%	6.5%
Dealership "Purity" Efforts by Majors	21.9%	31.3%	46.9%
Shortline Warranty Policies	21.8%	31.3%	46.9%
Industry Consolidation	18.8%	46.9%	34.4%
Succession Policies	12.9%	45.2%	41.9%
Next Farm Bill	6.9%	34.5%	58.6%
Health Care Affordability	6.75%	40.0%	53.3%
Box Stores	6.3%	46.9%	46.9%
Tractor Test Legislation	3.3%	23.3%	73.3%
Internet Sales	0.0%	23.3%	76.7%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	39.4%	60.6%
Service Vehicles	55.9%	44.1%
Business Information Systems	27.3%	72.7%

BORROWING PLANS IN 2006

No Change	36.7%
Take on More Debt	6.7%
Retire Debt	33.3%
Not Carrying Debt	23.3%

NORTHEAST

The expectations of the dealers representing the Northeast region of the U.S. pretty much reflect the sentiments of the rest of their colleagues operating east of the Mississippi River. The same number, 37%, of the farm machinery dealers in the Northeast expect sales revenues from new equipment to improve in 2006, as do those that see little or no change in business levels for the year (37%). The remaining 26% are forecasting a drop off in revenues.

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Connecticut	4,200	360,000	86
Delaware	2,300	530,000	230
Maine	7,200	1.37 million	190
Maryland	12,100	2.05 million	169
Massachusetts	6,100	520,000	85
New Hampshire	3,400	450,000	132
New Jersey	9,900	820,000	83
New York	36,000	7.60 million	211
Pennsylvania	58,200	7.70 million	132
Rhode Island	850	60,000	71
Vermont	6,400	1.25 million	195

As it goes, the very same percentage of dealers, 37%, believe that the sale of used equipment will also improve in '06. Slightly less than 20% predict that used equipment sales will slow during the year.

Nearly half of the Northeast dealers, or 47.1%, plan to increase their capital spending in 2006. But, unlike the other dealers throughout the U.S. and Canada, this group says that it will invest more heavily in their parts department as 43% ranked this area of operations as requiring the most near-term attention.

On the other hand, like dealers throughout North America, when it comes to hiring, 57.6% say they will be looking for service technicians. Nearly 44% will also be aiming to increase wholegood sales people.

SURVEY SUMMARY

Expecting Sales Revenue Gains: 37.1%
Expecting Sales Revenue Loss: 25.8%
Increasing Non-Retail Capital Spending: 52.9%
Most Promising Equipment Opportunities: Mower Conditioners, Lawn/Garden, Round Balers, 2WD>40 hp, 2WD 40-100 hp and 4WD Tractors, Farm Loaders
Dealer Affiliation (*% of respondents*): AGCO 14%, Case IH 27%, John Deere 11%, New Holland 27%, Independent 22%
Avg. Dealer Employment: 19.6

NORTHEAST REGION cont'd

MAJOR LINES

AGCO	13.5%
Case IH	27.0%
Deere	10.8%
New Holland	27.0%
Independent	21.6%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	5.7%
+2 to 7%	31.4%
Little or No Change	37.1%
–2 to 7%	22.9%
–8% or more	2.9%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	9.7%
+2 to 7%	16.1%
Little or No Change	54.8%
–2 to 7%	16.1%
–8% or more	3.2%

CAPITAL SPENDING IN 2006

No Increase	47.1%
0-5%	44.1%
6-10%	2.9%
+10%	5.9%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	42.9%	57.1%
Service Vehicles	32.4%	67.6%
Business Information Systems	27.3%	72.7%

BORROWING PLANS IN 2006

No Change	29.4%
Take on More Debt	11.8%
Retire Debt	38.2%
Not Carrying Debt	20.6%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	6.3%	31.3%	53.1%	9.4%	0.0%
–2WD (40-100 hp)	3.1%	31.3%	53.1%	12.5%	0.0%
–2WD (>100 hp)	0.0%	18.2%	66.7%	12.1%	3.0%
–4WD (All)	6.7%	26.7%	50.0%	13.3%	3.3%
SP Combines	0.0%	11.1%	72.2%	5.6%	11.1%
Rect. Balers	4.0%	24.0%	52.0%	20.0%	0.0%
Round Balers	3.8%	34.6%	46.2%	7.7%	7.7%
Forage Harvesters	4.5%	9.1%	59.1%	13.6%	13.6%
Planters (All)	4.3%	21.7%	60.9%	4.3%	8.7%
Mowers/Cond.	8.0%	44.0%	40.0%	0.0%	8.0%
Windrowers/Swathers	5.0%	10.0%	70.0%	5.0%	10.0%
Field Cultivators	0.0%	9.5%	76.2%	4.8%	9.5%
Farm Loaders	3.4%	27.6%	58.6%	6.9%	3.4%
Chisel Plows	0.0%	8.7%	78.3%	4.3%	8.7%
Disk Harrows	0.0%	12.0%	72.0%	4.0%	12.0%
Air Seeders/Drills	4.3%	0.0%	78.3%	0.0%	17.4%
SP Sprayers	0.0%	9.5%	71.4%	4.8%	14.3%
Lawn & Garden	17.2%	34.5%	41.4%	6.9%	0.0%
GPS	0.0%	21.1%	63.2%	0.0%	15.8%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	35.5%	58.1%	6.5%
Service Techs.	57.6%	42.4%	0.0%
Wholegood Sales	43.8%	53.1%	3.1%
Administration	7.1%	82.1%	10.7%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Health Care Affordability	87.1%	9.7%	3.2%
Energy/Fuel Costs	84.4%	9.4%	6.3%
Technician Availability	46.9%	50.0%	3.1%
Steel Price/Affordability	45.5%	45.5%	9.1%
Box Stores	35.5%	38.7%	25.8%
Shrinking Customer Base	34.5%	51.7%	13.8%
Product Reliability	33.3%	53.3%	13.3%
Dealership "Purity" Efforts by Majors	33.3%	33.3%	33.3%
Internet Sales	25.8%	41.9%	32.3%
Industry Consolidation	23.3%	56.7%	20.0%
Succession Policies	16.7%	50.0%	33.3%
Shortline Warranty Policies	10.3%	48.3%	41.4%
Next Farm Bill	10.0%	53.3%	13.3%
Tractor Test Legislation	3.3%	40.0%	56.7%

SOUTHEAST REGION

The outlook of farm equipment dealers in this region is slightly more upbeat than that of their counterparts in the surrounding Northeast and Central regions. Some 38% of those responding to the *2006 Business Trends Survey* expect to see sales revenues from new equipment to improve during the year, while 28% are projecting a sales slowdown.

Of the dealers expressing a positive outlook for '06, 28% project improving sales ranging between 2-7% and 10% see it growing by 8% or more.

Their outlook for previously owned equipment is even better. More than 42% see improving prospects for moving used machinery during the year, and less than 20% see the sale of used equipment declining somewhat.

Along with their overall view that 2006 holds the potential for another solid sales year, 62.5% of dealers in the Southeast region are planning to up their non-retail capital spending. This ranks them second only behind the Far West dealers in increasing their capital investment during the year. Tops on the list for additional spending include business information systems (50%) and service vehicles (48.9%).

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Alabama	44,000	8.7 million	198
Arkansas	47,500	14.4 million	303
Florida	43,000	10.1 million	235
Georgia	49,000	10.7 million	218
Kentucky	85,000	13.8 milion	162
Louisiana	27,200	7.85 million	289
Mississippi	42,200	11.05 million	262
North Carolina	52,000	9.05 million	173
South Carolina	24,400	4.85 million	199
Tennessee	85,000	11.6 million	136
Virginia	47,500	8.6 million	181
West Virginia	20,800	3.6 million	173

SURVEY SUMMARY

Expecting Revenue Gains: 38%
Expecting Sales Revenue Loss: 28%
Increasing Non-Retail Capital Spending: 62.5%
Most Promising Equipment Opportunities: Farm Loaders, Lawn/Garden, 2WD>40 hp, 4WD and 2WD 40-100 hp Tractors, Round Balers, 2WD<100 hp
Dealer Affiliation (*% of respondents*): AGCO 21%, Case IH 18%, John Deere 20%, New Holland 27%, Independent 14%
Avg. Dealer Employment: 16.7

MAJOR LINES

AGCO	21.6%
Case IH	17.6%
Deere	19.6%
New Holland	27.5%
None	13.7%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	10.0%
+2 – 7%	28.0%
Little of No Change	34.0%
–2 – 7%	14.0%
–8% or more	14.0%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	17.0%
+2 – 7%	25.5%
Little of No Change	38.3%
–2 – 7%	8.5%
–8% or more	10.6%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
– 2WD (<40hp)	13.3%	31.1%	46.7%	4.4%	4.4%
–2WD (40-100hp)	2.3%	31.8%	45.5%	18.2%	2.3%
–2WD (>100hp)	4.9%	24.4%	51.2%	17.1%	2.4%
–4WD (All)	7.3%	36.6%	48.8%	4.9%	2.4%
SP Combines	0.0%	16.1%	77.4%	3.2%	3.2%
Rect. Balers	0.0%	10.3%	84.6%	5.1%	0.0%
Round Balers	2.3%	27.3%	56.8%	11.4%	2.3%
Forage Harvesters	0.0%	0.0%	90.0%	3.3%	6.7%
Planters (All)	8.6%	20.0%	65.7%	5.7%	0.0%
Mowers/Cond.	0.0%	26.3%	63.2%	7.9%	2.6%
Windowers/Swathers	0.0%	3.4%	89.7%	6.9%	0.0%
Field Cultivators	0.0%	2.6%	84.6%	5.1%	7.7%
Farm Loaders	13.3%	53.3%	24.4%	4.4%	4.4%
Chisel Plows	0.0%	2.6%	84.2%	7.9%	5.3%
Disk Harrows	0.0%	22.5%	67.5%	5.0%	5.0%
Air Seeders/Drills	0.0%	8.1%	81.1%	5.4%	5.4%
SP Sprayers	2.7%	24.3%	64.9%	2.7%	5.4%
Lawn & Garden	13.6%	36.4%	38.6%	6.8%	4.5%
GPS	11.4%	11.4%	71.4%	2.9%	2.9%

SOUTHEAST REGION cont'd

CAPITAL SPENDING IN 2006

No Increase 37.5%
0-5%..50.0%
6-10%.......................................2.1%
+10% 10.4%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	43.8%	56.3%
Service Vehicles	48.9%	51.1%
Business Information Systems	50.0%	50.0%

BORROWING PLANS IN 2006

No Change..............................38.8%
Take on More Debt 18.4%
Retire Debt 26.5%
Not Carrying Debt 3.0%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department	23.4%	74.5%	2.1%
Service Technicians	59.2%	40.8%	0.0%
Wholegood Sales	19.1%	80.9%	0.0%
Administration	14.6%	81.3%	4.2%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Health Care Affordability	72.9%	25.0%	2.1%
Energy/Fuel Cost	68.8%	29.2%	2.1%
Steel Price/Supplies	58.7%	41.3%	0.0%
Technician Availability	46.8%	42.6%	10.6%
Shrinking Customer Base	43.2%	40.9%	15.9%
Product Reliability	40.4%	42.6%	17.0%
Industry Consolidiation	39.1%	43.5%	17.4%
Dealership "Purity" Efforts by Major Manufacturers	36.2%	40.4%	23.4%
mpact of Box Stores	30.4%	30.4%	39.1%
Next Farm Bill	23.4%	53.2%	23.4%
Internet Sales	20.0%	37.8%	42.2%
Succession Policies	13.0%	39.1%	47.8%
Tractor Test Legislation	8.7%	45.7%	45.7%
Shortline Warranty Policies	0.0%	60.9%	39.1%

CENTRAL REGION

As might be expected, the dealers comprising the Central region in the *2006 Business Trends Survey* are about as middle of the road as they come. Looking ahead to business prospects for '06, about one-third of them are looking for improving sales revenues and about one-third see sales revenue slipping some, leaving about one-third who expect little or no change to business levels during the year.

Actually, about 37% of the Central region dealers see sales improving somewhat — 33% say between 2-7%.

You won't find a noticeable difference in the outlook for used equipment here either. Around 36% are looking at a more favorable market in '06 and 25% expecting sales for previously owned equipment to drift downward.

Their middle-of-the-road approach is apparent in the spending and hiring plans to 2006 as well.

About half (48.6%) of dealers in the Central region are planning to increase their non-retail capital spending in '06. And half (50%) of those will increase their expenditures in the area of service vehicles.

When it comes to staff additions, almost exactly half (50.5%) say they are looking to increase their number of service techs.

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Illinois	73,000	27.5 million	377
Indiana	59,300	15.0 million	253
Iowa	89,700	31.7 million	353
Michigan	53,200	10.1 million	190
Minnesota	79,800	26.6 million	346
Missouri	106,000	30.1 million	284
Ohio	77,300	14.6 million	189
Wisconsin	76,500	15.5 million	203

SURVEY SUMMARY

Expecting Revenue Gains: 36.9%
Expecting Sales Revenue Loss: 32%
Increasing Non-Retail Capital Spending: 48.6%
Most Promising Equipment Opportunities: Lawn/Garden, 2WD>40 hp Tractors, GPS, 2WD 40-100 hp Tractors, Planters, Mower Conditioners, Farm Loaders
Dealer Affiliation (*% of respondents*): AGCO 19%, Case IH 19%, John Deere 24%, New Holland 24%, Independent 14%
Avg. Dealer Employment: 22.4

CENTRAL REGION cont'd

MAJOR LINES

AGCO 18.6%
Case IH 19.5%
Deere...23.9%
New Holland 23.9%
None 14.2%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	3.9%
+2 – 7%	33.0%
Little of No Change	31.1%
–2 – 7%	16.5%
–8% or more	15.5%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	6.5%
+2 – 7%	29.3%
Little of No Change	39.1%
–2 – 7%	13.0%
–8% or more	12.0%

CAPITAL SPENDING IN 2006

No Increase 51.4%
0-5%.......................................32.7%
6-10%.......................................8.4%
+10% 7.5%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	32.7%	67.3%
Service Vehicles	50.0%	50.0%
Business Information Systems	43.1%	56.9%

BORROWING PLANS IN 2006

No Change..............................42.3%
Take on More Debt 12.5%
Retire Debt 21.2%
Not Carrying Debt 24.0%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
– 2WD (<40 hp)	7.4%	33.7%	44.2%	7.4%	7.4%
–2WD (40-100 hp)	1.0%	36.5%	50.0%	8.3%	4.2%
–2WD (>100 hp)	0.0%	22.8%	57.6%	14.1%	5.4%
–4WD (All)	3.2%	22.3%	57.4%	7.4%	9.6%
SP Combines	1.2%	16.5%	51.8%	18.8%	11.8%
Rect. Balers	0.0%	14.9%	66.7%	10.3%	8.0%
Round Balers	0.0%	23.7%	60.2%	10.8%	5.4%
Forage Harvesters	0.0%	11.0%	72.0%	9.8%	7.3%
Planters (All)	2.2%	32.6%	44.9%	13.5%	6.7%
Mowers/Cond.	3.3%	29.3%	60.9%	3.3%	3.3%
Windowers/Swathers	1.3%	7.5%	81.3%	6.3%	3.8%
Field Cultivators	4.5%	14.6%	50.6%	18.0%	12.4%
Farm Loaders	4.3%	22.6%	58.1%	8.6%	6.5%
Chisel Plows	3.4%	8.0%	72.8%	10.2%	7.3%
Disk Harrows	2.3%	18.2%	61.4%	9.1%	9.1%
Air Seeders/Drills	0.0%	9.9%	75.3%	3.7%	11.1%
SP Sprayers	6.2%	14.8%	70.4%	1.2%	7.4%
Lawn & Garden	10.2%	38.8%	38.8%	6.1%	6.1%
GPS	13.6%	27.3%	50.0%	3.4%	5.7%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department	23.1%	76.0%	1.0%
Service Technicians	50.5%	46.7%	2.9%
Wholegood Sales	22.1%	76.0%	1.9%
Adminstration	2.9%	94.3%	2.9%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Health Care Affordability	78.1%	19.0%	2.9%
Energy/Fuel Cost	67.3%	31.7%	1.0%
Shrinking Customer Base	51.6%	36.8%	11.6%
Technician Availability	44.0%	42.0%	14.0%
Steel Price/Supplies	38.4%	59.6%	2.0%
Dealership "Purity" Efforts by Major Manufacturers	30.3%	34.3%	35.4%
Product Reliability	26.7%	43.6%	29.7%
Next Farm Bill	25.3%	55.6%	19.2%
Impact of Box Stores	23.8%	48.5%	27.7%
Industry Consolodiation	20.8%	41.6%	37.6%
Success Policies	16.0%	43.0%	41.0%
Internet Sales	10.0%	45.0%	45.0%
Tractor Test Legislation	9.9%	34.7%	55.4%
Shortline Warranty Policies	8.1%	40.4%	51.5%

WEST REGION

Of all the dealers surveyed, those in the West region have the dimmest outlook for 2006 when it comes to growing sales revenues. Nearly 41% of the respondents in this area of the country see sales dropping and less than 29% see signs of growth in '06 compared to '05. For those who see poor prospects for growth, 31% say they expect sales to drop between 2-7% and more than 10% are projecting sales revenues to decline by more than 8%.

This seems somewhat puzzling as their counterparts farther west (see Far West region) are far and away the most optimistic about their prospects in '06.

This same group is far more optimistic when it comes to the potential for improved sales of used equipment, though less than half (45.5%) see it increasing. Other than the dealers in the Far West region, fewer survey respondents (11.3%) in the West see the used equipment sales falling during the year.

Despite their less-than-rosy view, nearly 60% of the dealers in the West region say they are planning to increase their capital expenditures in '06, more than their colleagues in Midwest or Northeast, and only slightly less than the dealers in the Southeast.

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Colorado	30,900	30.9 million	1,000
Idaho	25,000	11.8 million	472
Kansas	64,500	47.2 million	732
Montana	28,000	60.1 million	2,146
Nebraska	48,300	45.9 million	950
North Dakota	30,300	39.4 million	1,300
South Dakota	31,600	43.8 million	1,386
Utah	15,300	11.6 million	758
Wyoming	9,200	34.4 million	3,743

SURVEY SUMMARY

Expecting Revenue Gains: 28.5%
Expecting Sales Revenue Loss: 40.8%
Increasing Non-Retail Capital Spending: 58.3%
Most Promising Equipment Opportunities: GPS, Windrowers, Lawn/Garden, 2WD>40 hp, Air Seeders/Drills, SP Sprayers, Planters
Dealer Affiliation (*% of respondents*): AGCO 15%, Case IH 23%, John Deere 26%, New Holland 25%, Independent 11%
Avg. Dealer Employment: 30.6

MAJOR LINES

AGCO	15.1%
Case IH	22.6%
Deere	26.4%
New Holland	24.5%
None	11.3%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	6.1%
+2 – 7%	22.4%
Little of No Change	30.6%
–2 – 7%	30.6%
–8% or more	10.2%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	9.1%
+2 – 7%	36.4%
Little of No Change	43.2%
–2 – 7%	6.8%
–8% or more	4.5%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
– 2WD (<40 hp)	2.1%	34.0%	57.4%	4.3 %	2.1%
–2WD (40-100 hp)	4.3%	23.9%	65.2%	6.5%	0.0%
–2WD (>100 hp)	2.2%	23.9%	54.3%	19.6 %	0.0%
–4WD (All)	2.1%	17.0%	57.4%	14.9%	8.5%
SP Combines	7.0%	20.9%	51.2%	14.0%	7.0%
Rect. Balers	5.4%	5.4%	86.5%	2.7%	0.0%
Round Balers	6.8%	22.7%	53.3%	11.4%	6.8%
Forage Harvesters	0.0%	8.1%	83.8%	5.4%	2.7%
Planters (All)	9.1%	20.5%	61.4%	9.1%	0.0%
Mowers/Cond.	2.2%	17.8%	62.2%	13.3%	4.4%
Windowers/Swathers	2.3%	39.5%	44.2%	9.3%	4.7%
Field Cultivators	0.0%	9.3%	67.4%	14.0%	9.3%
Farm Loaders	11.1%	17.8%	57.8%	8.9%	4.4%
Chisel Plows	0.0%	4.9%	70.7%	14.6%	9.8%
Disk Harrows	4.8%	9.5%	66.7%	7.1%	11.9%
Air Seeders/Drills	7.0%	27.9%	62.8%	0.0%	2.3%
SP Sprayers	7.9%	26.3%	63.2%	0.0%	2.6%
Lawn & Garden	8.3%	33.3%	47.9%	10.4%	0.0%
GPS	26.7%	28.9%	42.2%	0.0%	2.2%

CAPITAL SPENDING IN 2006

No Increase	41.7%
0-5%	47.9%
6-10%	8.3%
+10%	2.1%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department	34.8%	63.0%	2.2%
Service Technicians	62.5%	37.5%	0.0%
Wholegood Sales	25.0%	72.9%	2.1%
Administration	13.0%	80.4%	6.5%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	40.9%	59.1%
Service Vehicles	54.3%	45.7%
Business Information Systems	50.0%	50.0%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Cost	80.9%	17.0%	2.1%
Health Care Affordability	70.8%	25.0%	4.2%
Shrinking Customer Base	60.0%	35.6%	4.4%
Technician Availability	50.0%	39.1%	10.9%
Steel Price/Supplies	47.9%	43.8%	8.3%
Next Farm Bill	45.5%	40.9%	13.6%
Product Reliability	40.0%	33.3%	26.7%
Dealership "Purity" Efforts by Major Manufacturers	35.6%	40.0%	24.4%
Industry Consolidation	23.4%	53.2%	23.4%
Competition from Box Stores	14.0%	41.9%	44.2%
Succession Policies	9.1%	40.9%	50.0%
Shortline Warranty Policies	8.8%	35.6%	55.6%
Internet Sales	6.5%	43.5%	50.0%
Tractor Test Legislation	4.5%	45.5%	50.0%

BORROWING PLANS IN 2006

No Change	35.4%
Take on More Debt	4.2%
Retire Debt	47.9%
Not Carrying Debt	12.5%

SOUTHWEST REGION

While not rivaling the dealers in the Far West region when it comes to their confidence for improving business levels for the year, 41% of dealers in the Southwest area of the country are expecting higher sales revenues from new equipment in '06 compared with the previous year. Only 17% see sales revenue shrinking compared with '05 levels.

This view pretty much holds true when it comes to used equipment as well. Almost the same percentage of respondents, 41%, see business revenues from used equipment increasing in '06. Exactly one-third of these (33.3%) see revenues from the sale of previously owned equipment rising between 2-7% and 7.4% are projecting growth of more than 8%. Slightly more than 18% are forecasting used equipment sales to fall when compared with the levels of '05.

A solid 57% of the dealers in the Southwest say they intend to increase their capital expenditures in '06. Slightly over 48% of them indicated they will be investing in their parts department and about 41% are planning additional spending for service and vehicles.

An even 70% of the dealers responding to the survey plan to add service staff in '06. Only half that many, or about 36%, say they are looking to increase sales staffing during the year. None will be increasing the number of the administrative personnel they currently employ, but 7% say will reduce staffing in this area.

SURVEY SUMMARY

Expecting Revenue Gains: 41.3%
Expecting Sales Revenue Loss: 17.2%
Increasing Non-Retail Capital Spending: 56.7%
Most Promising Equipment Opportunities: Farm Loaders, 4WD Tractors, Round Balers, Lawn/Garden, Chisel Plows, GPS, SP Sprayers
Dealer Affiliation (*% of respondents*): AGCO 23%, Case IH 23%, John Deere 9%, New Holland 19%, Independent 26%
Avg. Dealer Employment: 19.6

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Arizona	10,200	26.4 million	2,588
New Mexico	17,500	44.7 million	2,554
Oklahoma	83,500	33.7 million	404
Texas	229,000	130 million	568

SOUTHWEST REGION cont'd

MAJOR LINES

AGCO	22.6%
Case IH	22.6%
Deere	9.7%
New Holland	19.4%
Independent	25.8%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	10.3%
+2 to 7%	31.0%
Little or No Change	41.4%
–2 to 7%	13.8%
–8% or more	3.4%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	7.4%
+2 to 7%	33.3%
Little or No Change	44.4%
–2 to 7%	7.4%
–8% or more	7.4%

CAPITAL SPENDING IN 2006

No Increase	43.3%
0-5%	36.7%
6-10%	13.3%
+10%	6.7%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	48.3%	51.7%
Service Vehicles	41.4%	58.6%
Business Information Systems	34.6%	65.4%

BORROWING PLANS IN 2006

No Change	46.7%
Take on More Debt	10.0%
Retire Debt	23.3%
Not Carrying Debt	20.0%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	4.0%	36.0%	52.0%	4.0%	4.0%
–2WD (40-100 hp)	7.7%	30.8%	53.8%	7.7%	0.0%
–2WD (>100 hp)	0.0%	21.7%	69.6%	4.3%	4.3%
–4WD (All)	7.4%	37.0%	51.9%	0.0%	3.7%
SP Combines	0.0%	12.5%	81.3%	0.0%	6.3%
Rect. Balers	0.0%	15.8%	73.7%	10.5%	0.0%
Round Balers	4.2%	37.5%	41.7%	12.5%	4.2%
Forage Harvesters	0.0%	0.0%	100.0%	0.0%	0.0%
Planters (All)	5.9%	0.0%	76.5%	17.6%	0.0%
Mowers/Cond.	4.3%	17.4%	65.2%	8.7%	4.3%
Windrowers/Swathers	4.5%	13.6%	72.7%	4.5%	4.5%
Field Cultivators	5.0%	10.0%	75.0%	0.0%	10.0%
Farm Loaders	6.9%	51.7%	34.5%	6.9%	0.0%
Chisel Plows	0.0%	33.3%	61.1%	0.0%	5.6%
Disk Harrows	4.8%	14.3%	71.4%	4.8%	4.8%
Air Seeders/Drills	0.0%	5.9%	82.4%	5.9%	5.9%
SP Sprayers	0.0%	26.7%	66.7%	0.0%	6.7%
Lawn & Garden	13.0%	34.5%	41.4%	6.9%	0.0%
GPS	0.0%	21.7%	60.9%	4.3%	0.0%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	27.6%	72.4%	0.0%
Service Techs.	70.0%	30.0%	0.0%
Wholegood Sales	35.7%	64.3%	0.0%
Administration	0.0%	92.9%	7.1%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	84.4%	9.4%	6.3%
Health Care Affordability	87.1%	9.7%	3.2%
Technician Availability	46.9%	50.0%	3.1%
Steel Price/Affordability	45.5%	45.5%	9.1%
Product Reliability	33.3%	53.3%	13.3%
Shrinking Customer Base	34.5%	51.7%	13.8%
Dealership "Purity" Efforts by Majors	33.3%	33.3%	33.3%
Box Stores	35.5%	38.7%	25.8%
Internet Sales	25.8%	41.9%	32.3%
Industry Consolidation	23.3%	56.7%	20.0%
Succession Policies	16.7%	50.0%	33.3%
Shortline Warranty Policies	10.3%	48.3%	41.4%
Next Farm Bill	10.0%	53.3%	13.3%
Tractor Test Legislation	3.3%	40.0%	56.7%

FAR WEST REGION

This group of dealers easily outdistanced all of the six other regions of country surveyed for *Ag Industry Watch's* 2006 Business Trends Survey when it comes to confidence and optimism.

Call it an anomaly, but 81% of the respondents from the region look for sales revenues to improve by at least 2% in '06. Of those, 38% expect business levels to improve by more than 8%. Not a single dealer in the Far West region sees sales slipping below '05 levels. This is pretty strong statement considering '04 and '05 sales set records for most dealers in the U.S.

Dealers in the Far Western states are also looking for a strong year in the sale of used equipment as well. Only 5% of them see used equipment sales slipping below '05 levels. An even 60% project previously owned equipment sales to improve, as 45% of the respondents see it growing between 2-7%.

With this level of confidence going in, it stands to reason that the Far West dealers are planning a significantly higher level of capital spending in '06 than those in other parts of the country. Nearly 86% of these responding dealers have plans to up the capital investments (68% in service vehicles, 67% in business information systems and 65% in parts department).

In terms of adding staff in the coming year, 85% are looking for service techs, 37% have plans to increase sales staffing and 35% will add parts department personnel.

FACTS ABOUT THE REGION

States Covered:	Farms	Acreage	Farm Size (acres)
Alaska	620	900,000	1,452
California	77,000	26.7 million	347
Hawaii	5,500	1.3 million	236
Nevada	3,000	6.3 million	2,100
Oregon	40,000	17.2 million	430
Washington	35,000	15.2 million	434

SURVEY SUMMARY

Expecting Revenue Gains: 81%
Expecting Sales Revenue Loss: 0%
Increasing Non-Retail Capital Spending: 85.7%
Most Promising Equipment Opportunities: 4WD, 2WD>40, 2WD 40-100, 2WD<100 hp, GPS, Lawn/Garden, Windrowers
Dealer Affiliation (*% of respondents*): AGCO 24%, Case IH 10%, John Deere 19%, New Holland 38%, Independent 9%
Avg. Dealer Employment: 26.7

MAJOR LINES

AGCO	23.8%
Case IH	9.5%
Deere	19.0%
New Holland	38.1%
None	9.5%

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	38.1%
+2 – 7%	42.9%
Little of No Change	19.0%
–2 – 7%	0.0%
–8% or more	0.0%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	15.0%
+2 – 7%	45.0%
Little of No Change	35.0%
–2 – 7%	0.0%
–8% or more	5.0%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
– 2WD (<40hp)	31.6%	47.4%	21.1%	0.0%	0.0%
–2WD (40-100hp)	10.5%	63.2%	26.3%	0.0%	0.0%
–2WD (>100hp)	5.6%	61.1%	33.3%	0.0%	0.0%
–4WD (All)	37.5%	43.8%	18.8%	0.0%	0.0%
SP Combines	11.1%	0.0%	88.9%	0.0%	0.0%
Rect. Balers	26.7%	13.3%	53.3%	6.7%	0.0%
Round Balers	7.7%	15.4%	76.9%	0.0%	0.0%
Forage Harvesters	0.0%	9.1%	90.9%	0.0%	0.0%
Planters (All)	0.0%	0.0%	100.0%	0.0%	0.0%
Mowers/Cond.	25.0%	16.7%	58.3%	0.0%	0.0%
Windowers/Swathers	30.8%	23.1%	46.2%	0.0%	0.0%
Field Cultivators	0.0%	9.1%	81.8%	9.1%	0.0%
Farm Loaders	20.0%	20.0%	60.0%	0.0%	0.0%
Chisel Plows	0.0%	18.2%	72.7%	9.1%	0.0%
Disk Harrows	0.0%	33.3%	58.3%	8.3%	0.0%
Air Seeders/Drills	0.0%	8.3%	91.7%	0.0%	0.0%
SP Sprayers	0.0%	23.1%	69.2%	7.7%	0.0%
Lawn & Garden	33.3%	26.7%	40.0%	0.0%	0.0%
GPS	30.8%	30.8%	38.5%	0.0%	0.0%

FAR WEST REGION cont'd

CAPITAL SPENDING IN 2006

No Increase	14.3%
0-5%	52.4%
6-10%	23.8%
+10%	9.5%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	65.0%	35.0%
Service Vehicles	68.4%	31.6%
Business Information Systems	66.7%	33.3%

BORROWING PLANS IN 2006

No Change	47.6%
Take on More Debt	9.5%
Retire Debt	38.1%
Not Carrying Debt	4.8%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department	35.0%	65.0%	0.0%
Service Technicians	85.0%	15.0%	0.0%
Wholegood Sales	36.8%	63.2%	0.0%
Adminstration	16.7%	83.3%	0.0%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Health Care Affordability	78.9%	21.1%	0.0%
Technician Availability	70.0%	25.0%	5.0%
Energy/Fuel Cost	65.0%	35.0%	0.0%
Steel Price/Supplies	36.8%	57.9%	5.3%
Product Reliability	36.8%	42.1%	21.1%
Shrinking Customer Base	35.3%	52.9%	11.8%
Dealership "Purity" Efforts by Major Manufacturers	26.3%	47.4%	26.3%
Industry Consolidation	26.3%	42.1%	31.6%
Next Farm Bill	17.6%	35.3%	47.1%
Internet Sales	15.8%	47.4%	36.8%
Shortline Warranty Policies	9.1%	33.3%	55.6%
Succession Policies	5.6%	61.1%	33.3%
Tractor Test Legislation	5.6 %	55.6%	38.9%

AGCO DEALERS

Based on the results of *Ag Industry Watch's 2006 Business Trends Survey*, if you look only at the big picture of ag equipment sales in 2006, AGCO dealers don't look a whole lot different that the other colors of the farm machinery rainbow. Basically, 37.5% of it dealers see business getting better in 2006 then what it was in 2005. A little under 27% of them see things slowing down during the year.

But when it comes to individual equipment lines, more than a subtle change is obvious. For example, for 2-WD tractors under 40 hp, not quite 32% of AGCO's dealers see sales revenues from these vehicles picking up. This is a significantly lower projections than those coming from the dealers of the other three major manufacturers, and more than 5% lower than the view expressed by the independent dealers. The same holds true for other 2-WD tractor categories.

On the other hand, AGCO dealers are far more enthusiastic about increasing revenues from the sale of 4-WD tractors than the other major manufacturers, including the independents. A full 42% of them look for the big equipment to sell better in '06 compared with the previous year.

AGCO FACTS & FIGURES

Founded:	1990
Worldwide Dealers:	3,900
North American Dealers:	1,900 (est.)
Ag Equipment Sales ('04):	$5.3 billion

AGCO was formed in 1990 through a management buyout of Deutz Allis, and began manufacturing and distributing farm equipment under the AGCO Allis and Gleaner brand names. This was followed by number acquisitions including: Hesston and White tractor ('91); White-New Idea and the North American distribution rights to Massey Ferguson ('93); worldwide holdings of Massey Ferguson, McConnell tractors ('94); AgEquipment Group ('95); Iochpe-Maxion agricultural equipment company, Brazil, Deutz Argentina, Western Combine and Portage Manufacturing in Canada ('96); Fendt, GmbH, and Dronningborg Industries, Germany ('97); Spra-Coupe and Willmar ('98); Hay and Forage Industries ('00); Ag-Chem Equipment Co.('01); Caterpillar's Challenger track tractors, Sunflower Manufacturing Co. ('02); Valtra Corp. ('04).

AGCO DEALERS cont'd

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	7.8%
+2 to 7%	29.7%
Little or No Change	35.9%
–2 to 7%	14.1%
–8% or more	12.5%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	10.7%
+2 to 7%	35.7%
Little or No Change	30.4%
–2 to 7%	10.7%
–8% or more	12.5%

CAPITAL SPENDING IN 2006

No Increase	40.6%
0-5%	37.5%
6-10%	7.8%
+10%	14.1%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	48.3%	51.7%
Service Vehicles	54.2%	45.8%
Business Information Systems	35.6%	64.4%

BORROWING PLANS IN 2006

No Change	50.8%
Take on More Debt	9.5%
Retire Debt	20.6%
Not Carrying Debt	19.0%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	3.3%	28.3%	48.3%	11.7%	8.3%
–2WD (40-100 hp)	4.8%	27.4%	50.0%	14.5%	3.2%
–2WD (>100 hp)	0.0%	22.4%	60.3%	13.8%	3.4%
–4WD (All)	8.1%	33.9%	41.9%	8.1%	8.1%
SP Combines	4.1%	14.3%	71.4%	6.1%	4.1%
Rect. Balers	3.7%	25.9%	59.3%	11.1%	0.0%
Round Balers	3.4%	25.4%	50.8%	16.9%	3.4%
Forage Harvesters	0.0%	8.5%	74.5%	8.5%	8.5%
Planters (All)	0.0%	17.0%	69.8%	11.3%	1.9%
Mowers/Cond.	1.8%	38.2%	45.5%	9.1%	5.5%
Windrowers/Swathers	6.0%	22.0%	64.0%	2.0%	6.0%
Field Cultivators	5.5%	7.3%	72.7%	3.6%	10.9%
Farm Loaders	7.8%	34.4%	45.3%	4.7%	7.8%
Chisel Plows	3.7%	13.0%	74.1%	1.9%	7.4%
Disk Harrows	3.6%	18.2%	65.5%	5.5%	7.3%
Air Seeders/Drills	0.0%	5.9%	76.5%	9.8%	7.8%
SP Sprayers	2.0%	12.0%	78.0%	2.0%	6.0%
Lawn & Garden	5.2%	29.3%	55.2%	6.9%	3.4%
GPS	7.7%	13.5%	67.3%	5.8%	5.8%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	32.8%	65.6%	1.6%
Service Techs.	61.9%	38.1%	0.0%
Wholegood Sales	26.2%	72.1%	1.6%
Administration	5.2%	94.8%	4.1%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	73.4%	23.4%	3.1%
Health Care Affordability	67.7%	25.8%	6.5%
Technician Availability	54.8%	30.6%	14.5%
Shrinking Customer Base	51.7%	36.2%	12.1%
Steel Price/Affordability	40.0%	56.7%	3.3%
Product Reliability	38.7%	37.1%	24.2%
Dealership "Purity" Efforts by Majors	38.3%	35.0%	26.7%
Industry Consolidation	26.2%	39.3%	34.4%
Next Farm Bill	24.1%	51.7%	24.1%
Box Stores	21.3%	41.0%	37.7%
Internet Sales	11.7%	43.3%	45.0%
Shortline Warranty Policies	8.2%	44.3%	47.5%
Succession Policies	6.6%	54.1%	39.3%
Tractor Test Legislation	5.0%	43.3%	51.7%

CASE IH DEALERS

The big difference you can see with Case IH dealers is they are far more confident in combine sales for the year. Whereas, none of the other manufacturers ventured past a 20% increase in self-propelled units for 2006, Case IH dealers are looking at a hefty 31% rise.

This group of dealers was also the most optimistic when it came to the smaller tractors. Less than 5% of them project a downturn in sales of units smaller than 40 hp, and only 6.2% see sales of 40-100 hp tractors slipping in '06.

As a whole, Case IH dealerships see their best potential for increased sales during the year coming in their lawn and garden equipment lines, (56.3%). Next on their list is GPS and technology products with 47.4% of the dealers seeing signs of sales growth. About a third of Case IH dealers also see potential for moving more disk harrows, self-propelled sprayers and various planting equipment.

Case IH dealerships aren't showing significant concerns with the dealer-manufacturer issues. Less than 30% indicate they are either concerned with manufacturer "purity" efforts by their supplier.

CASE IH FACTS & FIGURES

Founded: 1842
Worldwide Dealers: 4,900
North American Dealers: ....1,100 (est.)
Ag Equipment Sales ('04): ....$8.0 billion

Case IH ranks as the second largest manufacturer of farm machinery in the world with an estimated 21% of the market. Foresight Research Solutions based in New York, estimates that its market share by region is as follows:

North America 26%
Europe....................21%
South America 23%

In addition to its ag equipment division, Case IH, as part of CNH Global also produces construction equipment. In this $85 billion market it ranks as the seventh largest producer of CE with sales of an estimated $3.6 billion, or less than half of their ag equipment business.

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	4.5%
+2 to 7%	34.8%
Little or No Change	30.3%
–2 to 7%	21.2%
–8% or more	9.1%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	11.3%
+2 to 7%	24.2%
Little or No Change	41.9%
–2 to 7%	12.9%
–8% or more	9.7%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	10.6%	40.9%	43.9%	4.5%	0.0%
–2WD (40-100 hp)	3.1%	40.0%	50.8%	6.2%	0.0%
–2WD (>100 hp)	1.6%	28.1%	51.6%	17.2%	1.6%
–4WD (All)	3.1%	25.0%	51.6%	17.2%	3.1%
SP Combines	5.2%	25.9%	44.8%	19.0%	5.2%
Rect. Balers	1.8%	5.3%	80.7%	12.3%	0.0%
Round Balers	1.5%	24.6%	63.1%	9.2%	1.5%
Forage Harvesters	0.0%	3.9%	78.4%	11.8%	5.9%
Planters (All)	4.8%	25.8%	53.2%	14.5%	1.6%
Mowers/Cond.	3.2%	17.5%	74.6%	4.8%	0.0%
Windrowers/Swathers	0.0%	14.0%	78.9%	7.0%	0.0%
Field Cultivators	3.3%	8.3%	63.3%	21.7%	3.3%
Farm Loaders	6.3%	8.3%	56.3%	12.5%	0.0%
Chisel Plows	0.0%	10.2%	69.5%	13.6%	6.8%
Disk Harrows	1.6%	31.7%	49.2%	11.1%	6.3%
Air Seeders/Drills	5.2%	13.8%	77.6%	1.7%	1.7%
SP Sprayers	1.9%	29.6%	64.8%	1.9%	1.9%
Lawn & Garden	14.1%	42.2%	35.9%	6.3%	1.6%
GPS	15.8%	31.6%	50.9%	1.8%	0.0%

CASE IH DEALERS cont'd

CAPITAL SPENDING IN 2006

No Increase	50.0%
0-5%	41.2%
6-10%	7.4%
+10%	1.5%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	33.3%	66.7%
Service Vehicles	47.7%	52.3%
Business Information Systems	31.8%	68.2%

BORROWING PLANS IN 2006

No Change	34.4%
Take on More Debt	1.0%
Retire Debt	39.1%
Not Carrying Debt	12.5%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	32.4%	64.7%	2.9%
Service Techs.	60.3%	39.7%	0.0%
Wholegood Sales	27.5%	68.1%	4.3%
Administration	7.2%	85.5%	7.2%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	80.0%	20.0%	0.0%
Health Care Affordability	73.0%	17.5%	9.5%
Technician Availability	59.7%	30.6%	9.7%
Shrinking Customer Base	59.3%	28.8%	11.9%
Product Reliability	46.0%	46.0%	8.0%
Steel Price/Affordability	45.3%	46.9%	7.8%
Dealership "Purity" Efforts by Majors	29.0%	38.7%	32.3%
Next Farm Bill	21.7%	56.7%	21.7%
Industry Consolidation	19.4%	51.6%	29.0%
Box Stores	17.7%	46.8%	35.5%
Succession Policies	14.3%	38.1%	47.6%
Internet Sales	11.3%	45.2%	43.5%
Shortline Warranty Policies	8.1%	38.7%	53.2%
Tractor Test Legislation	4.8%	40.3%	54.8%

JOHN DEERE DEALERS

Looking ahead toward new equipment sales for 2006, nearly 40% of Deere dealers see improved levels, which is pretty much in line with the other majors. A little over 24% of the dealers handling Deere equipment see business slipping 2% or more during the year. This puts them right in the middle of the pack.

The same holds true for when it comes to used equipment sales for the year. About 37% see business improving. Only about 11% say that the used equipment business will be worse in 2006 than in '05. This makes them the most optimistic of all the dealers polled.

What sets John Deere dealers apart from the dealers of the other major, full-line manufacturers is the area of "Industry Concerns."

The Deere dealers are clearly more concerned about the "Manufacturer-Dealer" issues than are the dealers representing the other major equipment makers. This appears to be falling in line with the buzz throughout the industry. The owner-operators of nearly 40% of John Deere stores say they are particularly concerned about the manufacturer pushing them to handle only JD equipment and to reduce the number of shortline brands that they carry.

While it isn't an "official" position on their part, Deere dealers are feeling more heat to improve market share in their areas of responsibility, sometimes through merging or acquiring other Deere dealers near their territories. Nearly 31% of them indicate that this was a significant concern of theirs.

Deere's decision to sell lawn and garden equipment directly through the big box stores also clearly concerns their dealers. Almost 31% of their dealers say they are concerned about this move as well. In each of these areas, as well as succession policies, Deere dealers outdistanced their competitors in their level of concern.

In the three major regions of the world, Deere ranks first in North America with an estimated 37% market share in ag equipment sales. It is also first in Europe with a 23% market share. In South America, though, Deere comes in third behind AGCO and CNH with an estimated 10% of the market.

JOHN DEERE FACTS & FIGURES

Founded:	1837
North American Dealers:	1,600
2004 Sales:	$9.7 billion

In addition to ag equipment, Deere & Co. also operates four other divisions. Of its total net sales and revenues of $21.9 billion in 2005, farm equipment sales represented 48% of the total.

It's Construction & Forestry products accounted for 24% of '05 revenues, Commercial & Consumer Products brought in 16% of the total, Credit Services made up 7% and other comprised 5%. In the construction equipment area, Deere ranks fourth among all major producers, behind Caterpillar, Komatsu and Terex.

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	7.6%
+2 to 7%	31.8%
Little or No Change	36.4%
–2 to 7%	18.2%
–8% or more	6.1%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	9.1%
+2 to 7%	38.2%
Little or No Change	41.8%
–2 to 7%	9.1%
–8% or more	1.8%

CAPITAL SPENDING IN 2006

No Increase	45.5%
0-5%	42.4%
6-10%	7.6%
+10%	4.5%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	41.3%	58.7%
Service Vehicles	58.5%	41.5%
Business Information Systems	53.8%	46.2%

BORROWING PLANS IN 2006

No Change	31.3%
Take on More Debt	12.5%
Retire Debt	32.8%
Not Carrying Debt	23.4%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	12.3%	33.8%	49.2%	3.1%	1.5%
–2WD (40-100 hp)	6.3%	35.9%	51.6%	6.3%	0.0%
–2WD (>100 hp)	3.2%	28.6%	54.0%	14.3%	0.0%
–4WD (All)	3.2%	22.6%	62.9%	8.1%	3.2%
SP Combines	0.0%	17.9%	64.3%	14.3%	3.6%
Rect. Balers	1.9%	7.7%	82.7%	7.7%	0.0%
Round Balers	5.1%	28.8%	52.5%	11.9%	1.7%
Forage Harvesters	2.0%	12.2%	81.6%	2.0%	2.0%
Planters (All)	14.0%	29.8%	47.4%	5.3%	3.5%
Mowers/Cond.	3.5%	19.3%	71.9%	5.3%	0.0%
Windrowers/Swathers	1.9%	18.9%	73.6%	5.7%	0.0%
Field Cultivators	0.0%	11.9%	66.1%	15.3%	6.8%
Farm Loaders	16.4%	26.2%	54.1%	3.3%	0.0%
Chisel Plows	0.0%	7.0%	75.4%	15.8%	1.8%
Disk Harrows	1.7%	10.2%	76.3%	6.8%	5.1%
Air Seeders/Drills	5.5%	21.8%	70.9%	0.0%	1.8%
SP Sprayers	11,5%	28.8%	55.8%	1.9%	1.9%
Lawn & Garden	9.4%	51.6%	29.7%	9.4%	0.0%
GPS	33.3%	31.7%	35.0%	0.0%	0.0%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	32.8%	65.6%	1.6%
Service Techs.	67.2%	32.8%	0.0%
Wholegood Sales	30.8%	69.2%	0.0%
Administration	9.5%	84.1%	6.3%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Health Care Affordability	75.0%	20.3%	4.7%
Energy/Fuel Costs	63.5%	34.9%	1.6%
Technician Availability	51.6%	40.6%	7.8%
Shrinking Customer Base	46.7%	40.0%	13.3%
Dealership "Purity" Efforts by Majors	39.7%	33.3%	27.0%
Steel Price/Affordability	38.7%	56.5%	4.8%
Product Reliability	32.2%	32.2%	35.6%
Industry Consolidation	30.6%	45.2%	24.2%
Next Farm Bill	30.0%	51.7%	18.3%
Box Stores	27.9%	34.4%	37.7%
Succession Policies	15.5%	41.4%	43.1%
Tractor Test Legislation	10.0%	41.7%	48.3%
Internet Sales	8.3%	40.0%	51.7%
Shortline Warranty Policies	5.2%	41.4%	51.7%

NEW HOLLAND DEALERS

When it comes to the outlook for new equipment sales, New Holland dealers fall right in the middle compared with dealers for the other major equipment maker. Nearly 38% of them see good opportunity for improved sales. Likewise, with 15.6% of them projecting lower new equipment sales, they find themselves in the middle of the pack there as well.

In terms of used equipment, the New Holland dealers are the most optimistic, with nearly 42% expressing optimism for moving more previously owned equipment during ’06.

As for small tractor sales for the year, almost 48% of New Holland dealers see the most opportunity with tractors in the size range of less than 40 hp. Of the dealers representing the major equipment makers, the New Holland owner-operators are the least optimistic about improving combine sales, with less than 18% of them expecting improvement in this category.

New Holland dealers see their best opportunity for improving sales in several equipment categories. More than a third of those polled saw good potential for lawn and garden equipment (44%), round balers (38%), mowers/conditioners (38%), and farm loaders (38%)

Based on their responses, New Holland dealers, along with their counterparts at Case IH, appear to be less threatened by manufacturer-dealer issues. Less than 30% say they are concerned about dealership “purity” efforts. Only 25% worry about the move toward dealer consolidation and only about 18% of them feel that their major’s sale of equipment through box stores is an issue.

NEW HOLLAND FACTS & FIGURES

Founded: 1895
North American Dealers: 1,160

As part of CNH Global, New Holland ag equipment, though maintaining its “blue” brand identity and loyal customers, generally gets lumped together with Case IH in the business arena.

New Holland, while producing as a complete line of farm machinery like all of the other majors, enjoys its “specialty” image. It built the first self-propelled combine in Europe and is produces the largest hay baling equipment. It also claims that more than 10,000 New Holland grape harvesters are working in vineyards around the world.

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	7.0%
+2 to 7%	33.7%
Little or No Change	29.1%
–2 to 7%	20.9%
–8% or more	9.3%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	7.8%
+2 to 7%	33.8%
Little or No Change	42.9%
–2 to 7%	10.4%
–8% or more	5.2%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	8.8%	38.8%	40.0%	5.0%	7.5%
–2WD (40-100 hp)	1.2%	34.6%	50.6%	9.9%	3.7%
–2WD (>100 hp)	2.5%	27.5%	57.5%	6.3%	6.3%
–4WD (All)	6.7%	33.3%	45.3%	4.0%	10.7%
SP Combines	1.8%	15.8%	54.4%	10.5%	17.5%
Rect. Balers	4.5%	22.4%	62.7%	10.4%	0.0%
Round Balers	2.6%	35.5%	43.4%	11.8%	6.6%
Forage Harvesters	0.0%	8.2%	75.4%	8.2%	8.2%
Planters (All)	3.2%	19.4%	56.5%	14.5%	6.5%
Mowers/Cond.	5.4%	32.4%	48.6%	8.1%	5.4%
Windrowers/Swathers	3.3%	21.3%	59.0%	9.8%	6.6%
Field Cultivators	1.7%	13.6%	64.4%	5.1%	15.3%
Farm Loaders	5.2%	32.5%	50.6%	6.5%	5.2%
Chisel Plows	3.4%	6.8%	78.0%	5.1%	6.8%
Disk Harrows	1.6%	11.3%	72.6%	8.1%	6.5%
Air Seeders/Drills	1.6%	11.5%	70.5%	3.3%	13.1%
SP Sprayers	5.1%	13.6%	69.5%	0.0%	11.9%
Lawn & Garden	15.1%	28.8%	43.8%	6.8%	5.5%
GPS	11.7%	25.0%	51.7%	1.7%	10.0%

NEW HOLLAND DEALERS cont'd

CAPITAL SPENDING IN 2006

No Increase	39.5%
0-5%	45.3%
6-10%	8.1%
+10%	7.0%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	44.6%	55.4%
Service Vehicles	50.6%	49.4%
Business Information Systems	45.5%	54.5%

BORROWING PLANS IN 2006

No Change	41.4%
Take on More Debt	8.0%
Retire Debt	32.2%
Not Carrying Debt	18.4%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	21.3%	76.3%	2.5%
Service Techs.	64.0%	33.7%	2.3%
Wholegood Sales	31.7%	64.6%	3.7%
Administration	10.0%	83.8%	6.3%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	75.9%	22.8%	1.3%
Health Care Affordability	71.3%	20.0%	8.8%
Technician Availability	57.0%	38.0%	5.1%
Shrinking Customer Base	52.7%	35.1%	12.2%
Steel Price/Affordability	44.4%	50.6%	4.9%
Product Reliability	36.3%	46.3%	17.5%
Dealership "Purity" Efforts by Majors	29.5%	43.6%	26.9%
Industry Consolidation	25.0%	43.8%	31.3%
Box Stores	17.7%	40.5%	41.8%
Next Farm Bill	16.9%	50.6%	32.5%
Succession Policies	13.0%	39.0%	48.1%
Internet Sales	10.3%	43.6%	46.2%
Shortline Warranty Policies	7.7%	41.0%	51.3%
Tractor Test Legislation	3.9%	40.3%	55.8%

INDEPENDENT DEALERS

Less than 16% of the respondents to the *2006 Business Trends Survey* identify themselves as "Independent Dealers," in that they do not represent any of the four major ag equipment manufacturers. Those selling Kubota tractors and equipment, in all likelihood, represent the largest segment of this group as Kubota boasts of more than 1,000 dealers in North America. On average, the Independent dealers employ about 7.7 people per store.

As a group, the Independents were overall the most conservative when it came to projecting 2006 equipment sales. About 35% of them expect new equipment sales to improve compared with business levels in '05. Similarly, less than 35% expect used equipment sales to improve in '06.

The bigger the tractor, the less confident the Independents are of increasing sales. About 37% of them see sales of 40 hp and smaller tractors improving. This drops down to 27% for 40-100 hp tractors and 21% for equipment over 100 hp.

More than 80% of the Independent dealers expect little or no change for selling self-propelled combines in '06 compared with '05. Only 8% are saying they will move more combines during the year. This is less than half of what any of the dealers representing the majors are projecting.

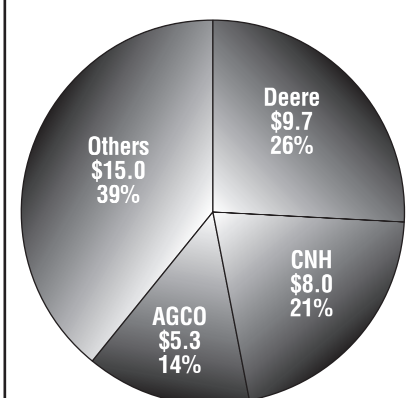
Independent dealers see their best prospects for growth in 2006 coming from mowers/conditioners (47%), lawn and garden equipment (44%), farm loaders (43%) and windrowers/swathers (24%).

Not surprisingly, this group is the least concerned about "manufacturer-dealer" issues. The Independents' biggest concern comes from the box stores, fearing sales of equipment there will detract from their own. None of the other four major issues identified concerned more than 17% of this group.

Despite the attention paid to the four major manufacturers, it should be noted that the "Other" category of equipment makers make up nearly 40% of the total sales of ag equipment. Many of these are represented by the "Independents."

GLOBAL AG EQUIPMENT SALES BY MANUFACTURER

(Billions $)



Foresight Research Solutions, LLC

SALES CHANGE IN 2006 NEW EQUIPMENT

	% Resps.
+8% or more	13.2%
+2 to 7%	32.1%
Little or No Change	32.1%
–2 to 7%	7.5%
–8% or more	15.1%

SALES CHANGE IN 2006 USED EQUIPMENT

	% Resps.
+8% or more	8.2%
+2 to 7%	26.5%
Little or No Change	51.0%
–2 to 7%	2.0%
–8% or more	12.2%

CAPITAL SPENDING IN 2006

No Increase	41.5%
0-5%	43.4%
6-10%	11.3%
+10%	3.8%

INCREASE IN CAPITAL EXPENDITURE

	Yes	No
Parts Department	36.5%	63.5%
Service Vehicles	34.7%	65.3%
Business Information Systems	46.9%	53.1%

BORROWING PLANS IN 2006

No Change	44.2%
Take on More Debt	11.5%
Retire Debt	25.0%
Not Carrying Debt	19.2%

SALES PROJECTIONS FOR 2006

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 hp)	7.9%	28.9%	55.3%	2.6%	5.3%
–2WD (40-100 hp)	2.7%	24.3%	64.9%	2.7%	5.4%
–2WD (>100 hp)	0.0%	20.6%	64.7%	8.8%	5.9%
–4WD (All)	16.2%	18.9%	56.8%	5.4%	2.7%
SP Combines	0.0%	8.0%	84.0%	0.0%	8.0%
Rect. Balers	0.0%	6.9%	89.7%	3.4%	0.0%
Round Balers	3.0%	15.2%	72.7%	0.0%	9.1%
Forage Harvesters	3.7%	11.1%	74.1%	7.4%	3.7%
Planters (All)	3.4%	13.8%	69.0%	6.9%	6.9%
Mowers/Cond.	3.1%	43.8%	43.8%	3.1%	6.3%
Windrowers/Swathers	6.9%	17.2%	65.5%	6.9%	3.4%
Field Cultivators	2.7%	5.4%	59.5%	13.5%	18.9%
Farm Loaders	2.7%	40.5%	40.5%	5.4%	10.8%
Chisel Plows	0.0%	5.7%	62.9%	14.3%	17.1%
Disk Harrows	2.9%	2.9%	70.6%	8.8%	14.7%
Air Seeders/Drills	0.0%	3.2%	77.4%	3.2%	16.1%
SP Sprayers	0.0%	16.1%	71.0%	3.2%	9.7%
Lawn & Garden	20.0%	24.4%	44.4%	2.2%	8.9%
GPS	0.0%	15.6%	78.1%	0.0%	6.3%

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Dept.	20.0%	80.0%	0.0%
Service Techs.	43.1%	54.9%	2.0%
Wholegood Sales	14.3%	85.7%	0.0%
Administration	6.1%	89.8%	4.1%

INDUSTRY CONCERNS

Concern	Most Concerned	Concerned	Not Concerned
Energy/Fuel Costs	73.6%	22.6%	3.8%
Health Care Affordability	60.4%	26.4%	13.2%
Steel Price/Affordability	50.0%	48.0%	2.0%
Shrinking Customer Base	32.0%	56.0%	12.0%
Technician Availability	31.4%	52.9%	15.7%
Next Farm Bill	26.0%	32.0%	42.0%
Box Stores	24.0%	48.0%	28.0%
Shortline Warranty Policies	20.0%	44.0%	36.0%
Product Reliability	17.6%	51.0%	31.4%
Internet Sales	17.3%	38.5%	44.2%
Dealership "Purity" Efforts by Majors	16.3%	36.7%	46.9%
Industry Consolidation	15.7%	52.9%	31.4%
Succession Policies	14.0%	50.0%	36.0%
Tractor Test Legislation	10.0%	26.0%	64.0%

EMPLOYEE SIZE

As might be expected, the biggest number of responses to the 2006 Business Trends Survey came from smallest dealers. Broken out by employee size, the breakdown of total responses is as follows:

Employee Size	Responses
1-20	65.3%
21-40	25.0%
41-60	4.4%
61+	5.3%

In this breakdown, dealers employing 41-60 people are at the same time, the most optimistic and pessimistic. While more than 46% are expecting new equipment sales to improve in 2006 over an already strong '05, almost 31% are looking for a business downturn.

When it comes to used equipment sales for the year, the 21-40 and 41-60 groups come in about dead even as 54.7% and 54.6%, respectively, look for new equipment to sell briskly in '06.

The search for service technicians remains a major challenge for all ag equipment dealers, regardless of size. And the the bigger the dealership, the more they need skilled techs.

More than 82% of the dealers employing more than 61 people say they will be adding service technicians this year — if they can find them. The other groups will be hot pursuit of this increasingly rare telent as well.

Regardless of dealership size the issues remain the same. The top four "Industry Concerns" remain health care affordability, energy/fuel costs, technician availability and the long-term challenge of a shrinking customer base.

NEW EQUIPMENT SALES FORECAST

Range	+8%	+2-7%	LNC	–2-7%	–8%
1-20	10.0%	29.4%	33.8%	14.9%	11.9%
21-40	6.8%	37.0%	34.2%	16.4%	5.5%
41-60	0.0%	46.2%	23.1%	15.4%	15.4%
61+	12.5%	25.0%	43.8%	18.8%	0.0%

USED EQUIPMENT SALES FORECAST

Range	+8%	+2-7%	LNC	–2-7%	–8%
1-20	12.2%	23.8%	44.8%	9.9%	9.4%
21-40	1.6%	53.1%	35.9%	7.8%	1.6%
41-60	9.1%	45.5%	27.3%	9.1%	9.1%
61+	13.3%	20.0%	53.3%	13.3%	0.0%

SALES PROJECTIONS TRACTORS AND COMBINES FOR 2006
(By employment size)

	+8%	+2-7%	LNC	–2-7%	–8%
Tractors					
–2WD (<40 HP)					
1-20	8.0%	29.0%	52.8%	4.0%	6.3%
21-40	12.5%	43.1%	34.7%	9.7%	0.0%
41-60	15.4%	23.1%	54.8%	7.7%	0.05%
61+	5.9%	41.2%	41.2%	11.8%	0.0%
–2WD (40-100 HP)					
1-20	2.3%	28.8%	57.1%	9.0%	2.8%
21-40	4.2%	40.3%	47.2%	8.3%	0.0%
41-60	0.0%	23.1%	61.5%	7.7%	7.7%|
61+	6.3%	43.8%	43.8%	6.3%	0.0%
–2WD (>100 HP)					
1-20	1.2%	22.4%	60.6%	12.4%	3.5%
21-40	2.9%	29.4%	54.4%	13.2%	0.0%
41-60	0.0%	46.2%	38.5%	7.7%	7.7%
61+	5.6%	27.8%	50.0%	11.1%	5.6%
–4WD (All)					
1-20	9.2%	23.0%	53.4%	8.0%	7.8%
21-40	1.5%	34.8%	50.0%	10.6%	3.0%
41-60	0.0%	46.2%	30.8%	7.7%	15.4%
61+	20.0%	13.3%	40.0%	20.0%	6.7%
Self-Propelled Combines					
1-20	47.0%	14.7%	64.3%	8.5%	7.8%
21-40	0.0%	19.4%	58.1%	12.9%	9.7%
41-60	0.0%	23.1%	46.2%	23.1%	7.7%
61+	0.0%	18.8%	56.3%	18.8%	6.3%

EMPLOYEE SIZE

Range	Total Resp.	Avg. Emp.	% of Total
1-20	209	11.4	65.3
21-40	80	27.4	25.0
41-60	14	51.5	4.4
61+	17	128.1	5.3

HIRING PLANS FOR 2006

	Add Staff	No Change	Reduce/ Reallocate Staff
Parts Department			
1-20	28.6%	70.3%	1.0%
21-40	31.9%	66.7%	1.4%
41-60	23.1%	76.9%	0.0%
61+	43.8%	43.8%	12.5%
Service Department			
1-20	52.8%	46.2%	1.0%
21-40	67.6%	31.0%	1.4%
41-60	76.9%	23.1%	0.0%
61+	82.4%	17.6%	0.0%
Sales Department			
1-20	26.2%	72.8%	1.0%
21-40	21.1%	78.9%	0.0%
41-60	46.2%	53.8%	0.0%
61+	35.3%	64.7%	0.0%
Administration			
1-20	7.0%	90.3%	2.7%
21-40	11.4%	80.0%	8.6%
41-60	7.7%	92.3%	0.0%
61+	0.0%	81.3%	18.7%

BORROWING PLANS IN 2006

Emp. Size	No Change	More Debt	Retire Debt	Carry No Debt
1-20	41.4%	10.6%	26.8%	21.2%
21-40	35.6%	11.0%	32.9%	20.5%
41-60	38.5%	7.75%	46.2%	7.7%
61+	35.3%	23.5%	41.2%	0.0%

FIRMS PLANNING TO INCREASE CAPITAL EXPENDITURE IN 2006 (*By employment size*)

Emp. Range	Parts Dept.	Service Vehicles	Business Info. Systems
1-20	40.0%	46.9%	38.8%
21-40	41.9%	50.7	46.6%
41-60	46.2%	61.5%	46.2%
61+	37.5%	68.8%	62.5%

INDUSTRY CONCERNS

Concern	1-20 Emp.	21-40 Emp.	41-60 Emp.	60+ Emp.
Health Care Affordability	2	1	1	2
Energy/Fuel Costs	1	2	2	1
Technician Availability	4	3	3	3
Shrinking Customer Base	5	4	3	4
Dealership "Purity" Efforts by Majors	7	7	8	5
Steel Price/Affordability	3	6	6	7
Product Reliability	6	5	5	6
Industry Consolidation	10	8	7	8
Next Farm Bill	8	9	4	12
Box Stores	9	10	9	9
Succession Policies	11	11	12	9
Tractor Test Legislation	14	14	10	13
Internet Sales	12	13	11	11
Shortline Warranty Policies	13	12	13	10

CAPITAL SPENDING IN 2006

Emp. Range	No Increase	0-5%	6-10%	+10%
1-20	43.3%	41.8%	7.5%	7.5%
21-40	43.8%	38.4%	11.0%	6.8%
41-60	46.2%	46.2%	7.7%	0.0%
61+	58.8%	29.4%	5.9%	5.9%

FARM FACTS

2005 WESTERN EUROPEAN AGRICULTURAL DATA

	Dealers	Farmers	Employees	Average Farm Size (HA)	Average Farm Size (Acres)	Farmers Per Dealer	Employees Per Dealer
Germany	4750	388,500	34,400	43.8	108.2	81.8	7.2
Austria	410	170,000	3,100	25.0	61.8	414.6	7.6
Belgium	350	52,050	1,450	25.4	62.8	148.8	4.1
Denmark	203	46,502	3,105	56.5	139.6	229.1	15.3
France	1,100	590,000	24,000	45.0	111.2	536.4	21.8
Hungary	860	219,000	6,600	18.0	44.5	254.6	7.7
U.K.	2000	N/A	20,000	N/A	N/A	N/A	10.0
Ireland	250	135,000	3,200	35.0	86.5	540.0	12.8
Italy	2,200	2,300,000	7,000	5.0	12.3	1045.5	3.2
Luxemborg	20	1,481	190	60.0	148.3	74.05	9.5
Netherland	800	100,000	6,000	N/A	N/A	125.0	7.5
Portugal	650	416,000	5,000	9.3	22.9	640.0	7.7
Sweden	150	76,800	1,875	35.0	86.4	512.0	12.5
Switzerland	20	71,000	511	15.3	37.8	3550.0	25.55
Czech Rep.	320	8,500	2,190	150.0	370.7	26.6	6.8

Ag Equipment Dealers & Farms: Numbers Tell the Story

The most striking example of the shifting demographics that characterize the ag industry today is the declining numbers of operating farms in the U.S. In the last 5 years alone, the total farm count has dropped 4%.

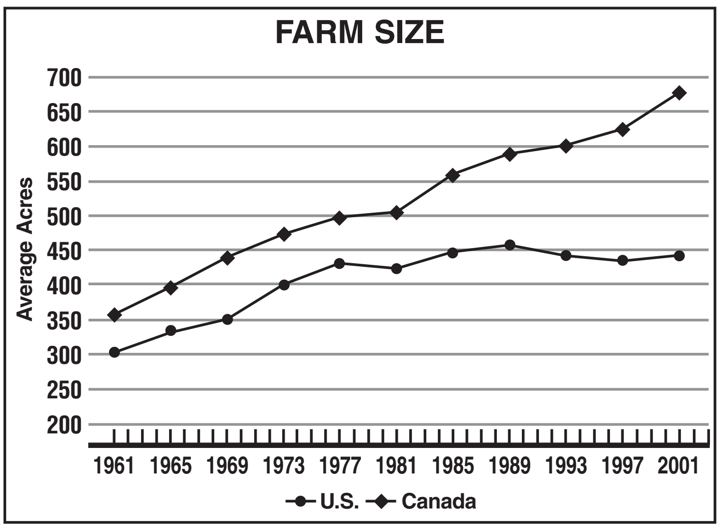
According to farm equipment maker, New Holland, during these same 5 years, all farm sizes were down except those in the 10 to 49-acre range, which increased by over 6%, and the 2000 plus-acre farms that grew by nearly 5% since 2000. Just as important is that today 76% of all U.S. commodity sales are generated by just 7% of U.S. farms.

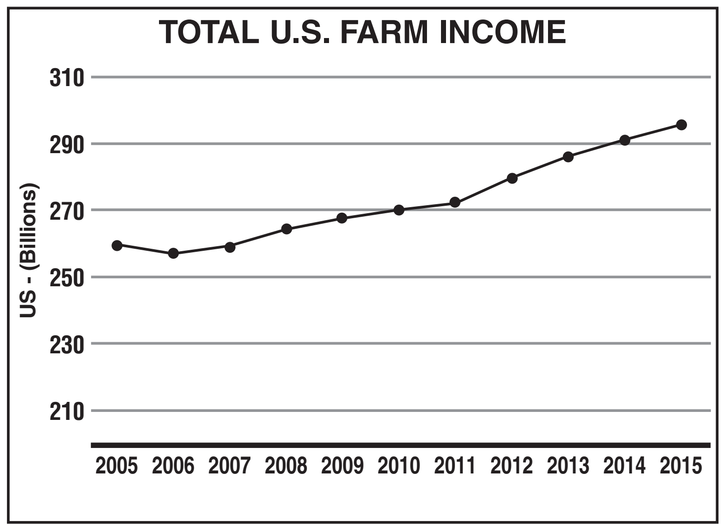
Changes of this magnitude ultimately impact every aspect of farming. From governmental farm policies and programs to commodity pricing to ag equipment production and sales, everyone is feeling the discomfort of rapid change.

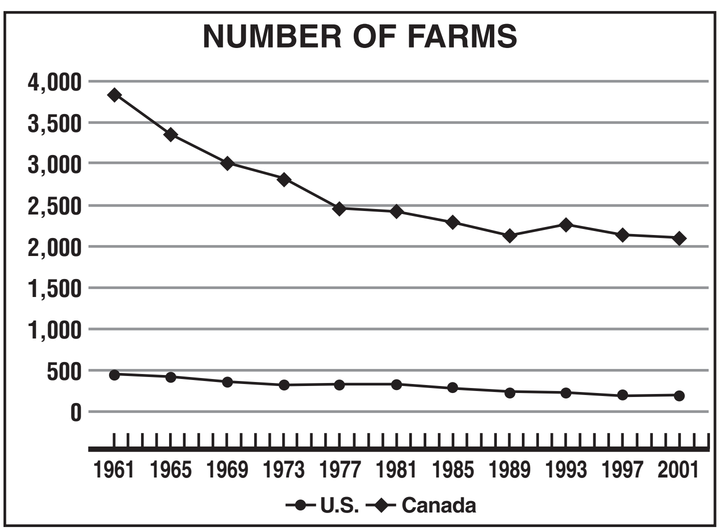
Between 1990 and '05, the number of North American dealer locations fell from 7,400 to an estimated 4,700, a drop of 36%. This also points to the trend toward fewer overall ownerships with more multiple locations.

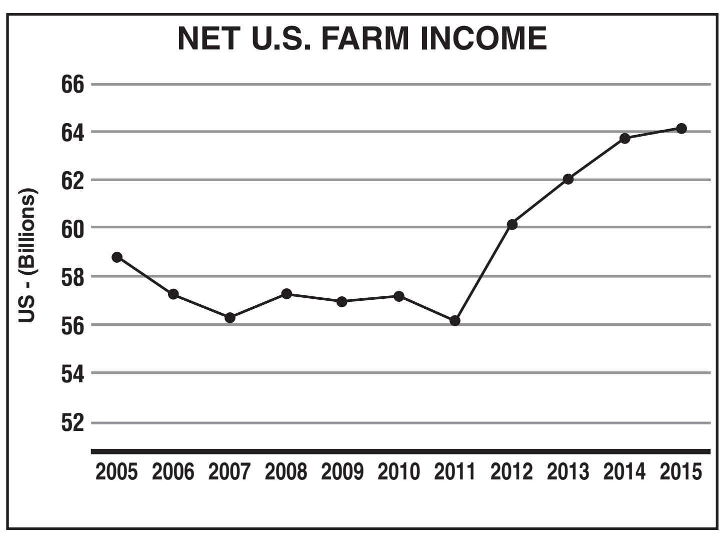
It has been the dramatic change in production agriculture that is the main driver. Fewer and larger farms have had substantial impacts. Not the least of which is the increase in competitive pressures. Manufacturers and dealers alike are competing for fewer customers. And, for the dealer, it has been the need to achieve economies of scale, business management efficiencies and dealer profitability.

The tremendous growth of the small tractor industry is also transforming the ag equipment industry. Between 2002 and '04, the under-40 hp industry grew 37% from 103,000 to 141,000 units. In addition, in '04 the under-40 hp segment represented about 60% of the total tractor industry, accounting for 141,000 of 246,000 tractors. Nearly 70% of the under-40 hp industry growth comes from only 35% of the metropolitan/suburban market. AIW









Stratecasts: Outlook for Ag Equipment Remains Solid

As ag equipment dealers and manufacturers remember sales levels in 2004 fondly, 2005 turned in a pretty solid performance as well with the coming year showing a continuing trend of slow but steady growth.

Projections coming from Stratecasts, the Fort Myers, Fla.-based market analysis and consulting firm, indicate that the value of farm machinery shipments showed gains for 2005 and will continue through '06. While the value of wheel tractors and combines slipped somewhat from 2004 levels, they are expected to bounce back slightly next year, though they won't match the levels achieved in 2004.

Stratecasts expects overall production of U.S. farm machinery to improve only about 0.1% during the 2005-06 period, but show about a 1% annual growth rate through 2015. AIW

FIVE-YEAR TREND IN VALUE OF SHIPMENTS OF U.S. MACHINERY * (IN MILLIONS OF DOLLARS)

Product	2006	2005	2004	2003	2002
Wheel tractors and other farm machinery	4,790	4,700	4,950	4,500	4,200
Planting, seeding and fertilizing machinery	1,020	1,000	989	898	851
Harvesting machinery	1,730	1,700	1,775	1,614	1,625
Plows, listers, cultivators, weeders,harrows, rollers, pulverizers	460	450	443	403	426
Dairy machines, sprayers, elevators, farm blowers	840	825	809	735	742
Commercial turf and grounds care equipment	2,100	2,110	2,020	1,836	1,678
Lawn and garden equipment	7,670	7,520	7,370	6,700	5,710

** U.S. Department of Commerce value, with estimates based on manufacturer's preliminary sales estimates.*
*** Actual figures for 2002 and 2003; estimates given for 2004, 2005 and 2006.*

2006 Equipment Forecast: From the Manufacturers' Perspective

By Mike Lessiter, Editor/Publisher

The Assn. of Equipment Manufacturers (AEM) released its 2006 Ag Equipment Forecast in mid-December, sharing the predictions of its agricultural machinery members for 2006 business volume in the U.S. and Canada.

AEM polls farm equipment manufacturers annually about their expectations for overall unit sales of a variety of machines. According to AEM, the 41 responding manufacturers account for a majority of agricultural equipment sold in the U.S. and Canada.

The forecasts that follow represent the average of responses from companies in each product category. Companies respond only to questions about the products they manufacture or market, and the responses represent forecasts for the industry as a whole rather than for individual company performance. Forecasts are for unit sales, and not company profitability.

TRACTORS AND COMBINES

According to the AEM 2006 forecast (Table 1), manufacturers expect total sales of 2WD tractors to reach 205,834 units in the U.S. and 16,575 units in Canada. For 4WD tractors, unit sales of 3,401 are anticipated for the U.S. market and 612 in Canada.

Looking at the various types of 2WD tractors, the expected 2006 sales of under 40 PTO hp units is 117,139 for the U.S. and 7,026 for Canada; 2006 sales of 40-100 PTO hp units are predicted to be 70,666 for the U.S. and 6,045 for Canada; and anticipated 2006 sales of 100 PTO hp and over 2WD tractors are 18,029 for the U.S. and 3,504 for Canada.

For self-propelled combines, the forecast for 2006 sales is 6,232 units for the U.S. and 1,490 units for Canada.

"If the trend of actual sales for 2005 continues through year

TABLE 1. 2006 TRACTORS & COMBINES FORECASTS (*Including 2004 Actuals and 2005 Forecast*)

2006 Forecast	U.S. 2006	U.S. Actuals 2004	U.S. 2005 Forecast	Canada 2006	Canada Actuals 2004	Canada 2005 Forecast
2WD Tractors						
Under 40 PTO HP	117,139	133,774	137,800	7,026	7,004	7,631
40-100 PTO HP	70,666	71,135	71,123	6,045	6,568	6,965
100 PTO HP-Plus	18,029	19,885	18,925	3,504	3,477	3,518
Total 2WD Tractors	205,834	224,795	227,848	16,575	17,049	18,114
4WD Tractors	3,401	3,604	3,287	17,187	718	680
Total Farm Wheel Tractors	209,325	228,399	231,135	612	17,767	18,764
Self Propelled Combines	6,232	6,683	6,489	1,490	1,564	1,460

end, we are looking at the overall market for tractors and combines to trend down in 2006," says AEM Senior Vice President John Smylie. "To put this in perspective, however, this comes after two years (2003-'04) of historically high sales growth."

OTHER FARM FIELD EQUIPMENT

For other types of farm field equipment, Table 2 outlines manufacturers' percentage predictions of 2006 growth compared to 2005. Looking at the averages of these responses, U.S.' sales gains in 2006 are expected to be led by round balers (+1.6%). Marginal growth is anticipated for mower conditioners (+0.8%) and farm loaders (+0.7%). The steepest declines are predicted for planters (-12.8%), field cultivators (-7.4%) and chisel plows (-7.0%).

When looking at the averages of survey responses for Canada, the outlook is brightest for farm loaders, with gains of 3.3% predicted, with round baler sales anticipated to grow by 2.8%. The only other equipment category expected to be in the plus column for Canada is mower conditioners (+0.7%). Canadian sales are expected to be the slowest for planters (- 8.5%), field cultivators (-7.5%) and chisel plows (-7.5%)

FACTORS INFLUENCING EQUIPMENT SALES

Manufacturers also predicted changes in 20 factors that have emerged as significant influences on machinery sales.

U.S. — 79% expect a moderate increase in interest rates and 71% see no change in credit availability. About half anticipate a moderate decrease in farm cash receipts and net farm income.

Some 75% predict that the amount of planted acreage will remain the same. Some 45% see no change in the level of grain exports, while 32% expect a moderate increase. Beef prices are expected to stay the same (39%) or rise moderately (32%). A majority see no change in hog prices (60%) and dairy prices (56%).

More than 60% of manufacturers predict a moderate increase in the price of new equipment and an additional 14% expect significant price increases. Used equipment prices will also increase moderately, according to 54% of survey respondents, with 3% seeing a significant price increase. Some 47% expect no change in replacement demand while 19% predict demand will rise moderately.

Canada — Interest rates are predicted to increase moderately, according to 85% of survey respondents, and 62% expect credit availability to remain the same. Net farm income is expected to stay the same by 27% of survey respondents while another 38% predict a moderate increase. For farm cash receipts, 31% forecast no change, 31% see a moderate increase and 31% expect a moderate decline.

As with the U.S., a majority expect little change in planted acreage on sales (81% of survey respondents). Grain exports are predicted to increase moderately, say 50% of manufacturers, while 40% of respondents expect no change. Some 67% forecast a moderate increase in beef prices; 67% expect no change in dairy prices; and hog prices are anticipated to be about the same by 48% and moderately up by 38%.

New equipment prices are predicted to rise moderately (58% of respondents) or increase significantly (15% of respondents). Used equipment prices are predicted to rise moderately (54% of respondents) or stay the same (35%). Replacement demand should stay about the same, say 54% of manufacturers, while 23% predict a moderate increase in demand and 23% expect demand to moderately decrease. AIW

TABLE 2. OTHER FARM MACHINERY FORECAST 2006 (INCLUDING 2005 FORECAST)

	U.S. 2006 Forecast	U.S. 2005 Forecast	Canada 2006 Forecast	Canada 2005 Forecast
Rectangular Balers	-3.40%	-4.40%	-3.20%	7.60%
Round Balers	1.60%	0.50%	2.80%	5.30%
Forage Harvesters	-4.90%	-4.70%	-4.90%	3.70%
Planters	-12.80%	-3.10%	-8.50%	3.50%
Mower Conditioners	0.80%	-0.50%	0.70%	6.20%
Windrowers/Swathers	-1.60%	0.10%	-1.10%	-4.40%
Field Cultivators	-7.40%	3.80%	-7.50%	-1.00%
Farm Loaders	0.70%	3.90%	3.30%	4.30%
Chisel Plows	-7.00%	1.40%	-7.50%	-7.50%
Disk Harrows	-2.60%	2.50%	-2.50%	0.00%
Air Seeders/Air Drills	-2.60%	3.20%	-6.80%	-2.80%
SP Sprayers	-0.40%	8.80%	-1.00%	8.50%

Shortline Manufacturer, Supplier Outlook for 2006

By Dave Kanicki, Managing Editor

For the most part, shortline ag equipment manufacturers and component suppliers are looking forward to a very good to excellent business year in 2006. In fact, their projections for the year surpass the optimism of the farm equipment dealers surveyed, but their expectations are falling somewhat short of the results they experienced in ‘05. Beneath the surface of their confident outlook for solid sales to continue into the new year is an undercurrent of concerns they say could undermine their initial projections.

BOTTOM-LINE CONFIDENCE

In line with the results of the *Ag Industry Watch* survey of North American ag equipment dealers, farm machine manufacturers and their parts suppliers saw their sales surge in ’05. This, coming off of “generational” year in ’04, has set the stage for high expectations in ’06.

Asked to compare sales revenue in ’04 vs. ’05, nearly 60% of the respondents reported that they saw increases ranging from between 2% to more than 8% in ’05. Slightly over 34% say business slipped during the year compared to the peak year of 2004.

Looking at 2006, nearly 55% of survey participants anticipate ’06 sales revenues to improve between 2% to more than 8% during the year. Of this group, more 32% look for sales revenues to reach or exceed 8% in 2006, while more than 22.5% expect their sales to grow between 2-5%.

UNDERLYING CONCERNS

Despite the strong positive numbers coming from *Ag Industry Watch’s* 3-question survey of shortline equipment makers and parts suppliers, their comments tend to belie their confidence for sales in ’06.

Between the rising costs of inputs, most notably fuels and fertilizer, on the producer side and materials cost and availability — steel, tires, etc. — on the manufacturers end, there are growing concerns that these could stunt the momentum seen during the past 2 years.

Bill Reed, Precision Manufacturing, Sedalia, Mo., summed up the situation for ‘06: “Increases in the cost of equipment over the past 2 years will finally catch up to the farm market. In addition, the impact of increasing fuel costs will be fully realized and add to operating costs that will ultimately reduce the spending power of the farmer. The only thing that might save the farmer is bumper crop production and increased exports.”

Some suppliers cite specific examples of rising material costs. According to Carter Summers of Summers Manufacturing, Devils Lake, N.D., says “As of December 1 the price of all plastic tanks went up 8%. Steel tubing should be stable, but has already gone up 10-15% in the last few months. I’m guessing that any item produced that uses petroleum will go up between 8-12%. Electric rates are expected to increase by 15%.”

In addition to U.S. steel prices and availability, Jeff Mohr, Ogden Metalworks, Ogden, Ill., also cited “component parts from China” as a factor that could significantly affect sales revenue during the current year.

Some go so far as to recommend dramatic action because of the impact of the rising price of fuel. Ray Hildebrand of Westland Fasteners, Winnipeg, Mabutiba, says “The biggest factor affecting ag-business is fuel cost. I would like to see both the Canadian and U.S. governments step in and regulate the price of fuel.”

Tom McCrea, GM and owner of Ag Shield Manufacturing, Benito, Manitoba, expresses a distinctly Canadian point of view with his outlook. “Sales in 2006 will be up over 2005 because the inventory built up at distributors offshore is being depleted. And the Canadian cattlemen will have had a bit of time to recover now with the border open to as many livestock as it is.”

In many cases, suppliers are taking the cue from the OEMs. Thomas Shorma of WCCCO Belting, Wahpeton, N.D., points to the “success of our OEM customers like Deere, CNH, AGCO and others” as the basis for his ’06 outlook.

And Keith Kushnir, Pioneer Quick Couplings of Minneapolis, adds, “We have seen a slight increase in the parts business but we sell to many OEMs and they are predicting a slowdown in equipment sales.” AIW

ACTUAL SALES REVENUES — 2005 VS. 2004

	% Resps.
+8% or More	43.7%
+2-7%	15.7%
Little or No Change	6.2%
–2-7%	15.7%
–8% or More	18.7%

FORECASTED SALES REVENUES — 2006 VS. 2005

	% Resps.
+8% or More	32.3%
+2-7%	22.6%
Little or No Change	6.5%
–2-7%	19.3%
–8% or More	19.3%

What Dealers Are Concentrating Their Time and Efforts on in 2006

By Mike Lessiter, Editor/Publisher

An open-ended question in the *2006 Business Trends survey* examined the specific challenges that dealers will most concentrate their attention on in 2006. Here is a sampling of the goals that are on your dealer's front-office bulletin boards.

ATTACKING FIXED COSTS

Finding a way through the escalating overhead costs — namely health insurance — continues to keep dealers up at night. As small businesses, they are being torn between a desire to offer reasonable health care coverage for employees with the need for prudent financial management in a tough business climate. The presence of the problem, with little end in sight, has dealers thinking about their total personnel costs in a new way, and how they must lower operating expenses as a percent of sales.

James Rogers, Haywood Tractor Co., Lake Junaluska, N.C., is reworking personnel to take on more duties to become more efficient. Due to health care costs, one dealer aims to reduce the average age of his employee base, while also utilizing temporary workers to a greater degree.

Larry Herr, Hoober Equipment Inc., Intercourse, Pa., is managing personnel expense relative to gross margin dollars earned. He intends to cut overtime for non-productive employees, and is evaluating all internal processes to eliminate excess administration and bring overhead costs better into line.

What are dealers doing? For health insurance and retirement plans, shopping around can pay off. A lot of options and different carriers exist out there, and dealers are finding that it's worth the time and energy of doing the digging.

HIRING SERVICE TECHNICIANS

Survey results showed that dealers understand the profit-making promise in their aftermarket departments, and that the service department and its ability to take care of the customer after the sale is the main differentiator in the business. While many pledged more oversight and active management of the service department, staffing for current levels, not to mention growth, remains a key worry. Dealers continue to complain of being robbed of techs by higher-demand, higher-paying industries.

What are dealers doing? Many are becoming more proactive in tech recruitment, working more closely with local vocational and high schools and sponsoring candidates through scholarships. Several dealers intend to install tech incentive plans that reward outstanding performance on things like recovery rates. In finding a solution for the tech shortage, Ralph Soldan, Vegreville Implements, Inc., Vegreville, Alberta, expects to look out of the country for help. Also, layoffs by the airlines have put hundreds of qualified techs into the market, said the AED in an October 2005 report.

SALES EXPANSION,DIVERSIFICATION

Dealers have seen the farm ownership data and understand their need to adapt. Two paths of action are commonly cited: dealers looking for that specific new shortline product to increase the dealership's overall gross margin, and those dealers moving toward non-ag-specific products to attract a wider consumer base to replace lost farm-related income.

The latter group of dealers is targeting opportunities in light construction, lawn/garden, ATVs and outdoor power equipment, to name a few.

"Farmland conversion in our market is a key concern," says James Robinson, Bane Equipment Sales, Lebanon, Ind. Adds Leon Knaak, Service Motor Co., Wausau, Wis., "We will be pushing our construction equipment lines harder and may add another construction salesman."

While non-ag market niches can replace lost dollars, the core business for most remains agriculture. "For our market share goals, we are going to target the influencers and the farm operations with staying power," says Edward Mazer, Countryside Equipment, Brandon, Manitoba.

For Mike Cottrell, Cottrell Farm Equipment, Simpsonville, Ky., the answer lies in outperforming the competition. "We'll work to capture the additional customer base from competitve brands — we will continue to promote knowledge, service and customer relations to differentiate our dealership from our competitors and try to continue to be our customers' most reliable and trusted business partner."

Dealers recognize that the business is still about service. Dave Cotton, Navajo Tractor Sales, Kirtland, N.M., is expanding into surrounding communities via satellite locations, an approach that keeps overhead in check.

Andrew Swenson, Stewart Equipment, Stewart, Minn., notes that his store plans to "get more creative in selling a larger volume, such as on-farm service and preventive maintenance programs, to maintain profit levels."

Donald Camp, South Kern Machinery, Bakersfield, Calif., sums it up this way. "As far as challenges go, I will be spending a lot of time on developing plans and carrying them out in regards to further diversifying our store's offerings to appeal to a wider customer base. Diversification is key to our survival," he says.

What are dealers doing? Adding more salespeople, mandating on-site farm-visits and cold calls by sales staff, seeking out the truly new, profit-generating specialty equipment, setting aggressive market share targets in important equipment categories, and planning (more inventory, more advertising and more sales training) to make sure that they have a shot at meeting those targets.

MANAGEMENT COUNTS

The way the business has evolved, dealerships now need full-time administrative watchdogs, not management that can be "fit in" between the dealer-principal's sales efforts. This has a number of dealer-principals looking to free themselves up to concentrate on the "important stuff," which also means grooming others to step up their responsibilities.

They know that the increased costs of health care, fuel, tech wages, new equipment, etc. will need to be covered by gross margins, and they're indicating a strong diligence in '06 for efficiency, controlling expenses and getting serious about inventory turns in both wholegoods and parts.

Ted Hart, Colby Ag Center, Colby, Kan., is one dealer who is attacking expenses. "I am going to look at it as a ratio percentage. My business is growing but so are gas prices, insurance costs and steel prices, expenses that are largely uncontrollable. With a hard look at my buying practices, selective spending and a hard push in the dealership toward sales growth, we should tackle that just fine."

Inventory management is another big challenge for 2006. Some dealers even admitted that they would let interest-bearing wholegoods go at low prices just to rid themselves of the headache. Russell Bretz, Bretz, Inc., Dighton, Kan., is intent on reducing his store's debt through inventory, but not via "give-away auctions."

"It'll be done through harder selling," he says. "We can't just put in the time — we need to work more efficiently and spend more hours on it."

Sid Caldwell, Caldwell Equipment Co Inc, Wichita, Kan., aims to solve part of his used wholegoods problems by pre-selling trade-ins.

It was also clear that dealers recognize their stores would do well to learn more about 21st century retail practices and having everyone pulling in the same direction. Several are vowing to concentrate more on both employee and customer satisfaction issues, hosting more meetings for better store communication and fostering a better profitabilty culture among employees.

Richard Straub, Tri County Equipment Co., Poseyville, Ind., sums up what needs to be an overriding objective of management in today's era. "Better margins are necessary for all dealers in order to pay employees better to ensure retention." With signs for an even more competitive labor pool in the years ahead, this fact alone should be enough motivation for any manager.

What are dealers doing? They are setting specific 2006 targets for cost reductions (as much as 20% at one dealership) and increases in gross margin. Other objectives include carefully monitoring cash flow planning and procurement practices, establishing ongoing recruitment programs for all dealership positions to ensure bench strength, developing internal controls over business expenditures and collections.

MERGERS & ACQUISITIONS

For many dealers, '06 might be the year M&A hits home. At any rate, it appears significant hours will be used crunching numbers and talking things over with parties suitable for a purchase or sell arrangment.

As one John Deere dealer put it, "We are a single store dealer and our location is not wanted by Deere. They want us to merge with another dealership and then build a new facility. I would build a new facility, but not in the location they want. The other 'partner' has no money to buy me out, so I am supposed to merge and build a new facility. No way."

And it's not all about the question of whether to buy, sell or merge. Companies who've already consummated such deals or who are on the cusp of doing so require a great deal of attention in '06 on teaching and training new employees the proper policies and procedures in order to make certain that the often-difficult cultural transition can occur as seamlessly as possible.

MANUFACTURER VS.DEALER ISSUES

Dealers are saying that they will fight the good fight when it comes to fairness issues between themselves, the majors and shortline manufacturers.

Issues include dealership purity efforts, stocking and discounting procedures that tighten the screws on the single-store dealership, parts and machinery availability, shorter terms, living up to manufacturers' promised deliveries, expectations following dealership consolidation efforts and the majors' cutbacks on support and cost-sharing programs.

What are dealers doing? There is no easy answer here, though NAEDA affiliated associations have been working toward model legilation to better protect the dealers' interests. Open and frank communication is still the best bet.

"We will work with our territory manager to show them why we need shortlines to fill in the areas where they do not produce items or are totally overpriced,"says Brian Dosch, Humboldt Farm Equipment, Humboldt, Sasketchewan. AIW

DEALING WITH EFFECTS OF THE 2005 DROUGHT

The drought conditions in the Midwest left some dealers feeling anxiety pangs about 2006. The bottom line is that internal expense must be held to a minimum to fall in line with the reduced revenue now anticipated, as farmers' earlier purchase plans will be put on hold after the lack of rain last summer. While negativity was transparent in some dealers voices ("I'm going to hang in until I can sell out," or "I'll have to find a way to get rid of the equipment we have on order that is not cancelable"), others noted special efforts that they would take to go after the business that might not otherwise come through the front door.

Richard Kunau, Kunau Implement, De Witt, Iowa, says that with sales expected to be well off due to the drought in 2006, "We're spending more efforts on sales outside the drought area by newspaper ads, internet, etc."

Knowledge is Power!

What could you do with your business if you could see and understand trends in the farm equipment business — before they happen?

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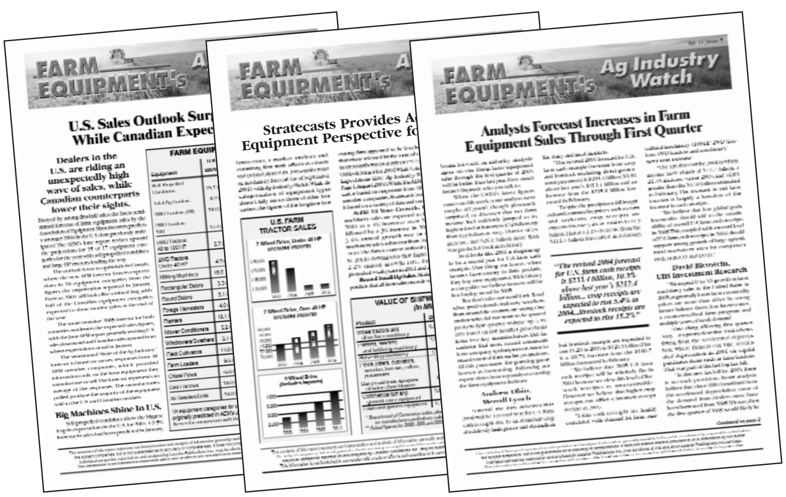
Published each month by the editors of *Farm Equipment* magazine, *Ag Industry Watch* utilizes its network of manufacturers, dealers and analysts to delve into trends, provide analysis and unearth key developments both here and abroad that will make a difference to your business.



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