Federal Reserve Bank of San Francisco

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Business & Financial Letter

How Much for the Farmer?

The average housewife won't believe this, but American farmers are liable to wind up with less net income this year than in 1972. A strong increase in cash receipts is all but certain, because of both an expansion in output and favorable prices for farm products, but much of this increase may be offset by a decline in government payments. Then, the expected gain in gross income from these sources may be wiped out completely by the continued inexorable rise in production expenses.

The resultant of all these factors could be a decline of almost 5 percent in net farm income, to about $18 billion for the year. But to put this in proper context, we should realize that last year's net of $19 billion was 19 percent above the 1971 figure and 12 percent higher than that of any earlier year, including the halcyon period of 1947.

All-time records

The nation's farmers set all-time records in practically every sector last year, because of the strong and accelerating demand for farm products at home and abroad. Gross returns thus rose substantially, helped along by a 12-percent rise in farm prices and a 27-percent jump in government payments to producers. The burgeoning demand for agricultural products reflected the strong expansion of the domestic economy, which supported a 10-percent increase in GNP—and it also reflected an upsurge in overseas demand, which is a story in itself.

The picture was distorted by the tight food-supply situation, which came about largely because of several weather-related production setbacks, including freeze damage to West Coast fruit and vegetable crops as well as harvest delays affecting Midwest feed grain and soybean crops. These difficulties led to an explosive late-year rise in prices, and the price problem was accentuated—and government payments sharply increased—because of 1972's restrictive feed-grain program and the substantial set-aside of wheat acreage. Thus, wholesale prices of farm products jumped 25 percent within the past twelve months alone, with such hefty increases as 24 percent for fibers, 27 percent for livestock, and 38 percent for grains.

Spectacular exports

Farm exports, after reaching the $7-billion level two years ago, then went on to approach $9½ billion in 1972, with the final six months accounting for the bulk of the increase. This sharp gain reflected increased livestock production in Western Europe and Japan, declining grain shipments by major competitors, and the improved competitive position resulting from the Smithsonian monetary agreements. Shipments of grain and products rose about 40 percent to $3½ billion, in the process accounting for nearly two-thirds of

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the overall increase in exports, and shipments of soybeans and products passed $2 billion, a record for a single commodity.

Exports in 1973 could exceed $11 billion—a goal which the Administration originally had not expected to reach until the end of the decade. Prospects in this sector became exceptionally favorable last summer, when foreign countries turned to the U.S. market for more grains because of their reduced crop prospects and tight exportable supplies. Not only did regular customers increase their buying, but the U.S.S.R. signed up for its historic $1.1-billion grain purchase and China added a small but psychologically important order for 19 million bushels of wheat.

Foreign demand is likely to remain at a high level, reflecting the relatively short supply situation in many foreign countries and the impact of recent dollar devaluation on the export market for U.S. commodities. This stimulus may weaken later on, however, if major producing countries abroad respond as anticipated to the current high level of prices. The Soviet Union, a country which has shown the ability in the past to recover rapidly from crop failures, has targeted a 12½-percent increase in farm production this year. (Indeed, that country has been a net exporter of food for most of the past decade.) But the U.S.S.R. may remain a major customer over the long run, because of its desire to rebuild its grain inventories and to upgrade family diets to include more red meat. Also, according to latest reports, the Soviet crop year is starting poorly because of dry weather in European Russia and shortages of seed-grain reserves.

Earning higher prices

Given the prospects for higher farm prices and increased marketings, cash receipts of U.S. farmers could rise from the 1972 record of $58½ billion to a new peak of $62 billion. In other words, the strong expansion of demand that has provided the underpinning for the nation's industrial boom should continue to provide support for the farm economy as well.

Supplies of major commodities should rise sharply this year, in response both to the high level of prices and to the relaxation of the government's cropland-control program. Altogether, perhaps 30 to 40 million acres of idled land will be brought back into production. Livestock supplies also should increase, as beef, poultry and (after midyear) pork supplies begin to reach the market in increasing quantities. Price pressures thus should begin to ease; although rising perhaps 10 percent for the year, prices received by farmers should increase at a somewhat slower pace than in 1972, and they may actually decline in late 1973 and 1974.

The March report of planting

intentions shows farmers gearing up for a major expansion of production. The wheat crop (1.7 billion bushels) is now estimated at 12 percent above the 1972 record, while the corn crop (5.8 billion bushels) is 4 percent above last year, and the soybean crop (1.5 billion bushels) is about 17 percent above the 1972 record. The projected expansion in supplies of feed grains and soybeans fits in with the Administration's plans for increased production of cattle, hogs, broilers, milk and eggs. Government payments could drop from $4 billion last year to $3 billion this year—the same level as in 1971. Payments jumped last year for the wheat program and (especially) the feed-grain program, reflecting both larger acreage set-asides and higher rates per acre. These factors will be largely missing this year, however, because of the drive to get more acreage back into production.

Paying higher prices

Production costs should continue to rise from the 1972 level of $47 billion to perhaps close to $51 billion, reflecting the use of more production inputs at higher prices. Some cost pressures were already evident in 1972, despite controls on prices of many farm inputs. Over the past twelve months, farm-equipment prices rose 2½ percent at wholesale, while agricultural chemicals rose more than 3 percent and petroleum products jumped 12½ percent. These price pressures should intensify this year, in view of the rapidly growing need for machinery and materials, not to mention land and labor.

The 1973 farm picture is clouded by the fact that policymakers must deal with two conflicting goals—curbing the food-price inflation on the one hand, and maintaining farm prosperity on the other. In the Administration's eyes, the upsurge in farm prices is due not so much to cost-push factors as it is to the rapid expansion of demand relative to supply. In view of that analysis, certain policy moves are inevitable: the relaxation of production restraints on 1973 crops, the sales of grain from government stocks, and the lifting of import quotas on meat and dairy products.

In this connection, it should be noted that price determination for agricultural products differs somewhat from that for non-farm products. At any given level of demand, sudden changes in marketable supplies tend to cause wide fluctuations in farm prices. Thus, policy actions to increase supply (or reduce demand) can be an effective means of farm price control. But the output of most farm commodities cannot be increased over a very short time-span, so that the price impact of recent policy moves will not be felt at the present time, but rather in late 1973 or 1974.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 3/07/73	Change from 2/28/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments*	70,530	+710	+8,826	+ 14.30
Loans adjusted—total*	53,045	+788	+9,680	+ 22.32
Commercial and industrial	19,039	+189	+3,122	+ 19.61
Real estate	15,384	+ 33	+2,482	+ 19.24
Consumer instalment	7,962	+ 5	+1,426	+ 21.82
U.S. Treasury securities	6,127	—108	— 805	— 11.61
Other securities	11,358	+ 30	— 49	— 0.43
Deposits (less cash items)—total*	67,752	+421	+7,272	+ 12.02
Demand deposits adjusted	20,227	+ 60	+ 859	+ 4.44
U.S. Government deposits	1,321	—109	+ 712	+116.91
Time deposits—total*	44,974	+672	+5,418	+ 13.70
Savings	18,020	+ 29	+ 4	+ 0.02
Other time I.P.C.	18,297	+553	+3,651	+ 24.93
State and political subdivisions	6,175	— 37	+1,071	+ 20.98
(Large negotiable CD's)	7,698	+493	+2,541	+ 49.27

Weekly Averages of Daily Figures	Week ended 3/07/73	Week ended 2/28/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	15	31	— 36
Borrowings	59	127	0
Net free (+) / Net borrowed (—)	—44	— 96	— 36
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (—)	+728	+831	+151
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (—)	+149	+124	+ 37

*Includes items not shown separately.

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