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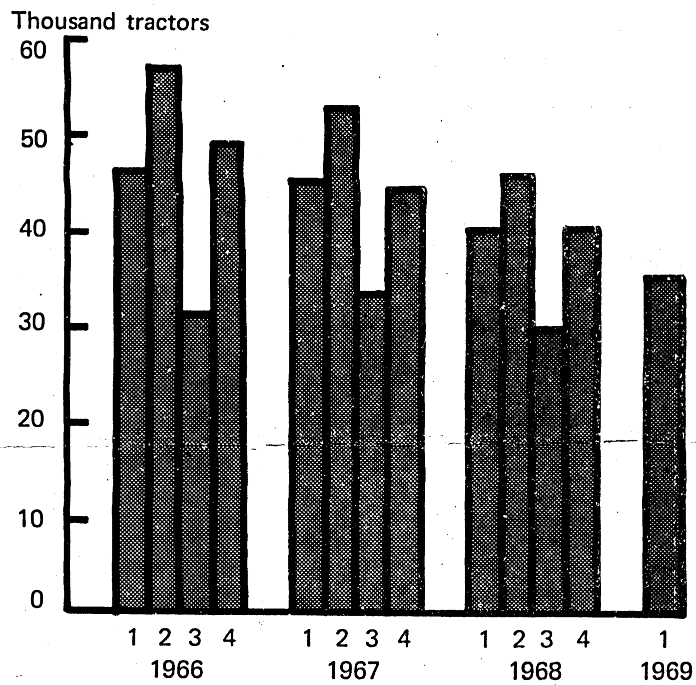
EXPENDITURES ON FARM MACHINERY and equipment continue lower than year-before levels—and for the third consecutive year. According to the Farm and Industrial Equipment Institute, retail sales of farm tractors, farmers' major machinery expenditure, were more than 18 percent lower in March than a year before. This decline resulted in sales for the first quarter being 12 percent lower than a year before. First-quarter sales typically account for about a fourth of the annual outlay for farm tractors. Sales of other major farm implements—such as combines, hay balers, and mower-conditioners—were either about the same as a year before or slightly higher, but first-quarter sales of these items usually account for only a small proportion of annual sales.

Sales figures for states of the Seventh District reflect the national trend. In all five states, tractor sales in the first quarter were lower than a year before. These five states usually account for a fourth of the nation's tractor sales. In Illinois, first-quarter sales were more than 25 percent lower than a year before. They were off 8 percent in Indiana and about 2 percent in Iowa, Michigan, and Wisconsin.

Sag In Tractor Sales Continues



SOURCE: Farm and Industrial Equipment Institute.

While total tractor sales are falling, sales of the largest tractors—those with 100 horsepower and more—are rising sharply. Nationwide, sales of these larger units were up 42 percent in the first quarter over a year before. The first-quarter increase in 1968 was 37 percent.

With the scarcity and high cost of hired labor, farmers are substituting horsepower for manhours. Increased emphasis on the timeliness of operations and the increase in off-farm employment also contribute to the rising demand for tractors big enough to get work done quickly.

Last year, tractors with 100 horsepower or more accounted for over 9 percent of total sales—compared with 7.6 percent a year before. This trend can be expected to continue as farms become larger and fewer farmers cultivate approximately the same total acreage. The growing use of fewer but more powerful tractors will probably have a long-term moderating effect on total tractor sales.

The rapid increase in the average horsepower of tractors on farms is indicated by Census data. In 1950, there were about 3.4 million tractors on 5.4 million farms. The average horsepower per tractor was 27. By 1968, the number of farms declined to about 3 million but the number of tractors had increased to around 4.8 million and the average horsepower had increased to 40. The average horsepower of the "first-use" tractor, the one used for the heaviest field work, is actually much higher. The average horsepower of tractors shipped for farm use in 1968 has been estimated at 71 (PTO basis).

But farmers cannot always afford the latest in machine technology, as indicated by the direct association between fluctuations in sales of farm machinery and fluctuations in farm income. Farm incomes improved last year from the severely depressed 1967 levels but most of the gain came from higher prices for livestock and livestock products and for fruits and vegetables. Cash-grain farmers continued to receive low returns. Corn prices this year have recently begun to rise above the support level.

High interest rates and bigger price tags on farm machinery and equipment have probably discouraged some farmers from borrowing for equipment expenditures. Most banks are charging 7 percent or more on farm loans, and the index of prices paid for farm machinery and equipment is about 5 percent higher than a year before. Also, if farmers carry out their intentions to idle more than 41 million acres from feed-grain production this year—7 million more than last year—the reduction in acreage will allow them to delay machinery purchases.

Sales figures for three months do not provide enough information to forecast sales for the rest of the year, especially for other machinery, which is normally bought later in the year. But many of the factors that influenced first-quarter sales will continue to be operative in the coming months. The recent advance in corn prices, on the other hand, could help improve machinery and equipment sales as corn is sold out of storage, making cash available to farmers.

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