

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Exporting Tier 4 Engines
- Butonal vs. Ethanol
- German Sales Rise 9%

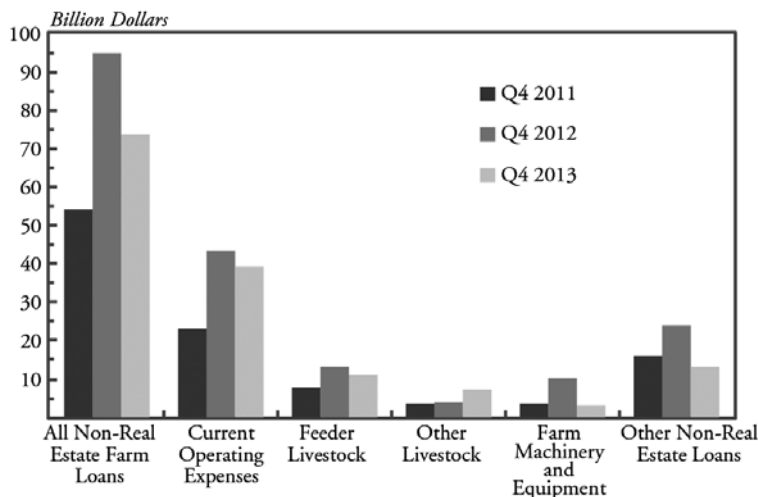
Lower 4Q Farm Loans Reported by Kansas City Fed; Credit to Tighten

The volume of loans for farm machinery and equipment purchases dropped to the lowest level in more than 2 years, according to the January 2014 *Agricultural Finance Databook* from the Federal Reserve Bank of Kansas City. This drop occurred despite attractive loan terms of low interest rates and longer average loan maturities, says Nathan Kauffman, Omaha branch executive, and Maria Akers, associate economist.

"Elevated farm income and a decline in input costs dampened short-term lending to the farm sector in the fourth quarter," says the report. "A rebound in crop production in most regions helped offset a sharp drop in corn prices at harvest, keeping farm income relatively high."

Continued on page 2

Non-Real Estate Farm Loan Volumes by Purpose



Commercial bank lending for non-real estate farm loans dipped in the fourth quarter, driven in part by a decline in farm capital spending.

Source: *Agricultural Finance Databook*, Table A.3.

Case IH Dealers Brace for 'Purity' Push

While brand purity in dealerships had been relatively quiet lately as ag machinery markets created enough business for everyone ("even John Deere appeared to be relaxing on it," said one exhibitor at the National Farm Machinery Show last week in Louisville), Case IH's dealer meeting in Florida in February appears to have brought it to the forefront again.

Dealers at the meeting told *Ag Equipment Intelligence* that, while Jim Walker, vice president of North American operations for Case IH, did not to call it "purity," the topic of Case IH getting its share of dealers' wallets was brought up on several occasions and was the topic of the opening and closing remarks during

the dealer meeting. Specifically, specialty equipment makers MacDon, Kubota, Kinze, Great Plains, Kuhn/Krause, Geringhoff and Drago were cited by Racine, Wis.-based Case IH as lines the company would be keeping a close eye on in terms of dealer inventories and sales.

While one dealer said he's "heard it all before" and indicated the most recent purity push would have no bearing on his decisions, others were more visibly upset. One dealer pointed out that many large Case IH dealerships also carry Kubota (consistent with *Ag Equipment Intelligence's* "2013 Big Dealer" report summary), because Case IH ignored the small tractor market in past years. Kubota has likely also moved up on

Racine's radar since announcing that it's aggressively expanding into other ag lines. (See "*Competitive Tensions to Increase as Kubota Confirms Large Tractor Project*," December 2013 *Ag Equipment Intelligence*.)

Another Case IH dealer said, "It's going to be tough to give up the parts business those lines produce for us. We'll need to think long and hard before we concede that business."

Discussions at the National Farm Machinery Show with the shortline companies targeted showed they are well aware of the meeting and what was said. One executive shared that his territory managers were calling in almost immediately after hearing

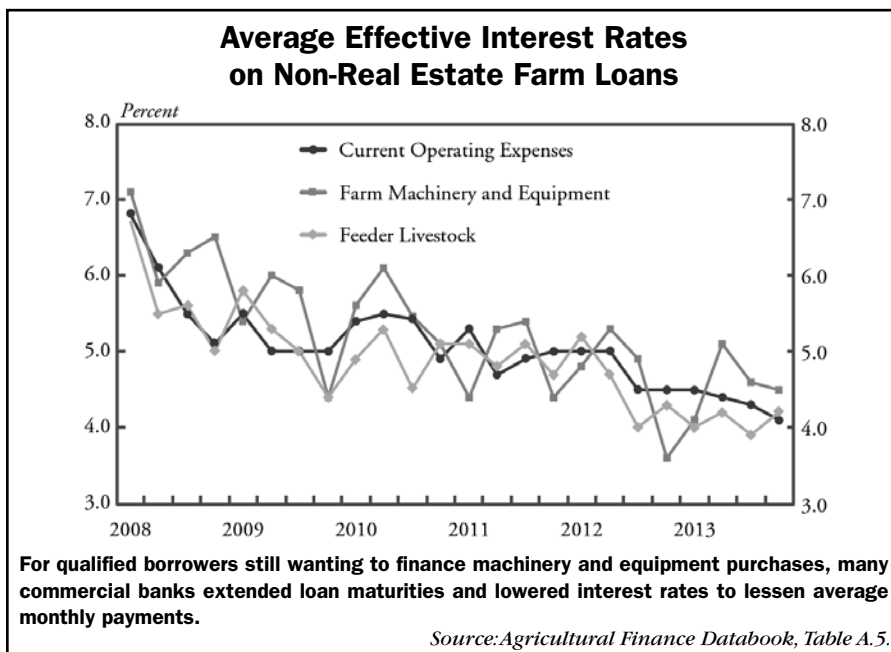
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In turn, lower corn prices reduced feed costs for livestock operators. Crop farmers also saw operating costs decline due, in part, to a decrease in fertilizer prices. With fewer operating loans being made, large lenders in particular competed for market share by offering further reductions in interest rates."

According to national survey data collected during the first full week of November, farm real estate lending also eased during the fourth-quarter survey period. "While farmland values generally were still rising, agricultural bankers reported gains had moderated from the brisk pace of the past few years. Most bankers felt that farmland values would hold steady at high levels heading into 2014."

"With solid incomes and lower operating costs, November survey data indicated fourth-quarter operating loan volumes fell 10% short of last year's levels, while feeder livestock loans were 17% lower and other loans for non-specified purposes plummeted by 45%," say Kauffman and Akers. "The only loan category experiencing an increase in volume was for livestock other than feeder animals, which includes poultry purchases."

Chicago Fed (7th District). In its February newsletter, the Federal Reserve Bank of Chicago reported that



in 2013, the Seventh Federal Reserve District had an annual increase of 5% percent in "good" farmland values, yet growth in farmland values appeared to be slowing.

Agricultural credit conditions weakened in the fourth quarter of 2013 compared with the fourth quarter of 2012. Repayment rates on non-real estate farm loans were lower in the October through December period of 2013 vs. the same period of 2012, and rates of loan renewals and extensions were higher.

At the same time, banks in the Midwest have begun tightening agri-

cultural loan criteria amid expectations of a farm sector slowdown, according to the report. **AEI**

Percent Change in Dollar Value of 'Good' Farmland

	Oct. 1, 2013 to Jan. 1, 2014	Jan. 1, 2013 to Jan. 1, 2014
Illinois	+3	+10
Indiana	+6	+14
Iowa	-1	-2
Michigan	—	+6
Wisconsin	-1	+5
7th District	+3	+5

Case IH Dealers Brace for 'Purity' Push ...Continued from page 1

from the dealers and were surprised at what they just heard.

"Of concern this time around is that the impact that combine inventories will have," said an executive at one of the mentioned companies. "If there's a combine inventory problem, and everyone expects there will be, when the dealer calls for help on notes coming due, there'll be conditions laid down." In other words,

the timing of Case IH's insistence on brand-pure dealerships may have been planned to put the leverage in the mainline's favor.

Another executive speculated that the timing of the push also coincides with a projected slowdown in ag equipment sales. "Case is probably anticipating a drop off in sales and is looking to soften the decline by getting sales that normally go to the shortline companies."

In the longer term, Case IH dealers have often said that the company's stance on shortlines created an advantage for them. By carrying specialty lines, the dealers are able to attract farmers who are loyal to other brands because they want to look at the shortlines they carried. Many of these customers would not otherwise consider visiting a Case IH dealership if it weren't for the shortlines on the lot. **AEI**

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Can Butanol Challenge Ethanol as a Fuel Additive?

With the backing of DuPont, BP and billionaire Richard Branson, it looks like production of butanol could have legs when it comes to challenging ethanol as a fuel additive and claim some portion of the \$26 billion renewable fuels market, according to a January 29 report by Bloomberg.

Starting in earnest in 2007, production of corn ethanol as an additive to gasoline has helped fuel an ongoing boom in farm equipment sales. While EPA ponders a reduction in mandatory production levels of ethanol for 2014 and beyond, butanol, which can also be distilled from corn, could move in to take up the slack as early as 2015.

While not entirely new, butanol is being touted as a biofuel with the potential to solve issues associated with ethanol. According to a 2007 report in *Fortune* magazine, "Butanol trumps ethanol in several ways: Adding ethanol to gasoline reduces fuel mileage, but butanol

packs almost as much energy as gas, meaning fewer fill-ups. Butanol also doesn't damage car engines like ethanol, so more of it can be blended into gas. And because butanol doesn't separate from gasoline in the pres-

"Butanol trumps ethanol in several ways ..."

ence of water, it can be blended right at the refinery, while ethanol has to be shipped separately from gas and blended closer to the filling station."

Reportedly, butanol is less corrosive than is ethanol, which would make it more attractive to small engine manufacturers. Engines that can handle a mixture of 15% ethanol and 85% gasoline could handle a mix of up to 16% butanol, according to reports.

In the Bloomberg report, Branson is quoted as saying, "This is the future

of renewable fuels. It's also hugely versatile so can be created to produce gasoline fuel blends, rubbers, solvents, plastics and jet fuels, which give us scope to enter into a range of markets."

Butamax Advanced Biofuel LLC, funded by DuPont Co. and BP Plc, is retrofitting an ethanol plant in Minnesota and is expected to produce butanol in commercial volumes in 2015. Gevo Inc., backed by French oil producer Total SA and Branson through his Virgin Green Fund, already runs a distillery 60 miles away. Both say they've lined up clients for large-scale deliveries.

The new companies are urging more producers to retrofit their ethanol plants to produce butanol as they say it will take very little to make the conversion. An April 2013 report in *Fortune* suggested "Modifying those plants to produce butanol from corn instead of ethanol costs roughly \$15 million for each facility." **AEI**

FARM MACHINERY TICKER (AS OF 2/13/14)

MANUFACTURERS	Symbol	2/13/14 Price	1/10/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$46.85	\$44.67	\$47.58	\$30.11	31.44	91,638	589.33M
AGCO	AGCO	\$51.60	\$56.93	\$64.60	\$47.29	8.59	1,363,860	5.03B
AgJunction Inc.	AJX	\$1.10	\$1.14	\$1.20	\$0.70	N/A	58,200	N/A
Alamo	ALG	\$52.08	\$56.04	\$61.27	\$34.55	18.44	27,011	629.13M
Art's Way Mfg.	ARTW	\$6.10	\$6.11	\$8.44	\$5.40	12.84	4,855	24.66M
Blount Int'l.	BLT	\$12.26	\$13.45	\$15.59	\$10.52	17.27	221,845	605.12M
Buhler Ind.	BUI	\$6.71	\$7.10	\$7.30	\$5.30	8.39	4,863	167.75M
Caterpillar	CAT	\$96.11	\$90.51	\$96.64	\$79.49	16.71	5,950,010	61.22B
CNH Global	CNHI	\$10.78	\$11.40	\$13.16	\$10.16	13.24	784,040	19.66B
Deere & Co.	DE	\$85.85	\$89.76	\$93.88	\$79.50	9.44	3,318,150	31.98B
Kubota	KUBTY	\$82.12	\$82.12	\$88.38	\$55.98	57.65	18,521	87.98B
Lindsay	LNN	\$90.02	\$82.81	\$94.50	\$71.13	17.62	207,142	1.16B
Raven Industries	RAVN	\$36.37	\$38.00	\$42.99	\$26.79	28.98	118,282	1.32B
Titan Int'l.	TWI	\$18.04	\$17.18	\$27.09	\$14.14	21.20	709,890	966.04M
Trimble Navigation	TRMB	\$36.92	\$33.63	\$37.42	\$24.66	50.16	1,284,950	9.52B
Valmont Industries	VMI	\$148.95	\$153.03	\$164.93	\$129.00	13.87	248,271	3.99B
RETAILERS								
Cervus Equipment	CVL	\$24.10	\$23.30	\$24.50	\$18.50	14.52	17,873	359.49M
Rocky Mountain Equipment	RME	\$12.60	\$12.90	\$14.88	\$10.98	9.55	37,444	242.84M
Titan Machinery	TITN	\$16.49	\$17.13	\$32.00	\$14.19	14.23	324,590	344.64M
Tractor Supply	TSCO	\$66.18	\$76.58	\$78.17	\$49.82	28.53	1,717,940	9.25B

German Ag Equipment Sales Rose 9% Last Year

VDMA, the German Agricultural Machinery Assn., is reporting that German sales of farm equipment rose by 9% in 2013, to a new record of 8.36 billion euros (\$11.4 billion). "Seen in the global context, the dynamics of the production site Germany confirms its top position," says Dr. Hermann Garbers, chairman of VDMA. According to preliminary estimates by the Frankfurt-based VDMA, the agricultural machinery industry grew worldwide by 7% last year and overall sales in all of Europe increased by 5%.

The February 10 report goes on to say that nearly half of VDMA members' sales resulted from the production of tractors. Production value of tractors grew by 16% to 4.13 billion euros (\$5.6 billion). With a production volume of 63,600 units, manufacturers achieved the second highest level during the past 20 years. According to the association, German plants, in particular, specialize in producing high-performance tractors, two-thirds of which are now equipped with an engine power of more than 90 kW (120 horsepower).

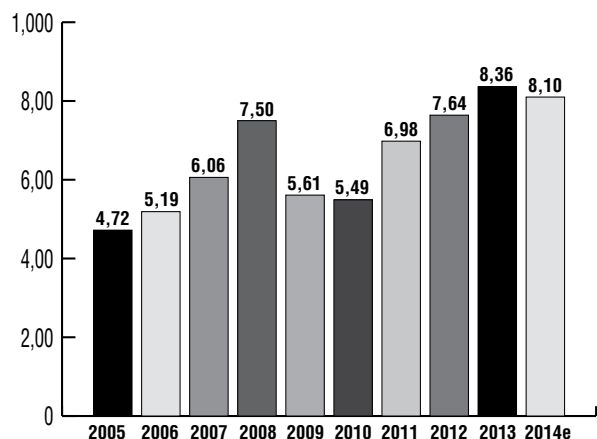
VDMA estimates that 14,000 tractors were imported into the German market in 2013, about 38% of all new registrations. At the same time, 50,000 units were exported.

France, again, was Germany's most important foreign market. In the past year, tractor sales with the French traders increased by one-third to around 700 million euros (\$954.5 million). Followed by the U.S. with an export volume for tractors of approximately 380 million euro (\$518 million).

Manufacturers of tillage equipment also increased their sales by 16%, while production of crop protection equipment grew by 24%. Growth of other product lines was in the mid-single digit percentage range.

'Decent' Outlook. Backlogs for the German factories are currently somewhat below the previous year's level, according to VDMA. Weaker trends for 2014 are likely to occur

**Turnover of the German
Agricultural Machinery Industry**
(In billions of euro)



Source: VDMA Agricultural Machinery Association

in France and in the U.S. Conditions in the Russian market remain difficult for German manufacturers, as other markets, such as the UK and Spain, are expected to show significant recoveries. Sales volumes in Germany, where VDMA members still generate more than a quarter of their turnover, will probably hold at about 5.5 billion euros (\$7.5 billion) in 2014.

According to the most recent VDMA survey, investment plans of the German farmers and contractors remain at a high level. Given these regionally differentiated prospects, the VDMA anticipates a slight 3% decline in 2014 sales to 8.1 billion euros (\$11.1 billion). Following the record result of the past year, this would be the second highest revenue ever for the industry.

AEI

Annual German Tractor Sales* 2011 – 2013

	Total 2013		< 51 Horsepower		> 51 Horsepower		Total 2012		Total 2011	
	Units	Share (%)	Units	Share (%)	Units	Share (%)	Units	Share (%)	Units	Share (%)
1. John Deere	7,736	21.3	1,633	24.8	6,103	20.6	7,594	20.9	7,527	20.9
2. Fendt	6,261	17.3	0	0.0	6,261	21.1	5,977	16.5	5,703	15.9
3. Deutz-Fahr	3,798	10.5	228	3.5	3,570	12.0	3,945	10.9	3,867	10.7
4. Claas	2,899	8.0	0	0.0	2,899	9.8	2,476	6.8	2,955	8.2
5. Case IH/Steyr	2,809	7.7	8	0.1	2,801	9.4	3,679	10.1	2,894	8.0
6. New Holland	2,528	7.0	143	2.2	2,385	8.0	2,426	6.7	2,035	5.7
7. Kubota	1,806	5.0	1,350	20.5	456	1.5	1,356	3.7	1,858	5.2
8. Massey Ferguson	1,538	4.2	70	1.1	1,468	4.9	1,823	5.0	1,490	4.1
9. Iseki	1,017	2.8	1,013	15.4	4	0.0	1,030	2.8	1,129	3.1
10. Valtra	749	2.1	5	0.1	744	2.5	763	2.1	666	1.9
All Others	5,107	14.1	2,134	32.3	2,953	10.2	5,195	14.5	5,853	16.3
Total	36,248	100	6,584	100	29,644	100	36,264	100	35,977	100
Year-over-year change	0.0%		7.9%		-1.7%		0.8%		25.9%	

* without Quads, ATV and Telescopic handlers, ** under "Other"

Source: Eilbote, January 16, 2014

Perkins Addresses Tier 4 Engine ‘Migration’ Issues for Exporting Used Farm Machines

Concerns about the impact of emissions technology on the export potential of used tractors and other agricultural vehicles has led to an assessment by Perkins Engines Co. of potential “migration” issues.

“We’ve undertaken extensive testing, analysis and field validation of our U.S. EPA Tier 4 Interim engines for customers concerned about the resale value of used machines being exported to countries where fuel quality and sulfur content can vary,” says product manager Dave Entwistle. “Above 130kW (175 horsepower), our engine systems will not require any modification to operate in countries with higher sulfur fuel, and for our under 130kW (175 horsepower) engines we will offer authorized modification processes.”

Perkins is enabling many of its distributors in less emissions-regulated territories to access service training,

parts stock, service tooling and product information, including detailed information on de-certification — removing the after-treatment system on the below 175 horsepower engines so they can operate with higher fuel sulphur.

“Anyone considering the purchase or modification of used equipment powered by a Perkins Tier 4 Interim engine must understand and adhere to local regulatory requirements,” says Entwistle. “At Perkins we’re used to developing a wide range of engines for our OEM customers as they’re all operating in a variety of regulatory environments.”

In North America, the introduction and integration of Tier 4 Final engines is the primary focus, working with OEM customers through Technology Integration Workshops to optimize engine installation.

“This process has resulted in

numerous benefits for customers, not least of which is the better integration of our engines into their machines, which has yielded significant improvements for end users,” says Adrian Talbot, Marketing Center of Excellence manager.

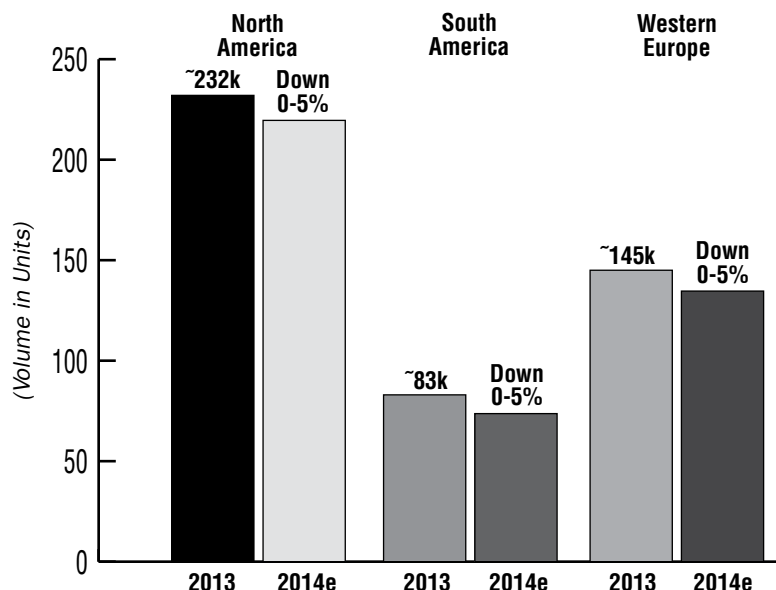
For Tier 4 Final, the new 3.4-liter 845E-E34TA, which operates with a diesel particulates filter (DPF) at interim level, switches to an SCR system for tackling noxious gases and a 4 valve cylinder head and increased fuel injection pressure to reduce particulate formation.

A single stage turbo with smart wastegate helps lift maximum power potential to a class leading 90kW (121 horsepower) and torque to 490Nm. Yet fuel consumption is not sacrificed. The 8% improvement in specific fuel consumption gained with the Tier 4 Interim version has been retained, says Perkins.

After-treatment packaging is a major focus of the 4.4-liter 4 cylinder and 7.0-liter 6-cylinder engines of the 1200 Series for Tier 4 Final. An integrated DOC/SCR module on the 1204F-E44TA delivering up to 110kW (147 horsepower) eliminates any need for a DPF regeneration strategy. A similar module for the bigger engine that also includes a DPF can overcome packaging issues by being located remotely on a chassis or above the engine.

Twin turbos in series help the 1206F-E70TTA deliver up to 225kW (300 horsepower), making it a potential engine down-sizing candidate. **AEI**

AGCO Sees 2014 Sales Flat to Down 5%



AGCO reported a 5.8% increase in revenues for the fourth quarter, and for 2013 net sales were up 8.3%. Looking ahead, the company is projecting North American farm equipment sales to be flat to down 5% in 2014 vs. 2013. AGCO's outlook for South America and Western Europe are consistent with North America, at down 5% and flat to down 5% respectively. Declines in higher horsepower equipment should be offset by increases in lower horsepower machines, according to Martin Richenhagen, AGCO CEO. “At the end of December 2013, AGCO's order board all are down across all the markets compared to a year ago. As a result, we will start the year with lower production in the first quarter vs. the prior year and finish the year with slightly higher production in the remaining quarters,” he said. **AEI**

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More Competition Coming to the Tractor Market?

Another Indian tractor maker has big plans to capture a bigger share of the tractor market and extend its reach with a European acquisition. For now International Tractors Ltd.'s (ITL) is primarily eyeing market share growth in its domestic market, but makes no bones about its far-reaching future intentions to be a major player in the tractor business.

According to a published report in

the February 1, 2014 edition of the *Economic Times of India*, ITL is making a major investment in its plant in Punjab to increase production of its Sonalika-branded tractors to 150,000 units annually.

"We are looking at becoming India's number one tractor manufacturer in [the] long term and this investment is a step toward this goal,"

says L.D. Mittal, chairman of ITL.

Last year, ITL sold more than 60,000 tractors in India to claim third place in the country behind Mahindra and TAFE. ITL has also managed to grow its export business in Asia and Europe, exporting 10,000 tractors in 2013. Mittal says he's aggressively looking to acquire a farm equipment manufacturer in Europe. **AEI**

Management Changes at Kuhn as It Expands into South America

A significantly increased presence in South America will result from Kuhn Group's planned acquisition of one of Brazil's biggest crop sprayer and cotton harvester manufacturer as the France-based business prepares for top management changes.

Montana Industries is located near Curitiba in southern Brazil and in recent years has become the leading supplier of self-propelled sprayers and fertilizer applicators. It employs 600 and has two production plants in Brazil and one in Argentina.

The acquisition will complement European-built tractor sprayers supplied through Kuhn's sales company in Brazil, and add the equivalent of over \$90 million to Kuhn Group's revenues, which amounted to more than \$1.4 billion in 2013.

From a strategic standpoint, buying Montana will provide access to Argentina with a local manufacturing platform while strengthening Kuhn's relationship with the large scale commercial farming sector in Brazil, established through successful planter sales.

"It will also bring additional knowledge and expertise to further advance Kuhn Group's presence in the crop protection business," says CEO, Michel Siebert, who so far has signed a principal understanding with the private owners of Montana Industries. Closing is expected during the first half of this year, subject to a definitive transaction agreement being reached and to certain actions and approvals.

For Siebert, the deal could be the last of many he has overseen as he transformed a French cultivator equipment manufacturer into the world's largest

farm implement maker. He retires in September of this year.

"With his determination and vision, Michel Siebert guided the globalization of Kuhn Group through a balanced strategy of internal and external growth," says Philip Mosimann, CEO of Kuhn's Swiss parent Bucher Industries. "His outstanding achievements include building strong market positions in Europe and the Americas, while maintaining a very healthy level of profitability."

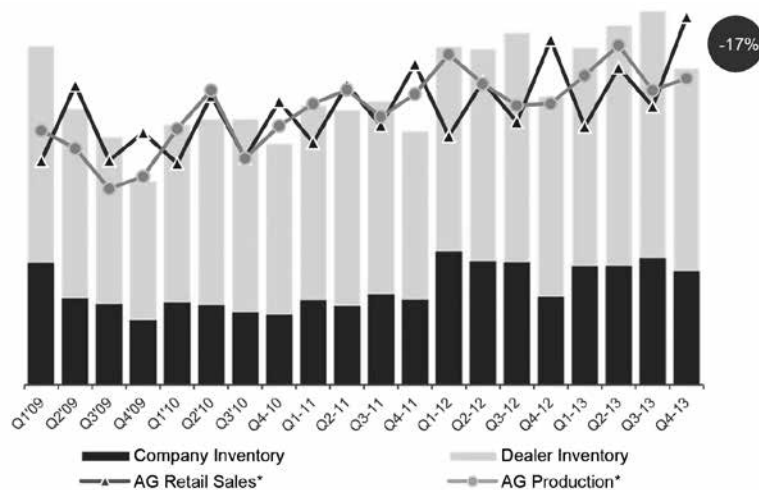
Siebert will be succeeded by 46-year old Thierry Krier, who has been responsible for Kuhn Group's activities in the U.S. and Canada since 1995.

"Thierry gradually transformed this business from a small import and distribution company with a staff of 20 into

a leading American manufacturer of agricultural machinery with more than 1,000 employees," notes Mosimann. "Two extremely successful acquisitions were carried through under his leadership, namely Kuhn Knight in 2002 and Kuhn Krause in 2011. The first formed the basis for the rapid expansion of Kuhn Group's market presence in North America, where more than 25% of group sales are generated today."

Krier will continue his functions in Bucher Industries U.S. Inc. and at the beginning of April will hand over leadership of Kuhn North America to current Director of Operations, Greg Petras. He joined Kuhn Group as operations manager through the Kuhn Knight acquisition. **AEI**

CNH Expects Ag Equipment Demand to Slip in 2014



CNH reported a 4.3% revenue gain for 2013, largely due to the strong demand for agricultural equipment. Dealer inventories were down in the fourth quarter, but were in line with ag production. Company inventory was down slightly as well. CNH is expecting demand for ag equipment to be down in 2014 vs. 2013, offset by an increase in construction equipment demand. **AEI**

Ag Machine Sales Mixed in January

North American large ag equipment retail sales saw mixed results in January, with 4WD tractor sales down 6.9% year-over-year, combine sales up 32.7% and row-crop tractor sales increasing 12%, according to the Assn. of Equipment Manufacturers.

Inventory levels and days-sales of inventories once again rose across all large equipment categories year-over-year, with growing risk for inventory destocking in 2014 given projected sales declines, Mircea (Mig) Dobre, analysts with RW Baird, said in a note to investors.

- U.S. and Canada large tractor and combine retail sales increased 12% year-over-year in January, down from the 17% increase in December. U.S. sales increased 9% vs. the same period last year; Canadian sales increased 40%.

- Combine retail sales rose, posting a 32.7% year-over-year increase in January following a 37.1% increase in December. U.S. combine inventories were 53.8% higher year-over-year in absolute terms in December vs. up 66.5% last month. January is typically a below-average month for combine sales, accounting for 5.2% of annual sales over the last 5 years. Dobre said used combine equipment prices continue to be weak based on dealer commentary on high inventory levels.

- Row-crop tractor sales continued to grow, posting a 12% year-over-year increase, decelerating somewhat from the 13.9% increase observed in December. U.S. row-crop tractor inventories increased 31.3% year-over-year in December vs. a 34.9% increase in November. January is a fairly typical month for row-crop tractor sales, accounting for 7.7% of annual sales over the last 5 years.

- 4WD tractor sales declined, down 6.9% year-over-year in January vs. a 6.9% increase in December. Comparisons remain difficult for one more month, according to Dobre. Mid-range tractor sales rose in January, up 2.1% year-over-year after a 10.3% increase last month. Compact tractor sales rose 1.4% vs. the same period last year, up from the 6.7% decrease last month.



JANUARY U.S. UNIT RETAIL SALES



Equipment	January 2014	January 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	December 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,024	4,137	-2.7	4,024	4,137	-2.7	61,439
40-100 HP	3,658	3,711	-1.4	3,658	3,711	-1.4	3,658
100 HP Plus	2,940	2,690	9.3	2,940	2,690	9.3	10,832
Total-2WD	10,622	10,538	0.8	10,622	10,538	0.8	101,086
Total-4WD	540	574	-5.9	540	574	-5.9	1,620
Total Tractors	11,162	11,112	0.4	11,162	11,112	0.4	102,706
SP Combines	654	543	20.4	654	543	20.4	1,472

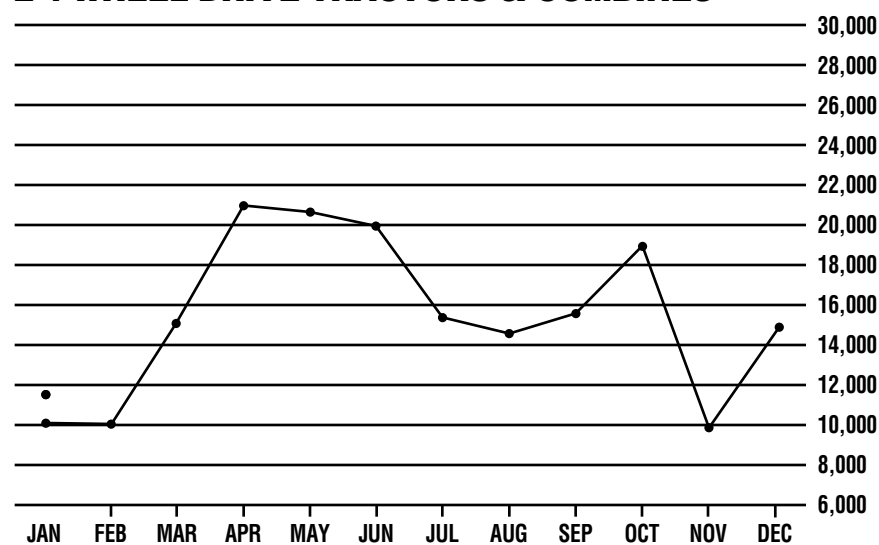
JANUARY CANADIAN UNIT RETAIL SALES



Equipment	January 2014	January 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	December 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	738	557	32.5	738	557	32.5	6,424
40-100 HP	514	376	36.7	514	376	36.7	3,213
100 HP Plus	374	270	38.5	374	270	38.5	2,486
Total-2WD	1,626	1,203	35.2	1,626	1,203	35.2	12,123
Total-4WD	91	104	-12.5	91	104	-12.5	429
Total Tractors	1,717	1,307	31.4	1,717	1,307	31.4	12,552
SP Combines	170	78	117.9	170	78	117.9	611

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

--- 2014
— 5 year average



— Assn. of Equipment Manufacturers

USDA Projects \$35 Billion Drop in 2014 Net Farm Income; Deere Not So Much

USDA's initial forecast for 2014 net farm income is \$34.7 billion lower than current expectations for 2013, but is \$8 billion higher than the average of the previous 10 years.

Lower crop cash receipts, and, to a lesser degree, a change in the value of crop inventories and reduced government farm payments, drive the expected drop in net farm income. Crop receipts are expected to decrease more than 12% in 2014, led by an expected \$11 billion decline in corn receipts and a \$6 billion decline in soybean receipts.

Elimination of direct payments under the Agricultural Act of 2014 and uncertainty about program enrollment during 2014 result in a projected \$5.1 billion decline in government payments.

On the other hand, total production expenses are forecast to decline \$3.9 billion in 2014, which would be only the second decline in the last 10 years. Livestock receipts and value of inventory change also are expected to increase a combined \$3.5 billion in 2014, largely due to higher dairy receipts and the potential for expansion of the beef cat-

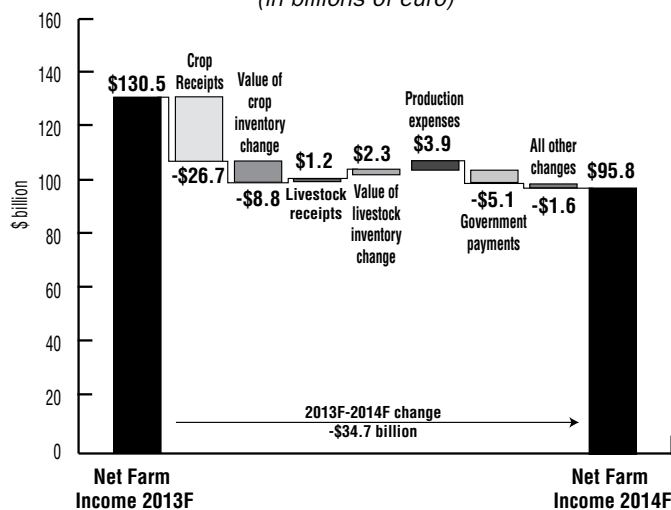
tle herd for the first time since 2007.

Deere & Co.'s forecast for farm cash receipts and net cash income for 2014 don't quite match up to that of the USDA, but the company does see a dropoff for the year and is dialing back production plans to match its lower expectations for the year.

Overall, Deere slightly increased both its cash receipt and net farm cash income forecast for the year vs. its earlier outlook from November 2013. The company expects total cash receipts to come in at \$378.1 billion, up from \$377.7 billion. Net cash income is forecast at \$110.1 billion for 2014 vs. the earlier projections of \$109.7 billion. **AEI**

Net farm income, by component of change, 2013F-2014F

(in billions of euro)



Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Deere & Co.'s 2014 Outlook U.S. Farm Cash Receipts & Net Farm Cash Income

(in billions of dollars)	2012	2013 Forecast	Previous 2013	2014 Forecast	Previous 2014
Crops	\$223.5	\$215.6	\$206.6	\$192.1	\$193.1
Livestock	\$171.6	\$181.4	\$173.8	\$178.0	\$173.5
Government Payments	\$10.6	\$11.3	\$11.4	\$8.0	\$11.1
Total Cash Receipts	\$405.7	\$408.3	\$391.8	\$378.1	\$377.7
Other Farm-Related Income	\$33.6	\$36.0	\$36.4	\$27.0	\$27.0
Gross Cash Income	\$439.3	\$444.3	\$428.2	\$405.1	\$404.7
Cash Expenses	(\$304.9)	(\$312.0)	(\$305.0)	(\$295.0)	(\$295.0)
Net Cash Income	\$134.4	\$132.3	\$123.2	\$110.1	\$109.7

Source: Deere & Company Forecast as of 12 February 2014
(Previous Forecast as of 20 November 2013)

Deere to Lower Production, Maintains Outlook for 2014

While it posted strong revenues in the first quarter of its 2014 fiscal year, Deere & Co. continues to anticipate a slowing in ag machinery sales for the remainder of the year.

In a note to investors, RW Baird analyst Mircea (Mig) Dobre reported that first quarter 2014 equipment sales increased 2% year-over-year to \$6.949 billion; management had forecast a 2% sales decrease.

Dobre went on to say that management stressed that fiscal year 2014 production levels are lower year-over-year due to forecasted demand declines. Combine early order program is down double-digits year-over-year and is reflected in Deere's outlook, in part due to an earlier start to programs in 2013 due to Final Tier 4 transition. At the same time, large tractor order book is showing strength considering the lower production schedules.

Deere expects ag equipment sales in the U.S. and Canada to be down 5-10% for the year, but is projecting that North American turf and utility equipment sales will be up about 5% in 2014. **AEI**