Cautiously Optimistic . . .

# THE OUTLOOK FOR AGRICULTURE IN 1977

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*Leading economists of the U. S. Department of Agriculture presented their views of prospects for the nation's agriculture in 1977 at the National Agricultural Outlook Conference in mid-November. The following is a capsule review of the outlook as they see it.*

Modest gains in gross farm income and a slight rise in farm production expenses leave prospects for realized net income in 1977 about the same as the relatively favorable level of 1976. Moreover, only modest increases in retail food prices are indicated. Expectations point to large supplies of crops and near-record livestock production. But strong domestic and foreign demand are expected to bolster farm prices and incomes despite the large supplies.

While the outlook for agriculture in 1977 currently appears favorable, major uncertainties exist which could have a significant impact on the general prosperity of the nation's farmers. These uncertainties include the expansion in domestic markets, upcoming farm legislation, growing stocks of food grains, the impact of the downswing in the cattle cycle on supplies and prices of meats, and the usual weather uncertainties here and abroad.

**Farm Income and Production Expenses** Farmers' net earnings in 1977 are expected to hold close to the average of recent years. Realized net income may range in the neighborhood of $23 to $25 billion if growing conditions are average and if there are no big surprises in world markets.

Earnings from farm marketings during the latter part of the year will probably be better than returns in the last half of 1976 and the early months of 1977. Should crop output be maintained at about the level of the last two years and if livestock numbers decline as anticipated, livestock producers will likely be in a stronger income position compared to last year and relative to crop farmers.

Supplies of crops—except for soybeans, cotton, and some fruits and vegetables—will continue large relative to demand during the current marketing year. Livestock output will also be large but will likely taper off and decline later in the year if cattle numbers fall and beef production is cut back as expected. Of course, crop prospects for 1977 are uncertain at this time. But unless there are unexpected weather developments during the growing and harvesting seasons, crop output should be large again. Some shifts in the acreage of major crops are likely. Moreover, there are no set-aside program restraints for the major crops, and large supplies of fertilizer and other inputs are available.

Farm price changes during the year will probably be mixed. But for calendar 1977, both crop and livestock prices may average about the same as in 1976. The indicated changes in farm marketings and prices point to further gains in gross farm income in 1977. Livestock producers are likely to benefit most from any increases that may be realized.

With lower prices for fertilizer and seed and relatively small increases for chemicals and feed, the rise in farm production expenses slowed to around 5 or 6 percent last year. The slower rise in the cost of farm inputs is expected to continue in 1977. Steady to slightly lower prices are indicated for fertilizer and chemical supplies, while outlays for purchased feed and livestock may change little. But with the expected increases in the costs of farm machinery, fuel, hired labor, and taxes, farm production expenses in 1977 will rise further, probably about as rapidly as in 1976.

**Foreign Demand for Farm Products** The agricultural trade outlook for fiscal 1977 points to another year of near-record exports. Expectations are that U. S. farm exports will total $22.8 billion, equaling last year's record. Export volume may be below the tonnage shipped last season, but the decline in volume is expected to be offset by higher prices for soybeans, oilseed products, and cotton.

With generally improved world grain production in 1976-77 and world grain carryover stocks expected to increase considerably—probably by about 20 percent—foreign demand for U. S. grain has slackened from last year's record level. U. S. grain exports during the current marketing year will probably be at a high level, however, second only to the 83 million metric tons exported in 1975-76.

U. S. cotton is likely to be the star performer in fiscal 1977 as far as agricultural exports are concerned. With an export value of $1.6 billion, some 60 percent above last year, cotton exports are expected to show the largest percentage gain of all U. S. farm exports. Soybeans and oilseed products with an anticipated export value of $6.1 billion—up 30 percent over last fiscal year—will also be a major performer on U. S. export markets in 1976-77.

Japan will continue as the largest single-country market for U. S. farm exports, with exports in fiscal 1977 expected to reach an all-time 12-month high of $3.6 billion, up some 6 percent from the previous year. Because last summer's European drought caused severe crop damage, Western Europe will be the top regional export market for U. S. farm products this season, edging out Asia by some $200 million.

The continuing high level of U. S. agricultural exports in 1976-77 can be attributed to a number of factors. Prominent among these are:

- Supplies of grain, potatoes, and forage in Europe were sharply reduced by last summer's drought, thus many countries need to rebuild their small carryover stocks.

- Demand for livestock and poultry products is increasing in major industrialized countries, particularly the European Community and Japan, and hog and poultry numbers are expanding, encouraging the use of more grain and high-protein meals in livestock rations.

- Economic recovery is continuing in both the developed and developing nations, boosting the demand for food as well as the demand for feed for livestock production.

- Continuation of large exports of corn, wheat, and soybeans to the Soviet Union under the long-term Grain Supply Agreement between the U. S. and Russia.

**Farm Financial Outlook** A further rise in the value of farm assets, continued strong demand for farm loans, fairly stable interest rates, and adequate loan funds highlight the farm financial outlook for 1977 as seen by analysts of the Department of Agriculture.

On balance, the financial situation of the nation's farmers as they began the New Year looked favorable. Farmers' net income last year, despite some major exceptions, averaged about the same as in 1975, and no major change is forecast for 1977. The value of total farm assets as of January 1, 1977 reached $634 billion, an increase of $49 billion or 8 percent over a year earlier. Although last year's gain in asset values was below the rise of $65 billion in 1975, it far exceeded net farm income in 1976. A somewhat slower advance in farm asset values—in the neighborhood of about 7 percent—appears likely in 1977. Farmers, of course, frequently use increases in asset values to obtain additional financing.

Nationally, the value of farm real estate, a major component of farm assets, rose around 9 percent during the year ended February 1, 1977, significantly below the 14 percent increase during the previous year. Farmland values are expected to rise at a little slower rate—about 7 percent—during 1977. But as is always the case, the rates of increase across the country will vary substantially.

Farm debt outstanding totaled an estimated $102 billion at the beginning of 1977, some $11 billion or 12 percent above a year earlier. Both real estate and non-real-estate farm debt advanced more rapidly last year than in 1975. Despite the rise in debt, farmers' equities in their farm assets—asset values minus debt—continued to increase, climbing $38 billion during the year. A further gain in farmers' equities, at a slightly slower rate than in 1976, is forecast for 1977.

Demand for farm loans is expected to continue strong in 1977, with increases anticipated for most kinds of operating loans and for farm real estate loans. Farm machinery loans are also likely to increase, as are cattle feeding loans.

Farm lenders are expected to have ample loan funds to meet the enlarged loan demands. Interest rates, which eased a little in 1976, will likely hold near the late 1976 levels. Lenders generally believe that the risks of farm lending are increasing. Still, with steady gains in the value of farm assets providing additional security to offset the risks, many lenders continue to look upon good farm loans as desirable investments.

**Food Price Increases Moderate** Since consumers have felt the brunt of sharply rising food costs in recent years, they no doubt breathed a sigh of relief at the relative stability of average retail food prices in 1976 and will find the outlook for another year of only moderately rising food prices in 1977 good news indeed. With food supplies outpacing demand last year, the gain in food prices was held to around 3 percent in sharp contrast to the rapid advances during the three preceding years and the lowest annual rate of increase since 1971.

Domestic food supplies will be large again in 1977 and will tend to dampen the rise in retail food prices during the first half of the year. But at the same time, strong consumer demand and rising marketing costs will probably cause food prices to increase moderately. On balance, retail food prices may run from 2 to 4 percent above a year ago during the first half of the year. Small increases of from 2 to 3 percent are expected this winter, led mainly by rising prices for coffee and fresh vegetables and higher marketing costs and away-from-home eating. By spring, food prices may advance a little more rapidly—probably averaging 3 or 4 percent above last spring—if domestic demand increases and beef output declines as anticipated. Most food price increases this spring will reflect higher prices for meat, poultry, and fresh produce. Since Florida's fruit and winter vegetable crops suffered extensive freeze damage in January, supplies of citrus fruit and fresh vegetables have been sharply reduced and prices seem certain to increase more than was expected at the time of the Outlook Conference.

**Commodity Review** Highlights of the Department of Agriculture's forecasts for the principal money-making commodities produced by Fifth District farmers are summarized below.

*Tobacco:* Larger supplies of tobacco, both in the United States and overseas, highlight the outlook for 1977. Domestic cigarette consumption is expected to rise from last year's record high. But U. S. leaf exports will do well to hold near the high levels of recent years. Rising tobacco output overseas, the high prices of U. S. leaf, and slower growth in world cigarette output will hold down exports again even though the preference for light cigarettes containing flue-cured and burley tobaccos continues worldwide.

The basic flue-cured tobacco marketing quota for 1977 has been cut 12 percent on the heels of a 15 percent reduction last year. Both cuts were made in an attempt to keep supplies in line with demand. When the basic quota for flue-cured is adjusted for last year's marketings above and below quota, the effective quota for 1977 is 15 percent under last season's level. The basic quota for burley may be about the same as in 1976, however. Under the legal formula used to determine price supports for eligible tobaccos, the 1977 loan level will increase about 7 or 8 percent over 1976.

*Cotton:* The tight supplies and relatively strong demand that characterize the cotton outlook for the 1976-77 season are pushing cotton prices well above manmade fiber prices. Both domestic mill use and exports are holding up rather well in view of current prices, however.

This season's beginning carryover was down sharply from a year ago, so supplies are only slightly above the 1975-76 level and the second smallest in 53 years despite the significantly larger 1976 crop. Meanwhile, mill consumption and exports combined are expected to show a moderate increase over last season's level. As a result, cotton stocks may be pulled down, probably to about 3.1 million bales by August 1, 1977, the smallest since 1952. A carryover of this size would equal approximately a four months' supply for expected mill use and exports.

Domestic mill consumption for the entire 1976-77 season may be down moderately from a year earlier. Demand for cotton by domestic mills has remained relatively strong during the marketing year thus far, but it is believed that later in the season when mills are confronted with the 1976 cotton crop—priced nearly one-third higher than the 1975 crop—they will increase the use of manmade fibers at the expense of cotton. Mill-delivered cotton prices are currently around 50 percent higher than manmade fiber staple. Moreover, record cotton textile imports will compete with U. S. mill consumption of cotton.

Export demand for U. S. cotton is expected to be strong, more than offsetting the moderate decline in mill use. Shipments may total about 4.6 million bales, about two-fifths above last season's 3.3 million. With modest recovery in foreign textile activity continuing and with limited competitive supplies abroad, the U. S. share of world cotton trade is likely to rise sharply, probably climbing to around one-fourth versus 18 percent last season.

*Soybeans and Peanuts:* Greatly reduced supplies, strong demand, higher prices, and a sharp drawdown in stocks dominate the outlook for soybeans. Reduced acreage and lower yields combined to produce an 18 percent smaller crop of soybeans in 1976. When the larger beginning carryover is added to the sharply lower production, soybean supplies for 1976-77 are down more than a tenth from last year's record level.

Soybean demand is expected to continue strong despite the smaller supplies and resultant higher prices. Total disappearance will probably drop some 5 percent below last season but will be about 160 million bushels above 1976 production. Both domestic crushings and exports will probably share in the decline. Carryover stocks September 1 will likely be down to minimum operating levels, or less than one month's requirement for crush and exports.

Soybean crushings this season are estimated to be about 9 percent below the record 1975-76 crush. The smaller crush reflects prospective lower domestic requirements for soybean meal and oil as well as the increased availabilities of competitive fats, oils, and protein feeds.

Soybean exports are also expected to drop, but the decline is not likely to be as great as that projected for domestic use. Exports, like crushings, will be limited largely by the tight supply situation. With the U. S. guarantee to Japan of at least 110 million bushels of soybeans this season, and the contract with the Soviet Union for 55 million bushels of the 1976 crop, there will be fewer U. S. soybeans available for other markets. Any slack in U. S. soybean exports in 1976-77 will most likely be taken up by Brazil, which is continuing its rapid rise as a major producer-exporter of soybeans.

Soybean prices were relatively favorable to producers last fall, averaging $1.15 above a year ago. Prices for the season are expected to average higher than the early fall level and well above the $5 per bushel received last year. The price strength for soybeans in the second half could moderate, however, if Brazilian soybean plantings in November and December expand sharply and if there is a sizable increase in U. S. soybean acreage in 1977 as is expected.

Peanut supplies are down slightly from last year's record level as the result of both lower carryover stocks and a little smaller production. And the use of peanuts in edible products may rise some 4 percent to about 9.0 pounds per capita compared with 8.7 pounds last season. Even so, peanut supplies are well in excess of edible and farm requirements, and about one-fourth of the 1976 crop will be acquired by the Commodity Credit Corporation under the price support program. Peanut acreage allotments for 1977 have again been set at the minimum level permitted by law.

*Dairy Products:* Dairymen may well find that the situation they enjoyed in 1976 will be a hard act to follow. Milk production rose sharply following three years of virtually unchanged output, but sales of dairy products expanded dramatically and milk prices were strong, averaging about $1 per hundred pounds higher than in 1975. Market conditions have weakened, however, and the potential for surplus conditions in 1977 is large.

Milk production early in 1977 is expected to remain above year-earlier levels, although probably rising at a slower rate than in 1976. Strong gains in output per cow will likely continue, more than offsetting a small decline in cow numbers. There is considerable uncertainty concerning the level of milk output later in the year, however. Whether production will continue to post strong gains or whether it will drop to year-earlier levels by the latter part of the year will depend not only on the prices of milk, but also on the prices of cull cows and feed and on developments in the general economy. Considering all factors involved, it now appears that total milk output in 1977 may rise by 1 or 2 percent.

With milk production increasing and commercial dairy stocks rebuilt and on the verge of being burdensome, supplies of milk are expected to be heavy and may well outstrip demand. Government purchases of dairy products are likely to be heavy early in the year. Under this set of circumstances, farm milk prices in 1977 could average below a year ago even if demand for dairy products stays strong.

*Poultry and Eggs:* Most egg producers had a good year in 1976. Broiler and turkey producers, however, lived up to their reputation as boom and bust industries, their profits early in the year turning into losses later. Moreover, prospects for egg producers, unlike broiler and turkey producers, look favorable for 1977.

Egg production during the first half of 1977 will likely average from 1 to 2 percent above a year ago as both layer numbers and the rate of lay rise slightly. The outlook for the second half also looks favorable for egg producers unless they overexpand. The level of output will depend on producers' profit margins in the first half and on prospects for 1977 feed grain and soybean crops. Expectations are that production will continue to expand and may average around 2 percent above a year earlier.

Relatively strong demand and smaller market supplies have resulted in higher than year-earlier egg prices since last winter. Prices are likely to remain comparatively strong through this winter and decline seasonally in the spring. Egg prices in the second half of 1977 are expected to average below a year earlier if production expands in the first half as anticipated.

Many broiler and turkey producers have been losing money since late last summer and are currently operating in the red. Furthermore, prospects for the first half of this year are not very favorable. Poultry prices are weak, and feed costs will likely be above a year ago. Poultry output continues to be relatively large, and there has been a sharp buildup in cold storage stocks of turkey meat. Both broilers and turkeys will continue to face increased competition from red meats. While beef supplies are expected to be moderately lower and prices higher, pork output will be sharply higher with much lower prices. Supplies of red meat, in fact, are likely to exert stronger downward price pressure on poultry meat through mid-1977 than in the first half of last year.

There are signs that the expansion in broiler and turkey output is winding down. But prices of both broilers and turkeys are expected to remain weak during the first half of the year. Movement of broiler and turkey meat into export channels rose substantially last year, and further increases are likely in 1977.

*Meat Animals:* The sharp upturn in livestock feeding that began in the closing months of 1975 has led to sharply larger supplies of livestock products. The gains have been rapid enough to weaken livestock prices in spite of the expanding domestic market. While some encouraging signs are beginning to appear for cattlemen, hog producers can look forward to another year of larger supplies.

Continued growth in pork production through 1977 is indicated by the actual and planned increases in the number of sows farrowing last summer and fall. Sharp gains in pork output at a rate about a fifth above a year ago are expected to continue through mid-1977. Slower increases in production are likely in the second half.

Hog prices dropped sharply last fall, reflecting the big increase in pork output as well as the large supplies of chicken and beef. The lower hog prices continue to make hog feeding unprofitable even though grain prices softened during harvest.

A slowdown in beef production appears to be in the offing. Beef output continued to expand throughout 1976, but losses by cattle feeders during much of the year led to reduced placements of cattle on feed last summer. This development, along with the downphase of the cattle cycle, is expected to lead to less beef output in 1977 and strengthening cattle prices. Production will probably dip below year-earlier levels by early 1977. Higher cattle prices, along with moderating feeding costs, could lead to a more favorable beef-corn ratio early in the year.

The outlook for beef cattle has been clouded, however, by the sudden 10 percent jump in placements of cattle on feed during November. Should this apparent renewed interest in cattle feeding result in a larger supply of fed cattle by early spring than had been anticipated, then the expected firming in cattle prices may well not materialize. The upshot of such a development could be the postponement of the indicated rise in the price of beef to the consumer.