Less Promising . . .

THE 1980 OUTLOOK FOR AGRICULTURE

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Top-level economists of the U. S. Department of Agriculture presented their views of this year's prospects for the nation's agriculture, and the implications for retail food prices, at the 1980 Agricultural Outlook Conference last November. The outlook as they saw it then, together with their more recent analyses of economic developments, is summarized below.

This article does not reflect the probable sharp cutback in U. S. agricultural exports likely to result from the President's decision to reduce grain shipments to the Soviet Union by 17 million metric tons. Under the embargo, announced January 4, grain exports to the USSR have been cut to 8 million tons from the 25 million originally agreed to.

The nation's farmers chalked up a banner year in 1979, with net farm income reaching an estimated $30 to $32 billion, second highest on record. The farm income picture for 1980 is less promising, however. While a modest increase in gross farm income is anticipated, farm production expenses will continue to surge, probably rising about in line with the general rate of inflation. Should production costs rise at this rate, as now seems likely, net farm income could fall sharply from the 1979 level, perhaps by as much as 20 percent. Under such circumstances, many farmers will likely find themselves in a difficult cost-price squeeze, especially during the latter part of the year.

Consumers seem assured of record supplies of red meats and poultry through the middle of 1980. Barring adverse weather, plentiful supplies of many fruits, vegetables, and summer field crops are also anticipated. But expectations point to further increases in grocery store food prices, with the possibility of somewhat smaller advances than in 1979.

This digest of the outlook for the nation's farmers and retail food prices in 1980 are highlights of forecasts made by economists of the U. S. Department of Agriculture, both at the annual agricultural outlook conference last November and in published assessments of more recent economic developments. Crucial to the outlook for farm income and food prices are prospects for a general weakening in the economy, some slackening in domestic demand as the economy slows, and the likelihood of a relatively high rate of inflation but with some moderation anticipated in the first half. Continued strong foreign demand prospects for U. S. farm products also figured prominently in the outlook appraisal.

Farm Income Picture Weak The nation's farm economy fared well last year. Gross farm income hit a new high, and net farm income was the second highest in history. But indications are that the nation's farmers will not fare as well in 1980. Gross farm income may rise 2 or 3 percent over the record level in 1979, provided there are no major weather-related disruptions or shortfalls in 1980 crops at home and abroad. The increase, if realized, would derive mostly from a $2 to $3 billion gain in crop receipts, a slight advance in government payments, and a modest rise in other farm income. Little or no change from 1979 levels is anticipated for total livestock receipts.

Expectations, however, are that total farm production expenses in 1980 will likely rise about as much as the general rate of inflation. Fuel expenses, expenditures for fertilizer, and higher interest charges will be major factors sharply increasing the costs of production. More modest leaps in expenses for hired labor, pesticides, and seed are expected, with boosts probably somewhat below the overall rate of inflation. But the costs of inputs of farm origin, primarily feed and feeder livestock, will probably increase much less than in 1979.

Should production expenses rise at the rate anticipated, the increase would more than offset prospective gains in gross farm income, leaving net farm income sharply below the 1979 figure, probably totaling around the mid-$20 billion range. Farmers' net returns at this level would compare with last year's estimated $30 to $32 billion and 1978's $28 billion.

Net farm income, of course, varies by regions, products produced, farm size, local weather, distance from markets, and the like. So, when one recalls that the expected declines in net farm income in 1980 will not be shared equally by all farmers, the outlook doesn't seem to be universally gloomy. To illustrate: Incomes of hog farmers will probably be down substantially, and returns to broiler producers and cattle feeders may be tight. Soybean producers face the likelihood of lower prices. Vegetable and citrus growers are also confronted with potential price declines. But for dairymen and producers of feeder cattle, feed grains, and wheat, the outlook for 1980 looks favorable.

Food Prices to Rise Further Grocery shoppers will find little comfort in the outlook for food prices in 1980. Retail food prices are going up again, rising somewhere between 7 and 11 percent above the 1979 level. Indications now point to an increase of about 8 percent. But should weather conditions disrupt crop and livestock production, the rise would tend to be nearer the higher end of the range. Whatever the average 1980 increase, it will follow on the heels of an 11 percent advance last year and a 10 percent rise in 1978.

Food processing and marketing costs will be the chief cause of the rising retail prices of food at home in 1980. These costs, which closely parallel the rate of inflation, are expected to rise from 9 to 12 percent above 1979 levels. Labor, packaging, transportation, and energy costs—principal components of marketing charges—will all be major factors in the rise in food prices.

Little change from last year is anticipated in the farm value of food, however—that is, unless bad weather disrupts production of farm food products, as it has for the last two winters, and pushes prices higher. Should the weather remain favorable, the farm value of domestically produced food could average about 1 percent higher than in 1979. But should poor weather conditions occur, the farm value of food could advance as much as 10 percent.

Higher prices for fish and imported foods are also in prospect and will be a significant source of increase in food prices. Price gains of from 8 to 10 percent are likely for these items. Larger supplies of fish are anticipated, but growing demand is expected to result in an increase of about 9 percent in the prices of fish and other seafood. Because of freeze damage to the Brazilian coffee crop, coffee prices have risen since last summer and will probably continue to increase through 1980. This upturn in coffee prices reverses a downward trend that began in 1977.

The outlook for prices of food bought away from home suggests an increase ranging from 8 to 10 percent over a year ago. Because of the large service component of the away-from-home foods, their prices generally move more closely with labor costs and with the general rate of inflation than do the prices of food at home.

General inflation, as is well known, is a factor that contributes to increases in food prices. The Consumer Price Index for all urban consumers (CPI-U) is the most commonly used indicator of overall retail prices. Moreover, changes in this index are the most frequently used measure of inflation. The relative importance of food in the CPI-U is currently 18.2 percent. This implies, of course, that nearly one-fifth of all consumer expenditures for goods and services is spent for food. Spending for food at home accounts for 69 percent of all food expenditures, while spending for food away from home comprises the remaining 31 percent.

Export Demand to Remain Strong The boom in U. S. agricultural trade that began in the early 1970's is continuing. Exports of U. S. farm products jumped 17 percent in fiscal 1979, reaching a total of $32 billion and a record high for the tenth straight year. The growth in agricultural exports is expected to continue in fiscal 1980, rising almost one-fifth in value to a new high of $38 billion—four and three-fourths times the 1971 level. U. S. agricultural imports are likely to rise less rapidly, however, and the agricultural trade surplus may widen to around $20 billion, up from about $15.8 billion a year earlier.

The volume of agricultural exports may increase about 16 percent in 1980, hitting a total of some 160 million metric tons versus 137.5 million tons last year and more than double the export tonnage in 1971. Expanded shipments to Russia will account for much of the increase. More than half of the projected gain in export volume will be in feed grains. But larger shipments of soybeans, protein meal, and cotton are also likely.

By country of destination, the picture of prospective exports of farm products in fiscal 1980 looks something like this. The European Community, as was true throughout the 1970's, will be the largest market with purchases totaling about $7.7 billion. Japan, our largest single-country market, will take about $5.3 billion. Soviet purchases should total around $4 billion, their largest ever. Latin America with purchases totaling $3.5 billion and Eastern Europe at $2.2 billion will be other leading markets.

Rising population, competitive U. S. export prices, and a reasonably healthy world economy are factors boosting prospects for U. S. agricultural exports in fiscal 1980. One of the major causes of the anticipated strong growth in exports, however, is the shortfall in the Soviet's 1979 grain harvest. The United States, under its grain agreement with Russia, has thus agreed to sell the USSR up to 25 million tons of grain in fiscal 1980, compared with 15 million in fiscal 1979.

Nonetheless, uncertainty abounds in the 1980 outlook for foreign agricultural trade. Political developments abroad could alter the outlook significantly. Moreover, world supply and demand are always areas of some uncertainty. Here at home, major problems—among them the scarcity and rising costs of fuel, availability of barges and railway cars, condition of the nation's railroads, and the navigational bottleneck to barge transportation on the Mississippi that is often made worse by severe winter weather—could arise to disrupt the internal domestic transportation system which is already functioning at close to maximum capacity. With a record tonnage to be shipped, domestic transportation capacity will be a crucial factor in determining whether or not the expected volume of grains and oilseed will be exported.

Farm Financial Situation and Outlook The nation's farmers were generally in a much more favorable financial condition as they began the new year than they were at the beginning of 1979. Both net farm income and asset values rose significantly during 1979, resulting in record improvement in farmers' financial situation. Farm debt grew moderately, loan repayment problems for the most part were minimal, and interest rates on farm loans rose to record levels. By and large, the availability of farm loan funds appeared to be adequate, although the expansion of farm loans at commercial banks was slower than at some other lenders.

Current indications point to an interruption in the uptrend of the overall financial condition of the nation's farmers in 1980, however. Net farm income, as noted earlier, could decline sharply. The likelihood of only a small gain in gross farm income, coupled with another big rise (around 11 percent) in production expenses, could mean that net farm income may fall as much as one-fifth. Off-farm income may increase slightly but not nearly enough to offset any significant decline in farm income. Farm asset values are expected to show some increase, however, leading to a further rise in farmers' equities. When farm and off-farm income prospects and the anticipated increase in farmers' equities are taken into account, the result suggests that there may well be an interruption in the uptrend in the overall financial condition of the farming sector in 1980.

The nation's farmers, looking ahead to other financial and credit prospects for 1980, will find that the high interest rates on farm loans and the general tightening in the availability of farm loan funds will probably continue. Supplies of loan funds are expected to remain generally adequate to meet their demand, although farmers may find it necessary to shop around for loans. Demand for farm loans will probably remain strong. High interest rates, in fact, are expected to affect the amount of money farmers borrow very little.

Most likely, increased funding in 1980 will come from the Farm Credit System and from seller financing of land purchases. The volume of farm loans made by commercial banks and life insurance companies will probably not rise significantly, however.

Should farm income decline sharply as anticipated, the increase in farmland values may slow appreciably, probably rising somewhere between 5 to 10 percent. A gain within this range would compare with the 16 percent jump in the year ending February 1, 1980 and the 14 percent upturn during the preceding year.

While it is expected that farmers as a whole will be able to adjust to the higher interest rates without too much difficulty, there will be certain types of farmers who will be adversely affected by the increased financial risks of the current situation. Most likely, according to USDA agricultural financial analysts, the high interest rates will have the greatest impact on: (1) the number of new farmers, (2) some marginal farms that will have to sell out because they will find the smaller profits and larger cash-flow requirements too much to handle, and (3) growing farms with high debt-to-equity ratios that may find their profits reduced substantially by the high interest rates and lenders thus reluctant to provide more debt financing.

Commodity Digest Capsule reviews of the Department of Agriculture's outlook for the principal moneymaking commodities produced by farmers in this five-state Fifth District are presented below.

Tobacco: Gradually declining domestic prospects and moderate export demand highlight the tobacco outlook for 1980. Total tobacco use in the current marketing season will probably fall below last season but will still exceed the weather-reduced output in 1979. These conditions will bring a decrease in next summer's carryover, but carryover stocks are ample.

Marketings from the 1979 season fell short of quotas, so quota carryover into 1980 means increased effective quotas for flue-cured and burley tobaccos this year. With larger effective quotas, and if growing conditions are more favorable, total tobacco output is likely to be larger than in 1979. Greater production plus the 9 percent higher support prices indicated for 1980 mean the likelihood of larger cash receipts from this season's tobacco marketings.

U. S. tobacco supplies for the 1979-80 marketing year are 6 percent below last season's level. Beginning stocks were only slightly larger, but the 1979 crop was 22 percent smaller than in 1978—the smallest since 1957, in fact—because of reduced acreage and lower yields. Total tobacco usage in 1979-80 may be down by 5 percent because of a downtrend in domestic use and only a moderate export demand.

U. S. cigarette output in calendar 1979 was running about 2 percent above 1978 and was expected to reach a record high. Cigarette exports continue to increase at a brisk pace, but domestic cigarette consumption has stabilized. The outlook for 1980 indicates that U. S. cigarette sales will be maintained at the high 1979 level.

Exports of U. S. leaf (unmanufactured) tobacco in 1979 fell one-fifth below the record level in 1978. Leaf exports were hurt by 1979's smaller U. S. crop, more adequate foreign holdings of older U. S. tobacco, and less favorable dollar conversion rates for foreign buyers. Prospects are that total leaf exports for calendar 1980 will do well to equal those in 1979.

Soybeans and Peanuts: The record soybean harvest last fall put heavy pressure on prices. As a result, prices to producers in 1979-80 are expected to average around $6.25 per bushel compared with $6.75 last season. With the record crop added to the September 1 carryover of 173 million bushels, soybean supplies for 1979-80 rose to 2.4 billion bushels, up from 2.0 billion bushels last season.

Because of record supplies and lower prices, total soybean use is expected to expand to around 2.0 billion bushels, 8 percent above a year ago. Demand for soybeans and soybean products will continue strong in 1979-80, with both domestic crushings and exports probably increasing although not nearly as much as supplies. Soybean exports are actually expected to reach a new high, with further growth in meal and oil demand overseas providing the impetus. Carryover stocks next September 1 are likely to be more than double the quantity on hand last September.

U. S. peanut supplies for 1979-80 are also at a new high, about 3 percent above last season. Domestic use of peanuts for food totaled a record 2.0 billion pounds in 1978-79, 8 percent over the previous year, and equaled more than 9 pounds per person. Edible usage is expected to increase further this season, but the rate of gain may not be as large as it was last year. The chief reason for the boost in consumption may well be due to the fact that peanut prices have been relatively low compared with competitive foods.

Exports of peanuts from the U. S. have been at record levels for the last two seasons, and the outlook for 1979-80 is for another good export year. U. S. peanuts have been competitively priced in world markets since supplies from India and other major exporting countries have been reduced.

Peanut prices to growers are averaging near the 21 cents per pound loan rate for the 1979-crop "quota" peanuts. While this rate is the same as in 1978, the loan rate for "additional" peanuts, at 15 cents per pound, is 2.5 cents above the 1978 rate.

Cotton: Sharply higher production, strong foreign demand, and prospects for a slight decrease in domestic mill use highlight the 1979-80 cotton marketing year.

The outlook for U. S. cotton exports this season is bright. Exports of cotton, in fact, may exceed domestic mill use for the first time since the 1930's. Cotton exports are likely to reach 6.8 million bales, up from 6.2 million last season. Moreover, the U. S. export commitment—shipments plus outstanding sales—now stands at 7.1 million bales, more than 2 million above a year earlier. The strong demand for U. S. cotton stems from continued expansion in foreign mill use, low foreign carryin stocks, and the sharply larger U. S. production.

Domestic mill use, in contrast to export prospects, is expected to decline further this season, falling to 6.2 million bales from 6.4 million last season. This forecast assumes that there will be a moderate slowdown in the U. S. economy during the next few months. Should the expected slowdown not materialize, or if it is milder than anticipated, domestic mill use could rise to some 6.5 million bales especially in view of cotton's improved price competitiveness with manmade fiber staple and the relatively strong foreign demand for U. S. cotton textiles.

So, although U. S. cotton disappearance—domestic mill use plus exports—may rise to around 13 million bales, the largest since 1973-74, the big crop harvested last fall will result in a sharp upturn in stocks during the season. By August 1, 1980, cotton stocks could total around 5.6 million bales compared to a beginning level of 4 million.

Poultry and Eggs: The 1980 outlook for poultry producers is not favorable. Broiler producers, especially, are expected to have an unfavorable year. Feed prices will be higher, and the general economic situation does not seem strong. Broiler growers began losing money last summer and are currently in a severe cost-price squeeze. Producers can thus be expected to cut production in 1980, with the largest cutback coming during the second half. With sharply higher pork output in 1980, broiler prices will likely hold below break-even levels during much of the year.

Net returns to egg producers in 1980 will probably be below 1979 levels. Egg production in the first half may be only 1 to 2 percent above a year earlier. But with large supplies of other protein foods, prices to producers are likely to fall substantially below early 1979 prices. Moreover, higher feed prices can be expected to squeeze net returns in the first half.

Turkey producers are not likely to face conditions in 1980 as unfavorable as those confronting broiler growers, unless they overproduce. Hatchings of turkey poults late in 1979, however, indicate there will be a sizable expansion in turkey output during 1980. Turkey production may be 20 percent above a year earlier during the first half of the year. The larger turkey output, together with large supplies of other meats, will cause turkey prices to decline and to average well below prices in the first half of 1979.

Dairy: The gains in milk production that characterized the last half of 1979 are likely to continue at least through mid-1980. The larger milk output, combined with relatively large commercial stocks and a possible reduction in commercial use, will moderate year-to-year gains in farm milk prices during the first half of 1980. Farm milk prices, as a result, will probably average considerably closer to the support price than a year ago. Milk-feed price relationships are expected to remain relatively favorable, however. This situation will likely result in heavy concentrate feeding that will further boost output per cow, more than offsetting small declines in cow numbers. With gains in milk prices slowing early in 1980 and costs of production continuing to rise, the net income position of dairy farmers could be less profitable than the relatively favorable situation in the first half of last year.

Meat Animals: Hog producers saw a dramatic turnaround in their profits during the second half of last year, and indications are that these unfavorable conditions are continuing into the first half of 1980. Net returns to producers are likely to improve during the latter half of the year, however. The strong expansion in hog production in 1979 is expected to continue through at least mid-1980, and maybe on through the summer. Most of the year-to-year gain in production will probably occur in the first half, however. With these large pork supplies, hog prices will likely be well below year-earlier levels and may be below the cost of production for many producers. Hog prices are likely to improve in the second half of the year, with much of the expected gain attributed to a stronger economy.

The January 1 inventory of cattle and calves on farms indicated that the rebuilding of the nation's cattle herd is underway. It not only marked the upswing of the next cattle cycle but also the end of the four-year liquidation phase of the last cycle. Beef production is expected to decline during the first quarter of 1980, remaining under year-earlier levels. But beef output may rise slightly in the second quarter and show the first year-to-year gain since the spring of 1977. Larger supplies of competing meats are expected to help prevent a sharp increase in prices like that which occurred in the first half of 1977 and 1978. Should the expansion in pork and poultry production slow and if the general economy rebounds in the second half of 1980 as expected, cattle prices could strengthen from their first-half level.