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February 20, 1976

FARM TRACTOR SALES were stronger than anticipated during the latter part of 1975, pushing sales for the year above earlier expectations. According to the Farm and Industrial Institute, unit retail sales of farm tractors rose 16 percent above the year-earlier level during the last four months of 1975. The late-year rise, however, was not sufficient to offset declines earlier in the year. As a result, tractor sales for all of 1975 declined to 161,000 units, down 7 percent from the year-ago level but well above midyear estimates of around 150,000 units.

Most major farm equipment items experienced declines in unit sales last year. Reductions of 6 to 18 percent were recorded for such items as balers, windrowers, forage harvesters, and mower conditioners. Unit sales of combines and corn heads, however, were up 5 and 1 percent, respectively.

Tractor sales in the Seventh Federal Reserve District declined slightly less than nationwide. Among individual states declines ranged from 3 percent in Illinois to 10 percent in Michigan. Overall, district states account for about 22 percent of annual farm tractor sales in the United States.

The trend of purchasing machinery and equipment with larger capacities continued unabated during 1975. For example, unit sales of farm tractors with 140 horsepower or more increased by more than one-fourth last year. Such tractors accounted for one-fifth of all tractors sold in 1975, up from less than 4 percent in 1971.

1975 Tractor Sales

Horsepower rating	Units sold		Year-end inventories		Inventory to sales ratio
	Number (thous.)	Change (percent)	Number (thous.)	Change (percent)	
Under 40	22.4	-30	9.5	-21	42
40-59	26.3	- 1	16.2	54	61
60-79	23.8	0	10.5	18	44
80-99	13.3	-13	3.7	3	28
100-119	16.1	-16	3.6	- 4	22
120-139	27.3	-13	5.0	8	18
140 or more	<u>31.8</u>	26	<u>8.6</u>	72	27
	161.1	- 7	57.1	18	35

Last year's decline in tractor sales permitted a rebuilding of inventory stocks. At the end of 1975 farm tractor inventories totaled 57,000 units, 18 percent above the year-earlier level but still well short of the burdensome levels of the early seventies. Inventories of large tractors—those with 140 horsepower or more—rose 72 percent. Relative to sales during 1975, inventory levels are highest among small tractors and lowest among tractors with 100 to 140 horsepower.

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The outlook for farm machinery and equipment sales is clouded by the uncertainties surrounding farm prices and incomes, important variables affecting farmer demand for such items. Recent industry projections suggested sales of farm tractors might decline to around 156,000 units during the current year, about 3 percent below 1975 sales. Roughly comparable percentage declines were indicated in sales forecasts for combines and mower conditioners, while projected sales of corn heads, forage harvesters, and windrowers portend slight increases.

Achieving the projected sales will hinge largely on the level of agricultural prices and the volume of cash receipts from marketings in 1976. Although the much larger inventories of grains and soybeans will assure an expanded volume of crop marketings in the months ahead, reduced prices could preclude any rise in cash receipts from such marketings. Receipts from livestock marketings will likely exceed year-ago levels during the early part of this year, but the gains could be largely offset later in the year if the recovery in livestock production progresses as expected.

Higher prices and the relatively large purchases during the past three years could ease demand for farm machinery and equipment this year. Although the sharp inflationary pressures of the recent past have eased—in part reflecting the improved inventory position—wholesale prices of farm machinery and equipment remained 9 percent above the year-earlier level at the end of 1975. Farmers may be more reluctant to pay the higher prices in light of the substantial upgrading in their machinery and equipment that has accompanied the large purchases of recent years.

Whether unit sales meet or fall short of industry projections, farmers no doubt will continue their rapid shift toward purchasing larger machinery and equipment. This trend coupled with higher prices suggests that total capital expenditures for farm equipment may be up significantly during the current year. As a result, agricultural lenders will likely experience increased loan demand to finance such expenditures.

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