Bullish It Ain't . . .

THE OUTLOOK FOR AGRICULTURE IN '78

Sada L. Clarke

The U. S. Department of Agriculture's leading economists recently analyzed this year's prospects for the nation's agriculture at the National Agricultural Outlook Conference. The outlook, as they see it, shapes up this way.

The nation's farmers apparently face another year of relatively low prices and incomes in 1978 despite expanding domestic markets and strong exports. Consumers, however, seem assured of abundant supplies of food at prices only moderately higher than in 1977.

Barring adverse weather, crop output should be large again. And relatively low feed costs will likely encourage expanded production of fed beef, pork, poultry, and milk. Farm production costs will probably rise further but at a slower rate. Moreover, farmers can expect ample supplies of production inputs.

Many farmers began the year in a somewhat less favorable financial condition than they did a year ago. Many have been faced with repayment difficulties, but only a small proportion are reported to have become unsatisfactory credit risks and will find it difficult to obtain additional credit. Demand for credit is likely to be strong.

These prospects are some of the key features of forecasts made by the Department of Agriculture's analysts at the annual agricultural outlook conference in mid-November. These top level economists were faced with many uncertainties, however, as they prepared the outlook for 1978. These uncertainties, the outcome of which can have major impacts on farm incomes and food prices, centered on the strength of the expansion in domestic markets, prospects for U. S. agricultural exports, the weather and growing conditions both here at home and abroad, and the impact that the cattle cycle will have on meat supplies and prices.

Farm Income Picture Continues Weak Farmers' total net farm income, including change in inventory values, dropped slightly below $20 billion in 1977.[1] Net farm income has fallen more than 40 percent since the peak in 1973 and is now 18 percent under the level two years ago. The current situation points to little, if any, improvement in 1978, especially during the first half.

With the huge stocks of corn and wheat that have accumulated and with prospects that total crop production will be only slightly smaller despite the set-aside programs for wheat and feed grains, 1978 crop prices can be expected to average lower than in 1977. Moreover, with supplies of grain abundant and prices relatively low, production of livestock and livestock products will likely expand. Such expansion would probably dampen price gains for livestock products. Larger direct government payments from the new farm program should help maintain gross farm income, however.

Farm production expenses can be expected to continue to climb in 1978 but at a much more moderate rate than in recent years. In addition, supplies of production inputs, such as pesticides and fertilizer, will probably be ample. Lower feed prices, reduced crop inputs as the result of the set-aside programs, plus much slower increases in prices of most inputs and the likelihood of declining prices for some are the major forces that point to a moderating advance in production costs. But even though price gains for farm inputs are likely to slacken, the outlook for generally lower farm product prices means

[1] Because of the improvement in grain prices during the fourth quarter, USDA has revised its estimate of total net farm income for 1977. Now, instead of a slight decline, as indicated earlier, net farm income is estimated to have hit the $20 billion mark for the second consecutive year.

that farmers—particularly crop farmers—will be facing a cost-price squeeze again in 1978.

Foreign Trade Outlook Uncertain Uncertainties surround the outlook for U. S. agricultural exports in fiscal 1978. How much grain the Soviets plan to import from the U. S. and the final output of 1977 crops around the world will undoubtedly have major impacts on exports.

The value of U. S. farm exports is currently expected to decline from a record $24 billion in fiscal 1977 to about $22 billion in fiscal 1978. Growth in world stocks of grains and oilseeds and the lower prices that have resulted will make it difficult to sustain exports at last year's level in the current fiscal year. What this situation means is that for the first time in eight years U. S. farm exports are not expected to show a gain in value. Among the major markets, increases in the value of U. S. agricultural exports to the USSR and Eastern Europe are indicated. And rapid growth in the Mideast markets for U. S. farm products is expected to continue. But declines in value are likely for shipments to the European Community and Japan.

Most of the drop in the overall value of U. S. agricultural exports will stem primarily from lower export prices for grains, soybeans, and oilseed products. The total volume of farm commodities exported in fiscal 1978 may reach a new high of about 110 million tons, 8 million tons above a year earlier. Grain export volume may rise almost one-tenth, with wheat likely to post the largest gain. The volume of soybean exports may also increase about one-tenth, and another banner year is anticipated for fruit and vegetable exports. Slight gains in shipments of oilmeal and poultry products are also likely.

Agricultural Finance Outlook The nation's farmers were generally in a less favorable financial condition as they began 1978 than they were at the beginning of 1977. Total net farm income dropped moderately in 1977, farmland values continued to rise but gains were modest, and farm debt increased rapidly.[2] Renewals and extensions of farm loans were much more common, especially at banks. Many non-real-estate farm loans, in fact, were converted to loans secured by farmland to provide greater security for the lenders.

But since the market values of farmland have risen significantly in past years, many farm proprietors have equities in their land that can be used as security for borrowings. Moreover, farm lenders reported that only about 5 percent of present borrowers—only a little larger than usual—have become unsatisfactory credit risks and will not be granted continued financing in 1978 if current conditions continue. Most lenders, it seems, are assisting farm borrowers who have developed repayment problems.

In making plans for 1978, farmers face prospects that net farm incomes will continue to stabilize and that farm real estate values will level off or rise less rapidly. Farmland values, which account for three-fourths of all farm assets, are projected to increase by 6 percent, substantially less than the gain of from 9 to 11 percent in 1977.

Demand for farm loans will likely continue strong, increasing as rapidly perhaps as in 1977. Farm real estate loans are expected to grow a little more rapidly than non-real-estate loans. The refinancing of short-term debt into real estate secured loans will account for some of the growth in real estate indebtedness, however. With the likelihood of increased production costs and relatively low farm product prices, farmers are likely to borrow more for operating purposes. But they will probably reduce their outlays on capital items, such as new tractors and other farm implements, and curtail personal consumption expenditures and other cash uses of funds.

Farm lenders will probably have more problems in making and servicing farm loans in 1978. Growing numbers of farm borrowers, for instance, can be expected to have repayment difficulties because of low farm income. The Farmers Home Administration may well receive a larger volume of loan requests because more farmers are likely to be unable to get financing from private lending sources. Moreover, many rural banks, particularly in cash-grain areas of the country, may find it necessary to curtail the expansion of their loan volume in 1978. The loan-to-deposit ratios of these banks at the beginning of the year were already at an all-time high, and the growth in their deposits probably will not keep pace with the demand for loans in a time of reduced farm income. Banks in this position may seek loan funds from other sources, however. Farm lenders in general can be expected to scrutinize loan applications more closely and be more conservative in making loans.

Moderate Rise in Food Prices Food shoppers can look for grocery store food prices in 1978 to average from 4 to 6 percent above a year earlier. Such an increase would be about the same or slightly

[2] See the revision in total net farm income in footnote 1.

lower than in 1977 when prices for food at home advanced about 6 percent. During the first half of the year, increases in grocery store food prices are expected to average in the neighborhood of 1 to 2 percent each quarter. Second half food price advances will be determined largely by increased marketing costs, progress of 1978 crops, and cyclical developments in the livestock industry that point to only modest reductions in total beef output and continued growth in pork supplies.

Most of the anticipated increase in retail food prices in 1978 can be expected to come from rising processing and marketing costs, particularly for labor. Unlike 1977, relatively less pressure on food prices will derive from imported foods and fish.

Major factors dominating the food outlook for 1978 are prospects for large food supplies, further increases in marketing costs, some moderation in retail prices for imported foods and fish, and uncertainties regarding the weather, energy costs, and the impact of recent or pending food legislation. Domestic demand for food will likely expand at about the same rate as in 1977. Small population increases are anticipated, and disposable personal income is expected to rise about 9 percent—nearly identical to the gain last year.

Consumers will probably spend around $188.3 billion for U. S. farm-produced foods in 1978, up from around $180 billion last year. The farm value of domestically produced foods is expected to continue at about $56 billion as it has each year since 1974. The farm sector can thus be expected to continue to slow increases in retail food costs and to exert a moderating influence on general price inflation. While farm values have leveled off in recent years, the costs of labor in marketing U. S. produced farm foods have risen steadily. Labor costs, now the largest component of consumer food expenditures, took nearly a third of the consumer's food dollar last year and exceeded the farm value for the first time. This year labor costs for marketing foods originating on the nation's farms can be expected to top last year's $58.8 billion, exceeding the farm value of these foods for the second year in a row.

Commodity Highlights Brief reviews of the Department of Agriculture's outlook for the principal money-making commodities produced by Fifth District farmers are presented below.

Tobacco: The uncertainty of possible legislative recommendations that may come from the U. S. Department of Agriculture's task force review of the tobacco price support program highlights the tobacco outlook for 1978.

U. S. cigarette consumption rose to record levels in 1977, with sales of new brands of low tar and nicotine cigarettes more than offsetting declines for other brands. Prospects are that cigarette consumption will continue to rise slightly in 1978 and that the trend toward using low tar and nicotine cigarettes will continue. Declines in cigar and smoking tobacco consumption are likely to be offset by gains in the use of chewing tobacco and snuff, so total tobacco use will probably hold steady in 1977-78.

Unmanufactured tobacco export prospects in 1978 appear to be limited by the current high prices of U. S. leaf and the rising production of tobacco overseas. With the continued rise in U. S. tobacco prices and the short supply of better quality export grades, foreign buyers are increasing their efforts to find similar quality tobacco from other sources.

The 1978 national marketing quota for flue-cured tobacco has been set at 1,117 million pounds, virtually unchanged from the 1977 quota. Even though the total supply of flue-cured exceeds the reserve supply level, little change was made in the 1978 quota because of the very short supply of a number of key export grades. Officials felt that irreparable damage to this country's export markets might result from a reduction in the quota at this time. Individual flue-cured poundage quotas will reflect undermarketings and overmarketings of the 1977 crop. Under the legal formula used to determine price supports for eligible tobaccos, tobacco supports for 1978 will rise about 7 percent over 1977.

Cotton: The U. S. cotton outlook for 1978-79 points to the likelihood of a larger carryover next summer, possibly ranging from 5 to 6 million bales. A smaller 1978 crop is quite likely, however. Total disappearance may change little since larger domestic mill use may almost offset smaller prospective exports.

The loan rate for the 1978 cotton crop will be based on the world price and has been set at 44 cents per pound, compared with 44.63 cents for the 1977 crop. The target price will be around 52 cents versus 47.8 cents in 1977. Other features of the new farm program that pertain to the 1978 cotton crop include: (1) deficiency payments to cotton producers, as well as to wheat and feed grain farmers, have been increased from $20,000 to $40,000 per producer, and (2) disaster payments—those that represent compensation for a disaster loss—are not included in the total deficiency payments.

U. S. cotton will probably face increased competition from other exporting countries, so export prospects for the 1978-79 season are not as bright as they were in 1977-78. Foreign demand, as a result, may not match 1977-78's expected 4½ million bales.

What about production prospects for the 1978 crop? Since last spring, prices for both cotton and competing crops have declined, and cotton has experienced the sharpest drop. Should these current price relationships prevail at planting time, the nation's farmers may plant anywhere from 11 to 13 million acres of cotton, compared with 13.4 million in 1977.

Domestic mill use of cotton in 1978-79 may be as much as 0.5 million bales above last season's 6.7 million. The recent decline in cotton prices is expected to improve cotton's competitive position relative to manmade fibers. This price competitiveness will be of major importance to the domestic mill consumption of cotton in 1978-79, as will imports of textile goods, and general economic and textile activity.

Soybeans and Peanuts: Record large supplies dominate the outlook for soybeans in 1977-78. Last year's bumper crop plus carryover stocks pushed the 1977-78 soybean supply to 1.8 billion bushels, a new high nearly one-fifth above a year earlier. Both domestic use and exports are expected to rise during the year, but these gains are not likely to be as large as the increase in supply. As a result, the buildup in carryover stocks will more than double last September's low level. Total disappearance may reach 1.53 billion bushels, or some 10 percent above last season.

Soybean crushings this season are estimated at around 850 million bushels, up about 8 percent from 1976-77. This gain primarily reflects an increase in the feeding of soybean meal as a result of lower prices and rising livestock and poultry output.

Soybean exports may reach a new high of around 610 million bushels, around 5 percent above last season. Lower prices of U. S. soybeans and increased overseas demand for soybean meal are expected to provide the impetus for the larger exports.

Harvest prices for soybeans fell below year-ago levels last fall. Some price strengthening may occur following the harvest, but much will depend on farmers' willingness to store their soybeans and the competition from Brazil and other major foreign oilseed producers.

U. S. peanut supplies for 1977-78 total almost 4.0 billion pounds, about one-fifth below a year earlier. This reduction is due primarily to a 10 percent decline in output of the 1977 peanut crop and to a smaller carryover.

Domestic use of peanuts in edible products during the current season is expected to increase slightly and may total 1.85 billion pounds. This consumption would be equivalent to about 8½ pounds on a per capita basis. Peanut consumption per person has risen from around 6 pounds in the midfifties to the record level of about 9 pounds in the last few years. Use has increased in all major outlets—peanut butter, salted peanuts, peanut candy, and roasted in-the-shell peanuts.

Exports of peanuts are expected to be sizable this season, although they will probably not match last year's record of 0.8 billion pounds. Stiffer competition is expected to come from growing world production of oilseed crops.

In spite of smaller domestic production and expanded use, supplies of peanuts continue to be in excess of edible and farm use requirements. Thus, about one-fourth of the 1977 crop will probably be acquired by the Commodity Credit Corporation under the loan program.

The Omnibus Farm Bill includes new peanut legislation that will attempt to bring production in line with market needs. The new peanut program is based on poundage quotas that are coupled with acreage allotments and two levels of price support. Introduction of the new program, scheduled for 1978, means that farmers will have to make decisions they've never faced before. Growers, for instance, must decide how many peanuts to plant and whether to produce peanuts strictly for quota or also for the additional market. (Peanuts produced in excess of a farmer's poundage quota but grown within his allotment are defined as "additional" peanuts.) Quota peanuts will be supported at an average of $420 per ton on a national basis for the four years, 1978-81. No deductions will be made for inspection, handling, or storage. Price support on additional peanuts will reflect the expected price of peanuts for crushing and world market conditions for peanuts.

Poultry and Eggs: Larger production and lower market prices characterize prospects for the poultry and egg industries in 1978. But if, as now expected, feed costs average below a year ago in the first half, broiler and turkey producers may show a profit. Egg producers, however, may be caught in a cost-price squeeze by spring.

Because of last year's large grain and soybean crops, production costs for poultrymen are currently below a year ago and are likely to remain below that level at least through the first half of 1978. The lower costs of feed ingredients should more than offset the rise in the costs of other production items.

Expected growth in the general economy and gains in consumers' incomes will help to bolster the demand for poultry meat and eggs in 1978. Poultry products, however, will continue to face strong competition from large supplies of red meats.

Broiler prices are expected to average moderately below 1977 during most of 1978, probably averaging somewhat under the 40-cent level during the first half. The prospective increase in egg output in the first six months of 1978 is expected to cause egg prices to average well below a year earlier. Sharpest drops are likely in the first quarter. Despite a 10 percent increase in turkey output during January-June 1978, turkey supplies may rise only slightly because of reduced cold storage stocks. Turkey prices as a result may average slightly higher in the first half than the 51 cents a year earlier.

Dairy Products: Milk production moved above year-earlier levels in the fall of 1975 and has continued to expand since. The outlook points to further expansion in 1978, with production for the year likely to show an increase of 1 or 2 percent. Milk output early in 1978 will probably remain well above year-earlier levels, but production later in the year may stabilize at a slightly lower level.

Many of the forces that shaped last year's increased milk output—favorable milk-feed price relationships, heavier concentrate feeding, and larger output per cow—are expected to continue in 1978. Gains in output per cow will probably be strong, more than offsetting moderate declines in cow numbers. Some of the gains in output per cow later in the year could be offset by increased culling rates, however.

Farm milk prices in the early months of 1978 are expected to average well above a year earlier because of the higher support price. Milk prices later in the year will depend largely on the production of milk and the commercial sales of dairy products. For the entire year, however, dairymen can expect farm milk prices to average considerably above 1977.

Meat Animals: Consumers can expect to find large supplies of red meat in 1978. Indications point to continued growth in the supplies of pork and only modest declines in total beef production. The beef supply will consist of a larger proportion of fed beef and a smaller percentage of grass-fed beef. Larger supplies of poultry products will provide red meat supplies with strong competition for the consumer's dollar, however.

Hog producers will find feed costs in 1978 below the average of the past several years. Feeding costs will rise, however, as corn prices increase from their early fall lows. Should hog prices decline during the year as expected, hog producers will probably find their profits squeezed, especially in the second half. If farmers carry out their farrowing intentions, pork production could rise substantially in 1978, perhaps by 10 percent or more in the first half and probably by a larger magnitude in the second half.

Larger supplies of grain and soybeans will likely mean more favorable feeding costs for cattlemen in 1978 than in recent years. With the lower feed costs and ample quantities of feed grains, cattle feeding is expected to continue to expand in 1978. Through midyear, marketings of fed cattle may rise from 4 to 6 percent. But the gain in supplies of fed beef may not be large enough to offset probable reductions in grass-fed slaughter. Even so, the year-to-year decline in total beef production will likely be less than 2 percent. The large supplies of beef, plus large supplies of competing meats, suggest that there will be little improvement in fed cattle prices for much of 1978.