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### Drought slows farm equipment sales

The long-depressed farm equipment industry began to experience an upturn about a year ago. But since late spring, retail sales of farm machinery and equipment have slowed considerably. The slowing no doubt reflects the apprehensions of farmers about the extent and the implications of this year's drought. These apprehensions may persist for a few more months. Yet other factors could once again rekindle the demand for farm machinery and equipment as farmers begin to look more toward next year.

Prior to the summer slowing, farm equipment sales had been on a marked upswing since mid 1987. Reports from the Farm and Industrial Equipment Institute (FIEI) show that unit retail sales of both farm tractors (with 40 or more horsepower) and self-propelled combines during the latter half of 1987 were at a three-year high for that period. Tractor sales were up 35 percent from the pace of the latter half of 1986 and combine sales were up 5 percent. During the first half of this year, sales of both tractors and combines continued at a three-year high. Tractor sales from January through June held 32 percent above the year-earlier pace and combine sales were more than double the inordinately low level of a year earlier.

The strong first-half performance in farm machinery and equipment sales of this year has been dampened by a recent downturn that commenced with the rapidly evolving drought concerns in June. Combine sales have been hit hardest. Although August numbers are still preliminary, the latest reports show that unit retail combine sales in July and August were down 50 percent from a year ago and the lowest for that period in recent history. Tractor sales in July and August were down 22 percent from the recovering pace of a year ago, but still above the depressed levels of two years ago. The recent slowing has narrowed the year-to-date gain in tractor sales through August to 15 percent and trimmed the year-to-date gain in combine sales to 23 percent.

A summer downturn has also trimmed the year-to-date sale gains through August for most other items of farm machinery and equipment covered in the FIEI reports. After exceeding the year-earlier pace by 15 percent during the first half, unit retail sales of small

balers (balers that form bales of less than 200 pounds) dropped 10 percent below the year-earlier level in July and August. Forage harvester sales were up 10 percent through the first half, but down 5 percent during July and August. Mower conditioner sales were up 1 percent through the first half, but a sharp decline in July led to 16 percent drop for the most recent two-month period.

The FIEI reports also reveal trends in the unsold inventories of new farm machinery and equipment. While domestic sales have softened recently, earlier gains were sufficient to offset stepped-up manufacturing schedules and to keep inventories at pared levels relative to recent years. For example, the unsold inventory of new farm tractors at the end of July was down 15 percent from a year earlier and down 37 percent from two years ago. Similarly, combine inventories in July were down 30 percent from a year ago and down 45 percent from two years ago. While the July inventories of such items as balers, forage harvestors, mower conditioners, and windrowers were at, or above year-ago levels, they were nevertheless still well below two years ago.

#### A comparison of unit retail sales of farm equipment, year-to-date\*

	Number of units (thou.)	Change from	
		1987 (-----percent-----)	1986
Farm tractors**	33.9	15	6
40 to 139 hp	25.4	11	4
140 hp or more	8.6	30	10
Combines	3.0	23	-28
Balers***	4.6	6	-4
Forage harvestors	1.4	5	24
Mower conditioners	8.6	-3	4
Windrowers	1.1	10	21
Grinder-mixers	1.5	28	68

SOURCE: FIEI

\*Except for grinder-mixers and windrowers, the figures include the FIEI's preliminary estimates for August. The figures for windrowers and grinder-mixers are based on January-July totals.

\*\*Excludes tractors with less than 40 horsepower. The figure for tractors with 140 or more horsepower include 4-wheel drive tractors.

\*\*\*Refers to balers that form bales of less than 200 pounds.

The recent slowing has dampened the long-awaited recovery in the farm equipment industry. Monthly patterns in unit sales of farm equipment may continue at a lackluster pace for awhile longer as farmers assess this year's drought losses to crops and the partial offsets, if any, that they might receive from the recent drought assistance legislation.

The drought will undoubtedly result in a sharp reduction in earnings for some farmers, particularly those whose crops were hit hard by the drought and livestock producers who now face sharply higher feed costs. On balance, however, analysts believe that the drought's effect on farm earnings will largely amount to a redistribution of earnings among farmers, with little or no effect on overall farm sector earnings. Indeed, farmers who suffered only moderate drought losses to crops and/or held sizable inventories from earlier crop harvests will fare well from the drought-induced surge in crop prices. These factors, along with continued large government payments, are expected to result in an increase in gross cash farm sector earnings in 1988. Farm production expenses will also be up. Yet net cash farm sector income this year is expected to hold close to the \$57.1 billion of last year which, adjusted for inflation, was the highest in 12 years.

As farmers begin to look to 1989, the demand for farm machinery and equipment could also be buoyed by an increase in crop acreage. High crop prices suggest that farmer enrollment in 1989 government farm price support programs will decline from the unusually high levels of the past couple of years. In addition, those who do enroll in the 1989 programs will have lower acreage set-aside requirements. The set-aside requirement for the 1989 wheat program has been lowered to 10 percent from 27.5 percent this year. Although a specific level has not yet been announced, the 1989 set-aside requirement for corn program participants will be lowered to no more than 12.5 percent from 20 percent this year. This year, some 54 million acres of land was presumably held out of production through restrictions imposed on farmers enrolled in price support programs. The total—which was nearly equivalent in area to the 58.5 million acres planted to soybeans this year—included about 23 million acres held out of production by wheat program participants and about 21 million acres by corn program participants. At least half of this acreage will likely come back into production next year. If that is the case, the combined acreage devoted to feed grains, soybeans, and wheat could rise 12 to 15 percent next year.

Gary L. Benjamin

## Agricultural prices

The index of prices received by farmers for all farm products rose sharply this spring and summer as concerns about drought conditions mounted. By August, prices received by farmers were up almost 10 percent from the beginning of the year and had averaged more than 7 percent higher than a year earlier for the eight month period. The index of prices paid by farmers has been rising this year as well. At 172 percent of the 1977 base in July, the quarterly index of prices paid was up almost 2.4 percent from three months earlier and almost 5 percent higher than a year earlier.

Most of the increase in prices received by farmers this spring and summer is attributable to increased crop prices. In August, the index of crop prices was up a third from the low registered a year earlier and was more than 18 percent above the January level. For the first eight months of this year, prices received by farmers for all crops have averaged almost 16 percent above the comparable period of a year earlier. Prices received for food grains have averaged 29 percent higher than last year through the first eight months of 1987 while feed grain prices averaged more than 37 percent higher during the period. Prices received for oil bearing crops, primarily soybeans, registered a year-to-year increase of almost a third during the period as well.

Corn and soybean prices have retreated from the highs registered in late June and early July, but wheat prices have trended higher. By mid September corn prices in central Illinois had drifted down to about \$2.70 per bushel from the peak of about \$3.20 during early July. Compared to a year ago, however, corn prices remain substantially above the \$1.56 per bushel average of mid September 1987. Similarly, soybean prices have ebbed from the early summer high. After approaching \$10 per bushel in late June, soybean prices in central Illinois have been quite volatile, but have drifted down toward \$8.00 per bushel in mid September. At that level, however, soybean prices remain well above the low \$5.00 per bushel range of last September.

In contrast to prices of corn and soybeans, wheat prices have been trending up this summer. After averaging about \$3.50 in June and July, wheat prices in St. Louis moved upward in August, and through mid September have averaged about \$3.85 per bushel. In September 1987 wheat prices in St. Louis averaged \$2.72 per bushel.

While grain and oilseed prices have fluctuated widely this year, livestock and livestock product prices remained relatively stable through the first eight months of the year. Although up about 3 percent from a

month earlier in August, the year-to-year changes in the index have been quite small since April. During that five month period, livestock and livestock product prices have averaged the same as during the comparable period a year earlier, in contrast to a 4 percent year-to-year gain registered in the first quarter of 1988.

Meat animal prices, after holding well above year-earlier levels through May, dropped sharply early in the summer and then recovered to the year-earlier level in August. Over the course of the eight month period, meat animal prices averaged almost 4 percent higher than in the comparable period of a year earlier. The overall gain is attributable to higher cattle prices, which have remained above last year's level throughout 1988. The year-over-year gains in cattle prices narrowed significantly in July and August as prices dipped. However, the downturn registered by the meat animal index compared to the same months a year earlier is largely attributable to a sharp year-to-year decline in hog prices. Prices for barrows and gilts at the seven major markets averaged more than 25 percent below the high levels of the previous year during June and July, and continued to show declines of that magnitude in August.

Through the early weeks of September, the trends in cattle and hog prices compared to a year ago have continued to diverge. Choice steer prices by mid month, although trending down, averaged almost 7 percent higher than a year ago. Hog prices, which also weakened in the first half of September, remained almost 25 percent lower than the previous year's level.

The index of dairy product prices has exhibited considerable weakness in 1988 as well. Following a seasonal pattern, the index trended lower through the first half of the year before strengthening in the summer months. Nevertheless, the index was down 5.5 percent from a year ago in August, and had averaged more than five percent lower than last year for the eight month period.

Poultry product prices have jumped sharply in recent months. After holding fairly steady during the first five months of the year, the index of poultry product prices in August was up more than 29 percent from the May level. Compared to year-ago levels, poultry product prices have average almost a fourth higher since May,

more than offsetting the 11 percent decline averaged through the first five months of 1988. Within this category, broiler and turkey prices have registered the largest increases in recent months, jumping sharply in late spring and continuing to rise into the summer months. In August, broiler prices were up almost 50 percent from the April level, while turkey prices had risen by 46.5 percent over the same interval. Compared to a year-ago, broiler and turkey prices in August were up about 30 percent. Egg prices, after dipping lower in May, rose by more than a third over the next three months and were 17 percent higher than a year earlier in August.

Along with the rise in the overall index of prices received since spring, prices paid by farmers have edged steadily higher as well. At 172 percent of the 1977 base in July, the quarterly index of prices paid by farmers for commodities and services, interest, taxes, and wages was up 2.4 percent from April and almost 5 percent higher than a year ago. A 31 percent jump in feed prices from three months earlier accounted for virtually all of the increase in the quarterly index, with other production item prices holding near April levels. Compared to a year ago, feed prices again showed the largest increase, registering a 40 percent rise from last July. Substantial gains were also registered in fertilizer prices, up 12.8 percent from last year, and in prices of farm and motor supplies, which rose 7.3 percent. Partially offsetting these increases, interest payable per acre was down almost 7 percent from the previous year's level.

Peter J. Heffernan

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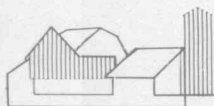
## Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers (1977=100)</b>					
Crops (1977=100)	August	144	2.1	13	14
Corn (\$per bu.)	August	136	2.3	33	32
Oats (\$per bu.)	August	2.66	-2.2	81	54
Soybeans (\$per bu.)	August	2.58	-9.8	84	-97
Wheat (\$per bu.)	August	8.40	-1.2	67	68
	August	3.56	1.7	51	58
<b>Livestock and products (1977=100)</b>					
Barrows and gilts (\$per cwt.)	August	152	3.4	1	3
Steers and heifers (\$per cwt.)	August	46.80	2.2	-22	-26
Milk (\$per cwt.)	August	70.80	5.2	7	22
Eggs (¢per doz.)	August	11.60	1.8	-5	-6
	August	58.1	0.5	17	-7
<b>Prices paid by farmers (1977=100)</b>					
Production items	July	172	2.4 <sup>†</sup>	5	8
Feed	July	160	3.2 <sup>†</sup>	8	11
Feeder livestock	July	147	31.3 <sup>†</sup>	40	37
Fuels and energy	July	180	-8.6 <sup>†</sup>	-1	17
	July	166	1.8 <sup>†</sup>	1	9
<b>Producer Prices (1982=100)</b>					
Agricultural machinery and equipment	August	109	0.3	3	6
Fertilizer materials	August	112	0.3	2	2
Agricultural chemicals	August	97	-0.4	7	15
	August	107	-0.3	4	4
<b>Consumer prices (1982-84=100)</b>					
Food	August	119	0.4	4	8
	August	119	0.5	5	9
<b>Production or stocks</b>					
Corn stocks (mil. bu.)	June 1	5,833	N.A.	-8	17
Soybean stocks (mil. bu.)	June 1	655	N.A.	-22	-23
Beef production (bil. lbs.)	July	1.98	-2.1	-2	-8
Pork production (bil. lbs.)	July	1.13	-8.0	5	7
Milk production (bil. lbs.)††	August	10.3	-2.2	1	2

†N.A. Not applicable

††Prior period is three months earlier.

21 selected states.



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