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United States Department of Agriculture  
Economic Research Service

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THE AGRICULTURAL OUTLOOK FOR 1966

Talk by Rex F. Daly

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at the 43rd Annual Agricultural Outlook Conference

Washington, D. C., 10:10 A.M., Monday, November 15, 1965

Agriculture has fared well this year, and there are solid reasons for expecting another good year in 1966. Realized net farm income--income above production expenses--is estimated at \$14 billion this year, the highest since 1952. And we now expect that 1966 will be even better. A favorable price and income outlook for livestock, the new farm legislation, and expanding markets point to a continued rise in realized net farm income of possibly 1/4 to 1/2 billion dollars above the improved 1965 level. Realized net income per farm and per capita disposable income of the farm population will be at record highs in 1965 and likely even better in 1966. In the last 5 years, these series show gains of 40 and 35 percent respectively. Per capita nonfarm income rose 20 percent during that period.

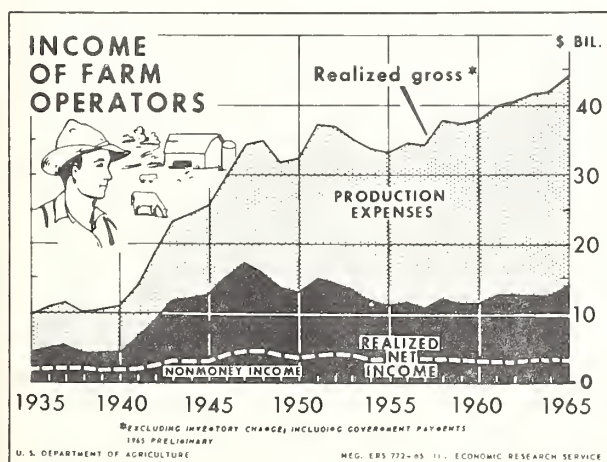
Review of 1965

Before moving into a more detailed discussion of the outlook for 1966, let us outline factors providing the thrust for rising farm income this year. Sharp advances in prices and cash receipts for livestock contributed most of the income rise this year, but there were gains for most major commodities:

A 4-percent reduction in per capita red meat supplies, in an expanding domestic market, resulted in sharply higher prices for hogs, cattle, and lambs. Meat animal prices this year are averaging 15 percent above 1964. Prices for poultry also increased earlier this year and producers responded with a step-up in production to a rate by the third quarter 9 percent above a year earlier. Recent hatchings indicate an even larger gain for the fourth quarter. An overall 7-percent increase in slaughter from 1964 is indicated, but even so, poultry prices this year will average around 5 percent above 1964.

Among the crops, prices of 1964-crop soybeans and feed grains have held through most of 1965 at levels well above a year earlier due in large measure to strong domestic and export markets. Smaller supplies resulted in sharply higher prices earlier this year for potatoes and early spring vegetables.

With higher average prices this year, cash receipts from marketings



through September were up more than 5 percent from 1964. Including Government payments, total cash receipts are running above 1964 for all major commodity groups except citrus and tobacco.

Some of the forces and conditions contributing to higher prices and incomes in 1965 will continue into 1966: (1) The production and price outlook again looks favorable for livestock producers; (2) the new Food and Agriculture Act of 1965 will provide some increase in income, especially for crops; and (3) domestic demand and exports likely will continue to expand in 1966.

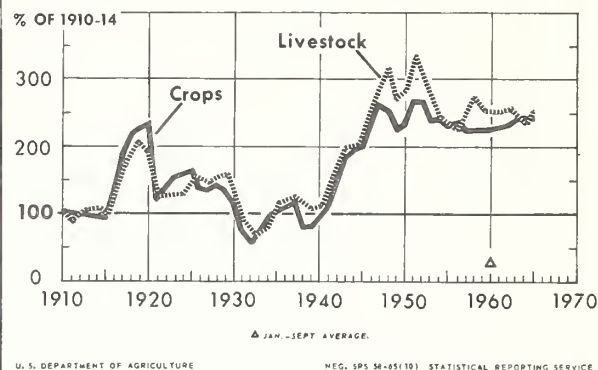
### Livestock and Products

Production of livestock and livestock products has trended upward rather persistently since 1950. However, there was a slight decline in 1965 and we expect only a small overall gain in 1966.

Production increases since 1950 have been most rapid for poultry and beef. Total pork output has held relatively stable so per capita supplies have trended downward. Per capita use also has been declining for dairy products and eggs since 1950. The reduction in hog production in 1965 and a continued decline in production of lamb more than offset the sharp rise in production of poultry. There was little change in production of beef, dairy products and eggs from 1964 levels.

We expect that the supply of feeder cattle in early 1966 will total about the

### PRICES RECEIVED FOR ALL CROPS AND LIVESTOCK AND PRODUCTS

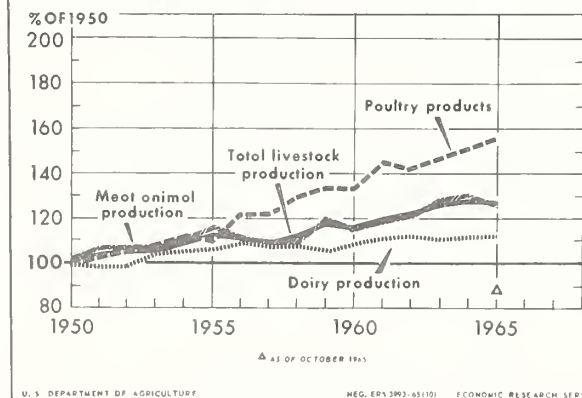


same as a year earlier. There will be more steers, but fewer heifers. With more feed and generally favorable feeding margins, production of fed beef is expected to increase. But the gain may be partly offset by smaller production of nonfed beef. As a result, prices to producers are expected to continue strong in 1966 and may average slightly above 1965.

Hog slaughter is expected to continue below year-earlier levels well into 1966. The number of hogs and pigs on farms in the 10 Corn Belt States in September was 12 percent below a year earlier. Moreover, the number of sows farrowing in these States in June-November 1965 is expected to be 8 percent smaller than a year earlier. With continued light slaughter supplies in view, favorable prices to producers are in prospect well through 1966. Hog producers are beginning to take steps to reverse the downtrend in hog production that began in 1963. However, the expected modest increase in spring farrowings next year would bring a relatively small gain in production by late 1966. But if late spring and fall farrowings increased by 10 percent or more, larger supplies could result in sharply lower prices by late 1966 and in 1967.

Supply prospects for red meat and growing markets suggest a continued strong demand for poultry. Although producer prices for poultry are expected to average lower, cash receipts will likely increase again in 1966. The current buildup in broiler hatchery supply

### LIVESTOCK PRODUCTION





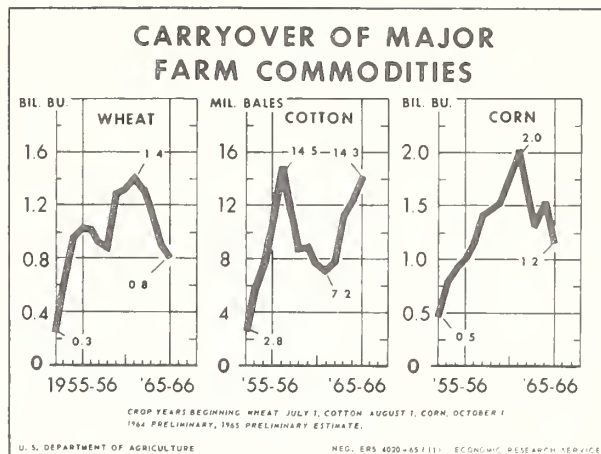
flocks and lower feed prices provide the basis for a greatly expanded output potential in 1966. If demand expands as expected, broiler production probably will continue into next year at a rate some 10 percent or so above the early months of 1965. Continued large production increases in 1966 would put pressure on prices, particularly later in the year as supplies of red meat begin to increase.

The indicated small increase in live-stock production and expanding domestic markets point to producer prices in 1966 averaging a little above this year. Although a further gain in cash receipts is in prospect for 1966, the increase will likely be much smaller than the big one and three-quarter-billion dollars--9 percent--increase now indicated for 1965.

### Crop Supplies and Prices

Crop harvests this year are bringing a sharp advance in output as crop yields per acre recover from the drought-depressed levels of 1964. With virtually no change in the acreage used for crops, output of food and fiber crops this year is estimated around 7 percent larger than in 1964 and 4 1/2 percent above the previous high in 1963.

Indicated increases in production from 1964 are nearly 18 percent for feed grains, 23 percent for soybeans, and 25 percent for the important fall potato crop. The 1965 wheat crop is up about 5 percent from 1964; and the hay crop, 6 percent. And another big cotton crop is in prospect. Among the major groups of

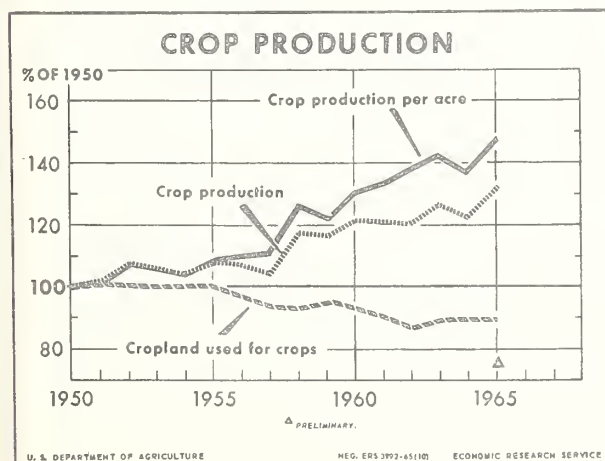


commodities, smaller production is indicated only for sugar crops and tobacco.

Carryover stocks of grains have been reduced materially in recent years. Limitations on wheat output and expanded utilization, particularly for export and domestic feed use, reduced the carryover from some 1,400 million bushels in 1961 to 819 million this year. A further reduction of possibly 70 million bushels is now indicated for the 1965-66 marketing year. Similarly, the carryover of feed grains was reduced from nearly 85 million tons in 1961 to 55 million in 1965. Although feed grain use is expected to increase in 1966, the big 1965 crop may push the carryover to around 60 million tons by next October.

In contrast, cotton production continues to exceed utilization. Stocks of upland cotton rose by nearly 2 million bales to 14 million last August. A small increase in domestic use of cotton is expected in the 1965-66 marketing year, but exports may be down slightly. With another big cotton crop now estimated for 1965, stocks are expected to increase sharply in 1966, perhaps by another 2 million bales above already burdensome 1965 stocks.

As the larger 1965 crops began moving to market, prices declined for a number of major crops. The all-crop index of prices received averaged in October nearly 6 percent below a year earlier. Soybean prices were down 9 percent, cotton 5 percent, and corn about 4 percent from October 1964. Prices



received for potatoes averaged about a fourth lower and orange and grapefruit prices were down to levels about half the high prices of October 1964. Prices in the closing months likely will continue below year-earlier levels and average for the year a little below 1964.

Crop prices probably will continue into 1966 at levels below this year and cash receipts from crop marketings are expected to run somewhat below 1965. But, with increased Government payments to producers cooperating in major farm programs, total returns from crops are expected to be larger in 1966 than this year.

### New Food and Agriculture Act

Provisions of the 1965 Act will be a major factor in the outlook for 1966. The general program for grains is similar to those voluntary programs used successfully for wheat and feed grains in recent years. Possibly the most important change in the new legislation is a shift in policies for cotton to a program similar to those for grains. Earlier this year, legislation authorizing a new acreage-poundage program for tobacco was enacted. Flue-cured growers voted to place such a program in effect on their 1965-67 crops.

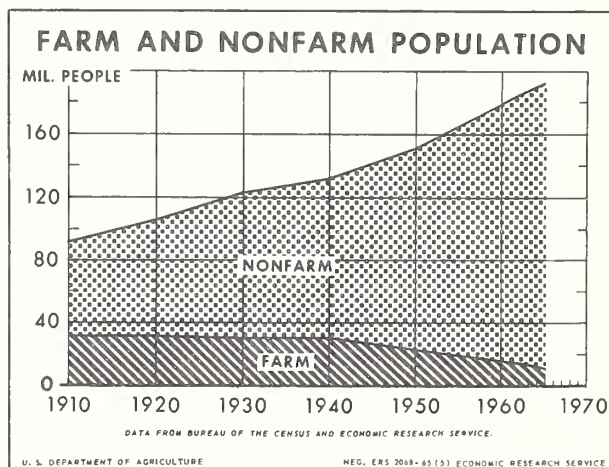
Pricing provisions of the Act provide that the general pattern of price support loan levels for grains and cotton will be aimed at world price levels. This will enable these commodities to compete more effectively in world markets without heavy export payments. Market pricing will increasingly reflect demand and supply forces in the market. The impact of lower prices on income will be offset through greater emphasis on direct payments to cooperating producers. At the same time, provisions of the Act are designed to avoid large carryover stocks by striking a better balance between production and expanding markets.

A new Cropland Adjustment Program authorized by the Act is designed to supplement commodity acreage diversion programs, provide more open space and recreational facilities, assist in the adjustment of farm resources, and help people no longer interested in farming

to move into profitable nonfarm activities. Specific incentives are provided to encourage farmers to share their land and water facilities with town and city people.

### Domestic Markets

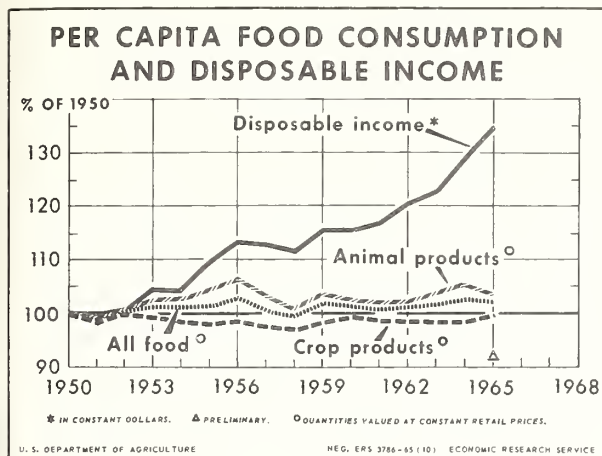
Expanding demand was a strategic force in 1965 price and income increases, though possibly a less spectacular influence than reduced per capita supplies of red meat. Total population continues to grow, with most rapid growth in the young-adult age group--18 to 24 years. This means greatly increased enrollment in higher education, more families, and a rapid expansion in the labor force. The rising number of young adults also may quicken the rate of departures from agriculture.



A growing economy and rising incomes will result in increased consumer expenditures for food in 1966. However, we do not expect the rise to equal the large 6-percent increase this year, about half of which was due to higher retail prices. With a further advance in consumer income, the share spent for food is expected to decline again in 1966. Rising consumer incomes step up expenditures for food, but the increase over time has little influence on the index of per capita food consumption. In fact, the slow rise in the index primarily reflects shifts to higher-priced foods; pounds and calories consumed tend to decline slowly.

Reduced supplies of red meat resulted in a small decline in per capita food consumption in 1965. As a result,





the advance in retail food prices and in expenditures for food in 1965 was larger than the usual year-to-year increase. In 1966 per capita food use is expected to remain around this year's level with less use of pork, lamb, and animal fats, but increased use of poultry and such food crops as potatoes and citrus. Little change is indicated for beef, milk and eggs. Retail prices are expected to rise some again in 1966, though much less rapidly than the 2-1/2 percent increase indicated for this year. If per capita supplies of red meat decline as expected, meat prices may average a little higher in 1966. However, with bigger supplies, lower retail prices are indicated for 1966 for poultry, potatoes and a number of fresh fruits and vegetables.

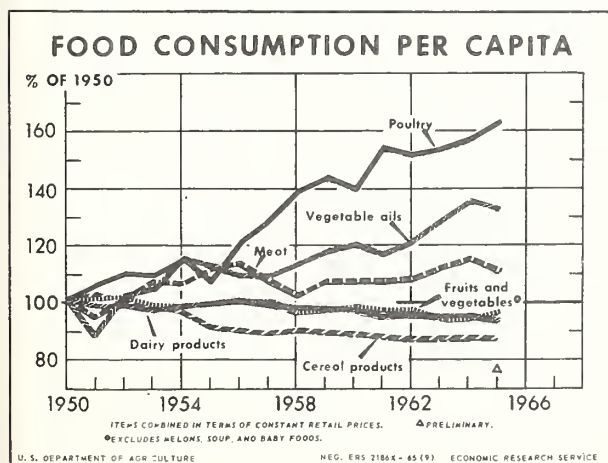
Although total per capita food use changes little from year to year, there continue to be big shifts for individual foods. In the past decade, these shifts in

the diet have been toward more beef and poultry; less pork, lamb, and dairy products. Per capita use of vegetable oils has increased while use of animal fats has declined. Substantial increases in processed fruits and vegetables have offset declines in fresh uses. The downtrend continues in per capita use of cereal products.

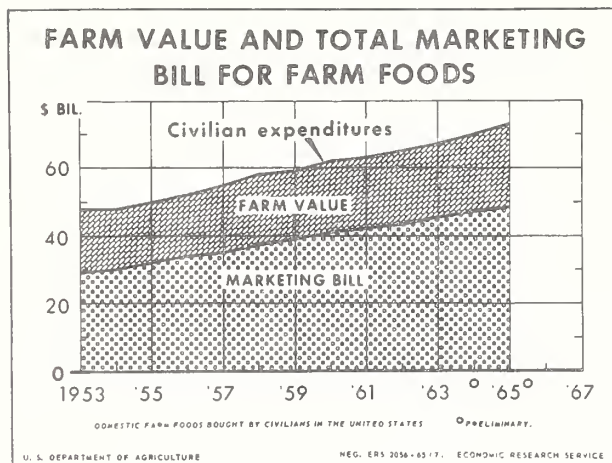
Commercial purchases of food in 1966 will again be supplemented by such food distribution activities as the National School Lunch, Special Milk, Direct Distribution, and Food Stamp programs. Continued emphasis is being placed on improving nutrition and increasing food consumption among children, low-income families, and those in charitable institutions. An estimated 42 million people are benefiting from these programs. USDA in 1964-65 distributed about 2 billion pounds of food acquired under price support and surplus removal programs. This is about double the amount distributed in 1960. Moreover, the growing Food Stamp Program provided about \$33 million in additional purchasing power to some 633,000 low-income people. This added buying power improved the nutritional level of the families' diets and increased their purchases of such farm products as fruits, vegetables, meats, and fluid milk. These quantities are small relative to total food consumed—probably some 1-1/2 to 2 percent. It is interesting, nevertheless, that the increases in special food programs in recent years accounted for much of the small overall gain in per capita food consumption in the last 4 years.

The farm-retail price spread for marketing domestic farm foods is expected to widen some in 1966 after narrowing in 1965 for the first time in 15 years. The sharp advance in farm prices for red meats, potatoes, and some spring vegetables earlier in 1965 narrowed the farm-retail price spreads. But by the third quarter, these margins had begun to widen. The farmer's share of the consumer's farm-food dollar is expected to average 39 cents this year, some 2 cents above 1964. Little change in the share is indicated for 1966.

The bill for marketing and processing domestic farm-foods rose only 2 percent in 1965, about half the annual







increase during the preceding decade. A rise somewhat closer to the general trend is indicated for 1966. The farm value of domestic farm foods in 1965, reflecting rising prices for livestock, potatoes and some vegetables earlier this year, is estimated at about 9 percent above 1964.

### Exports

Export markets have become increasingly important outlets for farm products over the past 10 to 15 years. The volume of agricultural exports is now more than double the average annual volume exported in the period 1950-1955. We now export more than half of the wheat and rice crops, more than 40 percent of our tallow, around a third of the soybeans, cotton, and flue-cured tobacco, and about a fourth of the food fats and oils, as well as a growing share of our feed grain output and substantial quantities of fruits, vegetables, and

some livestock products. With crop exports in recent years equivalent to some 20 to 25 percent of total crop production, exports have become a major and growing market for farm products.

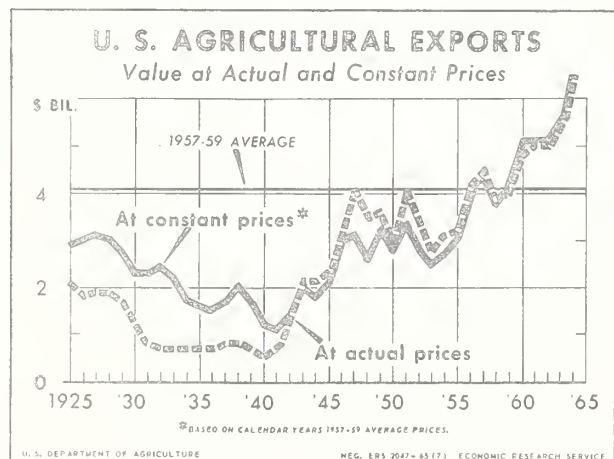
Exports of farm products in July-September were running 7 percent above a year earlier. For the 1965-66 fiscal year as a whole, they are expected to exceed the record shipments of the previous 2 years. Although the value of exports may be up only moderately, the volume may total 4 or 5 percent above 1964-65. Larger exports, particularly for commercial markets, are in prospect in 1965-66 for soybeans, feed grains, wheat, tobacco, and some fruits. Smaller exports are indicated for cotton, dry beans, vegetables, and some livestock products.

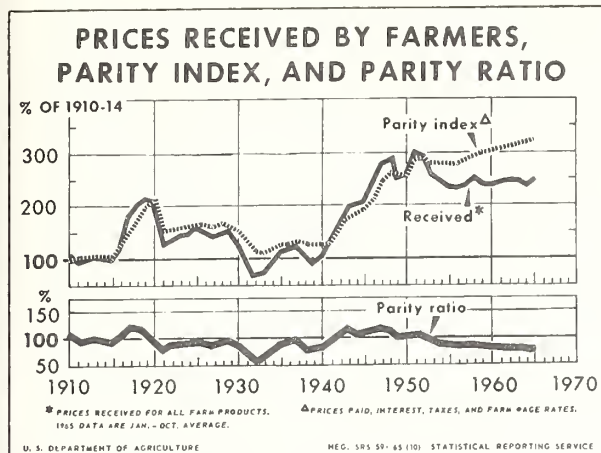
Expanding economic activity and rising incomes in the industrialized countries, especially Japan, Canada, and the nations of Western Europe, have increased their demand for livestock products and stimulated U.S. commercial exports of feed grains, soybeans and protein meals. Moreover, the U.S. will continue to ship large quantities of food to the less developed countries under provisions of the Food for Peace Program.

### Farm Income and Financial Situation

The supply-demand-price situation outlined above for 1966 adds up to cash receipts from farm marketings about the same as estimated for this year. Larger receipts indicated for livestock and products may be about offset by reductions in crop receipts. Prices received for farm products may average a little lower and marketings slightly higher than in 1965.

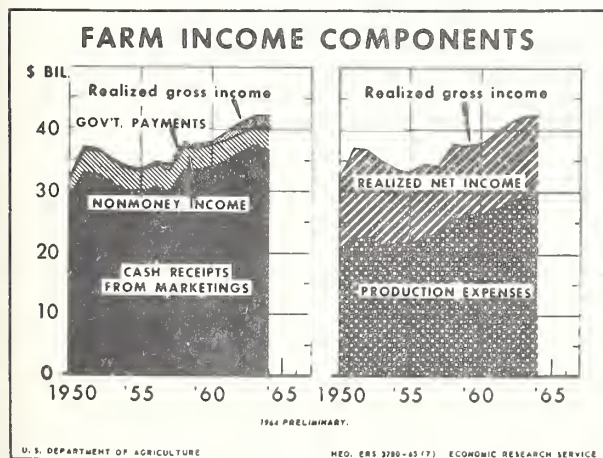
Government payments to farmers, however, will increase substantially, perhaps around a billion dollars from the \$2.4 billion estimated for 1965. The increase represents a change in the design of commodity programs rather than an increase in total cost. Most of the increase in payments would be for cotton to offset the income effect of a reduction of price-support loan rates to competitive world price levels. The program also largely eliminates payments to domestic cotton users and to





exporters of cotton and wheat. Some increase in payments will result from the provision in the wheat program for reflecting parity prices in the total return to farmers for that share of the crop which is used domestically for food. The new Cropland Adjustment program will also contribute to increased payments to farmers in 1966.

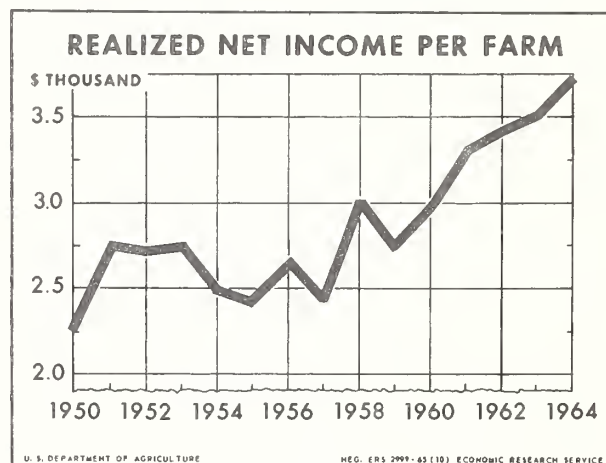
Including the larger Government payments, realized gross farm income in 1966 is expected to exceed \$45 billion compared with the \$44-1/4 billion now indicated for this year. A continued uptrend in production expenses in 1966 is again expected to offset much of the indicated gain in gross farm income. Prices paid by farmers for commodities, interest, taxes and wage rates are expected to rise in 1966. Depreciation and other overhead costs will increase again in 1966. But with little change likely in the bill for purchased feed and livestock



and some decline in expenditures for hired labor, the rise in total production expenses is expected to be smaller than the billion-dollar increase indicated for 1965.

Farmers are earning better incomes than at any time in more than a decade. Greatly improved net farm income and declining farm numbers have contributed to a record level of net income per farm. Although the number of farms is declining, the number of adequate sized farms is increasing.

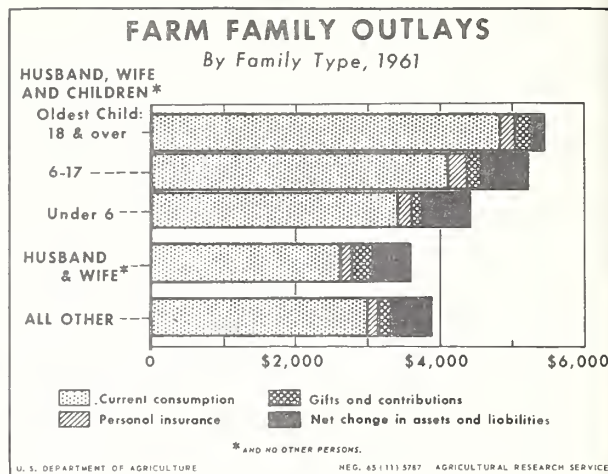
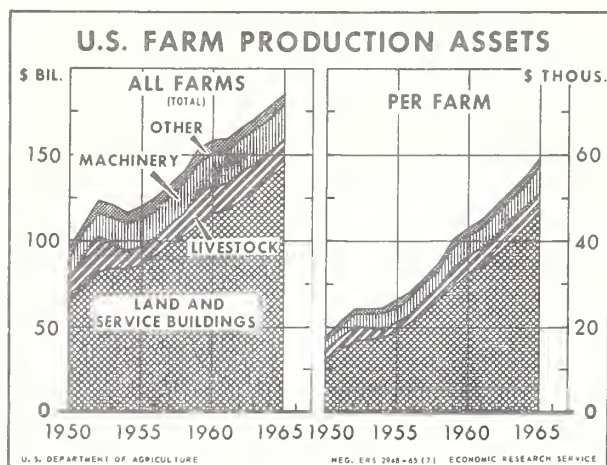
Net income per farm is estimated at above \$4,100 for 1965. This level would be more than a tenth above 1964 and some 40 percent above 1960. Per capita disposable income of farm people estimated



for 1965 is around a sixth above 1964 and 35 percent above 1960. Prospects for a further rise in incomes in 1966, with declines in the number of farms and farm people, will push per farm and per capita incomes of farm people to new highs in 1966.

Recent income gains put most farmers in a generally stronger financial position. The value of farm assets continues to rise. As in other years, most of the increase is due to the uptrend in farm real estate values. However, inventories of farm machinery and equipment continued to rise in 1965 and farmers increased their savings deposits and other investments. Farm debt also is rising sharply again in 1965. And this uptrend in the use of credit likely will continue in





1966. But the dollar increase in debt will be much less than gains in farm assets. Farm equities, as a result, rose in 1965 and prospects are good for a further improvement in the financial position of farmers in the coming year.

### Farm Family Living

Rising incomes and the generally improved financial position of most farmers brightens the outlook for farm family living in 1966. The decline in the farm population, shifts in the age composition of farm people, and changes in Social Security programs also contribute to the improved outlook for 1966.

Migration from the farm is heaviest among 18-and 19-year olds. The current expansion in this age group, resulting from the sharp rise in birth rates after World War II, may result in a new wave of departures from the farm. But the number staying on the farm also may be large enough to modify the age distribution of farm people. There will be an increase in the proportion of families with children over 18 years. These families tend to spend more for automobiles than families with young children. They also spend more than other families for food away from home, clothing, and education.

A 1961 Survey of Consumer Expenditures indicates that the family with children over 18 is likely to have a higher income

than younger farm families, partly because it has more earners. However, in the group with older children, investments in the farm business and other savings take a smaller proportion of total income. They also will spend more for personal insurance and for current consumption than other families.

The 1965 amendments to the Social Security Act will bring both immediate and deferred advantages to the farm population in 1966. The "Medicare" provisions make health insurance available to all the elderly. Consequently, they are particularly important to older farm people. These families carry less health insurance than the urban aged and they spend a larger part of their total budget on medical care. Also farm people currently receiving Old-Age, Survivors, and Disability Insurance benefits gain from the 7-percent increase in benefits that is retroactive to January 1, 1965. In addition they may increase their annual earnings to \$1,500 without affecting their benefits. The 1961 Survey of Consumer Expenditures showed that OASDI and unemployment benefits constitute 5 percent of family income for both farm and urban families (7 percent for rural nonfarm families).

When you add it all up, 1965 has been a good year for most farmers and farm people. With expanding domestic and foreign markets for food and fiber, together with provisions of the new 4-year Food and Agriculture Act, prospects continue promising for 1966.