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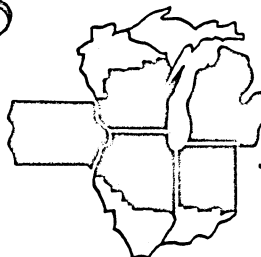
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DC BRANCH

Federal Reserve Bank of Chicago - -

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# Agricultural Letter



Number 1249

**NET FARM INCOME** in 1973 will exceed last year's record level by a sizable margin. Most recent estimates indicate net income will total approximately \$25 billion, nearly 30 percent above the 1972 record of \$19.7 billion. Substantially higher prices for a broad range of agricultural commodities is the main factor behind the income surge.

Both crop and livestock prices rose rapidly during the first part of 1973, reached a peak in August, then edged downward. As of mid-October, crop prices were up 56 percent over a year ago, and livestock prices were up 35 percent; nevertheless, October crop and livestock prices were down 7 and 14 percent, respectively, from the August peak.

Farm cash receipts have risen sharply this year, reflecting the higher price levels. Cash receipts from livestock and products were 27 percent above the first nine months of 1972, and crop receipts were up 47 percent. Total cash receipts in the Seventh District states are slightly ahead of the national average, up 36 percent, compared to 34 percent for the nation.

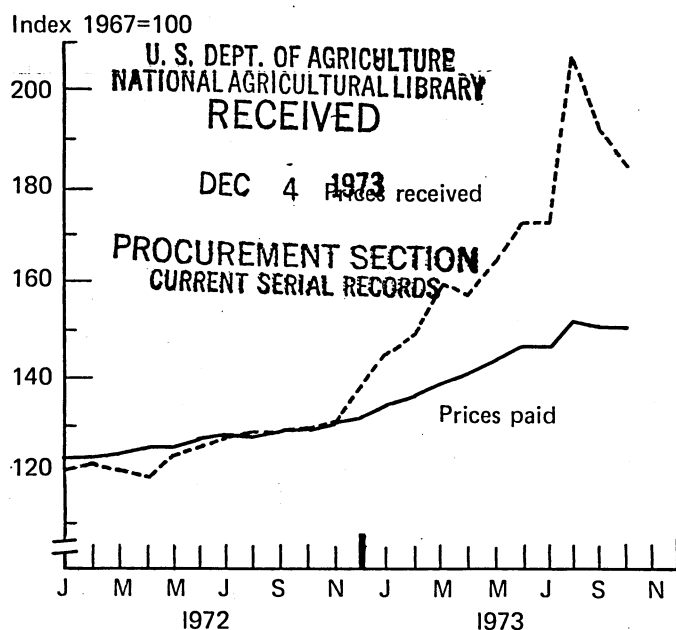
Indiana, Iowa, and Illinois are deriving significantly higher cash receipts from increased grain prices. Crop sales were up 69 percent in Indiana, 65 percent in Iowa, and 55 percent in Illinois. It appears that Iowa may challenge California as the nation's leader in agricultural sales this year. Cash receipts from farm marketings in Iowa during the first three quarters of 1973 are over \$4.3 billion, up nearly \$1.2 billion from the same 1972 period and \$100 million behind California.

Some segments of agriculture have not shared fully in the recent price rises. Cash receipts in Wisconsin, the nation's dairy state, have increased at a much slower pace, rising only 18 percent from a year ago during the first three quarters of 1973. Dairy products account for over one-half of Wisconsin farm cash receipts. Higher crop prices were translated into increased dairy feed costs, and in many instances more than offset any income gain. Many dairy farmers reportedly operated at or below the break-even point during the summer months. Although recent higher milk prices portend a brighter outlook for dairy farmers, profit levels continue to remain below those of a year ago as of the end of the third quarter.

Prices received for most farm products appear to have leveled off following the downturn of the past couple of months. Corn prices have actually strengthened, while hog and soybean prices remain near the October levels. However, cattle prices remain under downward pressure, influenced by the backup of heavy, overfinished cattle still coming to market.

Corn and soybean prices will probably remain near current levels for the remainder of 1973. Increased domestic marketings and increased foreign production of substitute products, such as other feed grains, fish meal, and other oilseeds, may serve to weaken prices in early 1974. Hog prices may strengthen marginally later in December, however, substantial upward price moves are unlikely until 1974. Cattle prices are likely to remain near current levels until the present inventory of overfinished fed cattle is reduced. Once the heavyweight glut is removed, the market will likely strengthen.

Farm Prices Down From August While Costs Remain Steady



Prices paid by farmers for commodities and services, interest, taxes, and wage rates also rose throughout the first eight months of 1973, reaching a peak in August. Prices paid declined marginally in September, less than 1 percent, and held steady throughout October in contrast to the sharper decline in the index for prices received. The largest increase in production costs occurred in the feed and feeder livestock areas, up 60 and 26 percent, respectively.

Prices paid for production inputs will continue to rise. Significant price rises are imminent for fertilizer and fuel supplies. The prices of some fertilizer materials have reportedly been increased up to 50 percent since Phase IV price controls were removed. Fuel prices have jumped sharply.

Total farm production costs are projected to rise approximately \$14 billion in 1973, up 35 percent from 1972. Although net farm income in the fourth quarter will likely continue to run far above 1972 levels, increasing expenses are likely to start paring net income from the record levels of recent months.

Terry Francl  
Agricultural Economist

**AGRICULTURAL ECONOMIC DEVELOPMENTS**

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
<b>INDEX OF PRICES</b>					
Received by farmers	1967=100	October	184	- 4	+ 42
Crops	1967=100	October	182	- 1	+ 56
Livestock	1967=100	October	187	- 6	+ 35
Paid by farmers	1967=100	October	150	0	+ 16
Production items	1967=100	October	153	- 1	+ 22
Family living items	1967=100	October	142	0	+ 14
Ratio of prices received to prices paid	1967=100	October	123	- 3	+ 22
Consumer price index ( <i>all items</i> )	1967=100	September	136	0	+ 7
Food at home	1967=100	September	149	- 1	+ 21
<b>CASH FARM PRICES (<i>U. S. average</i>)</b>					
Corn	dol. per bu.	October	2.17	+ 1	+ 82
Soybeans	dol. per bu.	October	5.63	- 3	+ 80
Wheat ( <i>all</i> )	dol. per bu.	October	4.22	- 9	+123
Sorghum grain	dol. per cwt.	October	3.65	- 6	+ 75
Oats	dol. per bu.	October	1.14	+ 5	+ 70
Beef steers and heifers	dol. per cwt.	October	44.60	-10	+ 22
Hogs	dol. per cwt.	October	40.80	- 7	+ 49
Milk, all sold to plants	dol. per cwt.	October	8.10	+ 4	+ 27
Milk cows	dol. per head	October	533	- 1	+ 33
Chickens, broilers, live	cents per lb.	October	24.3	-20	+ 66
Eggs	cents per doz.	October	59.6	- 7	+ 93
<b>INCOME (<i>seasonally adjusted annual rate</i>)</b>					
Cash receipts from farm marketings	bil. dol.	3rd Qtr.	84.5	+12	+ 40
Net farm income	bil. dol.	3rd Qtr.	25.5	+ 4	+ 32
Nonagricultural personal income	bil. dol.	September	1,020.8	+ 1	+ 11
<b>FARM FINANCE</b>					
Total deposits at agricultural banks <sup>1</sup>	1967-69=100	October	186	+ 1	+ 17
Time deposits	1967-69=100	October	225	+ 1	+ 20
Net demand deposits	1967-69=100	October	148	+ 2	+ 14
Total loans at agricultural banks <sup>1</sup>	1967-69=100	October	207	+ 1	+ 19
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	September	7,687	+ 1	+ 16
Seventh District states	mil. dol.	September	1,317	+ 2	+ 10
new loans made:					
United States	mil. dol.	September	864	-13	+ 27
Seventh District states	mil. dol.	September	145	- 9	+ 20
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	September	10,592	+ 1	+ 21
Seventh District states	mil. dol.	September	1,914	+ 1	+ 14
new loans made:					
United States	mil. dol.	September	195	-19	+ 25
Seventh District states	mil. dol.	September	27	- 7	+ 29
Interest rates					
week ending					
Three-month Treasury bills	percent	11/14	8.34	+ 6	+ 76
Federal funds rate	percent	11/14	10.03	+ 3	+105
Government bonds ( <i>long-term</i> )	percent	11/14	7.35	+ 1	+ 28
<b>AGRICULTURAL TRADE</b>					
Agricultural exports	mil. dol.	September	1,448.7	- 1	+104
Agricultural imports	mil. dol.	September	644.5	-11	+ 18
<b>FARM MACHINERY SALES</b>					
Farm tractors	units	September	16,579	+35	+ 46
Combines	units	September	6,844	+58	+ 44
Balers	units	September	3,601	-39	+ 14

<sup>1</sup> Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.