Cop 2

Federal Reserve Bank of Chicago . . .

Agricultural Letter

Number 1382

June 11, 1976

FARM TRACTOR AND EQUIPMENT PURCHASES continued at a strong pace during the first quarter. Unit retail sales of farm tractors during the January-March period rose 16 percent above the year-earlier level, according to the Farm and Industrial Equipment Institute (FIEI). With the exception of combines and cornheads—which were at high levels a year ago—unit sales of most other major farm equipment items also were up sharply during the first quarter. The rise in tractor sales in district states fell somewhat short of the pace for the entire United States, but district sales of most major items of equipment were stronger. The increases in purchases, coupled with higher equipment prices, are indicative of the apparent strength in capital expenditures by farmers.

Increases in unit sales of farm tractors were evident in most horsepower categories during the first quarter, although the shift to larger tractors was still apparent. Unit sales of tractors with 140 horsepower or more—including four-wheel drive tractors—were up nearly one-fourth from a year earlier. Sales of tractors with 60 to 80 horsepower were up one-third, while those with 40 to 60 horsepower were up three-fifths. The comparatively large rise in sales of small to intermediate tractors—those with 40 to 80 horsepower—reflects several factors, including expanded purchases by financially stronger livestock producers, curtailed purchases (and manufacturing) of tractors with less than 40 horsepower, and relatively large inventory supplies.

Tractor inventories rose to a three-year high during the first quarter, despite the strong sales performance. At the end of March farm tractor inventories were 16 percent above the ending 1975 level and 1 percent above the year-earlier mark. Compared to a year ago, the most pronounced shifts in inventories were the 26 percent decline in tractors with less than 40 horsepower and the 38 percent rise in large tractor inventories, those with 140 horsepower or more. Despite the changes, however, the inventory-to-sales ratio remains highest among tractors with less than 80 horsepower.

The rise in farm machinery and equipment purchases has no doubt heightened farmers' loan demand, particularly in light of higher prices. During the first quarter the index of wholesale prices for agricultural machinery and equipment rose 2 percent and averaged 8 percent above the same year-earlier period. The rise in wholesale prices continued through May (see back of *Letter*) and recent steel price increases suggest further gains are possible in the near future. Labor contract renegotiations this fall may also have an important bearing on future price trends.

THE OUTLOOK for farm machinery and equipment sales is somewhat unclear, although the strong first-quarter performance has buoyed prospects for all of 1976. The increased optimism is reflected in the revised forecasts of the FIEI. In January the FIEI's forecast suggested farm tractor sales for 1976 would decline more than 3 percent from the 161,000 sold in 1975. Recent revisions, however, have narrowed the projected decline to less than 1 percent. Although the latest revisions also project slight declines for combines, significant increases are envisioned for other items of machinery—particularly for hay and forage equipment and specialty equipment for crop and livestock producers.

Tractor sales and inventories up from year-ago levels

Horsepower	Units sold Jan.-Mar. 1976: Number (thous.)	Units sold Jan.-Mar. 1976: Change (percent)	Ending March inventories: Number (thous.)	Ending March inventories: Change (percent)	Inventory-to-sales ratio[1] (percent)
Under 40	4.4	−24	10.2	−26	49
40-59	7.6	61	17.6	5	60
60-79	6.6	32	12.0	1	47
80-99	3.0	1	4.0	− 4	30
100-119	3.9	7	5.1	10	31
120-139	6.7	13	5.8	− 1	21
140 or over[2]	7.0	24	11.4	38	34
	39.2	16	66.1	1	40

[1]Sales during the April 1975 through March 1976 period.
[2]Includes four-wheel drive tractors.

In light of the first-quarter results, the FIEI's latest tractor forecast implies a 5 percent year-to-year decline in unit sales during the last three quarters of this year. Some observers, however, look for smaller declines—particularly in the near term. The near-term optimism reflects prospects for some increases in cattle prices and the recent sharp gains in crop prices. These developments will likely hold cash receipts to farmers at a relatively high level into early summer. More distant projections of farmers' purchases of machinery and equipment are somewhat guarded due to prospects of a downtrend in crop and livestock prices during the later part of the year, which would likely remove some of the strength in demand.

Gary L. Benjamin
Agricultural Economist

AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
INDEX OF PRICES					
Received by farmers	1967=100	May	192	+ 1.6	+ 5
Crops	1967=100	May	200	+ 3.6	+ 1
Livestock	1967=100	May	185	− 0.5	+ 8
Paid by farmers	1967=100	May	193	0	+ 7
Production items	1967=100	May	196	− 0.5	+ 7
Wholesale price index *(all commodities)*	1967=100	May	182	+ 0.3	+ 5
Foods	1967=100	May	183	+ 0.6	+ 3
Processed foods and feeds	1967=100	May	180	+ 1.1	+ 1
Agricultural chemicals	1967=100	May	190	− 0.5	− 11
Agricultural machinery and equipment	1967=100	May	181	+ 0.8	+ 8
Consumer price index *(all items)*	1967=100	April	168	+ 0.4	+ 6
Food at home	1967=100	April	178	+ 0.2	+ 4
CASH PRICES					
Corn	dol. per bu.	May	2.61	+ 6.1	− 2
Soybeans	dol. per bu.	May	4.87	+ 7.7	− 3
Wheat	dol. per bu.	May	3.43	− 2.0	− 1
Sorghum	dol. per cwt.	May	4.14	+ 0.2	− 2
Oats	dol. per bu.	May	1.47	+ 2.1	− 5
Steers and heifers	dol. per cwt.	May	39.40	− 2.7	+ 3
Hogs	dol. per cwt.	May	47.50	+ 1.1	+ 5
Milk, all sold to plants	dol. per cwt.	May	9.33	− 0.4	+ 16
Broilers	cents per lb.	May	24.7	+ 4.2	0
Eggs	cents per doz.	May	55.5	+ 3.9	+ 18
INCOME *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	1st Quarter	91	− 0.8	+ 10
Net realized farm income	bil. dol.	1st Quarter	22	− 6.4	+ 25
Nonagricultural personal income	bil. dol.	March	1,297	+ 0.6	+ 10
FARM FINANCE					
Total deposits at agricultural banks[1]	1972-73=100	May	150	+ 0.5	+ 14
Time deposits	1972-73=100	May	172	+ 1.4	+ 18
Demand deposits	1972-73=100	May	119	− 1.6	+ 9
Total loans at agricultural banks[1]	1972-73=100	May	170	+ 5.5	+ 21
Production credit associations					
loans outstanding:					
United States	mil. dol.	April	11,421	+ 2.7	+ 11
Seventh District states	mil. dol.	April	2,013	+ 2.6	+ 19
loans made:					
United States	mil. dol.	April	1,714	− 11.3	+ 18
Seventh District states	mil. dol.	April	348	− 16.6	+ 17
Federal land banks					
loans outstanding:					
United States	mil. dol.	April	16,946	+ 1.5	+ 17
Seventh District states	mil. dol.	April	3,177	+ 1.9	+ 21
new money loaned:					
United States	mil. dol.	April	347	− 21.2	+ 6
Seventh District states	mil. dol.	April	83	− 43.0	+ 20
Interest rates					
Feeder cattle loans[2]	percent	1st Quarter	8.77	− 0.5	− 2
Farm real estate loans[2]	percent	1st Quarter	8.96	− 0.1	0
Three-month Treasury bills	percent	5/27-6/2	5.53	+ 1.7	+ 6
Federal funds rate	percent	5/27-6/2	5.54	+ 0.7	+ 6
Government bonds *(long-term)*	percent	5/31-6/4	8.10	− 0.9	− 1
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	March	1,873	+ 9.2	− 2
Agricultural imports	mil. dol.	March	960	+ 25.0	+ 28
FARM MACHINERY SALES					
Farm tractors	units	March	17,682	+ 68.9	+ 25
Combines	units	March	1,396	+ 75.6	− 7
Balers	units	March	873	+ 38.6	+ 10

[1] Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

[2] Average of rates reported by district agricultural banks.