We certainly are in the midst of a challenging time for equipment sales. In certain sectors we hear of declines of 10, 15, 20, and even 25% from last year’s sales. And in other sectors, especially those serving the livestock and dairy industry, I hear comments about record sales. What does this all mean? And an even more important question: What is the new normal level of equipment sales that we can expect to see?

To gain an appreciation of the cycle we are in, we need to look at historical information. In the graph you will see the equipment sales of 100 horse power tractors dating back to 1996 through 2014. Although you can certainly see volatility from year to year, you will also notice an extremely positive trend line over that period. In fact, 2013 was an all-time high for equipment sales in that horse power category. There is no doubt that the industry has enjoyed the sales and rapid turnover of equipment in the marketplace. This jump in equipment sales was tied directly with the high commodity prices and prosperity enjoyed during this same period.

I recently read an article that suggested that the data will show that we are coming off the greatest period of prosperity in agriculture history in the United States. Of course the moons were in alignment with not only high commodity prices, but also Section 179 of the tax code and bonus depreciation stimulating the market and accelerating equipment sales.

So was this period over the last five years normal? Probably not normal; but also not totally out of line when we look at the long term trends. When taking a long term perspective, you will see that just 20 years ago we were selling around 15,000 tractors annually in this horse power range. The new normal looks to be around 30,000 as we look at the trend lines.

Does this call into question our efficiency? Why do we need to sell more tractors today then we did just 20 years ago? There are a variety of contributing factors. Farm size certainly weighs into the equation. Steadily increasing farm acres...
If you want to be successful… Executive Insights

...you’ll have to learn how to get by on 4 hours of sleep. This, says Brian McKown, COO of Kinze Manufacturing, is one of the best pieces of career advice he ever received.

Brian grew up in a suburb of Kansas City, MO. His family owned a real estate development company, so afterschool hours were spent in the office observing all kinds of business transactions. His grandpa would have him in the room when negotiating contracts. Brian’s uncle was a maintenance manager for a nearby manufacturing plant. When the family was busy with the real estate business on the weekends, Brian would hang out at the plant with his uncle – which in those days meant having free range of the facility. He was fascinated by the manufacturing process, and went on to earn his degree in industrial management. When a vice-president at his first job as a production planner asked him where he wanted to be in 10 years, Brian looked him in the eye and said, “I want to be in your chair.” The combination of manufacturing and business management proved to be a perfect fit for Brian.

Prior to joining Kinze 11 years ago, you worked closely with them as a consultant for Grant Thornton LLC. What prompted the move from consulting to working fulltime for Kinze?

I got to know Jon and Marcia Kinzenbaw. They were the only clients who ever asked me to their home for dinner, knowing I was travelling and that I’d be alone. Jon would let me ride his four-wheeler around the farm while he mowed the lawn. Sometimes we’d eat on paper plates in the kitchen, sometimes on china in the dining room, but we always talked about personal things, not business. I understood that they had a genuine concern for me as an individual and not just as a consultant. I saw their values reflected in their business culture and in their employees. After five years Jon told me he was looking to hire someone so that he could step away from day to day business and focus on the larger aspects of the company, and I asked him if he would consider me as a candidate.

Was it difficult stepping into a leadership role in a family-owned and family-run business?

Not at all. Kinze operates by its core values of integrity, customer focus, excellence, innovation and mutual respect. When we’re around the table with Jon and his daughter Susie who has come on as the second generation of family leadership, the mutual respect is evident, and we are all working as peers. I would actually say there is great benefit to a private, family owned company. When you have the founder still...

---Continued on Page 13---

Commodity Classic

2015 a great success!
• Almost 8,000 attendees - 4,300 growers
• Average acreage: 2,989

Get Ready for 2016!
• AEM joins Commodity Classic
• March 3-5, New Orleans
• Extended trade show hours
• Customer preview & event opportunities

Past AG CONNECT exhibitors are being contacted through May for the exhibit space process. New exhibitors may sign up effective June 1. Go to commodityclassic.com/exhibitors/2016-exhibitor-faq for more information or contact Kristi Burmeister at tradeshow@commodityclassic.com. Be a part of the AG CONNECT experience at Commodity Classic!
 Implements of Husbandry laws: What’s the status?

The State of Wisconsin has passed regulations based on a study led by the Wisconsin State Department of Transportation (DOT) concerning Implements of Husbandry (IoH) and their movement on the roadways. Historical increases in efficiency of ag equipment have caused changes to machine design such as increased weight, length and width that could cause a detrimental impact on the roadways and traffic patterns. Surrounding states are monitoring this regulatory action. Several minor elements of the Wisconsin law are still being refined, and the full impact of the regulations will be more clearly understood over the next year.

FEMA joined with AEM in a three-pronged approach initiating collaboration with the DOT to develop proper analytical tools to proactively manage:

- IoH design elements
- Bridge design
- Roadway construction

The needs of today’s farmers must be considered by using science-based research to establish parameters for off-road agriculture equipment based on the manner in which that equipment is used. The three-pronged approach includes:

1. Legislative Activity: A Wisconsin state lobbyist was retained to monitor the Wisconsin state laws addressing Implements of Husbandry. The Wisconsin law is now in effect and, while there may be some slight modifications to the law in the current legislative term, the regulation is stable and in place.

2. Technical Analysis of Roadway Issues: A specialist on pavement and bridge load carrying capacity was contracted and completed an analysis of the DOT requirements. The joint AEM/FEMA committee is currently reviewing this report and is drafting an executive summary. A meeting was held with the Wisconsin DOT, who are open to input from industry.

3. Future Standards Development: A recognized industry expert on Technical Standards has been contracted to develop a GAP analysis of standards and possible future requirements. Topics being reviewed include:
   - Axle spacing and footprint
   - Machine dimensions
   - Implement trains
   - Braking systems for tow vehicle and towed vehicles
   - Lighting and marking
   - Hitching systems
   - Hydraulic coupling systems
   - Electrical connections

AEM and FEMA continue to monitor the regulations while analyzing the data and looking for legislative avenues to minimize the risk to the ag industry. Stay tuned for more on this important issue. For additional information, contact AEM’s Mike Pankonin at mpankonin@aem.org

Sustainability, rural road funding, potential dealer legislation

These were just a few of the industry issues addressed by AEM advocacy at the 2015 Legislative Ag Chairs Summit facilitated by the State Agriculture and Rural Leaders organization (SARL). The summit provides opportunities to meet with legislators early in the year and offer agriculture industry perspective on the upcoming legislative agendas.

Besides supporting positions on specific issues, AEM used the opportunity to speak to legislators about possible dealer legislation that may be introduced in the coming year. In the past few years, AEM has seen dealer legislation introduced that attempts to intervene in existing dealer / manufacturing contracts. Specific issues raised include transfer of ownership, buy back and transportation costs as it pertains to warranty reimbursement. AEM is monitoring and actively engaged in a number of states – Montana, Pennsylvania, Vermont, Alaska, Oregon – where bills are being introduced by dealer groups. The New Hampshire dealer law is another example. At this time the AEM Board has approved AEM submission of an amicus brief in support of the New Hampshire appeal.

This year’s Summit brought together influential legislators from 46 U.S. states and seven Canadian provinces with an interest in agriculture and rural communities. AEM is a sponsor of the annual event.

For more information on dealer legislation and other AEM legislative and advocacy activities, check out aem.org/Advocacy/Advocacy/Issues/. For more on the State Agriculture and Rural Leaders Legislative Ag Chairs Summit, visit www.sarl.us.
Crop and rangelands: Not just blank spots on the map

When policymakers discuss rural connectivity, it is typically in terms of getting “anchor institutions” - schools, libraries, and hospitals - connected. While this is an important goal, it is time we start to look at crop and range lands not as blank spots on a map, but as vital economic zones that are increasingly dependent on wireless connectivity to achieve their maximum potential. Too few legislators are even aware that today’s machinery comes equipped with cellphone modems.

To shed light on the importance of rural wireless connectivity for today’s agriculture, AEM recently led a capitol hill blitz - an extensive series of meetings with key congressional offices. The meetings were conducted through the Rural Broadband Coalition with AGCO, American Farm Bureau Federation, the Ag Retailers Association, John Deere, and the National Corn Growers Association participating. The meetings were focused on reaching members of the House Committee on Energy and Commerce’s Subcommittee for Communication and Technology. The coalition had three primary objectives for this first series of congressional visits:

First was to expand lawmakers’ understanding of the rural broadband issue as noted above. Secondly, we encouraged committee members to sign onto a letter to the Federal Communications Commission urging them to make rural wireless connectivity a top priority. Lastly, participants urged the Communications and Technology Subcommittee to schedule a hearing to explore the importance of cell towers in rural America to modern production agriculture.

These meetings are also important in that they are helping to frame the emerging debate regarding the rewrite of the 1996 Telecommunication Act. The Act - which was the first significant overhaul of United States telecommunications law in more than sixty years - is grossly out of touch with today’s technology. It represents the first time that the Internet was included in broadcasting and spectrum allotment. Momentum is building within Congress to update it, providing an opportunity for us to raise the level of focus on rural connectivity; it could be ignored if we don’t make our voices heard. AEM is committed to ensuring our industry’s concerns are heard. For more, contact ntindall@aem.org.

Regional meetings help members build, guide businesses

Industry Issues: AEM Solutions

1. Get the latest market intelligence on the equipment manufacturing industry
2. Network with other members and staff concerning current issues faced by equipment manufacturers
3. Receive a customized report with AEM programs and services that best fit your company needs

www.aem.org/Membership/Membership/Value/
Latin America snapshot: Top five U.S. export partners

Who are the top five U.S. export partners for ag equipment in Latin America? “Number one” by a longshot is just south of the border. These countries also reflect the top markets identified by the AEM AG Latin America Regional Management Committee as important for their businesses. Based on U.S. Census data, the top five U.S. export partners in Latin America are: Mexico, Brazil, Chile, Argentina, Uruguay. Here’s a quick snapshot:

1. **Mexico:** Reforms, reforms, reforms... Mexico’s administration under President Peña Nieto is pushing reforms on as many fronts as possible. Some of the major areas include energy, fiscal, telecoms and broadcasting, labor and education. Many improvements have already surfaced thanks to these new measures.

2. **Brazil:** As the world’s fifth-largest country and with its long growing season, Brazil has significant influence on the agriculture industry. Its main exports include soybeans, coffee, sugar, corn, and beef. Brazil is currently facing its worst drought in years in the Southeastern region, surrounding Sao Paulo and Rio de Janeiro. The main crops affected include coffee (global coffee prices have already been impacted), soybeans, sugar, corn, and cassava. Brazil’s soybean production is still expected to be among the top countries’, as is the expectation for sugar production.

   Increased commodity prices due to the drought will first be passed on to consumers in the immediate area. Eventually, if the drought continues, equipment sales could be negatively impacted. Farmers are growing more and more cautious. Bumper crops are taking the place of crops such as coffee, which are not doing well in the drought. Brazil’s climate includes high variability of precipitation from season to season, and the hope is that the drought will change course with the next season, returning flourishing farmlands to the southeast and water supplies to the urban areas.

3. **Chile:** The economic slowdown affecting the region has not spared Chile. The International Monetary Fund expects that GDP growth will continue on a slow path in 2015 at around 3.3 %. Contrary to many of its neighbors, Chile’s government is attempting to inject some short-term boosts into the economy. The Central Bank itself is easing its monetary policy, with an expected rate drop to 3 %.

4. **Argentina:** For the equipment sector in Argentina, the financial crisis has constrained growth. As the country faces an economic contraction, decreasing GDP and constraining credit conditions will reduce sector investment. With increasing domestic interest rates, obtaining a loan for machinery will be more expensive and has already led to a reduction in new equipment purchases.

5. **Uruguay:** Agriculture contributes roughly 7.5% to the country’s GDP, putting Uruguay in line with other agricultural exporters like Brazil, Canada, and New Zealand. In recent years, it has diversified its portfolio of agricultural exports through the introduction of new products like soy and pulp. Uruguay’s main products include: soybeans, wheat, sugarcane, feed corn, meat, rice, powdered milk and wood.

   For in depth details on these and more Latin American ag equipment markets, check out the Latin America Agriculture Advisor on AEM’s Global Business Development web page. To learn about all of the products, services and resources offered by the Global Business Development team, please contact Vanessa Radlinger, GBD Assistant at vradlinger@aem.org.
Discussions with purchasing and technology executives has revealed heightened interest in AEM’s Market Access Pathway (MAP) program as a risk management tool. MAP is an integrated approach to compliance with Conflict Minerals, REACH, RoHS, and other worldwide regulations that target substances in products and/or manufacturing processes. The below highlights of those conversations is a high level message to share with your executive teams.

### Compliance is Risk Management

At its core, substance-related compliance is risk management:

1. Unreported toxic substance content in products could result in denial of market access and other financial losses.
2. Chemicals historically used in products and manufacturing processes could become unavailable and substituted, leading to production issues and possibly higher costs.
3. Geopolitical events like national hoarding, supply denial and civil wars could negatively impact the availability of necessary critical minerals.

**Minimizing Risks:** Executives agreed that in order to minimize supply chain risks, key issues common to the equipment industry and others need to be addressed. These key issues include the need for:

1. Substantially higher quality data than is currently being exchanged
2. Data-quality standards – not unlike ISO9001
3. Agreement on what is Confidential Business Information (CBI)
4. Traceability to the material manufacturer, while protecting CBI
5. Management processes that allow for quick and easy information updates throughout the supply chain

6. Low cost/high value education of the entire supply chain

To date, no industry has satisfactorily addressed the above issues with a unified approach. Until now, only very costly efforts have provided the results needed in a deep supply chain. AEM’s MAP program is working to address these needs.

**Data Structure:** Industry representatives explored with AEM staff how the structure of reportable substance data allows for proper risk assessment and identification of “hot spots”:

1. A data structure that provides targeted analysis will allow for risk management.
2. An appropriate data structure is critical for dealing with material availability issues arising from current and future substance bans.
3. A data structure that will more easily interface with material databases from firms that catalog material properties will provide cost-effective integration into Life Cycle Assessment software to evaluate alternative design choices.

**Bottom Line:**

*Purchasing and technology executives confirm the importance of AEM’s proposed MAP approach on the basic data structure for a common data exchange format and how it can address supply-chain risk management issues. To be effective, sustainability has to be designed from the highest tiers and cascade down to the OEMs. This requires slightly different thinking, and that makes all the difference.*

For more information on AEM’s MAP program, contact Regulatory Compliance Program Coordinator Lydia Riesch at lriesch@aem.org.
In order for modern GPS to work, you need an atomic clock accurate to the 1/50 billionth of a second. Development of that kind of technology was in part made possible by governmental research grants.

To illustrate the vital importance of precision agriculture and the federal funding required to develop that type of innovation to decision-makers in Washington, the Tri-Societies — The American Society of Agronomy, the Crop Science Society of America and the Soil Science Society of America — recently hosted a “Deconstructing Agriculture” event in the House Agriculture Committee room. AEM was a sponsor of the event and helped to organize it.

Three essential technologies of precision agriculture were on exhibit; GPS, Data and Mapping with GIS, and Sensors and Robotics. The program sought to “deconstruct” the origins of these key innovations to their roots in federally funded research programs. Each section featured a scientist who was involved in the early stages of the technology’s development, a manufacturer to show the equipment available today because of their efforts, and a grower who discussed how that technology is critical to improving the effectiveness of his operation.

Mark Harrington, Vice President of Trimble and AEM AG Sector Board member, was on hand to lead Trimble’s display highlighting GPS utilization in modern agriculture. Harrington spoke to the early years of GPS implementation to agriculture and how its use has evolved over the last two decades. In the Sensor and Robotics section, Trimble’s own GreenSeeker was a featured item with a presentation by one of the technology’s founders.

The event featured educational displays and numerous innovation leaders in the field of precision agriculture. Manufacturers, farmers, associations, and educational institutions, were on hand to present how innovation in agricultural technology is improving productivity while increasing environmental stewardship. Educating decision-makers in Washington, DC about the modern realities of production agriculture is a critical step to ensuring sound policies are established. AEM is dedicated to helping our members tell this important success story.

The US EPA and other regulatory agencies are increasing their focus on agricultural applications of pesticides and other liquid products. This move is driven by concerns related to product placement, chemical toxicities and herbicide resistance. An AEM task force has been formed to address product placement issues from an industry perspective through collaborative efforts with equipment and chemical manufacturers using fact-based research and engagement with regulatory groups. Work continues with CropLife and ASABE. For more information, contact AEM’s Mike Weber at mweber@aem.org.

Liquid Application Technology Group

The US EPA and other regulatory agencies are increasing their focus on agricultural applications of pesticides and other liquid products. This move is driven by concerns related to product placement, chemical toxicities and herbicide resistance. An AEM task force has been formed to address product placement issues from an industry perspective through collaborative efforts with equipment and chemical manufacturers using fact-based research and engagement with regulatory groups. Work continues with CropLife and ASABE. For more information, contact AEM’s Mike Weber at mweber@aem.org.
Special Report: 2015 farm income outlook

Last Tuesday, the USDA released their 2015 Farm Sector Income Forecast. Net farm income is forecast to be $73.6 billion in 2015, down nearly 32% from 2014’s forecast of $108 billion. The 2015 forecast is the lowest since 2009.

2015 net cash income is expected to decline to $89.4bn, representing a 22% drop from 2014 and marking the second consecutive year over year decline. Net cash income differs from normal net farm income as it takes into consideration total receipts from farming and government payments.

Lower crop and livestock receipts are the main drivers of the sustained drop. The annual value of U.S. crops are set to decline 7.9% ($15.6 bn) from 2014. The largest forecasted decline can be found in corn receipts, which are expected to fall 38% from 2012.

Interestingly, livestock receipts, an area that grew in 2014 and was one of the supporting pillars of equipment sales last year, is also set to decline 4.9% ($10.1 bn), largely due to lower milk prices (22.3% drop in dairy).

In 2015, production expenses will continue to grow for the sixth consecutive year to $370 bn. However, taking inflation in consideration, adjusted expenses will decrease slightly. Currently, total estimated production expenses account for 83% of the gross farm income for 2015, the highest percentage it has been for the last six years.

Meanwhile, farm assets are growing slowly and farmland values are slowly declining, leading to less capital investment and loans geared more towards operating expenses. Finally, after several years of improvement, the USDA’s farm debt-to-asset ratio is forecasted to increase.

Some positive financial developments are anticipated in that more government payments are forecasted under the new farm bill. New programs such as the Price Loss Coverage and the Agricultural Risk Coverage are estimated to increase payments by 15%.

To get a more comprehensive picture of the current state of the ag industry, we must also look back a couple of years. Post 2009, farm income rose to historical highs and farmers that have been around for several decades and experienced previous downturns were more careful not to incur too much debt.

Nonetheless, these trends, accompanied by the lower 2015 forecast, indicate somewhat tighter margins and a continued ag downturn for 2015 as manufacturers are adjusting their forecasts. This will affect equipment sales for their various segments, but will have more of an impact on larger, more expensive pieces of row crop equipment.

Look forward to a poll on our website on how long you feel the current trends will last or visit the survey directly at: www.surveygizmo.com/s3/1995468/Ag-Downturn-Poll.
AEM U.S. export trends and analysis

U.S. Agricultural equipment exports decline 29% in 2014

All world regions recorded declines - and all double-digit except for Central America. Leading the way were Asia, Europe and Canada. While a decline of nearly one third is steep, the drop in U.S. ag equipment exports was not completely unexpected. In 2014, a record harvest led to lower commodity prices and falling farm incomes, leading to a deterioration in farm economics worldwide.

Lower crop prices caused an uneven market in Europe, while in Asia, the declines mostly focused on China. In South America, the Brazilian market, which remains highly subsidized, experienced not only lower commodity prices, but also a delay in the government’s financing program. Overall, conditions for the U.S. remained more positive as it was supported by smaller equipment sales and an improved livestock/dairy sector.

THE BELOW CHARTS ILLUSTRATE A ROLLING 4 QUARTERS VS. PREVIOUS 4 QUARTERS FOR COUNTRIES WITH > $25 MIL./YR IN EXPORTS

<table>
<thead>
<tr>
<th>Country</th>
<th>Last 4 Qtrs</th>
<th>Prev 4 Qtrs</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GUATEMALA</td>
<td>$38,847,568</td>
<td>$28,528,293</td>
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<tr>
<td>NEW ZEALAND</td>
<td>$90,951,015</td>
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<td>3.7%</td>
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<td>CHILE</td>
<td>$145,498,492</td>
<td>$144,384,180</td>
<td>0.8%</td>
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<tr>
<td>TURKEY</td>
<td>$60,692,256</td>
<td>$63,194,598</td>
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<td>PARAGUAY</td>
<td>$30,333,830</td>
<td>$32,341,334</td>
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<tr>
<td>ITALY</td>
<td>$56,157,304</td>
<td>$63,224,319</td>
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</tr>
<tr>
<td>MEXICO</td>
<td>$920,308,142</td>
<td>$988,436,843</td>
<td>-6.9%</td>
</tr>
<tr>
<td>COLOMBIA</td>
<td>$61,265,991</td>
<td>$66,767,589</td>
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<td>PERU</td>
<td>$47,591,158</td>
<td>$52,015,016</td>
<td>-8.5%</td>
</tr>
<tr>
<td>ROMANIA</td>
<td>$29,777,505</td>
<td>$32,719,743</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Global Total</td>
<td>$8,512,299,122</td>
<td>$12,020,171,932</td>
<td>-29.2%</td>
</tr>
</tbody>
</table>

Top 10 Countries - US Ag Equipment Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Last 4 Qtrs</th>
<th>Prev 4 Qtrs</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CANADA</td>
<td>$2,635,907,431</td>
<td>$4,281,728,155</td>
<td>-38.4%</td>
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<tr>
<td>UNITED KINGDOM</td>
<td>$1,486,748,580</td>
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<tr>
<td>CANADA</td>
<td>$1,225,156,043</td>
<td>$1,392,428,189</td>
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<tr>
<td>JAPAN</td>
<td>$1,014,482,580</td>
<td>$1,246,193,052</td>
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<td>ITALY</td>
<td>$788,438,399</td>
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<td>MEXICO</td>
<td>$762,747,473</td>
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<td>CHINA</td>
<td>$666,268,405</td>
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<td>UNITED KINGDOM</td>
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<tr>
<td>INDIA</td>
<td>$357,845,519</td>
<td>$354,040,053</td>
<td>1.1%</td>
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<tr>
<td>FRANCE</td>
<td>$265,957,047</td>
<td>$294,102,529</td>
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<tr>
<td>TURKEY</td>
<td>$199,536,615</td>
<td>$91,062,683</td>
<td>119.1%</td>
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<tr>
<td>Global Total</td>
<td>$8,512,299,122</td>
<td>$12,020,171,932</td>
<td>-29.2%</td>
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</tbody>
</table>

Bottom 10 Countries - US Ag Equipment Exports

<table>
<thead>
<tr>
<th>Country</th>
<th>Last 4 Qtrs</th>
<th>Prev 4 Qtrs</th>
<th>% Change</th>
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</thead>
<tbody>
<tr>
<td>IRAQ</td>
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<td>$28,219,696</td>
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</tr>
<tr>
<td>FINLAND</td>
<td>$10,888,043</td>
<td>$35,165,691</td>
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</tr>
<tr>
<td>SWEDEN</td>
<td>$28,826,603</td>
<td>$86,195,390</td>
<td>-66.6%</td>
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<tr>
<td>COSTA RICA</td>
<td>$13,512,079</td>
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<tr>
<td>LITHUANIA</td>
<td>$25,945,929</td>
<td>$48,537,709</td>
<td>-46.5%</td>
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<tr>
<td>VENEZUELA</td>
<td>$58,602,482</td>
<td>$109,388,795</td>
<td>-46.4%</td>
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<tr>
<td>KAZAKHSTAN</td>
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<td>$38,108,428</td>
<td>-44.3%</td>
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<tr>
<td>JAPAN</td>
<td>$73,342,366</td>
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<tr>
<td>CANADA</td>
<td>$2,635,907,431</td>
<td>$4,281,728,155</td>
<td>-38.4%</td>
</tr>
<tr>
<td>GLOBAL TOTAL</td>
<td>$8,512,299,122</td>
<td>$12,020,171,932</td>
<td>-29.2%</td>
</tr>
</tbody>
</table>
Until now, it appeared that smaller farm tractor sales were spared from the ag downturn, as they are closer aligned with ground care services, hobby farmers and livestock. However, February saw a reversal in this trend. While we can tie this to the lower builder confidence and the high snowfall, it is important to note that the USDA forecasted livestock receipts to decline 4.9% in 2015, driven by a drop in milk prices. Business Monitor International expects prices to recover slightly in the second half of the year.

### AEM Ag Flash sales trends and analysis

**2WD Farm Tractors**

<table>
<thead>
<tr>
<th>Type</th>
<th>February 2015</th>
<th>February 2014</th>
<th>%Chg</th>
<th>YTD - February 2015</th>
<th>YTD - February 2014</th>
<th>%Chg</th>
<th>Beginning Inventory Feb 2015</th>
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<tbody>
<tr>
<td>&lt;40 HP</td>
<td>4,726</td>
<td>4,720</td>
<td>0.1%</td>
<td>9,481</td>
<td>8,744</td>
<td>8.4%</td>
<td>66,149</td>
</tr>
<tr>
<td>40 &lt; 100 HP</td>
<td>2,974</td>
<td>3,303</td>
<td>-10.0%</td>
<td>7,060</td>
<td>6,961</td>
<td>1.4%</td>
<td>31,665</td>
</tr>
<tr>
<td>100+ HP</td>
<td>1,651</td>
<td>2,047</td>
<td>-19.3%</td>
<td>4,418</td>
<td>4,987</td>
<td>-11.4%</td>
<td>11,332</td>
</tr>
<tr>
<td><strong>Total 2WD Farm Tractors</strong></td>
<td><strong>9,351</strong></td>
<td><strong>10,070</strong></td>
<td>-7.1%</td>
<td><strong>20,959</strong></td>
<td><strong>20,692</strong></td>
<td>1.3%</td>
<td><strong>109,146</strong></td>
</tr>
<tr>
<td>4WD Farm Tractors</td>
<td>281</td>
<td>455</td>
<td>-38.2%</td>
<td>473</td>
<td>995</td>
<td>-52.5%</td>
<td>1,075</td>
</tr>
<tr>
<td><strong>Total Farm Tractors</strong></td>
<td><strong>9,632</strong></td>
<td><strong>10,525</strong></td>
<td>-8.5%</td>
<td><strong>21,432</strong></td>
<td><strong>21,687</strong></td>
<td>-1.2%</td>
<td><strong>110,221</strong></td>
</tr>
<tr>
<td><strong>Self-Prop Combines</strong></td>
<td>326</td>
<td>414</td>
<td>-21.3%</td>
<td>672</td>
<td>1,068</td>
<td>-37.1%</td>
<td>1,168</td>
</tr>
</tbody>
</table>

Video analyses of the ag flash are now available each month when the data is released at [aem.org/agreports](http://aem.org/agreports).

**Large Tractors still underperforming**

Large tractors are down 23% from the same period last year, with 1,932 units sold in the USA.

The declines in larger tractors were expected given their alignment with the downward forecasted farm income. The additional 2009 reference line highlights the trend.

**First decline for 2WD Farm Tractors**

Until now, it appeared that smaller farm tractor sales were spared from the ag downturn, as they are closer aligned with ground care services, hobby farmers and livestock. However, February saw a reversal in this trend. While we can tie this to the lower builder confidence and the high snowfall, it is important to note that the USDA forecasted livestock receipts to decline 4.9% in 2015, driven by a drop in milk prices. Business Monitor International expects prices to recover slightly in the second half of the year.
Surveys & economy

Profit Margins and Price Levels
Profit margins, prices paid for materials, and prices charged for equipment are one of the areas of business covered by AEM's industry conditions survey. Respondents are asked if each item has risen, fallen, or stayed the same over the last 12 months. In Q4 2014, most respondents still felt that prices charged increased as the index came in at 0.05, but less than the previous quarter at 0.2. The market consensus surrounding prices paid for material seems to have picked up slightly, after a longer stabilization. The net rising index for Q4 2014 came in at 0.22, up from 0.1 in Q3. The net rising index for profit margins declined from 0 to -0.16. This was the first time more respondents felt profit margins fell vs. increased since Q4 2012. These data and much more are available to AEM members participating in the Survey. Contact bduyck@aem.org to participate.

Inventory Levels
When we look at the Q4 2014 results of our Agricultural Equipment Industry Conditions Trends survey, the net rising index for inventories at the manufacturing level is 0.5 and 0.16 at the dealership level. This was up from 0.2 and 0.15 in Q3, respectively. Any value above 0 indicates that more respondents feel that their current inventory is too high rather than too low. The survey has not seen levels this high in roughly 6 years, when the U.S. economy experienced the financial crisis.

We saw the same trend in the January Ag Tractor and Combine report analysis which showed that tractor inventories have been inching upward in the last 3 years, with only large 4WD tractors seeing recent decreases. Some of the increases are due to a fuller market picture as more manufacturers are included; but another potential reason is that the supply chain in the industry is hard to stop. Dealers may have a wishful thinking mentality: If you don’t have it, you can’t sell it. Especially for larger pieces of equipment, it takes anywhere from 3-6 months. In the future we’d like to see declines in inventories as manufacturers and dealers try to clear the pipeline. Destocking is needed to make sure new equipment can be financed. Those who succeed will have the advantage coming out of the downturn.
AEM Market Intelligence

AEM gathers and analyzes a wealth of macro-economic and industry trend data to help its members anticipate change and remain competitive in today’s global marketplace. Our services include member survey opportunities/reports as well as the ability to conduct custom research projects.

For more information on our products, please visit AEM.org/MarketInfo/MarketIntel or email Benjamin Duyck, Director of Market Intelligence at bduyck@aem.org

From AEM’s Global Monitor

The data on this page was compiled from the data provided by Business Monitor International. AEM has consumption, production and price data (historical and forecasted) for various commodities and countries worldwide. This information and additional analysis is for sale to members on a report by report basis.
If you want to be successful…

coming in every day and exemplifying the core values of the company, that creates an unquestionably stronger culture than you would find elsewhere.

**Marketing its products globally and newly manufacturing in Lithuania, Kinze is a technology leader and innovator of planters for row-crop production and grain auger carts. If you could name one thing that sets Kinze apart, what would that be?**

The fact that its owners and many of its engineers and other employees are farmers. No one could have a better understanding of what a farmer needs and the importance of ensuring that products work and continue to work while out in the field. Having a farmer owner who truly understands the issues that farmers face every day makes for a quick decision-making process and a nimble organization.

**Kinze joined AEM 5 years ago and in that time has become active in our statistical reporting programs, technical committees and survey data. Can you speak to the specific benefits Kinze has gained from AEM membership?**

The first benefit we realized is from the statistical reporting program. It assisted us in better understanding where we’re strong and where we have more work to do. We initially made a lot of requests for enhancements in the reporting programs and that really helped to develop the relationships. We plan to get more involved in other committees, as our staff who have attended those meetings come back with a broader and deeper knowledge base and are better contributors to our overall strategy.

Brian accepted a seat on the **AEM Ag Sector Board** last November. During his down time, he enjoys doing improvement projects on his summer lake house property, as well as all kinds of water sports with his four kids - from boating to scuba diving - plus hunting and golf “when time allows”. He must have taken the “four hours’ sleep” to heart, as well as the second best piece of career advice he ever received: “Don’t make important decisions from your chair. You need to get up, get out and understand all aspects of the decisions you are about to make.”

What is the new normal?

create a need for larger equipment to cover the acreage. Plus we now have knowledge of the optimum window for planting and harvesting, the majority of both taking place in a window of about 2 weeks. We also need to keep pace with the technology that helps maximize efficiency and yields. After all, the challenge of feeding 9 billion people by 2050 still looms large for all of us in the industry.

So what is the new normal? When we take a historical look at the sales in January and February, we do see a decline of tractor sales in the 100 HP category of just over 11% for the year. Is this dramatic? Well it is dramatic in the short term. Consider if your paycheck was cut by 11% in a short period of time; you would certainly need to make some adjustments. It is even a little more challenging for farmers with Net Farm Income expected to drop 32% this year.

The market and our members have had to make some difficult short term decisions and adjustments in production. These are challenging moves to make. However the trend lines from a long term perspective are still moving in a positive direction.

So this year may be a bit closer to the new normal, but so far continues to be well above the 10 year average. Everyone who has a little gray hair understands that this is a business of cycles. We have just completed one of the most prosperous cycles in history for the industry. Net Farm Income has been at an all-time high and row crop farmers have benefited from high commodity prices. In addition to buying equipment, they have been able to pay off a considerable amount of debt. In spite of the fact that USDA forecasts a farm debt-to-asset ratio increase as noted in the enclosed financial review, the balance sheets still appear to be in very good shape. This also bodes well for the long term health of the industry.

There probably is no “normal” in this business, but we can say with certainty that the sales levels are at a considerably higher level than we saw just 20 years ago. Can we expect to see this trend continue? Well as a very good friend once told me, “The best predictor of the future is to look at the past.” From that perspective, the long term future is still very bright for the industry.
Safety, compatibility, global harmonization

Check out these great events geared specifically to your tech, safety & regulatory teams

**IT’S NOT TOO LATE!** If you haven’t been yet, you don’t want to miss this proven annual seminar—

**Product Safety & Compliance Seminar—April 20-22**
**Product Liability Seminar—April 23**
St. Louis, MO

Designed specifically for safety professionals in the equipment manufacturing industry, this seminar covers the industry’s most pressing issues including: Used Equipment—Compliance in All Markets, Delivering Training Content Online/Mobile, Telematics/Big Data, Advanced CE Marking, and much more. Learn more and register at [aem.org/Education/Conferences/ProductSafetyCompliance/](http://aem.org/Education/Conferences/ProductSafetyCompliance/). Contact AEM’s Helen Horner at [hhorner@aem.org](mailto:hhorner@aem.org) for more information.

**AEF Spring 2015 Plugfest**
May 11-15, Lincoln, NE

Test your products for compatibility against dozens of others at this bi-annual event hosted by the [Agriculture Industry Electronics Foundation](http://aef-isobus-database.org/isobusdb/login.jsf). More than 82 companies attended last fall’s plugfest as the value of the event becomes more and more evident. Learn more and register at [aef-isobus-database.org/isobusdb/login.jsf](http://aef-isobus-database.org/isobusdb/login.jsf). For additional information, contact AEM’s Mark Benishek, AEF North American representative, at [mbenishek@aem.org](mailto:mbenishek@aem.org).

**NEW - Agrievolution Annual Global Technical Meeting**
July 29-30, New Orleans, LA
(collocated with ASABE’s AIM)

Compare notes & share expertise with your peers from around the globe. The [Agrievolution Alliance](http://www.agrievolution.com) associations will invite technical staff from their member companies representing 13 world regions to share their expertise on country specific or global topics selected by member company technical staff. Learn more and register for the Agrievolution Technical Meeting alone or for both the Agrievolution/ASABE Annual International Meeting at a special reduced rate at [www.agrievolution.com/GlobalTechMeeting/](http://www.agrievolution.com/GlobalTechMeeting/). Contact AEM’s Anita Sennett, Agrievolution Secretariat, at [asennett@aem.org](mailto:asennett@aem.org) for information.
We want YOU on the “AEM members make America” tour

Convey the importance of your business and our industry to elected officials, media and your community by hosting an I Make America event this year. IMA events showcase how equipment manufacturers and their employees help to “make America” every day.

Members of Congress and their staffs routinely cite visits with business leaders and constituents in their district as one of the most important elements of their jobs. Hosting an IMA event helps build relationships between your leadership and elected officials and conveys to them the importance of pro-manufacturing policies. Moreover, IMA events give your employees an opportunity to join our grassroots army of I Make America supporters and make their voices heard in Washington.

The tour is already underway; McElroy Manufacturing and AEM Chairman John Patterson’s company, JCB Inc., have hosted tremendous events. IMA is hoping to bring events to at least a dozen more AEM members this year, with a goal of visiting companies who have previously supported IMA and engaging those who haven’t yet had a chance to participate.

There are tour dates available beginning in April. Contact AEM Public Affairs Coordinator Trisha Schoof at tschoof@aem.org | 414-298-4131 to schedule an IMA stop this spring or summer.

Living as a leader: What is leadership?

“Management” is often confused with “leadership”. AEM industry executives recently shared how they define leadership. Here’s what some of them had to say:

“Vision, execution and legacy.” – Stu Levenick, Caterpillar

“Leadership involves two things: the ability to drive change and to influence.” – Jim Walker, CNH Industrial

“The ability to define where we’re going, why we’re going there, and how we’re going to get there.” – Jim Wessing, Kondex Corporation

Do you know someone within the industry who can not only create a vision but communicate that vision?

The AEM Hall of Fame is looking for industry leaders worthy of joining its elite class of inductees. Anyone, living or deceased, who has made noteworthy and specific contributions to the following sectors of the off-road equipment industry is eligible: Manufacturing, Distribution, Rental, End-user.

Nominations are due on June 5, 2015. Nominations received after June 5, 2015 will be considered for the 2016 AEM Hall of Fame.

For additional resources and to download the nomination form visit aem.org/halloffame or contact AEM Public Relations Coordinator Jordanne Waldschmidt at jwaldschmidt@aem.org | 414-298-4152. Email completed nomination forms and supporting materials to halloffame@aem.org.