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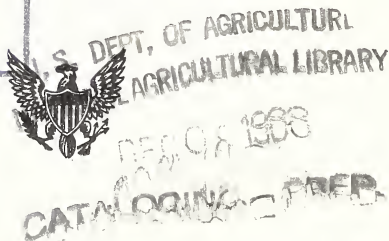
1977 U.S. AGRICULTURAL OUTLOOK

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OUTLOOK FOR TOBACCO

(By Robert H. Miller, Agricultural Economist, Economic Research Service,
USDA)

The outlook for 1977 is highlighted by increasing tobacco supplies both in the United States and overseas. Prospects are for U.S. cigarette consumption to increase from this year's record high level but our leaf exports will do well to hold near recent high levels. So, despite the smaller U.S. crop this season, it exceeds prospective use and our carryover stocks may increase. Next year's tobacco quotas will probably hold the crop size to no more than this season's level. But cash receipts may gain because of higher support prices, as happened for the 1976 crop.

TOBACCO PRODUCTS

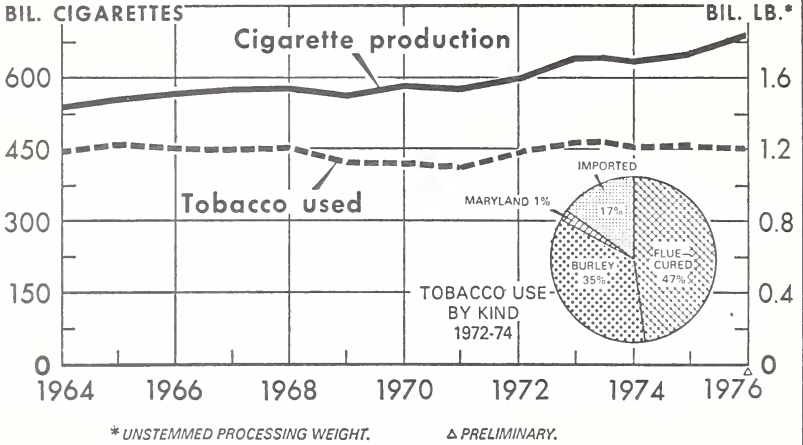
Cigarettes take four-fifths of the tobacco used in the United States and account for an even higher share of our exports. U.S. cigarette output should reach a record 700 billion cigarettes this year, 8 percent above 1975. The number of cigarettes consumed per person, 18 years and over, in 1976, is staying about the same as last year when 4,121 cigarettes (207 packs) were used. In fact, per capita use hasn't changed much in the past 3 years despite changes in income and employment levels. Next year U.S. smokers may smoke a few more in total than in 1976 as the smoking age population increases.

Retail cigarette prices are averaging 4 percent higher in 1975, due to increases in manufacturers' prices and in wholesale-retail margins. But the hike for cigarettes is less than the rise in consumer prices generally. This year none of the States raised their cigarette taxes, so the overall average has virtually stabilized. Despite a decline in the overall inflation rate, further cigarette price increases are likely. There are more people of smoking age and antismoking publicity remains at a moderate level. In the past few years about half the States and numerous cities and counties have enacted laws and ordinances that limit smoking in public places. But the effect on smoking incidence is probably marginal.

Consumption of large cigars in 1976 is totaling about 5.3 billion, 7 percent below 1975 and 30 percent below the 1964 peak. Small cigar output may fall one-fifth below the 2.9 billion total of 1975. Smoking tobacco output in 1976 is down 2 percent to an estimated 45 million pounds, a record low. The downtrend suggests younger smokers are not as attracted to cigars and pipes as in years past. Next year consumption may drop further.

Snuff output is remaining about the same. By contrast, chewing output probably reached 81½ million pounds this year, 2 percent more than 1975's level. Not much change is expected for these products next year.

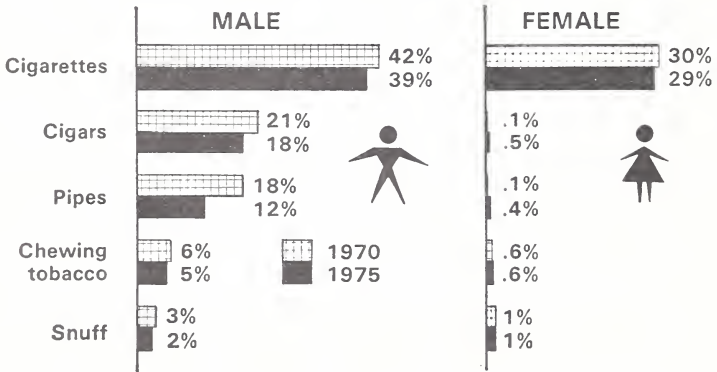
CIGARETTES: PRODUCTION AND TOBACCO USED



USDA

NEG. ERS 5310-76 (9)

TOBACCO USE 1970 AND 1975 Men and Women, 21 and Over



DATA FROM HOUSEHOLD SURVEYS FOR PUBLIC HEALTH SERVICE.

USDA

NEG. ERS 8243-76 (9)

FOREIGN TRADE

U.S. exports of tobacco and tobacco products in 1976 are gaining a little from last year's record high value to around \$1.4 billion. Both volume and average value are up. Value of both unmanufactured tobacco and tobacco product exports are expected to exceed last year's record highs, \$852 million and \$401 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 register about a \$1.1 billion surplus over tobacco imports for consumption of about \$325 million. This favorable tobacco trade balance along with the high level of sales for other agricultural products is helping offset the country's trade deficit in nonagricultural products.

Unmanufactured tobacco exports in 1976 are expected to total a little larger than the 563 million pounds (634 million, farm-sales weight) shipped in 1975. Delayed shipments from last year's sales moved early this year, boosting the 1976 total and holding down 1975 exports. The trend of rising production overseas and U.S. price rises will hold down 1977 exports. Gains in world cigarette production have slowed to around 2-3 percent annually, but the preference for light cigarettes containing Flue-cured and burley tobaccos continues. In our major market, the European Community, takings of U.S. tobacco trail 1975. Less is going to Netherlands, West Germany, and Denmark. Purchases by Japan and Italy have been on the upswing. United Kingdom purchases are held down by the declining value of sterling and high taxes on tobacco products.

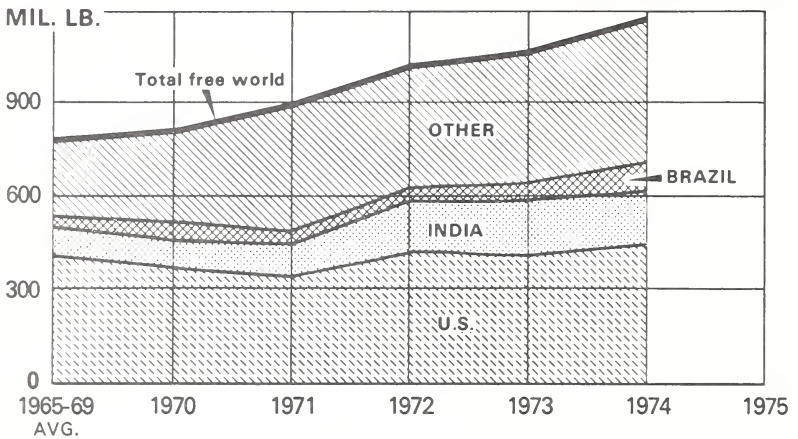
World tobacco output this year is expected to total below the 11.7 billion pounds produced in 1975 as output in the United States is down. Foreign production of Flue-cured tobacco may have decreased in 1976. Decreases occurred in Brazil, India, Canada, and Rhodesia. Gains were registered in Korea and Malawi. Rhodesia was our major overseas competitor before 1965, but continued U.N. sanctions and political turmoil between Rhodesia and neighboring countries are holding down Rhodesia's production and exports.

World production of burley steadied in 1976, in part due to more stable output in the United States and Italy, the largest producer outside the United States. In Korea, another leading producer, estimated output increased 17 percent.

Imports accounted for about 22 percent of U.S. manufacturers' tobacco utilization last marketing year (19 percent of use for cigarette and 70 percent for cigars). Cigarette leaf (oriental) is the principal import. Cigarette tobacco imports for consumption (factory use) this year may decline to around 230 million pounds. This quantity includes 27 million pounds of scrap and about 30 million pounds of Flue-cured and burley leaf.

Cigar tobacco imports are mainly filler tobacco, including scrap. For this year imports will probably total 75 million pounds (for consumption), about the same as a year earlier. This high level will probably continue due to large stocks of foreign tobacco in the United States, requirements for low cost, neutral tobacco for blending, and shortages of certain grades and qualities in domestic tobaccos.

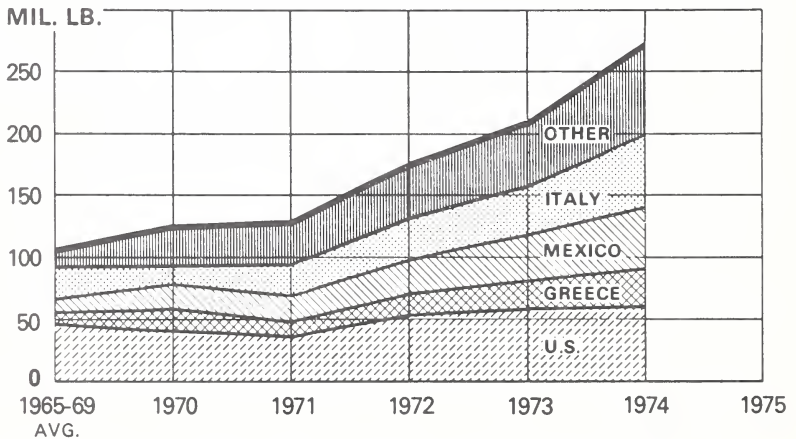
FLUE-CURED TOBACCO: ESTIMATED FREE WORLD EXPORTS, DECLARED WEIGHT



USDA

NEG. FAS 2400-75 (10)

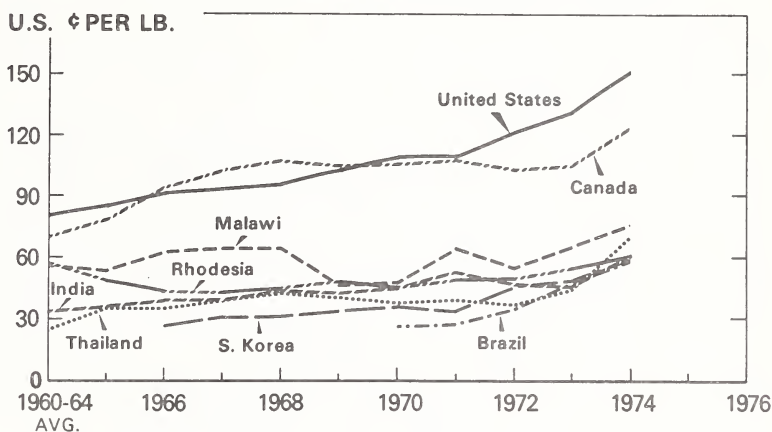
BURLEY TOBACCO: ESTIMATED FREE WORLD EXPORTS, DECLARED WEIGHT



USDA

NEG. FAS 2355-75 (9)

FLUE-CURED TOBACCO: AVERAGE ESTIMATED EXPORT PRICES, BY MAJOR PRODUCERS



USDA

NEG. FAS 2362-75 (10)

LEAF TOBACCO

The most notable developments for U.S. producers in 1976 were decreased production and the resumption of the upward price trend. Despite a slowdown in utilization, and increased loan holdings, prices at Flue-cured auctions jumped. Another record high crop value is in prospect. For next year growers may produce close to this season's tobacco volume. Price support levels will rise, so growers should receive prices above the 1976 season's levels. Cash receipts may gain from this marketing year's total of about \$2.3 billion. Production costs are expected to continue upward.

All tobacco production is forecast 6 percent less this season. Adding the larger carryover, total supplies for the 1976/77 marketing year are up 2 percent. With a stronger auction demand and higher support level, Flue-cured tobacco prices averaged 11 percent above 1975's level. When burley markets open next week, prices are expected to reach a new record, surpassing the 1974 season's record of almost \$1.14 per pound.

At the beginning of the 1976/77 marketing year tobacco held under Government loan totaled 405 million pounds (farm-sales weight), about twice the year-earlier level. The large volume of loan tobacco from this season's Flue-cured crop means that by the end of this marketing year, total loan stocks on hand will rise sharply to just over 15 percent of carryout stocks.

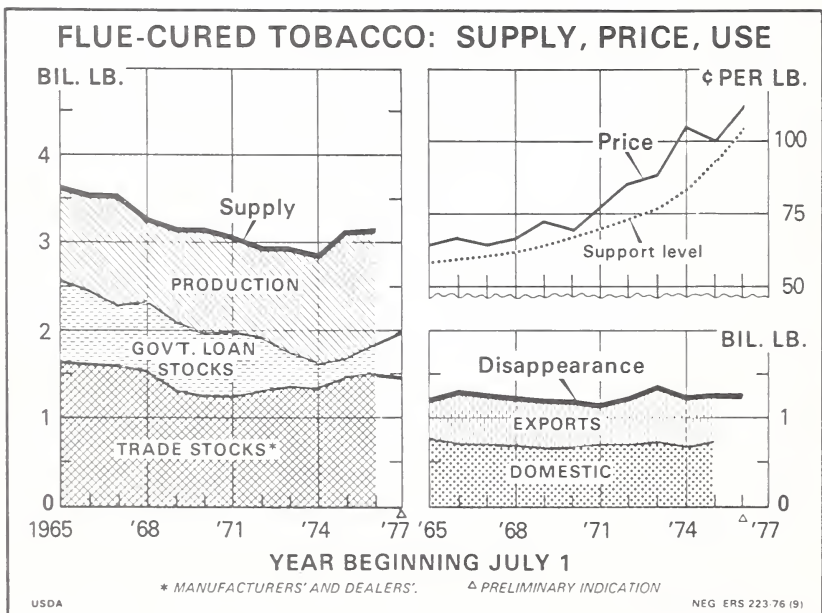
Government price support is mandatory for tobacco produced under marketing quotas. The legal formula requires that price support levels for eligible tobaccos go up about 7 percent next year over 1976. The increase results from a rise in the parity index (a measure of

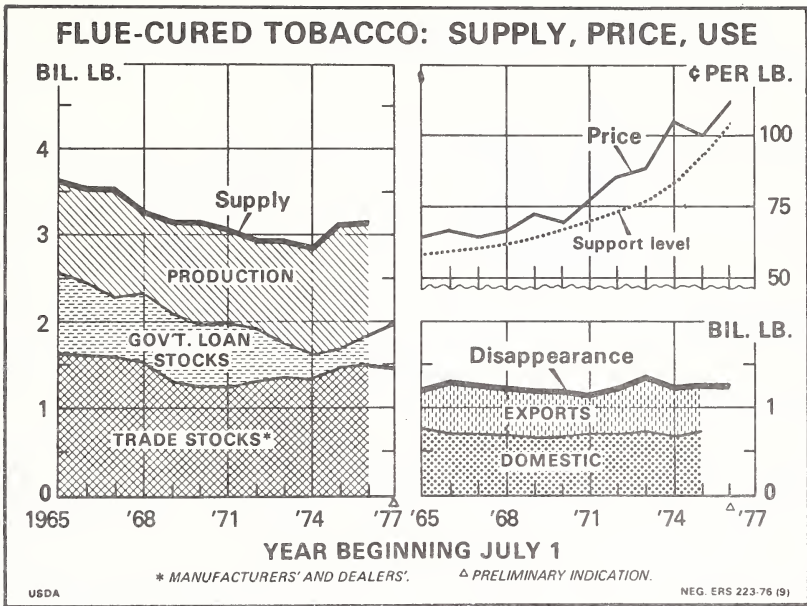
changes in prices paid by farmers, including wages paid to hired labor, interest, and taxes). The rate of increase for input costs has slackened and next season input supplies may remain plentiful.

For *Flue-cured* tobacco, a smaller crop and increased carryover means the 1976-77 supply is up 3 percent. This season USDA decreased the *Flue-cured* quota 15 percent to bring supplies in line with use. Growers are selling about 9 percent less than in 1975. Acreage decreased and average yield per acre fell slightly (October 1 indications).

The 1976 *Flue-cured* auction season has just ended with an average of \$1.11 per pound, 11 cents above the previous year. Quality was mixed; despite the larger supply, higher supports and short supply in some categories pushed prices up, especially for better leaf grades. Growers placed 20 percent of sales under Government loan, about the same percentage as 1975's 8-year high. Less desirable, lower stalk tobacco comprise a large share of loan stocks. This causes many industry officials to review the support formula with a view to putting the program on a more economically sound basis.

Last marketing year, exports of *Flue-cured* (over four-fifths of total U.S. tobacco exports) declined when foreign tobacco became available and cigarette manufacturers worked off stocks; the overall decrease was 5 percent. U.S. exports during July-September 1976 were down, in part due to large overseas crops and the sharp jump in the 1974 season prices. Cigarette output is gaining and domestic use may gain. Disappearance this marketing year may gain a little from the 1975-76 level, but the large crop will still raise carryover some 50 million pounds by next July.





For 1977, under the acreage-poundage program, USDA is required to announce the national Flue-cured marketing quota by December 1, 1976, and hold the triennial referendum of growers within 30 days. The 1976 quota was 1,268 million pounds, or 6 percent above last season's use. Supplies are about 2.6 years' use compared with the desired supply of 2.5 years, according to the legislative formula.

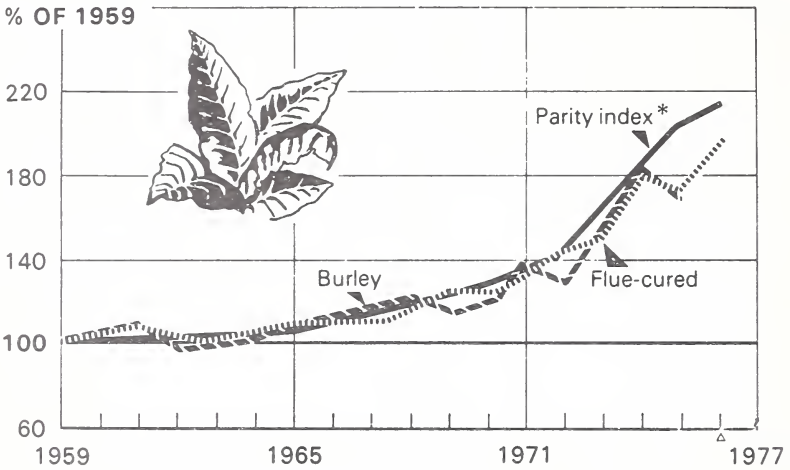
The 1976-77 supply of *burley* tobacco is 1 percent above last season. Carryover on October 1 was up slightly. This year's crop is down 2 percent as acreage and yield are both off slightly.

Burley disappearance rose in 1975-76 when exports rebounded. Domestic burley disappearance may gain with larger available supplies and further growth in cigarette output. Carryover stocks next October 1 will likely change little.

Burley poundage legislation requires that the national quota be not less than 95 percent of estimated disappearance for that year. With disappearance around the 605 million pounds of the past 3 years and a need to rebuild stocks, USDA may keep the 1977 burley marketing quota near this season's 635 million pounds. The 1977 farm quota will increase by the indicated undermarketings from this year's quotas.

For *other* tobaccos, the current marketing year's supplies of Southern Maryland are above last season. Supplies of Fire-cured and cigar tobacco are about the same, while supplies of dark air-cured types are lower.

TOBACCO PRICES AND PARITY INDEX

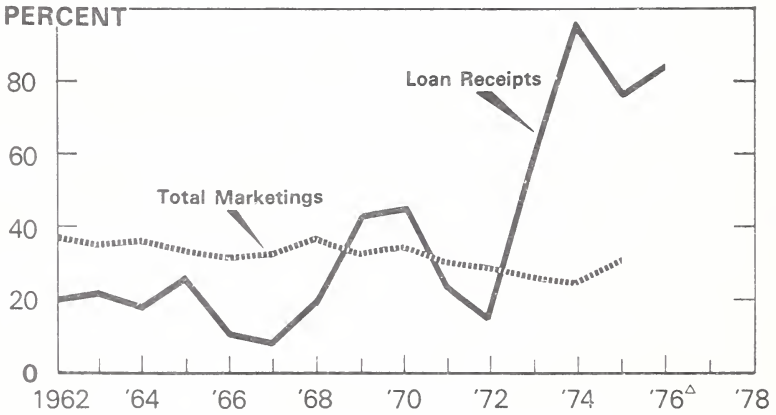


* PRICES PAID FOR ALL ITEMS INCLUDING INTEREST, TAXES, AND WAGE RATES.
 Δ SEPTEMBER 1 INDICATION.

USDA

NEG ERS 782 76 191

X, P, & N GRADES* AS A SHARE OF U.S. FLUE-CURED TOBACCO



*Lugs, primings, and Nondescript.

ΔThrough September 8.

USDA

Neg. ERS 2598-76 (10)