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Waite

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THE BALANCE SHEET OF THE FARM SECTOR is expected to show some improvement this year, according to a recent analysis by the U.S. Department of Agriculture. For the first time since 1980, the value of farm sector assets is expected to rise. Moreover, for the first time since 1945, outstanding farm debt at the end of the year may be unchanged to slightly lower than the ending 1982 level. These projections, if correct, suggest that proprietor's equity in the assets employed in the farm sector will recoup a portion of the losses of the previous two years. Despite the rise, the inflation-adjusted value of proprietor's equity will still be 20 to 25 percent below the peak in real equity in 1980.

Farm balance sheet
(January 1)

	1980	1981	1982	1983	1984*
	(billion dollars)				
Physical assets					
Real estate	756	828	819	773	810
Nonreal estate					
Machinery	96	103	109	111	114
Livestock and poultry	61	61	54	53	53
Stored crops	34	36	36	42	42
Household equipment	17	19	21	23	24
Total	208	219	220	229	233
Financial assets	41	43	46	47	49
Total assets	1,005	1,090	1,083	1,049	1,090
Liabilities					
Real estate debt	85	96	106	110	113
Nonreal estate debt	80	86	96	106	102
Total	166	182	202	216	215
Equity	840	908	882	833	880
Debt-to-asset ratio	.165	.167	.186	.206	.200

*Figures shown represent the mid-points of ranges projected by the USDA. As such, components may not add to the totals shown.

The value of farm real estate assets is expected to rise about 5 percent this year. The increase would recoup at least a portion of the 7 percent decline in the value of real estate assets of the previous two years. A number of reports have noted an upturn in land values in the first half of this year, particularly in the Midwest. And higher crop prices and farm sector earnings, along with lower than year-ago interest rates are expected to extend the trend. However, there is some concern that areas hit hardest by the summer drought may not share proportionately in the uptrend in the second half of the year.

Real estate accounts for nearly three-fourths of the value of all farm assets, a share that is down only slightly from a couple of years ago but still up considerably from the range of 58 to 68 percent that prevailed in the 1950s and the 1960s. The remaining assets are livestock and poultry, stored crops, machinery and equipment, household furnishings of farm operators, and a partial accounting of the financial assets of farm operator families. The combined value of these nonreal estate assets at the beginning of this year was estimated at $276 billion, up nearly 4 percent from the year before and a new high. By the end of this year, the USDA analysis foreshadows a modest increase of about 2 percent. Although the quantity of crops in inventory will be lower—because of the drought and acreage cuts this year—higher crop prices will be about offsetting, holding crop values unchanged. The value of livestock and poultry at the end of this year is also expected to be roughly comparable to the year-earlier level.

Farm debt, which grew at the extraordinary compound annual rate of 15 percent in the last half of the 1970s, has slowed noticeably in recent years. With high interest rates and low earnings discouraging capital expenditures and debt financing, the rise in outstanding farm debt slowed to 7.3 percent last year, the smallest annual rise since 1970. By the end of this year, the USDA believes that farm debt may be unchanged or perhaps even down somewhat from the $216 billion level that prevailed at the beginning of the year. If outstanding farm debt does decline, it would mark the first annual decline since 1945.

The prospective decline in farm debt assumes a major reduction in outstanding nonreal estate farm loans held by the Commodity Credit Corporation during the second half of this year. With the large movement of grains under loan and into the reserve program following record crop harvests in 1981 and 1982, outstanding CCC loans to farmers jumped from $5 billion at the end of 1980, to over $15 billion at the end of last year, and to roughly $16 billion by mid-1983. However, high crop prices—which have triggered the release of feed grains from the grain reserve program and discouraged the movement of 1983 crops under CCC loan—and the transfer of PIK grain entitlements to farmers will result in a sharp decline in CCC loans during the second half. By year-end, the USDA believes outstanding CCC loans may fall to around $10 billion.

Although trends among lending institutions have varied widely, growth in farm debt held by all reporting lenders other than the CCC has slowed appreciably so far this year. Preliminary estimates show that outstanding farm debt held by banks, the Farmers Home Administration, life insurance companies, and the lending arms of the Cooperative Farm Credit System (primarily FLBs and PCAs) was up less than 2 percent from a year earlier as of the end of June. Among these lenders, the growth at banks, at 7 percent, contrasted sharply with the 1 percent rise at FmHA and the slight declines recorded by both the Cooperative Farm Credit System and life insurance companies.

While second-half trends are uncertain, it is clear that the year-to-year decline in farm loan portfolios held by the Cooperative Farm Credit System continued to widen through August. However, with the cutback in debt held by the CCC, farm loan demand will increasingly be shifting to other lenders. Moreover, FmHA lending may register a sudden spurt this fall as it cranks up its Disaster Loan Program following the summer drought. Farmers located in counties designated as agricultural disaster areas who suffer a 30 percent decline in production will be eligible for the disaster loans. The loans will be available in amounts up to 80 percent of the borrower's production loss, to a maximum of $500,000. For borrowers unable to get credit elsewhere, the interest rates on the disaster loans will be 5 percent on the first $100,000 and 8 percent on amounts above that cutoff.

The debt-to-asset ratio for the farm sector would decline slightly if the USDA's projection of asset growth and stable or declining debt levels materialize. However, the ratio will likely remain at a level unprecedented since the early 1940s. While the ratio for individual farm operators varies widely, the high overall sector average is indicative of the continuing financial stress that still exists in the farm sector.

Gary L. Benjamin

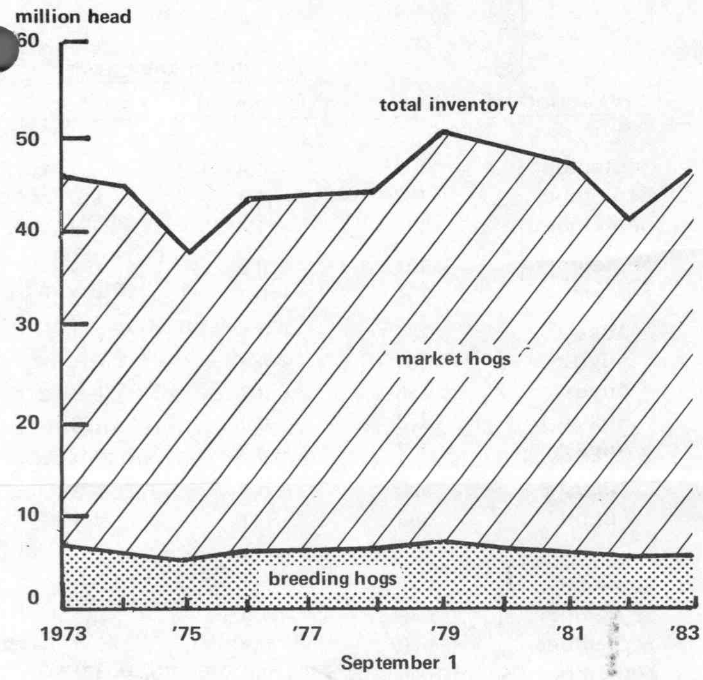
HOG PRODUCTION continued to expand this summer, a trend that will continue this fall. However, tight operating margins are encouraging producers to scale back earlier expansion plans, foreshadowing a likely downturn in production this winter. These developments suggest that pork supplies will remain above year-earlier levels through mid-1984 before turning downward. In the meantime, low hog prices and high feed costs will be curtailing the earnings of hog farmers.

The USDA's latest *Hogs and Pigs* report shows that the June-August pig crop in the ten major producing states, at 17.7 million head, was 9 percent larger than last summer's crop. The 2.4 million sows that farrowed during the June-August period coincided closely with producers' intentions as stated in the USDA's June report and was near the level of two years ago. The average litter size for the period was down slightly from the previous two years at 7.36 pigs per litter.

The USDA report suggests that farrowings will continue to increase through November but at a slower rate than had been reported earlier. Producer intentions for the September-November period indicate a 4 percent increase in farrowings over the same period last year and 2 percent more than in 1981. The increases however, are considerably smaller than has been indicated by producers' farrowing intentions in June. Moreover, their farrowing intentions for the December-February quarter point to a 1 percent decline from the level of a year ago. And many analysts believe that the December-February farrowings will be down even more because of the high feed costs and lower hog prices expected this fall.

Hog inventories remain well above year-ago levels. As of September 1, the inventory of hogs and pigs in the 10 major hog producing states stood at 45.9 million head, up 10 percent from a year earlier. Most of the rise was accounted for by an 11 percent increase in market hogs. The increase was distributed across all weight groups and brought market hog inventories quite close to 1981 levels. Breeding hog inventories registered less than a 5 percent increase from the previous year's level, which was the lowest September 1 breeding stock since 1975, and continued well below September 1981 levels.

Hog inventories up in major producing states



When taken together, hog production in the three District states covered in the USDA's quarterly report reveals trends quite similar to the ten-state group. However, in some cases figures for the individual District states depart from the ten-state norm. The June-August pig crops in Indiana and Iowa were up 13 and 12 percent, respectively, substantially exceeding the rise for all ten states. In contrast, the June-August pig crop in Illinois was up only 2 percent. Similarly, inventory increases of breeding stock in Indiana and Iowa were nearly double the rate for the ten states combined. Market hog inventory on September 1 was more than 13 percent above last year's level in Indiana but in Iowa it was up only half that amount.

In Illinois the number of breeding animals declined 4 percent from a year earlier but the number of market hogs climbed 9 percent to place total inventories 7 percent above the September 1982 level. Further indication of a decline in hog production in Illinois is evident in producer intentions. Farrowing intentions for the third quarter indicate no change from a year ago, while intentions for the December-February period suggest a 4 percent decline in farrowings from the same period last year. Hog producers in Indiana and Iowa, on the other hand, intend to increase sow farrowings this fall by 10 and 6 percent, respectively, while winter quarter intentions suggest little or no curtailment in farrowings from a year ago.

Hog slaughter, after lagging year-ago levels during the first quarter, has been rising steadily. Second quarter slaughter was up more than 3 percent over last year and preliminary indications suggest an increase of nearly 12 percent for the third quarter. A high level of sow slaughter contributed to the large rise this summer. Sow slaughter thus far through the third quarter is up 42 percent from a year ago and equivalent to more than 7 percent of all federally inspected hog slaughter.

The size of the current hog and pig inventory and the likelihood of further liquidation of the breeding herd suggests that the year-to-year gains in hog slaughter will extend well into next year. The current inventory of market hogs over 60 pounds is up 12 percent from last year and comparable to the high levels of two years ago. This implies that a substantial year-to-year increase in hog slaughter will be experienced this fall. Further, the large summer pig crop and producers' intended increase in farrowings this fall foreshadow an increase in hog slaughter during the first half of 1984.

Hog prices rose slightly in late summer but have since returned to the mid-\$40 per hundredweight, down from \$63 a year ago. Many analysts believe that the large inventory of market hogs and the prospects for additional liquidation of breeding stock will result in further price declines this fall.

Supplies of other meats will continue to pressure hog prices for the next few months. Poultry production has lagged year-earlier levels in recent weeks and may remain marginally below year-ago levels for the next few months. However, cattle slaughter continues above year-earlier levels. Federally inspected cattle slaughter exceeded last year's level by more than 3 percent in the third quarter. Moreover, cattle on feed in the seven largest producing states remained near 1982 levels through September which, coupled with the likelihood of more cattle moving directly from parched pastures to slaughter, will hold beef production above year-earlier levels through winter.

While increased livestock production and slaughter have contributed to low producer prices, the same factors have provided consumers with lower retail meat prices. Although the Consumer Price Index for all food items was up nearly 2 percent in August, prices of red meats were down more than 4 percent. Pork prices, down 6.9 percent from a year ago, posted the largest decline. Beef and veal prices fell 3.5 percent year to year. Poultry prices, on the other hand, were up 2.2 percent over last year.

Peter J. Heffernan

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
Index of prices received by farmers	1977=100	September	137	− 1.4	+ 1
Crops	1977=100	September	137	− 1.4	+10
Livestock	1977=100	September	137	− 1.4	− 7
Index of prices paid by farmers	1977=100	September	161	+ 0.6	+ 3
Production items	1977=100	September	154	+ 0.7	+ 3
Producer price index* *(finished goods)*	1967=100	August	286	+ 0.2	+ 1
Foods	1967=100	August	261	+ 0.1	+ 1
Processed foods and feeds	1967=100	August	256	+ 0.5	+ 1
Agricultural chemicals	1967=100	August	278	− 0.4	− 5
Agricultural machinery and equipment	1967=100	August	327	+ 0.3	+ 5
Consumer price index** *(all items)*	1967=100	August	300	+ 0.3	+ 3
Food at home	1967=100	August	283	− 0.1	+ 1
Cash prices received by farmers					
Corn	dol. per bu.	September	3.37	+ 0.6	+57
Soybeans	dol. per bu.	September	8.46	+11.8	+62
Wheat	dol. per bu.	September	3.60	− 0.3	+ 7
Sorghum	dol. per cwt.	September	5.46	+ 3.2	+44
Oats	dol. per bu.	September	1.59	+ 9.7	+18
Steers and heifers	dol. per cwt.	September	56.00	− 3.6	− 7
Hogs	dol. per cwt.	September	44.40	− 4.9	−28
Milk, all sold to plants	dol. per cwt.	September	13.50	+ 1.5	−1
Broilers	cents per lb.	September	33.8	+ 6.3	+26
Eggs	cents per doz.	September	65.4	+ 3.3	+15
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	141	− 0.6	0
Net farm income	bil. dol.	2nd Quarter	26	+ 6.5	+55
Nonagricultural personal income	bil. dol.	August	2,711	+ 0.3	+ 7

*Formerly called wholesale price index.

**For all urban consumers.

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