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Who needs tractors, anyway?

The decline in farm equipment sales will turn into collapse as U.S. farmers leave the land.

Alongside the record drop in auto sales this year, is the collapse in farm machinery sales. In general, the farm-vehicle sales decline is accounted for by the farm income crisis, just another feature of the Great Reagan/Regan Recovery. However, the transition from decline to outright collapse of the farm machinery sector is guaranteed under the prevailing national agriculture policy, which calls for drastically reduced crop output.

When you don't plant fields, you don't need tractors.

In the first quarter of this year, John Deere, the world's leading manufacturer of farm tractors and equipment, lost $192.6 million. This brings the total company losses over the last five quarters to $422 million. The first-quarter 1987 loss comes to $2.84 a share. By comparison, during the same period in 1986, the quarterly loss totalled $26.9 million, or 40¢ a share.

The 1986 sales year was the worst in the 150-year history of John Deere. Sales for the first quarter this year fell 32%, from $701 million to $478 million.

At the John Deere annual stockholders' meeting at the end of February on Moline, Illinois, company chairman Robert A. Hanson attempted to present a reassuring front about prospects for 1987. He spoke of prospects for "financial stability" in the U.S. economy this year, and hoped company earnings for the current fiscal year would be above 1986. But, he added,

in agriculture, also deepening in Europe and elsewhere, will continue to "put intense pressure" on Deere sales for the rest of the year.

Hanson reported that the current low John Deere inventories, resulting from a months-long plant lock-out/shutdown that ended Feb. 1, are in line with the reduced demand from the farm sector. While some shortages in equipment relative to purchase-demand are reported, Hanson predicted, "We expect to meet the needs of our customers" for spring planting.

In short, the company plans to operate at a reduced level. Hanson, however, put it in a special way: "Most factories will nevertheless continue in a mode of under-utilized capacity. We are encouraged, that for the first time in many months we will be able to produce most major categories at levels consistent with retail demand and still maintain the balance of dealer inventories at proper levels."

What this corporate policy talk means is that this company is attempting to "adjust" to a disastrous shutdown of U.S. farm capacity. The national farm-equipment shipment figures overall reveal how bad the situation was as of even two years ago.

The average annual change in shipments of wheel tractors from 1975 to 1981 was about an 11% increase; crop production equipment also showed an 11% increase, and livestock equipment a 9% increase. Over the period 1982 to 1985, the average annual change in national shipments was negative: shipments of wheel tractors fell at least 1.9%; shipments of crop production equipment fell about 14.6%; and livestock equipment fell about 0.7%.

While farm machinery expenditure grew at about a 6% rate yearly between 1975 and 1981, after that time, farm equipment expenditure (for old and new machinery both) fell about 13% a year.

Now, the bottom is falling out.

The fall in unit sales over the past six years shows what has hit the farm machinery sector. During 1975 to 1981, there was still an average yearly increase in sales of four-wheel drive tractors of about 3.9%. After 1982, the *yearly decrease was 26%*. During the 1975 to 1981 period, self-propelled combine sales fell by a yearly average of 1.7%, but after 1982, annual combine-unit sales dropped by at least 24%.

The situation has become so bad, that the United States is becoming increasingly dependent on imported farm equipment. As sales have plunged, companies have merged and shut down vast amounts of capacity. Over the period 1975 to 1981, employment in the farm machinery sector was dropping by about 1.7% a year; but after 1981, the average annual decline was 11.3%. Capital expenditures by the industry averaged a 16.8% annual increase from 1975 to 1981, but after 1981, capital expenditures dropped by 27% a year.

Thus, John Deere's corporate plans for "under-utilization" of plant capacity, are plans to "adjust" the once-great agricultural strength of the United States into a compost pile.

What alternative do companies like Deere have? Consider that some new sales opportunities overseas are raised by Brazil's challenge to the International Monetary Fund. The only alternative for world companies like John Deere, is to press for a reversal of U.S. farm policy, and of U.S. economic policy oversall.

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