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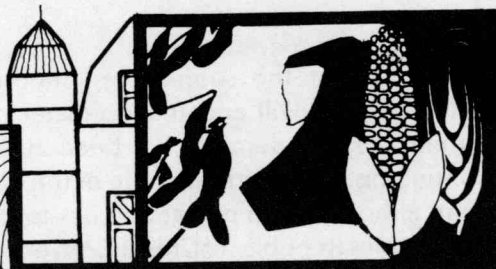
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FEDERAL RESERVE BANK OF CHICAGO

# AGRICULTURAL



# LETTER

October 20, 1978

Number 1484

**RECORD CORN AND SOYBEAN HARVESTS** were reconfirmed in the USDA's latest crop production estimates released last week. Based on conditions around October 1, the 1978 corn harvest is expected to exceed 6.8 billion bushels. That is up nominally from the previous estimate and 7 percent above last year's record. Total feed grain production is pegged at 209 million metric tons, up 4 percent from last year. This year's soybean production estimate was raised 1 percent to nearly 1.8 billion bushels, 2 percent above the upward-revised figure for last year. Despite these indications of a large harvest, grain and soybean prices have held surprisingly firm, showing none of the widely expected seasonal downturn during the harvest season. While this strength has provided early-season optimism for producers, the fundamentals for the overall 1978/79 marketing year do not appear to be all that strong. Consequently, the postharvest rise in prices—which earlier had been expected to provide considerable storage profits—may be less than expected.

The 1978 growing season got off to a late start. But overall the crops developed and matured well. In many areas, the harvest is ahead of the normal pace. This week began with 38 percent of the corn and 40 percent of the soybeans harvested nationwide. This compares with the normal progress of 32 and 42 percent completion, respectively. In Illinois, 42 percent of the corn and 74 percent of the soybeans had been harvested. Iowa farmers had harvested 40 percent of their corn and 52 percent of their soybeans. In Indiana, the corn and soybean harvests were 25 and 40 percent complete, respectively.

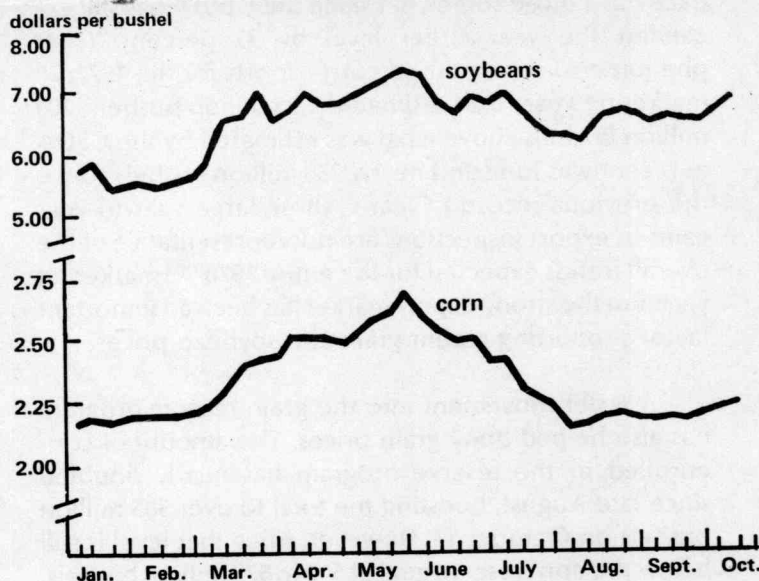
**Worldwide grain production prospects** also point to large harvests, although late-season harvesting problems have been noted recently in many areas, particularly Canada and the USSR. In late September, the USDA was estimating the 1978/79 world grain harvest would be 5 percent larger than last year and 1 percent above the previous high in 1976/77. Developments in Southern Hemisphere countries, where the harvest is still two to six months away, may still alter this projection somewhat. But among Northern Hemisphere countries, where the

harvest is drawing to a close, bumper crops are widespread. For instance, grain production in Western Europe is expected to be up nearly 7 percent from the large harvest last year. The Soviet harvest is expected to be up 14 percent from last year's downturn and close to the 1976 record. The Canadian grain harvest is expected to be down slightly from last year but still of bumper proportions.

**Grain and soybean prices** have been unexpectedly strong in light of the bumper worldwide production prospects and the good progress in completing the domestic harvest. This strength, coming at the height of the harvest season and during a rail strike, suggests that earlier concerns about the availability of storage were overstated. It now appears that the expansion in on-farm storage has been enough to handle the harvest glut, at least temporarily. And equipped with this increased storage capacity, farmers have contributed to the underlying price strength by being reluctant sellers.

Other factors contributing to the strength in prices include excellent export movement, recent developments regarding the grain reserve program, and

**Corn and soybean prices at Chicago have edged higher during the harvest season**

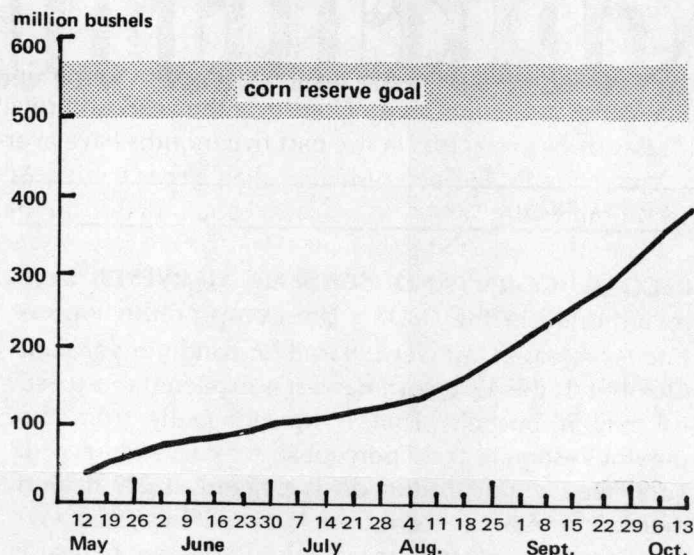


prospects that the soon-to-be-announced 1979 feed grain program will encourage greater participation by farmers. Export demand has been augmented by the continuing decline in the value of the dollar and the recent, although nominal, grain sales to the USSR and to the Peoples Republic of China. Corn exports to the USSR for all of 1978/79 are expected to approximate the 11.3 million metric tons (445 million bushels) shipped in 1977/78, reflecting that country's continuing emphasis on livestock production. In a conference between U.S. and USSR officials last week, the Soviets were reportedly noncommittal about their import needs. However, U.S. officials advised the Soviets that they could again purchase up to 15 million metric tons of grain this year without prior consultation. (This is a departure from the five-year grain agreement which permits the Soviets to purchase up to 8 million metric tons annually without prior consultation.) The recent corn sales to China were the first since 1973/74. Although much uncertainty prevails, total corn sales to China during the 1978/79 marketing year are not expected to be large. Traditionally, China has only come to the United States as a last resort to buy grain. But recent legislation giving CCC export credit to China, if signed by Carter, coupled with the pending trip to China by the Secretary of Agriculture, may help the United States make some inroads into that country's historical preference for buying commodities from countries other than the United States.

The strength in export demand is also reflected in weekly export inspections. The exceptionally strong flows that characterized corn and soybean exports this spring and summer have continued into the fall. Soybean export inspections, for instance, were 63 percent above the year-earlier level from May through August. Since then, export inspections for soybeans have been up 83 percent. From May through August, corn export inspections exceeded the year-earlier level by 52 percent. The pace has slowed somewhat since then, but it has still exceeded the year-earlier level by 32 percent. (That phenomenal pace pushed corn exports for the 1977/78 marketing year to an estimated 1.95 billion bushels, 200 million bushels above what was estimated by the USDA as recently as June and nearly 250 million bushels above the previous record.) Clearly, these large year-to-year gains in export inspections are not representative of the overall trends expected for the entire 1978/79 marketing year. But the strong export market has been an important factor supporting recent grain and soybean prices.

A faster movement into the grain reserve program has also helped buoy grain prices. The amount of corn enrolled in the reserve program has nearly doubled since late August, boosting the total to over 385 million bushels on October 13. However, since that level is still below the corn reserve goal of 500 to 575 million bushels,

### Movement into the three-year corn reserve has picked up, but enrollment is still short of the Administration's goal



the Administration—as promised—has opened the reserve program to the 1978 corn crop. These developments strengthen prospects that the reserve program will shield a substantial amount of corn from free market supplies at prices below the current release level of \$2.50 per bushel.

Despite the underlying developments contributing to the surprising strength in corn and soybean prices during the harvest season, the fundamental supply/demand conditions are not all that bullish for the entire 1978/79 marketing year. Weather permitting, soybean production in Brazil will in all likelihood make a strong comeback this year. As the size of that crop becomes clearer this winter, it may begin to undermine some of the support for soybean prices. At any rate, with total supplies for the 1978/79 soybean marketing year nearly 100 million bushels more than a year ago, it is hard to build a case that ending carryover stocks next fall will be materially below the 159 million bushel carryover this year.

The fundamentals for corn are even less bullish. Increased poultry production and a larger volume of fed cattle marketings will strengthen domestic demand. But the continuing evidence that pork production will expand only modestly next year limits the prospective rise in total domestic utilization. And in light of the large world production prospects, it is doubtful that corn exports in 1978/79 will exceed the record of the past year. In short, it appears that a 6.8 billion bushel corn harvest this fall could translate into a 400 to 500 million bushel increase in corn carryover stocks next fall.

Gary L. Benjamin  
Agricultural Economist



**FARM TRACTOR AND EQUIPMENT SALES** have benefited substantially from the improvement in farm prices this year. And contrary to the expectations of many industry analysts at the beginning of the year, purchases of most farm machinery items will probably show significant increases for the year. After registering declines in the first three months of the year, unit retail sales of farm tractors in the past five months have averaged roughly 13 percent higher than a year earlier. According to the Farm and Industrial Equipment Institute, the upturn boosted tractor sales for the January-August period to 93,000 units, nearly 4 percent more than a year earlier. At nearly 15,000 units, combine sales were up 1 percent. With harvesttime crop prices holding surprisingly firm and livestock prices still favorable, prospects for year-to-year increases in farm machinery and equipment sales appear good for several months to come.

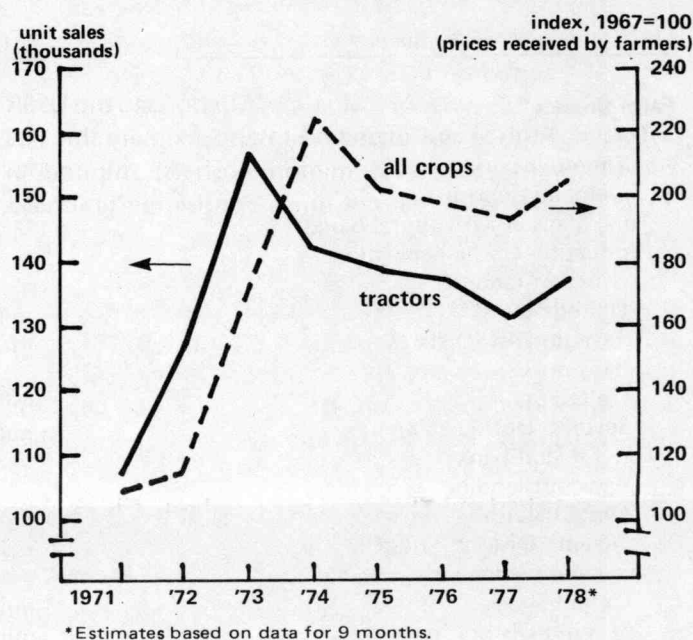
#### 1978 sales of major farm equipment items up from year-ago levels

	Unit retail sales (January-August)			
	District states		United States	
	Number (thou.)	Change (percent)	Number (thou.)	Change (percent)
Tractors	21.4	0.0	93.1	+ 3.7
Combines	4.1	+ 3.9	14.6	+ 1.3
Cornheads	3.5	- 2.3	7.0	- 3.3
Balers	3.2	- 7.2	16.8	- 0.2
Forage harvesters	2.0	-13.3	5.1	-14.9
Mower conditioners	5.6	+ 6.0	20.2	+16.3
Manure spreaders	5.9	+27.1	13.8	+20.6

Except for tractors, sales in Seventh District states have generally followed the trends in sales nationwide. Tractor sales in the five states were essentially equal to the year-ago pace through August as fewer sales in Indiana and Illinois offset increases in the other three states. In the January-August period, Illinois farmers bought fewer pieces of most types of equipment. Michigan farmers bought more. All district states registered year-to-year increases in purchases of manure spreaders and declines in purchases of forage harvesters.

The substantial improvement in 1978 farm earnings is undoubtedly the principal factor accounting for the surprising strength in this year's farm machinery and equipment demand. Sharply higher livestock prices, increased government payments, and improved grain prices figure importantly in the USDA's forecast of a one-fourth increase in this year's net farm income before inventory adjustment. Farm cash receipts for the year are currently projected at a record \$107 billion. That will be \$11 billion more than last year, exceeding the increase in production expenses by about \$3 billion.

#### Higher crop prices have boosted 1978 tractor sales



Many considered farm equipment inventories at the start of the year to be burdensome. However, temporary plant shutdowns and layoffs this winter coupled with the subsequent rise in sales have pulled inventories of most equipment items below year-ago levels. Although still high compared with inventories from 1973 to 1976, August tractor inventories were down 6 percent from a year earlier. Inventories of four-wheel drive tractors were down even more at 11 percent. The major exception is combine inventories, which were roughly 14 percent above the August 1977 level despite unit sales increases of a fifth in July and August. Nevertheless, data for September and October are still not in, and these are usually the biggest months for combine sales.

**The outlook** for farm machinery sales over the next several months is greatly improved relative to a year ago. Record corn and soybean harvests suggest continued strong demand for storage facilities and grain-handling equipment. Increasing emphasis on cattle feeding and a generally prosperous outlook for livestock overall will contribute to higher sales of many types of machinery. Improved wheat prices and prospects for relatively high soybean prices will provide support from the crop sector. The strength in farm machinery demand from the crop sector, however, may be tempered somewhat by the burdensome feed grain stocks and the likelihood of greater participation in the 1979 feed grain program. Overall, sales improvements could continue for at least the next several months.

Don A. Langford  
Agricultural Economist

## Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
<b>Farm finance</b>					
Total deposits at agricultural bankst	1972-73=100	September	185	+ 1.8	+ 9
Time deposits	1972-73=100	September	216	+ 1.2	+ 9
Demand deposits	1972-73=100	September	132	+ 3.6	+ 9
Total loans at agricultural bankst	1972-73=100	September	227	+ 1.4	+12
Production credit associations					
Loans outstanding					
United States	mil. dol.	August	14,846	+ 1.3	+ 5
Seventh District states	mil. dol.	August	2,879	+ 2.1	+ 8
Loans made					
United States	mil. dol.	August	1,593	+ 3.2	+24
Seventh District states	mil. dol.	August	332	+ 1.5	+30
Federal land banks					
Loans outstanding					
United States	mil. dol.	August	23,678	+ 1.2	+15
Seventh District states	mil. dol.	August	5,023	+ 1.6	+21
New money loaned					
United States	mil. dol.	August	385	+ 5.1	+24
Seventh District states	mil. dol.	August	96	+ 1.4	+39
Interest rates					
Feeder cattle loanst†	percent	2nd Quarter	9.01	+ 1.5	+ 3
Farm real estate loanst†	percent	2nd Quarter	9.19	+ 1.7	+ 3
Three-month Treasury bills	percent	10/5-10/11	8.17	- 6.1	+31
Federal funds rate	percent	10/5-10/11	8.71	+ 4.6	+36
Government bonds (long-term)	percent	10/9-10/3	8.61	+ 3.0	+12
<b>Agricultural trade</b>					
Agricultural exports	mil. dol.	August	2,392	+12.1	+55
Agricultural imports	mil. dol.	August	1,034	-12.9	+ 3
<b>Farm machinery sales</b>					
Farm tractors	units	August	7,341	-18.0	+ 1
Combines	units	August	3,422	-12.7	+20
Balers	units	August	2,254	-50.5	-14

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks.

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