USDA economists forecast lean prospects

American farmers face lean economic prospects through 1982 due to bumper crops and a continued sluggish U.S. and world economy.

"There is little evidence of a good year for farm income in 1982," said economist George Hoffman at the recent Agricultural Outlook Conference in Washington D.C. Hoffman is acting deputy administrator of USDA's Economic Research Service.

Although neither Hoffman nor other USDA officials projected specific 1982 net farm income - too many uncertainties exist — they saw little reason for optimism, at least through mid-1982. But some improvement is expected during the second half of the year.

Considering the farm economy in 1981, another decline would be a blow to many farmers — especially those with large outstanding loans and slim prospects for rescheduling debt. Here are some of the preliminary 1981 estimates:

- Net farm income before inventory adjustment will be around $19 billion this year, a decline of $2.9 billion from 1980. But adjusted to include increases in the value of farm inventories, net farm income will be about $22 billion, up $2.1 billion from 1980.
- Cash receipts are expected to be up about 5 percent over 1980, with crop receipts rising 7 percent to $74 billion, and livestock receipts up 4 percent to $70 billion.
- Cash expenses and total production costs should be up about 9 percent. Record interest rates on the growing farm debt should more than offset the slowdown in other production costs.
- Net income from farm sources, before inventory adjustment, should average about $7,950 per farm, compared with $9,002 in 1980. With off-farm income added, total income per farm may just top $24,000 — second only to 1979's $24,923.

Hoffman noted three major unknown which could change 1982 farm income prospects. First the size of Southern Hemisphere harvests could drive U.S. farm prices up or down.

Secondly, as the 1982/83 harvest nears, prices will adjust according to prospective world supplies. Finally, the strength of the U.S. and world economies will affect demand as consumers have more or less money to bid for agricultural goods.

Preliminary projections for 1982 are strongly influenced by huge 1981 world crops and livestock production coming in a time of relatively weak demand:

— Farm production expenses may moderate to a 6 to 9 percnet gain next year, the smallest increase since 1975.

— Cash receipts are expected to be up only 4 to 6 percent, a smaller gain than even the expected modest jump in production expenses. This could add to many producers' cash flow squeeze.

— If this squeeze continues, many farmers will need to reschedule debt and defer capital expenditures of the third consecutive year.

Despite financial pressures in 1981, most farmers were able to meet their debt obligations, according to USDA economist David A. Lins.

"While many lenders indicate no significant increase in loan collection problems, there is almost unanimous concern over what might happen if farm incomes do not improve Outlook soon," Lins said. "Lenders believe that unless incomes improve soon, the problems of delinquency and default will increase significantly."

Lins offered these 1982 outlooks:

- Ample credit should be available to qualified borrowers, as it was in 1981.
- If the Federal Reserve maintains a moderate growth rate in the money supply, a gradual easing in interest rates should continue. In 1981, interest rates reached record highs, with bank farm loans hitting 19 to 20 percent last August.
- If the 1982 overall inflation rate ranges from 8 to 10 percent, a continued reduction in the real wealth position of the farm sector is anticipated.

"If this forecast materializes," Lins said, "it will be the first time in the last 40 years that real wealth of the farm sector has declined for 3 consecutive years."

On the other end of the food chain, overall food prices are projected to rise around 7 percent in 1982, compared with about 8.2 percent in 1981, according to USDA economists R. McFall Lamm and Paul C. Westcott. Grocery store food prices are likely to rise about 6 percent, while food prices in restaurants go up about 8 percent.

"The farm value of domestic food production will probably rise only about 1 to 4 percent," they said. "In stark contrast, food marketing costs will rise 8 to 10 percent and be the major source of food price inflation in 1982."

Turning to individual commodities, USDA experts say that, for many items, world stocks are so high that farm prices have faltered:

Feed Grains: A year ago, economists worried that poor worldwide production had drawn down stocks to a dangerous level—a small 1981 feed grain harvest could have meant serious shortages.

This year, the worry is just the opposite: too much grain. In fact, USDA economists James P. Rudbeck and Paul J. Meyers expect 1981/82 world coarse grain production to be a record 766 million metric tons (mmt.), 18-19 million tons above projected world utilization.

Of course, not all countries did equally well. While U.S. farmers harvested about 246 million tons of coarse grains (206 mmt. of corn)

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