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Federal Reserve Bank of Chicago - -

February 21, 1969

INCOME FROM FARMING this year may fall short of the level reached last year. According to USDA spokesmen at the recent outlook meetings in Washington, cash receipts are expected to be bolstered by larger marketings even though prices will probably be about the same. Also, larger government payments are expected to augment farm incomes, possibly pushing farmers' gross income to about \$53 billion, or \$1 billion more than last year. But the continued rise in costs of farm production is expected to more than offset any gains in gross income, leaving net farm income slightly lower than in 1968.

Net income totaled about \$14.9 billion in 1968, or about 5 percent more than in 1967. Part of the increase resulted from higher government payments, but most of it came from higher prices and record marketings. As consumer incomes rose to progressively new peaks last year, expenditures for food expanded at the near-record rate of almost 7 percent.

Demand for agricultural products may not be as strong as in 1968. Prospective increases in economic activity, employment, and wages point to continued rises in disposable income and demand for food but at more moderate rates than in 1968. Food expenditures are expected to increase 4.5 to 5 percent over last year. That would amount to about a \$5-billion increase, compared with more than a \$6-billion increase last year.

Foreign demand for agricultural products may decline. Smaller shipments of such major crops as wheat, rice, cotton, and feed grains are expected to more than offset advances in oilseeds, animal products, and fruits and vegetables. Contributing to the expected slowdown in shipments are larger world supplies of farm commodities—especially grains—a slackening of economic activity in several countries, and continued uncertainties in world trade.

Supplies of agricultural products are expected to be generally larger than in 1968. In response to high prices and favorable feeding-cost ratios, livestock producers are increasing their production. Also, several major crops are in substantially larger supply than a year ago. Crop output increased nearly 3 percent to a record high in 1968, adding further to huge carryovers for many crops.

Most of the increase in cattle slaughter and beef production will probably be confined to the top grades. Feedlot operators reported 10 percent more cattle on feed in early January than a year before. Although smaller nonfed slaughter may partly offset the increase in fed slaughter, total output in the first half of the year will no doubt be higher than last year. Marketings in the second half may be limited by available supplies of feeder animals.

Hog slaughter will also be larger during the first half of 1969—probably by 4 or 5 percent over a year before. Moreover, if estimates are correct—that the spring pig crop is about

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5 percent larger than last year—supplies will continue to increase in the second half.

Prices of meat animals have continued strong so far this year, despite the larger supplies. Although prices are expected to weaken as production increases further, producer prices may average about as high as in 1968.

Milk production is expected to continue its decline, reflecting further reduction in the number of dairy cows. Even so, consumption of dairy products is likely to be well below available supplies, making continued government purchases necessary to maintain prices at support levels.

Grain prices will also be heavily influenced by government programs. With the huge 1968 harvest and depressed prices around harvest-time, large amounts of grains were placed under price-support loans; as of January 1, 39 million tons of feed grains—50 percent more than a year ago—were under loan or owned by the Commodity Credit Corporation. Since these supplies cannot be returned to normal market channels for less than 115 percent of the support prices, plus carrying charges, prices will probably hold close to or somewhat above the support level. Settlement of the dock strike would permit exports to return to normal and tend to strengthen grain prices. Prices later in the year will, of course, be determined primarily by the size of the 1969 crop, with weather and the extent of participation in the government's feed-grain and wheat programs the major influences. Soybean prices will be influenced largely by the 1969 support prices, which have yet to be announced.

Conferences on Agricultural Credit have been announced for four states in the Seventh District. The dates are as follows:

Iowa Agricultural Credit Conference—Memorial Union, Iowa State University, Ames, March 18-19.

Indiana Bankers Association Agricultural Clinic—Purdue University, Lafayette, March 19-20.

Michigan Agricultural Credit Conference—Kellogg Center, Michigan State University, East Lansing, April 30.

Wisconsin Agricultural Credit Conference—Holiday Inn, Stevens Point, April 15-16.

Further information can be obtained from the respective universities or state banking associations.

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