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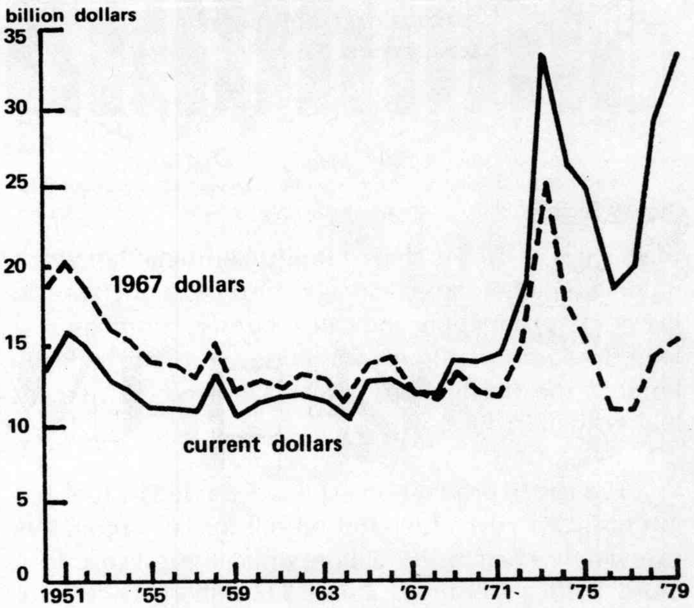
FARM INCOME ESTIMATES for 1979 were recently revised upward, but projections for this year point to a substantial decline. USDA estimates now show that net farm income rose to $33.3 billion last year. That is nearly a fifth higher than the relatively high level of 1978 and equals the record high reached in 1973. Adjusted for inflation, net farm income was up only 7 percent from 1978. Even so, real farm income last year was the third highest of the past 10 years—and the third highest in the past quarter century. Allowing for the decline in farm numbers by adjusting the historical series, which is no longer published, real income per farm in 1979 was probably the third highest in history.

These optimistic comparisons for last year's net farm income contrast markedly with projections for 1980. The USDA expects net farm income to decline a fourth in 1980, to around $25 billion. If inflation continues at the double digit rate most analysts expect, real farm income would decline a third to perhaps the lowest level since the late 1930s. Although that would be distributed among fewer farms, real income per farm could fall short of the disturbingly low levels of 1976 and 1977. These comparisons paint an ominous picture for 1980.

Last year's increase in net income reflected a large rise in cash receipts and a big increase in inventory values. Cash receipts from farm marketings rose 17 percent to nearly $130 billion. Receipts from crop marketings, at a little over $62 billion, rose the most, although livestock receipts also increased substantially. The higher receipts reflect last year's rise in livestock prices as well as higher prices and larger marketings of crops. The index of prices received by farmers in 1979 averaged 241 (1967=100), nearly 15 percent higher than the year before. Livestock and product prices averaged nearly a fifth higher, while crop prices were up nearly a tenth.

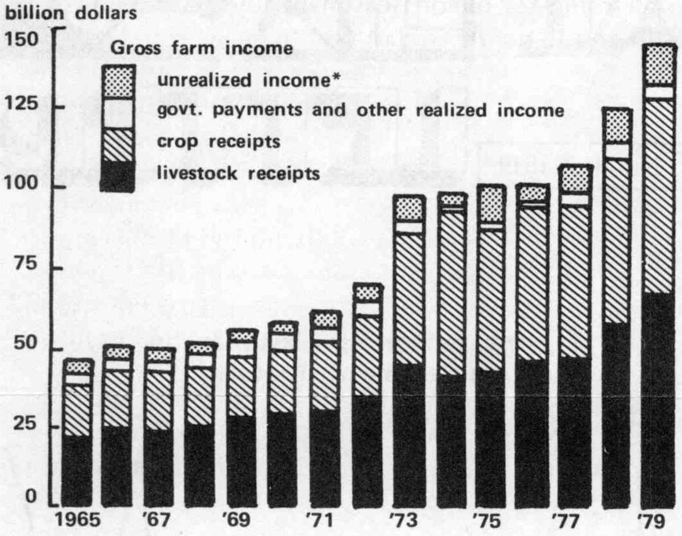
In addition to cash receipts, gross farm income last year included almost $17 billion in other realized and unrealized income. Although estimates for the components of these additional earnings are not yet available, it would appear that the $17 billion is composed of a little over $3 billion in other realized income—government payments to farmers and income from recreational facilities and custom work—and about $13.5 billion in unrealized income. The unrealized income included an inventory gain of $3.5 billion with the remainder distributed between the rental value farm dwellings and the value of farm products consumed directly by farm households. Interestingly, last year's increase in unrealized earnings accounted for well over 60 percent of the $5.4 billion increase in net farm income. The remaining increase came from the increase in realized earnings, net of the rise in production expenses. This was in contrast to 1978, when the net increase in realized income accounted for over 90 percent of the rise in net farm income and the change in unrealized earnings contributed less than 10 percent.

Net farm income last year equaled the 1973 record



Production expenses rose 16 percent last year to an estimated $113.5 billion. The increase mostly reflected

Gross farm income up sharply again last year

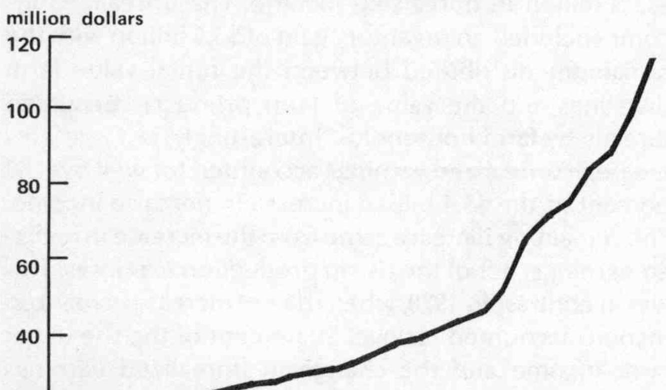


*Change in value of inventories, gross rental value of farm dwellings, and value of farm products consumed directly by farm households.

higher prices for purchased inputs, although last year's 3 percent larger crop acreage and slight increase in livestock production indicates farmers purchased a larger volume of inputs. The index of prices paid by farmers for production inputs averaged 15 percent higher than in 1978.

The rise in production expenses was led by fuel and interest. Last year's fuel and oil bill for farm operators rose nearly a half to $6.7 billion, while interest costs rose more than a fourth to about $12 billion. These two categories accounted for a sixth of total farm expenditures last year compared with 11 percent a decade earlier.

Farmers' production expenses rose sharply during the 1970s



Among other major expenditures, outlays for livestock, feed, and seed—which typically account for well over a fourth of total expenses—rose more than a sixth last year. Outlays for fertilizer, pesticides, and lime rose less than a tenth from the $8 billion the year before, while expenses for repairs and operation of capital assets—excluding fuel and oil—rose well over a tenth to around $7 billion. Expenses for hired labor rose less than 5 percent, while other operating expenses—including custom work, machinery rental, and utilities—rose nearly a sixth. Taxes and net rent paid to nonoperating landlords, at a combined value of almost $10 billion, rose a tenth. Depreciation—a noncash expense—rose about 12 percent to $18.6 billion.

Estimates of farm income by states are not yet available. Nevertheless, a number of general measures paint a favorable earnings picture for district grain and soybean farmers and a mixed earnings picture for district livestock farmers. All district crop farmers faced sharply higher fuel costs last year, particularly crop farmers, and those that are highly leveraged faced the brunt of higher interest costs. But increases in other costs for crop farmers, although substantial by historical comparisons, were comparatively modest, particularly in relation to the higher grain and soybean prices. Nationwide, corn prices received by farmers rose 12 percent last year to an average of $2.36 per bushel. Soybean prices, although below year-earlier levels during the latter part of 1979, were up 9 percent to an average of $6.86 per bushel.

In some district states, particularly Iowa, transportation and other factors contributed to slightly smaller price increases. Nevertheless, the impact of higher prices on realized gross earnings of district crop farmers was reinforced by the larger marketings that followed the bountiful harvests in 1978 and 1979. Indicative of these large marketings, utilization of soybeans and corn increased 5 and 13 percent, respectively, last year. Moreover, because of the huge increase in year-end corn and soybean stocks that followed the record 1979 harvest, net incomes of district crop farmers were supported by a big rise in unrealized earnings.

All livestock producers faced a significant rise in feed costs, in addition to higher fuel and interest costs. But earnings of district dairy farmers weathered these higher costs fairly well last year because of a 14 percent rise in milk prices and a 2 percent rise in production. Gross earnings of district hog farmers were probably flat last year as a 12 percent decline in average prices offset an increase of comparable magnitude in hog marketings. And because of the higher costs, net returns to hog producers were well below the very favorable levels of the preceding three years. Gross earnings of cattle feeders were partially supported by a 30 percent rise in fat cattle prices last year that more than offset a 20 percent decline in fed cattle marketed by farmers in district states. Feeding margins were very high during the first half when cattle prices rose sharply. But those favorable margins were bid into feeder cattle prices, resulting in substantial losses on most cattle marketed during the latter part of 1979.

Farm income projections for this year are very tentative, but a number of signs point to the likelihood of a substantial decline. For the near term, abundant supplies will generally hold the line on farm commodity prices. Larger first-half pork and poultry supplies will likely offset the decline in beef production. The strength in consumer demand for meat products may be tempered slightly by a sluggish economy and inflationary pressures on food budgets, particularly from energy. Although livestock prices are expected to strengthen around midyear, producers are likely to have losses on most livestock marketed in the first half. Earnings of dairy farmers will be supported by higher prices and increased production, although increasing costs may cause net earnings to decline from the generally high levels of recent years.

Grain prices have recovered remarkably from the plunge that followed the announcement of an embargo on shipments to the Soviet Union. Corn and wheat prices are well above year-ago levels in most areas. There is a great deal of uncertainty regarding the net impact of the embargo and new crop prospects worldwide. Nevertheless, there is also some doubt that grain prices this spring and summer will exceed the strength of a year ago. Soybean prices are already below year-ago levels and being pressured by indications of a much improved Southern Hemisphere harvest this spring and prospects for a record domestic carryover. Larger marketings will offer some strength to crop farmers' gross earnings but probably not nearly enough to offset the higher production costs this year.

USDA projections suggest the downturn in net farm income will come abruptly. Net farm income is expected to fall from $32.7 billion (seasonally adjusted annual rate) in the fourth quarter of last year to an average of about $25 billion for the first two quarters of this year. For the first half, prices received by farmers are expected to average nominally below year-earlier levels. That, coupled with only slightly larger marketings, points to less than a 3 percent rise in gross farm earnings in the first half. In contrast, production expenses are projected to average 13.5 percent higher than a year earlier. Expenses for fuel and interest will continue to pace the rise in production expenses. And this year, higher fertilizer prices will add significantly to production costs.

Most analysts agree that net farm income will be down substantially this year, although some are less pessimistic than the USDA. Nevertheless, it should be noted that forecasting farm income is far from an exact science. Net farm income is the residual after production expenses are netted out of gross earnings. Modest departures from assumptions about production costs, commodity prices, or inventory changes can therefore result in substantial revisions in forecasts of net farm income. Current assumptions about these variables are still tentative. In particular, changes in world crop prospects could significantly alter the earnings picture for farmers, especially during the second half of the year.

While the anticipated decline in farm income is substantial, part of the decline will likely be cushioned by higher nonfarm earnings of farm operator families. From 1974 to 1978, nonfarm earnings of farm families increased an average of 8 percent annually. In 1978, nonfarm earnings of farm families exceeded net farm income by well over a fifth. Nonfarm earnings no doubt continued to rise last year, perhaps close to a tenth. A similar increase this year might offset nearly half the anticipated decline in net farm income.

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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	1967=100	January	234	− 1.7	+ 1
Crops	1967=100	January	214	− 2.3	+ 2
Livestock	1967=100	January	253	− 1.2	0
Index of prices paid by farmers	1967=100	January	267	+ 2.7	+14
Production items	1967=100	January	262	+ 1.6	+13
Producer price index* *(finished goods)*	1967=100	January	233	+ 1.9	+14
Foods	1967=100	January	231	− 0.3	+ 5
Processed foods and feeds	1967=100	January	228	− 0.3	+ 6
Agricultural chemicals	1967=100	January	238	+ 2.3	+18
Agricultural machinery and equipment	1967=100	January	248	+ 1.8	+11
Consumer price index** *(all items)*	1967=100	January	233	+ 1.4	+14
Food at home	1967=100	January	241	+ 0.8	+ 8
Cash prices received by farmers					
Corn	dol. per bu.	January	2.25	− 5.5	+ 7
Soybeans	dol. per bu.	January	6.06	− 3.3	− 8
Wheat	dol. per bu.	January	3.62	− 4.7	+21
Sorghum	dol. per cwt.	January	3.80	− 2.6	+ 7
Oats	dol. per bu.	January	1.30	− 0.8	+ 7
Steers and heifers	dol. per cwt.	January	68.70	− 0.6	+ 9
Hogs	dol. per cwt.	January	36.60	− 2.4	−28
Milk, all sold to plants	dol. per cwt.	January	12.80	0	+ 8
Broilers	cents per lb.	January	27.2	+ 7.9	+ 1
Eggs	cents per doz.	January	56.8	−11.0	− 6
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	4th Quarter	132	+ 1.8	+11
Net farm income	bil. dol.	4th Quarter	33	+ 5.5	+ 3
Nonagricultural personal income	bil. dol.	January	1,986	+ 0.7	+11

*Formerly called wholesale price index.

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