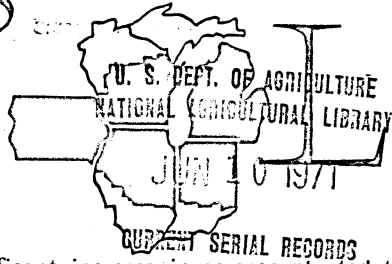


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Federal Reserve Bank of Chicago - -
May 28, 1971

Agricultural Letter



Number 1119

EXPENDITURES ON FARM MACHINERY and equipment dropped below year-earlier levels during the first quarter. This marked the fifth consecutive year in which a decline was recorded in the first quarter. According to the Farm and Industrial Equipment Institute, retail sales of farm tractors, farmers' major machinery expenditure, were more than 20 percent lower in the January-March period compared with a year ago. Typically, first-quarter sales account for about one-fourth of annual tractor outlays. Sales of other major farm implements—such as combines and mower-conditioners—were up from last year, but first-quarter sales of these items usually account for only a small proportion of annual sales.

Purchases of tractors by Seventh District farmers generally conformed to the national trends. And in all five district states tractor purchases in the first quarter were substantially lower than last year. However, each of the states—which taken together usually account for about one-fourth of all tractor purchases—recorded greater declines than the nation: 30 percent or more in the three Corn Belt states (Illinois, Indiana, and Iowa); 28 and 22 percent, respectively, in Michigan and Wisconsin.

a significant increase in acreage planted to crops would encourage machinery sales.

Interest charges have trended lower in recent months, too. In the Seventh District, the proportion of banks charging 8 percent or more on short-term agricultural loans dropped sharply during the first quarter, from around two-thirds to about one-third. Interest rates at other lenders also declined. While attempts to quantify the impact of interest rates on farm equipment purchases give varying results, all show larger purchases to be associated with declining rates.

Factors such as higher machinery prices, reduced farm income, uncertainty surrounding this year's crop harvest, and perhaps reduced off-farm employment opportunities apparently are offsetting the factors tending to strengthen the demand for farm machinery. Prices of farm machinery in March were up around 6 percent from a year earlier, according to Department of Agriculture estimates. This is one of the sharpest increases on record. But while prices of machinery, as well as most other production items, have been increasing, farm commodity prices have trended lower. During the first quarter, prices received by farmers averaged about 4 percent under a year ago. Farm income, reflecting this, dropped sharply during the first quarter: net farm income, at \$14.6 billion (annual rate), was more than \$1 billion below last year's \$15.8 billion.

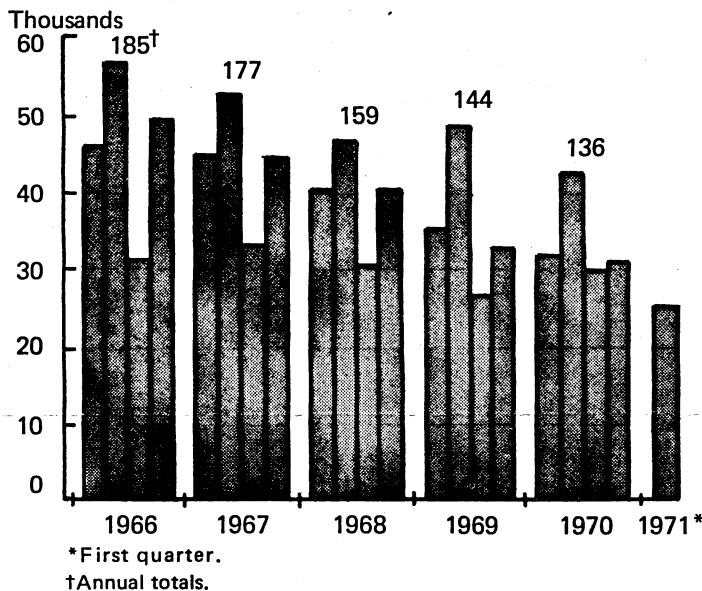
The general uncertainty surrounding this year's corn harvest probably is adding to farmers' caution in purchasing new equipment. Rumors concerning the infestation of corn blight already are circulating and are having a marked effect on prices of distant corn futures contracts.

Finally, with the slack in the labor market and reduced off-farm employment opportunities, farmers may have found it somewhat easier to obtain hired help this year. Also, some part-time farmers probably were working less on their off-farm jobs, reducing both the need for and the income available for new equipment purchases.

Sales figures for three months do not, of course, provide enough information to forecast accurately sales for the rest of the year, especially for harvesting-type machinery which is normally purchased later in the year. This is perhaps even more true this year given the uncertainties surrounding crop production. Although many of the factors that influenced first-quarter purchases will continue to be operative in coming months, very recent reports indicate that purchases may have begun to pick up.

Roby L. Sloan
Agricultural Economist

Farm Tractor Sales Decline Further



Machinery purchases so far this year have been in marked contrast to expectations. Industry observers felt that many factors appeared to favor some increase in machinery purchases during 1971, reversing the trend of the past few years. Higher grain prices and increased crop acreage, lower interest rates, and continued efforts of farmers to mechanize because of climbing labor costs—all present features of the agricultural scene—normally would be expected to boost machinery sales.

Early planting intentions by farmers reflected favorable crop prices and marked changes in the government's feed grain program. Acreage agreed to be diverted from production in 1971 under the feed grain program was cut nearly in half from last year, and acreage planted to crops was boosted by more than 11 million acres. It seems reasonable to assume that such

FARM BUSINESS CONDITIONS

I T E M S	1971		1970
	February	January	February
PRICES			
Received by farmers, U. S. (1967=100)	112	107	114
Paid by farmers, U. S. (1967=100)	118	117	113
Parity price ratio (1967=100)	95	91	101
Wholesale, all commodities (1967=100)	112.8	111.8	109.3
Paid by consumers (1967=100)	119.4	119.2	113.9
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.74	1.75	1.55
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.57	1.59	1.26
Oats, No. 2 white, Chicago (dol. per bu.)	0.84	0.82	0.67
Grain Sorghum, No. 2 yellow, Kansas City (dol. per cwt.)	2.35	2.37	2.04
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	3.06	3.03	2.59
Hogs, barrows and gilts, Omaha (dol. per cwt.)	19.33	16.02	28.27
Beef steers, choice grade, Omaha (dol. per cwt.)	32.18	28.98	29.30
Milk, wholesale, U. S. (dol. per cwt.)	5.91	5.96	5.69
Butterfat, U. S. (dol. per lb.)	0.71	0.71	0.71
Broilers, live, U. S. (dol. per lb.)	0.14	0.13	0.14
Eggs, U. S. (dol. per doz.)	0.33	0.36	0.47
Milk cows, U. S. (dol. per head)	346	344	320
Farm labor, U. S. (dol. per week without board)	--	78.50	--
Factory labor, U. S. (dol. earned per week)	138.29	138.60	130.94
PRODUCTION			
Industrial, physical volume (1967=100)	104.3	106.7	107.8
Farm marketings, physical volume (1967=100)	82.0	114.0	99.0
INCOME PAYMENTS			
Total personal income, U. S. (annual rate, bil. dol.)	830.4	827.4	781.5
Cash farm income, U. S. ¹ (annual rate, bil. dol.)	51.8	49.2	51.8
EMPLOYMENT			
Agricultural (millions)	2.8	2.9	3.0
Nonagricultural (millions)	74.4	74.4	74.4
FINANCIAL (district member banks)			
Demand deposits:			
Agricultural banks (1967-69=100)	107.5	109.4	106.0
Nonagricultural banks (1967-69=100)	107.0	109.3	104.6
Time deposits:			
Agricultural banks (1967-69=100)	141.4	139.4	122.7
Nonagricultural banks (1967-69=100)	126.9	123.9	105.5

¹ Based on estimated monthly income.