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Federal Reserve Bank of Chicago - -

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**UNIT SALES OF FARM EQUIPMENT** declined in nearly all categories except combines during the first half of 1975. As a result, farm equipment inventories have recovered from the record lows of a year ago, suggesting the upward pressures on farm equipment prices may be easing for the first time in several years.

Farm tractor unit sales fell to 82,100 units during the first six months of 1975—19 percent below the first-half 1974 pace—according to the Farm and Industrial Equipment Institute (FIEI). Tractor sales were off 29 percent from a year earlier in the first quarter of 1975 but recovered to within 9 percent during the second quarter. Sales during the second quarter of 1974, however, were probably somewhat curtailed due to limited inventory. Unit sales of many major items of farm machinery lagged behind the year-earlier rate by as much as 50 percent during the first half. Unit sales of self-propelled combines ran counter to the trend of other machinery, however, and recorded a 25 percent increase during the first half.


The sag in demand for farm equipment largely reflects the cutback in farm income thus far in 1975. Net farm income dropped to the low \$20 billion level—quarterly rate adjusted to an annual basis—during the first part of 1975, down 20 to 25 percent from 1974. Partially offsetting the decrease in farm income were the expansion in crop acreage and the recent turnaround in livestock prices. Wheat acreage was expanded to over 74 million acres this year, up 4 percent from a year ago and an important influence on combine sales. Farmers also intend to harvest over 104 million acres of feedgrains, almost 4 percent larger than 1974. Livestock prices have been running from a fourth to a third higher than a year earlier in the last couple of months. Other factors—such as the higher investment tax credit, raised to 10 percent from 7 percent last spring—may have also influenced second quarter sales.

Inventories of farm equipment have improved significantly from a year ago. Tractor inventories sank to the low point of 34,400 units in May 1974. By May 1975 total farm tractor inventories were 83 percent larger than a year earlier. The biggest gains came in the four-wheel drive category, up more than 140 percent, while inventories of two-wheel drive tractors under 100 horsepower were up over 90 percent. Inventories of the over 100 horsepower, two-wheel drive tractors increased 53 percent during the same period. Self-propelled combine inventories were also up over 9 percent, a somewhat surprising statistic in view of the 25 percent increase in unit sales.

Farm equipment and machinery prices continued to rise during the first half of 1975, but there are in-

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creasing signs that the rapid spiral in prices may be abating. While the average price farmers paid for farm machinery rose 14 percent in the first half of 1975, wholesale prices were up only 5 percent. Furthermore, prices farmers paid for motor vehicles—including automobiles, trucks, and tractors—rose only 5 percent. Some manufacturers have introduced discounts and rebates for the smaller horsepower tractors, a trend that may become more prevalent if inventories continue to expand in future months. However, inventories of the over 100 horsepower tractors probably have not increased to the point that manufacturers will be involved in price concessions in the near future. Nevertheless, dealer margins have increased in recent years to a point where more dealers are in a position to effect price cuts at the retail level.

The upward push on raw material costs has somewhat abated as a result of the recent recessionary period. However, labor costs continue to rise—although some reduction in overtime hours may limit the increase in labor costs—and the cost of assembled component parts, such as engines, are still rising. This is especially true if the component parts are provided by overseas suppliers who are faced with inflation continuing at a relatively high rate. The same applies to tractors that may be imported, such as many of the lower horsepower models sold in the United States. As a result, manufacturing costs are still rising and may be up as much as 10 percent in 1975.

The FIEI revised projected U.S. farm tractor sales downward in a recent midyear forecast. Sales were projected to fall just under 150,000 units, off 14 percent from 1974 and 9 percent under the previous January forecast. Unit sales of self-propelled combines were projected to be off 5 percent from the 1974 pace. However, these projections now appear somewhat conservative in light of the turnaround in the livestock sector and the increase in planted acres. Nevertheless, it appears the farm equipment industry's ability to produce has finally caught up with the U.S. farmers' desire to upgrade machinery lines, a situation that will likely bring supply/demand balances back to more traditional levels.

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