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THE FINANCIAL OUTLOOK for farmers during 1978 portends a continuation of many of the conditions observed in recent months. Cash flows will likely remain tight as projections for another large crop harvest combined with this year's large stocks suggest continued downward pressures on prices. Cattle margins may show sufficient year-to-year improvement to hold total receipts to livestock producers above 1977 levels. Farm loan demand is expected to continue strong as farmers seek to finance increased production costs and refinance existing notes to ease problems generated by the projected tight cash flow situation. Farmland values will likely edge higher during 1978 but at a slower rate than experienced during the past several years.

Farm income prospects continue to reflect the likelihood that grain prices during 1978 may hover near the loan rates. Projections indicate the level of 1978's net farm income may be very near the 1977 preliminary estimate of $19.5 billion. Off-farm income is expected to register another slight increase next year, while net cash farm income is projected to decline slightly. The decline is expected to occur mainly on cash grain farms rather than on livestock operations. However, with numerous indications for increased hog and poultry production in 1978, most observers anticipate a general narrowing in profit margins for such producers as the year progresses.

Farm real estate values are forecast to continue upward during 1978 but at a slower rate. Current estimates suggest that a 10 percent increase may be realized during 1977, followed by a 6 percent rise next year. Real estate assets comprise roughly three-fourths of the total value of all farm assets. During 1978 the value of real estate assets is projected to rise to nearly $580 billion, while the value of nonreal estate assets and financial assets are expected to increase to $167 billion and $36 billion, respectively—increases of approximately 13 and 4 percent, respectively.

Total farm debt is expected to approach $119 billion by the end of this year, marking an increase of nearly 16 percent—the largest annual rise in nearly 30 years. Slower loan repayment rates and a simultaneous rise in renewals and extensions were major factors behind the unusually large increase. Nonreal estate debt—including Commodity Credit Corporation (CCC) loans—paced the overall rise, growing at a rate of nearly 18 percent. Real estate debt will reach an estimated $64 billion by the end of this year, up 14 percent. The proportion of the total real estate loan portfolio held by the various classes of lenders continues to shift annually. Federal Land Banks registered another increase in their share of the portfolio during 1977, rising to 33.5 percent of the total and nearing individuals and others—who hold a 34.6 percent share—as the largest holders of farm real estate debt.

Farm debt is projected to reach $133 billion by the end of 1978—a rise of 12 percent over the preliminary estimate for the 1977 year-ending level. Real estate debt is expected to rise 13 percent to $73 billion, while nonreal estate debt would climb approximately 11 percent to $60 billion. The overall debt-to-asset ratio for the farm sector—which for the ending 1977 level is now estimated at 16.3 percent—is projected to rise to 17 percent by the end of next year. Most observers anticipate that all major classes of agricultural lenders will experience the projected increase in farm credit demand next year as current income prospects suggest the likelihood that farmers in general will increase efforts to refinance short-term commitments with additional borrowings against equities in farmland. Reluctance on the part of lenders to extend additional credit to some already overdrawn borrowers may result in heightened efforts to secure Farmers Home Administration (FmHA) loan guarantees which could temporarily reverse the downtrend in FmHA's share of the real estate loan portfolio. Credit extended by merchants and dealers is expected to rise sharply, as are loans provided by the CCC.

Machinery purchases during 1978 are currently projected to total $10.8 billion—an increase of $0.7 billion over the 1977 estimate. Indications suggest the likelihood of a soft demand for farm machinery next year, which may induce machinery manufacturers and dealers to promote sales through delayed payment plans, higher trade-in allowances, or more lenient credit terms. Higher labor and materials costs will likely necessitate some slight increases in machinery prices.

Production expenditures are likely to rise further in 1978. Prices of most farm inputs are expected to rise, although large supplies may render fertilizer an exception. Nitrogen fertilizer in particular may be available at stable to lower prices in light of the buildup in inventories. Energy costs are expected to rise as price increases are forecast for natural gas, LP gas, and gasoline. The announced wheat and feed grain set-aside programs could have a small impact on total production expenditures. However, the likelihood of incomplete participation suggests total utilization may be near last year's high level.

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