From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Titan Machinery's 2Q
- DE's Water Business
- WASDE Update

Dealers Remain Confident Despite Talk of Ag 'Peaking'

In the face of declining grain prices, uncertainty about depreciation rules, skepticism about a new farm bill, and a lot of talk about farm equipment sales peaking, North American farm equipment dealers continue to see good potential for solid sales in 2014.

Even with all of these issues hanging fire, nearly 40% of the dealers responding to *Ag Equipment Intelligence*'s "2014 Business Trends & Outlook Survey" expect revenues from new equipment sales to increase anywhere from 2% to more than 8% in the year ahead. Another 36% are calling for "flat" sales in the year ahead, which, by all accounts, has been a solid sales year. Some 200 dealers from the U.S. and Canada participated in the survey, which was conducted in the last week of August and first week of September.

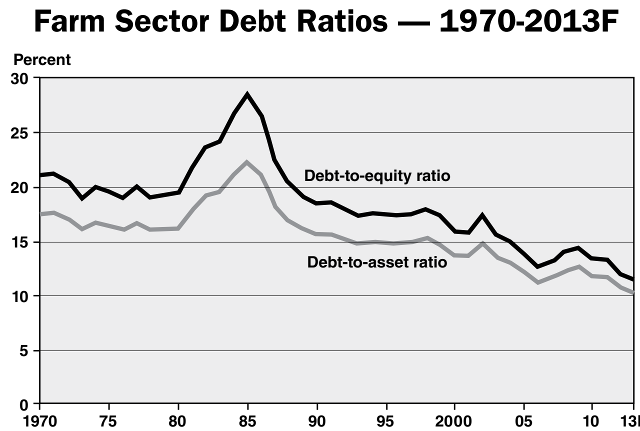
Farm Sector Solvency

Besides the solid equipment sales seen during the past year, in all likelihood, part of the dealers' confidence is buoyed by the overall financial health of North American farmers.

In its August 27 "Farm Sector Income & Finances" report, USDA reported that U.S. farms debt-to-asset and debt-to-equity ratios, traditional measurements of farm business sector's financial solvency, are heading toward historic lows. The ag agency says that, "Based on forecasts of the value of farm business assets and debt, the sector's debt-to-asset ratio is expected to decline from an estimated 10.7% at the end of 2012 to 10.2% by the end of 2013. The debt-to-equity ratio is expected to decline from 12% in 2012 to 11.4% in 2013.

"If realized, these changes would result in new historic lows for both measures, confirming the strength of the farm sector's solvency. This strength means the sector is better insulated from the risks associated with commodity production (such as adverse weather), changing macroeconomic conditions in the U.S. and world economies, and fluctuations in farm asset values."

Of course, the biggest share of the dealers' positive outlook is based on actual equipment sales, and they've held up well through the first 8 months of 2013. Total new tractor sales in the U.S. are up 12.6% January through August, according to the Assn. of Equipment Manufacturers compared to the same 8-month period in 2012. Unit sales of combines also rose by 26.8% through the first 8 months of 2013. Sales of all classes of farm tractors in Canada rose by 12.6% during the same period, while combine sales grew by 7.8%.



F = Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of August 27, 2013.

U.S. farmer's debt-to-asset and debt-to-equity ratios are heading toward historic lows indicating that farmers are in good position to handle most financial risks associated with agriculture.

A Tempered Confidence

While remaining confident, dealers' sentiments going into the new year are tempered somewhat compared to their outlook a year ago at this time. The biggest shift in the dealers' view of their prospects for the year ahead that is 5% more are calling for a "flattish" year in terms of overall revenues from the sale of new equipment compared to the survey results from a year ago ("little or no change" 36% for 2014 vs. 31% in 2013).

Otherwise, 39.7% of dealers see sales revenue increasing in the next year compared to 42.6% who fell into that category last year. Actually, fewer dealers are looking for a falloff in revenues for 2014 (24.3%) than there were one year ago (26.4%).

When it comes to used machinery, dealer sentiments remained generally positive, but concern is creeping in about the growing backlog. Overall, 40.4% of dealers expect revenues from used machinery sales to increase from 2% to more than 8%. This compares with 42.6% last year.

Overall, 11.5% of dealers projected their sales of used equipment would decline by 2% to more than 8% last year.

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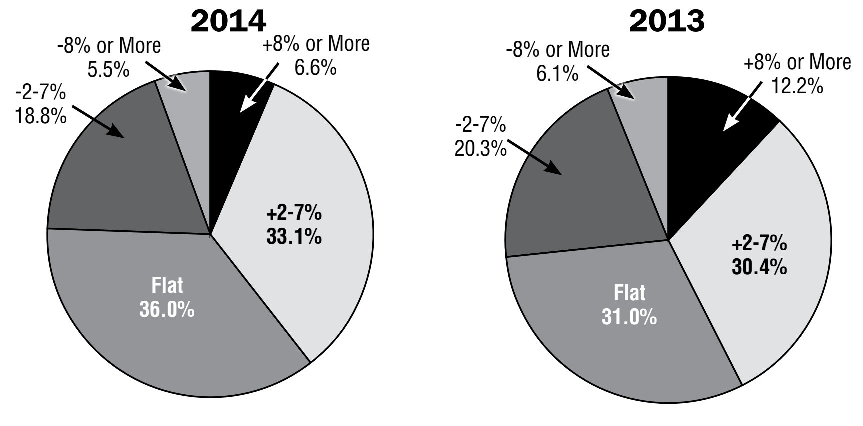
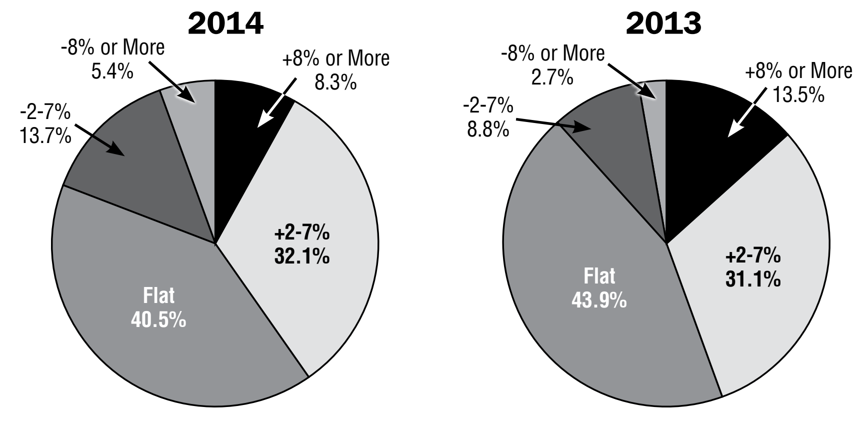
Dealers' New Equipment Outlook 2014 vs. 2013



Nearly 40% of North American farm equipment dealers expect revenue increases from the sale of new equipment in 2014. Another 36% anticipate "little or no change" compared with 2013.

Dealers' Used Equipment Outlook 2014 vs. 2013



Slightly over 40% of North American dealers see increasing sales revenues of 2% to more than 8% from used machinery sales for the year ahead. About the same number see flat sales.

That number has grown by nearly 8% to 19.1% of dealers this year who see revenue from used equipment sales declining in 2014.

Used Equipment Quandary

Noting the difference in dealer views about new equipment revenues compared with used equipment prospects in the year ahead, one Kansas dealer said,"New sales will stay the same. I am concerned with the used sales."

Some dealers believe the backlog of used machinery is being exacerbated by their major suppliers' push for bigger market shares. As one dealer participating in this year's survey put it, "Case IH is on our ass to beat John Deere." Another dealer added, "The [manufacturers] cannot keep shoving equipment down to dealers and then take away floorplan terms."

On that subject, with this year's survey, we posed a new question to dealers: "Considering the push for market share by the majors, will you continue to place orders for new equipment in 2014 to grow market share even with the glut of used equipment currently in the market?"

It's clear that dealers are trying if not succeeding in resisting the major's pressure to gain market share. Slightly over 52% of dealers responded "no," they will not continue ordering new simply to satisfy their suppliers push for greater market share. The remaining 48% said they will continue ordering new equipment despite the backlog of used machinery on the market.

Cost/Price Issues Remain

Much the same as last year, cost and pricing issues remain at the top of dealers' list of biggest concerns with the increasing cost of new equipment maintaining its rank as #1 biggest issue. Dealers attribute the new Tier 4 Final engines as the primary reason for steep price hikes on new equipment in the year ahead.

Generally, more than 90% of all dealers are expecting price increases for 2014 equipment to rise from 1-6%. Nearly 51% say their mainline suppliers will increase prices between 1-3%. Slightly over 40% say they'll see price hikes ranging 4-6%. About 5% are expecting prices to rise 7% to 9%. Only 2.2% reported no price hikes for 2014 and the remaining 1.6% are girding for increases of 10% or more.

Concern about commodity prices was ranked #5 on the dealers' list last year. Not surprisingly, it moved up to #2 of most pressing issues for the new year, with 38.5% checking "most concerned" and 52.9% checking "concerned."

Also, it wasn't unexpected that health care affordability would be near the top of dealers' biggest issues going into 2014. In fact, if we had only considered the rating of "most concerned" in our rankings, it would have been #1 with 62.6% of dealers listing it as their biggest concern. Another 26.9% checked "concerned," for a total of 89.5% of all respondents.

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Farm input costs followed with 88.4% of dealers indicating they were "most concerned" (29.1%) or "concerned" (59.3%). Energy and fuel costs rounded out the dealers top five major issues in the year ahead with 86.4% of dealers indicating "most concerned" (26.7%) or "concerned" (59.7%).

Best Prospects to Grow Sales

GPS/precision farming equipment again held the dealers' top spot for the best prospect to grow unit sales in the year ahead. Nearly half (48.4%) of dealers expect unit sales of GPS and precision farming equipment to increase by 2% to more than 8% in the next year.

A very close second on the dealers' list of best prospects to grow unit sales in 2014 is lawn and garden products with 48.2% of dealers anticipating growth of 2% to 8% or more. Four-wheel drive tractors placed third on the dealers' best bets list with 37.7% of dealers expecting growth in unit sales of 2% to more than 8%. Planters came in fourth with 33.4% of dealers expecting sales increases for the year, and two-wheel drive tractors between 40-100 horsepower rounding out the top five products with potential to improve unit sales as 32.3% of dealers say sales will grow more than 2% in 2014.

On a weighted average basis, the rankings for 2014 unit sales prospects change somewhat and are as follows:

- GPS/Precision Ag ....+2.37%
- Lawn & Garden ....+2.24%
- Farm Loaders ....+1.31%
- 2WD Tractors (<40HP) .....+1.27%
- 4WD (All) ....+1.07%
- Planters (All) ....+1.03%
- Mower/Conditioners ....+1.00%
- 2WD Tractors (40-100HP) ...+0.92%
- Round Balers ....+0.88%
- Air Seeders/Drills ....+0.56%
- Disc Harrows ....+0.43%
- Self-Propelled Sprayers .....+0.39%
- Windrowers/Swathers .....+0.31%
- 2WD Tractors (>100HP) ...+0.29%
- Field Cultivators ....+0.28%
- Rectangular Balers ....+0.25%
- Forage Harvesters .... –0.10%
- Chisel Plows .... –0.28%
- Pull-Type Sprayers .... –0.44%
- S.P. Combines .... –1.69%

AEI

The complete "2014 Dealer Business Trends & Outlook Report — Farm Equipment Forecast" will be sent to Ag Equipment Intelligence subscribers in early October.

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FARM MACHINERY TICKER (AS OF 09/12/13)

Manufacturers	Symbol	09/12/13 Price	08/13/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$37.29	$37.49	$38.65	$27.80	37.29	20,475	468.03M
AGCO	AGCO	$59.21	$57.66	$59.83	$42.48	11.06	965,330	5.76B
AgJunction Inc.	AJX	$1.05	$1.03	$1.09	$0.56	N/A	40,133	N/A
Alamo	ALG	$46.38	$45.23	$47.61	$29.66	17.82	23,506	561.48M
Art's Way Mfg.	ARTW	$7.00	$7.00	$8.44	$5.23	9.86	5,486	28.29M
Blount Int'l	BLT	$12.09	$11.96	$17.49	$10.52	15.50	285,969	597.61M
Buhler Ind.	BUI	$6.94	$6.10	$7.25	$5.20	8.90	2,102	171.01M
Caterpillar	CAT	$86.84	$86.57	$99.70	$79.49	13.70	5,946,010	56.24B
CNH Global	CNH	$46.22	$47.61	$49.99	$38.19	8.52	283,758	11.28B
Deere & Co.	DE	$83.29	$83.91	$95.60	$78.40	9.55	3,290,330	31.86B
Kubota*	KUBTY	$73.62	$76.73	$88.38	$49.40	15.87	83,717	18.49B
Lindsay	LNN	$80.06	$75.16	$94.90	$66.98	14.98	143,838	1.03B
Raven Industries	RAVN	$32.39	$30.91	$35.68	$23.01	26.76	74,588	1.18B
Titan Int'l	TWI	$15.81	$17.35	$27.12	$15.53	14.61	876,648	846.45M
Trimble Navigation	TRMB	$28.24	$26.73	$32.03	$22.58	38.32	1,553,680	7.24B
Valmont Industries	VMI	$140.47	$140.18	$164.93	$125.00	13.04	228,395	3.76B
Retailers								
Cervus Equipment	CVL	$19.60	$19.90	$21.39	$17.25	11.67	10,311	292.37M
Rocky Mountain Equipment	RME	$11.47	$11.81	$14.88	$10.43	7.86	36,564	220.94M
Titan Machinery	TITN	$17.04	$17.70	$32.00	$15.89	10.93	391,588	361.91M
Tractor Supply	TSCO	$130.72	$121.93	$131.23	$82.39	31.37	444,051	9.12B

**Kubota delisted its shares from the New York Stock Exchange, but it remains listed on the Tokyo Stock Exchange.*

WASDE Update Doesn't Change Analyst's View for 2014

USDA raised its estimates of corn and wheat ending stocks, but cut its soybean forecast with its September 12 World Agricultural Supply Demand Estimates report. At the same time, the ag agency lowered the midpoint of its corn price forecast to $4.80 per bushel, with the price range dropped to $4.40-$5.20 a bushel from previous estimates $4.50-$5.30.

Soybean prices saw a significant increase of $1.15 to $12.50 per bushel. USDA narrowed its wheat forecast to $6.50-$7.50 from $6.40-$7.60, while the midpoint remained $7.00.

Steven Fisher, analyst with UBS Investment Research, told investors in a note following the WASDE update that he views the USDA report as "directionally bearish for corn."

"We believe the market had anticipated a decline in USDA yield forecasts given the Corn Belt's recent dry weather. Instead, USDA raised its yield forecast to 155.3 bushels per acre from 154.4 bushels per acre, citing higher yields in the central plains and the south, which more than offset yield reductions for Iowa and North Dakota."

Commenting on his downgrade of Deere & Co. stock to "sell," Fisher said, "We expect Deere stock performance to revert to more historical norms relative to corn price performance, and we expect already lower corn prices to pressure demand for ag equipment in the year ahead. We expect Deere's earnings will decline in 2014, driven by weakening ag sales, as farmers anticipate lower cash receipts." AEI

Claas Increases Its China Presence

Harvesting machinery specialist Claas is planning a significant expansion of its business in China by securing a majority takeover of an agricultural machinery manufacturer in the country, subject to obtaining approval from the national authorities, among others.

"China is the largest and fastest-growing market for agricultural engineering in Asia — a market in which Claas has been represented for many years," says Dr. Theo Freye, spokesman for Claas management. "By acquiring the majority share in Shandong Jinyee Machinery Manufacture Co. Ltd., we are creating local production capacity for machines aimed at the Chinese market."

Claas already has harvester production plants in Western and Central Europe, as well as in Russia and India, and in the U.S. in Omaha, Neb., where the Claas Lexion is assembled for North America.

"Purchasing a production plant in China is another step toward Asia — a step that fits in with our long-term focus on this area," says Freye. "The mechanization of agriculture in China is developing rapidly, driven by the changing demands for food, with a greater consumption of meat, the growing population and migration. Claas wants to use this acquisition to take advantage of the enormous potential for growth that these market changes provide."

Jinyee produces harvesting machines mainly for corn and wheat at two main sites in Gaomi and Daqing, which is right in the heart of the main agricultural regions in Central China and the northeast.

Jinyee's headquarters are in the city of Gaomi, which is located between Beijing and Shanghai in the province of Shandong. The company's premises cover an area of more than 54 acres, approximately half the size of Claas headquarters in Harsewinkel, Germany.

In 2012, Jinyee had sales equivalent to almost $94 million when Claas group sales topped more than $4.5 billion. The Chinese firm has more than 1,000 employees and a comprehensive sales and service network in Central and Northern China. AEI

Is Deere Irrigation of Interest to LNN or VMI?

Deere & Co. announced on September 3 that it would review strategic options for its irrigation operations known as John Deere Water. In other words, Deere is looking to get out of the drip irrigation business.

In a note to investors, C. Shon Williams, analyst for BB&T Capital Markets, suggested that these assets could be of interest to center pivot irrigation players Lindsay and Valmont.

According to the press release announcing the move, Deere said it has been involved in the production of irrigation products for the past 7 years and is currently one of the world's largest full-line drip irrigation manufacturers with global operations and significant distribution in North and South America, Asia, Europe and Africa.

Williams reported that Deere had established a widespread distribution network for its drip irrigation products during that time. The unit is based in California and operates from 24 sales and marketing locations and 19 warehousing locations in 15 countries. John Deere Water's products are marketed through about 700 independent dealers and distributors in over 100 countries.

In his note, Williams said Lindsay and Valmont have not shown interest in drip technology in the past, emphasizing its more limited applications (vine crops vs. broad acreage crops), propensity to clog or become damaged by animals and higher labor costs due to repeated set-up and tear-down.

"That said, drip irrigation is taking an increasing share of the irrigated crop mix because of its higher efficiency and ability to use waste water, which is not generally possible in center pivot applications," Williams said.

"Depending on the price, both LNN and VMI may have some interest in bringing this competitor in-house given that it likely already goes through some similar distribution channels and both would have the financial means to make it happen. That asking price has likely come down given that all goodwill related to these assets was written off in the fourth quarters of 2012 and 2010 (total of $60 million pretax, or $56 million after-tax)." AEI

European Tractor Sales Continue to Slump in 1H

Slow economic growth throughout the European Union is having an impact on farm equipment sales. Several of the EU's largest markets for ag machinery are reporting a dropoff in sales through the first half of 2013. According to VDMA (Agricultural Machinery Assn.) based in Frankfurt, Germany, 2012 produced mixed results for farm tractor sales.

In its May 2013 Economic Report, VDMA reported that the EU's biggest producers of farm machinery — Germany, Italy and France — have been losing market share, primarily to China. "Last year an additional problem was the weak demand in some domestic markets. This applied particularly to Italy, where the strongly diversified agricultural machinery industry realized only a flat turnover development, due to the fact that the home market shrank by more than 10%."

At the same time, France and Germany production and sales of ag equipment appears to be regaining some of the momentum the countries lost in 2012. Others, like the UK, are still struggling to regain their footing.

German Tractor Sales Down 3%

Despite the ongoing sluggishness of the European Union economy, German tractor sales have managed to hold fairly steady through the first 6 months of the year. At 17,553 units sold in the first 6 months of 2013, overall unit sales are down just 3% vs. the same period of 2012 when 18,105 units were sold. *Source: Eilbote*

German Tractor Unit Sales 6 Months 2013 vs. 2012

Brand	January-June 2013		January-June 2012	
	Units	Market Share %	Units	Market Share %
Fendt	3,805	21.7	3,976	22.0
John Deere	3,713	21.2	3,687	20.4
Deutz-Fahr	1,573	9.0	1,781	9.8
Claas	1,440	8.2	937	5.2
Case IH/Steyr	1,393	7.9	1,873	10.2
New Holland	1,311	7.5	1,294	7.1
Kubota	724	4.1	534	2.9
Massey Ferguson	675	3.8	780	4.3
Valtra	433	2.5	404	2.2
Iseki	361	2.1	391	2.2
S+L+H	264	1.5	405	2.2
Branson	179	1.0	163	0.9
Mercedes	150	0.9	173	1.0
Lindner	134	0.8	148	0.8
Foton	126	0.7	88	0.5
Belarus	116	0.7	126	0.7
Holder	103	0.6	82	0.5
Carraro	101	0.6	85	0.5
McCormick	99	0.6	116	0.6
Landini	77	0.4	85	0.5
Kioti	58	0.3	112	0.6
Egholm	40	0.2	37	0.2
Hako	37	0.2	14	0.1
Reform	30	0.2	38	0.2
Zetor	26	0.1	42	0.2
Other	585	3.3	734	4.1
Total	**17,553**	**100**	**18,105**	**100**

Tractor Sales in Austria Drop by 7.4%

Statistics Austria is reporting that 3,533 new farm tractors were sold during the first half of 2013. Compared to the first 6 months of 2012, this was down by 284 units, or 7.4%, according to a published report in the July 18 edition of the German trade publication *Eilbote*.

Austrian Tractor Unit Sales

Brand	January-June 2013		January-June 2012	
	Units	Market Share %	Units	Market Share %
Steyr	579	16.39	738	19.33
John Deere	573	16.22	618	16.19
New Holland	488	13.81	576	15.09
Lindner	464	13.13	505	13.23
Massey Ferguson	336	9.51	331	8.67
Fendt	335	9.48	244	6.39
Deutz-Fahr	238	6.74	237	6.21
Same	131	3.71	128	3.35
Valtra	99	2.80	96	2.52
Case IH	81	2.29	113	2.96
McCormick	66	1.87	96	2.52
Claas	60	1.70	38	1.00
Other	83	2.35	97	2.54
Total	**3,533**	**100**	**3,817**	**100**

Italian Tractor Sales Slide by 3%

Reports from Ufficio Stampa of Italy indicate that the sales of tractors in the country continued on a downward trend through the first half of 2013. The agency reports that, "Data in the first half of the year disclose the sale of tractors were off by 3%, transporters down by 19% and trailers declined by 7.6%. The figures mark the continuation of the negative trend in the domestic market begun more than 5 years ago: from 2008 through 2012 sales of tractors fell 29%, combine harvesters tumbled by 38% and transporters plunged by 46%."

The report goes on to say that there has been no reversal of conditions in the domestic market for agricultural machinery. Based on unit sales for the January to June period, FederUnacoma and the Ministry of Transport showed that 10,267 tractors were sold in Italy compared to 10,589 in the same period of 2012. Unit sales for transporters slipped to 528 units vs. 651 in the same period in 2012. Trailer sales fell by 7.6%, with 4,756 units sold compared to 5,147 in the year before.

The only equipment bucking the trend was combines, which were up 24%. FederUnacoma called it a "gain of little significance" because of the small number of units involved. Only 231 combines were sold during the first half of the year vs. 186 sold for the same period of a year earlier. AEI

Titan Machinery Cites Declining Customer Sentiment for Reducing FY Outlook

Despite posting hefty revenue gains through the second quarter and first half of its 2014 fiscal year, Titan Machinery cut its full-year outlook to $2.25-$2.45 billion from its earlier forecast of $2.35-$2.55 billion.

For the second quarter ended July 31, the dealer group posted revenue gains of 19% to $488.2 million vs. $410.1 million for the second quarter last year. Equipment sales were $358.4 million compared to $306.2 million in the second quarter last year. Parts sales were $70.6 million vs. $57.9 million. Revenue from service was $39.9 compared to $30.5 million. Rental and other revenue increased to $19.3 million vs. $15.5 million in the second quarter last year.

Gross profit for the second quarter $83.5 million, compared to $70.4 million last year. The company's gross profit margin was 17.1% in the second quarter of fiscal 2014, compared to 17.2% last year. Gross profit from parts, service, and rental and other for the second quarter of fiscal 2014 was 65% of overall gross profit and increased to $54.2 million from $43.5 million in the second quarter last year. The company said that solid performance from its parts, service, rental and other was offset by softer equipment margins.

Rest of Year. "As we look toward the back half of the year for our agriculture business, we anticipate a challenging environment given lower commodity prices combined with anticipated reduced crop production in our agriculture footprint," David Meyer, Titan's chairman and CEO, said. "We believe these factors will affect our customers' sentiment, resulting in lower equipment revenues and pricing pressure on equipment margins."

Titan Machinery 2Q & 6 Month Segment Overview — FY2014

(in millions of dollars)	Q2 FY2014	Q2 FY2013	Change	First 6 Months FY 2014	First 6 Months FY 2013	Change
Revenue	$ 488.2	$ 410.1	19.0%	$ 929.9	$ 831.8	11.8%
Agriculture	$ 367.5	$ 314.1	17.0%	$ 727.9	$ 667.7	9.0%
Construction	$ 97.7	$ 95.3	2.8%	$ 180.8	$ 176.9	2.2%
International	$ 39.9	$ 19.6	103.3%	$ 67.6	$ 25.5	164.7%

In a note to investors, Rick Nelson, analyst for Stephens, said he isn't looking for a significant uptick any time soon in either ag or CE.

"Our fiscal 2015 estimate calls for flat ag and construction comps. We look for slightly higher gross margins as service and rental becomes a bigger proportion of sales. Our estimates may prove conservative if strategies pull together but visibility is limited."

Nelson says the ag environment is likely to remain challenging given lower commodity prices combined with anticipated reduced crop production in Titan's ag footprint. "Dry conditions and high temperatures will affect production relative to other areas in the U.S. that have more favorable conditions. These factors are expected to impact equipment sales and pressure margins. Management indicates that costs are rising in advance of new Tier 4 equipment."

The construction market continues to be a tough nut to crack for Titan Machinery and the company has shaken up top personnel to get that part of its business back on track.

"While we view construction initiatives and key management hires favorably and expansion into Eastern Europe as a positive longer-term driver, we remain cautious until we gain greater clarity into the slope and duration of the North American ag cycle correction," Mircea (Mig) Dobre told investors in a note.

Slower Growth. Titan also indicated that it plans to slow its acquisition growth, but indicated that this remains a key factor in its long-term plans.

During a conference call with analysts, Meyer said, "We have slowed our acquisition pace and are focused on integrating our recent acquisitions into our distribution network and positioning our business to achieve improved leverage going forward. **AEI**

VDMA Lambasts Russia on Equipment Tariffs

The Russian market for combines declined by more than 20% in the first half of 2013 as a result of the duty imposition of safeguard tariff measures and restricted access to subsidized loans, according to VDMA, the agricultural machinery association based in Frankfurt, Germany.

"Western manufacturers have been affected by this trend even more seriously than the Russian ones," said Dr. Bernd Scherer, managing director of VDMA. The association estimates sales declined by 28% for Western brands through the first half of the year.

"The reason for this mismatch is quite clear," Scherer said. "Massive protective duties make it very difficult for Russian farmers to invest in innovative agricultural machinery. In short, these protectionist measures are discriminatory as they do not comply with WTO commitments."

Last February, Russian officials slapped a 27.5% duty on all combines produced by Western manufacturers in Russia. Scherer noted that this special protective tariff was suspended in July due to the veto imposed by Kazakhstan.

According to VDMA, market development in the "pre-crisis period up until 2008" showed that Western brands commanded a market share of 30%, while annual domestic demand for combines was estimated at 10,000-12,000 units. But market share declined to 15% in 2009 and 2010 their market share declined to 15% due to the tariffs. **AEI**

Ag Equipment Sales Continue to Slow

North American ag equipment retail sales growth generally decelerated in August, with row-crop tractor sales up 11.8% year-over-year (+15.3% last month), mid-range tractor sales up 11.5% (+15.2% last month), and combine sales down 16% (+10% last month). 4WD tractor sales increased 0.5% vs. this period last year, following a 10.7% decrease last month. "Inventory levels continue to rise, with growing risk given sales growth deceleration, particularly for combines," says Mircea (Mig) Dobre, analyst with RW Baird.

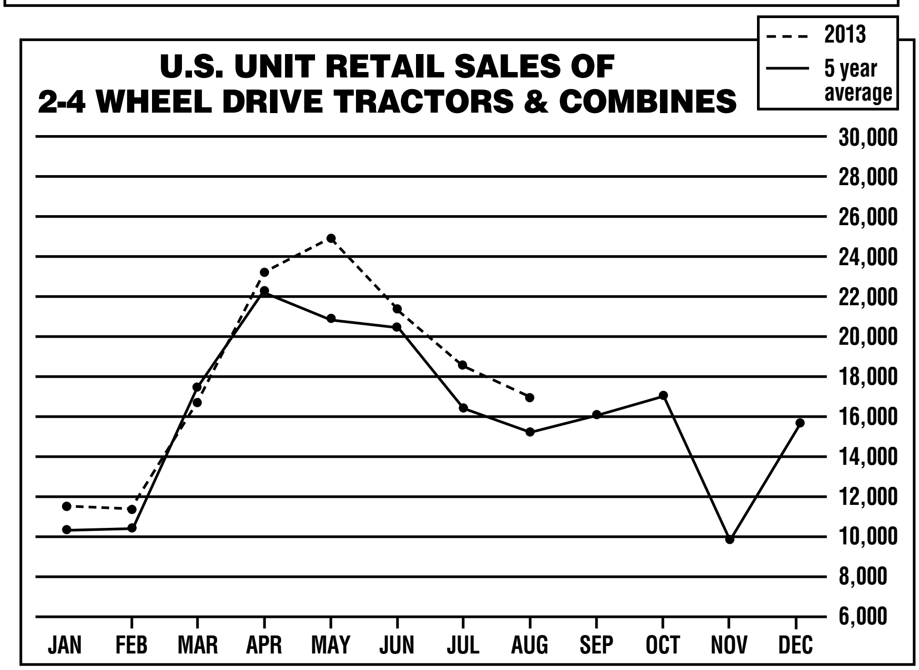
- North American large tractor and combine retail sales increased 1% year-over-year in August, decelerating from the 11% increase in July. U.S. sales increased 6% year-over-year, while Canadian sales decreased 23%.
- Combine retail sales dropped, posting a 16% year-over-year decrease in August, following a 10% increase in July. Last three month (L3M) sales increased 1.8% on a year-over-year basis following a 16.9% L3M increase last month. U.S. combine inventories were 13% higher year-over-year in absolute terms in July (vs. up 19.9% last month). August has typically been an above-average month for combine sales, accounting for 12% of annual sales over the last 5 years.
- Row-crop tractor sales continue to grow, posting an 11.8% year-over-year increase, but decelerated from the 15.3% increase observed in July; L3M sales increased 18.2%. August has been a slightly below-average month for row-crop tractor sales over the last 5 years, typically accounting for 6.5% of annual sales.
- 4WD tractor sales saw a slight increase (0.5% year-over-year in August), reversing the 10.7% decrease in July. U.S. dealer inventories of 4WD tractors increased 8.8% year-over-year in July.
- Mid-range tractor sales increased in August, up 11.5% year-over-year after a 15.2% increase last month. Compact tractor sales increased 13.9% year-over-year, down from the 24.2% increase last month. AEI

AUGUST U.S. UNIT RETAIL SALES

Equipment	August 2013	August 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	August 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	8,259	7,256	13.8	73,261	64,971	12.8	52,508
40-100 HP	4,637	4,119	12.6	37,697	35,327	6.7	26,048
100 HP Plus	2,544	2,211	15.1	22,712	18,209	24.7	11,409
Total-2WD	15,440	13,586	13.6	133,670	118,507	12.8	89,965
Total-4WD	533	521	2.3	4,106	3,817	7.6	1,613
Total Tractors	15,973	14,107	13.2	137,776	122,324	12.6	91,578
SP Combines	1,025	1,099	-6.7	6,669	5,261	26.8	2,134

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	August 2013	August 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	August 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,021	890	14.7	9,333	8,081	15.5	6,666
40-100 HP	397	395	0.5	3,812	3,862	-1.3	3,580
100 HP Plus	302	241	25.3	3,392	2,891	17.3	2,729
Total-2WD	1,720	1,526	12.7	16,537	14,834	11.5	12,975
Total-4WD	55	64	-14.1	967	901	7.3	564
Total Tractors	1,775	1,590	11.6	17,504	15,735	11.2	13,539
SP Combines	227	392	-42.1	1,652	1,532	7.8	1,074



—Assn. of Equipment Manufacturers

AGCO Continues Upgrading Facilities with Hesston, Fella Investments

After announcing in May that it plans to spend $42 million to expand its Jackson, Minn., manufacturing plant where its high horsepower tractors are produced, AGCO continues to invest in its manufacturing facilities around the world. The latest spends come at its Fella brand equipment plant in Germany and its Hesston, Kan., factory.

Hay Tools Expansion. AGCO is giving the European hay equipment manufacturer it acquired 2 years ago a shot in the arm with generous investment for expansion and a key role in group product supply.

Fella-Werke, located near Nuremberg in the southern German state of Bavaria, makes hay mowers, tedders and rakes. It became a full-fledged AGCO business in 2011 after operating since 2004 as a subsidiary of Laverda, the Italian combine harvester business.

Both were owned by ARGO Group, the Italian manufacturer of Landini and McCormick tractors, until AGCO acquired full ownership. "In 2012, we achieved the highest ever turnover in Fella's 95-year history," says managing director Reinhard Brunner. "A 30% increase in turnover compared with the previous period saw nearly 9,000 hay and silage making machines leave the factory."

He credits this success largely to the takeover by AGCO and the ambitious growth strategy it is putting in place at Fella, which is now the company's "Centre of Excellence" for green harvest machinery.

Fella is now tapping into AGCO distribution networks in regions such as Eastern Europe and Africa to expand its own-brand sales. The products have also been launched under the Massey Ferguson brand in the U.S., as well as in some markets such as Australia where independent importers continue to supply the Fella brand.

Fella is working with engineers at the AGCO factory in Hesston, Kan., to develop a unified global range of hay equipment; the Bavarian factory will reportedly become the sole source of tractor-mounted mowers.

David Blackwood, area export sales manager, says, "Domestic sales in Germany accounted for just over a quarter of turnover last year, but exports will grow in proportion as we exploit opportunities through AGCO's worldwide distribution reach."

The objective is to double Fella turnover over the next 5 years. To cope with anticipated growth, AGCO has acquired 6 acres of adjoining land to expand the manufacturing, assembly and office facilities of the factory.

"We could add about 1,000 units to our 10,000 machine capacity by juggling production shifts," says product manager Thomas Becker. "But something more fundamental is needed to achieve AGCO's ambitious goals."

Combine Operations. Sleeker combines and other field equipment will emerge from AGCO's Hesston plant in Kansas, thanks to a new $40 million paint center.

Recent AGCO Investments

- $42 million to build high horsepower tractors in Jackson, Minn.
- Doubling hay tool production in next 5 years in Germany.
- $40 million paint center in Hesston, Kan., for combines.

The 200,000 square foot plant consolidates two paint stations into one streamlined operation. Up to 75% of parts will go through the 17-step electrocoat (E-coat) process; the rest, including gearboxes, drives, and parts best painted after assembly, will be painted using a liquid coating system.

"We understand how important a high quality finish is to our customers and dealers, and the impact it has on machine life and resale," says Bob Crain, senior vice president, AGCO North America. "This is the most advanced E-coat and powder paint facility in the North American agricultural equipment industry."

The E-coat and powder paint processes are said to be equivalent to those of the automotive industry, providing a thorough, consistent and durable finish on each part, enhancing the overall quality and longevity of the final piece of equipment.

The Hesston factory's 1,400 employees build Challenger and Massey Ferguson combines, and also the Gleaner range, which now includes the first Class 8 harvester featuring transverse rotor separation. AEI

Krone to Invest $13M to Expand Forage Harvester Production

Germany's Krone is spending the equivalent of more than $13 million building a new production facility for its BiG X forage harvesters to realize plans for a 50% increase in sales of the big ticket machines.

"To achieve our sales ambitions of about 600 units annually, we have to increase our existing capacity from 300 machines a year," says managing director Bernard Krone. "We could not achieve that by expanding our existing production facilities."

Assembly is due to begin in mid-October in the new 265m x 27m building at the Spelle headquarters complex in northeast Germany, where Krone promises the most innovative assembly lines and a high-shelf stockroom for a custom logistics concept.

The project has been spurred by increasing demand for high-output choppers to harvest forage crops for biofuels and animal feed. Also, Krone is expanding its reach into China, Brazil, Chile and Paraguay in addition to its traditional European and North American markets.

On top of that, Krone plans to launch a new model line next year for the 450 horsepower-plus sector, which accounts for about 60% of the worldwide forage harvester market. Krone has previously concentrated on the top-power sector with BiG X machines from 500-1,000 horsepower.

Earlier this year, the privately owned group reported turnover equivalent to more than $1.8 billion for the 2011-12 financial year ending in September, with exports sales growth of 19% more than offsetting a slight downturn in the domestic market. AEI