

# The Farm Outlook: Recovery in 1982?

*By Marvin Duncan*

The past year has been a disappointing one for U.S. farmers. Although 1981 began in an atmosphere of optimism over prospects for stronger farm product prices and improved farm income, that optimism proved to be largely unfounded. Not only have farmers experienced the adverse price impact of abundant farm product supplies, but more importantly they have also experienced a drag on farm income resulting from generally unfavorable economic conditions in the U.S. economy and in the economies of major U.S. trading partners.

While cash receipts from farm marketings increased slightly during 1981, higher production expenses will hold net farm income before inventory adjustment to about \$19 billion. Large grain and cotton inventories should add about \$3 billion. Thus net farm income, after inventory adjustment, may total about \$22 billion this year.

## THE YEAR IN REVIEW

As 1981 began, world food supplies had been reduced to the lowest levels since the world food crisis of the early 1970s. Moreover, prospects for good crop production in 1981 appeared more tentative than usual. As a result,

grain prices rose during much of the latter half of 1980. Prospects seemed favorable for higher livestock prices as well. Indeed, one of the few apparent problems was the rapid rise in interest rates late in the year. But, as 1981 unfolded, the prospects for farm income deteriorated.

## Farm Prices and Income

Slow growth in the U.S. economy coupled with sluggish demand in world markets have depressed farm product prices during 1981. Prices received by farmers in November were about 10.4 percent below year-earlier levels. Prices received for crops were off about 14.3 percent during the same period, while prices received for livestock were off 7.4 percent compared to a year ago. Prices paid by farmers during the same period, however, have increased about 4.9 percent.

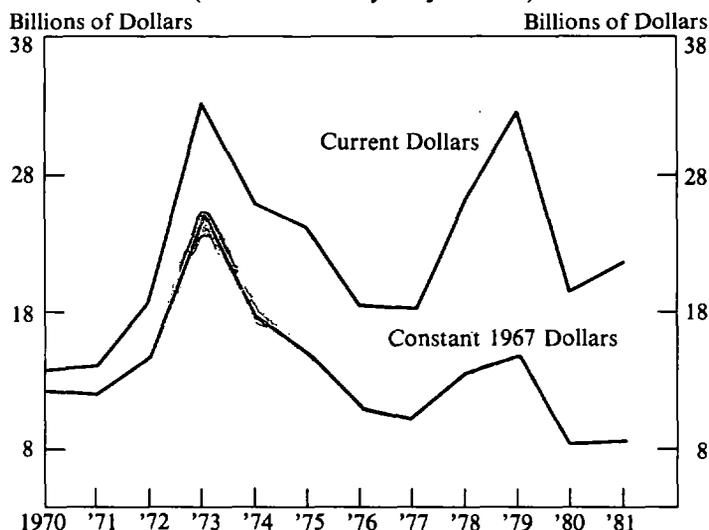
Because of large farm marketings in 1981, farm cash receipts are expected to increase by about 6 percent to a record level of \$144 billion. Crop receipts will likely be up about 7 percent to \$74 billion, reflecting higher levels of production and marketings. Livestock receipts are expected to be up about 4 percent to \$70 billion.

The relatively modest increase in cash receipts during 1981 has been more than offset by an expected increase in farm production costs. For the year, these costs are likely to be up about 9 percent—the smallest increase for any year since 1977. Inputs of farm products

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**Chart 1**  
**NET FARM INCOME**  
 (After Inventory Adjustment)



SOURCE: U.S. Department of Agriculture.

account for about one-fourth of all farm production expenses. Among these inputs, feed costs were up only modestly during the year, while seed costs were up by about one-fifth. Feeder livestock expenses declined during the year, offsetting in part the increase in prices for other farm-produced inputs. Among farm production inputs purchased from off the farm, petroleum-based inputs posted significant cost increases during the year. Fuel costs were up about 13 percent, while fertilizer costs were up about 12 percent. In both instances, the 1981 cost increases were less than those experienced in 1980. Pesticide expenses were up about 10 percent. Hired labor costs—up about 10 percent—increased in line with the rate of price inflation.

Perhaps the most noticeable increase in farm production costs was the interest bill on real estate and non-real estate farm debt in 1981. Over the past five years farm debt has about doubled. Servicing this debt has placed a

significant demand on the cash flow of the farm sector. Interest costs in 1981 will account for more than 13 percent of farm production costs, contrasted with 7.5 percent a decade ago. Because of both higher farm debt levels, close to \$200 billion by yearend, and an increase of about one percentage point in the average interest rate on all farm debt outstanding, to over 10 percent, interest costs for farmers will climb nearly 20 percent this year.

The most common measure of farm income—net farm income after inventory adjustment—is expected to reach \$22 billion for 1981 (Chart 1).<sup>1</sup> This would be an improvement from the \$19.9 billion earned in 1980. In 1981, inventory adjustment will add about \$3 billion to net farm income due to the large crops being harvested. In 1980, the inventory adjustment

<sup>1</sup> Inventory adjustment accounts for the change in value from one year to the next of the farmer-held stocks of crops and livestock.

subtracted \$2 billion from net farm income.

The volatility of inventory levels in recent years has caused agricultural finance economists to place somewhat less emphasis on this adjusted measure of net farm income. Instead, somewhat more emphasis is placed on two other measures of farm income—net farm income before inventory adjustment and net cash income. Net farm income before inventory adjustment is expected to total about \$19 billion this year. This represents a decline of more than 13 percent in this measure of farm income from 1980 levels.

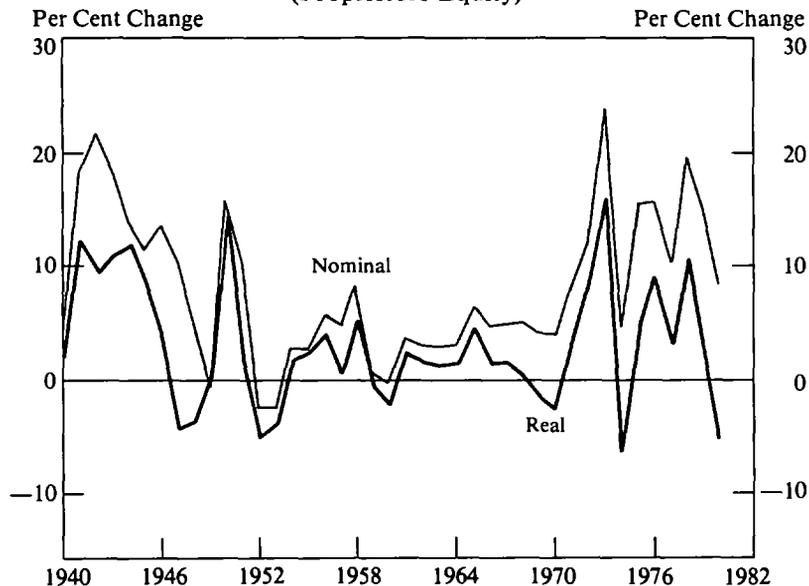
Net cash income represents the difference between total cash income to the farm sector and total cash expenses. As such, this measure can be considered a rough approximation of farm sector cash flow. Net cash income also represents those farm sector funds available for debt retirement, replacement of capital stock,

family cash expenses, and savings. This measure of income will total about \$31 billion in 1981, an 18 percent decrease in the past two years.

Farm family welfare is determined by other factors in addition to net farm income. An important source of wealth that adds substantial resilience to farm businesses is growth in farm sector equity—from retained earnings and from unrealized capital gains. That equity reached \$916 billion at the beginning of 1981. During the 1979-81 period, proprietor's average per farm equity rose from \$303,000 to \$379,000, a 25 percent increase in two years. The real rate of increase in farm sector equity, however, was negative in 1980 and will likely be so in 1981 as well. The real rate of increase has been negative on a number of occasions over the past 40 years, as illustrated in Chart 2.

Farm families also obtain substantial

**Chart 2**  
**NOMINAL AND REAL RATES OF GROWTH IN FARM SECTOR EQUITY**  
(Proprietors Equity)



SOURCE: U.S. Department of Agriculture. Economic Indicators of the Farm Sector, Income and Balance Sheet Statistics, 1980, ERS, p. 123.

amounts of income from off-farm sources. In 1980, about 60 percent of total farm operator family income came from off-farm sources. Those earnings are not uniformly distributed across agriculture. Farm families with less than \$5,000 in annual sales earned 90 percent of their income off the farm, while families with annual sales over \$100,000 earned only about one-fourth of their income from off-farm sources. Growth in nonfarm income levels is more a function of growth in the general economy than of growth in the farming sector, of course. While farm families' net income from farm sources will be low in 1981, total income per farm from both farm and nonfarm sources may exceed \$25,000, second only to 1979 when total income per farm reached \$27,123.

### Crops

Lingering drought, freezes, and floods all had supported a cautious outlook for U.S. crop

production in 1981. However, near ideal growing weather through the summer and fall, coupled with large planted acreages, resulted in bumper harvests for major grain crops and for cotton (Table 1).

U.S. wheat production was a record 2.75 billion bushels. An all-time high of 88.8 million planted acres, a nearly 14 percent increase in harvested acreage from a year earlier, and a near record yield of 34.1 bushels per acre were responsible for the high level of output. When large carryovers are added, supplies for the 1981-82 marketing year total a record 3.74 billion bushels, up 14 percent from a year earlier.

U.S. feed grain production of 246 million metric tons was a record high in 1981 and was up about 24 percent from the drought-reduced output of 1980. Total feed grain supplies for the 1981-82 marketing year are expected to reach 281 million metric tons, only about 4

**Table 1**  
**BALANCE SHEET FOR MAJOR CROPS**  
(Millions of Bushels, Bales, or Tons)

	Corn (bu)		All Feed Grains (metric tons)		Soybeans (bu)		Wheat (bu)		Cotton (bales)	
	Marketing Year Oct. 1-Sept. 30	Marketing Year* 1980-81	Marketing Year* 1980-81	Marketing Year* 1981-82†	Marketing Year Sept. 1-Aug. 31	Marketing Year 1980-81	Marketing Year 1981-82†	Marketing Year June 1-May 31	Marketing Year 1980-81	Marketing Year 1981-82†
<b>Supply</b>										
Beginning										
Carryover	1,617	1,034	52.4	34.6	359	320	902	988	3.0	2.7
Production										
and Imports	6,649	8,098	198.5	246.0	1,792	2,077	2,372	2,752	11.1	15.6
Total	8,266	9,132	250.9	280.6	2,151	2,397	3,274	3,740	14.1	18.3
<b>Demand</b>										
Domestic	4,877	5,050	146.9	155.5	1,107	1,162	776	932	5.9	6.0
Exports	2,355	2,450	69.4	72.2	724	830	1,510	1,900	5.9	7.0
Total	7,232	7,500	216.3	227.7	1,831	1,992	2,286	2,832	11.8	13.0
<b>Ending</b>										
Carryover	1,034	1,632	34.6	52.8	320	405	988	908	2.7	5.4

SOURCE: U.S. Department of Agriculture.

\*Marketing Year begins October 1 for corn and grain sorghum, July 1 for barley and oats.

†Preliminary USDA estimates as of November 1980.

million metric tons short of the record level for 1979-80.

The U.S. corn crop of 8.1 billion bushels was the largest ever, reflecting both near record yields and a slightly higher harvested acreage than last year. The corn crop will raise total market supplies for 1981-82 to 9.13 billion bushels. Other feed grain production was higher as well. Sorghum output, at 877 million bushels, was the largest since 1973, while barley production of 476 million bushels was the largest crop since 1958. Oat production topped 500 million bushels, up 11 percent from a year earlier.

U.S. oilseed production is forecast to be about 20 percent higher in 1981 than in 1980. Soybean production, accounting for 85 percent of U.S. oilseed output, is expected to total 2.1 billion bushels, up 16 percent from 1980. As a result, U.S. soybean supplies for the 1981-82 marketing year will total 2.4 billion bushels, only slightly below the record supplies of 1979-80.

Other U.S. oilseed output will be higher this year as well. Cottonseed output will be record high. Sunflower seed output will be up about 20 percent over 1980 levels. Finally, U.S. peanut production is expected to reach near record output, recovering sharply from 1980.

U.S. cotton production is expected to reach 15.6 million bales in 1981, a 28-year high in production and up nearly 40 percent from 1980. Total supplies for the 1981-82 marketing year are expected to top 18 million bales.

### **Livestock**

Cattle producers continued to expand their herds during 1981, despite generally unprofitable conditions for the cattlemen and for the entire livestock industry. Producers had expected better prices than those realized in 1981. The inventory of cattle and calves on July 1 was up 2 percent from a year earlier compared to 4 percent increases at midyear in 1979 and 1980. Midyear beef cow numbers increased by 2 per-

cent as well. Yearend total cattle inventory figures will likely be up 2-3 percent from 1980, to about 118 million head. Hence it is clear that producers are still in the expansion phase of the cattle cycle and will likely continue to increase herd size during the next two years.

Cattle slaughter during 1981 is expected to increase by about 3 percent, while beef production is expected to rise 2-3 percent above 1980 levels. Much of the increase in slaughter has come from steers and heifers outside feedlots. Nonetheless, the feeder cattle supply outside feedlots has increased slightly during 1981 because of reduced feedlot placements. Numbers of calves below 500 pounds outside of feedlots were 2 percent higher on October 1 than a year earlier, while the yearling feeder cattle supply on July 1 was 1 percent higher than a year earlier.

U.S. hog producers in 1981 continued the reduction in breeding inventory begun in 1979. Nonetheless, pork production continues to be large. Output in 1981 is expected to be second in volume only to the record high 1980 output, despite a 6 percent decline from last year's production. While September 1 breeding inventory figures suggested continued declines in pork output through 1982, the largest declines will be early in the year, with production levels perhaps equal to 1981 by yearend. Prospects for lower feed costs could mitigate—or perhaps reverse—the trend toward lower pork output, however. Indeed, winter quarter farrowings could be nearly as high as a year earlier.

Broiler producers, perhaps anticipating lower pork production, expanded output in each quarter of 1981 compared to year-earlier levels. This has resulted in negative returns to producers for much, if not all, of the year. While production in 1982 appears likely to level off, the industry can turn output around rapidly if incentives to do so appear. Turkey production in 1981 is expected to end up more than 5 percent above 1980 levels. While beginning inven-

tory levels were low, per capita consumption lagged behind 1980 levels. Turkey prices have hence fallen significantly below year-earlier levels.

Dairy producers in 1981 continued their pattern of increasing output begun in mid-1979. Milk production this year will likely be 3 percent above the 1980 level. The increased output will come from about a 0.7 percent increase in cow numbers and a gain of over 2 percent in milk production per cow. Since the continued increase in dairy production is apparently linked to milk support prices at 80 percent of parity and adjusted twice a year, production adjustments in 1982 will be primarily dependent on farm program changes reducing dairy price subsidies.

## Farm Policy

A number of policy changes of importance to farmers occurred during 1981. For the longer term the most important is probably the Economic Recovery Tax Act of 1981. Passage of this act affects farmers in three major areas: individual income tax rates, estate tax reform, and capital cost recovery. Marginal income tax rates are now scheduled to be reduced in total by 25 percent over two years, with tax brackets indexed for inflation starting in 1985. Maximum capital gains tax rates, affecting sales of land and breeding stock, are being reduced from 28 percent to 20 percent. Imputed interest on land sales between family members may now be limited to 7 percent for tax purposes.

Estate tax reforms include changes that permit estates of as much as \$600,000 to be passed to heirs without federal inheritance tax liability, as well as reduction in the top estate tax rate from 70 percent to 50 percent by 1985. The permitted size of annual tax-free gifts has been increased from \$3,000 to \$10,000 per individual. More estates can qualify for special use valuation on farmland to reduce inheritance tax

liability, and the eligibility has been broadened under certain circumstances for stretched-out payment of inheritance taxes at 4 percent interest rates. The intergenerational transfer of property has thus been greatly facilitated.

Capital cost recovery (depreciation allowance) has been accelerated for most classes of assets held by farmers. Additionally, same-year expensing limits are scheduled to increase to \$5,000 in 1982, rising by 1986 to \$10,000. Finally, regulations governing machinery leasing with an option to buy have been relaxed.

The task of preparing new farm legislation to replace that expiring in 1981 has been a difficult one. Congress and the administration have resolved their differences over commodity price support levels and have agreed upon a legislative package that is expected to cost taxpayers about \$11 billion over the next four years.

If the legislation becomes law, minimum price supports for dairy would be set at \$13.10 per hundredweight for 1982, and escalate to \$14.60 by 1985. Depending on the amount of government purchases required under the program, the minimum price support level could rise to 70 or 75 percent of parity.

Commodity Credit Corporation (CCC) minimum loan levels for wheat and corn would be set at \$3.55 and \$2.55 per bushel respectively. Wheat target prices, set at \$4.05 per bushel for 1982, would escalate to \$4.65 by 1985. Corn target prices would escalate from \$2.70 per bushel to \$3.18 over the same period.<sup>2</sup>

The legislation is expected to include an authorization for a set-aside (i.e., acreage reduction) for wheat producers, to be imposed at the discretion of the Secretary of Agriculture. The Secretary has announced a voluntary 15 percent set-aside for wheat producers in 1982. However, participation in the set-aside would be necessary to qualify for CCC loans and target price protection for 1982 wheat pro-

duction. The call price provisions (the price levels at which CCC loans on grain in the Farmer Owned Reserve become due and payable) will be stricken from procedures governing operation of the reserve, a move likely to please farmers. A controversial sugar support program with a 17-cents-per-pound loan level is also included in the proposed legislation. Peanut acreage allotments will be eliminated, permitting anyone to grow and market peanuts. However, historical allotment holders are eligible for a higher quota loan than producers who did not hold allotments.

Language included in the legislation provides—under carefully defined circumstances—for government payments to farmers in the event of a U.S. agricultural export embargo. Farmers are assured 100 percent of parity on embargoed basic farm commodities produced within compliance of the government farm program, providing the country against which the action is directed purchased more than 3 percent of total U.S. agricultural export sales. CCC loans may also be made at commodity prices equal to 100 percent of parity. However, these legislative provisions are to be effective only in the event of a selective embargo of agricultural products for foreign policy reasons.

Finally, the legislation provides a \$600 million authorization for an economic emergency loan program for farmers to be operated at the discretion of the Secretary of Agriculture.

Current attention is focused on the farm legislation package. However, the Economic

Recovery Tax Act of 1981 and economic policies to reduce price inflation will probably be considerably more beneficial to farmers in the long run than the specialized farm legislation.

## THE YEAR AHEAD

Even more than in 1981, prosperity in the U.S. farm sector will be closely linked to the performance of the general economy and to the economic performance of countries that provide markets for U.S. agricultural products. In the case of the U.S. economy, slower growth resulting from economic policies to combat price inflation will continue to adversely affect demand for farm products during 1982. It seems unlikely that the U.S. economy will begin to experience significant real growth before mid-year, when a 10 percent income tax cut and the annual Social Security benefits adjustments are scheduled. Hence, strength in consumer demand for agricultural products may remain depressed until the second half of the year.

Many U.S. trading partners have also adopted slow economic growth policies to combat price inflation. These countries—primarily Western industrialized nations—may experience only moderate economic growth during 1982. Developing countries without oil reserves will continue to experience serious shortages of foreign exchange, limiting their ability to import farm products. Finally, sales to centrally planned countries will continue to depend on an appropriate political climate, as well as on comparative economic advantage. On balance, growth in export demand for U.S. farm products in 1982 may be somewhat less rapid than farmers had become accustomed to in recent years.

## Export Sales

Export sales have become increasingly important to U.S. farmers and to U.S. agribusiness. For example, from 1970 to 1980

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<sup>2</sup> When average market prices received by farmers in the first few months of a marketing year fall below the target prices, a deficiency payment (government subsidy) is paid to farmers. The size of this payment is calculated by multiplying the difference between the average price received by farmers in the early months of the marketing year and the target price for the commodity by the number of bushels of the commodity produced by farmers participating in the government farm program.

the proportion of the U.S. wheat crop exported grew from 55 percent to 64 percent. In the case of corn and grain sorghum, the proportions increased during that decade from 12 to 36 percent and from 21 to 51 percent respectively. Soybean exports as a fraction of U.S. production remained about level at just over 50 percent, while cotton exports increased from 38 to 53 percent during the same time period. Over the decade, the value of U.S. agricultural exports as a proportion of total U.S. export sales increased from 16.8 to 19.3 percent.

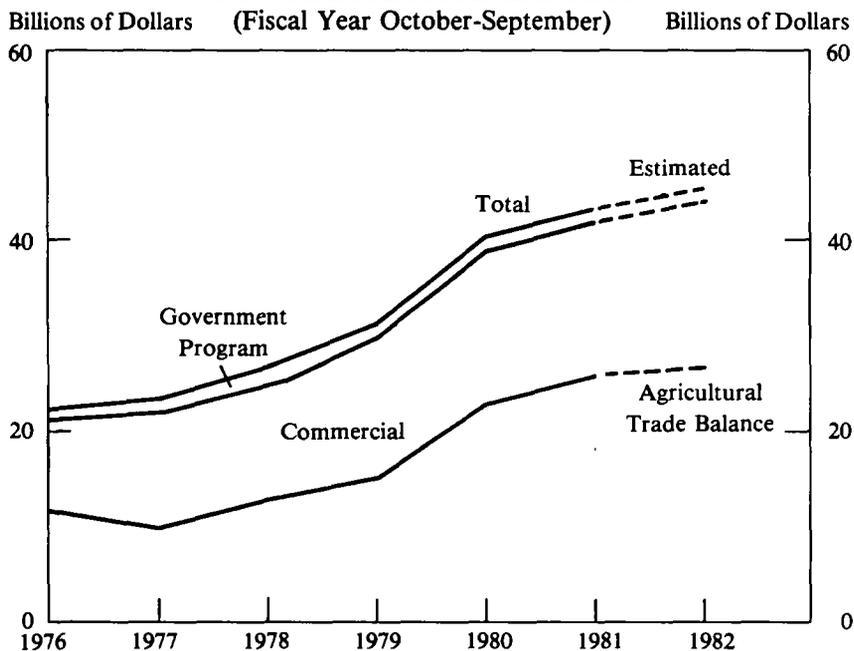
Export sales are expected to increase from the record \$43.8 billion of fiscal 1981 to a range of \$44-48 billion in fiscal 1982 (Chart 3). The current point estimate forecast is \$45.5 billion in sales. The U.S. agricultural trade surplus is expected to reach \$28 billion. Export tonnage is expected to increase by about 10 percent to 180 million tons after declining slightly in fiscal 1981.

The major factors affecting export sales in fiscal 1981 as discussed earlier will continue to dominate in 1982. Finally, weather will play its usual important role in determining export demand and world agricultural trade flows.

### The Crops Outlook

U.S. wheat producers look forward to record high exports during the 1981-82 marketing year—1.9 billion bushels, and possibly as high as 2 billion bushels if Southern Hemisphere crop prospects continue to deteriorate. Thus, the U.S. may supply nearly half of the world wheat trade this marketing year. Domestic use is also expected to be large, primarily due to an expected fourfold increase in feeding of wheat to livestock. With over 650 million bushels of wheat in the Farmers Owned Reserve or in Commodity Credit ownership by the end of the 1981-82 marketing year, which will be June 1, 1982, “free market stocks” at about 250

**Chart 3**  
**U.S. AGRICULTURAL EXPORTS**



SOURCE: U.S. Department of Agriculture.

million bushels could be the lowest since 1974.

Thus, the stage may be set for significant improvement in wheat prices over the next few months. However, that improvement is from low price levels. As currently forecast, the U.S. average farm level price of \$3.80-\$3.95 per bushel will not exceed the average of \$3.96 received in the 1980-81 marketing year. Indeed, prices were low enough during the first five months of the current marketing year to trigger government subsidy payments (deficiency payments) of about 15 cents per bushel under target price provisions of the current farm program legislation. With the 1982 winter wheat crop off to an excellent start, the announced 15 percent diversion of wheat acres—to qualify for government wheat program benefits—is not expected to reduce 1982 output by very much.

U.S. feed grain producers expect lower prices and improved livestock feeding margins to increase domestic feed utilization during the 1981-82 marketing year by about 6 percent over 1980-81. Export prospects appear favorable as well, especially to the USSR and to Western Europe. For the 1981-82 marketing year, feed grain exports are forecast to reach a record 72 million metric tons, 1 million above the previous record in 1979-80. Increased corn exports will probably account for more than 75 percent of this year's increase in exports over 1980-81.

These increases in use, however, will not offset the large increase in supplies. Hence, feed grain stocks at the end of the current marketing year are expected to reach 53 million metric tons, up 18 million metric tons from 1980-81. About half of the feed grain carryover will be tied up in the Farmer Owned Reserve and in Commodity Credit Corporation stocks. Corn stocks, accounting for most of the increase in feed grain carryover, will probably total 1.63 billion bushels.

Feed grain prices during the 1981-82 marketing year are expected to fall below the

record levels of last year. U.S. average farm level corn prices are forecast in the \$2.55-2.80 per bushel range compared with \$3.10 in 1980-81. Sorghum prices are forecast in the \$2.35-2.55 per bushel range compared to \$2.95 last year. Barley prices are forecast at \$2.35-2.50 per bushel compared to \$2.91 last year.

U.S. soybean producers are expected to account for nearly 80 percent of world soybean exports in 1981-82. Exports of soybeans, soybean oil, and soybean meal are all expected to increase. U.S. export demand will be determined, in part, by the size of the Southern Hemisphere soybean crop. Domestic utilization is expected to increase from last year's level as well. However, higher stocks at the end of the current marketing year, coupled with the price depressing effect of low corn prices, will likely hold U.S. average farm level soybean prices in the range of \$5.75-6.75 per bushel during the 1981-82 marketing year, well below the \$7.61 average for last year.

Cotton use is expected to increase somewhat in both domestic and export markets during the 1981-82 marketing year. However, the forecast increase in use will not offset the higher 1981 production. Consequently, cotton stocks at the end of the 1981-82 marketing year are currently forecast to reach 5.4 million bales, about twice as high as the ending stocks for the previous year. Thus, if producers plant nearly as many acres of cotton in 1982 as in 1981, market prices are unlikely to show marked improvement unless weather intervenes to reduce 1982 production.

### **The Livestock Outlook**

Significant improvement in cattle prices during 1982 will be largely dependent on increased income growth for U.S. consumers, and that may not occur until the latter half of the year. Beef supplies are expected to be large. Fed cattle marketings in 1982 may increase by 2-3 per-

cent above 1981 marketings. Total cattle slaughter, however, may increase slightly more—by 3-4 percent. This likely means an increase in beef production of about 3-4 percent for the year. Fed cattle prices under those circumstances may average only \$1-2 per hundredweight above the price ranges of the past two years.

Choice steer prices in Omaha are expected to average in the mid to upper \$60 per hundredweight range during the first half of 1982. Prices during the summer may improve somewhat but return to the upper \$60 range in the fall as increased meat supplies about offset the expected effect of stronger consumer demand. Yearling feeder steer prices may average near or slightly above fed cattle prices during 1982. Feeder calf prices are expected to hold a \$5-10 per hundredweight premium over yearling prices through most of 1982.

Hog producers can look forward to improved prices in 1982, assuming reductions in pork output and stronger growth in consumer incomes during the latter part of the year. Hog slaughter in the first quarter may decline by as much as 7-9 percent from a year earlier, and by 4-6 percent from a year earlier in the second quarter. Prices for barrows and gilts at the seven major markets will likely average in the mid to upper \$40 per hundredweight range during the first half of the year. Pork productions in the second half of 1982 may be nearly as large as a year earlier, with prices at the seven major markets perhaps averaging around \$50 per hundredweight.

Broiler production in 1982 is currently expected to increase by about 1 percent from 1981 levels with most of the increase occurring in the first half of the year. Thus broiler prices during the first half of 1982 may be slightly weaker than a year earlier, while second half prices may exceed year-earlier levels. Turkey producers, on the other hand, are expected to reduce 1982 output, possibly by as much as 4-6 percent from

year-earlier levels. Hence, turkey prices during the first half of 1982 will fall below prices of a year earlier while second half prices may exceed year-earlier levels.

The dairy outlook is directly linked to government farm policy. As a result of the 1981 farm legislation enacted by Congress, the support price for milk could hold at about \$13.10 for fiscal 1982. Real returns to dairy farmers could decline somewhat during the year. As a result some adjustment in milk production may occur during the year. Production increases in the first half of the year could be offset by output declines in the latter half, with 1982 output about equal to that in 1981. Heavy government purchases of butter, cheese, and nonfat dry milk during the year will likely continue as a result of price support activities.

A proviso on the livestock outlook for 1982 should be noted. A deeper or longer downturn in the U.S. economy than is currently forecast could result in somewhat poorer performance for livestock prices.

### **Farm Income**

The income outlook for 1982 is quite tentative since it is dependent on the timing and the strength of economic recovery for the United States and for our major trading partners, as well as on the vagaries of weather. Modest improvement is expected in farm product prices during 1982, but that improvement will likely be overshadowed by increased production costs. Based on current forecasts, it is possible that net farm income before inventory adjustment could decline somewhat below the \$19 billion forecast for 1981—perhaps to about \$17 billion. Thus, farmers must consider the prospect of three consecutive years in which net farm income in real terms is lower than at any time in more than 40 years.

While most farmers have sufficient equity in farm assets to cushion the current downturn in farm income, a small proportion probably do

not. Larger farms are more likely to experience problems in servicing debt than are small farms. Farms with \$100,000 or more in annual sales as a class have a debt-to-asset ratio of 20 percent, as compared to a ratio of 5-7 percent for farms with less than \$10,000 in annual sales. These larger farmers rely on farm income for a greater share of total family income, as well, making them more vulnerable to volatility in farm income than are smaller farms. However, loss of off-farm income due to job layoffs could seriously affect the cash flow projections for many small farms.

Credit availability at Farm Credit System outlets and at commercial banks appears adequate to meet the expected demands by farmers during 1982. Credit from government sources such as the Farmers Home Administration will be very substantially reduced from recent years. Thus, for those farmers who do not qualify for normal commercial credit, the option of government credit at subsidized rates may not be available. The cost of farm credit to borrowers will increasingly reflect national money market conditions. Thus, while ample credit will be available, farmers will have to compete for that capital with other sectors of the U.S. economy.

If farm income remains depressed through 1982, a small proportion of farmers may need to turn to subsidized government credit sources, sell some assets to remain in business, or liquidate their businesses. Thus, in the absence of additional government-subsidized credit, a somewhat higher turnover of farm operatorships than has occurred in recent years is likely.

While income prospects for 1982 are currently gloomy, mid-course adjustments during the year may raise farm income forecasts. Improved economic growth in the U.S. could increase demand for meat products and result in higher livestock prices. Stronger-than-expected export demand could raise grain and cotton prices.

Easing of inflationary pressures could limit increases in production costs. For example, as little as a 1 percent increase in cash receipts received by farmers, coupled with a 1 percent reduction in forecast production expenses, could increase 1982 net farm income by nearly \$3 billion.

### **Food Prices**

Farm product prices are not expected to exhibit much strength in 1982, certainly not during the first half of the year. This is bad news for farmers but good news for consumers. Once again, farm product prices are restraining the rate of increase in retail food prices. Most of the 1982 increase will be due to higher marketing, processing, and transportation charges. Retail food prices in 1982 as measured by the Consumer Price Index are expected to rise between 5 and 9 percent, with an increase of 7-9 percent probably the likely outcome. This compares with a food price increase of about 8.2 percent in 1981.

### **SUMMARY**

During 1981, farmers experienced the second year in a row of sharply depressed net farm income—about \$22 billion after inventory adjustment. Current forecasts suggest 1982 will show a slight decline from 1981 levels. Improved farm prices are dependent on improved performance of the U.S. economy and the economies of U.S. trading partners. Thus, farmers may need to wait for 1983 to see significant income recovery.

It is possible, however, that forecasters may be too pessimistic about 1982. In 1981 the chances of error in farm income forecasts were primarily on the down side. Conversely, in 1982, if U.S. economic recovery is strong, adjustments in farm product prices and income projections could result in higher prices and income, not lower.

**1981 Index  
Economic Review**

Business Fixed Investment in the 1980s: Prospective Needs and Policy Alternatives.....February	Monitoring Lease-Financing in Agriculture ..... June
The Choice of Short-Run Targets for Monetary Policy: Part I.....April	Off-Budget Federal Outlays.....March
The Choice of Short-Run Targets for Monetary Policy: Part II.....May	Should the Discount Rate Be a Penalty Rate?.....January
Contemporaneous vs. Lagged Reserve Accounting: Implications for Monetary Control.....November	Slowdowns in Economic Activity and the Rate of Inflation..... September-October
The Farm Outlook: Recovery in 1982?.....December	Sources of Loanable Funds for Agricultural Banks.....March
Federal Reserve Pricing—A New Era.....July-August	State and Local Governments: Their Stake in Federal Budget Reform.....November
The Financing of Federal Deficits: An Analysis of Crowding Out.....July-August	The Tenth District and National Business Cycles.....January
Gross National Product at Full Employment.....June	Turnover in the Labor Market: A Study of Quit and Layoff Rates... May
Have Regulatory Differences Between Banks and PCA's Affected Bank Performance?.....February	U.S. Investment in Foreign Equity Markets.....April
Monetary Policy in 1981 and 1982.....December	Velocity Behavior of the New Monetary Aggregates ..... September-October