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Harold Taylor

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2d Session }

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Conference

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OUTLOOK FOR TOBACCO

[By Robert H. Miller*]

The tobacco outlook for 1975 is highlighted by prospects for U.S. cigarette consumption to rise further from this year's record-high level. Despite continuing trade barriers in key overseas markets, foreign tobacco supplies are reduced so our leaf exports are expected to hold near recent high levels. Even with a larger crop this past season, we can expect another decline in carryover stocks. With larger farm quotas next year, growers are expected to harvest more tobacco so cash receipts should gain. But another rise in production expenses will limit net returns.

TOBACCO PRODUCTS

Cigarettes take four-fifths of the tobacco used in the United States. Output should reach a record 650 billion cigarettes this year, 1 percent above 1973. The number of cigarettes consumed per capita, 18 years and over, in 1974, is about 4,220 (211 packs) 2 percent above 1973. Per capita use has recovered from the slump of 1968-69 and next year U.S. smokers may smoke even more per capita than in 1974.

Retail cigarette prices rose 5½ percent in 1974, due to increases in manufacturers prices and in wholesale-retail margins. This was only half the rise in consumer prices generally. In the last 2 years only 4 States hiked their taxes, the fewest in many years. With inflation problems continuing, further price increases are likely. There are more people of smoking age, and antismoking publicity remains at a lower level than a few years ago. So consumption may rise further in 1975.

For large cigars, consumption in 1974 is totaling about 6.6 billion, 5 percent below 1973 and one-fourth below the 1964 peak. Cigars from Puerto Rico accounted for almost one-fifth of U.S. large cigar consumption. Consumption per male 18 years and over is about 92 large cigars, 10 percent below 1973. Small cigar output may have declined to 3.1 billion, off 30 percent from the 1973 peak. Next year, consumption of large cigars may decline further. Use may stabilize for small cigars.

Smoking tobacco output in 1974 is down 8 percent to 49 million pounds, a record low. Snuff output is down slightly. This year's level for these products may not hold next year.

Chewing tobacco output probably reached 79 million pounds this year, 7 percent more than 1973's level. Loose leaf output gained further while production of plug tobacco may have stopped a long downtrend.

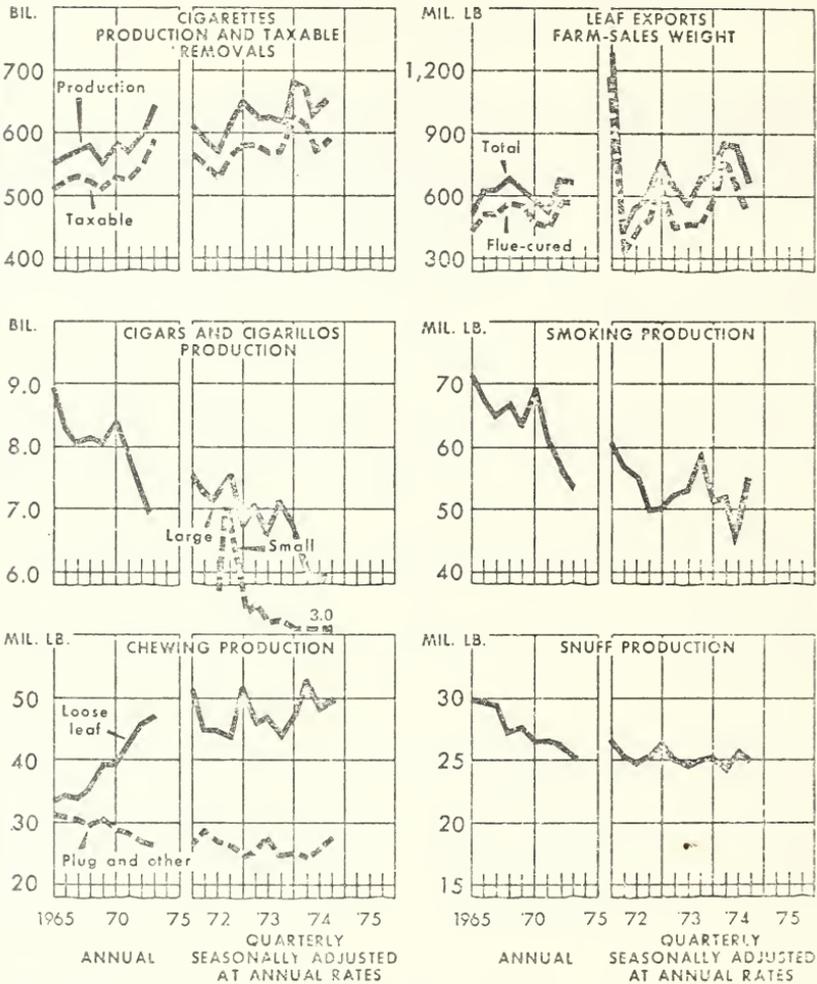
FOREIGN TRADE

U.S. exports of tobacco and tobacco products in 1974 are setting a record of around \$1.2 billion. Both volume and average value are up. Both unmanufactured tobacco and tobacco products exports may reach

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TOBACCO OUTLETS

Trends in Manufactured Products and Exports



U.S. DEPARTMENT OF AGRICULTURE

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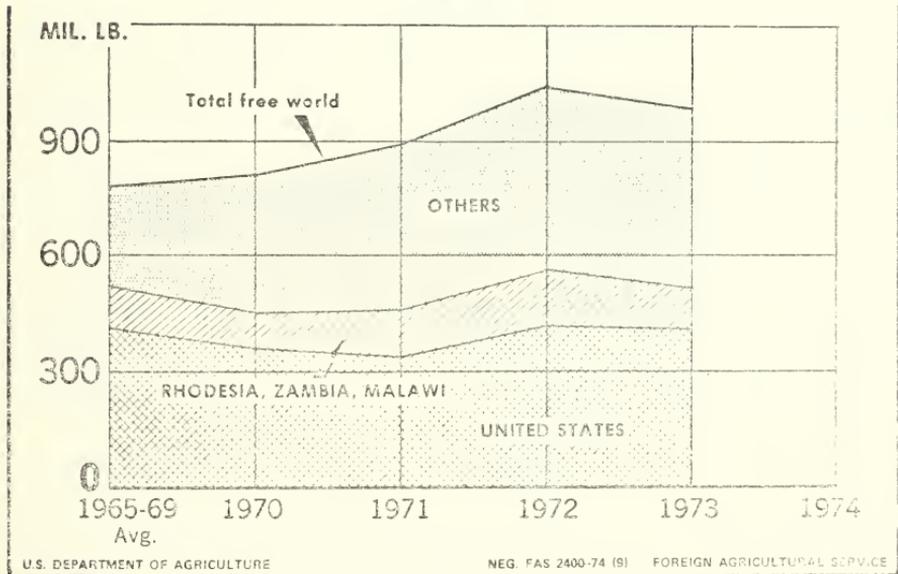
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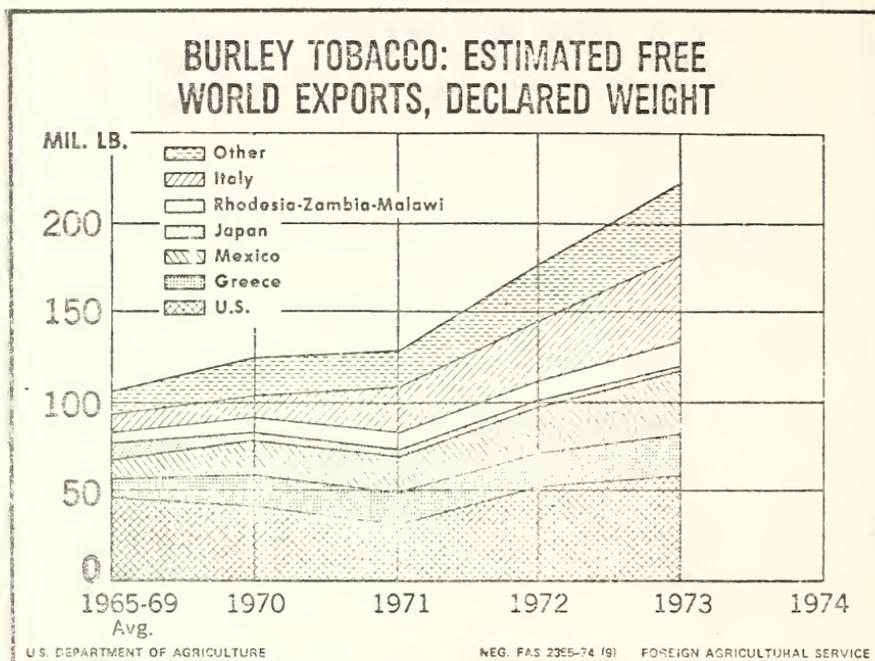
record highs, \$800 million and \$375 million, respectively. In recent years leaf and product exports have taken about four-tenths of the U.S. tobacco crop. This year U.S. tobacco exports will record about \$1.0 billion surplus over tobacco imports of about \$200 million. This favorable tobacco trade balance along with the boost for other agricultural products helps offset the country's trade deficit in nonagricultural products.

Unmanufactured tobacco exports in 1974 are expected to total 650 million pounds, (700 million, farm-sales weight) 6 percent above 1973. Short crops and reduced overseas stocks boosted the 1974 total. World cigarette production has been increasing about 4 percent annually and the preference for light cigarettes containing flue-cured and burley tobaccos has increased strongly. U.S. exports in 1975 are expected to remain near the record high level if the projected larger U.S. crop is realized. In our major market, the European Community takings of United States tobacco trail behind 1973. Less is going to Denmark and the United Kingdom. Purchases by Japan and other southeast Asia countries continue their upward trend.

World tobacco output this year is expected to total a little above the 10.4 billion pounds produced in 1973 as output in the United States and the Peoples Republic of China is up. Production of flue-cured tobacco in 1974 outside the United States may have risen with an indicated gain in the Peoples Republic of China. Declines were registered in India and Japan while increases occurred in Brazil, Canada, Rhodesia, and Philippines. Rhodesia plans a larger crop next year, but the continued U.N. sanctions and unstable political conditions in that region limit Rhodesia's exports. World production of burley was up in 1974 primarily due to the boost in the U.S. crop. In Italy, the largest producer outside the United States, production stabilized. In Korea, another leading producer, estimated output decreased.

FREE WORLD EXPORTS OF FLUE-CURED TOBACCO





The United States is the third largest tobacco importing country. U.S. cigarette and cigar manufacturers blend foreign tobaccos with domestic types. Cigarette leaf (oriental) is the principal kind of import. Cigarette tobacco imports for consumption (factory use) this year may have gained 25 percent to 230 million pounds. This quantity includes 30 million pounds of scrap, primarily oriental, and about 20 million pounds of flue-cured and burley leaf.

Cigar tobacco imports are mainly filler tobacco, including scrap. The Philippines and Brazil are our leading sources. This year importers probably brought in 90 million pounds (for consumption) up 13 million from a year earlier.

Imports accounted for about 20 percent of U.S. manufacturers' tobacco utilization last marketing year, 16 percent of use for cigarettes and 70 percent for cigars. This high level of factory use will probably continue due to large foreign stocks in the United States and requirements for low cost neutral tobacco for blending.

LEAF TOBACCO

The most notable developments for U.S. production in 1974 were increased production and utilization, drawdown of loan holdings, strong demand at flue-cured and burley auctions, and record high crop value. The farm quotas for burley and flue-cured are higher for next year. In total, growers are expected to produce more tobacco. Price support

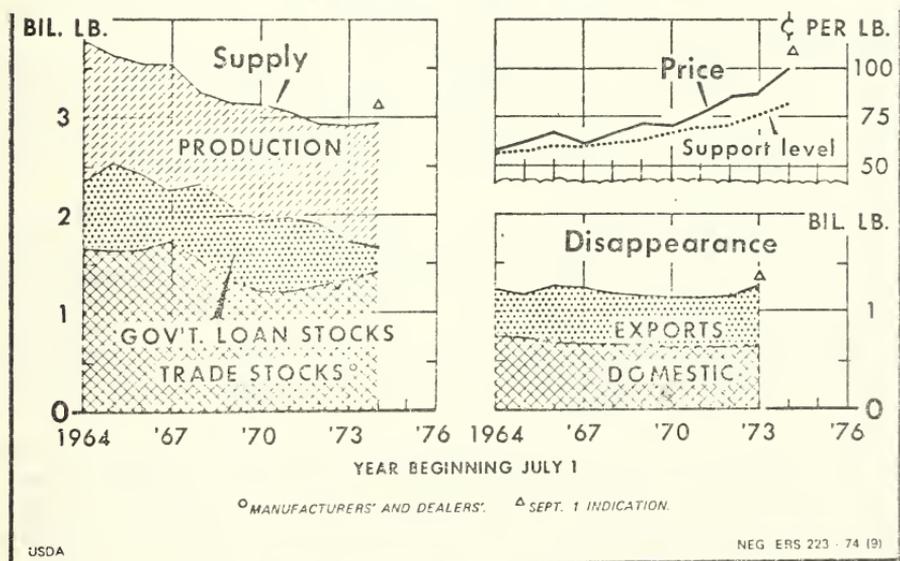
levels will rise, thereby helping growers to obtain prices near the 1974 season's record high. Cash receipts should gain from this year's \$2 billion. But production costs are expected to continue upward. If growers are unable to overcome the production deficit next year, manufacturers and exporters will have to reduce U.S. tobacco use and develop alternative sources of supply.

Growers raised 13 percent more tobacco this season. But lower carry-over reduced supplies for the 1974-75 marketing year by 3 percent. With a strong auction demand, the smallest volume of tobacco since World War II went under government loan. The average tobacco price may surpass \$1.05 per pound, a record high, and 17 percent above the 1973-74 levels.

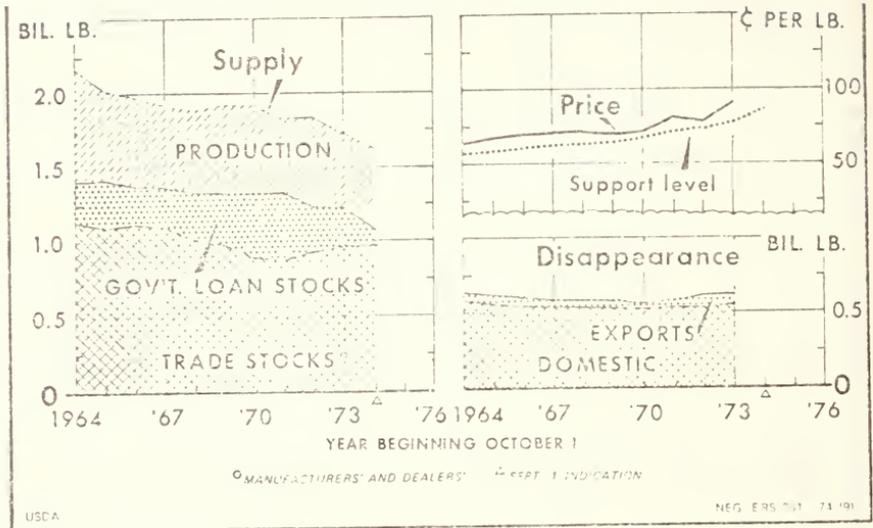
At the beginning of 1974-75 marketing year tobacco held under government loan, totaled 425 million pounds (farm-sales weight) or one-third below a year earlier. All the burley loan stocks and one-half of the flue-cured have been sold. Some of the sales are for later delivery. By the end of this marketing year, loan stocks on hand are expected to decline around two-thirds to the lowest level since the late 1940's.

Government price support is mandatory for tobacco produced under marketing quotas. With inflation continuing at a high rate, the legal formula requires that price support levels for eligible tobaccos go up about 12 percent next year over 1974. The increase results from a rise in the parity index (a measure of changes in prices paid by farmers, including wages paid to hired labor, interest, and taxes). Some input

FLUE-CURED TOBACCO: SUPPLY, PRICE, AND USE



BURLEY TOBACCO: SUPPLY, PRICE, AND USE



supplies will be very short in 1975 with prices above 1974 levels.

For flue-cured tobacco, despite a larger crop, the reduced carryover means 1974-75 supply is down 2 percent. Last January, USDA increased the flue-cured quota 10 percent due to increased export demand. Growers sold 7 percent more than in 1973. Acreage increased, but average yield per acre remained about the same.

The 1974 flue-cured crop averaged a record \$1.05 per pound, 17 cents higher than the previous year. Quality improved a little; nearly all grade averages were sharply higher. Growers placed 1.8 percent of sales under Government loan, the lowest percentage and quality in the history of the loan program.

Last marketing year, exports of flue-cured (over four-fifths of total U.S. tobacco exports) rose to a record high and domestic use reached the highest level since 1965; the overall increase was 10 percent. For July-October 1974 both U.S. exports and cigarette output are down slightly, in part due to shifting seasonal patterns. This marketing year's disappearance may remain about the same as the 1973-74 level but will still bring carryover down some 50-60 million pounds by next July.

For 1975, under the acreage-poundage program, USDA has set the national flue-cured marketing quota at 1,492 million pounds, 15 percent above this year. The base quota plus 1974's net undermarketings gives an effective quota of about 1,582 million pounds, 18 percent above last season's effective quota.

The 1974-75 supply of burley tobacco is 5 percent below last season. Carryover on October 1 was down due to 1973's short crop. This year's

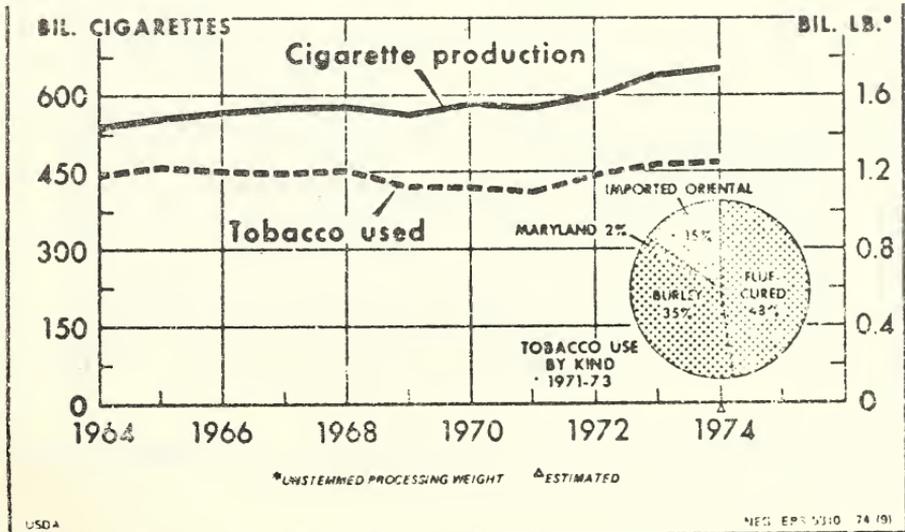
crop is up one-fifth but still below use. The first week's sales averaged \$1.12 per pound, up 24 cents from 1973's record. Loan placements are nil.

Burley disappearance gained again in 1973-74 with rising exports. Despite the upswing in cigarette output, domestic burley disappearance may not gain until larger supplies are available. The spurt in exports could continue as foreign manufacturers shift further to more expensive American type blends. Carryover stocks next October 1 will likely decline further.

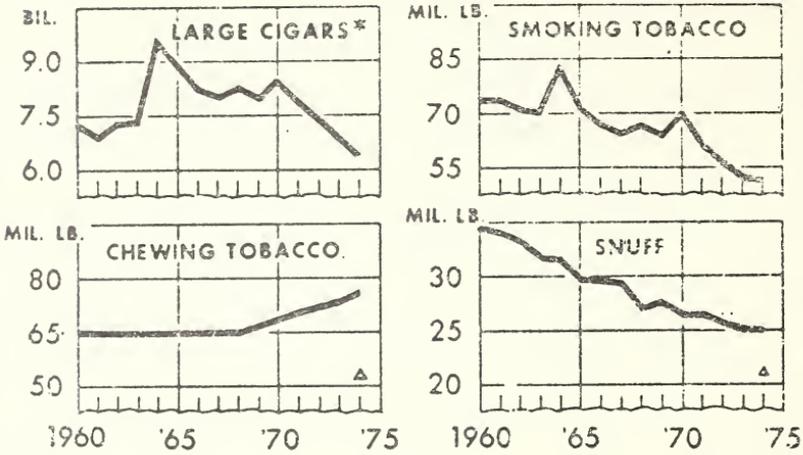
Burley poundage legislation requires that the national quota be not less than 95 percent of estimated disappearance for that year. With disappearance near the 619 million pounds in 1973-74, USDA may have to increase the 1975 burley marketing quota from last season's 608 million pounds. Also, the 1975 farm quota will increase by the indicated shortfall of about 140 million pounds from this year's effective quota.

For other tobaccos, the current marketing year's supplies of Maryland are about the same as last season, while supplies of fire-cured, dark air-cured, and cigar types are lower. For several years USDA has annually terminated quotas on cigar binder (types 51-52) because supplies are below normal as defined in the quota legislation. Since supplies of fire-cured, dark air-cured, and cigar filler and binder are near the normal supply level, USDA may have to consider increasing or terminating quotas on those kinds for the 1975 crop. The law requires USDA to decide by February 1.

CIGARETTES: PRODUCTION AND TOBACCO USED



U.S. OUTPUT OF TOBACCO PRODUCTS

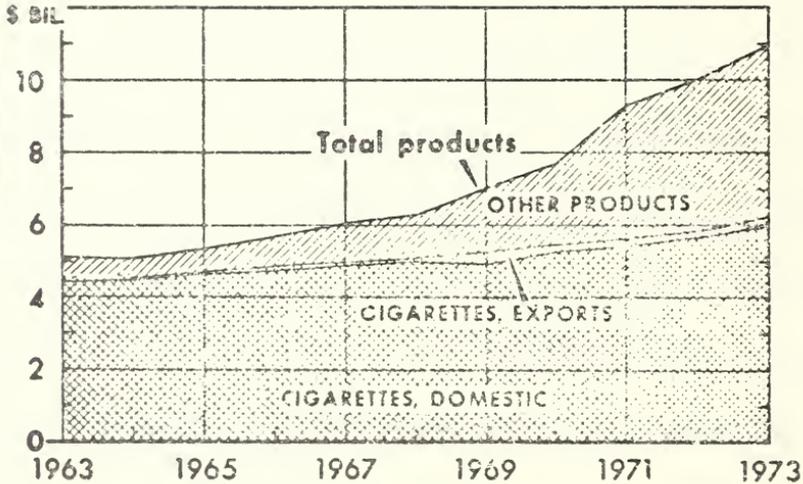


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SALES BY CIGARETTE MANUFACTURERS

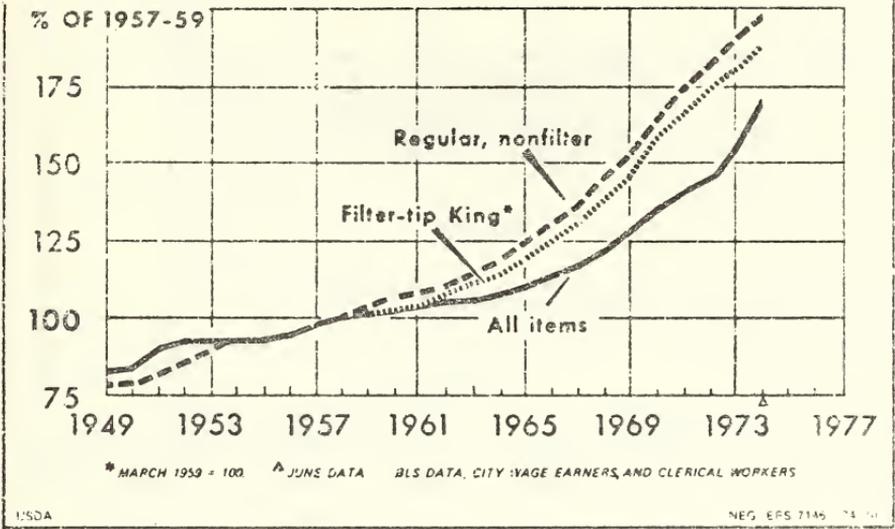


DATA FROM THE FEDERAL TRADE COMMISSION.

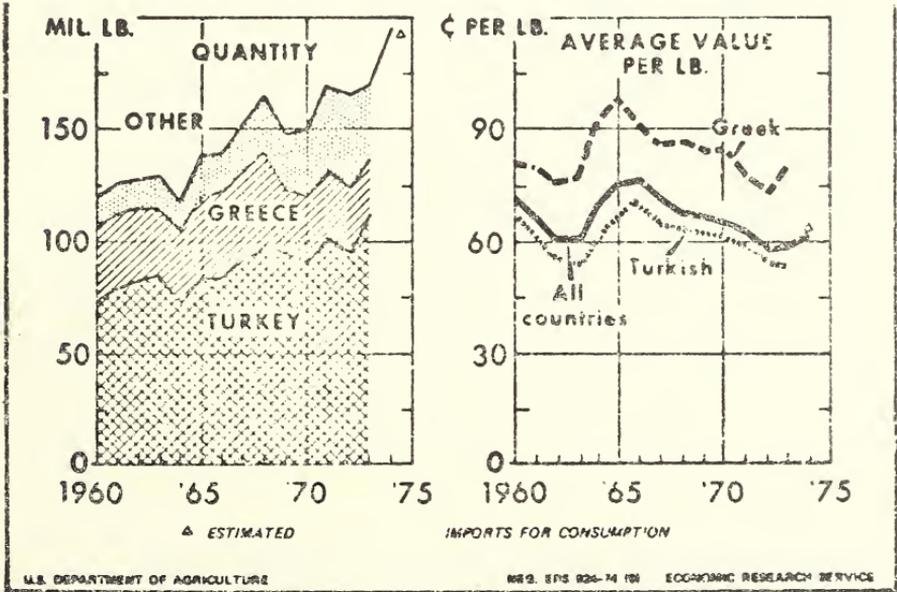
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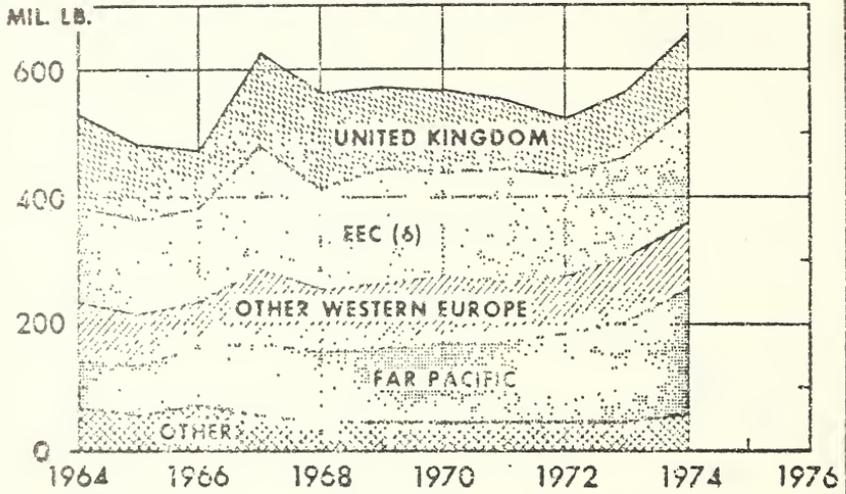
CONSUMER PRICE INDEX AND CIGARETTE PRICES



U.S. IMPORTS OF CIGARETTE TOBACCO



EXPORT MARKETS FOR U. S. TOBACCO



UNMANUFACTURED, DECLARED WEIGHT

YEAR ENDING JUNE 30

ESTIMATED

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