Federal Reserve Bank of Dallas
FARM and RANCH BULLETIN

July 1974

INCOME PROSPECTS DETERIORATE AS FARM PRICES WEAKEN

Dramatic declines in prices for farm and ranch commodities in recent months and soaring production expenses are impacting on farm income. As a result, net farm income in 1974 will fall sharply below the record $26.1 billion in 1973.

Farm prices reached near-record levels in the first quarter this year, pushing net farm income considerably higher than in the same period last year. But both crop and livestock prices turned down in March, and average farm prices tumbled 14 percent from February to May to a level only moderately higher than a year earlier. At the same time, prices paid—boosted by surging fuel and fertilizer costs—shot up and, by May, were a substantial 15 percent higher than a year before. Consequently, the ratio of prices received to prices paid by U.S. farmers and ranchers dropped to the lowest level since December 1972.

The drop in farm prices can be linked primarily with increases in production. And with prospects for a record grain output and only moderate demand, crop prices could weaken even more as harvesting draws near. In addition, expanding supplies are expected to keep livestock prices in the last half of the year far below 1973 levels. As a result of both lower farm prices and escalating expenses, net farm income could drop below $20 billion.

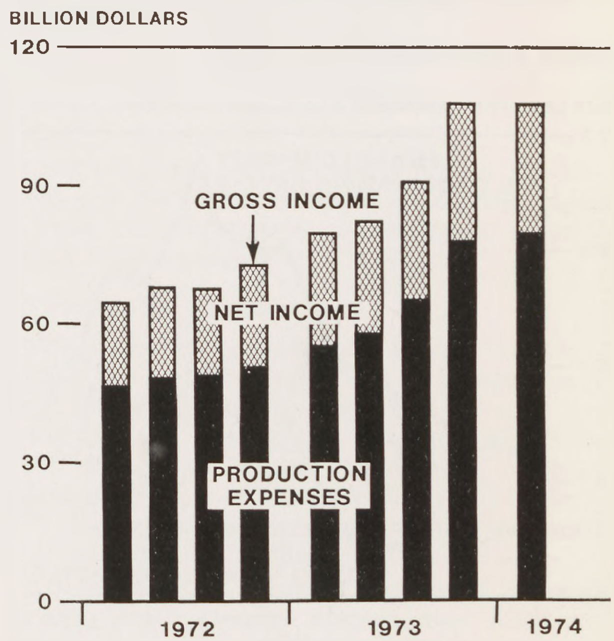
Exports key to farm prices

While the domestic market is basic to the outlook for agricultural commodities, the world market could heavily influence farm prices this year. In the trade year just ended, a variety of factors, such as shortfalls in agricultural production and the development of new markets, pushed exports to record highs.

For the trade year ended June 30, farm shipments are expected to total about $21 billion, or nearly $8 billion more than a year before. Farm imports, meanwhile, are expected to total $9.5 billion, or $2.2 billion more than in the previous year. Agriculture's contribution to the U.S. trade balance, therefore, will reach a record level of about $11.5 billion.

But despite the need for food in many countries, farm shipments in the trade year beginning July 1 are expected to slip considerably below historic levels last year. According to U.S. De-

INCOME RECEIVED FROM FARMING



SOURCE: U.S. Department of Agriculture

partment of Agriculture estimates, exports in the 1975 marketing year may total only $17 billion to $19 billion.

The expected reduction in farm exports in the new trade year can be traced to several variables in the world market. These include a slowdown in the economic growth rate of principal markets, increased world production of many commodities, some price declines, and reduced foreign exchange reserves for some countries importing U.S. farm products. So, with a sizable crop output and overseas shipments easing, carryover from crops produced in 1974 could turn sharply upward from the nearly depleted levels of the 1973 crops.

Fed cattle market weak

In the domestic market, supply and demand changes have caused irregularities in production, especially in the cattle feeding industry. Market disruptions that plagued the industry during most of 1973 carried over into early 1974.

Fed cattle prices, which were at low levels in December, rebounded sharply in January. The gains were due to strong demand by retailers and wholesalers that tried to stockpile against the possibility of an extended truck strike in February. But the surge in slaughter cattle prices was short-lived, and prices skidded downward to far below $40 a hundredweight this spring.

At the same time, expenses soared, and the selling price required to cover feed and feeder costs jumped far above $40 a hundredweight. Cattle feeders, consequently, had tremendous financial losses—much as they had last fall.

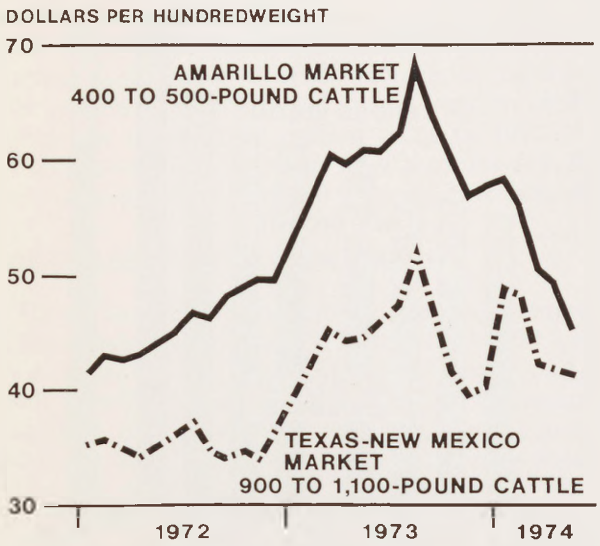
Substantial market adjustments will be needed for the cattle feeding industry to rebound and increase its earnings in 1974. If prices for fed cattle remain near levels of this spring, prices for feed grain and feeder cattle must necessarily adjust downward for cattle feeding profits to rise.

Some decline in feeding costs seems likely. An abundant feed crop is expected to weaken grain prices this fall and a larger calf crop should provide a plentiful supply of feeder cattle at much lower prices than a year before. But feed costs will probably still be high this year, prompting feeders to purchase cattle at heavier weights and feed them for shorter periods.

Thus, cattle prices in the last half of the year will hinge on the answers to both supply and demand questions. The supply of beef will depend partly on whether marketing weights of fed cattle continue to average above year-earlier levels. And if cattle remain in feedlots for shorter feeding periods, fed cattle marketings could be much stronger than expected due to the faster turnover.

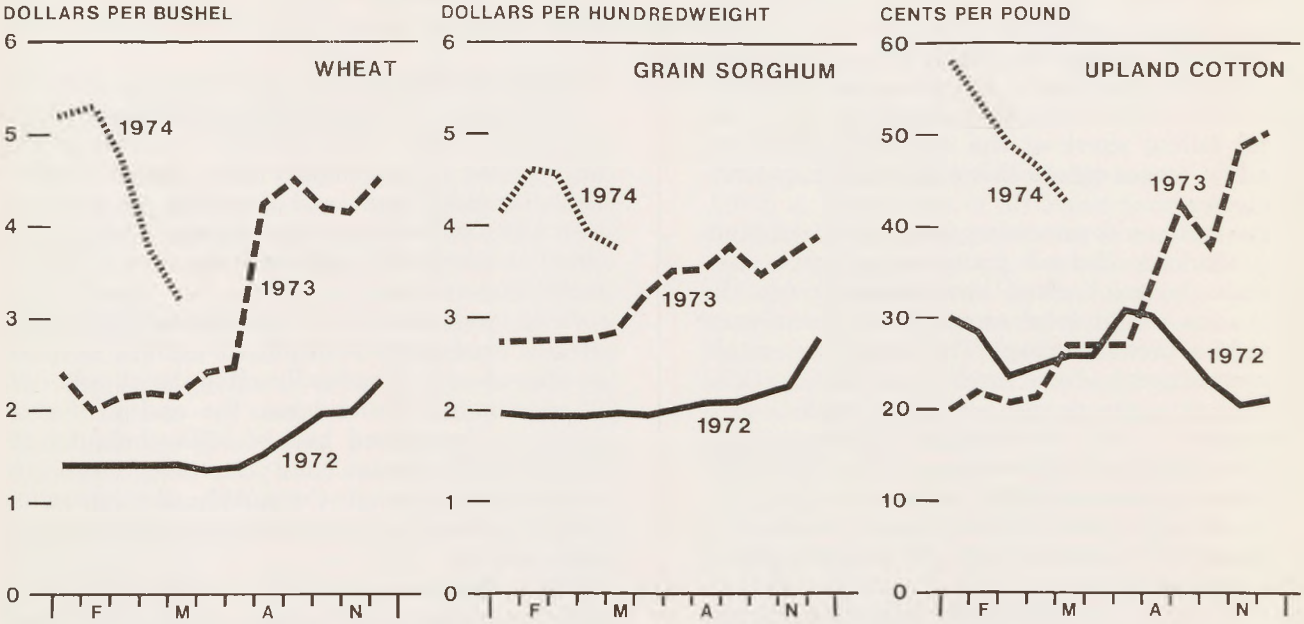
In addition, increased beef slaughter could come from nonfed cattle. High feed and fertilizer prices, plus lower cattle prices, have caused a step-up in culling of cow herds. With the downward pressure on livestock prices this year, expansion of the beef cow herd will likely lag the 5-percent annual growth in 1972 and 1973. A rise in cow slaughter in the last half of 1974, therefore, could add substantially to the supply

PRICES FOR CHOICE STEERS



SOURCE: U.S. Department of Agriculture

PRICES RECEIVED IN TEXAS



SOURCE: U.S. Department of Agriculture

of beef. And with a large supply of feeder cattle and lower prices, some cattle may be slaughtered without being fed grain.

But not to be ignored is the impact of consumption. Although retail beef prices have declined somewhat since February, consumer buying of beef has been sluggish. Most likely this is because the purchasing power of incomes has weakened as a result of a rapid climb in average consumer prices. But the softening in demand appears to result primarily from constricted food budgets, rather than from a shift in the well-documented consumer preference for beef. The decline in per capita beef consumption in 1973 was due mainly to the limited supply of beef, not to a weakness in demand.

Another factor weakening demand for livestock products is the world market. World supplies of livestock have also increased, prompting several countries to place restraints on the importing of beef in an effort to strengthen prices of meat animals and to protect farm incomes within their countries.

Crop production higher

While livestock supplies are on the rise, conditions are very favorable for a bumper crop year. Higher prices for crops in 1973 and the lifting of most Government acreage restrictions have stimulated farmers to sharply increase efforts to produce a record crop in 1974. Similarly, foreign crop production, although outpaced by world demand, is advancing.

The wheat crop, expected to provide a record harvest, illustrates the current crop dilemma. Barring unforeseen setbacks and with favorable weather, the wheat crop should advance at least a fourth this year. But wheat prices, which reached record highs at most markets in late February, have been driven down, dropping more than a third by May.

Demand for wheat is expected to ease in 1974-75. And if good crops are harvested overseas, exports are apt to drop substantially. With demand falling short of the crop and stocks increasing, wheat prices this year will likely average lower.

The outlook is promising for a large feed grain crop. Indeed, if feed grains—corn, grain sorghum, oats, and barley—have normal yields, the 1974 crop would total around 15 percent more than the previous crop. The corn crop would advance sharply to a level more than a third greater than the nearly 5.0 billion bushels used domestically and, therefore, be large enough to provide shipments in excess of the 1.2 billion bushels exported in 1973.

By contrast, grain sorghum output is expected to be slightly smaller than the record crop of 937 million bushels in 1973. Similarly, production of barley, with much smaller acreage, will likely be well below most recent years. The oat crop, however, is projected to be larger.

Prospects for a large upland cotton crop are bright this year in view of intentions by growers to increase acreage by more than a fifth. If farmers plant the 14.7 million acres indicated early in the year, production will moderately exceed prospective disappearance in the 1974-75 season. While domestic consumption may increase slightly to about 7.7 million bales, exports could total 5.5 million in 1974-75. Consequently, total disappearance could be around a million bales less than production.

Outlook cloudy

On balance, the outlook for agriculture in the last half of 1974 will depend to a great extent on whether or not supply and demand projections for both crops and livestock are realized. For now, limited supplies and low grain stocks cloud the horizon, making forecasting of prices hazardous at best.

With grain stocks at very low levels, any increases or reductions in output—either at home or abroad—could radically alter the supply and disappearance. In addition, the easing of crop prices in the second half of 1974 could be accentuated if foreign and domestic crops are larger than expected. Conversely, that situation could be reversed if production fails to reach expectations.

With regard to livestock, unexpectedly high grain prices would have little effect on red meat production during the balance of 1974 but could significantly limit 1975 output by reducing placements of cattle on feed and discouraging expansion in pork production. Then again, if the grain crop is larger than expected, especially with prices trending lower, not only would earnings of livestock producers increase, but production would likely be spurred ahead.

Prepared by Carl G. Anderson, Jr.