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**50th  
National  
Agricultural  
Conference**

(\*-\* )

UNITED STATES DEPARTMENT OF AGRICULTURE  
Economic Research Service

NATIONAL AGRICULTURAL OUTLOOK FOR 1972\*

Talk by Rex F. Daly  
Economic and Statistical Analysis Division  
at the 1972 National Agricultural Outlook Conference  
Washington, D. C., 10:30 A.M., Tuesday, February 22, 1972

Farmers entered this year in better financial shape than a year ago and can expect their incomes to improve materially over 1971 returns. Realized net income from farming may total 10 to 15 percent above 1971, depending on the outcome of 1972 production plans and general demand pressures. With increased returns from off-farm earnings, per capita after-tax incomes of farm people from all sources will rise relative to incomes of nonfarm people. Even though this may push the ratio up a couple of notches, the per capita income of farm people still may average around three-fourths that of nonfarm people.

We will know more about farm income prospects following sign ups under 1972 grain programs and the annual March planting intentions. At this time, however, larger market receipts are likely because of higher livestock product prices and prospects for a boost in government payments to farmers. Thus, gross farm income will increase this year, perhaps by \$3 to \$3-1/2 billion from the record \$58-1/2 billion in 1971.

Farm production expenditures will continue to go up, but hopefully at a slower rate thanks mainly to lower feed costs and Phase II restraints on prices and wages. The slower rise in production expenditures, perhaps around \$1-1/2 billion, would result in a gain in realized net farm income of \$1-1/2 to \$2 billion from last year's estimate of \$15.7 billion. Such a gain, one of the largest in recent years, would push net farm income to a record high. Of course, these gains are in total income; not all farms will share equally.

I would like to develop some background for this summary of the agricultural outlook and discuss the situation in the broad context of the agricultural industry. This will require an examination of prospects for (1) domestic and export markets for products originating primarily on farms, (2) the necessary inputs of marketing and processing services, and (3) farm output, prices, and income.

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\*I wish to recognize at the outset the help of the staff of the Economic and Statistical Analysis Division in preparing this statement.

Table 1.--The Agricultural Industry: Estimated Final Product Purchases, selected years, 1955 to 1971

Item	1955	1960	1965	1970	Esti- mated 1971
<u>Billion dollars</u>					
FOOD USES	61.5	74.9	92.8	123.3	128.3
Food purchases, personal	58.1	70.1	85.8	114.0	118.4
Food use at home	46.4	56.7	69.3	90.6	94.0
Food use away	11.7	13.4	16.5	23.4	24.4
Business, nonpersonal, use 1/	3.1	4.4	6.3	8.2	8.7
Donations	.3	.3	.7	1.1	1.2
NONFOOD USES	49.8	59.6	79.1	115.0	126.1
Alcoholic beverages	10.5	12.0	15.3	21.4	22.3
Tobacco	5.2	7.2	8.7	11.5	12.4
Clothing, textiles, household 2/	23.4	27.3	37.7	57.2	64.2
Textile use, industrial	3.5	4.1	5.6	8.6	9.6
Footwear	3.6	4.5	5.4	8.1	8.7
Other nonfood 3/	3.6	4.5	6.4	8.2	8.9
EXPORTS 4/	4.0	5.7	7.2	8.2	8.9
STOCK CHANGE	.5	.4	.5	.6	.8
TOTAL	115.7	140.6	179.6	247.1	264.1

1/ Business purchases for entertainment and institutional use.

2/ Personal expenditures for clothing and textiles plus purchases for household and residential use.

3/ Primarily fats and oils and nursery products for personal and industrial use.

4/ Includes manufactured textiles, tobacco, leather products and foods.

#### Demand for Products of Agriculture

As outlined in this morning's program, the economy's gross national product is expected to increase some \$90 to \$100 billion this year from \$1,047 billion estimated for 1971. An anticipated gain of 5 or 6 percent in output, coupled with employment increases and rising wages, will provide a substantial expansion in the after-tax income of consumers and in domestic demand for food and fiber products.

Purchases of finished goods which use the foods, oils, and fiber products of the farm made up a fourth of last year's gross national product. In rough terms we are talking about a food and fiber market that moved an

estimated \$264 billion worth of finished goods in 1971. Food expenditures accounted for nearly half of these outlays, while the remainder went for nonfood products such as alcoholic beverages, tobacco, clothing and textiles, shoes, and exports. Business, government and exporters bought some of the finished products, but domestic consumers are by far the largest market for farm products (figure 1).

Purchases of these goods are responsive to their relative prices and to the flow of buying power to consumers. Accordingly, purchases this year may well increase about 6 percent from 1971 in response to the projected 8 percent advance in the after-tax income of consumers.

#### Food Expenditures

Purchases of food, the biggest direct outlet for raw farm products, totaled \$128-1/2 billion in 1971, up only 4 percent from 1970 because of the relatively small increase in food prices. Personal outlays for food used in the home and for meals and snacks eaten out accounted for \$118-1/2 billion. Of the balance, business spent nearly \$9 billion on food used for entertainment or in institutions. Food donation programs accounted for the rest.

Per capita consumption of food this year will be steady to slightly lower. But demand will advance strongly and push retail food prices up more than the 3 percent increase in 1971. Even with the cutback in pork production now underway, per capita use of red meats will likely ease only a bit from 1971 levels if beef production increases as expected. Part of the decline also will be countered by an increase in per capita use of poultry. Thus, overall consumption of livestock products may total only slightly less than the record rate in 1971. Per capita use of foods from crops, too, may about match last year's rate.

However, because of the continued strong advance in consumer demand, grocery store prices for food this year may average upward of 4 percent above 1971. This increase compares with a rise of 2-1/2 percent last year. The increase for all food, including costs of eating out, may average around 4-1/2 percent above 1971. Year-to-year gains in food prices will be largest early in the year and are expected to narrow as supplies of livestock products increase later in 1972. Higher retail food prices this year reflect prospects for a further increase in marketing margins as well as higher farm prices for some major foods.

Rising prices and population growth will increase total consumer expenditures for food, perhaps by nearly 6 percent from the \$118-1/2 billion spent in 1971. Such an increase will be well below the expected 8 percent surge in the after-tax income of consumers. This will further reduce the percent of income spent for food, perhaps by about 1/2 point from last year's 16 percent (figure 2).

THE AGRICULTURAL INDUSTRY  
FINAL PRODUCT MARKETS AND INPUTS  
(Billion dollars)

FOOD FOR  
HOME USE

1970 \$91  
1971 94

FOOD  
AWAY

\$32  
34

CLOTHING,  
TEXTILES,  
AND  
SHOES

1970 \$82  
1971 91

ALCOHOL

\$21 $\frac{1}{2}$   
22 $\frac{1}{2}$

TOBACCO  
EXPORTS

11 $\frac{1}{2}$  9  
12 $\frac{1}{2}$  10

FOOD PURCHASES

1970 \$123  
1971 128

NONFOODS AND EXPORTS

1970 \$124  
1971 136

FINAL PRODUCT OUTPUT

1970 1971

FOOD	\$123	\$128
NONFOODS	115	126
EXPORTS AND STOCKS	9	10
<b>TOTAL</b>	<b>247</b>	<b>264</b>

VALUE ADDED IN  
PROCESSING AND  
MARKETING

1970 \$182  
1971 196

FOOD AND FIBER  
MATERIALS

1970 \$65  
1971 68

FARM  
AND  
FISH

IMPORTS  
SYNTHETIC  
MATERIALS

1970 \$45 19 $\frac{1}{2}$  10 $\frac{1}{2}$   
1971 46 10 12 1

FIGURE 1

### Purchases of Nonfood Products

Purchases of nonfood products--alcoholic beverages, tobacco, clothing, textiles, and shoes--will rise as consumer incomes advance. The expected increase in after-tax incomes of consumers may well step up overall outlays for nonfood products another 6 or 7 percent over the estimated \$126 billion spent in 1971.

### Export Market Prospects

Exports of farm products were valued at a record \$7.7 billion in calendar year 1971, 6 percent up from 1970. But prices averaged higher and export volume was off some. Exports are especially important market outlets for grains, soybeans, fats and oils, cotton, tobacco, and a number of fruits and vegetables. In 1971 the combined volume of crop exports was equivalent to approximately a fifth of total crop output (figure 3).

Exports in the current fiscal year 1971/72 may fall 4 or 5 percent short of record year-earlier shipments. The dock strikes have restricted shipments. And limited supplies and higher prices for soybeans and cotton may limit overall exports.

Indications for calendar year 1972, especially the last half of the year, are still very tentative. Big domestic supplies of grains and lower prices will bolster 1972 grain exports. In addition, Argentina's corn crop will likely be smaller, the Russians are buying more feed grains, and exports to Europe are holding up better than expected earlier. Devaluation of the dollar relative to the yen also should strengthen exports to Japan. But the supply-demand balance for soybeans and cotton will likely continue tight. On balance, early season indications do not suggest any big change in exports from 1971 shipments.

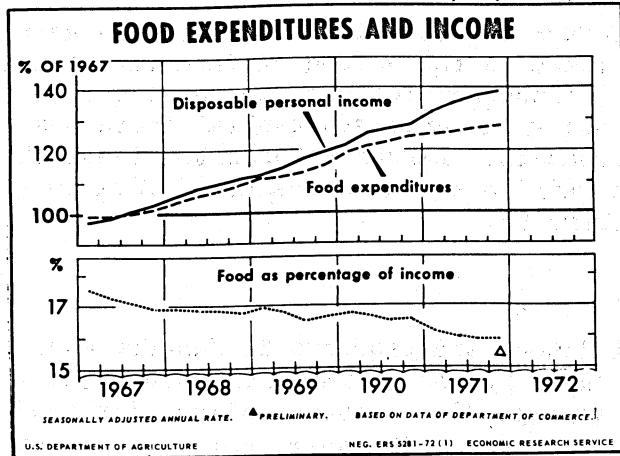


FIGURE 2

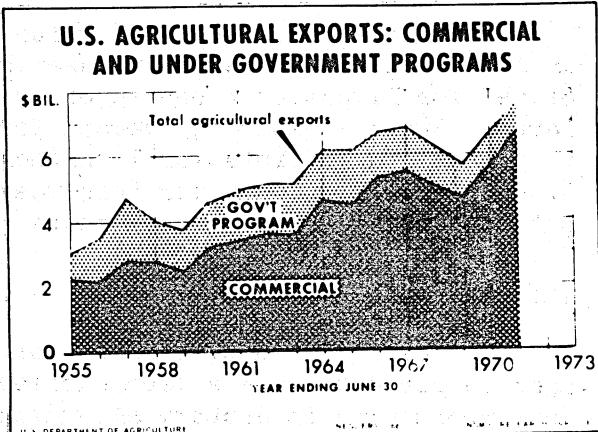


FIGURE 3

### Finished Products and Inputs of Materials and Services

Farm products provide most of the raw materials used in food, fiber and other final products of the agricultural industry. But the farm share of these products is declining as synthetic materials, and larger imports in recent years, provide a growing share of total raw materials. However, the most rapid expansion of inputs has been in the goods and services provided by the processing, transporting and marketing industries. Demand for these services grows perhaps 3 to 5 times as rapidly as demand for raw farm products. We American consumers demand fresh foods at all seasons, more processing, more packaging, modern shopping facilities, and more convenience in general in the food and clothing we buy. Prices of these services usually rise more rapidly than farm prices (figure 4).

The use of synthetic materials, mainly in man-made fibers, apparently increased about 2-1/2 times in the 1960's. Declines in per capita use of cotton, wool, and industrial uses of fats and oils reflect continuing big inroads of synthetic materials into these usual markets for farm products (figure 5).

There also have been substantial increases in the value of imported food and fiber products in the past decade. But, increases in imported foods and materials are less likely this year. They will become more expensive as the value of the dollar declines relative to other major world currencies.

Farms as well as processing and marketing firms are undergoing rapid changes in organization, size, and operating methods. Mergers and integrations now underway among a few firms permit development of food and fiber systems that can supply all the raw materials and perform all the agricultural industry functions from producer to the supermarket.

### Farm Output, Prices and Income

Farm sales and the gross value of farm output will show a sizable gain in 1972. Little overall increase is likely in the volume of farm marketings, either for livestock products or crops, although crop supplies will continue large. But the expanding demand for food will cause substantial increases in prices and receipts for livestock products. Larger returns to livestock producers will account for this year's gain in the gross value of farm output, excluding government payments (figure 6).

### Livestock Prospects

Prices received by farmers for livestock and products in January averaged 15 percent above a year earlier. A sharp and partly unexplained cut in meat production in January along with an expanding consumer demand for food gave an extra boost to livestock product prices. The sharp cut in meat supplies, due mainly to a big reduction in hog slaughter, proved to be temporary.

Table 2.--Agricultural Industry: Estimated Inputs of Material and Services, selected years, 1955 to 1971

Item	1955	1960	1965	1970	Estimated 1971
<u>Billion dollars</u>					
<b>MATERIAL INPUTS</b>					
Farm products, net	27.2	30.4	35.5	44.3	44.9
Foods	22.2	25.2	29.3	36.9	37.4
Nonfoods	5.0	5.2	6.2	7.4	7.5
Fish	.4	.4	.6	.9	1.0
Synthetic products <u>1/</u>	3.4	4.2	6.8	10.5	12.1
Imports	4.9	5.4	6.3	9.5	10.0
Stock change <u>2/</u>	-.7	.3	-.1	0	.2
<b>TOTAL</b>	<b>35.2</b>	<b>40.7</b>	<b>49.1</b>	<b>65.2</b>	<b>68.2</b>
Food	22.6	25.6	29.9	38.3	38.4
Nonfoods	8.4	9.4	13.0	17.4	19.6
Imports and stock change	4.2	5.7	6.2	9.5	10.2
<b>PROCESSING AND MARKETING SERVICES:</b>					
VALUE ADDED					
Food, including fish	38.9	49.3	62.9	85.0	89.9
Nonfoods	41.4	50.2	66.1	97.6	106.5
Net trade and stocks	.3	.4	1.5	-.7	-.5
<b>TOTAL VALUE ADDED</b>	<b>80.6</b>	<b>99.9</b>	<b>130.5</b>	<b>181.9</b>	<b>195.9</b>
<b>TOTAL INPUTS</b>	<b>115.7</b>	<b>140.6</b>	<b>179.6</b>	<b>247.1</b>	<b>264.1</b>

1/ Years 1970 and 1971 assume \$0.5 billion of synthetics going into food.

2/ Stocks of raw cotton, raw tobacco and hides and skins held by processors.

Large supplies of feed grains, and price relationships substantially more favorable to feeding will encourage producers to increase livestock production. Even so, it may be late 1972 before we see much year-to-year gain. However, production increases are likely for beef, poultry and milk. But pork output probably will continue well below 1971 if producers carry through on plans for a 9 percent cut in this year's spring pig crop. With an expanding demand for food, livestock product prices will average above the 1971 level, but by a narrower margin later this year. Because of prospects for higher prices, it now appears that receipts from sales of livestock products could run nearly \$2 billion above the 1971 figure.

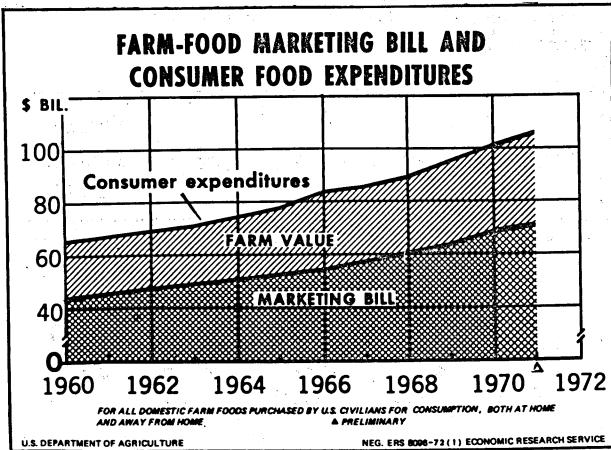


FIGURE 4

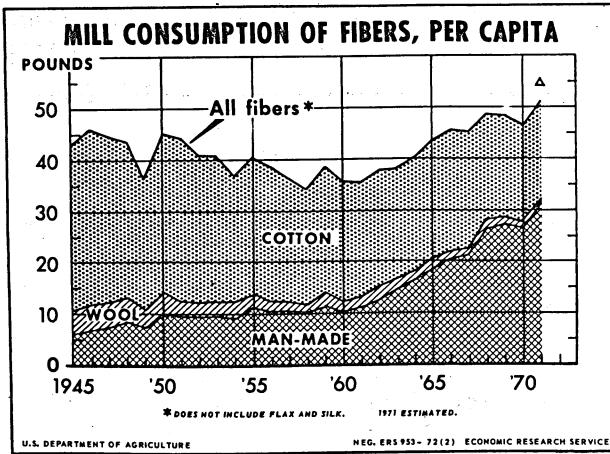


FIGURE 5

### Crop Prospects

The outlook for 1972 crops is uncertain as usual this early in the season. The special January survey of planting intentions pointed to big grain crops again this year, though the modest increase indicated for soybeans was below the target. Likewise, the small reduction for corn was short of the mark. Recent amendments to already announced 1972 grain programs will beef up payments for additional acreage set-asides on wheat and feed grains to encourage producers of corn, sorghum grains and wheat to reduce acreage from their early January intentions. The new options also provide an opportunity to plant more soybeans and cotton, crops which continue in relatively tight supply. With average growing conditions, the volume of crop marketings this year may change little from the 1971 level. But large carryover stocks will help to assure continued big supplies of grains.

Crop prices to growers in January averaged 9 percent above a year earlier since higher average prices for cotton, vegetables, fruits and tobacco more than offset lower prices for grains. Price prospects are good for most crops and for the year crop prices may average around last year's levels. With little overall change in marketings, crop receipts will likely continue around \$21.9 billion. But government payments to growers participating in major crop programs will be larger, perhaps by \$1-1/4 billion or more over the \$3.2 billion in 1971. The increase in payments will depend on grower participation and the size of 1972 crops. Gross value of farm output this year, including government payments, will likely run at least \$3 to \$3-1/2 billion above the record \$58-1/2 billion estimated for 1971.

THE AGRICULTURAL INDUSTRY  
FARM SECTOR  
(Billion dollars)

**NET FARM SALES**

1970	\$44
1971	45

RENT ON FARM HOME	SALES OF FEED, SEED,
AND FEEDER	LIVESTOCK
\$3	\$6
3	7½

TOTAL OTHER	
1970	\$ 9
1971	11

**GROSS VALUE OF FARM OUTPUT**

1970	\$53
1971	56

**GROSS NATIONAL FARM PRODUCT**

1970	\$30½
1971	32

**INTERMEDIATE PRODUCT PURCHASES**

1970	\$22½
1971	24

**WAGES, INTEREST, DEPRECIATION, TAXES, AND RENT**

1970	\$18
1971	18½

**OPERATORS PROFIT-TYPE INCOME**

1970	\$12½
1971	13½

**FEED, SEED, AND LIVESTOCK**

1970	\$12
1971	13

**OTHER PURCHASED PRODUCTS**

1970	\$10½
1971	11

FIGURE 6

Table 3.--Agricultural Industry: Farm Output, Intermediate purchases and farm gross product, selected years, 1955 to 1971

Item	1955	1960	1965	1970	Estimated 1971
<u>Billion dollars</u>					
OUTPUT GROSS VALUE					
Farm products, net	<u>33.1</u>	<u>37.7</u>	<u>43.5</u>	<u>53.1</u>	<u>56.0</u>
Cash receipts, net	<u>27.1</u>	<u>30.4</u>	<u>35.5</u>	<u>44.3</u>	<u>44.9</u>
Products used in home	<u>25.4</u>	29.2	34.7	43.5	44.1
	<u>1.7</u>	1.2	.8	.8	.8
Inputed rent	<u>1.7</u>	<u>2.0</u>	<u>2.3</u>	<u>2.9</u>	<u>3.0</u>
Change in stock	<u>.2</u>	<u>.3</u>	<u>1.0</u>	<u>.2</u>	<u>.6</u>
Feed, seed and feeder livestock	<u>4.1</u>	<u>5.0</u>	<u>4.7</u>	<u>5.7</u>	<u>7.5</u>
INTERMEDIATE PRODUCTS	<u>12.8</u>	<u>15.5</u>	<u>17.8</u>	<u>22.4</u>	<u>23.8</u>
Feed	3.9	4.9	5.7	7.1	7.6
Seed	.6	.5	.6	.7	.9
Feeder livestock	<u>1.5</u>	<u>2.5</u>	<u>2.9</u>	<u>4.3</u>	<u>4.5</u>
Total	6.0	7.9	9.2	12.1	13.0
Other <u>1/</u>	6.8	7.6	8.6	10.3	10.8
GROSS FARM PRODUCT <u>2/</u>	<u>20.3</u>	<u>22.2</u>	<u>25.7</u>	<u>30.7</u>	<u>32.2</u>
Compensation	2.4	2.8	2.8	3.6	3.7
Net interest	.6	1.1	1.8	3.2	3.2
Indirect taxes	1.0	1.2	1.6	2.5	2.5
Capital consumption	3.5	4.0	4.7	6.5	6.8
Rents to nonfarm landlords	1.6	1.6	1.9	2.3	2.6
Profit-type income	11.3	11.5	12.8	12.6	13.4
Plus Government payments <u>3/</u>	.2	.6	2.2	3.3	2.9
Total net farm income	11.5	12.1	15.0	15.9	16.3
Inventory build up	-.2	-.3	-1.0	-.2	-.6
Realized net farm income	11.3	11.7	14.0	15.7	15.7

1/ Fertilizer, chemicals, fuel, repairs and other noncapital operating expenditures in the nonfarm sector.

2/ The regular computation of the farm gross product excludes rent to nonfarm landlords. Although a return to assets used in the farm sector, rents to nonfarm landlords are usually shown as an intermediate product.

3/ Government payments to farm operators.

### Farm Production Expenses

Farm production expenses will continue upward, but perhaps more slowly than in recent years. The wage-price freeze last fall and a substantial drop in feed prices slowed the overall rise in the closing months of the year. Even though prices paid by farmers in January averaged 5 percent above a year earlier, lower feed costs and Phase II restraints will likely moderate the uptrend in farm production expenses. The projected increase of \$1-1/2 billion for 1972, including wages, interest, taxes and depreciation, compares with increases around \$2 billion in recent years.

### Gross Farm Product and Proprietors' Income

The projected gross value of farm output includes contributions to farming by nonfarm industries. These contributions include, for example, the processing and marketing services in purchased feeder livestock, feed, fertilizer and seed as well as the fuel, and other operating materials and services purchased from nonfarm industries. After these are all subtracted out, what is left is the gross product of farming. It includes the compensation of farm workers', interest payments, taxes, rent, depreciation, and the profit-type return to the farmer. It represents the return to the labor, capital and management used in farming.

The gross product of farming is expected to increase by some \$1-1/2 to \$2 billion with larger returns to all production factors outlined above, including an increase of perhaps \$1/2 billion in the profit-type income of the farm operator. In addition, government program payments to the farm operator will increase, perhaps around \$1-1/4 billion from 1971 depending on the outturn of 1972 production plans. Thus, realized net income of farm operators from farming may total \$1-1/2 to \$2 billion above 1971's \$15.7 billion. This would be one of the largest annual gains in recent years and would result in record returns to farm operators (figure 7).

The combined personal income of farm people from both farm and nonfarm sources totaled \$28 billion in 1971 with about 48 percent of this coming from nonfarm sources. Per capita after-tax income of farm people averaged \$2,690, some 74 percent of the comparable estimate for the nonfarm population. The sharper rise in farm income this year and a further gain in off-farm earnings will improve the relative income position of farm people in 1972. Gains from all sources will likely be large enough to increase farm incomes to around 76 percent of per capita after-tax income of nonfarm people (figure 8).

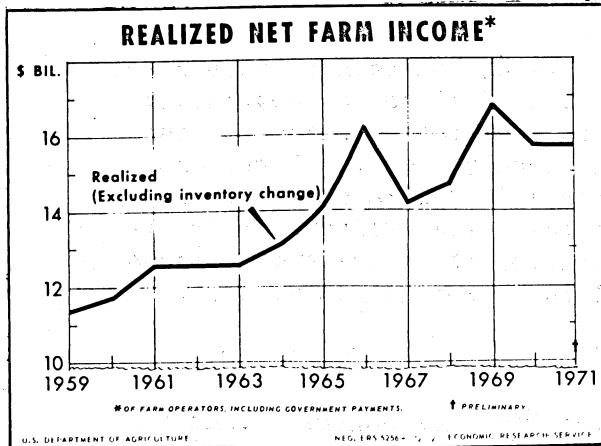


FIGURE 7

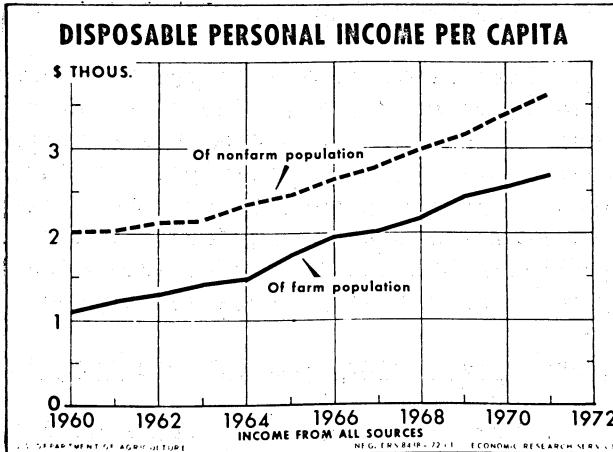


FIGURE 8

Table 4.--Per capita disposable income of farm and nonfarm population, selected years, 1955 to 1971

Item	1955	1960	1965	1970	1971
<u>Dollars</u>					
Disposable personal income					
Farm population, all sources	854	1,100	1,772	2,546	2,692
Nonfarm population, all sources	1,772	2,017	2,482	3,399	3,623
Total population	1,666	1,938	2,436	3,358	3,581
Ratio of farm to nonfarm income (percent)	48	55	71	75	74