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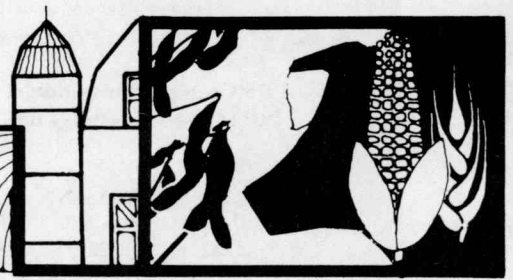
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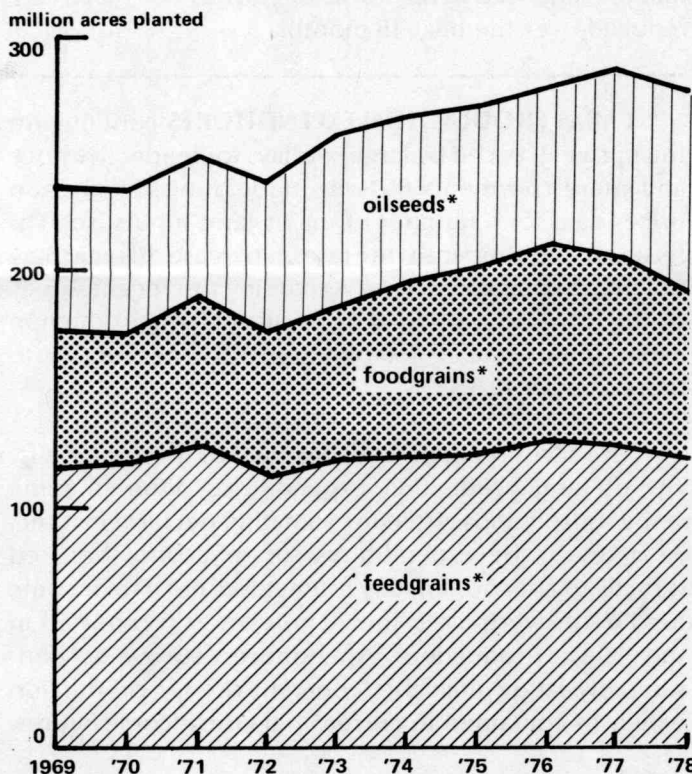
LETTER

July 14, 1978

Number 1477

CROP PRODUCTION PROSPECTS were clarified somewhat by the USDA's recent estimate of planted acreage and its first estimate of the year's corn harvest. Plantings of grains and oilseeds declined to a three-year low of 277 million acres. That is 3 percent less than last year but more than expected. Planted grain acreage fell nearly 7 percent, while plantings of oilseed crops rose 6 percent to a new record. The overall cutback of 9.3 million acres, however, fell considerably short of the nearly 23 million acres of set-aside that had been indicated by an earlier report on enrollment in this year's government farm programs. And despite the cutback in acreage, the feed grain harvest may still reach bumper proportions this year.

Increased plantings of oilseeds offset part of the decline in grain acreage



*Oilseeds: soybeans, cotton, peanuts, flax and sunflower seeds. Foodgrains: wheat, rye and rice. Feedgrains: corn, sorghum, oats and barley.

The planted acreage estimates are based on a survey conducted around June 1. Since this date coincided with the end of the farm program enrollment period, the estimates probably offer a better indication of farmers set-aside intentions as of June 1 than those suggested in the final enrollment report. At the same time, however, roughly 20 percent of this year's corn acreage and nearly 60 percent of the soybean acreage had not been planted when the survey was completed. This contrasts markedly with the two previous years when nearly all the corn acreage and nearly three fourths of the soybean acreage had been planted by June 1. Most farmers were probably able to carry out their planting intentions in June. But because of the late season this year, subsequent revisions in planted acreage estimates could be greater than in past years. And since farmers had until mid-July or later to verify their acreage, any such revisions could cast new light on the two extremes in set-aside acreage suggested by current reports.

Feedgrain plantings declined to less than 122 million acres this year, down 5 percent from 1977. Corn acreage, at 78.7 million, was down nearly 5 percent, but still at the high end of expectations. Sorghum plantings fell 3 percent, while barley acreage was down 6 percent. Oat seedings continued a long downtrend, falling 8 percent this year.

Soybean seedings are estimated at 64.3 million acres. Up nearly 9 percent from last year's record, this is much more than most observers had expected. Among other oilseed crops, cotton plantings fell 4 percent, while flax-seed acreage fell 36 percent. Peanut acreage is unchanged from a year ago and sunflower seed plantings are up 21 percent.

Plantings in district states generally parallel trends nationwide. Corn acreage in the five-state area declined 3 percent this year. On the other hand, soybean acreage rose nearly 5 percent. The combined corn and soybean acreage, at 58.5 million, is almost the same as last year, suggesting most of the set-aside in district states will come out of the winter wheat acreage not planted last

1978 Corn plantings down, but soybean seedings up

	Corn plantings		Soybean plantings	
	Thou. acres	Percent change*	Thou. acres	Percent change*
District states				
Illinois	11,000	- 2	9,250	+ 4
Indiana	6,200	- 3	4,150	+ 6
Iowa	13,100	- 4	7,550	+ 4
Michigan	2,600	- 4	820	+12
Wisconsin	3,600	- 5	220	+10
Other selected states				
Minnesota	7,000	+ 1	4,100	+ 6
Missouri	2,500	-15	5,450	+12
Nebraska	6,900	- 1	1,300	+ 8
Ohio	3,850	- 1	3,750	+10
United States	78,717	- 5	64,293	+ 9

*From year earlier.

fall because of wet weather. (Planting's for this year's wheat crop fell to only 2.5 million acres in district states, 1.6 million less than last year.) And since the combined plantings of feed grains, food grains, and soybeans, at 65.5 million acres, is only 1.7 million acres less than last year, it would appear that set-aside acreage in district states will fall far short of the 4.6 million indicated in the enrollment report.

Grain production estimates suggest this year's corn harvest may reach bumper proportions, despite the cut in acreage and the late planting season. According to the USDA, corn production is expected to approach 6.15 billion bushels, based on July 1 conditions. Such a harvest would be down nearly 4 percent from last year, but still the third largest on record. The projection is based on an estimated 3 percent decline in harvested acreage for

grain and a yield of 90.1 bushels per harvested acre. Last year, corn yields averaged 91.0 bushels per acre, but the past three year average is only 88.4 bushels per acre. The July production estimate for barley portends a 1 percent decline. The estimate for oats suggests a 15 percent decline, reflecting a substantial cut in both harvested acreage and per acre yields. Wheat production is pegged at 1.8 billion bushels, down 11 percent from last year. The first production estimates for soybeans and sorghum, as well as other major crops will not be released until next month.

July production estimates usually provide fairly close approximations of the actual harvest. But early-season estimates—particularly for corn—can deviate considerably from actual outcomes, if subsequent weather patterns or disease problems cut yields. Also, subsequent surveys sometimes alter harvested acreage estimates. While there is far less concern about drouth than for the past two years, the lateness of the planting season increases chances that an early frost could still reduce yields. Nevertheless, current prospects suggest the 1978 corn harvest will slightly exceed the estimated record utilization for the current corn marketing year. And based on some very preliminary assessments of world grain production, it would appear that a 6.15 billion bushel corn harvest would be in reasonably close balance with likely disappearance in the 1978/79 corn marketing year. Under these conditions, it is doubtful that the large carryover stocks of corn will be materially reduced over the next 15 months.

FARM PRODUCTION EXPENDITURES continue on the upswing, paced by larger outlays for feeder livestock and interest payments. But with moderating pressures on prices paid for a number of major farm inputs, such as fertilizer and chemicals, the rate of increase this year may not match the rate last year. According to a recent survey by the U.S. Department of Agriculture, farm production expenditures totaled \$98 billion in 1977, nearly a tenth more than in 1976.

The accounting procedures used in the annual survey of farm production expenditures differ in some respects from those used in estimating net farm income. As a result, the expenditures survey cannot be used directly to alter preliminary estimates of net farm income for 1977. Nevertheless, the 10 percent gain reported in the latest production expenditures survey is considerably larger than the 5 percent rise for production expenses contained in current net farm income figures.

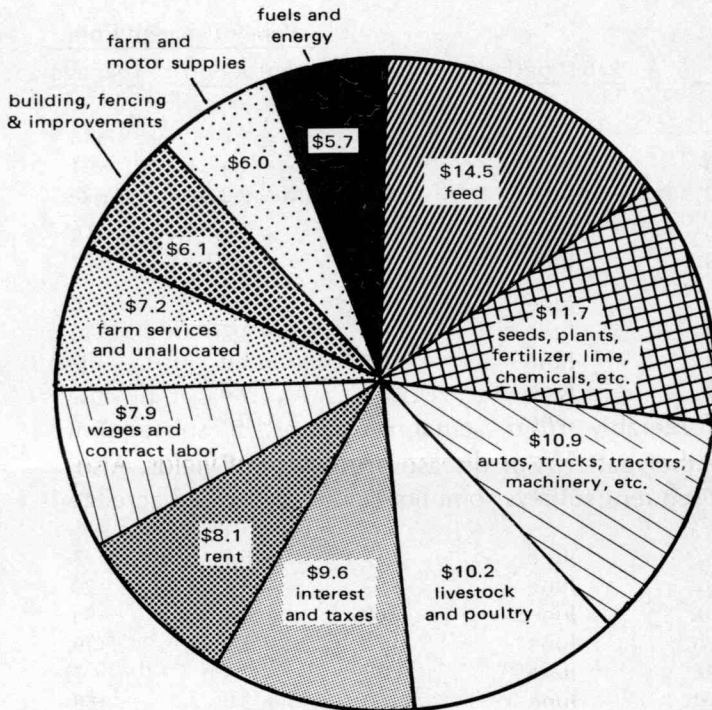
Expenditures for feed rose only marginally last year but, at \$14.5 billion, still accounted for the largest part of total expenditures. The total feed bill included \$7.6

1978 Corn yield prospects are down in all district states except Iowa

	Harvested acreage		Yield per acre		Production	
	Million acres	Change* (percent)			Million bushels	Change* (percent)
Illinois	10.7	-3	102	- 3	1,091	- 5
Indiana	6.0	-3	98	- 4	588	- 7
Iowa	12.1	-2	100	+12	1,210	+11
Michigan	2.2	-4	78	- 7	168	-12
Wisconsin	2.6	-7	90	-14	230	-20
United States	68.2	-3	90.1	-0.9	6,145	- 4

*From year earlier

**U.S. farm production expenditures, 1977
(\$97.9 billion)**



billion for mixed or formula feeds, \$2.3 billion for grains, and \$2.2 billion for supplements and concentrates. Purchases of livestock, on the other hand, rose more than two-fifths last year, passing the \$10 billion mark. Purchases of feeder cattle and calves exceeded \$5.5 billion, twice the amount in 1976. Outlays for beef cattle added \$1.5 billion and outlays for hogs and poultry each contributed just under \$1 billion. (The USDA suggests that because of insufficient coverage of large livestock and poultry operations in the survey sample, expenditure estimates for both feed and livestock may be understated.)

Among major crop inputs, a marked decline in outlays for fertilizer held total expenditures for seeds, fertilizer, chemicals, and lime unchanged at \$11.7 billion. Likewise, land rentals—including both cash rent and the value of share rent—held steady at the same \$8.1 billion as in 1976. Cash rent expenditures rose nearly a fifth to about \$2.6 billion, while share rent values declined with the drop in crop prices. The fuel and energy bill rose from \$5.2 billion in 1976 to nearly \$5.7 billion last year, while taxes rose a tenth to \$3.5 billion. Some \$1.1 billion of the tax bill was paid by nonoperating landlords.

Combined purchases of autos and trucks (net of trade-in allowances) rose 7 percent to \$2.1 billion. Net purchases of tractors and other machinery rose 4 percent and exceeded \$7.6 billion. That amount included \$2.8 billion for tractors, \$1.8 billion for harvesting machinery (primarily combines), \$900 million for tillage machinery, \$700 million for haying machinery, and \$500 million for planting, fertilizing, and spraying machinery. Capital expenditures for new farm buildings rose nearly 30 percent to \$2.3 billion. Of this, \$1 billion reflected new construction for storage of grain or forage crops. That was twice the 1976 spending on new storage.

For the current year, farm production expenditures continue to rise, but some moderating influences are evident. The overall index of prices paid by farmers in June was 8 percent higher than both the ending 1977 level and the year-earlier mark. Most of the increase reflected a 44 percent year-to-year rise in prices paid for feeder livestock, most of which has occurred since December. The sharply higher prices, coupled with the increased purchases of feeder cattle, portend another marked increase in livestock expenditures for this year. Although feed prices may average close to the year-ago level, the increase in cattle feedlot activity and broiler production indicates total feed expenditures will be up this year.

In contrast, the mid-June index of prices paid by farmers for seed was up only 2 percent while prices for fertilizer and chemicals were both slightly under year-ago levels. These moderating price pressures, together with this year's decline in planted acreage, suggest 1978 production expenditures for seed, fertilizers, and chemicals may remain fairly flat for the third consecutive year. Prices paid for tractors and other machinery were up nearly 8 percent in June, which combined with this spring's marked recovery in unit retail sales, indicates another rise for total machinery outlays in 1978.

Among nonproduction items, interest charges continue to rise rapidly. With last year's huge increase in farm debt, interest expenditures in 1977 soared nearly 30 percent and surpassed the \$6 billion mark. Although this year's rise in farm debt is expected to be smaller, the up-trend in interest rates suggests another large increase in total interest expenditures for farmers.

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Agricultural Economist

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	June	218	+ 1.4	+18
Crops	1967=100	June	217	+ 2.4	+11
Livestock	1967=100	June	219	+ 0.9	+27
Index of prices paid by farmers	1967=100	June	220	+ 0.5	+ 8
Production items	1967=100	June	218	+ 0.5	+ 7
Producer price index* (finished goods)	1967=100	June	194	+ 0.7	+ 8
Foods	1967=100	June	209	+ 1.2	+10
Processed foods and feeds	1967=100	June	205	+ 1.0	+ 8
Agricultural chemicals	1967=100	June	202	- 0.4	+ 7
Agricultural machinery and equipment	1967=100	June	210	+ 0.5	+ 7
Consumer price index** (all items)	1967=100	May	193	+ 0.9	+ 7
Food at home	1967=100	May	210	+ 1.5	+10
Cash prices received by farmers					
Corn	dol. per bu.	June	2.27	- 0.9	+ 7
Soybeans	dol. per bu.	June	6.52	- 3.7	-20
Wheat	dol. per bu.	June	2.80	- 0.7	+38
Sorghum	dol. per cwt.	June	3.72	- 3.9	+19
Oats	dol. per bu.	June	1.20	- 2.4	- 7
Steers and heifers	dol. per cwt.	June	55.20	+ 3.0	+50
Hogs	dol. per cwt.	June	47.70	- 0.2	+14
Milk, all sold to plants	dol. per cwt.	June	10.00	0.0	+ 6
Broilers	cents per lb.	June	30.2	+11.0	+21
Eggs	cents per doz.	June	43.6	-11.6	- 8
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	1st Quarter	101	+ 5.2	+ 4
Net realized farm income	bil. dol.	1st Quarter	21.8	+ 1.4	- 1
Nonagricultural personal income	bil. dol.	May	1,656	+ 0.8	+12

*Formerly called wholesale price index.

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