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THE AGRICULTURAL SITUATION AND OUTLOOK FOR 1967

Talk by Rex F. Daly*

Chairman, Outlook and Situation Board

at the 44th Annual Agricultural Outlook Conference,
Washington, D.C., 10:45 A.M., Monday, November, 14, 1966

Another good price and income year is in prospect for farmers in 1967, even if realized net farm income does not quite measure up to the near-record 1966 level. This is the best judgment we can make in the face of the greater-than-usual uncertainties in the agricultural outlook for 1967.

Prospective developments for the next 6 to 9 months seem fairly clear. But the picture becomes a bit more blurred than usual as we project further into the 1967/68 marketing year. Among the uncertainties in the economic outlook for 1967 are possible changes in the Viet Nam conflict and their impact on the general economy and agriculture; new grain programs with added acreage and their influence on 1967 crop output; and foreign crop prospects and their effect on export markets.

Agriculture in Mid-'Sixties

Agriculture entered the decade of the 'sixties facing the prospect that its productive capacity would continue to exceed market outlets. There was much speculation about how this national asset could be

used in providing abundantly for domestic markets and in furthering foreign policy objectives. Since 1960, some major changes have taken place in agriculture, changes important in the outlook for 1967 and for several years beyond.

Domestic utilization of food and other farm products this year will total some 10 to 11 percent above the 1959-61 average. The increase reflects population growth of about 9-1/2 percent and a small increase in per capita use. Exports of farm products in calendar 1966 are estimated around a third larger than in 1959-61. Over the same period, Government programs have limited the output from our growing productive capacity. The imbalance has eliminated burdensome carryover stocks of grains and generally tightened the supply-demand balance which will face U.S. agriculture in 1967. With declining stocks and a growing concern about scarcity, the production faucet is being turned back on, part way, in the coming year.

The task of gearing output to market demands is especially difficult for agricultural products. In the market they face a relatively inelastic demand, and output depends importantly on uncertain growing conditions. Events of 1965 and 1966 demonstrated again the highly inelastic nature of the demand for farm products -- supplies slightly too small or too large exert great pressure on prices.

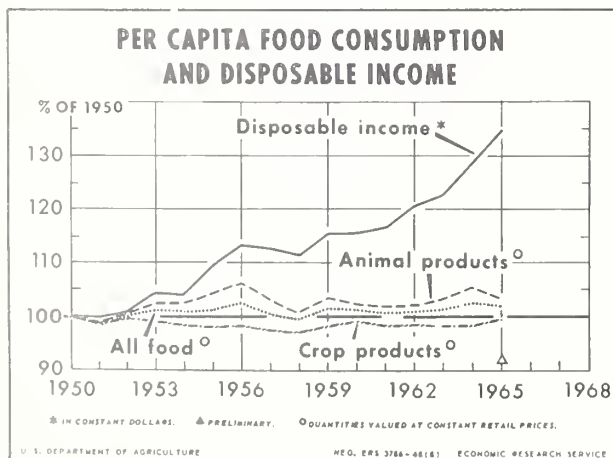
*This paper draws heavily on work of the Economic and Statistical Analysis Division of the Economic Research Service, with assistance from other Divisions of ERS, and the Consumer and Marketing Service, Foreign Agricultural Service, and Agricultural Research Service.

Demand for Farm Products

At the risk of some duplication, I would like to develop important demand changes and prospects as a general backdrop for discussing supply, use and price prospects for farm products. Demand for farm products registered one of the largest advances of record during the past year. Consumers' per capita income after taxes through third-quarter 1966 was up nearly 7 percent from a year earlier. Per capita food consumption in 1966 will increase by about 1 percent -- a little more than usual (figure 1). Exports increased 10 percent from a year earlier to a record rate in 1965/66, and military takings increased by more than a tenth. Feed use, which accounts for around 40 percent of crop output, may total nearly a tenth larger than in 1965. With these larger-than-usual increases, total utilization in 1966 is exceeding production and will result in further declines in carryover stocks of grains.

Per capita consumer expenditures for food in 1966 will total around 6 percent above 1965. This larger-than-usual increase, compared with income gains, is due in large measure to the sharp advance in retail food prices last winter and spring when reduced supplies of pork, eggs, milk and vegetables coincided with rapid ex-

Figure 1



pansion in consumer income and military buying. Retail food prices this year will average 4-1/2 to 5 percent above 1965.

Demand Prospects for 1967

Domestic demand for food and fiber is expected to increase in 1967, but not so much as the whopping advance this year. Expanding output, more jobs, and prospects for a more rapid rise in wage rates in 1967 will increase consumer buying power and the demand for farm products.

Farm output will likely increase by a sizable margin over this year, with much of the gain in grains, soybeans, hogs, poultry, and eggs. Producer prices for food and farm products as a whole next year may average close to 1966 levels; but wages, transportation and other costs of processing and marketing are expected to rise. Accordingly, a further increase is indicated for retail food prices. The rise is not expected to be anything like the big increase now indicated from 1965 to 1966. However, it is expected to exceed the average annual increase of 1-1/2 percent from 1960 to 1965.

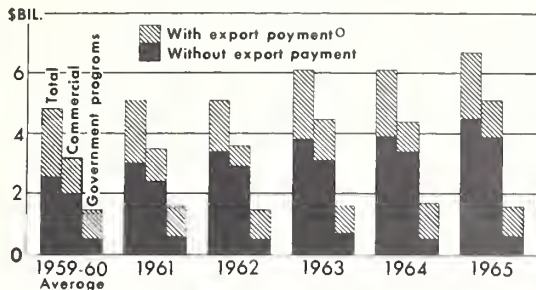
Exports of Farm Products

Exports are taking a rapidly growing share of farm product marketings. The volume of crop exports, which account for most exports, is expected to total in calendar 1966 more than 35 percent above the 1959-61 average. Exports will represent nearly a fourth of 1966 crop output, compared with 18-1/2 percent in 1959-61.

Well over half our wheat and rice crops were exported in 1965/66, around 40 percent of the soybeans (including oil) and tobacco, and a fifth of the cotton and feed grain output. Producers of these crops naturally are vitally interested in export markets, as are producers of other crops and some livestock products.

U.S. AGRICULTURAL EXPORTS

Total, Commercial, and Under Government Programs
With and Without Export Payment Assistance



○ EXPORT PAYMENTS* INCLUDE PAYMENT IN CASH OR IN KIND AND SALES FROM GOVERNMENT-OWNED STOCKS AT LESS THAN DOMESTIC MARKET PRICES
* YEAR BEGINNING JULY 1

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Figure 2

Exports of farm products rose to a record high of some \$6.7 billion 1965/66, a half billion dollars above 1964/65. Commercial dollar sales were up \$0.7 billion to \$5.1 billion, while shipments under Government export programs were off slightly to \$1.6 billion (figure 2). Prospects for 1966/67 point to another sizable increase in dollar sales, possibly as large as that of last year. Part of the increase will reflect higher prices for wheat, feed grains, soybeans and a number of other commodities.

Much larger exports of cotton and tobacco are likely for 1966/67 with increases also for soybeans, rice and citrus products. Exports of feed grains in the current marketing year may differ little from the record shipments in 1965/66. Although demand for feed grains is expected to increase, larger supplies in Argentina, Canada, and Yugoslavia and a generally improved feed-supply situation in Europe will tend to limit further expansion. Wheat exports, including products, may run as much as 10 to 15 percent below the record 867 million bushels in 1965/66. In addition to a tighter domestic supply situation, large wheat crops in Australia and Argentina and a record crop in Canada point to increased competition with U.S. exports. With an improved grain crop during the past season, the USSR will not

likely purchase large quantities in the world market this year.

Supplies and Prices

Supplies of several major livestock products were reduced, some sharply, last winter and through the first half of 1966. At the same time, demand for farm products was registering one of the largest advances of record. The result was a sharp rise last fall and winter in producer prices of livestock and products. Greatly expanded utilization of crops in 1965/66 was large enough, even with the record 1965 output, to further reduce carryover stocks of grains; grower prices for crops began to strengthen early in the year and in July-September averaged 6 percent above a year earlier.

Livestock Products

Hog slaughter during some weeks last winter ran 15 to 20 percent below a year earlier, and in first half 1966 slaughter was 9 percent below a year earlier. Egg production in January-June was down about 1-1/2 percent, but per capita supplies available for consumption were about 4 percent smaller. Milk production was about 4 percent smaller. Although slaughter of beef ran 6 percent larger and commercial poultry a tenth larger than in January-June 1965, prices received by farmers for all livestock and livestock products averaged 18 percent higher.

Since summer there has been a turnaround in hog slaughter and egg production and a continuation of high rates of slaughter of fed beef and poultry. With larger supplies, central market prices for such commodities as hogs, beef cattle, broilers, eggs, butter and cheese have declined from their summer highs in August and September (figure 3). By early November, prices for selected grades of these live-

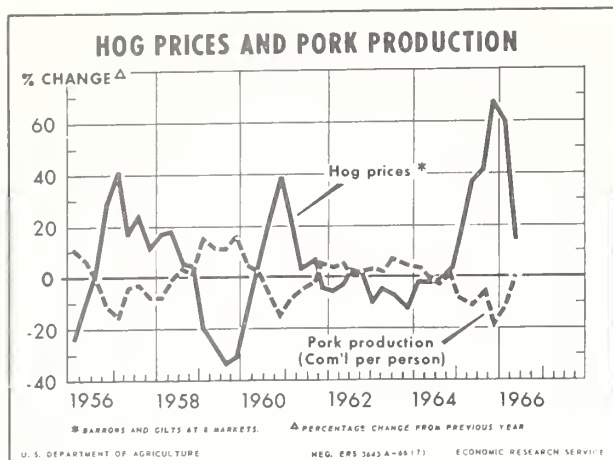


Figure 3

stock products at Chicago ranged from 5 percent to around 20 percent below summer peaks. These price declines were in part the usual adjustment to seasonally larger supplies.

Production increases now underway point to larger supplies of livestock products this winter and, except for milk, prices to producers are expected to average below the high levels of last winter. Fed cattle marketings this winter are expected to continue above a year earlier, though the gain is expected to narrow. Slaughter of nonfed beef is down and may continue this winter well below a year earlier. The increase in hog slaughter now underway may run, by early 1967, some 10 to 12 percent above the opening months this year; egg production may be 3 to 5 percent larger; and poultry slaughter is expected to continue into 1967 at rates well above a year earlier. Potential increases for poultry could be larger if demand conditions are strong enough and prices high enough to encourage the increase. Expansion in overall demand for livestock products will continue, but is not expected to match the big advance of last fall and winter.

Supply and price prospects for later in 1967 are as usual less clear. But the big changes in the livestock production mix

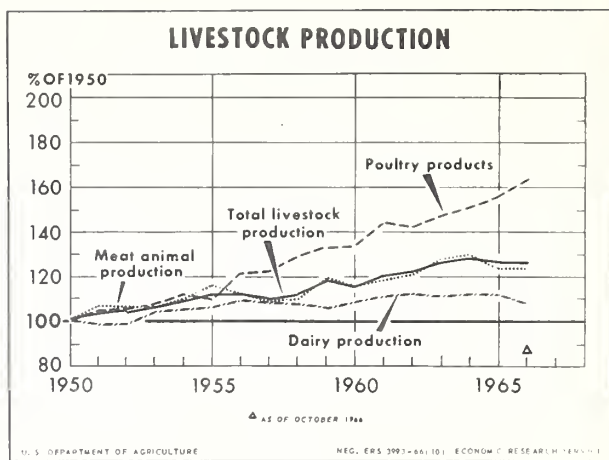


Figure 4

for 1967 as a whole point to a little less beef; more pork, poultry and eggs; and a little more milk than in 1966. Total production of livestock products, which was up slightly in 1966, may change little in 1967 from the near-record production rate this year (figure 4). Even with a slower expansion in demand next year, another good price and income year is in prospect for livestock producers.

Crop Supplies and Prices

Combined utilization of crops for food, feed, other nonfoods, and exports increased around 4-1/2 percent from 1965 to 1966. Year-to-year increases for food

Table 1.--Crop supply and utilization, average 1959-61, annual 1965 and 1966

Item	(1957-59 dollars)				
	: Average:	: 1965	: Est.:	: Percentage	
	: 1959-61:	: 1966	: 1966	: 1959-61 :	: 1966 :
	: Bil.	Bil.	Bil.	Pct.	Pct.
	: dol.	dol.	dol.		
Supply:	:	:	:	:	:
Production	: 20.2	22.5	21.7	7.2	-3.4
Imports	: 3.3	3.0	3.2	-2.4	4.7
Total	: 23.5	25.5	24.9	5.9	-2.4
Utilization:	:	:	:	:	:
Domestic use:	: 19.4	20.3	20.9	8.1	3.1
Food	: 8.1	8.6	8.8	9.2	2.1
Feed, seed	: 8.5	8.6	9.1	7.3	6.4
Other non-	:	:	:	:	:
food	: 2.8	3.1	3.0	7.0	-3.5
Exports	: 3.8	4.6	5.1	36.1	11.2
Total	: 23.2	24.9	26.0	12.6	4.6

CORN PRODUCTION, USE, AND CARRYOVER

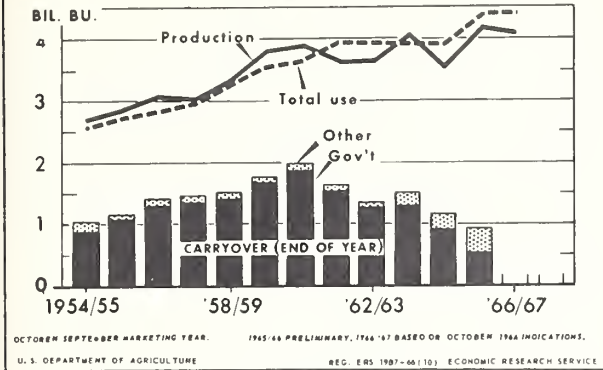
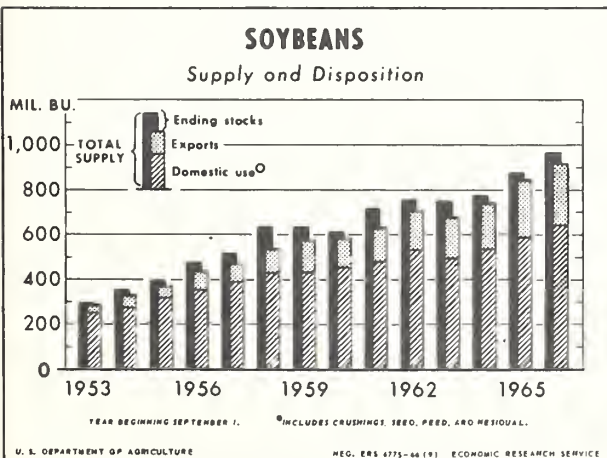


Figure 5

and nonfood uses (other than feed) are usually small. But with feed use and exports around a tenth above 1965, the annual gain in total utilization far exceeds the average annual increase since 1960 (table 1). Prospects for continued high utilization, a smaller 1966 crop, and reduced carryover stocks of grains make for a generally tighter crop supply-demand balance for the 1966/67 marketing year.

Utilization of corn has exceeded production every year but one since 1961. With production limited by acreage diversion programs, the carryover was reduced from 1.9 billion bushels in 1961 to 0.9 billion this year (figure 5). With prospects for continued large domestic use and ex-

Figure 6



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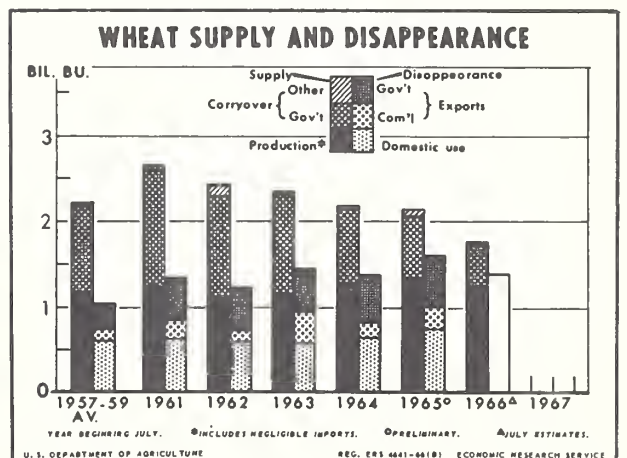
ports in 1966/67, utilization will again exceed the 1966 crop. The stock decline indicated would reduce the carryover next October to perhaps a half billion bushels. Prices for feed grains in the 1966/67 marketing year are expected to average somewhat above those of the previous 2 years.

Soybean production has continued to rise in recent years. But, with increases in domestic use and large gains in exports, total utilization has matched production increases, keeping carryover stocks at low levels (figure 6). Although the estimated 1966 crop is up 10 percent, prospective utilization points to a close supply-demand balance again in 1966/67 with prices averaging well above the support level.

Wheat utilization has exceeded production since 1962 as voluntary acreage diversion programs have limited output. The carryover was 536 million bushels last July; in 1961 it was over 1.4 billion bushels. Although some decline in domestic use and exports is expected in 1966/67, utilization will again exceed the 1966 wheat crop and further reduce carryover stocks (figure 7). The season average price received by farmers is expected to be well above the \$1.34 per bushel in 1965/66.

The supply-utilization balance for cotton has been a different story--produc-

Figure 7



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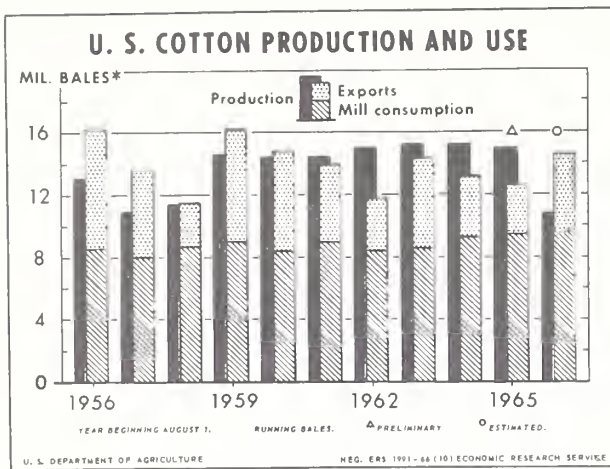
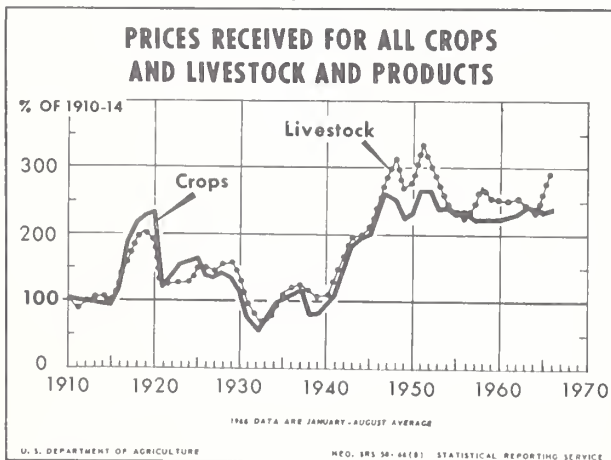


Figure 8

tion has exceeded utilization every year since 1961. By August this year the carry-over of cotton had risen to nearly 17 million bales (figure 8). Under the 1966 Cotton Program, producers diverted about 4-1/2 million acres, reducing planted acreage to the lowest level in nearly a century. The 1966 crop is estimated a fourth smaller than the 1965 crop -- 11 million bales. With prospects for a big gain in exports and continued large domestic use in 1966/67, record stocks of cotton may be reduced by as much as 4 million bales.

The somewhat more stringent supply situation in prospect for major crops suggests that prices to producers will be well maintained during the 1966/67 marketing

Figure 9



year. Crop prices received by farmers averaged below year-earlier levels until June. But they strengthened when unfavorable early-season growing conditions pointed to smaller 1966 output of some major crops. Grower prices for crops in mid-October averaged 5 percent below the high for the year in mid-July. However, they continue above a year earlier, and crop prices for the year may average slightly above 1965 (figure 9).

1967 Crop Prospects

Only slightly smaller 1966 crops are indicated for feed grains, wheat, and vegetables. Larger crops are estimated for soybeans, rice, citrus, and sugar. But with the big decline in cotton production, total crop output this year is estimated about 4 percent smaller than the record high in 1965.

Prospects for further expansion in domestic use and exports in 1967 have prompted a number of actions to attune agriculture's productive capacity to expanding markets and the need to rebuild carryover stocks of grains. The new feed grain program for 1967 crops eliminates voluntary acreage diversion for payment, except on small farms. It also increases the price-support loan on corn from \$1.00 to \$1.05 per bushel, with comparable increases for other feed grains. These and other related changes are expected to increase feed grain acreage by perhaps 12 to 15 million from the 120 million acres planted in 1966. The 1967 wheat program increases the acreage allotment by about one-third; the 1966 rice allotment was increased 10 percent from 1965.

In total, 25 to 30 million of about 60 million diverted acres could be brought back into production in 1967 (figure 10). This year crops were harvested from around 300 million acres. If about half the diverted acreage comes back into

production in 1967 and growing conditions are average or better, a substantial increase in crop output would be expected, with most of the increase in grains. Even with continued expansion in demand, the potential increase in 1967 crops probably would result in some rebuilding of carry-over stocks.

Farm Income

Production prospects for 1967, both for crops and livestock products, point to larger marketings of farm products next year. Much of the expected increase would be in 1967 crops for market in 1967/68. Although crop prices in 1967 may average a little below this year, farm product prices as a whole are expected to hold close to the 1966 level of prices received. Accordingly, we look for larger cash receipts from farm marketings in 1967. Government payments to producers would be smaller, perhaps by around half a billion dollars, as more acreage is returned to production. On balance, gross farm income next year may continue around record 1966 levels (figure 11).

Farm production expenses will continue to rise with further increases in prices paid by farmers and a larger volume of purchases of some inputs, particularly those directly related to increasing crop output. But the increase will likely be much smaller than the record year-to-year increase now indicated for 1966. Farmers are paying higher interest rates, more taxes, and higher wages for hired labor as are producers in most other industries. The interest and tax bill will continue to rise, but probably much less than this year. The wage bill may change little from 1966 as declines in hired farm labor offset higher wage rates.

Rising farm incomes and prospects for expanding output in coming years have led to record buying of farm machinery

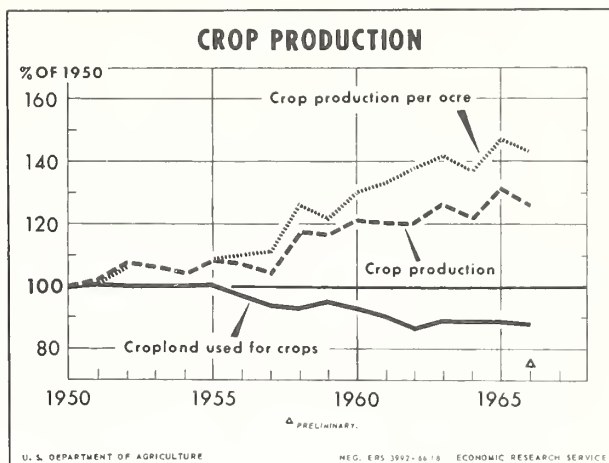
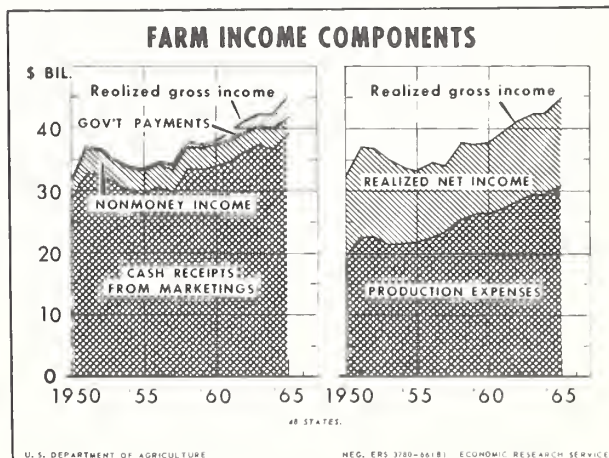


Figure 10

and equipment so far this year. Data for January-July 1966 show farm tractor sales to farmers around 15 percent above a year earlier. Sales of other farm machinery and equipment are up more than a fifth with even larger increases for some grain harvesting equipment. These increases follow large capital outlays in recent years.

Realized net farm income is now estimated at around \$16 billion for 1966, some \$2 billion above last year and the highest since the record level of 1947. Price and income prospects for both crops and livestock products continue strong well into 1967. Even with big increases in 1967 crops and some buildup in grain stocks, the income flow to farmers likely will be well maintained. Although realized

Figure 11



net farm income in 1967 may not quite match the near-record level estimated for this year, it is expected to be well above 1965. If you pushed me for a more specific estimate of the decline, perhaps as much as 5 percent is reasonable. With the down-trend in farm population and increasing off-farm employment opportunities, per capita disposable income of farm people next year may change little from the record 1966 level.

Farm Financial Situation

With net farm income in 1966 showing a further rise for the second consecutive year, farmers generally will enter 1967 in a considerably improved financial situation. The value of farm assets is expected to reach \$273 billion on January 1, 1967; this is about \$18 billion higher than a year earlier and slightly more than the increase during 1965. A \$35-billion increase during the past 2 years exceeds that of any previous consecutive 2-year period since balance-sheet estimates began in 1940. While total indebtedness increased, proprietors' equities increased by \$14 billion, about the same rate as in 1965.

Unlike other recent years, the availability of mortgage credit to farmers was materially restricted in 1966 and interest rates increased, particularly in the latter half of the year. In late August and September, most types of central money market interest rates had reached the highest levels since the 'twenties. This tightness in the supply of credit and the higher level of interest rates are expected to carry over into the spring months of 1967, by which time many farmers will have planned and arranged financing for their production and investment activities for the entire year.

A larger total amount of credit may be required to finance 1967 farm produc-

tion than was used in 1966. However, high farm incomes and increased deposits may increase the supply of funds for shorter-term production loans by rural banks.

Farm Family Living

The impressive rise in farm income in 1966 -- coupled with increases in recent years and continued opportunities for off-farm employment -- puts many farm families in a strong position as they move into 1967. A recent amendment to the Social Security Act will help some farm people no longer in the labor force. Rural people 72 years of age and older, who were formerly ineligible for Social Security payments, will now be eligible.

Higher incomes and changes in the pattern of living are bringing farm and urban levels of living closer. The 1965 Food Consumption Survey indicates that the per capita value of the farm family's food supply was 80 percent of the urban family's in the spring of 1965 as contrasted with 72 percent in 1955. This change occurred in the face of a decline in home production, which traditionally serves to bolster the value of the farm diet. In the spring of 1965 home production supplied only 31 percent of food consumed in farm homes, as compared with 41 percent in 1955 (figure 12).

Figure 12

