



July 1971

COTTON SITUATION ENCOURAGING

Prospects for cotton disappearance are the brightest in several years. Cotton farmers have been losing out in the competition with man-made fibers and producers in other countries. The USDA reports, however, that both foreign and domestic demand for cotton looks better than a year or so ago. Cotton, in fact, could be entering a period of much more promising development.

There have been several structural changes in the cotton industry in recent decades—such as the decline in the number of cotton farms, shifts in production areas, and technological advances. But development of new fibers and continuous changes in consumer preferences have also caused shifts in the demand for cotton.

Particularly significant has been the increasing domestic use of synthetic fibers. Competition from new fibers has cut deep into many of cotton's traditional markets. In fact, mill use of cotton in this country has shown virtually no growth since World War II—ranging from about 8 million bales a year to about 10 million bales. By contrast, foreign mill use has about tripled.

Although cotton acreage had been cut in half since the early 1950's, cotton production had been reduced very little by the midsixties. Not until 1966 did production drop below 10 million bales, having until then ranged between 10 million and 17 million bales a year. Since then, however, production has stayed near the 10-million level.

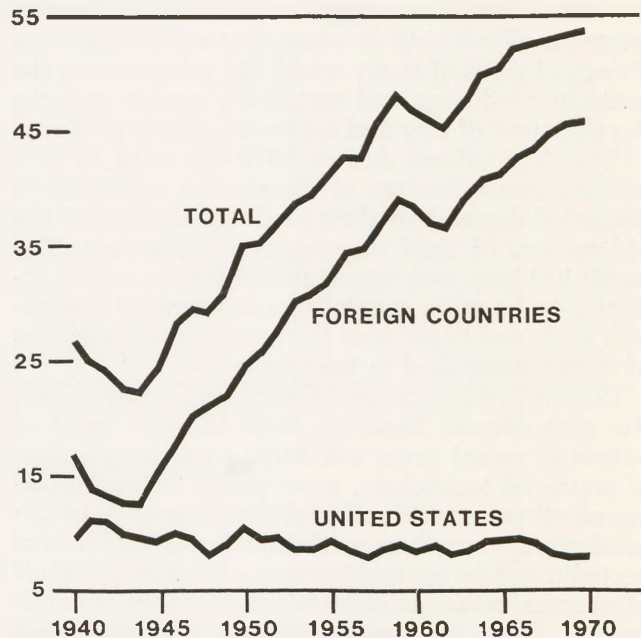
Government programs have been a major influence on both supplies and demand over the past decade. Programs started in the midsixties—the Agricultural Act of 1964, the Food and Agricultural Act of 1965, and the Cotton Research and Promotion Act of 1966—and, more recently, the Agricultural Act of 1970 have been especially significant.

Designed to eliminate the inequity of the two-price system under which mills in this country had

to pay substantially more for domestic cotton than their competitors overseas, the act of 1964 helped reduce cotton acreage that year and the year following. Yields increased, however, holding annual production close to 15 million bales. Domestic use increased, but exports declined and the carryover climbed—to a record of nearly 17 million bales in August 1966. Since the Commodity Credit Corpo-

MILL CONSUMPTION OF COTTON ON UPTREND OVERSEAS

MILLION BALES



1970 preliminary

SOURCE: U.S. Department of Agriculture

ration owned most stocks, costs of the cotton program rose.

Designed to make cotton more competitive with other fibers, the act of 1965 set a ceiling on loan rates at 90 percent of the estimated world price of cotton. But to supplement or maintain farm income, the act provided for direct price-support payments on domestic allotments—which amounted to 65 percent of regular acreage allotments. This act marked the turning point in the buildup of cotton carryover. Disappearance of cotton increased slightly, and production dropped sharply, reducing the carryover more than 10 million bales in just two years. This year, a carryover of only 4.5 million bales is expected by August 1.

The act of 1966, by providing for the collection of \$1 a bale from upland cotton producers to be used in research and promotion, established a voluntary program of self-help in expanding cotton markets. Principal areas of study under the program are the costs of producing and marketing cotton and the development of new and improved cotton products.

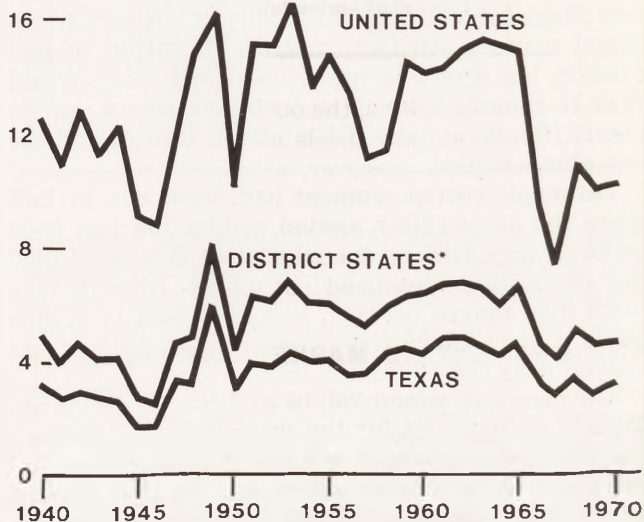
The Agricultural Act of 1970—intended to give farmers more freedom of decision in adjusting to projected demand for their products—eliminated the old system of rigid crop-by-crop allotments. The result has been new opportunities for the cotton industry to be more competitive in terms of production costs and to produce the amounts and varieties of cotton demanded in the market.

Cotton production could very well recover over the next decade. Recovery from the low levels of output of recent years will depend on the adoption of improved technology, more nearly normal growing conditions, and further shifts in acreage to the most efficient producers. Cotton farms can be expected to get larger and become even more efficient. Mechanical cotton harvesters will probably be modified to include equipment for more rows. And new technology—such as new techniques of planting and harvesting and use of computer services—could revolutionize the large modern American cotton farm.

On the demand side, use of domestic cotton by mills in this country will still be largely a function of such factors as population growth and personal income, competition from synthetic fibers, and the level of textile imports. Both population and incomes are expected to increase, of course. Competition from synthetic fibers cannot be expected to subside. But continued development of such processes as durable-press finishes for all-cotton fabrics could result in greater mill use of cotton, although cotton research and promotion will no doubt be needed in the competition with man-made fibers.

COTTON PRODUCTION DOWN SINCE 1965

MILLION BALES

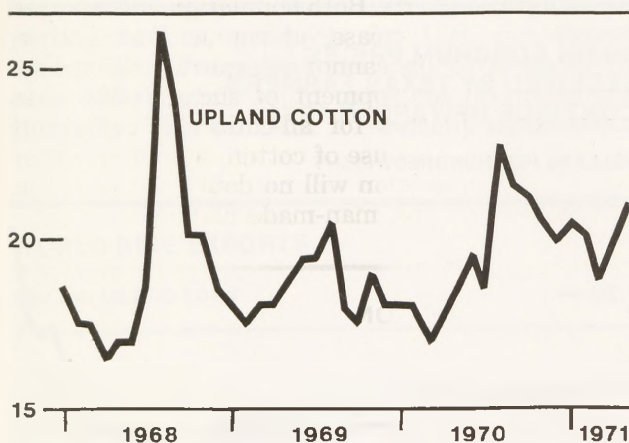


*Arizona, Louisiana, New Mexico, Oklahoma, and Texas
1970 preliminary

SOURCE: U.S. Department of Agriculture

AVERAGE COTTON PRICES RECEIVED BY TEXAS FARMERS RESUME UPSWING

CENTS PER POUND



SOURCE: U.S. Department of Agriculture

In raw cotton exports, the outlook is for moderate recovery from the low levels of recent years. The extent of recovery, however, will depend on many forces, including Government programs, world cotton prices, use of cotton abroad, and—as has been the case for years now—competition with man-made fibers and foreign-produced cotton.

FARM REAL ESTATE MARKET DEVELOPMENTS

The rise in farmland values slowed to a national average of 3 percent for the year ended in March. That was in contrast to a 4-percent gain the year before and a 5-percent rise the year before that. The gain in this most recent March-to-March period was supported mainly by strong price advances in southeastern states and along the Eastern Seaboard. Most of the increase was made in the last four months of the reporting period.

The biggest increases were in Alabama and Delaware, both of which had gains of 12 percent. By contrast, the sharpest declines were in Arizona and Kansas, both of which had drops of 3 percent. Louisiana led states of the Eleventh Federal Reserve District with an increase of 6 percent. Both Oklahoma and Texas had gains of 4 percent, but values in New Mexico rose only 2 percent.

Even with slightly lower interest rates than in the previous 12-month period and a corresponding increase in the supply of loanable funds, buyers of farm property still seem reluctant to make long-term commitments for borrowed capital. More farms are coming onto the market than a year ago, but the USDA reports that the rate of transfer has not increased appreciably.

FARM REAL ESTATE VALUES, MARCH 1

Area	Value per acre		Total value (Million dollars)	
	1971	1970	1971	1970
Arizona . . .	\$55	\$57	\$2,207	\$2,265
Louisiana . .	380	357	4,338	4,085
New Mexico	44	42	2,028	1,988
Oklahoma . .	181	173	6,476	6,218
Texas	152	146	21,248	20,454
Total . . .	\$162	\$155	\$36,297	\$35,010
48 states .	\$199	\$193	\$213,988	\$208,214

SOURCE: U.S. Department of Agriculture

FARM EMPLOYMENT

The increased competition for farm workers, along with higher minimum wage floors expected in the 1970's, suggests that farm wage rates will continue to ease upward. Although the higher rates will almost certainly further substitution of capital for labor inputs, a recent USDA study shows that the rate of substitution will depend on several factors. These include the extent of the increase in wage

rates, the feasibility of substituting machinery, the outlook for demand for particular commodities, and availability of farm workers.

Because technological improvements in the inputs to production raise the productivity of labor, farm managers can enlarge their operations by combining higher-quality inputs and making fuller use of machinery.

The extent of mechanization practical for a farm varies, however, with the type of farm, as does the extent of technological developments that can be expected and organization of systems that can be achieved. Other factors, such as Government farm programs and the availability of credit, also affect the amount of labor needed on an individual farm.

The expected rise in wage rates and the almost certain advance in productivity over the long run will be in line with well-established trends. Over the past two decades, the number of manhours used in farming has dropped by more than half, while the output per manhour has increased more than three-fold.

SORGHUM PRICES SHOW STRENGTH

Prices of grain sorghum have moved up sharply in recent months. Among the reasons for the rise are low stocks of feed grains in general and grain sorghum in particular. Corn prices are high. And there is strong world demand for feed grains and wide acceptance of grain sorghum in livestock feeding.

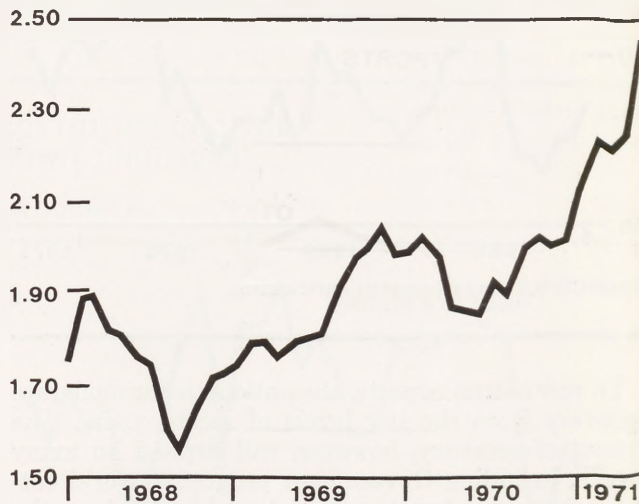
Furthermore, the outlook for grain sorghum prices is also favorable. Not only are all grain stocks low, but the grain sorghum carryover is the smallest in 14 years. In addition, the drouth in Texas—where nearly half the nation's grain sorghum is grown—could also limit this year's production.

A recent development in grain sorghum is a new futures market for this commodity on the Chicago Mercantile Exchange. Initiated in March, the market has delivery points in a triangle formed by Amarillo, Hereford, and Plainview, all in Texas. The new

futures market will give both producers and consumers of grain sorghum additional opportunities to hedge against unusual supply and price changes.

GRAIN SORGHUM PRICES RECEIVED BY TEXAS FARMERS CONTINUE UPWARD IN 1971

DOLLARS PER HUNDREDWEIGHT



SOURCE: U.S. Department of Agriculture

USDA OUTLOOK BRIEFS

- Soybean supplies are smaller again this marketing season. Utilization has been high, and prices have been favorable.
- Prices of cattle on feed are up. Larger summer marketings are likely to pull prices down, but they are apt to stay above prices a year ago.
- Hog slaughter will probably continue above a year ago until fall. Prices are under pressure but should strengthen as output is cut back.

Prepared by Carl G. Anderson, Jr.