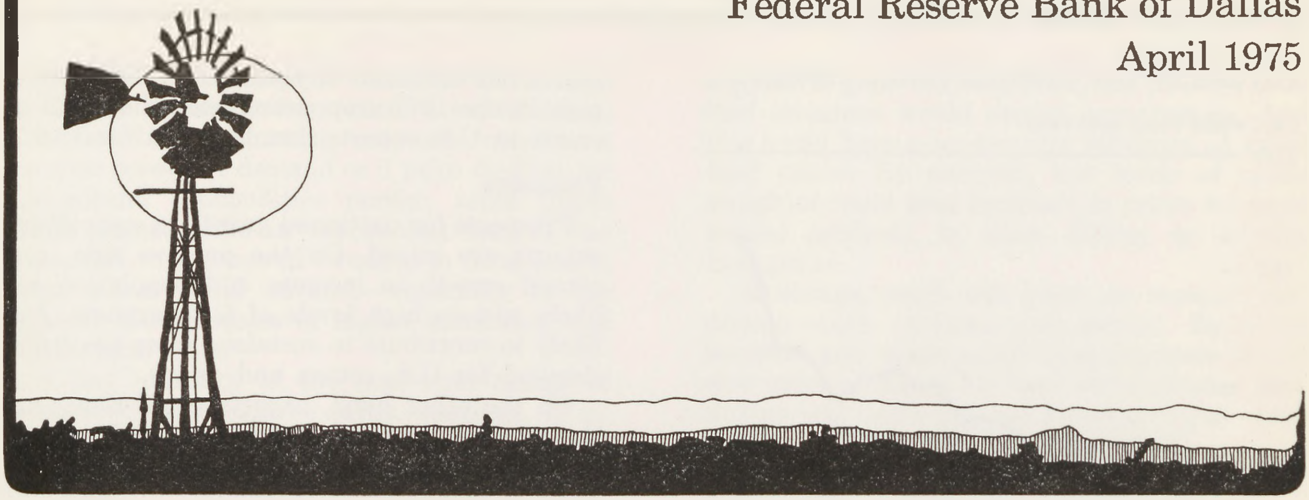
FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas
April 1975



EXPORTS REACH HISTORIC VALUE BUT STABILITY OF DEMAND IN DOUBT

Exports of agricultural products reached a record $21.3 billion in fiscal 1974 and are projected to continue at a high level in fiscal 1975. In the main, the dramatic increase in the value of exports—exports averaged about $7.5 billion in 1970-72—was the result of significantly higher prices for most commodities. Although the volume of shipments also increased, gains were confined primarily to grains, cotton, and soybeans.

Recent cancellations of export orders by some foreign customers have caused concern over the stability of foreign demand. A review of shipments since 1950 shows, in fact, that fluctuations in the volume of exports are not uncommon. In eight of the 25 years, exports have declined. The most recent downturn was in 1969, when exports fell 9 percent. Exports fell 14 percent from 1966 to 1969 before turning up in 1970.

World demand

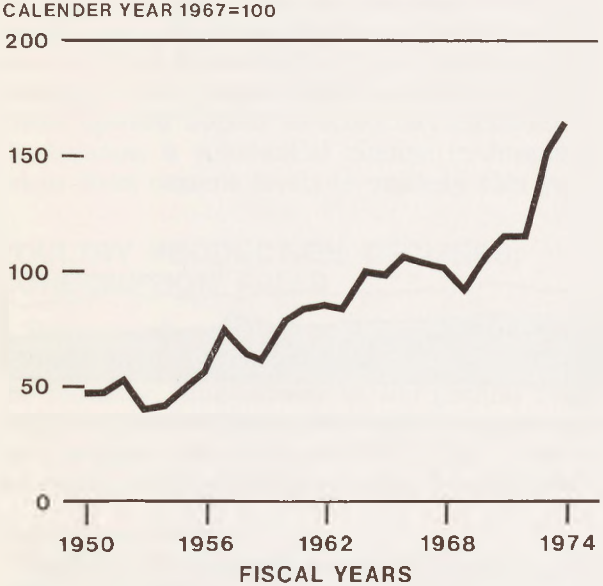
World demand for agricultural products has always been determined by a composite of many traditional factors, including incomes, population, tastes and preferences, prices of substitute and complementary commodities, and present and expected prices. In the past two years, factors such as revaluations of currencies, supply changes, growing affluence, and dietary changes have all impacted heavily on world demand for agricultural products.

Growth in two of the traditional factors, incomes and population, provided a springboard for the boom in the past two years. Increased incomes in both developed and less developed countries have improved the economic abilities of these nations to buy food.

With increasing wealth, people can afford to consume a greater variety of foods. And they can add higher-quality food to their diet—food requiring more agricultural resources to produce. For example, a meat diet requires the use of more grain than a low-quality diet, in which grain is directly consumed.

Population increases have also generated strong demand for food, especially in less developed countries. World population increased more than 20 percent in the 1960's and, by 1974, had reached about 4 billion. Much of the gain has come in less developed countries—which have increased their purchases of U.S. products. But without

VOLUME OF U.S. AGRICULTURAL EXPORTS



SOURCE: U.S. Department of Agriculture

some further gains in productivity, these countries may lack the ability to expand their purchases of products abroad.

For some less developed countries, there has been a shift in demand status. They have changed from assistance recipients to commercial purchasers of U.S. output. For example, Korea, a longtime receiver of aid, is presently one of the biggest dollar markets for U.S. farm products.

Supply

Available supplies also determine the extent of U.S. farm exports. In the 1972-73 crop year, for example, shortfalls in crops were widespread throughout the world.

The USSR suffered its worst grain harvest in years and was forced to purchase huge stocks of wheat from the United States. And with shortages in India, Asia, and Australia, world wheat stocks fell well below a year earlier. These shortages in the 1972 crop year fueled the rapid increase in U.S. exports that began in fiscal 1973.

Prospects

Prospects for continued growth in agricultural exports are mixed. On the positive side, continued growth in incomes and population will likely sustain high levels of farm exports. Also likely to contribute to sustained rates are strong demand for U.S. cotton and grains.

On the other hand, exports could slow from the accelerating rates of recent years. Economic growth has been severely strained by imbalances in world resources—especially oil. Problems with inflation, balances of payments, and production adjustments could result in declining or stagnating incomes for some countries.

Whether or not the United States can continue to export record levels of farm products is difficult to foresee. After all, dramatic and unexpected developments can cause abrupt swings in markets and conditions. The outlook depends on key variables—incomes, population, and economies, to name but a few.

Though suddenly increased demand for farm exports from the United States may, at times, be difficult to meet, there are beneficial byproducts for the nation's economy. For with expansion in agricultural trade come widening markets, a better balance-of-payments position, and the creation of off-farm jobs in processing, merchandising, and shipping.

RISE IN FOOD PRICES MAY MODERATE IN 1975

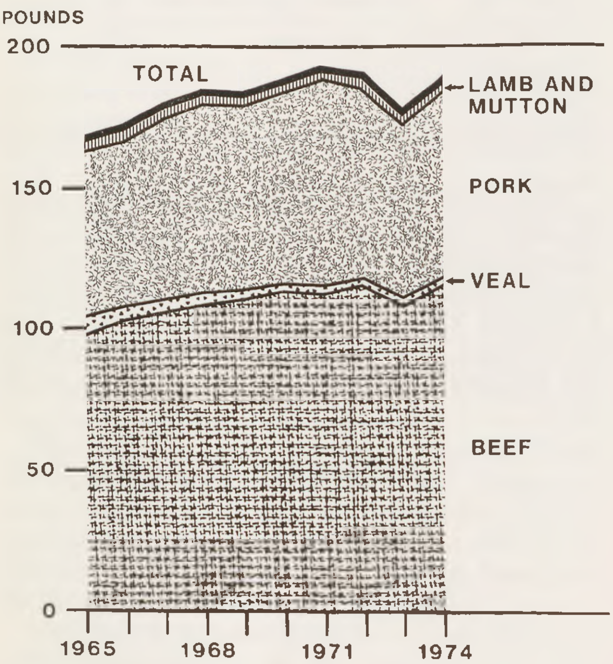
Retail prices for food, which rose steadily in 1973 and 1974, are likely to continue rising in the first half of this year. Prices are expected to increase in both the first and second quarters of 1975. The rise in the first quarter should stem primarily from higher prices for crop products, while increased prices of red meat and poultry are apt to trigger gains in the second quarter.

The level of retail price increases for food in 1975 may moderate from current expectations, however. If deteriorating economic conditions dampen consumer demand or if price declines for agricultural commodities persist, retail prices could change little in the second half of the year. But with renewed strength in farm prices, retail prices could advance—especially in the light of the pressures of higher marketing and distribution costs.

A key indicator of the near-term course of retail food prices will be cattle slaughter. If increasingly large numbers of cattle with limited grain feeding are slaughtered to bolster reduced supplies of grain-fed beef, pork, and poultry, total beef slaughter would exceed expectations. And this could have a moderating influence on retail food prices. By contrast, low levels of cattle slaughter could spur increases in prices for meat animal products, in effect driving up average food prices.

As always, much will hinge on weather conditions—both at home and abroad. Favorable weather and subsequent large harvests would slow price increases for food. Poor growing conditions and below-average harvests would, however, result in even further price hikes.

PER CAPITA RED MEAT CONSUMPTION



1974 preliminary
NOTE: Carcass-weight basis
SOURCE: U.S. Department of Agriculture

RED MEAT CONSUMPTION CONTINUES TO INCREASE

American consumers continued to substantiate their preference for meat in 1974, spending record amounts for meat products and consuming the third largest volume of meat ever. Consumption of red meat—about 187 pounds per person—was up more than 11 pounds over 1973.

Consumer demand

Demand for meat products should remain strong in 1975. Though inflation, recession, and unemployment are plaguing the economy and consumer spending on durable goods and such big-ticket items as homes and automobiles has been curtailed, purchases of meat continue to be brisk.

Expansion of food-aid programs may help sustain purchases of meat products. And demand may be further boosted by the large supplies of beef that have dampened prices for all meat items.

Beef production

Prices for feeder cattle will be sensitive to demand for replacement cattle at feedlots and to the price of feed grains. If feed grain prices stabilize, placements in April-June could be the largest since the same period in 1973. Large supplies of feeder cattle, however, will limit significant price changes.

With a larger herd of cattle in 1975 than last year, slaughter supplies in the second half of the year could be large. Forage supplies and the level of feed prices will mainly determine the slaughter mix of grain-fed and nonfed cattle and calves.

Other meats

The breeding herd of swine was curtailed last year, primarily because of a short corn crop that propelled feed prices. As a result, hog slaughter and pork supplies in the first half of this year could be near nine-year lows. And since hog farmers planned low sow farrowings in December-May, hog slaughter in the second half of 1975 could be reduced severely.

The inventory of sheep and lambs on January 1 was the lowest ever. Slaughter of sheep and lambs will be low in the first half of the year. Prices will remain strong but will be influenced by cattle prices.

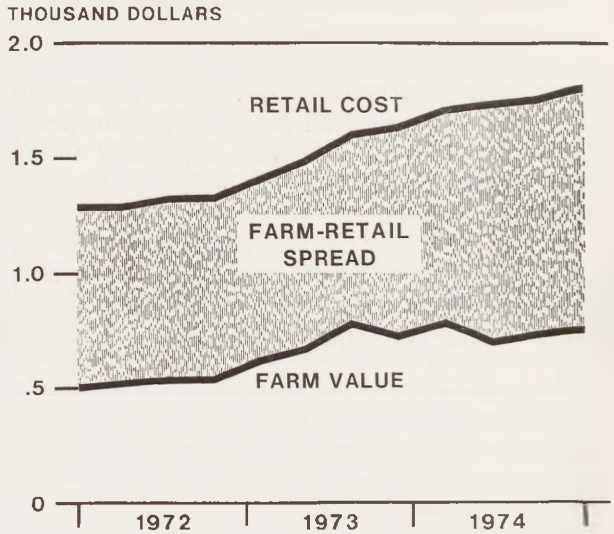
MARKETING SPREADS RISE BUT GROWTH SLOWS

Farm-retail price spreads of foods produced on U.S. farms may continue to climb in the first half of this year. Sharply higher costs for such nonfarm inputs as labor, packaging materials, and transportation should continue placing upward pressure on marketing spreads. However, the rate of growth in the first half of 1975 will likely lag that in the same period last year.

Retail costs of a market basket of food produced on U.S. farms averaged $1,797, on an annual-rate basis, in the fourth quarter last year, nearly 3 percent higher than in the previous quarter and 10 percent higher than a year before. Meanwhile, gross returns to farmers averaged $751, 2 percent higher than in the third quarter and 4 percent higher than a year earlier.

The spread between the farm value and the retail cost of a market basket, therefore, averaged $1,046 on an annual-rate basis. That was 3 percent over the third quarter and 15 percent over the fourth quarter of 1973.

PRICE SPREAD FOR A MARKET BASKET OF FARM FOODS



SOURCE: U.S. Department of Agriculture

Since retail prices rose faster than farm prices in 1974, the farmer's share of the dollar consumers spent for food decreased to 43 cents—down 3 cents from 1973, when the share was at a 20-year high. The farm share was 40 cents in 1972 and 38 cents in 1971. During the 1960's, the farmer's share ranged from 37 cents to 41 cents.

Prepared by Carl G. Anderson, Jr.