FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

January 1975

RETAIL FOOD PRICES CLIMB; LITTLE RELIEF SEEN

Limited supplies of some crop and livestock commodities combined with higher costs in most phases of marketing to push retail food prices upward in 1974. Late in the year, retail prices for food were expected to average nearly 15 percent higher than in 1973, an increase comparable to the 14.5-percent rise that year.

A quarter-by-quarter breakdown shows, however, that compared with a year earlier, the rate of increase in 1974 prices slowed. Prices in the first quarter were nearly a fifth higher than in the same quarter of 1973. Second-quarter prices were up 15.5 percent, but third-quarter prices were about 11.5 percent higher than a year before. For the fourth quarter, the increase was also expected to be about 11.5 percent.

Supplies tight

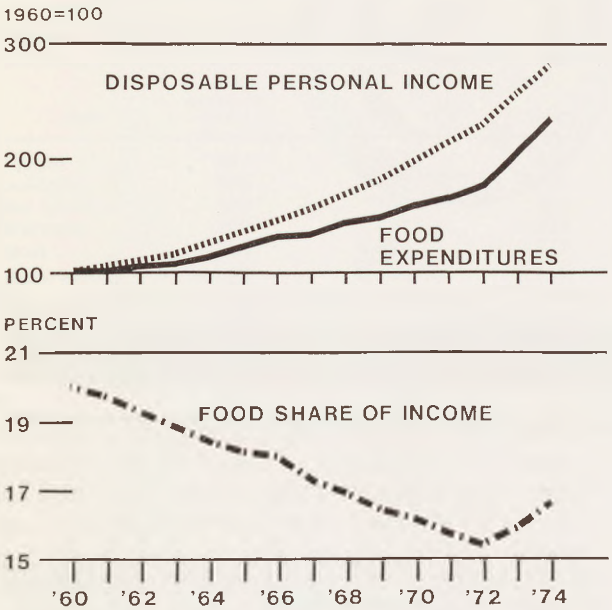
Crop production for the nation as a whole in 1974 fell considerably short of levels expected during planting season, pushing up prices for food. Late in the year, limited amounts of vegetable items, vegetable oil products, coffee and cocoa, and sugar and sweets kept prices for those products high. Too, higher prices for cereal and bakery products reflected a greater expense for several basic ingredients.

Livestock prices showed the impact of a severe reduction in feed grain supplies. The poor feed grain crop stimulated livestock slaughter, and retail prices for beef during the spring and early summer fell back from high levels earlier in the year. But in recent months, these declines were offset somewhat by higher prices for broilers and eggs—a result of producers restricting output in response to high feed prices.

Prices consumers pay for food reflect more than the farm value of products. Food dollars also pay for all services involved in processing and distributing food. In 1974, these added costs accounted for about two-thirds of total food expenditures.

Marketing costs accelerated in 1974. As a result, the U.S. Department of Agriculture estimated that for the first time, the total cost of marketing food originating on U.S. farms will exceed $100 billion. That gain of 22 percent in 1974 would be almost triple the increase in 1973. Meanwhile, the farm value of U.S. food products may have reached $54 billion in 1974, 7 percent

INCOME TRENDS AND FOOD EXPENDITURES



1974 estimated
SOURCES: U.S. Department of Agriculture
U.S. Department of Commerce

more than in 1973. Most of the increase was attributed to crop products, since the farm value of meat and dairy products was expected to decline somewhat. Combined, marketing costs and the farm value of food products were expected to total $154 billion, up 15 percent over 1973.

Even with higher retail prices for food, consumption increased. Total food consumption per capita reached a record high in 1974, increasing 1.8 percent over a year before. The year-to-year gain—the largest in 15 years—was attributed to an increase in meat consumption throughout 1974 and to a step-up in poultry intake in the first half of the year.

Consumers also increased spending for food. In the third quarter, purchases rose 4 percent. Outlays were up $6.5 billion to an annual rate of $167.3 billion. Purchases of food for use at home increased 4.8 percent over the previous quarter while expenditures for food eaten away from home rose 0.9 percent. Personal consumption expenditures for food in the third quarter of 1974 were up 13.3 percent over a year earlier.

Outlook dim

The rise in retail food prices may continue unabated in the first half of 1975. Beef prices are apt to rise from late-1974 levels as a result of lower output of grain-fed beef and seasonally reduced marketings of cows and nonfed steers. Too, expected cutbacks in pork and poultry production will boost livestock prices.

As for crop-related foods, a large citrus crop should hold fresh fruit prices near late-1974 levels. But prices for processed fruits and vegetables will continue to rise, mainly reflecting higher marketing costs. So, even though consumer demand is expected to ease as general economic activity slows, setbacks in agricultural production last year and inflationary forces in the marketing process will have repercussions well into 1975.

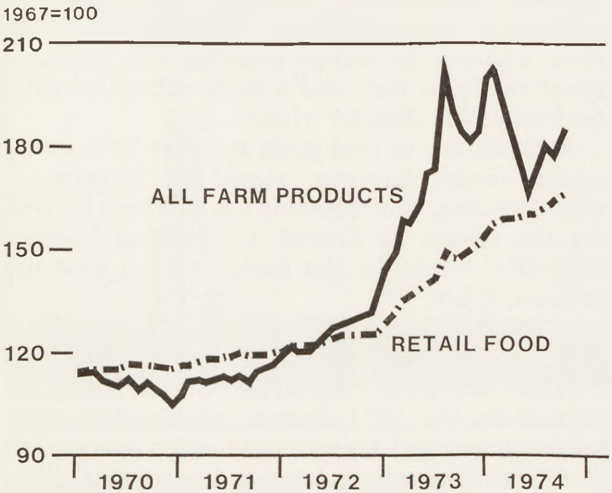
CREDIT SCHOOL, IN-DEPTH WORKSHOP SLATED FOR TEXAS A&M

"Financing Agriculture in a Time of Uncertainty" is the theme of the 23rd Annual Texas Farm and Ranch Credit School for Commercial Bankers, set for February 10-12 at Texas A&M University. The school is sponsored jointly by the university and the Texas Bankers Association.

Subjects to be taken up include commodity hedging and contracting from the standpoints of producers and bankers. The mechanics of agricultural loans will be examined, with special attention given to crop and machinery loans and livestock loans. Sessions on marketing will include the outlook for feed and food grains, cotton and livestock.

Correspondent banking, the Farmers Home Administration, and the seasonal borrowing priv-

RETAIL FOOD AND FARM PRICES



SOURCES: U.S. Department of Agriculture
U.S. Department of Labor

ilege at the Federal Reserve discount window will also be reviewed. In a session for directors, Dr. Tyrus Timm, professor of agricultural economics, Texas A&M, will lead a discussion on the "Board of Directors in Country Banks."

For the first time, an in-depth workshop on agricultural credit analysis will be held in conjunction with the credit school. Designed for junior loan officers at commercial banks, the workshop is scheduled for February 12-14. Workshop sessions will include:

- Review of the basic tools of credit analysis, such as accounting statements, cash flow projections, and financial statements
- A computerized game in the identification of portfolio decisions affecting the profits and competitive positions of banks
- Development of financing programs for actual case situations

Registration costs $40 for the credit school and $50 for the workshop. Registration forms are available from Cecil A. Parker, Agriculture Building, Room 108, Texas A&M University, College Station, Texas 77843. Because participants in the workshop must be mailed background information for some sessions before the workshop begins, preregistration is required.

RECORD U.S. WHEAT CROP FALLS SHORT OF EXPECTATIONS

Wheat production in the United States in the 1974 season will exceed last year's record crop by 5 per cent but will fall short of expected levels. And even with a record harvest, the smallest carryover in 25 years will keep wheat supplies tight throughout the season.

Early this year, the 1974 crop was projected at over 2 billion bushels. Since then, prospects have dimmed, and the most recent estimate cited a crop of 1.79 billion bushels. Optimism in the initial outlook was due mainly to a 22-percent increase in harvested acreage. But yield was substantially less than expected, dropping dramatically to 27.4 bushels per acre. That was 14 percent less than in the 1973 season and the lowest yield since 1968.

Output was restricted by inclement weather in all wheat-producing areas. Most severely hampered were major producing states in the Great

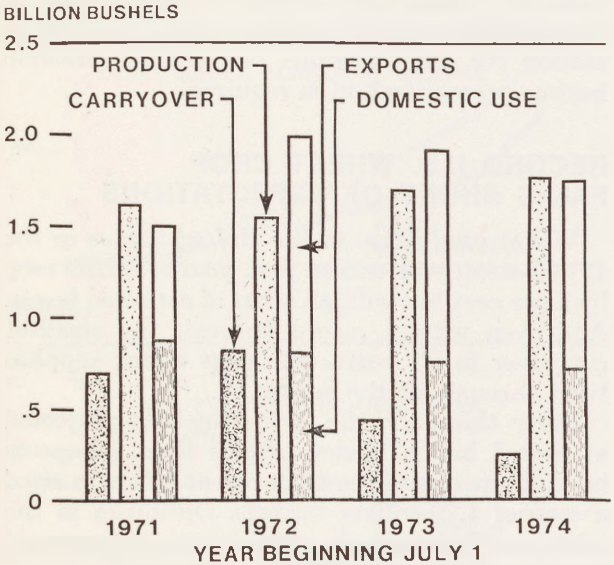
WHEAT PRODUCTION IN DISTRICT STATES

(Thousand bushels)

Area	1972	1973	1974	Percent change 1974 from 1973
Arizona	11,390	15,120	15,510	3%
Louisiana	690	396	600	52
New Mexico	4,335	8,526	2,835	−67
Oklahoma	89,700	157,800	134,400	−15
Texas	44,000	98,600	52,800	−46
Five states	150,115	280,442	206,145	−26%

SOURCE: U.S. Department of Agriculture

WHEAT SUPPLY AND DISAPPEARANCE



1973 preliminary; 1974 projected
SOURCE: U.S. Department of Agriculture

Plains, where yields dropped to the lowest levels in recent years.

Wheat harvests in states of the Eleventh District were also curtailed. Production in the five states, at 206 million bushels, plummeted 26 percent from a season before. Declines in Oklahoma and Texas—states with large-scale wheat operations—accounted for the downturn.

Disappearance slackens

Domestic disappearance is apt to be down slightly in the 1974 season. While use of wheat for food and seed will be comparable to a season before, use of wheat for feed will be significantly less than in recent years.

Two developments account for much of the cutback. For one, livestock producers, caught in a cost-price squeeze, have been placing fewer cattle on feed. For another, high prices for wheat have been forcing producers that are feeding cattle to opt for other grains. For example, wheat feeding in the feedlots of the Great Plains has been minimal in recent months, the result of fewer cattle on feed and a more attractive price for feed grains than for wheat.

A tightening of feed grain supplies later in the season could, however, signal an increase in wheat feeding, thus boosting use of wheat for feed for the season to around 100 million bushels. Still, that would be the lowest annual feed use in seven years.

World demand strong

While the wheat crop in the United States increased in the 1974 season, worldwide output turned downward. Overall production was pegged at 352 million metric tons, a 4-percent decline. Such large producing countries as Canada, Australia, and the USSR—as well as major importing nations in the Middle East and Western Europe—showed production declines.

As a result, world trade of wheat is expected to be brisk—even in the face of slowing economic growth, high prices, and foreign exchange shortages. For the United States, the world's leading exporter of wheat, this could augur well for another export year in excess of a billion bushels.

On balance, then, with strong world demand and adequate domestic use, total disappearance could approach 2 billion bushels. That would mean carryover for the marketing season ending July 1 could remain near the 25-year low of the 1973 season.

Prepared by Carl G. Anderson, Jr.