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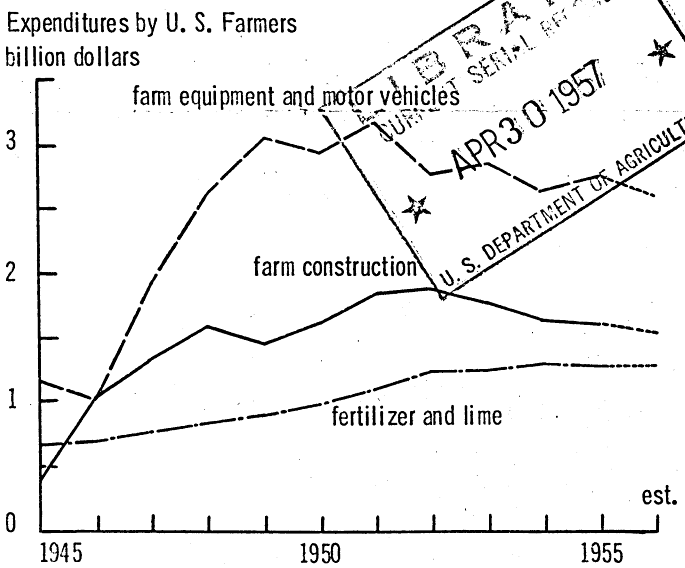
Federal Reserve Bank of Chicago - -

Agricultural Letter

April 19, 1957

Number 401

SPENDING BY MIDWEST FARMERS in early spring for new machinery, consumer durable goods (autos, household appliances, TV, etc.) trailed the year-ago level by about 5 per cent. Fertilizer sales (including orders for future delivery) were indicated to be lower in most areas of Iowa, Michigan and Wisconsin but higher in Illinois and Indiana. This is the situation reported by a recent survey of about 430 Seventh District country bankers concerning business conditions in their communities (see back of Letter for details).



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U. S. DEPARTMENT OF AGRICULTURE

Lower sales are somewhat surprising in the face of farm income gains in most Midwest areas last year and the relatively good prospects for 1957. A late spring, shortages of subsoil moisture in some areas, uncertainties regarding the corn support program and the usual uncertainties relative to farm prices were mentioned frequently as causes of the cautious attitude exhibited by farmers.

There is some indication, however, that the "wait and see" attitude of early April may not evaporate entirely with warmer weather. A number of bankers reported farmers were "operating conservatively, reducing loans and not obligating themselves for things other than necessities." A "fix-up" and "make-do" attitude was noted frequently, and used machinery and parts were pictured as being in strong demand. One banker, noting little change in farmers' spending habits despite last year's rise in income, indicated "farmers are waiting to see if income will continue to improve before purchasing new machinery."

A conservative spending attitude of farmers was also reflected in farmers' use of credit to purchase machinery and consumer durable goods. Bankers reported that a somewhat smaller proportion of the sales of these items involved credit than last year. Fertilizer was the only item for which bankers reported an increased use of credit.

Farm machinery sales in March were reported to be the same or lower in all areas of the District except for the intensive hog-raising areas of eastern Iowa and west central Illinois. In western Iowa, where 1956 income was cut due to drouth, machinery sales were reported to be nearly 15 per cent below a year earlier.

Reduced sales and large dealer and manufacturer inventories of machinery have been responsible for production cutbacks from the year-ago level ranging from near 20 per cent last October to 5 per cent in February. Since February employment in the industry increased further, and manufacturer sales to dealers are reported to be higher. While machinery manufacturers usually maintain current levels of output into late spring, inventory levels and retail sales in the months ahead will be important in determining future levels of production.

Fertilizer sales and orders for future delivery in March were reported to range from slightly below year-ago levels to higher in most areas of the District except for western Iowa. In that area shortages of subsoil moisture have lowered fertilizer requirements and sales were reported to be lagging year ago by about 15 per cent. In most other areas of the District, declines were limited to near 3 per cent, and gains ranged upward to 9 per cent in west central Illinois.

Despite the relatively poor early showing, many respondents expected fertilizer sales to register gains as planting activity increases in tempo. Moreover, a recent survey by the Doane Agricultural Service indicates that the nation's farmers plan to purchase nearly 5 per cent more fertilizer than in 1956. This survey reported farmers in the east north central states plan to purchase nearly 9 per cent more fertilizer in 1957 than in 1956, but in the drouth-affected Plains area purchases would be lower.

Sales of consumer durable goods to farmers (autos, household appliances, TV, etc.) were reported to be lower in all areas of the District except in southern Iowa and west central Illinois. Sharpest declines were reported in western Iowa.

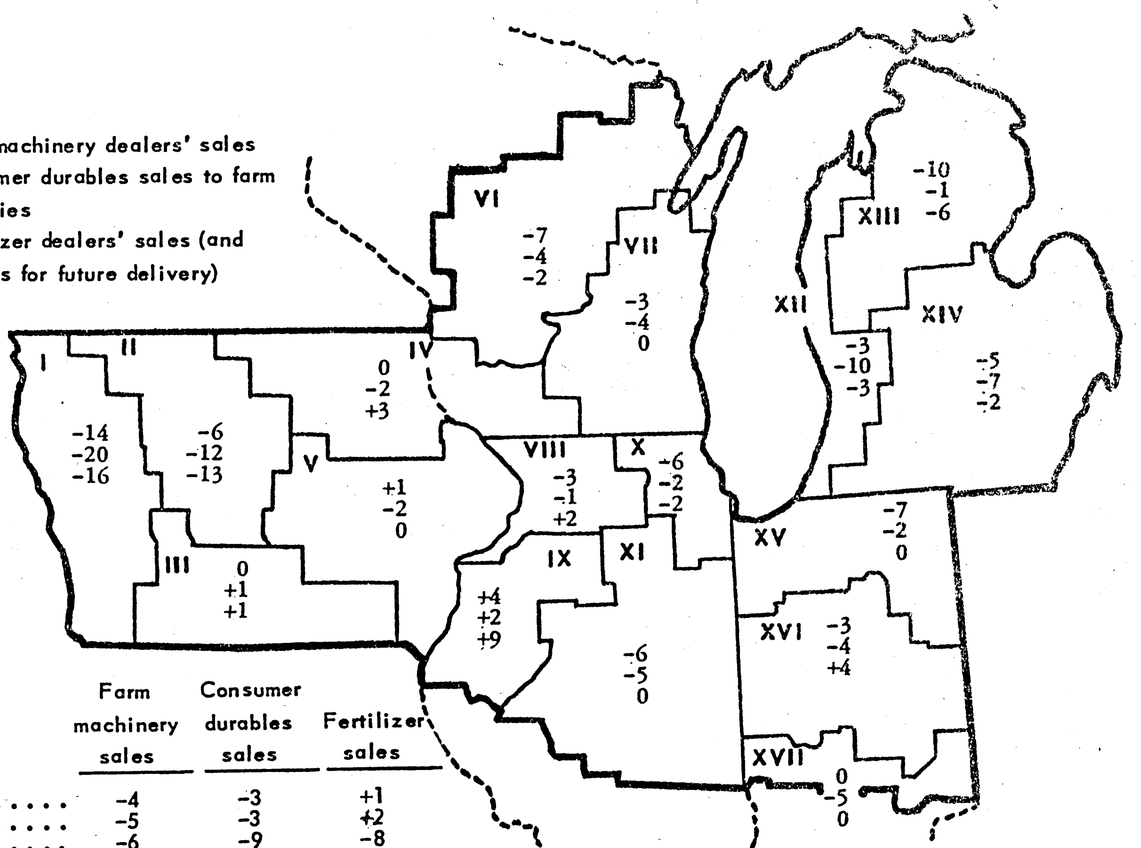
Expenditures for new farm buildings, according to the Department of Commerce, have also been trailing year-earlier levels. Farm construction outlays totaled 1.5 billion dollars in 1956, 6 per cent below the year-earlier level, and in the first quarter of 1957 expenditures lagged the year-ago level by 5 per cent.

Research Department

Sales of farm machinery, fertilizer and consumer durables to farm families in March, compared with a year ago

Per cent change:

TOP: Farm machinery dealers' sales
CENTER: Consumer durables sales to farm families
BOTTOM: Fertilizer dealers' sales (and orders for future delivery)

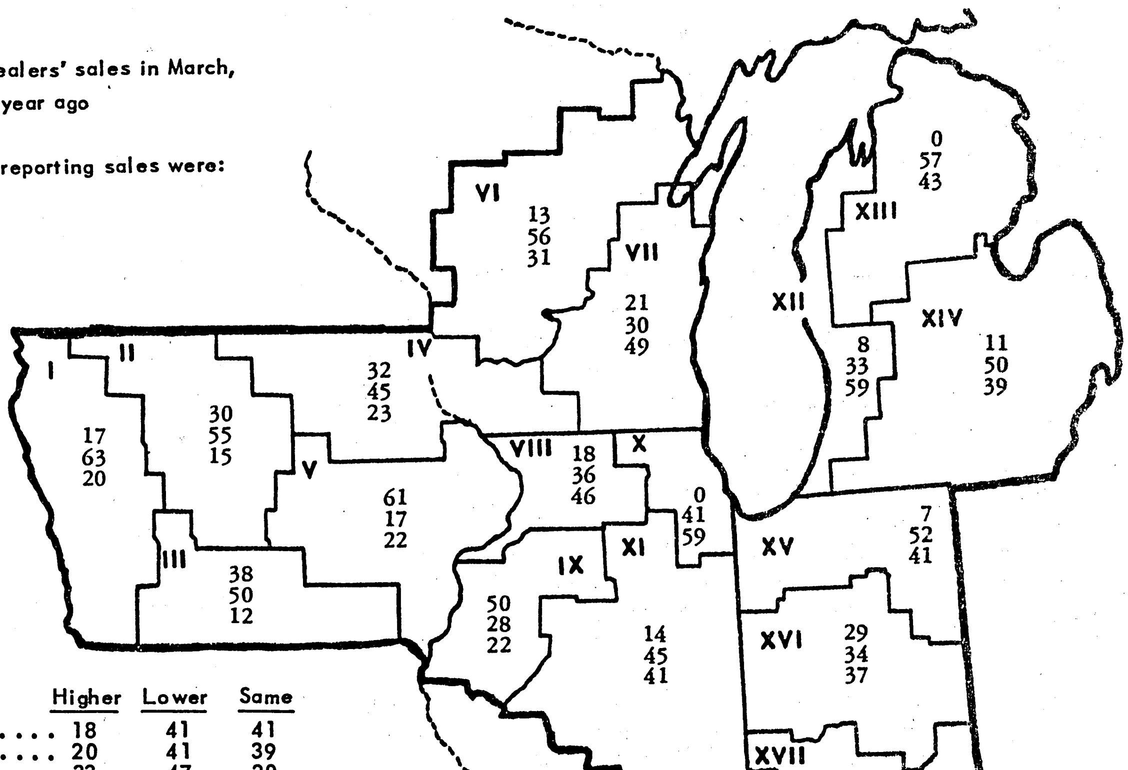


	Farm machinery sales	Consumer durables sales	Fertilizer sales
Illinois	-4	-3	+1
Indiana	-5	-3	+2
Iowa	-6	-9	-8
Michigan	-5	-7	-2
Wisconsin	-4	-4	-1
SEVENTH DISTRICT. .	-5	-5	-2

Farm machinery dealers' sales in March, compared with a year ago

Per cent of banks reporting sales were:

TOP: Higher
CENTER: Lower
BOTTOM: Same



	Higher	Lower	Same
Illinois.	18	41	41
Indiana.	20	41	39
Iowa	33	47	20
Michigan.	10	48	42
Wisconsin	18	41	41
SEVENTH DISTRICT. .	21	43	36