U.S. farm equipment production, a strategic asset, is shutting down

by Richard Freeman

In September and October 1998, the export and production of U.S. farm equipment—two-wheel- and four-wheel-drive tractors, combines, and harvesters, in particular—have taken a sharp turn downward. Given America's role as producer of one-third of the world's farm equipment, of which it exports 25-30%, making it the world's largest exporter, this has major implications for world food production.

Two forces are collapsing U.S. farm equipment production: First, the drop in the U.S. farm income, fuelled by the plunge in domestic farm prices; for example, hog farmers in several states are receiving only 18-23¢ per pound, and corn is bringing less than $2 per bushel. Second, the growing inability of nations, most in the Third World, to pay for farm equipment imports because of the economic-financial collapse worldwide.

Farm equipment and fertilizer are two of the most critical elements in farm productivity. Farm equipment embodies advances in science and technology which have increased farmers' productivity nearly 200-fold since the Middle Ages. Without it, there would be no scientific farming, and society's ability to provide for the future would be destroyed.

Yet, in America, farm equipment production capability is being closed down. Due to the steep decline in farm equipment sales, some farm implement dealers have resorted to primitive barter to draw down bulging unsold inventories, thus joining the ranks of regions of Russia and many of the world's more primitive economies engaging in barter trade. For example, in Minot, North Dakota, Travis Zablotney, manager of the Magic City Implement, extended an offer through Nov. 25, to take grain in trade as payment for up to 30% of the purchase price of a new or used piece of farm equipment—he even threw in a bonus of 50¢ per bushel.

Already, there have been large production shutdowns and worker layoffs at Deere & Co., Case Corp., and AGCO, America's "Big Three" farm equipment manufacturers. It would be insane were America's farm equipment production capability, a strategic asset that is vital for the whole world, to be allowed to continue to careen downward. But, Deere & Co. is projecting that 1999 will be an even worse year for farm equipment production than the present one.

Fall in tractor and combine sales

October marked a sharp worsening of farm equipment sales and production. **Table 1** compares U.S. farm equipment sales shipments for October 1998 to those of October 1997, and also the sales shipments for the first ten months of 1998 to those of the same period for 1997, in units of items.

Two-wheel-drive farm tractors come in three categories: 1) less than 40 horsepower, which are used mainly in Asia,

TABLE 1
U.S. farm equipment sales
(in units)

	October 1998	October 1997	Percent change	Year to date 1998	Year to date 1997	Percent change
Two-wheel drive tractors						
Under 40 HP	5,090	4,592	+10.8%	51,515	46,307	+11.2%
More than 40 and less than 100 HP	4,619	4,109	+12.4	42,537	38,800	+9.6
More than 100 HP	1,617	2,256	–28.3	19,507	19,077	+2.3
Four-wheel-drive tractors	372	724	–48.6	3,654	4,874	–25.4
Combines (self–propelled)	845	1,371	–38.4	7,880	7,097	+11.0

Source: Equipment Manufacturers Institute

FIGURE 1
Decline in U.S. farm equipment shipments
(comparison of October 1997 to October 1998)

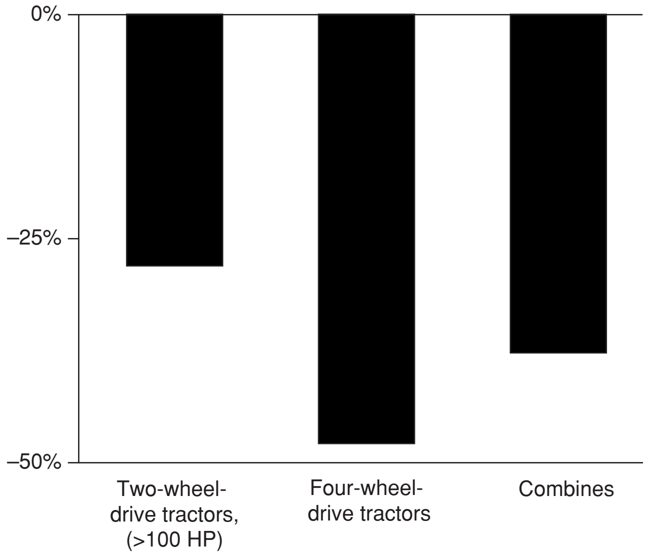
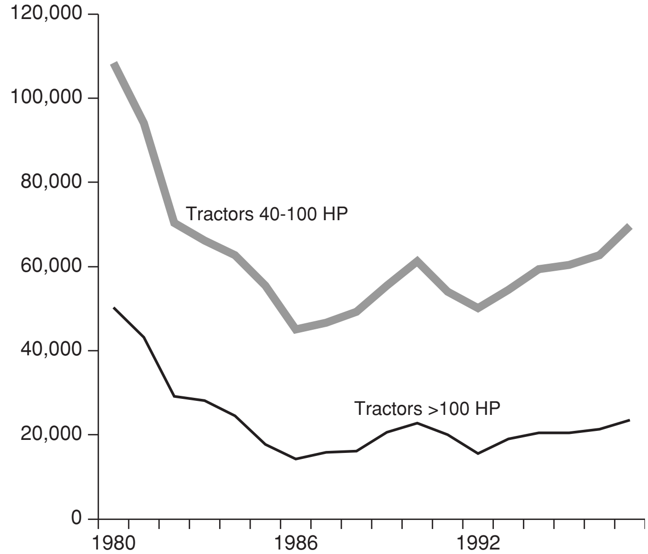


FIGURE 2
Shipments of two-wheel-drive tractors, 1980 to 1997
(number of units shipped)



but also on American farms as a utility vehicle, for example with a loader; 2) more than 40 and less than 100 horsepower, used heavily in Europe and on a number of farms in America; and 3) more than 100 horsepower, a favorite for use on medium-sized and large American farms. Also shown are figures for four-wheel-drive tractors, which are the large, work-horse tractors with four equally-sized large wheels; and self-propelled combines.

For two-wheel-drive tractors of 100 horsepower and over, year-to-date unit sales shipments are up 2.3%. However, for October alone, compared to October 1997, unit retail sales are down 28.3%. Sales figures for November and December will be equally bad or worse. That is, the trajectory of sales changed during the late summer of 1998. The October sales represent the new trajectory for the rest of 1998 and into 1999 (**Figure 1**).

For four-wheel-drive tractors, year-to-date unit sales were down 25.4%. Comparing October 1998 to October 1997, unit sales plummeted 48.6%, or nearly half. America is by a wide margin the world's largest producer of four-wheel-drive tractors, and if sales of the American variety of these tractors are falling, it is a safe bet that that is the trend worldwide.

As for self-propelled combines, year-to-date unit sales rose 11.0%. But, comparing October 1998 to October 1997, unit sales nosedived 38.4%. Thus, just as with the previous two cases, the October shipments of combines indicate an abrupt reversal from the first half of the year, and a new, sharply lower trajectory that can be expected to continue for many months to come.

Longer-term decline

The shipments/production levels of key categories of farm equipment within the recent months should be located within the longer-term process of decline in farm equipment production during 1980-97. **Figure 2** presents the case for two-wheel-drive tractors, both of greater than 40 and less than 100 horsepower, and of 100 horsepower and above. **Figure 3** presents the development for four-wheel-drive tractors and combines. For all of them, shipments/production levels are down considerably below 1980 levels. (During a period of a few months, sales shipments and production may diverge, since a producer may sell products from inventory, rather than newly produced products. But over a longer period, sales shipments and production figures tend to be very close.)

An even more accurate measurement is shown in **Figure 4,** in which for 1980-97, shipments/production are stated on a per-capita basis. To make this comparison, the shipments/output for 1980 are divided by the size of the U.S. population in 1980. That is then is set equal to an index of 100, and the per-capita output of all subsequent years is stated relative to the 1980 index. So, for 1980-97, the per-capita shipments/production level for two-wheel-drive tractors of greater than 40 and less than 100 horsepower is 46% below that of 1980. The 1997 per-capita shipments/production levels for two-wheel-drive tractors of above 100 horsepower, four-wheel-drive tractors, and combines, have plunged 61%, 54%, and 68%, respectively, from 1980 levels.

These are exceptionally steep declines since 1980. It is

FIGURE 3
Shipments of four-wheel-drive tractors and combines, 1980 to 1997
(number of units shipped)

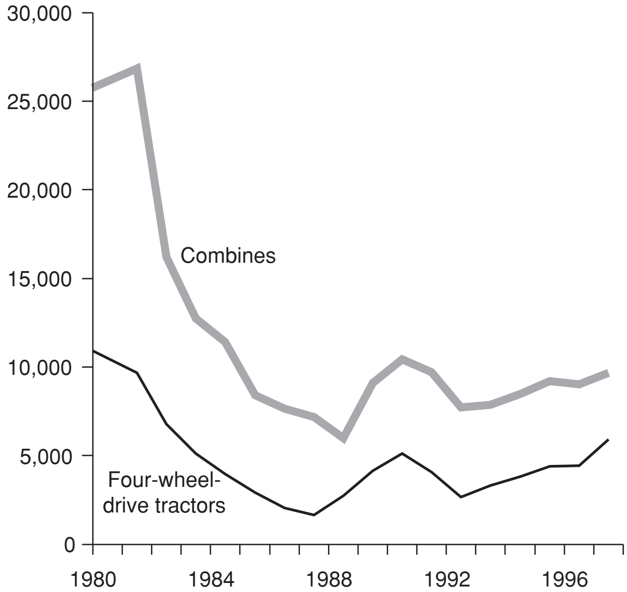
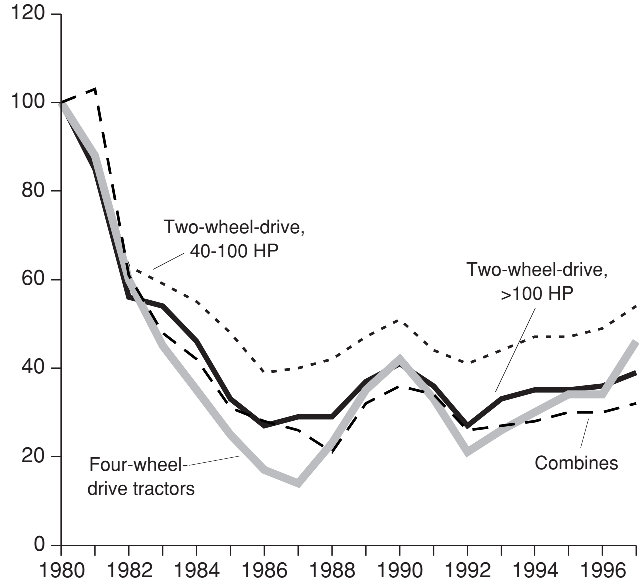


FIGURE 4
Decline in farm equipment shipments, on per-capita basis
(index 1980=100)



true that today, many tractors and combines are more advanced than farm implements from two decades ago. But, the average age of American farm tractors today is 19 years, and many need to be replaced. Further, given the large need the world has for such implements, and that technological improvements should be a fact of life, production levels should have at least remained the same, if not higher, per capita, than they were in 1980.

Growing layoffs, and worse in 1999

The downturn in farm equipment sales has led to more production cutbacks and firings, especially among Deere, Case, and AGCO. First, we provide a snapshot review of the damage so far.

• Deere & Co., headquartered in Moline, Illinois, is America's largest farm equipment producer. Deere announced on Oct. 21 the layoff of more than 300 production employees. It is also offering a $10,000 special retirement incentive, to "encourage some of the 1,400 retirement eligible employees to move their retirement plans ahead." Deere has also announced that it is "extending the normal holiday shutdown in December," at its plants in Waterloo, Iowa and East Moline, Illinois, by another two weeks, leaving workers out of work from Dec. 21 until Jan. 17, 1999, that is, for nearly an entire month. A Department of Commerce spokesman told *EIR* on Nov. 24 that "whatever they call it, this is nothing other than a month-long layoff."

• Case Corp., headquartered in Racine, Wisconsin, is America's second-largest farm equipment producer. (In 1985, Case merged with International Harvester.) Case exemplifies the effects of the worldwide economic disintegration which is leading to order cancellations. Case had arranged a contract to export 400 fairly advanced combine-harvesters (representing 4% of all U.S. output in combines in 1997) to Russia. But in a recent press release, Case announced that it has put off delivery of the tractors, i.e., the deal has fallen through. A Case spokesman told *EIR* on Nov. 17, "It came down to the fact that they could not pay."

In an Oct. 15 press release, Case announced that it "is further reducing its production of agricultural equipment in 1998 by 3% for a total reduction of 15% for the year." It will lay off 1,100 out of 18,000 workers.

This is generating chain-reaction effects: Interstate Forge of Milwaukee, Wisconsin, a Case supplier, has announced more layoffs, bringing the total number of firings since April to 625. Cummins Engine of Indiana, which makes engines for tractors and construction and other heavy-duty farm and related equipment, has announced plans to cut 1,100 workers.

• AGCO (formerly Allis Chalmers), headquartered in Duluth, Georgia, is America's third-largest farm equipment producer. It announced on Oct. 29 that it will reduce its worldwide workforce by 1,400 workers.

• Caterpillar, headquartered in Peoria, Illinois, is the world's largest manufacturer of earth-moving equipment, and has a considerably smaller tractor-making subsidiary than the other companies. Nonetheless, it announced that it is laying off 65 employees, one-third of its tractor-making workforce, "because of falling demand for farming equipment."

But, this damage assessment is preliminary to the October downturn. On Nov. 17, a spokesman for Deere & Co. told *EIR,* "We are projecting for the entire [U.S.] farm equipment industry that 1999 shipments will be down 15 to 20% from 1998 levels." The worst is yet to come.

Will this strategic capability be lost?

The United States is the repository of one-third of the manufacturing output of farm equipment. In 1996 (the last year for which world sales figures are available), farm equipment production/shipments worldwide were $43 billion; in that year, U.S. farm equipment production/shipments were $14.5 billion, or 33.7% of world production.

In 1996, the U.S. exported $3.8 billion out of the $14.5 billion of the farm equipment that it produced, or 26.2%. About half of all U.S. exports are parts and components that supply the production facilities of American farm equipment companies overseas. The other half are tractors, combines, and so on.

For the last few years, the dollar value of U.S. exports to the rest of the world had been rising. But through the first eight months of 1998, U.S. exports of farm equipment are $2.96 billion, which is down 8.2% from the $3.2 billion through the first eight months of 1997.

In "Food, Not Money, Is the Crisis" (*EIR,* Nov. 13), Lyndon LaRouche called for a "Food for Peace" program that would focus on the food crisis in Russia in particular. As LaRouche indicated, that would be the focus for large-scale economic development of Russia, and the implementation of a new, growth-oriented policy for the world. Certainly, a key element of any "Food for Peace" program involves farm equipment production. Some food shipments to Russia will be necessary, but Russia needs the capability to produce its own food. Russia had a tractor and agricultural implement capability, which the International Monetary Fund targetted for shutdown. This must be revitalized.

But, as the example of Case's sale of 400 combine-harvesters to Russia which was cancelled because of lack of funds shows, this is exactly the sort of equipment that would supplement Russia's production capability. Other types of American-made farm equipment may be quite helpful to Russia as well.

The production and export of such equipment to Africa and other parts of the world is a necessity. In a world facing great hunger, America's farm equipment capability should be expanding by leaps and bounds, not shutting down.