Research Department
Federal Reserve
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San Francisco

April 5, 1974

Fence to Fence

The nation's farmers are relatively optimistic as they enter the spring planting period because of soaring farm prices and the prospects of another bumper-crop year. Farm commodity prices should remain high, at least during the first half of the year, because of continued world-wide conditions of strong demand and tight supply. These price pressures may weaken later, however, as record grain crops enter the world's markets. With production expenses also soaring, net farm income could decline significantly from the 1973 high.

The expected crop production boom could be dampened for a number of reasons, including energy shortages, tight fertilizer supplies and transportation problems. But given continued good weather, the "fence-to-fence" planting intentions of U.S. farmers should yield a sharp expansion in food supplies.

The livestock situation is less clear-cut, in large part because of the many market distortions that developed in 1973. As a result, output has lagged considerably despite very favorable price developments of the past year. In addition, the cost squeeze, aggravated by high feed costs and the recent break in wholesale livestock prices, has discouraged production. But some of the industry's problems may disappear later in the year, as feed grains and protein-meal supplies become more plentiful.

Reaching a plateau

Altogether, the agricultural economy may be reaching a plateau, after one of the strongest expansion periods in this century. With high prices and record production, farm cash receipts should continue to rise 9 percent to perhaps $91 billion, although the increase would be far smaller than last year's spectacular 37-percent increase. On the other hand, net farm income may slip by about 15 percent, to roughly $22 billion, because farmers face both breathtaking increases in production expenses and a dramatic decline in government payments.

As the 1972-73 farm boom developed, prices jumped 54 percent over a brief two-year period—the most spectacular advance since the halcyon days of 1945-46. The boom was attributable in part to 1972's massive crop failures overseas, which caused a 3.2-percent decline in the world's total crop output that year. More importantly, the boom reflected a fundamental shift in export markets, which came about because of the devaluation of the dollar, the worldwide upsurge in population, incomes and prices, and the expansion of trade relations with the U.S.S.R. and Mainland China.

Falling export demand?

Looking ahead, many observers wonder whether the forces that pushed farm prices and incomes upward so fast may turn out to be

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only temporary. Given the enormous productive capacity of the U.S. farm economy, a return to more normal market conditions throughout the world could lead to a reduction in export demand and thereby to downward adjustments in farm prices and income.

World grain production rose 7.5 percent to a record high in 1973, on the strength of Russia's recovery from the sharp 1972 decline, as well as the expansion of such key producers as the U.S., Canada and Australia. This year, grain output could rise 3.2 percent more. But with harvests at this record level, world production may outstrip effective demand, permitting some rebuilding of reserves in the coming crop year.

The world supply situation still remains somewhat tight, and this, plus strong demand forces, could keep U.S. farm exports high for some months to come. However, foreign sales of U.S. farm products are mostly on a cash basis now, and much less dependent than before on concessional sales and gifts; consequently, they are more vulnerable to supply changes in the world market, and less insulated from price fluctuations, than they used to be. Moreover, as supplies continue to expand, farm exports could decline in the 1975 crop year, reflecting reduced shipments and lower prices for wheat, feed grains and oil crops.

Maximum effort

Despite the shortages and high prices of crucial inputs, the nation's farmers plan to go all out in planting crops this year. On the heels of a 25-million increase in planted acreage in 1973, farmers may bring another 19 million acres back into production this year, putting more acres into crops than at any time since 1956. Although the total of 339 million acres would be below the 1944 record of 366 million acres, it represents a maximum effort by farmers to bring virtually the entire productive cropland in the nation under cultivation.

Crop prospects look particularly promising this spring because of favorable weather conditions, with a mild winter and good soil moisture being especially beneficial to early planting. In contrast, this time last year, plantings were delayed and substantial acreage was lost because of severe storms and floods. Current planting conditions point to record crops this year, including 6.7 billion bushels of corn (up 19 percent over 1973), 2.1 billion bushels of wheat (up 23 percent) and 10.8 billion pounds of rice (up 16 percent). But soybean output could dip slightly, as soybean acreage is shifted to corn and cotton in response to favorable prices for those crops.

The livestock outlook continues to be influenced by previous market disruptions as well as some new uncertainties. In fact, meat prices have been under severe downward pressure recently because of heavier marketings and reduced consumer demand. The recent increase in cattle and hog supplies clearly reflects producers' response to last year's price freeze and cost squeeze, when they withheld animals from slaughter and fed them to overweight.

Even so, the prospect for red-meat supplies is not very bright, as renewed cost pressures have worked to prevent any significant increase in feeding operations. Placement of cattle and calves on feed dropped 20 percent, February to February, in major producing states, while the spring hog crop was no higher than a year earlier. For 1974 as a whole, cattle and hog production may be only slightly higher than a year earlier, with most of the increase coming in the second half of the year.

New uncertainties
In addition to their usual concern with the weather, farmers this year must face a new element of uncertainty—the scarcity and expensiveness of key production inputs. This factor, together with prospective price declines in some areas, increases the likelihood of a severe cost squeeze and a consequent reduction in net income.

Petroleum apparently is only a minor problem now. Farmers are not major users of petroleum products, accounting for only 3 percent of total gasoline and diesel sales. Moreover, sufficient supplies already appeared to be available because of the Administration's earlier pledge of a 100-percent allocation of gasoline for farm uses, as well as the recent announcement of an additional allotment of 220 million gallons. Then, with the suspension of the Arab oil embargo, ample supplies seemed to be assured for production expansion.

Fertilizer shortages, in contrast, constitute a real problem—perhaps the most serious threat to the hopes for abundant crops this year. Farmers will need more fertilizer because of a sharp increase in planted acreage and utilization of increasing amounts of marginal cropland. According to Agriculture Department estimates, availability of nitrogen may increase 8 percent, but there could be an overall fertilizer shortfall of 2 to 5 percent for the year, which could necessitate substitutions among crops and lead to reductions in crop yields. Fertilizer supplies, where available, meanwhile, cost about 75 percent more than a year ago.

For the first time in a generation, the nation's farmers are producing at full capacity. But faced with shortages and high prices of crucial production inputs, they will find it difficult to obtain the maximum output from their fence-to-fence plantings.

Dean Chen

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 3/20/74	Change from 3/13/74	Change from year ago Dollar	Change from year ago Percent
Loan gross adjusted and investments*	79,786	+ 390	+7,925	+ 11.03
Loans gross adjusted—	60,658	+ 448	+6,577	+ 12.16
Securities loans	1,133	+ 5	− 732	− 39.25
Commercial and industrial	21,538	+ 270	+2,015	+ 10.32
Real estate	18,686	+ 73	+3,093	+ 19.84
Consumer instalment	9,117	+ 0	+1,017	+ 12.56
U.S. Treasury securities	5,969	− 171	− 308	− 4.91
Other Securities	13,159	+ 113	+1,656	+ 14.40
Deposits (less cash items)—total*	74,500	− 24	+5,345	+ 7.73
Demand deposits adjusted	21,436	− 467	+1,094	+ 5.38
U.S. Government deposits	758	+ 414	− 502	− 39.84
Time deposits—total*	51,097	− 27	+4,644	+ 10.00
Savings	17,964	+ 108	− 292	− 1.60
Other time I.P.C.	24,404	− 34	+5,258	+ 27.46
State and political subdivisions	6,347	− 65	− 143	− 2.20
(Large negotiable CD's)	11,318	− 2	+3,071	+ 37.24

Weekly Averages of Daily Figures	Week ended 3/20/74	Week ended 3/13/74	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	3	4	31
Borrowings	174	243	235
Net free (+) / Net borrowed (−)	− 171	− 239	−204
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (−)	+2,026	+1,582	+176
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	+ 3	− 21	+283

*Includes items not shown separately.

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