



Federal Reserve Bank of Dallas

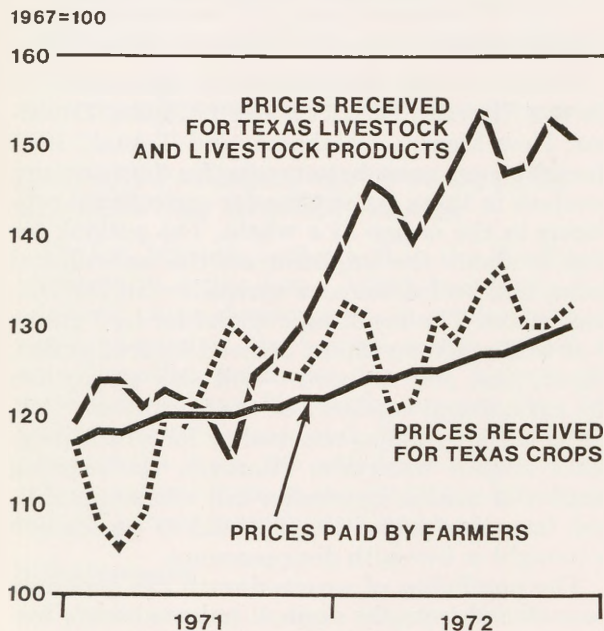
FARM and RANCH BULLETIN

January 1973

EXPANDING DEMAND PROMISES GOOD YEAR FOR AGRICULTURE

Expanding demand promises another good year for U.S. agriculture. A third consecutive record year is expected for agricultural exports, as foreign demand is projected at some \$10 billion for fiscal 1973, 25 percent more than in 1972. Continued growth is also expected for domestic demand on the strength of general economic growth, rising personal disposable income, and some population growth.

INDEX OF AGRICULTURAL PRICES



SOURCE: U.S. Department of Agriculture

Almost across the board, agricultural supplies are more in balance with demand than in any recent season. This creates a market-sensitive situation in which frequent price moves are likely. The disappearance of major commodity surpluses has pushed most prices above their seasonal levels. Since demand seems to be advancing ahead of supply, prices are expected to average well ahead of last year, at least through the first half of 1973. If these expectations are realized, farm income could set another record this year.

Agriculture should also enjoy more predictability in 1973. Although some adverse weather, disease, and market shifts can be expected, big shifts caused by unusual developments—such as the corn blight or Soviet grain deal—are not anticipated this year.

The details of all Government programs for 1973 are not yet firm, but it is expected that their overall intent will be to maintain the generally viable balance between supply and demand. A new agricultural act will be drafted in Congress this year, but it will not directly affect 1973 agricultural operations, which are still under the Agricultural Act of 1970.

National outlook

The domestic market is primary for livestock, and beef dominates the livestock market. Consumers' demonstrated preference for beef, as well as expanding personal income and a slight population increase, should assure continued expansion in demand for beef. In view of expected increases in beef production, good average farm prices for beef should be maintained.

Beef production in 1972 was slowed somewhat due to expansion of beef cow herds. Cow slaughter fell to a record low as stockmen retained

cattle for herd expansion. These enlarged herds are not likely to impact strongly on the beef market this year, although they will aid greatly in meeting growing demand in the years ahead.

Pork production, under the stimulus of higher prices last year, should increase this year but at a slower rate than in 1970-71, when too rapid expansion led to sharp price declines. Lamb and mutton production will probably continue to decline, but better prices are expected for wool and mohair as world supplies remain tight. Production of broilers and turkeys is expected to increase, but stronger prices are also anticipated. Egg production will probably decline to a level more in line with demand and thereby contribute to higher prices.

Generally expanding supplies and equally expansive demand framed the crop picture in 1972.

Anticipated surpluses of feed grains, wheat, and rice failed to accumulate, thanks to increases in demand for exports. Strong export markets for these crops are anticipated again this year. An increase is also expected in domestic demand for feed grains to supply the growing livestock feeding industries, but the foreign market still holds the greatest potential for expansion of commodity sales.

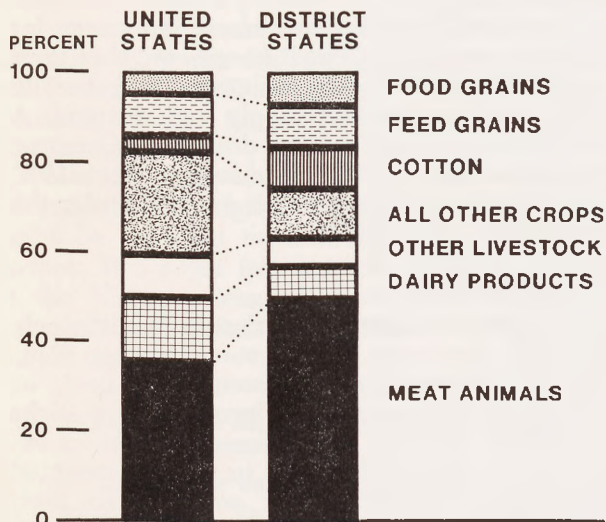
Of the major crops, only cotton and soybeans appear to be somewhat out of balance. Although cotton stocks have expanded, they are not unmanageable. And cotton production this year is expected to about equal offtake. The soybean supply, on the other hand, continues tight in spite of a near-record crop in 1972. In the short run, this suggests higher prices, but the long-run picture includes increasing foreign production and the substitution of other products. Even greater expansion in production will be needed if soybean producers are to hold their market.

District picture

Because of the composition of agriculture in the five Eleventh District states (Arizona, Louisiana, New Mexico, Oklahoma, and Texas), 1973 should be an even better year for farmers and ranchers in these states than for agricultural producers in the nation as a whole. The outlook for beef is about the brightest on the agricultural scene, and beef dominates agriculture in the District states. The resulting demand for feed grains—as well as strong export demand for feed grains, wheat, rice, and soybeans—will also strengthen the agricultural economy of the Southwest. Cotton is the only major commodity for which prospects remain uncertain. However, the existing surplus is neither oppressive nor unmanageable, and favorable prices are expected as production is brought in line with disappearance.

The possibility of severe drouth can probably be excluded from the agricultural producer's roster of concerns for 1973. The same moisture conditions that plagued harvest in late 1972 will enhance prospects for this year's crop.

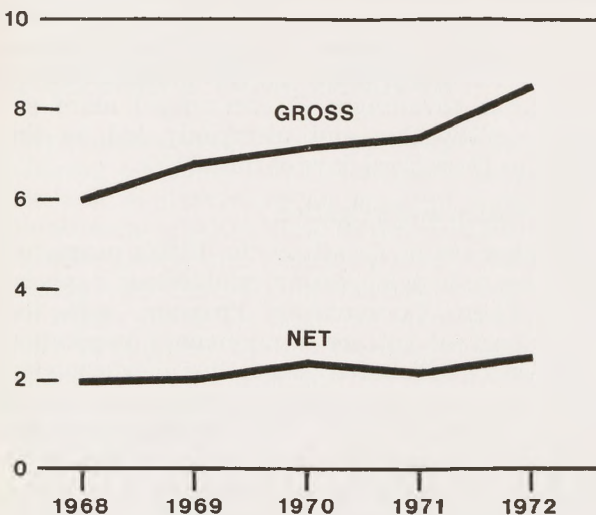
**AGRICULTURAL PRODUCTS MIX,
1969-71 AVERAGE**



SOURCE: U.S. Department of Agriculture

TOTAL FARM INCOME IN DISTRICT STATES¹

BILLION DOLLARS



1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas

SOURCE: U.S. Department of Agriculture

CATFISH FARMERS HAVE PROBLEMS DEVELOPING MARKET, IMAGE

Catfish farming, centralized in the South and particularly in the lower Mississippi basin, is a relatively new development in agriculture. It was originated in the natural catfish market as an alternative enterprise for the region's depressed agriculture. But catfish farmers have had problems establishing and extending markets. The negative image the catfish often arouses outside its natural home in the South has been a significant barrier to market extension.

Size economies

Catfish farming is done largely in man-made ponds, and the size of a farm is given in terms of the surface acreage of ponds. Production from larger farms in the South can reach as much

as 2,000 pounds an acre. Although catfish farming is an important enterprise in Texas, average yields in the state often lag behind those of some other areas. In addition, Texas markets are somewhat less developed.

A recent study by Ronald Lacewell, Harold Jambers, and John Nichols of the Texas Agricultural Experiment Station cites definite size economies for Texas catfish farming. The average investment for farms of 10 acres or less was \$1,325 an acre. Larger farms averaged \$640 an acre. Production costs declined, too, with increasing size, falling from about 80 cents a pound for smaller producers to about 37 cents for larger producers. Texas catfish farmers have the facilities to produce more, but the limited markets seem to preclude this.

Part of the difference between large and small producers lies in their different markets. Many of the smaller producers are able to operate profitably by selling only to local stores and restaurants. These special markets pay higher prices, partially offsetting the higher production costs at smaller farms. But there are definite limits to these special local markets. Larger producers cannot depend on such markets, and it is assumed that they only harvest what they believe can be marketed profitably. This contributes to their lower average per-acre yield.

Market problems

The fact that catfish farms are located in areas that often have an abundant seasonal supply of wild catfish also affects the market. The uneven supply of wild catfish causes significant price variation during the season and disrupts demand for farm catfish.

The regional nature of demand is also limiting. A recent survey by the U.S. Department of Agriculture showed that a large number of consumers had never tasted catfish. The proportion reached two-thirds in Philadelphia. And many people associated catfish with poor flavor, bad water, and oily taste. A majority felt that catfish sales would improve if the name were changed.

WEATHER ALWAYS AN UNCERTAINTY FOR SOUTHERN PLAINS AGRICULTURE

Texas folklore offers this candid advice about weather in the Southern Plains: "If you don't like the weather, wait ten minutes and it will change." The Southern Plains—New Mexico, Oklahoma, and Texas—are part of a 300 to 400-mile-wide belt stretching from Mexico to Canada that has been aptly termed a "meteorological battleground." The warring air masses can produce drouth, torrential rains, tornados, hail, blizzards, and ice storms with astonishing rapidity and unpredictability. Sudden temperature swings—of as much as 60 degrees in a few hours—are not at all unusual. And unexpected killing frosts are a persistent problem in the spring and fall months.

Drouth frequency

The most consistent feature of the generally unpredictable weather in this area is drouth. Records of the past century indicate that a drouth of at least 35 days can be expected every year. Once every ten years, it is likely that the drouth period will last from 60 to 70 days. Less frequently, the drouth lasts up to 120 days or longer. The most recent drouth in the Southern Plains lasted from the fall of 1970 until late-July 1971.

The frequency of drouth is due to the dominance of weather-producing air masses entering the Plains from Mexico. These winds are so hot and dry that their rain-producing potential is almost nil. When an occasional moist tropical front from the Gulf does make its way over the Plains, the resulting violent storms may dump a third or more of the average annual rainfall in a single day. Such was the case when the 1970-71 drouth finally broke.

The early development of this area centered on livestock operations. But with the inducement of the 1862 Homestead Act and increased migration after the Civil War, waves of settlers entered the Plains in the 1880's. By coincidence, this

was one of the rainiest periods the region has ever had, and farming had no great difficulty getting established.

The next decade, however, was one of drouth, and many of the farmers took up dry farming, or summer fallowing. Although this method had its short-term advantages, it encouraged more extensive cultivation and ultimately led to the infamous Dust Bowl days of the 1930's.

Conservation and irrigation

Another major drouth in the 1950's prompted Congress to pass legislation establishing a special Great Plains Conservation Program, with the major goal of getting a permanent vegetation cover back on Plains cropland, thus alleviating the high risk of wind and water erosion. In spite of the periodic setbacks, however, demand for agricultural commodities that are generally compatible with the Southwest has grown.

The development of irrigation has helped to offset some of the climatic problems. It was discovered that large areas of the Southern Plains lay over major aquifers that could be tapped with wells. This discovery, along with the extensive development of reservoirs, allowed cotton production to shift westward and allowed feed grain production to expand significantly in this area. And the expansion of feed grain production has greatly aided the important livestock feeding industries of the Southwest, particularly cattle feeding.

Help from science

Advancements in science and technology are producing further hope for relief in the Plains. The Earth Resources Technology Satellite launched last year is supplying vast amounts of data about weather, soil, and moisture conditions. Work is being done to develop plants more compatible with the adversities of the Plains. Analysis of the links between weather and the spread of disease and insects is also underway.

Prepared by Dale L. Stansbury