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LETTER

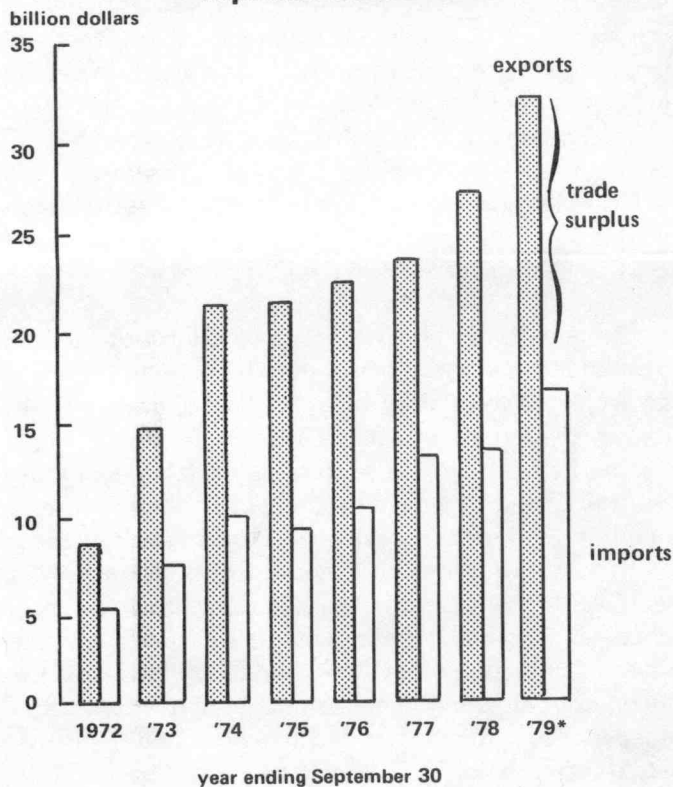
AGRICULTURAL EXPORTS are expected to reach a new high in the fiscal year ending September 30. Higher prices for most farm commodities, plus a projected 5 percent rise in export volume, will boost the value of this year's agricultural exports roughly 17 percent to \$32 billion. Of that, an estimated \$4.7 billion will come from shipments to centrally planned countries, 41 percent more than in fiscal 1978. The U.S. agricultural trade surplus is still forecast to be record large this year, despite a recent upward revision in the estimate of agricultural imports. Moreover, a recent forecast of agricultural exports

and imports in fiscal 1980 suggests that yet another increase in the trade surplus is forthcoming.

Export tonnage is projected at 128 million metric tons in fiscal 1979 and volume increases are forecast for most commodities. With the exception of wheat and flour shipments, the volume of most commodities was above year-earlier levels through the first nine months of the fiscal year. Through June, the volume of wheat and flour exports totaled 21.5 million metric tons, leaving nearly 11 million tons to be shipped in the final three months of the year—a tenth more than last year's fourth-quarter shipments. Feed grains represent an even greater shortfall in the pace of shipments through June. Roughly 61 million tons of feed grain exports are forecast for this year, 9 percent more than last year. Of this, only 42 million tons were shipped in the first nine months. The tonnage remaining to be shipped in the July-September period is nearly a fourth larger than last year's fourth-quarter shipments. Overall, fourth-quarter export tonnage must exceed the year-ago level by nearly 16 percent for the volume projections to be realized. Export inspections of wheat, and soybeans for the months of July and August were each up only about 4 percent. Hence, the projected volume of wheat and flour shipments may be slightly overstated. Inspections of corn were up a third, suggesting that the projected volume of feed grain exports will likely be attained.

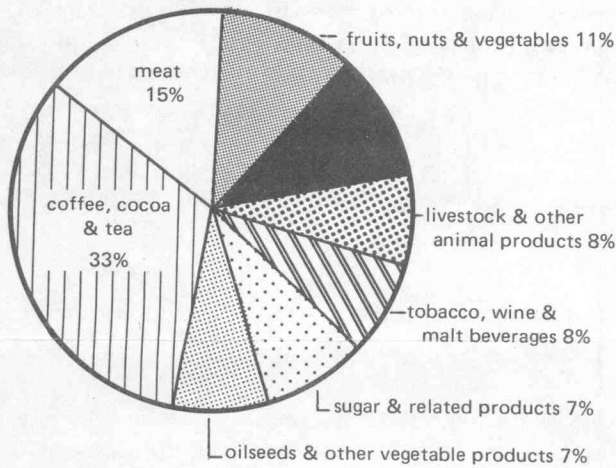
Prices of most farm products have averaged higher this year than last, contributing to the increase in this year's dollar value of agricultural exports. Paced by higher livestock prices, the export value of livestock and products are forecast to exceed \$3.1 billion this year, nearly a third more than last year, despite a slight reduction in the volume of shipments. Exports of soybeans, feed grains, and wheat and flour are expected to total nearly \$17.2 billion in fiscal 1979. Up 18 percent from a year ago, these will account for approximately 54 percent of the total value of farm exports.

Record \$15.7 billion agricultural trade surplus expected in fiscal 1979

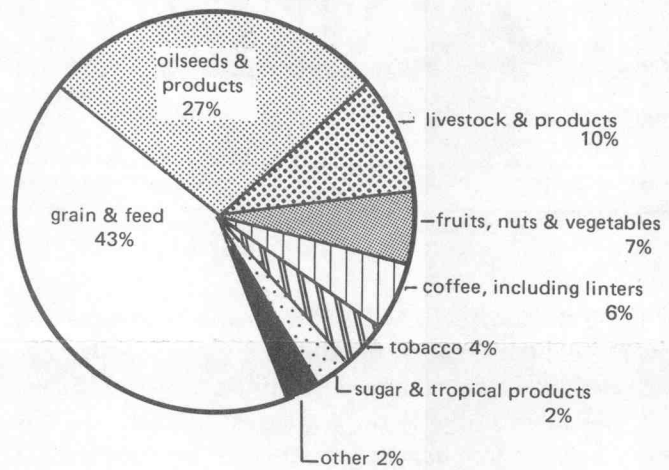


*USDA projection.

**1979 agricultural imports*
(\$16.3 billion)**



**1979 agricultural exports*
(\$32.0 billion)**



*USDA projection for fiscal 1979.

Japan continues to be the leading single-country purchaser of U.S. farm commodities, accounting for about 15 percent of the export market. Through the third quarter, Japan imported \$3.8 billion of the nearly \$24 billion of total agricultural exports. China, however, will likely pace the increased purchases among major importing countries in fiscal 1979 with imports projected at \$900 million, more than twice the level a year earlier. The biggest revision from early-season estimates will probably come from exports to the USSR. Instead of a 20 percent decline in fiscal 1979 purchases, the USSR is now expected to spend \$2.3 billion on U.S. farm products this year, more than a fifth above last year. Soviet imports through June totaled \$1.2 billion, leaving nearly half the amount forecast for the fiscal year to be shipped in the July-September period.

The USDA's projection of agricultural imports this year was recently boosted to \$16.3 billion, up 17 percent from the fiscal 1978 record. Meat imports paced the rise due to the combined effects of a larger quantity of imports and sharply higher prices. The value of imported meat and meat products in fiscal 1979 is estimated at \$2.5 billion, up 57 percent from a year earlier. A projected increase of 26 percent in the volume of coffee imports is expected to be largely offset by lower average prices, resulting in less than a 5 percent increase in import value. Based on current projections, the U.S. agricultural trade

surplus will total \$15.7 billion this year, up 17 percent from the record set in fiscal 1978.

The outlook for fiscal 1980 U.S. agricultural exports is optimistic. The USDA recently projected agricultural exports next year would approach \$38 billion. That will mean an increase of nearly a fifth from the tally expected this year. Much of the increase will presumably stem from larger exports of grains. Despite a projected increase in imports to around \$18 billion, this further expansion in exports could boost the U.S. agricultural trade surplus by a fourth to \$20 billion, marking the third consecutive year of record-breaking performance.

Several factors are expected to contribute to the strength in next year's export market. Among these are the projected shortfall in this year's Soviet grain production, continued growth in livestock production in major U.S. markets, sustained economic growth in developing countries, and the likelihood of logistic problems together with smaller exportable supplies of coarse grains in major competitor countries. A projection of next year's exports at this early date is, of course, very tentative. Significant unknowns at this point are the potential for weather problems here and abroad and the uncertainty surrounding the adequacy of the transportation capacity within the United States to handle the projected increase.

FARM TRACTOR SALES in the second quarter failed to match the strong pace of a year ago. Unit retail sales of roughly 45,000 farm tractors in the April-June period were down 2 percent from a year earlier, according to the Farm and Industrial Equipment Institute (FIEI). Second-quarter sales of most other major types of farm equipment were also less than in the same period last year, even though the index of prices received by farmers for all crops in the April-June period averaged nearly 5 percent higher than last year. Despite the slowing, the strong performance during the early part of the year held first-half sales of most major items above year-earlier levels. During the January-June period, unit sales of farm tractors were up 4 percent and combine sales were up 14 percent. Sales in the second half are expected to average near year-earlier levels.

First-half sales of farm machinery in district states generally paralleled nationwide performance

	Unit retail sales (January-June)			
	District states		United States	
	Number	Percent change ²	Number	Percent change ²
Tractors ¹	18,615	0.9	79,691	3.7
Combines	2,516	15.5	8,243	13.9
Cornheads	1,820	- 7.3	3,589	- 2.7
Balers	1,365	-15.2	7,112	-29.2
Forage harvesters	1,307	13.5	3,174	10.4
Mower conditioners	3,570	- 2.1	13,762	1.6
Manure spreaders	5,606	4.6	12,898	3.9

¹Units with 40 or more horsepower.

²From previous year.

³SOURCE: Farm and Industrial Equipment Institute.

Machinery and equipment sales in district states have generally followed the nationwide trend. On average, however, the pace of sales in district states has been weaker than for the rest of the United States. Farmers in district states bought 18,600 tractors in the first half, 1 percent more than last year. This increase, however, was accounted for by a 17 percent sales increase in Wisconsin and a 12 percent increase in Iowa. On the other hand, the strength in first-half combine sales nationwide was paced by district states. Iowa led by a wide margin with a 42 percent rise in sales. Wisconsin was the only district state to show a year-to-year decline.

Sales of most sizes of farm tractors increased in the first half but, as has been a widely recognized trend for

some time, large tractors continued to make the biggest increases. Sales of two-wheel drive tractors with 160 or more horsepower were up 15 percent from a year earlier. Four-wheel drive tractor sales were up 28 percent. In comparison, unit sales of farm tractors with horsepower ratings from 40 to 159 increased only slightly more than 1 percent in the first six months of the year.

Large tractors paced first-half sales

	Units sold Jan.-June 1979		Ending June inventories		Inventory- to-sales ¹ ratio
	Number	Change ²	Number	Change ²	
	(thou.)	(percent)	(thou.)	(percent)	(percent)
Two-wheel drive (by horsepower rating					
40-59	16,298	- 2.5	16,850	11.1	57
60-79	12,449	9.1	10,314	-13.1	47
80-99	8,204	2.0	4,729	-29.5	32
100-119	9,011	2.8	6,225	- 4.2	39
120-139	15,895	4.0	9,554	- 2.6	34
140-159	6,957	- 8.5	4,302	-12.3	34
160 plus	5,328	15.3	5,531	16.4	58
Total	74,142	2.3	57,505	- 3.7	43
Four-wheel drive	5,549	27.7	5,096	- 3.6	51
All farm tractors	79,691	3.7	62,601	- 3.7	44

¹Sales during the July 1978 through June 1979 period.

²From previous year.

SOURCE: Farm and Industrial Equipment Institute.

Inventories of most major farm machinery and equipment items at midyear were about a tenth below year-earlier levels. Tractor inventories were down 4 percent from a year before and a tenth below the high level in June 1977. Combine inventories were about a tenth less than last year, but still above the prevailing levels in the years 1974 through 1977. The prospects for labor negotiations disrupting some production schedules this fall could partially explain why current inventories are not smaller than they are.

The outlook for machinery and equipment sales in the second half of the year is mixed. Prospects for a record grain harvest and another boost in net farm income point to continued strength in sales. On the other hand, fund availability at many rural banks is still tight and the indexes of prices paid by farmers for tractors and other machinery are roughly 10 to 13 percent higher than a year ago.

Don A. Langford
Agricultural Economist

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	234	- 4.1	+11
Crops	1967=100	August	230	- 4.2	+13
Livestock	1967=100	August	239	- 4.4	+10
Index of prices paid by farmers	1967=100	August	251	0	+14
Production items	1967=100	August	249	- 0.4	+15
Producer price index* (finished goods)	1967=100	August	217	+ 0.7	+11
Foods	1967=100	August	223	- 0.6	+ 8
Processed foods and feeds	1967=100	August	220	- 1.2	+ 9
Agricultural chemicals	1967=100	August	214	+ 1.5	+ 6
Agricultural machinery and equipment	1967=100	August	232	+ 1.0	+ 9
Consumer price index** (all items)	1967=100	July	219	+ 1.1	+11
Food at home	1967=100	July	236	+ 0.6	+10
Cash prices received by farmers					
Corn	dol. per bu.	August	2.49	- 5.7	+24
Soybeans	dol. per bu.	August	6.91	- 6.1	+11
Wheat	dol. per bu.	August	3.71	- 4.6	+29
Sorghum	dol. per cwt.	August	4.30	- 3.6	+28
Oats	dol. per bu.	August	1.24	- 6.8	+17
Steers and heifers	dol. per cwt.	August	64.30	- 7.3	+23
Hogs	dol. per cwt.	August	35.50	- 6.3	-25
Milk, all sold to plants	dol. per cwt.	August	11.90	+ 2.6	+13
Broilers	cents per lb.	August	23.0	- 9.8	-12
Eggs	cents per doz.	August	52.3	- 2.1	- 8
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	130	+ 2.4	+18
Net realized farm income	bil. dol.	2nd Quarter	33	- 0.6	+20
Nonagricultural personal income	bil. dol.	July	1,881	+ 1.5	+11

*Formerly called wholesale price index.

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