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FARM INCOME FORECASTS FOR 1982 point to another year of low farm earnings. The USDA recently projected that net realized farm income—net farm income before inventory adjustment—may be $19 billion, down from a revised $19.6 billion last year and $24.4 billion the year before. Such a level would mark a one-third decline from the 1973 high.

The USDA provides other measures for gauging trends in aggregate farm earnings of farm operator families, including net cash income and net farm income after inventory adjustment. Net cash income—the residual after cash expenses are subtracted from cash receipts from farm marketings, government payments, and other sources such as custom hire—is projected at $31 billion for 1982. In comparison, net cash income was $31.5 billion in 1981 and $35.8 billion the year before. Net farm income after inventory adjustment—which takes into account swings in the value of farm inventories—is also forecast at $19 billion this year, which would be down nearly a fifth from 1981's level and 5 percent below two years ago. Many analysts, however, expect net farm income after inventory adjustment to be higher in 1982. With the large harvest pending, the value of inventories on farms may rise from year-earlier levels rather than remaining unchanged.

Farm income projections for this year are still tentative, but a number of signs point to the likelihood of a decline from the year-earlier level. Sluggish export demand and abundant supplies of grains have held the line on crop prices and earnings of crop farmers. Livestock prices have risen sharply this year, but cuts in production resulted in reduced marketings, offsetting some of the price gain. In addition, earnings of dairy farmers, which have increased significantly in recent years, have been held in check by an unchanged support price. Downward pressure on farm income from higher production expenses also is evident this year, although the rise has been moderate and, in some instances, farmers have conserved on inputs.

Crop receipts, which represent about half of total cash receipts from farm marketings, are expected to be down 4 percent from last year's record $75 billion, the first decline since 1975. Underlying this forecast are low crop prices. Utilization of crops—both domestic and export—has not been sufficient to offset the large harvest of last fall. As a result, carryover stocks are at burdensome levels. Corn and soybean prices have declined significantly and recently averaged a fifth below the level of a year ago. Corn prices in August were at a 2½ year low, while soybean prices were at a 5-year low. With this fall's even larger harvest, crop prices may deteriorate further relative to year-earlier levels. Lower prices will reduce crop receipts virtually across the board this year, as only fruit prices are above year-ago levels. As a result, larger marketings of some commodities have not

1982 will likely mark the third consecutive year of low farm earnings

	1978	1979	1980	1981	1982*
			(billion dollars)		
Cash receipts	112.5	131.7	139.5	143.5	142
Crops	53.7	63.1	71.7	75.0	72
Livestock	58.8	68.6	67.8	68.5	70
Government payments	3.0	1.4	1.3	1.9	4
Other cash income	1.2	1.5	1.6	1.9	2
Total cash income	116.7	134.6	142.4	147.3	148
Nonmoney income**	9.5	10.8	12.5	13.9	15
Total farm income	126.2	145.4	154.9	161.2	163
Cash expenses	81.7	97.6	106.6	115.8	117
Noncash expenses***	18.9	21.1	23.9	25.8	27
Total expenses	100.6	118.7	130.5	141.6	144
Net cash income	35.0	37.0	35.8	31.5	31
Net farm income before inventory adjustment	25.6	26.7	24.4	19.6	19
Value of inventory change	−0.2	5.7	−4.3	5.5	0
Net farm income after inventory adjustment	25.4	32.4	20.1	25.1	19

*Forecast.

**Inputed value of dwellings and farm products consumed on the farm.

***Includes depreciation of farm capital and perquisites to hired labor.

SOURCE: USDA.

boosted the gross earnings of crop farmers enough to offset lower prices.

The livestock sector has been the one bright spot for agriculture this year. Receipts from livestock marketings are projected at a record $70 billion, up 2 percent from last year. In contrast to the crop sector, it is higher prices that underly most of this gain. Because of earlier cuts in production, hog prices climbed sharply higher and have been well above year-earlier levels. Cattle prices, though averaging above year-ago levels through the first half of the year, have weakened in recent weeks. Higher livestock prices, coupled with low feed costs, have provided livestock producers with several consecutive profitable months, the first since mid-1979. Cash receipts to dairy farmers, after rising in each of the last several years, have remained unchanged this year. Production has averaged about 2 percent above a year ago, but the all-milk price has averaged about the same percentage below a year ago. Recent legislation requires that 4 percent of the milk support price this fall be refunded to the government to help defray the cost of buying surplus dairy products. Consequently, receipts to dairy farmers in these months may be down from the year earlier.

A 2 percent rise in production expenses from $141.6 billion last year is expected to accompany the slight decline in receipts from farm marketings. This would be the smallest year-to-year increase in production expenses since the mid-60s. Prices paid by farmers for production inputs have not risen much this year. In August, these prices were 3 percent above a year ago. Only interest rates and the prices of feeder livestock have increased significantly from last year. In addition, farmers have scaled back, in some instances, on the use of inputs and have reduced capital expenditures. Depreciation, the largest expense category, nevertheless will be up because it is calculated in the farm income accounts using replacement costs instead of original costs.

The USDA indicated that direct government payments may be $4 billion this year, a fifth of net realized farm income. Already this year, sorghum, rice, and cotton farmers have been eligible for deficiency, and in some cases, disaster payments. But the bulk of the government payments will occur this fall. Farmers who sign up for the feed grain and wheat acreage reduction programs will be eligible for advances on anticipated deficiency payments and acreage diversion payments.

Because of higher government payments, the small decline in marketing receipts, and the small rise in production expenses, 1982 net farm income will not fall much below last year's level. Nevertheless, if the projections of $19 billion are correct, net realized farm income would be the lowest since 1977, and 1982 would be the third consecutive year of declining farm earnings. Such a development would prolong and intensify the stress in the farm sector.

Moreover, if these measures of farm income are adjusted for inflation, the earnings situation is even more pessimistic. Deflated by the consumer price index, net farm income (after inventory adjustment) averages 45 percent less for 1980, 1981, and 1982 (forecast) than in the 1970s. Disturbingly, the average purchasing power of net farm income for these three years would also be the lowest for any period since the Depression.

However, using only aggregate farm income ignores two important aspects of the earnings picture. These are the long-term decline in numbers of farms and the increase in off-farm earnings. The number of farms declined from an average of 6 million in the 1940s to an average of 2.7 million in the 1970s. Although aggregate farm income has fluctuated from year to year, farm income on a per-farm basis has generally risen. Net farm income per farm averaged $2,370 in the 1940s but $8,700 in the 1970s. This year net farm income may be $7,900 per farm, down from $10,133 last year. In real terms, net farm income averaged $3,400 per farm in the 1940s and $5,500 in the 1970s. The average purchasing power of farm operator families for the years 1980-82, on a per-farm basis, is still triple the annual average during the Depression.

In addition, farm families have relied more on off-farm earnings. This year, income from non-farm sources is expected to approach $17,000 per farm, up from $16,145 in 1981. Last year income from non-farm sources accounted for six-tenths of the total income of farm operator families. These off-farm earnings have significantly improved the incomes of farm families and, in 14 of the last 21 years, have actually exceeded income derived from farming. Adjusted for inflation, the average total income per farm operator family for the years 1980-82 will probably be a fifth above the average for the 1960s and only a fifth below the level of the 1970s.

The probability of three consecutive years of low farm earnings does not bode well for farm-related businesses either. Farmers already have curtailed capital expenditures and likely will continue to do so, at least in the near term. Also, caught in a cash-flow squeeze, farmers increasingly may cut back on purchased inputs as they conserve on tillage and other farming practices. Further, they will have more difficulty in meeting existing debts and will need an additional cushion from lenders in the form of refinancing or restructuring of debts.

RECORD CORN AND SOYBEAN HARVESTS were reconfirmed in the USDA's latest crop production estimates. Based on conditions around September 1, the 1982 corn harvest is expected to exceed 8.3 billion bushels. That is up nominally from the previous estimate and 1 percent above last year's large crop. This year's soybean production estimate was raised 1 percent to 2.3 billion bushels, up 14 percent from last year's crop. In light of the indications of a record harvest and a substantial build-up in carryover stocks, grain and soybean prices have trended downward. The resulting softness in grain prices, which will prolong and intensify the distress of crop farmers, is likely to continue for several months.

Record crops are still expected in most of the District states. In Iowa, where planting and crop progress lagged the rest of the Midwest, the per-acre yield was raised 2 bushels to 124 bushels. However, in Wisconsin, the per-acre yield was lowered 3 bushels. Corn production in District states is now estimated at 4.62 billion bushels. Per-acre soybean yields also were raised by 1 bushel in Iowa, but lowered a bushel in Indiana. Soybean production in District states is expected to reach 950 million bushels.

September crop production estimates are a fairly reliable indicator of the size of the harvest. Over the past decade deviations between the September estimate and the final estimate have averaged 5.1 percent for corn and 4 percent for soybeans. In 8 of the past 10 years the September corn production estimate has been below the final estimate, and in 5 of the past 10 years the September soybean production estimate has been below the final. Nevertheless, such deviations can have wide-ranging implications for the potential imbalance between production and utilization and the resulting change in carryover stocks.

Whether future estimates of domestic production are higher or lower than the September estimate, it is fairly clear that this year's bumper crop will contribute to more burdensome carryover stocks of corn and soybeans. For the 1982/83 marketing year, current estimates indicate total utilization of soybeans will approach 2.14 billion bushels, up 3 percent from 1981/82.The September estimate of crushings was 10 million bushels lower than August's, but the export estimate was raised 10 million bushels to 960 million bushels, 4 percent above last year's record. Compared with the latest production estimate, the projected level of utilization suggests carryover stocks of soybeans will rise to 440 million bushels at the end of the 1982/83 marketing. For the marketing year just ended (1981/82), soybean carryover stocks were estimated at 270 billion bushels.

For 1982/83, the USDA projected higher utilization of corn than in 1981/82. Most of the increase reflects an increase in estimated corn exports, which are expected to be 2.35 billion bushels, up from a revised 2 billion bushels this year. Domestic utilization is expected to increase about 200 million bushels to 5.25 billion bushels in 1982/83. Carryover stocks at the end of the 1982/83 marketing year are expected to total 2.9 billion bushels. This is up 100 million bushels from the month before because of a downward revision in 1981/82 utilization and the carry-in from that year.

Corn and soybean prices declined sharply over the past two months as evidence of the record production began to mount. Reflecting the uncertainty regarding production and utilization, the USDA has now forecast a range for average corn and soybean prices for the marketing year 1982/83 of $2.30 to $2.50 per bushel and $5.25 to $6.00 per bushel, respectively. For the 1981/82 marketing year corn prices averaged about $2.45 per bushel and soybean prices averaged about $6.05 per bushel. Mid-points of the price forecasts for 1982/83 indicate that crop farmers are unlikely to recover all costs of production.

Price implications are clouded by such factors as availability of storage, the low proportion of farmers that participated in this year's feed grain program, and the possibility of government actions to support market prices. With a record fall harvest now underway in some areas, storage may not be sufficient to handle large existing stocks of grains plus the new crop. As a result, some farmers may be forced to dispose of old crop supplies to ensure the availability of commercial storage for the new crop. The problem could be aggravated if harvest is completed rapidly and the rail strike hinders movement to terminal elevator storage facilities during the peak of harvest. Also, many farmers do not have the option of price support loans, reserve loans, or deficiency payments because they did not participate in the 1982 reduced acreage program. Not enough grain will go under loan or into the reserve to make the loan rate an effective floor for grain prices in the near term. However, announcement of the 1983 feed grain program, if it attracts sufficient participation to reduce corn production, could add support to grain prices later as could any other measures taken by the Secretary of Agriculture.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	August	254	+ 0.4	+ 9
Total loans at agricultural banks†	1972-73=100	August	279	+ 0.3	+ 4
Production credit associations					
Loans outstanding					
United States	mil. dol.	July	22,123	+ 1.0	- 1
Seventh District states	mil. dol.	July	4,487	+ 1.3	- 3
Loans made					
United States	mil. dol.	July	2,221	−22.4	−13
Seventh District states	mil. dol.	July	479	−26.3	−14
Federal land banks					
Loans outstanding					
United States	mil. dol.	July	46,583	+ 0.6	+14
Seventh District states	mil. dol.	July	11,127	+ 0.5	+14
New money loaned					
United States	mil. dol.	July	396	−28.3	−51
Seventh District states	mil. dol.	July	90	−20.6	−50
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	17.25	+ 0.8	+ 1
Farm real estate loans††	percent	2nd Quarter	16.74	+ 0.5	+ 5
Three-month Treasury bills	percent	9/9-9/15	8.16	- 6.0	−44
Federal funds rate	percent	9/9-9/15	10.27	+ 1.6	−36
Government bonds *(long-term)*	percent	9/9-9/15	12.27	- 3.6	−15
Agricultural trade					
Agricultural exports	mil. dol.	July	2,446	−21.8	−14
Agricultural imports	mil. dol.	July	1,143	−16.1	- 5
Farm machinery sales[P]					
Farm tractors	units	August	4,957	−25.2	−28
Combines	units	August	1,309	- 8.6	−46
Balers	units	August	987	−58.9	−39

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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