ILLINOIS FARM AND FOOD OUTLOOK
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FARM INCOME AND COSTS

NET FARM INCOME, including inventory adjustments, will likely average $24 billion this year, up from $21 1/2 billion in 1977. Last fall, 1978 prospects indicated rather stable farm prices and little change in net farm income from 1977. Some unexpected developments modified the agricultural outlook for 1978.

Severe weather disrupted livestock production and marketing patterns. Pork production increases expected last fall did not occur, and an anticipated lower beef production has resulted in total 1978 meat supplies 3 to 4 percent lower than a year earlier. The settlement of the coal strike and the spring thaw, following the extremely harsh winter, contributed to a very strong consumer demand. This demand along with lower red meat supplies has driven farm prices of cattle, hogs, and broilers sharply higher.

Crop prices have increased materially since the beginning of 1978, resulting from a heavy use of loan and grain reserve programs, improved export prospects, and the acreage division program for feed grains and wheat.

The changes mentioned above have improved the farm price and income prospects for farmers.

After a slight reduction of the prices paid for production items the last half of 1977, these prices increased about 10 percent during the first half of 1978.

During the last year (June, 1977 to June, 1978) sizable price increases occurred for feeder livestock, tractors, other machinery, buildings, taxes, interest, and farm wages. Feed and farm chemical prices remained below year earlier prices, while seed, fuel, and energy, and farm motor supplies increased about 2 to 3 percent.

FERTILIZER. Consumption of fertilizer was off 21 percent for the July, 1977 to March, 1978 period compared with a year earlier. Reduction in wheat and feed grain acreage and the wet spring contributed to cutback. Industry sources did indicate a sizable increase in fertilizer application during the month of May. Some nitrogen fertilizers declined slightly in price this spring from a year earlier, while superphosphate and muriate of potash increased slightly. Supplies of fertilizer materials should be adequate with relatively stable prices for fall applications.

FUEL AND ENERGY. Agricultural users have had adequate supplies of fuel during the spring and summer of 1978. Fuel and energy costs rose 2 to 3 percent from June, 1977 to June, 1978. Diesel fuel increased about 1 percent, leaded gasoline about 2.5

percent, and L.P. gas about 5.5 percent for the year. Supplies should be adequate for the remainder of the year. L.P. gas supplies for fall grain drying should be adequate although spot shortages may occur because of distribution problems. Although L.P. gas prices stabilized during the late spring and summer, the prices are expected to rise as use increases this fall and winter. Diesel and gasoline prices should be somewhat higher toward the end of the year.

FARM MACHINERY.. May, 1978 tractor sales were off about 5 percent from a year earlier. Sales of 2-wheel-drive tractors were off more than sales of 4-wheel-drive tractors. Self-propelled combine sales were up about 6 percent in May, 1978 over a year earlier. Square-bale hay-baler sales were down about 6 percent from a year earlier. Retail sales of other machines and equipment changed from -1 to +2 percent from May, 1977 to May, 1978. Tractor prices increased 6 to 10 percent from June, 1977 to June, 1978, the greater increases occuring with the smaller-horsepower tractors. Self-propelled combines increased in price 8 to 11 percent during the year ending June, 1978.

INTEREST RATES. Interest rates on farm real estate loans edged lower during most of 1977 and early 1978, while rates on non-real estate loans began to move up toward the end of the year. Interest rates for both real estate and non-real estate will rise throughout 1978. A survey of banks and PCA's indicates that there is no shortage of loan funds for the farm sector for 1978, but 3 to 4 percent of last year's borrowers of non-real estate loans from commercial banks and PCA's will not qualify for loans this year.

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