MONTHLY REVIEW

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Farm income trends: a 10-year review

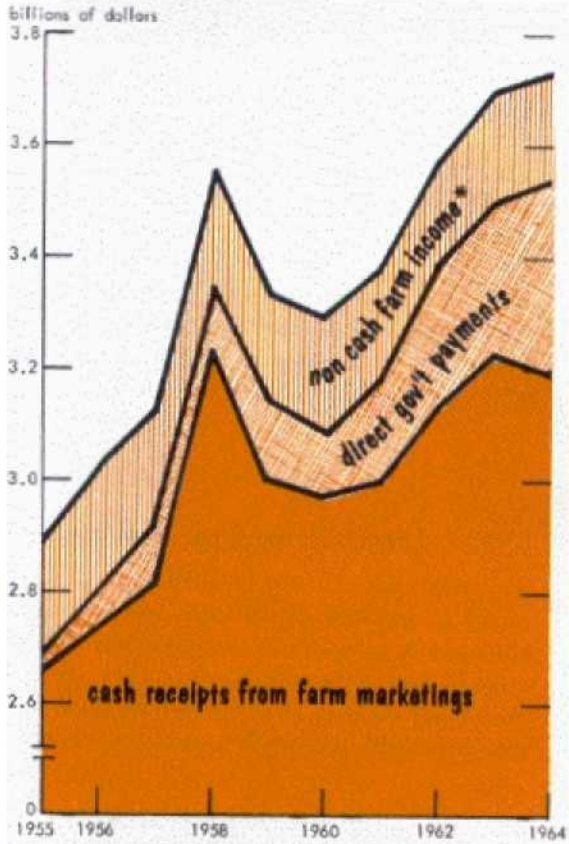
A review of U. S. Department of Agriculture income statistics for 1964 reveals little change in the district agricultural economy from previous years. Realized gross farm income was slightly higher on the strength of increased direct government payments; and, surprisingly, district farm production expenses were somewhat less than those of the year earlier, the first such occurrence during the past ten years. Net farm income in 1964 was thus somewhat improved on the basis of the following skeletonized accounting statement: \$3.7 billion, gross; \$2.6 billion, expenses; and \$1.1 billion, net. How does this compare with recent history? A trip through the statistics places the 1964 record in perspective.

Big gains come from change in programs

A look back over the statistics of the past ten years shows a modest but fairly constant rise in realized gross farm income. That figure, which includes cash receipts from farm marketings, direct government payments, and noncash farm income, rose at an annual average rate of about 2.9 per cent, a rate of increase well above the 1 per cent gain from 1963 to 1964. The component parts, however, depict divergent patterns. The lion's share of total gross income was provided by cash receipts from farm marketings, but the proportion slipped from 93 per cent to 86 per cent from 1963 to 1964. As shown in Chart 1, the year 1958, when farmers marketed \$3.2 billion of farm products, was the high point for cash farm receipts. The closest approach to that figure came in 1963 to within \$5 million of the record.

While farm marketings have gained about 2 per cent per year since 1955 the slack in income has been picked up by a significant increase in direct payments to farmers under various government programs. Starting the 10-year period at a modest figure of \$21.2 million in 1955, government payments grew to a record district total of \$344 million in 1964. In terms of the proportion of gross income, the direct government payment contribution moved from 1 per cent to 9 per cent of the district total during the same period.

Chart 1 — Realized gross farm income, Ninth district



*Gross rental value of farm dwellings and value of home consumption.

The third component of gross income, noncash income, reflects the trend toward fewer farms and the changing consumption patterns of farmers. That figure, which includes the rental value of farm dwellings and the value of farm produce on the farm, was valued at $193 million in 1963, down from $211 million in 1955. The decline shows up in the proportionate distribution as a drop from 6 per cent to 5 per cent in terms of total gross income.

A look at the four whole states in the district shows somewhat different series of trends in gross income. The total is dominated by the Minnesota data where typically 45 per cent or more of the district farm income in generated (Chart 2a). In that state, as in all the district states, direct government payments advanced substantially over the 10-year period while non-cash farm income trended downward. Cash farm receipts in Minnesota moved upward fairly consistently, advancing from $1.2 billion in 1955 to about $1.5 billion in 1964, just over the 1958 mark. Much less, if any, upward movement in cash receipts is evidenced by the record for the other states. Those receipts in Montana bobbed around the $400 million mark with the 1964 total of $394 million exceeding that of 1955 by only $21 million (Chart 2b). The wide swings in North Dakota cash receipts make it difficult to discern any distinct trend although there marked improvement is indicated from 1961 on (Chart 2c). South Dakota cash receipts exhibit a definite if modest upward trend moving from $530 million in 1955 to $675 million in 1964 (Chart 2d). The exceptional receipts of the year 1958, however, are unsurpassed as yet in either Montana or South Dakota.

Farm expenses — the depression

Chart 3 is one made to order for those who like to observe statistical trends neatly and clearly. Farm production expenses, the farm income bogey man, rose consistently throughout the entire period with the only exception being a very modest fall of $13 million from 1963 to 1964. The 1964 total of $2.6 billion represents a 33 per cent increase in production expenses as compared to a 29 per cent increase in realized gross farm income. On a state basis the per cent change from 1955 to 1964 in farm production expenses as well as gross farm income is as follows:

Chart 3 — Farm production expenses

	% change in expenses	% change in gross income
Minnesota	+34	+27
Montana	+32	+16
North Dakota	+28	+39
South Dakota	+38	+35
4 States	+33	+29

This squeeze on farm income can be seen in another way. In 1955 district farm production expenses accounted for 66 per cent of gross farm income and this advanced to 70 per cent in 1964.

Or, to paint a darker picture but probably a more clear one, production expenses as a proportion of cash farm receipts moved from 74 per cent in 1955 to 82 per cent in 1964.

It can be seen that the blame for the increase in cost is shared fairly equally by all of the major expense items. The distribution of costs among the items as a proportion of total expenses changed very little during the 10-year period. Current operating expenses amounted to 61 per cent of total expenses in 1964, the same figure as in 1955. Among the current expenses, feed and livestock costs appear to have gained relative to other expenses while labor and equipment repair and operation expenses were relatively less important. These shifts, however, were not of any great significance in terms of size. Noncurrent expenses, items such as depreciation, real estate taxes, interest on farm debt, and net rent, accounted for the remaining 39 per cent of the total and appear to have not changed to any important degree in their relative importance one to another.

Net income bears the burden

The phenomena of expenses rising faster than gross income resulted in an unfavorable net income picture, and this is sharply portrayed in Chart 4. Whether one looks at the district total or the individual states, the story is the same — only modest gains in net farm income. For the district, the 1964 net income figure of $1.1 billion represents a gain of 21 per cent from 1955. Comparing 1955 with 1964 and ignoring some wide gyrations in between, gains of 66 per cent in North Dakota, 28 per cent in South Dakota, 11 per cent in Minnesota are shown in the same comparison, while farm income in Montana was down 10 per cent.

Fewer slices from the pie

Some of the slow growth of district agriculture was offset so far as the average individual farmer was concerned by the spread of totals among fewer recipients. District farm unit number estimates declined 15 per cent between 1955 and 1964 with a range of from minus 14 per cent in Minnesota and Montana to minus 18 per cent in North Dakota. This decline in farm numbers gives rise to a significant if erratic increase in average gross income per farm figures (Chart 5). For all district states the per farm gross income in 1964 amounted to $13,380, up 52 per cent from the 1955 average.

Chart 4 — Net farm income

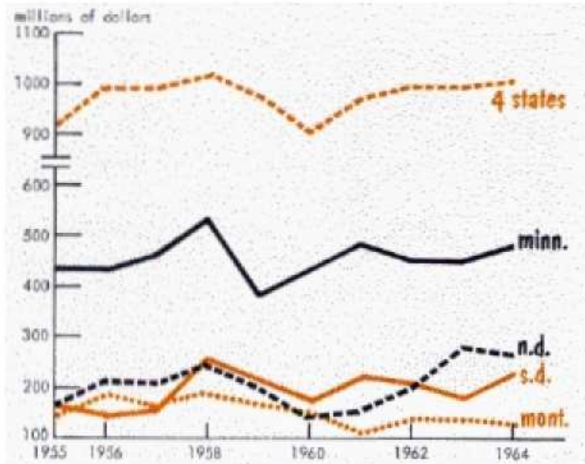


Chart 5 — Realized gross income per farm

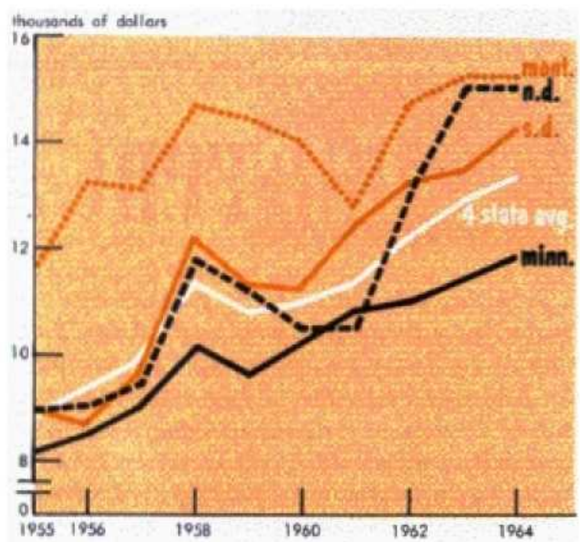
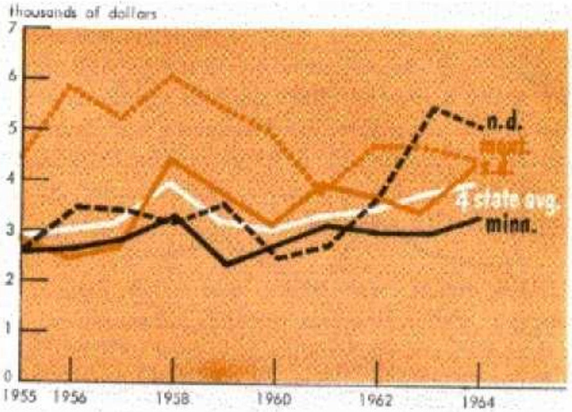


Chart 6 — Realized net income per farm



Among the states, the largest increase (71 per cent) over the 10-year period was experienced in North Dakota, primarily reflecting the relatively good crop years of 1961, 1962, and 1963. The most modest gain occurred in Montana where average gross income per farm in 1964 was up 33 per cent from 1955. Relative gains over that period in South Dakota and Minnesota amounted to 61 per cent and 46 per cent respectively.

The decline in farm numbers much less effectively improved net incomes per farm (Chart 6). Average net income on district farms amounted to $3,995 in 1964, 41 per cent higher than in 1955 and about $20 higher than the previous record set in 1958. As is clearly shown in Chart 6, generalizations about the individual states are difficult to draw. In Montana net income per farm reached a high of $6,019 in 1958 and then declined to $4,483 in 1964, just 3 per cent over the 1955 figure. On the other hand, per farm net income in North Dakota exhibited little trend until 1961 when the figure advanced rapidly to $5,517 in 1963. Per farm net income in South Dakota tended to be very erratic over the entire period reaching a high of $4,419 in 1958. There would appear to be evidence of some upward trend in the South Dakota figures with the $4,308 per farm net income figure of 1964 exceeding that of 1955 by 53 per cent. The most consistent trend is evidenced by the Minnesota figures, the district state least subject to the vagaries of the weather and having the greatest diversification of farming operations. In that state net income per farm advanced moderately to $3,326 per farm, 28 per cent above the level of 1955.

Current conditions . . .

Cold and rain during much of September climaxed by a severe frost over most of the Ninth district on September 26 damaged the prospects for a bumper grain crop of high quality. The extent of damage on corn and soybeans has not yet been fully assessed, but it will be substantial since both crops were relatively immature at the time of the freeze. Minnesota's important corn crop early in October was officially estimated at only 20 per cent mature; the soybean crop, 14 per cent. Normally, 60 per cent of the corn and soybean crops are fully mature at that time.

The demand for feeder cattle to help utilize "soft" corn is expected to be heavy with subsequent credit demand for feeding operations relatively high.

In the western growing sections, much of the wheat crop was in the swath and it also suffered in quality from the more-wet-and-cloudy-than-usual late summer period. Here, too, the full extent of damage will not be known until November crop reports are received.

District nonagricultural employment trends thus far in 1965 have been generally favorable. Almost all employment categories show improvement from month- and year-earlier comparisons, with an overall 3 per cent increase registered on a comparative cumulative basis for the first eight months of the year. Employment in manufacturing, construction, and mining has been particularly strong with average weekly earnings in manufacturing in August up moderately from that of a year earlier. The average number of hours worked weekly in manufacturing was 41.2 — about the same as in the nation. The district unemployment rate for August is estimated at 3.7 per cent, about a percentage point lower than the national rate.

Industrial output in the region, as measured by the bank's series on the industrial use of electrical power and the production worker man-hour series in manufacturing, also continues to show strong improvement in month- and year-earlier comparisons. Iron ore shipments through July registered a 43 per cent increase from the same period in 1964.

Expanding district retail sales reflect the higher levels of employment, wages, and incomes.

Total deposits at district member banks in late August were up 7 per cent from the year earlier with demand deposits up 3.4 per cent and time money up 12.4 per cent. Loans and discounts had increased 13.9 per cent.

A relatively heavy loan demand at the larger city banks has been experienced thus far in 1965, with a substantial increase in commercial and industrial loans. In country banks, too, a strong increase in loans occurred during the first eight months of this year compared with the same period a year earlier.

During the first eight months of 1965, excess reserves of all district member banks have averaged slightly under the same period of 1964. Borrowings at the Federal Reserve Bank have been substantially higher as has the use of federal funds (borrowings from other banks). Loan-to-deposit ratios have also been increasing. In general, however, bankers seem to feel reasonably comfortable with their liquidity positions even though they are less favorable than in 1964.

When the district's business and financial indicator series are matched with those of the nation, the district's economic trends and present position appear relatively favorable. The big jolt to crops resulting from the unfavorable September weather will not be fully reflected for some time to come.

The following selected topic describes a particular aspect of the district's current economic scene:

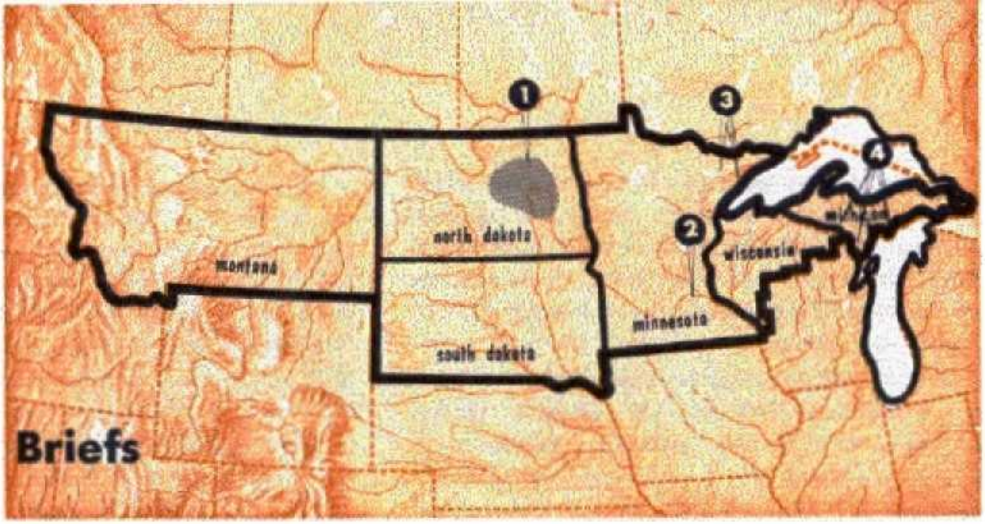
Labor market strong

The Ninth district labor market showed strength as summer waned into fall. Wage and salary employment moved ahead in August at a moderate pace to reach a level of 1,650,000. On a seasonally adjusted basis, this was 2.3 per cent above the year-earlier level. The growth rate was slightly larger than the 1964 average but below the rates registered earlier this year and also well below the 4.1 per cent advance registered for the nation as a whole.

With the exception of South Dakota, every state in the district contributed to the August advance.

The trade sector, the largest district industrial component in terms of employment, at a rate of 2 per cent added significantly to the district employment level during the summer months. Every state in the district indicated gains in this sector, again with the exception of South Dakota where slight losses were registered.

The district level of employment in construction over the first eight months of 1965 averaged about 5 per cent above 1964 levels.



Economic Briefs

1. Funds approved for diversion planning

President Johnson has signed a bill to authorize planning for the Garrison Water Diversion project in North Dakota. The project would provide for irrigation of 250,000 acres, and would also make water available for municipal, industrial, recreational, and wildlife uses. Estimated cost of the total 30-year program: $206 million.

2. Honeywell to enlarge controls plant

Honeywell, Inc., has announced that a 330,000-square-foot addition is to be built at its Golden Valley, Minn., temperature controls plant. The project represents the largest single expansion project in Minnesota in Honeywell's 80-year history. As a result of the enlargement, over a period of time about 700 new jobs will be created.

3. Pellet plant expansions announced

Contracts have been let for a 2.8-million-ton expansion of the Erie Mining Co. taconite plant at Hoyt Lakes, Minn. Completion of the estimated $50 million addition, expected in two years, will boost total annual capacity to 10.3 million tons. Erie is owned by Bethlehem Steel Corp., the Youngstown Sheet and Tube Co., the Steel Co. of Canada Ltd., and Interlake Steel Corp.

Also, Reserve Mining Co. has announced a $25 million expansion project for its Silver Bay, Minn., pellet plant. The present 10-million-ton capacity plant is jointly owned by Armco Steel Corp. and Republic Steel Corp. The expansion calls for additional ball mills for grinding taconite preparatory to pelletizing, pumps, a new steam generating plant, as well as new railroad equipment for the Babbitt division.

4. New gas lines for Upper Michigan

Michigan Consolidated Gas Co. has started operation of its new natural gas pipelines in Upper Michigan. Included are 25 miles of distribution lines in the Menominee-Powers area; and 29 miles and 70 miles of transmission lines in the Escanaba-Rapid River area and the Iron Mountain area respectively.