Clouded by Uncertainties . . .

THE AGRICULTURAL OUTLOOK FOR '74

Leading economists of the U. S. Department of Agriculture outlined their views of 1974's prospects for the nation's agriculture at the National Agricultural Outlook Conference in mid-December. Below, in capsule form, is a summary of their forecasts.

American farmers can probably look forward to another good year in 1974, although not quite as good as the banner year just completed. Realized net income will likely slip below the history-making level chalked up last year but will still be the second highest on record. The expected decline will result from a combination of lower realized gross income and higher production expenses.

Keys to the outlook are expectations for a continued strong domestic demand, despite a slowdown in economic growth, and for a continuation of the booming export demand. Farm exports, which jumped 60 percent to an all-time high of $12.9 billion in fiscal 1973, may well reach $19 billion this fiscal year.

Economists faced more uncertainties than usual in appraising the outlook for 1974. Weather's impact on crop production, a major unknown, was on the list as always. Other questionable factors included: the availability and prices of fuel and fertilizer; farmers' response to new farm legislation designed to encourage significantly expanded production of food and fiber crops ; foreign production of farm products : rates of inflation ; a cooling domestic economy ; and the international monetary situation.

Farm Prices, Costs, and Income Farm prices may average about the same as last year, remaining strong until midyear but probably trending downward in the second half. With some upturn in livestock marketings likely, livestock receipts could be somewhat higher. Receipts from crops could show either a slight gain or a slight loss, the exact level depending on the weather, farmers' response to the new farm program, and export levels. Direct Government payments to farmers will be down sharply. So, some decline in realized gross income seems probable.

The story on farm production expenses is the same one farmers have heard for many years-they'll be higher. Extent of the increase, if in the neighborhood of 5 percent as projected, will be much smaller than the soaring 29 percent rise that took place in 1973. Unlike a year ago, expenses for nonfarm inputs will account for all of the upturn. Expenses for inputs of farm origin may remain approximately the same as last year.

Supplies of a number of important nonfarm inputs -items such as fuel, fertilizer, certain chemicals, and labor-will most likely be tight. But demand is expected to continue strong. With this situation, prices of farm inputs-especially fuel and fertilizer-could well be sharply higher.

The likelihood of a downturn in realized gross income and prospects for a further rise in production expenses indicate some decline in realized net income, possibly as much as 8 to 20 percent below a year ago. But even if a 20 percent decline materializes, realized net farm income in 1974 would still top any year except 1973.

Farm Credit Situation Farmers in general were in very good financial positions as they began the new year. By and large, they carried over large cash balances and time and savings deposits from 1973 and had unsold crop and livestock inventories on hand.

With the outlook for farm prices and incomes in 1974 relatively bright and with a new farm program that encourages larger plantings, farmers are likely to invest heavily in equipment, farmland, and other production inputs. Because farmers will use larger quantities of purchased inputs, many such as fuel and fertilizer at substantially higher prices, and because they will face the likelihood of a further rise in farm real estate prices as they attempt to expand their operations, farmers' needs for loan funds can be expected to increase. A strong demand for farm loan funds is anticipated this year, in fact. Farm borrowings actually are expected to be used to finance more additions to capital in 1974 than in 1973.

Farmers can expect to find adequate supplies of credit this year. Some shifts among lenders may well occur, however, if farm borrowers take advantage of the changed lending policies of some of the major lending institutions.

Much uncertainty surrounds the exact level of interest rates in the farm sector this year. Views of the Department of Agriculture's analysts indicate, however, that 1974 interest rates on new farm loans will likely average near 1973's fourth quarter levels.

Food Outlook[1] American housewives, weary from struggling with last year's reduced food supplies and the most rapid rise in food prices in over a quarter century, may find some comfort in the outlook for 1974. Retail food prices are likely to rise further, but the increase, unlike 1973, will probably be moderate. Grocery store food prices can be expected to advance during the first quarter of the year as red meat supplies decline and prices of most other food categories rise. But average grocery prices may stabilize in the second quarter and hold comparatively steady the rest of the year as larger meat supplies, more poultry and eggs, and slightly increased supplies of crop food commodities become available. Rising food marketing costs appear likely, however, and for the year are apt to offset generally falling farm prices. Similarly, declining meat and poultry prices for the year overall may offset price increases for most other items of food.

Food consumption patterns changed and consumption per capita dropped sharply last year in response to skyrocketing prices and smaller supplies of food. But with larger food supplies and more moderate price increases in prospect for 1974, per capita food consumption is expected to rebound from last year's reduced level. Most of the increased consumption will probably consist of livestock products-more red meat, poultry and eggs, but smaller quantities of dairy products.

Consumers' expenditures for food increased faster than their disposable income in 1973. As a result, the share of income spent for food rose to 15.9 percent-up from 15.7 percent in 1972 and the first such upturn in 15 years. This year, however, with a more moderate increase in food expenditures in sight and a further gain in disposable income anticipated, spending for food as a proportion of income may average approximately the same as in 1973.

Commodity Prospects A digest of the Department of Agriculture's outlook for major Fifth District commodities follows :

Soybeans and Peanuts Soybean supplies for 1973-74 are about one-fifth above last year and record large. Demand continues strong, however, with crushings probably rising 7 percent over last season and exports increasing some 15 percent. Despite the projected upturn in demand, a sharp buildup in soybean stocks (more than four times last fall's carryover) is likely next September. Nevertheless, soybeans probably will average around $5.25 per bushel for the entire marketing season, or one-tenth above 1972-73. Soybean acreage may he down 3 percent from last year if growers' intended plantings are realized.

Peanut supplies are at record levels, some 7 percent above a year ago. Consumption of peanuts in all food products during 1973-74 is expected to rise some 5 or 6 percent. The gain in edible uses, however, will not be nearly large enough to offset the 1973 production increase, and roughly one-third of the crop will be acquired by the Commodity Credit Corporation under the price support program. Acreage allotments for 1974 have again been set at the minimum level permitted by law. But administrative changes aimed at lowering the cost of the 1974-crop peanut program include, among other things, a provision that could reduce acreage slightly.

Tobacco Both cigarette output and domestic cigarette consumption are on the upswing, and indications are that each will rise further to new record levels in 1974. Domestic tobacco use in the current marketing year is expected to be larger than last year's total. Leaf exports are likely to continue near the sizable shipments made last season, but they may drop some because of tighter supplies. With total disappearance expected to be about the same as last season and larger than the 1973 crop, another decline in carryover is in prospect.

Price supports for eligible 1974-crop tobaccos are expected to be 8 or 9 percent above 1973 levels and nearly 50 percent higher than the 1959 base. The basic flue-cured tobacco marketing quota, originally set at 1,178.4 million pounds, has been increased 10 percent to help meet expected higher export demand. The burley quota has been raised to 608 million pounds, about 8 percent above the basic quota for 1973. The increase was made to comply with legislation requiring that the burley quota for any year cannot be less than 95 percent of estimated domestic use and exports.

Cotton Strong demand and tight supplies, especially for some of the medium and longer staples,

[1]The Department of Agriculture revised its projected increase in retail food prices for 1974 just as this Review was going to press. Now, instead of a more moderate rise than in 1973, the Department predicts that grocery store food prices could soar as high as 16 percent and match last year's advance. The climb in the first quarter is expected to average 20.7 percent above a year ago; in December, the outlook called for a 15 percent upturn.

highlight the 1973-74 outlook for cotton. Because of limited supplies and high prices, domestic mill use will probably be down moderately. Export prospects are bright, however, and may total about 6 million bales, up from last year's 5.3 million and a 13-year high. The gain in exports will more than offset the downturn in domestic mill consumption and lift total disappearance to about 13.5 million bales. Total prospective use, at this level, would exceed 1973 production by about half a million bales and reduce the August 1 carry-over slightly.

The 1974 cotton crop will be produced under provisions of the new farm program. Special features applicable to cotton include: a guaranteed "target price" of 38 cents per pound for normal production on allotted acres; elimination of any set-aside cropland; and the limitation of Government payments to $20,000 per person from all three programs--cotton, wheat, and feed grains-rather than $55,000 per person for each program.

Poultry and Eggs This year's output of broilers, eggs, and turkeys is expected to increase after lagging in 1973. Broiler expansion is likely to be moderate, rising a little less than 5 percent. There may also be some further slight increase in the average liveweight of broilers marketed. Turkey production could be substantially larger than in 1973 if producers carry out their plans to hold 15 percent more breeder hens for the 1974 hatching season. Indications point to a rapid buildup in laying flocks by this spring, paving the way for a big step-up in egg production by mid-1974.

Poultry and egg prices are not expected to average as high as they did last year. They will tend to be supported throughout 1974 by relatively high red meat prices and strong consumer demand for high-protein foods.

Milk Total milk production may drop again this year, with most of the decline coming in the first half. The possibility of moderating feed prices later in the year, plus higher milk prices, could improve milk-feed price relationships and encourage heavier feeding rates. Should the milk-feed price ratio be boosted to more favorable levels, milk output per cow may resume its upward climb. But the resultant gains may only partially offset the expected reduction in milk cow numbers.

Farm milk prices in the first half of 1974 will likely continue well above year-earlier levels. Prices after the first quarter could be affected by the dairy price support level set for the 1974-75 marketing year. Under the new farm legislation, milk prices during the upcoming marketing year must be supported at between 80 and 90 percent of parity.

Meat Animals The livestock outlook points toward the expansion of red meats. Smaller beef supplies and higher fed cattle prices are expected this winter because of disruptions in last year's livestock economy that discouraged placements of cattle on feed. But the large number of feeder cattle available for feedlot placement last fall and the prospective easing in feed prices could open the gates for a large expansion in beef production by spring and summer, probably accompanied by falling prices. Fed cattle marketings for the year could exceed year-ago levels by a sizable margin.

Lower hog marketings and prices well above a year earlier are in prospect for the first half of 1974. Second half marketings may be slightly larger than last year's low levels, with little net change in hog production for the year as a whole. All in all, the situation seems to add up to a relatively firm hog market in 1974.

On balance, a modest gain in total per capita supplies of red meats is likely this year. Larger beef supplies will more than offset smaller supplies of lamb, mutton, and veal. Pork output will change little.

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