Research Department
Federal Reserve
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FRBSF Weekly Letter

Harvest Festival

The American urban population celebrated its harvest festival last week, although with some grumbling over soaring food prices. But the nation's rural population had even more cause for rejoicing, because of a jump of about 20 percent in net farm income this year, after several years of sharp decline following the 1973-74 boom. Indeed, the angry tractor drivers that marched on the state and national capitols last winter have returned to plowing the back forty, and Main Street merchants no longer forecast a 1920-30's-style farm depression, with its inevitable severe impact on the entire national economy.

Rising farm prices have had a great deal to do with this improved income performance. Crop prices this September were 19 percent higher than a year before, reflecting the strong worldwide demand for U.S. grains and soybeans. Livestock-product prices were 27 percent higher than a year ago, reflecting the turnaround in the cattle cycle. And incidentally, after the usual transition from farm gate to checkout counter, the average food marketbasket has been costing the consumer 10½ percent more than a year ago.

How much income?

Despite the improved farm picture, many farmers—those who jumped into the market at the top of the 1973-74 boom—remain in dire straits. And even the average figures look weak in comparison to those recorded in the prosperous period of the earlier boom. In fact, net income per farm (in real terms) remains only about half as large as the 1973 peak figure.

For a more rounded picture, we should examine the longer trend of real farm income, which has been rising— and in particular, examine the total income received by the rural population from nonfarm as well as farm sources. For the farm community as a whole—operators, hired workers, and their families—per capita after-tax income has strengthened significantly in recent decades. The farm per capita figure was only 54 percent of the comparable urban figure in 1960, but that ratio rose to 74 percent in 1970 and to 84 percent in 1977. In the 1973 boom year, the average farmer actually received more than the average city dweller—and that, presumably, is what the farmer would like to see every year.

Income from nonfarm sources has helped bring about a sharp improvement in the standing of the farm population relative to the nonfarm population. Off-farm sources have provided at least half of total income in almost every year since 1963—the sole exceptions being the 1973-74 boom years. Farmers last year derived 61 percent of their income from factory work, bus driving and other such jobs.

Three types of farmers

Nonetheless, a more thorough analysis of the data suggests that many people classified as farmers shouldn't be, simply because they make practically all of their income from nonfarm

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sources. This is certainly true of the 1.1 million farms with sales of less than $2,500—that is, 39 percent of all farms in 1976. Those farms sold only 1.4 percent of all farm products, but earned 9.5 percent of all farm income that year, simply because almost all of their income came from nonfarm sources. More than nine-tenths of their average income of $17,551 in 1976 came from nonfarm sources, and as a result, their total incomes were roughly in line with those of nonfarm families.

That group aside, the farm population divides itself into two quite different groups—a group of 462,000 large farms with annual sales of $40,000 or more, and the 1.2 million family-sized farms with annual sales between $2,500 and $40,000. In 1976, the large farms sold 80 percent of all farm output even though they accounted for only 17 percent of the number of farms. They recorded average sales of $232,000 and average net income of $39,150, with three-fourths of that income coming from farm sources.

The family-sized farms in 1976 sold only 19 percent of all farm products even though they accounted for 44 percent of all farms. These farms recorded average sales of $14,630 and average income of $13,008—and only about one-third of that total came from farm sources. In fact, the average family income in this group was considerably smaller than that of the small-farm group with annual sales below $2,500. The "farm problem" centers in this group of 1.2 million farms, giving their below-average incomes, their inadequate financial ability to expand, and their inability to compete with the larger and stonger commercial farms.

Export dependence

Their fate, and the fate of farming generally, may depend as much on decisions made in overseas markets as on those reached in domestic markets. The output of one out of three acres of U.S. cropland is now sold in international markets, so that the nation's agricultural prosperity depends on a large and growing world market. But by the same token, U.S. consumer markets have become strongly affected by foreign purchase decisions, as we have seen in the several recent bursts of inflationary pressure in supermarket prices.

The farm-export boom has been a rather recent phenomenon; in fact, farm imports exceeded farm exports in most years prior to 1960. In the present decade, however, farm exports generally have run about double the level of farm imports, and thus have represented one of the strongest elements in the foreign-trade picture. Exports jumped from $8.2 billion to $21.6 billion between the 1972 and 1974 crop years, and have since continued to rise, although at a slower pace. Exports were unexpectedly strong in the crop year just ended, with a 16-percent rise to about $28 billion, as a depreciated dollar led foreigners to boost their purchases of wheat, feed grains and soybeans.

The U.S. share of world agricultural

trade has risen from 12.3 percent of the total in the first half of the 1950's to 16.3 percent of the total in the first half of the 1970's. In contrast, the U.S. share of world nonfarm exports has dropped from 20.5 percent to 11.2 percent over the same period. These figures suggest a significant improvement in the comparative advantage of American agriculture over the past quarter-century.

In 1975, exports provided an outlet for about 100 million acres, or 30 percent of all cropland harvested in this country—double the share devoted to that purpose in 1950. Again, in 1975, overseas markets took 55 percent of all U.S. production of wheat and flour, 50 percent of the soybeans, 40 percent of the cotton, and 25 percent of the feed grains. Over time, grains and oilseeds (soybeans) have become the critical factor in this export performance, as their share of the total rose from 35 percent in 1950 to 73 percent in 1975. U.S. farmers—especially those in the Corn Belt and the Great Plains—thus have become very dependent on international markets.

Cause of instability?

But doesn't this heavy export dependence help push up prices in American supermarkets and create a general air of price instability? The University of Chicago's D. Gale Johnson, writing in *Contemporary Economic Problems—1977*, wrote, "Unfortunately, the agricultural and trade policies followed by the majority of the exporters and importers of agricultural products create substantial instability in international prices, especially for grains." More than half of the world's grain is produced and consumed under regimes—the European Community, Japan, and the Soviet Union—that stabilize domestic prices for both producers and consumers by policies that equalize demand and supply at the predetermined prices.

Johnson argues that such policies force other parts of the world, where domestic and international prices generally move in unison, to absorb the effects of variations in world demand and/or supply. "The United States is currently one of the few countries that does not have differentials, either fixed or variable, between domestic and international prices. Consequently it accepts the price variability that is imposed by policies of other countries."

Despite that drawback, the world marketplace has become a key support of the U.S. farm economy, and hence of the U.S. economy generally. And most studies suggest a continuation of that trend, as world demand grows because of the growing size and affluence of other countries—and also (in many cases) because of their lagging farm productivity. According to Agriculture Department projections, world demand should ensure a return, by 1985, to the level of net farm income reached in the halcyon year of 1973. In that case, the "Hell No! We Won't Grow!" signs that were so much in evidence during last winter's farm strike will seem like a quaint reminder of some long-distant past.

William Burke

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 11/15/78	Change from 11/8/78	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	122,063	+ 905	+ 15,680	+ 14.74
Loans (gross, adjusted)—total	98,711	+ 558	+ 15,919	+ 19.23
Security loans	1,983	− 356	− 2,370	− 54.45
Commercial and industrial	28,655	+ 237	+ 4,193	+ 17.14
Real estate	34,275	+ 262	+ 7,633	+ 28.65
Consumer instalment	18,265	+ 133	+ 4,132	+ 29.24
U.S. Treasury securities	8,640	+ 254	− 153	− 1.74
Other securities	14,712	+ 93	− 86	− 0.58
Deposits (less cash items)—total*	115,697	+ 89	+ 14,391	+ 14.21
Demand deposits (adjusted)	31,948	− 75	+ 2,378	+ 8.04
U.S. Government deposits	432	+ 54	+ 90	+ 26.32
Time deposits—total*	81,369	+ 130	+ 12,027	+ 17.34
States and political subdivisions	6,705	− 8	+ 1,360	+ 25.44
Savings deposits	31,624	− 69	+ 7	+ 0.02
Other time deposits‡	40,221	+ 328	+ 10,216	+ 34.05
Large negotiable CD's	19,311	+ 18	+ 7,118	+ 58.38

Weekly Averages of Daily Figures	Week ended 11/15/78	Week ended 11/8/78	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves(+)/Deficiency (−)	+ 2	+ 24	− 11
Borrowings	17	50	10
Net free(+)/Net borrowed (−)	− 15	− 26	− 21
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+)/Net sales(−)	+ 1,156	+ 707	+ 1,455
Transactions with U.S. security dealers			
Net loans (+)/Net borrowings (−)	+ 343	+ 117	+ 820

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

Editorial comments may be addressed to the editor (William Burke) or to the author....

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