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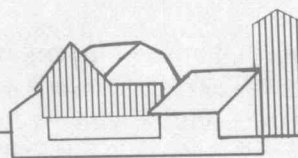
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**Farm equipment sales**

The increase in unit retail sales of farm equipment that began in the second half of 1987 has continued to gain momentum through the early months of this year. Monthly reports from the Farm and Industrial Equipment Institute covering the first quarter of 1988 show year-to-year gains in unit sales of most farm equipment, with preliminary estimates for April indicating continued gains. Inventories of farm equipment at the end of March, following a concerted effort by manufacturers to adjust production to market conditions, were down sharply from the levels of the last few years, with some indications that tight supplies have in some cases hindered sales. Nevertheless, many industry analysts expect a modest upturn in sales of most farm equipment items this year.

Sales of farm tractors and combines, the largest segments of the industry showed remarkable gains during the first quarter of 1988. Total tractor sales in the United States were up more than a fourth during the three month period, but when only farm tractors with 40 or more horsepower are considered the year-to-year increase was more than 62 percent. The largest gains were registered in four-wheel drive tractors, with sales of these units during the first quarter more than double the year-earlier level. Unit sales of two-wheel drive tractors with 40 or more horsepower were up 60 percent from a year earlier, with the largest gains registered among tractors having between 100 and 140 horsepower. Preliminary figures for April, historically the strongest sales month for tractors, show a 15.5 percent year-to-year increase, somewhat smaller than the gains registered during the first three months of the year. The most substantial increases continued to be registered in larger tractors, with sales of four-wheel drive units of 200 or more horsepower up 82 percent from last year and two-wheel drive units with more than 140 horsepower up 49 percent.

Combine sales during the early months of 1988 have far outpaced the year-earlier rate. Through March, combine sales were more than four times higher than during the comparable three month period of 1987. Preliminary figures for combine sales in April, however, point to a marked slowing in the year-to-year gains, with April unit retail sales just over 6 percent higher than a year earlier.

Year-to-year increases were also registered in unit sales of the other major equipment items covered by the FIEI report. Sales of small balers and mower conditioners during the first quarter were up about a fifth from a year earlier, while forage harvester sales registered a 12 percent year-to-year gain. Unit sales of windrowers and combination grinder-mixers were up 50 percent and 40 percent, respectively, from the comparable months in 1987. Initial indications of April unit sales point to continued gains for most of these items, ranging from about 10 percent in mower conditioner sales to 15 percent for small balers. Forage harvester sales, however, appear to have softened somewhat in April, dropping almost 16 percent below the year-earlier level.

Inventories of new farm machinery and equipment held by dealers and manufacturers, which declined sharply in 1987, were trimmed further during the early months of this year. At the end of March, inventories of new farm tractors with 40 or more horsepower were down almost 28 percent from a year earlier. The decline is accounted for by a 30 percent drop in two-wheel drive tractor inventories offsetting a 9 percent rise in stocks of four-wheel drive units. Inventories of combines show a similar 30.5 percent cut from the year-earlier level at the end of March.

**Unit sales of farm equipment continued to rise in the first quarter of 1988**

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Farm tractors, total	10,564	7,718	12,529
two-wheel drive			
40-99 hp	6,259	5,514	7,749
100-139 hp	1,367	665	1,167
140 hp or more	2,427	1,218	2,922
four-wheel drive	511	321	691
Combines	1,013	324	1,401
Small balers	676	529	632
Forage harvesters	178	225	252
Mower-conditioners	1,308	1,101	1,346
Windrowers	246	164	248
Grinder-mixers	561	637	893

SOURCE: Farm and Industrial Equipment Institute.

Inventories of most other major farm equipment items registered year-to-year declines in March as well. Inventories of forage harvesters and grinder-mixers were down 19 and 24 percent, respectively, while stocks of mower conditioners at the end of March were 8 percent below a year earlier. Inventories of small balers were down less than 2 percent from the 1987 level. The only item covered in the report to registered a year-to-year increase in inventories was windrowers, up 88 percent from the low level of the previous year.

The inventory cuts reflect industry efforts to bring production levels back into line with sales. At the end of March, inventories of farm tractors equaled about half of the previous twelve months' sales, down sharply from the 84 percent inventory-to-sales ratio of a year earlier. Similarly, inventories of combines equaled about 42 percent of the sales registered during the twelve months ending in March, compared to a 72 percent ratio for the same period last year.

Prospects for maintaining unit sales increases for all of 1988 are buoyed by a number of factors. Cash income of farmers is expected to hold in the range of the record levels of the last few years. These income gains have allowed operators to paydown burdensome debt loads to establish more sound financial footings for their businesses. At the same time, the easing of financial difficulties has eased pressures to liquidate assets and tightened used farm equipment supplies, boosting their prices. These developments, when combined with the advancing age of machinery and equipment currently on farms, may contribute to an overall increase in capital expenditures by farmers on machinery this year. However, demand for farm machinery and equipment will continue to be limited by the large acreage set-aside and retirement requirements associated with government programs.

### **Agricultural price trends**

The index of prices received by farmers for all farm products remained quite stable during the early months of the year before jumping in May. However, the stability did mask the differing trends that have been apparent for various commodities. Despite the overall stability of the index, it is up considerably from the level of a year ago. For the first five months of the year the index of all farm product prices averaged 131, indicating an increase of almost 6 percent from the comparable period in 1987. Prices paid by farmers, however, have edged higher as well. At 168 in April, the quarterly index of prices paid by farmers was up almost 2 percent from January and almost 4 percent higher than a year earlier.

Much of the year-to-year increase in prices received is attributable to higher crop prices. The index of all crop

prices averaged more than 10 percent above last year's level through May. Prices received for food grains have averaged about 16 percent higher during this period, while feed grain prices exceeded the low year-earlier levels by about a fifth. Prices received for oil bearing crops, principally soybeans, were up more than a fifth from the comparable five month period of a year ago as well.

Prices for major Midwestern crops have risen significantly in recent weeks, with the increases since mid May not yet reflected in the index. Corn prices in central Illinois in the low \$1.90 per bushel range in April, approached \$2.08 per bushel by the end of May. Although not a steady upward trend, corn prices during May averaged about \$1.97 per bushel, significantly above the \$1.75 central Illinois average for the comparable period a year ago. The recent gains in soybean prices have been substantially larger. Central Illinois soybean prices, after averaging about \$6.52 per bushel in April, rose steadily through May, topping \$7.53 per bushel late in the month. At that level soybean prices are more than \$2 above year ago prices. For all of May, soybean prices at central Illinois averaged \$7.12 per bushel compared to \$5.33 last year. Wheat prices, which averaged \$3.07 per bushel in April before weakening slightly through mid-May, also jumped during the second half of the month, reaching as high as \$3.36 per bushel compared to \$2.95 last year. For all of May, wheat prices averaged \$3.16 per bushel, up from the year-ago average of \$2.99.

The recent gains in crop prices reflect concerns about dry weather reducing yields and increasingly tighter stocks of commodities. The concerns are particularly urgent with regard to soybeans. Recent USDA estimates suggest that stocks of soybeans at the end of the current marketing year will be equivalent to less than two months supplies and could fall to less than a months supply by the end of the 1988/89 marketing year. As a result, soybean prices have been very responsive to the dry weather that has characterized this spring and will likely remain volatile in the months ahead. Corn and wheat stocks at the end of this market year, although down sharply from a year ago, will remain relatively large, tempering the upward pressure on grain prices emanating from the soybean market. Estimated to be just over a six month supply at current utilization rates, corn stocks are expected to drop again in the 1989 marketing year to about a 5 month supply. USDA estimates of ending wheat inventories in 1987/88, down almost a third from last year's carryover, point to a 5.5 month supply at current use. However, wheat stocks could fall to a 3.5 month supply by the end of the next marketing year.

In contrast to grain and oilseed prices, livestock and livestock product prices remained fairly stable through



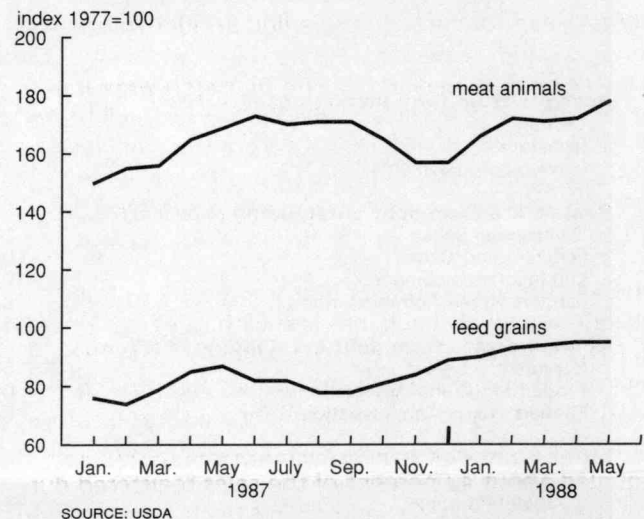
the first four months of 1988 and then rose in May. Up about 3 percent from last year in May, the index of livestock of livestock product prices also averaged 3 percent higher than a year ago through the first five months of 1988. The year-to-year gain in the index is attributable to continued increases in meat animal prices. The May index of meat animal prices, at 178 percent of the 1977 base, was more than 5 percent above last year. However, during the five month period ending in May, meat animal prices averaged more than 8 percent higher than during the comparable period of 1987. Although hog prices weakened from their high year-ago levels, prices received for cattle are above year-ago levels. Through the first five months of the year, hog prices have averaged more than 11 percent lower than the comparable period in 1987, while cattle prices registered a 13 percent gain.

However, both hog and cattle prices trended upward during May. Although hog prices have risen considerably in recent weeks, reaching the low \$50 per hundredweight range in late May, prices have averaged 15 percent below the high year-ago levels. Cattle prices, after losing some ground during the second half of April, trended steadily higher during the first three weeks of May, before tailing off somewhat at the end of the month. Nevertheless, choice steer prices in Texas and Oklahoma held in the mid-to-upper \$70 per hundredweight range in May. In comparison, steer prices in May last year held in the low \$70 per hundredweight range.

Partially offsetting the increases in the index of meat animal prices, the index of dairy product prices trended seasonally lower during the first five months of 1988. In May the index was down more than 9 percent from the January level and almost 6 percent lower than a year earlier. For the entire five month period, dairy product prices averaged more than 5 percent below the same period in 1987.

Further offsetting the gains in the meat animal price index, poultry product prices have held below year-earlier levels throughout 1988. The index was down only about 2 percent from a year ago in May, but averaged more than 11 percent below last year during the first five months of the year. Egg and turkey prices registered the sharpest declines through the period. Egg prices averaged 14 percent below the comparable period of last year, while turkey prices were down 18 percent. Broiler prices during the five months ending in May averaged about 5 percent below the same period last year.

### Prices received by farmers



While the overall index of prices received by farmers remained stable through the early months of 1988, prices paid by farmers continued to edge higher. At 168 percent of the 1977 base in April, the quarterly index of prices paid for commodities and services, interest, taxes, and wages was up almost 2 percent from January and almost 4 percent from a year earlier. Increases in feed and feeder livestock prices from a year ago of almost 11 percent, and an almost 13 percent rise in fertilizer prices were the largest gains. Overall, prices for production items on farms were up 5.5 percent from a year earlier in April. Partially offsetting these increases, interest payable per acre was down almost 7 percent from last year, while wage rates had dropped by more than 5 percent.

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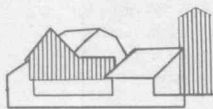
## Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>					
Crops*	January	13,195	-2.3	-5	-3
Livestock	January	6,599	7.6	2	-18
Government payments	January	6,579	10.4	7	21
	January	17	-98.8	-99	-75
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	14.5	2.6 <sup>†</sup>	14	27
Federal Land Banks	December 31	32.7	-6.9 <sup>†</sup>	-13	-27
Life insurance companies	December 31	9.89	-1.8 <sup>†</sup>	-10	-16
Farmers Home Administration	December 31	10.1	0.1 <sup>†</sup>	-3	-3
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	29.1	-5.0 <sup>†</sup>	-7	-18
Production Credit Associations	December 31	9.17	-6.1 <sup>†</sup>	-15	-35
Farmers Home Administration	December 31	16.0	-1.1 <sup>†</sup>	-2	-4
<b>Interest rates on farm loans (percent)</b>					
7th District agricultural banks					
Operating loans	April 1	11.06	-2.0 <sup>†</sup>	2	-11
Real estate loans	April 1	10.47	-2.1 <sup>†</sup>	2	-11
Commodity Credit Corporation	June	7.25	5.5	5	12
<b>Agricultural exports (\$ millions)</b>					
Corn (mil. bu.)	March	3,327	5.4	38	39
Soybeans (mil. bu.)	March	165	32.6	14	68
Wheat (mil. bu.)	March	75	-22.9	10	-17
	March	151	2.3	109	104
<b>Farm machinery sales<sup>P</sup> (units)</b>					
Tractors, over 40 HP	April	5,170	2.1	15	5
40 to 139 HP	April	3,862	7.1	7	3
140 HP or more	April	1,308	-10.2	50	10
Combines	April	182	-68.6	6	22

\*Includes net CCC loans.

<sup>†</sup>Prior period is three months earlier.

<sup>P</sup>Preliminary



### AGRICULTURAL LETTER

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