Will 1984 bring machinery sales upturn?

WASHINGTON, D.C. — More combines, tractors, and other farm machinery are expected to roll off the lots and into the fields this year. Analysts are anticipating the first sales upturn in five years, according to a recent issue of the Agriculture Department's "Farmline" magazine.

Since 1979, the industry's record sales year, business has gone steadily downhill. So far, the farm machinery industry has remained basically intact through it all, and conditions should improve as sales volume picks up.

However, some manufacturers and dealers are still struggling to survive, and the entire industry is going through a difficult transition. In the years ahead, further adjustments in production capcaity and greater specialization by farm machinery manufacturers will probably be necessary.

The industry's financial difficulties over the last 4 years are reflected in the earnings statements of Deere & Co., International Harvester, and Massey-Ferguson, the three major full-line manufacturers of farm equipment. The figures suggest that the effects of the prolonged slump may linger long after a pickup in sales.

On the other hand, it's worth noting that Deere & Co. showed a profit throughout the 1980-83 period, and the firm remains sound International Harvester and Massey-Ferguson suffered losses after 1979, but prospects for both firms look better than they did a year or two ago Operations have been restructured, assets sold, management improved, and debts refinanced

Financial records

A review of financial records published by the three companies reveals that

—Deere & Co. earnings (net income after expenses) slid from $310 million in its 1979 fiscal year to just $53 million in 1982. In 1983, earnings fell another 56 percent to $23 million.

—International netted $369 million in 1979 on sales of more than $7 billion. Since then, losses have totaled around $2.9 billion, including a $1.6-billion net loss in its 1982 fiscal year. By 1982's standard, the 1983 earnings statement wasn't bad – it showed a net loss of $485 million.

—Massey-Ferguson posted a loss of $41 million through the first 9 months (February 1 to October 31) of its 1983 fiscal year–the best news for the company in 4 years. Net losses from 1980 to 1982 added up to $833 million. In 1979, its last profitable year, earnings were reported at $37 million

The sales receipts of the major manufactureres didn't drop as precipitously as net earnings, largely because of higher machinery prices. Prices for tractors and other self-propelled machinery increased 9.8 percent between 1979 and 1983. Prices for other machinery and farm implements rose 9 3 percent

These price increases were relatively modest compared with increases of prior years, but the moderation was not enough to stem the plunge in sales volume Meanwhile, profits were caught in the squeeze between rising fixed costs and weakening demand

Between 1979 and 1983, unit sales of farm machinery declined dramatically tractors, down 51 percent, combines, down 63 percent, forage harvesters, down 76 percent, hay balers, down 54 percent.

Backlog trimmed

Until recently, inventories were mounting, but a wave of rebates and sales incentives, coupled with reduced factory production, has trimmed the backlog. During the past few years, manufacturers have shut down plants or eliminated shifts, slashed capital expenditures, refinanced loans from creditors, and temporarily laid off workers. International Harvester, possibly the most severely shaken of the major manufacturers, now employs fewer than half as many workers as it did in 1979.

International, Massey-Ferguson, and Allis-Chalmers reduced capital expenditures by 54 percent, **38 percent, and 65 percent, respectively, in recent years. In an** effort to better cope with the situation, some companies ahve reportedly discussed joint venture and joint manufacturing agreements To date, only marginal changes have resulted from these discussions, such as the sale of certain divisions to other companies.

There are several reasons for the current financial plight in the industry One is the depressed state of the agricultural economy over the last few years

Historically, farmers make machinery purchases out of net cash income, whether current or anticipated. Disappointing returns from farming, growing debts, rising production expenses, and higher costs of living have kept many farmers in a precarious cash flow position, unable or unwilling to take on additional debt

Mea[illegible] declining land values, higher interest rates, and tighter credit have made it more expensive and, in many cases, more difficult to obtain the financing needed to purchase big-ticket items, such as tractors and combines.

Farm equity drop

Farm debt has continued to climb, while real farm equity has dropped for 4 consecutive years. In 1982, farmers' income return on equity capital fell to its lowest level in 50 years. One result is that farmers have been delaying real estate improvements and machinery purchases, as evidenced by a 43-percent drop in the ratio fo annual capital formation to net cash income from 1979 to 1983.

Acreage reduction programs to

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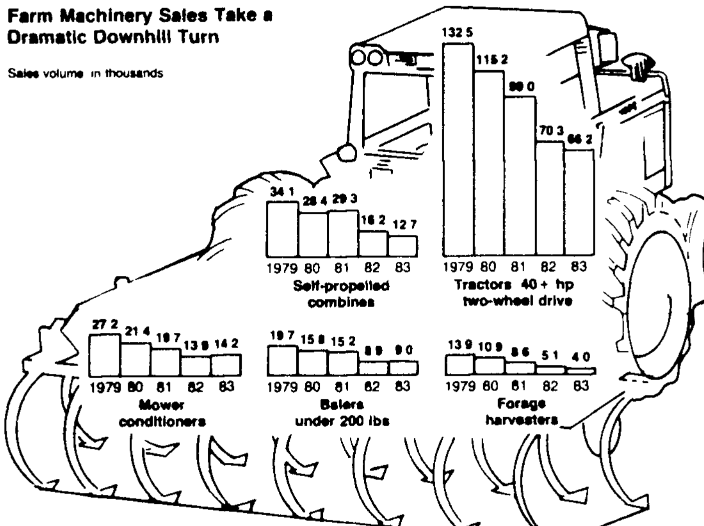
Farm Machinery Sales Take a Dramatic Downhill Turn



Source Farm and Industrial Equipment Institute annual reports