Federal Reserve Bank of Chicago - -

Agricultural Letter

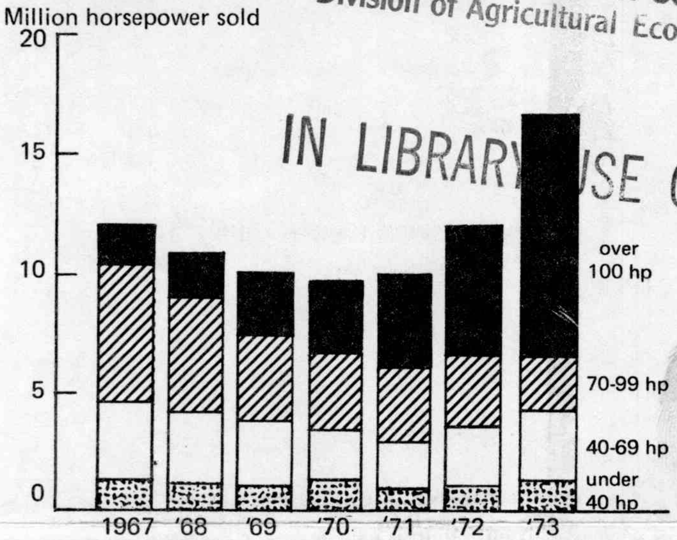
June 14, 1974

Number 1278

FARM EQUIPMENT SALES leveled off in the first quarter of 1974 more, it appears, due to a shortage of available equipment than to decreased demand. After two years of continued growth, unit tractor sales in the first quarter fell slightly under the first-quarter 1973 rate, with more significant declines recorded for some lines of farm machinery.

Large increases in crop acreage and record high levels of farm income over the last two years spawned the upsurge in farm equipment sales. After five straight years of decline, unit sales of farm tractors increased 19 percent in 1972 and 26 percent in 1973. The figures are even more impressive when put in terms of capacity: measured PTO horsepower increased 21 percent in 1972 and 38 percent in 1973. There has been a proportional increase in the size of farm machinery.

Farm Tractor Sales Increase



SOURCE: Farm & Industrial Equipment Institute.

Demand for new equipment has been strong in 1974. Estimated planted acreage for major crops—including winter wheat planted in the fall of 1973—is up 7 percent, leaving planted acreage about 15 percent larger than the previous ten-year average. The increase in acreage plus the fact that farm equipment inventories were renewed at a slow pace during the late Sixties and early Seventies meant that a substantial buildup was necessary.

The lead time for deliveries of tractors is currently eight to ten months, and manufactures are not anticipating any significant change in this situation during the remainder of 1974. Last year, demand spilled over into the used farm equipment market, and reports of three-year-old tractors selling for more than their original price were not uncommon.

Projections suggest that net income in 1974 will total $22 billion, 15 percent below the 1973 record, but still the second highest level ever achieved. In many instances, sales of farm products are postponed until the next calendar year to reduce taxable income. Part of 1973's record income, no doubt, was channeled into 1974 via such action. Therefore, farmers searching for methods to reduce income tax payments are likely to utilize accelerated depreciation schedules and the investment tax credit available on the purchase of farm equipment.

Although financing costs remain high, it is unlikely they will deter farm equipment demand in 1974. Short- and intermediate-term farm loan volume has stayed strong thus far in 1974. At the end of April, PCA outstandings were up 19 percent over the same date last year. New money loaned by PCAs during the first four months of 1974 was up 17 percent. Outstanding loans for a sample of district banks engaged in agricultural lending were up 18 percent through April.

Supplies of farm equipment are likely to remain tight throughout the remainder of 1974. Inventory levels of most equipment lines are far below normal. The inventory turnover ratio—sales divided by the average month-ending inventory—of tractors ranged from about 1.25 to 1.75 during 1969-72, jumped to over 2.5 in 1973, and averaged 4.0 during the first quarter of 1974. The same situation prevails to varying degrees for most lines of farm machinery.

While many farm equipment manufactures are in the process of expanding production capacities, there will only be minimal increases in 1974 output. Raw materials, such as foundry castings, remain in short supply. There is a shortage of components for many smaller tractors—many of these parts come from abroad. While U.S. production of tractors will probably increase slightly, a portion of 1974 sales will have to come from current inventories if the industry is to achieve projected sales of 90 percent of the 1973 level, about 180,000 units. This may be difficult to accomplish in view of present low tractor inventories.

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