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Letter

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FARM PRODUCTION COSTS continue to push upward in 1975. However, there are increasing signs that prices of many farm inputs are stabilizing and, in some cases, prices of a few items may be subject to downward pressures in future months. At the same time there has been some recovery in the prices farmers have received, especially in the livestock sector. Nevertheless, the inflow of cash receipts from farm marketings is still lagging behind the 1974 pace, suggesting a substantial downward adjustment in net farm income.

Prices paid by farmers during the first half of 1975 were up 12 percent from the same year-earlier period. But much of the increase occurred during the latter half of 1974. Since the beginning of the year prices are up an average of about 4 percent, slightly less than half the rate of increase recorded in the first half of 1974.

Fertilizer and farm machinery showed the largest increases, up 26 percent and 33 percent, respectively, from the first half of 1974. Motor vehicles purchased by farmers were subject to a 20 percent price rise in the same time period. There was only one major category where prices declined significantly. Feeder livestock prices averaged 28 percent less in the first half of 1975 than during the same 1974 period. There were also several areas where the increases in prices were substantially below the average rate. Feed, motor supplies, and taxes were all subject to increases of 4 percent or less.

Pressures to expand cropland acreage as well as the relatively high net farm income of the past two years led to an unprecedented demand for farm inputs. Product shortages in the area of fertilizer and farm machinery further exacerbated the situation. There are increasing signs, however, that fertilizer prices are likely to decline in the future. There were numerous reports of remaining fertilizer inventories at the retail level, particularly bulk blend fertilizers, after the 1975 spring fertilizer season was completed. This is the first time in three years that retailers carried over virtually any inventory. Possible future declines in fertilizer prices have been confirmed by recent declines in the wholesale price index for agricultural chemicals during the months of May and June.

At the same time it appears price pressures on farm machinery are abating as purchases have fallen and inventories are accumulating. Nevertheless, farm

machinery prices will most likely continue to rise but at a much slower rate. Energy prices also may be subject to further increases stemming from either domestic programs to conserve energy products and/or increases in the prices of crude oil imported from OPEC countries.

Feed prices may also be subject to future declines, depending on the success of the current feed grain crop. However, anticipated declines in the price of feed grains—and other grains—may be moderated somewhat by recent Russian purchases of U.S. grains if the reports circulated this week prove to be true. Given the anticipated increase in feed grain production, however, U.S. supplies will likely be sufficient to meet both the increased export demand and domestic needs. Moreover, since feed purchases are the largest single category of production expense—typically accounting for somewhere between 15 to 20 percent of total expenses—any decrease in feed prices will have a significant impact on costs and net farm income.

Cash receipts from farm marketings were running about 16 percent below the 1974 pace during the first five months of 1975. Receipts from livestock and products were off 14 percent, while receipts from crop sales were down 18 percent. During the early part of 1975 most of the decline in cash receipts came in the livestock sector. However, the situation has reversed in recent months.

Although the increase in prices paid by farmers will probably moderate in the remainder of 1975, total production expenses will likely be up between 8 to 10 percent for the year as a whole. (Total farm production expenses increased 16 percent in 1974.) Even if farm marketings pick up to their 1974 pace during the remainder of 1975, net farm income is still likely to fall near the \$20 billion mark in 1975. This would amount to a 25 percent decline from the \$27 billion net farm income experienced in 1974.

Terry Francel
Agricultural Economist

AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	June	182	+ 2.2	+10
Crops	1967=100	June	192	+ 1.6	- 5
Livestock	1967=100	June	176	+ 2.9	+24
Paid by farmers	1967=100	June	185	+ 1.1	+11
Production items	1967=100	June	190	+ 1.6	+13
Wholesale price index (all commodities)	1967=100	May	173	+ 0.6	+12
Foods	1967=100	May	178	+ 1.6	+ 9
Processed foods and feeds	1967=100	May	179	- 0.2	+13
Agricultural chemicals	1967=100	May	212	- 0.2	+79
Agricultural machinery and equipment	1967=100	May	168	+ 0.5	+22
Consumer price index (all items)	1967=100	April	159	+ 0.5	+10
Food at home	1967=100	April	171	- 0.2	+ 7
CASH PRICES					
Corn	dol. per bu.	June	2.68	+ 0.8	+ 4
Soybeans	dol. per bu.	June	4.90	- 2.0	- 4
Wheat	dol. per bu.	June	2.92	-15.9	-18
Sorghum	dol. per cwt.	June	4.15	- 1.4	+16
Oats	dol. per bu.	June	1.49	- 3.2	+15
Steers and heifers	dol. per cwt.	June	42.60	+ 6.2	+24
Hogs	dol. per cwt.	June	47.30	+ 4.9	+95
Milk, all sold to plants	dol. per cwt.	June	7.94	- 0.5	+ 4
Broilers	cents per lb.	June	27.4	+11.4	+17
Eggs	cents per doz.	June	47.5	- 0.2	+19
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	1st Qtr.	91	- 5.8	- 8
Net realized farm income	bil. dol.	1st Qtr.	20	-25.7	-46
Nonagricultural personal income	bil. dol.	May	1,178	+ 0.6	+ 7
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	May	132	- 0.3	+ 9
Time deposits	1972-73=100	May	146	+ 1.3	+17
Demand deposits	1972-73=100	May	110	- 3.7	- 3
Total loans at agricultural banks ¹	1972-73=100	May	141	+ 1.8	+15
Production credit associations					
loans outstanding:					
United States	mil. dol.	April	10,230	+ 2.2	+20
Seventh District states	mil. dol.	April	1,696	- 1.1	+23
loans made:					
United States	mil. dol.	April	1,449	- 0.5	+12
Seventh District states	mil. dol.	April	297	- 8.0	+28
Federal land banks					
loans outstanding:					
United States	mil. dol.	April	14,441	+ 1.8	+24
Seventh District states	mil. dol.	April	2,623	+ 1.9	+24
new money loaned:					
United States	mil. dol.	April	327	-11.1	+12
Seventh District states	mil. dol.	April	70	- 3.0	+25
Interest rates					
Feeder cattle loans ²	percent	1st Qtr.	8.90	- 1.1	+ 7
Farm real estate loans ²	percent	1st Qtr.	8.99	- 0.7	+ 6
Three-month Treasury bills	percent	7/3-7/9	6.06	+ 2.0	-20
Federal funds rate	percent	7/3-7/9	6.05	- 4.1	-55
Government bonds (long-term)	percent	7/3-7/9	8.12	+ 0.6	- 1
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	April	1,758	- 8.0	-13
Agricultural imports	mil. dol.	April	762	- 3.2	-13
FARM MACHINERY SALES					
Farm tractors	units	April	16,809	+19.8	-15
Combines	units	April	1,553	+ 7.5	+25
Balers	units	April	880	+12.7	-40

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

² Average of rates reported by district agricultural banks.