Machinery upturn

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relieve commodity surpluses have probably contributed to delayed purchase decisions, as has uncertainty about future income, exports, interest rates, and farm programs. By most indications, farmers are not convinced that recent improvements in crop prices and cash income assure a sustained, general recovery in the farm sector.

Beyond the economics of agriculture are longer term trends in farm numbers, farm size, and specilization. The machinery industry is serving a limited and shrinking U.S. agricultural market. Fewer, larger, and more specialized farms have fed the trend toward fewer but larger and more specialized pieces of machinery.

Bigger machinery

The average horsepower of new tractors increased from 63 in 1965 to roughly 96 hp. in 1983. Meanwhile, the number of grain combines and tractors on U.S. farms fell by 364,000 units and 122,000 units, respectively.

The industry has responded gradually to the changing farm economics and farm structure. The movement toward larger, more efficient farm machinery has been going on for some time, but the industry also saw an opportunity to push ahead with a buildup in production capacity.

Strong export growth throughout the 1970's and relatively high income levels, particularly in the mid-1970's, led to expectations of strong farm profits in the years ahead. Many manufacturers opted for a marketing strategy based on a full product line of diverse machinery items to capture a greater market share of what was perceived as a still-expanding market. Record sales in 1979 seemed to support these decision. Instead, the U.S. embargo on grain sales to the Soviet Union, the strength of the dollar, high interest rates, the length and depth of the global recession, and the low commodity prices of the early 1980's resulted in drastic sales declines.

The deepening slump in machinery sales after 1979 left the industry with excess capacity and growing inventories. As of December 1983, total tractor and combine inventories both added to an approximate 300-day supply. Factory rebates, discounts, and other sales incentives haven't been enough to bring inventories down to normal levels, although the industry did make some progress in reducing inventories last year.

New programs

To boost sales, J.I. Case, a large tractor manufacturer, recently announced a radically new reabate program. IN conjunction with the United Auto Workers, the company offered a $3,000 rebate over a 2-month period to individuals who bought selected machinery. This joint venture was possible because of wage concessions made by the union.

Reduced sales and large inventories have translated into temporary and permanent plant shutdowns. All major manufacturers halted production lines for at least 30 days last year. Last fall, the industry was turning out 264 tractors a day, just 34 percent of production capacity.

The apparent industry strategy is to limit output, and thereby control production costs, reduce inventories, and extend dealer liquidity. The Farm Equipment Manufacturers Association reported that 188 dealerships closed down in the first half of 1983. Since 1979, more than 1,000, or around a tenth of all dealers, have gone out of business.

Given the unstable financial conditions and structural adjustments in the farm sector, many experts say it is unlikely that the machinery industry will experience another sales boom matching the one that occurred in the late 1970's.

As farms continue to become large in size and fewer in number, the overall demand base for machinery will decline. Demand for certain types of large machinery will be boosted by these changes, but not enough to ensure adequate profit margins for manufacturers that adhere to a strategy of product diversity.

In addition, the U.S. farm machinery industry is becoming less cost competitive relative to producers in some other countries, such as Japan and Germany. As a result, there is growing foreign competition for the American market, particularly in smaller tractors.

Given these prospects, the U.S. farm machinery industry can be expected to specialize. Some manufacturers have begun to shift the emphasis of their organization in the direction of specializing in the production of innovative and cost effective machinery. They will buy other pieces of equipment for their product line from more specialized suppliers.

As manufacturers streamline operations and trim product offerings, brand loyalty is becoming unprofitable for many dealers who feel they need to offer a diverse product line to their customers. To remain in business, many dealers are examining and, in some cases, severing traditional relationships with individual manufacturers. However, for manufacturers, this transitional stage from product diversity to product specialization is likely to be a long-term process.

Chore-Time promotes 2

MILFORD, Ind. — Brad Donahoe, General Manager of Chore-Time Equipment, Inc., Milford, Ind., announced the promotion of Marion "Bud" Lantz to Manager, Chore-Time Cage and Watering Systems.

In his new position, Lantz is responsible for the marketing and engineering of the Chore-Time Cage Systems and Swish Watering product lines. Lantz had previously served as Cage Systems Coordinator.

At the same time, it was announced Don Frush has been named Manager of Engineering for Chore-Time Cage and Swish Watering Systems. In this new position, Frush is responsible for all engineering functions involving the cage and watering systems products. Frush had been Plant Manager for CTB Plastics Division.

Chore-Time manufactures and markets automated equipment for the care and feeding of poultry and livestock. Swish Watering Systems manufactures and markets a complete line of poultry waterers.

Marion Lantz

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