

# Economists see some rebound from tractor sales slump

LANCASTER — While farmers worried about coming up short on cash flow and financing early this year, tractor and farm equipment dealers were critically short on customers.

The farm machinery market is already showing some signs of bouncing back from the doldrums of the first half of the year when manufacturers had to close plants and lay off workers. However, dealers won't match last year's volume by a big margin.

Demand for farm machinery early this year was punched by tight credit, high interest rates, and disappointing returns on crops and livestock. Farmers also took a wait-and-see attitude when grain sales to the Soviet Union were suspended.

Cost resistance may have been a factor too, as farm machinery prices climbed about 10 percent from last year.

Tractor sales decline about 25 percent from a year ago in the first half of 1980, says USDA economist Carl Vosloh, citing figures compiled by the Farm and Industrial Equipment Institute.

For 2-wheel-drive tractors over 100 horsepower, the drop was worse. About 25,000 rolled off the lots in the first half of 1980, down 33 percent from the 37,000 sold in first half 1979. Sales of other farm machines were also down: Combine sales were off 14 percent, baler sales off 30 percent, and forage harvester sales down 12 percent.

The first sign of a possible pickup in tractor sales came in May when volume for the month ran only 23 percent below the year-earlier date. To dealers, that represented

a big improvement. Until then, the decline from the year-ago volume was widening each month, and April's sales were down a sharp 47 percent.

In July, for the first time this year, tractor sales actually showed a year-to-year improvement. About 20 percent more tractors were sold that month than in July 1979.

Although other machinery categories were still lagging and even tractor sales slipped back under 1979's volume in August, the market appeared stronger than before—especially as the harvest of small grains progressed.

The easing of interest rates and credit availability since mid-spring probably contributed to this comeback.

Also, a sharp turnaround in farm prices gave many producers outside drought-damaged areas the expectation of a better cash flow in the year ahead, thus encouraging major capital expenditures.

"Farm equipment sales are very sensitive to farmers' real cash flow and their economic well-being," Vosloh says.

"The classic pattern is that in good times farmers upgrade equipment, getting a bigger and better tractor, and then buy or rent more land to capture the added production potential of the larger equipment. In a not so good year, they get by with the old equipment," he says.

Much of this year, many farmers apparently stretched the life of older equipment, hoping it would last through another season. They also leased more equipment, and there was a bigger market for used

equipment, according to industry reports.

Will the dropoff in equipment sales affect farm productivity?

"In the short run, it will probably not have a significant effect, as farmers repair their machines and keep them running," says economist Leland Southward.

"You can stretch equipment somewhat, but if needed replacement is postponed longer, say for one or two years, productivity could deteriorate."

Most observers don't expect this to happen, since sales have picked up and prospects for higher crop prices and relatively lower interest rates should affect the 1981 picture, Vosloh suggests.

"The machinery sales outlook next year should be brighter, and sales might approach the level of 1979," Vosloh says. There will probably be more acreage in production, since domestic and foreign demand for U.S. farm products continues strong. Also, some farmers who postponed buying equipment this year will have to buy next year.

The longer term prospects for equipment dealers seem secure. There are fewer hired farmworkers and their wages are higher, and many farmers prefer a big tractor with higher output per hour of labor. Large equipment that can do farm jobs quickly provides at least some protection against weather uncertainties.

At the same time, however, rising energy costs, as well as the growing use of less intensive tillage practices, may slow down the rate of machine sales growth, especially for

tractors and certain types of implements, Vosloh says.

Reduced tillage techniques will be used increasingly to save fuel, conserve the soil, and reduce wear and tear on equipment

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