

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- More Tire Competition
- Double Cropping Up?
- Production Costs Rise

Rising Farm & Machinery Revenues Underpins Kubota's FY2014 Earnings

Strong overseas sales of farm machinery, engines and construction equipment helped Kubota Corp. increase its consolidated revenues by 24.6% for its fiscal year ended March 31, 2014. The Japanese manufacturer of farm and industrial machinery, including engines and construction equipment, water and environmental products, and construction services, reported its revenues increased \$2.9 billion to \$14.9 billion from the prior year.

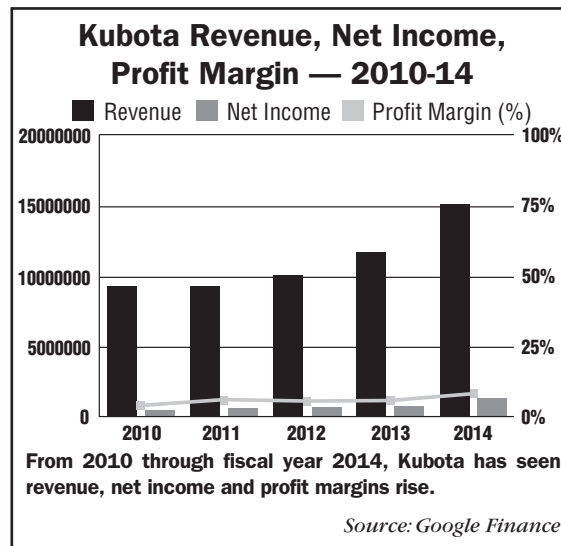
Despite the untimely death of Yasuo Masumoto, Kubota's chairman and president, on June 4, in its earnings report the company, best known for its small and mid-size tractors, said it would continue with Masumoto's initiative of aggressively expanding its business into large farm equipment.

For the fiscal year, revenues from farm equipment and engines accounted for 66.5% of total revenues, up from 64.6% in the previous year, while construction machinery con-

tributed 9.9%, up from 9.1% in fiscal year 2013. Of the 76.4% of revenues attributed to farm and industrial machinery, 54.4% resulted from sales to overseas markets.

In the company's domestic market, revenues increased \$940 million (17.6%), to \$6.3 billion, from the prior year. In overseas markets, revenues increased \$2 billion (30.4%), to \$8.6 billion, from the prior year. Overseas revenues in Farm & Industrial Machinery rose in North America, Asia outside Japan and Europe. The ratio of overseas revenues to consolidated revenues was 57.7%, 2.6 percentage points higher than in the prior year.

Operating income increased \$800 million (66.8%) from the prior year,



to \$1.99 billion, due to increased domestic and overseas revenues and the effect of yen depreciation. Net income attributable to Kubota Corp. was \$1.3 billion, \$528.99 million (68.7%) higher than in the prior year.

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Record Harvest Not a Positive for Ag Equipment Sales

In its July 7 Crop Progress report, USDA reported that conditions are right for corn and soybeans to equal or surpass last year's record harvest. The ag agency reported that 75% of corn is in "good" or "excellent" condition compared with 68% a year ago on that date. Likewise, for soybeans, with 72% reportedly in "good" or "excellent" condition vs. 67% at this time last year.

While in its July 11 World

Agricultural Supply Demand estimates USDA said it no longer expected record corn production for the 2014-15 marketing year because it reduced total harvested acres. At the same time, it projected an average U.S. corn yield of 165.3 bushels per acre, which would surpass 2009's record of 164.7.

The forecast for mild temperatures in the upcoming weeks are very favorable for corn during the critical

pollination period.

All of this "good news" is adding to the already downward pressure on crop prices. Combine lower grain prices with rising cost of producing it (see "Rising Crop Production Costs" on p. 6), and it isn't hard to imagine that farmers may not be in a buying mood when it comes to new equipment in the next year or so.

Falling Crop Prices. According to

Continued on page 8

Farm & Industrial Machinery. Revenues from Kubota's Farm & Industrial Machinery segment, which is comprised of ag equipment, engines and construction machinery, increased 29.3% from the prior year to \$11.4 billion, and accounted for 76.4% of consolidated revenues.

Domestic revenues in this segment increased 24.9% to \$3.3 billion and was fueled by record sales of farm equipment. Overseas revenues increased 31.1%, to \$8 billion. For the North American region, Kubota said, "Sales of tractors increased favorably due to the effects of launching a new line of products and other factors." Operating income in this segment increased 69.2% to \$1.9 billion.

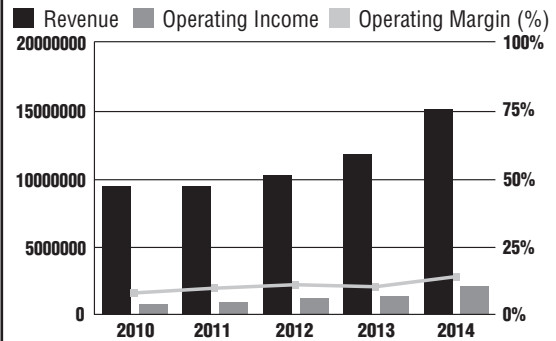
2015 Outlook. Kubota expects its overall revenues to rise by 2.7% to \$15.3 billion during its next fiscal year ending March 31, 2015. For its farm and industrial machinery

operations, the company had only a slight upturn of 0.6% for the year, to \$11.4 billion, largely due to a 12.8% drop in domestic sales. It is projecting its overseas business in the farm and industrial machinery segment to increase by 6% to \$8.6 billion.

Strategic Plans. Kubota said it is "accelerating the development of its large scale agricultural machinery for dry-field cultivation. Thus far, the company has expanded its overseas business activities by building on the base it has developed in Japan in the agricultural machinery for rice paddy cultivation.

To realize growth in the medium-to-long-term, the company will dramatically expand its agricultural machin-

Kubota Revenue, Operating Income, Operating Margin — 2010-14



In addition to annual revenue growth, Kubota Corp. has also seen ongoing operating income and margin growth.

Source: Google Finance

ery business by making a full-scale entry into the market for dry-field cultivation, where the area under cultivation is estimated to be more than four times larger than the rice cultivation market."

Following Kubota's acquisition of European-based implement manufacturer Kverneland for dry-field cultivation in 2012, it "made the decision in December 2013 to establish a manufacturing plant for dry-field cultivation machinery in Europe, and is thus taking its first step toward becoming a comprehensive manufacturer of agricultural machinery," the company said.

Kubota also indicated that it will accelerate the development of its business by expanding its lineup of products "at an early date, strengthening and expanding its sales and service network with the aim of building a strong position in the market for dry-field cultivation machinery, and implementing other measures to rank alongside existing European and U.S. manufacturers in this field."

As it has made clear earlier (*see Ag Equipment Intelligence, December 2013*) Kubota said it "will consider a range of options, including alliances with other companies." **AEI**

Kubota Corp. Consolidated Revenues by Product Group FY2013 vs. FY2014

(in millions \$)	Year Ended March 31, 2014		Year Ended March 31, 2013		Change	
	Amount	%	Amount	%	Amount	%
Farm Equipment & Engines	1,002,913	66.5	781,911	64.6	221,002	28.3
Domestic	291,740		232,691		59,049	25.4
Overseas	711,173		549,220		161,953	29.5
Construction Machinery	150,175	9.9	110,107	9.1	40,068	36.4
Domestic	40,846		33,632		7,214	21.4
Overseas	109,329		76,475		32,854	43.0
Farm & Industrial Machinery	1,153,088	76.4	892,018	73.7	261,070	29.3
Domestic	332,586	22.0	266,323	22.0	66,263	24.9
Overseas	820,502	54.4	625,695	51.7	194,807	31.1
Water & Environment	313,931	20.8	283,921	23.4	30,010	10.6
Other	41,571	2.8	34,627	2.9	6,944	20.1
Total	1,508,590	100.0	1,210,566	100.0	298,024	24.6
Domestic	638,346	42.3	543,027	44.9	95,319	17.6
Overseas	870,244	57.7	667,539	55.1	202,705	30.4

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Mid-Year Look at the Major Equipment Makers

Going into the second half of the year, equities research analysts appear to be reassessing their views and targets for the stocks of the major farm equipment manufacturers. Several are citing the “cyclical” nature of agriculture as the basis for mostly lowering their share price targets for AGCO, Deere & Co. and CNH Industrial.

More analysts are taking “sell” (10) positions than are recommending “buying” (5) these stocks, though, overall, the most common recommendation is to “hold” (21).

AGCO Notes. On July 2, Zacks Investment Research upgraded AGCO to a Zacks Rank #1 (strong buy) based on potential acquisition benefits, a strong cash position and growth in GSI sales in 2014. The equity research firm particularly liked AGCO’s acquisition of Intersystems Holdings on May 23. “The buyout will help AGCO expand its grain handling and storage business in the fast grow-

ing off-farm segment. The acquisition is in sync with its acquisition, expansion and modernization plans and matches perfectly with its GSI brand.

Meanwhile, JP Morgan most recently reduced its share price target on AGCO to \$50 from \$55. It has 3 “sells,” 9 “holds” and 2 “buys” with a consensus share price of \$59.17.

Deere & Co. Notes. Some analysts have voiced concern about the level of Deere’s debt, but another blogger added, “Deere does have more debt than many of its competitors, a concern voiced by a few individuals. A deeper look at it reveals that most of this debt is tied into financial services, which is very well managed.”

Another blogger admitted he doesn’t like the “cyclical” nature of Deere’s business, but admits it’s a well managed company. “I like the fact that management seems very shareholder friendly, as evidenced by their commitment to dividend growth over the

past 20 years, the consistent share buybacks, and the fact that operations are run pretty well,” he said.

On July 9, JP Morgan cut its target price on shares of Deere from \$88 to \$83. Overall, Deere has 4 “sell” recommendations, 9 “hold” and 3 “buy” with a consensus price of \$89.29.

CNH Industrial Notes. MotleyFool.com reported on July 3 that investment banker Merrill Lynch resumed coverage of CNH. According to the report, “The banker is not particularly enthused about the stock, which it rated underperform, and predicted would fall to an \$8 share price within a year — more than a 20% drop from today’s prices.”

While Merrill Lynch may not care for CNH, analysts at JP Morgan raised their price target on shares of the company from \$11 to \$11.50 in a May 9 research note. Overall, CNH has 3 “sell” recommendations and 3 “hold” with a consensus price of \$10.19.

AEI

FARM MACHINERY TICKER (AS OF 7/10/14)

MANUFACTURERS	Symbol	7/10/14 Price	6/11/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int’l.	AFN	\$46.90	\$45.89	\$48.00	\$35.01	28.95	23,055	614.06M
AGCO	AGCO	\$53.29	\$55.12	\$64.60	\$49.93	9.09	1,192,110	5.01B
AgJunction Inc.	AJX	\$0.77	\$0.82	\$1.20	\$0.72	25.67	40,886	55.62M
Alamo	ALG	\$52.31	\$54.50	\$61.27	\$40.54	17.57	26,195	634.73M
Art’s Way Mfg.	ARTW	\$5.60	\$5.95	\$7.76	\$5.40	114.29	4,432	22.67M
Blount Int’l.	BLT	\$13.92	\$13.44	\$14.74	\$10.52	116.00	271,981	688.51M
Buhler Ind.	BUI	\$6.40	\$6.56	\$7.30	\$5.78	8.00	3,897	160M
Caterpillar	CAT	\$109.36	\$108.70	\$111.16	\$81.35	18.59	3,815,400	68.27B
CNH Global	CNHI	\$9.37	\$10.56	\$13.16	\$9.31	11.48	670,626	12.68B
Deere & Co.	DE	\$88.12	\$91.42	\$94.89	\$80.50	9.63	2,457,670	32.06B
Kubota	KUBTY	\$67.88	\$69.27	\$87.15	\$62.95	13.17	16,456	16.97B
Lindsay	LNN	\$83.62	\$89.03	\$92.93	\$71.13	21.33	135,633	1.06B
Raven Industries	RAVN	\$31.59	\$32.83	\$42.99	\$28.38	28.98	125,319	1.15B
Titan Int’l.	TWI	\$15.87	\$16.66	\$19.89	\$14.14	47.37	628,786	850.41M
Trimble Navigation	TRMB	\$32.59	\$38.81	\$40.17	\$24.90	35.81	1,485,510	8.5B
Valmont Industries	VMI	\$149.00	\$159.65	\$163.23	\$129.00	15.62	275,310	4.01B
RETAILERS								
Cervus Equipment	CVL	\$21.86	\$20.48	\$24.50	\$19.50	14.67	11,255	332.25M
Rocky Mountain Equipment	RMEC	\$10.65	\$11.05	\$14.29	\$10.37	15.66	29,473	205.7M
Titan Machinery	TITN	\$15.75	\$16.38	\$20.96	\$14.19	68.48	240,263	329.98M
Tractor Supply	TSCO	\$59.92	\$65.90	\$78.17	\$57.20	25.38	1,055,740	8.3B

Trelleborg Increases Ag Tire Competition with New U.S. Factory

Sweden's Trelleborg announced plans to open its first North American manufacturing facility dedicated to the production of premium radial tires for agricultural machinery. It will be located in Spartanburg, S.C., and represents an investment of \$50 million that will create around 150 jobs by 2018.

Trelleborg managers say a presence in North America is central to its growth strategy. The 430,000 square-foot production facility will increase global manufacturing capacity and in the North American market ensure availability of Trelleborg premium tires quickly, both for original equipment manufacturers and tire dealers.

"North America is the largest agricultural market in the world and is highly attractive for us, with demand for extra-large traction tires growing in the region," says Maurizio Vischi, president of Trelleborg Wheel Systems, a business unit producing agricultural, forestry and industrial tires and complete wheel assemblies that accounts for more than 19% of the Trelleborg Group's \$3 billion revenues.

"Although we already sell our products in the U.S. and Canada, local production offers considerably more favorable conditions that will enhance our competitiveness,"

adds Vischi. "We are already a leading global supplier of premium tires for agricultural machines and we now intend to consolidate this position through production in North America. We'll be located in a modern facility in a prime location, capitalizing on existing partnership agreements with major original equipment manufacturers and distributors while facilitating the transfer of technology from one part of the world to another."

Reducing costs is also said to have given the company impetus to locate its new facility in the U.S. In a research note, Holden Lewis, analyst for BB&T Capital Markets, commented that Trelleborg is currently importing European-made tires into the U.S. market, which "adds an extra 13% to the cost of the tire, but management is hopeful that new facilities in North America will help to drive down costs."

The manufacturing facility will be located at Trelleborg's existing premises in Spartanburg, with investment in new state-of-the-art equipment scheduled to meet a start-up date in late 2015. All manufacturing equipment will be installed by 2018 to increase potential for market growth and, says Trelleborg's Vischi, to ensure

Bridgestone Introducing Premium Ag Tire

Bridgestone Europe has followed its announcement of plans to differentiate a new line of premium ag tires from current Firestone branded products by launching the VT-Tractor range of large dimension, high performance tractor tires. Developed in Bridgestone's R&D facility in Rome, Italy, and manufactured in Spain, the new range will compete with premium traction tires from Michelin and Trelleborg, while Firestone branded tires will continue to meet the needs of more than 90% of the tractor market in Europe, according to the company.

that OEMs, dealers and farmers benefit from Trelleborg's proximity and product availability.

Trelleborg Wheel Systems is a leading global supplier of tires and complete wheels for agricultural and forestry machines, forklift trucks and other materials handling vehicles. Agriculture accounts for 58% of its revenues, with North America contributing 23% of sales vs. 61% in Western Europe. Trelleborg is also looking to expand Chinese capacity, as it is seeing strong demand for tires used on high horsepower tractors. **AEI**

Dealers Say New Equipment Inventories Still 'Too High'

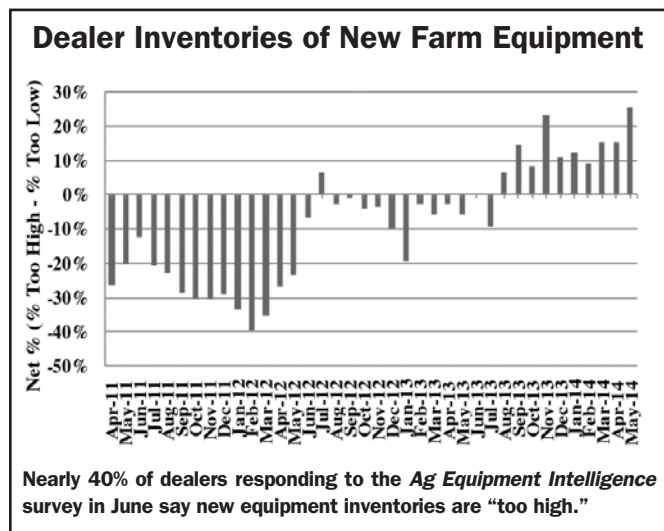
Figures released by the Assn. of Equipment Manufacturers on July 10 showed that, while large ag equipment sales declined again in June, inventory of these products on dealers' lots con-

tinued to increase (*see p. 7 for additional details*.)

Ag Equipment Intelligence's monthly survey of farm equipment dealers also showed a growing level of concern. Results of the survey were published in the "Dealers Sentiments & Business Conditions Update" report released on June 30. They showed that a net 26% of dealers categorized their new inventory as "too high" — 38% too high, 49% about right, 12% too low — which was up from the net 15% reported in the previous month.

In a July 10 note to investors, BB&T Capital Markets analyst C. Shon Williams said, "Demand for high horsepower professional tractors has yet to show any signs of improvement, as sales for both June and May fell 19.3% year-over-year, the worst decline in more than 3 years, and marks 5 consecutive months where sales have fallen on a year-over-year basis.

"Total tractor inventory levels now stand at 102,000 units, a 6.8% increase over June of last year. We envision additional pricing pressure in the future as dealers struggle to clear their lots of old inventory," he said. **AEI**



Equipment Makers Continue Investments in Production Facilities

Tractor OEMs are investing in new manufacturing facilities to boost output and efficiency, and in some cases to take advantage of lower cost production, avoid costly import duties and build products closer to where they are sold.

CNH in Turkey. In Turkey, for example, the joint venture between CNH Industrial and its local partner Koç Holding, has opened its second manufacturing plant. The \$80 million investment in TürkTraktor will complement the existing facility in Ankara, Turkey's capital city, and increase capacity for the production of 50-110 horsepower tractors sold in domestic and export markets to 50,000 units annually.

TürkTraktor manufactures engines, transmissions and front and rear axles for the tractors it assembles. These include 65 and 75 horsepower versions of the Case IH Farmall A and New Holland Series TD5.

At the opening ceremony held 15 months after ground-breaking at the site, Richard Tobin, CEO of CNH Industrial, said: "This year, the 700,000th tractor will come off the line since the joint venture was established in 1967, and with the new plant now open, we have the millionth tractor in our sights."

"Today, TürkTraktor combines the know-how and reach of CNH Industrial in the agricultural sector with the experience and reputation of Koç Group in the Turkish market."

Argo in Brazil. Italy's Argo Tractors plans a \$13 million investment in Brazil to build 60-180 horsepower Landini tractors following the dissolution of a joint venture in the country.

The factory will be built in Belo Horizonte, the metropolitan region of the Minas Gerais state, where a number of other manufacturers are already located. Tiago Bonomo, who heads up Argo's interests in the U.S., Mexico and Latin America, says the location provides a network of local component manufacturers and also qualified manpower.

Deere in Brazil, Germany. Deere & Co. is also building in Brazil, investing \$40 million to create capacity at the company's Montenegro factory to

make 350-420 horsepower 8R Series tractors. Production for worldwide markets will remain in Waterloo, Iowa.

"Manufacturing the 8R in Montenegro should make it eligible for FINAME financing — the public program that targets investment in Brazil's economic development," notes Mark von Pentz, head of Deere Worldwide Agriculture.

Production of 90-110 horsepower John Deere 5R series tractors has ended in Deere's European tractor plant at Mannheim, Germany, in favor

of sourcing the new 70-100 horsepower 5M series from Augusta, Ga., for this market.

But at Zweibrücken, Germany, Deere has extended rotary combine production from just the top model to the entire S-Series — previously only made in the U.S. — to meet growing demand for higher capacity harvesters in western and eastern European markets. The plant, which has benefitted from a \$27 million investment in assembly facilities and infrastructure, already makes straw walker combines. **AEI**

Could Double Cropping Help Meet Demand for Ag Commodities?

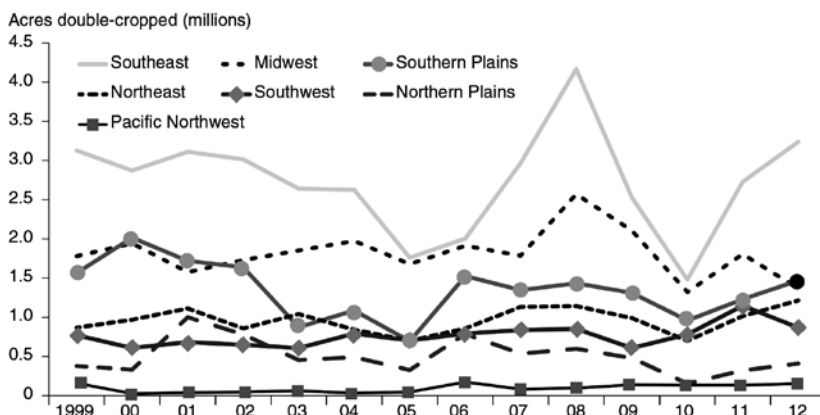
In addition to significantly increasing crop yields, a new report from USDA suggests that intensifying land use could be another way to meet the rapidly expanding demand for ag commodities. The report, "Multi-Cropping Practices: Recent Trends in Double Cropping," was issued in May and reports that between 1999 and 2012, double cropping — harvesting two crops from the same field in a given year — occurred on only 2% of total cropland in most years.

In 2012, U.S. farmers double cropped about 2.2% of cropland, or 8.7 million acres, slightly more than the average of 8.2 million acres double cropped during the 1999-2012 period. Between years and across regions, the prevalence of double cropping varied considerably as farmers responded to local conditions, such as weather, climate and market incentives.

In comparison, from 2006 to 2011, an average of 1-2% of cropland acres were reported to be cover cropped, and 11-26% of planted acres for selected crops were grazed following harvest (an example of an integrated crop-livestock system). Soybeans were, on average, the most common crop found on double-cropped acres over this time period, and, in 2012, winter wheat most commonly preceded these soybean plantings. However, regional and temporal variation is apparent in all double-cropping trends, likely indicating farmers' responsiveness to local conditions and changing market incentives.

The Southeast and Midwest contained the greatest total double-cropped land. The Southeast had about one-third of total U.S. double-cropped acreage, with an average 2.7 million acres, and the Midwest had slightly more than one-fifth, with an average 1.8 million acres. The Pacific Northwest contained the least double-cropped acreage, with an average 92,000 acres. **AEI**

Southeast Leads in Double-Cropped Acreage — 1999-2012



Note: USDA, Economic Research Service calculations of double-cropped acreage using USDA, National Agricultural Statistics Service June Area Survey data. Estimates are weighted with NASS-supplied survey weights. Regions were derived from hydrologic unit code boundaries.

Equipment Sales Competing with Rising Crop Production Costs

Along with other variables, equipment dealers also compete with rising production costs for farmers' dollars. According to the USDA's most recent "Commodity Costs and Returns" report for major field crops, with the exception of fertilizer, all other costs associated with crop production have experienced steady increases since 2012, and are expected to continue rising through 2015.

Production costs impact farmers' returns per acre, which affect their ability to invest in new machinery.

While returns to total economic costs for corn and soybeans were positive, on average, for the 2010-13 period, average returns for other major crops, including wheat, were negative. But for most crops, changes

in farm prices and the gross value of production per acre, rather than changes in production cost, drive returns to total economic costs.

Corn Production. Total operating costs for corn are estimated to have increased more than 3.5% between 2012 and 2015, with the strongest influences coming from interest on operating capital, seed, fuel and electricity. Allocated overhead costs for corn are expected to increase by nearly 10.6% in 2015 vs. 2012, with land and capital recovery costs exerting the most influence.

Soybean Production. Total operating costs for soybeans are forecast to rise by 7.4% by 2015 compared with 2012. Interest on operating capital, seed and custom operations are

expected to continue rising the most during the period. Overhead costs are expected to have risen by nearly 13.5% by 2015 vs. 2012. Major contributors to overhead costs for soybean farmers are land, hired labor and capital recovery.

Wheat Production. Production costs will also rise for wheat producers in 2014-15, according to USDA. Operating expenses are forecast to increase less than 3% by 2015 vs. 2012, but like the corn and soybean producers, farmers raising wheat will face rising interest charges on operating capital, followed by "other" variable costs. In terms of overhead costs, major increases will come by way of higher land costs, capital recovery and unpaid labor. **A/EI**

Cost of Production — U.S. Major Field Crops — 2012-13 & Forecast 2014-15

Item	Corn					Soybeans					Wheat				
	2012	2013	2014F	2015F	% Change 2012 vs. 2015	2012	2013	2014F	2015F	% Change 2012 vs. 2015	2012	2013	2014F	2015F	% Change 2012 vs. 2015
Operating costs:															
Seed	92.04	97.59	99.83	101.63	10.42	55.32	59.34	60.70	61.79	11.70	15.33	16.06	16.43	16.73	9.13
Fertilizer	156.51	153.34	154.71	151.72	-3.06	37.54	38.18	38.52	37.78	0.64	46.08	45.93	46.34	45.44	-1.39
Chemicals	27.52	28.57	28.60	29.19	6.07	26.38	28.18	28.21	28.79	9.14	14.16	14.17	14.19	14.48	2.26
Custom operations	17.07	17.77	18.13	18.49	8.32	9.41	9.96	10.16	10.36	10.10	10.13	10.59	10.80	11.02	8.79
Fuel, lube and electricity	30.63	32.65	33.80	33.41	9.08	21.24	21.79	22.56	22.30	4.99	19.42	19.58	20.27	20.04	3.19
Repairs	25.48	25.78	25.98	26.40	3.61	22.23	22.78	22.96	23.33	4.95	20.93	21.07	21.23	21.58	3.10
Other variable expenses 1/	0.11	0.12	0.12	0.12	9.09	0.06	0.06	0.06	0.06	0.00	0.59	0.62	0.63	0.65	10.17
Interest on operating capital	0.23	0.16	0.47	1.06	360.87	0.11	0.08	0.24	0.54	390.91	0.08	0.06	0.18	0.40	400.00
Total, operating costs	349.59	355.98	361.64	362.02	3.56	172.29	180.36	183.41	184.95	7.35	126.72	128.08	130.07	130.34	2.86
Allocated overhead:															
Hired labor	3.05	3.12	3.15	3.24	6.23	2.81	3.02	3.05	3.13	11.39	2.13	2.18	2.20	2.26	6.10
Unpaid labor	23.88	24.40	24.67	25.32	6.03	16.76	17.53	17.73	18.20	8.59	16.93	17.39	17.58	18.05	6.62
Capital recovery	94.05	96.86	99.55	101.62	8.05	81.16	84.63	86.97	88.78	9.39	81.21	82.96	85.26	87.03	7.17
Land	154.94	167.74	172.51	176.67	14.02	137.55	153.96	158.34	162.16	17.89	57.58	63.70	65.51	67.09	16.52
Taxes and insurance	9.08	9.20	9.38	9.61	5.84	9.58	9.87	10.06	10.32	7.72	6.42	6.47	6.59	6.76	5.30
General farm overhead	19.32	19.54	19.69	20.01	3.57	17.44	17.96	18.10	18.40	5.50	11.01	11.18	11.27	11.45	4.00
Total, allocated costs	304.32	320.86	328.95	336.47	10.56	265.29	286.98	294.25	300.99	13.46	175.28	183.88	188.41	192.64	9.90
Total costs listed	653.91	676.84	690.59	698.49	6.82	437.58	467.34	477.66	485.94	11.05	302.00	311.96	318.48	322.98	6.95

F = Forecasts as of May 2014. Projected costs are based on 2013 production costs and projected changes in 2014 and 2015 indexes of prices paid for farm inputs.

1/ Cost of purchased irrigation water plus cost of ginning for cotton and cost of baling straw for wheat, barley, and oats.

Note: Production cost forecasts are updated and released twice a year, in June and December.

Source: Compiled by ERS using Agricultural Resource Management Survey data and other sources.

Ag Equipment Sales Decline Continues

North American large ag equipment sales continued to decline in June, with 4WD tractor sales down 24.1% from last year, combine sales down 25% and row-crop tractor sales down 16.1% according to the latest figures released by the Assn. of Equipment Manufacturers.

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

- North American large tractor and combine retail sales decreased 19% year-over-year in June vs. the 17% decrease in May. U.S. sales were down 21% from the same period last year and Canadian sales decreased 10%.

- Combine sales fell 25% from the same period last year in June following a 24% decrease in May. Last 3 months sales declined 20.2% on a year-over-year basis.

- U.S. combine inventories were 0.2% higher year-over-year in absolute terms in May vs. the 1.4% increase last month. June is typically an average month for combine sales, accounting for 8.3% of annual sales over the last 5 years.

- Row-crop tractor sales decreased 16.1% year-over-year in June. U.S. inventories of tractors over 100 horsepower increased 2% year-over-year in May vs. a 5.2% increase in April. Days-sales decreased slightly to 109 in May vs. 110 days-sales in May, 2013. June is typically a below average month for row-crop tractor sales, accounting for 7.6% of annual sales over the last 5 years.

- 4WD tractor sales declined 24.1% year-over-year in June vs. a 14.4% decrease in May. U.S. dealer inventories of 4WD tractors increased 13.9% year-over-year in May. Days-sales inventory was 90 compared to 73 last year.

- Mid-range tractor sales rose in June, up 2.8% year-over-year. Compact tractor sales increased 12.9% from the same time last year.

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JUNE U.S. UNIT RETAIL SALES



Equipment	June 2014	June 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	May 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	13,326	11,680	14.1	59,476	55,684	6.8	59,060
40-100 HP	5,884	5,833	0.9	29,063	28,025	3.7	30,824
100 HP Plus	2,267	2,809	-19.3	15,630	17,420	-10.3	10,752
Total-2WD	21,477	20,322	5.7	104,169	101,129	3.0	100,636
Total-4WD	352	453	-22.3	2,828	3,162	-10.6	1,651
Total Tractors	21,829	20,775	5.1	106,997	104,291	2.6	102,287
SP Combines	705	926	-23.9	4,004	4,581	-12.6	1,834

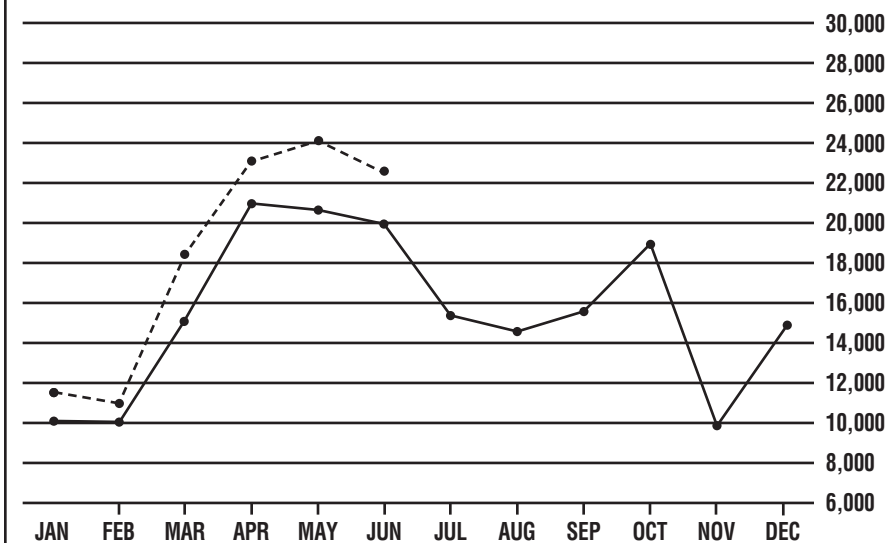
JUNE CANADIAN UNIT RETAIL SALES



Equipment	June 2014	June 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	May 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,872	1,781	5.1	6,911	6,929	-0.3	7,304
40-100 HP	636	509	25.0	3,006	2,837	6.0	3,931
100 HP Plus	464	448	3.6	2,662	2,643	0.7	2,753
Total-2WD	2,972	2,738	8.5	12,579	12,409	1.4	13,988
Total-4WD	57	86	-33.7	660	831	-20.6	604
Total Tractors	3,029	2,824	7.3	13,239	13,240	0.0	14,592
SP Combines	134	193	-30.6	759	995	-23.7	900

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

--- 2014
— 5 year average



— Assn. of Equipment Manufacturers

Colvin & Co., an investment management firm, year-over-year corn prices are down nearly 41%, soybeans are down slightly over 15% and wheat prices are down nearly 17.5%.

Market consensus is that corn pricing could drop to about \$4 per bushel, though one commodity expert is suggesting \$3.50 per bushel corn isn't entirely out of the question.

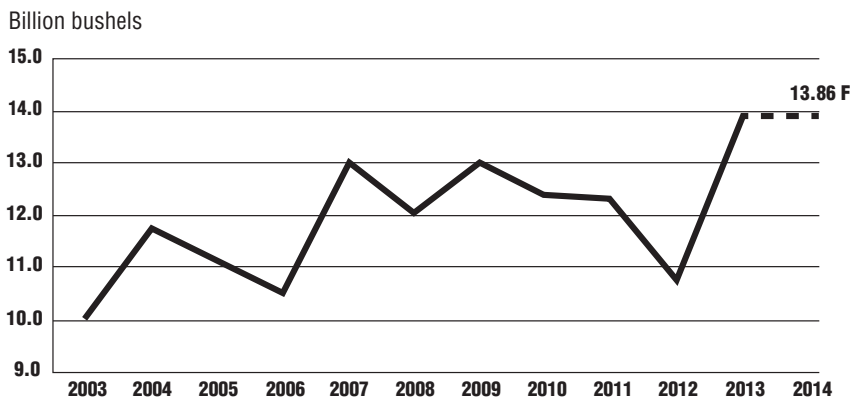
In his analysis of USDA's July 7 Crop Progress report, Steven Fisher, analyst with UBS, said he expects lower corn prices to have a significant impact on this year's equipment sales.

"Current corn condition is better than the 5-year average and remains ahead of last year's progress," he said in a note to investors. "We continue to believe lower corn prices this year could drive a double-digit decline in crop receipts and in turn drive a large decline in ag equipment sales. All else equal, we expect the decline in ag equipment sales to accelerate to double-digit levels in 2014."

WASDE Pricing. The 2014-15 season-average farm price for corn is estimated at \$3.65-\$4.35 per bushel, compared to \$4.35-\$4.55 per bushel for 2013-14. The average price for soybeans is estimated at \$9.50-\$11.50 per bushel, compared to \$13.00 per bushel for 2013-14. The 2014-15 all wheat average price was estimated at \$6.00-\$7.20 per bushel.

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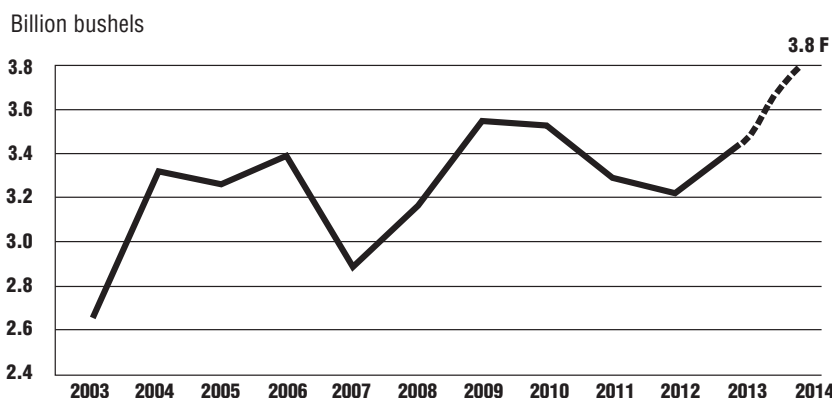
U.S. Corn Production — 2003-14F



USDA estimated total corn production of slightly less than 14 billion bushels in 2014-15.

Source: USDA

U.S. Soybean Production — 2003-14F



Soybean production for the 2014-15 season is estimated at about 3.8 billion bushels.

Source: USDA

Farmland Values Held Their Own in 1H14

Though down from the record sales of 2013, Farmers National Co. said it recorded strong real estate sales for the first half of 2014 despite economists' projected downturn of farmland values. The farm and ranch real estate and management firm reported that the tight land supply and continuing demand land helped to hold land values in check through the first 6 months of the year.

"The anticipated large drop in farmland values hasn't happened, as farm incomes were stronger than expected going into 2014. Original income projections of 20% below last year were not realized," said Randy Dickhut, vice president of real estate operations of Farmers National.

The company reported that, regionally, land prices remained fairly stable

compared to the double-digit price increases seen in recent years. Prices per acre for high quality land range nationwide from \$3,500 to as high as \$12,500 per acre in parts of Indiana, Illinois, Iowa and Nebraska. Values in the Upper Midwest remain strong overall with sales reaching \$9,000 per acre in some locations.

Dickhut said that, as demand rises, prices for grassland also continued to increase in places like Nebraska and Texas. Livestock producers are rebuilding depleted cattle herds, which puts pastureland at a premium.

Prices for irrigated high quality cropland in Kansas and Oklahoma ranged between \$3,500-\$6,000 per acre, while the range for non-irrigated land is \$2,000-\$4,000. In Iowa, top

quality land is selling at more than \$12,000 per acre, while Minnesota values are reaching \$9,000 per acre.

Top quality land in South Dakota is pulling up to \$8,100 per acre, while North Dakota is coming in at \$7,200.

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