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Federal Reserve Bank of Chicago - -

September 11, 1964

Net farm income in the United States during 1963 declined to \$13.0 billion from the \$13.2 billion recorded the previous year. For the first half of 1964 net farm income slipped further to a seasonally adjusted annual rate of \$12.6 billion.

When net income is calculated for individual states, the year-to-year changes, of course, show wide variations from the nation's average. In the Seventh Federal Reserve District, the change in farm income from 1962 to 1963 ranged from an 18 per cent decrease in Wisconsin to a 6 per cent gain in Indiana. Furthermore, changes in net farm income show quite divergent trends among different types of farms, largely reflecting the different impact of weather on crop yields and the relative importance of livestock prices on income.

In Illinois, the records of the Illinois Farm Bureau Farm Management Service show net incomes substantially lower for beef and hog farms in northern Illinois during 1963 compared with 1962 while incomes for cash grain and dairy farms were reported moderately higher. While these records are from commercial farms (sales of \$10,000 and over), probably possessing above average management, their results still provide a useful picture of the earning trends on similar types of farms in other Midwest areas.

Northern Illinois Farms, 180-259 Acres

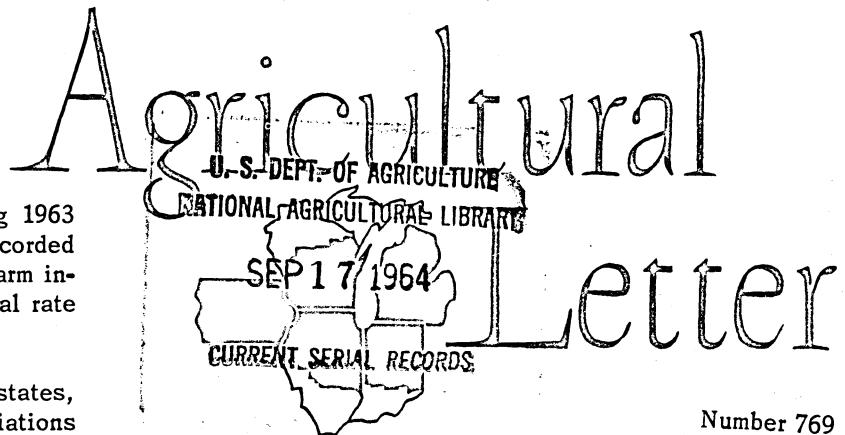
Type of farm	Value of farm production per farm			Per cent change
	1951-63 average	1962	1963	
Cash grain	\$17,113	\$19,953	\$21,154	+ 6
Hog	19,660	23,362	21,622	- 7
Dairy	19,241	22,632	23,249	+ 3
Beef	19,279	25,607	17,753	-31

Type of farm	Net earnings per farm			Per cent change
	1951-63 average	1962	1963	
Cash grain	\$8,678	\$ 9,860	\$10,516	+ 7
Hog	9,413	10,768	8,225	-24
Dairy	7,885	8,577	8,897	+ 4
Beef	8,274	11,811	4,629	-61

Lower returns for beef cattle enterprises reflected both higher costs of feeder cattle in the fall of 1962 and sharply lower market prices for fed cattle in 1963. The sharp rise in cattle prices in 1962, brought large gains in inventory value, which boosted income well above average. Feeder cattle enterprises are especially subject to gains and losses as a result of the fluctuation in the value of cattle from the time feeder animals are purchased to the time the fattened animals are sold.

The inventory losses brought cattle feeder returns per \$100 of feed down to \$88 in 1963, compared with \$148 the year earlier. Returns for 1963 were the lowest since 1952 and 1953 when they averaged \$86 and \$81, respectively.

Cash operating expenses were actually lower in 1963 than in 1962 on northern Illinois beef farms. Farm-



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ers apparently put off the purchase of many production items in an attempt to hold expenses in line with the anticipated reduction in net income.

Hog farms also experienced a drop in net income during 1963—down nearly 24 per cent from 1962, primarily reflecting lower hog prices. Also contributing to the decline in income were higher production expenses. The average price received for hogs sold from these farms declined to \$14.86 per hundredweight in 1963 from \$16.30 in 1962. In addition, the year-end inventory value of hogs on these farms was \$1.2 per hundredweight below the value at the beginning of the year.

Cash grain farms had the highest earnings since 1951. Weather continued to be an important factor as record yields together with improved prices boosted the value of production nearly 6 per cent above the year-earlier level. Prices received by farmers for oats and wheat were down slightly but this was more than offset by higher corn and soybean prices. Return from livestock sales and higher cash operating expenses, however, worked to hold down the amount of increase in net income. Cash operating expenses were up 6 per cent from a year earlier, largely reflecting sharply increased outlays for fertilizer.

Dairy farms also experienced a moderate increase in net farm earnings in 1963. With the 1963 bumper crops, net farm income rose about 4 per cent from the year-earlier level. These farmers received slightly lower prices for milk last year, \$3.62 per hundredweight compared with \$3.71 in 1962 but larger total milk output canceled out much of the effect of lower prices. Although the average herd size of these farms has been relatively stable over the past three years, the level of milk production per cow has risen nearly 700 pounds over the same period.

Indications are that the cyclical upswing in hog prices and the moderate increase in cattle prices during the second half of this year will bring somewhat higher returns to livestock enterprises. It is too early to accurately judge the possible crop yields and incomes this year. Early forecasts would, however, indicate that crop yields in most areas are somewhat smaller than in record breaking 1963, thus, pointing to some reduction in returns from cash grain farming.

Roby L. Sloan
Agricultural Economist

FARM BUSINESS CONDITIONS
JUNE 1964 WITH COMPARISONS

ITEMS	1964		1963
	June	May	June
PRICES:			
Received by farmers (1957-59=100)	96	97	100
Paid by farmers (1957-59=100)	107	107	106
Parity price ratio (1910-14=100)	74	75	77
Wholesale, all commodities (1957-59=100)	100	100	100
Paid by consumers (1957-59=100)	108	108	107
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.53	2.03	1.96
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.27	1.29	1.31
Oats, No. 2 white, Chicago (dol. per bu.) .....	.53	.67	.73
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.52	2.56	2.66
Hogs, barrows and gilts, Chicago (dol. per cwt.)	16.17	15.06	17.32
Beef steers, choice grade, Chicago (dol. per cwt.)	21.57	20.52	22.69
Milk, wholesale, U. S. (dol. per cwt.)	3.78	3.83	3.71
Butterfat, local markets, U. S. (dol. per lb.) .....	.58	.58	.58
Chickens, local markets, U. S. (dol. per lb.) .....	.13	.13	.14
Eggs, local markets, U. S. (dol. per doz.) .....	.30	.30	.30
Milk cows, U. S. (dol. per head)	209	211	215
Farm labor, U. S. (dol. per week without board)	--	--	--
Factory labor, U. S. (dol. earned per week)	103.48	102.97	100.37
PRODUCTION:			
Industrial, physical volume (1957-59=100)	132	131	126
Farm marketings, physical volume (1957-59=100)*	98	88	84
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bll. of dol.)	489	488	463
Cash farm income, U. S. (annual rate, bll. of dol.)	--	34.3	33.0
EMPLOYMENT:			
Farm (millions)	5.8	5.0	6.0
Nonagricultural (millions)	66.1	66.1	64.4
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	106	105	104
Nonagricultural banks (1957-59=100)	108	107	107
Time deposits:			
Agricultural banks (1957-59=100)	176	174	156
Nonagricultural banks (1957-59=100)	192	191	169

¹ Based on estimated monthly income.

*Note change from 47-49 to 57-59.

² Revised.