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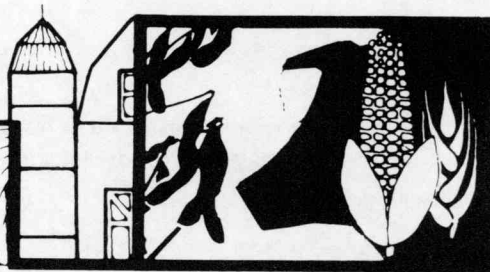
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Waite

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LETTER

Waite Memorial Book Collection
Division of Agricultural Economics

FARM TRACTOR AND EQUIPMENT SALES fell sharply during the first half of 1980. Reports from the Farm and Industrial Equipment Institute show that unit retail sales of farm tractors from January to June were down 24 percent from the year before and combine sales were down 14 percent. In District states, an important market for agricultural equipment, the decline in unit sales was even greater. The downturn reflected low farm earnings and tight credit markets. But with the recent improvement in prospective farm earnings and an easing in credit conditions, a rebound in second-half sales of farm equipment seems likely.

Much of the decline in unit sales occurred in the second quarter. Sales of tractors with 40 or more horsepower in the second quarter were down 27 percent from the year before, exceeding the first-quarter decline of 19 percent. Four-wheel drive tractor sales, which had remained strong in late 1979 and early 1980, were down 28 percent in the second quarter. Combine and forage harvester sales, which had exceeded year-earlier levels in the first quarter, were down 31 percent and 24 percent in the second quarter. Cornheads, although down 15 percent in the second quarter, still managed a gain of 6 percent for the entire first half.

Sales in Seventh District states were especially soft during the first half. Unit sales of tractors with 40 or more horsepower in the second quarter were down 45 percent from the year before and 38 percent for the entire first half. Combine sales were off 48 percent for the second quarter and 20 percent for the first half. Iowa had the greatest decline in unit sales of tractors, balers, forage harvesters, and mowers but had a 35 percent gain in cornhead unit sales for the first half of 1980 over the year before. District states normally account for a fifth of annual tractor sales and about one-third of combine sales.

Inventories of farm tractors and a number of other types of farm equipment are up because of slow sales, but combine and cornhead inventories are down from a

year ago. As of the end of June, tractor inventories were up 21 percent from a year ago while combine inventories were down 4 percent. To hold inventories down, some manufacturers scheduled extended plant shut-downs for this summer and fall.

The downturn in farm equipment sales that started in late 1979 and gained momentum during the first half mirrors the conditions evident in farm income and credit markets. Livestock prices were down this spring with hogs in particular reaching the lowest monthly average in over five years. Prices farmers received for crops were low and costs of production were escalating.

Unit retail sales of farm equipment declined sharply in the second quarter

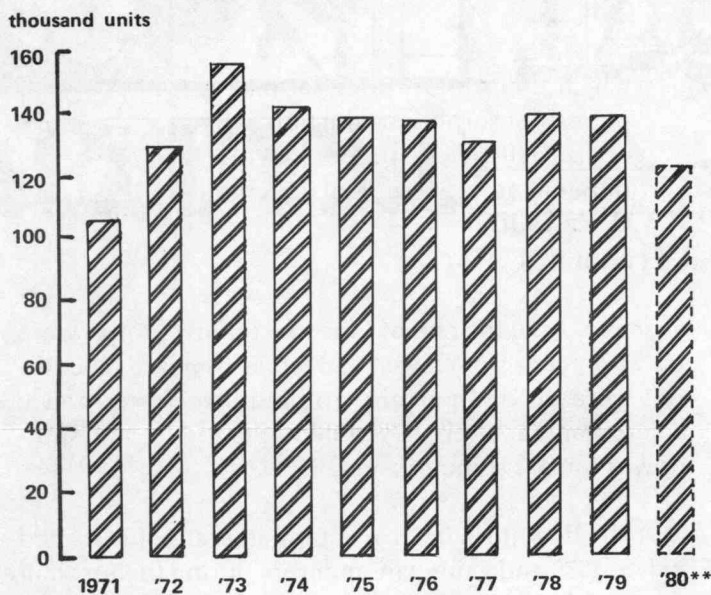
	<u>1979</u>	<u>1980</u>	<u>Percent change</u>
Tractors*			
1st Quarter	34,540	27,924	-19.1
2nd Quarter	45,146	32,773	-27.4
Combines			
1st Quarter	3,248	3,657	+12.5
2nd Quarter	4,995	3,454	-30.8
Balers**			
1st Quarter	2,368	1,332	-43.8
2nd Quarter	6,095	4,519	-25.9
Forage Harvesters			
1st Quarter	834	1,000	+19.9
2nd Quarter	2,340	1,787	-23.6
Mowers			
1st Quarter	3,073	2,178	-29.1
2nd Quarter	10,689	7,252	-32.1
Cornheads			
1st Quarter	1,809	2,312	+27.8
2nd Quarter	1,780	1,512	-15.1

*40 or more horsepower.

**Under 200 lbs.

SOURCE: Farm and Industrial Equipment Institute.

Unit retail sales of farm tractors in 1980 may be the lowest since 1971



*Tractors with 40 horsepower or more.

** Estimate based on the May 1980 Farm and Industrial Institute's State of the Industry Report.

Net farm income fell sharply during the first half. In addition to low earnings, high interest rates apparently caused many farmers to postpone farm equipment purchases.

For the rest of this year, there are indications that farm equipment sales may improve from the extremely sluggish performance of the first half. Livestock prices have moved upward with hogs showing strong gains. Crop prices have risen sharply in response to this year's apparent shortfall in production and the continued strength in export demand. Because of the higher commodity prices, many analysts now believe net farm income during the second half will substantially exceed the first-half level. Moreover, interest rates are down from the unprecedented peaks of this spring and the availability of funds at rural banks has improved considerably. These positive factors could strengthen equipment sales during the rest of 1980.

The consensus view from a May survey of farm equipment manufacturers points to a 12 percent decline in unit tractor sales for all of this year and a decline of 6 percent in combine sales. These projections may still be relevant, although they were made prior to the sharp declines in the second quarter and the more recent improved farm earnings prospects. If that is the case, the estimates imply tractor sales during the second half may be up around 5 percent from the year before while combine sales may drop only 2 percent from a year ago.

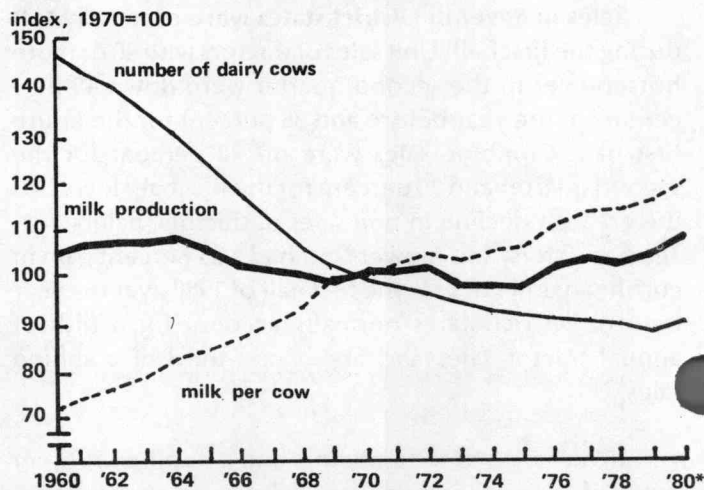
Jeff Miller

MILK PRODUCTION is on the upswing this year and may surpass the 1964 record. During the first seven months of this year, milk production exceeded the year-earlier level by 3.2 percent (daily average basis). The increased production has coincided with a decline in commercial disappearance. As a result, government purchases of manufactured dairy products have been at a very high level in order to keep milk prices from falling below the support level. Milk prices are rising seasonally this summer and will receive another boost on October 1 when the semiannual adjustment in the support price becomes effective. For all of this year, milk prices received by farmers are expected to average nearly a tenth above the \$12 per hundredweight recorded in 1979.

The uptrend in milk production reflects the rising profits that dairymen have had over the past three or four years. Although production costs have increased substantially, the rise in milk prices has been more than offsetting. USDA studies show that returns to labor,

management, and risk for dairy farmers have risen from \$1.18 per hundredweight of milk produced in 1978 to

The downtrend in dairy cow numbers may end this year



* Estimate.

\$1.49 last year. Projections for this year show the returns may rise to \$1.89 per hundredweight of milk produced, an increase of 60 percent in two years.

Because of the high and rising returns, the long-term decline in dairy cow numbers has ended this year—at least temporarily—and output per cow has continued to rise. During the 1960s milk cow numbers declined at an annual rate of 3.7 percent. The downturn slowed in the 1970s, but still continued at an annual rate of 1.3 percent. However, dairy cow numbers moved above the year-earlier level in March and in July were at the highest level for that month since 1977. Milk output per cow so far this year has averaged nearly 3 percent higher than the year before, somewhat above the average annual rate of increase during the past two decades.

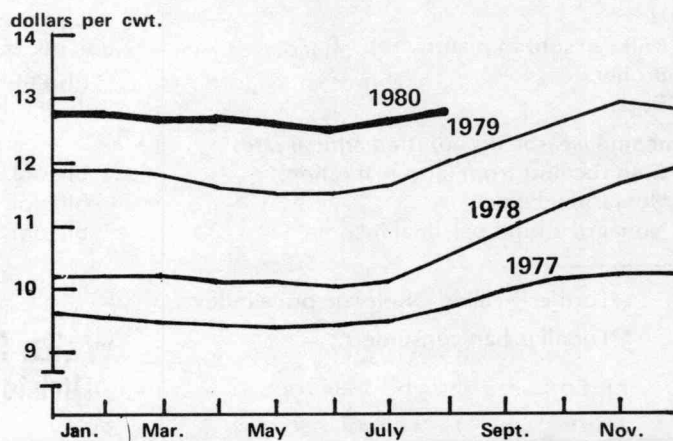
If dairy cow numbers rise seasonally during the second half—as is usually the case—and if milk per cow continues to exceed year-earlier levels, then total milk production for all of this year will undoubtedly surpass the 1964 record of 127 billion pounds. The USDA is currently projecting milk production for all of 1980 will exceed last year's output of 123.6 billion pounds by 3 percent.

Commercial disappearance of milk and dairy products has been sluggish this year, particularly during the second quarter. Disappearance was nominally below the year-earlier level in the first quarter, and then fell 5 percent below the year before in the second quarter. For the entire first half, commercial disappearance was the lowest since 1977. Disappearance of butter, which fell 9 percent in the first half, accounted for a large share of the overall decline. Disappearance of American cheese, in marked contrast to the 4.5 percent compound annual rate of growth during the 1970s, fell 5 percent below the year-earlier level in the first half. Disappearance of other cheese, which also grew rapidly during the 1970s, was down 1 percent in the first half.

The sluggish disappearance of milk and dairy products is largely attributed to the downturn in the general economy, the high inflation rate which eroded consumer purchasing power, and the large increase in retail prices of milk and dairy products relative to the increases for alternative foods. During the first half, retail prices of dairy products averaged 10.5 percent higher than the year before. The increase for margarine was substantially less, contributing to the fall-off in disappearance of butter. Poultry and pork prices averaged below year-earlier levels during the first half, undermining the disappearance of cheese.

Government purchases of manufactured dairy products are up sharply this year because of the imbalance between production and commercial disappearance of milk. Government purchases represent the vehicle by which the support price for milk is maintained during periods of surplus production, when prices would otherwise fall below support levels. During the second quarter, net government purchases of dairy products totaled 4.4 billion pounds (milk equivalent), the largest quarterly total in the history of the dairy price support program and four times the amount purchased in the second quarter of last year. For the entire 1979/80 milk marketing year that ends in September, the USDA is estimating that net government purchases will exceed 8 billion pounds (milk equivalent) at a cost of more than \$1 billion. This would represent a new high in government outlays to support the dairy industry, and the amount purchased would be the largest in nearly two decades.

Milk prices received by farmers are well above year-ago levels



Milk prices received by farmers trended seasonally lower during the first half, but bounced back this summer. Farmers received an average of \$12.69 per hundredweight for all milk sold to plants during the first eight months of this year, up from \$11.72 during the same months last year. Prices will continue to rise in the months ahead in light of the pending October 1 increase in the support price of milk. The support price for manufacturing grade milk is currently \$12.36 per hundredweight. Preliminary estimates suggest the forthcoming semiannual adjustment may raise the support price to more than \$13 per hundredweight. The increase will likely push milk prices received by farmers to an average of about \$14 per hundredweight during the latter part of this year.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	August	256	+ 3.6	+ 8
Crops	1967=100	August	248	+ 2.5	+ 5
Livestock	1967=100	August	264	+ 4.8	+ 9
Index of prices paid by farmers	1967=100	August	284	+ 1.4	+13
Production items	1967=100	August	278	+ 1.8	+12
Producer price index* (finished goods)	1967=100	July	247	+ 1.6	+14
Foods	1967=100	July	240	+ 3.7	+ 6
Processed foods and feeds	1967=100	July	241	+ 3.1	+ 4
Agricultural chemicals	1967=100	July	258	+ 0.2	+22
Agricultural machinery and equipment	1967=100	July	257	+ 0.6	+11
Consumer price index** (all items)	1967=100	July	249	+ 0.1	+13
Food at home	1967=100	July	252	+ 1.4	+ 7
Cash prices received by farmers					
Corn	dol. per bu.	August	2.93	+ 7.3	+15
Soybeans	dol. per bu.	August	6.99	+ 3.6	- 1
Wheat	dol. per bu.	August	3.86	+ 1.3	+ 3
Sorghum	dol. per cwt.	August	5.33	+ 6.2	+25
Oats	dol. per bu.	August	1.55	+ 3.3	+25
Steers and heifers	dol. per cwt.	August	69.90	+ 2.6	+ 7
Hogs	dol. per cwt.	August	46.80	+13.6	+29
Milk, all sold to plants	dol. per cwt.	August	12.80	+ 1.6	+ 7
Broilers	cents per lb.	August	31.5	- 0.6	+37
Eggs	cents per doz.	August	58.0	+14.4	+ 9
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	132	0	+ 2
Net farm income	bil. dol.	2nd Quarter	25	- 7.4	-27
Nonagricultural personal income	bil. dol.	June	2,076	+ 1.4	+10

*Formerly called wholesale price index.

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