Federal Reserve Bank of Chicago - -
March 3, 1972

Agricultural Letter

Number 1159

FARM INCOME IN 1972 may reach the highest level since 1948. And much of the gain will accrue to Seventh District farmers. At the 50th National Outlook Conference, the U. S. Department of Agriculture predicted net farm income this year would rise to at least $17.2 billion—10 percent above last year. This would be the largest annual increase since 1969. Most of the increase is expected to result from higher livestock returns and a substantial increase in direct government payments, primarily to feed grain producers.

Receipts from livestock and livestock products may average nearly $2 billion higher in 1972 than in 1971. Sharply higher prices for hogs this year will be a major factor in pushing up livestock receipts. Farmers in the Seventh District states account for about one-half of total hog receipts. Iowa, alone, sells nearly one-fourth of all the hogs marketed.

Hog prices so far in 1972 have averaged 45 percent higher than a year earlier, while numbers marketed have declined 14 percent. Prices will ease down seasonally this spring and again in the fall but are likely to remain well above year-ago levels throughout 1972.

Receipts from cattle also will be larger this year than last. Cattle prices are currently 13 percent above a year ago. Prices are expected to average above 1971 levels through the first half of this year and then approach or go slightly below year-ago levels in the last half. Total beef production is expected to increase 4 to 5 percent, with the largest increases occurring in the latter half of the year. District states usually account for around 18 percent of the receipts from cattle and calves. Iowa accounts for 10 percent of cattle receipts, making it the leading cattle-feeding state.

Dairy receipts may be only slightly larger this year. Production will likely increase moderately. Prices through the first quarter are likely to average 3 percent higher, but after March prices will probably remain at 1971 levels unless government price supports are raised again. Milk prices have set new records every year since 1965, rising 40 percent from 1965 through 1971. Gains in profits, however, have been limited by accompanying increases in costs of production.

Dairying is an especially important source of cash income to farmers in the district states of Michigan and Wisconsin. About half of farm cash receipts in Wisconsin are derived from milk. In Michigan, milk accounts for about 30 percent of farm receipts.

Crop receipts in 1972 are expected to total about the same as last year. Feed grain prices will average well below a year ago and are likely to remain near support loan rates, reflecting continued large stocks. Returns from soybeans, however, are likely to be higher, and soybeans are the second most important cash crop in the Seventh District. Increased planted acreage will boost production, but this year's low carry-over stocks will keep supplies tight and prices are likely to average above the high levels of last season.

Increased government payments will be a major factor behind the strong rise in farm income in 1972. After declining last year, direct government payments may rise by at least $1.25 billion to a total of $4.5 billion, the highest level on record. Most of the increase in payments reflects changes in the feed grain program. As the major feed grain producers in the nation, Seventh District farmers will benefit most from higher payments. Farmers in the five states usually collect over one-third of total feed grain payments.

The perennial rise in production costs will offset some of the gain in cash receipts and government payments, but the rise in these costs may be less this year. A reduction in feed grain and wheat plantings, lower feed prices, and the dampening effect of Phase II on prices of production items from nonfarm sources are expected to hold the rise in total costs to $1.5 billion, compared to annual increases of $2 billion in recent years. Higher costs for feeder animals, however, will trim the gain in livestock feeders' profits. Although feeder cattle prices are not expected to rise much from current levels, they will average several dollars higher than in the first half a year ago when yearling steers at Kansas City were about $34 per hundredweight. Feeder pig prices, too, will be sharply higher, reflecting higher prices for market hogs.

Credit needs of farmers will be affected by the prospects for improved incomes. Demand for feeder cattle loans likely will increase substantially, as will loans for expansion of hog and cattle-feeding facilities. But the large increase in government payments will improve farmers' cash flow, and along with an accompanying decline in planted acreage, reduce requirements for operating credit.

Lower interest rates coupled with the best income prospects in years will likely increase demand for loans to buy or refinance real estate and to buy machinery. Interest rates on these types of loans are already about one percentage point below a year ago. With the new liberalized lending policies of the Federal Land Banks, and renewed interest in farm mortgage lending by life insurance companies, funds will be ample and rates may ease still lower through midyear.

Dennis B. Sharpe
Agricultural Economist