Federal Reserve Bank of Chicago - - Agricultural Letter

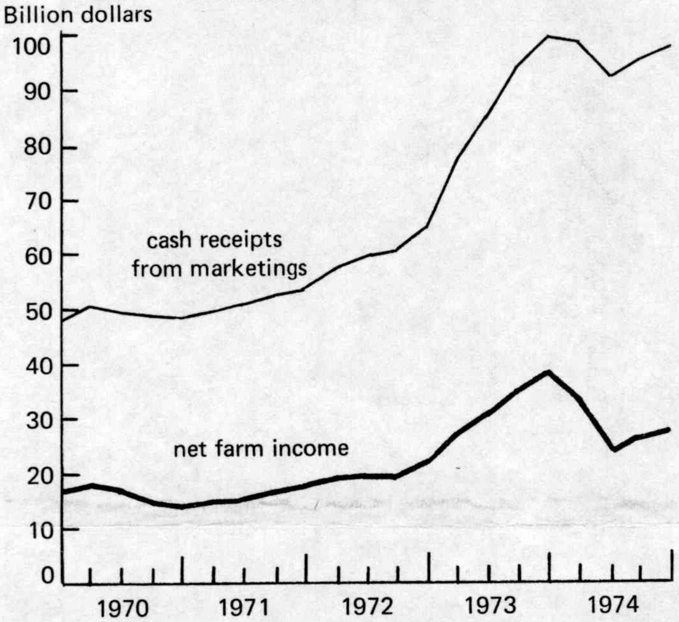
March 7, 1975

Number 1316

NET FARM INCOME in 1974 dropped 16 percent from the 1973 record, and the current outlook suggests an even larger decline for 1975. Commodity prices remain under downward pressure, while costs of farm inputs continue to increase.

At $27.2 billion the 1974 figure was the second largest ever recorded and 50 percent higher than the previous five-year average. However, there was a substantial shift in the distribution of income between crop and livestock farmers. Crop farmers generally experienced a very profitable year; livestock producers had to cope with the most serious financial difficulties in nearly a quarter of a century. Last year marked the first time in 48 years that cash receipts from crop marketings ($52.7 billion) were larger than receipts from livestock ($42.3 billion).

Farm Income Declines in 1974*



*Quarterly figures adjusted to reflect the annual rate.

Cash receipts from livestock and related products declined almost 9 percent last year—the largest decline since 1949—despite sizable increases in the slaughter of cattle and hogs. Additional pressures on livestock producers came from sharply higher feed costs. In contrast, receipts from crop marketings were up 25 percent. While crop farmers also experienced a sharp rise in production costs in 1974, in most cases higher crop prices more than offset the increases.

1975 net farm income will fall short of previous estimates. When the USDA's Agricultural Outlook Conference was held last December, indications were that farm income in 1975 would probably be in the mid-$20 billion range. It appeared then that corn and soybean supplies would remain tight while wheat supplies would become slightly more available. Corn, soybean, and wheat prices were expected to weaken later in 1975, as harvests of the various crops drew near, but to stay at relatively high levels in the first half. Cattle prices were expected to average below 1974 levels as a result of heavy marketings, but hog and poultry prices were expected to rise enough to offset most of the loss in cattle revenues.

Since the first of the year all major crops have been under increasing downward pressures. Sharply lower cattle feeding rates have weakened domestic feed grain demand much faster than previously anticipated. Soybean demand has fallen as a result of cutbacks in livestock feeding. A sharp drop in foreign demand for soybeans coupled with weakening domestic demand for edible soybean products has pushed prices downward. Wheat prices have dropped substantially, reflecting increased production and supplies in many parts of the world. At mid-February, crop prices averaged 14 percent below a year earlier and livestock prices were down 21 percent. Lower than anticipated livestock prices are reflecting a substantial rise in cattle slaughter, perhaps coupled with some weakening in domestic demand.

The costs of farm production items have continued to rise in 1975, although at a slightly slower pace than a year ago. Nevertheless, the cost of many items remains near recent highs. Fertilizer prices will be up another 10 to 15 percent this spring. Whereas farm fuel cost had been leveling off, it now appears that efforts to reduce U.S. dependence on foreign oil will push fuel prices higher.

In coming months lower crop prices will be reflected in reduced feed costs but the cost of inputs outside the agricultural sector, particularly crop production items, will likely continue to rise. It appears that most of the decline in net farm income will be at the expense of the crop sector. Even if crop prices stabilize near current levels, it seems likely that net farm income will be down sharply from 1974, perhaps dropping below the $20 billion mark for the first time in three years.

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