From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Machinery Loans Slow
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Dealers Prepared for Multi-Year Sales Downturn

Farm equipment dealers see the 2014 slowdown in sales as probably the beginning of a period of softer farm equipment sales, particularly in high horsepower machines, that in all likelihood will stretch into 2015. As a result, more than half of the dealers surveyed by UBS Investment Research in June say they're "less willing" to trade for high horsepower equipment.

Summarizing the results of the 34th UBS Agricultural Dealer Survey that included nearly 250 responses, analyst Steve Fisher said in a note to investors, that he expects stiff headwinds to equipment purchases coming from shrinking demand in both 2014 and 2015, as well as dealers' unwillingness to accept high horsepower trade-ins, falling corn prices needed to buoy demand, and declining used equipment pricing and high inventories.

"Also, dealers noted a higher than normal degree of farmers delayed purchases this year in the hope that commodity prices would recover, potentially exacerbating the effect on equipment demand as prices have continued to deteriorate. Deere dealers indicated a greater degree of pessimism on each of these topics than AGCO or CNHI dealer networks."

He adds, "Dealers [are] braced for a multi-year downturn."

Sales Slowdown. Overall, 56% of dealers polled expect sales in 2014 to be lower than they were in 2013, while 29% expect improved sales. For 2015, 48% anticipate lower sales and 17% expect sales to increase. The remainder, 35%, project machinery sales next year to be flat.

Despite their less than optimistic outlook, Fisher said the UBS survey found dealers don't appear to have been caught off guard when it comes to the declining business conditions.

"On a scale of 0-10, dealers responded with an average of 6.24, indicating a

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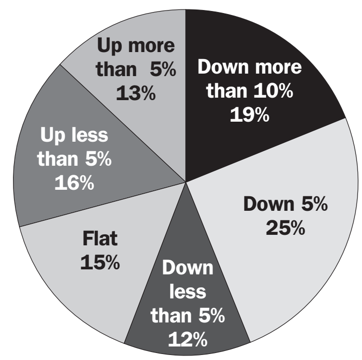
Dealers' Expectations for Equipment Sales in 2014



More than half (56%) of farm equipment dealers surveyed see sales declining for the remainder of 2014.

Source: UBS Agricultural Dealer Survey #34

Claas Sourcing Tractors from SDF, Planning Entry to U.S. Market

It's not uncommon for tractor manufacturers to strike co-production and marketing agreements, but a deal between Claas and Same Deutz-Fahr for tractors in the 70-110 horsepower range appears to have greater strategic significance than usual.

Claas has embarked on an intensive investment and expansion program aimed at significant growth over the next 5 years. It plans to increase revenues by 6-16% across major regions of the world, and by as much as 30% in Asia/Pacific.

The German group's overriding objective is to become a truly global player. In its 2012-13 financial year, almost 22% of €3.82 billion ($5.2 billion) revenues were generated in Germany, 23% in neighboring France. An additional18% comes from the rest of Western Europe, 21.5% from Central and Eastern Europe and 15% from the rest of the world combined.

Two strategic actions are being undertaken in markets with strong growth potential. First, the €85 million ($113 million) acquisition of Chinese combine maker Jinyee provides two production plants and access to that huge market.

Second, Claas is almost tripling the size of its Krasnodar factory in Russia to bolster combine sales there, where they plummeted by three-quarters to just 25% of what they had been before import tariffs hit sales of imported models. They also dropped by a similar amount across other Eastern Europe markets.

The Krasnodar project will not only ease the sales price impact of tariffs but will also meet growing demand in Eastern Europe for bigger combines. The expansion will allow the plant to start building Lexion high-capacity combines alongside the mid-capacity Tucano models already assembled there.

The plant will also step up assembly of large tractors for the Russian

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Farm Lending Continued to Rise in 2Q, But Not for Equipment

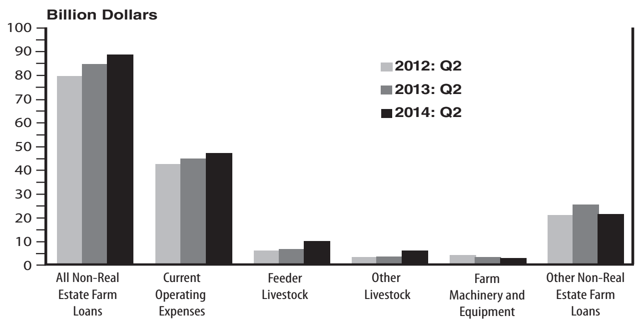
In the August issue of its "Agricultural Finance Databook," the Federal Reserve Bank of Kansas City reports that agricultural banks nationally were able to sustain strong profits that continue to support favorable loan terms to the ag sector. Lending to the livestock sector in the second quarter, which rose significantly, accounted for most of the gains during the quarter.

The report says that total non-real estate farm borrowing in the second quarter rose 5% from a year ago, "driven by a sharp rise in the volume of loans to the livestock sector and additional borrowing for current operating expenses. In contrast, declining loan volumes for farm machinery and equipment pointed to further slowing in farm capital spending."

They also point out that although crop insurance may offer a measure of revenue protection in 2014, a prolonged period of low crop prices could raise concerns about increased leverage and available working capital.

Future Demand. The bankers surveyed anticipate that future demand for loans will increase, as farmers will need to borrow for working capital. "With lower incomes and increased borrowing, bankers in the Chicago, Kansas City, Minneapolis and Richmond Districts reported a slight drop in loan repayment rates in the first quarter," say the Fed economists. "Loan repayment rates, however, held near year-ago levels in the Dallas District and improved in the San Francisco and St. Louis Districts."

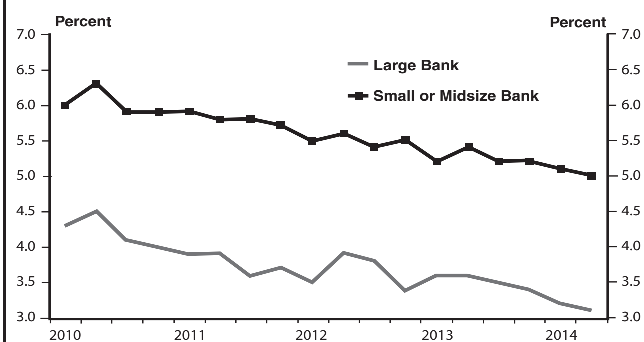
Non-Real Estate Farm Loan Volumes by Purpose



Total non-real estate farm borrowing in the second quarter rose 5%, but loan volumes for farm machinery and equipment declined.

Source: Agricultural Finance Databook, Table A.3

Average Effective Interest Rates on New Non-Real Estate Farm Loans by Bank Size



Average effective interest rates on non-real estate farm loans have continued to trend down at both large and small-to-midsize banks.

Source: Agricultural Finance Databook, Table A.5

Fed economists Nathan Kauffman and Maria Akers, who authored the latest report, say, "Looking forward, the rise in new loan volumes captured by the May 2014 Survey of Terms of Bank Lending to Farmers suggested that outstanding farm debt could reach another high by the end of the second quarter. Even though high prices for feeder livestock may persist, the financial strain on feedlot operators might be lessened somewhat by improved profit margins due to lower feed costs and high prices for fed cattle and hogs."

Crop Pressures. They add that pressure on the crop sector is increasing and profitability could be more tenuous if crop prices remain low and production costs stay elevated, further increasing the need for debt financing for working capital. "The recent uptick in the number of loan renewals and extensions and softening of loan repayment rates in Federal Reserve Districts with strong ties to the crop sector will be indicators to watch regarding the environment for agricultural financing," say Kauffman and Akers.

The report goes on to say that loans for purchasing farm real estate slowed in the second quarter. These accounted for nearly 10% of new loan originations in May 2014 vs. almost 15% in May 2013. "The smaller share of real estate loan originations represented a 33% year-over-year decline in the volume of new loans made for farm real estate in the second quarter," say Kauffman and Akers. AEI

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Claas Sourcing Tractors from SDF, Planning Entry to U.S. Market ...Continued from page 1

market. It's the only location outside the Le Mans factory in France, which Claas acquired from Renault in 2003, that builds tractors.

As for the deal with Same Deutz-Fahr in Italy to source sub-120 horsepower tractors, that will save the cost of developing an in-house replacement for the current small tractor line and release capacity at the Le Mans factory in France for increased production of bigger tractors in the Claas range.

This will help meet organic growth in existing markets, but also pave the way for Claas to enter the U.S. tractor market as part of a strategy to lift revenues from North America by 10% over the next 5 years.

Insiders say managers are still weighing two possible approaches — start out with just the top end Xerion tractor to complement the Omaha-assembled Lexion combines or go in with the full range to cover most market sectors from the start.

Claas is already present in the hay tools, forage chopping and combine market in the U.S. and has regarded entry into the tractor market as a long term goal. The company gave North American editors a sneak peak at its new Xerion tractor designed specifically for the North American market during a media event July 16-17 in Omaha, Neb. Claas says it will officially introduce the tractor to the rest of the industry in late August during the Farm Progress Show in Boone, Iowa.

The latest Xerion tractor provides a catalyst for realizing this ambition. With 435-530 horsepower from MTU Mercedes-Benz engines, it would compete with U.S. favorites on tracks and tires, but with a rigid 4WD drive chassis, multi-mode 4-wheel steering and stepless CVT drive. **AEI**

Claas Opens New Dealerships in Canada

Claas has never shied from establishing its own dealerships when lack of representation in a particular area demands it and that was the case when Kramer Ltd., its dealer in Saskatchewan, pulled the plug on the agricultural sector.

A new Claas-owned and operated dealership was set up in Regina, close to the company's newly opened Parts & Logistics Center and regional training academy.

"While the vast majority of our dealers throughout North America are independent business partners, the most immediate way to provide service and support to our customers in the Regina area was to establish a new dealership owned by Claas," says Leif Magnusson, president, Claas of America.

"As part of our 'phase one' plan, we put the development of our Harvest Center on fast track to make sure our customers in the region continued to receive the service and support they've come to expect."

"Western Canada is an important world market for Claas," emphasizes Jan-Hendrik Mohr, executive vice president of Claas sales and service. "We aim to expand our presence there and have set in motion longer term plans to expand service throughout Saskatchewan."

FARM MACHINERY TICKER (AS OF 8/11/14)

MANUFACTURERS	Symbol	8/11/14 Price	7/10/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$48.40	$46.90	$49.44	$35.01	29.88	18,424	633.7M
AGCO	AGCO	$49.19	$53.29	$64.60	$47.76	9.01	1,294,040	4.61B
AgJunction Inc.	AJX	$0.75	$0.77	$1.20	$0.72	25.00	30,241	54.17M
Alamo	ALG	$49.44	$52.31	$61.27	$44.26	17.91	27,389	600.6M
Art's Way Mfg.	ARTW	$5.51	$5.60	$7.12	$5.40	112.45	5,789	22.3M
Blount Int'l.	BLT	$15.09	$13.92	$15.18	$10.84	82.91	258,289	746.55M
Buhler Ind.	BUI	$5.90	$6.40	$7.30	$5.78	7.41	2,267	147.5M
Caterpillar	CAT	$104.50	$109.36	$111.46	$81.46	17.44	3,888,190	65.61B
CNH Global	CNHI	$8.51	$9.37	$13.16	$8.31	10.35	840,317	11.52B
Deere & Co.	DE	$87.16	$88.12	$94.89	$80.76	9.53	2,778,000	31.71B
Kubota	KUBTY	$68.73	$67.88	$87.15	$62.95	13.10	20,803	17.18B
Lindsay	LNN	$77.74	$83.62	$92.93	$71.13	19.83	136,802	989.55M
Raven Industries	RAVN	$29.55	$31.59	$42.99	$27.31	27.11	104,158	1.08B
Titan Int'l.	TWI	$15.00	$15.87	$19.89	$13.93	n/a	541,038	803.96M
Trimble Navigation	TRMB	$33.17	$32.59	$40.17	$24.90	33.47	1,604,670	8.66B
Valmont Industries	VMI	$145.21	$149.00	$163.23	$129.00	16.90	284,288	3.8B
RETAILERS								
Cervus Equipment	CVL	$22.19	$21.86	$24.50	$19.50	15.32	11,460	337.27M
Rocky Mountain Equipment	RMEC	$11.55	$10.65	$13.63	$10.37	16.99	29,644	223.09M
Titan Machinery	TITN	$14.60	$15.75	$20.40	$13.72	63.48	163,945	305.88M
Tractor Supply	TSCO	$62.12	$59.92	$78.17	$57.20	25.47	1,378,160	8.55B

New Plants, OEM Contracts Fuel LS Mtron's Growth

With new factories and OEM supply contracts underpinning growth, South Korea's LS Mtron continues to make waves in the compact and utility tractor market.

Agreements with CNH Industrial and Claas, and in the central Asian state of Uzbekistan, are generating guaranteed sales and revenues. In addition, a new engine plant opened close to the main tractor factory in South Korea creates a competitive advantage and potential for engine sales to other OEMs.

The engine plant development follows completion of a 5,000 unit tractor manufacturing facility in Brazil last fall. It will serve the Central and South American markets and complement existing modern plants in South Korea and China. "We will achieve annual sales of KRW 1 trillion ($97 million) from the tractor business in 2016 by developing overseas markets more aggressively," says LS Mtron CEO, Jae-Seol Shim. "We are now set to become a global leader in the tractor market."

The tractor arm of the South Korean conglomerate LS Group had sales of approximately KRW 100 billion ($9.7 million) at the time it was launched in 2008. Last year, it topped KRW 552 billion ($53 million) and the next target is for about KRW 700 billion ($68 million).

Export sales revenues have accelerated rapidly as the tractors have moved into new markets — from just KRW 42 billion ($4 million) in 2008 to KRW 370 billion last year ($35.9 million), an 8.6 times increase over the past 5 years.

Completion of the KRW 50 billion ($4.85 million) engine plant, located near Jeonju-si, 3.5 hours' drive south of the capital city of Seoul, is a key component of the equipment maker's ambition of raising annual tractor capacity to 200,000 units by 2020.

It will produce 30-70 horsepower engines to the EPA Tier 4 emissions standard, which applies to smaller tractors in South Korea, the U.S. and Europe starting in 2015. With the potential to build 60,000 new design engines a year, the modern, high-tech factory could open the door to OEM engine sales and secure a competitive advantage for LS tractors in key areas such as quality, delivery and price.

The South Koreans are clearly building tractors that meet demand, not only under their own LS brand — distributed here by LS Tractor USA LLC, Battleboro, N.C. — but others too.

Claas sells LS tractors as the Talos in South Africa and some markets in eastern Europe and Central America. In January this year, CNH Industrial renewed a contract with LS for Case IH and New Holland branded compact and utility tractors first signed in 2010.

This time around, the deal is for 34,000 U.S. and European spec tractors delivered from 2014 through 2018. The contract is worth around $350 million. But an extended contract for Australian and Southeast Asian markets, where the relationship with CNHI was initiated, takes the total closer to $500 million.

A contract of similar initial value, but worth more in the long run, was secured toward the end of last year with Agromash Sanoat Invest LLC, a state-owned company in Uzbekistan, to supply 24,750 tractors of 36-100 horsepower over the next 4 years.

There is also strategic value in the deal because Uzbekistan has been seeking a partner to help modernize its farm machinery and agricultural competency, so LS Mtron plans to supply tractor development and manufacturing technologies. It will earn a $5.3 million royalty payment in the process and use the Uzbekistan project as a springboard for sales in the wider region.

"Having successfully penetrated into developed markets like the U.S., we will aggressively explore emerging markets for higher growth," says Jae-Seol Shim. "By turning the contract into a successful expansion case for emerging markets, we plan to actively pursue the Middle East, Latin America and Africa." AEI

Solid NA & Europe Revenues Keep Kubota in the Black

Despite declining domestic business, Japan-based Kubota Corp. revenues for the 3 months ended June 30, 2014 were up slightly, largely on the strength of farm, engines and construction machinery sales in North America and Europe.

On August 5, Kubota reported that revenues for the period were down 0.3% to $3.523 million vs. $3.533 million for the same period of 2013. Domestic revenues decreased by $144.6 million (11.8%), to $1.08 billion, due to a decrease in revenues in Farm & Industrial Machinery and Water & Environment.

Overseas revenues rose by $134.8 million (5.9%), to $2.4 billion. In Farm & Industrial Machinery, expanded revenues in North America and Europe exceeded decreased revenues in Asia outside Japan. Revenues in Water & Environment and Other also increased.

Revenues in the Farm & Industrial Machinery segment were $2.9 billion, almost the same level as in the corresponding period in the prior year, and accounted for 83.3% of consolidated revenues. Domestic revenues decreased by 17.1%, to $596.8 million. Sales of engines and construction machinery grew due to steady demand. However, sales of farm equipment showed a decline owing to an adverse reaction to the front loaded demand before Japan's consumption tax hike.

Overseas revenues increased by 5.8%, to $2.34 billion. In North America, sales of tractors expanded sharply mainly due to the effects of launching a new line of products. Sales of engines and construction machinery also rose owing to the steady economy, the company said. The positive effects of yen depereciation helped revenues in Europe to rise significantly.

Revenues in Asia outside Japan decreased due to weak sales of farm equipment in Thailand and China. The company's outlook for the full year ended March 31, 2015 remains unchanged. It expects overall revenues to increase by 2.7% to $15,140. AEI

Ag Equipment Sales 'Spotty' Worldwide

Depending on the country and size of the equipment, global sales of farm machinery through much of the first half of the year are best characterized as "uneven."

The Assn. of Equipment Manufacturers reports that U.S. total sales of farm tractors during the January through June period of 2014 were up 2.6%, but within that number, big equipment sales declined. Row-crop tractor sales fell 10.3% and 4WD units dropped 10.6% during the first half of the year. Combines also experienced declining sales, dropping by 12.8% vs. the same 6 months of 2013.

Sales of tractors and combines in Canada followed much the same pattern so far in 2014. Total tractor sales were flat compared to a year earlier, with row-crop tractors up less than 1%. Combine sales were off by 23.7% and 4WD tractors declined by 20.6% vs. January to June 2013.

Brazil Sales Decline. June unit sales of ag equipment in Brazil came in at 5,398, a year-over-year decline of 21%, according to *agrimoney.com*. Through the first half of the year, machine sales in Brazil are down 19.8%. "And it signaled that there may be more to the market decline than a series of one-off factors blamed for sales losses earlier in the year," reported *Agrimoney*.

Like farmers in the U.S., Brazilian growers are also confronted with falling commodity prices. "Prices for soybeans and corn are now in a downturn and not expected to improve any time soon," said Michael Cordonnier at Soybean and Corn Advisor. He added that values were "approaching" the cost of production in Mato Grosso, a key producing state for both crops.

UK Sales Mixed. *Profi.com* reported on July 21 that some segments of the UK tractor market were "buoyant," while others are experiencing some falloff. "Registrations of new tractors in the UK above 50 horsepower rose by 4% during the first 6 months of this year to 6,942 units. With the exception of tractors from 51-100 and 100-120 horsepower, which fell by 18.8% and 4.7% respectively, all power bands above 120 horsepower showed an increase in units registered when compared with the same period during 2013.

"The biggest increase was in the 141-160 horsepower band, which rose by 21.9% to 1,563 units, and accounted for over a fifth (21.1%) of all new tractors registered during the first half of 2014," said *Profi*.

It also reported the sales of tractors below 50 horsepower fell by 5.5% during the first 6 months of 2014 to 467 units.

Dropoff in India. Mahindra & Mahindra's Farm Equipment Sector, India's biggest tractor maker, reported a 7.8% drop in domestic sales in July to 16,379 vehicles, compared with 17,771 units sold during the same period a year ago. Its total tractor sales (domestic and exports) during the month stood at 17,407 units, compared with 18,469 vehicles sold in the same period a year ago. Exports for the month were at 1,028 units, according to the *Hindu Business Line*.

Solid in Russia. Rosagromash reports that total Russian sales of tractors January through May were up 6.8%. The sale of tractors less than 40 horsepower were up 13.6% and tractors 40-100 horsepower rose by 5.4%. Row-crop tractor sales were down slightly, 1.8%, during the 5-month period and unit sales of 4WD tractors rose by 14.2%. Russian combine sales increased by 16.7% through May of 2014 compared to the same period in 2013.

Germany Down Slightly. Unit sales of tractors sold in Germany from January through June were down 1.8% vs. the same 6-month period of 2013, according to the German publication *Eilbote* (July 17, 2014). In total, unit sales of tractors in Germany were 17,240 vs. 17,552 for the same period in 2013.

Fendt remains the leader in tractor sales with a 21.7% market share (3,736 units). Deere follows them with an 18.4% share (3,169 units) of German sales during the January through June period. **AEI**

German Tractor Sales* — 2013 vs. 2014

	Jan.-June 2014		Jan.-June 2013		July 2013-June 2014		Prior Year's Results	
	Units	Share (%)	Units	Share (%)	Units	Share (%)	Units	Share (%)
1. Fendt	3,736	21.7	3,805	21.7	6,192	17.2	6,261	17.3
2. John Deere	3,169	18.4	3,713	21.2	7,192	20.0	7,736	21.3
3. Case IH/Steyr	1,723	10.0	1,393	7.9	3,139	8.7	2,809	7.7
4. Deutz-Fahr	1,518	8.8	1,573	9.0	3,743	10.4	3,798	10.5
5. Claas	1,380	8.0	1,440	8.2	2,839	7.9	2,899	8.0
6. New Holland	1,377	8.0	1,311	7.5	2,594	7.2	2,528	7.0
7. Massey Ferguson	814	4.7	675	3.8	1,677	4.7	1,538	4.2
8. Kubota	636	3.7	724	4.1	1,718	4.8	1,806	5.0
9. Valtra	379	2.2	433	2.5	695	1.9	749	2.1
10. Iseki	348	2.0	361	2.1	1,004	2.8	1,017	2.8
All Others	2,433	12.5	2,124	12.2	5,143	14.4	5,107	14.1
Total	17,240	100	17,552	100	35,936	100	36,248	100
Year-over-year change	-1.8%		-3.1%		0.6%		0.0%	

* does not include Quads, ATV and Telescopic handlers

Source: Eilbote, July 17, 2014

AGCO Net Sales Decline in 2Q, Lowers Its Outlook for 2014

AGCO reported on July 29 that its net sales declined 9.8% compared to the second quarter of 2013. The ag equipment maker's second quarter net sales were $2.8 billion, compared to $3 billion in the second quarter of 2013. Net sales for the first 6 months of 2014 were $5.1 billion, a 6.7% decrease compared to the same period in 2013.

The company lowered its forecast for net sales for the full-year 2014 to $10.1-10.3 billion for the year, down from $10.8-11 billion from its previous outlook.

Each of the company's reporting regions experienced a downturn in sales during the second quarter. Sales were down 12.2% in North America, down 8.6% in EAME, down 10.7% in South America and down 13.3% in Asia/Pacific.

Full-Year Outlook. Andrew Beck, AGCO's CFO, told analysts, "We have lowered our full year industry forecast across all regions. In North America, the forecast for lower farm income is expected to result in softer demand in the professional farming sector. Improved economics for dairy and livestock producers should partially offset a slowdown in row-crop sales."

AGCO Regional Net Sales 1Q & 1H 2014
(in millions)

	3 Months Ended June 30			6 Months Ended June 30		
	2014	2013	% Change from 2013	2014	2013	% Change from 2013
North America	$686.2	$788.9	-13.0%	$1,333.7	$1,413.1	-5.6%
South America	440.2	540.0	-18.5%	793.8	1,005.7	-21.1%
Europe/Africa/ Middle East	1,521.9	1,599.0	-4.8%	2,757.8	2,792.2	-1.2%
Asia/Pacific	102.0	120.3	-15.2%	198.4	240.3	-17.4%
Total	**2,750.3**	**3,048.2**	**-9.8%**	**5,083.7**	**5,451.3**	**-6.7%**

Source:AGCO company report

The company is forecasting North American sales of farm machinery to decline by 5% compared to its previous outlook that called for a 0-5% dropoff. In South America, sales are forecast to fall by 15-20% vs. down 10-15% in its previous outlook. Sales in the EAME region are projected to decline by 5-10% compared to down 0-5% previously. AGCO said its 2014 production would be down by 10-12%, which it had previously forecast to be down 5%.

In a research note, Steven Fisher, analyst for UBS, said, "The concurrent weakness in each global ag equipment market is starting to have a material impact on the sector. Management is using buybacks and cost cuts where possible to mitigate the downturn. Grain storage is growing year-over-year in its intended counter-cyclical way, but the impact is modest on the overall business. We expect the focus to be on further cost cuts and strategies for the downturn." AEI

CNHI Reports Flat Revenues, Ag Sales Decline 2.3% in 2Q

CNH Industrial reported flat revenues for the second quarter and first half of 2014 on July 31. Revenues for the quarter came in at $8.9 billion vs. $8.8 billion for the same period in 2013. For the first half of 2014, net revenues were $16,451 million vs. $16,380 million in the first half of last year. Net income came in at $358 million for the quarter, a 2.8% increase compared to the same period last year. However, for the first half of 2014, net income was down 8% vs. 2013.

An increase in net sales for the Powertrain division offset declines in the agriculture equipment segment, which saw revenues for the quarter drop 2.3% and 4% for the first half of 2014. The company says lower volumes, particularly in North America and Latin America, in addition to a less favorable product mix drove lower net sales for the quarter.

CNHI Ag Equipment Industry Volumes & Outlook

	Tractors		Combines	
	2Q 2014	FY 2014 Estimate	2Q 2014	FY 2014 Estimate
Worldwide	-12%	-5% to Flat	-13%	-10-15%
NAFTA	1%	Flat to -5%	-20%	-20-25%
EMEA	7%	-5% to Flat	-9%	-5-10%
LATAM	-12%	-15-20%	-30%	-15-20%
APAC	-16%	-5% to Flat	-1%	-10-15%

Source: CNH Industrial company reports

Production of agricultural equipment was 6% above retail sales for the quarter, which CNHI says was to support normal seasonality and in anticipation of the facilities' summer shutdown schedules. The company expects production to be below demand in the second half of the year.

Outlook. For the full year 2014, CNHI is projecting tractor volumes worldwide to be down 5% to flat and combines to be down 10-15%. For North America, the outlook is for tractors to be flat to up 5% and combines down 20-25%. In Europe, Middle East and Africa, CNHI's outlook is for tractors to be down 5% to flat and combines to be down 5-10%.

The tractor outlook for LATAM is the worst of all the regions at down 15-20%, with combines expected to be down 15-20% as well. CNHI's outlook for the APAC region mirrors the worldwide outlook, with tractors down 5% to flat and combines down 10-15%. AEI

Ag Equipment Sales Continue Slide in July

The decline in North American large ag equipment retail sales continued in July, with 4WD tractor sales down 20.8% year-over-year and combine sales down 30.1%, according to the latest figures released by the Assn. of Equipment Manufacturers.

Mircea (Mig) Dobre, analyst with RW Baird noted that inventory levels rose year-over-year once again across all equipment categories except combines

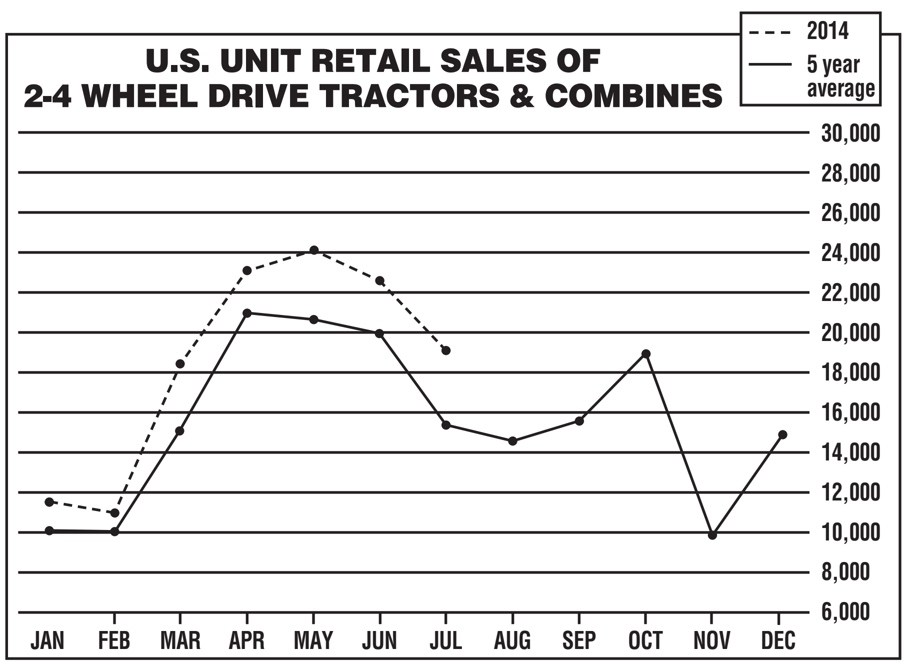
- U.S. and Canada large tractor and combine retail sales decreased 10% year-over-year in July, which was an improvement from the 19% decrease in June. U.S. sales decreased 7% year-over-year, while Canadian sales were down 23%.
- Combine sales saw a 30.1% year-over-year drop in July following a 25% decrease in June. U.S. combine inventories were 1.2% lower in June vs. the same period last year compared to up 0.2% last month. Days-sales were up from last year. July is typically an above-average month for combine sales, accounting for 11.5% of annual sales over the last 5 years.
- Row-crop tractor sales increased 1.8% year-over-year, an improvement from the 16.1% drop observed in June. U.S. row-crop tractor inventories increased 10.9% in June compared to a 2% increase in May. On a day-sales bases, inventories were higher year-over-year at 121 days-sales vs. 109 days-sales in June 2013. July is typically a below-average month for row-crop tractor sales, accounting for just 7.3% of annual sales over the last 5 years.
- 4WD tractor sales declined in July, but saw a slight improvement compared to June. In July, year-over-year sales were down 20.8% vs. a 24.1% decrease seen in June. U.S. dealer inventories of 4WD tractors increased 8.6% in June vs. the same period last year.
- Mid-range tractor sales rose again in July, up 7.2% year-over-year after a 2.8% increase last month. Compact tractor sales increased 4.7% year-over-year, but were down from the 12.9% increase in June. **AEI**

JULY U.S. UNIT RETAIL SALES

Equipment	July 2014	July 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	June 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,961	9,355	6.5	69,323	65,039	6.6	55,374
40-100 HP	5,386	4,983	8.1	34,400	33,008	4.2	30,151
100 HP Plus	2,785	2,724	2.2	18,395	20,144	-8.7	11,784
Total-2WD	18,132	17,062	6.3	122,118	118,191	3.3	97,309
Total-4WD	351	410	-14.4	3,178	3,572	-11.0	1,683
Total Tractors	18,483	17,472	5.8	125,296	121,763	2.9	98,992
SP Combines	778	1,056	-26.3	4,782	5,637	-15.2	1,983

JULY CANADIAN UNIT RETAIL SALES

Equipment	July 2014	July 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	June 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,288	1,384	-6.9	8,196	8,313	-1.4	6,651
40-100 HP	557	559	-0.4	3,564	3,396	4.9	3,853
100 HP Plus	440	444	-0.9	3,102	3,087	0.5	2,747
Total-2WD	2,285	2,387	-4.3	14,862	14,796	0.4	13,251
Total-4WD	38	81	-53.1	698	912	-23.5	611
Total Tractors	2,323	2,468	-5.9	15,560	15,708	-0.9	13,862
SP Combines	257	424	-39.4	1,015	1,419	-28.5	1,118



— Assn. of Equipment Manufacturers

largely neutral perspective on their business conditions," he said. "We believe this may indicate that dealers have been preparing for an eventual downturn in demand, and may also be a reflection of recent consolidation among dealers (larger scale and thus better equipped to handle a downturn)."

Deere's dealers indicated the lowest average response of 5.64, while CNHI dealers indicated the highest average response of 6.50.

The UBS numbers coincide with the most recent *Ag Equipment Intelligence* Dealer Optimism Index, which measures sentiment among dealers compared to the prior month and saw a drop in June after an improvement in May. A net 12% of dealers reported a "less optimistic" outlook for the year (23% more optimistic, 42% the same, 35% less optimistic). This is compared to a net 5% of dealers who reported a "less optimistic" outlook in May. But the Index reflects a neutral view when compared with a net 30% of dealers in December who held a "less optimistic" outlook (9% more optimistic, 52% the same, 39% less optimistic).

Used Equipment Backlog. The UBS survey also found that more than half (56%) of all dealers surveyed are "less willing" to accept used high horsepower equipment trade-ins. Deere dealers were even more hesitant to take big equipment trades compared to other brands, as 70% of respondents who indicated Deere was their major brand were "less willing." Case IH dealers aren't too far behind the Deere dealers in view of high horsepower trades over the past several months, as 67% indicate they, too, are less willing to accept these types of trade-ins.

Overall, compared to the 56% who are "less willing" to accept high horsepower trade-ins, 40% say they are "as willing" as usual and 4% say they are "more willing."

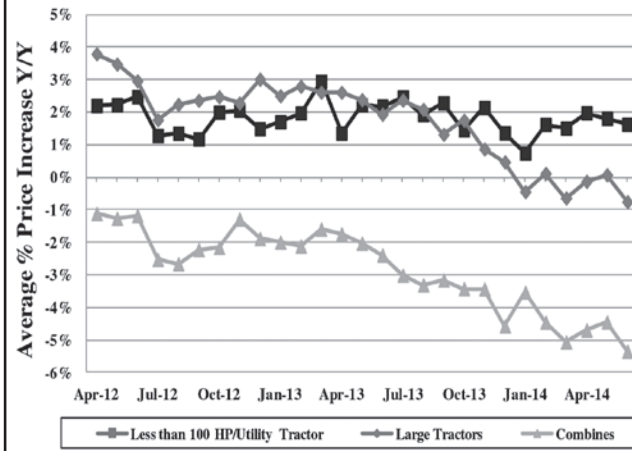
In June, a net 36% of dealers reported used equipment inventory as "too high" (46% too high; 44% about right; 10% too low), similar to last month, according to the latest Dealer Sentiments & Business Conditions Update report. Year-over-year, used combine values fell in June vs. May by down 5.4% and used high horsepower tractors values also fell by nearly 1%.

Farmers Waiting. Fisher said the survey also revealed that most farmers are gauging the market before making a commitment to purchase new farm equipment this year. "About half (51%) of the dealers responded that a higher than normal level of farmers are delaying their equipment purchase decisions to see how the crop year plays out. Given the recent 29% decline in corn prices since April 30, and with prices potentially under further pressure as weather remains supportive of high yields, farmers may have inadvertently exacerbated their exposure to lower commodity prices."

Some 47% of dealers say they aren't seeing an unusual amount of hesitancy on the part of farmers in making their purchasing decisions.

Hints of farmers' hesitancy to buy new machinery could also be seen in the dealer commentary in the July *Dealer Sentiments* report: "*Uncertainty in tax laws (Sec. 179 and bonus) and wishy-washy commodity prices are causing producer hesitation to spend*"... "*Not much play on presells.*" AEI

Used Equipment Values vs. Last Year



Dealers reported used combine values fell 5.4% year-over-year in June and used HHP tractors values were down almost 1%.

Source: Ag Equipment Intelligence

Dealers' Willingness to Accept Used High-HP Trade-ins

	More willing	As willing	Less willing
Company			
AGCO	7%	49%	44%
Case IH	1%	32%	67%
Deere & Co.	0%	30%	70%
New Holland	5%	48%	47%
Total	**3%**	**40%**	**56%**

Source: UBS Agricultural Dealer Survey #34

Dealers' Indication of Business Conditions

	AGCO	CNHI Case IH	Deere & Co.	CNHI New Holland	Total
Region					
Appalachian	5.67	6.25	6.50	6.60	6.37
Corn Belt	6.00	6.33	4.75	5.41	5.67
Delta States	n/a	6.67	n/a	n/a	6.67
Lake States	6.33	6.44	5.60	7.03	6.46
Mountain	7.25	n/a	5.00	7.25	6.93
Northeast	6.83	8.33	6.20	6.30	6.67
Northern Plains	6.00	5.60	6.00	7.75	6.29
Pacific	6.00	5.33	7.00	7.33	6.18
Southeast	4.75	6.75	7.00	6.17	6.00
Southern Plains	5.00	5.60	6.00	7.57	6.50
Total U.S.	**6.22**	**6.29**	**5.64**	**6.50**	**6.24**

Source: UBS Agricultural Dealer Survey #34