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FARM EQUIPMENT EXPENDITURES rose sharply during the first quarter according to the Farm and Industrial Equipment Institute. Retail sales of tractors, farmers' major equipment expenditure, reached 35,156 units during the January-March period—up 39 percent from a year ago. This gain follows a substantial boost in tractor sales during the fourth quarter of 1971, and marks a reversal in the downward trend of the past few years.

Tractor sales in Seventh District states also increased during the first three months, but the overall gain lagged the national trend. First-quarter tractor sales in Indiana and Iowa were up around one-third from a year ago, while tractor sales in Illinois, Michigan, and Wisconsin were up about one-fourth. Farmers in district states now account for about one-fifth of total tractor sales—down slightly from earlier years.

Although unit sales have declined steadily since 1966, the dollar volume of tractor sales has continued to grow as farmers have purchased larger, and more expensive, equipment. Annual sales of farm tractors with horsepower ratings of 100 or more, for example, have more than tripled in number since 1966. Such tractors now represent one-fourth of all farm tractors sold, compared to around 5 percent in 1966.

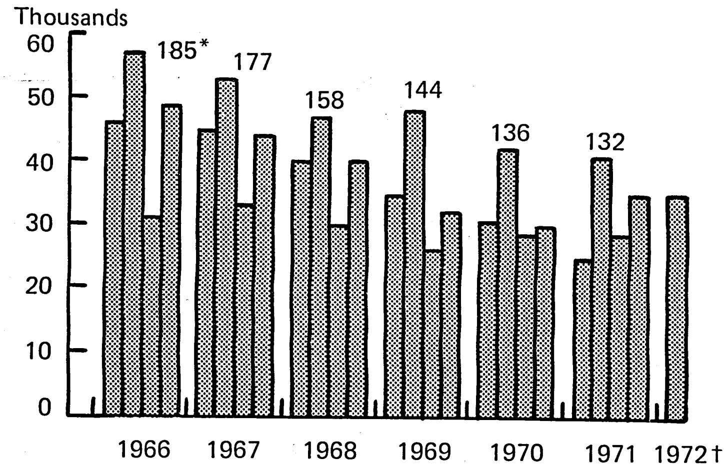
Several factors have contributed to the recent surge in farm equipment sales, but reinstatement of investment credit is perhaps the most important since it provides a substantial after-tax savings on equipment purchases. Although not formally adopted until December, reinstatement was first proposed in August, and prospects appeared favorable for implementing investment credit on a retroactive basis. This no doubt encouraged farmers to boost fourth-quarter farm equipment investments.

As established by the Revenue Act of 1971, investment credit provides farmers an income tax credit equal to 7 percent of the *full* purchase price of farm equipment having a useful life of seven years or more. For investments in equipment with a useful life of five or six years, the amount of credit is reduced to 7 percent of *two-thirds* the purchase price, while for equipment having a life expectancy of three or four years, the credit is limited to 7 percent of *one-third* of the purchase price.

Another factor contributing to expanded farm equipment sales is the comparatively stable prices of such items since late 1971. Although the index of prices paid by farmers for farm machinery in March was up nearly 7 percent from a year ago, nearly all of the gain occurred prior to the fourth quarter of 1971. Indeed, the gain in this index since October 1971 has been less than 1 percent.

Rising farm income levels also have contributed to the surge in farm equipment purchases. Net farm income in the last quarter of 1971 jumped to $18.2 billion (annual rate), or more than one-fourth above the comparable year-earlier level. A 10 percent boost in cash receipts from farm marketings coupled with modest gains in prices paid by farmers suggest that net farm income continued to increase during the first quarter of this year.

Farm Tractor Sales Improve



*Annual totals.

†First quarter.

Expanded farm equipment purchases may also reflect lower interest costs in financing such purchases. Short- and intermediate-term interest rates charged by both banks and Production Credit Associations have fallen considerably from year-ago levels. While attempts at quantifying the impact of changing interest rates on farm investments give varying results, most show that declining rates are associated with a marked increase in investments.

Whether or not the recent gains in farm equipment sales will continue is unknown. Several factors, however, suggest that the year-to-year gains in farm machinery sales may narrow in the months ahead. The heavy farm machinery demand of the past six months has reduced inventories at major farm equipment manufacturers. This may encourage manufacturers to raise their prices to ration the remaining inventory while production schedules are beefed up. Price advances, however, may be limited by continued price guidelines.

Other factors indicating some slowing in the rate of farm equipment purchases are the near doubling in acreage set aside in this year's feed grain program and the lack of plentiful off-farm employment opportunities for farmers. Full-time farmers may use relatively more of their fixed labor on the reduced planted acreage, and part-time farmers may find off-farm employment opportunities limited. Both factors would tend to lower farmers' needs for more machinery.

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