Outlook for '73 . . .

SPOTLIGHT ON AGRICULTURE

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

Realized gross income of the nation's farmers in 1973 may well top last year's record performance. But farm production expenses will probably rise faster than gross income and leave slightly less net income than the all-time high realized in 1972. Even so, net income per farm could almost equal 1972's improved level. Farmers' demand for credit will remain high. Most lenders feel, however, that ample funds will be available to meet the increased demand.

Strong domestic and foreign demand—key factors in the outlook—are expected to lend continued strength to farm prices, income, and exports in the year ahead. Moreover, the expansion in general economic activity will likely gain momentum, adding further strength to agriculture's prospects for 1973. And yet, uncertainties in several areas cloud the outlook. Among them are: the unsettled international monetary situation; the question of whether or not farmers will plant larger acreages of soybeans, wheat, and feed grains this year in response to growing worldwide demand; and the related unknowns concerning when and if the Peruvian fish catch will again permit normal production and exports of fish meal.

Food Prices and Expenditures American consumers trying to cope with skyrocketing food prices will not find the outlook for 1973 very encouraging. With somewhat larger food supplies than in 1972, they may eat more but they will pay higher prices.

Retail food prices are likely to average about 6 percent higher this year than last. Prices of food purchased both at grocery stores and in restaurants are expected to rise at a faster pace than they did last year. Gains in prices of grocery store food may well outstrip those for restaurant foods, rising perhaps as much as 6.5 percent. Much of this year's advance in food prices will result from higher prices for beef, veal, and pork. But price increases are also indicated for poultry, eggs, and fish. On the brighter side, some respite from the sharply higher beef, veal, and pork prices appears likely after midyear.

Food consumption per capita is expected to increase, hitting a new high as it rebounds from last year's reduced level. With food supplies early in the year somewhat lower than in 1972, all of the anticipated increase will probably occur in the second half. Consumers are expected to eat more meat, poultry, fish, dairy products, fruit, and processed vegetables, and use more vegetable oil than they did in 1972. But they seem likely to reduce their consumption of eggs, fresh vegetables and potatoes, animal fats, coffee, and cocoa.

With both higher food prices and increased consumption, consumers will probably spend from 7 to 8 percent more for food in 1973 than they did last year. But the increase in food expenditures would still be smaller than the indicated 9.5 percent advance in disposable personal income. It thus appears that the share of consumers' after-tax income spent for food will again decline fractionally, dropping perhaps to 15.5 percent.

Supply-Demand Conditions Supplies of high-protein feeds are tight, and market demand for feedstuffs and food grains is growing, both at home and abroad. To help meet this stepped-up demand, modifications have been made in 1973 farm programs for wheat, feed grains, and cotton to encourage farmers to produce more grains and soybeans. Moderately larger cattle marketings are also likely, and more hogs will probably come to market after midyear.

Consumer demand for food and other farm products, fueled by rising incomes, is expected to remain strong. Higher wage rates, increased employment, and above-normal tax refunds from overwithholding in 1972 may boost disposable personal income about 9.5 percent above a year ago, despite the substantial rise in social security taxes. Whether consumers' willingness to buy in 1973 will match their ability to do so remains to be seen. Rising prices in key areas such as food, plus the impact of last year's spectacular increase in installment credit

and the resulting sharp upturn in outstanding installment debt, could curb consumer spending to some extent.

Blossoming export demand for the nation's farm products promises to expand to unprecedented levels in the current fiscal year. Exports, as a result, may well total $11.1 billion—up about $3.0 billion from the previous all-time high set last year.[1] More than half the gain will result from larger volume; the remainder, from higher prices. Weather-reduced harvests in many foreign countries in 1972, Russia's huge purchases of grains and soybeans, emergence of the People's Republic of China as a significant export market, continued growth of the livestock and poultry industries in Japan and Western Europe, and the expanded world demand for other protein meals because of the sharply reduced supplies of Peruvian fish meal have been the major developments leading to this year's unusually strong foreign demand. Realization of this big jump in farm exports hinges to a great extent, however, on whether or not the nation's transportation system performs at a high level, without a major disruption, for the entire year.

Farm Income and Expenses Farm income prospects for 1973 may be summed up this way. The volume of farm marketings will probably be larger than a year ago. Farm prices are likely to average higher but may decline slightly after midyear and average near year-earlier levels in the second half. The combination of larger marketings and higher average prices will likely result in about an 8 percent gain in cash receipts. Thus, despite sharply reduced Government payments to farmers, realized gross income could reach a new high roughly 5 percent above the previous record set last year. Farm production expenses, however, may well rise even more than gross income. As a result, total realized net farm income may drop slightly below 1972's peak level but would be the second highest on record.

Farm expenses jumped 7 percent in 1972 and will likely rise at least as much, if not more, this year. Should farm output expand in response to the exceptionally heavy demand at home and abroad as is anticipated, farmers will doubtless use more and higher priced inputs. Expenses for items of farm origin—feed, livestock, and seed—can be expected to advance more sharply than those for items of nonfarm origin. Leading the parade of larger-than-average cost increases will probably be those for purchased feed, purchased seed, and wages of hired labor. Farmers can expect costs of all major, and most minor, expense items to be higher than a year ago, however.

Commodity Digest Here is a brief rundown on the Department of Agriculture's expectations for major Fifth District commodities.

Tobacco Growing domestic and overseas demand for tobacco products—especially cigarettes—and sharply lower surplus stocks are bright spots in the outlook for tobacco farmers. With this upturn in demand and reduced supplies, basic marketing quotas for flue-cured and burley have been increased. Growers can thus be expected to harvest considerably more tobacco this year. Still, another significant reduction in loan stocks is indicated. The support levels for eligible 1973-crop tobaccos will be 5.3 percent higher than in 1972.

United States leaf exports will continue to face intense competition in world markets. As a result, overseas shipments will decline, falling to a more normal level after the sharp expansion in 1972 that followed the dock tie-ups a year earlier. High prices of United States tobacco; expanded production, improved quality, and lower prices of foreign-grown tobacco; and the tobacco policies of the enlarged European Community are adversely affecting our tobacco exports.

Soybeans and Peanuts Unusually strong demand, tight supplies, skyrocketing prices, and attempts to get farmers to plant more soybeans this spring characterize the current soybean situation. Usage of the entire 1972 crop of soybeans is indicated, and carryover stocks will be at minimum levels. Both domestic and foreign demand will remain strong, keeping supplies tight and prices high through the remainder of this crop year at least.

With peanut production continuing to outstrip consumption, supplies are at record levels. Output this season was about one-third above requirements for food and farm use, and peanut prices again averaged near the support level. Under existing legislation, 1973 acreage allotments have been set at the minimum level.

Cotton Because of the big 1972 crop, cotton supplies are up over 2 million bales above last season's 14.8 million. With strengthening foreign demand, cotton export prospects are much brighter and may total about 4.5 million bales—the most since 1966-67. Domestic mill use, on the other hand, may drop around 5 percent below a year ago, probably falling to the lowest level since the late forties. The decline would reflect primarily the increasing competition from man-made fibers that has resulted from

[1] This forecast was made prior to the February 12 devaluation of the dollar and does not consider possible effects of the devaluation.

last year's reduced supplies of cotton. Cotton mill consumption will continue to benefit from the growing popularity of denim and corduroy, however. Expected disappearance will be up slightly but much less than 1972 output, so the cotton carry-over this summer will be larger. The 1973 acreage allotments for cotton have been cut 13 percent, and the cropland set-aside requirement for eligibility in the cotton program has been eliminated.

Poultry and Eggs The outlook for poultry and egg producers is generally favorable, although they are faced with sharply higher feed costs. Consumer demand is strong, and the small pork supplies and high red meat prices are helping to support the prices of poultry and eggs. Moderate increases in broiler and turkey production are likely, but egg output may stay below year-earlier levels throughout most of 1973. With broiler and turkey production only slightly larger, prices will likely be above 1972 for most of the year. Egg prices have remained strong thus far and are expected to continue well above 1972's low levels through the summer.

Dairy Products Milk production this year may be down slightly since higher feed prices, poor quality roughage, and short supplies of feed in some areas are slowing gains in milk output per cow and are likely to intensify the culling of herds. Milk cow numbers are also continuing to decline.

With tighter milk supplies, milk prices may average 4 to 5 percent above last year's level. The higher prices will more than likely offset the smaller marketings, and dairymen's gross cash receipts will increase moderately. But their production costs rose faster than their gross incomes early in 1973, and net returns for the year may be lower than in 1971 and 1972.

Meat Animals Prospects for beef cattle and hogs are optimistic. Demand for red meat is booming. Cattle and hog prices are up sharply and are encouraging farmers to expand production. Fed cattle marketings will probably increase moderately as they did last year; larger hog marketings are indicated after midyear, with gains in the second half offsetting reductions in the first half. With consumer demand remaining strong, prospects are that livestock prices will continue to be firm but will weaken some after midyear. But even if hog prices soften in the second half, especially in the fall, the hog-corn feeding ratio will likely remain favorable. Demand for feeder cattle is exceptionally strong, and prices are expected to remain high. This year's sharply higher prices of feed and replacement livestock, driven up by strong demand, will mean larger outlays by some farmers but a substantial boost to the income of other farmers.

Sada L. Clarke

NOTE: *A new estimate made by the Department of Agriculture as this* REVIEW *was going to press indicates that total realized net farm income in 1973 will not decline slightly, as anticipated earlier, but may instead hit a new record high about 9 percent above the 1972 peak.*