FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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GROWTH IN RICE SUPPLIES TO END IN 1977-78 SEASON

The recent climb in rice stocks will likely end in 1977-78. Responding to low prices and large supplies, growers have cut back acreages significantly. However, with cumbersome supplies overhanging the market, prices may strengthen only slightly in the 1977-78 marketing year.

High market prices in 1974 and early 1975, as well as increased yields last year, triggered three consecutive bumper rice crops in the United States. After a large crop in 1974, growers expanded acreage in 1975 by a tenth to over 2.8 million acres, and the largest crop on record—128 million hundredweight—was harvested. Burdened further by a record world rice crop, prices began dropping in late 1975. And even though rice acreage in this country was reduced 11 percent in 1976 from the record acreage a year earlier, high yields resulted in the second largest crop in history.

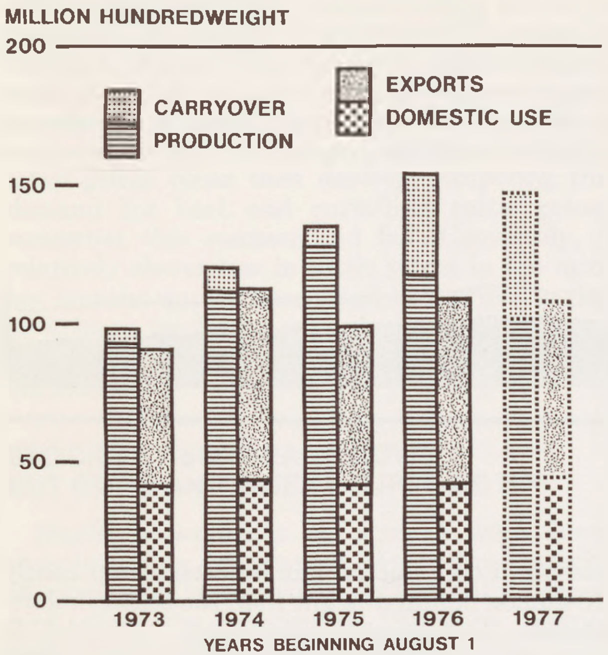
The large 1976 crop will outstrip a sharp rise in domestic and export demand for rice this marketing year. Disappearance in 1976-77 may total 109 million hundredweight, nearly 13 percent above 1975-76. Smaller crops in major producing countries, expanding world demand, and lower U.S. prices will increase exports this market season to 66.1 million hundredweight, up nearly 10 million hundredweight from the season before. Despite the increased shipments, a record U.S. carryover of 45 million hundredweight is likely to be reached by August 1 this year, 8 million hundredweight more than a year earlier and over six times the level two years earlier.

The U.S. farm price of rice in May averaged $7.56 per hundredweight. That was about $0.50 per hundredweight above a year earlier but was nearly $3.50 per hundredweight below the same month in 1975. Prices have averaged close to or only slightly above break-even total costs of production in many rice areas since 1976.

The low farm prices have triggered deficiency payments of about $1.70 per hundredweight on 1976 allotment production of rice. And too, placement of rice under the Commodity Credit Corporation's nonrecourse loan program remains strong, as growers have been holding the grain in hopes of receiving higher prices. The net amount under loan through April was 13.9 million hundredweight, down slightly from the high level of a year earlier.

Given the April 1 planting intentions of around 2.2 million acres, as well as normal yields, the

U.S. RICE SUPPLY AND DISTRIBUTION



1976 preliminary; 1977 projected.
SOURCE: U.S. Department of Agriculture.

U.S. rice crop in 1977 may be about 101 million hundredweight, 14 percent below last year's harvest. But domestic use and exports may total near this year's level. Consequently, a drawdown in stocks is likely. With brewers expanding their use of the grain, domestic demand is expected to increase moderately. However, export demand may be tempered by a slowdown in sales to several major markets, such as the European Economic Community and Nigeria. The result is expected to lower U.S. stocks at the end of the 1977-78 marketing season to 14 percent below the level in August 1977. Even so, it will still be the second largest carryover on record.

Prices for the grain will likely recover slowly. The large carryover supplies will have a moderating effect on prices well into next season despite the smaller impending crop. Nevertheless, with the supply-demand imbalance partly improved, prices may average around $7.50 to $8.00 per hundredweight next season.

EXPANDED PRODUCTION CAPACITY ENSURES AMPLE FERTILIZER SUPPLY

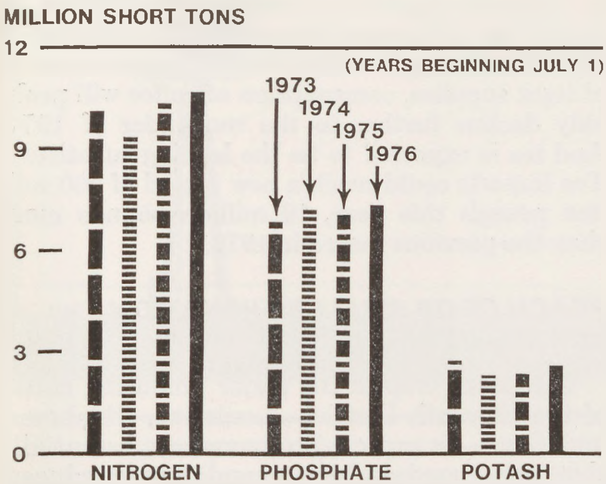
The fertilizer industry may be entering an era of oversupply and excess capacity. The sharp price jump in 1974 and 1975, ignited by limited fertilizer supplies and expectations of continuing shortages, stimulated investment in new plant facilities. Many of these plants have already started production, and others are scheduled to be on stream within the next year and a half.

High fertilizer prices reduced the total application of fertilizer in 1974-75 to well below the amount produced for use on crops. And although consumption has increased in the past two years, recent growth in fertilizer demand has been slowed by low grain prices. Increased production from existing and new fertilizer plants has generally outpaced consumption, leading to abundant inventories and lower prices. As a result, considering the potential demand and supply prospects, some plants may have to operate at less than full capacity over the next few years in order to control production and limit the accumulation of excessive supplies.

Supply situation

Supplies of the primary plant nutrients—nitrogen, phosphate, and potash—have been abundant in the past two years even though consumption has increased. The estimated supply of fertilizer in the United States for domestic use on crops totaled nearly 21.9 million short tons in the 1976-77 marketing season, 5 percent more than the season before and 7 percent more than in 1974-75. Of that, nitrogen accounted for 10.9 million tons, phosphate 5.3 million tons, and potash 5.7 million tons. Because of the extremely cold temperatures this past winter, natural gas curtailments cut production of nitrogen—anhydrous ammonia—by 5 percent.

U.S. FERTILIZER PRODUCTION



SOURCE: U.S. Department of Agriculture.

Fertilizer consumption in 1976-77, up 5 percent in the first nine months of this season from the same time last season, is estimated at 21.8 million short tons, slightly above the 1975-76 total of 20.8 million short tons. If realized, this level would be a fourth larger than the reduced consumption of 1974-75.

With fertilizer supplies more than adequate to meet increased demand, prices have declined sharply from the shortage-induced levels of 1974 and 1975. In mid-April 1977, prices were almost unchanged from a year earlier but were over a fifth lower than two years earlier.

With the fertilizer industry facing higher costs and lower prices, plants coming on stream in 1977 and later will further pressure the supply situation. The U.S. capacity to produce anhydrous ammonia for all purposes is expected to increase over 2 million tons this year to about 21 million tons. By the end of next year, it may be near 25 million tons. Two new facilities will expand the phosphate production capacity somewhat to 9.2 million tons in 1977. The nation's capacity to produce nitrogen and phosphate was sharply expanded to meet what was thought to be a never-ending shortage. Now, however, it appears that capacity projections were on the high side and U.S. nitrogen and phosphate industries may once again have overexpanded their production facilities.

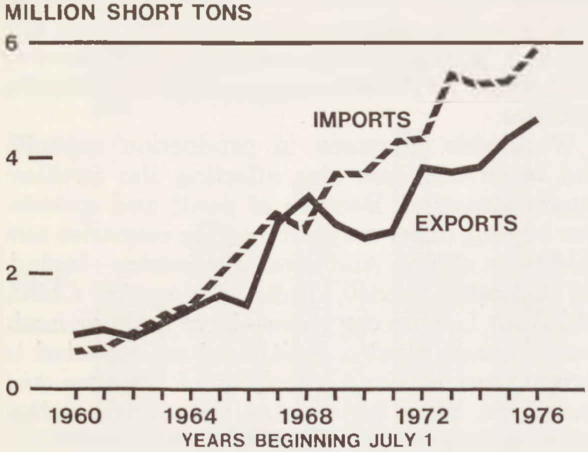
Worldwide increases in production capacity and inventories are also affecting the fertilizer supply situation. Because of panic and speculative buying, many major importing countries now hold large stocks. And several countries—including Canada, Mexico, India, Indonesia, China, and Arab League countries—have built or made plans for new plant capacity and are expected to increase production, especially of nitrogen and phosphate, at a faster pace than consumption within the next few years. In fact, by 1980-81, worldwide capacities to produce nitrogen may increase by 30 percent, phosphate by 17 percent, and potash by 9 percent. Potash consumption and production will mainly be reflecting the ongoing nationalization of potash mines in Canada.

Fertilizer trade

The United States has been a net importer of fertilizer since 1969. In the latest marketing season ended June 30, estimated imports totaled 5.95 million tons, exceeding exports by 1.27 million tons. Because this country purchases a large share of its potash needs from Canada, it is a net importer of fertilizer. In 1975-76, 79 percent of all U.S. fertilizer imports came from Canada; over three-fourths of this was potash. Nevertheless, while the United States is the major consumer of the world's plant nutrients, it is also the leading producer of nitrogen and the leading producer and exporter of phosphate.

Unless overseas markets develop for its increased production of nitrogen and phosphate, the U.S. fertilizer industry may face a period of relatively low plant operating rates to maintain a supply-demand balance in the market. But the opportunity to open major new export channels will likely be limited by the upswing in world capacity and production of fertilizer.

U.S. EXPORTS AND IMPORTS
OF PRIMARY PLANT NUTRIENTS



SOURCE: U.S. Department of Agriculture.

Conversely, from the standpoint of U.S. farmers, adequate supplies will likely ensure steady to lower fertilizer prices in the next few years. Demand for fertilizer, however, will also be linked closely to prices and export markets for farm products.

COFFEE CONSUMPTION DOWN SHARPLY

Price is a rationing mechanism in the marketplace. Therefore, in the face of sharply higher prices, it is no surprise that U.S. coffee consumption has fallen. Declining from a year earlier for the third consecutive quarter, consumption in the first quarter of 1977 averaged 3.0 pounds per person, compared with 3.6 pounds at the same time in 1976.

The U.S. average retail price for roasted coffee in January-March this year was $2.78 per 1-pound can, 81 percent above the first quarter of 1976. Reflecting the high level of prices because of tight supplies, consumption of coffee will probably decline further in the remainder of 1977. And tea is expected to be the leading substitute. Tea imports could reach a new record of 200 million pounds this year, 19 million pounds more than the previous record in 1976.

PEACH CROP SMALLER IN NATION, LARGER IN DISTRICT

The peach crop in the major producing states of the Eleventh District—Louisiana, Oklahoma, and Texas—is expected to increase substantially this year. Based on May 1 conditions, producers in these states may harvest over 1.1 million bushels in 1977, up 48 percent from 1976. Much of the increase will be accounted for by Texas, where the crop is expected to rise by three-fourths to 771,000 bushels. If realized, this will be the state's largest crop since 1953.

However, the peach harvest in the nation as a whole, estimated at only 61.1 million bushels, may be nearly 3 percent less than last year. A 6-percent decline in California accounts for much of the decrease in U.S. output. The smaller crop could result in a slight price increase nationwide this year.

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