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AGRICULTURAL OUTLOOK FOR 1967

Although realized net income may not quite equal the near-record level of 1966, the Nation's farmers can look forward to another good year in 1967. The U.S. Department of Agriculture says that this is the best judgment it can make in the face of the greater than usual uncertainties in the agricultural outlook for 1967. Among the uncertainties in the economic prospects for 1967 are (1) possible changes in the Viet-Nam conflict and their impact upon both agriculture and the general economy; (2) new grain programs with added acreages and their influence on crop output in 1967; and (3) foreign crop prospects and their effect on export markets.

As the agricultural scene changes into 1967, larger supplies and lower prices are indicated for hogs, poultry, and eggs. Approximately 25 million to 30 million diverted acres are expected to be returned to production in 1967. With average growing conditions, the larger crops may result in lower average prices for some crops; but with further increases indicated in domestic demand and exports, gross farm income is expected to be well maintained.

The outlook for 1967 points to little overall change in per capita food consumption. Gains for pork and poultry may be more than offset by an expected decline for beef. Increases are likely for fruits (especially citrus), vegetables, and potatoes. The uptrend in the bill for marketing and processing of farm-produced foods probably will extend into 1967, but the advance may be less rapid than in the preceding year.

The following are summaries of national outlook statements by the U.S. Department of Agriculture for some important commodities in the Southwest.

Cotton

The USDA says that the cotton outlook for 1967 is highlighted by a prospective sharp reduction in the carry-over. By August 1, stocks may total around 13 million bales, compared with the record-high stocks of nearly 17 million bales a year earlier. The decline this season is a sharp reversal of the movement in the past five crop years, when the carry-over increased an average of about 2 million bales a year because of large crops and declining disappearance, particularly of cotton exports.

In recent years, excessive holdings of cotton have been the number 1 surplus problem. The outlook for 1967 is different because of a smaller crop and rising disappearance. The smaller 1966 crop reflects a sharp drop in acreage and a slight decline in the average yield.

U.S. mill consumption of cotton during the 1966-67 crop year is estimated to be 9.6 million bales. This volume represents a slight increase over last year's usage and would be the largest since 1950-51. The rate of cotton consumption has been rising since the second quarter of 1964. This rise has resulted from such factors as lower net costs of upland cotton to domestic users, provided for in legislation enacted in April 1964; an expansion in general economic activity and increasing civilian demand for textile products; some rebuilding of

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS

"pipeline" stocks of textiles; and increasing military requirements for cotton textile products. These factors are expected to stimulate cotton consumption again this season.

The upland cotton program for 1967 will follow closely the program for the 1966 crop. Production of cotton in 1966 is placed at 9.6 million bales, compared with 15.0 million bales in 1965. USDA officials say that the sharp reduction in 1966 output was greater than was anticipated or even desired in any one year. Factors other than the operation of the program contributed to the lower than expected production. With the program outlined for 1967, it is expected that, under normal production conditions, the 1967 crop may be as much as 2 million bales larger than the 1966 output.

The 1967 cotton program is voluntary. The farmer who wants to take part in the program and thus become a "cooperator" agrees to divert at least 12.5 percent of his effective cotton allotment into soil-conserving uses. For this diversion, he will be eligible to receive price-support loans and payments, as well as acreage diversion payments.

Price-support loan rates for individual qualities of cotton will be based on a national average loan rate of 20.25 cents per pound for Middling 1-inch cotton at average location. The price-support payment rate of 11.53 cents per pound is a payment made in addition to the price-support loan available to cooperating producers. The diversion payment rate of 10.78 cents per pound will be earned on the acreage diverted from cotton production and put into conserving uses.

Wheat

Total disappearance of U.S. wheat during the 1966-67 marketing year (which began July 1, 1966) is expected to decline sharply from the peak 1965-66 level. The prospective smaller disappearance is balanced against a smaller supply, and while there probably will be a reduction in carry-over stocks during the year, it is not likely to be nearly as large as the 282-million-bushel decline during 1965-66. A decrease of possibly 115 million to 140 million bushels from the 536 million bushels in July 1966 appears probable.

The major factor contributing to the uncertainty in the estimate of the year-end carry-over is the undetermined extent of Government program exports during the remaining months of the 1966-67 marketing year. Plantings and the ultimate size of the 1967 wheat crop will have an influence upon the quantities of wheat shipped under Government programs during the remainder of this year. Commercial exports are likely to continue at a high level during the entire season, although the large crops in both Australia and Argentina, as well as a record crop in Canada, point to increased competition for U.S. commercial sales. Barring some unexpected change in world demand-supply prospects, lower world wheat prices are indicated.

Total domestic use of wheat is expected to be down, mainly because of an anticipated reduction in the feeding of this grain to livestock. However, food use of wheat in 1966-67 is expected to be slightly above that of a year earlier. The season average price received by U.S. farmers is likely to be 10 to 20 percent above the previous year's $1.34 per bushel.

The 1967 national wheat acreage allotment is 68.2 million acres, or 32 percent above the 1966 allotment. The 1967 program will not require diversion of any wheat acreage, and there will be no diversion payments. Producers who plant within their farm acreage allotments are eligible for price-support loans on all of their production and for price-supplementing certificate payments on the farm's share of the domestic food market for wheat.

Rice

The U.S. rice supply in 1966-67 is estimated at 93.4 million hundredweight. A supply of this size is the largest of record and results primarily from the bumper 1966 crop. The carry-over of rice on August 1, 1966, totaled 8.2 million hundredweight, which was virtually unchanged from the level of recent years. Imports (mostly of broken rice) in 1965-66 were the largest since 1959-60, but they are not likely to be as large this year.

The supply of rice available for export and carry-over in 1966-67 is expected to be around 61 million hundredweight, or about 10 percent above that of last year. Total exports may continue to rise as a result of some further increase in commercial sales. The level of commercial sales will depend mainly on the availability of rice from Thailand and Burma, as well as upon Mainland China's export policy.

The size of the carry-over of rice on July 31, 1967, will depend largely on the total amount exported in the current marketing year. Stocks are not likely to fall below the 7 million to 8 million hundredweight of recent years and could increase slightly. The national average loan rate for the 1966 crop remained at $4.50 per hundredweight of rough rice. The season average price to farmers in 1965-66 was $4.89 per hundredweight, and it is likely to be about the same in 1966-67.

Feed

The strong domestic and export demand for feed grains, which was a dominant feature of the feed situation during the past year, is expected to continue in the 1966-67 season. Total feed grain consumption in 1965-66 rose about 14 percent to a record high of 174 million tons. This high level of consumption exceeded the 1965 production by about 13 million tons, thereby reducing the carry-over into 1966-67 to 43 million tons.

The 1966 feed grain crop in the Nation was slightly below the previous year's record production. With the smaller carry-over on August 1, 1966, the total feed grain supply for 1966-67 is about 7 percent less than in the preceding season. Smaller supplies and continued strong demand are expected to result in somewhat higher prices in 1966-67, especially during the first half of the marketing year. Domestic use and exports are expected to continue heavy, and a further reduction in carry-over — probably down to around 25 million to 30 million tons — is in prospect for the end of the 1966-67 marketing year.

According to the USDA, the feed grain program for 1967 is basically the same as that in recent years. However, it contains provisions to encourage larger production to meet our expanding requirements and provide adequate reserves. An important change in the program was the elimination of payments for voluntary diversion (except on small farms) to encourage an increase in feed grain acreage and production. This feature of the program, along with the elimination of barley from acreage diversion, is expected to bring 12 million to 15 million acres back into feed grain production in 1967. The program also provides for an increase from $1.30 per bushel to $1.35 per bushel in the price support for corn, with comparable increases for other feed grains. A minimum 20-percent diversion in corn and sorghum grain is again required for participation in the program.

Cattle

The livestock situation is expected to continue to be favorable for U.S. producers in 1967. Cattle prices probably will continue strong and may average above those in 1966. The inventory of cattle and calves on U.S. farms and ranches at the beginning of 1967 is estimated to be down 1.5 percent to 2.0 percent from the 106.6 million head on January 1, 1966. Moreover, cow numbers are down; consequently, the productive capacity is expected to be lower in 1967. The 1966 calf crop was nearly 900,000 smaller than in the preceding year, and a further reduction is likely in 1967.

Mainly because of lower cattle prices during 1963 and 1964 and lower price expectations, cattlemen reduced herds in 1965 and 1966. However, cattlemen apparently are more optimistic about future prices and have begun to take steps to expand herds. This situation brought about reduced calf and cow slaughter in 1966, and another decline is likely in 1967. These two classes of cattle probably will account for a smaller proportion of total slaughter in the next few years as the expansion in breeding herds develops momentum.

Marketings of fed cattle are expected to continue large through the winter, but the gain over a year earlier likely will narrow. Continued heavy market weights will add to the amount of fed beef produced and probably will temper price advances.

Fed cattle marketings after this winter likely will decline somewhat, and marketings during the second half of the year are expected to be smaller than in the corresponding 1966 months. The supply of feeder cattle in 1966 was smaller than a year earlier, and this fact is expected to dampen placements in 1967. The demand for feeder cattle probably will continue strong in 1967, giving added strength to prices.

Dairy

The Nation's dairy farmers can look forward to higher average prices for milk and cream during 1967. Farm marketings of these commodities are expected to be larger than a year earlier because of increasing milk production and the long-time trend toward marketing a larger proportion of output. Consequently, with increases both in marketings and in average prices, cash receipts for 1967 likely will exceed the $5.6-billion record estimated for the previous year. Price supports of $4.00 per 100 pounds of manufacturing grade milk and 68 cents per pound of butterfat in farm-separated cream will continue throughout the marketing year ending March 31, 1968.

U.S. milk production in 1967 is expected to rise moderately above that in 1966. Total consumption may gain slightly because of the increasing population. Per capita consumption of fluid products declined in 1966 and is expected to decrease further in 1967. Most of this decline results from the lower use of home-produced milk on farms, as increased numbers of farmers sold their dairy herds.

Wool

U.S. wool production in 1967 is expected to be about the same as in the preceding year, but consumption of apparel wool may be smaller. Domestic prices probably will follow the trend in world prices and average slightly higher than in 1966. Mill consumption of apparel wool likely will decline about 5 percent from the estimated 285 million to 290 million pounds (scoured basis) for 1966. Even with the high level of domestic demand, higher prices for wool relative to those for man-made fibers are expected to result in lower consumption of apparel wool in 1967.

If mill activity declines, as expected by the USDA, dutiable raw wool imports in 1967 may be down about one-tenth from the 165 million to 170 million pounds estimated for 1966. Mill use of carpet wool in 1967 is expected to remain stable at the record-low level of 105 million to 110 million pounds (scoured basis) estimated for 1966. According to the USDA, competition from man-made fibers has been important in replacing wool in the carpet and rug market.

Poultry and Eggs

Increased production of poultry and eggs is in prospect for the United States in 1967. Broiler output probably will continue to increase about as fast as it did in 1965 and 1966 (5 to 10 percent). Growth in turkey production in 1967 likely will not match the 11-percent gain in 1966, but it should be in line with the average increase of around 5 percent in the two preceding years. Egg production in 1967 may show the largest advance in more than a decade, and the increase probably will be large enough to reverse temporarily the 15-year downtrend in per capita egg consumption.

In expanding output, poultrymen are responding to an extended period of favorable prices. Price improvement for poultry has resulted primarily from rapidly increasing consumer incomes (particularly in the low-income groups), reduced supplies of red meat, and increased military procurements. Prices for poultry and eggs likely will average below a year earlier at least during the first half of 1967.

In the second half of 1967, the expected growth in total production of animal products may slow down as the uptrend in poultry and egg production is dampened by the lower prices and higher production costs (especially higher feed costs) that are likely to prevail during the next several months. If beef production declines sharply after midyear, as expected by the USDA, per capita supplies of high-protein foods in the second half of 1967 may actually be smaller than a year earlier. Consequently, U.S. prices for poultry and eggs at the beginning of 1967 probably will be considerably below the 1966 level but may strengthen later in the year.