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Federal Reserve Bank of Chicago - -

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NET FARM INCOME in 1965 is likely to be maintained at a level close to the \$12.5 billion estimated for this year. This was the conclusion reached at the Annual Outlook Conference of the U. S. Department of Agriculture held in Washington last week. Some highlights of the conference follow:

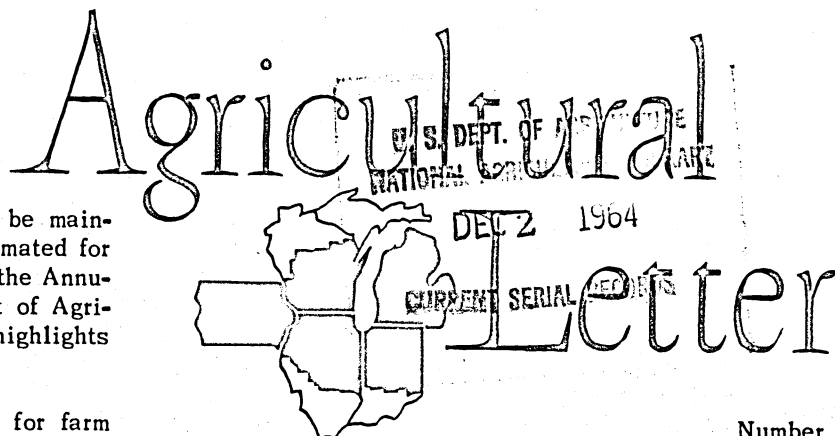
Continued expansion in domestic demand for farm products and near record agricultural exports are anticipated for 1965. Farmer's gross income in the coming year is expected to hold near the levels of the past two years with expected gains in receipts from livestock and livestock products and larger Government payments offsetting an anticipated small decline in receipts from crops. The rise in production expenses slowed this year compared with previous years and expenses in 1965 are expected to again show only a small increase.

The national economy has advanced strongly throughout 1964. Current prospects point to a further increase in business activity during 1965, though possibly at a somewhat slower pace than this year. With further gains in employment and personal income, a stronger demand is expected for food as well as other goods and services. Also, opportunities for off-farm income should improve.

Cattle slaughter and beef production were up sharply from a year earlier in 1964 boosting the per capita supplies of beef to a record 100 pounds—up from 95 pounds last year. As a result of the large increase in slaughter, the number of cattle and calves on farms at the beginning of next year is expected to show only a slight increase from the more than 106 million head on farms at the start of 1964. During 1963, the increase was about 2.7 million head.

In spite of the apparent leveling off in cattle numbers, a further increase in cattle slaughter is expected in 1965 though much smaller than that which occurred during 1964. During the first half of 1965, marketings will depend largely on the number and weight of cattle placed on feed during the fourth quarter of this year and in the early months of 1965. Feeder cattle prices have remained fairly steady since spring, at a level \$3-4 below a year ago despite the marked improvement in fed cattle prices since midyear. Feeder cattle prices are likely to remain under pressure the next few months since there is a plentiful supply available for feeding. The current price relationship between feeder cattle and the fattened slaughter animals probably will encourage a large number to be placed on feed during the remainder of this year.

Primarily because of the lower prices for feeder animals, however, farmers probably will realize moderately higher returns from cattle feeding during the coming year as compared with the highly unfavorable results in 1964. The average level of prices for fed cattle during 1965 is not expected to differ greatly from this year's average level.



Number 780

Hog producers enjoyed slightly more favorable prices during the second half of 1964 than in the year-ago period reflecting somewhat smaller pork supplies. The improvement is expected to continue well into 1965 in response to a further reduction in per capita pork supplies.

Feed costs in the coming year probably will average somewhat higher. But considering both costs and gross income, profit prospects from hogs in 1965 appear to be more favorable than in the past two years.

Poultry and egg production expanded during 1964 and prices to producers averaged somewhat lower. Further increases in the output of broilers, turkeys and eggs are in prospect for 1965 with the larger production of turkeys and eggs likely to cause further price declines. The expansion in broiler production, however, may be small and an anticipated strengthening in demand may result in some price improvement.

The dairy situation during 1964 has been characterized by the first improvement in cash receipts since 1961, reflecting slightly improved prices along with somewhat larger volume of marketings. Milk production in 1965 will probably about equal the nearly 126 billion pound output in prospect for this year. Further gains in commercial demand are anticipated but, as in 1964, consumption is likely to be well below supplies and large Government purchasers will be necessary to maintain prices.

Feed grain prices have been slightly above the year-earlier levels this fall and will probably continue to average somewhat higher than a year ago during the current feeding year. This will reflect smaller supplies because of the reduction in feed grain production and the higher price supports of the 1964 crops.

Soybean production in 1964 is estimated to be 702 million bushels, slightly above last year's record output, and a larger carryover on October 1 boosted total supplies to a new high. Heavy domestic consumption coupled with brisk export demand is expected to boost total utilization sharply from a year earlier.

Because of the fairly close balance between supply and demand in the current feeding year, soybean prices are expected to continue strong, averaging close to the \$2.54 average received by farmers during the current year and well above the 1964 support price of \$2.25.

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