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## U.S. AGRICULTURAL SITUATION AND OUTLOOK <sup>1</sup>

[By Rex F. Daly, Acting Outlook and Situation Officer, Economic Research Service, USDA]

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The improved price and income outlook for agriculture is expected to extend well into 1976. A record 1975 crop is moving to market. Although the harvest of the big grain and soybean crops is creating transportation and storage problems, the temporary glut is due to the unusually rapid harvest of large, good quality crops. Much of the price impact of these larger crops will be offset by a greatly expanded world demand. Accordingly, farmers' receipts in 1975/76 for the larger crop are expected to increase modestly as stronger demand maintains average crop prices only moderately below a year earlier. With livestock product prices running well above a year ago due to reduced supplies, return to farmers through mid-1976 are expected to hold around recently improved rates and well above the 1974/75 marketing year. At the same time, bumper crops and the beginning upturn in livestock production will continue to slow the rise in retail food prices.

While the outlook for agriculture for the second half of this year and for the 1975/76 marketing year is optimistic, there are uncertainties in the picture. The pace of the initiated recovery in livestock production will depend to a considerable extent on development in foreign markets and their impact on the supply and cost of feed.

Larger feed supplies and easier prices give added impetus to the turnaround in livestock production. Still, it may be next summer before we can expect much increase in production of meats, especially pork. As a result, supplies of livestock products, even though improving, will continue relatively tight.

In the general economy, rising energy costs and continued inflation operate to limit gains in consumer buying power as well as bring further, but hopefully slower, increases in farm production costs.

### MARKETS FOR AGRICULTURAL PRODUCTS

In most recent years the domestic market has absorbed about 80 percent of total farm production. Farm products, mostly from U.S. farms, provide the food and the material inputs for beverages, tobacco, clothing and textiles, leather goods, soaps, paints and other consumer products. These products of the broad agricultural industry account for a substantial part of total consumer expenditures for goods and services.

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<sup>1</sup> This paper was developed with extensive assistance from the Outlook Staff of the Economic Research Service.

The economic recovery now underway is expected to continue in 1976 and support an expansion in domestic demand for food, textiles and other consumer goods. Also the upturn in livestock production will expand domestic use of feed grains.

During 1975 the income tax reduction, unemployment compensation and other Government programs bolstered consumer buying power. The pickup in economic activity now underway will help to restore consumer confidence and generate real gains in consumer purchasing power. Indeed, increased consumer buying may well be the key to general economic recovery and how well it can be sustained in 1976.

#### OVERSEAS MARKETS AND FOREIGN DEMAND

The farmer also makes his production plans with the export market in mind. He usually exports upwards of two-thirds of the wheat and rice crops, a third to one-half of the soybean and cotton crops, and around a fourth of feed grain output. He would be in severe economic straits without export markets. And much of the world would suffer severe food shortages without U.S. exports. Foreign markets usually take 20 to 25 percent of total U.S. crop output. Variations in such an important market are very important to the prosperity of U.S. farmers.

Foreign demand for U.S. farm products is influenced by a number of forces. These forces often fluctuate widely from year-to-year, introducing substantial instability in U.S. agriculture and the economy in general. Foreign demand is not simply exports. But, in an open market, the forces of foreign demand face domestic demand forces in allocating available supplies. This rough equilibrium of economic and some non-economic forces determines exports, domestic use, and prices.

Unfortunately, major determinants of foreign demand and the manner in which they influence U.S. exports, domestic use, and prices are complicated and difficult to measure. Some of the forces influencing overseas demand depend on a complex set of institutional arrangements affecting trade which are essentially non-economic, though they too may respond to economic forces—government trading boards, variable levies, quotas, for example.

#### U.S.S.R. GRAIN SUPPLY PROSPECTS

In recent years changes in world food production, as they affect world food supply-demand balances, have been the major force influencing overseas demand and U.S. exports. Certainly the summer deterioration in grain crop prospects in the Soviet Union and Europe and the buying that resulted materially strengthened the price and income situation for U.S. farmers. Overseas demand for U.S. grains continues to be dominated by estimates of USSR and world production prospects. Early November estimates place the Soviet grain crop at 160 million metric tons (and some estimates are lower). Such a crop would be about 36 million tons below the 1974 crop and some 55 million tons short of the USSR production target for the 1975 crop (table 1).

TABLE 1.—U.S.S.R. TOTAL GRAIN SUPPLY AND USE. FISCAL YEAR 1974-75 AND ESTIMATES FOR 1975-76<sup>1</sup>

[Million metric tons]

	1974-75	Estimated 1975-76	
		Total	Change from 1974-75
Beginning stocks <sup>2</sup> .....	21.0	12.0	-9.0
Production.....	195.7	160.0	-35.7
Imports.....	5.4	27.2	21.8
Exports.....	5.2	1.2	-4.0
Domestic use.....	204.9	190.0	-14.9
Carryover stocks <sup>2</sup> .....	12.0	8.0	-4.0

<sup>1</sup> Includes wheat, coarse grains, rice, and pulses.<sup>2</sup> Rough approximations; data not reported.

Estimated supplies of coarse grains are off 26 million tons from 1974. Although larger USSR imports will offset part of this drop, a sizeable reduction in use and carryover of coarse grains is indicated. Reported slaughter of hogs and poultry also confirm that some distress slaughter of animals is underway as the USSR adjusts its livestock numbers to smaller and higher cost supplies of feed. Such reductions in livestock numbers will also moderate Soviet demand for imported grain.

## WORLD GRAIN SUPPLIES

Despite sharp cuts in grain production in the USSR and Europe, the 1975 world grain crop is expected to total slightly above last year's crop of 1,144 million tons. The increase of about 25 percent in the U.S. grain crops (wheat, feed grains and rice) offsets most of the indicated production decline in USSR and Europe (table 2).

Production in the rest of the world, including several grain exporters, is expected to increase by around 6 percent. Fortunately a larger world rice crop will improve supplies in many of the less developed countries.

But world grain consumption will expand with continued population growth and the upturn in world economic activity. And prospective world use relative to available supplies points to a continuation of low world stocks of grains. Stock improvement indicated for the U.S. likely will be offset by a stock drawdown in much of the rest of the world.

TABLE 2.—WORLD GRAIN PRODUCTION, 1974-75 AND ESTIMATES FOR 1975-76

[Million metric tons]

	1974-75	Estimated 1975-76	
		Total	Change from 1974-75
United States.....	203	249	46
Soviet Union <sup>1</sup> .....	182	149	-33
West Europe.....	142	132	-10
East Europe.....	89	85	-4
Other countries.....	528	559	31
Total.....	1,144	1,174	30

<sup>1</sup> Excludes minor grains.

## U.S. EXPORTS OF FARM PRODUCTS

The U.S.-Soviet grains agreements will avoid some of the erratic annual purchases which in the past introduced instability into the U.S. economy. The agreement also should help farmers as they develop production plans for the coming year.

Export estimates which take into account foreign demand forces outlined above, as well as the U.S. domestic supply situation, point to big increases in U.S. exports in the 1975/76 market year. Exports of wheat and corn may run 25 to 30 percent above 1974/75 when U.S. crops were reduced by poor weather. Continued large exports of rice are in prospect and some gain is likely for exports of soybeans (table 3).

TABLE 3.—ESTIMATED U.S. EXPORTS FOR 1975-76

	Exports 1974-75	Estimated exports 1975-76
Wheat (million bushels).....	1,039.0	1,300-1,400
Corn (million bushels).....	1,145.0	1,400-1,500
Rice (million hundredweight).....	69.5	66-73
Soybeans (million bushels).....	421.0	450-500
Cotton (million bales).....	3.9	3.5-4.0

The combined volume of U.S. exports in fiscal 1975/76 may total around 15 percent larger than a year earlier. But prices of major export crops likely will average lower, perhaps around 5 percent below 1974/75. Thus, the value of farm product exports will likely total around a billion dollars above the \$21.6 billion reported for 1974/75. Imports of agricultural products also may increase in 1975/76, but the balance of agricultural trade will likely exceed the high net export level of \$12 billion in 1974/75.

## PRODUCTION, USE, AND PRICES

Crop output this year will total about 11 percent larger than the weather reduced 1974 crop. Larger production is indicated for all major crops except cotton. Grain and soybean crops will total nearly a fourth larger. Unusually favorable weather for maturing and harvesting corn and soybeans caused a backup of stocks on farms and some weakness in farm and market prices in recent weeks.

Grain supplies for the 1975/76 marketing year will include the much larger 1975 grain crops but relatively small carryover stocks of wheat and corn. Even so, supplies of grains and soybeans will be large enough to cover estimated increases in domestic use, larger exports, and a sizeable increase in carryover stocks by the end of the 1975/76 marketing year (table 4).

TABLE 4.—PRODUCTION AND USE OF SELECTED MAJOR CROPS

Commodity and year	Production	Domestic use	Exports	Ending stocks <sup>1</sup>	Farm price <sup>2</sup>
<b>Wheat:</b>					
1973-74 (million bushels).....	1,705.0	752	1,148	247	3.95
1974-75 (million bushels).....	1,793.0	683	1,039	320	4.04
1975-76 (estimated bushels).....	2,138.0	694-719	1,300-1,400	365-440	.....
<b>Corn:</b>					
1973-74 (million bushels).....	5,647.0	4,631	1,243	483	2.55
1974-75 (million bushels).....	4,651.0	3,632	1,145	359	2.95
1975-76 (estimated bushels).....	5,804.0	3,940-4,140	1,400-1,500	624-724	.....
<b>Rice (paddy):</b>					
1973-74 (million hundredweight)....	92.8	37.0	49.7	7.8	13.80
1974-75 (million hundredweight)....	114.1	40.2	69.5	7.1	10.45
1975-76 (estimated hundredweight)...	124.1	41.4-42.2	66.4-72.6	16.4-23.4	.....
<b>Soybeans:</b>					
1973-74 (million bushels).....	1,547.0	897	539	171	5.68
1974-75 (million bushels).....	1,233.0	797	421	186	6.50
1975-76 (estimated bushels).....	1,520.0	831-881	450-500	325-425	.....
<b>Cotton:</b>					
1973-74 (million bales).....	13.0	7.5	6.1	3.8	44.4
1974-75 (million bales).....	11.5	5.9	3.9	5.7	41.0
1975-76 (estimated bales).....	9.0	6.8-7.3	3.5-4.0	3.6-4.6	.....

<sup>1</sup> Totals do not quite balance due to small imports.

<sup>2</sup> Dollars per bushel, hundredweight or bale.

## LIVESTOCK AND LIVESTOCK PRODUCTS

Production of livestock products this year will be down from 1974, possibly by around 2 percent. This is a very small decline in view of nearly a fifth less pork output. Although fed beef output is lower, sharply increased output of less finished beef is more than offsetting. Broiler output is also larger due to a rapid recovery in second half 1975. Reduced output of livestock products this year, much of which developed in first half 1975, reflects adjustments of livestock producers to the weather reduced and high cost 1974 feed crops (table 5).

With reduced output of meats and poultry and well-maintained consumer buying power, livestock product prices increased steadily from the spring of 1975. Lower milk production and a strong market this summer sparked sharp increases in prices for milk and dairy products. With the midyear price surge, producer prices of livestock and products in the second half of 1975 will average around a fifth above a year earlier.

TABLE 5.—OUTPUT OF LIVESTOCK PRODUCTS, 1974 AND ESTIMATES FOR 1975 AND 1976

Commodity	1974	1975 estimate (percent)	January to June rate	
			1975	1976 forecast (percent)
Beef (commercial) (billion pounds).....	22.8	3	11.4	5-7
Hogs (billion pounds).....	13.6	-18	6.0	-8-9
Broilers (billion pounds).....	7.9	7	3.9	10-12
Eggs (billion dozen).....	65.9	-2	31.9	0-2
Milk (billion pounds).....	115.4	0	59.5	½-1½
Index 1967=100.....	105.0	-2	.....	.....

## LIVESTOCK DEVELOPMENTS THROUGH MID-1976

Higher prices for livestock, poultry, and milk and lower cost feed have greatly improved prospective returns on feeding operations.



Third quarter placements of cattle on feed were up 22 percent from a year earlier, including September placements in the seven major feeding States 85 percent above a year earlier. And the October 1 inventory of cattle on feed was slightly above a year earlier for the first time since October 1973. Availability of feeder cattle, feedlot capacity, and feeding costs provided major ingredients for further placements of cattle on feed this fall and winter. These developments point to more fed beef in 1976. But total beef production, while continuing above year-earlier levels, may decline seasonally through next spring as non-fed slaughter declines.

Hog producers also are responding to high hog prices and more favorable feeding margins. Farrowing intentions for September–November are down 7 percent from last fall, but the cut is less than producers had planned last June. Reported farrowing plans for the coming December–February period are up 6 percent from a year earlier—the first increase for the period since 1972/73. Although an expansion in pork output is underway, it will be mid-1976 and beyond before we can expect much increase in pork production.

Production of broilers, already increasing, may run 10 to 12 percent larger than a year earlier during the closing months of this year. Despite a small hatchery supply flock, broiler production is likely to hold around a tenth larger in first half 1976.

Milk production is recovering some this fall as dairymen respond to rising milk prices and improved milk-feed price relationships. Production in 1975 is expected to hold close to the level of the past 3 years. In first half 1976 production will likely run a little above year-earlier levels as gains in output per cow offset an expected small decline in cow numbers.

Even with some increase in output, livestock product prices in first half 1976 may average near advanced levels in the last half of this year, and possibly some 15 to 20 percent above a year earlier. Biggest gains are indicated for hogs and cattle (table 6).

TABLE 6.—PRICES OF MAJOR LIVESTOCK AND LIVESTOCK PRODUCTS 1974 AND ESTIMATES FOR 1975 AND 1976

Commodity	1974	Estimated 1975	January to June average	
			1975	1976 forecast
Steers (choice Omaha), dollars per hundredweight.....	41.9	44.8	41.9	45-48
Barrows and gilts (7 markets) dollars per hundredweight.....	35.1	50.5	42.7	52-57
Broilers (9 city average), cents per pound.....	38.2	45.1	42.4	42-47
Eggs (New York grade A large), cents per dozen.....	58.2	56.9	54.5	52-56
Milk, dollars per hundredweight.....	8.3	8.60	8.12	8.75-9.00

### GROWER RECEIPTS AND INCOME

The price and income outlook for farmers improved sharply around mid-1975. Improvement began as unfavorable growing weather brought a deterioration in world grain crop prospects, especially in USSR and Europe. These developments sharply expanded foreign demand for U.S. grains. But bumper U.S. grain and soybean crops, now being harvested will cover expected demand increases and provide for increased carryover stocks. Increased demand for the record 1975 crop will help to maintain crop prices and grower receipts.

## ESTIMATED MARKETINGS, PRICES, AND INCOME FOR 1975

Crop receipts in the closing months of 1975, when marketings are seasonally large, will depend as usual on price movements and producers ability and inclination to sell or possibly to hold and thus shift more marketings into 1976. This greatly complicates the task of estimating calendar year marketings and the inventory adjustment for the year.

Reduced marketings of livestock products and sharply higher prices will increase livestock receipts in calendar year 1975. The indicated gain of around \$2 billion from 1974 more than offsets the expected decline in crop receipts (table 7).

TABLE 7.—CASH RECEIPTS, EXPENSES, AND NET FARM INCOME, 1974 AND ESTIMATED 1975

[In billions of dollars]

	Calendar years	
	1974	Estimated 1975
Cash receipts.....	93.5	94.1
Livestock products.....	41.4	43.5
Crops.....	52.1	50.6
Nonmoney income.....	7.1	7.4
Government payments.....	.5	0.7
Realized gross income.....	101.1	102.2
Production expenses.....	73.4	77.2
Realized net income.....	27.7	25.0
Inventory change.....	-1.6	-----
Total net income.....	26.1	-----

Although a small gain in gross income is indicated for 1975, farm production expenses have increased from 1974. Farmers apparently purchased less feed and fertilizer than in 1974. But prices paid this year for production items, interest, taxes, and wages will average around a tenth higher. As a result, an increase in farm production expense of some \$3 to \$4 billion will more than offset indicated increases in gross income. Accordingly, realized net farm income for 1975 may total around \$25 billion. This would be nearly a tenth below 1974, but still the third highest year of record.

## FARM INCOME IN FISCAL (CROP) YEAR 1975-76

The outlook horizon for 1975 crops, many of which are marketed largely in 1976, generally extends into next summer. Relatively favorable price prospects and no restraints on production likely will result in large crops again next year, if growing conditions are favorable. Obviously a forecast of income for calendar year 1976 requires the kind of judgment about 1976 crops that is difficult and not very useful at this time. However, we can describe the output, price, and income outlook for farmers in the 1975/76 marketing year using estimates and comparisons for the approximate "fiscal (crop) year" 1975/76. This convenience avoids some of the difficult problems of estimating the seasonal pattern of marketings as well as quarterly income estimates.

Output estimates for fiscal 1975/76 reflect the record 1975 crop which is virtually assured. But with the stronger foreign and domestic demand, crop prices are expected to hold up well enough to increase

crop receipts modestly from 1974/75. Sharply larger livestock receipts reflect the low level of output and much higher prices (table 8). Combined cash receipts indicated for 1975/76 total around \$10 billion above the \$91 billion in 1974/75. Even though continued increases in farm production expenses will offset much of the gain in gross income, a sizeable increase in realized net farm income is suggested for 1975/76. The indicated rate runs above the \$25 billion estimated for calendar year 1975 and well above fiscal 1974/75. Moreover, the gain in total net income will be even larger since inventories will be accumulating. Part of realized net farm income in 1974/75 was due to a sell-off of inventories.

TABLE 8.—FARM OUTPUT AND PRICES, CALENDAR YEAR AND FISCAL (CROP) YEAR, 1974, 1974-75 AND ESTIMATES FOR 1975 AND 1975-76

[Indexes 1967=100]

	Calendar 1974	Years 1975 estimate	Approximate fiscal (crop) year	
			1974-75	1975-76 estimate
Total farm production:				
Livestock output.....	105	103	104	104
Crop production.....	110	122	110	122
Prices received by farmers.....	184	182	177	190
Livestock products.....	163	173	158	188
Crops.....	214	196	205	195

### FOOD SUPPLIES AND PRICES

At the same time that net income is improving, the food production and price outlook is encouraging. The upturn in production of meats, poultry, eggs, and milk, along with the large crops moving to market, improves supplies of major field crops, many fruits, vegetables, and sugar crops as well as supplies of animal products. Bigger supplies will help to moderate upward pressure on food prices. Although retail food prices may increase slightly from the third to the fourth quarter, lower prices are indicated for beef, poultry, fresh fruits, and potatoes. For the year, retail food prices will likely average about 9 percent above 1974, substantially less than the increases in 1973 and 1974. Retail food prices will continue to rise moderately, but year-to-year increases are expected to narrow in the next 6 to 9 months.