More Promising . . .

THE OUTLOOK FOR AGRICULTURE IN '81

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The U. S. Department of Agriculture's leading economists analyzed this year's prospects for the nation's agriculture, and the implications for retail food prices, at the 1981 Agricultural Outlook Conference last November. The outlook as they viewed it then, along with their more recent analyses of economic developments, is summarized below.

The outlook for the nation's farmers in 1981 is much more promising than the situation last year. While supplies are tight, the export market is strong and some slight improvement in domestic demand seems likely. Higher prices are in prospect for both crops and livestock.[1] Gross farm income is expected to rise substantially. And farm production expenses, especially for feed and feeder cattle, promise to continue upward. But with gross income increasing more than production costs, net farm income will likely rebound considerably from last year's depressed level, possibly recouping all of 1980's decline.

The improved prosperity for the nation's farmers will cause consumers to be faced with higher retail prices for most major food products, however. Prices for pork and sugar are expected to lead the parade of food price increases in 1981. Food shoppers will also encounter reduced supplies of many products, particularly red meats.

When appraising the agricultural and food outlook for 1981, economists of the U. S. Department of Agriculture examined a number of critical variables: economic growth rates, both here and abroad, and their implications for inflation and consumer demand; the size of adjustments by livestock producers to tighter and higher priced supplies of feed; possible policy changes by the new Administration; and the weather—perhaps the most important factor of all. The continued strength in foreign demand for U. S. farm products also figured prominently in the appraisal.

Farm Income Picture Brighter The nation's farmers generally fared poorly last year, but they can take heart from the outlook for 1981. With net farm income dropping to an estimated \$23 to \$25 billion in 1980—down 20 to 25 percent from 1979's \$31 billion—it is encouraging to note that net farm income is expected to improve significantly in 1981, possibly recouping all the loss of 1980. Moreover, the outlook for 1981 points to substantial increases in cash income from both farm and nonfarm sources.

The shortfall in 1980 crop production, together with continued strong export demand for grains and oilseeds, suggests that crop prices will average well above 1980 levels. Under the assumption that there will be no major weather-related shortfalls in 1981 crop output, and with current prospects for larger export demand, it seems likely that crop prices overall may average from 12 to 16 percent higher than in 1980. But while crop marketings may be down from last year, the higher prices will be partially offsetting and cash receipts from crops could rise 6 to 10 percent.

Receipts from the sale of livestock and livestock products are also expected to increase substantially in 1981. This expectation is based on prospects that total red meat and poultry production will decline and that prices will move sharply higher. The anticipated reduction in total red meat and poultry output, along with an expected stronger consumer demand, presently points to a 16 to 20 percent boost in overall livestock prices as well as a similar increase in total livestock receipts.

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[1] The recent downturn in livestock and poultry prices will apparently have little effect on the longer term outlook for 1981, for it seems that USDA's analysts anticipated these price developments in preparing their outlook statement. Writing in **Agricultural Outlook,** November 1980, these analysts stated: "Prices for livestock and poultry products will remain under downward pressure because of seasonally large marketings through mid-to-late December. However, the market supply of hogs is expected to decline sharply toward the end of the year and in the first quarter of 1981, lending some support to livestock and poultry prices."

Farm production expenses in 1981 may rise 10 to 13 percent, compared with last year's 10 to 12 percent upturn. But unlike 1980, inputs of farm origin —particularly feeder cattle and feed—will rise more than inputs of nonfarm origin. While prices of the petroleum-based inputs, such as fuel, fertilizer, and chemicals, are also likely to record significant gains in 1981, the lower inflation rate anticipated in the general economy should moderate increases in the prices of manufactured inputs and hold down interest charges. Feed expenses in the year ahead could rise 15 percent or more from 1980. Expenses for purchased livestock, on the other hand, may increase more than a tenth.

Should these expectations for 1981 crop and livestock prices and sales materialize, gross farm income could rise much more than total production expenses and net farm income could range from $27 to $32 billion, more than enough to offset the decline of 1980. The point should be stressed that this forecast assumes that weather conditions this coming summer will be more nearly normal, leading to higher crop yields and larger overall crop production than in 1980.

Foreign Trade to Expand Further Exports of U. S. farm products rose to new heights in fiscal 1980, surpassing the $40-billion mark for the first time. Expectations point to a further expansion in agricultural exports in fiscal 1981, rising perhaps as much as 20 percent above last year's level. With a gain of this magnitude, the nation's exports of farm products are expected to rise to around $48.5 billion, resulting in record export values for the 12th consecutive year. U. S. agricultural imports are also projected to set a new record at $18.5 billion, leaving the agricultural trade surplus at $30 billion, some $7 billion above fiscal 1980.

Export volume of U. S. farm products in fiscal 1981 is also forecast at a record 170 million tons, up from 164 million last year. Shipments of feed grains are expected to total around 74 million tons, about 3 million above a year ago, while shipments of wheat may rise to more than 41 million tons, an increase of some 4 million over fiscal 1980. Rice exports are likely to register only small gains. On the other hand, the volume of soybean, cotton, tobacco, and vegetable oil exports may decline.

Most of the increase in the value of U. S. farm exports this year will probably be due to higher prices. Indications point to 5 to 10 percent higher wheat prices. And corn, sorghum, and soybean prices are expected to be up about one-third.

The longer term prospects for U. S. agricultural trade are strong. Population and incomes are rising throughout the world. Moreover, there is a desire in many countries to upgrade diets with more meat, milk, and eggs. These factors assure U. S. farmers of growing demand for their agricultural products, particularly feedstuffs.

The grain accord recently signed with China for the period January 1981 to December 1984 will establish China as our largest market for wheat. Yearly exports of 6 to 8 million tons were agreed upon, with wheat comprising 80 to 85 percent of the total. The agreement also permits China to import up to 9 million tons of U. S. grains without prior notification.

Agricultural Finance Outlook Many of the nation's farmers were faced with major financial problems last year and will enter 1981 heavily burdened with debt. Farmers in areas not affected by last summer's drought should be in a stronger financial position, however. As noted earlier, net farm income dropped sharply in 1980, but a significant improvement in net farm income is indicated for 1981. There was a slight rise in cash income from both farm and nonfarm sources last year, and a substantial increase is expected this year.

The improved net farm income projected for 1981 is based on the assumption that farm prices will be higher, interest rates lower, weather conditions more nearly normal, and the rate of increase in production expenses slower. On the whole, farmers will likely be in an improved financial position by the end of 1981. Hog and poultry farmers' incomes will probably show only marginal improvement, however, while vegetable, fruit, and nut producers are expected to have lower incomes.

Farmers' gross investment last year was estimated at $12 billion, little more than half that in 1979 and considerably under the nearly $41 billion expected for 1981. This reduction resulted from farmers' postponement of purchases of capital items because of high interest rates and low income prospects. These delayed purchases, together with the refinancing of short-term debt, caused a slowdown in the growth of non-real-estate farm debt. While higher farm incomes in 1981 may slow the rate of increase in farm real estate debt, non-real-estate lending will probably accelerate as farmers finance delayed purchases of machinery and equipment.

Total farm debt rose almost 15 percent in 1980, and another 15 percent increase is anticipated for 1981. Expectations are that interest rates will remain high in 1981, but, on average, they are expected to be lower than in 1980.

Reduced activity in the farm real estate market last year reflected low net farm income, high interest rates, and tight credit conditions. Farm real estate values rose between 7 and 12 percent during the year, and an increase of from 11 to 16 percent is expected in 1981. By comparison, farmland values advanced 15 percent in 1979.

Food Prices to Rise Again Grocery shoppers in 1981 will again find little comfort in the outlook for food prices. Retail food prices at grocery stores are expected to continue upward, most likely averaging between 10 and 15 percent higher than in 1980. Current expectations suggest an increase of around 12.2 percent. But should weather conditions damage the citrus crop, reduce livestock marketings, cut the 1981 grain harvest, and decrease worldwide sugar production, and if there is another surge in the general rate of inflation, the food price increase would tend to be nearer the upper end of the range. On the other hand, if reverse conditions are realized, the rise in retail food prices this year would be nearer the lower end of the range.

Much of the increase in 1981 food prices will come from rising prices for red meats, poultry, and eggs, since total supplies of these commodities will be down from last year. Smaller pork output will be only partially offset by slight gains in beef and poultry production. With total meat supplies lower and with some strengthening of the economy, retail meat prices are likely to increase throughout the year. And, with egg production declining slightly and demand increasing as consumers substitute eggs for meats and poultry, sharply higher egg prices are also indicated.

The farm value of domestically produced foods will contribute much more to the rising retail prices of food at home this year than in 1980. Moreover, the gain in farm value is expected to contribute more to rising retail food prices in 1981 than increases in marketing costs. Unlike last year when the farm value of food rose moderately, current indications for 1981 point to a 12 to 20 percent advance in the farm value component. Marketing costs, on balance, are expected to rise some 9 to 11 percent, about the same as in 1980. It is anticipated that rising marketing costs in 1981 will probably be moderated by a slow recovery from 1980's sharp but short recession and by a more moderate increase in prices of crude oil.

Fish and imported foods, principally coffee, sugar, and bananas, comprise the third major component of food prices. While these foods make up less than one-fifth of the retail food dollar, they can be extremely important in determining retail food prices. Indications are that the overall increase in these foods in 1981 will average 10 to 17 percent higher than last year. Sugar prices, especially, seem likely to show a substantial increase. World supplies of sugar are low following two years of poor crops. In addition, Brazil says it will cut sugar exports to enable it to build a reserve of sugar for potential gasohol production in case further disruptions in oil supplies are caused by the Iran-Iraq War. Not only will the price of refined sugar be higher, but prices of soft drinks, some cereals and bakery products, and canned fruits will also be affected.

Outlook Highlights for Commodities What's ahead in 1981 for the major commodities produced by Fifth District farmers? The brief summaries of the Department of Agriculture's forecasts presented below provide some likely answers.

Tobacco: Supplies of tobacco for the 1980-81 marketing year vary from ample to tight, depending upon the various types. While total production in 1980 recovered from the 36-year low in 1979, it still fell short of prospective use and will have to be supplemented from current stocks. But even with the larger 1980 crop, the smaller carryover means total supplies for the 1980-81 marketing season are about 1 percent below a year earlier.

Quality of the 1980 tobacco crop, especially flue-cured, was reduced by the extremely hot, dry growing season. Because of this less desirable quality, the crop was not as usable for export and some foreign buyers had to dip into dealer and loan stocks to maintain their takings. Foreign buying of leaf this season will be held down by price and tax increases, a slowdown in consumption, and adequate stock levels in major manufacturing countries. Exports of U. S. tobacco to the European Community—our major market—are up, Japan's purchases may remain reduced, but buying by other Asian markets is on the upswing.

Domestic purchases of the 1980 crop were maintained, however, because of the steady sales of cigarettes here at home. Cigarettes continue to be the key to how much tobacco is used in the U. S. and in most other countries. U. S. cigarette output reached a record level last year. And rising sales of low-tar cigarettes are offsetting declines of other types. Total consumption of cigarettes by U. S. smokers may increase slightly as the smoking age population continues to grow.

The 1981 flue-cured acreage allotments and poundage quotas for individual farms will be about 7½ percent under the 1980 level, except for undermarketings and overmarketings. Estimated marketings from the national marketing quota for 1981 are expected to total around 1,040 million pounds, some 55 million below the level in 1980.

Peanuts and Soybeans: Because of last summer's hot, dry weather, the nation's 1980 peanut crop declined sharply from that in 1979. With this reduction, total peanut supplies are also down substantially—around 3.1 billion pounds, versus 4.5 billion in 1979-80. Compounding the situation, the quality of a large quantity of peanuts was poor, hence they did not make edible grade. Thus, because of short supplies and high prices, food use in 1980-81 will probably decrease. With the short crop, supplies of peanuts available for crushing will be greatly reduced, and peanut exports are expected to fall sharply below shipments in 1979-80. Also, U. S. peanuts this season will not be priced as competitively as they were last year.

The national poundage quota for 1981-crop peanuts has been set at the minimum required by law. Undermarketings of 1980-crop peanuts are expected to increase the effective poundage quota in 1981 by about 5 percent, however.

Sharply reduced supplies and higher prices will also curtail the usage of soybeans in 1980-81. Despite the much larger beginning carryover, the drought-reduced 1980 crop cut the total soybean supply for 1980-81 about 13 percent below last year's record level of 2,442 million bushels.

But soybean demand is expected to remain strong in spite of smaller supplies and high prices. Total disappearance (domestic use plus exports) will probably fall some 6 percent below last season, but it will likely total around 11 percent above 1980 production. Expectations are that both domestic crushings and exports will decline from the record levels last season. If these prospects materialize, it will be the first cutback in domestic use in four years and the first decline in exports in six years.

Harvest prices for soybeans last fall were relatively favorable to farmers. Soybean prices to producers in 1980-81 are expected to average around $8.60 per bushel, 35 to 40 percent above last year's farm price of $6.25 per bushel. Prices during the second half of the season will be influenced largely by the size of the 1981 South American soybean crop and the extent to which China and the USSR enter the world market for soybeans. U. S. farmers' willingness to withhold soybeans from the market will also influence prices significantly.

Cotton: Indications are that the supply-demand balance for U. S. cotton will remain tight during the latter half of this season and probably well into the 1981-82 season. Because of lower beginning stocks and the smaller crop, this season's supply is down sharply. Expected disappearance (domestic mill use plus exports) this season will likely total around 11.6 million bales, well below the level last year but still above production. The resulting carryover at the end of the 1980-81 season is likely to be down slightly from the 3-million-bale level at the beginning of the year.

Domestic textile mills will probably use around 5.9 million bales of cotton this season, some 9 percent below the 6.5 million in 1979-80. Because of the tight supplies, relatively high prices, and rising inventories of cotton products, cotton use may well slip further this winter.

Exports of U. S. cotton in 1980-81 are expected to total about 5.7 million bales, a sharp cutback from last season's unusually high 9.2 million. Rising foreign production, sluggish world textile activity, and reduced availability of cotton for export are factors behind the anticipated decline. Currently, U. S. cotton is priced 5 to 7 cents per pound higher than competing cottons in world markets.

Foreign use of cotton this season is expected to be near last season's level. Chinese consumption, however, is estimated to be at an all-time high—some 13.8 million bales. China, as a result, will likely be the world's leading importer again, probably taking around 3.2 million bales from all sources.

Current price relationships between cotton, soybeans, and grain sorghum suggest that the nation's cotton farmers may cut 1981 plantings around 5 percent below the 1980 level. Should this occur, and if yields are average, cotton supplies would probably remain tight throughout the 1981-82 season.

Disappearance of U. S. cotton in 1981-82 is expected to total around 13 million bales, up slightly from this season. Exports, which will likely account for 50 to 55 percent of the total, will be stimulated by the relatively low stocks expected in foreign countries at the beginning of the 1981-82 marketing year. Since domestic mill use depends heavily on economic conditions and the relative prices of the various fibers, only a slight gain is anticipated for the 1981-82 season.

Poultry and Eggs: The outlook for poultry producers in 1981 is mixed. While the cost-price situation for the first half of the year could be near the break-even level, it could be more favorable in the second half.

With a smaller breeding flock and increased costs, broiler expansion in 1981 will probably be limited to only 3 percent above 1980, instead of 7 to 10 percent as in the last two years. Broiler producers can look for much higher prices in 1981 than a year ago. But higher costs of production, particularly for feed, may limit profits, especially in the first half. Gains in broiler prices in the first half will tend to be limited by increases in beef production. Broiler prices should strengthen in the second half, however, as pork and beef prices rise.

Returns to egg producers will probably be near the costs of production during most of 1981, provided they continue to increase culling when prices fall below costs. With an older laying flock and fewer young birds added to the flock, the rate of lay in 1981 may tend to level off. Total egg production for the year may be about 1 percent below that in 1980, with most of the reduction coming in the first quarter. Egg producers will also be faced with rising costs in 1981 because of higher feed grain prices. But a slowly expanding economy and reduced output of other high-protein foods should strengthen the demand for eggs, giving additional strength to egg prices.

Much higher turkey prices than a year earlier are expected in the first half of 1981. With the exception of the second quarter of 1977, the production of turkeys has been profitable. This has led to increased output, and indications are that turkey producers are planning another 6 percent expansion in production this year. The larger production is being encouraged by the current profitability in spite of much higher costs. But even with improved prices likely, returns to turkey producers during the first half of the year will probably be unfavorable because of offsetting higher costs. Producer returns should improve in the second half, however, as demand strengthens, prices strengthen seasonally, and production of red meat declines.

Meat Animals: The outlook for cattle producers in 1981 is improved by prospects that total red meat and poultry supplies will be below year-earlier levels. Beef production may increase slightly in 1981. Supplies of beef will continue large through the first quarter as fed cattle marketings rise above year-ago levels and nonfed cattle slaughter continues large. Gains in prices of both fed and feeder cattle will be held down through the first quarter—fed cattle prices by the large beef supplies and feeder cattle prices by continued high feeding costs.

But beef production is expected to decrease next spring as both fed cattle marketings and nonfed cattle slaughter decline. Fed cattle prices will probably average above year-ago levels through midyear, while competition for feeder calves may keep feeder calf prices relatively high. Producers can expect feeding margins to improve on cattle marketed through the first half of the year. Feeding margins on cattle marketed in the second half are likely to be tighter, however, and reduce cattle feeders' profits. Prices for both fed and feeder cattle should remain strong in the second half. Given the higher feeding costs, however, the sharply higher beef prices needed for cattle producers to break even may reduce consumers' demand for beef. Such a development could be a significant factor in determining cattle producers' profitability during the second half of the year.

Hog producers suffered severe financial losses in the first half of 1980 because of low hog prices and the rapid rise in production costs. As a result, producers reduced their breeding inventories. By the first of September breeding inventories in the 14 major hog-producing states were 10 percent below a year earlier. Moreover, a decline in the number of sows farrowing paralleled the decline in breeding inventories, pointing to reduced pork output and higher hog prices in 1981. Pork production for the year could be down from 8 to 10 percent. Hog prices in the first half of 1981 may average around \$50 per hundredweight, about \$17 above the low levels at the same time last year. Should farrowings continue down this winter and next spring as expected, the price of hogs could average in the upper \$50's or low \$60's in the second half. The rising costs of feed and other production items may boost total cash costs of producing hogs to around \$50 in 1981, however. So, despite the outlook for higher hog prices in 1981, returns to producers during the first half of the year do not look bright because of the higher costs of production.

Dairy: Most dairy farmers are expected to remain in a strong financial condition in 1981. Production expenses will rise, primarily because of higher feed costs, but milk prices are expected to increase enough to keep net income levels on the positive side. The support price for manufacturing grade milk will be adjusted upward on April 1 to reflect the higher costs of production.

Total milk production in 1981 is expected to continue above year-ago levels, setting a new record for the second consecutive year. Gains in productivity per cow will likely be limited by the less favorable milk-feed price relationships. But milk cow numbers seem certain to be larger than those a year earlier during most of 1981.

Demand for dairy products may be slightly stronger in 1981, especially if increases in meat prices make cheese relatively more attractive to consumers. Gains in commercial use are not likely to be large, however, so government purchases under the price support program will be sizable once again.

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