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Agricultural Letter

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BANKERS AND BUSINESSMEN with interests in agriculture came from across the nation last week to meet at Urbana for the tenth Agricultural Industries Forum sponsored by the University of Illinois. Against a backdrop of rapidly changing conditions in agriculture and the accelerated growth of farm debt, much of their discussions centered appropriately on financial and operational strategies for agriculture and businesses supporting agriculture in the 1970s.

Many of the current trends in agriculture are expected to continue through the 1970s. According to Department of Agriculture projections, the number of farms may decline from the current 3.1 million to around 2.1 million by 1980. Relative to 1965, the average size of farms will increase over 50 percent; the average value of productive assets is expected to increase about 80 percent; and the average cash receipts per farm will more than double.

John Hopkin, formerly with the Bank of America and now professor of agricultural finance at the University of Illinois, pointed out that these averages represent the diverse trends of four different agricultural groups: large corporate farm enterprises, efficient commercial family farmers, marginal farmers, and part-time operators.

Rapid changes in technology, including managerial techniques, are causing big corporations with uncommitted funds to look at agriculture for investment opportunities providing diversification that will help stabilize cyclical income flows, hedges against inflation, and increased earnings.

In some instances, the farming venture is largely unrelated to the company's other interests. The company simply provides a management team for assembling the capital and furnishing financial and operational management. In other instances, the venture is part of a vertically integrated system in which the company finds an advantage in either (1) the large-scale production of basic farm products it uses in processing, instead of having to rely on traditional market channels, or (2) an operation that will ensure an expanding market for its primary product.

Dr. Hopkin believes the trend toward vertical integration will continue in the 1970s. And at the same time, specialized nonintegrated, large-scale, corporate agriculture could develop rapidly if it shows it can outdo efficient family farms.

Most of the nation's food and fiber will probably continue to be produced on modern commercial family farms. However, the size of these farms will continue to increase. To provide opportunities comparable to off-farm employment, they will probably need to generate gross sales of at least $40,000 a year, and they will require production assets of between $150,000 and $250,000, depending on the type and location of the farm. According to Department of Agriculture projections, only about 15 percent of the farms will have gross sales of $40,000 or more by 1980, but these farms will use more than half of the country's agriculture assets and generate about two-thirds of its farm receipts.

The increasing importance of capital in agricultural production and marketing will increase the emphasis on business and financial management. In addition to securing control of the assets required for increased efficiency, modern farmers will need to meet increasingly heavy cash-flows in an environment of production and price uncertainty. Because of this, the margin for allowable error will be smaller.

Agribusiness companies will undoubtly be influenced by many of the same economic forces affecting farmers. Much of the merging, affiliating, and integrating taking place in farm supplies is probably due to capital problems similar to those facing farmers.

Joseph Kelly of W. R. Grace indicated that along with other operational changes in the 1970s, many agribusiness companies may take up a systems approach to marketing. Up until now, farm suppliers have usually handled only one major production item or line of production items. These companies could start carrying multiple product lines to supply most, if not all, of the production items needed by farmers.

This approach could have substantial implications for traditional farm credit institutions, such as country banks. According to Hopkin, these suppliers might emerge as important, maybe even the dominant, retailers of farm credit. Their field representatives would be in strategic positions to evaluate a farmer's production and marketing problems at little additional cost. Their reports could be combined with other information to provide a level of credit analysis and supervision that would be expensive for a bank or Production Credit Association to duplicate. The acquisition of funds is a problem at many country banks. But a large supplier could sustain a lending program through profits or by discounting notes and accounts receivable at large financial institutions. If such a company could acquire enough financial strength, it might sell debentures to the public.

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FARM BUSINESS CONDITIONS

November 1967 with Comparisons

ITEMS	1967 November	1967 October	1966 November
PRICES:			
Received by farmers (1957-59=100)	103	104	107
Paid by farmers (1957-59=100)	117	118	115
Parity price ratio (1910-14=100)	73	73	77
Wholesale, all commodities (1957-59=100)	106	106	106
Paid by consumers (1957-59=100)	118	118	115
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.45	1.52	1.76
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.10	1.17	1.35
Oats, No. 2 white, Chicago (dol. per bu.)	.74	.74	.79
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.61	2.60	2.99
Hogs, barrows and gilts, Chicago (dol. per cwt.)	17.88	18.61	20.59
Beef steers, choice grade, Chicago (dol. per cwt.)	26.51	26.97	24.94
Milk, wholesale, U. S. (dol. per cwt.)	5.36	5.32	5.39
Butterfat, local markets, U. S. (dol. per lb.)	.66	.66	.69
Chickens, local markets, U. S. (dol. per lb.)	.11	.12	.13
Eggs, local markets, U. S. (dol. per doz.)	.30	.29	.42
Milk cows, U. S. (dol. per head)	262	265	256
Farm labor, U. S. (dol. per week without board)	--	60.50	--
Factory labor, U. S. (dol. earned per week)	118.20	116.00	113.99
PRODUCTION:			
Industrial, physical volume (1957-59=100)	159	156	158
Farm marketings, physical volume (1957-59=100)	167	175	177
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	641.7	635.9	602.1
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	43.1	45.6	41.3
EMPLOYMENT:			
Farm (millions)	3.8	4.0	4.0
Nonagricultural (millions)	71.5	71.1	70.2
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	126.3	127.0	126.5
Nonagricultural banks (1957-59=100)	121.9	120.6	117.3
Time deposits:			
Agricultural banks (1957-59=100)	272.9	270.4	239.2
Nonagricultural banks (1957-59=100)	293.8	291.8	248.2

[1] Based on estimated monthly income.

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.