# WHAT'S AHEAD FOR AGRICULTURE IN '72?

*The agricultural outlook for 1972 was analyzed by top level economists of the U. S. Department of Agriculture at the National Agricultural Outlook Conference late in February. A brief digest of their forecasts follows.*

The economic outlook for the nation's farmers in 1972 is dominated by good news. Farmers can expect materially better incomes than in 1971. Realized net income from farming is expected to rise substantially, and farmers' earnings from off-farm jobs also promise to increase. Farm production expenses will continue to go up but probably at a slower rate. More money will be available for farm lending and, by current prospects, at perhaps the lowest interest rates in two years. The outlook is clouded, however, by effects of the prolonged dock strikes and large world grain supplies.

Keys to the outlook are prospects that general economic activity will continue to gain momentum and that consumers' after-tax incomes will show a healthy increase.

**Farm Income and Expenses** Realized gross farm income of the nation's farmers may well chalk up a neat gain in 1972, rising some $3 billion to $3.5 billion over the record $58.6 billion realized in 1971. The anticipated increase in gross income will likely come from a combination of larger cash receipts from farm marketings and sharply higher Government payments to farmers. Most of the gain in cash receipts will center in the livestock sector and will stem chiefly from higher prices for livestock products.

Farm production expenses can be expected to rise further this year, but the increase may be less than in most recent years. Feed prices are lower, and Phase II restraints on wages and prices will hopefully moderate price increases on farm production items of nonfarm origin. Interest, taxes, and items of farm origin are not covered by the wage-price restraints, however. Overall, the increase in farmers' production expenses may run around 3.5% versus 4.9% in 1971. Dollarwise, this means that the advance in production costs could be about $0.5 billion less than a year ago, or roughly $1.5 billion.

Expectations that the gains in farmers' gross income will exceed the rise in production expenses point to a healthy boost in realized net farm income, ranging from $1.5 billion to $2 billion or in the neighborhood of 10% to 13% over 1971. With such an increase, realized net farm income would hit a new record level of from $17.2 billion to $17.7 billion, exceeding the previous high first established in 1947. Net income per farm is expected to rise even more, perhaps by from 11% to 14%.

**Supply and Demand Conditions** Food supplies are likely to be smaller than last year. Some winter fresh vegetables were in short supply, and supplies of livestock will be limited by cutbacks in pork and egg production. Cotton and soybean supplies are tight, while supplies of wheat and feed grains are heavy and well in excess of prospective demand. Tobacco supplies continue to be sizable.

Rising disposable personal incomes—bolstered by expanding social security and welfare payments, higher wage rates, and another increase in Federal income tax exemptions—are expected to provide a substantial boost to the domestic demand for farm products this year. Moreover, as economic growth accelerates and more job opportunities open up, the unemployment situation will ease, adding further to consumers' buying power.

Export market prospects for the nation's farm products are uncertain because of the dock strikes and the international monetary situation. There are indications that exports in the current fiscal year may fall short of last year's record. The short supplies and higher prices of United States cotton and soybeans and the large grain supplies in Western Europe are having a dampening effect on the volume of shipments and may well reduce overall exports.

**Food Situation** Retail food prices this year will likely rise at a faster pace than a year ago. Contributing most to the advance will be a strong con-

sumer demand combined with little change in the supplies of food. Prices of all foods may average as much as 4.5% above 1971, up from the 3% advance last year but less than the 5.5% boost in 1970. Grocery store food prices, which are more meaningful to the housewife, can be expected to rise about 4% in comparison with a 2.4% gain in 1971. Restaurant food prices rose better than 5% last year and are likely to advance at the same rate in 1972. Much of the increase in food prices this year will result from higher prices for meats, especially pork. But indications also point to higher prices for eggs, fish, and processed fruits and vegetables.

The American people spent $118.4 billion for food in 1971, up about 4% from a year earlier but the smallest increase in four years. The slower rise in total food spending last year was due primarily to the slowdown in retail food prices resulting from larger food supplies and the wage-price freeze. Disposable personal income last year rose twice as fast as food expenditures, so total food spending of the average breadwinner took only 16% of after-tax income, compared with 16.6% in 1970. Consumer outlays for food in 1972 may well be around 6% larger than in 1971, reflecting both higher food prices and stronger demand. Such an increase would still be far smaller than the anticipated 8% increase in disposable income. A further decline in the share of consumers' after-tax incomes spent for food thus appears likely.

**Major Commodities** The Department of Agriculture's analysis of the outlook for principal Fifth District commodities shapes up this way.

*Tobacco:* Highlighting the tobacco outlook for 1972 are prospects that cigarette consumption may edge upward from last year's record level. Tobacco export prospects are dampened, however, by the probable resurgence of Rhodesian tobacco in world trade, possible shipping strikes, and bigger competitive supplies in our foreign markets. Total tobacco use may well slip below last season's level but still exceed the reduced 1971 crop and result in a substantial reduction in carry-over.

Flue-cured tobacco marketing quotas are about the same as last year, but burley quotas are larger. New legislation, effective for the first time in 1972 and providing greater flexibility in the marketing quota programs, permits the lease, sale, and transfer of Virginia fire-cured and Virginia sun-cured tobacco farm acreage allotments across county lines within the state. Price supports for eligible 1972-crop tobaccos are 4.8% above 1971 levels.

*Soybeans and Peanuts:* The supply-demand situations for soybeans and peanuts remain a study in contrasts, as was the case last year—that is, too few soybeans but too many peanuts. Supplies of soybeans, down 6% from last year, are tight and are limiting soybean usage. But usage is exceeding production for the third consecutive year and is expected to reduce carry-over stocks next fall to minimum operating levels. Export demand remains strong, but exports may fall short of last year's record shipments. Soybean prices, which have averaged just under $3.00 per bushel so far this season, will likely remain strong.

Peanut supplies are at an all-time high and well above requirements for food and farm use. With output continuing to outstrip consumption, peanut prices this season have again averaged near the support level. And acreage allotments for 1972 have again been set at the minimum level permitted by law. Where growers plant peanuts in skip-row patterns in 1972, the acreage of the whole field will be counted as peanut acreage.

*Cotton:* Supplies of cotton are tight—the smallest since 1947, in fact—and prices are sharply higher. These factors highlight the cotton outlook and are combining with reduced export prospects to cut prospective disappearance about 6% below last year. Expected disappearance, however, will top 1971 production and reduce the August 1 carry-over to around 3½ million bales, smallest since 1952. Domestic mill use, due in part to a growing demand for denim and corduroy fabrics, may almost match last season's 8.1 million bales. Features of the 1972 cotton program are the same as in 1971.

*Dairy Products:* Milk production appears to be in for another slight increase in 1972. Although milk cow numbers will probably continue to decline at a slow rate, milk output per cow is likely to rise further. Farm prices for milk will run above 1971 levels at least until April and may average slightly higher for the year. The likelihood of larger marketings and a small price gain points to a modest increase in gross income from dairying. With lower feed costs and price restraints on many production inputs, dairymen could maintain net income at 1971 levels.

*Poultry and Eggs:* The outlook for poultry and egg producers is a little brighter. Feed costs are lower, and demand is strong. Moreover, small pork supplies and higher red meat prices will help to support poultry and egg prices throughout the year.

Output of both broilers and turkeys is expected to expand moderately, while egg production may dip slightly below last year's record output. Broiler and turkey prices may average a little higher than in 1971 despite larger production. Egg prices are expected to strengthen from their current low levels and should average well above a year earlier next summer and fall.

*Meat Animals:* Hog prices this year can be expected to average substantially higher than in 1971 because of sharply reduced supplies of slaughter hogs. With improved hog prices and lower corn prices, the hog-corn price ratio will likely remain favorable to the production of hogs at least through summer. This situation could encourage some farmers to begin rebuilding their breeding herds.

Cattle marketings probably will be moderately larger than in 1971. Cattle prices are likely to average higher, however, because strong consumer demand for beef and the sharply smaller pork supplies are expected to bolster the market for cattle.

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