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FARM TRACTOR SALES fell 15 percent below the year-ago level during the July-October period. The accelerated decline of recent months accentuates the downtrend experienced during the first half and brings year-to-date unit sales 7 percent below the corresponding year-earlier period. According to the Farm and Industrial Equipment Institute, slack sales have also been reported for most other major machinery and equipment items. Through October unit sales of cornheads, balers, and mower conditioners were down 20, 3, and 2 percent, respectively. Combine sales have also been sluggish during 1977—down 5 percent during the January-October period. The reduced sales have been accompanied by a buildup in inventories, prompting speculation that trade concessions may be in the offing as manufacturers and dealers strive to reduce burdensome inventories. Nevertheless, current farm earnings prospects portend a continuation of this year's weakened demand for farm machinery extending well into 1978.

Purchases in recent months lag year-ago levels for most size categories of farm tractors. During the July-October period unit sales of tractors with less than 50 horsepower were down 6 percent from the corresponding 1976 period. Sales of tractors with 50 to 100 horsepower declined 11 percent, while those with 100 to 140 horsepower declined 21 percent. A drop in sales of 24 percent was recorded for tractors with 140 or more horsepower, although much of the decline was due to the 38 percent drop in sales of four-wheel drive tractors. In general, unit sales of the larger tractors are relatively more depressed than are the sales of the smaller tractors this year.

Within Seventh District states unit sales of farm tractors through October were down 5 percent, while combine sales were down 15 percent from the year-earlier pace. Among individual states unit sales rates varied widely. Michigan reported the largest reduction in sales of both tractors and combines. In contrast, tractor sales in Wisconsin equaled the year-ago pace, while combine sales were up 7 percent.

Farm machinery sales decline

	Unit retail sales, Jan.-Oct. 1977			
	Tractors		Combines	
	Number	Percent change	Number	Percent change
Illinois	7,485	– 8	3,048	–12
Indiana	5,012	+ 1	1,692	–13
Iowa	7,372	– 4	2,535	–19
Michigan	2,989	–14	377	–28
Wisconsin	4,548	0	404	+ 7
District states	27,406	– 5	8,056	–15
United States	125,730	– 7	25,784	–12

Sharply lower commodity prices and the subsequent decline in farm earnings no doubt explain the bulk of the weakened demand for farm machinery and equipment this year. A recent estimate of third-quarter farm earnings of $16.7 billion (seasonally adjusted annual rate) constitutes the low thus far in 1977—a year in which the purchasing power represented by the earnings is already at exceptionally low levels by historical comparison. The USDA's preliminary estimate of 1977 net farm income currently stands at $19.8 billion—1 percent below last year.

Farm machinery and equipment inventories have become somewhat burdensome this year in light of the reduced sales. Tractor inventories as of October 31, 1977, stood 30 percent above the strike-reduced levels of a year ago, while combine inventories were up 77 percent. Moreover, the trend toward larger equipment suggests the current inventories may be even more burdensome to manufacturers and dealers than the numbers might otherwise suggest. For example, inventories of farm tractors with 140 or more horsepower were up 45 percent in October, while those for tractors with less than 50 horsepower were up only 7 percent. Consequently, inventory values among farm machinery manufacturers and retailers may well be among the largest ever encountered.

The outlook for farm machinery and equipment sales is tied closely to farm earnings prospects. In light of recent commodity prices and current agricultural credit conditions, most observers anticipate that farmers will proceed cautiously in their capital expenditures. As a result, the demand for farm machinery and equipment is expected to remain sluggish well into next year.

Machinery manufacturers and dealers are generally expected to remain sensitive to high inventories next year and seek opportunities to promote sales. Nevertheless, machinery price increases are anticipated in order to offset higher labor and material costs. Dealers may try to bolster revenues by charging higher prices for labor and replacement parts on repair work. It seems likely that inducements to generate additional sales may be forthcoming next year—especially for higher horsepower tractors, where inventories are particularly burdensome. Likely prospects for 1978 include higher trade-in allowances and more lenient credit terms.

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