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Farm earnings expected to be up this year

Farm sector earnings are still expected to increase this year despite recent declines in grain prices and a surge in fuel prices. The U.S. Department of Agriculture's latest forecast suggested that net cash income for the farm sector this year would reach a level between \$59 and \$63 billion. That would mark a considerable increase from the revised estimate of \$54.6 billion for last year and it would surpass the 1988 peak of \$58.4 billion. This year's upturn reflects prospects for another sizable rise in cash receipts from farm commodity marketings and a moderating rise in production expenses.

The USDA's net cash income measure for the farm sector represents the difference between the business-related cash income and cash expenses that are generated, or incurred, by farm operators in a given year. As a cash-based measure of accounting, it is particularly useful for gauging the net cash flow generated by the farm business that can be used by operators to make capital investments, repay debts, add to savings, or maintain living standards. Another common measure of farm sector earnings, called "net farm income," adds some additional calculations that make it a better gauge of the net profit associated with the level of farm production in a given year. As an accrual-based concept, the net farm income measure includes consideration for the change in farm commodity inventories. Other noncash items are also included in the net farm income measure. The noncash items added to income represent the value of home-grown food consumed by farm operator families and the imputed rental value of farm operator dwellings. The added expense items represent depreciation and noncash labor perquisites. The USDA's latest revisions suggest that net farm income this year will rise to somewhere between \$47 and \$52 billion, up from \$46.6 in 1989 and \$42.0 billion in 1988.

The strong farm earnings prospects for this year reflects expectations for another large rise in cash receipts from farm commodity marketings. The midpoint of the USDA's forecasted range suggests that cash receipts from farm commodity marketing will approximate \$170 billion in 1990, up nearly \$11 billion (or 7 percent) from last year and up \$20 billion from two year's ago. Sizable gains are currently projected for both livestock

(including poultry) and crop receipts. The projected gains within the livestock component are widespread, reflecting this year's higher prices for cattle, hogs, and milk as well as expectations for a larger volume of milk and poultry marketings. Within the crop component, the bulk of the projected gains will be in grains. Despite sharply lower prices, wheat receipts are expected to be up from last year due to this year's much larger harvest. Receipts from marketings of corn and other feed grains are also expected to increase this year because of a larger volume of marketings. Receipts from oil-crop marketings, which mostly represent soybeans, are expected to be stable to up only slightly this year. Similarly, the combined receipts from fruit, vegetable, and nursery/greenhouse marketings, which recorded strong gains over the past three years, are expected to be little changed from last year.

In addition to commodity marketings, the remaining sources of cash income included direct government payments and an "other" category that includes such things as income from custom fieldwork, sales of forest products, custom feeding fees, and income from recreational services. Direct government payments to farmers have been trending lower since the 1987 peak of \$16.7 billion. Direct government payments totaled slightly less than \$11 billion last year and—because of

Farm income estimates

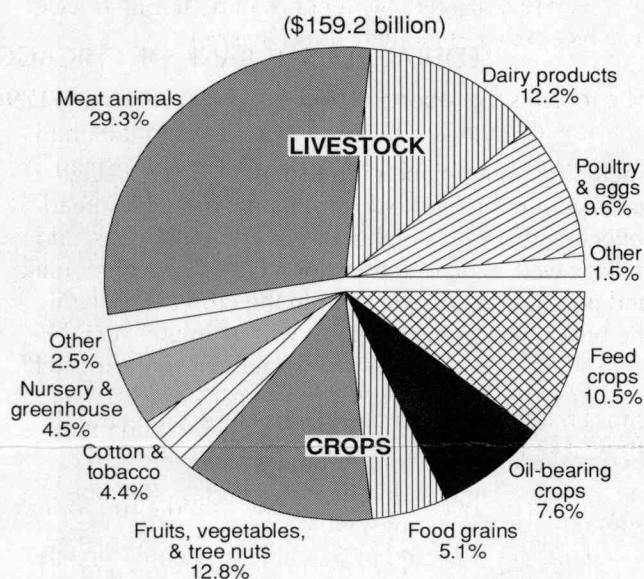
	1986	1987	1988	1989	1990*
	(-----billion dollars-----)				
Gross income	156.5	169.0	173.8	189.1	195.5
Cash income	152.0	164.3	170.4	177.5	186.0
Crop marketings**	63.7	65.6	71.4	75.4	80.5
Livestock marketings	71.5	76.0	78.8	83.7	89.5
Government payments	11.8	16.7	14.5	10.9	9.5
Other cash	5.0	5.9	5.7	7.4	6.5
Inventory change	-2.4	-2.7	-4.1	4.4	2.0
Other noncash income	6.9	7.5	7.5	7.2	7.5
Total expenses	125.1	127.7	131.8	142.6	146.0
Cash	104.8	108.2	112.0	122.8	125.5
Net cash income	47.2	56.1	58.4	54.6	61.0
Net farm income	31.4	41.2	42.0	46.6	49.5

*Figures shown for 1990 represent the mid point of the range forecasted.

**Includes net CCC loans of \$8.3 billion in 1986, \$0.2 billion in 1987, \$-5.2 billion in 1988, and \$-2.2 billion in 1989.

SOURCE: USDA

Distribution of cash receipts from farm commodity marketings, 1989



lower disaster assistance payments—are projected to retreat to less than \$10 billion this year. “Other” farm-related cash income is expected to hold steady or decline slightly this year following a surprisingly large increase in 1989. Most of the large increase for last year was attributed to USDA surveys that showed a sharp rise in custom feeding fees. Fees for custom feeding, which is a long-established practice among cattle feedlot operators and is now becoming more common among Midwest hog farmers, accounts for about 40 percent of the estimated \$7.4 billion in other farm-related cash income for 1989.

Farm-related cash production expenses, since retreating to a seven-year low in 1986, remain on the upswing. But the rate of increase this year is expected to slow, despite the recent surge in oil prices. Last year, cash expenses rose more than a tenth to nearly \$123 billion. For this year, the USDA expects that farm cash production expenses will total somewhere between \$124 and \$127 billion. The smaller rise implied for this year reflects smaller increases in the prices paid by farmers for some key inputs and a leveling-off in the quantity of purchased inputs. In 1989, the index of prices paid by farmers for production inputs averaged a little over 5 percent higher than the year before. During the first three quarterly surveys conducted for this year (January, April, and July), the same index averaged only 2 percent over year-earlier levels. Lower prices for feed, seed, and fertilizer have helped to offset sizable gains in prices paid for feeder livestock and for fuel and energy.

It is more difficult to generalize about the quantity of inputs purchased by farmers. For instance, this year’s

increase in acreage devoted to crops was considerably less than that of last year. At the same time, however, the crop mix shifted toward crops (such as corn and cotton) that are typically associated with higher levels of fertilizer and chemical usage. Moreover, this year’s larger harvest, especially for grains, is likely to add to storage costs this fall. Trends are also mixed with respect to the quantity of inputs purchased by livestock and poultry producers this year. Hog production has been scaled back moderately while poultry production appears to be registering gains comparable to last year. Beef production will be down again this year but more cattle are moving through commercial feedlots. And milk production is up, paced by higher levels of concentrate feeding and a leveling off from the normal decline in dairy cows.

The expected trends for other farm production expenses this year are mixed. For the third consecutive year, interest expenses are projected to be stable to slightly lower. But labor expenses will probably be up again this year. And in conjunction with the uptrend in land values, net rent paid to nonoperating landlords and taxes are both expected to register further increases in 1990. Depreciation, the major noncash expense item, is also expected to be somewhat higher this year, largely reflecting the continuing uptrend in capital outlays for new farm machinery and equipment.

Farm production expenses

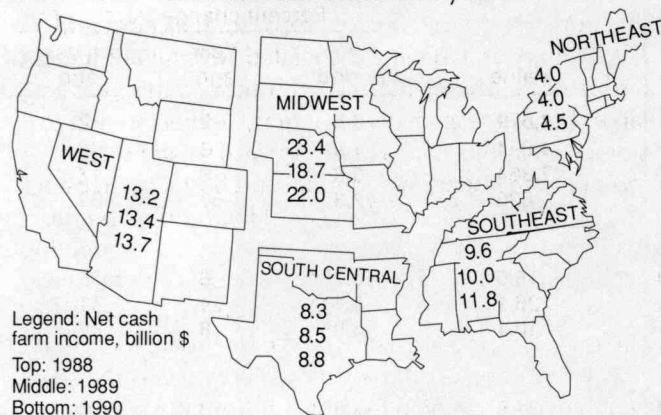
	1986	1987	1988	1989	1990*
(-----billion dollars-----)					
Farm-origin inputs	30.8	33.1	36.7	39.4	40.0
Feed	17.9	18.0	20.6	22.7	
Livestock	9.8	11.8	12.8	13.0	
Seed	3.2	3.3	3.3	3.7	
Manufactured inputs	18.2	18.1	18.4	20.7	21.5
Fertilizer & lime	6.8	6.5	6.8	7.6	
Fuel	5.3	5.0	4.9	5.3	
Pesticides	4.3	4.5	4.4	5.7	
Electricity	1.8	2.2	2.2	2.1	
Other operating	30.2	32.6	33.0	36.5	38.0
Repair/maintenance	6.5	6.8	6.9	7.8	
Labor	9.9	10.8	10.7	11.9	
All other	13.8	15.0	14.9	16.8	
Interest	17.1	15.5	15.2	15.1	14.5
Overhead expenses	28.8	28.4	28.5	30.8	32.5
Capital consumption	17.7	16.5	16.7	17.3	
Net rent	7.0	7.0	7.0	8.2	
Taxes	4.1	5.0	4.8	5.3	
Total expenses	125.1	127.7	131.8	142.6	146.0
Cash expenses**	104.8	108.2	112.0	122.8	125.0

*Figures for 1990 represent the mid point of the range forecasted.

**Cash expenses equal total production expenses less depreciation, operator dwelling expenses, and noncash labor benefits.

SOURCE: USDA

Large recovery in net cash income expected for Midwest farmers this year



Legend: Net cash farm income, billion \$

Top: 1988
Middle: 1989
Bottom: 1990

SOURCE: U.S. Department of Agriculture

The Midwest is likely to experience a particularly large recovery in net cash farm income this year, reversing the sizable drought-related declines of the past two years. The latest USDA projections suggest that net-cash farm income in the 12-state region identified as the Midwest will rise from \$18.7 billion in 1989 to around \$22 billion this year. The comparatively large increase reflects the strong earnings evident for hog and dairy farmers this year as well as the increased volume of feed grain marketings, commodities which are heavily concentrated in the Midwest.

While the farm sector will benefit from strong earnings this year, recent developments have tempered prospects for next year. Grain prices have retreated sharply in recent weeks as evidence of a bumper worldwide harvest has undermined U.S. grain export prospects. Until export prospects improve, low prices may limit the rise in receipts from grain marketings during the early part of next year. To some extent, however, prospects for generally strong soybean markets should help to counter the deteriorating conditions in grains for Midwest crop farmers.

The strong earning's picture for most livestock farmers will likely extend into next year. But some precautionary signs are emerging with respect to indications of an expansion in pork and milk production. The modest expansion currently indicated for hog production this fall and winter should not materially undermine next year's earnings for hog farmers. But too rapid an expansion could lead to smaller second-half earnings for

hog farmers. More importantly for dairy farmers, some analysts now believe that a return to excess production will lead to considerable declines in both milk prices and receipts for milk marketings in 1991.

The recent surge in crude oil prices threatens to add considerable upward pressure to an important component of farm production expenses in 1991. Farmers spend about \$21 billion annually for fuel, oil, electricity, fertilizer, and pesticides; inputs which directly or indirectly would be most affected by higher crude oil prices. Forecasts of crude oil prices for next year are, at best, speculative. However, the USDA has suggested that farm production expenses in 1991 would be about \$1.7 billion higher if crude oil prices average \$30 per barrel rather than their original baseline projection of about \$21 per barrel.

Likely cuts in government payments could also result in somewhat lower farm sector earnings next year. The budget compromise reached by White House and Congressional negotiators last weekend calls for cuts in federal spending on farm programs of some \$1.3 billion in fiscal 1991 and \$13 billion over the next five years. If adopted by Congress, price support programs for 1991 will have to be modified in some manner to incorporate the cuts. The cuts will likely be in the form of lower target prices and/or reductions in the amount of acreage eligible for 1991 crop deficiency payments. Depending on the flexibilities that might be permitted for growing alternative crops, grain farmers will bare the brunt of the cuts.

Gary L. Benjamin

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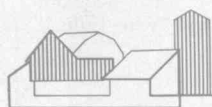
Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	May	12,679	-0.5	-2	-2
Livestock	May	4,694	1.9	0	6
Government payments	May	7,364	5.8	8	13
	May	620	-47.3	-57	-69
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	15.5	0.7**	6	15
Farm Credit System	March 31	26.1	-1.1**	-4	-11
Life insurance companies	June 30	10.1	3.0**	8	6
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	27.9	-4.6**	3	5
Farm Credit System	March 31	9.19	-3.2**	4	2
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	July 1	11.94	0.1**	-4	6
Real estate loans	July 1	11.09	0.2**	-4	4
Commodity Credit Corporation	October	7.87	1.6	-5	-3
Agricultural exports (\$ millions)					
Corn (mil. bu.)	June	3,234	1.0	6	21
Soybeans (mil. bu.)	July	148	-26.6	11	20
Wheat (mil. bu.)	July	21	-40.9	27	-32
	June	89	19.3	-2	-31
Farm machinery sales^p (units)					
Tractors, over 40 HP	August	3,852	-10.3	5	12
40 to 100 HP	August	2,728	-12.2	8	18
100 HP or more	August	1,124	-5.3	-3	-1
Combines	August	510	-47.6	-40	35

*Includes net CCC loans.

**Prior period is three months earlier.

^pPreliminary



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