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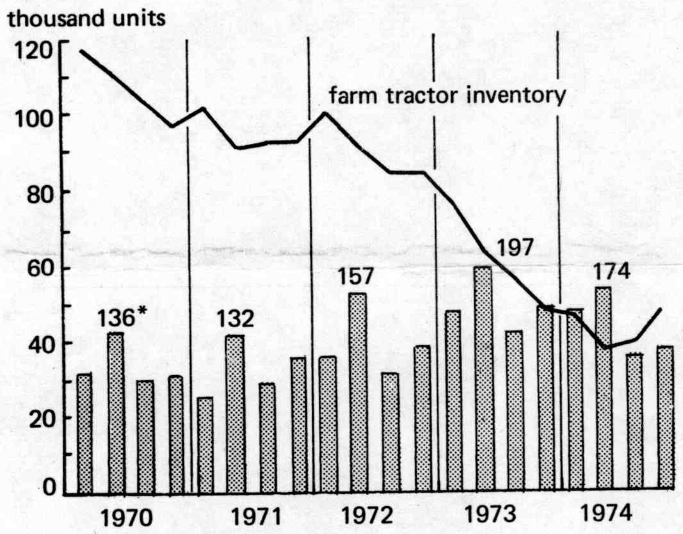
FARM EQUIPMENT UNIT SALES declined in 1974 primarily reflecting limited inventories and a drop in net farm income. The farm equipment industry achieved a high level of sales in 1973 by sharply reducing inventories, a factor which precluded any additional large drawdowns during 1974. Thus, nearly all 1974 sales came from production plus imports.

According to the Farm and Industrial Equipment Institute (FIEI), tractor sales totaled 173,800 units in 1974, off 12 percent from 1973 but nearly 20 percent higher than the prior five-year average. Most of the decline came in the under 100 horsepower classification. Typically, livestock producers are important purchasers of this type of equipment, and these farmers had their worst year in more than two decades in 1974. On the other hand, the relative well-being of grain farmers is reflected in the continuing heavy demand for over 100 horsepower tractors. Unit sales of most farm machines also were down in 1974. Mower conditioners, off just 3 percent, and balers, off 26 percent, represent the range of decreases for eight major types of equipment.

Declining sales led to a slight recovery in tractor inventories in 1974



*Annual totals in thousands

Attempts to increase farm equipment production in 1974 were stymied by continuing shortages of materials and components. Lead times of nine to ten months from order date to delivery date were not uncommon. Although the situation has eased recently, at the beginning of 1975 manufacturers reported lead times of 12 to 60 weeks for castings, 20 to 76 weeks for hydraulic components, and 26 to 78 weeks for transmissions.

The 1975 outlook for farm machinery sales is mixed. While total planted crop acreage probably will remain near the 1974 level, current trends point to a sharp downward adjustment in farm income in 1975. Neither grain nor livestock prices have maintained anticipated levels in the first two months of 1975. It is entirely possible that net farm income in 1975 will drop below the $20 billion mark for the first time in three years. Factors that may help offset lower farm income include a downward trend in interest rates and an increase in the investment tax credit. The U.S. House of Representatives has passed a bill calling for a 10 percent investment tax credit, up from the current 7 percent rate.

The farm equipment industry has been undergoing structural changes during recent years that should affect future performance. The number of retail dealers has been reduced. Billing arrangements between some manufacturers and their dealers have been modified to transfer a larger part of the retail inventory financing cost to the dealers. And the longstanding trend toward larger, more expensive machines continues. The reduction in the number of dealers and more responsibility for inventory financing at the dealer level should help prevent a repetition of the inventory gluts that occurred in the late Sixties and early Seventies. The increased inventory carrying cost should prompt dealers to turn over their inventories at a faster pace.

Tractor inventories are being rebuilt slowly; most of the improvement to date has been in the under 90 horsepower class. Nevertheless, inventories of the 100 horsepower and over tractors were up 4 percent from a year earlier at the end of 1974. Inventories of large tractors have been increasing slowly since midyear, a trend that will likely accelerate in coming months.

On balance, it appears that lower net farm income may hold tractor sales below 165,000 units this year, the industry estimate made in January. Inventories are likely to build in the first half of the year, providing dealers with incentives to make some price concessions. The change in the investment tax credit may offset some effects of lower farm incomes but not enough to bring sales to the industry estimate.

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