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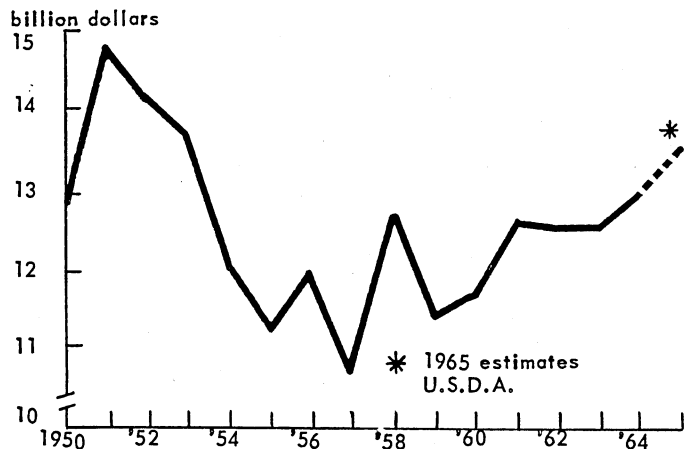
Federal Reserve Bank of Chicago - -

August 13, 1965

NET FARM INCOME is rising. The U. S. Department of Agriculture recently revised its forecast of realized net income for this year to reflect the sharply rising prices, particularly for meat animals, during the second quarter. It now expects the total for the year to rise to about \$13.5 billion. If this is realized, it would be about 5 per cent higher than the 1964 final tally of \$12.9 billion, the highest since 1953.

Gross farm income during the first six months of this year was estimated at an annual rate of about \$43 billion—nearly 3 per cent above a year earlier. The rise in gross income is attributable to both higher cash receipts and higher Government payments, mostly under the feed grain and wheat acreage retirement programs.

REALIZED NET INCOME EXPECTED TO RISE SHARPLY

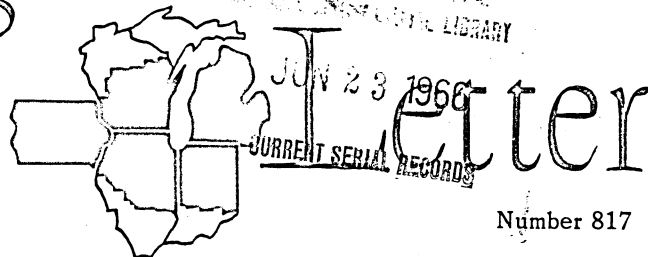


Through midyear, cash receipts from farm marketings rose nearly \$700 million from the corresponding year-earlier period. Although prices for all crops averaged slightly lower, increased marketings bolstered receipts from crops. The volume of livestock and livestock products marketed remained about the same as during the corresponding year-earlier period but prices averaged about 6 per cent higher.

Government payments to farmers participating in the feed grain and wheat programs during 1965 are expected to boost payments under all programs to about \$2.4 billion—about \$200 million greater than a year ago. Direct payments to farmers under all programs in 1965 are expected to account for about 6 per cent of total cash receipts from the sale of farm commodities and nearly 18 per cent of total net income. This would be substantially above the 1960 level when Government payments amounted to about 2 per cent of total cash receipts and 6 of net farm income.

Production expenses have resumed their upward trend after declining in 1964 for the first time in more than 10 years. That decline resulted mainly because of reduced outlays for purchased feed and livestock. Prices of both feed and feeder animals have risen sharply from

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year-ago levels during the first part of this year as have numerous other production items. As a result, production costs during the first half of the year were at an annual rate about \$400 million above the year-earlier level.

In the Seventh Federal Reserve District, farmers' cash receipts from marketings during January through May rose about 3 per cent from the level in the corresponding year-earlier period. Sales of livestock and livestock products were up in all areas of the District, reflecting sharply improved prices. Prices of all species of animals have been higher; beef cattle prices have averaged about 7 per cent above the first six months of 1964 and hog prices have averaged about one-fourth higher. Crop receipts, on the other hand, dipped slightly from a year ago in the District Corn Belt states. Although prices of the major midwestern crops have averaged above the 1964 levels, smaller marketings from last year's drought-shortened crops have more than offset this gain.

Cash Receipts from Farm Marketings—January-May

	1964 (million dollars)	1965 (million dollars)	Change (per cent)
Illinois	823	834	1
Iowa	1,102	1,163	5
Indiana	416	408	-2
Michigan	262	270	3
Wisconsin	480	507	6
Seventh District	3,083	3,182	3

Net farm income in the Midwest is expected to continue above year-earlier levels during the remainder of 1965, with increases coming from both livestock and crops. Although participation in the 1965 acreage diversion programs is somewhat larger, production is currently expected to exceed the relatively short year-ago output by a wide margin. Weather conditions through the remainder of the growing season, however, can still affect production. Receipts from wheat and feed grains, of course, will be augmented by increased Government payments to farmers participating in this year's programs. Sales of livestock and livestock products are also expected to continue to boost cash receipts. Hog prices are expected to remain above a year ago by a wide margin. Moreover, although cattle marketings may rise somewhat from last year, prices are expected to continue to average above the 1964 levels during the remainder of 1965.

Roby L. Sloan
Agricultural Economist

FARM BUSINESS CONDITIONS
MAY 1965 WITH COMPARISONS

I T E M S	1965		1964
	May	April	May
PRICES:			
Received by farmers (1957-59=100)	104	101	97
Paid by farmers (1957-59=100)	110	109	107
Parity price ratio (1910-14=100)	78	76	75
Wholesale, all commodities (1957-59=100)	102	102	100
Paid by consumers (1957-59=100)	110	109	108
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.46	1.49	2.03
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.38	1.35	1.29
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.76	.78	.67
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.86	3.04	2.56
Hogs, barrows and gilts, Chicago (dol. per cwt.)	20.71	17.96	15.06
Beef steers, choice grade, Chicago (dol. per cwt.)	26.88	25.63	20.52
Milk, wholesale, U. S. (dol. per cwt.)	3.89	4.02	3.83
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.59	.59	.58
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.15	.15	.13
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.29	.33	.30
Milk cows, U. S. (dol. per head)	208	208	211
Farm labor, U. S. (dol. per week without board)	--	50.75	--
Factory labor, U. S. (dol. earned per week)	107.53	105.82	102.97
PRODUCTION:			
Industrial, physical volume (1957-59=100)	141	141	131
Farm marketings, physical volume (1957-59=100)	87	86	88
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	520	515	488
Cash farm income, U. S. ¹ (annual rate, bil. of dol.) . .	38.2	39.0	34.3
EMPLOYMENT:			
Farm (millions)	5.1	4.5	5.0
Nonagricultural (millions)	67.3	66.6	66.1
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	112	113	105
Nonagricultural banks (1957-59=100)	114	114	107
Time deposits:			
Agricultural banks (1957-59=100)	198	197	174
Nonagricultural banks (1957-59=100)	218	216	191
¹ Based on estimated monthly income.			

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.