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November 25, 1977

THE 1978 AGRICULTURAL OUTLOOK, as recently summarized by the U.S. Department of Agriculture (USDA), reflects the pessimism of recent conditions. Current indications suggest net farm income next year will likely show no improvement over this year's reduced level. Although the quantity of agricultural exports shipped may rise, lower commodity prices are expected to contribute to an overall reduction in the agricultural trade surplus for fiscal 1978. Prospects for a buildup in carryover stocks will keep grain and soybean prices relatively low throughout 1978, thus increasing incentives to feed more livestock. Pork and poultry supplies are expected to increase, resulting in a subsequent decline in prices and producers' profit margins.

Agricultural exports in fiscal 1978 are tentatively forecast at \$22 billion—\$2 billion below the 1977 record. Shipments of soybeans and feed grains are projected at record or near-record levels. Larger quantities of beef and fruits and vegetables are also expected to be exported next year, while shipments of cotton, tobacco, and pork are expected to decline somewhat. Agricultural imports are projected to remain near their fiscal 1977 level of \$13.5 billion, thus reducing the agricultural trade surplus to \$8.5 billion.

Crop production is expected to remain at a high level during 1978, barring any unforeseen weather-related difficulties. The 20 percent wheat set-aside and the 10 percent feed grain set-aside are expected to attract less than complete participation by grain farmers. Hence, wheat and feed grain acreages are projected to decline roughly 15 and 5 percent, respectively, in 1978. Soybean plantings in 1978 are apt to exceed this year's record. Per acre yields of most major crops are currently expected to rise next year, reflecting the much improved moisture conditions in most areas and the tendency of set-aside participants to idle less-productive land.

Pork production during 1978 is expected to rise substantially. A large increase in farrowings this summer, coupled with prospects for further large gains this fall and winter, suggests hog slaughter in 1978 may rise 12 to 14 percent above the 1977 level. The larger pork supplies are expected to result in markedly lower hog prices next year, which will hold the hog-corn ratio next fall substantially below the recent high levels.

Beef production during 1978 is apt to be characterized by larger fed cattle marketings and reduced slaughter of cows and nonfed steers and heifers. The large number of cattle placed on feed in recent months is expected to continue into the early part of next year. Hence, 1978 fed cattle slaughter is pro-

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jected to rise 3 to 5 percent above this year's level. In contrast, the potential for higher feeder cattle prices, the large feed supplies, and the much improved range and pasture conditions support prospects for a substantial decline in slaughter of cows and nonfed steers and heifers. Overall, total commercial cattle slaughter in 1978 may fall 5 to 8 percent below this year's level. Total beef production, however, may be down only 2 to 5 percent, reflecting the larger mix of heavier-weight fed cattle. These conditions will likely foster some increase in fed cattle prices, although large competitive meat supplies dampen prospects for substantially higher prices.

Milk production will likely rise 1 to 2 percent in 1978. Prospects for a high milk-feed price ratio suggest milk output per cow will continue to rise and more than offset a further slight decline in cow numbers. Higher support prices and increased production portend a further rise in dairy farmers' receipts in 1978. To maintain the price support program in the face of large supplies and sluggish sales, the USDA will likely continue as a heavy purchaser of dairy products throughout 1978.

Food prices are projected to average 4 to 6 percent above year-earlier levels during 1978. Unlike this year when imports of coffee and fish played such a predominant role in the food price rise, it is anticipated the 1978 rise will stem largely from increased processing and distribution costs, particularly for labor. As a result the farmers' share of the consumer's food dollar may diminish slightly again.

Farm earnings in 1978 will be augmented by larger benefits from the new farm program. But, overall, net farm income is expected to show little, if any, improvement over the preliminary estimate of \$19.5 billion for 1977. Production expenditures are generally expected to increase only marginally in light of the potential for a slackened demand and excess production capacity. However, the potential for another year of record or near-record crop harvests in conjunction with increased livestock production portends lower average commodity prices.

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