

Farm income

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farm sector, and unemployment, has increased in many industries.

A farmer's wealth is another important factor that doesn't show up in net farm income figures. Assets and debts provide a measure of the financial position — and security — of producers.

In recent years, capital gains on farm assets have far outdistanced farm income in adding to the real wealth of farmers. Although these gains don't pay the bills directly, the additional equity often becomes the collateral for credit to meet current production expenses, to finance farm expansion, and to invest in new equipment and

machinery.

Farm asset values tripled during the 1970's, reaching around \$920 billion this past January. Three-fourths of this value is in real estate. Asset value gains have probably slowed up this year while farm debt has likely grown at a faster rate.

Again, however, situations differ considerably among producers. In 1978, about a third of all farm assets were controlled by six percent of the farms with annual gross sales of \$100,000 and over. The bottom third of all farms in terms of sales controlled only 12 percent of total assets.

On the other hand, larger farms tend to have higher

debts in relation to their assets.

Debts were less than 10 percent of all assets for small farms in 1978, but over 20 percent of assets for large farms — those with sales of \$100,000 and over. Also, larger producers are less likely to have off-farm income coming in. So even small changes in farm prices and income can give large operators cash flow problems, though assets may provide financial security over the long run.

The effect of reduced cash flow also depends on the tenure of the farm operator. A well-established farmer, who bought when land prices and credit rates were lower, can better handle a debt load in lean times; this farmer

can get credit more easily to cover increased production expenses. But a newer farmer who bought land at higher prices and higher interest rates, has a high debt-equity ratio.

It's harder for this farmer to get additional credit for production inputs, and there may be more cash flow problems.

Considering all the variables, among those hardest hit this year have been new entrants into soybeans, hogs, or poultry who use a high proportion of purchased inputs — especially if they don't own their land and don't have outside income. Farmers who raise corn, wheat, cotton, or tobacco have been relatively better off, especially if they are well-established producers with a large equity base.

Is the 1980 drop in farm income a short-term problem, or is another decline next year just as likely?

"The sharp decline of 1980 appears to be an aberration in a trend, and it seems even worse because it tumbled from the relatively high net income of last year," Hoffman says.

"A lot of unusual circumstances led to this year's situation. Last year's harvests resulted in records for six out of the 10 major crops — corn, wheat, soybeans, cotton, barley, and sorghum — an accomplishment unmatched since 1958. The bumper crops tended to keep this year's price increases modest."

In the long run, net farm income has been trending up. Moreover, each year there have been fewer farmers sharing the total. In this context, the drop in both per-farm and total net farm income in 1980 is clearly an exception.

Current prospects, though highly uncertain, suggest an improvement in net farm income in 1981.

Total meat production should be down from this year's record levels, and prices should be higher. Smaller crops and tighter grain and oilseed supplies could sharply boost farm prices. U.S. exports should continue strong, at least matching and probably exceeding this year's record value. Some recovery in the general economy could stimulate domestic demand for red meats.

However, farmers' production costs will keep rising, led by energy inputs. Land prices will also increase.

Interest rates will depend on the underlying inflation rate in the general economy, which may remain relatively high for the next several years.

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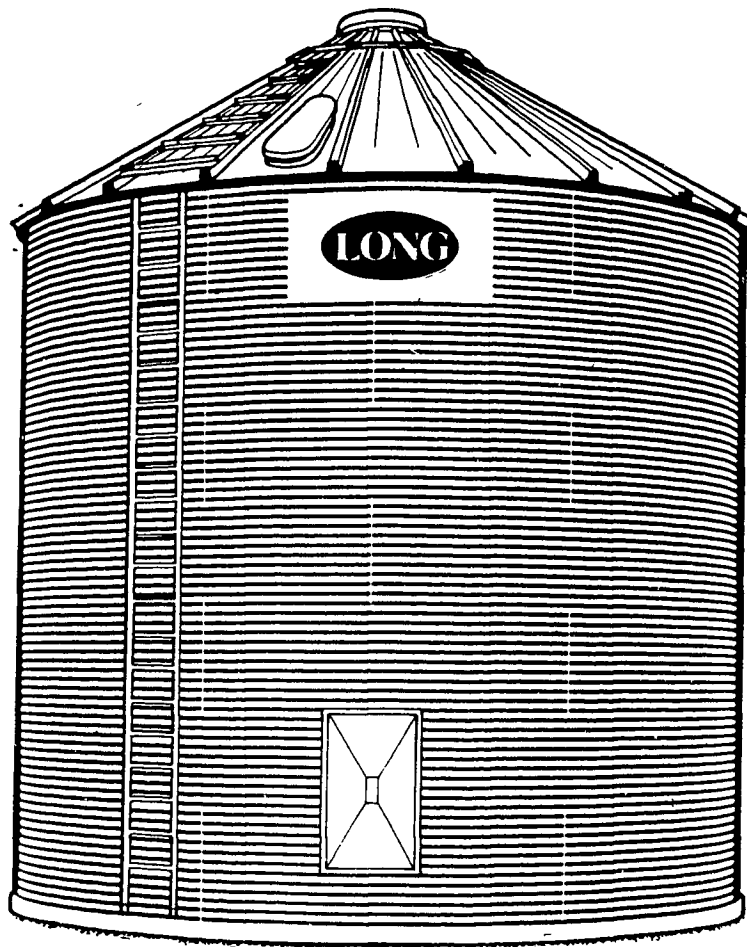
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