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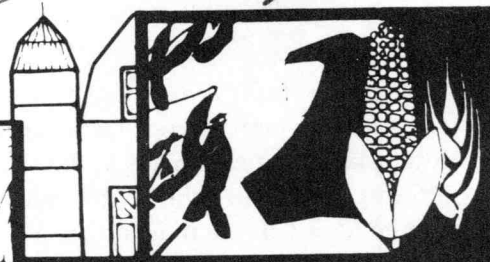
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FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL



ISSN 0002 - 1512

May 28, 1982

Number 1578

LETTER

FARM EQUIPMENT SALES continue at a sluggish pace this year. Preliminary estimates from the Farm and Industrial Equipment Institute (FIEI) indicated that unit retail sales of farm tractors with 40 or more horsepower through April were down a sixth from the same period in 1981 and down nearly 50 percent from the strong pace of three years ago. Combine sales through April were down 38 percent from last year and 42 percent from 1979. In light of the sluggish sales and prospects that farm earnings will be low for the third consecutive year and that interest rates will remain relatively high, forecasts of farm equipment sales this year have been revised downward. Unit retail sales of most farm equipment items in 1982 are now expected to trail the low levels of a year ago, marking the third consecutive year of lagging sales.

The downturn in unit sales of farm tractors was evident for all horsepower categories. Through April, unit sales of 4-wheel drive tractors were down a fifth from the same period a year ago. Two-wheel drive tractor sales were off a sixth, because of a sharp decline in

unit retail sales of tractors with 40 to 100 horsepower. Unit retail sales of other major farm equipment were also down substantially during the four-month period. Unit retail sales of balers—those that produce bales of less than 200 pounds—were down 39 percent from the same period last year and six-tenths below the level of 1979. Mower-conditioner sales declined a fourth, while forage harvester sales were down a fifth from the year-earlier level.

In District states the decline in sales of tractors and combines was milder than that for the country as a whole. Tractor sales were down only 2 percent in the first quarter from the same period a year ago and unit sales of combines were off 25 percent. (Figures on April sales for individual states are not yet available). Four-wheel drive tractor sales in these states through March were down only 3 percent from the first quarter last year. In contrast, year-to-year comparisons of first quarter sales of other farm equipment—balers, forage harvesters, and mower-conditioners—indicated that sales were more dismal in the District than nationwide. Among individual District states, results varied. Unit sales of farm tractors with 40 or more horsepower were up 5 percent in the first quarter from the year before in Illinois but were off 4 percent in Iowa. These two states make up over half of the farm tractor sales in the District.

**Unit retail sales of most farm equipment
may decline in 1982**

	1980	1981	1982 projections*
		(units)	
Tractors			
2-wheel drive			
40-99 hp	58,121	50,973	49,500
100 hp or more	50,328	43,179	43,201
4-wheel drive	10,887	9,683	9,625
All tractors over 40 hp	119,336	103,835	102,800
Self propelled combines	25,760	26,831	25,000
Cornheads	17,154	15,700	15,500
Balers—under 200 lb. bales	14,022	13,647	13,200
Forage harvesters	9,461	7,604	7,900
Mower-conditioners	19,452	18,521	18,150
Windrowers	7,075	6,606	5,950
Grinder-mixers	8,468	5,945	6,050
Manure spreaders	14,733	11,773	12,000

*The projections represent the median forecasts by FIEI member firms compiled from a survey conducted in April 1982.

SOURCE: Farm and Industrial Equipment Institute.

Farm equipment manufacturers pared inventories of most items of farm equipment in light of sluggish sales. At the end of March, inventories of balers, forage harvesters, and mower-conditioners were 15 to 20 percent below the year-earlier level. However, inventories of farm tractors at the end of March were up 6 percent from a year ago, with most of the increase in 2-wheel drive tractors with 100 or more horsepower. Inventories of combines were virtually unchanged from last year. To hold these inventories down, some manufacturers reinstituted plant closings and sales campaigns involving discounts, rebates, or delays in financing charges. Also, they have cut or frozen wages of salaried personnel and have taken other measures to lower costs.

Sales of farm equipment in recent months were tempered by high interest rates and low farm earnings. After peaking at new highs in the third quarter of 1981, interest rates fell in the fourth quarter but have since turned upward. At the end of March, interest rates charged by rural banks were only slightly more than 1 percentage point below the peak six months ago. In addition, preliminary estimates indicate that cash receipts from farming in the first quarter of 1982 were down from the year-earlier level. In particular, it was estimated that a first-quarter decline in cash receipts to crop farmers—who tend to be the big buyers of farm equipment—accounted for most of the fall-off in farm receipts. The index of crop prices in the first quarter was 15 percent below the level of a year ago.

For the rest of this year, it seems likely that farm equipment sales will improve somewhat from the sluggish performance of recent months. However, it is doubtful that unit sales for the entire year will rise above the depressed levels of last year. Livestock prices are at favorable levels. But crop prices, for the most part, remain below the cost of production for many producers. Net farm income is expected to be low for the third straight year, but may not decline as much as was expected earlier because of the improvement in earnings in the livestock sector and the moderation in the rise in the cost of inputs. Moreover, many analysts expect interest rates to fall somewhat in the months ahead. These factors could help strengthen farm equipment sales during the rest of 1982.

Nevertheless, the outlook for farm equipment sales

MILK PRODUCTION rose 1.8 percent in the first quarter from the same period a year ago. Milk prices received by farmers in the first quarter lagged the level of a year ago by 1 percent. Consequently, cash receipts to dairy farmers during the three-month period were nominally above last year's level. Government purchases of manufactured dairy products continued at a very high level in order to keep milk prices from falling below the support level. Some revisions in the dairy support program may be made to stem the rising costs of the program.

Output per cow in the first quarter was up only 0.6 percent from the same period a year ago and up 3 percent from 1980. The month-to-month gain in output per cow narrowed during the first quarter and in March was unchanged from a year ago. The number of dairy cows declined from January to March, but was still 1 percent

is not optimistic. The consensus from an April survey of farm equipment manufacturers points to a 1 percent decline for 1982 in unit retail sales of farm tractors with 40 or more horsepower. In contrast, a similar survey last December pointed to a 2 percent increase in unit retail sales of tractors. For combines, the outlook is even more dismal. Those surveyed indicated that unit sales of combines this year could fall 7 percent from last year's level instead of increasing 4 percent as suggested by the December survey. Only a couple of items of farm equipment—manure spreaders and grinder-mixers—are expected to show increases in unit sales over last year.

The revised FIEI forecasts still imply a sharp improvement in farm equipment sales during the rest of this year. In order to achieve the FIEI forecasts, unit sales of tractors for the last eight months of this year would have to exceed the year-earlier level by 6 percent. During the same period, combine sales would have to maintain the year-earlier pace, while forage harvester sales would have to exceed the year-ago level by 20 percent.

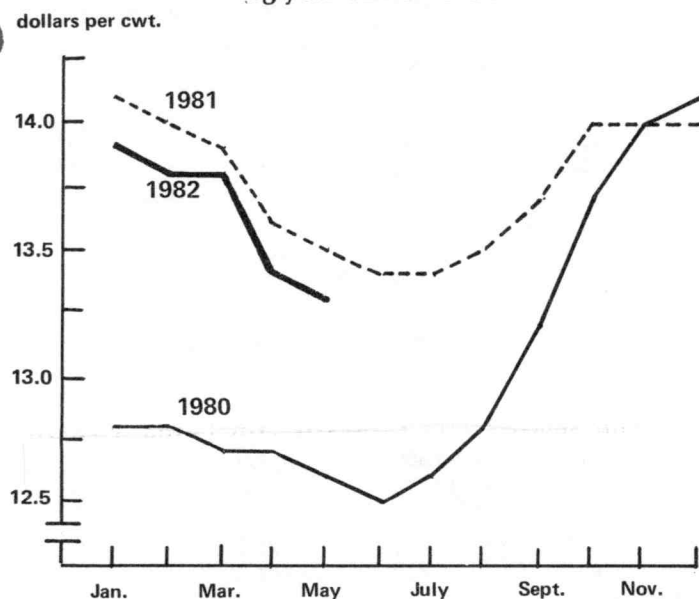
The survey also provided some indication of the amount of leasing of farm equipment—an alternative to purchases. The median estimate of FIEI members was that leasing sales currently represent the equivalent of 1 percent of unit retail farm equipment sales. If "safe harbor" leasing retains its favorable treatment under existing tax legislation, the share of leasing is expected to rise substantially. In comparison, the consensus of FIEI members in 1979 was that leasing was virtually nonexistent.

above the year-earlier level. The narrowing in gains in output per cow and the decline in dairy cow numbers may reflect heavier culling of older cows. However, as of January 1, 4.5 million heifers were available for dairy herd replacements—the largest stock at the beginning of any year since 1965.

Among District states, Wisconsin, which accounts for about one-fifth of the milk production in the United States, differed from the national trend. Wisconsin's milk production in the first quarter was down 2 percent from a year ago. Most of the decline reflected lower output per cow. Milk production in the first quarter was unchanged from a year ago in Indiana and up from 2 to 5 percent in the other District states.

Milk prices received by farmers trended seasonally lower during the first four months of this year. Farmers

Milk prices received by dairy farmers lag year-earlier levels



received an average of \$13.75 per hundredweight for all milk sold to plants during the January-April period, down from \$13.90 during the same months a year ago. Prices received by dairy farmers had not lagged the year-earlier level since 1977. Expanded marketings more than offset the lower milk prices so that cash receipts to dairy farmers in the first quarter remained slightly above the year-ago level. Dairy ration costs have declined somewhat since the first of the year and in April were down nearly a tenth from a year ago. Other dairy input costs, though up, have moderated. As a result, net returns to dairy farmers have probably held close to the relatively high year-earlier levels.

Commercial disappearance of milk in all forms was up 1.7 percent in the first quarter from a year earlier. Last year commercial disappearance rose 1 percent from the year before. Butter sales in the first quarter increased nearly a tenth above the level of a year ago. American cheese sales increased 2 percent, while sales of other cheese varieties gained about 3 percent over the level in the first quarter of 1981. On the other hand, sales of non-fat dry milk fell 1 percent and sales of canned milk declined 5 percent. Sales of frozen products were virtually unchanged in the first quarter from a year ago. The overall rise in commercial disappearance was augmented by a small rise in retail dairy prices. Retail dairy product prices in March were nominally above the December level and were up less than 2 percent from the level of a year ago. Per capita consumption of all dairy products this year may rise slightly above the 540 pounds milk equivalent estimated for 1981.

products—the vehicle by which the support price of milk is maintained during periods of surplus production—continued to climb. During the first seven months of the fiscal year (October-April) net government purchases of dairy products totaled 7.9 billion pounds, milk equivalent. This compared with 7.4 billion pounds, milk equivalent, in the same period a year earlier. For the entire 1981/82 milk marketing year that ends in September, net government purchases are expected to range between 11 and 16 billion pounds, likely exceeding last year's 12.7 billion pounds.

Government costs for the dairy support program, in turn, rose to nearly \$1 billion for the October-March period. In contrast, during the same period a year ago, government costs were about \$820 million. For fiscal year 1981/82, government costs for the dairy program may slightly exceed the \$1.9 billion spent last year.

Rising government purchases of dairy products and the associated costs of maintaining the support program have prompted a number of proposals for revamping the program. The administration recently proposed that the Secretary of Agriculture be given discretionary authority to set the milk support level. If the proposal is enacted, the current price support level of \$13.10 per hundredweight would remain in force until January 1983. At that time, the Secretary could raise or lower the support price. A lower support price would presumably bring milk production into better balance with commercial disappearance and reduce the government's purchases of dairy products. The Secretary has indicated, however, that he would not set the support price below \$12.00 per hundredweight. Hearings are underway to review this proposal and others that have surfaced recently. However, there is considerable opposition to giving the Secretary the discretionary authority to lower the support price. Nevertheless, some revision in the legislation currently governing the program may be forthcoming. If new legislation is not enacted the price support for milk is scheduled to rise to \$13.25 per hundredweight on October 1.

Although the outlook for the industry is clouded by the uncertainties over the support level this fall, milk production is still expected to be up 1 to 3 percent in 1982 from last year, marking a new record. Milk prices received by dairy farmers may average below the year-earlier level and cash receipts to dairy farmers, for the first time in several years, may rise only nominally above the level of a year ago. Helped along by a modest rise in retail dairy prices, commercial disappearance may rise 1 to 2 percent this year.

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	May	252	+ 0.3	+ 9
Total loans at agricultural banks†	1972-73=100	May	270	+ 0.7	+ 3
Production credit associations					
Loans outstanding					
United States	mil. dol.	April	20,981	+ 1.3	- 1
Seventh District states	mil. dol.	April	4,241	- 0.1	- 3
Loans made					
United States	mil. dol.	April	3,291	-10.3	- 7
Seventh District states	mil. dol.	April	762	-16.1	-10
Federal land banks					
Loans outstanding					
United States	mil. dol.	April	46,506	+ 1.0	+17
Seventh District states	mil. dol.	April	10,903	+ 1.0	+18
New money loaned					
United States	mil. dol.	April	589	-25.5	-37
Seventh District states	mil. dol.	April	142	-47.9	-42
Interest rates					
Feeder cattle loans††	percent	1st Quarter	17.12	- 3.6	+ 1
Farm real estate loans††	percent	1st Quarter	16.66	- 2.1	+ 7
Three-month Treasury bills	percent	5/20-5/26	11.53	- 7.2	-30
Federal funds rate	percent	5/20-5/26	13.70	- 6.9	-27
Government bonds (long-term)	percent	5/20-5/26	13.20	0	- 1
Agricultural trade					
Agricultural exports	mil. dol.	March	3,702	+ 5.8	-21
Agricultural imports	mil. dol.	March	1,319	+23.6	-11
Farm machinery sales^P					
Farm tractors	units	April	8,287	+ 8.4	-30
Combines	units	April	590	+21.4	-36
Balers	units	April	386	+21.4	-42

†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.

^PPreliminary.

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