



Federal Reserve Bank of Dallas

FARM and RANCH BULLETIN

October 1974

AGRICULTURAL PRODUCTION SLOWS IN ELEVENTH DISTRICT

After reaching historic levels in 1973, agricultural output in states of the Eleventh District—Arizona, Louisiana, New Mexico, Oklahoma, and Texas—has turned downward in 1974. Much of the falloff in production can be linked with severe drouth conditions that have impacted greatly on the planting and growing seasons.

As a result of the unfavorable weather, production of crops in District states—based on September 1 conditions—is expected to drop nearly a fifth below the 1973 harvest. Some of the loss will be offset by increased livestock production, which is likely to reach a record high this year. But in all likelihood, total farm output in 1974 will decline substantially from last year.

Farm income in the Eleventh District is also apt to drop far below the record level established in 1973. This is due largely to fewer crops available for marketing and sharply lower livestock prices. Too, significantly higher production costs have contributed to the loss of income.

Although the rise in production costs has been widespread, steeper prices for fuel and fertilizer have been especially noticeable. By August, the index of prices paid by farmers and ranchers in the Southwest had advanced 15 percent over the level a year earlier. And with the higher cost of inputs and increasing mechanization of operations, use of farm credit in District states expanded. At midyear, loans outstanding at production credit associations and federal land banks had increased nearly a fifth over a year earlier. Loans held by District member banks also moved ahead, although at a much slower pace.

Prices vary

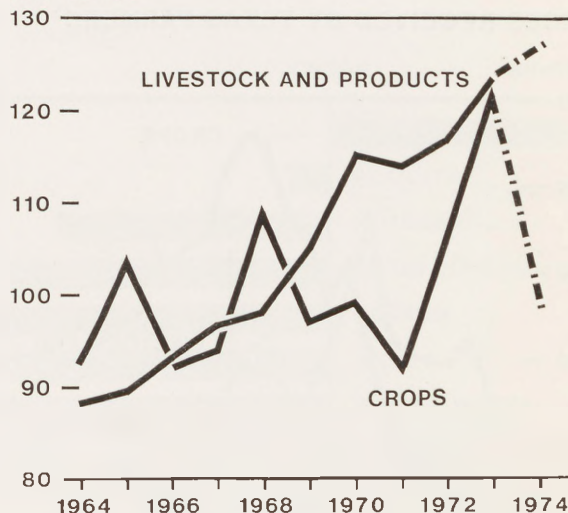
Looking back, 1974 began on an optimistic note, with expectations of a record farm output.

Beef production was increasing, and prospects for planting large crop acreages were good. As a result, farm prices were trending downward.

But by midyear, drouth conditions had withered crop prospects and prices for livestock were depressed. So, despite an upturn in livestock prices in July, average prices received by Texas farmers and ranchers in the month ended August 15 were substantially lower than a year before. Expanded production and increased marketings

AGRICULTURAL PRODUCTION IN THE ELEVENTH DISTRICT

1967-69=100



1974 partly estimated

SOURCES: U.S. Department of Agriculture
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had pushed the index of prices for livestock and livestock products down more than a third. But because of an upsurge in feed grain prices, the crop index was 21 percent higher.

With limited supplies of most crops and strong world demand for them, farmers received prices for grain sorghum, corn, and wheat in the first eight months of this year that averaged about a third higher than in all of 1973. And despite a downtrend in price, they received 50 percent more for cotton. For livestock producers, prices averaged higher for milk, but much lower for beef cattle, hogs, chickens, eggs, and wool.

Crop production drops

Of the major crops grown in the District, only rice is expected to have a larger harvest than in 1973. Drouth conditions over much of the District during most of the summer have taken their toll. Wheat, grain sorghum, cotton, and hay crops

have all been reduced sharply by lack of soil moisture. Among minor crops, the output of soybeans and peanuts is about equal to last year but the oat and barley crops are poor.

A small increase in acreage and favorable yields account for the expected expansion in the rice crop. Where most crops are produced under a combination of irrigation and dryland conditions and, therefore, are affected by dry weather, all rice is irrigated and is not impaired by drouth.

The damage from drouth has been widespread. Wheat yields were very poor, with production down a fourth even though acreage increased nearly 12 percent. Cotton growers, with the added burden of insect problems, are expected to harvest almost as many acres as last year, but the yield will be about three-fourths as large. Fewer acres of grain sorghum were planted and with yields generally poor, the crop is expected to fall more than a fourth from 1973. Acreages planted to peanuts and soybeans were virtually unchanged from last year, but a sizable reduction was made in oat and barley acreages.

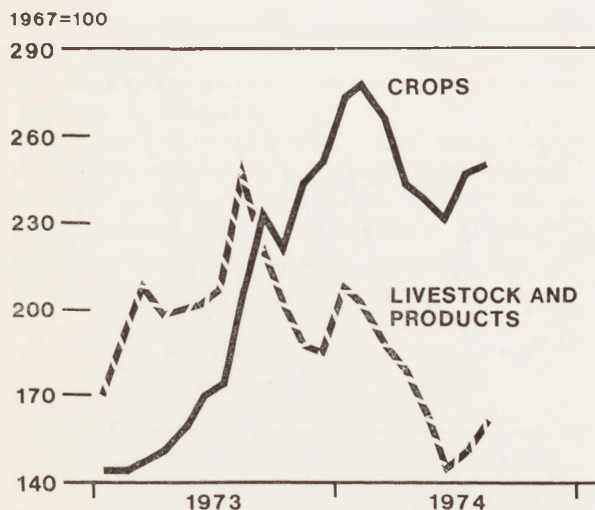
Livestock production rises

In contrast to the shortfall in crops, production gains have been registered in livestock, especially beef cattle. With fewer cattle on feed, the gain has come from increased slaughter of cows and grass-fed cattle.

Production of lambs and broilers is also greater than a year earlier, but output of pork, eggs, wool, mohair, and milk has lagged. Still, even though production of most commodities trails year-earlier levels, the increase in beef slaughter will boost livestock output moderately above the record of last year.

Most of the advance in livestock production has been due to larger beef herds, a result of favorable feeder calf prices in the past several years. Cattle in District states numbered more than 27 million head at the beginning of the year, a gain of 6 percent over a year earlier. That total represented slightly more than 21 percent of the nation's cattle herd.

PRICES RECEIVED BY TEXAS FARMERS



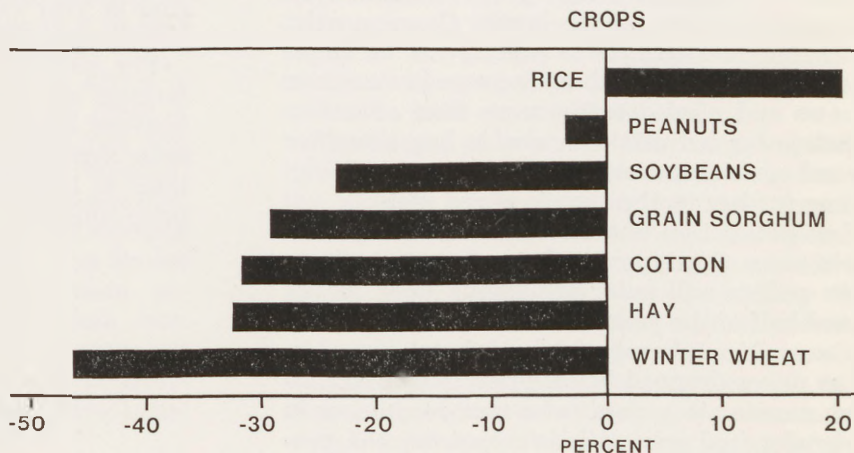
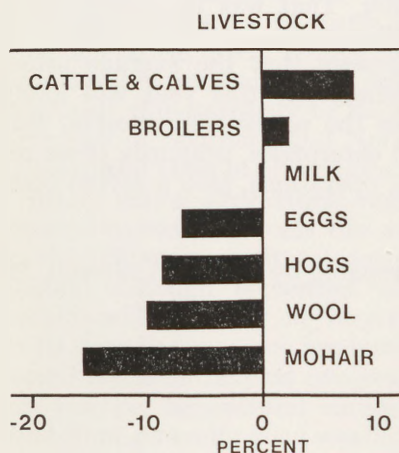
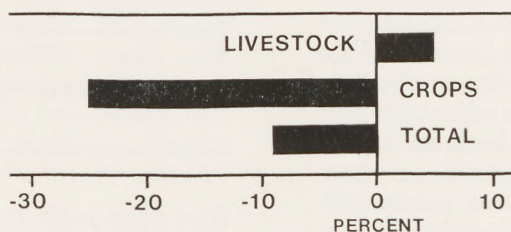
SOURCE: U.S. Department of Agriculture

Contrary to recent years, when cattle feeding was expanding rapidly, the number of cattle on feed in the District states at midyear was 22 percent less than a year earlier. That was the smallest number since October 1971 and drove down feedlot occupancy rates to four-year lows. Cattle feeders have been discouraged by a slump in the market for fed cattle and a sharp increase in feeding costs and have reduced placements. But so far, marketings of cows and grass-fed cattle have more than made up for the decline in fed cattle marketings.

Drouth has prompted early marketing of both calves and cows, which will bolster livestock production in the near term. But slaughtering calves that would normally be placed on feed will reduce the potential amount of beef for next year. Fortunately, beneficial rains in August improved pasture and range conditions, brightening the outlook for fall and winter grazing.

With regard to other livestock commodities, milk output in District states has slowed, primarily because dairymen have reduced herds in an effort to lower feed costs and improve de-

CHANGES IN TEXAS FARM OUTPUT FROM 1973



1974 partly estimated for livestock and indicated as of September 1 for crops

SOURCES: U.S. Department of Agriculture
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pressed incomes. Pork production has been sharply reduced, and wool and mohair output has also been curtailed. While broiler producers have increased production slightly, fewer eggs have been marketed.

Livestock prospects bleak

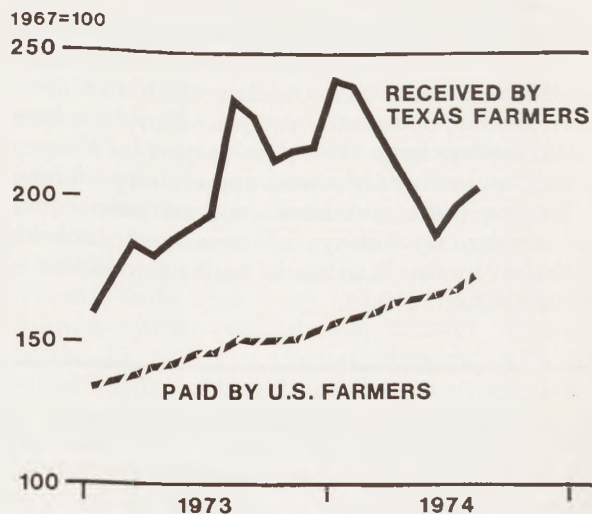
A concerted effort to substantially step up agricultural production for the nation as a whole suffered a major setback from drouth. As a result, production of feed grains—corn, grain sorghum, oats, and barley—is expected to plunge substantially below the 1973 level.

With production curtailed and stocks already at low levels, prices of feed grains will likely remain high, discouraging livestock production until prices of feed and livestock adjust to new levels. For poultry production, the adjustment period will be only a few months because of its short cycles. But for cattle, with production cycles requiring several years, the adjustment to a new market balance between feed costs and beef prices may stretch out for many months.

The initial impact of high grain prices will tend to increase beef and pork production as producers seek to reduce herds. Consequently, cattle slaughter this fall is expected to be larger than it was last fall, with an increase in slaughter of cows and nonfed cattle more than offsetting a decline for fed cattle. A rise in hog slaughter beyond normal seasonal patterns is also likely, adding further to the supply of red meat.

Egg production should continue below 1973 levels since egg-type hatchery figures indicate fewer pullets will enter the laying flock in the second half of the year. In recent months, broiler producers have sharply cut back hatchery activity as prices dropped below production and processing costs. As a result of a near-record low in the broiler-feed price ratio in recent months, producers will likely keep broiler output this fall substantially below year-earlier levels. Smaller feed grain and soybean crops will result in significantly higher feed costs for dairy farmers and will probably curtail milk production. The milk-

PRICES FOR ALL FARM PRODUCTS



SOURCE: U.S. Department of Agriculture

feed price ratio for August was down 13 percent from a year earlier. That was the lowest ratio since August 1947.

For now, it appears that the average prices farmers and ranchers pay this year will likely increase less than the prices they receive. But some agricultural enterprises, primarily those related to livestock operations, face a severe cost-price squeeze.

Prepared by Carl G. Anderson, Jr.