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FARM INCOME ESTIMATES for 1975 and 1976 were lowered recently by the U.S. Department of Agriculture (USDA) to $24.3 billion for 1975 and $20.0 billion for 1976, down approximately $1.5 and $2.0 billion, respectively, from the previous estimate. Last year's revised net farm income estimate is now 18 percent below the revised 1975 level and 40 percent below the record in 1973. Lower crop and livestock cash receipts, higher expenses, and adjustments to farm inventories accounted for the bulk of the revisions. A further decline is likely this year in view of the prospects for a deterioration in second-half earnings.

Cash receipts from farm marketings totaled $94.3 billion during 1976—$.5 billion below the initial estimate but still 2 percent above the previous record in 1974. An upward revision of roughly $1 billion in repairs and operating expenses and reductions of approximately $.5 billion in both livestock receipts and the valuation of farm inventories were the major adjustments from the preliminary estimate.

Cash receipts to District farmers in 1976

	Livestock		Crops		Total	
	Received in 1976	Percent change	Received in 1976	Percent change	Received in 1976	Percent change
	(million dollars)					
Illinois	1,867	− 1	4,244	+28	6,111	+18
Indiana	1,335	+ 9	1,996	+17	3,331	+14
Iowa	4,042	+ 3	2,968	+15	7,010	+ 8
Michigan	816	+14	885	− 3	1,701	+ 4
Wisconsin	2,487	+17	542	—	3,029	+14
Seventh District states	10,547	+ 7	10,635	+18	21,182	+12
United States	46,389	+ 8	47,937	+ 6	94,326	+ 7

Real net farm income—which deflates nominal (current) dollars to reflect actual "purchasing power"—has fallen sharply during each of the last three years. This latest revision indicates real net farm income—in 1967 dollars—totaled only $11.4 billion last year—down from the revised $14.6 billion in 1975, 55 percent below the 1973 record, and among the lowest since the Depression. On a per farm basis real net farm income last year was the lowest since the late sixties, reflecting the long-term decline in farm numbers.

A further decline in net farm earnings in 1977 seems likely, according to most observers. Although earnings have held fairly stable with year-earlier levels during the first half, recent sharp declines in crop prices have deteriorated second-half prospects. Cash receipts for the first half rose to $98 billion on a seasonally adjusted annual basis—less than 2 percent above the corresponding period in 1976. Sharply higher soybean prices during the January-June period of this year were the major factor behind the rise. Production expenses through June averaged $85 billion (seasonally adjusted annual basis), up from $82 billion a year earlier. On average, roughly comparable increases were offsetting, leaving net income for the first half approximately equal with the year-earlier period.

For the remainder of this year earnings prospects will likely vary by commodity. Dairy farmers are currently benefiting from the combination of higher production and higher prices. The likelihood of lower trending feed costs should contribute to more favorable margins for dairy farmers as well as other livestock producers.

Current forecasts continue to indicate the probability of record crop harvests in the United States this year as well as large grain harvests in other areas of the world. This has contributed significantly to the sharp drop in grain prices in recent months. Cash corn prices at Chicago averaged $1.80 per bushel during August, down from $2.50 in April, $2.85 a year ago and the lowest in over five years. August soybean prices at Chicago averaged $5.70 per bushel, down from roughly $9.75 in April and $6.25 a year earlier. Prospects for large harvests coupled with the already large grain stocks will likely continue to suppress crop prices at least through the fall harvest.

The pending farm bill—if enacted as expected—could bolster prices somewhat late this year, which would have a positive impact on 1977 farm earnings. The continuing growth in off-farm incomes—year-to-year increases have ranged from 9 to 16 percent during each of the last six years—also potentially brightens farm operators' income prospects. On average, however, higher production expenses will probably more than offset any slight improvement in cash receipts for all of 1977, pulling net earnings below the 1976 level.

If farm earnings this year fall below the 1976 level, as appears possible, the actual purchasing power of farm income could conceivably drop to the lowest level since the Depresssion. While problematical for the agricultural industry, it by no means portends disaster. Rather, it would imply a continuation of recent events observed by agricultural creditors. Bankers and other lenders would undoubtedly monitor farm lending activities more closely. Farmers, on the other hand, would likely proceed cautiously in purchases of higher-priced farmland and farm machinery.

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