Federal Reserve Bank of Dallas

FARM and RANCH BULLETIN

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ANNUAL FARM INCOME REACHES RECORD LEVELS IN NATION, DISTRICT

Farm and ranch cash receipts and gross and net incomes hit record highs in 1972. Gross income increased $6.3 billion in the year to a total of $66.4 billion. Net income plus inventory change reached $19.8 billion, up $2.4 billion from 1971.

The advance in net income, which was due mainly to rising demand for U.S. agricultural products both at home and abroad, came in spite of a 7-percent rise in total production costs. On the strength of this demand, prices of many individual commodities advanced to unexpectedly high levels.

The index of cash receipts for all commodities rose more than 10 percent, as livestock receipts advanced 12 percent and crop receipts 7 percent. Since livestock and livestock products also contribute a larger absolute share to farm income, they accounted for 70 percent of the total increase in cash receipts. But with the unexpected increase in export demand in the last half of 1972, prices for many crops rose unseasonably, providing a further boost to cash receipts.

Better price-cost ratios

Improvement in price-cost ratios was evident throughout 1972 as prices received by farmers averaged more than 12 percent higher than in 1971 and prices paid by farmers were only about 6 percent higher. This improved ratio and resulting higher incomes stimulated additional capital expenditures in agriculture. Tractor purchases, for example, increased about 20 percent in 1972, and stimulated demand for land pushed farm real estate values up 5.4 percent between March and November.

Per capita disposable income of the farm population advanced 12 percent in 1972 to $3,179, a level equal to 83 percent of the disposable income of the nonfarm population. The gap between farm and nonfarm disposable income was narrowed by some 5 percent.

The Eleventh District

In the states of the Eleventh District—Arizona, Louisiana, New Mexico, Oklahoma, and Texas—farm income advanced at a faster pace than in the nation as a whole. Total cash receipts increased 15 percent, compared with 10 percent in the nation. The District advance was supported mainly by a recovery in crop production from the weather-plagued conditions of 1971. Crop receipts in the District rose 19 percent, compared with 7 percent in the nation. Livestock receipts increased 13 percent, in line with the national average. But because the livestock sector is relatively more important in District states, these receipts accounted for about three-fifths of the overall gain.

Realized net income per farm rose significantly in all five District states. New Mexico, Oklahoma, and Texas had posted losses in this category in 1971. Arizona farms continued to lead the nation, with an average income per farm of $41,434. This was more than twice the level for California farms, which had the second highest income in the nation.

Into 1973

Early projections of farm income for 1973 indicated a slight decline in net figures. But in the first three months of the year, prices received by farmers increased about 16 percent while costs increased slightly more than 5 percent. And with cash receipts in January sharply higher, the U.S. Department of Agriculture is now projecting another record net income of perhaps $21 billion.

Such an increase will depend on larger marketings, higher prices, and continued strong demand, both domestic and foreign. Production of nearly every commodity is expected to increase in support of larger marketings. However, this would also contribute to some price moderation over the year. The export market remains, as always, uncertain, and any change in exports could modify the entire agricultural situation.

Government payments are another important consideration, and they are scheduled to be cut back this year. This will impact directly on net income levels.

Pressures of production costs

Production costs remain the most important and most uncertain aspect of agriculture this year. Phase II of the President's economic program managed to bridle costs with some success in 1972. But the backlog of cost pressure built up in that period has manifested itself in a faster rise in costs so far this year. In addition, the increased demand that naturally accompanies production expansion can be expected to bid costs up even further. Intrasector production costs, such as for feeder livestock and feed grains, could moderate, but this would mean lower incomes for the producers of these items and, possibly, lower incomes for the whole sector.

Cost pressures of land, labor, and taxes are also expected to rise. And the increased demand for credit to support expanded production faces higher interest rates.

The policy decision to encourage increased production of agricultural commodities is necessary in view of recent demand pressure. But if supply expansion proves excessive, the relatively inelastic demand for farm products would produce sharp drops in farm prices. With costs expected to increase, farmers may again face the familiar cost-price squeeze and net income could fail to advance.

BEEF PRICES SURFACE AS NATIONAL ISSUE

The high price of beef has finally raised an outcry in America's kitchens that has echoed all the way to the White House and through congressional chambers. In spite of this nationwide concern for the problem, the real reasons for the record beef prices remain unclear. Perhaps there

CASH RECEIPTS FROM FARM MARKETINGS

(Dollar amounts in thousands)

	LIVESTOCK AND PRODUCTS		CROPS		TOTAL	
Area	1972	Percent increase over 1971	1972	Percent increase over 1971	1972	Percent increase over 1971
Arizona	$503,700	20%	$318,600	3%	$822,300	13%
Louisiana	305,300	11	496,600	17	801,900	15
New Mexico	416,900	11	124,200	16	541,100	12
Oklahoma	988,700	15	295,300	10	1,284,000	14
Texas	2,360,700	11	1,441,800	27	3,802,500	17
Five states	4,575,300	13	2,676,500	19	7,251,800	15
United States	$34,317,000	13%	$24,232,800	7%	$58,549,800	10%

SOURCE: U.S. Department of Agriculture

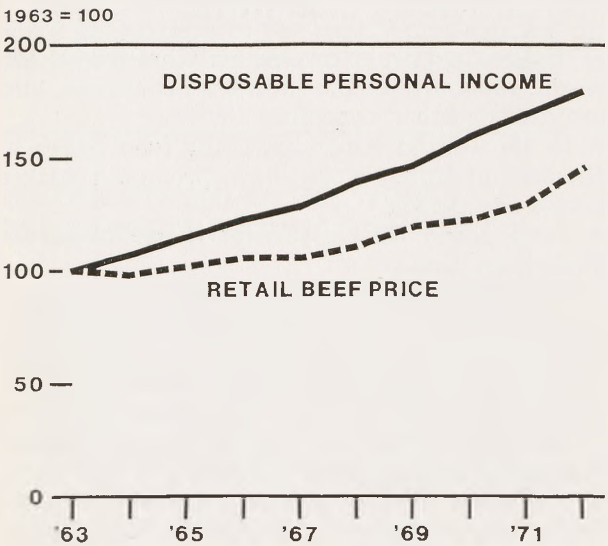
is a clue in the very manner in which demand was at last curtailed—a nationwide boycott instead of a simple reduction in purchases.

Consumer preference

"Eating high on the hog" no longer means ham. It means steak. While per capita beef consumption rose 23 percent in the past ten years, pork consumption stabilized and consumption of mutton and lamb declined. Chicken demand expanded rapidly in the 1960's but reached an apparent plateau about four years ago—about the same time beef prices began their upward climb.

The retail price spread between beef and pork grew from about 19 cents a pound in 1968 to 34 cents in 1971. In 1972, it was still 30 cents. This spread reflects the relative supplies of each, but it is also an expression of the relative values consumers place on beef and pork. Apparently, consumers have not wanted to substitute more pork for beef and have been willing to pay more for the beef they demanded.

RETAIL PRICE OF BEEF
RISES WITH PERSONAL INCOME



SOURCE: U.S. Department of Agriculture

Increased demand for beef appears to be closely related to increased income. From 1963 to 1972, disposable personal income rose 78 percent and per capita beef consumption increased nearly 23 percent. Total food consumption in the same period advanced only 7 percent.

The incorporation of more and more beef into diets seems to represent an upward shift in lifestyle for most consumers, and they are reluctant to give it up. The lag in consumer reaction to higher beef prices is indicative of this reluctance, and the fact that curtailment of demand finally came in the form of a boycott is indicative of the importance consumers accord to beef.

Producers and middlemen

Farmers and ranchers responded to the growing demand for beef with a 37-percent increase in beef production in the past decade. This provided an additional 20 pounds of beef per person annually. But production increases are dependent on the reproductive processes of cows as well as on the decisions of producers, and increases in supply tend to lag behind increases in demand. (See the April *Farm and Ranch Bulletin.*)

The so-called middlemen have received a large share of the blame for the rise in beef prices. But these people and firms provide many important functions that consumers would certainly be unwilling to forgo. They assemble, process, distribute, and make final sales to a widely dispersed consuming public. All segments in this marketing channel between producer and consumer are sensitive to general price increases, especially a rise in labor costs. And between 1963 and 1972, average hourly wages rose significantly and nearly all other marketing costs—materials, capital, and credit—also advanced. This, of course, increased the margin between farm price and retail price.

Fairly significant gains in productivity were made at the packing and wholesale level with

AVERAGE PRICES AND PRICE SPREADS OF BEEF FROM FARM TO MARKET

(Cents per pound)

Year	Farm price	Farm-wholesale spread	Wholesale-retail spread	Retail price
1968	25.3¢	18.0¢	43.3¢	86.6¢
1969	28.3	18.9	48.8	96.2
1970	29.0	17.9	51.7	98.6
1971	32.4	21.0	52.2	104.3
1972	35.8	19.5	58.5	113.8

SOURCE: U.S. Department of Agriculture

decentralization and general modernization of facilities. Consequently, the farm-wholesale price spread grew only 3 cents a pound from 1968 to 1971 and actually declined in 1972.

At the retail level, productivity gains have been made, but they are more difficult to realize, mainly because retailers must be widely dispersed and their sales invariably are in small, individual packages. Better handling techniques in packaging meat provide consumers with more attractive and more sanitary products. But this adds to the overall costs of the operation. The higher costs have absorbed much of the retailer's margin of gain, leaving little if any increase in profits.

Looking ahead

Higher prices of beef, then, can probably be attributed to these general influences: increasing demand and the consumer's definite preference for beef over other protein sources, rising personal incomes and generally higher prices of inputs, and a slow supply response due to the biological limitations of cattle production.

The ultimate determination of price in a competitive market still lies with the consumer's allocation of his dollars. Perhaps consumers were lulled into complacency by a long period of relative surpluses and expanding disposable incomes. If so, the pattern was apparently broken by the surge in beef prices early this year.

The beef market is in a period of disequilibrium, but this is an indication of the transition characteristic of free markets when there is a shift in demand. Such temporary upsets always pass, allowing farm prices to fall back. Retail prices, however, will not show as great a decline as farm prices, due to the pressure of other costs along the market channels.

New marketing techniques

Two alternative marketing techniques might afford consumers price relief, however. In-store costs could be reduced an estimated 8 to 10 cents a pound by increasing the amount of cutting and packing done at the packer-wholesaler level. And if consumers would accept frozen beef, costs could be cut even more.

The success of any alternate marketing technique depends, of course, on consumer acceptance. Consumer preferences—expressed in dollars—will ultimately determine what the market supplies in terms of quantity, quality, and form.

WORLD FOOD PRICE NOTES

Higher food prices are evident throughout the world, especially in the industrial countries, and are causing broad concern.

- In the United Kingdom, rising food prices in the face of frozen wages have prompted strikes across the nation.
- Food prices were a central theme in recent French elections.
- Japan has the world's highest food prices. In mid-March, beef loin was selling at the equivalent of $11.90 a pound, Kobe beef at up to $17.40 a pound, and muskmelons at $15 each. Not surprisingly, consumption has been limited.
- The official food and beverage price index of Chile rose 243.3 percent in 1972.
- The share of disposable personal income spent on food by consumers in the United States is the lowest in the world.

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