

Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

SUMMER 1984

Eighth District Farmers Still Struggling to Recover From Setbacks of 1980

The recent past has been a turbulent time for U.S. agriculture. Droughts in 1980 and 1983, export embargos, PIK, a rapid disinflation and the persistence of historically high nominal interest rates have made farm income more variable and generally lower in real terms over the past decade. Eighth District farmers may have been affected relatively more by these events, since they rely heavily on crops for their income and since recent disruptions have had their dominant effects on the cash grain market.

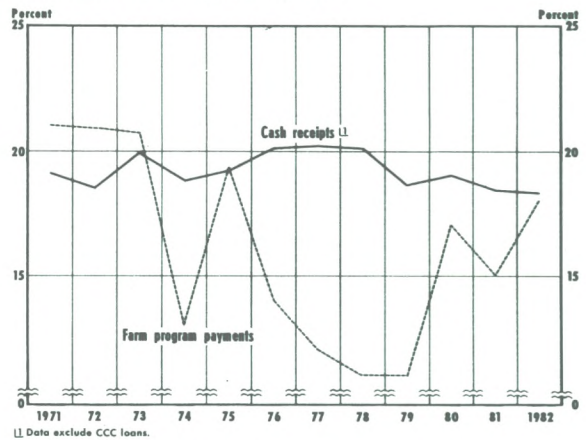
Earned Income Declines; Government Payments Rise

As chart 1 shows, states in the District generally have earned a lower share of net farm income in recent years. In addition, District farmers have received a higher share of government income and price support payments. Most notably, the chart shows a relatively constant or increasing share of earnings and a declining share of government payments until 1979.

The decline in the District's share of farm income that year was caused by slow growth in its receipts, while receipts for the nation as a whole expanded by 19 percent. Conditions worsened for District farmers in 1980 when a severe drought and an embargo of grain exports depressed farm income. These events probably affected farm income more than they otherwise might have as rapid reductions in the U.S. rate of inflation possibly raised the value of the dollar more quickly than it reduced the growth rate of U.S. commodity prices. Many analysts have argued that the appreciation of the dollar had some negative short-run impact on U.S. exports of farm products.

Each of these factors resulted in lower cash receipts from grain production, which, for the most part, were offset by higher price support payments and direct income transfers from government programs. The decreasing share of income and increasing share of government

Chart 1
Eighth District Shares of Cash Receipts and Government Farm Program Payments



payments graphically show the difficulty, relative to other regions, that Eighth District states have had in recovering from the 1980 shocks to farming.

Other recent data on individual states suggest a slightly different picture for the farm sector recovery in the District. These data show that reliance on different primary products can give widely varying views of a sector's health. Mississippi and Arkansas, for example, receive large shares of their receipts from cotton and rice, respectively. In both instances, low levels of beginning stocks are causing prices to increase; in the case of cotton, prices also are increasing in response to increased foreign demand. As table 1 indicates, these price increases have raised cash receipts for Arkansas and Mississippi farmers in the first quarter of 1984 by about

26 and 14 percent, respectively, over the same period in 1983. This picture contrasts sharply with the substantial declines in receipts for District states heavily reliant on food and feed grains and livestock marketings for their income. These declines put most District states in the same dilemma as the nation as a whole, whose cash receipts declined substantially in the first quarter of this year.



Table 1
Cash Receipts: Evidence of an Uneven Recovery

State	Change in cash receipts January-March 1984 ¹
Arkansas	26.4%
Illinois	- 31.6
Indiana	- 26.7
Kentucky	- 8.1
Mississippi	13.8
Missouri	7.0
Tennessee	- 12.2
U.S. total	- 10.8

¹Change over same three months in 1983

Table 2
Changes in Eighth District Farmland Values

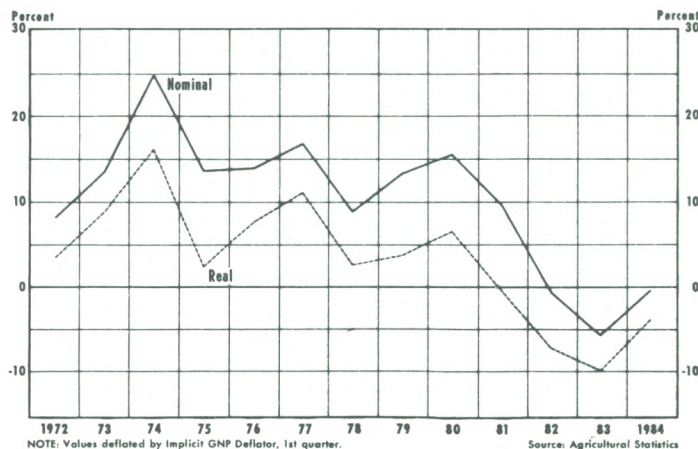
State	Average Value Per Acre As of April 1, 1984 ¹	Change From Year Earlier
Arkansas	\$ 944	- 4.0%
Illinois	1,692	- 2.0
Indiana	1,477	- 1.0
Kentucky	927	- 4.0
Mississippi	966	5.0
Missouri	759	0.0
Tennessee	951	3.0
U.S. total	739	- 0.5

¹Values are based on land and buildings.

Farmland Values Decline in Four Eighth District States

The average value of U.S. farmland declined for the third consecutive year based on valuations dated April 1, 1984. This is the first time that farmland values have declined in three consecutive years since 1933. For the 48 contiguous states, average values declined 0.5 percent last year compared with declines of 0.8 and 5.8 percent, respectively, in 1981 and 1982. Chart 2 shows, however, that these declines are a continuation of a general trend dating back to 1977.

Chart 2
Changes in Value per Acre of Farm Land and Buildings, Real and Nominal



As table 2 indicates, states in the Eighth District fared generally worse than the national average. Land values in Kentucky and Arkansas declined by an average of 4 percent. The smaller 1 to 2 percent declines in Illinois and Indiana were still more than double the national average. And, even though average land values in Mississippi and Tennessee actually increased from 1983 levels, last year's drought, low prices for some commodities and changes in government support legislation have reduced the expected returns from farming and, consequently, exerted downward pressure on the prices of farm assets. The latter two effects are particularly important to Kentucky, whose farmland has been affected by actual and expected changes in the tobacco and dairy programs and increasing imports of foreign tobacco.

The general downward trend in farmland values, however, is more closely linked to the substantial reduction in inflation that has occurred since 1981. Under high and rising rates of inflation, people tend to hold more of their wealth in physical assets, like land, as a hedge against declines in their purchasing power. This shift in wealth holdings, which tends to increase the demand for land and, consequently, land prices, was reversed as inflation fell to lower levels in recent years.

— Michael T. Belongia

Agriculture—An Eighth District Perspective is a quarterly summary of agricultural conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT AGRICULTURAL DATA

Prices and Costs ¹	Mar. 1984	Apr. 1984	May 1984	Average for 1983	Percent Change	
					Year-To-Date 1984 ²	Same Period Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.3%	0.6%	0.3%	0.3%	1.8%	4.5%
Food	-0.3	-0.2	-0.7	0.2	2.1	2.4
PRODUCTION COSTS FOR FARMERS (% change)						
All inputs	0.6	0.3	0.0	0.8	-3.2	3.7
Fertilizer	7.8	0.0	0.8	-0.2	8.6	6.4
Agricultural chemicals	0.0	0.0	2.0	0.3	2.0	2.0
Fuels and energy	-0.5	0.2	0.2	-0.3	1.2	-0.7
PRICES RECEIVED BY FARMERS (% change)						
All products	0.8	0.4	-0.8	0.9	3.1	5.6
Livestock	0.0	0.0	-4.2	0.3	0.8	0.8
Crops	1.5	0.7	2.6	1.6	4.5	11.3
FEEDER CATTLE						
Wholesale price - Kansas City (\$/cwt.)	\$67.42	\$67.51	\$65.87	\$63.71	3.5	-2.6
FEEDER PIGS						
Wholesale price - So. Missouri (\$/head)	\$50.12	\$51.08	\$43.58	\$33.96	57.6	24.0
BROILERS						
Wholesale price -12-city (¢/lb.)	62.01¢	55.99¢	57.61¢	50.39¢	0.8	22.8
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	65.69¢	67.04¢	66.93¢	60.48¢	-11.0	18.3
CORN						
Wholesale price - St. Louis (\$/bu.)	\$ 3.55	\$ 3.61	\$ 3.58	\$ 3.27	3.8	10.5
SOYBEANS						
Wholesale price - N.C. Illinois (\$/bu.)	\$ 7.83	\$ 7.97	\$ 8.34	\$ 6.86	5.2	34.5
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 3.85	\$ 3.93	\$ 3.72	\$ 3.95	-3.4	-8.1
LONG-GRAIN RICE						
Wholesale price - Arkansas (\$/cwt.)	\$18.60	\$18.00	\$18.72	\$18.40	-1.5	1.2
COTTON						
Wholesale price - all markets (¢/lb.)	70.50¢	68.60¢	74.50¢	62.30¢	10.7	20.7
					Percent Change	
U.S. Exports	Jan. 1984	Feb. 1984	Mar. 1984	Average for 1983	Year-To-Date 1984 ²	Same Period Year Ago
Corn (mil. bu.)	173.4	159.0	177.5	157.6	0.7	1.9
Soybeans (mil. bu.)	80.4	79.7	78.8	69.5	5.8	-6.6
Wheat (mil. bu.)	121.0	116.0	126.0	125.7	-4.2	-8.9
Rice (rough equivalent, mil. cwt)	4.3	3.1	6.5	5.9	29.4	-1.4
Cotton (thou. bales)	696.0	759.0	947.0	459.7	42.8	84.6
Receipts ³						
CROPS (millions of dollars)						
United States	\$4,928	\$5,048	\$6,072	\$5,772	13.3	14.7
District (seven-state total)	1,045	931	1,232	1,180	17.6	4.1
LIVESTOCK (millions of dollars)						
United States	6,153	5,937	6,094	5,855	-2.6	0.1
District (seven-state total)	1,019	919	1,000	905	-1.0	10.2

EIGHTH DISTRICT AGRICULTURAL DATA

Crop Production⁴	Marketing Year		
	1980/81	1981/82	1982/83
CORN (October 1 - September 30)			
Acres planted (mil. acres)	84.0	84.2	81.8
Production (bil. bu.)	6,644.8	8,201.6	8,359.4
Yield (bu. per acre)	91.0	109.9	114.5
Ending stocks (bil. bu.)	2,774.2	3,904.1	4,962.3
SOYBEANS (September 1 - August 31)			
Acres planted (mil. acres)	70.0	67.8	71.5
Production (bil. bu.)	1,792.1	2,000.2	2,229.5
Yield (bu. per acre)	26.4	30.1	31.9
Ending stocks (bil. bu.)	679.4	652.2	857.0
WHEAT (June 1 - May 31)			
Acres planted (mil. acres)	80.6	88.9	87.4
Production (bil. bu.)	2,374.3	2,798.7	2,812.3
Yield (bu. per acre)	33.4	34.5	35.6
Ending stocks (bil. bu.)	988.8	1,163.9	1,540.7
RICE (August 1 - July 31)			
Acres planted (mil. acres)	3.4	3.8	3.3
Production (mil. cwt.)	146.2	182.7	153.6
Yield (cwt. per acre)	44.1	48.2	47.1
Ending stocks (mil. cwt.)	16.5	48.9	66.6
COTTON (August 1 - July 31)			
Acres planted (mil. acres)	14.5	14.3	11.3
Production (mil. bales)	11.1	15.6	12.0
Yield (net bales per acre)	0.8	1.1	1.2
Ending stocks (mil. bales)	2.7	6.6	7.9

¹ The consumer price index and its components are seasonally adjusted. All other data are not seasonally adjusted.

² Percent change from December 1983, based on the most recent month available.

³ Data for receipts are seasonally adjusted.

⁴ Annual data for crops are based on each crop's marketing year. *SOURCE: Crop Production*, Statistical Reporting Service, Crop Reporting Board, USDA.