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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR TOBACCO

Talk by Robert H. Miller
Economic and Statistical Analysis Division
at the National Agricultural Outlook Conference
Washington, D.C., 2:00 P.M., Wednesday, February 19, 1969

The tobacco outlook for 1969 is highlighted by prospects for cigarette output and leaf exports to hold at last year's high levels. This would mean another reduction in carryover stocks. With average growing conditions, this year's tobacco crop could run larger, so supplies in 1969/70 may be near this year's ample levels.

Tobacco Products

Cigarettes take about four-fifth's of tobacco used in the United States. Cigarette output totaled about 580 billion last year--nearly 4 billion above 1967 and about 13 billion above 1966. Consumption by U.S. smokers (including shipments for overseas forces) is estimated at 550 billion--about the same as 1967. The number of cigarettes consumed per capita, 18 years and over, in 1968 was about 4,200 (210 packs), some 2 percent below 1967.

Retail cigarette prices rose in 1968, mostly due to increases in cigarette taxes in several States. The December 1968 BLS retail price index for filter-tip king-size cigarettes was $4\frac{1}{2}$ percent above a year ago.

More people are of smoking age and incomes are at record levels. But cigarette consumption in 1969 may do well to match the 1968 total because of further retail price increases and smoking-health publicity.

The 4-year moratorium that the 1965 Cigarette Labeling and Advertising Act imposed on the regulation of cigarette advertising expires July 1. Several bills to amend the Act have been introduced in Congress. The Federal Trade Commission and the Department of Health, Education, and Welfare, have recommended that the warning statement on cigarette packages be strengthened and that information on "tar" and nicotine levels in cigarette smoke also be required on cigarette packages and in cigarette advertising. In line with last year's FTC recommendation, the Federal Communication Commission this

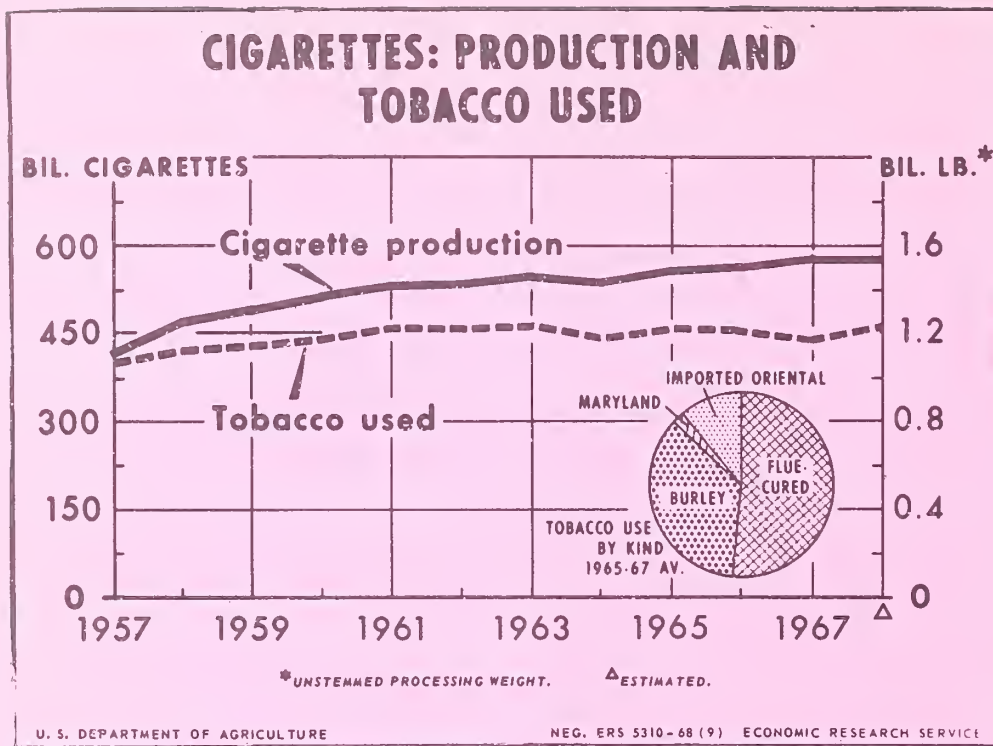


Figure 1

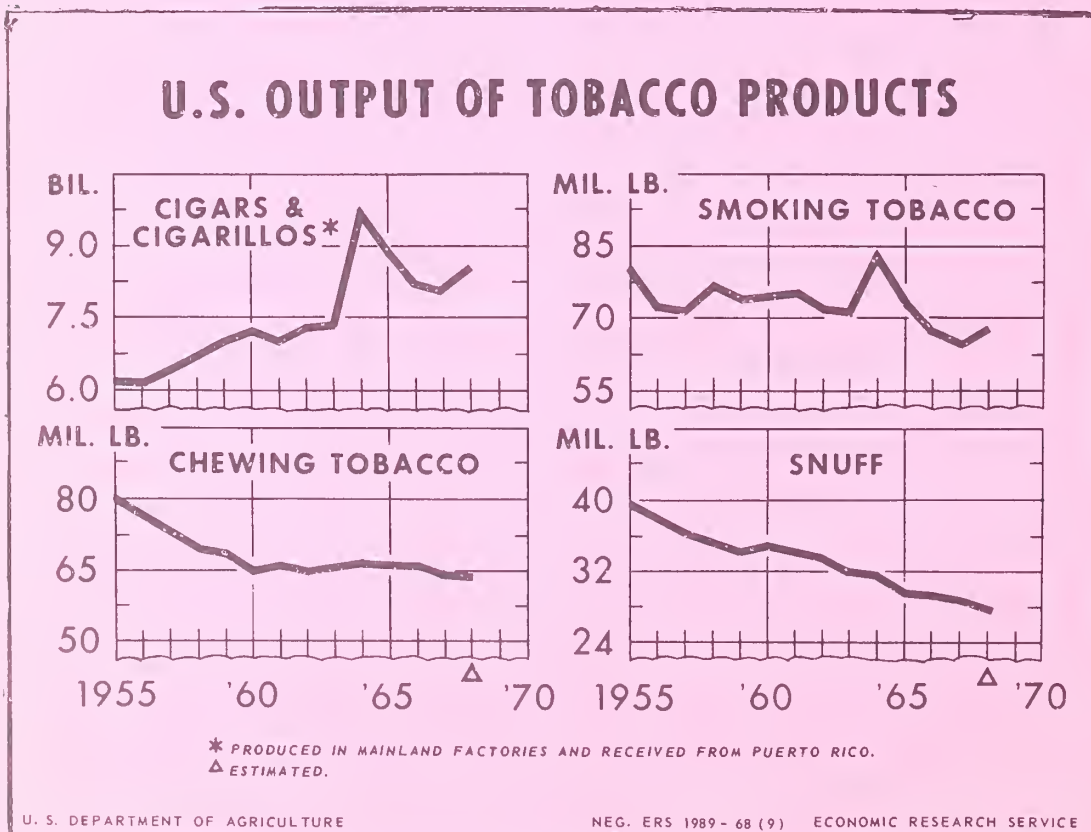


Figure 2

month proposed to ban cigarette advertising on television and radio. The FTC also recommends increased HEW spending for public education on hazards of smoking and for research to develop less hazardous cigarettes. FTC cigarette tests for "tar" and nicotine content are continuing.

Since the mid-1950's, the unstemmed tobacco used per 1,000 cigarettes has declined fairly steadily. The trend towards filter-tip cigarettes has been a factor. Other contributing factors have been substantially greater use of processed stems (midribs of leaves), use of reconstituted sheet made from stems and small fragments of leaf, and other manufacturing efficiencies.

The consumption of cigars (includes cigarillos) last year was about 8.1 billion, the same as in 1967, but about 10 percent below 1964. The downtrend in cigar production and consumption since the unusually high peak of 1964 stopped in 1968. Consumption per male 18 years and over was 129 cigars, about 1 percent below 1967. Cigars from Puerto Rico account for almost one-seventh of U.S. consumption. Total cigar consumption this year may not be markedly different than in 1968. But the emphasis on smaller, thinner shapes means less tobacco per cigar.

The 1968 output of smoking tobacco for pipes and roll-your-own cigarettes was 66 million pounds--2 percent above 1967. Imports of smoking tobacco in 1968 were around 5 million pounds. A further increase in smoking tobacco consumption may be expected for 1969.

Output of chewing tobacco was 65 million pounds last year--about the same as in 1967. Chewing tobacco output has remained fairly stable since 1960. Increases in scrap and fine-cut chewing have about offset decreases in plug and twist. Snuff production continues to decline. Per capita use of these products is expected to continue downward in 1969.

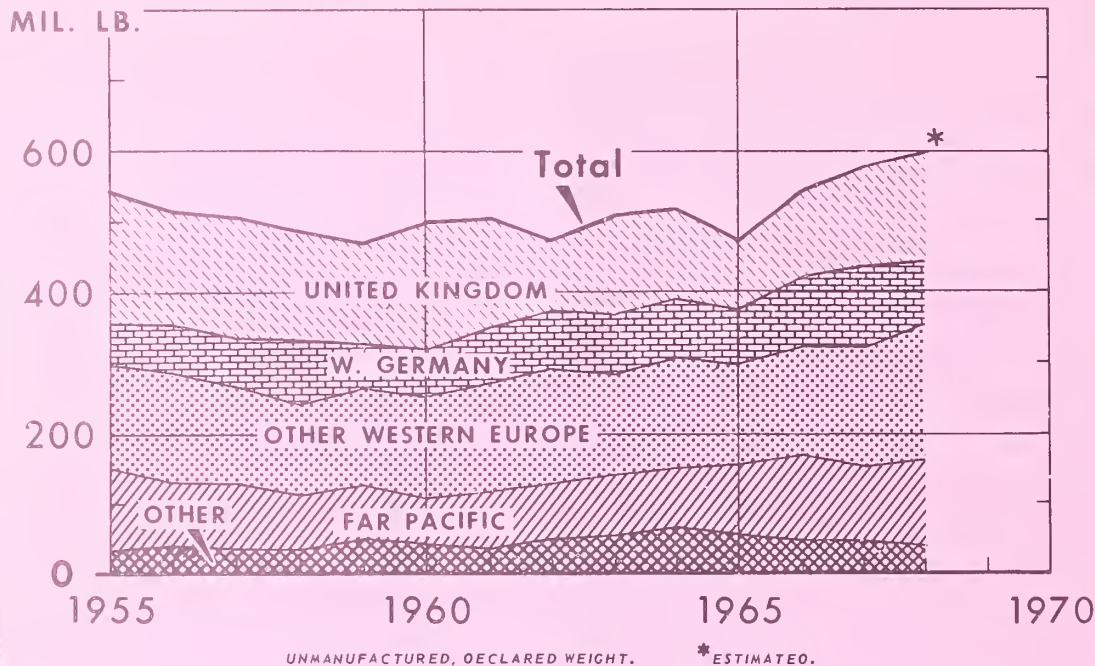
Foreign Trade

U.S. exports of tobacco and tobacco products were a record \$686 million in 1968. Both volume and unit value were higher than in 1967. Unmanufactured tobacco exports last year were valued at \$524 million and shipments of tobacco products also reached a record \$162 million. In recent years about 30 percent of the U.S. tobacco crop has been exported--representing about one-third of world export trade in tobacco.

U.S. exports of unmanufactured tobacco in 1968 totaled 599 million pounds (665 million, farm-sales weight)--5 percent above 1967 and the largest since 1946. During last year West Germany took less tobacco than in 1967 due to tax changes, while United Kingdom and other Western European countries took more. Several countries in Asia and Oceania also took more.

U.S. exports in 1969 will probably continue close to the 1968 high level. Helping U.S. exports are the U.N. sanctions against Rhodesia, the quality of recent flue-cured crops, and the U.S. export payment program. Adverse influences are higher tobacco duties, changes in foreign production methods, higher U.S. prices and expanded production by several heretofore minor producers.

EXPORT MARKETS FOR U. S. TOBACCO

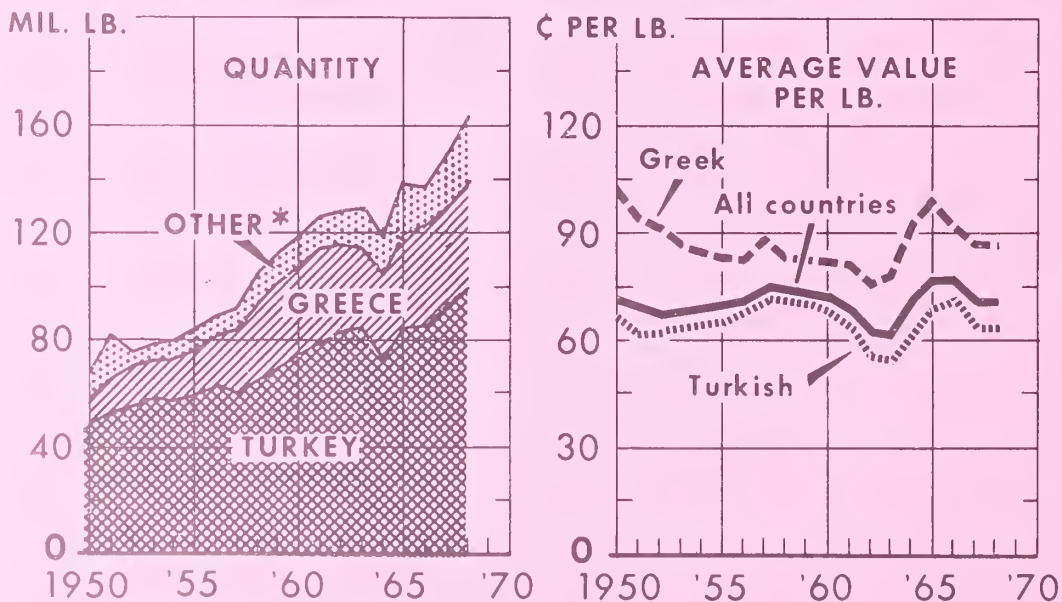


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Figure 3

U. S. IMPORTS OF CIGARETTE TOBACCO



IMPORTS FOR CONSUMPTION. * PRIOR TO 1952 PRINCIPALLY SYRIA, RUSSIA, AND BULGARIA. SINCE 1952 PRINCIPALLY YUGOSLAVIA, ITALY, CYPRUS AND SYRIA. 1968 IMPORTS, ESTIMATED; 1968 AVERAGE VALUES BASED ON 11 MONTHS.

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Figure 4

The largest market area for U.S. tobacco is Western Europe, and its total imports of unmanufactured tobacco have gained 2-3 percent annually in the 1960's. But shifts among suppliers are important and the EEC and U.K. preferential arrangements can adversely affect exports of countries outside these groups. In other markets where population is gaining more rapidly and per capita incomes are much lower, leaf use is gaining at a faster rate, but the demand is more limited for the higher priced U.S. supplies.

The United States is the third largest tobacco importing country because of demand for certain kinds of foreign tobacco for blending with domestic types in the manufacture of cigarettes and cigars. Oriental cigarette leaf is the principal kind of import; imports for consumption (factory use) last year rose about 12 million pounds to 163 million pounds--a gain of 8 percent over 1967. In addition 8 million pounds of oriental scrap and 2 million pounds of imported flue-cured and burley leaf were used last year.

Cigar tobacco imports are mainly filler tobacco including scrap. The Philippines is the leading source. During October 1967-September 1968 there were 75 million pounds (farm-sales weight) imported for consumption, up 12 million from a year earlier.

Import for consumption accounted for about one-sixth of domestic tobacco utilization last year, this high level of factory use will probably continue due to large foreign stocks in the United States and substantial exportable supplies overseas. Costs of U.S. and oriental leaf for cigarettes are similar, but oriental scrap carries a much lower value. Oriental tobacco is known to be low in nicotine content.

Leaf Tobacco

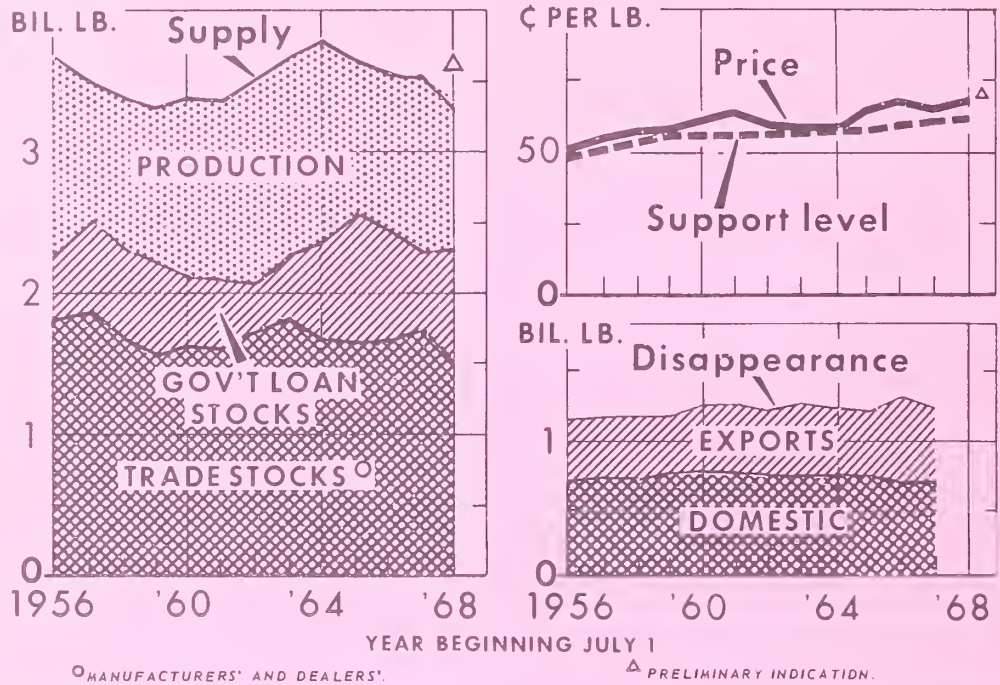
Smaller crops and carryovers have reduced supplies for the 1968/69 marketing year 5 percent below last year. Prices increased 4 percent and less tobacco is moving under loan this season. But the smaller volume of farm marketings meant farmers earned smaller incomes from the 1968 crop.

Government price support is mandatory for the kinds of tobacco produced under a marketing quota. The 1969 crop price support levels for eligible tobacco are expected to be 3.6 percent higher than in 1968. The increase results from a rise in the parity index (a measure of changes in prices paid by farmers, wages paid to hired labor, interest, and taxes).

The supply of flue-cured tobacco this marketing year is 6 percent below 1967/68 and 11 percent below the record 1964/65 level. Carryover stocks in mid-1968 were 1 percent above a year earlier. However, marketings from the 1968 crop were one-fifth below 1967 and the smallest since 1957.

The 1968 flue-cured crop auction prices averaged 66.5 cents per pound--2 cents above the previous season. Placements under Government loan amounted to 13 percent of market deliveries. In the 1967 season, 23 percent of market deliveries went under loan.

FLUE-CURED TOBACCO: SUPPLY, PRICE, USE

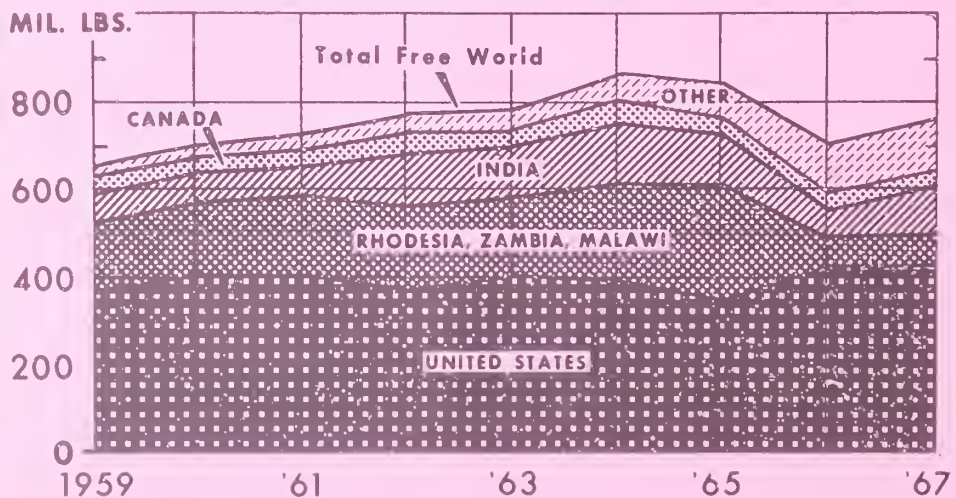


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Figure 5

FREE WORLD EXPORTS OF FLUE-CURED TOBACCO



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Figure 6

The proportion of types 11-13 flue-cured sold in untied form rose further in 1968. In these markets all grades could be marketed untied with price support during the entire season. Also helping in more orderly marketing were standardized presheeting, booking of warehouse space, and new warehouse conveyor systems.

Last marketing year, exports of flue-cured (over four-fifths of total U.S. tobacco exports) were 9 percent below the previous record high, and domestic use was steady. Exports for July-December 1968 were above a year earlier and domestic disappearance may have been nearly the same. If last year's disappearance of 1,221 million pounds is matched in 1968/69 this would bring the mid-1969 carryover of flue-cured down 10 percent to a little under 2,100 million pounds.

For 1969, the national flue-cured marketing quota is essentially the same as for 1968. Undermarketings from the 1968 crop exceeded overmarketings, so under the acreage-poundage program the effective poundage quota is around 1,200 million pounds. Thus, the 1969 production could be one-fifth larger than last year's. A 1969 crop at this level, plus the tentative carryover would provide a 1969/70 supply a little under this year's supply.

The 1968/69 supply of burley tobacco is 2 percent below the previous year and 8 percent below the 1964/65 record. Carryover on October 1 was about 3 percent less than a year earlier. The 1968 crop was above the reduced 1967 crop. The 1968 crop sold at a record price of 74 cents a pound. Loan placements, at 9 percent of the crop, were down from the 1967 season.

Domestic use of burley slipped some in 1967/68 and exports were down from the previous year's high level. Combined domestic use and exports in 1968/69 may equal last year's 594 million pounds with steady U.S. cigarette production and growing popularity of American-type blended cigarettes abroad. Although world demand for burley has increased, U.S. burley faces increased competition from expanded foreign production.

So the burley carryover next October 1 may drop some 3 percent below the last October 1 level. Although the acreage allotment for this year is the same as last year, the crop could turn out a little larger since yields have been trending upward. This would give a 1969/70 supply about the same as this year's supply.

For other tobaccos the current marketing year's supplies of fire-cured, Maryland, cigar filler, and cigar binder, are smaller than last season, while cigar wrapper and dark air-cured are about the same. Marketing quotas and acreage allotments for tobaccos under support were announced last month. Growers of Connecticut binder, Ohio filler and Wisconsin binder types are voting in referendums this month for or against quotas on their next 3 crops.

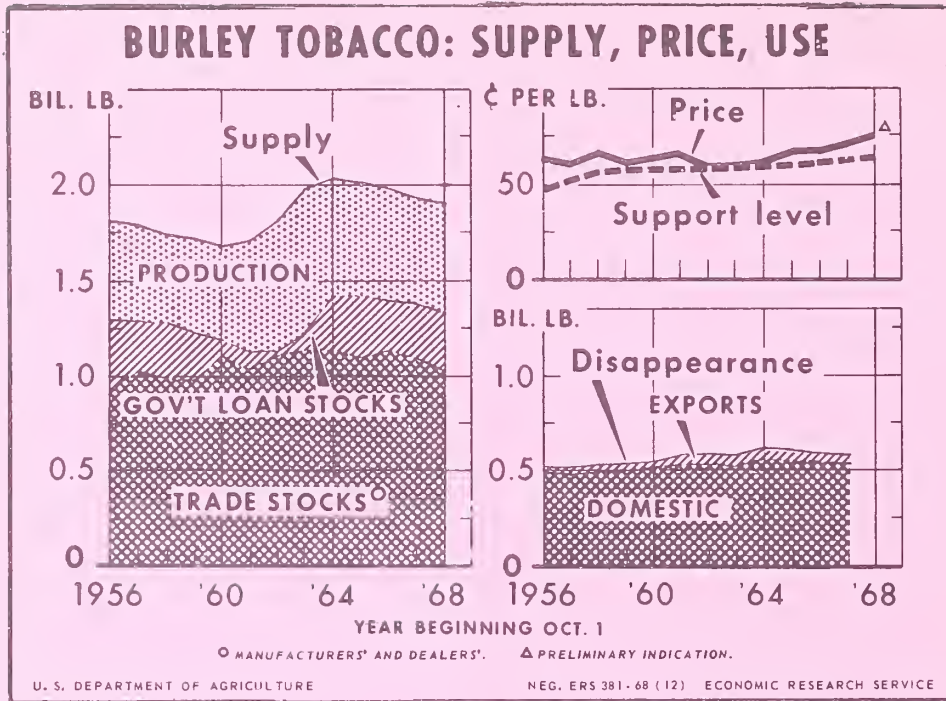


Figure 7

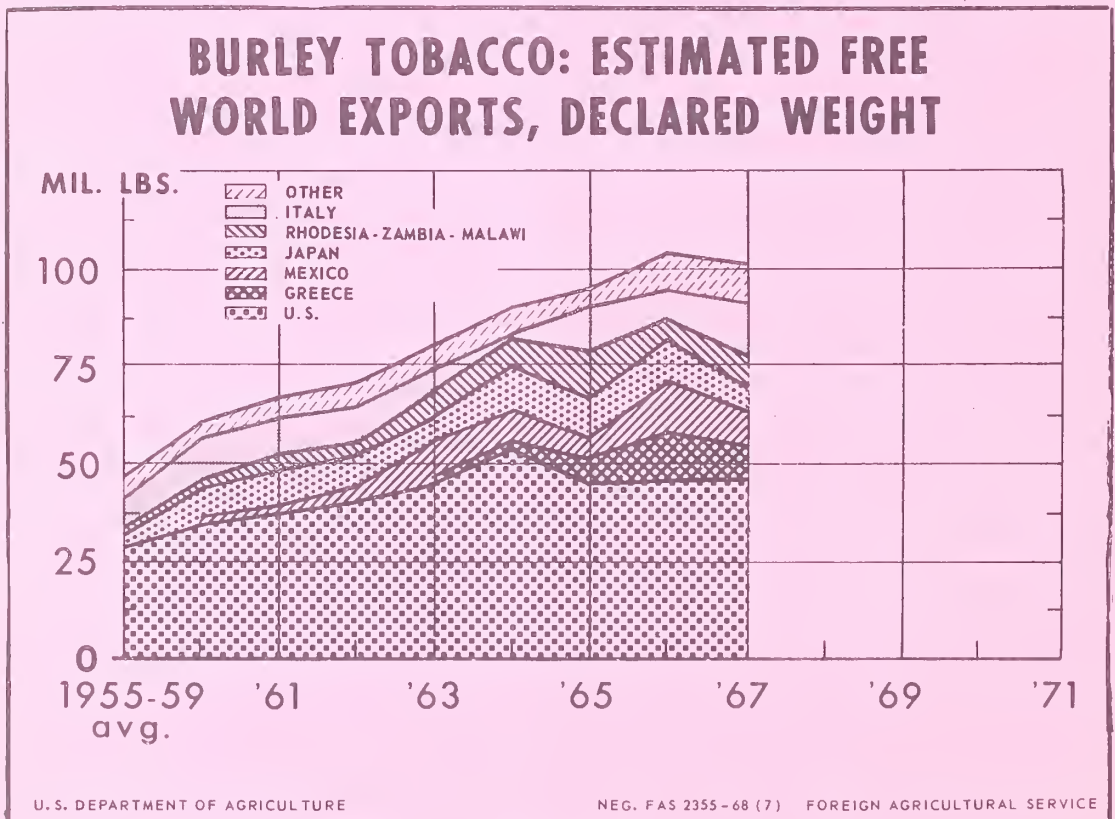


Figure 8