Economists from the U. S. Department of Agriculture as well as agricultural industry and trade analysts attended the 1985 Outlook Conference held in Washington, D. C. in early December. Their appraisal of the agricultural economy for 1985 is summarized here.

Overview

Entering 1985, the farm sector continues to be plagued by a variety of economic and financial problems. Farm income levels have exhibited weakness for the last five years. Farmland, a significant component of total farm assets, has fallen in value in response to weak income levels and has thereby reduced the equity positions of many farmers. Highly leveraged farmers (i.e., those with high debt to asset ratios) have been most adversely affected by the economic weakness. Agribusiness industries have also suffered substantial financial hardship as lower farm incomes have led to reduced purchases of farm production inputs.

On balance, 1985 offers little promise either to our nation’s farmers or those engaged in the agribusiness industries. That is the conclusion reached by analysts who participated in the U. S. Department of Agriculture’s annual Outlook Conference in December. According to these analysts, 1985 can be characterized as a year of continuing adjustment, with agricultural commodity supplies growing more rapidly than demand. Conference participants indicated that agricultural prices will remain under downward pressure throughout this year, although food prices are expected to increase modestly, probably less than the rise of prices generally as measured by the CPI.

Agricultural output rebounded in 1984 after being held down in 1983 by the payment-in-kind (PIK) program1 and a severe drought. Output should continue to increase through the current year, participants concluded.

They also noted that while domestic agricultural demand has been buoyed by the vigorous U. S. economic recovery, foreign demand has been dampened by a sluggish worldwide recovery and a strong dollar. The emergence of new foreign producers of exportable grains has further hindered U. S. agricultural exports. In light of these obstacles, the volume of exports for the United States is expected to continue its downward slide in 1985.

Cash receipts from farm marketings should rise this year as increased production outweighs lower prices. But reductions in government payments should offset these increases, resulting in an unchanged gross income figure. Production expenses will rise only modestly, leaving the net cash income of farmers in the $31 to $36 billion range, 5 to 9 percent below the 1984 level.

Food price increases are expected to moderate for the current year, finishing probably somewhat below the 4 percent increase of 1984. Since the farm value component of food prices should show no increase, hikes in marketing costs will likely be responsible for most of the expected rise in the food price level.

As always, the outlook for agriculture involves a high degree of uncertainty. Domestic farm output levels are dependent on weather conditions as well as

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1Payment-in-kind was a “one time” U. S. Department of Agriculture (USDA) program enacted in 1983 designed to reduce the large grain stocks accumulated during 1981 and 1982. Under the terms of this program, producers received the title to government held grain stocks in exchange for limiting their plantings. Farmer participation was strong, leading to a removal of 78 million acres of cropland from production that year.
foreign production levels. On the export side, trade agreement announcements can significantly affect demand and price levels. Apart from these uncertain influences, other factors, including the U. S. economic recovery, the strength of the dollar, and the development of the 1985 farm bill are all expected to affect the performance of the agricultural economy in 1985 and beyond. The discussion below provides a more detailed account of participants’ forecasts for agriculture in 1985.

Farm Income to Fall

As noted above, downward pressures on agricultural prices, increases in output, and lower government payments are all likely to dominate the outlook for farm income in 1985. After reaching a record high of $40.1 billion in 1983, agricultural net cash income levels have been declining. The expected 1985 level shown in Table I should total between $31 and $36 billion in nominal terms, the lowest net cash income level since 1980.

On the crop side, analysts indicated that anticipated rises in production levels should outweigh an overall price decline of up to 4 percent leading to slightly higher crop cash receipt levels. Crop output should rise 1 to 3 percent in 1985 with crop cash receipts projected to reach $70 to $74 billion, compared to the estimated 1984 total of $68 to $72 billion.

Both food grains and feed grains should post higher cash receipt figures in 1985 as increased output dominates lower prices. Soybean prices may fall sharply this year while peanut production and prices are also anticipated to be lower. Cash receipts for both will likely fall.

Livestock output and price levels will probably be unchanged to slightly higher in 1985 producing a modest improvement in livestock cash receipts. Overall livestock cash receipts will likely total $71 to $75 billion this year, an increase of $1 billion over estimates for 1984.

Lower cattle supplies should result in higher beef prices and slightly higher cash receipts from cattle marketing. Hog output is expected to remain flat in 1985, but higher prices should improve hog cash receipt figures. Broiler production will likely expand this year with lower prices and unchanged cash receipts anticipated. Milk prices should trend downward, leaving the cash receipts from milk somewhat below 1984 levels.

While total cash receipts from the marketings of crops and livestock shown in line one of Table I are expected to rise $3 to $4 billion in 1985, an anticipated decline of $3 billion in direct government payments should result in a largely unchanged gross cash income figure for farmers. In contrast to the $6 to $10 billion increase in farm inventories in 1984, adjustments for agricultural commodities are expected to show little change this year, pointing to a total gross income figure about $7 to $8 billion below last year.

Production expenses should rise moderately as indicated by lines nine and ten of Table I. The increase is likely to be attributable equally to a rise in inputs used (a result of higher planted acreage and a buildup of livestock inventories) and small increases in the price levels of replacement livestock and fertilizer. Overall, a rise of up to 4 percent is expected in total production expenses, with the total forecast in the $142 to $147 billion range.

From line 18 of Table I, it is indicated that the net cash flow position of farmers will continue to deteriorate in the coming 12 months. More precisely, the table shows that combination of the lower estimated 1985 net cash income and very modest loan growth will likely result in a net cash flow of $26 to $31 billion, down from the $29 to $33 billion in 1984.

The lower net cash income and tighter net cash flow will probably result in increasing financial problems for many farmers in 1985. Although conference participants predict modest increases in the total cash receipts of farmers this year, the increase will probably be insufficient to counter a combination of higher production costs and reduced government payments.

1985 Farm Bill to Challenge Tradition

As stressed by the conference’s analysts, potentially the most important aspect of the 1985 agricultural economic outlook concerns the fate of agricultural legislation that will come before Congress this session. The Agriculture and Food Act of 1981, usually referred to as the Farm Bill, is due to expire on September 30, 1985. The Farm Bill embodies the legislation that provides for the wide spectrum of federal

1The net cash flow position is an indicator of the farmers’ abilities to pay current expenses and service debt. The net cash flow has been trending downward for several years.
## Table I

### FARM INCOME AND CASH FLOW STATEMENT

(Billion dollars)

<table>
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<tr>
<td><strong>Farm income sources</strong></td>
<td></td>
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<tr>
<td>1. Cash receipts</td>
<td>142.6</td>
<td>144.8</td>
<td>138.7</td>
<td>139-143</td>
<td>142-147</td>
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<td>Crops</td>
<td>73.3</td>
<td>74.6</td>
<td>69.5</td>
<td>68-72</td>
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<td>Livestock</td>
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<td>70.1</td>
<td>69.2</td>
<td>70-74</td>
<td>71-75</td>
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<td>2. Direct Government payments</td>
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<td>Cash Government payments</td>
<td>1.9</td>
<td>3.5</td>
<td>9.3</td>
<td>7-10</td>
<td>4-7</td>
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<td>Value of PIK commodities</td>
<td>1.9</td>
<td>3.5</td>
<td>4.1</td>
<td>3-5</td>
<td>4-7</td>
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<td>3. Other cash income</td>
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<td></td>
<td>0.0</td>
<td>0.0</td>
<td>5.2</td>
<td>4-6</td>
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<tr>
<td>4. Gross cash income (1+2+3)</td>
<td>146.4</td>
<td>150.2</td>
<td>149.6</td>
<td>150-154</td>
<td>150-155</td>
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<tr>
<td>5. Nonmoney income</td>
<td>13.6</td>
<td>14.2</td>
<td>13.6</td>
<td>12-14</td>
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<tr>
<td>6. Realized gross income (4+5)</td>
<td>160.0</td>
<td>164.4</td>
<td>163.2</td>
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<td>163-168</td>
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<td>7. Value of inventory change</td>
<td>7.9</td>
<td>-2.6</td>
<td>-11.7</td>
<td>6-10</td>
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<td>8. Total gross income (6+7)</td>
<td>167.9</td>
<td>161.8</td>
<td>151.4</td>
<td>171-175</td>
<td>163-168</td>
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<td><strong>Production expenses</strong></td>
<td></td>
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<td>9. Cash expense</td>
<td>111.4</td>
<td>113.4</td>
<td>109.5</td>
<td>115-117</td>
<td>118-122</td>
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<td>10. Total expenses</td>
<td>136.9</td>
<td>139.5</td>
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<td>142-147</td>
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<td><strong>Income Statement</strong></td>
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<td>11. Net cash income:</td>
<td></td>
<td></td>
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<tr>
<td>Nominal (4-9)</td>
<td>35.0</td>
<td>36.8</td>
<td>40.1</td>
<td>34-38</td>
<td>31-36</td>
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<tr>
<td>Deflated (1972$)</td>
<td>17.9</td>
<td>17.8</td>
<td>18.6</td>
<td>15-17</td>
<td>13-15</td>
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<tr>
<td>12. Net farm income</td>
<td></td>
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<tr>
<td>Nominal total net (8-10)</td>
<td>31.0</td>
<td>22.3</td>
<td>16.1</td>
<td>29-33</td>
<td>19-24</td>
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<tr>
<td>Total net (1972$)</td>
<td>15.9</td>
<td>10.8</td>
<td>7.5</td>
<td>13-15</td>
<td>8-10</td>
</tr>
<tr>
<td>Total net (1967$)</td>
<td>11.4</td>
<td>7.7</td>
<td>5.4</td>
<td>9-11</td>
<td>6-8</td>
</tr>
<tr>
<td>13. Off-farm income</td>
<td>39.8</td>
<td>39.4</td>
<td>41.0</td>
<td>41-45</td>
<td>43-47</td>
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<td><strong>Other sources and uses of funds</strong></td>
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<tr>
<td>14. Change in loans outstanding</td>
<td>15.5</td>
<td>6.8</td>
<td>2.9</td>
<td>0-4</td>
<td>0-4</td>
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<tr>
<td>Real estate</td>
<td>9.3</td>
<td>3.7</td>
<td>2.1</td>
<td>-2-2</td>
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</tr>
<tr>
<td>Nonreal estate</td>
<td>6.2</td>
<td>3.1</td>
<td>0.8</td>
<td>0-4</td>
<td>0-4</td>
</tr>
<tr>
<td>15. Rental income</td>
<td>5.7</td>
<td>5.6</td>
<td>4.3</td>
<td>4-6</td>
<td>4-6</td>
</tr>
<tr>
<td>16. Gross cash flow (11+14+15)</td>
<td>56.1</td>
<td>49.3</td>
<td>47.3</td>
<td>41-45</td>
<td>38-43</td>
</tr>
<tr>
<td>17. Capital expenditures</td>
<td>16.8</td>
<td>13.6</td>
<td>13.1</td>
<td>12-14</td>
<td>11-15</td>
</tr>
<tr>
<td>18. Net cash flow (16-17)</td>
<td>39.3</td>
<td>35.6</td>
<td>34.2</td>
<td>29-33</td>
<td>26-31</td>
</tr>
</tbody>
</table>

*F = Forecast.

1Includes net CCC loans.

2Includes income from custom work, machine hire, and farm recreational activities.

3Numbers in parentheses indicate the combination of items required to calculate a given total.

4Value of home consumption of farm products and imputed rental value of farm dwellings.

5Excludes depreciation and prerequisites to hired labor.

6Excludes farm dwellings.

7Deflated by the GNP implicit price deflator.

8Deflated by the CPI-U.

9Excludes CCC loans.

programs pertaining to agriculture. Components of this legislative package include price supports and quotas for tobacco and sugar, dairy supports, peanut quotas, and grain target prices. It is estimated that the farm bill legislation covers almost half of the total U. S. agricultural production. But the current interest in the 1985 Farm Bill focuses not in the breadth of its coverage but rather in its proposed changes in the basic emphasis of U. S. farm policy.

Since its inception in 1930, farm commodity legislation has sought to emphasize improvement in the income of U. S. farmers. Over the years, the legislation has employed a variety of programs designed to accomplish this goal by either reducing commodity supplies or by influencing commodity prices through price supports, target pricing, and loan rates. Although farm programs can claim some success in supporting domestic farm income levels over short periods of time, the income support has often proved to be costly to taxpayers and consumers in the long run.

Opponents of the current policy direction advocate a less regulated market structure in the agricultural sector. They argue that commodity price supports have created artificially high U. S. price levels which have seriously eroded this country’s position in global agricultural trade by pricing domestic producers out of world markets. Participation in these markets is vital to the economic survival of substantial portions of the agricultural sector as indicated by the fact that fully one third of the crops grown in the United States are destined for foreign markets. In addition, opponents contend that the restriction of domestic agricultural production through land banks or programs such as PIK induce more foreign suppliers to enter the world market, creating a situation with unfavorable long-run consequences for American farmers.

Furthermore, the PIK program of 1983 was enacted coincidentally with a severe drought and contributed to a massive reduction in grain stocks which boosted grain prices and squeezed the profit margins of livestock producers. Agricultural suppliers were also adversely affected by the program, as grain producers required less seed, fertilizer, and chemicals. Moreover, the cost of farm programs had reached an alarming $21.7 billion in 1983 at a time when federal budget deficits were already under increasing scrutiny.

Many conference participants indicated that the 1981 farm commodity legislation appears likely to undergo a major change in direction in 1985. Not only is USDA on record as favoring a modification of some farm programs over a multiple-year time period, but support for a return to freer markets in agriculture has also come from agribusiness interests, farm producer groups, and Congress. Support for a return to free agricultural markets, however, is far from unanimous. With the farm economy in a weakened state, proponents of an unchanged agricultural policy maintain that the elimination of federal programs at this time would severely disrupt the agricultural sector, causing unwarranted harm to thousands of farmers. All considered, conference participants felt it likely that the policies that have governed U. S. agricultural production for the last 55 years are destined to shift toward a closer orientation to the constraints imposed by world agricultural markets.

Agricultural Financial Conditions Weaken

Attendees of the Outlook Conference expect continued difficulties to dominate the current outlook for the financial conditions of farmers in 1985. The trends that have plagued the agricultural sector since 1980—namely, declining farmland prices, low income, and inadequate cash flow—are expected to continue this year and may in fact worsen. Furthermore, the increasing debt-to-asset ratio and declining equity position experienced by the farm sector for the past four years will likely continue.

Farmland has traditionally been the financial pillar of the agricultural sector. Almost all long-term or secured credit in agriculture is backed by farmland, a fact which worked heavily in the favor of farmers during the 1970s when farmland prices regularly increased faster than the overall rate of inflation. However, by 1980 high interest rates and low farm incomes combined to halt and reverse the upward price trend of farmland. The resulting downward trend in farmland prices over the last few years will probably continue throughout 1985. As a result, it will be increasingly difficult for farmers to secure additional long-term debt. In fact, real estate backed debt may show no growth in 1985.

Conference participants expect farm income and cash flow to fall this year. Net cash income could fall 8 to 10 percent while the net cash flow may be reduced by more than 10 percent. This will limit the
ability of farmers to service existing debt, and will tend to reduce the growth rate of new short- and long-term debt. Already at the limits of their debt servicing ability, financially leveraged farmers will find 1985 to be particularly difficult. Many farmers will postpone the purchases of farm equipment and other capital items, further hampering the profitability of farm related industries. Slow growth of short-term and intermediate-term debt is anticipated in 1985.

Downward pressures on farm asset values combined with flat or slow debt growth should lead to a further weakening of the equity position of farmers in 1985. The debt-to-asset ratio, which has been increasing in recent years, is likely to rise further, although agriculture still enjoys a low average ratio compared to many other industries.

Overall, farm financial stress is likely to increase in the current year. Both farm foreclosure rates and involuntary bankruptcy rates are projected to rise. Financial institutions, already holding large amounts of farmland, are finding the market saturated and are reluctant to release more on the depressed market. As a result, efforts to restructure existing loans are widespread.

In an effort to assist the commercial banking sector in the restructuring process, the Farmers Home Administration (FmHA) proposed a loan guarantee plan last October. Under the original proposal, farm lenders were asked to write off permanently 10 percent of the total outstanding principal and interest on their farm loans in exchange for a FmHA administration guarantee against default on the remaining balance. Subsequent modifications of the original proposal have been aimed at encouraging farm lenders to step up their participation in the program. Under later proposals, such lenders could choose to write off either principal, interest, or a combination of the two in order to fulfill the 10 percent requirement. In addition, beginning in fiscal 1986 the administration intends to phase out direct FmHA loans by shifting farm loans to the commercial banking sector and by reducing the FmHA role to one of guaranteeing loans only.

**Agricultural Export Outlook Mixed**

Decreased export volume combined with expected increased import levels will lower the agricultural trade balance again in 1985. Agricultural export volume should reach 142.5 million tons in 1985, down slightly from the 143.6-million-ton level of 1984. The expected decrease in export volume combined with declining farm prices will cause downward pressure on cash receipts from export sales. As a result, the total value of agricultural exports is expected to decline to $34.5 billion. The value of agricultural imports is likely to rise for the third consecutive year to a total of $19.5 billion. The agricultural trade balance for the United States is projected to decline to $15 billion, 44 percent below the 1981 level.

The current increase in export volume will stem primarily from the substantially higher usage of United States corn in such drought stricken areas as the USSR and Middle East. Northern Africa is also

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1 While the majority of U. S. agricultural producers are experiencing no financial difficulties, the highly leveraged operators continue to have financial problems. These operators (who have debt to asset ratios of 40 percent or greater) owe an estimated 60 percent of the total outstanding. To service their sizable debt loads, highly leveraged operators require higher and more stable income flows than their non-highly leveraged counterparts and are therefore more vulnerable to loan default in years of low farm income.
expected to increase the importation of U. S. feed grains to support the build up of livestock numbers in that region. Additionally, oilseed exports should recover somewhat from last year’s 19 million tons. Also, horticultural items should exhibit a small increase, and U. S. livestock product exports are expected to be stronger this year.

The export volume of wheat and wheat flour should fall in 1985 due to stiff competition from the European Economic Community and a strong dollar. Cotton exports are expected to drop sharply as the world supply has shown a significant expansion.

For several years U. S. agricultural export volume has been trending downward as an appreciating dollar has made U. S. farm goods relatively more expensive to foreign countries. Other factors contributing to limit potential foreign demand have been the sluggish world economic recovery and severe international debt problems. Downward pressure on exports should continue through 1985 unless world economic growth accelerates.

Food Price Outlook

Retail food prices are expected to exhibit only a modest gain in 1985. After experiencing a rise in food prices of 4 percent in 1984, consumers may see a 2 to 5 percent increase at the supermarket this year. Adverse weather conditions could, of course, dramatically alter the food price outlook, causing price increases to exceed the projected levels. In the absence of such shocks, however, rises in the farm value of domestically produced foods are expected to contribute little to food price gains this year. The forecasters expect that abundant supplies of farm produced foods will continue throughout 1985, limiting upward pressure on farm price levels overall. Food marketing costs are likely to rise only 4 percent over the same period. Increases in the processing, distribution, and marketing cost of food have moderated in recent years with the deceleration of inflation.

The prices of red meats and fish are expected to increase in 1985. Beef and pork producers began to cut inventories in 1984, but abundant supplies of red meats should continue to be marketed through the first quarter of this year. Inventory reductions will likely result in lower marktngs in the latter half of 1985, however, causing upward pressure on prices. Nevertheless, the red meat price levels should post a gain of only 1 to 4 percent over the year. Fish and seafood prices are expected to rise somewhat as a result of increasing consumer demand.

Poultry and egg prices are expected to exhibit sharp drops this year. Poultry output is predicted to be higher than in 1984. However, lower feed input costs will ensure that poultry producers maintain profit margins in spite of lower prices. Egg production should be well above the 1984 total, with the price of eggs averaging 14 to 17 percent below 1984 levels.

The price of fruit should average higher in 1985 as a result of low inventory levels. Adverse weather conditions in 1984 caused a drawdown of fruit inventories which will probably not be offset this year. Fruit prices will continue to be very sensitive to weather conditions throughout the remainder of 1985.

Vegetable prices are expected to remain stable throughout 1985. A large potato crop in 1984 is expected to be a key factor in limiting any substantial upward pressure on vegetable prices.

1985 Outlook for Major Commodities

Commodity analysts attending the Outlook Conference outlined their predictions for individual farm commodities for 1985. A summary of their comments for some of the major commodities produced in the Fifth District is presented below.

Tobacco

Uncertainty surrounding the direction of government programs will dominate the tobacco picture in 1985, although other longer term problems are likely to persist. The domestic market for tobacco products remains weak, while the export of U. S. leaf also continues to trend downward. Domestic leaf output has outrun demand growth in recent years, resulting in lower quotas for growers and higher government held inventories. Since cigarette sales dominate the demand for tobacco, declining consumption in the
United States—per capita and total—is an ominous sign for the industry. In addition, larger health warning labels on tobacco products in 1985 will probably limit demand further. At the processing level, higher quality foreign tobaccos and a strong dollar have caused tobacco manufacturers to rely increasingly on foreign leaf to meet their needs. In 1983, foreign tobacco made up 33 percent of the total used for cigarette manufacturing in the United States; since then the foreign share has probably grown.

In contrast to a weakening demand for domestic leaf, tobacco supplies have been growing steadily over the past two years. The 1984 production of tobacco was 22 percent above the previous year with much of the crop going under government loan. Despite the plentiful supplies, 1984 prices averaged 3-cents-a-pound higher for flue-cured, primarily because of the high quality of the crop.

The poundage quota and acreage allotment for flue-cured will be lower in 1985. Although the flue-cured poundage quota will be set at a level 3.7 percent below the 1984 base, the effective quota will be even lower because tobacco growers sold more poundage in 1984 than their allotment allowed. These surplus marketings, or overmarketings, are deducted from the poundage quota the following year, resulting in a 9 percent drop in the effective quota this year. The 1985 national acreage allotment has been reduced 4 percent to 389,643 acres. The price support for flue-cured tobacco will likely remain unchanged from the 1984 level.

The quota for burley tobacco will be set at 525 million pounds for 1985. This level is a 10 percent reduction from the 1984 quota and represents the maximum quota reduction allowed by law. The effective quota will total 520 million pounds however, as 5 million pounds were overmarketed in 1984. Burley price supports will likely rise about 2 percent in 1985.

Cotton production and prices will likely be under downward pressure throughout 1985. Planted acreage is predicted to total 9.5 to 11.0 million acres while production is expected to fall to between 10.0 and 12.5 million bales. This compares to 11.1 million acres and 13.3 million bales in 1984. Domestic usage may run 4.5 to 5.5 million bales while exports will likely total 4 to 6.5 million bales.

Lower price expectations for cotton could substantially increase participation in USDA’s Upland Cotton Program in 1985. Participants will be required to hold 30 percent of their cotton base acreage idle but will receive a price of 81 cents per pound for their production on the remaining acreage. The price support remains unchanged from the 1984 level.

Poultry and Egg Outlook

Increased production and lower prices characterize the outlook for both poultry and eggs this year. Lower red meat production, which encourages poultry consumption, and an abundance of grain, which lowers feed costs, should result in expanded broiler and turkey production in 1985. Growth in the economy and expanded poultry marketings by fast food outlets are also expected to spur poultry demand.

Broiler output is projected to increase 4 to 6 percent over 1984, but prices should average lower with wholesale broiler prices likely to range between 48 to 54 cents per pound, down from the 54 to 56 cent range of last year. Broiler producers are expected to at least break even or do slightly better owing to the decreased feed costs.

A sharp increase in the production of turkeys is also likely this year. Output may increase 10 to 12 percent in the first six months of this year compared to the first half of 1984, but average only 2 to 4 percent above 1984 levels in the second half of 1985 as red meat production picks up. Turkey prices should remain relatively strong, despite the large supplies, averaging 65 to 69 cents per pound in the first half of this year and 63 to 67 cents in the latter half.

Egg producers received record returns in 1984 when fear of avian flu spurred the demand for eggs, but this year promises higher output and sharply lower prices for eggs. Low returns to egg producers in 1983 limited new pullet placements in early 1984. As a result, the avian flu outbreak occurred at a time when no surplus eggs were available to limit egg...
price hikes in 1984. The higher returns to producers in the latter half of last year caused an expansion in pullet placements and will boost egg production by 2 to 4 percent in the first six months of 1985, and by 2 percent in the second half. Egg prices are expected to average between 64 and 69 cents per dozen this year, down from 93 cents in 1984.

**Dairy Outlook**

The dairy industry will continue to face an excess supply problem this year. Production of milk should rise about 1 percent in 1985, but marketings may be up 2 percent as the farm usage of milk declines. Overall, removals of milk by USDA will likely total 8.5 billion pounds, about equal to the 1984 removals, but one-half the 1983 level.

The increase in milk production this year should occur despite a reduction in dairy herd numbers. After peaking in November 1983, the dairy cow number had fallen by 329,000 head a year later. A further decline is anticipated for 1985, although this year’s reduction will probably be small. Higher output per cow in 1985 should offset the smaller herd size.

The large quantity of milk subject to removal by USDA will likely keep downward pressure on farm level milk prices in the coming year. As a result, wholesale prices may average near the Commodity Credit Corporation (CCC) purchase prices which are generally below the market price. A decline of 35 to 70 cents is anticipated in the overall price level of all milk in 1985, but a government deduction of 50 cents per hundredweight which pays for part of the milk diversion program is scheduled to end in March, leaving the effective price level unchanged to 35 cents lower than the 1984 average of $13.37 per hundredweight.

**Meat Animals**

Lower cattle numbers are expected to exert upward pressure on beef prices this year. As of January 1 of this year, cattle inventory figures showed a decline of 2 to 3 percent over year earlier totals. Lower inventory figures combined with declining breeding herd numbers point to a lower level of cattle slaughter this year, with the decline in beef production totaling 3 to 4 percent. Beef prices should strengthen for the year, probably averaging $65 to $69 per hundredweight.

The production of hogs should not change from 1984 levels, although commercial production is expected to be below last year’s levels for the first 6 months, followed by expansion in the second half of 1985. Hog prices are expected to peak in the summer, but average in the low $50s per hundredweight in the fall as larger supplies are marketed.