Federal Reserve Bank of Chicago - -
November 22, 1968

Agricultural Letter

Number 988

NET FARM INCOME is running ahead of a year ago. Through the third quarter, realized net income to the nation's farmers was $14.9 billion (at the seasonally adjusted annual rate)—around 5 percent more than the final tally last year. Gross income (on an annual rate basis) was ahead of the pace last year by more than $1.6 billion. Production expenditures also were up, but the increase was considerably less than for the past two years.

The higher gross income can be attributed primarily to higher cash receipts, especially from livestock and related products, and to increased government payments, mostly under the feed-grain and wheat programs. Cash receipts through September were a little over $500 million more than for the first three quarters of 1967.

Larger receipts from livestock and livestock product marketings accounted for almost all the gain, mainly reflecting larger cattle marketings at higher prices. Dairy and poultry receipts were also higher, but lower prices offset the increase in hog marketings. Receipts from crop marketings were about the same as through the third quarter last year. The volume of crops marketed was about 2 percent higher than a year before, but lower prices for feed grains, wheat, and soybeans held receipts to about the same level as last year.

Income gains of farmers in states of the Seventh District have tended to lag behind those for the nation, especially for crop producers. Receipts from marketings were up less than 1 percent for the district, with Indiana, Iowa, and Michigan recording declines.

The lag, of course, is due mainly to the lower corn and soybean prices and the importance of these crops in the district states. Corn prices have averaged about 14 percent less this year than last, and prices of soybeans have been down about 6 percent. The five district states account for close to three-fifths of the nation's corn production and nearly half of its soybean production.

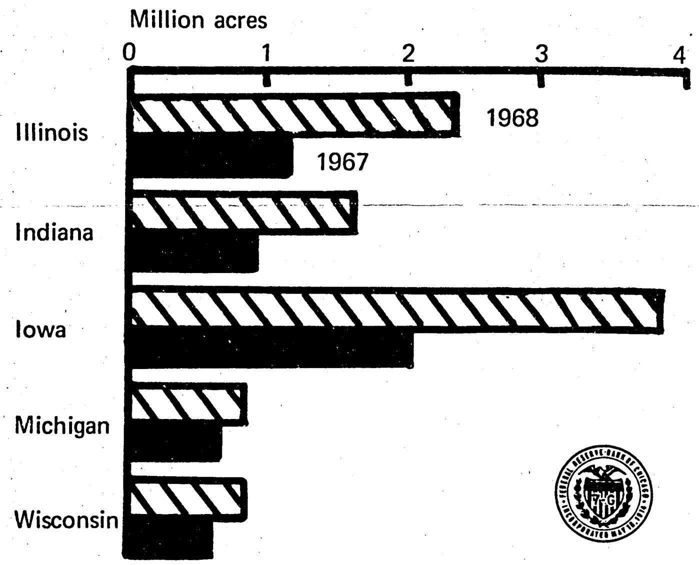
Receipts from livestock and livestock products were higher in all five states. Crop receipts were lower in all but Illinois. The increase in Illinois was apparently the result of farmers holding large inventories over into 1968. Inventories were up more than $150 million in Illinois. That is about a fifth of net farm income. These inventories were apparently being liquidated during the first half of the year. Crop receipts through midyear were up about 5 percent. Since then, they have averaged about 8 percent lower.

The increase in receipts in Wisconsin reflects the predominance of livestock in that state, especially dairying. Livestock and livestock products account for about 86 percent of the cash receipts from farming in Wisconsin. Through the first ten months of this year, prices of milk, the state's major commodity, averaged about 4 percent higher than last year.

Although incomes of Seventh District grain producers are hard hit by the depressed grain prices, many of these same farmers are benefiting from substantially higher government payments. For the nation, government payments this year are expected to be 10 percent higher than last.

Payments will probably increase substantially more for farmers of the district than the nation. This is both because of the sharp increase in participation by district farmers in the 1968 feed-grain program and because of higher payments under this year's program. About 18 percent more district farmers are participating in the program than last year, compared with about 9 percent more nation wide. Moreover, these farmers agreed to divert about 75 percent more acreage than last year—for which they will receive diversion payments. This compares with less than a 60-percent increase for the nation. These higher payments appear likely to be more than enough to offset the reduction in cash receipts from crops caused by lower prices.

**Larger Feed Grain Diversion
Will Boost Government Payments**



The Department of Agriculture predicts that marketings will finish strong in the fourth quarter. As gross receipts continue to outpace the rise in production costs, realized net farm income should total at least $15 billion for the year. That will be over 5 percent more than last year but less than the $16.2 billion record reached in 1966. Average net income per farm should be about $4,900, some 8 percent higher than last year and just under the $5,000 average for 1966.

Dennis B. Sharpe
Agricultural Economist