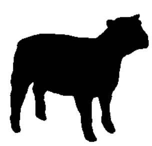
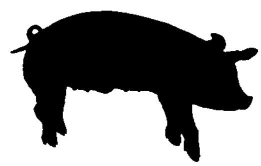
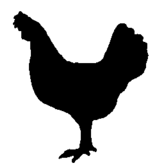
Economic Information Report R 72-6 September 1972

1973
AGRICULTURAL OUTLOOK





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

AGRICULTURAL OUTLOOK 1972-73

by

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AGRICULTURAL INCOME REVIEW

Record incomes are in the making for farmers in 1972. High livestock and soybean prices are the major factor contributing to this record. The July issue of the U. S. D. A. Farm Income Situation shows an estimated realized net income rate for January to June at a record level of $18.4 billion, nearly 3 billion higher than the comparable period of 1971.

This record culminates a fairly steady increase in farmer earnings in recent years. This increase coupled with an even faster increase in the off-farm income of farm families has resulted in a doubling of the per capita income of farm people in the past decade. Their earnings have been increasing at a significantly faster rate than earnings of nonfarm people, resulting in an increase in the relative income of farm people. The 1972 per capita income of farm people will probably be about 81 percent of nonfarm people. This ratio was 73 percent five years ago and only 62 percent ten years ago.

Crop Income

Some price gains over a year ago are likely for the current crop of feedgrains since production will be lower than last year's record, while both domestic and foreign demand will be higher. However, the fairly large carry-over supply will limit price increases.

Soybean income will be up as a possible 10 percent increase in the 1972 crop will be readily absorbed at relatively high prices, due to a strong world demand for meal. Wheat prices will be above late 1971 levels because of the large Russian wheat purchases. Potato prices are also expected to show recovery this fall and winter.

Minnesota cash crop farmers with normal yields can, therefore, expect income improvement in the coming year as compared with the relatively unfavorable crop income year just completed.

Livestock Income

Minnesota livestock farmers are experiencing record farm earnings. This is especially true of beef and hog producers with dairy earnings up slightly. Poultry farmers, however, have been suffering under burdensome supplies and low prices.

Strong demand, generated by a rapidly expanding economy, is expected to hold livestock prices at high levels in the coming year. Earnings for cattle feeders will be down from the record margins of the past 12 months but other livestock, dairy and poultry farmers, can expect improved incomes again in the year ahead.

Extension Economists

FEEDGRAINS

AT A GLANCE: Total feedgrain supplies for 1972/73 are forecast to be about 2 percent below last year. Production will be down, but carry-over stocks are larger than a year ago. Domestic consumption and exports will be up, and will likely exceed production. Prices will average higher than in the 1971/72 crop year.

Feedgrains in General

The 1971/72 feedgrain market has been rather inactive. Feedgrain production in 1971 was up 30 percent from 1970. Production and carry-over provided a record 238.6 million ton supply. Livestock and poultry numbers have been up slightly. Exports have been up considerably. Nevertheless, greater utilization will not balance the greater supply from last year. Carry-over on October 1 will be up sharply from last year and above the recent average. Market prices averaged below 1970/71, and have moved in a very moderate trading range for the season.

Prospects for the 1972 crop are for 10 percent lower production. Adding the expected carry-over of about 50 million tons to the August 1 U.S.D.A. crop forecast of 183 million tons yields an expected supply of 233 million tons. In the year ahead, exports and domestic livestock and poultry numbers will likely be up. Utilization will likely exceed 1972 production, causing a drawdown in stocks. This situation will lead to stronger feedgrain prices through the 1972/73 marketing year.

The Corn Situation

A. 1971/72 Review:

The 1971/72 marketing year has shown lackluster price performance. Supplies have been heavy. The 1971 corn crop was the largest in history. Harvested acreage was the most since 1960. Yield was a record 86.8 bushels per acre. Total crop was 35 percent above 1970. Although carry-over was quite low, total supply was 6,204 million bushels.

Corn utilization in the past marketing year has been up appreciably. Domestic livestock numbers have been up less than 1 percent; but feeding rates are up 6 percent in response to low feedgrain prices. Corn has been cheap relative to other feedgrains and corn feeding is up by 11 percent for the year. Exports are also high. By the end of September, exports are estimated to be up 35 percent for the crop year.

Although utilization of last year's corn crop is high, it has not increased as much as production in 1971. Thus, carry-over from 1971/72 is up from a year ago and will probably approach 1,200 million bushels.

The price pattern for the 1971 crop was typical of a large crop year. Price at harvest was below the government loan rate, dropping to about $1.01, basis Minneapolis, No. 2, in early November. The November-July season average price, basis Minneapolis, was $1.15 1/2 per bushel. As is often the case, the market peaked in early summer, at a shade over $1.23. During the summer price advances from export expectations have been countered by good 1972 crop prospects. Hence, the corn market has been a standoff between up and down pressures for most of the summer of 1972.

B. 1972/73 Outlook:

Farmers in the U. S. planted just over 57 million acres of corn for harvest in 1972. If the season progresses normally through harvest, U.S.D.A. indicates that yield will be 86.6 bushels per acre. This yield would produce 4,948 million bushels of corn for grain. If realized, the crop will be 11 percent under 1971, but the second highest of record.

Adding production estimates to anticipated carry-over makes a supply of roughly 6,100 million bushels. This will be less than last year's 6,204 bushels; but it will be 15 percent above the 1965-69 average of 5,405 million bushels.

Corn demand in 1972/73 will likely be high. Domestic livestock numbers will be up moderately (see the cattle, hogs, and poultry sections). However, feeding rate could drop from the record of 1971/72. Feeding rates are sensitive to livestock/feed price ratios. If livestock prices relative to corn prices are lower next year, feeding rates will probably drop. The 1971/72 rate is 1.60 tons per animal unit. In 1970/71, a year of higher corn prices, the rate was 1.51 tons per animal unit. If feeding rates hold relatively high, nearly 4,000 million bushels of corn will be fed from the 1972/73 supply. Over 400 million will go to other domestic uses. This will leave about 1,700 million bushels for export and stocks at the end of the marketing year.

Corn exports in 1972/73 are now projected to be above 1971/72. Livestock numbers are increasing throughout the world as higher incomes lead people to more meat consumption. Although other countries are developing corn export capacity, the U.S. remains a principal supplier on the world market. Buoyed by the recent grain deal with the USSR, corn exports in 1972/73 will likely reach 780 million bushels. Currency re-evaluations as a result of the past year's international monetary negotiations should also provide additional export incentive in the forthcoming marketing year.

Unless 1972/73 presents a radical departure from past market relationships, No. 2 yellow corn price at Minneapolis should average around $1.20 per bushel during the November-July period.

This average would mean a season low of just under $1.10 at harvest, and a peak of $1.25-$1.30 in early summer 1973.

Given this price forecast, new crop contract and futures market opportunities available through mid-August 1972 look favorable. If these opportunities are gone as harvest approaches, it will likely pay to store corn at least until early 1973. However, if the corn crop is stored, the market should be watched closely for favorable pricing opportunities.

CORN SUPPLY AND UTILIZATION

Year beginning Oct. 1	Supply				Utilization			
	Carry-over	Pro-duction	Im-ports*	Total	Domestic Feed	Domestic Food Indus. Seed	Ex-ports*	Total Use
				Million Bushels				
Aver. 1965-69	1,017	4,387	1	5,405	3,450	377	591	4,418
1970	999	4,099	4	5,102	3,526	396	517	4,439
1971	663	5,540	1	6,204	3,902	402	715	5,019
1972**	1,185	4,948	1	6,134	3,975	406	780	5,161
1973**	973							

* Includes grain equivalent of products

** Based partially on estimates, Mid-August 1972

The Oats Situation

Oat prices have remained strong relative to corn throughout the past crop year. Production and total supplies were down during the past year. Free stocks remained rather low as much of the supply was sealed or held under government program. At Minneapolis, prices rose 10 cents/bushel from harvest 1971 into December and remained just under 70 cents through the rest of the crop year.

Oat production in 1972 is forecast at 737 million bushels. This is 16 percent less than last year's crop. Total carry-over into the new marketing year was 540 million bushels. The 1972/73 supply of 1,277 million bushels will be 8 percent under the 1971/72 supply.

Utilization, down in the past year, will likely be up in 1972/73. Domestic food use will be virtually unchanged. Livestock feeding may be up, particularly as horse numbers increase. Horse numbers are now estimated to be 2 to 3 times the low of 3 million in 1960. Exports will likely be up moderately from the 25 million bushels of 1971/72. Total utilization will probably be about 870 million bushels. This is larger than the 1972 crop and will reduce stocks. This should prove to be price strengthening.

Price for the 1972 oats crop will likely be moderately higher than last year, when Minneapolis No. 2 ranged from 59 cents to 70 cents/bushel.

The Barley Situation

Barley prices during the past year have remained lower than in 1970/71. After a harvest low of 87 cents/bushel at Minneapolis there was a rather sharp recovery to $1.07 at Minneapolis in December 1971. Prices remained in the $1.04-$1.09 range through the rest of the marketing year. During the year there were comparatively tight "free" market supplies. The CCC sold 39 million bushels to the USSR and substantial stocks were under government loan and in tight seller hands.

Production from the 1972 barley crop is estimated at 409 million bushels. This is down 12 percent from 1971 due to both lower acreage and yield. Carry-over of stocks into the 1972/73 marketing year were 160 million bushels -- slightly above a year earlier. Total supply will thus be below last year.

Barley utilization in the past two marketing years has been up considerably from the recent average. Domestic use, for both industrial and feed purposes, has been 20 percent higher than average. Exports have been up even more, running 35 percent above average in 1971/72 and double the average in 1970/71. Both use and exports will likely be at least at last year's level. If so, it would cut carry-over stocks back to 100 million bushels and would lead to moderately strong prices.

For 1972/73, barley price is expected to be above 1971/72. However, some of the anticipated strength from export is already bid into the market. A price rise from harvest of last year's magnitude is not anticipated, unless there is an unexpectedly sharp upturn in foreign demand.

Willis E. Anthony
Charles H. Cuykendall

WHEAT

AT A GLANCE: Spurred by export prospects, wheat utilization will rise in 1972/73. This is now reflected in wheat prices on both cash and contract markets. Prices will be higher in 1972/73 than in 1971/72, but the strength may now be bid into the market.

Review of 1971/72:

Utilization of all classes of wheat was down in the past marketing year. Exports were off by about 100 million bushels. Domestic food use, which generally shows little annual change, was only slightly above a year ago. The largest category of increased usage was domestic livestock feed. Wheat feeding was up by 61 million bushels to 287 million bushels in 1971/72.

In the past few years there has been an appreciable increase in wheat feeding. Much of the wheat fed is in cattle feedlots of the central and southern plains. Wheat feeding in this area accounts for most of the year-to-year fluctuations in domestic wheat use. The high level of feeding this past year is surprising in view of the relatively low feedgrain prices.

Price during the past season, as usual, moved upward after harvest. There was a good price gain from harvest into December. But moving into the new year, price showed little direction. No. 1 Dark Northern Spring averaged $1.50 per bushel in Minneapolis during August and September 1971, rose to $1.57 average in December, and declined slowly to $1.50 average in June 1972. Durum price rose in a similar fashion, but did not show the same weakness moving into the 1972 harvest.

1972/73 Prospects:

The 1972 wheat crop is estimated at 1,543 million bushels. This is 6 percent less than 1971. Hard spring wheat production is estimated at 260 million bushels, down nearly 30 percent. Durum production is estimated at 73 million bushels, down 17 percent from 1971. However, larger carry-over stocks make total wheat supply somewhat greater than a year ago.

Utilization of wheat will be larger in 1972/73. Domestic food use of wheat will likely be about 520 million bushels. Wheat feeding will likely be down in response to higher wheat prices and abundant feedgrain supplies. Exports will be up sharply, and are currently forecast at 1,000 million bushels. This is chiefly due to higher USSR wheat purchases as a part of the negotiated grain deal. It was earlier anticipated that most such purchases would be feedgrains, but it is now apparent that a large volume of wheat will also move. Minnesota producers should note that utilization of hard spring and durum through export may not increase as much as other wheat classes.

Wheat prices will be higher in 1972/73 than in 1971/72. Pending more certainty regarding export movement, it is difficult to project price. Minneapolis wheat price rose nearly 20 cents per bushel after heavy export movement became apparent. It is difficult to envision cash prices rising appreciably above the level bid into the current futures market. Thus, it appears reasonable for producers to price at least a portion of 1972 crop sales at current levels.

Willis E. Anthony
Charles H. Cuykendall

Wheat Supply and Utilization

	All Wheat		Hard Spring		Durum	
	1971/72	1972/73*	1971/72	1972/73*	1971/72	1972/73*
	-------Million Bushels -------					
Carry-over	730	865	150	275	54	69
Production	1,640	1,543	367	260	88	73
Imports	1	1				
Total Supply	2,371	2,409	518	535	142	142
Food Use	523	520				
Seed	64	65	139	140	29	36
Feed	287	200				
Exports	632	1,000	104	140	44	50
Total Use	1,506	1,785	243	280	73	86
Ending Carry-over	865	624	275	255	69	56

* Projections, Mid-August, 1972.

SOYBEANS

AT A GLANCE: Total soybean supply for 1972/73 will be up from last year. Soybean production will set another record, but carry-over stocks are minimal. Prices will be strong, but may not show appreciable strength above late summer levels.

1971/72 Review:

The 1971 soybean crop set a record at 1,169 million bushels. But old crop carry-over was low. Thus, total supply available for 1971/72 was below a year earlier. Because of increasing soybean demand, prices rose to ration available supplies among alternative uses. Both exports and domestic soybean crush were down. At the end of the year carry-over stocks are probably at the minimum possible level.

Soybean price behavior for the year reflected its rationing function. At harvest the Minneapolis quotation dropped to $2.94 per bushel. It quickly recovered to $3.13 in early November, but weakened to $2.85 by mid-November. The market again rebounded and traded in the $3.00-$3.10 area into late February. Beginning the move in late February, prices rose steadily to the $3.50 area in April. Through summer prices fluctuated daily, moving in a wide $3.35 to $3.55 range as news of exports, stocks, crushing margins, and new crop condition affected the market.

Soybean meal price continued quite strong through the year, but soybean oil price moved almost steadily downward. Spot crushing margins also remained low, and were negative in some weeks. Consequently, high soybean meal prices and processor acceptance of tight crushing margins supported the higher soybean prices.

1972/73 Prospects:

In response to higher price prospects, soybean growers increased planted acreage by 8 percent to 45.8 million for harvest in 1972. As of August 1, USDA estimated an average yield of 27.7 bushels per acre. If realized, this would be .1 bushel per acre above last year. It would produce 1,270 million bushels total crop. There is at present some indication that yield could be higher. Adding carry-over to projected production, total soybean supply for 1972/73 will be about 1,350 million bushels -- 6 percent above last year.

Utilization will undoubtedly rise by close to this amount. Domestic crush is projected to rise to 750 million bushels. Exports of whole beans are expected to be 450 million bushels. In addition, substantial amounts of meal and oil are exported from the domestic crush. With livestock numbers increasing throughout the world meal should have little difficulty finding a market. Oil may be in greater difficulty as vegetable oil supplies appear plentiful and domestic stocks are building.

In assessing soybean price prospects, three factors are relevant on the demand side of the market: 1) the protein meal situation, 2) the oil situation, and 3) crushing margins. We are starting the new year at a high soybean price which probably can be supported only if meal and oil markets are strong. Meal presently accounts for 2/3 of the value of a bushel of soybeans. Soybean meal prices are quite high and have been rising. There does not appear to be substantial competition in export markets for next year despite some increase in supplies of competing meals at present prices. Domestically, there may be more resistance to high meal prices as livestock producers find ways of cutting meal purchases. Generally, it appears difficult to envision higher meal prices for the 1972/73 year, and present levels may reduce consumption.

The vegetable oil market does not appear particularly bright for soybeans at present prices. The U.S. has a large stock of oil; palm oil and other world oil production is up; and there is sharply increased sunflower acreage. Hence, vegetable oil production is increasing and oil prices are decreasing. This situation may continue.

Throughout the past year the crushing margin (cash difference between soybean prices and combined meal and oil value) for soybeans has been low. In mid-August it was 3 cents, compared with 18 cents a year earlier. Processors are likely to be reluctant to operate for a long period of time at low margins. It appears unlikely to expect higher soybean prices through reduced processor margins.

In general, it does not appear that the utilization side of the market can sustain rising soybean prices throughout 1972/73. At present prices and supplies, product use may be cut back. Export demand is good, but buoyant exports are probably already bid into the market. Although we don't anticipate substantially lower soybean prices, it does not appear reasonable to expect an appreciable seasonal price rise. Season average farm price will likely be about $3.05 and the peak will likely come early in the season. It looks like a good year for producers to establish price early by contracting or hedging, both for soybeans delivered at harvest and for soybeans placed in storage.

Soybean Supply and Utilization

Year beginning Sept. 1	Supply			Utilization			
	Carry-over	Production	Total	Seed, Feed, etc.	Crushing	Export*	Total
	----------------------million bushels----------------------						
Avg. 1965-69	129	996	1,125	54	603	299	956
1970	230	1,124	1,354	62	760	433	1,255
1971	99	1,169	1,268	63	720	425	1,208
1972**	60	1,290	1,350	63	750	450	1,263
1973**	87						

* Not including oil and meal exports

** Partially estimated, Mid-August 1972

Charles H. Cuykendall
Willis E. Anthony

BEEF

AT A GLANCE: Demand for beef will continue to increase, running 8-9 percent greater in the coming year. Supplies will be up almost as much, allowing fed cattle prices to average only slightly higher. Feeder cattle prices and feed costs will be higher than last fall. Profit prospects appear above average.

Demand Conditions

Demand for beef continues strong. As incomes rise, people want to buy more beef. For every 10 percent increase in a person's average disposable income his beef purchases can be expected to increase by 8 percent. The beef producer, therefore, has much to gain from the current increase in the real growth of the economy and the average take home pay of workers.

With a 7 percent increase in per capita disposable income this fall over a year ago, demand for beef will be up by almost that same fraction. During 1973 the potential increase is even greater, because incomes are expected to rise at a more rapid rate as the economy continues to grow.

Population is 1 percent greater than a year ago and the mix is changing. A real strengthening factor in the demand for meat is the fact that a 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 percent to the annual increment of beef demand.

Pork supplies will be less burdensome in the year ahead than in the past year. For the last half of 1972 market supplies will be running 6 percent below year earlier levels and for the first half of 1973 they will be about 4 percent under early 1972. Resulting higher pork prices will add about 1 percent to the demand for beef.

This adds up to a demand shift of 8 percent this fall relative to a year ago, and a potential shift of 10 percent by mid 1973.

Supply Potential

The July cattle on feed report indicated that marketings of fed cattle would be 9 percent higher in the third quarter than they were a year ago. However, July marketings were actually down by 2 percent in the six major feeding states. Sharply increased fed cattle marketings appear likely for late August, September and October. We expect quarterly marketings to be up about 8 percent and 7 percent for the last two quarters of this year. (See Table 1).

Table 1. Fed Cattle Marketings and Projected Marketings by Quarters, 23 States

Quarter	1970/71	1971/72	Projected 1972/73	Projected Percent Change
	--------thousand head--------			
July-Sept.	6,360	6,592	7,100	+ 8
Oct.-Dec.	6,209	6,223	6,700	+ 7
Jan.-Mar.	6,231	6,435	6,800	+ 6
Apr.-June	6,278	6,742	7,100	+ 5
Total	25,078	25,992	27,700	+ 6

Market weights are currently somewhat above year ago levels and this gap will probably continue while cattle prices are under pressure this fall. The gap will narrow with improving beef prices in early 1973.

Given the above estimates of supply and demand, we expect that prices in the last half of 1972 will average $1.00 to $2.00 higher than in the last half of 1971. Bunched marketings could push prices below year ago levels in September. But price recovery can be expected before the end of the year, unless cattle are held to excessively heavy weights.

Marketings during the first two quarters of 1973 will depend in part 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. However, earlier placements of cattle on feed this summer will insure that marketings will remain above year earlier levels by 5 percent or so for the first half of 1973. Even with somewhat heavier weights, beef supplies will be up less than demand allowing room for price increases of about $2.00 over the strong prices of 1972.

Table 2 shows choice and good prices at South St. Paul for the past two years and expected change in demand relative to supplies during the next year.

Table 2. Choice and Good Steer Prices at South St. Paul and Direction of Price Change Expected in Coming Year, in Dollars per 100 Pounds.

Month	1970/71		1971/72		1972/3 Directional Change from Year Earlier	
	Choice	Good	Choice	Good		
July	31.08	28.42	32.36	28.84	38.07	34.50
August	29.98	27.14	33.07	29.06	35.58*	33.52*
Sept.	29.20	27.52	32.61	29.48	0	
Oct.	29.38	26.49	32.24	29.29	+	
Nov.	27.10	25.69	33.29	29.89	+	
Dec.	26.48	25.10	34.03	30.81	+	
Jan.	28.80	26.29	35.18	31.67	+ +	
Feb.	31.76	28.92	35.88	34.20	+ +	
Mar.	31.66	28.71	34.83	32.96	+ +	
Apr.	32.42	28.96	34.27	31.62	+ +	
May	32.93	30.21	35.48	33.08	+ +	
June	32.30	28.62	37.63	34.25	0	

* For week ending August 19.

Feeder Cattle Prices

Table 3 shows how feeder prices have been moving up over the past year. Some price decline can be expected on heavier feeders in the third quarter in sympathy with a sharp drop in the fed cattle market in late August. However, feeder cattle demand will be higher than ever this fall because of the record high feeding returns of the past year and the favorable outlet for continued strong beef prices.

Supplies of yearlings outside feedlots is estimated to be the same as a year ago. Thus, despite current depressed fed markets, we expect yearling prices to remain in the $40-$43 range.

The 1972 calf crop was up 3 percent with the beef calf crop up by 4 percent. But range conditions are good and so are the financial conditions of ranchers putting them in a strong bargaining position. Thus, despite somewhat higher corn prices, cornbelt feeders will probably have to go to $50 for 400 lb. choice steer calves.

Table 3. Feeder Cattle Prices Per 100 Pounds, Kansas City.

	Choice Feeder Steers 600-700 lbs. 1/			Choice Feeder Steer Calves 2/		
	1970	1971	1972	1970	1971	1972
Month		Dollars			Dollars	
Jan.	32.83	32.20	37.92	36.82	36.18	41.50
Feb.	34.44	34.24	38.86	38.55	38.48	43.94
Mar.	35.85	34.26	36.64	39.74	38.17	44.69
Apr.	35.01	34.46	38.54	39.40	38.62	45.16
May	35.00	34.52	40.43	40.61	39.19	46.67
June	34.92	34.52	41.94	41.48	39.15	47.32
July	34.54	34.36	42.02	41.24	39.10	47.10
Aug.	33.28	35.18	42.65 3/	39.50	39.36	48.75 3/
Sept.	32.86	34.97		38.66	39.33	
Oct.	32.66	35.64		37.60	39.95	
Nov.	31.79	36.88		36.08	41.70	
Dec.	31.28	37.20		35.49	41.81	
Average	33.70	34.87		38.76	39.25	

1/ Prior to 1972 550-750 lbs.

2/ 400-500 lbs., prior to 1972 300-550 lbs.

3/ For week ending August 19

Profit Prospects

Although the fed cattle price outlook appears favorable, input prices also affect profit prospects for cattle feeders. For the coming feeding year, feed, feeder cattle, and other nonfeed inputs will all be priced higher. These higher prices along with typical resource requirements and projected market prices have been fed into one of our computer decision aids -- the results are shown on the next two pages.* It appears that if our favorable outlook for fed beef prices materializes, cattle feeding returns could be better than average in the coming year despite high feeder prices.

Paul R. Hasbargen
Kenneth E. Egertson

* See budgets on pages 20 and 21. If a cattle feeder decides to have an individual computer budget for his situation, he should call his county agent.

BUDGET FØR STEER CALF
USING STANDARD RATIØN # 1

	HEAD	CWT GAIN
PERFØRMANCE:		
PURCHASE WEIGHT, LBS	425.	
SELLING WEIGHT, LBS	1025.	
TØTAL GAIN, LBS	600.	
AVERAGE DAILY GAIN, LBS	2.20	
DAYS ØN FEED	273.	
VALUE PRØDUCED:		
SALE VALUE AT $ 36.00 /CWT...........	$ 369.00	
PURCHASE CØST AT $ 50.00 /CWT	212.50	
GRØSS MARGIN	156.50	$ 26.08
FEED REQUIREMENTS AND CØSTS:		
CØRN 64.00 BU AT $ 1.10	70.40	11.73
HAY .50 TØN AT $ 20.00	10.00	1.67
PRØTSUP 2.70 CWT AT $ 5.50	14.85	2.47
MINERAL .40 CWT AT $ 5.00	2.00	.33
TØTAL FEED CØST	97.25	16.21
ØPERATING CØSTS:		
INTEREST ØN ANIMALS (7.5 PERCENT)..	11.91	1.98
DEATH LØSS (1.7 PERCENT)	3.89	.65
SELLING AND BUYING CØSTS	14.50	2.42
ØTHER ØPERATING CØSTS	9.00	1.50
TØTAL ØPERATING CØSTS	39.30	6.55
TØTAL FEED & ØPERATING CØSTS	136.55	22.76
RETURN:		
BUDGETED RETURN TØ LABØR & FACILITIES	19.95	3.33
MINIMUM DESIRED RETURN TØ LAB & FAC..	18.00	3.00

RETURN TØ LABØR & FACILITIES

SELLING PRICE/CWT	WHEN PURCHASE CØST PER CWT IS: 48.00	49.00	50.00	51.00	52.00
34.00	8.58	4.02	-.55	-5.11	-9.67
35.00	18.83	14.27	9.70	5.14	.58
36.00	29.08	24.52	19.95	15.39	10.83
37.00	39.33	34.77	30.20	25.64	21.08
38.00	49.58	45.02	40.45	35.89	31.33

BREAK EVEN SELLING PRICES THAT WILL CØVER FEED, ØPERATING, AND MINIMUM DESIRED RETURN TØ LABØR AND FACILITIES.

PURCHASE PRICE/CWT	WHEN CØRN PRICE PER BU IS: 1.00	1.05	1.10	1.15	1.20
48.00	34.29	34.61	34.92	35.23	35.54
49.00	34.74	35.05	35.36	35.68	35.99
50.00	35.18	35.50	35.81	36.12	36.43
51.00	35.63	35.94	36.25	36.57	36.88
52.00	36.08	36.39	36.70	37.01	37.32

NØTE: TØ DETERMINE WHAT PRICE IS NEEDED TØ CØVER ØNLY FEED AND ØPERATING CØSTS SUBTRACT $ 1.76 FRØM BREAK EVEN SELLING PRICE.

BUDGET FØR STEER YEARLING
USING STANDARD RATIØN # 3

	HEAD	CWT GAIN
PERFØRMANCE:		
PURCHASE WEIGHT, LBS	650.	
SELLING WEIGHT, LBS	1100.	
TØTAL GAIN, LBS	450.	
AVERAGE DAILY GAIN, LBS	2.40	
DAYS ØN FEED	187.	
VALUE PRODUCED:		
SALE VALUE AT $ 37.00 /CWT...........	$ 407.00	
PURCHASE CØST AT $ 42.00 /CWT	273.00	
GRØSS MARGIN	134.00	$ 29.78
FEED REQUIREMENTS AND CØSTS:		
CØRN 60.00 BU AT $ 1.05	63.00	14.00
HAY .40 TØN AT $ 20.00	8.00	1.78
PRØTSUP 1.80 CWT AT $ 5.50	9.90	2.20
MINERAL .30 CWT AT $ 5.00	1.50	.33
TØTAL FEED CØST	82.40	18.31
ØPERATING CØSTS:		
INTEREST ØN ANIMALS (7.5 PERCENT)..	10.52	2.34
DEATH LØSS (.7 PERCENT)	2.03	.45
SELLING AND BUYING CØSTS	17.50	3.89
ØTHER ØPERATING CØSTS	6.00	1.33
TØTAL ØPERATING CØSTS	36.05	8.01
TØTAL FEED & ØPERATING CØSTS	118.45	26.32
RETURN:		
BUDGETED RETURN TØ LABØR & FACILITIES	15.55	3.46
MINIMUM DESIRED RETURN TØ LAB & FAC..	14.00	3.11

RETURN TØ LABØR & FACILITIES

SELLING PRICE/CWT	WHEN PURCHASE CØST PER CWT IS: 40.00	41.00	42.00	43.00	44.00
35.00	7.15	.35	-6.45	-13.25	-20.04
36.00	18.15	11.35	4.55	-2.25	-9.04
37.00	29.15	22.35	15.55	8.75	1.96
38.00	40.15	33.35	26.55	19.75	12.96
39.00	51.15	44.35	37.55	30.75	23.96

BREAK EVEN SELLING PRICES THAT WILL CØVER FEED, ØPERATING, AND MINIMUM DESIRED RETURN TØ LABØR AND FACILITIES.

PURCHASE PRICE/CWT	WHEN CØRN PRICE PER BU IS: .95	1.00	1.05	1.10	1.15
40.00	35.08	35.35	35.62	35.90	36.17
41.00	35.70	35.97	36.24	36.51	36.79
42.00	36.31	36.59	36.86	37.13	37.40
43.00	36.93	37.20	37.48	37.75	38.02
44.00	37.55	37.82	38.09	38.37	38.64

NØTE: TØ DETERMINE WHAT PRICE IS NEEDED TØ CØVER ØNLY FEED AND ØPERATING CØSTS SUBTRACT $ 1.27 FRØM BREAK EVEN SELLING PRICE.

HOGS

AT A GLANCE: Barrow and gilt prices during first half of 1972 have followed a seasonal trend quite similar to a year ago but at a higher level. Predicted continued levels of reduced slaughter compared with summer and fall 1971 and expected strong demand will keep prices well above year earlier levels for the remainder of 1972. Prices should remain above the $22.00 per hundredweight through much of the first half of 1973. Price and profit conditions for last half 1973 will depend heavily on farrowing in the spring of 1973. Moderate increases are expected, but caution is also warranted in case the buildup develops faster than predicted here.

Recent Market Developments

Hog prices and feeding ratios in the hog industry have been strong since 1965 compared with the 10 year period 1955-64 (table 1).

Table 1. Hog Prices and Feeding Ratios

Year	Average Price Barrows & Gilts 8 Major Markets	Hog-Corn Ratio United States
	$ per hundredweight	
1972 (Jan-July)	25.30	20.1
1971	18.45	16.0
1970	21.95	16.3
1965-69	21.40	18.1
1960-64	16.13	15.0
1955-59	16.64	14.1

Commercial hog slaughter dropped below a year earlier in December of 1971 and has remained below throughout 1972. It was down 8 percent in the first quarter of 1972 and 9 percent in the second quarter.

Demand for pork has been stronger than a year earlier in the first half of 1972. Contributing factors have been higher incomes along with higher prices for competing meats, especially beef.

Monthly average barrow and gilt prices over the first seven months of 1972 moved in a range of $22.85 per hundredweight in April to $28.57 per hundredweight in July. The average of $21.40 per hundredweight for the period was 22 percent above the average of $17.80 per hundredweight for the same period in 1971.

Prospects for the Remainder of 1972

Demand for pork should continue to run 2 to 5 percent above year earlier levels due to higher prices for competing meat products, more people and higher incomes.

The supply side of the market also looks favorable for the hog producer. Hog supply indicators point to continued reduced slaughter, only less pronounced than first half decreases. The June 1 Hog and Pig Report estimated that there were 7 percent fewer market hogs on farms than a year earlier. The number of hogs weighing more than 60 pounds was down 8 percent. These hogs will furnish the bulk of fall slaughter supplies. Market weights of hogs have not changed much from a year ago. However, with high hog prices and lower feed prices, farmers may tend to hold hogs somewhat longer and, thus, increase weights somewhat. Thus, it seems quite likely that pork production will run from 5 to 8 percent below a year earlier through the remaining months of 1972.

Slaughter hog prices will move down moderately during the fall from August peaks. However, it seems quite likely that they will average at least $5 to $6 above the near $20.00 per hundredweight average over the last two quarters of a year ago.

Feeder pig prices rose seasonally over the first half of 1972, reaching near $30.00 per head for 50-60 pound feeders in Southern Minnesota in late March. Feeder pigs will stay in good demand this fall and into early 1973. Prices will continue substantially higher than year earlier levels.

Profit prospects for the remaining months of 1972 on hogs farrowed last spring look excellent.

Supply and Demand Outlook 1973

Supplies of hogs moving to market during the first half of 1973 will come from the 1972 fall pig crop (June-November). Indicators such as level of hog prices and feeding ratios point to increases in this crop compared with a year ago. However, hog producers intentions as stated in the June 1 Hog and Pig Report point to a planned reduction of 4 percent compared with farrowings in the same period in 1971. The September 1 Hog and Pig Report will throw more light on these estimates. Currently, we look for a decrease of about 2 to 4 percent in the 1972 fall pig crop. Projecting this into first half 1973 slaughter would mean slightly less pork production than over a similar period in 1972.

Pork supplies will likely increase during the second half of 1973. Favorable economic conditions will probably cause hog producers to hold back more gilts this fall for farrowing next spring. The increase could be as much as 5 percent over 1972.

During the first half of 1973 compared with a year earlier, the demand for pork should be about the same to slightly stronger than a year ago. Incomes will be up moderately with poultry prices lower and beef prices about the same.

Price and Profit Prospects 1973

Barrow and gilt prices on 7 major markets during the first half of 1973 are expected to be about the same as the $25.25 per hundredweight level during the same period in 1972. Seasonally, we will probably see prices highest in January-February, some decline in April before peaking in July and August.

Profit prospects for the first half of 1973 depend on both expected hog prices and costs, particularly corn and feeder pigs. Feeding ratios could be about the same as the near 20-1 ratio in the first half of 1972. Feeder pig prices will remain strong reflecting the high hog prices and low corn prices.

The price and profit situation during the last half of 1973 will depend heavily on farrowing during spring 1973. If hog producers increase farrowing next spring by only 5 percent, no real dangerous price break should develop, but hog prices could be as much as 20 percent under fall 1972 levels for averages near $20.00 per hundredweight. The time is right for caution in production as we move into the increasing phase of a new hog cycle which will likely begin this spring.

Kenneth E. Egertson
Paul R. Hasbargen

DAIRY

AT A GLANCE: Milk production is expected to increase during the year ahead. Projecting a slight decline in commercial sales from recently expanded levels, government price support purchases are expected to increase in 1973. Prices may increase slightly to bring them above the mandatory 75 percent of parity supports.

1972: An Unusual Year For Dairymen?

Milk production for 1972 will likely total about 120.5 billion pounds, 1.6 percent above last year (table 1). This increase will have been due to continued increases in production per cow more than offsetting the decline in size of the U.S. dairy herd. This represents the third successive year in which U.S. milk production has increased after having declined each year between 1964 and 1969.

But the big surprise of the year was on the consumption side. Commercial disappearance for the year will likely total 111.6 billion pounds, an increase of 2.4 percent over 1971. As a result of this surge in commercial disappearance, price support purchases for the year are estimated at 6.5 billion pounds milk equivalent, a reduction of 0.8 billion pounds below 1971.

Earlier projections for 1972 pointed to increased CCC price support purchases rather than a decline as seems almost certain at this time. These earlier predictions were based on a continued slight decline in commercial disappearance rather than a fairly strong increase which now seems likely for the first time since 1966. Between 1966 and 1971 commercial disappearance declined by an average of 1.1 billion pounds per year. This year's projected increase of 2.6 billion is therefore a substantial departure from the longer trend.

Thus, the overriding question in appraising the outlook for dairying in 1973 is to what extent can we consider 1972 to be typical of future trends in the industry. That is, will consumption continue to increase faster than production, thus averting sizable buildups in government stocks?

Prospects for 1973

It seems likely that the available "supply" will increase again in 1973, as output increases and farm use continues to decline. These items, together with slightly larger beginning stocks and imports, could result in a supply of 124.6 billion pounds (table 1). A projected small decline in commercial disappearance from the strong showing in 1972 could result in greatly stepped up net governmental removals. The estimates in table 1 show net removals at 9.6 billion. This is an increase of 3.1 billion over the 1972 level and is based upon commercial disappearance 0.6 billion below the projected 1972 total. Government removals on this scale would definitely be burdensome and costly. Even so, dairy prices may increase as the dairy support price may have to be increased to keep prices above 75 percent of parity.

What are some of the economic factors behind these prospects?

On the production side, the relationship between feed prices and milk prices favors heavy feeding. Even though it has been increasing steadily, the national average production per cow is considerably below production potentials. Ample herd replacements are available and the decline in the size of the nation's dairy herd has slowed to the lowest rate since 1960. This reduced rate of decline in cow numbers is expected to continue over the next year or two.

On the utilization side, during the early part of the year (January to May) daily average sales of milk in all dairy products were up about 2 percent over a year earlier. Cheese sales were up 10 percent while low fat and skim milk were up 12 percent. Whole milk sales held at about 1971 levels while cream, butter and frozen products increased. Price changes have probably been an important factor since retail dairy prices increases this year are smaller than they were a year ago and are smaller than the increases in most other foods such as meats. Rising consumer incomes, expanded use of food stamps and an aggressive dairy promotion program have probably also contributed to the rise. Whether or not the increase can be sustained is difficult to say. There are indications that the surge that took place during the early part of the year has tapered off.

On the price side, it is quite likely that because of continued cost increases the present level of supports of $4.93 per hundredweight might fall below 75 percent of parity by April 1, 1973. This is the time which the Secretary of Agriculture must announce the minimum support level for the ensuing marketing year. Since, by the law, the support level may be no less than 75 percent of parity, a situation could develop where the support price is raised even in the face of heavy price support purchases, thus adding to costs of the support program.

Table 1. U.S. Milk Supply and Disappearance, 1971 with Projections for 1972 and 1973

	1971[1]	1972[2]	1973[2]
	- - - - - - - Billion Pounds - - - -		
Production	118.6	120.5	122.3
Less Farm Use	3.8	3.5	3.3
Marketings	114.8	117.0	119.0
Beginning Commercial Stocks	3.7	3.6	4.0
Imports	1.3	1.5	1.6
Total "Supply"	119.8	122.1	124.6
Ending Commercial Stocks	3.6	4.0	4.0
Net Gov't. Removals	7.3	6.5	9.6
Commercial Disappearance	190.0	111.6	111.0
Total "Disappearance"	119.8	122.1	124.6

1/ Dairy Situation, July 1972.

2/ Estimates by the authors.

Some Dairy Issues Ahead

Our analysis suggests that the imbalance between dairy supplies and commercial utilization could become more serious next year. If it does occur it will become most apparent during the peak production months - March through June, since it is during these months that the production of manufactured products are at their peak. If price support purchases become large during this period we can expect a revival of the recent discussion within the industry of programs both to institute dairymen Class 1 base plans in federal order markets and to apply more general programs of supply control.

The rapid shift to Grade A by Minnesota dairymen continues. Minnesota Crop and Reporting Service information indicates that the number of Grade A dairy farms in Minnesota increased from 5,157 to 6,687 between 1968 and 1971, a 30 percent increase. While representing only 17.3 percent of the Minnesota dairymen who delivered milk to plants and dealers, their production accounted for nearly 33 percent of the state's total production. The continued shift of dairymen to Grade A production aggravates an already difficult situation of low utilization of Grade A milk in fluid products in many markets. This condition is expected to persist over a number of years as Minnesota dairymen continue to shift to Grade A.

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 somewhat higher than a year ago levels. Prices should be strongest near year end and weaker in the late spring months of 1973. This year's holiday turkey season should be very much like last year's with prices running the same to one cent a pound lower. Supply indications point toward a January storage stock that will keep 1973 first half prices in the lower thirties however. Profit prospects particularly for egg producers should be improved in the year ahead.

Eggs

The projected 1972-73 total egg supply picture is clouded some by the effects of recycling and Marek's disease vaccine. Although the number of layers will be under year earlier levels the Marek's vaccine will again reduce pullet and laying house mortality as well as increase the rate of lay. This development coupled with a projected 10 percent decrease in the total hatch should add up to a somewhat smaller laying flock in the year ahead and a slight reduction in egg production. Industry attempts to reduce layer numbers may also influence the supply picture downward.

Demand conditions are expected to be much the same as the year earlier situation with some decrease in military use. Storage holdings are above year earlier levels. 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, compared with the 35 cent average for 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 near year end and lowest during the second quarter of 1973. For Minnesota producers this means a likely average price for the year of 27 to 29 cents a dozen for all market eggs.

With egg prices higher in 1973 the income to egg producers should be greater than last year even though feed costs will be somewhat higher.

Turkeys

The 1972 U. S. turkey crop is currently estimated at 128.4 million birds, a 7 percent increase over 1971. Minnesota expects to raise 20.7 million birds, a 12 percent increase over a year ago. Supplies of heavy turkeys are expected to be up 7 percent while light breeds are up by an estimated 9 percent over year earlier levels.

In looking at demand for turkey this fall, the net consumer income effect in the fourth quarter of 1972 is expected to be stronger than last year. Competition will be greater from increased broiler chicken supplies, while a lower pork supply and high priced beef will be plus factors. Considering these factors the July to December price is expected to be average 38 cents (New York wholesale price for young hens, 8-16 pounds).

For the first half of 1973, the key factor is the storage stock on January 1. A relatively high July-December price would suggest higher stocks while low last-half prices would lower stocks. The predicted price will likely mean a January 1 stock of 235 to 240 million pounds and first half 1973 prices averaging in the low thirties. The size of the 1973 turkey crop will be heavily influenced by the October-December turkey-feed ratio. If it is 4.5 or higher the crop will likely increase over 1972.

Richard O. Hawkins
Melvin L. Hamre

SHEEP AND LAMBS

AT A GLANCE: Slaughter lamb prices appear favorable for the remainder of 1972. Demand is expected to remain strong and supplies could run slightly below year ago levels. Feeder lamb prices will average well above last fall. Fed lamb prices during the first half of 1973 should remain good but average some below the levels established in early 1972.

Native Ewe Flock

The number of sheep in the United States continues to decline. On January 1, 1972, the number of sheep and lambs on U.S. farms and ranches totaled 18,482,000 head, down over 1 million 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, 1973. Lamb consumption per capita in 1971 was lower than a year ago and stood at only 3.1 pounds per capita.

The 1972 lamb crop was 4 percent lower than in 1971 totaling 12.4 million head.

Commercial sheep and lamb slaughter during the first 7 months of 1971 was down 4 percent from a year earlier. Lamb slaughter for the remaining months of 1972 is expected to run below year earlier levels because of the smaller lamb crop.

Lamb prices have shown considerable strength in 1972. The strength of the cattle market and higher pork prices, contributed significantly to the favorable lamb market. Choice lamb prices averaged about $30.00 per hundredweight in the first quarter of 1972, about $3 to $4 per hundredweight over a year ago. Second quarter prices averaged almost $33.00 per hundredweight. Spring lambs came on the market at generally $2 to $3 above old crop lambs.

Second half lamb prices are expected to decline seasonally from recent highs into fall and early winter reflecting higher slaughter supplies. But they should average well above August-December 1972 when choice lambs were about $27.00 per hundredweight. The expected range on choice lambs at major Minnesota markets is from $30.00 to $32.50 per hundredweight.

Profits have been good on well managed ewe flocks. The same rating seems probable in 1973.

Lamb Feeding

Profits in lamb feeding operations in the 1971-72 feeding year were up from the year earlier and generally quite good. Higher fed lamb prices and lower feed prices contributed to this situation even though feeders were purchased in the fall of 1971 at higher prices than a year earlier.

Feeder lamb supplies this year will be lower because of smaller 1972 lamb crop and generally good range conditions in the west.

On balance, demand for feeders will probably be stronger than a year ago. Feeding returns of a year ago will cause strength. Also, expectations for strong fed lamb prices into the winter of 1973 should cause strength.

Feeder lamb prices in early August have averaged well above year earlier levels. Choice feeder lambs at midwest markets in mid-August averaged about $28 to $30 per hundredweight. Relatively favorable slaughter lamb prices, reduced supply of lambs available for placement this fall and plentiful supplies of feedgrains will likely be reflected in some strength in feeder lamb prices this fall and into the winter months.

With fewer feeder lambs expected to be placed on feed this fall, slaughter numbers could be about the same to less than a year ago during first quarter 1973. Demand for lamb could be down slightly. However, prices should remain strong and above $30 per hundredweight during this period.

Profit prospects for lamb feeding in the year ahead look good but somewhat poorer than in 1971-72.

Kenneth E. Egertson
Richard O. Hawkins