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Federal Reserve Bank of Chicago - -
May 10, 1957

Agricultural Letter

Number 404

THE FARM ECONOMY nationwide showed improvement in the first quarter of 1957 relative to a year ago. Farm prices averaged 4 per cent higher, but because of smaller marketings, cash receipts showed only a 2 per cent gain. Higher production expenses were more than offset by stepped-up government payments to farmers, and net income on a seasonally adjusted basis showed a gain of 3 per cent from the year-ago quarter.

Income of District farmers, after registering gains in 1956, showed continued improvement in early 1957. Cash receipts in the first two months of the year chalked up gains over year ago of 8 per cent in Illinois, Indiana and Iowa and 15 and 8 per cent, respectively, in Michigan and Wisconsin.

The gains in Corn Belt states largely reflect higher prices of cattle and hogs. In Wisconsin the income gain reflects higher milk prices and larger output, while in Michigan over 80 per cent of the increase was due to higher receipts from crops.

Farmers' demand deposits in District banks, however, fail to fully reflect this improvement in farm income. In an early April survey about the same number of country bankers reported increases as reported declines in farmer demand deposits. However, changes ranged from an average decline of 5 per cent in western Iowa to an average gain of 5 per cent in northeastern Iowa and southwestern Wisconsin.

Estimated per cent change in farmers' demand deposits from year ago	Per cent of banks reporting April 1, 1957
+11 and over	3
+ 6 to +10	8
+ 1 to + 5	10
no change	56
- 1 to - 5	8
- 6 to -10	10
-11 and over	5

The increase in farm income apparently has been used largely to finance current purchases, to pay debts and to enlarge savings. Time deposits in country banks have continued to rise even in areas where demand deposits have declined.

THE OUTLOOK for farm income, prices and production has recently received another comprehensive examination at the hands of the USDA. The over-all view of these experts for 1957 has changed little from that reported nearly six months ago.

Volume of marketings may be reduced some due to prospects of a 3 to 4 per cent cut in planted acreage, but livestock output is expected to total about the same as in 1956.

"Prices received by farmers for the year may average a little above 1956." Higher livestock prices will be roughly offset by lower crop prices. Crop support prices are the same or lower than last year, and stocks, although lower in the aggregate than a year ago, continue burdensome.

As a result of lower marketings and little change in prices, cash receipts from marketings are expected to fall below 1956. However, a substantial increase in government payments for participation in the soil bank program is expected to more than offset rising production expenses and the decline in cash receipts. (Land signed up for the soil bank in early April was estimated to provide 1957 payments of about \$700 million. Payments in 1956 totaled \$243 million.) The result, according to the USDA: "A further increase in farm operators' net income, perhaps close to the 4 per cent gain that occurred in 1956."

For important Midwest commodities the USDA presents this picture:

Cattle marketings are expected to continue large, reflecting in part the 4 per cent increase in the number of cattle on feed April 1. However, in the second half of the year cattle slaughter may be below a year earlier, reflecting the likelihood of smaller marketings off grass this fall following improvement in grazing areas. "Some further improvement in fed cattle prices seems indicated although a rapid summer advance similar to last year's is not expected."

"Hog marketings will continue below a year earlier most of this spring and summer, but the margin will gradually diminish." As a result, prices are expected to continue above a year ago during the summertime rise, but by fall they may reach year-earlier levels.

"Milk production promises to reach a new high." Prices to farmers for milk and butterfat are expected to average about the same as in 1956 with the result that gross receipts from dairying will rise.

Feed grain supplies are expected to remain large in the 1957-58 feeding year. While production may decline 10 million tons, carry-over stocks are expected to be up 7 million tons.

Research Department