FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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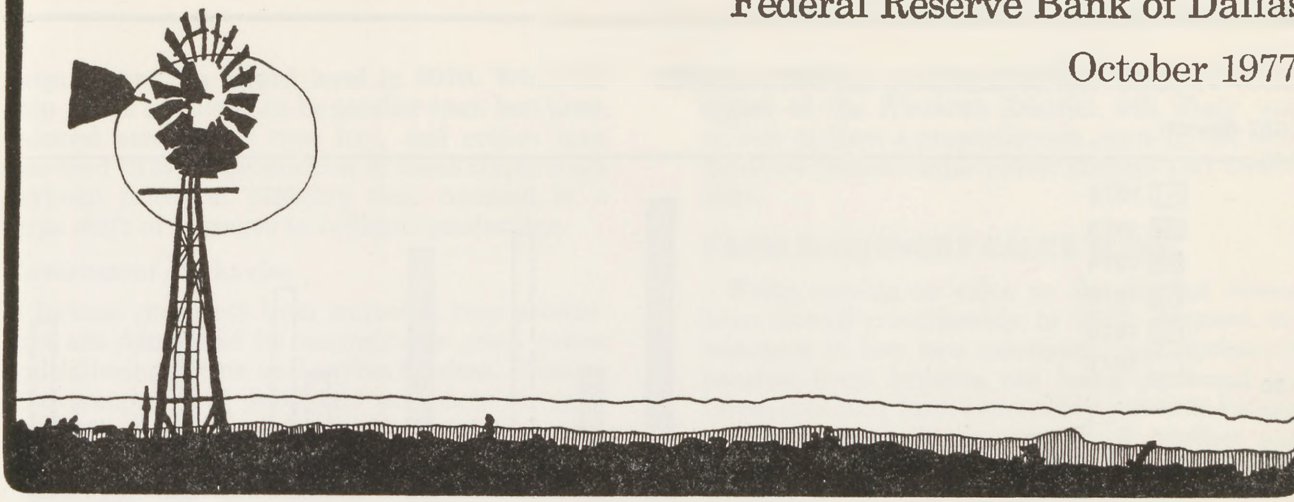


CROP PRODUCTION UP, INCOME PROSPECTS DOWN

Farmers in the Eleventh District states are harvesting a bumper crop that is contributing to falling prices and incomes in the region and in the rest of the nation. Based on September 1 conditions, crop production in the District may be up 8 percent over last year. In fact, total output for the four states—Louisiana, New Mexico, Oklahoma, and Texas—could reach the record level of 1973.

Cash receipts from crop marketings this year, however, could be somewhat less than in 1976. Sharply lower prices for grains and declining prices for cotton and soybeans will temper total sales. And with rising production costs, incomes of most crop producers will likely shrink.

District output increases

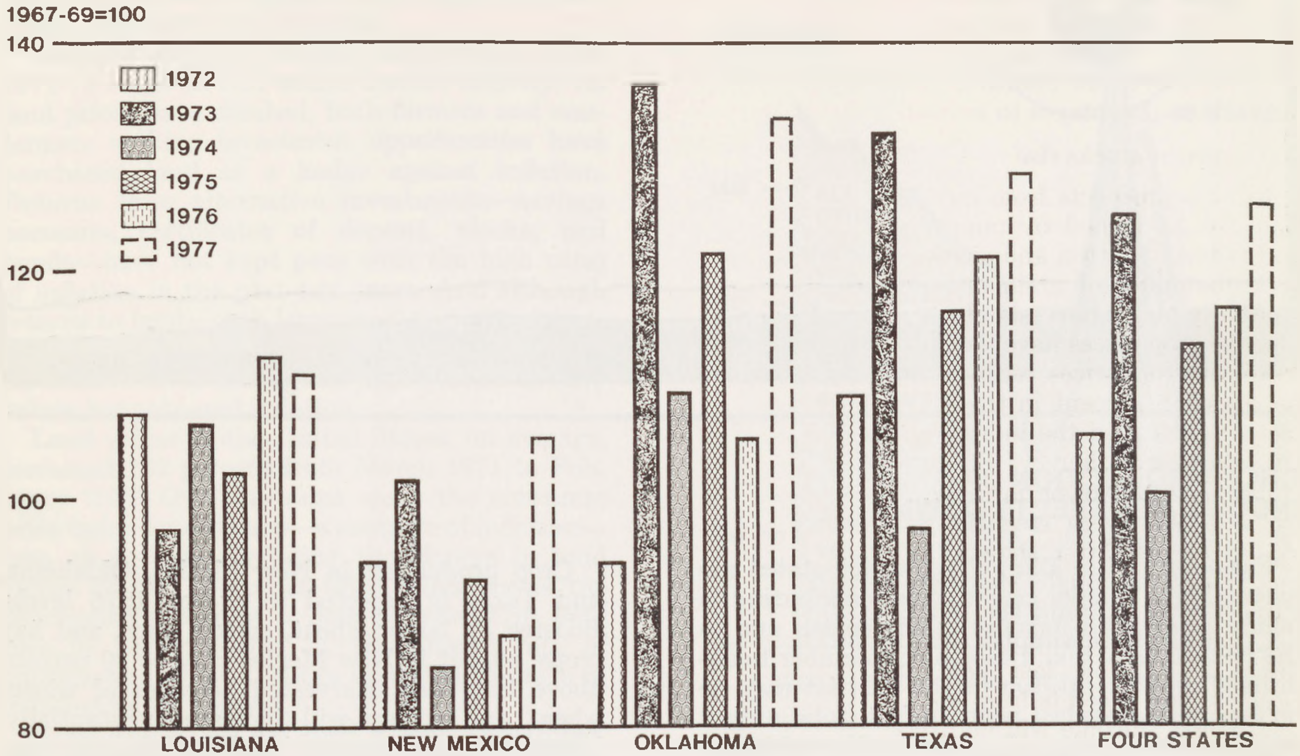
For the District states as a whole, larger harvests of winter wheat, cotton, and soybeans will boost overall production while rice, grain sorghum, corn, and hay crops are apt to be smaller. For minor crops, production may be higher for oats, barley, and pecans but lower for rye, flaxseed, peanuts, sweet potatoes, and Irish potatoes.

Crop production in New Mexico, Oklahoma, and Texas is expected to exceed 1976 levels. Boosted by larger wheat, cotton, corn, and hay crops, output in New Mexico may be 20 percent above last year. Harvested acreages of winter wheat and cotton will increase substantially. Durum wheat acreage was cut sharply last spring, and the acreage was shifted back into winter wheat. Expansion in corn acreage and higher hay yields should also add to total production, but the grain sorghum crop may decline 12 percent.

In Oklahoma, total crop production will likely rise significantly above the 1976 level even though corn, hay, and peanut harvests could decrease somewhat from last year. Increased yields and acreages of winter wheat, grain sorghum, oats, and cotton—along with larger acreages of barley and soybeans—are likely to boost crop output in that state. Altogether, crop production may be 16 percent above last year.

Strengthened by much larger cotton, winter wheat, and soybean crops, production in Texas

CROP PRODUCTION IN ELEVENTH DISTRICT STATES



1977 indicated as of September 1.
SOURCES: U.S. Department of Agriculture.
Federal Reserve Bank of Dallas.

could be about 6 percent more than in 1976. Rice and grain sorghum harvests may decline, largely because of smaller acreages, while lower corn and hay production is accounted for by smaller yields per acre. Insufficient rainfall this summer adversely affected corn and hay production in some parts of the state, as well as dryland cotton production. With average yields rising, however, total cotton production may be up nearly two-fifths, as farmers expect to harvest a third more acreage this year. Soybean production in 1977 should be boosted since the acreage planted was more than double that in 1976. Higher yields, despite drouth conditions during much of the growing season, increased the winter wheat crop 14 percent above a year before.

Conversely, crop production in Louisiana will likely not fare as well as in the other three District states. It is expected that decreases for rice, hay, and cotton will more than offset gains for soybeans and winter wheat, contributing to a decline of over 1 percent in total crop output from the record level in 1976. While all crop yields are likely to be smaller than last year, reduced acreages of rice, hay, and cotton may also lead to lower production of those crops. High soybean prices at planting time resulted in a large shift of acreages to soybean production.

Government stocks rise

Income prospects from increased crop production are dampened by unprofitable grain prices and faltering cotton and soybean prices. Because of oversupplies of grain and prospects for substantially larger harvests of cotton and soybeans, average crop prices have declined somewhat. The index of crop prices received by Texas farmers decreased 8 percent in the six months ended in mid-August. And the index was about 4 percent below a year earlier.

Reduced by lower farm prices, cash receipts by mid-1977 were essentially unchanged from a year earlier, after showing year-to-year gains each month through May. The expected large harvests this fall and the buildup in grain, cotton, and soybean supplies will hold commodity prices well below last year and restrict any gains in cash receipts from increased production.

Net farm income will be pressured further by higher production expenses. The index of prices paid by farmers in the first six months of this year averaged 6 percent more than in the same period last year. And the index may continue to rise steadily this fall.

Low farm prices close to the Government loan rates this harvest season will probably cause large quantities of the 1977 crops to be placed under the loan program of the Commodity Credit Corporation. With a buildup of supplies of most crops in the District and in the nation, particularly wheat and feed grains, farm prices next year will likely remain at levels that are near the loan rates set by the new farm program. As a result, deliveries and forfeitures of commodities to the CCC are apt to increase markedly.

Government-owned commodity stocks—an actuality in nearly four decades of this century—again seem inevitable. And farmers in the four states of the Eleventh District will likely contribute at least a proportionate share of the commodities placed under public storage and ownership.

FARM MACHINERY SALES SLIDE

Farm machinery sales in the United States have slowed considerably in 1977. Farmers are reluctant to buy new machinery and equipment because their incomes are being squeezed between declining farm commodity prices and rising costs. As a result, inventories of tractors and other machinery and equipment have been building somewhat, and further increases in dealer inventories are likely in 1978.

Sales of machinery used mainly in cultivating and harvesting field crops have been particularly slow. Total farm tractor sales decreased slightly in the first seven months of this year compared with a year earlier. The number of four-wheel-drive units sold was down more than a fifth, and the number of tractors sold with under 100 horsepower was 9 percent lower. However, sales of tractors with 100 horsepower or over were up 9 percent. Retail sales of combines, corn headers, and manure spreaders also dropped about a fifth.

Sales of hay and forage harvesting machinery, on average, were generally lower in the first seven months of this year. Farmers' purchases of balers and forage harvesters decreased 1 percent and 9 percent, respectively, from the same period last year. The number of grinder-mixers sold at retail outlets decreased about a fifth. Conversely, 3 percent more windrowers and just under 1 percent more mowers were bought by agricultural producers.

Declining farm income is the major factor in the slowdown in retail sales of farm machinery. Average crop prices received by U.S. farmers fell 20 percent in the four months ended in mid-August, pushing the index of crop prices to the lowest level since May 1973. Moreover, average livestock prices have shown little strength in the past year. The general rise in production costs has also cut into net farm income. Net farm income in 1977, including net inventory changes, is expected to be about $20 billion, the same as a year before. And it will again be well below the $24 billion posted for 1975 and down substantially from the record $33 billion in 1973.

Another factor that may be limiting retail sales of farm machinery is higher price tags. Retail farm machinery prices, on average, have climbed about a tenth since mid-1976. Furthermore, prices paid by farmers for tractors, self-propelled machinery, and other equipment have risen almost 80 percent since mid-1973.

Until farm incomes improve, retail machinery sales will likely remain sluggish, as many farmers refrain from increasing debt obligations to purchase capital assets during a period of low profits. Farmers will probably try to repair and maintain older tractors, machinery, and equipment. Besides, many of the tractors and much of the machinery now on farms have been purchased in recent years and are still in good working condition.

With the slowdown in retail sales, inventories have been building at retail dealerships across the nation. Inventories of all tractors, for example, have been accumulating for more than a year; in July, they were up nearly 17 percent over a year earlier. Stocks of other machinery and equipment on dealership lots have also risen somewhat.

Total machinery sales will likely continue to decline into 1978. Bumper grain, cotton, and soybean crops will add to commodity supplies and further pressure farm prices and incomes, discouraging most farmers from buying new machinery. The level of target prices and loan rates established by the new farm bill, however, will put a floor under farm prices and could give some support to sagging incomes. But with set-aside acreage requirements for wheat and potential production controls for other crops still pending, the impact of the new farm legislation on farm income and on machinery purchases remains unclear.

RISE IN WORLD STOCKS PRESSURES GRAIN PRICES

Grain prices in world markets plummeted in the past year with the sharp buildup in wheat and coarse grain stocks. And stocks will likely increase again in the 1977-78 season, giving little hope of any strengthening in prices.

World wheat and coarse grain production is currently forecast at 1,086 million metric tons. Although down nearly 2 percent from the record 1976-77 production, that would still be the second largest crop on record and is projected to exceed usage. Wheat and coarse grain consumption in 1977-78 is expected to total 1,068 million metric tons, about 18 million tons more than last season. Consumption in the United States is forecast at around 7 percent higher, while consumption in the USSR could fall slightly. Altogether, world stocks on June 30, 1978, may reach 186 million metric tons, 10 percent larger than a year earlier and 63 percent larger than two years before.

The sharp rise in global grain supplies has caused prices to decline. On August 31 of this year, for example, the asking price for U.S. No. 2 Soft Red Winter wheat at Rotterdam, the Netherlands, was $2.48 per bushel, compared with $3.48 a year earlier. The price of U.S. No. 3 Yellow corn was $2.14 per bushel, $1.05 below a year earlier. U.S. grain prices in foreign markets are usually slightly higher than domestic prices, reflecting the transportation and handling costs.

Increased supplies in 1977-78, causing prices to remain at low levels, will probably lead to a cut in acreage worldwide next year. In fact, some countries, such as the United States and Canada, have already made plans to reduce acreage planted to grains.

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