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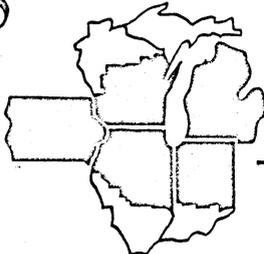
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DC BRANCH (S)

Federal Reserve Bank of Chicago - -

December 21, 1973

Agricultural Letter



Number 1253

THE AGRICULTURAL OUTLOOK is optimistic but the 1974 performance is not expected to reach the record-breaking level of 1973. As summarized by the U. S. Department of Agriculture earlier this week, net farm income is projected to fall to \$22 billion in 1974, down \$3 billion from the estimated record for this year but still well above the previous record of \$19.7 billion in 1972. The projected decline mainly reflects anticipated gains in production expenses although the virtual elimination of government payments in 1974 is likely to reduce gross income slightly. These projections, however, are clouded by a number of uncertainties, particularly the worldwide energy situation.

Agricultural prices are expected to average close to the year-earlier level in 1974, with gains in the first half offset by declines in the second half. Strong foreign and domestic demands could hold crop prices particularly high in the early part of the year since supplies of food and feed grains are apt to remain well below year-earlier levels until the 1974 harvest. Livestock prices are also destined to remain comparatively high until supplies pick up in the second half.

Strong demand for rebuilding depleted world stocks is expected to boost U. S. agricultural exports above \$19 billion in fiscal 1974, up nearly 50 percent from fiscal 1973 and 137 percent above fiscal 1972. Higher than year-earlier prices account for virtually all of the projected increase.

Domestic demand for farm products is likely to remain strong next year although the slowdown associated with the energy situation may curb gains in personal disposable income and create more unemployment. The strong demand coupled with tight supplies is likely to cause food prices to rise on a broad front in the early part of the year before stabilizing in the second quarter. While food prices during the second half will hinge largely on forthcoming developments in crop and livestock production, it now appears that food prices may average only moderately above year-earlier levels in 1974, in marked contrast to the 14 percent gain registered in 1973.

Beef production is projected to rise 6.5 percent, about equal to the decline experienced this year. However, significant year-to-year declines are expected in the first quarter due to the sharp reduction in cattle placed on feed during the past several months. The U. S. Department of Agriculture is projecting placement rates to rise sharply in the near future, which would boost slaughter supplies above year-earlier levels from the second quarter on. The gains in placements, however, may be delayed until feeding margins improve from recent unfavorable levels. Cattle prices are projected to trend downward during the year, with steer prices averaging around \$45 per hundredweight in the first quarter and \$38 in the fourth quarter.

Pork production is expected to remain virtually unchanged from the reduced levels of this year, as year-to-year gains in the second half of 1974 only offset first-half declines. Hog prices, therefore, are expected to remain at or slightly

above current levels during the first half before trending downward in the summer and fall.

Milk prices may average 15 percent above year-earlier levels in 1974. The higher prices coupled with some easing in feed prices will boost profit margins. However, current year-to-year declines in milk production are expected to continue well into the first half of next year, holding total milk production in 1974 slightly below this year's reduced level.

Grain acreage is expected to rise markedly next year if fuel and fertilizer supplies do not restrict the expansion. This would suggest downward pressures on grain prices as the year unfolds. Prices during the early part of the year, however, will be influenced in large part by tight supplies and prospects for sizable reductions in carryover stocks. Recent estimates suggest wheat carryover at the end of the current marketing year (June 30) may fall to 212 million bushels—the lowest level since 1947. Carryover stocks of corn on September 30 are estimated at 626 million bushels, down 11 percent from a year ago and 44 percent from two years ago.

Soybean supplies for the 1973-74 marketing year are up 21 percent which, despite strong domestic and foreign demands, is likely to boost carryover stocks by the end of August 1974 to 260 million bushels, up from 60 million bushels a year earlier. This buildup coupled with anticipated larger farm marketings after the first of the year are expected to result in downward pressures on soybean prices.

Because of uncertainties related to a number of factors, the agricultural performance in 1974 could deviate significantly from current expectations. The worldwide energy situation is perhaps of most concern at present since exports are expected to play a dominant role in 1974. If the energy situation significantly curbs the economic growth of our major trading partners for extended periods, foreign demand could ease. Moreover, restricted fuel supplies could snarl export transportation facilities both here and abroad. Nevertheless, the 34 percent increase in the volume of exports through October of the current fiscal year would permit shipments during the final eight months to fall 10 percent short of comparable year-earlier levels without jeopardizing the overall projected level of shipments for the year ending in June. But such declines in the next few months could be indicative of more extensive declines in the latter half of the year if no apparent easing occurs in the energy situation.

Gary L. Benjamin
Agricultural Economist