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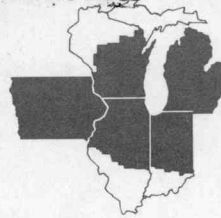
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June 3, 1977

Agricultural Letter

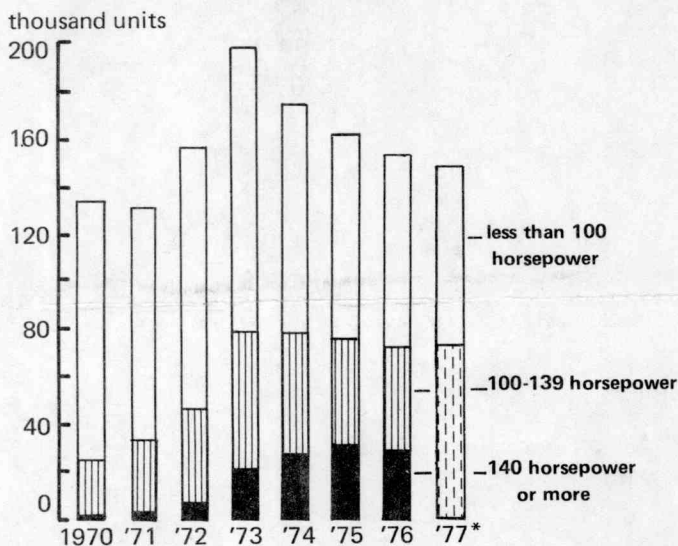


Number 1433

TRACTOR AND EQUIPMENT PURCHASES by farmers have been somewhat mixed so far this year, but the overall trend is down from a year ago. Tractor purchases sputtered in February and March, but a strong performance in April was about offsetting. According to the Farm and Industrial Equipment Institute (FIEI), farmers purchased 58,000 new tractors during the January-April 1977 period, down only 0.6 percent from the year-earlier pace. Although unit retail sales of balers increased slightly, sales of combines fell 13 percent, while mower conditioner sales were down 24 percent.

Purchases of large two-wheel drive tractors have been fairly strong this year, nearly offsetting substantial declines in most other categories. FIEI figures indicate unit retail sales of four-wheel drive tractors fell 18 percent short of the year-earlier pace during the January-April period, while sales of two-wheel drive tractors with less than 100 horsepower declined 11 percent. In contrast, purchases of two-wheel drive tractors with 100 horsepower or more rose 16 percent, paced by a 49 percent rise among those with 160 horsepower or more.

Retail farm tractor sales expected to decline in 1977



* FIEI estimates for tractors with less than 100 horsepower and tractors with 100 horsepower or more.

In District states, purchases of farm machinery and equipment have generally followed national trends, while tractor purchases have risen in contrast to the national trend. Overall, January-April tractor purchases by farmers in District states were up 8.7 percent from a year ago, as sharp increases in Illinois, Indiana, and Iowa offset marked declines in Michigan and Wisconsin. Combine purchases by farmers in District states, however, declined 7.4 percent while unit purchases of balers were up 2.5 percent.

Higher prices and the continuing shift toward larger equipment have probably more than offset the decline in unit sales, indicating farmers' capital expenditures for machinery and equipment held at a high level. Wholesale prices of farm machinery and equipment continued to edge upward during the early part of 1977 and averaged nearly 9 percent above year-earlier levels during the January-April period. Higher costs for labor, steel, energy, and rubber all contributed to the increase. The rise in prices at the retail level, however, may have been somewhat more moderate since larger inventories probably encouraged dealers to provide bigger discounts. Reflecting this, tractor inventories at the end of April were 11 percent above the year-earlier level.

The outlook for farm tractor and equipment purchases for the remainder of this year contains a number of uncertainties. Cash receipts from farm marketings—a major factor in the demand for farm machinery and equipment—was up about 3 percent from the year-earlier level during the first quarter, according to preliminary estimates by the U.S. Department of Agriculture. The bulk of the rise reflected higher prices for soybeans, cotton, and vegetables which offset declining receipts for livestock and grains. Many observers anticipate cash receipts for the remainder of this year will register roughly similar rates of increase as in the first quarter, but that livestock receipts might replace crops in pacing the overall second-half developments. On balance, such a scenario is not indicative of a particularly strong demand, especially in light of the possibility of continued low grain prices and the squeezed cash flows of many farmers.

These considerations were no doubt a factor in the recent findings of an FIEI survey that indicated its member firms now expect somewhat smaller sales for all of 1977 than previously anticipated. The consensus view of the member firms in a January survey indicated expectations that unit retail sales of farm tractors and combines would both decline about 1.5 percent. The more recent May forecast, however, projects a drop of 3.3 percent in farm tractor sales and a 4.3 percent decline in combine sales. In light of the developments through April, these projections imply tractor sales for the May-December period will be down 5 percent from the comparatively soft period a year ago and nearly 19 percent under the relatively strong sales during the same span in 1975.

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