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# Agricultural Letter

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**LAST YEAR CLOSED** with farm prices rising rapidly and net farm income soaring to a new record. Sharply higher prices and increased government payments combined to boost gross income to a new high of $65 billion, up well over $5 billion from 1971. Production expenses also advanced, but net farm income rose to a record of nearly $19 billion, up $2.8 billion from 1971, and $1.7 billion over the old mark established a quarter of a century ago.

Farm level prices soared upward throughout 1972 to account for about four-fifths of the gain in gross farm income. The weighted composite of agricultural commodity prices received by farmers averaged 12 percent above year-earlier levels during the past 12 months. The biggest increase occurred during the final month of the year, when the overall index rose 5 percent—the largest monthly gain since 1946.

Livestock prices were at, or near, record highs as 1972 closed, and most crop prices were at the highest levels in years. Hog prices received by farmers, for example, averaged $29.50 per hundredweight in mid-December—$1.50 above the previous record set in August and September. Cattle prices averaged $34.40 per hundredweight, only 20 cents below the record high established in July. Soybean and wheat prices, at $3.95 and $2.85 per bushel, respectively, were at the highest monthly average levels since January of 1948. Except for the comparable level achieved in four months of 1971 when blight-reduced supplies were the major concern, the $1.42 per bushel corn price in mid-December was the highest since September 1956.

The high level of farm prices which prevailed through 1972 reflected a strong demand from both domestic and foreign sources, and uncertainties over this fall's corn and soybean harvest. In conjunction with rapidly rising disposable personal income, U. S. consumers spent 6 percent more for food in 1972 placing particularly strong upward pressure on meat prices. Shortly after midyear, large U. S. S. R. grain purchases and below normal production in other grain-exporting countries boosted U. S. agricultural export prospects for fiscal 1973 (July 1972-June 1973) by $2 billion to a record $10 billion.

The upward pressures on grain and soybean prices, which had resulted from the improved export prospects, gained further momentum as adverse weather conditions hampered the expected bumper corn and soybean harvest. As of late December, approximately 10 percent of the corn acreage, and 15 percent of the soybean acreage, remained unharvested.

Government payments to farmers in 1972 rose by about one-third from the year-earlier level to a record $4 billion. Payments under the feed grain program—which accounted for about one-half of the total—nearly doubled in 1972 providing farmers in district states a proportionately large share of the overall gain. The increase was due to higher payment rates per acre of set-aside, and an attendant increase in acreage idled. Total acreage idled under the 1972 feed grain program rose to 37 million acres, nearly double that of a year earlier.

**Farm income prospects for 1973** appear favorable, but the 1972 record level will be exceptionally difficult to match. The price levels at which futures contracts are currently trading suggest continued favorable prices for most agricultural commodities. Cattle contracts for all delivery months are currently trading above $39 per hundredweight, while hog contracts scheduled for delivery during the first half of 1973 are above $29 per hundredweight. Except for late 1973 contracts, soybean futures are trading at over $4 per bushel.

Whether the favorable prices will be maintained depends largely on continued strength in demand as supplies of most agricultural commodities will be relatively large. Prospects for rising consumer incomes indicate domestic demand will remain strong—particularly for meat—and will likely offset much of the price-depressing effects of the anticipated increase in meat supplies. The U. S. Department of Agriculture has also projected a sharp increase in domestic utilization of most grains and soybeans. Subsequent gains in prices may ration usage somewhat more than originally expected, however.

Foreign demand for U. S. agricultural commodities will remain strong throughout 1973. But its strength may diminish in the latter half if farmers worldwide respond as anticipated to the current high prices. Moreover, the U. S. S. R.—the country responsible for over one-half of the projected increase in exports in fiscal 1973—historically has demonstrated an ability to expand production sharply following a crop failure. A similar response this year would lower Soviet import needs substantially, or even render it a net exporter—a position it has held in six of the past ten years.

Even if farm level prices remain at current levels, net farm income will be curtailed by the persistent rise in production expenses and by a sharp reduction in government payments. Prices paid by farmers for feed and livestock have risen sharply in recent weeks. Typically, these items account for around 28 percent of total farm production expenses. Moreover, government payments to farmers are expected to fall by more than $1 billion from the record level of 1972.

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