OUTLOOK FOR AGRICULTURE OPTIMISTIC

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Agriculture's prospects for the first half of 1976 were outlined by top level economists of the U. S. Department of Agriculture at the National Agricultural Outlook Conference in mid-November. The following is a digest of the outlook as they see it.

Optimism pervaded the outlook for U. S. agriculture through the first half of 1976 when speakers presented their views at the National Agricultural Outlook Conference in mid-November. Farmers' returns are expected to be maintained at the improved price and income levels realized during the second half of last year. Moreover, consumers should notice a slowdown in the rise in retail food prices. Major factors generating these improvements are the bumper grain harvests last fall, strong foreign demand that will maintain a record pace for exports, the economic recovery now underway, and the beginning upturn in livestock production.

There are a number of uncertainties in the outlook, however. Among them, two stand out: (1) The strength in the turnaround in livestock production will depend to a great extent on the impact of developments in foreign markets on the supply and cost of feed. (2) Gains in consumer buying power, believed by many to be the key to sustaining general economic growth, could be limited by continued inflation and rising costs of energy.

Farm Income, Fiscal Year 1975-76 Total cash receipts from farm marketings in 1975-76 are expected to add up to around $101 billion—around $10 billion more than in 1974-75. Higher prices will help to bring about much larger receipts from livestock and livestock products, whereas a greater volume of marketings will be the primary factor behind a modest increase in crop receipts. Rising, albeit moderating, farm production expenses are likely to offset much of the gain in gross income. Even so, a sizable rise in realized net income is indicated, perhaps running well above the $25 billion—third largest of record—estimated for calendar 1975.

Supplies and Costs of Farm Inputs With farmers planning for all-out production again in 1976, demand for farm inputs is expected to be strong. Moreover, the farm supply shortages of the past several years have eased. As a result, supplies of items such as fertilizer, fuels, and pesticides are said to be adequate for this year's farming operations. Most petroleum fuels reportedly are plentiful, in fact, and supplies of many types of farm machinery seem to be catching up with demand. Feed supplies are larger, and prices are easier.

Farm costs in general are expected to continue upward in 1976 but not at the leaping pace of recent years. Actually, fertilizer prices are declining. But farm wage rates will probably jump 8 to 11 percent over 1975 levels because of the January 1 increase in the Federal minimum wage for farm workers.

Agricultural Exports Heavy world demand for U. S. farm products is setting the stage for another record export year in fiscal 1976. Expectations are that the value of farm product exports may reach as high as $22.7 billion, about $1 billion more than in fiscal 1975. Unlike a year earlier, the increased value this year will result from a larger volume of exports rather than higher prices.

Shipments of grains, oilseeds and products, cotton, and tobacco—the principal commodities—could exceed 103 million metric tons. Such a level would be about 19 million tons over last year's volume and would set a new record. An especially strong export year is foreseen for wheat and feed grains.

By destination, shipments to the USSR and Eastern Europe will show the biggest gain over last year. But larger exports to North Africa, South Asia, Southeast and East Asia, and Japan are also expected. Lower prices will reduce the value of exports to Western Europe and Latin America even though export volume will likely hold up well.

Retail Food Prices Grocery shoppers can take heart! The slowdown in spiraling food prices that began in 1975 promises to continue during the first half of 1976. Moreover, supplies of fresh and processed fruits, tree nuts, and canned and frozen vegetables are large. And larger supplies of poultry and red meats seem highly probable.

Retail food prices, under conditions that now appear most likely, will probably edge upward at an annual rate of 4 to 5 percent during the first six months of the year—about one-half of the 9 percent rate of advance in calendar 1975. Such an increase would mean an average annual rate of slightly more than 1 percent per quarter. First quarter prices may rise at a somewhat faster pace. But a slower rate of increase is seen as likely for the second quarter as production of fed beef, pork, and poultry expands.

Food marketing costs will of course continue to play a major role in the level of retail food prices. Marketing spreads—the difference between the retail price and farm value of foods—will likely advance further during the first half of the year. But gains may slow relative to a year earlier, probably rising only about 5 percent compared with an 11 percent increase during the same period in 1975.

Commodity Reviews The digests that follow are highlights of the Department of Agriculture's expectations for major commodities produced in the Fifth District.

Tobacco: Larger supplies, both at home and overseas, highlight the outlook for tobacco in 1976. U. S. cigarette consumption (total and per capita) may advance further this year. But smokers are not expected to smoke as many per capita as they did during the record year 1963. Exports of unmanufactured tobacco fell about 10 percent last year, and leaf exports in 1976 may do well to hold near recent levels. The high prices of U. S. leaf are adversely affecting tobacco exports even though worldwide preference for cigarettes containing flue-cured and burley tobaccos has risen sharply. With last year's large crop, carryover stocks can be expected to increase.

The basic flue-cured tobacco marketing quota for 1976 has been cut 15 percent in an effort to keep supplies in line with demand. But the addition of net undermarketings from 1975 leaves the effective quota only 10 percent below last season's level. The basic quota for burley may remain about the same as in 1975. Price support levels for eligible 1976-crop tobaccos will be 13½ percent higher than in 1975.

Cotton: Smaller supplies and larger disappearance characterize the 1975-76 outlook for cotton. With the sharply reduced 1975 crop, current season supplies are expected to drop to the lowest level since 1923-24. On the demand side, combined domestic mill use and exports probably will range from 9.8 to 10.8 million bales versus 9.8 million last year. Carryover stocks next July 31 thus may total around 3.5 to 4.5 million bales, down from 5.7 million at the end of 1974-75.

Domestic mill use holds promise of bouncing back in 1975-76, consuming an estimated 6.8 to 7.3 million bales in contrast with last season's 5.9 million—smallest since the 1930's. How strong domestic demand will be will depend to a great extent on the general economic and textile activity during the next few months and on the competition from manmade fibers. Not to be overlooked, however, is the significant role that fashion's "casual natural look" is playing in cotton's comeback. The natural look has now increased demand not only for the popular all-cotton denim and corduroy materials but also for other coarse cotton fabrics, such as brushed sateens, twills, sheetings, and the like.

Foreign demand for cotton is weak, and U. S. cotton prices are not competitive in world markets. So, much uncertainty surrounds export prospects for the 1975-76 season. Current indications point to a moderate recovery in foreign cotton demand in early 1976, with exports for the marketing year ranging from 3.0 to 3.5 million bales, well below last season's level.

Soybeans and Peanuts: Record large supplies, significantly expanded utilization, a sharp buildup in carryover stocks next fall, and lower average farm prices are the main features of the soybean outlook for 1975-76. Soybean plantings in 1976 could fall below last year's levels if the current soybean/corn price ratio of 2 to 1 continues. Even though soybean usage is expected to increase, it may well not equal the record use in 1973-74. Moreover, total soybean utilization may fall below production for the third consecutive year. Soybean exports are expected to increase sharply but face increased competition and may fall short of the record shipments of 1973-74. The lower prices and large supplies should spur exports of soybeans, however.

Peanut production continues to outstrip consumption, and supplies are at record levels. Use of peanuts in edible products this season is expected to rise by some 6 percent to about 9 pounds per capita. But despite the likely increase in consumption, peanut supplies are well in excess of requirements for food and farm use. About one-third of the crop will be acquired by the Commodity Credit Corporation under the price support program, and crushings to dispose of the surplus peanuts will increase sharply. Under existing law, 1976 acreage allotments have been set at the minimum level.

Poultry and Eggs: More poultry and eggs are in prospect for the first half of 1976. Egg output may gain slightly early in the year but could fall to around year-earlier levels in the spring. The outlook for broilers and turkeys calls for substantial production increases over a year ago, however.

Egg prices may well remain sluggish, averaging near or below year-ago prices during the first half of the year unless consumer demand picks up more than is now anticipated. Moderate expansion in broiler consumption, small red meat supplies, and higher consumer incomes should more than offset the expected increase in broiler supplies and hold average broiler prices this winter near the mid-40 cent per pound range. Turkey prices, likely to decline seasonally after the holidays, may remain above a year earlier into 1976 in spite of indicated production gains.

With larger supplies and lower prices of most feed ingredients likely, the cost of producing poultry and eggs in the coming months is expected to average below levels a year ago.

Meat Animals: Pork output may continue below 1975's reduced level through mid-1976, keeping hog prices relatively strong through the winter. More pork is indicated for the second half, however, starting with small gains around midyear and then becoming larger toward the end of the year. With the outlook for reduced feeding costs and the recent record high hog prices, producers seem likely to keep farrowings up through most of the year. Should hog slaughter for all of 1976 total around 3 to 5 percent above 1975, as now seems probable, the price of hogs could move generally lower during the summer and fall.

More fed beef and less nonfed steer and heifer slaughter are in prospect for 1976. With feeding costs more favorable and feeder cattle available, cattle producers have already begun to place significantly more cattle on feed. Fed cattle marketings will probably begin to show increases over year-ago levels in the first quarter, with larger gains following in the second. If placements continue to rise, nonfed slaughter is expected to decline significantly, with most of the reduction occurring in the second half. Should the feed situation, including pasture conditions this summer, remain favorable, cattle slaughter for the year could be from 2 to 4 percent above a year earlier. Fed cattle slaughter would comprise all of the increase. Assuming that consumer demand holds up, it now looks as if fed cattle prices in 1976 might average close to, or just above, the 1975 price range of $44 to $48.

Dairy Products: Milk output during the first half of 1976 may increase slightly if gains in production per cow offset comparatively small declines in cow numbers as is now expected. Farm milk prices are likely to continue well above year-earlier levels early in 1976. But should increasing milk production and consumer resistance to higher retail dairy prices materialize, milk prices at the farm level may show sharper-than-normal seasonal price declines. The recent increase in price support levels will likely hold farm milk prices above those a year ago, however.

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