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EDITORIAL.

FALLING FARM INCOMES.

Australian farm incomes, like farm incomes in other advanced agricultural countries, have been phenomenally high during the past few years, largely as a direct result of the high prices for primary products following World War II. In the past two years, particularly, Australian farmers have been fortunate in experiencing excellent seasons at a time when prices for their products were at peak levels.

At no time has it been expected, however, that these high prices, the result of acute world shortages of foodstuffs as an aftermath of World War II, would continue indefinitely, and there are now clear indications that prices for most primary products sold by Australian farmers for export, at least, either reached, or had passed, their peak during the 1948-49 financial year. Both gross and net farm incomes were probably at their highest during that year. In the current financial year it is widely anticipated, and, in fact, repeated warnings have been given, that, given normal seasonal conditions, net farm incomes and probably also gross farm incomes, will fall appreciably from their very high 1948-49 levels.

These anticipations are based on two facts, the effects of which are hardly open to doubt. Firstly, the world food shortage is being gradually, although slowly, overcome and it does not appear likely that the price of any major foodstuff will rise significantly in the future. The price of wheat, which, together with rice, is the world's most important basic food, has been falling for more than twelve months, and heavy U.S. stocks, Canadian currency difficulties and generally increasing European production make it more than likely that this fall will continue, although perhaps only gradually. Wheat is Australia's second most important export. The price of wool, by far the most important of Australia's exportable commodities, although still at phenomenally high levels, showed some tendency to weaken towards the end of the selling season and while there may be no sudden collapse of the wool market some reduction in prices seems inevitable.

Even though there was an increase in United Kingdom contract prices for meat and butter only a short time ago and there may still be small increases in the export prices received for some commodities sold to the U.K. by contract, these adjustments have been largely due to the fact that Australia, in the past few years, has been receiving prices slightly below world prices for several commodities. There are very few commodities for which an upward price trend is in evidence on world markets and the only price increases that Australia can expect will be on products which are of comparatively little importance to her economy.

The second fact to be taken into consideration is that, although prices are mostly at their peak, or declining, farmers' costs are still increasing, and there is nothing to suggest that they will commence falling in the immediate future, so that not only are gross incomes likely to fall in many cases but, with higher costs, net incomes will fall more sharply still and this is likely to apply particularly to the two major export industries, wool and wheat.

American farmers have already experienced such a change in their financial position. Under the title of the "Outlook for 1949," the U.S. Bureau of Agricultural Economics in its "The Farm Income Situation," released in March, 1949, has stated:—

"Farmers' net income in 1949 is likely to be considerably less than the 17.4 billion dollars they realised last year. The prices farmers receive for their products have been declining for some time, while their costs have declined only slightly. These trends are expected to continue unfavourably to farmers throughout the rest of the year. Farmers' cash receipts from marketing in 1949 may be about 10 per cent. less than their receipts last year. Little change in the total volume of farm marketings is to be expected on the basis of present information. Any decline in total cash receipts will be primarily the result of lower average prices. Crop prices on the whole are likely to be down somewhat more than prices of livestock and livestock products."

Australian farmers have not yet experienced any fall in costs, nor is there any immediate prospect that they will do so, but the situation in Australia is fundamentally the same as in America.

Yet farmers' net incomes in 1949-50 will be high—very much higher than in any previous year, except perhaps the last two—but net incomes are likely to continue to fall, probably only gradually for several years to come, and they may ultimately reach, in terms of real purchasing power, levels very little higher than in 1939. The farmer who is wise will take some action while his income is still comparatively high, if he has not already done so, to consolidate his financial position so that he will be able to withstand relatively adverse periods, when, either because of poor seasons, low ruling prices, or both, his net income may be very little, if any, above pre-war levels in terms of purchasing power.

It may be concluded then, that Australian farmers should be now reducing their debts, not incurring new ones unless they are quite sure that when farm incomes revert to more normal levels they will be in a position to meet their annual debt repayments and interest bills. The evidence points to the present as an ideal time to make use of the relatively high incomes to improve pastures, and, as materials become available, to repair existing improvements and erect new improvements which will definitely add to the earning capacity of the farm, provided always that heavy debts are not incurred. Present conditions are not such, on the other hand, to encourage farmers to buy new properties or to add to existing holdings—land values are still too high, being influenced primarily by current high prices.

It is probable that one of the greatest causes of financial failure in farming in the past has been the excessive price paid for the farm initially. It is therefore legitimate to argue that the present time is one when the seeds of future failures can easily be sown for this very reason, and it is the duty of those who have occasion to advise persons interested in purchasing farms, whether ex-servicemen, migrants or others, of these dangers, encouraging them with every means in their power to look at any proposal as a business proposition and from the long-term viewpoint. In this way they may be prevented from being confused by present high prices and the consequent relatively high incomes which so often result in properties being purchased at prices above their real value, necessitating a debt of such magnitude that makes it almost certain that in the long run the farming venture must fail.