



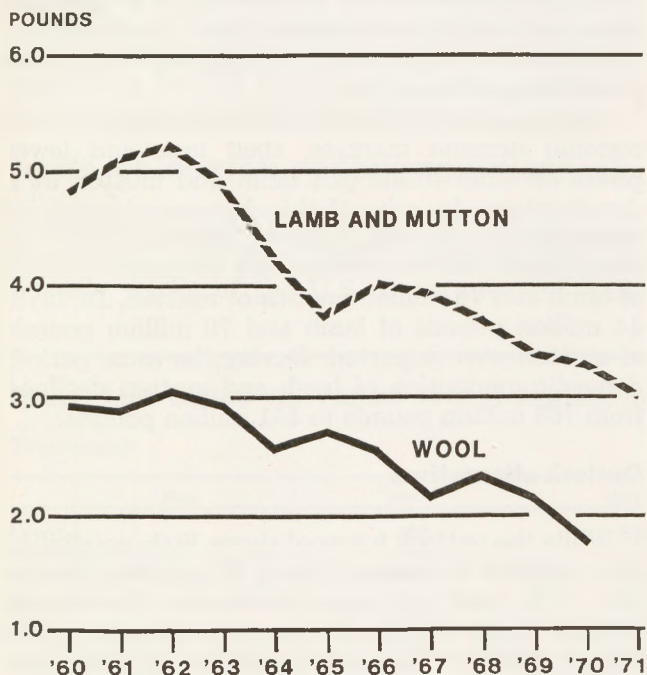
## SHEEP INDUSTRY LOSES TO IMPORTS, LOW DEMAND

Sheep numbers in the United States have been on a steady downtrend since 1960. At the start of that year, there were about 33.2 million sheep in this country. By the beginning of this year, the inventory had fallen to about 18.5 million head. In the five states of the Eleventh Federal Reserve

District, sheep numbers have followed this national trend. From 8.2 million head in 1961, the inventory fell to only 4.9 million head at the start of this year. These declines have occurred in spite of—or in part perhaps because of—an almost threefold increase in world sheep numbers in the past 40 years.

The sheep industry supplies two products—wool and meat. And since both are produced together, the strength of the industry is tied to the market strength both of wool and of lamb and mutton. Demand for both products has been on the decline in the United States.

### U.S. PER CAPITA CONSUMPTION OF WOOL, LAMB AND MUTTON



SOURCE: U.S. Department of Agriculture

### The wool situation

While wool only represents a third of sheep growers' gross income, the sale of wool often determines the profitability of the entire industry. Market prices of wool have been on the decline, and although Government support has boosted wool growers' realized income, the support has not been sufficient to offset declining demand.

In 1950, the per capita consumption of wool in the United States was 4.6 pounds. Consumption dropped to 3.0 pounds per person by 1960 and to 1.7 pounds by 1970. Domestic wool is used mainly for apparel, and man-made fibers are making significant inroads into this market. Although wool is considered superior to man-made fibers in some respects, synthetics are generally easier to care for and, since about 1960, have enjoyed significant cost advantages.

Although wool imports have declined overall, the major decline has been in imported carpet wool, which is not ordinarily in direct competition with domestic wool. Wool textile imports were 3 percent higher in 1970 than in 1960. Domestic production of

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apparel wool in 1970 was only 60 percent of its 1960 level.

Another factor apparently contributing to the declining market share of domestic wool is the widely dispersed marketing system used in the United States. Domestic wool moves in rather small, unclassified lots. But Australian wool, for example, moves in larger, more uniform lots and lacks the black or colored fiber often found in domestic clip. Consequently, in November of 1971, Australian wool was commanding about 40 cents a pound more than comparable Texas wools.

This pressure from both imports and synthetics is expected to continue. The Department of Agriculture has estimated that by 1980, synthetics will have displaced an additional 96 million to 155 million pounds of wool a year, or from a fourth to almost half of all wool consumed in 1970. And foreign wool, with its more uniform quality and better marketing system, will make further inroads into the domestic wool market—unless U.S. producers modify their marketing techniques.

### **The meat situation**

Lamb and mutton production accounts for the remaining two-thirds of the sheep grower's gross income. Lamb is usually consumed fresh and is generally preferred over mutton by consumers. Although some mutton is consumed fresh, a larger share is used in processed meats. Demand for these meats has always been weaker than demand for other major meat groups, although there was an increase in per capita consumption in the 1950's. A peak consumption of 5.2 pounds per person in 1962 was followed by a steady decline. The 1971 per capita consumption was estimated at 3 pounds.

U.S. consumers have a decided preference for beef. Annual per capita consumption of beef increased from 85 pounds in 1960 to 115 pounds in

1971. This strong demand for beef and accompanying strong prices have placed significant indirect pressure on the sheep industry, since sheep and cattle operations are often competitive alternatives. Consumption of poultry has also increased, and pork consumption has held its own in spite of annual variations.

The lamb and mutton market is a narrow and largely regional one, involving some cultural factors. There are heavy concentrations of consumers in, for example, the Northeast, Southwest, and Colorado. There are few consumers of lamb and mutton in most other areas of the country. This limited and scattered demand prevents most retail outlets from carrying lamb, and when it is carried, it is often not in regular supply or complete line. These factors contribute to high costs of supplying lamb even when farm prices are low.

Dispersed supply, irregular marketings, scattered regional demand markets, shelf loss, and lower prices of other meats put lamb and mutton at a disadvantage. In spite of this, however, imports of these meats increased between 1960 and 1970. In 1960, the United States imported 12 million pounds of lamb and 75 million pounds of mutton. In 1970, 44 million pounds of lamb and 79 million pounds of mutton were imported. During the same period, domestic production of lamb and mutton declined from 768 million pounds to 551 million pounds.

### **Outlook alternatives**

While the outlook for wool shows little possibility of a complete turnaround short of a fashion revolution, U.S. wool producers could slow the erosion of their market share. A change in shearing techniques would reduce the incidence of black and colored fiber. Marketing of larger and more uniform lots classified according to fineness, staple length, color, and other quality factors would result in a

more marketable product that would command a better price. The current devaluation of the dollar in the world market should prove advantageous to domestic wool.

The situation for lamb may be more encouraging. A recent study at Texas A&M University indicates that frozen lamb products are a potentially significant complement to the fresh lamb market. This study also shows that 14 percent of those that do not now consume lamb are potential consumers of frozen lamb. There is also a positive relationship to income. As income levels increase, lamb consumption could enjoy market growth if lamb were more readily and more regularly available. The general acceptance of frozen lamb by both traditional lamb consumers and current nonconsumers in the A&M study indicates that its introduction on the market might be a way to broaden the market, cut costs, and improve the industry's outlook.

### COSTS OF COTTON PRODUCTION INCREASE

The cost of producing a pound of lint cotton rose about a fifth from 1966 to 1969, according to a recent report of the U.S. Department of Agri-

culture. Excluding the input value of unpaid management, the total cost per pound of lint produced averaged 32 cents in 1969, compared with 26.6 cents in 1966.

The Rolling Plains region of Texas produced lint at the least cost in 1969, an average of 26.3 cents a pound. The highest production cost—46.5 cents a pound—was in the Southern Coastal Plains. In spite of this wide range in costs, about 57 percent of all cotton was produced for less than 30 cents a pound in 1969.

While increasing factor input costs contributed to these rising production costs, the major contributors were the low average lint yields of 1969—the lowest since 1957—and low cottonseed prices. The average yield in the USDA survey group declined 12 percent from 1966. At the same time, cottonseed prices were depressed by decreased exports and weakened domestic demand.

Since 1969, yields have not improved significantly, and last year's crop in Texas and Oklahoma was seriously reduced first by drouth and later by rain and snow. And prices of all major factors of production have increased during the past two years. The one favorable note has been the increase in

### SHEEP AND LAMBS ON FARMS AND RANCHES, JANUARY 1

(Thousands)

Area	1960	1963	1966	1969	1972
Arizona	488	533	601	500	503
Louisiana	93	67	41	26	22
New Mexico	1,185	1,145	972	840	742
Oklahoma	274	209	160	136	123
Texas	5,938	5,538	4,795	4,029	3,524
Five states	7,978	7,492	6,569	5,531	4,914
United States	33,170	29,176	24,734	21,238	18,482

SOURCE: U.S. Department of Agriculture



cottonseed prices, but this is really a marginal factor. Thus, the 1969 cost figures remain fairly reliable indicators of current cotton production costs.

## FARMERS GET SOME FEDERAL TAX RELIEF

The Revenue Act of 1971 included several provisions that will relieve farmers of some of their federal tax burden. Perhaps the most significant changes are the adoption of the Asset Depreciation Range System and the reinstatement of investment credit write-off.

Farmers can now modify the depreciation schedule of capital goods by 20 percent. This means that a piece of equipment with a work life of ten years can be depreciated on a straight-line basis over eight to 12 years. Depreciation can thus be accelerated or decelerated.

The investment credit of 7 percent that was in effect from 1962 to 1969 has been reinstated but with some limitations. To be eligible for 1971 investment credit, equipment must have been ordered and acquired on or after April 1, 1971. Orders placed prior to April 1 but received after August 15 can also be included. The same rules apply to imported goods, unless these foreign goods were ordered or acquired while the 10-percent import surcharge was in effect from August 15 through December 19. There is no investment credit allowed for these goods.

All costs associated with construction started on or after April 1 are eligible for investment credit. However, if work began prior to April 1, only those costs associated with construction after August 15 are allowed.

## AVERAGE COSTS OF PRODUCING A BALE OF U.S. UPLAND COTTON

Item	1966	1969
Per bale (500 pounds gross weight)		
Labor .....	\$ 25.78	\$ 23.20
Power and equipment .....	34.54	44.84
Materials .....	25.59	29.38
Seed .....	3.30	4.44
Fertilizer .....	11.74	11.51
Herbicides .....	3.45	4.81
Insecticides and fungicides .....	5.95	7.17
Defoliants .....	.93	1.24
Other chemicals .....	.23	.21
Ginning, bagging, and ties .....	18.36	19.47
Custom services .....	8.25	10.46
Irrigation .....	8.51	8.30
Interest on operating capital .....	2.12	2.87
Total direct costs .....	123.17	138.52
Land .....	22.65	24.40
General overhead .....	12.96	14.40
Total cost of lint and associated seed .....	158.78	177.32
Less value of seed produced .....	-25.94	-17.08
Cost of lint .....	132.84	160.24
Per pound of lint		
Total cost .....	.266	.320
Direct cost .....	.206	.250
Receipts <sup>1</sup> .....	.305	.360

1. Includes support payments in both 1966 and 1969 but excludes diversion payments in 1966.

NOTE: Details may not add to totals because of rounding.

SOURCE: U.S. Department of Agriculture

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