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AGRICULTURE

USDA projects a 20 percent cut in 1980 farm income

The U.S. Department of Agriculture is now projecting a 20 percent drop in 1980 net farm income, according to an early November announcement which received remarkably little notice in the nation's business press. The drop from 1979's $30 billion to $24 billion is twice that estimated in pre-announcement leaks over the past several weeks. It's attributed to a sharp run-up in production costs—primarily energy—and a stabilization of farm prices as a result of record harvests.

The USDA projection is markedly bleaker than most. Farmland Industries, for instance, the nation's largest agricultural cooperative, earlier in the month predicted that the 1980 net farm income would decline by about 10 percent, to about $27 billion.

In making the announcement, Agriculture Department spokesmen emphasized that any forecast at this time is "very tentative." The outlook could turn out, in fact, to be very much worse. What is clear in published analyses to date is that there is little or no consideration given to the central economic event of the recent period—credit-rationing measures announced by Federal Reserve Chariman Paul Volcker. Computer studies reported in this magazine on Nov. 6-12 have shown that agriculture will be particularly impacted by the measure within the context of an across-the-boards 15 percent loss in real output over an eight-quarter, continuous downturn through the end of 1981.

Even without considering the Volcker measures' impact, Agriculture Department spokesmen have stated that farm production expenses are expected to rise 11 percent over 1980, following a 16 percent jump in 1979. The rises are concentrated in energy and energy-based imputs such as fertilizer. The Agriculture Department's energy director, Weldon Barton, stated recently that the same amounts of petroleum fuels and electricity as farm producers purchased in 1979 will cost $2.5 billion more in 1980, a prediction based on the assumption that petroleum prices will rise 25 percent and electricity rates will increase by 8 percent. Fertilizer industry analysts predict price increases from 10 to 25 percent.

Reports over the past several weeks, however, show that the Volcker measures are already beginning to hit in the farm sector, with a potentially devastating impact. Many rural banks are newly reliant on money-center funds and pay at least the going prime rate-currently 15 or 15.5 percent—for funds. They are forced to turn around and charge at least that much to their borrowers. Even where these rural banks are held to 12 or 14 percent usury ceilings, this means a one-year hike in farm producer borrowing costs of from 3 to 9 or 10 percent. In many instances, usury ceilings are forcing bankers to simply curtail lending that cannot be profitable.

A Kansas banker recently told the *New York Times* that his average customer now had to bear a 5 percent interest rate increase. For the typical producer who needs $200,000 in operating loans annually, that means an annual $10,000 boost in operating costs for interest charges alone.

Farmers are already budget-cutting on peripheral equipment such as gates and water tanks, dealers in Iowa report, and can be expected to severely curtail capital goods purchases in order to reduce their credit needs. Some observers, such as the Illinois Farm Bureau's chief economist, W.E. Hamilton, forsee actual production cutbacks as a result of Volcker's policies.

The credit squeeze will have other, more specific implicatons for the farm sector—namely, it will knock the legs out from under the livestock sector once again, prolonging the already extended downturn in the cattle cycle. The cattle industry has yet to recover from the 1974-75 fallout. More than three years of herd liquidation finally drove prices into the range this year where cattle ranchers took the decision to expand herds one more. Now the credit squeeze will most likely abort this process in an industry that is highly leveraged all down the line. Cattle feeders report that their margins have disappeared. With interest rates up from 10.5 percent ot 17.5 percent, the interest charges carried while fattening a cow have jumped from $20 to $25 per head to $38 per head. This scale of increase throws a deadly monkey wrench into the delicate margins between the cost of feeder cattle and the sale price of fattened steers. In this environment, the only moderation in newly soaring meat prices will be a complete cessation in consumer demand.

—*Susan Cohen*

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