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AGRICULTURAL OUTLOOK

WHAT'S IN VIEW FOR '72



DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS
AGRICULTURAL EXTENSION SERVICE
UNIVERSITY OF MINNESOTA

AGRICULTURAL OUTLOOK 1971-72

by

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ECONOMIC SITUATION AND AGRICULTURAL INCOME

AT A GLANCE: The United States economic picture shows signs of improvement. And the view for 1972 is also improved for the agricultural sector. Increased marketing of crops will more than offset lower crop prices. Livestock animal units marketed and prices may both increase. Net income should show marked improvement over the past twelve months.

ECONOMIC SITUATION

The economy showed little or no real growth in 1970. Most all of the 5 percent increase in GNP was due to inflation. Unemployment at the end of 1970 stood at about 6 percent of the labor force. The performance in economic activity in 1971 is expected to conclude somewhat better with about 2 to 3 percent real growth and 4 to 5 percent inflation. However, unemployment may still be close to 6 percent of the labor force. With the current wage and price freeze the rate of inflation may moderate from year earlier levels. If the economy responds to the acceleration factors, the overall rate of growth during 1972 should be 7 to 8 percent and the rate of inflation cooled to about 3 percent and unemployment rates should show some decline.

The recovery in economic activity during 1971 was seen in increased consumer buying, increased outlays by state and local government and a boom in home building. But business investment and defense expenditures continued to drag. The pattern for 1972 will be partially dependent on the impact of the steps taken recently by the administration in an effort to improve economic activity, reduce unemployment and slow the price rise. These measures include the wage price freeze and the proposed investment credit repeal of the 7 percent excise tax on cars and the personal income tax cut.

The consumer holds the key to rapid economic expansion. With incomes and savings at high levels, if he becomes a big spender it should rally the economy.

AGRICULTURAL INCOME

Demand

The demand for agricultural products has two major components - domestic and foreign. Domestic demand is closely tied with the number of consumers and their purchasing ability. Expenditures for food are running about 6 percent over year earlier levels. With larger real income increases and less unemployment expected next year, domestic demand for food and fiber will show a healthy increase.

Opportunities for export expansion are more doubtful. The 1970/71 year was a very favorable one for agricultural exports, setting a record of \$7.8 billion, 15 percent above the 1969/70 year. Lower priced feed grains will facilitate increases in feed grain exports. The reduction in the relative value of the dollar in world trade may also help move more feed grains. However, we will have fewer soybeans available to sell on the world market. Also, better crops abroad coupled with reduced economic activity in some major markets all dampen foreign demand. Thus, USDA estimates that the total value of our agricultural exports may be less next year.

Crop Output, Prices and Receipts

Feed grains production will be almost a fourth more than the short crop of a year ago. This supply will put grain prices back to loan levels. However, both soybeans and cotton will be in fairly tight supply-demand balance thus helping to hold up the crop price index. Therefore, crop prices will not drop as much as marketing increases, allowing for a significant increase in crop receipts. Minnesota farmers, however, will not enjoy this increase in crop income since they did not suffer the large depression in corn yields last year.

Livestock Output, Prices and Receipts

Hog and poultry producers are currently cutting back output because of low prices. And beef feedlots are currently carrying only slightly more cattle than a year ago. The sharply lower feed prices this fall will stimulate increases in livestock production. However, since this reaction takes time, the volume of livestock marketed in the 1971/72 marketing year will be up only slightly from the previous year.

The stronger livestock prices expected coupled with a volume similar to last year should give rise to larger cash receipts.

Farm Income

Total cash receipts will rebound strongly from the depressed levels of last year. Compared to the estimated receipts of \$49.3 billion for 1970/71, we expect the total to approach 53.0 billion for 1971/72 with crops and livestock contributing about equally to the increase.

Despite the wage price freeze, production cost increases will probably eat up about one half this gain. This would result in a fiscal year net income to agriculture of over 16.5 billion.

The gains should carry on through the last half of 1972 so that the calendar year 1972 might challenge the record of \$16.8 billion net set in 1969.

Farm Commodity Programs for 1972

The set-aside program will go into its second year in 1972. Because this program controls total acres planted rather than individual crops, farmers enjoy more flexibility in crop selection.

However, this program makes it somewhat more difficult for administration officials to achieve the balance of crops they might desire. This can lead to price problems and farmers disappointment. For example, this year farmers produced more corn and fewer soybeans than the administration expected, leading to an unusual price relationship between these two commodities. Therefore, some changes are expected in the 1972 program that will encourage greater soybean production.

The provisions of the 1972 wheat program have already been announced. Briefly these are: (1) a national farm loan of \$1.25 per bushel, (2) a set-aside requirement equal to 83 percent of the farm domestic allotment in contrast to 75 percent last year, (3) substitution of corn, barley, or soybeans for wheat is allowed to maintain history.

The feed grain program is expected to be patterned along the same lines. That is: (1) barley will be included as a feed grain, (2) soybeans will substitute for feed grains to maintain history, (3) the set-aside will probably be greater than last year's 20 percent requirement (up to 35 percent).

Extension Economists

FEEDGRAINS

AT A GLANCE: Total feedgrain supplies for 1971/72 will be 13 percent above last year. Domestic feedgrain consumption and exports will be up, but not as much as supplies. Stocks at year end will be higher. Prices will average lower than last year.

The Feedgrain Situation

Feedgrain production last year was down 9 percent from 1969. Production plus carryover and imports provided 207.8 million tons of feedgrain for the 1970/71 marketing year. This was the lowest supply since 1966. During 1970/71, domestic livestock and poultry numbers were up 2.5 percent. Thus, market prices averaged higher than the past few years and exports were off slightly.

Prospects for 1971/72 are now for a larger total feedgrain supply. Although carryover will be down, production will be up. In August, USDA estimates carryover into the 1971/72 year at 34 million tons, compared to 48 million tons last year. Production on August 1 was estimated to be 200 million tons. Adding minimal imports, total supply of feedgrain for 1971/72 is estimated to be just over 234 million tons, up 13 percent from 1970/71. However, crop estimates undoubtedly will change as corn and sorghum harvest approaches. In the year ahead, domestic livestock and poultry numbers may be up slightly. Hence, prices for feedgrains are likely to run substantially below prices for the 1970 crop.

I. The Corn Situation

A. 1970/71 Review:

The 1970 corn crop yielded 4.1 billion bushels of grain. Carryover from 1969 was 1 billion bushels. Total supply, at 5.1 billion bushels was down 10 percent from the preceding year, and 5 percent below the 1965-69 average.

High livestock and poultry numbers, plus moderate exports, are leading to total utilization about at the level of the preceding five year average. In the face of the relatively tight

supply situation, prices for the year averaged about 18 percent above 1969, and 20 percent above the 1965-69 average.

Corn prices since 1970 harvest have followed a pattern typical of a short crop year. As it became apparent in late summer of 1970 that the crop would be sharply lower than earlier expected, prices rose rapidly. In early September of 1970, Minneapolis corn was nearly 20 cents per bushel higher than in early August. Prices rose more slowly moving into the new crop year, and remained fairly stable through winter, fluctuating around the \$1.40 level. Some market weakness developed in spring as Minneapolis corn moved into the \$1.35 range. Concerned with the possibility of another tight crop situation and slow corn movement, buyers again became aggressive, bidding prices up to a \$1.51 peak in mid June. From there, prices were virtually down hill all the way. New crop prospects appeared relatively good. The U.S. planted acreage approached a record high. Weather was relatively favorable, and blight damage appeared to be low. Domestic feeders found substitutes for corn, exports were off sharply, and prices came under pressure. For the marketing year, price will average about \$1.35 per bushel.

Higher than normal corn prices through most of the marketing year effectively rationed supply. Total utilization looks like it will be off about 6 percent from 1969/70. Domestic feeding will probably be down about 3 percent. Exports will be off over 25 percent to the end of the marketing year.

Exports were off because foreign corn importers could turn to other feedgrain sources at lower prices. There were substantial world wheat supplies available for feed. Appreciable southern hemisphere new crop feedgrain was available by mid 1970. Instead of corn, the U.S. exported more oats, barley, and grain sorghum.

For a number of reasons, domestic corn feeding was down despite high livestock and poultry numbers. Relative increases in cattle feeding occurred outside the cornbelt. Feedlot operators in the West and Southwest fed grain sorghum, barley and wheat. Cornbelt feeders cut back on cattle. Hog numbers in the cornbelt began to taper off as high corn-hog price ratios dampened enthusiasm for farrowing. Average amount of corn fed per animal was down.

Carryover into the 1971/72 crop year will be down from a year ago. USDA is estimating it will be 700 million bushels, down 30 percent from the fall of 1970. It could be slightly lower. In any case, it represents about a two month corn supply, compared with the five year average of roughly a three month supply.

B. 1971/72 Outlook:

If the final harvest is close to the August 1 USDA crop estimate, the U.S. will harvest 5.3 billion bushels of corn in 1971. The estimate is based on a projected average yield of 83 bushels per acre on 64.47 million acres for harvest. This would be a record production, although not a record yield. Since 1961, change in production estimates between August 1 and the crop final have averaged .214 billion bushels, ranging from .012 to .583. Some experts now think the August 1 yield estimate (based on August 1 crop conditions) will be revised downward before harvest is over. Nonetheless, a crop of at least 5 billion bushels looks like a reasonable estimate at this writing.

Adding the anticipated production to old crop carryover and minimal imports, total supply of corn for the 1971/72 marketing year would be around 6 billion bushels. This would be 18 percent above the 1970/71 supply. Increases in supplies, from both production and stocks, look relatively greater in the Northern and Western cornbelt. On August 1, Minnesota's 1971 corn crop was projected to be 24 percent above 1970. Iowa's was projected to be 13 percent larger, and Nebraska's was 40 percent above 1970. Hence, the total corn supply and the supply in local markets for Minnesota corn is substantially above last year, barring cataclysmic changes through harvest.

Domestic corn utilization will be up in 1971/72 in both feed and other uses. Livestock feeding normally accounts for about 3/4 of total use. It appears that it is reasonable to expect a 6 to 8 percent increase in corn fed to domestic livestock in 1971/72. There are several reasons: 1) Total number of grain consuming animal units may increase slightly in the coming year. Increases in cattle and poultry numbers will probably be slightly greater than declines in hog and dairy cattle, netting about a 1 percent overall increase. 2) As feed will be relatively cheaper, rate of feeding should increase, perhaps by 3 percent. 3) Feedgrains look like they will be

relatively cheaper than other feeds, which will probably induce 5 to 6 percent more total feedgrain consumption. 4) Relatively cheaper corn will induce more corn feeding, compared to other feedgrains. This may account for something more than a 6 percent rate of increase in corn feeding. 5) There will probably be relatively more cattle placed on feed in the corn-belt in the coming year, which will increase corn feeding relative to other feedgrains. Hence, domestic feeding may approach 3.8 million bushels.

Other domestic uses of corn have increased slowly, but steadily at 7 to 9 million bushels per year. Increases in 1971/72 will probably lead to about 410 million bushels for food, industrial and seed uses.

Exports have been an important factor in the corn market, generally accounting for 10 to 15 percent of utilization. Corn exports were curtailed about a fourth in the past year. We expect a modest increase in 1971/72 corn exports, perhaps to 550 million bushels. Demand for meat has been increasing rapidly in the countries which are markets for U.S. feedgrain. Revaluation of foreign currencies makes U.S. grain relatively cheaper. Prolonged Gulf Coast dock strikes and/or trade retaliation to the 10 percent import surcharge could reduce exports. If neither of these develop, exports may go over 550 million bushels.

If these use projections are close to actual utilization, total corn disappearance in the 1971/72 marketing year will be 4.7 to 4.8 billion bushels, leaving a carryover into 1972/73 of about 1 billion bushels.

Price implications of these supply and use factors are, of course, largely conjectural at this point. The large anticipated production will likely put much pressure on prices at harvest, probably driving price below the CCC loan rate. However, good rate of utilization should lead to at least a normal seasonal price rise of 15 to 20 cents per bushel. The CCC loan program is likely to be a substantial factor in the 1971/72 corn market. High feedgrain program participation has made a record amount of corn eligible for government loan. It has been estimated that 15 percent of the 1971 corn crop will be sealed in bins this year. If this develops, prices will be bid up enough to pull some corn out of sealed storage. It now appears reasonable to

expect a season average corn price of about \$1.20 to \$1.25 per bushel, basis - Minneapolis. This would likely mean an early summer price peak of \$1.30 to \$1.35 per bushel. The seasonal price peak is often reached in June or July.

CORN SUPPLY AND UTILIZATION

Year beginning Oct. 1	Supply				Utilization			
	Carry- over	Pro- duction	Im- ports*	Total	Domestic			Total Use
					Feed	Food Indus. Seed	Ex- ports*	
<u>Million Bushels</u>								
Aver. 1965-69	1,017	4,387	1	5,405	3,450	377	591	4,418
1969	1,113	4,583	1	5,697	3,692	394	612	4,698
1970	999	4,110	5	5,114	3,564	401	450	4,415
1971**	699	5,100	1	5,800	3,800	410	550	4,760
1972**	1,040							

* Includes grain equivalent of products

** Based partially on estimates, Mid-August 1971

II. Oats

Oats is the only feedgrain showing lower planted acreage in 1971 than 1970. It was down 15 percent. But higher yields led to a production decrease of only 3 percent less than 1970. Carryover from the 1970 crop year is estimated at 512 million bushels. Total supply for 1971/72 is estimated to be 1,399 million bushels. This is essentially the same as last year.

Utilization is estimated at 889 million bushels in 1970/71. It will likely be slightly lower in 1971/72, leaving year-end stocks at about the same level to slightly higher.

Generally, factors affecting corn and other feedgrains would be expected to govern oats prices. However, oats prices have been trending downward relative to corn in recent years. They are likely to continue relatively low in 1971/72, particularly with the government loan rate 9 cents lower than in 1970.

III. Barley

The 1971 barley crop is estimated at 463 million bushels. This is 13 percent larger than 1970 and 15 percent above the five year average. All the increase over 1970 is in Minnesota and the Dakotas. The 1971 Minnesota barley production is nearly double 1970 production. Carryover from the old crop year is down to 156 million bushels. Total supply is down to 629 million bushels. This is about 15 percent above the five year average.

Since there is a general increase in feedgrain supplies, it is reasonable to expect lower average feed barley prices in 1971/72. Increases in corn and grain sorghum production will likely cut into barley consumption and prices. Exports will probably be down. This will likely lead to moderately increased carryover into 1972.

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Charles Cuykendall

WHEAT

AT A GLANCE: Wheat utilization was relatively high in 1970/71. Carryover is down, but a record 1971 crop has increased total wheat supply by 3 percent. Use is likely to be down as feedgrain supplies increase. National average wheat price will be lower than last year's \$1.34 per bushel.

Situation and Outlook:

The wheat market outlook for 1971/72 is being influenced by supply prospects for feedgrains. Assuming a 5 billion bushel corn crop, wheat and feedgrain prices will return to normal relationships of wheat priced at 110 percent to 125 percent of corn (per hundred pounds).

The 1971/72 wheat supply is estimated at 2.3 billion bushels. This is 70 million above 1970/71. Carryover stocks were lower, but the 1971 crop was up 16 percent, to a record output of 1.6 billion bushels. Total wheat utilization is likely to drop below both 1970/71 and the 1971 crop.

Domestic food use of wheat is fairly constant, but increasing slightly. It is projected to be 525 million bushels in 1971/72. Wheat feeding fluctuates significantly. High feedgrain prices resulted in drawing 217 million bushels of wheat into feed last year. In 1971/72 this is expected to drop 15 to 20 percent, to about 175 million bushels. In July-September of 1971, wheat feeding could be a record, exceeding 140 million bushels, because of short feedgrain supply and large cattle feedlot placements in the Southwest.

Wheat exports will probably drop to 650 million bushels in 1971/72. The large grain harvest in Europe, the Pacific Coast dock strike, other port labor problems, and generally good crops in most producing countries, will combine to curtail movement. The impact of the foreign currency revaluations is too uncertain at this point to hazard a guess as to impact.

Wheat prices for 1971/72 will probably average below last year's \$1.34 per bushel, due to larger production and smaller use. More wheat will probably go into government storage. While supply of all

wheat is up 3 percent, supply of Hard Red Spring is up 76 percent. Thus, Hard Red Spring prices will likely be even relatively lower than the all-wheat average. Durum suppliers are up 89 percent, and prices are likely to be governed by the loan rate.

Willis E. Anthony

Wheat Supply and Utilization

	All Wheat		Hard Spring		Durum			
	Average 1964-68	1971-72 Projected	1964-68	1971-72	1964-68	1971-72		
-----Million Bushels-----								
Carryover	644	730	161	87	43	54		
Production	1,402	1,601	205	337	73	86		
Imports	1	1						
Total Supply	2,047	2,332	367	425	116	140		
Food	514	525	} 138	}	} 39			
Seed	68	65						
Industry	---	---						
Feed	110	175						
Exports	728	650	76		34			
Total Use	1,420	1,415	214		73			
Ending Carryover	627	917	153		43			

SOYBEANS

AT A GLANCE: Total supplies for 1971/72 will be down from last year despite record production. Use has exceeded production again so the carryover of soybeans will likely be reduced sharply. If the supply turns out to be near the estimate it will fall 66 million bushels short of last year. When supplies are short they are rationed by rising market price. In 1971/72, soybean prices will be at the rationing level.

Review of 1970/71:

The 1970 crop of 1,136 million bushels was a new record. The record demand had decreased carryover to 230 bushels (down 29% from 1969). Total supply was 85 million bushels less than the previous year. Total utilization will be up 4% from the previous years' record high. Carryover will again be reduced, probably to about 100 million bushels. This is about a month's supply at current disappearance rates.

Smaller soybean supplies and continuing demand have boosted farm prices to around 20% above the previous year. Average U.S. farm price rose from \$2.77 in October to \$2.98 in June. Cash beans at Minneapolis sold in the \$2.80 - \$2.90 range during harvest. Prices showed a seasonal increase during winter and spring. Summer price increased at the prospect of a short 1971/72 supply. The July acreage report confirmed the lower than anticipated plantings. Some of the price increase could also be due to early purchases prior to a possible dock strike and plants wishing operating supplies for the summer months. In July, Minneapolis average soybean prices were \$3.28 -- 49 cents per bushel above the previous year.

Where have all the beans gone? Domestic soybean crushing is estimated at 770 million bushels, which will be a new record. The average monthly crush thus far is a record 64 million bushels per month. The average processing margin is about half that of a year ago. Soybean crushing margins declined from 50 cents per bushel in September to 10 cents in May. The domestic use of soybean oil and domestic and export use of soybean meal is up slightly. Exports of whole beans are down about 1%.

Soybean oil exports are estimated at a record 1.6 billion pounds for the current year vs. 1.4 billion for 1969/70. U.S. oil has been competitively priced in relation to peanut and sunflower seed oils and with soybean oil produced abroad. The bulk of the increased exports went to Eastern

Europe and South America. Crude oil prices (Decatur) averaged about $1\frac{1}{2}$ cents above year earlier levels (October-June) and are expected to continue strong throughout the summer.

Soybean meal utilization shows modest gains. Domestic soybean meal utilization by September 30 is expected to be 13,600 tons, up 1% from last year. Although consumption through April was up 4%, subsequent lower hog and broiler numbers will reduce consumption for the balance of the year. Exports of meal in 1970/71 will slightly exceed the previous year. Fish, rapeseed and linseed meals could be responsible for limiting soybean meal exports. About three-fourths of the U.S. soybean meal exports are to Western Europe.

Outlook for 1971/72:

Given the lower 1971/72 supply and the historical growth for soybeans, the outlook is for higher prices compared with previous years.

Based on the August 1 USDA forecast, 1971/72 soybean supply will be smaller than the already tight supply last year. The crop was forecast at 1,235 million bushels. This would require good weather through harvest and record-breaking yields in the major states. It now appears more reasonable to estimate production around 1,200 million bushels. This 3% decline is the average amount of variation between the August 1 estimate and the final December estimate. Adding carryover stocks, the total supply would be 1,300 million bushels or 5% less than last year. Hence, supply is short.

The demand structure is harder to estimate. Domestically, the number of grain consuming livestock to be fed is likely to be slightly above last year. With cheaper corn, livestock numbers potentially could increase and they may be carried to heavier weights.

It is too early to assess how the new economic measures will affect soybean prices. With the price of processed feeds frozen there will be an "upper limit" on prices. Currently, prices for both soybean oil and meal are below the 90-day ceilings. The export business seemed to stall after the 90-day wage and price freeze until further clarification of the foreign currency situation can be obtained. The lack of these export sales has prompted some traders to sell soybean futures.

Over half the U.S. soybean crop is exported as beans, oil and meal. U.S. beans must be viewed as a part of the total world supply of fats, oils and proteins. Several crops produce competing products that are substitutable to importers for soybean products. But competing oils and protein meals are not abundant.

The trend increase in world oil use has been about 850,000 metric tons. Oil inventories are so low this year that the demand must be met by current production. Increased rapeseed oil in Canada and Europe, more coconut oil, and more palm oil will add about 625,000 tons to world markets. With lard production down and doubtful increases in butter production the gap between needs and uses is about 500,000 tons. Soybeans, sunflower seed and groundnuts will have to supply this need. This is the equivalent of 105 million bushels of soybeans. Given no increases in sunflower seed oil and groundnut oil, it appears there would be a market for the oil from 1,365 million bushels of soybeans.

Soybean meal consumption has been increasing both at home and abroad for the last 10 years. For the nine years preceding last, the rate of domestic increase in soybean meal use has been 3.2%. For the same period, domestic plus export meal needs increased an average of 14.4%. The combined increases would amount to approximately 100 million bushels more soybean utilization in 1971/72 than 1970/71.

In the past few years there have been steady gains in crushing capacity. In 1971, domestic capacity was estimated at 900 million bushels. The industry was operating at about 80% of capacity, compared with 93% in 1969/70. This has implications for the margin between soybean and product prices. Generally, as the rate of crushing approaches capacity the margin widens as processors are less active bidders for beans. As rate of plant utilization declines, processors become more active bidders in an effort to keep plants operating efficiently. Lower soybean supplies imply lower processing margins for 1971/72. Thus, the soybean market will likely be high relative to oil and meal prices.

All these factors make the soybean market look very bouyant. Soybean prices are expected to be high in 1971/72, relative to recent years. However, much strength has already been bid into the market. We would expect to see soybean prices reach the \$3.30 - \$3.50 range, basis Minneapolis, in 1971/72. Precise price projections are now uncertain. For the coming year, soybean prices will be strongly affected by: (a) the final 1971 crop; (b) exports, as influenced by international oilseed production and currency revaluations; (c) the impact of new U. S. economic policy; and (d) 1972 soybean crop prospects. Since any of these factors could sharply influence price, sellers and buyers should continue to keep informed.

SOYBEAN SUPPLY AND UTILIZATION

Year beginning Sept. 1	Supply			Utilization			
	Carry- over	Pro- duction	Total	Seed, Feed, etc.	Crushings	Exports*	Total
	<u>Million Bushels</u>						
1965-69	129	996	1,125	54	603	299	956
1970	230	1,136	1,366	71	770	425	1,266
1971**	100	1,200	1,300	70	770	400	1,240
1972**	60						

* Does not include oil and meal exports.

** Based on estimates Mid-August, 1971.

Charles H. Cuykendall
Willis E. Anthony

BEEF

AT A GLANCE: Demand for beef will run 5% to 8% greater in the coming year. Supplies will be up only slightly permitting fed cattle prices to average higher. Feeder cattle price will also be higher, but feed costs will be lower. Profit prospects appear above average.

Demand Conditions

Demand for beef continues strong. As incomes rise, people want to buy more beef. For every increase of one percent in a person's average disposable income he wants to increase his beef purchases almost 1%. The beef producer, therefore, has much at stake in the current effort to increase the real growth of the economy and the average take home pay of workers.

With a 3% increase in real per capita disposable income this fall over a year ago, demand for beef will be up by that same fraction. During 1972 the potential increase is twice as great, especially if the administration suggestions for tax relief -- income tax, social security tax, and automobile excise taxes -- are enacted.

Population is 1% greater than a year ago and the mix is changing. A real strengthening factor in the demand for meat is the fact that the large crop of war babies is now at the age when appetites for meat reach a peak. The change in the population mix plus the increase in population adds 1.5 to 2% to the annual increment of beef demand.

Pork supplies will be less burdensome in the year ahead than in the past year. By the end of 1971 market supplies will be running 3% below year earlier levels and will remain significantly less through 1972. This will add about 1% to the demand for beef, especially during the first half of 1972.

This adds up to a demand shift of 5% this fall relative to a year ago, and a potential shift of 8% or more by mid 1972.

Supply Potential

The July cattle on feed report suggests that marketings of fed cattle will be 3% higher in the third quarter than they were a year ago. In the fourth quarter they may be very close to 1970 levels. (See Table 1).

Table 1. Fed Cattle Marketings and Projected Marketings by Quarters, 22 States.

Quarter	1969/70	1970/71	Projected 1971/72	% Change
- - - - - thousand head - - - - -				
July-Sept	6,044	6,332	6,500	3%
Oct-Dec	5,953	6,193	6,200	0
Jan-Mar	6,118	6,210	6,500	5
April-June	<u>6,195</u>	<u>6,289</u>	<u>6,500</u>	<u>4</u>
Total	24,310	25,024	25,700	3%

Market weights are currently somewhat below year ago levels but this gap will probably disappear with the lower priced feed grains of this fall.

Given the above estimates along with the expected changes in demand results in an expected increase in prices relative to 1970 of \$1.00 in the third quarter and \$2.50 in the fourth quarter. In addition, the impact of inflation over the past year adds another \$1.50 per cwt. to live cattle prices. Also, retail-wholesale beef margins should be below the unusually high margins of November-December, 1970. Therefore, we expect that prices will not decrease as they did last fall. In fact, we expect prices of about \$32.00 for choice cattle for the remainder of 1971.

Marketings during the first two quarters of 1972 will depend upon placements during the last half of this year. Availability of feeders suggests that placements of yearlings this fall will be up only slightly over a year ago. The increased marketings plus potential heavier market weights could cause some slight price depression in early 1972. But if the economy starts to gather momentum, and significant tax relief is granted to individual taxpayers, demand conditions could carry cattle prices up against the price freeze level before mid-year. Therefore, unless some relaxation is permitted after the 90 day freeze period is over, the price ceiling restriction on carcass beef (\$53-54) could put a \$33 lid on live cattle prices before mid 1972. (See Table 2).

Table 2. Choice Steer Prices and Projected Prices by Quarters, Omaha.

Quarter	1969/70	1970/71	Projected 1971/72
- - - - - Dollars per 100 pounds - - - - -			
July-Sept	30.24	30.19	32.50
Oct-Dec	27.79	27.53	32.50
Jan-Mar	29.50	31.05	31.50
April-June	30.15	32.57	33.00
Average	29.42	30.35	32.35

Marketing Margins

Inflation of costs to packers is reflected in the increasing marketing margins shown in Table 3. Retail-wholesale margins also showed significant increases during the past three years. These increased margins have held farmer prices below what they would have been if wages and other costs had not inflated so rapidly. The August wage freeze should hold these margins stable for awhile. However, if the price freeze holds, the only way for fed cattle prices to move above the August level is for this margin to narrow.

Table 3. Beef Marketing Margins and Project Margins by Quarter.

Quarter	1969/70	1970/71	Projected 1971/72
Packer margin* in dollars per 100 pounds liveweight			
July-Sept	2.72	2.70	3.20
Oct-Dec	2.44	2.71	3.20
Jan-Mar	2.74	3.09	3.25
April-June	2.30	3.28	3.00
Average	2.55	2.95	3.15

* This margin also includes transportation costs to seaboard markets. It is calculated as the difference between choice steer prices at 7 markets subtracted from the seaboard wholesale value of carcass beef plus by-product values converted to liveweight basis. This series is reported in USDA's Market News report.

Feeder Cattle Prices

August prices on yearling feeders to cornbelt feedlots were at \$34-35, a dollar or two higher than year earlier levels. Choice steer calf prices were \$38-\$40, very close to year earlier levels.

All factors suggest that feeder cattle prices will be higher this fall than last fall. Fed cattle prices are expected to remain considerably higher, feed grain prices will be sharply lower and western pasture conditions are good. Therefore, we expect that there will be no seasonal decline in feeder prices this fall. Rather, feeder prices could strengthen from August levels.

Profit Prospects

Although the fed cattle price outlook appears favorable, profit prospects for cattle feeders are determined in part by the prices of their inputs. For the coming feeding year, feed prices will be lower but feeder cattle and other nonfeed inputs will be priced higher. Typical cost structures per hundred pounds of gain might appear as follows:

	<u>Steer Calves</u>	<u>Heifer Calves</u>	<u>Yearlings</u>
	- - - - -Dollars per 100 pounds of gain - - - - -		
Feed Costs	17	17.50	19
Nonfeed Costs	7	7.50	8
Total Excluding Marketing Costs	24	25.00	27

Given these costs, Table 4 shows what net selling price is necessary to cover these costs given different laid-in purchase prices. Given our outlook and current feeder cattle prices, returns appear to be average to above average in the coming feeding year.

Table 4. Breakeven Fed Cattle Prices Needed for Typical Feeding Programs.

Laid-in Feeder Price	Steer Calves	Heifer Calves	Yearling Calves
	425-1025#	400-900#	650-1100#
	<u>Feedlot Costs</u>		
	<u>\$24</u>	<u>\$25</u>	<u>\$27</u>
	Net Fed Cattle Price Needed to Cover Above Costs		
26	24.83	25.44	26.41
28	25.66	26.33	27.59
30	26.49	27.22	28.77
32	27.32	28.11	29.95
34	28.15	29.00	31.14
36	28.98	29.89	32.32
38	29.80	30.78	33.50
40	30.63	31.67	
42	31.46	32.56	
44	32.29	33.44	
46	33.12		

Paul R. Hasbargen

HOGS

AT A GLANCE: Barrow and gilt prices averaged well below year earlier levels during the first seven months of 1972. Predicted declines in pork supplies in the fourth quarter of 1971 compared with a year ago should keep prices well above the levels of last fall. Prices are expected to move above the \$20.00 per cwt. level during the first half of 1972. Profit prospects rank good for 1972 hog marketings because of expected higher hog prices and much lower feed grain prices.

Recent Market Developments

Hog slaughter increased sharply during 1970, changing from a slaughter rate of 14 percent below year earlier levels in February to 25 percent above in November. This high slaughter level generally continued during the first half of 1971. Commercial hog slaughter was up 22 percent in the first quarter and 18 percent in the second quarter.

Hog prices declined sharply during the second half of 1970 in response to the build up in hog slaughter supplies. Barrow and gilt prices at seven major markets moved to below \$16.00 per cwt. last fall. Declines in weekly slaughter rates of both hogs and cattle last winter helped prices climb to a peak of about \$20.00 per cwt. in mid-February, 1971. After a rapid early spring decline to about \$16.00 per cwt., prices again rose as slaughter declined seasonally in late spring. By mid-year, hogs were about \$20.00 per cwt. They have since weakened slightly.

The decline in hog prices last year occurred at a time when feed costs were rising. Thus, with generally low hog prices, the hog-corn price ratio ranged between 10.7 and 13.4 during the period of November 1970 to June 1971. These low returns brought about favorable downward adjustments in farrowings in the late spring months of 1971.

Prospects for the Remainder of 1971

Demand for pork should be 2 to 4 percent above a year earlier for the remainder of 1971. Factors leading to this expected increase include

increased population, higher incomes and reduced competition from competing red meats.

Hog supply indicators point to decreased marketing during the fall months relative to a year ago. The June 1, Hogs and Pigs Report estimated a decrease of 7 percent in the pig crop during the late spring of 1971. Further, estimated inventories of hogs and pigs on farms June 1 showed a decrease of 2 percent from a year earlier in light weight pigs headed for market this fall.

Hog weights have been running below a year earlier through most of 1971. They could be about the same to slightly higher than a year ago by this fall due largely to cheaper corn. Thus, the potential decrease in pork production in the October-December period could be less than numbers indicate. For the last quarter, pork supplies will likely be about same to a possible 4 percent decline from the fall of 1970.

The estimated increase in demand indicates that with no change in supply prices should be higher this fall assuming that each 1 percent increase in demand will affect prices by 1.9 to 2.3 percent. Barrow and gilt prices this fall could be expected to be up 4 to 8 percent from a year ago when they averaged \$16.50 for the fourth quarter. This would put the average in a price range of from \$17.00 to \$18.50 per cwt. However, if supplies are reduced by 2 percent, the price level could be an additional \$.50 per cwt. higher.

Supply and Demand Outlook 1972

The outlook situation for the first half of 1972 will be heavily influenced by the 1971 fall pig crop (June-November). Two indicators point to some decrease in farrowings during this period. First, intentions stated in the June 1, Hogs and Pigs Report indicated a planned reduction of 8 percent and second, the hog-corn ratio during the breeding season for this farrowing period averaged at a rather low level of about 12.0 to 1.

We expect that estimates of the actual farrowings which will appear in the September 1, Hogs and Pigs Report for the June-August quarter, will be about 6 percent under year earlier levels. Estimated intentions to farrow for the September-November quarter should be in a range of from 4 to 6 percent under 1970 levels.

Supplies of pork during the first half of 1972 should run below year earlier levels by 4 to 6 percent. Some increase could develop later in the year as the 1972 spring pig crop moves to market.

During the first half of 1972 compared with a year earlier, the demand for pork should be about the same to slightly stronger than a year ago. Incomes should show some improvement. Prices for competing products will average about the same with poultry lower and beef higher.

Price and Profit Prospects 1972

Barrow and gilt prices on 7 major markets during the first half of 1972 are expected to be above the average price of \$17.50 per cwt. established over the first half of 1971. Based on the supply and demand estimates made here, a price level of from \$20.00 to \$22.00 per cwt. should be expected the first two quarters of the year. Even if the price freeze were continued, wholesale and retail prices could rise in response to this since the ceiling price established under the freeze is well above current prices and prices expected this fall.

Profit prospects for the first half of 1972 will depend on both expected prices received and costs, particularly corn. Feeding ratios could be increased significantly if corn prices move in a range of from \$1.10 to \$1.15 per bushel during the feeding period for hogs marketed in the first half of 1972.

The price situation during the latter months of 1972 will depend heavily on farrowings in the spring of 1972. If hog producers reduce farrowings from 1971 levels, price conditions could improve further compared with a year earlier during the last half of 1972. There is a good chance that a turn around from reduced farrowings might develop during the latter spring months of 1972. However, if the increase stays below 3 percent, hog prices should remain good through most of 1972.

Kenneth E. Egertson

DAIRY

AT A GLANCE: Milk production can be expected to increase during the coming year. With some slight loss in commercial sales, CCC support purchases likely will increase. Prices received by farmers will be strongly influenced by the support purchase program with smaller than normal seasonal variation.

Prospects for Remainder of 1971 and 1972

For the first half of 1971, farm dairy sales were estimated at \$3.5 billion, about 4 percent above a year ago. Both increased marketings and 3 percent higher prices received accounted for the rise. Cash receipts should continue above year ago and bring the 1971 total to about \$6.8 billion compared to \$6.5 billion last year. However, higher farm costs will offset a part of the gain.

Milk production for 1971 likely will total around 118.6 billion pounds, about 1 percent above last year. This increase will be achieved in the face of a decline in cow numbers of about 1 percent while the average increase in production per cow has been running slightly over 2 percent. The slow-down in the rate of decline in cow numbers together with offsetting increases in average production per cow has increased total milk production over the previous year for both 1970 and 1971, after having declined each year since 1964.

When adjustments are made for reductions in both farm use of milk and imports together with about stable beginning commercial stocks, the total "supply" shows an increase of .9 billion pounds in 1971 over a year ago (see Table 1).

Retail prices for dairy products are averaging about 3 percent over a year ago. Consumption appears to be declining slightly. Commercial disappearance likely will total about 109.2 billion compared to 109.5 in 1970. This will place net government removals at about 7.1 billion pounds of milk equivalent calculated on a fat basis. This would be an increase of 1.3 billion pounds over 1970. CCC purchases for the first half of 1971 were increased over 1970 for all products - butter, American cheese, non-fat dry milk and evaporated milk. The projected increase in farm milk marketings indicates that CCC purchases will continue larger for the rest of the year.

Looking ahead to 1972, it appears to be a likely prospect that present trends will continue much as they are. Ample herd replacements, milk-feed price relationships conducive to heavy feeding and a somewhat improved labor situation should lead to slightly increased production. With a continued decline in farm use, milk marketings should total about 116 billion pounds, increasing the total "supply" by about 1.2 billion pounds over 1971. If commercial disappearance holds steady at 109.2 billion pounds, net government removals of 8.3 billion pounds would result. This would amount to about 7 percent of marketings.

The past April 1 increase in price supports on manufacturing milk from \$4.66 to \$4.93 per hundredweight had little immediate effect since market prices were near support levels. However, the supports tended to moderate normal seasonal price declines as production increased. During the period, May-July, the average price for manufacturing milk in Minnesota and Wisconsin was about 3 cents below the support level but about 17 cents above a year earlier. For the remainder of 1971 and well into 1972, the price support program is likely to dominate the dairy price structure. Price changes in response to seasonal changes in production likely will be small.

Table 1. U. S. Milk Supply and Disappearance, 1970, with Projections for 1971 and 1972.

	1970 ^{1/}	1971 ^{2/}	1972 ^{2/}
	- - - - - Billion Pounds - - - - -		
Production	117.4	118.6	119.7
Less farm use	4.1	3.9	3.7
Marketings	113.3	114.7	116.0
Beginning Commercial Stocks	3.8	3.7	3.6
Imports	<u>1.9</u>	<u>1.5</u>	<u>1.5</u>
Total "Supply"	119.0	119.9	121.1
Ending Commercial Stocks	3.7	3.6	3.6
Net Gov't Removals	5.8	7.1	8.3
Commercial Disappearance	<u>109.5</u>	<u>109.2</u>	<u>109.2</u>
Total "Disappearance"	119.0	119.9	121.1

^{1/}Dairy Situation, July 1971

^{2/}Estimates by the authors

Some Dairy Issues Ahead

The foregoing examination of current trends suggests that the imbalance between dairy supplies and consumption is likely to increase over the next one to two years. Some indications are that the imbalance could become large rather rapidly. With an increasing imbalance, the dairy price support program likely would encounter severe budget limitations. Undoubtedly, under these conditions many dairy farmers and industry leaders would prefer some program to control dairy output rather than risk the loss of or severe restriction of the support program. Should the need arise, considerable interest in the dairymen's Class 1 base plan in federal order markets under the 1970 agricultural legislation likely would develop. Some programs operated by producer associations incorporating the Class 1 base idea presently are in operation on a limited basis.

Recent legislation permits Federal milk order checkoffs for advertising and promotion purposes. Producer associations serving the Mid-Atlantic market recently requested a hearing to consider this matter in that area. Increased surpluses undoubtedly will stimulate further interest in increased advertising, promotion and product development as a means of increasing consumption and reducing excess supplies of milk. Whether or not such programs might be effective over a long period of time is by no means clear.

Rapid Shift to Grade A

Data recently released by the Minnesota Crop and Livestock Reporting Service points up the rapid shift to Grade A by Minnesota dairymen. In 1970, Minnesota grade A producers delivered 2.7 billion pounds of milk to dairy plants. This was an increase of about 630 million pounds in two years. Grade A accounted for 29 percent of all milk delivered to plants in 1970 compared to about 21 percent in 1968.

The impact of expanding grade A production in Minnesota and neighboring states is reflected in the proportion of milk used for fluid purposes in federal order markets. With the exception of the Duluth-Superior market where utilization of milk for fluid purposes held steady between 1968 and 1970, the proportion used in fluid products declined in the federal order markets important to Minnesota dairymen. The average annual Class 1 use (on a pounds of product basis) fell from 46 to 43 percent between 1968 and 1970 in the Minneapolis-St. Paul market, 65 to 59 percent in the eastern South Dakota market and from 40 to 30

percent in the Minnesota-North Dakota market. In the Southeast Minnesota-Northern Iowa market, Class 1 utilization also fell.

The shift of manufacturing milk to grade A will likely continue and further add to the pool of milk entitled to a share of the returns from fluid sales.

What avenues will Minnesota producers have opened to them as the shift to grade A continues? The problem would seem to be to find ways to permit Minnesota dairymen to participate in the returns from fluid sales over a wider area. Three devices come to mind. Each has been used to some degree in the past. Each has implications for not only Minnesota but all Midwest dairymen. First is the regional cooperative operating on a multi-market basis. By repooling the returns from a number of markets with both high and low fluid sales the returns to members might approach the average of all markets served by the regional cooperative. Second is the standby pool mechanism. This is a device through which cooperatives with comparatively high fluid sales contribute on a per hundredweight basis to cooperatives with very limited fluid outlets. The third alternative would be a continuation of the trend to consolidation of Federal milk marketing orders. Combining with markets with high fluid utilization can be used to offset low utilization in other markets.

Martin K. Christiansen
Kenneth H. Thomas

POULTRY

AT A GLANCE: Supplies of eggs in 1972 will be slightly under year ago levels. Egg prices on the average are expected to be about the same to slightly higher than a year ago levels. Prices should be strongest this fall and weakest in the spring months of 1972. This year's holiday turkey season should be very much like last year's with prices running possibly one cent a pound higher. Indications point toward a 3 to 4 percent increase in the turkey crop for 1972, however. Profit prospects for both egg producers and turkey growers should be slightly improved due primarily to projected lower feed costs.

Eggs

The projected 1971-72 total egg supply picture is clouded some by the introduction of new technology called Marek's disease vaccine. Although the number of layers should be under year earlier levels by October, the Marek's vaccine will likely reduce pullet and laying house mortality as well as increase the rate of lay. This development coupled with a projected 5 percent decrease in the total hatch in 1971 should add up to a somewhat smaller laying flock in the year ahead and a slight reduction in egg production.

Demand conditions are expected to be much the same as the year earlier situation with some decrease in military use offset by increased distribution to the needy. Storage holdings are above year earlier levels, however. This is likely to mean less demand for breaking eggs this fall and winter.

If the expected supply and demand estimates are correct, prices for large eggs during the coming 12 months should average 39 cents, basis New York Fancy Large market, or about the same as last year. The price pattern over the next 12 months is expected to be about the same as a year earlier. Highest prices can be expected during the fourth quarter of 1971 and lowest during the second quarter of 1972. For Minnesota producers this means a likely average price for the year of 26 to 28 cents a dozen for all market eggs.

With egg prices about the same to slightly higher in 1972, and with reduced feed costs, the profit picture should be better than last year, but it will still be "touch and go" in covering all costs.

Turkeys

The 1971 turkey crop is currently estimated at 117.7 million birds or a strong one percent over last year's crop. The increased numbers, however, were slaughtered by mid-year thus second half year slaughter should be about the same as last year.

Demand for turkey should also be higher this fall. Despite the unemployment picture, the net income effect in the fourth quarter of 1971 is expected to be stronger than last year. Competition from other meats should be on the positive side for turkey. The expected decline in both pork and chicken supplies will more than offset a slight increase in beef.

With little change in the demand or supply picture for last quarter of 1971, market prices should range about the same as last year. This would mean a 39 to 40 cent New York wholesale price for hens and 35 cent price for toms.

The 1972 turkey crop is expected to be 3 to 4 percent larger than the 1971 crop due to an increased hatch. This predicted increase is based on expected lower feed prices and the relatively favorable net returns on the 1971 crop.

Richard O. Hawkins

SHEEP AND LAMBS

AT A GLANCE: Price prospects for lambs appear favorable for the remainder of 1971. Demand is expected to remain strong and supplies could run moderately below year year ago levels. Feeder lamb prices will average slightly above last fall. Fed lamb prices during the first half of 1972 should remain good and average above the levels established in 1971.

Native Ewe Flock

On January 1, 1971, the number of sheep and lambs on U.S. farms and ranches totaled 19,535,000 head, down almost 1 million head from a year earlier. This declining trend began in 1960. Numbers in that year stood at 33 million head. A further decline of from 4 to 5 percent is expected by January 1, 1972. Lamb consumption per capita in 1970 was 3.0 pounds, the lowest yearly consumption rate recorded for the commodity.

The 1971 lamb crop was estimated at 12.9 million head, a 4 percent reduction from a year earlier.

Commercial sheep and lamb slaughter during the first 7 months of 1971 was up 2 percent from a year earlier. Lamb slaughter for the remaining months of 1971 is expected to run below year earlier levels because of the smaller lamb crop and relatively high slaughter levels in the first half of the year.

Lamb prices have increased from the lows of late 1970 and early 1971. Choice lamb prices averaged \$24.75 per cwt. in the first quarter of 1971, about \$3 to \$4 per cwt. under a year ago. Second quarter prices increased and averaged \$28.95 per cwt., \$1 to \$2 above the second quarter of last year. Spring lambs came on the market at generally \$2 to \$4 above old crop lambs.

Lamb prices are likely to be held near present levels into the fall and early winter by lower slaughter supplies and active demand for slaughter lambs. The expected range on choice lambs at major Minnesota markets is from \$27.00 to \$29.00 per hundred weight.

Although sheep numbers are continuing to decline, profits have been good on well managed ewe flocks. The same rating seems probable in 1972.

Lamb Feeding

Profits in lamb feeding operations in the 1970-71 feeding year were down from the year earlier and generally quite poor. Lower fed lamb prices and higher feed prices contributed to this situation even though feeders were purchased in the fall of 1970 at slightly lower prices than a year earlier.

Feeder lamb supplies this year will be lower because of smaller 1970 lamb crop and the larger number of lambs that have already been slaughtered.

On balance, demand for feeders will probably be about the same as a year ago. Feeding returns of a year ago will cause weakness. However, this should be more than offset by lower feed prices and expectations for strong fed lamb prices into the winter of 1972.

Feeder lamb prices in late July and early August have averaged near year earlier levels. Choice feeder lambs at midwest markets in mid-August averaged about \$25.50 to \$26.75 per cwt. Relatively favorable slaughter lamb prices, reduced supply of lambs available for placement this fall and plentiful supplies of feed grains will likely be reflected in some strength in feeder lamb prices this fall and into the winter months.

Profit prospects for lamb feeding in the year ahead look better than in 1970-71 but still don't appear to rank better than fair.

Kenneth E. Egertson