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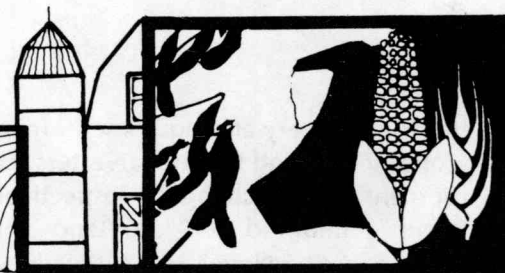
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LETTER

FARM TRACTOR AND EQUIPMENT PURCHASES continued at a strong pace in the first quarter. According to the Farm and Industrial Equipment Institute (FIEI), retail sales of farm tractors increased to 34.5 thousand units in the January-March period, 12 percent above the year-earlier level. This rise follows substantial year-to-year gains in tractor sales in each of the three preceding quarters. First-quarter increases were also reported for most other major farm equipment items, with the exception of forage harvesters. The strength in machinery and equipment sales in recent months reflects the high level of farm earnings over the past few quarters. Most trade sources expect unit sales of farm equipment in coming months will remain strong, but gains probably will not match the pace reported in the first quarter.

District states trailed the nationwide uptrend in farm machinery and equipment sales in the first quarter

	Unit retail sales (January-March)			
	District states		United States	
	Number	Percent change ²	Number	Percent change ²
Tractors ¹	7,802	7.4	34,547	12.0
Combines	1,152	7.7	3,248	17.2
Cornheads	927	-10.3	1,809	2.3
Balers	519	63.7	2,368	48.4
Forage harvesters	339	- 8.1	834	- 5.0
Mower conditioners	847	20.3	3,073	27.5
Manure spreaders	2,769	2.4	6,343	2.7

¹Units with 40 or more horsepower.

²From previous year.

SOURCE: Farm and Industrial Equipment Institute.

The increases in unit sales of most items of machinery and equipment in Seventh District states trailed those for the entire United States in the January-March period. Farmers in district states purchased 7,800 tractors in the first quarter, up 7 percent from a year before. The number of tractors bought in Iowa and Wisconsin increased 22 and 16 percent, which offset the declines in unit sales that occurred in Indiana and Michigan. Illinois farmers bought only 2 percent more

tractors. Unit sales of combines were up 8 percent for the five-state area, due entirely to increases of 39 and 13 percent in Iowa and Indiana. Farmers in Wisconsin, Illinois, and Michigan purchased 24, 14, and 13 percent fewer combines, respectively. The surge in unit sales of hay balers reported in district states was due largely to a 76 percent increase in purchases by Wisconsin farmers. Wisconsin is traditionally the nation's largest state market for balers, accounting for nearly as many baler sales as the other four district states combined.

Large tractors paced first-quarter sales

	Units sold Jan.-Mar. 1979		Ending March inventories		Inventory- to-sales ¹ ratio
	Number (thou.)	Change ² (percent)	Number (thou.)	Change ² (percent)	
Two-wheel drive (by horsepower rating)					
40-59	6.4	- 2.6	16.4	- 9.5	55
60-79	5.2	12.4	11.5	-25.6	54
80-99	3.5	10.3	5.8	-26.7	38
100-119	4.0	14.5	7.1	- 7.7	43
120-139	7.5	15.8	11.0	-11.3	39
140-159	3.2	7.7	5.1	-24.1	38
160 plus	2.6	45.6	4.6	-14.4	48
Total	32.5	11.3	61.6	-16.5	46
Four-wheel drive	2.0	23.8	4.9	-15.7	54
All farm tractors	34.5	12.0	66.5	-16.5	46

¹Sales during the April 1978 through March 1979 period.

²From previous year.

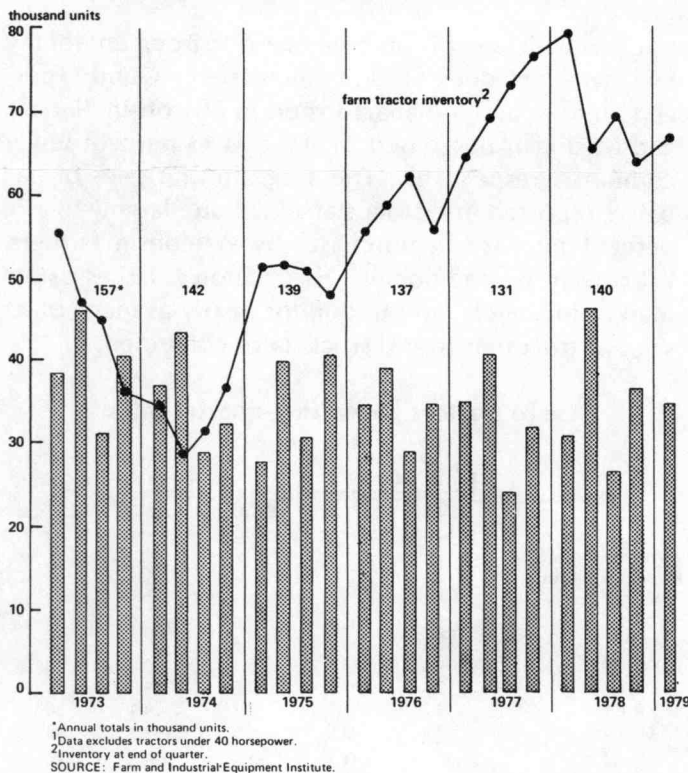
SOURCE: Farm and Industrial Equipment Institute.

The trend in recent years of purchasing machinery and equipment with larger capacities continued unabated in the January-March period. Purchases of farm tractors were strongest proportionately for those in the highest horsepower categories. FIEI figures show that unit retail sales of four-wheel drive tractors numbered nearly a fourth above the sluggish performance of a year before. Sales of two-wheel drive tractors with 100 horsepower or more were up roughly 17 percent. In contrast, purchases of smaller two-wheel drive tractors—those from 40 to 99 horsepower—were up only 5 percent.

Inventories at the end of March ranged from 15 to 33 percent below year-earlier levels for most major items of

farm machinery and equipment. Inventories of mower conditioners and forage harvesters, however, were up 6 percent and unchanged, respectively. Tractor inventories numbered 66.5 thousand units on March 31, almost a sixth below a year earlier. Nevertheless, this was roughly equal the March 1977 level and was still higher than the levels that prevailed from 1973 to 1976.

Increased tractor sales in past four quarters contributed to lower year-to-year inventories



The outlook for farm tractor and equipment sales for the remainder of this year is somewhat mixed. The strong January-March performance has enhanced prospects for 1979 overall, yet year-to-year gains in unit sales in coming months are not likely to match the pace set in the first quarter. Preliminary indications for April and May

MILK PRODUCTION in the first five months of 1979 approximately equaled the level a year earlier. Slight year-to-year reductions in milk output in April and May followed small increases since last November. Production for the remainder of the year is expected to about equal last year's level.

A 9 percent boost in the support price of milk became effective April 1, raising the price for manufacturing grade milk to \$10.76 per hundredweight. To maintain support prices, the Commodity Credit Corporation

suggest unit sales of most major items of farm machinery and equipment were down from a year earlier, with the exception of four-wheel drive tractors and combines, which apparently have continued to experience strong demand.

Several factors suggest the demand for machinery and equipment by farmers will continue strong. Net farm income is projected at roughly \$32 billion, up nearly a seventh. Plantings of grains and oilseeds this year are forecast by the USDA to be nearly 286 million acres, 3 percent more than last year. Recent strength in grain prices, if it persists, would further bolster machinery demand. On the other hand, a weakening demand is suggested by factors such as interest rates well above year-ago levels and rural banks reporting unusually tight liquidity pressures. Moreover, according to the USDA, prices paid by farmers for tractors and other machinery are more than a tenth higher than a year ago and this could dampen demand.

Farm machinery manufacturers responding to a recent FIEI survey indicated their expectations of a 2 percent increase in unit sales of two-wheel drive tractors this year and a 10 percent rise in sales of four-wheel drive tractors. If these survey findings prove true, sales of four-wheel drive tractors in the April-December period will average 7 percent higher than a year before. However, sales of two-wheel drive tractors in the last 9 months of 1979 will decline from year-earlier levels with sales in the 100 horsepower-and-over category averaging 3 percent lower. Other survey findings indicated manufacturers expected 1 percent fewer combine sales in 1979 and higher unit sales of most types of tillage and hay and forage equipment. On the surface, these projections may seem somewhat pessimistic in light of the sales gains to date and the prospects for continued strength in farm earnings. Second-half sales last year, however, were quite strong. Therefore, year-to-year declines in unit sales may occur during some of the remaining months this year.

(CCC) bought about 500 million pounds (milk equivalent) from January through April. Roughly 60 percent of that amount was purchased in April to nudge market prices up to the new support level. Even so, with commercial usage continuing the strong expansion of last year, CCC purchases in the first four months of the year were more than two-thirds less than a year before.

In all district states except Iowa, proportionate year-to-year increases in milk production through May exceeded that for the entire United States. Gains in milk

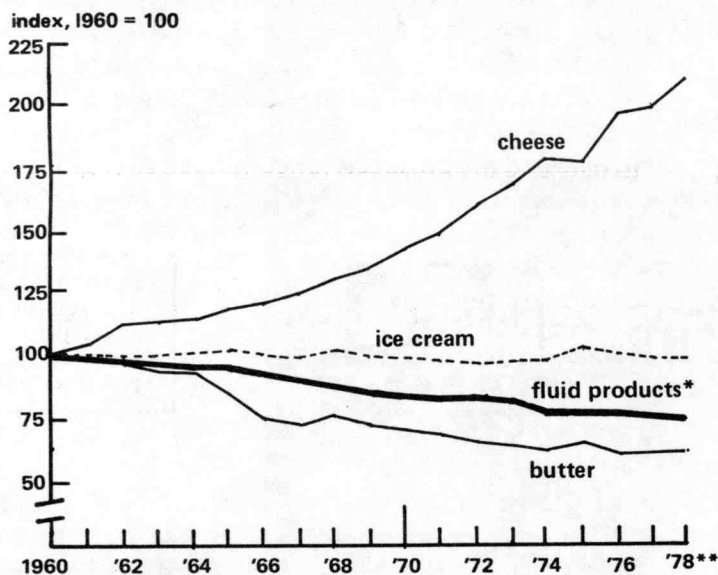
output in the period ranged from 0.9 percent in Michigan to 2.3 percent in Illinois. District states accounted for 29 percent of the nation's production.

Milk production in 1979 expected to rise slightly

	May			January-May		
	1978 (mil. pounds)	1979 (mil. pounds)	Change (percent)	1978 (mil. pounds)	1979 (mil. pounds)	Change (percent)
Illinois	212	217	2.4	993	1,016	2.3
Indiana	196	199	1.5	909	920	1.2
Iowa	368	357	-3.0	1,684	1,655	-1.7
Michigan	417	414	-0.7	1,975	1,992	0.9
Wisconsin	2,020	2,031	0.5	9,154	9,294	1.5
District states	3,213	3,218	0.2	14,715	14,877	1.1
United States	11,178	11,175	-0.1	51,613	51,753	0.3

Commercial disappearance of milk last year exceeded 119 billion pounds (milk equivalent), up 3 percent from the year before. Similarly, disappearance in the first quarter of 1979 was nearly 3 percent higher than a year earlier. Per capita civilian consumption of milk and dairy products this year is expected to about equal the 558 pounds (milk equivalent) of last year. Each American consumed an average of 20.5 pounds of milkfat last year—the most since 1972. The rise was due largely to the expanded consumption of butter and cheese, up 2 and 5 percent, respectively.

Per capita consumption of cheese continued upward trend in 1978

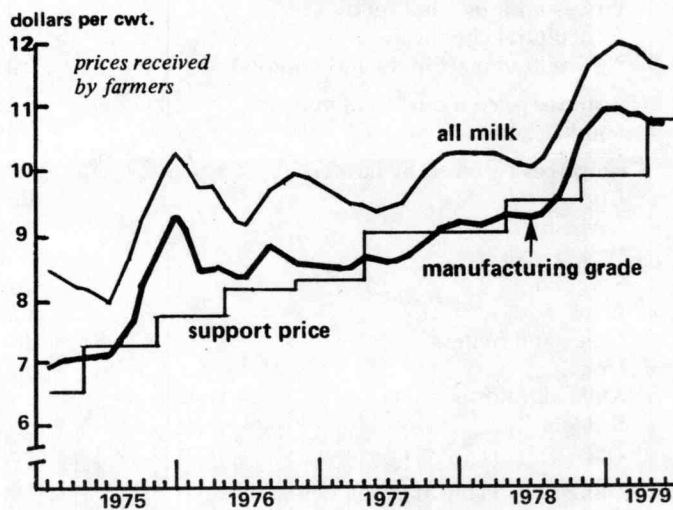


*Milk equivalent (fat solids basis) of whole milk, cream items, and skim milk.

**Preliminary.

The outlook for dairy farmers continues to appear favorable. Prices received by farmers for all milk sold to plants in the first five months of 1979 averaged 15 percent higher than a year before. And because the rise in feed prices has been proportionately less, the milk-feed price ratios continue favorable. May marked the 23rd consecutive month that the ratio exceeded its year-earlier level.

Milk support prices were raised again in April



Cash receipts from dairying increased 8 percent last year and in the first four months this year averaged a sixth higher than a year before. For all of 1979, cash receipts to dairying are forecast at about \$14.5 billion, 14 percent higher than in 1977.

The Food and Agriculture Act of 1977 requires that semiannual adjustments in the support price of milk be made through March 31, 1981, to reflect estimated changes in the parity index. A separate provision of the act that expired with the April 1 increase in the support price required that these adjustments reflect at least 80 percent of parity. In the absence of new legislation, existing statutes permit the support price to be set between 75 and 90 percent of parity, beginning with the new dairy marketing year that begins October 1. A bill was approved by the House Agriculture Committee last week extending the minimum of 80 percent of parity through September 30, 1981. Most observers feel the bill has enough support for enactment with perhaps only minor changes.

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	May	246	+ 0.8	+14
Crops	1967=100	May	220	+ 3.8	+ 4
Livestock	1967=100	May	269	- 1.1	+24
Index of prices paid by farmers	1967=100	May	247	+ 0.4	+13
Production items	1967=100	May	247	+ 0.4	+14
Producer price index* (finished goods)	1967=100	May	212	+ 0.6	+10
Foods	1967=100	May	227	- 0.4	+10
Processed foods and feeds	1967=100	May	221	- 0.1	+10
Agricultural chemicals	1967=100	May	210	+ 0.1	+ 3
Agricultural machinery and equipment	1967=100	May	227	+ 0.8	+ 8
Consumer price index** (all items)	1967=100	April	212	+ 1.1	+10
Food at home	1967=100	April	232	+ 0.8	+2
Cash prices received by farmers					
Corn	dol. per bu.	May	2.34	+ 3.1	+ 2
Soybeans	dol. per bu.	May	6.95	- 1.6	+ 3
Wheat	dol. per bu.	May	3.22	+ 7.0	+14
Sorghum	dol. per cwt.	May	3.60	+ 0.6	- 2
Oats	dol. per bu.	May	1.29	0	+ 4
Steers and heifers	dol. per cwt.	May	75.40	- 1.3	+40
Hogs	dol. per cwt.	May	43.60	- 1.6	- 9
Milk, all sold to plants	dol. per cwt.	May	11.50	- 0.9	+14
Broilers	cents per lb.	May	29.0	+ 2.8	+ 4
Eggs	cents per doz.	May	56.7	- 5.8	+15
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	1st Quarter	125	+ 6.5	+20
Net realized farm income	bil. dol.	1st Quarter	34	+ 5.7	+30
Nonagricultural personal income	bil. dol.	April	1,814	+ 0.3	+11

*Formerly called wholesale price index.

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