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Federal Reserve Bank of Chicago - -

Agricultural Letter

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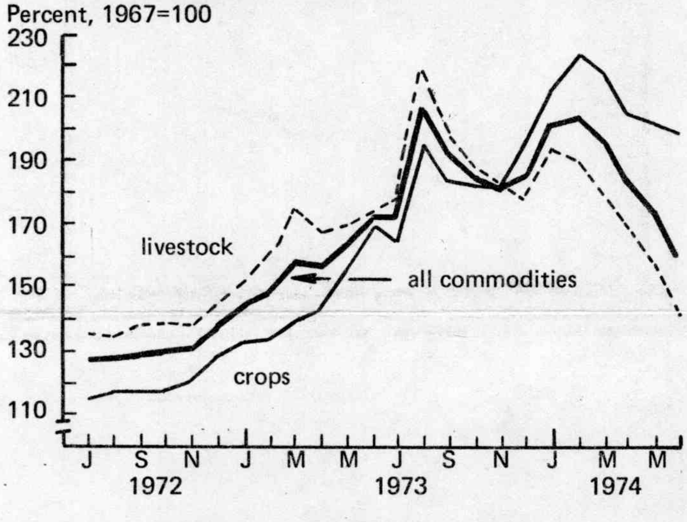
PRICES RECEIVED BY FARMERS in June slipped below prices received in June 1973—the first year-to-year decline in nearly three years. The break came as a result of the sharp drop in prices of livestock and related products in June, down 26 percent from the January 1974 peak. Crop prices, under downward pressures since February, also slipped but by smaller margins than livestock.

Livestock prices have made a substantial recovery from the depressed levels of mid-June when cattle prices hit the lowest point since December 1972 and hog prices matched the January 1972 lows. Current livestock prices, however, remain $3 to $4 per hundredweight under the year-earlier levels.

While it seems unlikely that hog and cattle prices in 1974 will reach the highs recorded in the third quarter of 1973, livestock prices should hold fairly steady throughout the second half. Lower cattle placements in the first half of 1974 plus liquidation of heavyweight fed cattle point toward continued firmness in fat cattle prices; lower farrowings and reduced feeder pig inventories indicate hog prices also should remain firm.

Farm Prices Drop Sharply from 1974 Peaks



Crop prices have strengthened since June, reflecting the adverse spring planting and growing conditions in a large part of the Corn Belt. Corn prices have been from $.75 to $1.00 per bushel above year-ago levels in recent days. Soybean prices have remained strong due to increased demand for soybean oil. Although soybeans are well below the $10 to $12 per bushel highs of 1973, prices remain well above the levels considered "normal" prior to last year. Wheat prices also are far above historical levels.

Expected declines in crop prices have been forestalled by the lower production forecasts resulting from this spring's inclement weather conditions. Although production forecasts have been revised downward, supplies of grains and oilseeds appear adequate to meet predicted usage levels, both domestic and foreign. Nevertheless, present low inventory levels coupled with lowered production forecasts for some crops suggest that there will be a smaller buildup of carryover supplies than previously anticipated. With government stockpiles depleted, current crop prices reflect the concern arising from the reduced carryover levels. Unless foreign production is substantially larger than present estimates indicate, it appears that the relatively high crop prices are likely to continue throughout most of 1974.

Net farm income for 1973 was recently revised upward to $32.2 billion, nearly 25 percent higher than the previous U.S. Department of Agriculture estimate of $26.1 billion. Unusually large sales of crops, almost total liquidation of grains under government loan, and slightly larger receipts from livestock sales were mainly responsible for the increase, pushing net farm income to the higher record.

The latest farm income estimate is based on a revised method of calculation that was expected to boost production expenses and thus reduce the final net income figure. Earlier this year, the USDA published proposed revisions in farm income figures for the past ten years. Under the proposed revisions, 1973 net farm income was scaled down to $24.4 billion, and the 1972 estimate was dropped from $19.7 billion to $17.6 billion. The latest revised figure indicates that net farm income in 1973 was 83 percent higher than in 1972. An increase of this magnitude has occurred only twice before in this century, both times during extraordinary periods—World War I and the Depression.

Farm income in 1974 is expected to be sharply lower than in 1973. While higher crop prices boost grain farmers' incomes, they also limit net income advances in the livestock sector. Margins from livestock production are likely to remain exceedingly tight with an associated drop in farm income. Concurrently, sharply higher production costs are being experienced by crop producers. As a result, the USDA now estimates that 1974 net farm income will drop to about $25 billion, down nearly a quarter from the 1973 record but still substantially above earlier years.

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