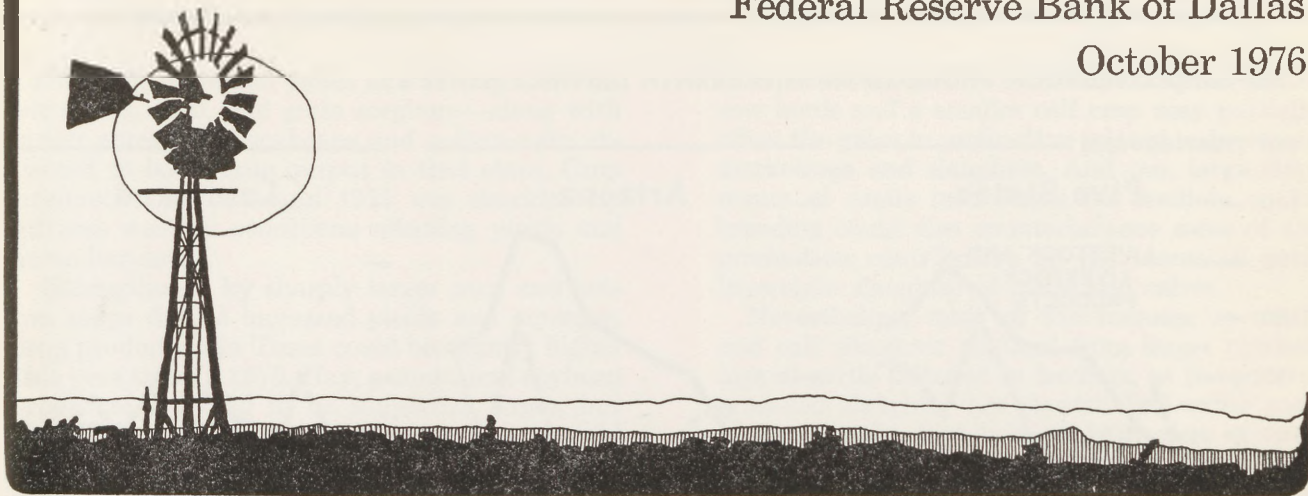


FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

October 1976



FARM OUTPUT STEADY, INCOME PROSPECTS UP MODERATELY

Total farm and ranch output in states of the Eleventh District in 1976 is expected to be unchanged from 1975. A slight advance in crop production will likely be offset by a small decline in livestock production.

Net farm income this year, however, could be moderately higher than in 1975. Cash receipts—strengthened by higher average farm prices, increased slaughter of cattle and calves, and a larger cotton crop—are expected to be slightly above last year. But production costs are also rising, partially offsetting gains in receipts.

The effect of increased cash receipts and higher production expenses of farmers and ranchers has reached agricultural lending institutions in the District. Deposits at many rural banks are up, and the demand for operating credit is strong at rural banks and production credit associations.

Crop output

Based on September 1 conditions, crop production in states of the Eleventh District is expected to rise slightly. Harvests of corn, cotton, soybeans, and durum wheat are likely to be

larger while winter wheat, rice, grain sorghum, and hay crops are apt to be smaller. For minor crops, production may be higher for peanuts and Irish potatoes but lower for rye, oats, barley, flaxseed, pecans, and sweet potatoes.

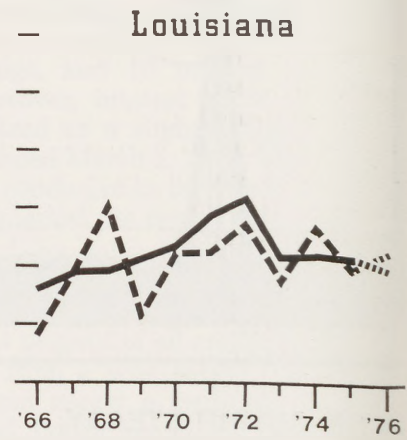
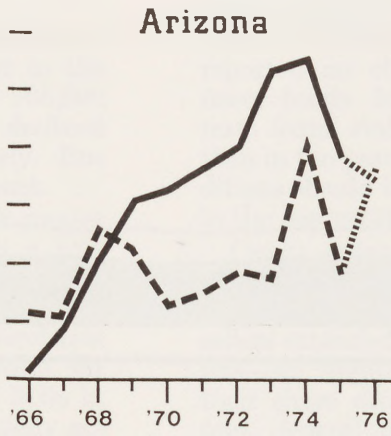
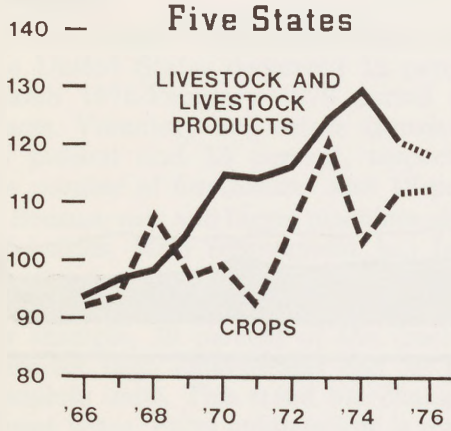
Although overall crop production has been affected by extreme variations in weather conditions across the five states, increased fertilizer application has strengthened yields of most crops. In Texas, for instance, application of all fertilizer in the year ended June 30 was up nearly a fourth from the reduced level a year earlier.

Crop production in Arizona, Louisiana, and Texas is expected to surpass 1975 levels. Boosted by larger wheat, cotton, and grain sorghum crops, output in Arizona could rise 17 percent above last year. Producers shifted substantial acreages to durum wheat, which should increase total wheat production a third. Gains in yields and acreages of cotton and higher yields of grain sorghum should also expand total output, but the hay and barley crops may be smaller.

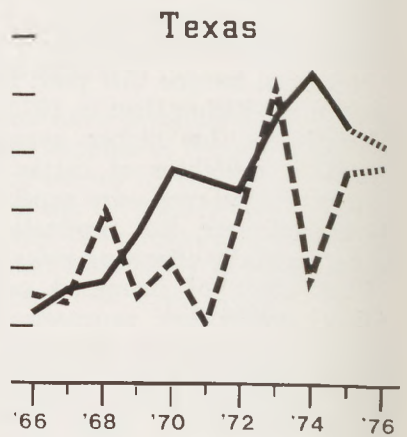
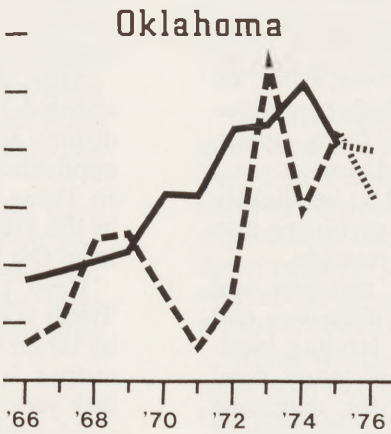
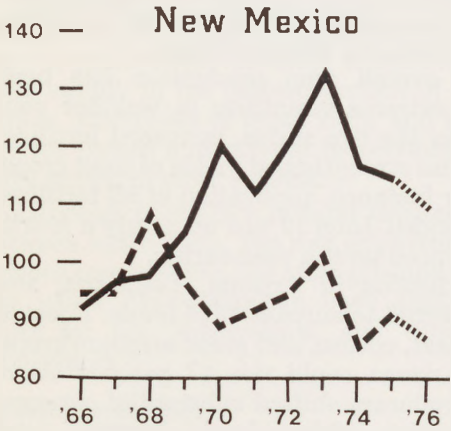
In Louisiana, although rice, hay, and pecan harvests will be significantly lower than last year, total crop production will likely edge above the

CROP AND LIVESTOCK PRODUCTION IN ELEVENTH DISTRICT STATES

150 (1967-69=100)



150 (1967-69=100)



1976 partly estimated for livestock and indicated as of September 1 for crops
 SOURCES: U.S. Department of Agriculture
 Federal Reserve Bank of Dallas

1976 level. Increased yields and acreages of winter wheat, corn, and grain sorghum—along with larger acreages of soybeans and cotton—are expected to boost crop output in that state. Crop production in 1974 and 1975 was shackled by adverse weather conditions affecting yields and acres harvested.

Strengthened by sharply larger corn and cotton crops due to increased yields and acreages, crop production in Texas could be slightly higher this year than in 1975. Hay, peanut, and soybean crops are expected to be somewhat larger, but production of rice and grain sorghum should decline, mainly as a result of lower harvested acreages. With fewer acres and lower yields, winter wheat output declined more than a fifth below the 1975 level. The cotton and grain sorghum crops have been affected by adverse weather and insect damage this summer.

Crop production in New Mexico and Oklahoma is expected to lag year-earlier levels. Substantial declines in winter wheat and grain sorghum have more than offset increases in hay and cotton production, contributing to a slight decline in total crop output in New Mexico. The winter wheat crop was cut in half by a 48-percent reduction in acreage harvested and by reduced yields. The decline in grain sorghum production reflects fewer acres harvested.

Smaller harvests of winter wheat, grain sorghum, hay, cotton, and soybeans are expected to push crop production down about 8 percent in Oklahoma. Reduced acreage harvested caused winter wheat output to decrease, and smaller yields will likely lower grain sorghum, cotton, and soybean production. The decline in hay production is attributed to both reduced acreages and smaller yields.

Livestock output

Although commercial cattle and calf slaughter through July was nearly a fifth larger than in the first seven months of 1975, overall livestock production in the District will likely slip below levels in 1975. Total cattle and calf production

is expected to decline somewhat. Liquidation of cow herds and a smaller calf crop may partially offset the gains in production related to increased marketings and slaughter. And too, large shipments of cattle into Texas for feedlots or for breeding could also counterbalance some of the production contributing to the increased total liveweight slaughter of cattle and calves.

Nevertheless, most of the increase in cattle and calf slaughter resulted from larger marketings of cattle fattened in feedlots, as the pace of grass-fed slaughter has slowed. Fed cattle marketings in the first half of 1976 were 29 percent larger than in the same period of 1975. And marketings are expected to be up a fourth in the third quarter. However, while the number of cattle placed on feed in the first quarter of this year increased over a year earlier, placements have lagged 1975 levels in recent months, reflecting low fat cattle prices and high feeding costs. But cattle feeders may increase placements this fall if feeding margins improve. The number of cattle on feed in the District at midyear totaled 2.3 million, 19 percent more than a year earlier.

With regard to other livestock commodities, total broiler production is expected to advance sharply in 1976, pointing to profitable feeding margins and large placements. Turkey production should rise significantly because of increased numbers. Although dairy cow numbers are down, milk output could rise slightly this year, boosted by increased production per cow. The milk-feed price relationship has favored heavy concentrate feeding.

The output of other livestock and livestock products—eggs, sheep, wool, mohair, and pork—will likely fall short of 1975 levels. Mohair, wool, and sheep output is expected to decline because of fewer animals shorn and slaughtered. And even though producers have expanded the size of operations, pork production may be slightly under last year.

Production of livestock and livestock products is expected to decline slightly in all five states of the District in 1976. In Arizona, declines in

cattle and calf production and wool output will likely more than offset gains in hog and sheep production. Increases in sheep, egg, and milk output in Louisiana and Oklahoma are expected to be counterbalanced by losses in hog and cattle production. Hog production in New Mexico will likely be up, but other livestock output will be down. And in Texas, turkey, broiler, and milk production may exceed 1975 levels.

Income prospects

Agricultural producers in the Eleventh District have received higher prices for most farm products this year than a year earlier. The index of prices received by farmers and ranchers in Texas for all farm products in the first eight months of 1976 averaged 12 percent higher than in the same period last year. The index indicated crop prices were up about 9 percent while prices for livestock and livestock commodities increased 16 percent.

The rise in the crop index this year reflected sharply higher prices for cotton and slightly higher average prices for wheat, corn, oats, grain sorghum, hay and soybeans. The increase in the livestock index resulted mainly from higher average prices for most livestock and livestock commodities.

Stimulated by higher farm prices, cash receipts through midyear were significantly above the first half of 1975. Most of the gain resulted from a substantial increase in livestock sales, which were boosted by large marketings of cattle and calves. After lagging year-earlier levels every month this year, crop receipts were up somewhat in June. And with continued strong livestock marketings and substantially higher cotton prices, farm and ranch receipts in states of the Eleventh District could slightly exceed the \$10.8 billion total last year.

In spite of larger receipts, net farm income may edge upward only slightly in 1976. Higher production expenses will partially curtail profits. The index of prices paid by farmers and ranchers in the first eight months of this year averaged 8

percent more than in the same period last year. And the index is expected to climb slowly this fall. Furthermore, income prospects may have been dampened moderately by declines in prices for many crops and livestock products since midyear.

Growth in cash receipts and rising production expenses have affected agricultural lending activity. Deposit and loan data from a selected group of Texas banks with at least 25 percent of their loan portfolio in agricultural loans indicate deposits averaged 11 percent higher in August than a year earlier and total loans were up 21 percent. However, despite the sharp advance in loans, loan-deposit ratios at these banks averaged 50 to 55 percent. And sales of Federal funds remained strong, indicating adequate loanable funds were available. Moreover, new loans made by production credit associations in the District in July were up 3 percent over a year before, and loans outstanding were 10 percent higher.

With the improved income prospects, the overall financial position of farm and ranch operators in the five states could strengthen in 1976. And the ability of many producers to repay loans could also improve. However, some agricultural enterprises, especially rice production, will continue to face a cost-price squeeze.

Alan M. Young