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Federal Reserve Bank of Chicago - -

May 11, 1956

Agricultural Letter

LOWER SALES to farmers of new machinery, fertilizer and consumer durables (autos, household appliances, TV, etc.) were registered in the Midwest in the early spring. This is the situation reported in a recent survey of nearly 500 Seventh District country bankers concerning business conditions in their communities.

Major reason, of course, is the reduced level of farm income. But an important contributing factor in many areas was the shortage of subsoil moisture and its effects on crop prospects and fertilizer requirements.

Country bankers' estimates indicate that District sales of new farm machinery in March trailed the year-earlier level by 16 per cent, sales of consumer durable goods to farmers were down 13 per cent and fertilizer sales (including orders for future delivery) were off 6 per cent. (See back of Letter for details)

The Corn Belt states, where cash receipts from farm marketings in 1955 lagged the previous year by 10 per cent and net farm income was down possibly one-fourth or more, showed the greatest declines. Iowa presented the gloomiest picture, with reductions of 26 per cent in March sales of new machinery, 22 per cent in farm sales of consumer durable goods and 15 per cent in sales and orders for fertilizer. Western Illinois showed a quite similar picture.

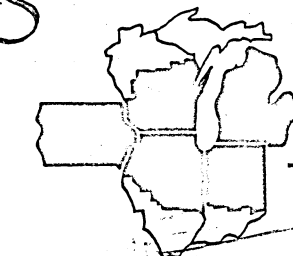
Affected less severely by low hog prices and drouth, the cash grain areas of central Illinois and Indiana showed smaller declines.

The dairy states--Michigan and Wisconsin--showed the smallest reductions in sales to farmers. Cash receipts from farm marketings in these states in 1955 had held to within 3 to 4 per cent of the previous year.

THE UNCERTAINTIES prevalent in early April were causing farmers to operate conservatively. Bankers reported a marked tendency on the part of farmers to "fix up" and "make do." A brisk demand for used machinery and parts was evident in all areas and a number of respondents noted that many farmers "are less willing to go into debt and are operating more on a cash basis than last year."

Weather, too, was having a strong influence. Bankers, in Iowa especially, reported that drouth was fully as important a factor as prices and expressed the view that "a few good rains" would change the outlook and cause some pickup in sales to farmers.

Rain in recent weeks has improved crops prospects in most areas. Furthermore, it has become clear that new farm legislation will not materially affect this year's activities. Thus, farmers are now proceeding with plans based on the higher support prices announced recently for grain crops.



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Improvement in prices of hogs, cattle, corn and soybeans since the first of the year has tended to bolster cash receipts from farm marketings and if maintained could moderate the picture further. In the District's dairy states, cash receipts in the early months of the year actually topped year-earlier receipts by 3 to 5 per cent, reflecting increased output of milk and a small price gain. The "wait and see" attitude evident in early April is evaporating. But the greatest effect thus far has probably been on fertilizer sales.

Production of farm machinery between last October and February outpaced the corresponding months of a year earlier by a substantial margin. Dealers are adequately stocked, and manufacturers have increased their inventory. The pipelines are full.

While production usually rises from midwinter to spring, this year activity is declining. Employment in the industry declined between January and March compared with an increase a year ago. And all of the major manufacturers have announced cutbacks from March levels in recent weeks. Production apparently will drop substantially below year-earlier levels during the current quarter.

THE LIVESTOCK SITUATION, according to a recent review by the USDA, will be characterized by less burdensome marketings in the months ahead. "With fewer cattle reported on feed April 1 and fewer sows farrowing spring pigs, the over-all level of livestock marketings will be lower than in past months." This represents "a significant letup" from the large market supplies of both hogs and fed cattle throughout the fall and winter. Current marketings, however, remain at a high level. For the week ended May 5, slaughter under Federal inspection, compared with a year ago, showed gains of 4 per cent in number of cattle and 22 per cent in number of hogs.

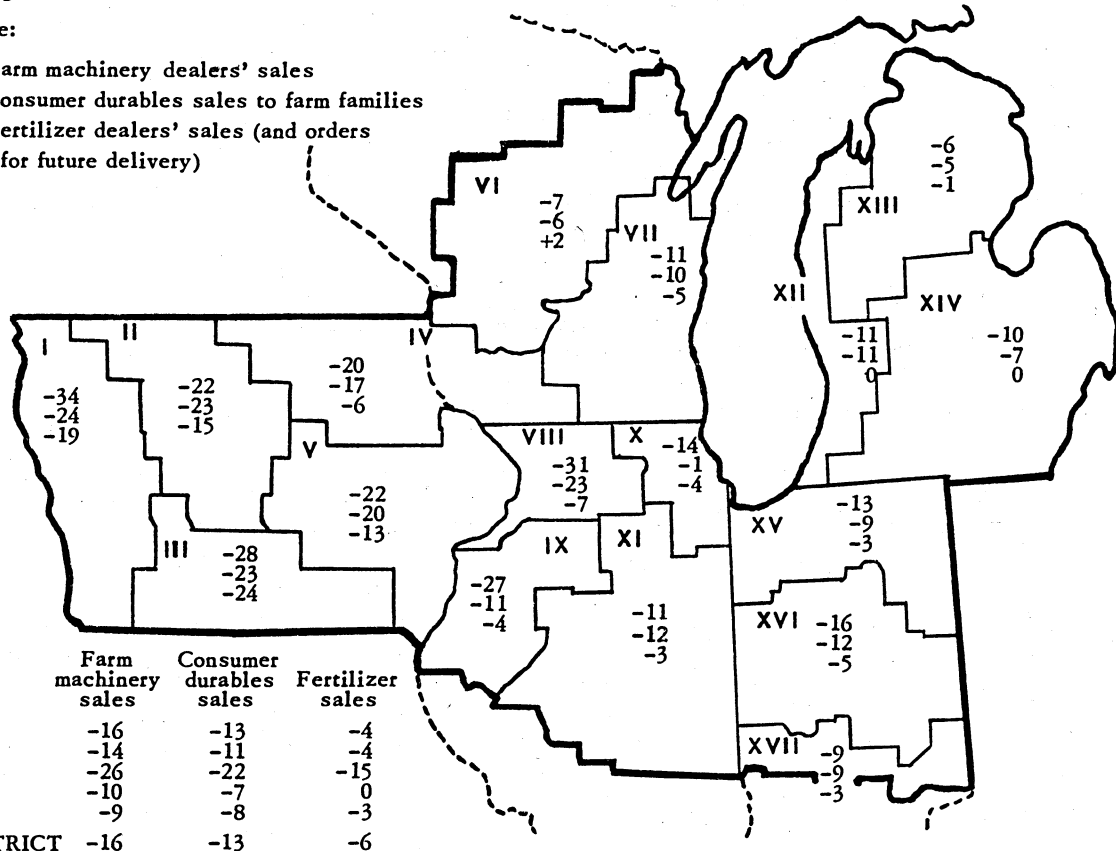
Farm production of cattle apparently "will continue large, as cow numbers are being fully maintained." Production of hogs, however, turned downward with the spring pig crop.

Research Department

Sales of farm machinery, fertilizer and consumer durables to farm families in March, compared with a year ago

Per cent change:

TOP: Farm machinery dealers' sales
 CENTER: Consumer durables sales to farm families
 BOTTOM: Fertilizer dealers' sales (and orders for future delivery)



Farm machinery dealers' sales in March, compared with a year ago

Per cent of banks reporting:

TOP: Higher
 CENTER: Lower
 BOTTOM: Same

