AGRICULTURE: OUTLOOK FOR 1975 IS CLOUDY

This year's prospects for the nation's agriculture, outlined by leading analysts of the U. S. Department of Agriculture in early December, have recently been revised. A brief rundown of their new forecasts follows.

Many uncertainties cloud the outlook for agriculture in 1975. Weather, as always, is a major unknown. The cost-price squeeze will likely continue; how tight it will get is the question. There seems to be little doubt that production costs will go up. Moreover, prospects regarding the level of farm prices are not at all clear. Supplies of some farm inputs—notably fertilizer—are unsure. And the demand outlook, both domestic and foreign, is hazy.

Income and Expenses Farm income prospects have weakened considerably since early December. Consequently, it now looks as if the nation's farmers will wind up 1975 with less cash in their pockets than they had at the close of 1974. Farmers' net earnings in 1975 could, in fact, show a sizable downturn—possibly even greater than the one last year. Any such decline would follow on the heels of nearly a 16 percent drop in 1974, leaving realized net farm income far short of the record level set in 1973.

Farm production expenses can be expected to shoot upward again. But the 1975 increase may not be as large as that experienced last year. Feed costs are not likely to be quite as high. Moreover, fuel and fertilizer prices are not expected to rise as dramatically as they did in 1974.

Crop output will be a key factor in determining the level of farmers' net income in 1975. Major crop prices have weakened in recent months and are expected to remain highly sensitive to supply and demand developments throughout the year. Significantly larger crop production than in 1974, accompanied by reduced demand, could lead both to lower farm prices and to much lower net farm income. But crop output in the neighborhood of last year's level, coupled with high demand, would tend to shore up prices and maintain net farm income.

Demand factors will, of course, play a major role in determining farmers' 1975 net farm income. Both the domestic and foreign economies continue to sag. With the general economic climate here at home, unemployment has risen dramatically and inflation, while apparently easing, remains only slightly below the double-digit level. Consumers' real purchasing power has, so far, continued to deteriorate. Unless the general economic situation rights itself, some further erosion in the strength of domestic demand could occur. On the other hand, should proposed tax cuts be enacted and contribute to a turnaround in the general economy at an early date, domestic markets could be bolstered significantly.

The worldwide economic slump has softened the foreign demand for U. S. farm products. Furthermore, recent shifts and cancellations in commodity purchases by the Soviet Union and the People's Republic of China have added still more uncertainty to the export outlook. Export volume of the major bulk commodities in fiscal 1975 is currently expected to drop more than 15 percent below the tonnage shipped last season, with much of the decline occurring in grains, soybeans, and cotton. Higher prices for many farm products, however, will more than likely offset the decline in volume and push export value into the neighborhood of $22 billion, up slightly from the record set in fiscal 1974.

Farm Finance Outlook Because of wide differences in the incomes of crop and livestock producers last year, the financial positions of farmers at the beginning of 1975 also varied widely. Crop farmers in general were better off than they were at the same time last year, but livestock producers were much weaker financially. Little change in their respective financial positions is anticipated this year. Farmers and lenders alike will be faced with some tough financial decisions. Some farmers, particularly livestock producers, are going to be hard pressed to repay their old debts. Still others will need to carry over a large amount of short-term debt.

Demand for operating loans is expected to remain strong. There may be some slackening in the need for intermediate-term financing, however, since farmers' purchases of capital goods are expected to ease. The weakened demand for farmland and the slowdown in the advance in farm real estate prices will reduce the need for new money for farm-mortgage loans. Much of the demand for operating loan funds will stem from farmers' needs to finance the higher costs of planned crop production.

Since farmers will need to borrow heavily in 1975, the important question is: "Will farm lenders be able to provide the loan funds?" Overall, it appears that farmers' borrowing needs can and will be met. Most commercial banks are experiencing an increase in their farm lending capacity. Some banks, however, are hesitating to provide additional loans to those farmers who have had to renew last year's production loans and who are showing a deteriorating financial position and prospects. Lenders with access to national money markets—the Federal land banks, for example—and individual farmers who sell their own farms are expected to expand their lending significantly.

Some easing in farm loan interest rates is anticipated during the first half of the year. It appears unlikely, however, that rates will fall more than one-half to 1 percentage point below the 1974 level, since rates at many rural banks, as well as at the Federal land banks, did not follow the sharp rise in 1974 that occurred in short-term rates generally. However, farm borrowers from large banks, and perhaps PCA borrowers also, may experience a significant reduction in their borrowing costs compared with last year.

Food Price Prospects The nation's homemakers will be unhappy with the outlook for food prices, for they will need to find ways to stretch their family food budgets still further in 1975. Retail food prices are expected to climb higher during the first half of the year, but the increase is likely to be much smaller than was expected just a few months ago.

By midyear, higher retail prices are likely for both crop- and livestock-related foods. Biggest price gains during the first quarter will show up in crop-related food items, while slightly sharper increases for red meats and poultry will follow in the second.

Many uncertainties surround the outlook for food prices this year. Among them, these three stand out:

- The impact of the current economic recession—its length and severity—on consumer demand.
- The rate at which beef cattle with limited grain feeding are slaughtered to increase smaller supplies of grain-fed beef, pork, and poultry products.
- The weather and its impact on farm production, both here and around the world.

Developments relating to these uncertainties could alter current food price prospects considerably as the year unfolds. On the one hand, they could bring a substantial slowdown in food price increases. On the other, they could lead to further sharp upturns in food prices.

Commodity Summary The Department of Agriculture's analysis of the outlook for principal Fifth District commodities shapes up in this manner.

Tobacco: Further gains in U. S. cigarette output and strong foreign demand holding leaf exports near recent high levels are in prospect for the current marketing year. Supplies of domestic tobacco are 3 percent below last season's level because of lower beginning carry-over. And with tobacco use during the current marketing year likely to exceed marketings of the 1974 crop, another decline in carry-over stocks can be expected in mid-1975.

Marketing quotas for flue-cured and burley have been increased for 1975 in order to provide adequate supplies of tobacco to meet rising market demands. Compared with last year, the effective flue-cured quota is 18 percent higher, while quotas in effect for burley are up about 12 percent. With larger farm quotas, growers are expected to harvest more tobacco.

Tobacco price support levels, determined by legal formula, will average about 12 percent higher than in 1974. Cash income from tobacco marketings should rise, but grower costs will probably increase further.

Soybeans and Peanuts: Supplies of soybeans are down 13 percent from last season's record, but a big boost in supplies is likely if the nation's farmers carry out intentions to increase spring plantings by some 3 million acres. This potential boost in supplies is coming at a time when soybean usage is falling from the heavy pace of recent years.

Because of weakened demand for soybean oil and meal, the processing industry is running at only two-thirds of its capacity, and soybean exports are lagging behind last year's rate by more than 10 percent. Based on current indications, soybean crushings this season may fall about 9 percent from year-ago levels, and exports may drop some 12 percent. Major factors behind this slackening demand are the decline in consumers' real purchasing power, reduced feeding and production in the livestock and poultry industries, and larger world supplies of competing fats and oils. These same factors affecting the U. S. market are also affecting our soybean markets overseas.

Farm prices for soybeans have dropped from over $8 per bushel in October to less than $6 in February. Should the recession deepen and prospective 1975 production seem favorable, prices could drift lower.

Peanut supplies, at record levels about a tenth above a year earlier, are in excess of requirements for both edible and farm use. Use of peanuts is declining in all major edible categories—salted peanuts, peanut butter, and peanut candy—and is currently running about 8 percent below a year ago. Crushings of peanuts for oil and meal are also down and for the entire season may run 15 percent below the previous year. Export demand is strong, however.

Peanut marketing quotas and acreage allotments for 1975 are at the minimum levels permitted by law.

Cotton: The slowdown in the textile industry, reflecting the poor health of the general economy, is having a major impact on the cotton situation and outlook. Demand for textile goods, especially cotton products, is extremely sluggish, both at home and abroad. Moreover, foreign inventories of both raw cotton and textiles are large. Domestic mill use this year may total only about 6 million bales, in contrast with 7½ million last year, and exports are expected to fall to about 3¾ million bales, down from last season's 6.1 million. With prospective mill use and exports adding up to around 9¾ million bales—smallest disappearance since the turn of the century—year-end carry-over this summer is likely to be substantially larger than at the beginning of the season.

Faced with sagging demand, low cotton prices and high production costs relative to competing crops, cotton farmers on March 1 indicated that planting this spring would be sharply lower than in 1974. Nationally, farmers plan to cut 1975 cotton acreage 29 percent. A cutback of 55 percent is planned in the District.

Poultry and Eggs: Last year was disappointing for poultrymen, and prospects going into 1975 have improved little. Feed supplies will continue to be tight and feed prices high well into the year. Although feed prices have dropped from their highs last fall, they remain above a year ago and well above the levels of other recent years. Expectations are that producers will hold production of eggs, broilers, and turkeys at reduced levels through midyear. Egg output may trail year-earlier levels by some 4 to 6 percent; broiler production will probably slump around 8 percent; and turkey output is expected to be sharply lower.

As production lags, look for these developments on the price front. Egg prices can be expected to remain strong during the first quarter but will likely decline as usual in the spring. Broiler prices will probably be bolstered by smaller supplies of broilers, turkey, and pork. But larger supplies of beef and the erosion of consumer purchasing power will moderate broiler price increases. Turkey prices may improve slightly in coming months; however, price gains will be limited by the large cold storage holdings of turkey meat and large supplies of beef.

Meat Animals: Sharply reduced pork supplies will keep hog prices on the high side in 1975. Based on inventories of market hogs last December, hog slaughter and pork supplies in the first half are likely to be the smallest in nine years. Moreover, hog farmers cut breeding stock inventories sharply last fall and have reported plans to reduce sow farrowings this spring to the lowest level on record. These indications point to a 14 to 16 percent reduction in hog slaughter in the second half.

Hog prices are expected to strengthen throughout most of the first six months of 1975 as slaughter dips below year-ago levels and are likely to remain strong in the second half. Large beef supplies and demand uncertainty will temper the advance in hog prices, however.

Huge cattle inventories are threatening to keep cattle producers in a financial bind again in 1975. Winter cattle slaughter is expected to remain large, running about 10 to 15 percent above a year ago as cows and nonfed steers and heifers continue to offset smaller fed cattle slaughter. Cattle feeders' profits this winter will be marginal at best, and placements of cattle in feedlots will continue low. Should total cattle slaughter decline seasonally as expected, even though remaining large, cattle prices could strengthen later in the winter. The smaller supplies of pork and poultry may also provide some price strength for cattle in the spring.

Slaughter supplies in the last half of 1975 could be record large, exceeding a year earlier by a wide margin. Should this potential slaughter materialize, cattle prices could weaken. Range conditions, feed prices, and prospects for the 1975 feed grain harvest will help to determine the direction of prices in the second half.

Dairy Products: Dairy farmers will probably continue to be plagued by cost-price problems early in 1975. Milk output may hold about even as dairymen cut back on feeding high-cost grain and concentrates and reduce dairy herd culling. Commercial stocks of dairy products are large, however, so dairy supplies should be adequate for consumers. With the recent increase in support prices for manufacturing milk and the action bringing minimum Class I prices under Federal milk orders in line with the boost in price supports, farm milk prices may rise slightly. A milk price increase, coupled with the recent easing in grain prices, could bring about some slight improvement in the milk-feed price ratio.

Cheese sales are facing stiff competition from large supplies of other high-protein foods. But butter, which reversed its long-term sales slump in 1974, continues to be priced favorably relative to margarine.

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