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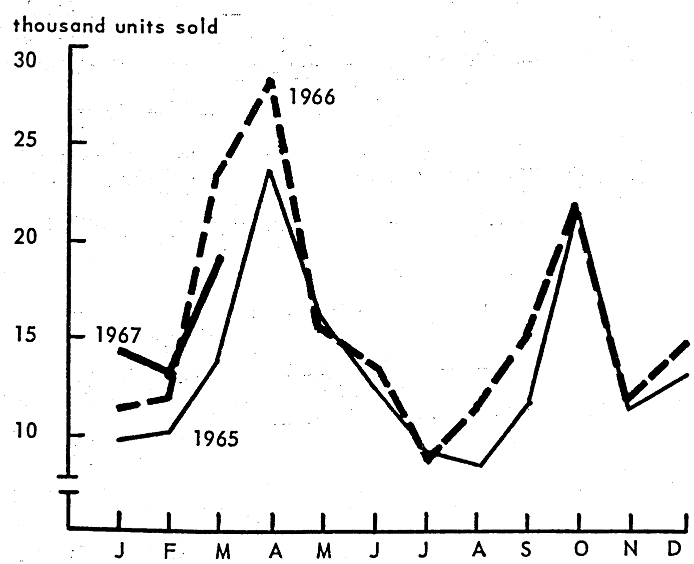
MACHINERY EXPENDITURES by farmers are being curtailed, especially in the Midwest. This is in spite of the near record farm income posted last year and the planned expansion in this year's crop acreage. Gross farm income in 1966 rose nearly 9 percent from the previous year and crop acreage is expected to be about 6 percent larger than last year. These factors had led many observers to expect a further rise in farm machinery purchases during 1967.

Retail sales of farm tractors (the major farm machinery expenditure) in March, however, dropped about 16 percent from the comparable year-ago month, according to the Farm and Industrial Equipment Institute. Tractor sales were down about 2 percent from the year before during the first quarter.

Tractor Sales Below Year-Earlier Level



SOURCE: Farm and Industrial Equipment Institute.

In the Seventh District states (which account for about one-fourth of total tractor sales in the nation), farm tractor sales have shown an even larger decline. The sharpest drop occurred in the three Corn Belt states. During the first quarter, tractor sales to farmers dropped 22 percent in Illinois, and in Indiana and Iowa sales were down 18 and 15 percent, respectively. In March, declines of more than 25 percent were recorded in each of these states. Tractor sales in Michigan were down only slightly while in Wisconsin sales were well above a year ago.

Several factors have probably contributed to this turnabout in outlays for machinery. Most important has been the decline in farm prices and incomes. Prices received by farmers during the first four months averaged about 7 percent lower than a year ago and, in the first quarter, cash receipts from crops and livestock sales averaged about 3 percent lower. Cash receipts in the District states were about even with a year ago. In addition, prices of farm machinery during the first quarter are estimated to have averaged about 3 percent higher than in the same period in 1966. Also, the generally inclement weather, which has caused a late start in field work throughout much of the Corn Belt, may have forestalled some anticipated new machinery purchases. Finally, sales of tractors were at an extremely high level during the first part of 1966 as compared with recent years.

Nonfarm tractor sales also have declined rather sharply—down 14 percent during the first quarter. This undoubtedly reflects, at least in part, the low level of construction activity.

The hog price turnabout that had been anticipated came abruptly and rather dramatically. Prices of barrows and gilts at Chicago have risen from slightly under $18 per hundredweight at the end of April to $22 as of mid-May and are currently only about $1 per hundredweight below last year's level.

This favorable price development is primarily the result of a rapid drop-off in supplies. Although slaughter under Federal inspection still was slightly above the year-earlier level as of mid-May, the weekly slaughter rate had dropped more than 200,000 head from that in the previous month. This together with lower slaughter weights served to hold total pork production about equal with a year earlier. More recent data, when available, may show a decline in slaughter relative to the year before. If so, it would be the first such decline since last July.

Although price prospects are clouded by the wide discrepancy that existed between estimated farrowings and actual marketings during the first part of the year, prices of hogs may continue to show some further increase as slaughter continues to decline seasonally. Prices will probably continue below year-earlier levels, however, until the latter part of the year. Prices will be tempered somewhat because of the expected larger movement of pork out of storage during the next few months. As of May, the amount of pork in cold storage was about 40 percent larger than a year earlier and slightly larger than the five-year average for this date. Also, both beef and poultry supplies are expected to continue relatively large.

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