

Annual Report & Forecast

January 2010

SUPPLEMENT TO *CONSTRUCTION EQUIPMENT*



U.S. ECONOMIC FORECAST

- Economic Trends
- Construction Outlook



FLEET-OWNER FORECASTS

- Construction Contractors
- Materials Producers
- Mining & Energy
- Utilities
- Government



SUPPLIER FORECASTS

- Rental Dealers
- Equipment Distributors



2010



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Sincerely,

A handwritten signature in black ink that reads "James Hasler". The signature is fluid and cursive, with a large, stylized initial "J".

James Hasler

Vice President, North America



By ROD SUTTON, Editor in Chief

The industry started 2009 mired in the aftermath of a global economic recession, but it seemed hopeful that recovery would show up at some point. As the year ended, though, managers in every vocation looked to the next year with far less confidence that the construction market would be rebounding soon.



A LONG YEAR AHEAD

The construction sector has been hit especially hard, recording some of the largest unemployment figures. Sales of new equipment have dropped by nearly 50 percent, and the used equipment market has seen incredible volume that has driven prices down on second-hand machines.

Managers of the fleets that do the work in this country have absorbed it all and look far into 2010 before seeing signs of a return to growth. For most, 2010 looks like a year to simply get through, especially as Congress dawdles on transportation reauthorization.

Construction Equipment has published its Annual Report & Forecast for more than 25 years, surveying the nation's fleets for a look at the year just ended and forecasting prospects for the new year ahead. Our report kicks off with our own Reed Business Information economist, Jim Haughey, analyzing the nation's economic trends and forecasting how 2010 will unfold. He touches not only on the macroeconomics, but also the factors driving construction markets.

Immediately following Haughey's report is our 2010 Annual Report & Forecast, the largest exclusive survey of equipment owners and managers in the industry. We once again include a look at the companies that supply construction equipment: rental dealers and distributors, partnering with two industry associations serving those suppliers. The American Rental Association and the Associated Equipment Distributors gave us access to their members, who we surveyed for this report. We thank them for their continued support.

We are also gratified for the continued support of Case Construction Equipment; this is the seventh consecutive year Case has sponsored this report. Case is a full-line manufacturer of earthmoving equipment, and its support of this project allows us to publish substantial amounts of data and analysis for the industry's use.

More than 10,000 questionnaires were mailed in September, with about 2,200 usable questionnaires returned for an overall response rate of 27.7 percent. What follows are the results from those surveys, and *Construction Equipment* is pleased to publish it as a service to the industry. To those whose participation made the 2010 Annual Report & Forecast a success, we thank you.



THIS REPORT IS ALSO AVAILABLE ONLINE AT CONSTRUCTIONEQUIPMENT.COM/ARF2010.



What 2010 Holds

Construction spending growth for both heavy/engineering and nonresidential building projects dropped sharply in 2009 after three years of strong expansion. Meanwhile, the long housing recession finally ended in the spring. Construction spending will continue to decline into the winter of 2010, although most of the decline in this cycle has already occurred. The cumulative decline will be 24 percent, measured in current dollars, and more than 30 percent after adjustment for project cost inflation.

Contractors and their suppliers will continue operating in subpar economic growth through 2011, which means better pricing and availability for off-site purchases. Supply conditions are still loosening for labor, materials and equipment bought in the depressed domestic market, but have already begun tightening for imported materials, especially metals. This is due to rapidly expanding foreign economies and the falling U.S. dollar. Temporarily, prices of imported materials are also being boosted by the substantial absorption of excess inventories built up earlier in the year.

A few projects are still being delayed or cancelled due to lenders' inability to finance loans they would like to make. But this problem largely ended last spring. Most loan denials now are due to the applicants' distressed financial condition and the lenders' assessment that cash flow from the project cannot service the loan. That said, some homebuilders and developers are unable to get good loans funded because the local regional lenders they use have failed or are about to fail from the pressure of defaulted real estate loans. This problem is most serious in the industrial Midwest, the Southeast and Southwest but is occurring across the country.

This problem will worsen well into next year before it begins to fade.

Still, credit is generally adequate for construction and other loans in the economy. This is temporary. Loan demand is depressed after a deep recession. As early as the end of 2010, expanded loan demand in a stronger economy will strain the now reduced supply of lendable funds. Money available for private lending has been reduced by loan defaults, reduced financial leverage, and massive federal borrowing. By next summer, the Federal Reserve Board will be withdrawing the emergency liquidity it put in the economy from September 2008

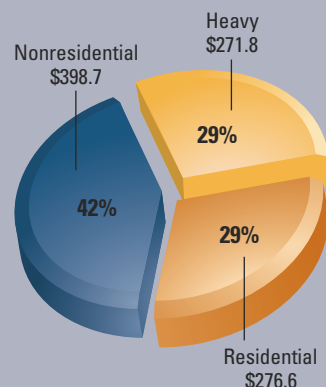
2010 CONSTRUCTION SPENDING OUTLOOK

	\$ Billions	Annual % Change		
	2010	2008	2009	2010
Total Construction Spending	\$947.1	-6.9	-11.4	-0.3
Residential, new	\$155.1	-34.4	-39.6	8.1
Residential improvements	\$121.6	-13.6	-4.9	5.7
Nonresidential	\$398.7	9.1	-5.7	-5.0
Nonbuilding	\$271.8	11.3	1.2	0.1

Source: U.S. Department of Commerce | Forecasts: Reed Construction Data

Total construction spending will drop in 2010, the fourth consecutive annual decline. The year-to-year drop in jobsite activity will be slightly larger since project costs, mostly for materials, will increase in 2010. Nonetheless, total construction spending will resume rising early in 2010 when nonresidential construction spending stops declining. Regionally, the recovery in construction spending will be slower in the Southeast and Southwest and in the Gulf oil states unless oil prices soar again.

Total Spending for 2010 (current \$, billions)



Forecasts: Reed Construction Data

through spring 2009. This is necessary to avoid later inflation. The consequence for borrowers will be even tighter lending approval standards and rising credit costs. The consequence for the economy is sluggish growth for several years. The usual sustained 4-percent-plus burst of GDP growth after a recession ends is unlikely in this recovery period.

There are serious risks to the modest outlook for economic growth and construction spending in the next few years. Proposals are pending to expand federal deficit spending further. Already, the federal deficit tripled in the last fiscal year. More spending and/or taxes are being requested to expand healthcare services, reduce coal and oil usage, and subsidize the consumer and housing costs of low- and moderate-income households. Although this would provide a temporary boost to spending and GDP, it would come with ugly consequences for future economic growth and inflation. What Congress decides to do is the biggest uncertainty in the economic outlook.

Construction Markets

Each sector of the construction market is in a different position in the business cycle and will react differently to improvements in the underlying economic environment that has recently begun.

New single-family home construction is six months into the expansion phase. Improvements in confidence and income will produce quick and pronounced gains in housing starts. Residential remodeling is later in the business cycle and still in the decline phase for at least six more months. Gains in confidence or income will have a modest immediate impact on remodeling spending until the improved economic environment produces a sustained rise in home sales.

Multifamily home construction is always later in the cycle than single family building. It will be later than usual in this cycle because the condo market in major housing markets was so much overbuilt in the last expansion cycle. The apartment market will also be later than usual since jobs will return slowly, and what had been the hottest apartment markets are now suffering population losses from the exodus of immigrant workers.

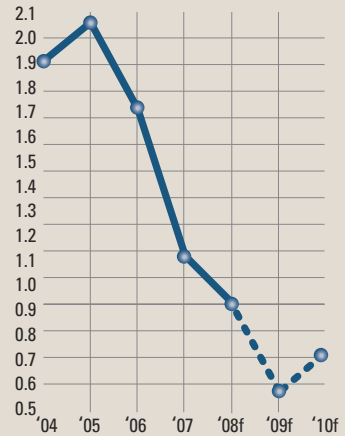
The developer-financed portion of the nonresidential building market will be declining for a few more months. Low rental and occupancy rates are still falling. However, this sector will experience a relatively modest recession because the recession began before significant space surpluses occurred.

The outlook is mixed for the institutional portion of this market. The recession will be long and deep for projects financed by state and local taxes, which are suffering the worst decline in more than 50 years. Most of this decline is still ahead for K-12 schools, public safety buildings and government office.

Institutional projects financed with user fees or federal grants, including stimulus plan funds, will experience a mild recession. Most of the decline is still ahead in the next year. The outlook for the heavy sector is also mixed. The small private portion, mostly in power, transportation and communication, is shrinking quickly from the same overcapacity pressures that afflict commercial buildings. Growth has stalled in the larger public portion where stimulus funds are boosting road work, but the collapse of state and local finances is depressing other work. Overall, growth is stalled for most of a year with no prospect for a significant improvement until late next year. *

Housing Starts

(units, millions)

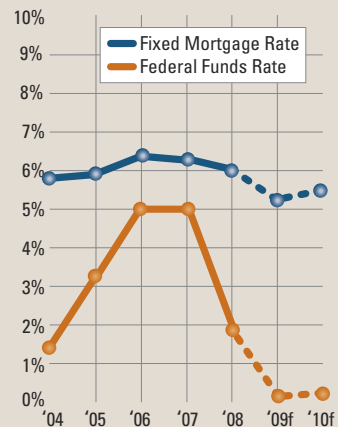


Source: U.S. Department of Commerce
Forecasts: Reed Construction Data

The credit freeze ended about six months ago. Most loan denials now are due to the distressed income and balance sheets that always accompany a deep recession and are not due to a shortage of lendable funds. The constraint on available credit is on hold while loan demand is depressed.

Interest Rates

(Avg. annual rates)



Sources: Freddie Mac, Federal Reserve Board
Forecasts: Reed Construction Data

Housing starts hit bottom early in the winter, rebounded in the spring, and then stalled at the higher level through September. The housing recovery will resume late in 2009 as automatic correction mechanisms gradually improve underlying economic conditions.



Pessimism Is the Rule

Our survey had already been returned when the recession had been pronounced “over” by some economists as third-quarter GDP showed positive growth. Yet no one in construction believed that was the case for our industry. Double-digit unemployment, slow-moving stimulus funds, and a transportation reauthorization bill delayed by a Congress consumed by health-care reform all kept construction from any sort of rebound. As work in the pipeline kept many contractors occupied for most of 2009, that pipeline is decidedly quiet heading into 2010.

Respondents to this year's Annual Report & Forecast survey rated 2009 “poor,” below their expectations of “off” recorded at the end of 2008. The realities of 2009, though, have not begun to ease, and contractors are not at all optimistic about 2010. Their forecast is for another “poor” business year.

Slow to nonexistent stimulus funding coupled with the agonizing refusal of Congress to address the transportation issue have conspired to dampen hope for at least the first three quarters of 2010.

Little federal stimulus money trickled to contractors last year, with 84 percent receiving no money from the program. Some 16 percent said stimulus money funded projects on which their equipment worked, but only 2 percent said the money was used to rent, lease or buy equipment. Even with dollars targeted for emissions compliance, only 1 percent reported being able to use stimulus funds to upgrade machines.

When Congress finally settles in to discuss infrastructure, the new and dangerous levels of deficit

threaten to temper that legislation. Indeed, many in the industry are calling on Congress to consider transportation reauthorization as a jobs bill and as a second stimulus in order to remind legislatures of the key national need for improvements.

Contract volume dried up for contractors as 2009 wound down. Two-thirds, 66 percent, reported decreases in volume as compared to 2008 levels. Only 11 percent reported volume increases, for a net of -55 percent. The trend for this year is still negative, with 41 percent anticipating no changes in volume for 2010. The net is -7 percent, as 26 percent expect increased volume and 33 percent expect it to decrease.

A few regions buck the trend. Mid-Atlantic contractors report a net of 9 percent (33 percent expecting increases minus 24 percent expecting decreases), Southern Plains have a net of 7 percent (38 percent increasing minus 31 percent), and Northern Plains report the most positive outlook

of 12 percent (39 percent increasing minus 27 percent decreasing). On the negative side, Mountain states are the most pessimistic with 28 expecting volume increases and 39 percent expecting decreases for a net of -11 percent.

With fewer jobs, more contractors are bidding on the existing projects. Competition has intensified. Some 77 percent report competing in “intensely competitive” or “very competitive” construction markets. Less than 5 percent said their market is “not very” or “not at all” competitive.

Ratings of overall company health declined this year, with 17 percent of contractors reporting “weak” or “very weak” firms. This is twice as many as 2009. By vocation, 21 percent of general building contractors reported “weak” or “very weak” firms, 15 percent of diversified (both highway/heavy and building), and 13 percent of highway/heavy contractors. About 46 percent of contractors says their company health is “very good” or “good.”

CONTRACTOR ACQUISITION TRENDS

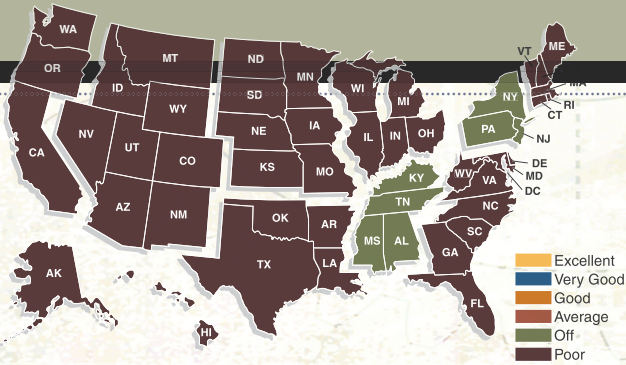
(% using for major equipment)

Purchase Outright	49%
Purchase by Financing	41%
Rental/Purchase	17%
Short-term Rental	20%
Lease/Purchase	13%
Lease	9%

Source: Construction Equipment/CASE Construction Equipment Annual Report & Forecast Survey

Contractors made a notable shift in acquisition patterns last year as tight credit, slowing market trends, and gloomy outlooks deterred purchasing decisions. Outright and financed purchasing lost a bit, and short-term rental increased as a percent of managers acquisition strategies.

2010 Contractor Business Outlook



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Little optimism exists for this year. Too many circumstances with too many unknowns combine to damper most hopes. Although Mid-Atlantic and Mid-South post higher expectations, it isn't much higher than the rest of the regions.

Fleet Trends

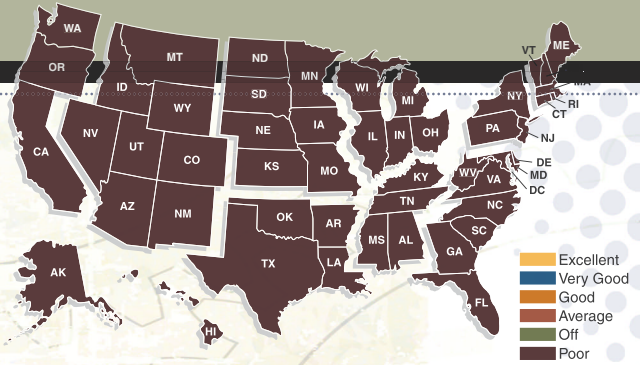
Emissions compliance continues to be an issue for contractors, but uncertainty remains as to how individual states and municipalities will deal with regulations. California remains on the vanguard, and CARB did back down a bit in the face of the dire economic situation in that state.

Yet 40 percent of contractors responded that either nobody has official responsibility or they don't know who has responsibility for emissions compliance within their organization. For most, 39 percent, the responsibility has fallen to the equipment manager. On a positive note, although the number is far too low, 1 percent has designated an environmental/emissions manager within the equipment department.

Fleet expansion trends indicate reductions in contractor fleets last year. About 16 percent increased the number of machines in their fleets, but 21 percent reduced for a net of -5 percent. Continued contraction is forecast for 2010, with a net of -4 percent: 11 percent will grow fleet minus 15 percent decreasing fleet size. The percentage of managers who stood pat with existing fleet size is 64 percent in 2009, and 74 percent say they will hold fast for 2010.

Replacement rates, a measure of how managers are updating their fleets, dropped considerably last year to a level more than half of what they were in 2007: 4.7 percent. Historically, replacement rate has been around

2009 Contractor Business Report



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

For the first time in the history of the survey, all regions reported a "poor" business year. Of course, the global economic circumstances were a historical first, too.

10 percent, and contractors were hoping to replace fleet at a 7.1-percent rate in 2009. With a gloomy outlook in construction, fleets do not expect to return to historical rates this year, instead forecasting a rate of 5.4 percent for 2010.

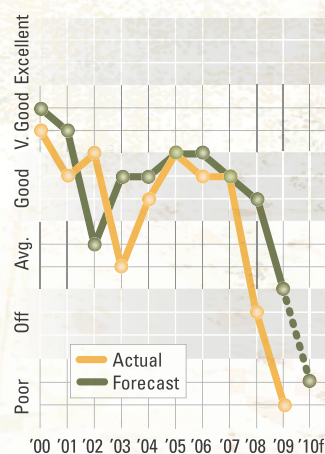
Contractors have maintained fleet condition, however, with 36 percent reporting "excellent" or "very good" overall condition for their fleet. The percentage of manag-

ers reporting "fair" or "poor" fleets has also remained consistent at 14 percent.

Contractors reduced workforce last year to offset the effects of the recession and market slowdown. Half reduced total workforce while 10 percent increased personnel numbers. Service and maintenance personnel were cut by 36 percent of contractors, equipment operators by 43 percent, and other hourly labor by 48 percent of contractors. *

Contractor Business Year Ratings

(actual vs. forecast, all contractors)

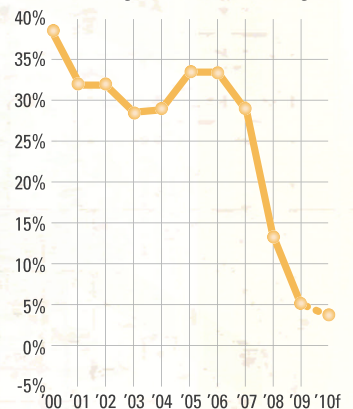


Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Contractors have been adept at forecasting over the years, but all bets are off now. Ratings fell far below even the tempered expectations for 2009. Not much could further temper the expectation for this year, though.

Contractor Fleet Expansions

(% increasing minus % decreasing, net)



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

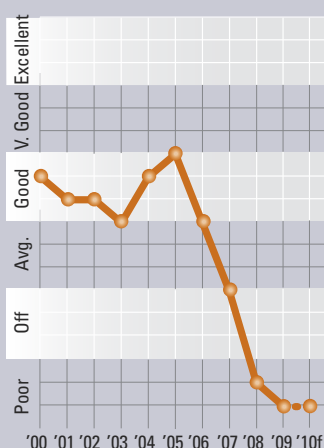
Managers put the brakes to fleet expansions last year, and they do not expect a growth for 2010, either. Replacement rates have been halved, and managers plan to boost the rate only slightly in 2010.



Nonconstruction Trends

Two of three nonconstruction vocations fell below expectations last year, and they are looking to this year with varying levels of optimism. Materials producers were hardest hit; utilities seem the most optimistic. Here's how each nonconstruction vocation fared.

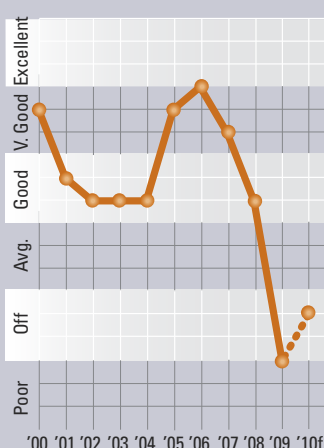
Materials Producer Business Year Ratings



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

It's been a steady decline since 2005 for materials producers. Each year has been forecast to mirror the current, and then actuals come in even lower. The bottom has been reached, and a turnaround is not in sight yet.

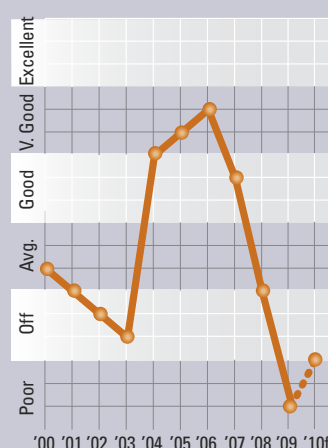
Utility Business Year Ratings



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

The fleet-expansion trend turned negative for the first time in the history of our survey, but that rate is expected to return this year. Replacement rates will hold flat in 2010.

Mining & Energy Business Year Ratings



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

The dramatic falloff from 2007 levels is evident here, with business year ratings hitting bottom in 2009. A hopeful outlook is in place for this year.

Materials producers

Materials producers have seen business-year ratings declining since 2005, when they reported a "good" year. Each year since has dropped a level, with 2008 hitting the bottom. Neither 2009 nor 2010 show signs of upturn, with both actual and forecast at "poor."

Work volume trends have also fallen short of expectations since 2005, with each year's actuals falling below expectations. These fleet managers began to sense declines in

2007, forecasting a down year for 2008. It's been simply worse each year since. Last year, 10 percent forecast contract volume to increase, but 64 percent forecast decreases, for a net of -54, far below the net of -12 percent expected (21 percent for an increase minus 33 percent for a decrease).

With contract volume declines overwhelming the market, competition has intensified: 80 percent say the market in which they compete is "very" or "intensely" competitive. In response, 43 percent of mate-

rials producing firms have reduced total workforce. Only 25 percent have reduced service and maintenance personnel.

Fleet size trends dipped into negative numbers in 2008, although forecasts stayed positive. Not this time. In 2009, fleet size (measured in number of machines) increased for 14 percent of respondents and decreased for 20 percent for a net of -6 percent. This compares to a projection of 3 percent made late in 2008. The projection for 2010, however,

stays negative at -1 with 10 percent expecting to grow fleet and 11 percent expecting to downsize.

Fleet-replacement rates, after a high of 9 percent in 2004, have not stopped falling. In 2009, material producers replaced 4.1 percent of their fleets, compared to an anticipated rate of 5.6 percent. Their outlook for 2010 is hopeful, expecting to replace 4.7 percent of their fleets. Still, this rate is half the peak rate for the past decade.

These negative trends in replacement rate and, to a lesser degree, fleet size show in fleet condition reports. The percentage of fleet managers reporting "excellent" fleet condition is down to 3 percent, and 29 percent label it "very good." On the other hand, fewer managers put their fleet condition at the bottom: 13 percent rated it "fair" or "poor" in 2009, down from 16 percent in 2008.

Mining and energy

Mining and energy respondents expected 2009 to be level compared to 2008 following the economic downturn. But it didn't work out that way for the nation, nor did it for mining and energy firms. Fleet managers in this vocation rated 2009 "poor," just like most every other vocation surveyed this year.

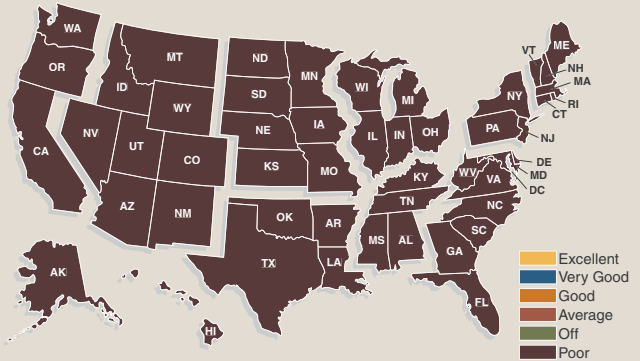
For 2010, managers see a slight improvement in their firms' business prospects but still forecast a "poor" year. The notable exception is the Pacific region, which expects this year to be "good."

The trend in work volume (measured in machine hours) was down for the second consecutive year in 2009. Fifteen percent said volume was up in 2009, but 57 percent said it had decreased for a net of -42 percent. The anticipated volume trend for 2009 was 13 percent. Looking to this year, the forecast is 8 percent, with 29 percent expected more work and 21 expecting less.

Mining and energy fleets recorded a fleet size trend of -3 percent (17 percent increasing minus 20 percent decreasing) in 2009 against a forecast of 22 percent. For this year, fleets are projected to trend up in size with a net forecast of 12 percent (20 percent minus 8 percent).

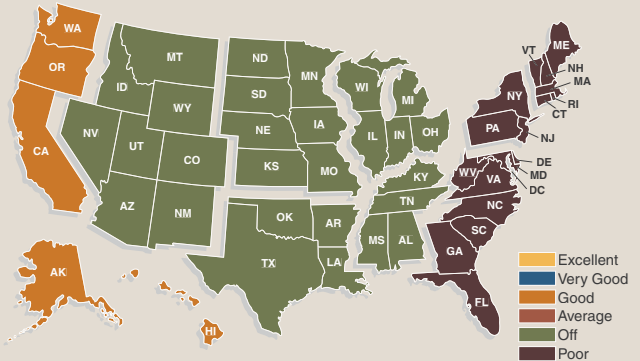
The rate at which managers replace machines had rebounded in 2008 a bit, but then more than halved itself in 2009 to 3.6 percent. That rate will bounce back in 2010, managers expect, to 6.4 percent.

2010 Materials Producer Business Outlook



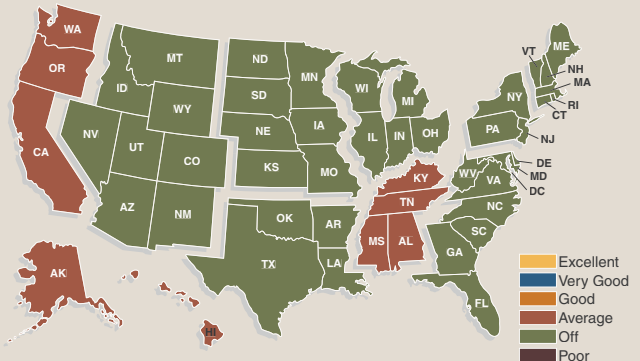
Each of the nine regions fell into "poor" territory in 2009. No recovery is in sight for this year, either, as the same national outlook portrays nine of nine "poor" business years anticipated.

2010 Mining & Energy Fleet Business Outlook



One of the few maps that isn't monochromatic, the outlook for mining and energy is still negative. Four regions forecast "poor" and four forecast "off" years. The lone positive outlook comes from the Pacific region.

2010 Utility Fleet Business Outlook



Utility fleets overestimated business year forecasts for 2009, but they have toned them down for this year. All but two regions expect "off" years. Mid-South and Pacific regions forecast slightly better years.



Fleet condition last year was rated as “excellent” or “very good” by 45 percent of mining and energy fleet managers. This figure mirrors 2008 responses, which were down significantly from 2007. The percentage of fleets rated as “fair” or “poor” declined slightly compared to 2008: 16 percent compared to 18 percent.

Utilities

Equipment-owning firms involved in utilities returned the highest expectations for 2009, in the face of a dismal national economy. Unfortunately, 2009 turned out just as poorly for utilities as it did for the rest of the vocations surveyed. Although the forecast was “good,” the business year rating was “poor.”

Lesson learned. The 2010 outlook is tempered, although still more positive than the other sectors, with fleets projecting an “off” year.

Work volume trends, measured in machine hours, in 2009 repeated the negative showing returned in 2008, in spite of continued optimism in forecasts. Fleet managers in this sector projected a net of 13 percent for 2009 (30 percent expected volume to increase minus 17 expecting a decrease). Actual data, however, showed 40 percent reporting decreased volume and 14 percent reporting increased for a net of -26 percent. Despite the down year, managers are mirroring their forecast in 2010, returning a net of 10 percent. Some 26 percent say volume will increase and 16 percent say it will decrease.

On the fleet side, however, utilities managers have reported fleet expansion trends at a decreasing rate since 2007. Both 2008 and 2009 were below expectations, with the 2009 net of -3 percent falling short of the projected 14 percent. Some 23 percent

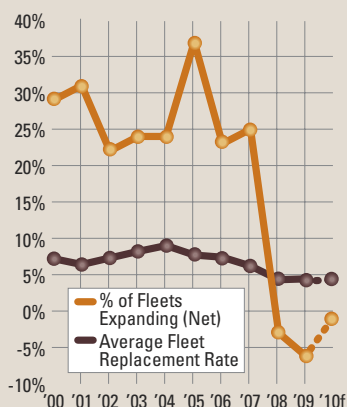
expected to increase fleet size in 2009, minus 9 percent who expected to decrease. The 2009 data showed, though, that 12 percent decreased fleet and 9 increased. That said, nearly eight in 10 fleets stayed the same size.

For 2010, 84 percent expect fleet size to be stable, 13 expect to increase fleet size and 3 expect to decrease. The net is 10 percent.

The projected replacement rate for 2010 is 7.4 percent. This is similar to the actual rate reported for 2009, which was off from the 10 percent projected.

Utility fleets are in great shape, according to managers. More than half, 52 percent, report fleet condition as “excellent” or “very good.” This is in line with historical reports, so utilities seem to be maintaining fleet quality during the downturn. Only 8 percent report fleets in “fair” or “poor” condition. *

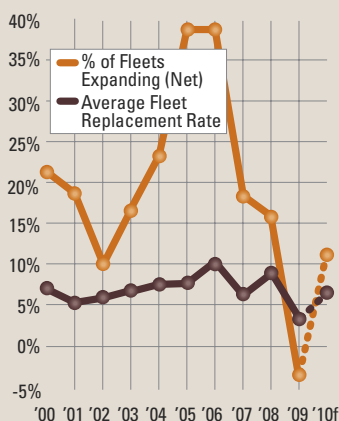
Materials Producer Fleet Management Trends



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Replacement rates are at half what they have been historically, with a slight increase forecast for 2010. Fleet sizes continue to contract, and the numbers anticipating decreased sizes outnumber those hoping to grow.

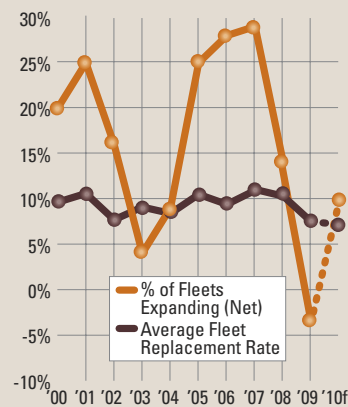
Mining & Energy Fleet Management Trends



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Fleets expansion trend contracted last year, heading into negative numbers for the first time. Replacement rates also fell. Both expansions and replacement are anticipated to improve in 2010.

Utility Fleet Management Trends



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

The fleet-expansion trend turned negative for the first time in the history of our survey, but that rate is expected to return this year. Replacement rates will hold flat in 2010.

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Budget Blowout

State fleets knew it was coming; local fleets appear to have been blindsided by the significant cuts their fleet budgets were dealt in 2009.

State fleets forecast a decline in 2009 fleet funding with a net of -52 percent (14 percent increasing minus 66 percent declining), then reported a net of -60 percent (9 percent increasing minus 69 percent). Local fleets, on the other hand, had a net of 21 percent (18 percent increasing minus 39 percent decreasing) for their 2009 forecast and reported an actual 2009 net of -50 percent (8 percent increasing minus 58 percent).

Governments used money from the stimulus package to staunch bleeding budgets, and construction projects benefited, reported 22 percent of public fleets. Not much money trickled into fleet management, however. Only 2.6 percent of fleets reported using stimulus money to rent, lease or buy construction equipment. Fleets were mildly successful (4.7 percent), though, at applying stimulus funds to upgrade machines for emissions compliance.

Managers maintained fleet sizes last year, with 72 percent saying the number of ma-

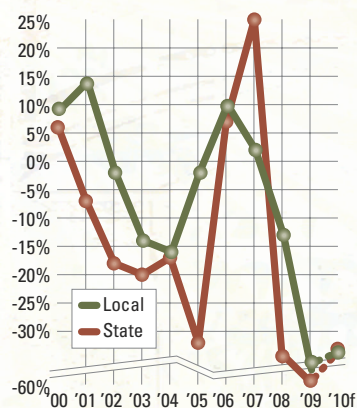
chines in their fleets had stayed the same. About 12 percent reported an increase, and 15 percent reported a decrease for a net of -3 percent. Forecasts for this year are identical for those keeping the same number of machines, but the net falls to -10 percent (9 percent increasing minus 19 percent decreasing).

Replacement rates are also down. In 2009, public fleets reported a machine-replacement rate of 5.3 percent, the lowest in recent history. That will decline further this year, with a replacement rate of 4.8 percent forecast by public fleets.

Overall government fleet condition continues to slide. In 2007, 49 percent said fleets were in "excellent" or "very good" shape. In 2008, that percent dipped to 47 percent, and last year 44 percent of government-fleet managers said their fleets were in this condition. The bottom tier, "fair" or "poor" condition, remains at 13 percent. *

Public Fleet Funding Trends

(% increasing minus % decreasing, net)

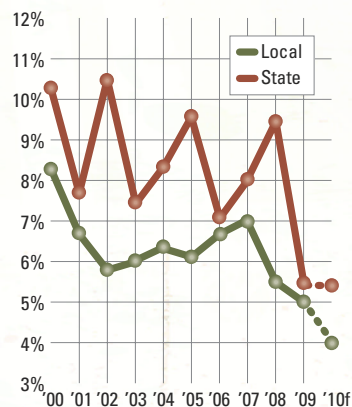


Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Recent disparities in state and local funding results were erased in 2009, with all fleets reporting severe negative funding trends. This year's outlook mirrors those dim results.

Public Fleet Replacement Rates

(avg. % of machines replaced annually)

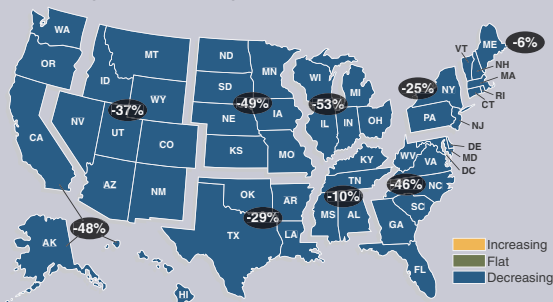


Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Both state and local fleets replaced machines at rates lower than expected last year. For 2010, those rates are slightly lower.

2010 Public Fleet Funding Outlook by Region

(% increasing minus % decreasing, net)



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

For the second year, no region is reporting nets of fleet funding in the positive range. Mountain, Southern Plains, Northern Plains, Great Lakes, and Mid-Atlantic deliver projections that are deeper in negative territory than 2009 results.

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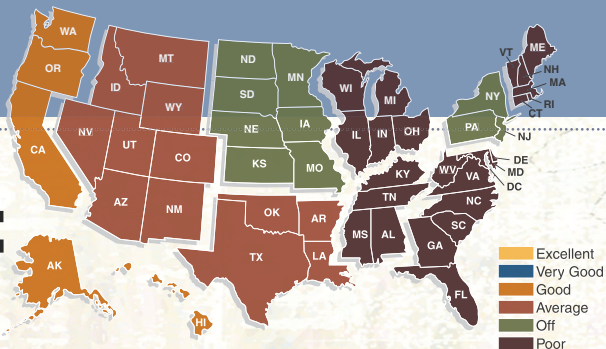
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Back-to-Back Sales Dips

Rental dealers expected 2009 to improve when they responded to our survey near the end of 2008. Although they acknowledged the business disaster that had swept in on them, they did not anticipate the depth of the flood. Rental dealers expected an "average" 2009; they experienced "poor." The outlook for this year is also "poor," although the raw ranking is slightly higher.

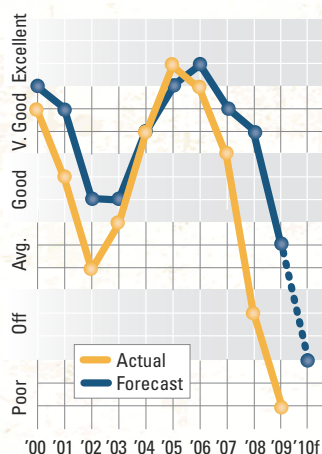


Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Rental dealers expect 2010 to be "poor," with five of nine regions in that camp. Only the Pacific forecasts a rebound, although Mountain and Southern Plains see some positive in 2010.



Rental Company Business Year Ratings



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Business turned down sharply at the end of 2008, but rental dealers anticipated a bounceback in 2009. It didn't come. Now, their outlook even for 2010 has been tempered, with another "poor" year expected.

Sales volumes plummeted in 2009, the first time in the history of the Annual Report & Forecast that dealers have reported back-to-back negative numbers. The 2008 net was -20 percent; 2009 came in at -68 percent (8 percent reported an increase in sales minus 76 percent that reported a decrease). A third negative drop is not anticipated: 30 percent expect 2010 sales to increase minus 11 percent that expect sales declines for a net of 19 percent.

Hardest hit were new-equipment sales, with 67 percent reporting significant decreases. Short-term rental volume decreased for 41 percent of dealers, rent-to-buy business was down for 46 percent, and 44 percent reported declines in leasing volume.

Although 27 percent of respondents reported that they maintained margins, 63 percent saw margins fall. For perspective, 33 percent reported fallen margins in 2008. This year, though, one in three rental dealers said margins were "much lower" than 2008 margins.

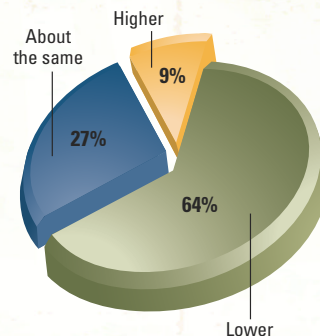
Rates decreased through 2009 for 65 percent of rental dealers, and 5 percent were able to increase rates. Last year, only 10 percent anticipated that rates would fall in 2009. The serious nature of the construction equipment depression has not been

lost on rental dealers: Only 15 percent anticipate being able to raise 2010 rates for short-term rentals. One in five report that rates will decrease this year.

As rental dealers head into 2010, recession loomed large as a pressing business concern for 79 percent, with declining construction markets close behind at 69 percent. Declining rental prices (64 percent) and declining rental demand (52 percent) are also causing concern. *

Margins on Rentals

(trends, 2009 v. 2008)



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

Two-thirds of rental dealers were unable to hold margins in 2009, and 30 percent reported much lower margins. On the positive side, though, 27 percent maintained margins in spite of the struggles in the economy and construction markets.

Dire Days

Twelve months ago, distributors reported the worst year since the recession that followed 9/11. Unlike 2002, though, distributors had no expectations for a moderate bounceback the following year.

That dire forecast became actual, and this year's forecast for 2010 is just as dismal: poor. For the first time in the history of our Annual Report & Forecast, all regions of both the 2009 and 2010 maps are all the same color of distress (see online report for more data).

The percentage of distributors who reported declines in 2009 sales volume obliterated the percentage who reported gains, leaving a net of -91 percent (3 percent saw increases minus 94 percent reporting decreases). The net for 2010 is 16 percent, with 43 percent saying sales will increase and 27 percent anticipating further sales declines.

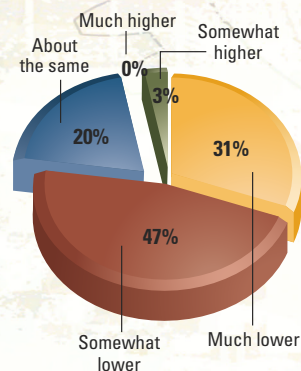
No surprise, nine of 10 saw "significant" declines in new-equipment sales. On the

other hand, although muted compared to the declines, 10 percent of dealers said revenue increased "significantly" in rent-to-rent, parts sales and used-equipment sales.

Margins also suffered a beating last year. More than three-fourths of distributors said margins were lower than in 2008, and 31 percent reported margins "much" lower. Twenty percent were able to hold margins during the year.

About two-thirds of distributors cite five business concerns for 2010. Any one of them would put a damper on forecasts, but the combination of all five explains the dire outlook: declining machine sales, recession, tight credit, poor margins, and declining construction markets. *

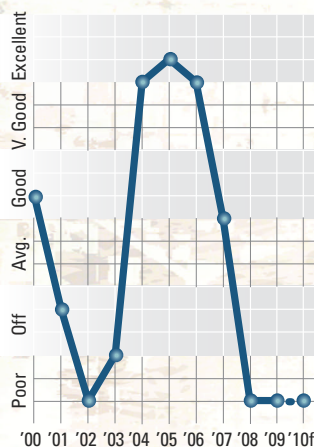
Distributor Margins On New Equipment Sales (trends, 2009 vs. 2008)



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

One in five distributors held their margins last year in the face of declining sales. But 31 percent reported 2009 margins "much lower" than 2008, up from 11 percent the year before.

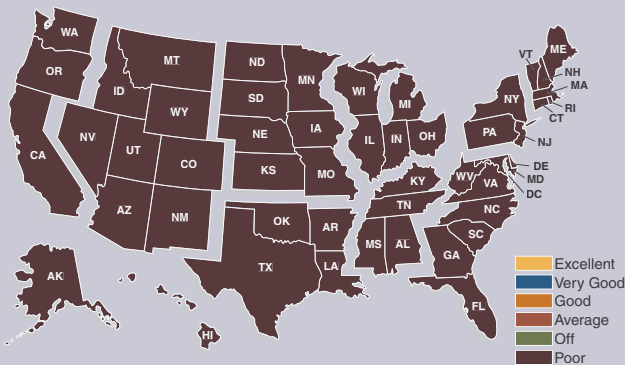
Distributor Business Year Ratings



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

The valley is flat for business ratings. This year shows no sign of relief, as the forecast mirrors 2009's "poor" report.

2010 Distributor Business Outlook



Source: Construction Equipment/Case Construction Equipment Annual Report & Forecast Survey

This year may put distributors further into survival mode, as all regions in the country anticipate a "poor" 2010 based on disheartening construction market forecasts.

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