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FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

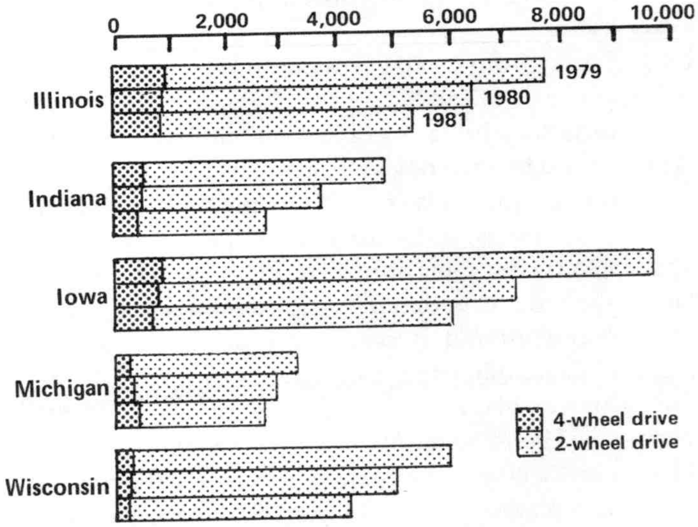
March 5, 1982 | Number 1572

FARM EQUIPMENT SALES remained soft in the fourth quarter, capping the second year of dismal sales for the industry. Reports from the Farm and Industrial Equipment Institute indicate that unit retail sales of farm tractors with 40 or more horsepower were down 14 percent in the fourth quarter from the year-earlier level. However, counter to the prevalent trend for most other items of farm equipment, unit sales of combines and cornheads were up 10 percent and 5 percent, respectively. For all of 1981, sales of tractors fell to the lowest volume in ten years, while sales of combines rose moderately from the depressed level the year before. Prospects that farm earnings will be depressed for the third straight year and interest rates still remain relatively high suggest purchases of farm machinery and equipment may not improve in the current year.

Sales of most items of farm equipment covered in the FIEI reports declined last year. Unit sales of tractors, at 103,835, were down 13 percent from the 1980 level and down a fourth from the level of two years ago. The declines were comparable for most classes of tractors. Unit retail sales of 4-wheel drive tractors were off 11 percent, and sales of 2-wheel drive tractors with 100 horsepower or more were down 14 percent from their levels in 1980. Unit sales of forage harvesters, manure spreaders, and portable grinder-mixers were all off a fifth or more last year. Declines from year-earlier levels for balers, mower-conditioners, cornheads, and windrowers ranged from 3 percent to 9 percent. In contrast, unit sales of self-propelled combines rose 4 percent over the 1980 level, but were still 17 percent below the level of two years earlier. Last year's modest recovery in combine sales probably reflected the larger crop acreage.

In District states farm equipment sales were softer than elsewhere, with unit retail sales of tractors down 16 percent from 1980 and combine sales off 2 percent. Four-wheel drive tractor sales in these states were down 9 percent from the year before. The five District states account for a fifth of the nation's tractor sales and nearly a third of the combine sales. Among individual District

Unit tractor sales declined last year in all District states



SOURCE: FIEI

states, last year's decline in tractor sales ranged from 7 percent in Michigan to 26 percent in Indiana. Combine sales were up 1 percent in both Illinois and Iowa—two states which usually lead all the others in combine sales. Combine sales were unchanged from the year before in Michigan but were down 8 percent and 12 percent in Wisconsin and Indiana, respectively.

The continued sluggishness in farm equipment sales has resulted in higher unit inventories of most items of farm equipment. Tractor inventories were up 13 percent at the end of December from a year ago. The unit inventory-to-sales ratio was .77 for tractors, which meant that dealers and manufacturers held slightly more than a nine-month supply of tractors at current sales volumes. Despite a small gain in combine sales, the inventory-to-sales ratio for combines rose nominally from the year-ago level. At .47, the inventory-to-sales ratio for combines represented nearly a six-month supply. Inventory-to-sales ratios were also up for most of the other types of farm equipment reported by FIEI despite periodic plant closings last year to adjust inventories and, particularly in the second half of the year, numerous sales campaigns involving rebates or discounts.

The downturn in farm equipment sales has gained momentum since late 1979, mirroring the deterioration in farm incomes and conditions in credit markets. Farm earnings were substantially depressed during both 1980 and 1981. Net farm income (after inventory adjustment) in 1980 was 40 percent below 1979's near record level and preliminary estimates show that net farm income rose slightly in 1981 but was still down a third from 1979. Interest rates rose sharply in the past two years and remain very high. As a consequence, farmers backed away from capital expenditures.

The outlook for farm equipment purchases this year is influenced by such negative factors as continued high interest rates, prospects for a third consecutive year of low farm earnings, and efforts to reduce grain acreage. The USDA recently announced a voluntary program for farmers to reduce feedgrain and foodgrain acreage by at least 10 percent and 15 percent, respectively. Farmers must participate in order to be eligible for CCC loans, the farmer-owned reserve, and target price protection. While it will be some months before the extent of participation in the acreage reduction program is known, any cutback in plantings could help stall a recovery in farm machinery sales this year.

Interest rates have declined moderately from the peak of last summer. However, rates remain high and are likely to continue to have a substantial impact on farmers' demands for credit to finance machinery and equipment purchases. Purchases of machinery and equipment, however, may be influenced primarily by another decline in net farm income. The USDA estimates that net farm income in 1982 may be only half the 1979 level and a fifth below the dismal 1981 level. Moreover, the burden of the depressed earnings is shifting from livestock to crop farmers who tend to be the big buyers of farm machinery.

The consensus from a December survey of farm equipment manufacturers points to a 7 percent increase in unit retail sales of farm tractors and a 5 percent rise in combine sales in 1982. However, these projections were based on a more optimistic outlook for farm income in 1982 than is currently anticipated. Nonetheless, some improvement in farm equipment sales could be supported by the pent-up demand for replacement units which follows two straight years of curtailed spending. New tax provisions could provide stimulus to farm equipment sales, and manufacturers are likely to continue discount programs and alternative financing arrangements in order to increase sales. But the greatest boost for farm equipment sales would be a strong upturn in farm commodity prices and net farm income—something that does not seem very likely this year.

U.S. AGRICULTURAL EXPORTS have slowed in recent months and for all of fiscal 1982 may fall below last year's level. The USDA now expects agricultural exports for the year ending in September to fall to $42.5 billion, down from the record $43.8 billion of last year. This would mark the first year-to-year decline since fiscal 1969. Agricultural imports are also forecast to decline from the year-earlier level. As a result, the agricultural trade surplus may remain virtually unchanged from the record fiscal 1981 level.

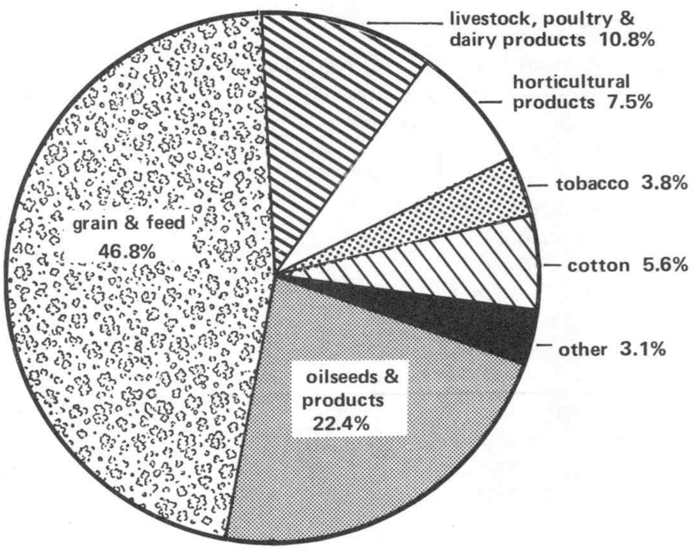
During the first quarter of this fiscal year (October-December) the value of agricultural exports trailed the year-earlier level by 4 percent. Lower prices contributed most of the decline as the volume of shipments remained virtually unchanged from the year before. Exports to a number of our major foreign customers were down. Exports to Eastern Europe were down 55 percent, with Poland—the largest market for U.S. exports in that region—accounting for most of the decline. Growing economic problems, coupled with growing difficulties in getting international credit financing, contributed to the sharply lower exports to East European countries. Exports to Latin America were down a fourth, owing to a sharp decline in shipments to Mexico. Exports to Asia decreased by 5 percent as Japan—the major buyer in that region—reduced its purchases of grain and fruits. High interest rates, a strong U.S. dollar, and sluggish economic growth continued to plague U.S. agricultural export sales to a number of these developed and developing countries. In contrast, exports to Western Europe in the first quarter of the fiscal year were up nearly a fifth due to a sharp rise in shipments to Spain. Exports to Africa were up 8 percent while exports to the USSR were up 17 percent from the year before.

Export volume was virtually unchanged as sharply lower feedgrain exports offset volume gains for soybeans, wheat, and most other products. Despite abundant supplies and lower prices, corn export volume in October-December fell 25 percent from the year before. Corn exports account for about four-tenths of the total volume of agricultural exports. In the same period, however, wheat exports rose 17 percent and soybean exports were up a third. Wheat and soybeans make up another four-tenths of the export volume.

For all of fiscal 1982, export tonnage is estimated to increase 4 percent above the year-earlier level. Grains and oilseeds will constitute the bulk of the overseas shipments and most of the gain is expected to arise from the already evident higher export volumes of wheat and soybeans. Nearly 50 million metric tons of wheat and flour are expected to be exported, up from 42.2 million metric tons in fiscal 1981. Shipments of soybeans are estimated at 23.1 million metric tons, a 15 percent increase over the year before. Soybean meal and oil exports are expected to reach 7.5 million metric tons, compared to 6.9 million metric tons the year before. The pace of soybean and soybean product shipments is expected to slow from the rate evident in the October-December quarter due to competition from the soon to be harvested supplies in the Southern Hemisphere. Also, about 1.6 million metric tons of sunflower seeds—an oilseed which has only been exported since the mid-1970s—are estimated to be shipped this year. Although wheat and soybean exports may be at record and near-record levels, respectively, corn exports are expected to trail the year-ago level by about 8 percent. This means, in view of the trend evident in the first quarter, that the pace of corn exports will have to pick up considerably in the months ahead, averaging at least equal to year-earlier levels.

Agricultural exports to many areas of the world are expected to trail the previous year's level in fiscal 1982. The value of shipments to Asia will likely decline from $16.1 billion in fiscal 1981 to $15.4 billion. The Asian estimate includes exports of $6.0 billion to Japan and $1.8 billion to China—down from $6.7 billion and $2.2 billion, respectively, in fiscal 1981. Shipments to Latin American countries are projected to decline $1.1 billion from 1981's total of $6.9 billion. Exports to Eastern Europe are projected to decline from $2.1 billion the year before to $1.4 billion. In contrast, exports to Western Europe are projected to rise from $11.8 billion a year ago to $12.4 billion. And shipments to the USSR may rise from $1.7 billion to $2.3 billion, despite the tensions in trade relations resulting from Soviet involvement in Polish internal affairs. Overall, the value of agricultural exports to all customers is projected at $42.5 billion, 3 percent below fiscal 1981's level.

Agricultural exports
($42.5 billion)



Agricultural imports are expected to total $16 billion this year, down from $17.2 billion a year ago. Lower prices are expected to more than offset a nominal rise in import volume this year. The bulk of the decrease reflects lower prices for sugar and coffee, which together account for about one-third of all imported agricultural commodities. The volume of sugar and coffee imports is projected to increase slightly this year, although both items continue to experience declining per capita consumption in the United States. Shipments of Australian beef, the next largest import commodity, are expected to fall below the level of a year ago.

The agricultural trade surplus for fiscal 1982 is expected to be $26.5 billion, about the same as the year before. Although it will not offset other deficits, the agricultural trade surplus will make a sizable dent in the overall U.S. trade deficit. The non-agricultural trade account in calendar 1981 was in deficit about $60 billion.

U.S. agricultural trade, while important to the farm economy and the nation's trade balance, will remain critically important to the rest of the world. Foreign buyers rely on the U.S. to supply about three-fourths of the corn, four-fifths of the soybeans, two-fifths of the wheat, and one-fifth of the rice moving in world trade.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	February	244	− 0.5	+ 6
Total loans at agricultural banks†	1972-73=100	February	262	− 0.4	+ 4
Production credit associations					
Loans outstanding					
United States	mil. dol.	January	20,487	− 2.6	+ 4
Seventh District states	mil. dol.	January	4,175	− 4.2	+ 4
Loans made					
United States	mil. dol.	January	3,067	−15.0	−14
Seventh District states	mil. dol.	January	619	−11.2	−17
Federal land banks					
Loans outstanding					
United States	mil. dol.	January	44,063	+ 0.9	+20
Seventh District states	mil. dol.	January	10,519	+ 0.9	+22
New money loaned					
United States	mil. dol.	January	661	+ 2.6	−17
Seventh District states	mil. dol.	January	145	+ 3.4	−20
Interest rates					
Feeder cattle loans††	percent	4th Quarter	17.75	− 2.2	+12
Farm real estate loans††	percent	4th Quarter	17.01	+ 0.5	+16
Three-month Treasury bills	percent	2/25-3/3	12.32	− 6.5	−14
Federal funds rate	percent	2/25-3/3	14.07	− 4.7	−11
Government bonds *(long-term)*	percent	2/25-3/3	13.60	− 4.1	+ 4
Agricultural trade					
Agricultural exports	mil. dol.	January	3,255	− 9.5	−20
Agricultural imports	mil. dol.	January	1,221	−11.6	−22
Farm machinery sales[p]					
Farm tractors	units	January	7,949	− 2.3	+ 1
Combines	units	January	1,374	−28.5	−18
Balers	units	January	376	+38.2	−15

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

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[p]Preliminary.

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