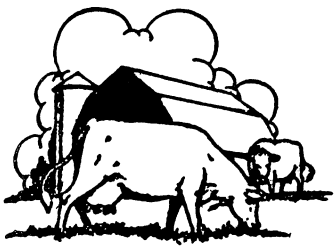


# MINNESOTA farm business NOTES





NO. 469 ST. PAUL CAMPUS, UNIVERSITY OF MINNESOTA FEBRUARY 1965


# MINNESOTA FARM INCOME IN 1964


W. Keith Bryant


Total sales of Minnesota farm products declined slightly in 1964. Preliminary estimates indicate that cash receipts from farm marketings went from $1,473 million in 1963 to $1,435 million in 1964.[1] Decreases in hog and crop receipts were the main factors in the decline; increased receipts from dairy products bolstered total cash receipts for 1964.

## Crop Production Down

Total crop production in Minnesota was down 17 percent in 1964 from 1963's record crop. However, total crop production was down only 8 percent from the average of the last 5 years.

The decrease was due to midsummer weather conditions which mainly affected corn production but also affected other grain and hay crops. Cash receipts from marketing all crops were about $413 million in 1964 as compared with $441 million in 1963 (see table 1).

Production of corn for grain was 272 million bushels in 1964 compared with the record 1963 corn crop of 354 million bushels. The decrease resulted from fewer acres harvested in 1964 and a yield of 59 bushels per acre—14 percent lower than the 1963 yield. Corn prices averaged slightly higher in 1964 than in 1963.

Acres of soybeans harvested in Minnesota in 1964 were 20 percent higher than in 1963. However, soybean yields dropped from 24.5 bushels per acre in 1963 to 20.0 bushels in 1964. As a result, soybean production was 57 million bushels, nearly equal to the record soybean crop in 1963. Prices rose sharply in 1964, reaching a season average price of $2.60 per bushel. This compares with the season average price in 1963 of $2.43.

[1] All 1964 data are preliminary estimates derived from government sources.

## Livestock Receipts Almost Constant

Sales of livestock and livestock products by Minnesota farmers in 1964 returned $1,022 million—only 1 percent below 1963 returns. Receipts from hogs declined; receipts from dairy products increased.

The number of cattle and calves marketed in Minnesota was up about 5 percent from 1963 while their weights remained constant. Partly due to the extensive government purchase program of beef in 1964, cattle prices declined only about 4 percent from 1963 levels.

The increased marketings almost offset the price decline so 1964 cash receipts from cattle and calves remained about constant. Total cash receipts from marketing cattle and calves were $332 million in 1964 as compared with $337 million in 1963.

Minnesota hog producers marketed approximately 7 percent fewer hogs in 1964 than in 1963. Hog prices, also, were down slightly from 1963 levels. Due to the fewer hogs marketed and the lower prices, cash receipts from the marketing of hogs in Minnesota declined about 10 percent from the 1963 level—to $199 million in 1964.

The number of sheep and lambs marketed in Minnesota declined for the 3rd straight year. Average prices responded to the lower marketings for the nation; they averaged about $1 per cwt. higher than in 1963. The reduction in the number of sheep and lambs marketed about offset the higher average price. Therefore, cash receipts remained approximately the same in 1964 as in 1963.

Milk production in Minnesota in 1964 rose about 5 percent—to 10,819 million pounds. This was due to an increase in milk production per cow of about 5 percent in 1964 as compared to 1963. The increased production, along with a slightly higher average price, resulted in a 6- to 7-percent increase in cash receipts from marketing dairy products in 1964.

**Table 1. Annual cash sales of agricultural products by Minnesota farmers, selected years, 1945-64**

| Product | Average 1945-49 | Average 1950-54 | Average 1955-59 | 1960 | 1961 | 1962 | 1963* | 1964† |
|---|---|---|---|---|---|---|---|---|
| | million dollars | | | | | | | |
| Crops | 317 | 338 | 382 | 397 | 399 | 389 | 441 | 413 |
| Livestock and livestock products | 832 | 919 | 954 | 1,040 | 1,070 | 1,065 | 1,033 | 1,022 |
| Cattle and calves | 173 | 238 | 289 | 349 | 335 | 358 | 337 | 332 |
| Hogs | 240 | 256 | 219 | 210 | 230 | 222 | 220 | 199 |
| Sheep and lambs | 14 | 15 | 16 | 17 | 17 | 17 | 15 | 14 |
| Total livestock‡ | 427 | 509 | 524 | 576 | 582 | 597 | 572 | 545 |
| Dairy products | 228 | 239 | 270 | 299 | 326 | 321 | 314 | 335 |
| Eggs | 111 | 107 | 93 | 77 | 76 | 68 | 60 | 58 |
| Turkeys | 24 | 30 | 39 | 57 | 51 | 49 | 55 | 52 |
| Chickens and broilers | 30 | 15 | 10 | 9 | 11 | 10 | 10 | 10 |
| Other livestock products | 12 | 19 | 19 | 22 | 24 | 20 | 22 | 22 |
| Total livestock products‡ | 405 | 410 | 431 | 464 | 488 | 468 | 461 | 477 |
| Total‡ | 1,149 | 1,257 | 1,336 | 1,437 | 1,469 | 1,453 | 1,473 | 1,435 |

* Revised.
† Preliminary.
‡ May not add due to rounding.

**Table 2. Percentage distribution of cash sales of agricultural products by Minnesota farmers, selected years, 1945-64**

| Product | Average 1945-49 | Average 1950-54 | Average 1955-59 | 1960 | 1961 | 1962 | 1963* | 1964† |
|---|---|---|---|---|---|---|---|---|
| | | | | percent | | | | |
| Crops | 28 | 27 | 29 | 26 | 27 | 27 | 30 | 29 |
| Livestock and livestock products | 72 | 73 | 71 | 74 | 73 | 73 | 70 | 71 |
| Cattle and calves | 15 | 19 | 22 | 25 | 23 | 25 | 23 | 23 |
| Hogs | 21 | 20 | 16 | 15 | 16 | 15 | 15 | 14 |
| Sheep and lambs | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total livestock‡ | 37 | 40 | 39 | 41 | 40 | 41 | 39 | 38 |
| Dairy products | 20 | 19 | 20 | 21 | 22 | 22 | 21 | 23 |
| Eggs | 10 | 9 | 7 | 5 | 5 | 5 | 4 | 4 |
| Turkeys | 2 | 2 | 3 | 4 | 3 | 3 | 4 | 4 |
| Chickens and broilers | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Other livestock products | 1 | 2 | 1 | 2 | 2 | 1 | 1 | 1 |
| Total livestock products‡ | 35 | 33 | 32 | 33 | 33 | 32 | 31 | 33 |
| Total‡ | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

* Revised.
† Preliminary.
‡ May not add due to rounding.

**Table 3. Cash receipts from farm marketings, gross farm income, and realized net farm income, Minnesota, 1950-62***

| Year | Cash receipts from farm marketings | Gross farm income | Realized net farm income |
|---|---|---|---|
| | million dollars | | |
| 1950 | 1,180 | 1,312 | 552 |
| 1951 | 1,289 | 1,442 | 555 |
| 1952 | 1,280 | 1,430 | 517 |
| 1953 | 1,280 | 1,422 | 532 |
| 1954 | 1,237 | 1,372 | 467 |
| 1955 | 1,237 | 1,370 | 457 |
| 1956 | 1,266 | 1,421 | 451 |
| 1957 | 1,337 | 1,501 | 507 |
| 1958 | 1,461 | 1,635 | 537 |
| 1959 | 1,389 | 1,549 | 407 |
| 1960 | 1,437 | 1,600 | 462 |
| 1961 | 1,469 | 1,675 | 519 |
| 1962 | 1,458 | 1,669 | 501 |

* Gross farm income includes: cash receipts from farm marketings, government payments, value of farm-produced commodities consumed at home, and rental value of farm dwellings. Realized net farm income is gross farm income less cash production expenses. 1963 data not available.
Source: USDA, *Farm Income Situation*, July 1963 (supplement).

Egg production declined for the 9th consecutive year in Minnesota. However, an increase in average egg prices partially offset the decrease in egg marketings. Cash receipts from egg sales brought Minnesota egg producers about $58 million in 1964, a decrease from 1963 cash receipts.

Minnesota turkey production increased slightly to 15.3 million birds in 1964, the second largest turkey crop on record. In 1964, as in 1963, Minnesota was second only to California in turkey production. Cash receipts to turkey producers in 1964 were about $52 million, a slight decrease from 1963 returns of about $55 million.

The relative importance of various enterprises did not change significantly from 1963. Cattle and calves and milk products remained the most important sources of cash receipts to Minnesota farmers (see table 2).

### Government Payments Aid Income

Minnesota farmers received about $125 million in direct government payments in 1964—an increase of about 23 percent over 1963. This increase almost offset the drop in cash receipts. Since production expenses remained relatively constant, total realized net income probably decreased. However, a decline in the number of Minnesota farmers probably offset the decline in total realized net income; this situation helped maintain individual farmers' net incomes (see table 3).

# Planning The Farm For 1965

S. A. Engene and Paul R. Hasbargen

Before finishing your production plans for 1965, you should consider some questions:

Does the outlook for agricultural commodities and government programs suggest changes in your farm plans?

What volume of business and level of efficiency do you need for 1965 and the following years?

### Opportunities In Crops

Crop production is the major source of income on Minnesota farms. Although about 70 percent of farm marketings come from livestock and poultry, about one-half of this is the value of the crops fed. Add this part of livestock sales to the crop sales; the importance of crops justifies a lot of planning time.

Corn will continue to be the high return crop on most farms in southern Minnesota. Total corn production probably will increase in 1965, causing downward pressure on prices. Furthermore, with the loan level down to $1.05 from $1.10, market prices can drop. However, the total support price will remain the same—$1.25 nationally—with the support payment on normal production raised to 20 cents.

This higher payment-in-kind will give an added income advantage to participation. Also, many farmers should find that their "normal yields" will be higher in 1965 because the moving 5-year average (1959-63) coming into use will reflect the higher yields of 1962 and 1963. Therefore, more farmers may find participation profitable.

Soybeans continue to be the wonder crop—room exists for more beans again next year. Some farmers can consider increasing their acreage in 1965.

Wheat prospects for this year are similar to those of last year. However, the historical base will not be hurt by overplanting. This fact gives greater freedom in planning if you do not comply with the program.

Prospects for flax are a little better. The favorable potato price of this year probably will not be repeated; instead, production may well be overstimulated with a resultant low price. No major change is seen in the outlook for other important Minnesota crops.

### Opportunities In Livestock

The dairy picture looks slightly brighter. Increased population, larger exports, and increased commercial use consumed most of the accumulated surplus of solids-not-fat. We could ship

even more to foreign countries if we had it.

The depressing factor is butterfat. Diet consciousness, the cholesterol scare, and competition from vegetable oils are holding down markets for fats. Lower prices or government subsidies will be needed to move the butterfat supplies. The present situation will prevent any material increase in the price for whole milk.

Dairying will be profitable only for the efficient producer with a large volume. The high cost producer of manufacturing milk might well look at other alternatives.

The beef picture looks brighter than a year ago. We probably are at the peak of the cycle in cattle numbers. Nevertheless, price relief is not immediate. The number of fed cattle slaughtered will continue high in 1965. To this may be added more cow slaughter as farmers reduce herds.

Beef supplies per capita will be almost as high in 1965 as in 1964. After 1965, increased population and decreased supplies may cut the amount of meat that must be sold to each person and also help raise prices.

If a beef breeding herd fits your farm, consider adding a herd or increasing your present one. However, you probably cannot afford to use good tillable land for pasturing beef cows. Also, hold down winter feed costs.

One new factor exists in the cattle market this year—futures trading in live animals. Large feeders, especially, may find an opportunity to hedge part of their operations and reduce some risk in the same manner used by grain handlers.

Hog prospects look better for this year. The fall pig crop was down; the spring pig crop also should be down. This means better hog prices, in spite of competition from large beef supplies. Most producers should continue their past level of operation, but efficient farmers who are planning future expansions might proceed this year.

Prospects for sheep and wool are very favorable in 1965. Increased attention to managing the sheep flock for larger lamb crops this spring will pay higher than normal dividends.

The poultry situation is a dark spot. Egg production will be slightly up in 1965 with prices down. The same situation is true for turkeys. Except for the most efficient, 1965 is not the year for expansion.

### Longer-Run Opportunities

Don't overlook opportunities for off-farm employment either for this year or for the longer run. The current strong economic growth period is a good time in which to seek off-farm employment. If you have limited resources for farming, you may find higher earning potential in nonfarm work.

If your land is suitable and you are in a readily accessible area, you might consider the possibility of setting up recreational facilities such as campgrounds, lakeshore facilities, and ski areas. However, these developments may need considerable capital. Also, you will be supplying a luxury service—you must provide what the consumer wants and deal courteously with him at all times.

A third area to watch is the administration's "war on poverty." New programs may be introduced to help farmers with such small volumes that their incomes are little affected by traditional farm price improvement programs.

### Volume And Efficiency

The trend toward larger farms continues. It is caused in part by the availability of more and larger machines which enable a man to take care of more land. It also is due to narrower margins, making larger gross incomes necessary.

Records of farmers in the Southeast and Southwest Minnesota Farm Management Services show that 67 cents out of every dollar of income were used to pay farm costs other than interest. (Costs of feeder livestock were subtracted from sales to determine income for this purpose.)

So only 33 cents remained for paying interest and giving a return for the family labor and management. If the farmer had borrowed all of his farm capital at 5-percent interest, about one-half of this 33 cents would have gone for interest payments.

These data provide a basis for the first step in long-run planning: How much gross income do you need for your family? If you own all your farm capital, your gross income must be about three times as large as the net income you need. If you must borrow all of the money, gross income must be almost six times the net income. The gross income needed for several situations is illustrated in table 1.

You can increase volume by adding more land or intensifying your present acreage. Land values have been climbing steadily; you must study carefully to be sure that investment in new land will increase net income. Many farmers can increase income from their present land by using better seeds, improved cultural practices, and recommended fertilizers and sprays.

Hard work still is an important ingredient in successful farming. But "good management" is becoming increasingly important. Our studies of farm records show that crop and livestock efficiency and effective control of machinery and building costs are becoming more important.

Table 2 shows that the differences in return to capital and family labor between the three levels of efficiency is much bigger than would have been expected on the basis of resources used. Low efficiency farms give low returns to both land and labor.

With this general background, dig out your records or income tax reports for the past few years. How high was your gross income? Your farm expenses? The income left for yourself? What are your goals? List all alternative courses of action open to you for 1965—and for the longer run. Study each of these carefully before deciding upon this year's program.

**Table 1. Approximate gross income needed to achieve given levels of family living and increases in net worth***

| Annual living costs | Annual increase in net worth | | |
|---|---|---|---|
| | $1,000 | $2,000 | $3,000 |
| | —gross income— | | |
| $3,000 | $12,000 | $15,000 | $18,000 |
| $4,000 | 15,000 | 18,000 | 21,000 |
| $5,000 | 18,000 | 21,000 | 24,000 |

* When money must be borrowed, approximately three times the amount of the interest payments must be added to these gross incomes.

**Table 2. Impact of good management on income, Southeast Minnesota Farm Management Service, 1950-59 averages**

| Item | Return to capital and labor | | |
|---|---|---|---|
| | Low 1/5 | Middle 1/5 | High 1/5 |
| Acres per farm | 226 | 218 | 282 |
| Acres tillable | 177 | 174 | 229 |
| Number of workers | 1.9 | 1.9 | 2.0 |
| Capital used | $44,809 | $44,003 | $55,545 |
| Gross income | $16,716 | $19,950 | $28,869 |
| Return to capital and labor | $ 2,281 | $ 6,354 | $11,482 |

Source: Minn. Agr. Econ. Rpt. No. 261.

MINNESOTA

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NOTES

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# the outlook corner

## Earnings of Farm Families

Paul R. Hasbargen

Nationally, net farm income per farm will probably reach a record high in 1965—continuing the upward trend of recent years. The steady increase in *average* farm income during the past 10 years has been due primarily to the continued decrease in farm numbers.

The money that farm families receive from nonfarm jobs is also increasing. This source of income accounted for 40 percent of the average income per farm family in 1963.

Looking at the *total* income of the agricultural sector, realized gross income increased from $32 billion to almost $42 billion between 1950 and 1964. Total production expenses have been increasing at about the same pace as gross income. Net farm income was about $12½ billion for each of the past 4 years and is expected to be about the same again in 1965.

Livestock receipts will set a new record in 1965. Anticipated larger government payments should also help push gross farm income to a new high. However, increased farm production expenses will prevent any sizable gain in *total* net farm income.

Realized net income *per farm* will reach a new record due to a decrease in farm numbers. This decrease continues each year as more farmers reach retirement age and much of their land is consolidated into other farm units.

The table lists average family earnings for commercial farm operators by sales classes for 1959 and 1963. Family earnings in the top two categories compare quite favorably to earnings of nonfarmers. (Average nonfarm family personal income was $8,469 in 1962.[1])

The 1,587,000 farmers with gross sales of $5,000 or more in 1963 accounted for 91 percent of the cash receipts and 79 percent of the total realized net farm income. Off-farm income averaged about $1,800 for these families in 1963 but the major portion of their total earnings came from farming.

The total number of commerical farms has actually *increased* since 1959. In 1963, 150,000 more farms grossed $10,000 or more than in 1959. The number with sales of $5,000-$9,999 decreased by 84,000. This group will continue to decrease since this size is no longer an economic farm unit.

Incomes of families who operate farms which gross less than $5,000 are shown in the table. When these operations are included in the count of "all farms," they account for 56 percent of the total. They sold only 9 percent of the farm marketings but obtained 21 percent of the total realized net farm income in 1963. This high net is due to the fact that they utilize a high proportion of their produce at home and use fewer purchased inputs in farm production.

Families with farm sales of $2,500-$4,999 obtained about one-half their total income from off-farm sources. Families with less than $2,500 in farm sales obtained three-fourths of their income from off-farm sources. Sixty percent of this group are classified as part-time farmers and earn five times as much off the farm as they do from farm operations. Most of the remaining group are classified as part-retirement.

Since nonfarm earnings of these 1.5 million families average more than three times as much as their farm earnings, they clearly are not commercial farmers. Their income problem is not really a part of the "farm problem." Most will have to look to nonfarm sources for increasing family earnings.

Rapid adjustments are already being made by these families. Their numbers declined quite sharply—by almost 600,000 in 4 years. Apparently, only about 10 percent of these moved up into one of the larger sales classes; the rest quit farming. Also, this group shows a larger increase in off-farm earnings and a smaller increase in farm earnings than any other group.

Two projections can be made about families in the noncommercial category shown in the table: (1) Their numbers will continue to decline. (2) Off-farm income will become more important.

**Number of commercial and noncommercial farms and average family earnings by source by gross farm sales classes; 1959 and 1963**

| Gross sales class | Number of farms, thousands | Net farm income | Off-farm income | Total family income |
|---|---|---|---|---|
| | | **commercial farms** | | |
| 1959: | | | | |
| $20,000 and over | 325 | $ 8,862 | $1,920 | $10,782 |
| $10,000-$19,999 | 503 | 5,579 | 1,326 | 6,905 |
| $ 5,000-$ 9,999 | 693 | 3,375 | 1,547 | 4,922 |
| 1963: | | | | |
| $20,000 and over | 384 | 10,180 | 2,177 | 12,357 |
| $10,000-$19,999 | 594 | 6,207 | 1,512 | 7,719 |
| $ 5,000-$ 9,999 | 609 | 3,731 | 1,778 | 5,509 |
| | | **noncommercial farms** | | |
| 1959: | | | | |
| $2,500-$4,999 | 654 | 2,133 | 1,807 | 3,940 |
| Less than $2,500 | 1,922 | 968 | 2,574 | 3,542 |
| 1963: | | | | |
| $2,500-$4,999 | 463 | 2,337 | 2,080 | 4,417 |
| Less than $2,500 | 1,523 | 1,029 | 3,222 | 4,251 |

Source: *Farm Income Situation*, ERS, USDA, November 1964.

[1] Statistical Abstract of the United States, 1964, table 455, p. 337.

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