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FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

March 8, 1991 Number 1807

Farm equipment sales

Unit retail sales of farm tractors and combines registered further sizable gains last year. But the trend since mid-1990 has been mixed and industry analysts are expecting a leveling-off in sales this year. Manufacturing schedules have been pared in response to the outlook for flat sales and the recent build-up in unsold inventories of new tractors and combines.

A strong first-half performance paced last year's rise in sales of farm tractors and combines. Sales slowed abruptly last summer and then strengthened again in the fourth quarter according to reports from the *Equipment Manufacturers Institute* (EMI). Following a third-quarter decline of 2.5 percent, unit retail sales of farm tractors with 40 or more horsepower in the fourth quarter were up 12.5 percent from the year before. Combine sales, after declining 11 percent in the third quarter, recovered sufficiently in the fourth quarter to match the strong year-earlier pace. The fourth-quarter recovery and the strong first-half performance boosted sales of both tractors and combines to a six-year high in 1990. At more than 66,310 units, sales of farm tractors with 40 or more horsepower for all of last year were up 11 percent from the year before and more than 40 percent above the 1986 low. Sales of the large, four-wheel drive tractors paced the uptrend again last year, rising 23 percent to 5,100 units last year. Combine sales for all of last year, at about 10,430 units, were up 14.5 percent from 1989 and 74 percent above the drought-reduced low of 1988.

Despite the fourth quarter recovery in sales, manufacturers and dealers held a larger inventory of unsold tractors and combines at the end of 1990. EMI figures show that the inventory of farm tractors with 40 or more horsepower at the end of December was up a sixth from the year-before while that for combines was up 30 percent. The rise in tractor inventories was especially apparent for two-wheel drive models with 100 horsepower or more. Conversely, the inventory of four-wheel drive farm tractors was up only marginally. Manufacturers have already trimmed production schedules in response to the inventory buildup and the lackluster sales prospects for this year.

The barometers that often foreshadow future trends in farm machinery and equipment purchases are mixed. The EMI's latest report noted that tractor sales in January were down sharply while combine sales were up more than a fourth. A recent USDA survey showing that farmers intend to increase plantings of major spring crops by 4 percent this year (although discounted by many observers) would tend to be supportive of farm machinery and equipment sales in the months ahead. Likewise, the recent declines in market rates of interest will help to buoy sales through lower interest charges on debt-financed purchases of machinery and equipment. In addition, the continuing shift toward "reduced tillage" and controlled chemical applications could also be supportive of sales of some types of equipment. Alternatively, the recent weakness in farm commodity prices and prospects for lower farm earnings this year may cause farmers to be more apprehensive about capital expenditures. Sharply lower milk prices foreshadow a marked decline in earnings of dairy farmers this year. Earnings of livestock farmers, however, are expected to remain favorable this year if the latest surveys showing only nominal expansion in hog and cattle production prove accurate. Prospects for crop farmer earnings have been undermined somewhat by weak exports since last fall and by the down-sizing in government farm income and price support programs. At the same time, however, earlier concerns about higher production expenses for crop farmers this year have eased with the recent decline in crude oil prices.

A recent EMI survey indicates that its member firms are expecting flat to slightly lower sales of farm machinery and equipment this year. The consensus view pointed to expectations of a 2 percent rise in unit sales of combines in 1991 and a 3 percent decline in sales of tractors with 40 or more horsepower. The consensus forecasts for unit sales of most other types of farm equipment covered in the survey generally pointed to no change or only modest declines from last year. Overall dollar sales of farm machinery and equipment in 1991 were expected to be the same as in 1990

Gary L. Benjamin.

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Selected agricultural economic indicators

	Latest period	Value	Percent change from Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	February	144	-0.7	-5	-3
Crops *(1977=100)*	February	122	-0.8	-8	-12
Corn *($ per bu.)*	February	2.27	0.0	-2	-12
Oats *($ per bu.)*	February	1.16	2.7	-19	-53
Soybeans *($ per bu.)*	February	5.60	-2.1	1	-24
Wheat *($ per bu.)*	February	2.43	0.4	-32	-40
Livestock and products *(1977=100)*	February	166	0.0	-2	4
Barrows and gilts *($ per cwt.)*	February	51.70	2.0	6	26
Steers and heifers *($ per cwt.)*	February	82.10	0.4	5	9
Milk *($ per cwt.)*	February	11.60	-0.9	-19	-12
Eggs *(¢ per doz.)*	February	67.7	-14.4	-4	8
Prices paid by farmers *(1977=100)*	January	187	0.0*	3	7
Production items	January	173	-0.6*	2	5
Feed	January	123	-0.8*	-4	-12
Feeder livestock	January	216	-1.4*	5	7
Fuels and energy	January	219	-8.4*	9	33
Producer prices *(1982=100)*	January	122	0.0	4	10
Agricultural machinery and equipment	January	122	0.2	1	7
Fertilizer materials	January	101	-0.7	11	-9
Agricultural chemicals	January	124	0.5	5	11
Consumer prices *(1982-84=100)*	January	135	0.6	6	11
Food	January	136	1.2	4	11
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,940	N.A.	-2	-2
Soybeans stocks *(mil. bu.)*	December 1	1,684	N.A.	5	23
Beef production *(bil. lbs.)*	January	1.97	17.0	2	4
Pork production *(bil. lbs.)*	January	1.40	4.1	2	7
Milk production *(bil. lbs.)***	January	10.7	1.8	3	2

N.A. Not applicable.
*Prior period is three months earlier.
**21 selected states.

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