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FARM INCOME OUTLOOK

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The most important economic factors determining farm income in 1986 will also be major determinants of 1987 farm income---declining farm production expenses and large Federal outlays. Current dollar production expenses could decline 2 to 4 percent, falling to levels last seen in 1979. This would be the third consecutive annual decline in expenses, an event exceeded only once (during the 1929-1933 period) since 1910. The combination of a rapid fall in fuel prices, declining interest rates, lower outstanding farm debt, and reduced planted acres have been the main factors driving expenses down in 1986. Most of these factors will again be influential in determining 1987 expenses.

Complimenting declining expenses will be unprecedented levels of direct Government subsidies. Because of the scope and objectives of the Food Security Act of 1985, a strong Government role and record-large subsidies were not unexpected. Assuming average yields in 1987, the Government, through CCC loans, cash payments, and marketing certificates, could directly account for about 17 percent of gross cash income in the sector. This compares with about 15 percent in 1986 and 5 percent as recently as 1984. Because of the strong boost provided in tandem by rising payments and declining expenses, 1987 constant dollar farm income will likely rise above 1986 levels. However, not all farms or farm types will share equally in the increase.

Prices and Output

Because of a third consecutive year of strong crop output and the effects of reduced CCC loan rates, prices received by farmers for all commodities will likely fall about 5 percent in 1986 to the lowest level since 1978. Crop prices are expected to average 13 percent below 1985 levels and 24 percent below their 1984 peak. Most of the decline in 1986 has come during the second-half of the year and has been due to lower prices for commodities under farm programs. Program commodities include food grains, feed grains, soybeans, peanuts, cotton, tobacco, sugar crops, milk, wool, and mohair.

Prices received for livestock rose about 2 percent in 1986 as higher poultry and egg (+8%) and meat animal (+3%) prices outweighed lower milk prices (-2%).

The "all milk" price has not risen since 1981. Broiler prices rose more than a tenth in 1986 due largely to stronger demand caused by increased restaurant sales of chicken, stronger exports, and falling pork supplies. Temporary impacts on supply from drought-reduced growth rates and broiler losses may also have affected prices this summer.

In 1987, prices received for all commodities are expected to fall slightly with crop prices falling to their lowest levels since 1973. Although only gaining 3 to 5 percent, livestock prices would exhibit their largest annual increase since 1979. As in their peak year of 1979, meat animal prices are expected to lead the rise. Prices received for milk, broilers, and eggs are forecast to decline somewhat.

Prices paid by farmers for all items (which includes farm household goods) fell 1 percent in 1986 for the second consecutive year. Considering just farm production inputs, prices paid fell 3 percent this year, the same as 1985. The precipitous drop in fuel prices (-17%) this past spring, plus the falloff in fertilizer prices (-8%) and purchased feed (-7%) led an array of declines centered in manufactured and farm-orgin inputs. With oil prices falling as low as $10 per barrel, the index of nonfarm-orgin inputs declined 5 percent. Prices paid for inputs originating on farms fell 3 percent as lower corn prices left feed and retail seed prices (-3%) below a year earlier.

Prices Received and Paid by Farmers, 1983-87

Item	1983	1984	1985	1986F	1987F
	Percent change from previous year				
Prices Received:					
Crops	5.8	8.6	-13.7	-13	-10
Livestock	-2.8	3.5	-6.8	2	4
All commodities	1.5	5.2	-9.9	-5	-1
Prices Paid:					
Production items	2.0	1.3	-2.6	-3.3	-3
Commod. & services, interest, taxes, and wages	2.5	1.9	-0.6	-1.2	0
Farm origin inputs	3.6	0.0	-7.6	-3.0	-2
Nonfarm origin	1.9	1.8	0.6	-4.8	-2
Ratio 1/	-1.2	2.4	-8.1	-4	-1
Addendum:					
CPI-U	3.8	4.0	3.8	2	3
PPI-finished goods	0.6	1.7	1.8	1	4

F = Forecast 1/ Index of prices received by farmers for all commodities divided by the index of prices paid for commodities and services, interest, taxes, and wage rates, 1977 = 100.
Source of historical data: USDA, NASS and Labor Dept., BLS

In 1987, prices paid by farmers for farm production inputs are expected to fall about 3 percent for the third consecutive year. Feed (-9%) and fertilizer (-8%) prices are expected to decline the most. Continued low feed grain (especially corn) prices, ratcheting down with the lower announced CCC loan rates and burdensome stocks will help keep prices paid down for this important livestock expense. Fertilizer prices are expected to fall in response to both lower natural gas prices and reduced planted acreage. Because of somewhat stronger export potential, potash and phosphate prices may not exhibit the downward trend expected for nitrogen next year. Prices paid for feeder and replacement livestock may rise 4 to 6 percent in 1987 due mainly to increased feeder steer prices. Fuel prices are not expected to change as rapidly in 1987 as during this year with prices assumed to average about 4 to 6 percent below 1986 levels. However, the benefits from the 1986 price fall will continue to accrue to farmers in 1987 in the form of lower general input price inflation as producers of other goods incorporate reduced energy costs into their own pricing structures.

Total farm output in 1986, although 5-percent lower than the record-high 1985 level, will likely be the fourth highest on record. Record high yields for corn, sorghum and rice and a near record for soybeans partly offset the decline in harvested acres. Cotton, peanut, and tobacco yields were off substantially due to the impact of drought in the south. Livestock output will probably be record-high in 1986 despite reduced meat animal production. Both dairy and poultry production will likely set new highs in 1986.

Farm Output, Input, and Productivity, 1983-87

Item	1983	1984	1985P	1986F	1987F
		Percent change from previous year			
Output:					
Crops	-25.4	26.1	4.5	-7	-2
Livestock	1.9	-1.8	2.8	1	-3
Total	-17.2	16.7	6.3	-5	-4
Input use	-3.0	1.0	-4.1	-3	-2
Productivity	-15.5	17.3	10.4	-2	-2

F = Forecast P = Preliminary.

In 1987, farm output is expected to decline again in response to further reductions in crop acreage, the expected return to trend yields, and significant reductions in meat animal and milk production. Total crop output is expected to be drawn down largely by reduced feed grain production caused mostly by the 20 percent acrege reduction program and the 15 percent paid land diversion. Poultry and egg output will likely be record-setting again in 1987 as expansion in broiler and turkey production continues.

Farm output per unit of input in 1986 will likely fall in 1986. However, because of reduced input use and excellent weather in the Corn Belt, productivity was second only to the 1985 record. In the year ahead, productivity may again decline with both crop and livestock output expected to fall, offsetting a projected decrease in input use.

Cash Receipts

Total cash receipts from 1986 open market sales and net CCC loans are expected to fall 6 to 8 percent from 1985's $142.1 billion. Preliminary data through the third quarter indicated receipts were trailing those of 1985 by about $9 billion, with all the decline accounted for by crops. Most of this decline will come from commodities under Federal farm programs. Program receipts, which will account for about 41 percent of all receipts in 1986, peaked in 1974 when they made up 51 percent of the total. Since 1960, these traditional commodities have accounted for 38 to 48 percent of all receipts with the percentage creeping up from a steady 41 percent during the 1960s, to a fluctuating 44 percent average during the 1970's to a consistent 46 percent from 1980 to 1985. Indicators point to a return to levels seen during the 1960's for the next few years.

In the year ahead, cash receipts are expected to decline 1 to 3 percent as crop receipts fall 5 to 7 percent, outweighing a 1 to 3 percent rise in livestock. A combination of a return to trend yields and reduced harvested acreage caused by strong farm program participation should leave 1987 crop production below that of 1986. Assuming a normal marketing pattern, continued sluggish exports, and the usual seasonal pattern of CCC loan placements, overall marketing volume will likely fall. Given the burdensome stock situation for many commodities, the large number of marketing certificates in the circulation, and sluggish demand, market prices will likely remain at or below announced loan rates throughout the year.

Because of poor prices and strong program participation, CCC loans are forecast to contribute 16 to 18 percent of crop receipts in 1987. Net loans accounted for 16 percent of crop receipts in 1985 and are expected to contribute 16 percent again during calendar 1986. Corn loans totaled 43 percent of all 1985 net loans as 35 percent of the record-large corn crop was placed under loan. Corn is expected to account for over half of 1986 and 1987 loans. Despite lower loan rates, the total value of corn loans during calendar 1986 and 1987 could equal or exceed the 1985 record as a larger percentage of the crop is expected to be placed under loan. However, loan redemptions will likely rise in the year ahead as the volume of marketing certificates grows, putting downward pressure on net loan values.

In 1986, food grain receipts are expected to fall precipitously as lower prices received and smaller 1986 production combine to drop wheat, rice, and rye cash receipts about a third from a year earlier. Rice production fell due to lower harvested acreage which outweighed a record U.S. average yield of 5,626 pounds. Net CCC loans will probably contribute 45 percent of rice cash receipts and 22 percent of wheat receipts. In the coming year, food grain receipts will likely decline again as reduced CCC loan rates and lower average market prices outweigh increased marketings caused by stronger 1987 production.

Lower prices and production in tandem will cause feed crop receipts to drop substantially in 1986, perhaps a fourth below the strong $21.4 billion of 1985. Net CCC loans will likely provide about 40 percent of total feed crop receipts in 1986 compared with 28 percent in 1985. Because of lower prices and reduced marketings, corn receipts will likely total $4 billion less than the record $16.0 billion of 1985. In 1987 feed grain receipts may fall $2 to $3 billion as both marketings and prices fall. The 15 percent paid land diversion will likely cut harvested acres and production of feed grains, leading to lower second-half marketings. The lower receipts will likely impact the top two corn states, Illinois and Iowa, the most. Illinois, which derived 45 percent of it's farm cash receipts from sales of feed in 1985, will likely feel the 1987 decline more than the less concentrated Iowa, which is also the top pork producing state.

Iowa is also where a possible shift in the corn marketing pattern may be centered during 1986 and 1987. Because relative price ratios may continue to favor livestock production and sales, more grain may be directly fed on-farms where produced rather than sold on the open market. The trend during the past two decades has been toward increasing specialization and direct sales of grain in lieu of marketing the grain through livestock. Corn sales in 1961 accounted for roughly 40 percent of total corn produced, while in 1985, estimates suggest three-quarters of the crop was sold or placed under CCC loan.

Oil crop receipts will also likely decline in 1986 and 1987, although not as rapidly as those for food and feed grains. Soybean receipts may decline a tenth in 1986 due mostly to reduced prices and loans rates. The 1986 soybean yield was the second-highest on record while the peanut yield, hurt by the severe Southeastern drought (especially in Georgia, the biggest peanut producer) fell nearly a fifth. Peanut receipts which fell 13 percent in 1985, could fall 7 to 9 percent this year because of lower marketings. In 1987, peanut yields and receipts may recover all of the losses incurred in 1986. However, lower average prices for soybeans, sunflowerseed, and flaxseed could leave these receipts under their respective 1986 totals.

Dry weather in the Southeastern U.S. and lower prices will likely leave receipts for cotton lint and cottonseed 20 to 25 percent below the $3.8 billion of 1985. With 1986 cotton yields down an average of 84 pounds for the nation, and farm prices and loan rates below those of 1985, fourth quarter receipts (which account for 70-75 percent of total cotton receipts) may fall $300 to $400 million below those of a year earlier. CCC loan redemptions, reflecting marketing certificate activity, caused second and third quarter 1986 cotton receipts to become negative. Because of light marketing activity and seasonal loan redemptions, it is not unusual for the second quarter to show negative receipts. However, a negative third quarter is unprecedented, with the likely cause being use of marketing certificates to redeem loans. A similar quarterly pattern seems likely for 1987, with annual receipts registering only a small decline as yield-induced stronger production and marketings about offsets lower prices.

Regarding receipts for other crops, tobacco will likely fall nearly a third in 1986 because of drought-cut yields. Tobacco receipts may not recover this loss next year with prices and production expected to average near or below those of 1986. Vegetable receipts are expected to rise 1 to 3 percent in 1986 despite lower potato receipts. Potato receipts, which account for about 20 percent of the total, are expected to fall about a tenth as both prices and marketings average below 1985 levels. Prices for commercial vegetables (excluding potatoes, dry beans, and sweet potatoes) rose about 2 percent in 1986 and are expected to rise 2 to 4 percent in the coming year. Receipts for potatoes and dry beans may show small gains in 1987, pushing total vegetable receipts up modestly. Fruit and nut receipts likely fell 4 to 6 percent in 1986 as production of apples, grapes, peaches, pears, almonds, and walnuts declined. Citrus output for 1986/87 could be well above a year earlier and will be partly responsible for lower fruit prices for at least the first half of 1987. The "all-fruit" price index likely fell about a tenth in 1986 and may fall about that much next year. However, stronger marketings brought about by larger citrus crops and recovering noncitrus yields, may leave receipts slightly above 1986.

Cash Receipts, 1983-87

Item	1983	1984	1985	1986F	1987F
	-Billion dollars-				
Crops 1/	67.0	69.2	72.7	61	58
Food grains	9.7	9.6	8.8	6	5
Feed grains & hay	15.4	15.7	21.4	16	13
Oil crops	13.5	13.9	12.2	11	10
Fruit & vegetables	14.6	16.0	15.4	15	15
Other crops	13.8	14.0	14.9	13	14
Livestock	69.5	72.9	69.4	71	72
Meat animals	38.9	40.8	38.2	39	40
Poultry & eggs	10.0	12.2	11.2	13	13
Dairy products	18.8	17.9	18.1	18	17
Other livestock	1.8	1.9	1.9	2	2
Total	136.5	142.2	142.1	132	130

1/ Includes net CCC loans. Totals may not sum due to rounding.
F = Forecast as of 11/86.

For livestock, the strongest subsectors during 1986 have been hogs and poultry. While cattle and dairy receipts each fell slightly because of lower average prices, stronger prices boosted hog receipts about a tenth and contributed to increased receipts for broilers, turkeys, and eggs. Cash receipts for red meats will likely rise 1 or 2 percent in 1986, based solely on stronger hog prices, which will push hog receipts up for the first time since 1982. The farm price for barrows and gilts is expected to average near $50 in 1986 and could go higher next year. Despite the projected decline in marketings this year and next, cash receipts for hogs will likely gain about $1 billion in 1986 and another 6 to 8 percent in 1987. Net returns to hog producers are expected to remain favorable through 1987 as hog prices remain relatively strong and feed costs remain below a year earlier.

Receipts from cattle and calves for 1986 are projected to remain near to slightly below 1985 levels. Slightly lower fed cattle prices were roughly offset by higher production caused in-part by slaughter of dairy cows under the Dairy Termination Program. In 1987, fed cattle prices are expected to average $4 to $6 above those of 1986 as beef production falls, leaving receipts more than $1 billion higher than during 1986. However, further gains may be difficult next year as consumer demand remains flat and much of the slack in total meat supplies caused by falling red meat output is replaced by continuing gains in poultry production.

After suffering an 8 percent decline in 1985, poultry and egg producers will likely realize a gain of at least a tenth in 1986 cash receipts. Stronger production coupled with demand-and weather-inspired price increases will probably leave 1986 broiler receipts up nearly a fifth over the $5.7 billion of 1985. The upward trend in demand for chicken (especially from fast-food restaurants of late) continues to allow both production and prices to rise in concert, giving a double boost to receipts. From 1982 through 1986, broiler receipts have risen nearly 50 percent, second only to turkey (up 55 percent) among major commodities. In 1987, broiler receipts will likely remain near year-earlier levels as rising marketings are offset by reduced farm prices.

Receipts from sales of chicken eggs have accounted for 5 percent of total receipts from livestock and products for the past few years. This year should be no exception as improved prices boost egg receipts 6 to 8 percent above the $3.3 billion of 1985. In the year ahead, continuing weak demand for eggs plus a small increase in production will help push egg prices down and leave receipts 4 to 6 percent below those of 1986.

A 2-percent decline in the farm price of milk should outweigh a 1-percent year-over-year gain in milk production to leave receipts from marketings of milk slightly below the $17.8 billion of 1985. All the gain in 1986 output came during the first half, before cuts in the dairy herd (resulting from the Dairy Termination Program) brought production in the second-half below a year-earlier. In 1987, production should remain below that of 1986. This, together with slightly lower average prices resulting from a cut in the support-price, is expected to leave dairy receipts 2 to 4 percent below those of 1986.

Government Payments

Direct Government payments (including cash and certificates) is one of the major components of total federal outlays to the farm sector. 2/ Since 1983, it has also been a major component of gross farm income. In 1984 and 1985, direct payments (including PIK) totaled nearly 5 percent of gross cash income, up from less than 1 percent in 1980 and 2 percent in 1982. However, because of significant increases in deficiency payments, plus the addition of programs such as the Dairy Termination Program, and the Conservation Reserve, direct payments could total nearly 9 percent of gross cash income in 1986. In the year ahead, with the addition of land diversion payments for feed grains, increased conservation reserve rental payments, increased deficiency payment rates, and even stronger program participation, direct payments may exceed 10 percent of gross cash income.

Direct payments (cash and certificates) in 1987 could top $15 billion after totaling an estimated $13 billion in 1986. Although cash payments could decline slightly from 1986 levels, the value of certificates issued to satisfy

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2/ Federal outlays (mainly disbursed through the CCC) include such items as direct payments for deficiency, diversion, disaster, conservation, and storage, plus net CCC price support loans, dairy price support operations, farm export subsidies, PL 480 and more. Outlays are reported on a fiscal year basis, whereas, direct payments and farm income are on a calendar year.

deficiency, diversion, disaster, and conservation reserve obligations could range from $6 to $8 billion. The forecast for 1987 payments could move higher if an estimated $1 billion in advance 1987 crop deficiency and diversion payments is not received by farmers during calender 1986. Although the $1 billion is a fraction of the total potential advance, the short period of time available in calendar 1986 following commencement of the sign-up periods, paper-work delays, and the historical tendency for farmers to contemplate programs before making participation decisions all work against a large volume of advances moving into calendar 1986. Additionally, the large volume of payments already received in 1986 may encourage some farmers to wait until the following tax year to receive the additional income.

The distribution of payments by state in 1986 and 1987 is expected to be similar to 1985. In 1985, the top 10 states received 63 percent of the total with the top state, Texas, receiving 11 percent. Mostly a result of the cotton programs, Texas has been the leading recipient of direct subsidies annually since 1978. The top ten states have received 60-70 percent of all payments during the past few years. Predictably, four of the top ten in 1985 were major producers of feed grains (Iowa, Nebraska, Illinois, and Minnesota) and three were wheat states (North Dakota, Kansas, and Oklahoma).

Production Expenses

In addition to increases in direct payments, significant decreases in farm production expenses have been important in maintaining the incomes of many farmers. With most major expense categories falling in 1986, total farm production expenses are expected to decline about 5 percent, the largest year-to-year decline since 1953. Nominal dollar cash expenses are expected to fall to their lowest level since 1979. The largest percentage drops will likely occur in interest expenses followed by manufactured inputs, seed, and capital consumption. Reductions in the quantities of inputs used and in the prices paid for these inputs have been about equally responsible for the decline in expenses this year.

A decrease of a fifth in fuel and oil expenses caused mainly by lower planted acres and the substantial fall-off in petroleum prices this past spring will likely cut close to $1.5 billion from the expense bills of farmers in 1986. Although much of this savings likely went to farms idling acreage under the farm programs, all farmers reaped some benefits from the 17 percent cut in fuel prices. The lower energy prices will likely have secondary impacts on farm expenses into 1987 as fertilizer prices fall and the overall inflation rate in the economy is slowed. Fertilizer prices fell 8 percent in 1986 and are forecast to fall a similar amount in 1987. Most of the price fall next year will likely come from nitrogen materials as natural gas prices fall and a large supply of urea remains available. With acres planted off by 4 percent in 1986 and 5 percent or more next year, fertilizer outlays may fall 12 to 14 percent in both 1986 and 1987. This means that by 1987, fertilizer expenses could total $2 billion lower than in 1985. The decline is important for corn producers since roughly half of all agricultural fertilizer is applied to corn acreage. The second largest user is wheat with just under a sixth of total fertilizer use. Outlays for pesticides likely fell 4 to 6 percent in 1986 and are projected to fall 7 to 9 percent in 1987, largely the result of reduced treated acres in both years.

Farm Production Expenses, 1983-87

Item	1983	1984	1985	1986F	1987F
	-Percent change from a year earlier-				
Farm origin items	6.6	-2.2	-2.6	-2	-2
Manufactured inputs	-6.1	3.0	-2.9	-12	-9
Interest charges	-1.8	-1.4	-11.5	-14	-3
Repairs, labor, machine hire	-4.2	4.0	0.6	1	1
Other items 1/	-1.5	4.2	-3.9	-4	-3
Total expenses	-0.8	1.6	-4.0	-5	-3
Cash expenses	-0.6	2.3	-3.0	-5	-3

F = Forecast 1/ Includes depreciation, taxes, net rent, and others.

Outlays for inputs of farm origin will likely fall 1 to 3 percent in 1986 as higher outlays for purchased livestock are outweighed by reductions in feed and seed expenses. Prices farmers paid for feed and feed mixtures fell 7 percent, seed prices dropped 3 percent as heavily weighted items such as hybrid corn seed fell, and feeder livestock prices (although trending upward thoughout the year) fell 1 percent. Purchases of livestock are expected to increase on the strength of rising feeder cattle placements, which had been heavy through the third quarter. In the year ahead, farm origin expenses are forecast to fall 1 to 3 percent as rising purchases of livestock (up 5 to 7 percent) are outweighed by declines in feed expenses (down 4 to 7 percent). Lower grain prices will be responsible for most of the fall in feed expenses, while reduced planted area, especially for feed grains, will be the major factor affecting seed outlays.

Interest expenses, which at their peak in 1982 accounted for nearly 16 percent of total expenses, are expected to fall about a sixth in 1986. Interest costs declined 12 percent in 1985 and have declined annually since the 1982 peak. This is the longest sustained decline since the 1921-38 period. Falling interest rates and declining outstanding debt caused by both principal repayment and lender writeoffs have combined to trim a projected $2.5 billion from 1986 interest expenses.

Nonreal estate interest will likely fall 15 to 18 percent in 1986 as average debt outstanding falls 8 to 10 percent and the average rate on that outstanding debt declines 7 to 9 percent. In 1987, average debt outstanding will probably fall again (perhaps 4 to 7 percent) outweighing a small rise in the average interest rate on nonreal estate debt. This could leave nonreal estate interest expenses down 2 to 5 percent. Mortgage interest expenses are expected to fall about a tenth in 1986 due about equally to decreasing average debt outstanding and average interest rates. In 1987, continued declines in debt outstanding are forecast to outweigh slightly higher average interest rates, leaving mortgage interest expenses down 1 to 4 percent.

Capital consumption, a noncash expense which includes depreciation and accidental damage, is expected to fall 4 to 7 percent in 1986, continuing the unprecedented downward trend begun in 1983. With another decline projected for 1987, perhaps 2 to 7 percent, this expense item will have fallen about $4.5 billion since peaking in 1982 at $23.9 billion. The negative trend in depreciation mainly reflects the steady decline in capital spending by farmers since the 1979 peak.

Hired labor expenses have not reflected the downturn associated with most other expense components. This is largely because roughly 70 percent of hired labor is used by commodity subsectors which are not directly associated with farm programs (eg. livestock, fruits) and their attendant acreage restrictions. In 1985, while total expenses were falling 4 percent, hired labor expenses increased 5 percent. Hired labor is expected to rise another 4 to 6 percent in 1986 due mostly to increased wage rates. A small 1 to 3 percent rise is forecast for 1987 hired labor as higher wage rates outweigh a small reduction in labor hours used.

Income Indicators

Gross cash income will likely fall about 4 percent in 1986, totaling near the $150 billion average of 1980 to 1985. The $11 billion decline expected for cash receipts and farm related income will not be offset by rising direct Federal payments. While gross cash income is expected to fall about $6 billion in 1986, cash expenses are will also likely fall about $6 billion, leaving net cash income roughly the same as 1985's $44 billion. In 1982 dollars, net cash income will be about $1 billion less than during 1985. In 1987, gross cash income is expected to remain near that of 1986, the result of the stabilizing effect of stronger Government payments which should about offset lower crop cash receipts. Since acres planted and input prices are likely to be lower, cash expenses will probably decline, leaving net cash income in the range of $45 to $50 billion. Because of the impacts of higher subsidies and lower expenses, net cash income in 1982 dollars could be the highest since 1979 and about the same as the 1971 level.

Net farm income, or income from production, is expected to fall within the $26 to $30 billion range for 1986. This is a drop of about $2 billion from the 1985 level and reflects lower gross farm income caused by reduced crop receipts, smaller nonmoney and farm related income, and a $2 to $4 billion drawdown in farmer held crop and livestock inventories. In the year ahead, gross farm income may fall to a range of $155 to $159 billion as decreases in cash receipts, nonmoney and farm related income, and another drawdown in crop and livestock inventories, outweighs increased direct payments. However, the projected drop in production expenses will likely be sufficient to raise 1987 net farm income into the $29 to $34 billion range.

Regarding other measures of aggregate income performance, returns to operators which measures the return to the operator's management, labor, and equity capital is expected to mirror the pattern of net farm income in 1986 and 1987. Due to the sharp decline in 1986 gross income, returns to operators will likely fall $1 to $2 billion from the $25.7 billion of 1985. In the year ahead, with gross income expected to remain near 1986 levels, the continued decline in both factor and nonfactor payments (expenses) will likely leave operator income $3 to $5 billion above that of 1986.

Net cash flow measures the total cash available to the sector in a given year after accounting for new loans (or loan principal repayments) and capital replacement. In 1986, net cash flow could rise somewhat due to continued strong nominal net cash income and reduced capital expenditures. In 1987, cash flow may continue to improve with higher net cash income. The strong cash income will enable the sector to continue paying-down debt and generate sufficient internal cash to finance operations in the coming year.

Farm Income, 1983-87

Item	1983	1984	1985	1986F	1987F
	Billion dollars				
1. Cash receipts	136.5	142.2	142.1	132	130
2. Direct Government payments	9.3	8.4	7.7	13	15
3. Other farm related income	4.4	4.3	6.4	5	5
4. Gross cash income (1+2+3)	150.2	154.9	156.2	150	150
5. Cash expenses	113.0	115.6	112.1	106	103
Net cash income (4-5)	37.1	39.3	44.0	44	48
Deflated (1982$) 1/	35.7	36.4	39.5	38	40
7. Nonmoney income 2/	13.2	13.3	11.5	10	9
8. Inventory change	-10.9	6.3	-1.1	-3	-3
9. Noncash & household expenses 3/	26.4	26.2	24.0	23	22
10. Net farm income (6+7+8-9)	13.0	32.7	30.5	28	32
Deflated (1982$) 1/	12.5	30.3	27.3	25	27
11. Off-farm income	37.0	37.9	40.8	43	44

F = midpoint of current forecast range. 1/ Deflated by the GNP implicit price deflator, 1982=100. 2/ Includes gross rental value of dwellings and home consumption. 3/ Includes capital consumption, noncash labor benefits, and household expenses.

Income Distributions

Based on distributors derived from the 1985 Farm Cost and Returns Survey, a shifting of net cash income from crop to livestock farms likely occurred in 1986. Crop farms accounted for nearly 61 percent of net cash income in 1985, but with significantly lower cash receipts, they may receive only 53 percent in 1986 and as little as 51 percent in 1987. The largest share of this decline is centered in the cash grain sector, which in 1985 accounted for 23 percent of net cash income. Because rising Government payments and reduced expenses may not overcome the projected 20 percent fall in cash receipts, 1986 cash grain net cash income could fall to 17 percent of total net cash income. Cash grain farms averaged an estimated $17,400 in 1985, but their 1986 and 1987 forecast averages could be as much as $3,000 lower.

Fruit, vegetable, and horticultural farms, which together comprise 6 percent of farms and 14 percent of cash receipts, received 27 percent of total net cash income in 1985 and could receive a growing share in 1986 and 1987. These farms, which tend to be large-scale commercial operations selling high-value products, have per-farm averages which are substantially above those of the average crop farm. Vegetable farms realize the greatest per farm net cash income with well over $100,000. Income per-farm for tobacco farms, which averaged an estimated $14,100 in 1985, may be cut in half in 1986 due to the severe drought in the southeast and it's impact on production and sales revenue.

Although gross income for livestock farms may have remained near the 1985 total, declining input prices, especially for feed and fuel have likely cut expenses and raised net cash income $3 to $4 billion from the estimated $17.3 billion of 1985. In the year ahead, livestock income could rise to near 50 percent of the farm sector's total as receipts improve and expenses continue to fall. Net cash income in the meat animal sub-sector, which totaled an estimated $5.7 billion in 1985, or 33 percent of total livestock income, could rise in 1986 due to stronger hog receipts and reduced expenses. In 1987, meat animal income may surpass poultry and dairy sector income as cash receipts improve for cattle and hogs and expenses continue to decline. Largely through grain production activities, meat animal farms may receive about $2 billion in direct Federal payments in 1986 and 1987--more than half the livestock sector's total.

Dairy sector net cash income, which totaled an estimated $6.2 billion (14 percent of all net cash income) in 1985, may improve in 1986 and 1987 despite lower milk prices and reduced cash receipts. Payments under the Dairy Termination Program and lower production costs will likely boost income. The poultry and egg sector which in 1985 accounted for 2 percent of all farms and 11 percent of all net cash income, may realize the largest income gain of all farm sub-sectors in 1986. A substantial increase in receipts will likely combine with lower expenses to raise income more than fourth above the $4.9 billion of 1985. Aside from vegetable farms, poultry and egg operations receive the largest per farm income ($102,400 in 1985). In the year ahead, despite little growth in receipts (except for turkeys), income will probably be maintained near the 1986 level as production expenses again decline.

Net Cash Income Per Farm
By Farm Type, 1985-87