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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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Farm Income in Minnesota

WARREN C. WAITE

The net income received by the farm operators in Minnesota in 1948 appears to have been between 5 and 10 per cent less than in 1947. It was, however, the second largest ever received. The income from the sales of products was slightly below the record high of 1947.

Sales this year are estimated at 1300 million dollars as compared with 1344 million dollars a year ago.

At this level, sales are about four times the average of the five prewar years, 1935-1939.

Costs have increased steadily over the last ten years and are now at the highest level in history. They now are approximately three times the average of the prewar years. The slightly lower receipts as compared with a year ago and the increased costs have resulted in the lower net income for the year.

The outstanding feature of agricultural production during the year was the high yield of the major crops, particularly the feed crops. The corn, soybean, and flax crops were the largest ever harvested. The oat crop was the second largest. A record yield of potatoes per acre was obtained, but total production was slightly below 1947 because of a sharp reduction in acreage. The feed grain supply on Minnesota farms is at a new record level. The short feed supplies of 1947 resulted in a reduction in the numbers of livestock on farms, and livestock output was slightly lower. The output per animal was, however, favorable. At the close of the year, for example, the rate of production per cow was the highest on record, and the rate of lay per hen was also high. Total hog and beef production were lower for the year.

Prices received by farmers declined during the year—they averaged about six sevenths as much at the close of 1948 as at its beginning. The most drastic break in prices occurred in February when the month to month farm price index showed a decline of ten per cent from the January level. Prices gradually rose over the next five months and recovered about half of the February decline. As large

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crops became increasingly probable in the late summer, prices—particularly of crops—began to decline and the decline continued through the remainder of the year.

In addition to the cash sales of agricultural products, Minnesota agriculture received some government payments and also provided food and materials for the families living on the farms. Government payments

were comparatively small, but the goods produced on the farm and used for family living amounted to approximately 90 million dollars. These three items together constitute the gross agricultural receipts for the state. They are compared with the prewar period in table 1.

In order to produce the commodities sold from and used on Minnesota farms, certain nonlabor cash expenses were necessarily incurred. These include feed, feeder livestock, automotive, building and machinery repair, interest on nonreal estate debt, and certain other miscellaneous items. These approximated 320 million dollars in 1948 and were more than three times the average of 1935-39. Deducting the nonlabor cash expense from the gross agricultural receipts yields what may be called the gross agricultural product of Minnesota.

Two further deductions from gross agricultural income are required to derive agricultural income before inventory adjustments. These are depreciation and real estate and personal property taxes. These items must be covered if agriculture is to maintain its plant and continue production on the attained level. Depreciation does not represent a cash outlay, but it is of special significance because it neces-

Table 1. Gross Agricultural Receipts of Minnesota Agriculture

	Average 1935-39	1948
Million dollars		
Cash receipts from sales	\$329	\$1297
Government payments	18	10
Value of products consumed on farms	39	90
Total	\$386	\$1397

Table 2. Agricultural Income of Minnesota 1935-1939 and 1948

	1935-1939	1948
	Million dollars	
Gross agricultural receipts	\$386	\$1397
Less nonlabor cash expense	-92	-320
Gross agricultural product	\$294	\$1077
Less depreciation, real estate and personal property tax	-76	-170
Agricultural income (before adjustment for inventory changes)	\$218	\$907

Table 3. Distribution of Minnesota Agricultural Income

	1935-1939	1948
	Million dollars	
Hired labor	\$ 23	\$ 95
Interest paid on farm mortgages	17	16
Net rent and government payment to landlords not on farms	22	100
Operators' labor, management, and capital and family labor	162	716
Total	\$224	\$907

sitates replacing equipment or setting up special reserves for replacement. Taxes might have been considered in the previous category of nonlabor cash expense. The decision to incur or not incur taxes, however, does not lie with the farmer and hence differs from the production expenses included in the nonlabor cash expenses.

The total of these items was fully as great as the nonlabor cash expense until 1935. The rise in recent years has, however, been comparatively small, and nonlabor cash expense is now more than twice as large.

Table 2 shows the agricultural income of Minnesota according to our estimates. This income is attributable to agriculture as an industry in the state.

The agricultural income of the state is divided among several groups. The important groups are the hired laborers, the holders of mortgages on farm property who receive interest payments, the net rents and government payments made to landlords not on farms, and the remainder which goes to the farm operators for their management, labor, capital, and for the labor of their families. The estimated distribution is shown in table 3.

Table 4. Indexes of Cash Sales of Minnesota Agricultural Products, Expenses, and Operators' Returns for Labor, Capital, Management, and Family Labor

	Cash sales of Minnesota agricultural products	Operators' expenses	Operators' returns for labor, management, capital and family labor
1935-39 average	100	100	100
1940	115	122	118
1941	148	140	148
1942	204	167	256
1943	265	194	308
1944	244	203	228
1945	261	217	257
1946	322	239	360
1947	409	263	471
1948	394	292	442

Roughly, cash sales are about four times the prewar level, expenses three times their prewar level, and operators' labor, capital management, and family labor returns somewhat over four times their prewar level.

The changes in several important groups of items are shown in table 4 in terms of index numbers for the past nine years. Operators' expenses include the deductions in table 2 of nonlabor cash expense and depreciation, real estate and personal property tax, and also payments for hired labor and interest paid on farm real estate mortgages. The operators' returns are a composite of what is received for the operators' own labor and management, for the return on his capital investment, and from the family labor.

Financial Structure of Minnesota Agriculture

REX W. Cox

The valuation of the assets of Minnesota agriculture continued to increase in 1948 and will approximate an all-time high of 5279 million dollars on January 1, 1949. Inasmuch as creditors will have a claim of only 345 million dollars, the equity of the proprietors will amount to 4934 million dollars. The total assets have more than doubled since January 1, 1940. The large increase in the valuation of some of the assets, particularly farm real estate, and crop and livestock inventories reflects mainly price changes rather than changes in the farm plant. In consequence the very favorable status of the proprietors' equity is in large part a result of the increase in prices over the period.

The increase in the valuation of real estate from 1443 million dollars on January 1, 1940, to 2681 million dollars at the present time is due almost wholly to an increase in land prices, because acreage in farms has increased only slightly. It is estimated that acre value increased about 10 per cent in 1948, although there are indications that real estate prices may have passed their peak at the end of 1948.

The valuation of crop and livestock inventories, machinery, and motor vehicles tripled from January 1, 1940,

Assets, Liabilities, and Proprietorship of Minnesota Agriculture, January 1, 1940 and 1949

	1940	1949
	Million dollars	
Assets		
Real estate	\$1443	\$2681
Other physical assets		
Crops	\$141	\$522
Livestock	257	680
Machinery and motor vehicles	193	502
Total	591	1704
Total physical assets	\$2034	\$4385
Financial		
Currency and deposits	\$149	\$495
U. S. bonds	10	284
Equity in cooperatives	36	115
Total financial assets	195	894
Total assets	\$2229	\$5279
Liabilities		
Real estate mortgages	\$376	\$250
Nonreal estate debt	88	95
Total liabilities	464	345
Proprietorship	1765	4934
Total liabilities and proprietorship	\$2229	\$5279

to the beginning of 1949. Most of the increase in crop and livestock valuation during this period occurred previous to 1948. Crop prices declined about 30 per cent in the past year, but the large physical inventory of crops, a consequence of a record production—notably corn, has resulted in an overall increase of about 5 per cent in the valuation of crops on hand January 1, 1949. The combined valuation of the various classes of livestock on the latter date differs only slightly from that of one year earlier, but the value of machinery and motor vehicles has shown a substantial increase, due to increases in both number and prices.

During the recent war and postwar periods, circumstances favored the accumulation of financial assets in the form of bank deposits and United States bonds. Farm income has been at a high level, and until quite recently expenditures for capital equipment were restricted either because of wartime regulations or reduced supplies of goods purchased by farmers. With the supplies of machinery and other equipment becoming more available, expenditures for these items have increased materially. Nevertheless, the continued high level of income has enabled farmers not only to maintain their liquid assets, but also to increase them. The total of currency on hand, bank deposits, and United States bonds on January 1, 1949, was somewhat larger than at the beginning of 1948.

Farm mortgage debt declined substantially from 1940 to 1948, a situation in marked contrast to that prevailing during and immediately following World War I. This debt on January 1, 1949, is estimated at 250 million dollars, a slight increase over the figure one year earlier. Nonreal estate debt is somewhat higher than at the beginning of 1940.

Inasmuch as debt declined only moderately, the marked increase in the proprietors' equity from 1764 million dollars at the beginning of 1940 to 4934 million dollars on January 1, 1949, resulted largely from the increased value of assets. The increase in the value of assets was 137 per cent compared with a decrease of 26 per cent in debt.

The financial status of Minnesota agriculture at the start of the new year is excellent. The proprietors' equity is at a level far above that of any previous period; and, because of the accumulation of a record amount of cash reserves, the assets are characterized by a relatively high liquidity. The gains of recent years, however, are to a considerable degree the result of inflation and hence can be lost rapidly through deflation. A declining price level has already occurred in some commodities. Restraint in expenditures at the present time will protect against dissipation of both current income and liquid assets. The continued maintenance of the cash reserves not only will lessen the effects of the transition to a lower price level, but also will provide for a greater purchasing power after the transition has occurred.

Federal Income Tax for 1948

GLEN MYERS

The Revenue Act of 1948 provides for a reduction in Federal income taxes. There have been several changes

made which will benefit the taxpayer and reduce the net amount of tax. There has been no change made, however, in preparing the farm schedule F. M. 7 or 1040F or in determining the adjusted gross income for tax purposes.

Under the new law, the rates stay the same for 1948 but the reduction percentage of the tax has been increased from a flat 5 per cent to 17 per cent of the first \$400 of tax, plus 12 per cent of the tax in excess of \$400, thus resulting in a smaller tax payable. While the exemption for dependents has been increased from \$500 to \$600, a dependant must still have a gross income of less than \$500 in order to be classified as a dependent.

An altogether new feature of the 1948 act is the income-splitting method permitting a husband and wife to report their combined income in a joint return regardless of the type of income they receive. The income is divided equally before computation of the tax is made. Since the lower brackets of the surtax table are used, this may result in a smaller tax payable. The tax payable on the joint return is the total of the taxes on each half of the income. There will be no tax saving if the combined net income over exemptions is not greater than the first surtax bracket (\$2000). The general effect of this feature is to allow a tax saving to the larger tax payer. The income-splitting method cannot be used unless a joint return is filed. It applies only to the income of husband and wife.

Another new feature of the act allows an additional exemption of \$600 if the taxpayer reaches the age of 65 by the last day of his taxable year. If a joint return is filed and both husband and wife are 65 or over at the close of the taxable year, two old age exemptions are allowed. This benefit applies only to taxpayer and his wife and does not apply to any other dependent such as an aged mother or father.

Under the new act there has been an increase in the standard deduction allowance, important to those with taxable incomes of over \$5000. Under the old law, a flat \$500 standard deduction was all that was allowed on returns having an adjusted gross income of \$5000 or more. The new law allows a standard deduction of \$1000 or 10 per cent of the adjusted gross income, whichever is less. With a joint return, only one standard deduction is allowed.

The rule that only those medical expenses in excess of 5 per cent of the adjusted gross income may be deducted, still applies but the maximum deduction for medical expenses has been increased for a joint return in individuals having dependants.

In the case of farmers, a Declaration of estimated income must be filed by January 15, 1949, or, instead of a Declaration, he may file his completed return by that date. In either case, the full amount of the tax must accompany the tax forms sent to the collector. *If a Declaration is made, it is advisable for husband and wife to file a joint Declaration in all cases.* The fact that a joint Declaration has been made will not stop them from filing separate returns March 15. If separate Declarations are sent in by January 15, however, it will not be permissible to change to a joint return in filing the final return.

Minnesota Farm Prices for November, 1948

Prepared by W. C. WAITE and K. E. OGREN

The index number of Minnesota farm prices for November, 1948, is 261. This index expresses the average of the increases and decreases in farm product prices in November, 1948, over the average of November, 1935-39, weighed according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, November, 1948, with Comparisons*

	Nov. 15, 1948	Oct. 15, 1948	Nov. 15, 1947		Nov. 15, 1948	Oct. 15, 1948	Nov. 15, 1947
Wheat	\$ 2.14	\$ 2.05	\$ 2.85	Hogs	\$22.40	\$24.30	\$24.20‡
Corn	1.12	1.25	2.13	Cattle	20.70	21.20	16.10‡
Oats .....	.70	.62	1.05	Calves	25.50	26.00	21.30‡
Barley	1.29	1.21	2.26	Lambs-Sheep ..	21.15	21.87	19.80
Rye	1.50	1.36	2.65	Chickens .....	.248	.248	.184
Flax	5.75	5.75	6.54	Eggs .....	.500	.462	.414
Potatoes	1.20	1.15	1.50	Butterfat .....	.70	.76	.85
Hay	16.00	16.70	13.00	Milk	3.70	3.80‡	4.15‡
				Wool† .....	.45	.45	.44‡

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

‡ Revised.

Prices received for Minnesota farm products declined by about 4 per cent from October to November. Crop prices increased 1 per cent and prices of livestock and livestock products decreased 5 and 6 per cent, respectively.

The price decline during the last month resulted chiefly from decreases of 8 to 10 per cent in butterfat, hogs, and corn. Butterfat prices have dropped 18 cents during the last 3 months, a period of normal seasonal increase. Corn prices have dropped nearly a dollar since July because of the record corn harvest in 1948. The November price was about 25 cents below the average government loan rate in Minnesota. All of the feeding ratios (except butterfat) have been increasing during the last few months. The egg-grain ratio in November reached the highest level since 1945.

Indexes and Ratios for Minnesota Agriculture*

	Nov. 15, 1948	Nov. 15, 1947	Nov. 15, 1946	Average 1935-39
U. S. farm price index	254.7	269.7	247.2	100
Minnesota farm price index	261.3	286.5	260.7	100
Minn. crop price index	248.4	395.6	252.0	100
Minn. livestock price index	299.1	295.1	276.7	100
Minn. livestock product price index	212.1	214.6	241.6	100
U. S. purchasing power of farm products	127.9	138.2	144.6	100
Minn. purchasing power of farm products	131.2	146.8	152.5	100
Minn. farmers' share of consumers' food dollar	62.5†	63.6	63.8	47.1
U. S. hog-corn ratio	18.0	11.0	18.0	14.4
Minnesota hog-corn ratio	20.0	11.2	20.6	17.3
Minnesota beef-corn ratio	18.5	8.4	16.2	15.1
Minnesota egg-grain ratio	18.7	10.2	15.3	24.6
Minnesota butterfat-farm-grain ratio	30.9	22.6	39.6	39.7

* Explanation of the computation of these data may be had upon request.

† Figure for September, 1948.

Minnesota Farm Wage Rates

K. E. OGREN

Minnesota farm wage rates on October 1, 1948, averaged about 9 per cent higher than October 1, 1947. The average wage rates on Minnesota farms reported by the Bureau of Agricultural Economics for October 1, 1948, were; per month with board, \$117; per month without board, \$148; per day with board, \$7.20; and per day without board, \$8.80.

October 1 wage rates in Minnesota were about 22 per cent above the U. S. average. A wide variation in farm wage rates existed throughout the country. The average monthly wage without board ranged from \$208 in Washington to \$60 in South Carolina.

The 1948 average farm wage rate in Minnesota was 275 per cent higher than the 1935-39 average. The index of real farm wage rates (table 1) was obtained from dividing the index of wages by rural living costs, as measured by the index of prices paid by farmers for commodities used in living. During the war period, wages increased much faster than living costs so that in 1945 real wages were almost double the prewar figure. During 1946 and 1947 real wages dropped about 15 per cent because living costs rose more than wage rates. During 1948, however, wage rates again increased faster than living costs.

Table 1. Farm Wage Rates, Living Costs, and Real Wages in Minnesota, 1940-1948*

Year	Composite farm wage rate	Rural living costs	Real farm wage rate
1935-39	100	100	100
1940	104	98	106
1941	130	106	123
1942	177	125	142
1943	230	138	167
1944	265	144	184
1945	295	150	197
1946	322	170	189
1947	347	207	168
1948 (preliminary)	375	220	170

* Index numbers, 1935-39=100.

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