From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Global Exports Fall
- Deere's Overseas Biz
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After 4-Year Run Up, Worldwide Farm Machinery Sales Expected to Slow in 2014

After averaging an annual growth rate of 11% since 2009, worldwide ag equipment sales are expected to take a breather this year, according to Frankfurt, Germany-based VDMA Agricultural Machinery Assn.

In its *2014 Economic Report*, the association noted, "In the past 4 years, turnover in the agricultural machinery industry has risen sharply and continuously." VDMA estimates worldwide volume for 2013 was €96 billion ($130 billion), calling it "a remarkable 50% higher than the level of the last 'crisis year,' 2009."

This rapid increase in farm equipment sales is forecast to slow somewhat in the year ahead. "Following the 7% global growth in the industry last year we expect a decrease of 3-5% this year, although we continue to be at a distinctly high level," said Dr. Bernd Scherer, managing director of VDMA Landtechnik.

The association's forecast for global sales in 2014 is €93 billion, or $126.7 million, a decrease of about 4%. German sales are expected to decline about 5% to €8 billion, or about $10.9 billion.

Machinery Production. When it comes to global production of ag equipment, the most significant trend has been the steady growth of Asian products and the long-term decline of farm machinery produced in Europe. In its report, VDMA said, "As a production location, China has

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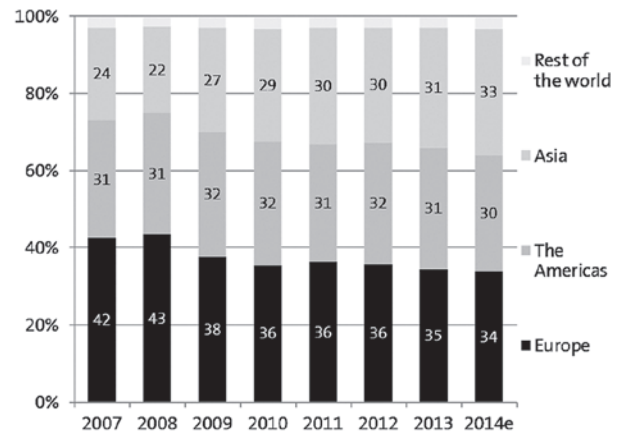
Global Agricultural Machinery Production

(Distribution by continent, % share of value in € terms)



Asian manufacturers, most notably China, have gained considerable market share in the production of farm equipment since 2007.

Source: VDMA Agricultural Machinery Assn.

Despite Revenue Gain, Ag Headwinds Pressure Titan Machinery's Bottom Line

Titan Machinery followed through on its April 10 announcement that it would close and/or consolidate 8 of its stores and reduce its overall headcount to improve the performance of its construction equipment operations and counteract the slowdown in ag machinery sales. This allowed the company to report that it increased its overall revenues by 5.4% during the first quarter of fiscal year 2015.

Nonetheless, the company is still confronted with excess equipment inventory, declining values of used machinery, pricing pressures from new Tier 4 Final equipment and weakening ag fundamentals.

Titan's revenue growth came largely from increased sales in the company's construction (+23%) and international (+9.4%) segments, which helped offset a 2.1% decline in its much larger ag equipment business during the first quarter. At the same time, the company reported overall equipment revenues grew by 3.1%, parts sales improved by 8.8%, revenue for service operations rose by 15.9% and its rental business increased by 23.7%.

Total revenues came in at $465.5 million for the period ended April 30, 2014 vs. $441.7 million during the same period a year earlier. At the same time, Titan registered a net loss of $4.1 million for the quarter, which compares with $0.4 million a year earlier. Part of the falloff was attributed to $3.2 million in costs associated with the 7 construction stores it closed, which reduced that segment's headcount by 12%. The company also

Continued on page 2

consolidated one ag location into another one of its ag dealerships. Overall, Titan reduced its total headcount by 4.5% with the realignment.

The company's gross profit rose by 2.7% during the first quarter to $75.9 million vs. $73.9 million. Gross profit margin fell 40 basis points to 16.3% from 16.7%.

Inventory Focus. Titan reiterated its target of reducing equipment inventory by $250 million, much of which is expected to come in the second half of its fiscal year. According to Rick Nelson, analyst for Stephens Inc., the company has made some headway in this regard. "Titan reduced its inventory level $102 million in the quarter, but still ended the quarter 12% above prior year levels. Floorplan interest expense jumped 33% to $4.8 million on account of the higher inventory levels and increased proportion of [it being] interest bearing," says Nelson.

The analyst noted the headwinds ahead for the ag equipment business, as well as some underlying strengths that should bolster the industry somewhat during the remainder of the year.

"Manufacturers are implementing price increases on new Tier 4 equipment and pressuring margins. Used equipment margins also remain under pressure due to higher inventory levels and lower commodity prices that are affecting demand. Bonus depreciation programs have expired and Section 179 amounts were reduced to $25K.

"Positives include strong customer balance sheets and low interest rates. In the first quarter, the ag segment produced same-store revenue growth of 1.2% and a pretax profit of $4 million vs. $8 million a year ago. Full year guidance calls for a 10-15% decline in same store ag revenues," reports Nelson.

Maintains Guidance. Titan management reiterated its guidance for the year, calling for revenue levels of $1.95-2.15 billion for the fiscal year, and net income of $14.8-21.1 million.

Commenting on Titan's first-quarter EPS miss, Mircea (Mig) Dobre, analyst for RW Baird, says they were lowering their outlook for the dealer. "Our estimates assume agriculture organic revenue declines of 14% with international growth of 7%. We expect the North American demand environment to remain challenging (lower commodity prices, massive recent equipment investment) and note that same-store growth in Titan's international segment is far from certain given considerable instability in Ukraine and challenging economic conditions in Romania.

"Our model reflects acceleration in construction organic growth (16%) as end market improvement should allow for an uptick in new equipment sales as well as improvement in rental utilization. This results in a revenue estimate of $2.09 billion."

Dobre says he expects improved gross margins outside of the company's equipment sales and continued reduction in used equipment inventories, most of which will take place in the second half of Titan's fiscal year.

"Gross margin is expected to expand 70 bps on a year-over-year basis to 16.6%, reflecting better sales mix as revenue growth in parts, service and other, which includes rental, outpace weakness in lower margin equipment. We forecast continued weakness in equipment gross margins — down 20 basis points year-over-year to 8.3% and at the low end of management's guidance — given continued ag equipment pricing pressure related to weaker demand." **AEI**

Titan Machinery Segment Overview & Analysis 1Q 2015 vs. 1Q 2014

(in millions of dollars)	1Q FY 2015	1Q FY2014	Change
Total Revenue	$465.5	$441.7	5.4%
Agriculture	$352.6	$360.3	-2.1%
Construction	$101.9	$82.8	23.0%
International	$30.3	$27.7	9.4%
Adjusted Pre-Tax Income (Loss)	($3.1)	($1.0)	
Agriculture	$4.0	$8.0	-49.7%
Construction	($3.5)	($6.5)	46.5%
International	($3.1)	($0.5)	46.6%
Segment Overview			
Equipment	$345.0	$334.7	3.1%
Parts	$68.4	$62.8	8.8%
Service	$37.1	$32.0	15.9%
Rental & Other	$15.0	$12.1	23.7%

Source: Company reports

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Decline in Orders Reflected in Increased Manufacturer Incentives

For the last several months average order growth for new ag equipment has been declining steadily, and it appears that manufacturers have noticed.

According to *Ag Equipment Intelligence*'s latest Dealer Sentiments & Business Conditions Update Survey, incoming orders declined 5% year-over-year on average in April. This continues the trend that started last November. The April decline is the largest year-over-year to date.

New combine order intentions were down as well, with a net 32% of dealers planning to order fewer combines than last year, not surprising given U.S. combine sales are down 7.9% year-to-date and Canadian sales are down 22.1%, according to the most current report from the Assn. of Equipment Manufacturers *(see p. 7 for more detail)*.

According to the dealers who responded to the Dealers Sentiment survey last month, manufacturers continue to get more aggressive with incentives programs as a result of the slowdown in orders and lower sales. Since February, the percentage of dealers who indicated that their manufacturers have become more generous with incentives has more than tripled. Three months ago less than 10% of dealers said they were seeing more sales inducements. In the latest survey, a net 30% of farm equipment dealers reported manufacturers were "more aggressive" with incentive programs (35% more aggressive, 59% same, 6% less aggressive). This compares with a net 22% of dealers in January who said manufacturers were "less aggressive" with incentives. AEI

Avg. Order Growth – Nov. '13 – Apr. '14

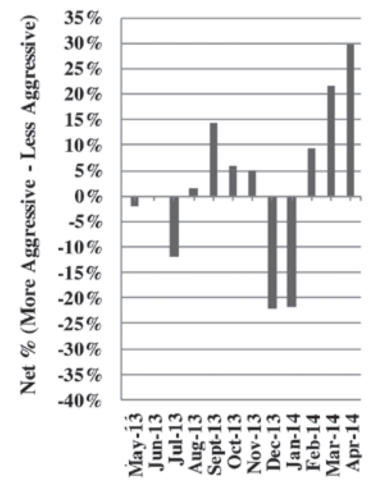
Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
-2%	-3%	-3%	-2%	-4%	-5%

New Combine Orders vs. Last Year

-41%	-22%	-36%	-37%	-35%	-32%

Source: AEI May 2014 Dealer Sentiments Report

Current Manufacturer Incentive Programs vs. Previous Month



North American farm equipment dealers have noted a distinct upturn in manufacturer incentive programs since February.

Source: Farm Equipment dealer survey

FARM MACHINERY TICKER (AS OF 6/11/14)

MANUFACTURERS	Symbol	6/11/14 Price	5/12/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$45.89	$44.84	$48.00	$33.83	28.83	28,683	600.84M
AGCO	AGCO	$55.12	$55.09	$64.60	$49.63	9.40	1,246,730	5.18B
AgJunction Inc.	AJX	$0.82	$1.00	$1.20	$0.73	35.30	67,050	59.257M
Alamo	ALG	$54.50	$53.51	$61.27	$38.00	18.30	27,742	661.3M
Art's Way Mfg.	ARTW	$5.95	$6.00	$7.76	$5.40	50.85	5,730	24.07M
Blount Int'l.	BLT	$13.44	$11.85	$14.74	$10.52	112.00	252,820	644.77M
Buhler Ind.	BUI	$6.56	$5.97	$7.30	$5.78	5.70	4,206	164.0M
Caterpillar	CAT	$108.70	$106.20	$109.50	$80.86	18.47	4,872,420	67.85B
CNH Global	CNHI	$10.56	$10.75	$13.16	$10.16	12.95	571,778	14.29B
Deere & Co.	DE	$91.42	$93.65	$94.89	$79.50	10.00	2,628,820	33.26B
Kubota	KUBTY	$69.27	$64.22	$87.15	$62.95	17.20	17,738	17.31B
Lindsay	LNN	$89.03	$87.54	$92.93	$71.13	19.15	157,775	1.14B
Raven Industries	RAVN	$32.83	$31.30	$42.99	$28.38	30.12	147,198	1.2B
Titan Int'l.	TWI	$16.66	$16.76	$19.89	$14.14	49.73	609,747	892.74M
Trimble Navigation	TRMB	$38.81	$35.58	$40.17	$24.66	42.65	1,409,390	10.12B
Valmont Industries	VMI	$159.65	$151.26	$161.16	$129.00	16.73	232,133	4.29B
RETAILERS								
Cervus Equipment	CVL	$20.48	$21.64	$24.50	$19.05	13.30	10,619	305.50M
Rocky Mountain Equipment	RMEC	$11.05	$10.61	$14.29	$10.37	13.81	29,420	213.43M
Titan Machinery	TITN	$16.38	$16.58	$20.96	$14.19	14.19	252,975	343.18M
Tractor Supply	TSCO	$65.90	$66.50	$78.17	$54.12	27.91	963,603	9.13B

Will Deere Double Its Revenues by 2018?

A little over 3 years ago in February 2011, Deere & Co. Chairman and Chief Executive Samuel Allen said he wanted to deliver three times as much profit at normal operating volumes and to double the company's annual sales to $50 billion by 2018 as part of his John Deere Strategy.

For the company's previous fiscal year that ended October 31, 2010, Deere earned $1.87 billion on total sales and revenue of $24 billion.

Following Allen's challenge, *Ag Equipment Intelligence* heard from several long-time Deere customers, as well as dealers, who speculated that the company would double revenues primarily by raising prices on its new machinery.

As we wrote at the time, "While farmers can expect higher prices for ag equipment of all colors in the next several years, it's doubtful Deere can double its sales through price increases, especially if it hopes to retain its position as the world's largest farm machinery maker. Based on the huge investments overseas, it's a better bet the company is looking toward there to grow sales of both its farm and construction equipment." (*See March 2011 Ag Equipment Intelligence*.)

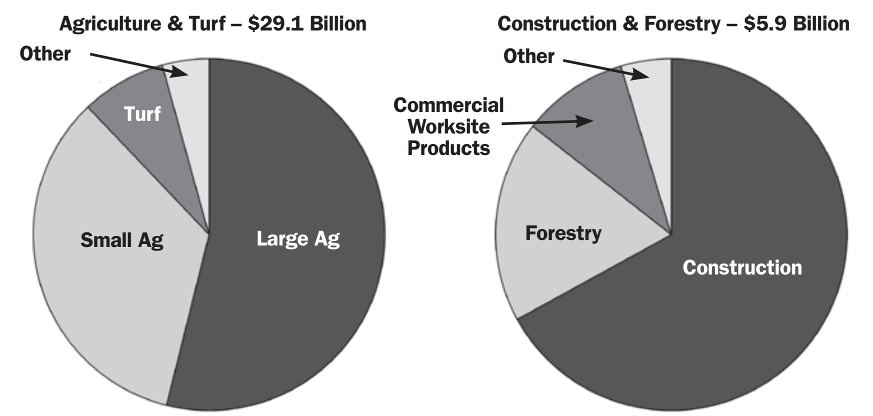
Aided by the introduction of Tier 4 engines, the comment about raising prices may have been truer than anyone imagined at the time. But it has been Deere's investments in overseas manufacturing and distribution operations that appear to be making the biggest contribution toward achieving Allen's goal.

In its May/June 2014 presentation to investors, Deere highlighted the worldwide regional growth it has experienced since 2007, which are illustrated in the charts shown on this page.

For the record, Deere ended its 2013 fiscal year with slightly over $36 billion in total revenues, $10 billion more than it reported in fiscal 2010. Earnings for the period came in at $3.54 billion. AEI

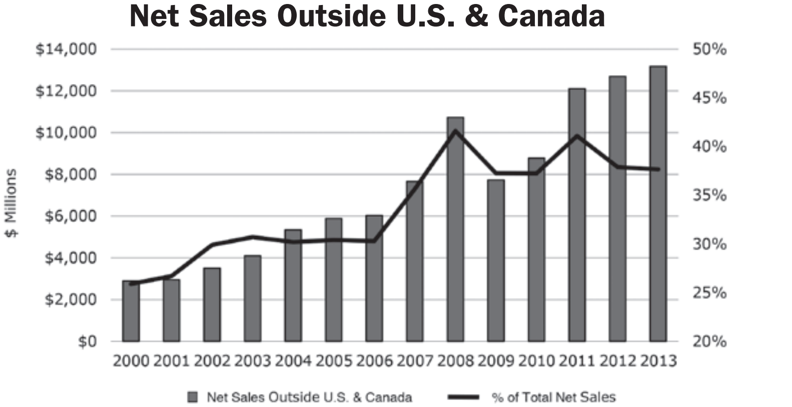
Deere & Co. Net Sales by Product Category — 2013

(Equipment Operations – Fiscal Year 2013)



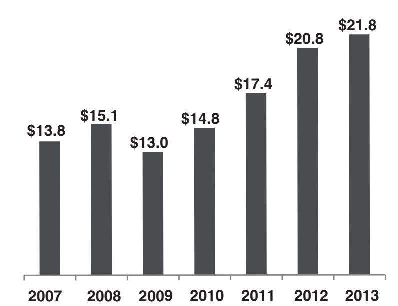
Deere's largest revenue source continues to be sales of its ag equipment, and that's where it will need to focus to meet its aim to double revenues by 2018. *Source: Company reports*

Net Sales Outside U.S. & Canada

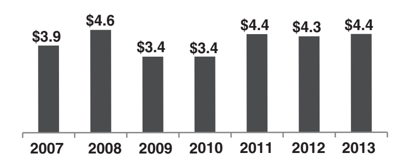


Deere has seen solid increases in sales outside of North America since 2000. Major investments in overseas facilities indicates its aiming for ongoing growth. *Source: Company reports*

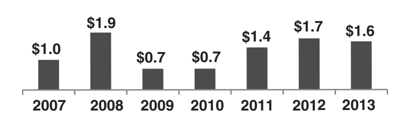
U.S. & Canada – 8% CAGR



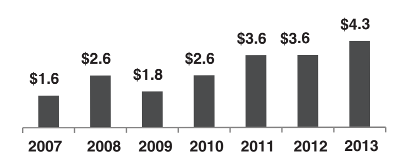
Western Europe – 2% CAGR



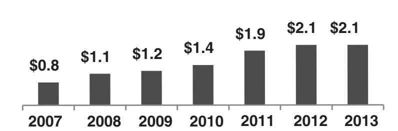
Central Europe & CIS 8% CAGR



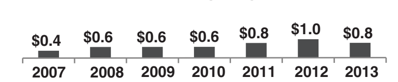
Central & South America 18% CAGR



Asia, Africa & Middle East 17% CAGR



Australia & New Zealand 12% CAGR



Since 2007, Deere & Co. has experienced strong growth in all of its major overseas regions. It will need even more to meet its goal of doubling revenues by 2018.

U.S. Agriculture Now vs. 1980s: What's Different?

There seems to be some lingering concern that declining crop prices and farm equipment sales along with rising farmland prices could be signaling a return to the ag depression of the 1980s. Univ. of Illinois professors in the Dept. of Agricultural and Consumer Economics, noted in a May 30 post* that, "There has been a recent increase in the number of inquiries received asking about the current farmland market, and potential parallels to the early 1980s; and about precursor indicators of the farmland value declines in what is often termed the farmland crisis of the 1980s."

In their posting, professors Bruce Sherrick and Gary Schnitkey, point out, "Among the most important differences between the period leading up to the farm crisis of the 1980s and today are the radically different interest rate and lending environments."

While this article only summarizes the post, the first three figures tell much of the story of why today's farm environment isn't comparable to the situation in the 1980s.

Interest Rates. As shown in Fig. 1., in the 1980s, farm mortgage rates peaked at nearly 17.5% and have declined through time with mid-term treasury rates to their present levels. Today, this is combined with the far lower levels of indebtedness (Fig. 2.). "Importantly, the level of indebtedness has also been reduced through time, rendering the sector as a whole less vulnerable to collateral revaluations. As shown in Fig. 2, the sector has very low aggregate leverage. For context, NYSE traded companies aggregate average is around 65% debt," say Sherrick and Schnitkey.

They also point out that typical mortgage loans in the 1980s included longer amortization periods (up to 40 years in some cases) and higher loan-to-value fractions than is typical today.

Asset Values. A third factor that needs to be considered is "asset values reflect market participants' expectations regarding income levels and riskiness of income."

They explain: "In the case of farm real estate, there have been several recent years with higher than historic average income, and thus the attendant questions about the ability to continue to generate the same levels." Fig. 3 helps place that question into context.

While these aggregate values may not represent individual farm cases well, they say the point is that recent USDA forecasts of income have been reported in some cases as simply "reductions in income." At the same time, it's also true that declines in farm incomes in recent years were still above the historical averages in constant 2014 dollars. "Whether this level matches well with market participants' views of income is also debatable, but the general pattern of income through time remains important to appreciate, whatever the cause and potential effect," say Sherrick and Schnitkey.

Still Risks. They conclude that there will always be significant risks associated with agricultural production. "To understand these, it is also important to also have a clear sense of the factors associated with the fundamental drivers in the market," they say. In the current environment, "Income expectations remain reasonable and fairly stable, debt rates are low and interest rates are also historically low providing a buffer against potential asset revaluations."

While acknowledging that adjustments in all markets can and do occur, one other important factor has altered the farmland environment marking a significant difference between the current landscape and that of the 1980s. Sherrick and Schnitkey point out that "crop insurance has fundamentally altered the riskiness of income as intended."

The full report can be found at http://farmdocdaily.illinois.edu/2014/05/farmland-markets-comparing-1980-and-present.html.* **AEI

Farm Mortgage Interest Rates & Funding Indicatiors

(Chicago Fed and FED H. 15)

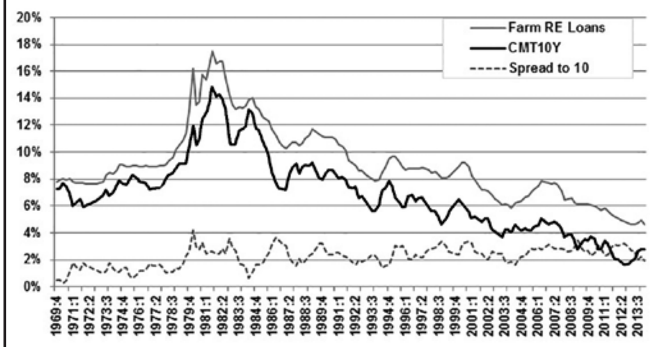


Fig. 1. *Source: Univ. of Illinois Ag & Consumer Economics*

U.S. Ag Sector Aggregate Debt Ratios

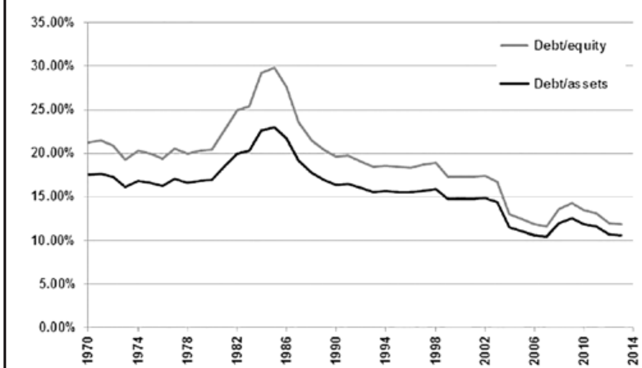


Fig. 2. *Source: Univ. of Illinois Ag & Consumer Economics*

Ag Sector Income Characteristics

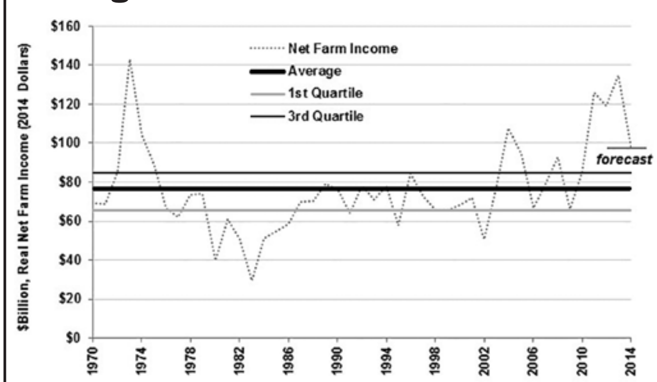


Fig. 3. *Source: Univ. of Illinois Ag & Consumer Economics*

Worldwide Exports of Ag Machinery Expected to Decline in 2014

While U.S. ag equipment manufacturers rank second behind Germany in exports of farm machinery, it is far less reliant on overseas sales as a percentage of total sales than its European Union counterparts. The expected slowdown in unit sales of equipment during 2014 will also show up in export levels.

U.S. Exports. The domestic market has always proved to be the most fertile ground for U.S. manufacturers of farm equipment. According to Frankfurt, Germany-based VDMA Agricultural Machinery Assn., the export ration for the U.S. is only 26%.

In its 2014 Economic Report, the association reports that the value of North American ag equipment exports in 2013 was 10% below that of the previous year, and it appears that trend accelerated in the first quarter of 2014.

Citing U.S. Dept. of Commerce data, the Assn. of Equipment Manufacturers reported on June 10 that total U.S. ag equipment exports of farm machinery for first quarter 2014 fell to \$2.185 billion compared to \$3.04 billion in the first quarter of 2013 — a decline of 28.1%.

By major country customer, the falloff included: exports to Canada declined 30.7%, for a total \$698.3 million; exports to South America declined 14%, for a total \$240.3 million; exports to Asia decreased 36.7%, for a total \$145.6 million; exports to Europe dropped 34%, for a total \$628.1 million; exports to Central America decreased 17%, for a total \$256.8 million; exports to Australia/Oceania declined 14.8% to \$144 million; exports to Africa decreased 23.5% to \$71.5 million.

EU Exports. Production of agricultural machinery and tractors in Western Europe have followed the economic upswing in recent years, largely due to strong demand in the large domestic markets of Germany and France. But, with an increase of 4% to just under €30 billion, the growth rate for 2013 was below the worldwide average.

According to VDMA, this also reflects heavy dependence on large sales markets that were comparatively weak last year. These included Italy, Poland, Russia and Ukraine.

"Sales opportunities for modern agricultural machinery in Eastern Europe have been reduced to a minimum in light of the protectionist measures of the Russian government and the generally difficult political situation," said Dr.-Ing. Hermann Garbers, chairman of the VDMA.

"In this economic climate, prospects for higher investment by farmers presently exist only for a few individual markets."

German Exports. Germany's export volume in 2013 was 11% higher than in the previous year.

According to VDMA, "It was a dynamic year particularly for manufacturers of tractors and equipment for arable farming. The record volume of machinery exports was primarily the result of record orders from France as well as from the U.S.A."

But German ag machinery manufacturers reported that in in early 2014, a significant falloff in sales to Russia, Ukraine and Eastern Europe. These represent the main markets for German ag machinery suppliers. VDMA says the German manufacturers expect a dropoff of about 10% this year.

Italian Exports. Italy, the EU's second largest farm equipment producer, is particularly dependent on exports. The 7 top Italian tractor manufacturers produced approximately 67,000 units in 2013, with a value of €1.88 billion (\$2.54 billion). Italy's export ratio for tractors is nearly 85% and experienced only modest growth of 3% in 2013.

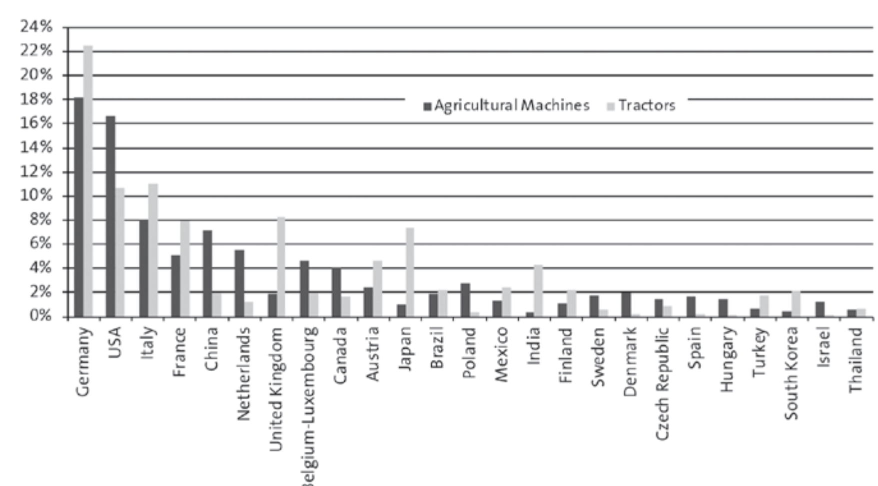
Total exports of Italian ag machinery products amounted to €4.1 billion (\$5.55 billion). A strong increase in deliveries to the U.S. was offset by declines in exports to Poland, Spain, Turkey and the UK.

French Exports. Following two years of large increases, in 2013 the value of exports declined by 1% and the export ratio fell by 2% to 64%.

Among other things, fewer hay harvesting machines were delivered abroad. In contrast, value of tractor production slightly increased. Tractors now account for 37% of total production and 44% of exports. The report notes that Kubota is in the process of building a third tractor plant in France. **AEI**

Exports of Ag Equipment & Tractors Worldwide — 2013

(share of total volume in %)



As it has been for several years, in 2013, the U.S. maintained its place as the second largest exporter of farm machinery in the world. But after several strong years in worldwide trade, some falloff is expected for 2014. According to figures released on June 10 by the Assn. of Equipment Manufacturers, total U.S. ag equipment exports for first quarter of 2014 fell to \$2.185 billion compared to \$3.04 billion in the first quarter of 2013 — a decline of 28.1%. This trend is forecast to continue throughout the year.

Source: official national statistics, VDMA, total exports from 52 countries, AEM

Ag Equipment Sales Decline Accelerates

North American large ag equipment sales were down again in May, with 4WD tractor sales down 14.4% year-over-year, combine sales down 24% and row-crop tractor sales down 15.9%, according to the latest figures released by the Assn. of Equipment Manufacturers.

Inventory levels rose year-over-year across all large equipment categories, and Mircea (Mig) Dobre, analyst with RW Baird, said given projected sales declines there is continued risk for inventory destocking in 2014.

- U.S. and Canada large tractor and combine retail sales decreased 17% year-over-year in May, following a 13% decrease in April. U.S. sales were down 18% year-over-year, while Canadian sales were down 11%.
- Combine retail sales fell, posting a 24% year-over-year decrease in May following a 12.7% decrease the previous month. Last 3 month sales declined 19.9% on a year-over-year basis. U.S. combine inventories were 1.4% higher year-over-year in April vs. up 6.9% last month. May is typically a lower-than-average month for combine sales, accounting for just 6.6% of annual sales over the last 5 years.
- Row-crop tractor sales were down 15.9% year-over-year following a 13% decrease in April. U.S. row-crop tractor inventories increased 5.2% year-over-year in April vs. a 20.8% increase in March. On a days-sales basis, inventories were slightly lower year-over-year at 104 days-sales vs. 105 days-sales in April 2013. May is typically an average month for row-crop tractor sales, accounting for 8.4% of annual sales over the last 5 years.
- 4WD tractor sales dropped 14.4% year-over-year in May vs. a 12.3% decrease in April. U.S. dealer inventories of 4WD tractors increased 19.6% in April.
- Mid-range tractor sales rose in May, up 5.8% year-over-year following a 7.4% jump last month. Compact tractor sales, however, fell 2.2% year-over-year, down from the 1.8% increase last month.

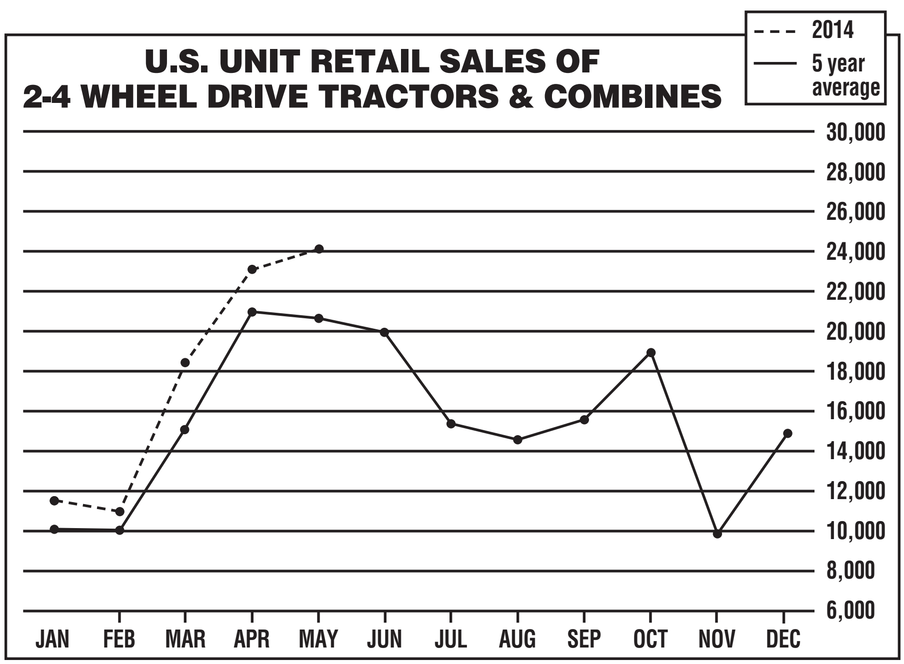
AEI

MAY U.S. UNIT RETAIL SALES

Equipment	May 2014	May 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	April 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	14,900	15,163	-1.7	46,158	44,004	4.9	62,496
40-100 HP	5,993	5,606	6.9	23,181	22,192	4.5	31,763
100 HP Plus	2,371	2,939	-19.3	13,372	14,611	-8.5	10,392
Total-2WD	23,264	23,708	-1.9	82,711	80,807	2.4	104,651
Total-4WD	359	428	-16.1	2,479	2,709	-8.5	1,524
Total Tractors	23,623	24,136	-2.1	85,190	83,516	2.0	106,175
SP Combines	572	682	-16.1	3,299	3,655	-9.7	1,660

MAY CANADIAN UNIT RETAIL SALES

Equipment	May 2014	May 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	April 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,915	2,026	-5.5	5,044	5,148	-2.0	7,490
40-100 HP	609	633	-3.8	2,377	2,328	2.1	3,852
100 HP Plus	558	544	2.6	2,192	2,195	-0.1	2,906
Total-2WD	3,082	3,203	-3.8	9,613	9,671	-0.6	14,248
Total-4WD	115	126	-8.7	603	10,216	10,416	-1.9
Total Tractors	3,197	3,329	-4.0	10,216	10,416	-1.9	14,841
SP Combines	99	201	-50.7	625	802	-22.1	807



— Assn. of Equipment Manufacturers

gained considerable market share, while the importance of Europe is slowly but steadily declining. China will continue to be one of the driving forces in the industry."

To be clear, VDMA points out that much of Asian production is actually "world-renowned 'Western' brands, which organize assembly and production lines in Asia, as well as national manufacturers that are benefitting from a growing market at their front door and can constantly increase their machinery output."

Long-Term Trends. VDMA estimates that Asian manufacturers produced 24% of worldwide farm machinery in 2007, with China accounting for about 20% of the total. VDMA's 2014 estimates calls for Asian manufacturers to produce one-third (33%) of ag equipment used globally.

During this same period, European production of farm machinery declined from 42% in 2007 to 34% estimated for 2014. The manufacture of ag machinery in the Americas has held steady during the period at 31% in 2007 and an estimated 30% this year.

In VDMA's words, "The North American agricultural machinery industry has also developed spectacularly over the past 4 years." The association estimates that sales of U.S.-made farm machinery climbed from $21 billion in 2009 to $34 billion last year.

Production wise, another significant up-and-comer is India. VDMA estimates that India produces about 6% of global agricultural machinery. In 2013, more than 680,000 tractors were produced there, which continues the country's reign as the world's largest producer of tractors. "This may at first seem surprising, when one considers that the majority of local farms are as yet completely unmechanized," VDMA explains. "However, within the scope of Indian agriculture, even a mechanization rate of 30-40% in the areas of soil tillage, sowing and plant protection means that machinery is used to cultivate the fields of approximately 50 million farms."

In addition, the Indian tractor industry also serves a significant number of nonagricultural customers, including construction companies, airports and private individuals who require tractors solely as a means of transport. These customers account for at least 10-15% of the sales. An estimated 10% of the tractors sold by Indian companies are exported.

Slowing German Sales. According to VDMA, the growing momentum farm equipment sales has experienced the last 4 years appears to be losing some of its steam in 2014.

The association reports that, "Up to spring, order books at the large production sites were, in total, still at the level of the previous year. The current trend, however, is showing weaker development."

Up through 2013 in the European Union, France and Germany maintained their position as the "heavyweights" in the region, accounting for 42% of the ag machinery market. Both are experiencing a significant sales slowdown.

Germany, the largest manufacturer of farm machinery in the EU, accounts for 28% of EU production, with more than 200 companies that did well worldwide with their products last year, achieving growth of 10%.

In 2014, sales of the German ag machinery are forecast to decline slightly. Following a solid first quarter, there is now a noticeable decrease in incoming orders. However, the production levels remain high, with turnover for the year expected to be more than €8 billion. Manufacturers accordingly continue to appear satisfied: In May, one of every two German executives surveyed said they were still well satisfied with their business situation.

The order volume of the manufacturers of farm machinery and tractors in Germany from January to April 2014 was 10% below that of the previous year.

Early in the year, orders for German manufacturers remained fairly stable, but beginning in February new orders have "shown a substantial fall."

Slight Uptick in Italy. While most EU-based farm equipment suppliers have experienced solid sales in recent years, Italy, which ranks second among European producers, saw its sales stagnate at €5.1 billion ($6.9 billion) in 2013. The focus for Italian manufacturers is on the manufacture of compact and utility tractors, mainly under 100 horsepower.

Italy's domestic market continues to struggle. However, VDMA reports that the level of incoming orders, along with domestic sales appear to be improving slightly.

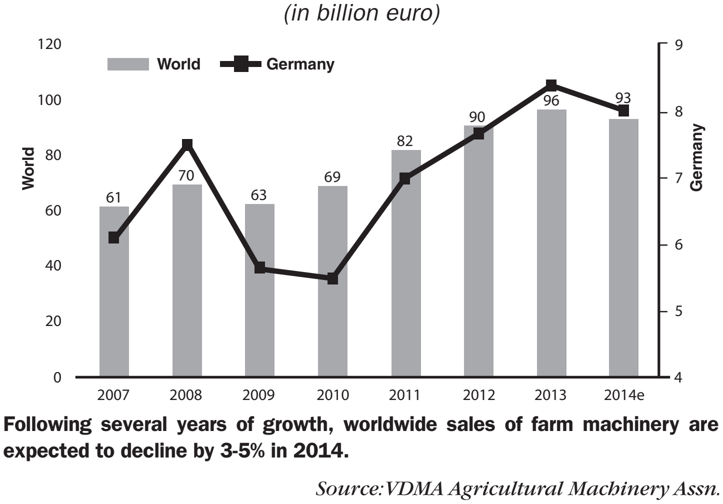
Downturn in France. The third largest European production location for agricultural machinery is France. VDMA calculates that in 2013, French sales amounted to €4.3 billion, an increase of 3%. "In the light of strong growth of more than 10% in the domestic market, this was a surprisingly weak development." VDMA reports the French market for ag machinery shrank in the first quarter of 2014 by 25%.

"Companies in France are feeling particularly sobered by the fact that their home market was trending downward in the first few months of the year," VDMA said.

U.S. Outlook. As for the U.S. manufacturers, AGCO expects ag equipment sales to be flat to down 5%. CNH Industrial is forecasting tractor sales to be flat to up 5%, but combines sales to fall 15-20% in 2014. Deere expects its North American sale of farm machinery to fall 5-10% for its fiscal year. **AEI**

Global Ag Equipment Sales — 2007-14e

(in billion euro)



Following several years of growth, worldwide sales of farm machinery are expected to decline by 3-5% in 2014.

Source: VDMA Agricultural Machinery Assn.