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Federal Reserve Bank of Chicago -

May 29, 1959

FARM CAPITAL OUTLAYS are rising again in 1959. After dropping to \$3.9 billion in 1956, the lowest since 1947, farmers' purchases of most kinds of capital equipment increased in 1957, and the rise has continued.

Farm machinery manufacturers have chalked up large gains in sales for the six months ended April 30, compared with the corresponding period a year earlier. Sales increases ranging from 10 to more than 30 per cent have been reported by individual firms. One firm's April sales were the largest since 1952.

Prices of new farm machinery are estimated to have increased 3 to 4 per cent during the past year. Thus, the increase in dollar volume of sales is not reflected fully in physical volume. Used machinery prices have advanced considerably more than new machinery, also reflecting the pickup in demand.

Factory production of farm tractors and other machinery in February and March was about 25 per cent above the same months in 1958. Output during the first five months of the current farm machinery year (November through March) exceeded the corresponding year-earlier period by about 5 per cent. Important producers were hampered by strikes during portions of this period.

Farm income, of course, provides the major springboard for most shifts in farm capital outlays. Farmers' net cash income showed a persistent decline from 1951 to 1956. After leveling off in 1956 and 1957, income rose sharply in 1958.

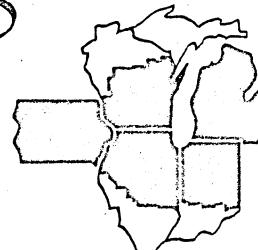
Usually, farmers' spending lags somewhat the changes in farm income. This shows up, for example, in deposits at agricultural banks.

Total deposits at agricultural banks in the Seventh Federal Reserve District rose 2.3 per cent in 1957 and an additional 7.3 per cent in 1958. Both deposits and sales of farm machinery showed the greatest increases in areas that showed the largest gains in income.

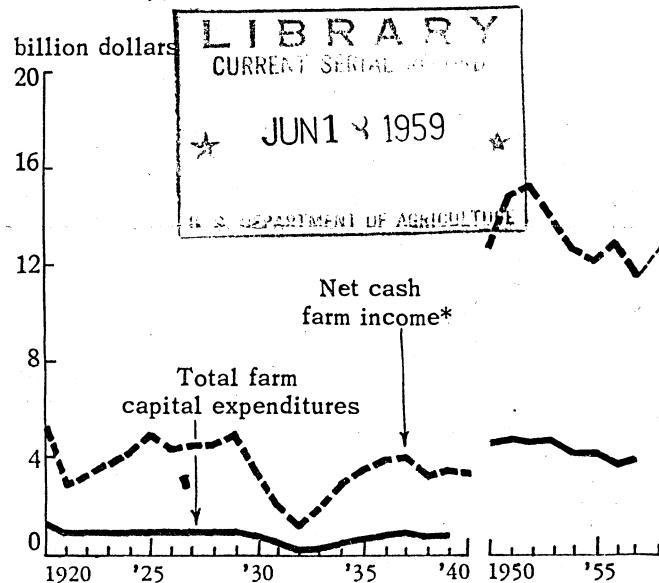
In years prior to World War II, farmers' capital outlays showed somewhat larger fluctuations than did net cash income. That is, when income increased 10 per cent, farmers' spending for machinery, equipment, buildings and similar items tended to increase about 11 per cent. The reverse occurred when income declined.

Since farm capital outlays showed a substantially smaller relative increase than net cash income in 1958, some "carry-over" of spending into 1959 would be expected and, in fact, is taking place. Farm income in the first half of 1959 probably has been somewhat below the 1958 rate but, as indicated above, farmers' capital outlays have continued to rise.

# Agricultural Letter



Number 510



\*Cash receipts from farm marketings and Government payments less current expenses.

The increase in acreage planted to corn and cotton is also stimulating farmers' current outlays for machinery and equipment and may boost outlays for storage facilities later in the year. The larger acreages should affect summer sales of harvesting machines as well as the recent winter and spring sales of machinery for soil preparation and planting.

Fertilizer sales have benefitted also, with increases reported on the order of 5 to 10 per cent for the U. S., larger in some areas. Fertilizer prices are slightly lower than last year; as of mid-April, nitrogen materials were about 2 per cent lower, potash down 1 per cent and phosphate about the same as a year earlier.

Replacement demand is important in the current farm equipment market. Machines sold during the 1949-52 boom years are now reaching retirement age. It is also possible that obsolescence has been accelerated by improvements and model changes. The trend toward larger farms is evident in the shift to equipment of larger capacity. Of all wheel tractors produced for farm use in 1948, only 8 per cent had a horsepower of 35 or more; in 1958, 81 per cent were in this size group.

Research Department

**FARM BUSINESS CONDITIONS**  
APRIL 1959, WITH COMPARISONS

ITEMS	1959		1958
	April	March	April
<b>PRICES:</b>			
Received by farmers (1947 - 49 = 100) . . . . .	90	90	95
Paid by farmers (1947 - 49 = 100) . . . . .	120	119	118
Parity price ratio (1910 - 14 =100) . . . . .	82	82	87
Wholesale, all commodities (1947 - 49 = 100) . . . . .	120	120	119
Paid by consumers (1947 - 49 = 100) . . . . .	124	124	124
Wheat, No. 2 red winter, Chicago (dol. per bu.) . . . . .	2.06	2.09	2.23
Corn, No. 2 yellow, Chicago (dol. per bu.) . . . . .	1.30	1.23	1.30
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.70	.69	.73
Soybeans, No. 1 yellow, Chicago (dol. per bu.) . . . . .	2.31	2.26	2.30
Hogs, barrows and gilts, Chicago (dol. per cwt.) . . . . .	16.28	16.12	20.68
Beef steers, choice grade, Chicago (dol. per cwt.) . . . . .	30.33	29.11	29.37
Milk, wholesale, U.S. (dol. per cwt.) . . . . .	3.87	4.06	3.88
Butterfat, local markets, U.S. (dol. per lb.) . . . . .	.59	.59	.58
Chickens, local markets, U.S. (dol. per lb.) . . . . .	.16	.17	.19
Eggs, local markets, U.S. (dol. per doz.) . . . . .	.28	.34	.39
Milk cows, U.S. (dol. per head) . . . . .	235	236	203
Farm labor, U.S. (dol. per week without board) . . . . .	44.25	45.00 <sup>a</sup>	41.25
Factory labor, U.S. (dol. earned per week) . . . . .	89.87	89.24	80.81
<b>PRODUCTION:</b>			
Industrial, physical volume (1947 - 49 =100) . . . . .	149	147	126
Farm marketings, physical volume (1947 - 49 =100) . . . . .	95	100	91
<b>INCOME PAYMENTS:</b>			
Total personal income, U.S. (annual rate, bil. of dol.) . . . . .	373	370	350
Cash farm income, U.S. <sup>1</sup> (annual rate, bil. of dol.) . . . . .	--	34	33
<b>EMPLOYMENT:</b>			
Farm (millions) . . . . .	5.8	5.2	5.6
Nonagricultural (millions) . . . . .	59.2	58.6	57.3
<b>FINANCIAL (District member banks):</b>			
Demand deposits:			
Agricultural banks (1955 monthly average = 100) . . . . .	107.4	107.0	102.5
Nonagricultural banks (1955 monthly average =100) . . . . .	103.5	100.3	102.1
Time deposits:			
Agricultural banks (1955 monthly average = 100) . . . . .	126.8	126.0	117.2
Nonagricultural banks (1955 monthly average =100) . . . . .	123.8	123.5	117.8

<sup>1</sup> Based on estimated monthly income.

<sup>a</sup> January