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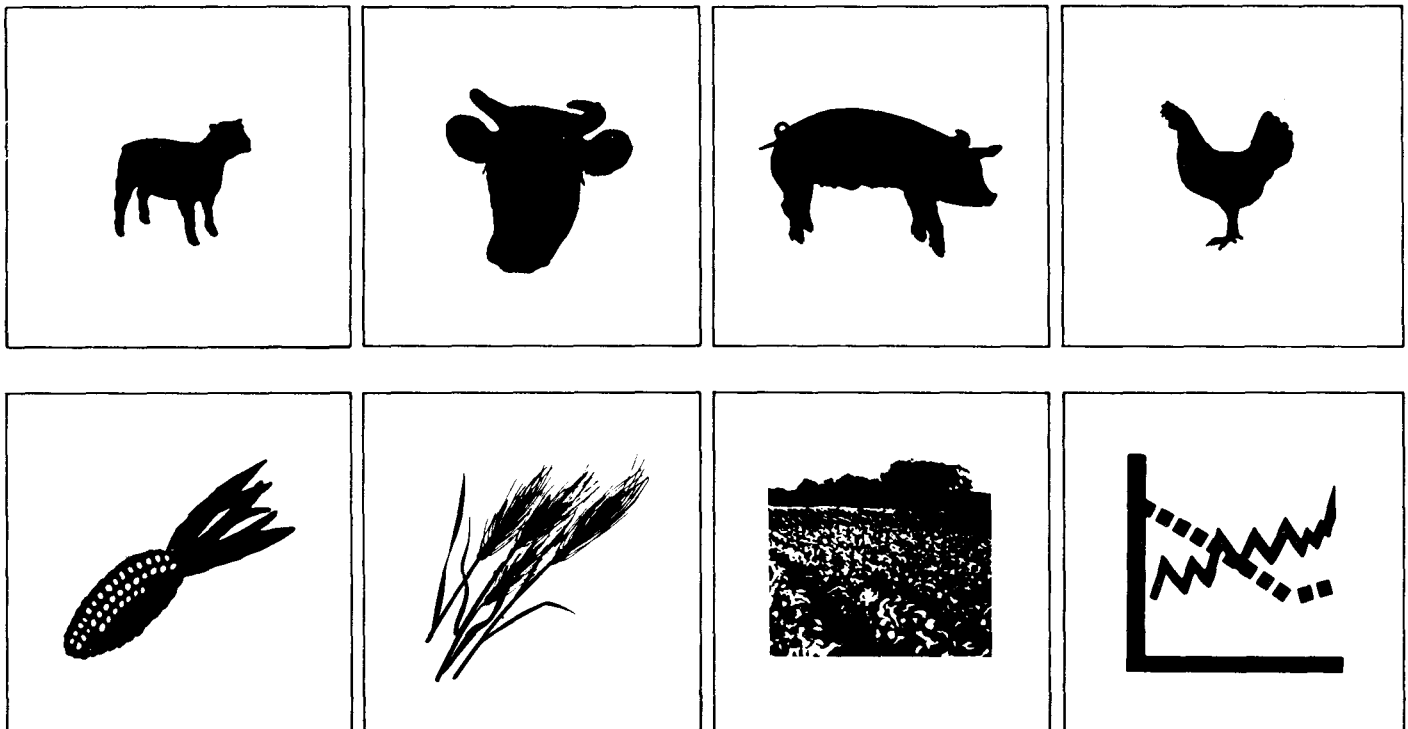
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1975 AGRICULTURAL OUTLOOK



DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS
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AGRICULTURAL OUTLOOK 1974-75

by

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FARM INCOME

In 1973, per capita income of farm people surpassed that of nonfarm people for the first time in U.S. history. The average disposable personal-income of farm people was estimated to be 13 percent greater than that of nonfarm people. In 1972, it was 81 percent as much as that of nonfarm people. In the prior 3 years, it hovered at 73 percent. And, prior to that it was even lower.

Will this new farm prosperity last? This article contains a summary of the outlook for farm income in calendar year 1974 and a brief look at important factors affecting income in the years ahead. It also contains some suggestions as to areas of management that will need additional attention in the coming year.

Farm Income For 1974

Livestock prices will be lower on a larger volume of marketings in 1974. Total livestock receipts will hold about equal to 1973. Crop receipts will be higher since crop prices will average higher on a similar volume of sales. Expenses will be up sharply on fuel, fertilizer and many other inputs.

Net farm income will come close to the record \$36.2 billion of 1973. Whether below or above that record will be largely determined by the level of crop prices for the remainder of the year. A crop harvest even shorter than the August 1 estimate would drive prices up and result in another new net farm income record.

Farm earnings will vary greatly among farm types in 1974. Livestock farmers will show lower farm earnings than in 1973. Earnings of beef producers will be sharply lower, with many losses showing up for producers of feeder cattle as well as for cattle feeders.

The hog enterprise will show lower earnings than the record highs shown in 1973. But, with the higher earnings from the crop enterprise, most Minnesota hog producers will maintain a high income level.

Dairy producers will probably show earnings close to those of 1973. Higher costs will be about offset by the higher average milk price received in 1974. Also, their feed cost increases came primarily in home-produced feeds--giving them higher earnings on this part of the business.

Crop production, in fact, accounts for over half the value produced on most Minnesota livestock farms. With the high crop prices, this portion of livestock producers' income will be up in 1974. For many dairy and hog producers, it will be up enough to offset lower livestock earnings.

Most specialized cash grain producers will have higher incomes in 1974 than in 1973.

Some will not because of weather--shortened crop yields. Minnesota farmers, in general, have not been hit as hard by adverse weather as have farms in neighboring states. In fact, the USDA August 1 crop estimate placed the 1974 Minnesota corn yield projection as the highest in the nation--at 88 bushels per acre. Nevertheless, many farmers in scattered areas of the state--especially along the western border--are realizing severely depressed yields. Therefore, they will show lower incomes for 1974 than for 1973.

1975 And Beyond

Will farm prices and incomes drop after 1974?

For the next few years, this is primarily a question of weather. For the longer run, it will also hinge on the ability of other countries to meet their growing demand for food.

The importance of weather during the next few years brings current spreading drought conditions under sharp scrutiny. Long range weather forecasters had been predicting this drought--and they expect it to last a couple more years. If this materializes, farm commodity prices will move even higher during the next 2 years. Crop producers blessed with adequate rainfall--or who have irrigation--will prosper. But those caught by the drought--most likely those in the higher risk areas of west central and south western Minnesota--would suffer. If the drought is broken and favorable weather brings crop yields back to normal, higher production and lower prices will temper farm income levels in 1975 and 1976.

World demand for American-produced grain will likely continue to grow in the longer run. Less developed countries are expanding population by 2.5 percent per year--about 5 of every 6 persons added to the world population each year is in these countries. There will be a continued struggle to maintain the diets of all people in these countries.

The developed countries are expanding their populations by less than 1 percent each year. However, these countries are attempting to increase meat consumption as their incomes increase. This also represents a large annual increase in the demand for grain. It has been estimated that, in 1970, about 43 percent of all grain used in the world was fed to livestock.

Thus, world grain demand goes up by about 3 percent per year. Can this demand be met? This question represents a challenge to agricultural workers throughout the world. If this challenge is inadequately met, grain and other farm commodity prices will continue to be relatively high in the decade ahead.

One important policy question that will be debated in the coming years will be whether to set up a government-managed grain reserve to stabilize grain and food prices in the coming years. The debate will be primarily academic while relative shortages and high prices still exist. Proponents of more centralized planning will argue for government-managed reserves because these reserves will help stabilize prices and stave off starvation in years of short crops. Proponents of decentralized control of grain supplies will

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argue against government-managed reserves because they will result in lower average prices and incomes to farmers. The latter group will also argue that American farmers and the grain trade will react more readily to signals from the market than from government. They can, therefore, better manage carryover supplies than can the government.

It is doubtful that a world reserve will be agreed upon in the near future because of questions about cost and control. However, some form of government reserve will probably be established again in the U. S. if consumer and urban interests become convinced that this will help stabilize food prices.

Some Management Implications

Higher farm incomes and more variable farm prices make certain management decisions more important than in the past. These include:

Income Tax Management: Make early tax estimates and shift sales and expenses to even out taxable income. Use higher culling rates to put a higher proportion of livestock sales under capital gains. Make more business decisions based on analysis of aftertax results.

Estate Planning: Sharply higher land prices have given rise to large jumps in the asset values of farms. Compute a current net worth statement, then review your estate plan and make needed changes in light of your current estate disposition goals.

Money Management: With double digit inflation and high interest rates, keep excess cash income working. It's better to own things than money.

Off-farm Investments: Consider off-farm investment opportunities: (1) to diversify your income sources; (2) as a profitable use of capital if it cannot be used to profitably expand your own business; or (3) to increase net worth while deferring taxes that might otherwise be due on current income ("tax sheltered" investments). Try to invest in things you are familiar with or use an advisor who is knowledgeable about them.

Timing Of Purchases And Sales: Marketing decisions can make or lose much more in periods of high, volatile markets. Plan your yearly purchase and sales strategy in advance. Spread sales over several periods.

Composition Of Livestock Rations: Reconsider traditional rations in light of changing feed price relationships. With grain relatively expensive compared to protein and forage, some cutback in grain feeding is dictated. But don't overdo--study the impact on milk and meat production as you change the ration.

AGRICULTURAL TRADE

AT A GLANCE: U.S. agricultural exports for the year ended June 30, 1974 were at record levels. Forecasts for the year ahead are for continuing strong export markets. Exports of wheat and feedgrains may be down slightly, while soybeans could expand slightly.

Events of the past 2 years have brought home how U.S. agriculture is integrated into world markets. We export two-thirds of our wheat and rice production, about one-half of our soybeans and one-fourth of our feedgrains as well as significant amounts of other farm commodities such as cotton and tobacco. Since U.S. farmers are the largest suppliers of feed and food grains as well as oilseed and oilseed products on world markets, developments that occur virtually anywhere in the world have an impact on U.S. products and prices received by U.S. farmers.

Review of 1973/74

U.S. agricultural exports totalled a record \$21.3 billion for the fiscal year ended June 30, 1974. This is two-thirds larger than a year earlier. About 85 percent of the gain in value was because of higher prices, but there was also a significant gain in volume.

Wheat: We exported \$4.7 billion of wheat. This was about double the value of exports the year before. All the increase in export value was because of higher prices, since actual volume was down slightly from the year before. The export value per bushel averaged about \$4 this past year compared to \$2 a year earlier. Even though the total volume of wheat exports changed little from the year before, there were large shifts in the amounts going into individual markets. The developing countries of Asia, Africa and Latin America greatly increased imports of U.S. wheat, taking about half of our total wheat exports. The USSR reduced imports of our wheat to about 30 percent of the high level of the year before, while the People's Republic of China upped imports of U.S. wheat by five times.

Feedgrains: Exports of feedgrains reached a record of nearly \$4.7 billion for the year. This was about double the value of exports the year earlier and reflected higher prices as well as stepped-up volume. The export value of feedgrain was about \$106 per ton for the year just ended compared to about \$65 per ton for the year before. The developed countries are our big markets for feedgrains. They have accounted for over 60 percent of the increase in our feedgrain exports in the past 5 years. Of our total exports of 44 million metric tons, Japan accounted for about 10.2 million tons. This was an increase of about 2 million tons over the year earlier. Exports to the European Economic

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Community, the People's Republic of China, USSR and Mexico were up about 1 million tons each.

Soybeans: The export value of soybeans and soybean products was about \$4.6 billion. This was half again as great as the year earlier and was nearly all due to higher prices. Soybean exports got off to a slow start at the beginning of the fiscal year. This was because of the embargo and the low level of supplies available before the record crop harvest.

Export Prospects For 1974/75

USDA is projecting exports for the year ahead as follows: wheat exports will be about 150 million bushels below last year's level--a total of about 1 billion bushels. World wheat production is expected to be about equal to last year's level. Reports indicate that the Soviets are on the way to a good crop, but that the winter wheat crop in the People's Republic of China was below that of last year. India may import more wheat than she did last year. There are indications that this year's monsoon, although not nearly so good as last year, seems to be improving. Canada may have more wheat and feedgrain to export than she did last year, even though this year's crop is a little below last year. Australia may have as much as one-third more wheat to export following a wheat harvest that nearly doubled last year's drought-reduced crop. Africa is finally getting rain. The eastern area of the drought zone has abundant rain, while in the west, prospects have improved. However, more moisture is needed.

U.S. exports of feedgrains are expected to be down slightly next year. World feedgrain production seems to be up slightly from 1974, but prospects for a reduced U.S. crop, together with some increased supplies available for sale by major competitors, will account for the lower U.S. exports of feedgrains.

USDA expects the value of soybean exports to equal or exceed last year's level, but competition for markets likely will be keener because of increased fishmeal production by Peru and increased soybean production in Brazil. In view of reduced crop prospects, projected U.S. exports of soybeans for the year ahead will likely result in a sharp reduction in year end stocks.

Export Markets Add To Instability

Not until a crop is in the bin is its real size known. Only then do we know the effects of weather conditions during planting, growing and harvesting. In addition, marketing and demand factors may shift to add further uncertainties to that caused by uncertain crop prospects. For internationally traded commodities, the possibilities for instability and uncertainty are multiplied many times over.

The impact of weather and other factors on markets was dramatized in 1972 when total and per capita food production declined in both developed and less developed regions.

There were conditions of winterkill and a dry summer in the Soviet Union, drought in Australia and Argentina, a below normal monsoon in India, drought and typhoons in the Philippines, a wet fall in the U.S. cornbelt and several African countries suffered a continuation of severe drought. In addition, Peru's fish catch failed. The effect was dramatically rising prices because of reduced world output in the face of a rising and highly inelastic worldwide demand for food.

Several factors affect international agricultural markets by impinging on the availability of foreign exchange. For example, spiraling oil prices mop up scarce foreign exchange so that oil deficit nations must reduce other imports unless new sources of foreign exchange become available. There is also the secondary affect of higher input prices which slow rates of economic growth. In a country like Japan, which is rapidly expanding its consumption of livestock products, reduced rates of growth can cut into this expansion and, in turn, reduce the need for feedgrains. In a similar way, higher cost imported fertilizer reduces foreign exchange available to less developed countries. This not only reduces the amount of foreign exchange available for the import of food, but also impedes these countries' progress in expanding their own food output.

Inflationary pressures disturb normal trade patterns. Just as in the United States, rapid inflation has offset the level of real income gains in many countries. For the first half of calendar year 1974, real income gains averaged only .3 of 1 percent for Canada, Japan, France, Germany and Italy compared to longer term averages of near 7.5 percent. Under these conditions, consumers seem more cautious in their buying patterns. This adds another element of uncertainty in assessing prospects for U.S. agricultural exports.

Still another element of instability is introduced into international markets through national policy decisions as countries pursue their national economic goals. The Soviet Union's 1972 decision to maintain diets through imports of grain in response to a bad crop is a prime example of an unprecedented policy decision that had a great impact on agricultural markets. Two U.S. devaluations added a stimulus to the market for our commodities. On the other hand, last year's short-lived embargo on soybeans had a depressing effect.

In summary, prospects for the coming year are for a continuation of exports at a high level. But this projection must be regarded as highly tentative because of the sources of potential instability in world markets as well as possible changes in our own crop prospects. Export volumes and prices could change significantly from present forecasts. Producers of exported crops will need to keep abreast of a wide variety of international developments to assess their possible implications for their own operations.

FUEL AND FERTILIZER COSTS

AT A GLANCE: Most crop production inputs will cost more for the 1975 crop than they did in 1974. The largest increases can be expected in nitrogen and phosphate fertilizers, with price increases of 25 to 40 percent. Most other crop input items can be expected to move up at about the 8 to 10 percent rate of inflation. Petroleum fuels supplies are expected to be tight, but shortages for agriculture are not likely through 1975, and prices could range from no change to 10 percent higher.

The Petroleum Situation:

Petroleum allocation regulations of January 15, 1974 assure agriculture of 100 percent of its petroleum fuels requirements. This gives agriculture the same high priority for fuel that emergency services have. However, the price of these products will be determined by the overall supply-demand picture for petroleum fuels.

Table 1. U.S. Petroleum Fuel Situation

	1972	1973	1974*	1975**
	-----Millions of Barrels-----			
Beginning inventory	1,043.9	959.0	1,008.3	851.9
U. S. production	4,082.5	3,987.7	4,050.0	4,175.0
Imports	1,730.5	2,263.4	2,200.0	2,350.0
Other	<u>162.1</u>	<u>184.3</u>	<u>168.0</u>	<u>160.0</u>
Total supply	7,019.0	7,394.4	7,426.3	7,536.9
U. S. demand	5,978.5	6,302.5	6,492.0	6,750.0
Exports	<u>81.5</u>	<u>83.6</u>	<u>82.4</u>	<u>80.0</u>
Total demand	6,060.0	6,386.1	6,574.4	6,830.0
Ending inventory	959.0	1,008.3	851.9	706.9
<u>Prices</u>				
Domestic crude \$/barrel	3.40	3.78	5.02	6.00
Imported crude \$/barrel	2.75	3.36	10.96	8.00-10.00
Regular gas \$/gallon	.377	.418	.55-.60	.55-.60

* partially estimated

** projected

FUEL AND FERTILIZER COSTS - 2

Table 1 shows the U. S. supply-demand picture for 1972 and 1973, estimates for 1974 and projections for 1975. Prices had been very stable through 1972, but they started moving up in 1973 and moved up sharply in 1974, due mainly to the increased cost of imports which make up about 30 percent of our total supplies.

Domestic production is expected to increase about 3 percent in the coming year because of projected increases in drilling activity. Costs of drilling, however, will be up due to general inflation. Production from Alaska will not be a factor for domestic markets before 1977 or 1978. Because of high prices for foreign oil and U. S. government policy to reduce dependency on imports, total supplies will only increase modestly until Alaska oil enters the market.

U. S. demand for petroleum fuels is expected to increase about 4 percent in the year ahead, contrasted to the average increase of 5.5 percent between 1965 and 1973 and the 2.9 percent increase in 1974.

The key to fuel prices will again be the cost of importing crude oil. Indications at this time are that the organized oil-producing countries may be willing to hold or lower prices slightly as they develop sizeable surpluses. With costs of U. S. production up and import prices down slightly, fuel costs could well remain at current levels through 1975.

The Fertilizer Situation

Supplies of fertilizers for 1975 crop use will continue to be tight. The energy situation plus the recent poor profit history for the fertilizer industry have discouraged expansion of production capacity. Limited expansion in nitrogen and phosphate production will likely not offset declines in carryover stocks.

Demand for fertilizers will depend on acreage planted in 1975, the crop mix and application rates. With projected good profits from 1974 cropping, it is reasonable to assume acreage will remain at least at the same levels in 1975. Application rates have remained reasonably constant over the last three crop seasons and are expected to continue in the same range.

Table 2. U. S. Nitrogen Fertilizer Situation

	1972/73	1973/74*	1974/75**
	-----one thousand tons actual n-----		
Beginning inventory	1,198	770	286
Domestic production	11,900	12,860	13,224
Imports	881	946	1,010
Total supply	13,979	14,576	14,520

* partially estimated

** projected

FUEL AND FERTILIZER COSTS - 3

Table 2. Nitrogen Fertilizer Situation (continued)

	1972/73	1973/74*	1974/75**
	-----one thousand tons actual n-----		
Domestic demand	8,339	9,300	9,300
Industrial use	3,520	3,600	3,800
Export	<u>1,350</u>	<u>1,390</u>	<u>1,400</u>
Total demand	13,209	14,290	14,500
Carryover	770	286	20
Price: Anhydrous ammonia \$/ton	87.60	183.00	240.00

Nitrogen production is expected to be up 3 percent in the year ahead as new plants in the south come into production. A generally tight world supply situation will not allow more than a modest increase in imports. Assuming the same domestic demand for 1975, prices will have to rise to ration out the supply of nitrogen. Prices higher than \$240/ton (15 cents/lb.) will be necessary to allow for carryover close to the present low level of 286,000 tons.

Table 3. U. S. Phosphate Fertilizer Situation

	1972/73	1973/74*	1974/75**
	-----one thousand tons P ₂ O ₅ -----		
Beginning inventory	324	298	140
Domestic fertilizer production	6,387	6,529	6,800
Imports	<u>312</u>	<u>291</u>	<u>250</u>
Total supply	7,023	7,118	7,190
Domestic demand	4,873	5,072	5,400
Exports	1,424	1,606	1,790
Unexplained disappearance	<u>428</u>	<u>300</u>	<u>---</u>
Total demand	6,725	6,978	7,190
Ending inventory	298	140	0
Prices: U. S. in \$/ton			
Concentrated superphosphate	87.50	150.00	230.00

* partially estimated

** projected

FUEL AND FERTILIZER COSTS - 4

Phosphate production is expected to be up only 4 percent. With the currently reduced inventory, total supplies will likely be up only 1 percent. This is in the face of a 3 to 4 percent increase in demand. Prices will have to rise sharply to ration this supply to allow for any inventory at all by year's end. Exports are likely to not be cut back. The U. S. is the dominant supplier, and with a world concerned about food production, export sales will likely be maintained.

The phosphate situation should level out by the 1975/76 cropping season, with new U. S. production capacity ready to produce by the end of 1975. This new capacity should boost the industry's total capacity by 10 to 20 percent.

The potash situation appears to be the only bright spot among the fertilizers, with total supplies sufficient to meet projected demand and leave a carryover equal to this year's level. Prices of potash should remain at about current levels of \$80 per ton.

Management Implications

Given the fuel and fertilizers situations, managers will find this a poor year to abruptly switch suppliers. Conservation of fuel is still in order, and needed supplies should be booked early.

In the cases of nitrogen and phosphate, supplies also should be booked early, and on the basis of soil tests for attainable yields. Finally, managers should be carefully analyzing levels of fertilizer use and cost against potential yield and the crop price. Extremely high fertilization for top yields may not be profitable.

BEEF

AT A GLANCE: Cattle feeders suffered record losses the past 12 months. Producers of feeder cattle face low prices and losses on the cow-calf enterprise during the next 12 months.

Feeder prices will be one half as high as those of last September. Feedgrain prices will be twice as high. Fed cattle prices will be lower during the coming year. Returns to cattle feeders will be low, and returns to feeder producers will not cover production costs.

Review Of Past Year

What a difference a year makes! In August 1973, prices and profits were setting new records in the beef industry. Some of the unusual factors causing those record high prices--as pointed out last fall--were: (1) the government price freeze; (2) slower feedlot gains due to severe weather and the ban on stilbestrol and (3) the artificial demand boost which grew out of the food shortage scare.

As marketings increased and demand returned to normal last fall, choice steer prices dropped \$15--from \$54 to under \$39 in December (table 1).

In January, prices jumped back to \$50--then fell off sharply as many feedlot operators responded to this "target price" by opening up their feedlot gates.

In February after some progress had been made in working off many heavy cattle, trouble came again from the truckers' strike. This cut livestock slaughter over 20 percent the following week. To ration the reduced supplies, retailers increased prices sharply--from an average of \$1.34 per pound in December to \$1.50 in February.

In March, cattle prices dropped another \$4 because movement of beef was very sluggish under the continued high level of retail prices. (Retail beef prices in March did drop to an average of \$1.42 per pound.)

The April - June quarter registered another \$5 drop in cattle prices as fed cattle continued to come to market at excess weights (in June, Omaha steers were 49 pounds heavier than in June of 1973), hog marketings were higher than anticipated, the slaughter of nonfed cattle began to increase, and exports to Japan and Canada were curtailed.

Choice cattle prices came back up in July and August because of lower fed cattle marketings, while prices on lower grade cattle remained depressed due to record slaughter of nonfeds. Thus, the current spread between choice and good grades of cattle is wider

than ever because fed cattle marketings are running at year-ago levels, while the slaughter of nonfed cattle is up sharply.

Is The Bust Over?

Cattle feeders have failed to recover production costs on most cattle sold since September 1973. Losses have been greater than ever before--fluctuating above and below \$100 per head.

Feeding losses have occurred about every 10 years, following periods of rapid buildups in cattle numbers. They occurred in 1953 and 1954 and again in 1963 and 1964. They lasted about 18 months. Does this suggest that low prices and losses to cattle feeders will be over by the end of 1974?

No! The numbers suggest that the bust due to a cyclical change in cattle numbers has not even begun! Note the following:

- * Fed cattle marketings from July 1 to June 30 were lower than during the previous year.
- * Fed cattle prices were at a record high during the past year (\$43.50 vs. \$40.10 the previous year).
- * The USDA July 1 cattle inventory showed a near record 6 percent increase in cattle numbers over July 1973.
- * World beef numbers are also up sharply.

Thus, the past year's heavy losses were not due to expanded feeding or to a herd sell-back. Rather, those losses were due to overpriced feeders, overweight fed cattle and high feed prices.

Therefore, any beef price bust that might come from herd liquidation is still to be weathered! High feed prices and possible spread of drought will precipitate the beginning of a cutback in the national herd during 1975 and 1976. Thus, lower beef prices are coming--especially for nonfed cattle.

Outlook For Late 1974

Fed cattle marketings will remain relatively low (lower than any of the last 3 years) for the remainder of 1974. However, a larger number of grass fat cattle will go to slaughter than at any time in the past several years. Cow slaughter will also be sharply higher. Thus, total beef production will be the highest on record, with the exception of late 1972.

Given current consumer demand, fed cattle prices will likely decline some from August levels. The wide spread between grades will continue this fall and winter (table 1). Feeder cattle prices will also decline (table 2).

Outlook For 1975

Some people are optimistic about 1975 beef prices. They base this optimism on the current low numbers of cattle on feed plus the continued lack of interest in placing more on feed because of high feed costs. They see a shortage of fed beef and "\$50 to \$60 cattle" next year.

In light of current cattle numbers, this likelihood appears unrealistic. Cattle numbers have been building up; current estimates show 2 million more feeder animals over 500 pounds outside feedlots than 1 year ago. The great majority of these will probably go on feed for at least a couple months. And, whether or not they go into feedlots, steer and heifer slaughter will be at least 5 percent higher in 1975. And cow slaughter could be 15 percent higher.

The 1974 calf crop is estimated to be 2 million head more than in 1973. So feeder supplies are also ample for slaughter in late 1975 and 1976.

Therefore, beef slaughter and consumption will set record highs in 1975. Per capita consumption climbed to 116 pounds in 1972, dropped below 110 pounds in 1973, and will probably approach 115 pounds in 1974. It may jump to 120 pounds in 1975.

The increased beef supplies will come on a market in which consumers are attempting to stretch inflation-plagued dollars. Lower pork and poultry supplies will increase beef demand. Total demand, however, will probably take only slightly more beef than in 1974 before requiring a lower transaction price. And with higher wages and other inflated marketing costs, marketing margins will not be any smaller next year.

The big question for 1975 is what proportion of this beef supply will be available as choice beef. If high grain prices continue to discourage cattle feeding, supplies of grain-fed beef could be somewhat reduced during the first half of 1974--allowing prices on choice steers to return back to \$45 in the second quarter. Late placements of yearling cattle on feed coupled with marketing delays due to higher silage rations could make second quarter prices the highest of the year. Both fed and nonfed marketings will increase after midyear pushing choice steer prices below \$40 the last part of 1975.

Thus at this time, a planning price in the low forties is suggested on choice beef. If this is coupled with a corn price of \$3.50, feeder cattle will have to be purchased at prices below current levels to cover all production costs including labor and facilities (see computer printouts).

Management Implications

Continued uncertainty in farm prices suggests that additional management time should be spent on some decisions this fall. These include the following:

Pricing your feed: Before deciding on how much can be paid for feeders, home grown feeds must be priced. (A ton of quality corn silage should be priced by multiplying the price of corn by six and adding \$2 to \$3). Because once the crop is put up as feed (silage or wet shelled corn), it has essentially been bought, and later changes in grain prices should not be considered as changing feed costs.

Consider more corn silage: High corn silage rations become more economical at current high grain prices because the added cost of harvesting, storing and handling the whole corn plant (about \$3/ton) becomes justified. In a two-phase feeding program, carry calves to heavier weights before switching to high grain rations. However, for yearling programs, don't go too heavy on forages or cattle will need to be carried to much heavier weights in order to obtain choice grade.

Rethink your protein feeding habits: When grain is high priced relative to protein, it can be profitable to increase protein rates fed to younger animals. But for heavier weight animals, recent research shows that protein levels can be cut back sharply from past recommended levels.

Consider feeding hogs instead of cattle: Current feeder prices on cattle and hogs, when coupled with livestock outlook prices, suggest that corn fed to feeder pigs will return more than corn fed to feeder cattle.

Timing of purchases or sales: Cattle feeders will pay less for feeder animals in late 1974. Feeder producers may net more by selling early. Others, with excess forage with limited market value, might best carry calves through the winter.

Sell more beef cows: Cow prices will be low for the next two years. But, replacement heifer prices may be even lower, so it will be a good time to work on upgrading the cow herd. A high culling rate also has tax advantages.

Table 1. Choice & Good Steer Prices at South St. Paul by Months for 1972, 1973 & 1974

Month	1972		1973		1974	
	Choice	Good	Choice	Good	Choice	Good
January	\$35.18	\$31.67	\$40.26	\$36.93	\$46.91	\$44.43
February	35.70	33.34	43.15	39.46	45.37	43.41
March	33.90	32.25	44.31	41.26	42.17	39.65
April	34.27	31.62	44.87	41.81	40.54	38.61
May	35.48	33.08	45.65	42.62	39.96	38.13
June	36.40	34.18	45.65	43.40	37.37	35.68
July	38.07	34.50	45.56	43.62	43.71	40.60
August	35.58	33.52	52.34	48.53	47.55*	41.65*
September	33.55	31.54	44.18	42.53		
October	35.02	33.26	41.03	39.34	45.00	40.00
November	33.81	32.46	39.09	37.88	↓	↓
December	<u>36.39</u>	<u>34.29</u>	<u>38.49</u>	<u>37.47</u>	<u>40.00</u>	<u>35.00</u>
Average	\$35.28	\$32.95	\$43.64	\$41.96	\$41.32**	\$39.17**
Difference	2.33		1.68		2.15**	

* Week ending August 17.

** Average of first seven months.

Table 2. Feeder Cattle Price Per 100 Pounds, Kansas City

Month	Choice Feeder Steer (600-700#)			Choice Steer Calves (400-500#)		
	1972	1973	1974	1972	1973	1974
January	\$37.92	\$47.33	\$50.58	\$41.50	\$51.95	\$54.66
February	38.86	50.98	50.80	43.94	56.10	54.45
March	38.64	54.01	44.81	44.69	62.72	54.02
April	38.54	51.82	44.15	45.16	60.42	50.30
May	40.43	54.55	40.14	46.67	62.59	45.48
June	41.94	54.85	35.10	47.32	62.42	39.96
July	42.02	56.49	36.88	47.10	64.40	37.72
August	42.07	62.40		48.32	72.52	
September	43.29	55.06	35.00	48.70	62.80	35.00
October	44.15	51.86	↓	49.81	59.46	↓
November	43.17	51.02	↓	48.37	56.42	↓
December	<u>45.77</u>	<u>47.71</u>	<u>32.00</u>	<u>49.90</u>	<u>52.59</u>	<u>28.00</u>
Average	\$41.40	\$53.17		\$46.79	\$60.36	

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BUDGET FOR STEER CALF USING LIBERAL SILAGE RATION

	HEAD	CWT GAIN
PERFORMANCE:		
PURCHASE WEIGHT, LBS	450.	
SELLING WEIGHT, LBS	1100.	
TOTAL GAIN, LBS	650.	
AVERAGE DAILY GAIN, LBS	1.90	
DAYS ON FEED	342.	

VALUE PRODUCED:		
SALE VALUE AT \$ 42.00 /CWT.....	\$ 462.00	
PURCHASE COST AT \$ 30.00 /CWT	135.00	
GROSS MARGIN	327.00	\$ 50.31

FEED REQUIREMENTS AND COSTS:		
CORN 40.00 BU AT \$ 3.50	140.00	21.54
SILAGE 4.00 TON AT \$ 24.00	96.00	14.77
HAY .40 TON AT \$ 50.00	20.00	3.08
PROTSUP 3.30 CWT AT \$ 10.00	33.00	5.08
MINERAL .45 CWT AT \$ 13.00	5.85	.90
TOTAL FEED COST	294.85	45.36

OPERATING COSTS:		
INTEREST ON ANIMALS (9.0 PERCENT) ..	11.39	1.75
DEATH LOSS (1.8 PERCENT)	2.68	.41
SELLING AND BUYING COSTS	10.00	1.54
OTHER OPERATING COSTS	11.00	1.69
TOTAL OPERATING COSTS	35.06	5.39

TOTAL FEED & OPERATING COSTS 329.91 50.76

BUDGETED RETURN FOR LABOR & FACILITIES. -2.91 -.45

RETURN PER HEAD FOR LABOR & FACILITIES WITH DIFFERENT PRICES.

SELLING PRICE/CWT	WHEN PURCHASE COST PER CWT IS:				
	26.00	28.00	30.00	32.00	34.00
38.00	-27.04	-36.98	-46.91	-56.85	-66.78
40.00	-5.04	-14.98	-24.91	-34.85	-44.78
42.00	16.96	7.02	-2.91	-12.85	-22.78
44.00	38.96	29.02	19.09	9.15	-.78
46.00	60.96	51.02	41.09	31.15	21.22

BREAK EVEN SELLING PRICES THAT WILL COVER FEED, OPERATING,
AND \$ 30.00 RETURN FOR LABOR AND FACILITIES.

PURCHASE PRICE/CWT	WHEN CORN PRICE PER BU IS:				
	3.30	3.40	3.50	3.60	3.70
26.00	41.83	42.42	43.00	43.59	44.18
28.00	42.73	43.32	43.91	44.49	45.08
30.00	43.64	44.22	44.81	45.40	45.98
32.00	44.54	45.13	45.71	46.30	46.89
34.00	45.44	46.03	46.62	47.20	47.79

NOTE: TO COVER ONLY FEED AND OPERATING COSTS SUBTRACT \$ 2.73

BUDGET FOR STEER YEARLING USING LIBERAL GRAIN RATION

	HEAD	CWT GAIN
PERFORMANCE:		
PURCHASE WEIGHT, LBS	700.	
SELLING WEIGHT, LBS	1100.	
TOTAL GAIN, LBS	400.	
AVERAGE DAILY GAIN, LBS	2.40	
DAYS ON FEED	167.	

VALUE PRODUCED:		
SALE VALUE AT \$ 43.00 /CWT.....	\$ 473.00	
PURCHASE COST AT \$ 32.00 /CWT	224.00	
GROSS MARGIN	249.00	\$ 62.25

FEED REQUIREMENTS AND COSTS:		
CORN 53.33 BU AT \$ 3.50	186.67	46.67
HAY .27 TON AT \$ 50.00	13.33	3.33
PROTSUP 1.60 CWT AT \$ 10.00	16.00	4.00
MINERAL .27 CWT AT \$ 13.00	3.47	.87
TOTAL FEED COST	219.47	54.87

OPERATING COSTS:		
INTEREST ON ANIMALS (9.0 PERCENT)..	9.21	2.30
DEATH LOSS (.7 PERCENT)	1.66	.41
SELLING AND BUYING COSTS	10.50	2.63
OTHER OPERATING COSTS	7.00	1.75
TOTAL OPERATING COSTS	28.36	7.09

TOTAL FEED & OPERATING COSTS 247.83 61.96

BUDGETED RETURN FOR LABOR & FACILITIES. 1.17 .29

RETURN PER HEAD FOR LABOR & FACILITIES WITH DIFFERENT PRICES.

SELLING PRICE/CWT	WHEN PURCHASE COST PER CWT IS:				
	28.00	30.00	32.00	34.00	36.00
39.00	-13.47	-28.15	-42.83	-57.51	-72.18
41.00	8.53	-6.15	-20.83	-35.51	-50.18
43.00	30.53	15.85	1.17	-13.51	-28.18
45.00	52.53	37.85	23.17	8.49	-6.18
47.00	74.53	59.85	45.17	30.49	15.82

BREAK EVEN SELLING PRICES THAT WILL COVER FEED, OPERATING, AND \$ 20.00 RETURN FOR LABOR AND FACILITIES.

PURCHASE PRICE/CWT	WHEN CORN PRICE PER BU IS:				
	3.30	3.40	3.50	3.60	3.70
28.00	41.07	41.56	42.04	42.53	43.01
30.00	42.41	42.89	43.38	43.86	44.35
32.00	43.74	44.23	44.71	45.20	45.68
34.00	45.08	45.56	46.05	46.53	47.02
36.00	46.41	46.90	47.38	47.87	48.35

NOTE: TO COVER ONLY FEED AND OPERATING COSTS SUBTRACT \$ 1.82

HOGS

AT A GLANCE: Barrow and gilt prices are expected to continue to run below 1973 for the remainder of 1974 because of continued heavy supplies of pork. The price will be influenced by reduced farrowings both in fall 1974 and spring 1975. They are expected to fluctuate around \$40 per cwt. However, profit prospects during the first half of 1975 look only average in view of expected high feed grain prices and other production costs.

Review Of Recent Past

Following 2 years of excellent hog returns, hog producers began to experience rather unprofitable returns during the first half of 1974. With increasing feed prices and decreasing hog prices, the hog enterprise looked less and less profitable (table 1). This was especially true for the feeder pig production enterprise; feeder pig prices plummeted from \$35 to \$15 per head (table 2). Relief from the low profit situation began to develop in August as hog prices started to increase.

Table 1. Hog Prices and Feeding Ratios

Year	Average Price Barrows and Gilts 7 Major Markets	Hog - Corn Ratio - U.S.
1974 (January - June)	\$33.14	14.0
1973	40.27	21.7
1972	26.76	20.0
1971	18.45	16.0
1970	21.95	16.3
1965 - 69	21.40	18.1

Commercial hog slaughter, which was about the same in the first quarter 1974 as it was a year earlier, began to increase relative to a year ago in the second quarter (table 2). Total pork production increased even more due to a substantial jump in average hog slaughter weights. Hog slaughter was somewhat higher than anticipated, based on estimated 1973 fall farrowings. This situation developed, in part, because of the low level of hog slaughter during spring and summer of 1973, then, marketings were below their normal rates because of market disruptions.

Prospects For The Remainder Of 1974

The bulk of the hogs and pigs headed for market in the last 4 months of 1974 were born in spring 1974. Nationally, sow farrowings in the early spring period were estimated to have been unchanged from the previous year, while late spring (March - May) farrowings were estimated at 2 percent below a year earlier.

Based on USDA's June Hog and Pigs Report, * June inventories of hogs to be marketed in September - December were down about 2 percent from a year earlier.

At face value, the farrowing and inventory situations should point to reduced slaughter during the late summer and fall compared with a year ago. Actual marketings, however, are likely to run moderately above last fall. This is because of the slowdown in marketings a year ago and the probable increase in sow slaughter this fall because of current high corn prices.

Assuming a normal pattern of slaughter this fall, fall marketings should be 3 to 6 percent above a year ago and slightly up from third quarter 1974 marketings.

Demand for pork this fall should be improved from year earlier levels due to higher priced competing meats, more people and higher incomes.

Prices this fall will likely range below both the summer level and year earlier level. Prices for barrows and gilts are expected to range in the mid-thirties during the October - December quarter (table 2). Feeder pig prices will also be under pressure, reflecting both the lower slaughter hog prices and high finishing hog production costs, particularly corn. Prices for 40-pound feeder pigs will range around \$15 per head during most of the fall months.

Profit prospects on hogs marketed this fall are poor since total production costs will be above market price.

Supply And Demand Outlook For 1975

The bulk of the first half of 1975 hog slaughter will come from the 1974 June - November pig crop. Hog producers indicated in the June Hogs and Pigs Report that they would farrow 2 percent fewer sows than during this period a year earlier. This figure now seems low in view of the very poor hog returns during the spring and summer breeding season and the likelihood of continued high corn prices. With the release of the September Hogs and Pigs Report in late September, a revised estimate of the June - November farrowings will likely show a greater decline. We currently feel that a reduction of 5 percent in farrowings over this period would be more likely compared with a year earlier.

* The September Hogs and Pigs Report will be released Sept. 21, 1974.

If fall farrowings are down by 3 to 5 percent, prospects for reduced slaughter numbers in the first half of 1975 appear fairly good. If slaughter weights are also reduced to more normal levels, total pork production would be reduced at least 5 percent below a year earlier.

Marketings in the last half of 1975 will be a direct result of current hog producers' breeding plans for and actual farrowings in the December 1974 to June 1975 (spring) farrowing season. The big question here is how will hog producers respond to the low profits of recent months and to the alternative of selling corn for cash rather than putting it through hogs. The chances are good that, for those producers who have low investment units, sizable reductions will occur in their 1975 spring pig crops. On the other hand, this cutback could be tempered by actions of the large, more highly capitalized hog units which can't afford to let high cost facilities stand idle.

Assuming a hog price situation this fall as predicted and a corn crop that will keep corn prices in the \$3.50 range, we look for a reduction in farrowings this spring from a year earlier of about 10 percent.

Demand conditions for pork in 1975 are somewhat uncertain, but they appear to be not much stronger than a year earlier in the face of fairly large increases in the supply of beef and a faltering economy.

Price And Profit Prospects For 1975

Hog prices should recover seasonally from fall lows during the first half of 1975, ranging from \$38 to \$45 per cwt. Seasonally, we will likely see prices trend upward from fall lows throughout the spring and summer before peaking in early summer at about \$45. The normal seasonal decline into the fall months of 1975 will be absent or less than usual as hog marketings are curtailed (table 2).

Profit prospects during the first half of 1975 should improve as the year progresses. Assuming that the hog and corn prices predicted here actually develop, profit prospects for feeder pigs can complete hog enterprises look below average for first quarter of 1975. If hog prices climb to mid-forties by next summer, profit prospects will improve and will begin to show a reasonable return to labor and facilities--even at \$3.50 per bushel of corn. Profit prospects on finishing feeder pigs will depend on feeder pig price levels, corn prices and slaughter hog prices.

Using projected feeder pig and finished hog prices with projected feed prices and typical resource requirements, our computer decision aid was used to indicate profit prospects on purchased feeder pigs. The results shown in the computer printout suggest good opportunities for above average return to this enterprise in the coming months as hog prices move higher.

If a hog feeder should wish an individual computer budget for his situation, he should contact his county extension agent and ask to run the FPIG computer decision aid.

Longer Run

The longer term outlook for hogs and pork will likely be similar to the past. We will continue to see an increasing demand for pork from a larger population with increasing incomes. Instability in output and prices will be common. However, the higher level of capital, management and labor requirements of the larger hog confinement operations may reduce some of the extreme fluctuations of the past. Per capita pork consumption will likely fluctuate between 60 and 70 pounds per person, and hogs will continue to be the mortgage lifter on many corn belt farms.

Table 2. Quarterly Commercial Hog Marketings and Prices

<u>Year</u>	<u>Quarter</u>	<u>Number Marketed</u>	<u>Average Price</u>	
			<u>Slaughter Hogs 7 Markets</u>	<u>Feeder Pigs Northern Minn.</u>
		million head	per cwt.	per head
1973	1	20.2	\$35.62	\$28.92
	2	19.4	36.67	29.30
	3	16.8	49.04	34.88
	4	20.2	40.96	30.59
1974	1	10.0	38.40	30.23
	2	21.0	28.00	20.95
	3	20.1*	37.00*	15.00*
	4	21.0*	36.00*	15.00*
1975	1	19.6*	38.00*	19.00*
	2	20.2*	40.00*	22.00*
	3	18.5*	43.00*	25.00*

* Estimated figures

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FEEDER PIG BUDGET AND RETURN TABLES

	HEAD	CWT GAIN
PERFORMANCE:		
WEIGHT SOLD(2- 9-75).....	220.	
WEIGHT PURCHASED (10-15-74).....	40.	
DAYS ON FEED	116.	
AVERAGE DAILY GAIN, LBS	1.55	
POUNDS FEED PER POUND OF GAIN ..	3.86	
VALUE PRODUCED:		
SALE VALUE AT \$ 38.00 /CWT	\$ 83.60	
PURCHASE COST AT \$ 15.00 /HEAD .	15.00	
DEATH LOSS (4.0%)62	.35
VALUE PRODUCED	67.97	37.76
FEED REQUIREMENTS/HEAD AND COSTS:		
CORN 10.65 BU AT \$ 3.50 ..	37.28	20.71
PROSUP40% 1.01 CWT AT \$ 10.50 ..	10.58	5.88
(MIN,VIT,ANTIB INCL IN PROT SUP)		
TOTAL FEED COST	47.86	26.59
OPERATING COSTS:		
INTEREST ON ANIMALS (9.0%)45	.25
SELLING AND BUYING COSTS	2.34	1.30
OTHER OPERATING COSTS	4.00	2.22
TOTAL OPERATING COSTS	6.79	3.77
TOTAL FEED & OPERATING COSTS	54.65	30.36
RETURN FOR LABOR & FACILITIES	13.33	7.40

RETURN PER HEAD FOR LABOR & FACILITIES WITH DIFFERENT PRICES

SELLING PRICE/CWT	WHEN PURCHASE COST PERHEAD IS:				
	11.00	13.00	15.00	17.00	19.00
32.00	4.41	2.27	.13	-2.02	-4.16
34.00	8.81	6.67	4.53	2.38	.24
36.00	13.21	11.07	8.93	6.78	4.64
38.00	17.61	15.47	13.33	11.18	9.04
40.00	22.01	19.87	17.73	15.58	13.44
42.00	26.41	24.27	22.13	19.98	17.84
44.00	30.81	28.67	26.53	24.38	22.24

BREAK EVEN SELLING PRICES THAT WILL COVER FEED, OPERATING AND \$ 8.00 PER HEAD FOR LABOR AND FACILITIES.

PURCHASE PRICE/HEAD	WHEN CORN PRICE PER BU IS:				
	3.10	3.30	3.50	3.70	3.90
11.00	28.06	29.03	29.99	30.96	31.93
13.00	29.03	30.00	30.97	31.94	32.91
15.00	30.01	30.97	31.94	32.91	33.88
17.00	30.98	31.95	32.92	33.89	34.85
19.00	31.95	32.92	33.89	34.86	35.83

RETURN FOR LABOR & FACILITIES AT DIFFERENT SELLING WEIGHTS

SELLING PRICE/CWT	WHEN SELLING WEIGHT PER HEAD IS:				
	180.00	200.00	220.00	240.00	260.00
35.00	7.07	7.12	6.73	5.84	4.60
36.00	8.87	9.12	8.93	8.24	7.20
37.00	10.67	11.12	11.13	10.64	9.80
38.00	12.47	13.12	13.33	13.04	12.40
39.00	14.27	15.12	15.53	15.44	15.00
40.00	16.07	17.12	17.73	17.84	17.60
41.00	17.87	19.12	19.93	20.24	20.20

DAIRY

AT A GLANCE: Projections indicate that in 1975 U.S. milk supplies will be down slightly and commercial sales will hold constant, resulting in a reduction in stocks. Prices averaging slightly above 1974 levels are projected, though the peaks and valleys are not expected to be as great.

1974 Outlook Revisited

A year ago, we predicted that milk production would again decline in 1974. Present estimates place total 1974 U.S. milk production at 114 billion pounds--about 1.5 percent below 1973 levels (table 1). Output per cow has not rebounded as quickly as expected, hovering near year-ago levels, while higher replacement numbers and lower cull cow prices have slowed the decline in cow numbers to around 2 percent per year.

Table 1. U.S. Milk Supply and Disappearance, 1973, With Projections for 1974 and 1975

	1973 ^{1/}	1974 ^{2/}	1975 ^{2/}
	----- Billion Pounds -----		
Production	115.6	114.0	113.0
Less farm use	3.2	3.2	3.0
Marketings	112.3	110.8	110.0
Beginning commercial stocks	3.5	4.8	5.5
Imports	3.9	2.4	1.8
Total "supply"	119.7	118.0	117.3
Ending commercial stocks	4.8	5.5	5.0
Net government removals	2.2	1.0	.5
Commercial disappearance	112.7	111.5	111.8
Total "disappearance"	119.7	117.8	117.3

^{1/} Dairy situation, July, 1974.

^{2/} Estimates by the authors.

Likewise, it was predicted that demand for dairy products would remain strong. With reduced supplies and a strong demand, substantial price increases were projected, unless imports were permitted to increase. Government price support purchases would be negligible. To some degree, all of this has happened--and more. U.S. manufacturing milk prices did rise, from \$6.24 in August 1973 to \$8.11 in March 1974. During

DAIRY - 2

this same period, imports totalled 4.2 billion pounds compared to 1.2 billion pounds the year before. And government support purchases were negligible.

Then some adverse things began to happen. Beginning in April, wholesale dairy prices came tumbling down. Butter, American cheese and nonfat dry milk prices dropped to CCC support purchase levels, with the USDA again buying dairy products. As a consequence, U.S. manufacturing milk prices fell \$1.61 from March to \$6.50 per 100 pounds in June.

What caused this to happen? Basically, it was a problem of supplies exceeding demand at going prices--resulting in a sharp buildup of commercial stocks. Milk production was expanding seasonally, while real spendable earnings of consumers were declining. Fluid milk sales dropped, leaving more milk available for manufacturing uses. Cheese supplies increased sharply because of increased capacity and larger first quarter imports.

Milk production will likely stay near year earlier levels for the remainder of 1974. All of the temporary import quotas have now expired, so imports should total considerably below 1973 levels. Dairy prices at both the farm and wholesale level will likely increase seasonally this fall and winter, although probably not to the levels of early 1974. Slightly lower retail prices compared to a year ago should help sales, though real purchasing power continues down. Ending stocks will, therefore, be higher than a year ago.

Prospects For 1975

Lower cull cow prices, higher replacement numbers and unemployment rates suggest production increases for the year ahead, while very unfavorable milk/feed price ratios suggest a decline. Our expectation is for a modest reduction in production (table 1) with reduction in cow numbers hovering near 2 percent and production per cow showing only modest increases in the face of high feed costs. Marked improvement in milk prices might bring production to this year's level. However, we do not see price rises of this magnitude.

This reduced production--coupled with low imports and high beginning commercial stocks--will provide a total available milk supply of about 117 billion pounds compared with 118 billion in 1974. With the expected modest price increases, commercial sales are projected to hold near this year's level. As a result, ending commercial stocks and net government removals are expected to be down about a billion pounds.

As far as milk prices are concerned, our expectation is for an annual average price slightly higher than for 1974. However, the seasonal pattern is expected to be different. Winter prices may reach the \$7.50 to \$8.00 range, slightly under 1974 peaks. However, the flush season drop will likely be less dramatic. Fall prices may then climb above 1974 levels (table 2).

DAIRY - 3

Table 2. Minnesota - Wisconsin Manufacturing Milk Price Series, 1973 - To Date

	<u>1973</u>	<u>1974</u>
January	\$5.43	\$8.10
February	5.45	8.14
March	5.55	8.15
April	5.63	7.73
May	5.66	6.93
June	5.73	6.31
July	5.78	6.29
August	6.38	
September	6.91	
October	7.49	
November	7.64	
December	<u>7.94</u>	
Average	\$6.30	

Management Implications

- * With high feed prices, careful culling should be practiced. However if the barn is not full, then it usually pays to leave poorer cows in the herd so long as they cover some of the overhead costs.
- * With high protein and energy costs, care should be taken in balancing rations and in putting up the forage supply next year. Feed for maximum profit, not maximum production. Crops are a major profit center in Minnesota dairying at present.
- * For the good manager, longer term profit prospects in dairying continue to look good. Labor, capital and management requirements will keep supplies in bounds at reasonable prices.

POULTRY

AT A GLANCE: Summer 1974 hatchings and birds on hand indicate that egg production will likely hold comparable to 1973 levels for several months. Feed prices are up, and consumer demand is weak. Egg prices are at loss levels for many producers. The 1975 production will be influenced by the fall feed crop harvest and prices. Prices should range from 57 to 63 cents per dozen for large eggs, New York wholesale for the rest of the year. Winter prices should be above 60 cents; spring closer to 55 cents with some recovery in summer 1975.

The turkey market is under substantial price pressure. Heavy carry-over stocks into 1974 and expanded production have resulted in loss price levels when accompanied with current high feed costs. Turkey production is likely to be down in 1975.

With little reason to expect a decline in feed ingredient costs, poultrymen are adjusting to a new set of cost-price relationships. New levels of relative prices for poultry products and red meats will require careful examination to evaluate demand effects through 1975. Inflation and other influences on consumer purchasing power are also affecting the demand for eggs and poultry products.

Eggs

Prices: New York egg prices bottomed out in May and June. By July, they were above 50 cents. They indicate continued strength through fall and winter. Layers on farms are 2 percent below what they were a year ago. They are 9 percent below what they were July 1, 1971. The cyclical nature of egg production with the profitable prices of late 1973 and early 1974 led to an increased hatch for 1974 production. This, in turn, has led to lower prices and the current observed adjustments in both price and size of laying flock. The egg-feed price ratio of 6.1 observed in May was the lowest since the series began in 1963.

Production: Fewer layers are being force molted under current price and profit conditions. More could be if the profit picture were to improve quickly, resulting in an expansion in egg production. But the indicated decline in replacement hatch below last year and a shortened lay cycle suggest lower production instead.

Stocks: Cold storage stocks are minimal; however, they do exist and are part of the downward pressure on price.

POULTRY - 2

Demand: Consumer demand for eggs seems to be declining once again after 10 years of relatively stable per capita consumption. If this trend continues, a decline in price effect will result. Demand does not show consumer awareness of eggs as a relatively good buy in protein.

Breakeven: Appears to be in the 61 to 66 cents range (New York large basis) for typical upper midwest producers in 1975, assuming feed costs of \$3.10/bushel and up for corn with soybean meal over \$175/ton.

Turkeys

Turkey producers began 1974 with an overdegree of optimism. Hatchery settings for 1974 production were as much as 13 percent higher than they had been a year earlier. However, rapidly falling prices in the first half of 1974 reduced both hatchery settings and the profit potential. Live turkey prices have been below actual feed costs for many producers. Consumers are showing a propensity to shift rapidly between turkeys and other meat sources, depending upon price. The high prices of 1973 showed a drop in consumption of 8 percent below 1972. Most of 1974 production plus available stocks will likely be marketed before the end of the year. The current economic situation suggests few turkeymen will be inclined to carry stocks over to 1975.

Twenty to 22-pound ready to cook birds are expected to average 45 to 48 cents during the August-December 1974 period in New York. All the above factors will likely result in a decrease in production in 1975.

FEEDGRAINS

AT A GLANCE: Feedgrain supply for 1974/75 will be 15 to 20 percent below supply in 1973/74. Although present stocks are low, there will be a drawdown to minimal levels. Prices will likely be above those of a year ago. The Minneapolis No. 2 yellow corn price will likely average \$3.25 to \$3.50 per bushel, if the final crop size is close to the August estimate. Since most feedgrain use is for livestock feed, the big price factor for 1974/75 will be the pace and pattern of adjustments of the livestock industry to lower feedgrain supplies.

Total feedgrain supply will be down substantially from last year. Both carryover and the crop are down. Carryover is down by 40 percent. Crop production may be down by 15 percent. Although acreage of the four major feedgrains is up, yields are down. Since supply is down price must perform the market function of reducing use through the marketing year. Markets will continue to be sensitive to developments even remotely affecting supply and use. Hence, we may continue to see rather volatile feedgrain markets.

The dominant feedgrain in Minnesota is corn, so this discussion will focus on the corn market. Corn is also the dominant feedgrain in the U.S. In 1974/75, it will comprise 80 percent of the total U.S. feedgrain supply. So oats, barley and grain sorghum markets are strongly influenced by corn market developments.

CORN

1973/74 Review

We started the year with the largest U.S. corn crop on record--5.64 billion bushels. But carryover stocks going into the year were down. Hence, total supply was below a year earlier--at 6.35 billion bushels. Corn use has been high. By September 30 we will have fed about 4 1/4 billion bushels and exported about 1 1/4 billion. Carryover at the end of the year will be only half of what it was a year ago (table 1).

Corn price--basis Minneapolis--was in the \$2.00 - \$2.25 area through 1973 harvest (table 2). It moved gradually upward to the \$2.50 level by the end of the year. Corn use during the early part of the year was high. Livestock consumption of grain was high, and exports were running at a high rate. The January stocks report surprised the market with its indication of rapid feedgrain disappearance. Following its release, the price rose rapidly, peaking at \$3.18 on February 25. At this point, the market

turned bearish. A substantial increase (10 percent) in corn acreage was anticipated in 1974. Livestock feeding margins were poor, implying future feeding cutbacks. The market trended downward to \$2.47 in early May. But persistent 1974 crop problems began to strongly influence the market. The late spring was wet--delaying planting. The summer turned dry throughout much of the Corn Belt. The July grain stocks report showed continued heavy livestock feeding rates as feeders carried livestock to heavier weights. And the market again turned bullish. The price trended upward, breaking \$3 in early July. It peaked again, at \$3.71, on July 31. After dropping from this level, price turned up again following release of USDA's August crop report.

Both corn exports and feeding were high during the year. Although exports at this time are estimated to total slightly below the 1972/73 volume, the rate held up very well in the face of substantially higher U.S. corn prices. One of the pronounced sources of strength was the high rate of feeding--particularly early in the year. Livestock feeders were apparently reluctant to accept declining livestock prices, and they held onto their livestock--leading to high feed consumption at heavier weights. Estimated average 1973/74 corn consumption per grain-consuming animal unit is about 38 bushels (table 3). In 1972/73, it was 37.3 bushels. In 1970/71, it was only 30.5 bushels.

1974/75 Prospects

A. Supply -

When this was written, the most recent official estimate of the 1974 corn crop was 4.97 billion bushels. Private estimates have put it at 5 - 5.2 billion bushels.

Acreage planted to corn was estimated to be up nearly 10 percent. But USDA's August estimate was for only a 3 percent increase in acres to be harvested for grain. Meanwhile, yield was projected to be 77.8 bushels per acre--down 15 percent from the 91.4 bushel yield of the 1973 crop and down 20 percent from the 1972 crop. The August crop projection is usually not precisely the size of the final crop. Last year, the final estimate was not far different from the August projection. In 1972, the final crop estimate was .5 billion bushels larger. Table 4 gives an indication of the differences between the August, September, October, November and final crop estimates in the past few years.

Much can still happen before the crop is in the bin, but up to now the crop has been plagued by several problems. Nitrogen fertilizer delivery was a problem at planting. Much of the crop has a lower rate of nitrogen. (Some of the crop didn't get preplant nitrogen). In many areas, the spring turned wet and cold. This delayed field preparation, planting, early plant growth and weed control. Then much of the Corn Belt became dry and hot, retarding growth and placing more stress on the crop. The combination of lower nitrogen fertilizer supply and drought led to continually lowered estimates of yield and acreage for grain harvest.

One thing appears certain. The stocks on hand at the beginning of 1974/75 are minimal. It is estimated that .35 billion bushels is about as low as they can go. This is about a

three-week supply at current use rates. Hence, the 1974 crop represents practically the total available supply for 1974/75. Its development and condition through harvest will have great impact on price. If the 1974 crop is about 5 billion bushels, total supply will be 16 percent below last year.

B. Demand -

Total use of corn is expected to be about the size of the crop. There will likely be a decline in all use categories. It is hard to determine which use category will give the most.

Although corn exports account for less than 20 percent of total corn supply, they have been receiving much public attention. Exact level of exports is uncertain--pending foreign crop developments and economic capacity to buy feedgrain. Exports are projected to be .85 billion bushels. This would be down 30 percent from 1973/74. So far, export bookings have been down compared with a year ago. Foreign buyers have chosen to await further crop and price developments. The world's feedgrain supply is up. Estimated world production for 1974/75 is estimated to be about 3 percent above 1973/74; and some of the 1973/74 exports probably went for a modest replenishment of stocks. So demand for U.S. corn exports may be down. But the higher price will be the main factor bringing about a 30 percent reduction in export sales.

Domestic livestock feeding is the major corn use category--accounting for about 75 percent of total use. The livestock industry will cut back on corn feeding in 1974/75. Two kinds of adjustments can be made: reduced numbers of livestock fed; and reduced feeding rates. At present prices both will occur.

Hogs, cattle and poultry each account for 25 to 30 percent of feedgrain consumption, so adjustments in each sector will be important for the market. Farmer-feeders have the option of selling corn at a relatively high price or facing an uncertain livestock feeding program. Commercial feeders face high grain and protein prices. It is not clear how either group will react to the combination of high feed prices, lower feeder costs and an uncertain market. We estimate that total grain consuming animal units for 1974/75 will be down 8 to 10 percent. Feeding rates will also be down. An estimated 9 percent feeding rate reduction would mean corn consumption cut to 35.4 bushels of corn per grain consuming animal unit. This would still be above the 1971/72 feeding rate and much above the 1970/71 corn feeding rate (although other feedgrain supplies were more abundant in 1970/71). All in all, it appears that the reduced corn supply can be accommodated by the livestock industry in one of two likely ways:

- either: (a) reduce the number of livestock fed by 8 to 10 percent and at the same time reduce the feeding rate of all feedgrains by about 9 percent and the feeding rate of corn to about 35.4 bushels,
- or: (b) reduce the feeding rate to about the same level as was done during the corn blight year of 1970/71. This would be a 14 percent feeding rate reduction from 1973/74, but would require only a 4 percent reduction in fed livestock numbers.

FEEDGRAINS - 4

Only time will tell which path is followed. The major point is that the kind of livestock industry adjustment required is within the actual realm of practices followed within the last 5 years--and corn prices were substantially below the present level. Therefore, the very high corn price expectations (over \$4 per bushel) of some people do not appear justified unless there is further crop deterioration (such as an early frost).

C. Pricing The 1974 Corn Crop -

In current grain markets, it seems precarious to pin too many decisions on past relationships. But if historical relationships between feedgrain supply, livestock numbers and corn prices hold true, we would expect the November to July Minneapolis corn price to average 30 to 60 cents per bushel above 1973/74. During November - July 1973/74 the Minneapolis No. 2 yellow corn price averaged about \$2.65 per bushel. Consequently, this analysis leads to an expected average November to July 1974/75 price of \$2.95 - \$3.25 per bushel.

This analytical procedure may err on the low side. While the fundamental relationships may prevail in the long run, in the short run, the market tends to overreact, then pull back. Therefore, with current market movements, it would not be surprising to see \$4 per bushel Minneapolis corn. If so, the November - July average would be nearer \$3.50 per bushel than the previously mentioned \$3.25.

The corn market is likely to peak early in the year. If the crop size remains in the 4.9 to 5 billion bushel range, it is likely that the Minneapolis price at harvest will stay above \$3. It will likely peak early in the season, perhaps near the \$4 per bushel level. The early high price level will likely be high enough to sufficiently curtail use and apportion the supply through the marketing year. By late spring, feedgrain supplies could appear abundant. Then, if 1975 crop prospects appear normal, pressure on the old crop price will develop by spring 1975. On the other hand, if it appears by next summer that we are in the midst of a drought cycle, prices may go higher.

Making pricing decisions on the 1974 crop will not be easy. The following guidelines do not provide instructions, but may be useful for thinking through the decisions:

1. Plan a marketing strategy early in the year, preferably before harvest. This planning should involve:
 - a. Calculate storage costs. For corn, this includes interest, risk of loss and damage, extra drying costs and maybe extra handling (see table 5 as a guide).
 - b. Plan the livestock feeding program. If you plan to feed later in the year, you may be able to buy back cheaper feed.
 - c. Determine what kind of a grain market speculator you want to be at relatively higher corn prices. This includes both your financial and psychological capacity to bear risk.
 - d. Determine how much of your corn crop you want to sell at one time. In volatile markets, it is usually better to average your price over a number of sales.

2. Carefully watch your corn drying and storage procedures. Excessive shrink is expensive at high corn prices. Loss and damage is also expensive.
3. Search for different price bids and discount schedules. It is the net price minus shipping costs that determines your income.
4. Closely watch market developments. Livestock numbers, slaughter weights and export increment will be important influences of price.
5. You may want to consider keeping price charts as a quick reference for price trends and significance of price changes.

OATS

1973/74 Review

Total oats supply for 1973/74 was 1.08 billion bushels. This was 13 percent below a year earlier. Both crop and beginning stocks were down. Over 80 percent of use was for domestic livestock feed. Oat exports, at .06 billion bushels, were more than double those of a year earlier. Carryover stocks of oats on July 1 were about .26 billion bushels--or 60 percent of a year earlier. Oat prices have been significantly higher than in 1972/73.

1974/75 Prospects

The 1974 oat crop was down 4 percent from 1973. It is estimated at .638 billion bushels. Crop plus carryover stocks total .895 billion bushels for the 1974/75 marketing year. This 17 percent reduced supply will mean a further reduction of carryover stocks in 1975. It is estimated that feed use will account for .57 billion bushels. Food use will increase to .1 billion bushels. Exports will decline to .03 billion bushels.

This overall decline in use will come through higher oat prices. We estimate season average oats price will be about 20 percent higher in 1974/75, due to the shorter supply. As with other feedgrains, oats prices may peak rather early in the marketing year, barring shortage prospects for the 1975 crop.

BARLEY

1973/74 Review

The 1973 barley crop was about the same size as in 1972. But stocks going into the

year were lower. So total barley supply was down about 2 percent. The largest barley use category is for livestock feed. Feed use increased to .25 billion bushels. Food and industrial use was also up--to .15 billion bushels. Exports, too, increased. Total use increased by 6 percent to .477 billion bushels. This use increase reduced ending stocks to .12 billion bushels.

1974/75 Prospects

The 1974 barley crop is down about 20 percent, due to both lower acreage and lower yield. Total supply will be down to .46 billion bushels--70 percent of the supply of 4 years ago. Food and industry use will be up. This has been a trend increase of 2 to 3 percent in the past few years, and the trend will undoubtedly continue. This higher value use will bid barley away from livestock feed use which is expected to drop to .163 billion bushels. Exports will also likely be down in 1974/75. Total use is projected at .388 billion bushels, leaving a reduced carryover into 1975 of .08 billion bushels.

Barley prices will be higher relative to 1973/74. They will also likely be high relative to other feedgrains, as reduced supplies are bid into higher value food and industry uses.

FEEDGRAINS - 7

Table 1. Feedgrains: Supplies, Distribution and Prices

Mar- keting Year <u>1/</u>	Supply				Distribution					U.S. Farm Price
	Carryin	Produc- tion	Imports <u>2/</u>	Total	Domesitc Use			Exports <u>2/</u>	Total Use	
					Feed	Food Industry and Seed	Total Domestic			
----- Million Bushels -----										\$/bu.
CORN										
1971	667	5,641	1	6,309	3,978	409	4,387	796	5,183	1.08
1972	1,126	5,573	1	6,700	4,310	423	4,733	1,258	5,991	1.57
1973*	709	5,643	1	6,353	4,343	435	4,778	1,225	6,003	2.38
1974*	350	4,966	1	5,317	3,681	435	4,116	850	4,966	
1975*	350									
GRAIN SORGHUM										
1971	90	876	-	966	692	9	701	123	824	1.05
1972	142	809	-	51	660	6	666	212	878	1.37
1973*	73	937	-	1,010	724	6	730	210	940	2.13
1974*	70	620	-	690	442	8	450	170	620	
1975*	70									
OATS										
1971	517	881	4	1,402	738	99	837	24	861	.60
1972	541	692	3	1,236	711	93	804	22	826	.72
1973*	410	664	2	1,076	671	93	764	57	821	1.16
1974*	255	638	2	895	570	95	665	30	695	
1975*	200									
BARLEY										
1971	155	464	15	634	266	142	408	51	459	.99
1972	175	423	14	612	238	145	383	66	449	1.21
1973*	163	424	10	597	245	150	395	82	477	2.13
1974*	120	333	10	463	163	155	318	70	388	
1975*	75									
TOTAL FEEDGRAINS										
----- Million Tons -----										
1971	33.2	207.7	.5	241.4	149.0	16.7	165.7	27.3	193.0	-
1972	48.4	199.9	.4	248.7	156.2	17.0	173.2	43.1	216.3	-
1973*	32.4	205.0	.3	237.7	156.1	17.3	173.4	43.7	217.1	
1974*	20.6	174.9	.3	195.6	133.4	17.6	151.0	29.7	180.7	
1975*	14.9									

1/ Beginning October 1 for corn and sorghum; July 1 for oats and barley
2/ Includes product equivalents
* 1973/74 preliminary; 1974/75 based on August Crop Report and prospective demand

FEEDGRAINS - 8

Table 2. Mid-Month Minneapolis Corn Price*

Month	Marketing Year		
	1971/72	1972/73	1973/74
	----- dollars per bushel -----		
October	1.09	1.23	2.23
November	1.05	1.25	2.39
December	1.16	1.42	2.48
January	1.12	1.42	2.69
February	1.14	1.41	3.03
March	1.16	1.39	2.71
April	1.19	1.47	2.66
May	1.21	1.75	2.66
June	1.16	2.03	2.70
July	1.21	2.31	3.17
August	1.20	3.08	3.48
September	1.30	2.31	

* Upper end of range, no. 2 yellow corn on rail, Minneapolis Grain Exchange, as reported by the Minneapolis Tribune

Table 3. Grain Consuming Animal Units (GCAU) and Feedgrains Fed

Year	GCAU	Feedgrains Fed (mil. T.)	Fed/GCAU (T.)	Corn Fed (mil. bu.)	Fed/GCAU (bu.)
----- history -----					
1970/71	117.5	138.9	1.18	3,581	30.5
1971/72	117.0	149.0	1.27	3,978	34.0
1972/73	115.5	156.2	1.35	4,310	37.3
1973/74	114.2	156.1	1.37	4,343	38.0
----- 1974/75 possibilities -----					
(1)	103.9	133.4	1.28	3,681	35.4
(2)	109.6	133.4	1.22	3,681	33.6

(1) Assumes 9 percent GCAU decline--minimal feeding rate decline

(2) Assumes 1970/71 feedgrain feeding rate--need 4 percent GCAU decline

FEEDGRAINS - 9

Table 4. USDA Projected and Final Corn Crop Report at Various Dates

<u>Year</u>	<u>Projected</u>				<u>Final</u>
	<u>Aug. 1</u>	<u>Sept. 1</u>	<u>Oct. 1</u>	<u>Nov. 1</u>	
----- million bushels -----					
1974	4,966				
1973	5,661	5,768	5,763	5,678	5,643
1972	4,948	5,124	5,266	5,400	5,573
1971	5,345	5,266	5,400	5,552	5,641
1970	4,693	4,403	4,188	4,104	4,152

Table 5. Approximate Selected Corn Storage Costs, Per Bushel, November to July at \$3.25 per Bushel Corn

<u>Item</u>	<u>Amount</u>
Interest (6 months at 8 percent)	\$.13
Drying from 15 1/2 percent to 13 percent for extended storage:	
Shrink	.11
Fuel, electricity, etc.	.04
Extra handling	*/
Loss and damage	*/
Insurance	*/
	\$.28+ *

* Your estimate for your situation

SOYBEANS

AT A GLANCE: Total soybean supply is estimated to be down for 1974/75. Prices will increase to curtail use below use in 1973/74. The price is expected to average above \$6 per bushel. During the first part of the marketing year, the price will likely fluctuate within the \$6 - \$8 range. Because this is a short crop year, it may be profitable to sell at least part of the crop early in the marketing year. Unless livestock producers drastically curtail feeding, soybean meal price will likely be in the \$150 to \$200 per ton range.

1973/74 Review

Last year's soybean supplies were 20 percent above a year earlier. The 1973 crop was up nearly one-fourth, but stocks were down. Both domestic crushing and exports were up for the year. Domestic crush was up 12 percent. Exports were up 15 percent. Ending stocks this fall returned to a more normal level of .17 billion bushels (table 1).

Soybean prices--basis Minneapolis--were in the \$5.00 - \$5.50 range throughout most of 1973's harvest (table 2). By year's end, they were nearing the \$6 level. The soybean meal price was drifting down, but the January - March soybean oil price was more than 2 1/2 times the level of a year earlier. Soybean prices remained generally in the \$5.90 - \$6.25 range through late March. They then drifted down to just above \$5 in early May. Soybean oil price continued strong, but the meal price was dropping. World meal supply prospects, including Peruvian fishmeal, were improving. In April - June, the soybean meal price averaged only about one-third that of a year earlier. By June, the soybean market was again more bullish. Crop prospects began to deteriorate. Soybean oil prices continued high, and soybean meal prices began rising. In early July, the price moved above \$6 and above \$7 in mid-July. In 8 trading days--from July 19 to July 31--Minneapolis soybean price rose from \$7.16 to \$8.70 per bushel. The price then began to trend downward, as both meal and oil met resistance to higher prices.

The dominant price-strengthening factor in the 1973/74 soybean market was soybean oil. In 1972/73, soybean meal had been the precious product. During 1973/74, the oil and meal value from a bushel of soybeans will be about equal. During 1972/73, meal contributed almost three times the value of oil (table 3).

During 1973/74 domestic food fat and oil use was very high relative to past years. Meanwhile, supplies of non-soybean fats and oils declined. So there was about a 10 percent increase in domestic soybean oil use. In addition, soybean oil exports increased sharply--about 30 percent. These developments occurred in the face of sharply higher prices--indicating the strong oil demand.

SOYBEANS - 2

Domestic soybean meal use was also up, but not as much as were crushings. Soybean meal stocks are more than double a year ago. Meal exports were also up. But U. S. meal use increased as the price declined to clear the market. During 1972/73, there was a very tight world protein meal situation. But for 1973/74, world production was up nearly 20 percent. There were record soybean crops in the U. S. and Brazil, and anchovy fishing resumed in Peru.

1974/75 Prospects

A. Supply -

Carryover soybean stocks--at .17 billion bushels--are much higher than a year ago. Meanwhile, soybean acreage planted is down about 8 percent from last year. The USDA estimates soybean yield will also be down because of unfavorable weather. In August, the crop size was projected to be 1.3 billion bushels--16 percent below the 1973 crop. Of course, the August USDA Crop Report is not the final estimate. It is based on assumed normal conditions from August 1 through harvest. During the past few years the final crop size has tended to be fairly close to the August estimate (table 4). Other oilseed crops are also estimated to be down. Hence, supply will be much tighter than during the past year, even though it will be the second highest on record.

B. Demand -

Because of the lower supply, some or all of the use categories must be reduced. It is projected that both domestic crushing and exports will be down moderately. We will likely again see a sharp decline in carryover--perhaps to the minimum level of last year.

Domestic soybean oil demand will likely again show an increase. Competing vegetable oil supplies may be higher, but animal fat supplies may be down. Soybean oil exports will probably be down in 1974/75. World palm, coconut and fish oil supplies are expected to increase. Soybean crops in other countries, particularly in Brazil, are also expected to be higher. On the whole, it is not likely that soybean oil demand will continue as strong in 1974/75 as in the latter half of 1973/74.

Domestic soybean meal demand will depend, in part, on the livestock industry's adjustments to high feedgrain prices and low feeding margins. Supplies of other protein meals will be down. It is expected that high feedgrain prices will be associated with higher protein meal feeding rates. But animal units on feed are expected to decline. On balance, these trends may offset each other, leaving domestic meal use at about the same level as in 1973/74. Meal exports will likely decline slightly. Competing meal supplies may be up moderately. Foreign livestock producers will be contemplating the same adjustments as their U. S. counterparts. With adequate supplies higher feedgrain prices may induce greater protein meal consumption.

On balance, the reduced 1974/75 soybean supply will likely be dealt with as follows: (a) declining foreign and increasing domestic soybean oil use, with the soybean oil price trending slightly lower; (b) proportionate declines will occur in both domestic and foreign meal use, with meal prices trending higher than summer 1974 levels.

C. Pricing The 1974 Crop -

If historical relations hold approximately for 1974/75, we would expect about a \$1 per bushel higher average farm price than in 1973/74, when it averaged about \$5.50. It appears that soybean oil and meal prices can be high enough to price soybeans in the \$6 to \$8 range through at least winter 1975. This would mean meal would be priced at \$150 to \$200 per ton, and oil priced at about 30 cents per pound. This would be associated with a crushing margin at about the level of the average of the past couple years--about 50 cents per bushel.

Soybean prices will likely continue to be quite volatile. Lower supplies will mean a tight supply situation. Farmers are showing inclination to hold their crop. Storage space is generally adequate, with lower inventories of all grains. Price performance the past two years has justified storing soybeans at harvest. This year there could be decreasing prices toward spring if foreign protein meal supplies become abundant or if U.S. livestock producers sharply cut back on protein meal feeding.

For 1974/75, pricing the soybean crop will likely continue to be a game for the alert. We suggest these guidelines for 1974/75:

1. Plan a pricing strategy early in the season. This planning should include:
 - a. Calculation of the cost of storage per bushel--including interest, risk of loss and damage.
 - b. Assessment of how much of a grain market speculator you want to be--including both financial capacity to absorb risk and psychological propensity to live with risk.
 - c. Determination of how much of the crop to price at any one time in the market--5, 10, 15, 20, or whatever percentage it makes sense for you to sell at a time.
2. Watch the market closely. You may find it useful to keep price charts as a quick reference to price movements and trends.
3. Watch export developments. About half the U.S. soybean crop is exported as soybeans, oil or meal.
4. Watch the oil and meal markets and the gross crushing margin. This can be a lead to soybean price changes in the near future.
5. Look for differentials in price and contract terms between different buyers. These have often been quite wide in the hectic markets of the past year.
6. Be alert to contract and futures market opportunities for forward pricing.

SOYBEANS - 4

Table 1. Soybeans: Supply and Utilization and Price by Marketing Year*

	Average				Projected
	<u>1965/69</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>
	----- million bushels -----				
Beginning stocks	130	99	72	60	170
Production	<u>998</u>	<u>1,176</u>	<u>1,271</u>	<u>1,367</u>	<u>1,314</u>
Total supply	1,128	1,275	1,343	1,626	1,484
Crushing	603	721	722	810	800
Exports	300	417	480	550	540
Seed, feed, etc.	<u>55</u>	<u>66</u>	<u>81</u>	<u>97</u>	<u>85</u>
Total use	958	1,203	1,283	1,457	1,425
Ending stocks	170	72	60	170	59
Avg. price received	2.46	3.03	4.37	5.57	

* Marketing year: September 1 to August 30

Table 2. Mid-Month Minneapolis Soybean Price*

Month	Marketing Year		
	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>
	----- dollar per bushel -----		
September	3.00	3.46	5.68
October	3.09	3.17	5.49
November	3.14	3.49	5.31
December	3.08	4.02	5.61
January	2.99	4.06	5.91
February	3.08	5.75	6.08
March	3.22	6.18	5.95
April	3.48	6.33	5.39
May	3.49	8.72	5.44
June	3.42	11.84	5.42
July	3.49	6.50	6.40
August	3.40	9.50	7.63

* No. 1 yellow soybeans, on rail, Minneapolis Grain Exchange, as reported by the Minneapolis Tribune.

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Table 3. Soybean Prices Compared With Market Value of Oil and Meal, Decatur, Illinois, Midsummer 1973 and 1974

	<u>June 27, 1974</u>	<u>June 27, 1973</u>
Soybean oil price /lb.	33.6¢	19.1¢
Oil yield/bu.	10.9 lbs.	10.6 lbs.
Oil value/bu.	\$3.66	\$2.03
Soybean meal price/ton	\$102	\$375
Meal yield/bu.	47.25 lbs.	46.98 lbs.
Meal value/bu.	\$2.41	\$8.81
Value of oil and meal/bu.	\$6.07	\$10.84

Table 4. USDA Soybean Crop Projections at Various Dates and Final Crop Size

<u>Crop Year</u>	<u>Projection Date</u>				<u>Final Crop</u>
	<u>Aug. 1</u>	<u>Sept. 1</u>	<u>Oct. 1</u>	<u>Nov. 1</u>	
	----- million bushels -----				
1974	1,314				
1973	1,540	1,599	1,588	1,575	1,567
1972	1,270	1,286	1,317	1,351	1,271
1971	1,235	1,186	1,175	1,200	1,176
1970	1,114	1,133	1,135	1,134	1,169

WHEAT

AT A GLANCE: After the crop is in the bin, export developments will dominate action in the 1974/75 wheat market, as they did in 1973/74. Price will likely continue strong through the early part of the year, generally remaining above \$4 per bushel at most country points. Supply of all wheat and the hard red spring and durum classes, is below last year. Some cutback in exports is likely. Market strength later in the year will depend on foreign buyers' willingness to bid up U.S. prices to fill their needs.

1973/74 Review

Wheat prices rose rapidly in the early part of the 1973/74 marketing year. The Minneapolis wheat price nearly doubled between early July and late August 1973. At times, many buyers appeared to be frantically bidding for available supplies. There were heavy export bookings and shipment. There was concern about an oversold market in some classes of wheat. Transportation tie-ups virtually locked up some of the supply. Almost all news was interpreted bullishly by a bouyant market.

From September to late December the price fluctuated mostly within the \$4.50 - \$5.00 range. Yet through November and December there was a persistent upward price trend. Exports were moving steadily. Domestic processors were able to pass on rising raw material costs under Phase IV. Many farmers were not anxious to sell. Meanwhile, the transportation system continued to work off the overload.

During January and February 1974 wheat prices again rose rapidly, peaking at about \$6 in early February. Heavy export buying continued. There was increasing concern that the supply was oversold. Canada was holding its wheat price well above U.S. market prices.

Following the winter runup, a long spring slide set in, descending to the \$3.50 - \$4.00 area by early May. Many domestic buyers dropped out of the market, having filled their needs early in the season. Export shipments declined, because of vessel delays, a pilot strike on the St. Lawrence and a halt of shipments to the Peoples Republic of China (due to dwarf-smut). Market traders began looking toward the new crop, and 1974 U.S. wheat acreage was up substantially, promising a plentiful 1974 harvest.

Early summer saw price spurting again, moving Minneapolis No. 1 DNS (ordinary protein) wheat to about \$5 by mid-July. Wheat crop prospects deteriorated through the summer. Again the market turned bullish. Drought and disease plagued parts of the country. Wet weather delayed planting elsewhere. World wheat crop prospects

WHEAT - 2

also appeared to be deteriorating. Farmers were not eager to sell either old crop or new crop. Rapidly deteriorating feedgrain crops added further strength to the wheat market.

It is now estimated that for the 1973/74 wheat marketing year ended July 1, the 2.154 billion bushel supply was utilized as follows: .53 billion for domestic food, .08 billion for 1974 crop seed, .144 billion for feed and 1.148 billion bushels of exports. As shown in table 1, this left stocks on hand at the end of the year at just under .25 billion bushels--the lowest in years.

Table 1. Supply and Utilization of All Wheat by Marketing Year*

	Average 1965-69	1971/72	1972/73	1973/74	Projected 1974/75
----- million bushels -----					
Beginning stocks	626	731	863	439	249
Production	1,426	1,618	1,545	1,711	1,840
Imports	<u>2</u>	<u>1</u>	<u>1</u>	<u>4</u>	<u>1</u>
Total supply	2,054	2,350	2,409	2,154	2,090
Food use	515	526	528	530	535
Seed	66	63	67	83	80
Feed	128	266	190	144	150
Exports	<u>705</u>	<u>632</u>	<u>1,185</u>	<u>1,148</u>	<u>1,025</u>
Total use	1,414	1,487	1,970	1,905	1,790
Ending stocks	640	863	439	249	300
Avg. Minnesota farm price received	\$1.52	\$1.37	\$1.73	\$4.00	

* Marketing year: July 1 to June 30

1974/75 Prospects

A. Supply -

USDA's August Crop Report put the 1974 wheat crop at 1.84 billion bushels. This would be up 8 percent from 1973 and 4 percent below the estimate a month earlier. But the small carryover of stocks on hand means a total supply below that of last year. Thus despite a crop which is about 30 percent above the 1965-69 average, total supply is approximately the same since carryover is much lower.

WHEAT - 3

Hard red spring wheat production is estimated to be about 2 percent above that of a year ago. But drastically lower stocks mean total supply will be down nearly 20 percent. Durum acreage is above last year; but lower yield prospects will put total production about the same as last year. Lower stocks will mean total durum supply 5 to 10 percent below that of last year. Consequently for both total U.S. wheat and for the classes of most interest to Minnesota, 1974 production will not be up enough to make up for lower beginning stocks. Hence, supply available for the 1974/75 marketing year will be below last year's, the second consecutive year of reduction and the lowest in several years.

Table 2. Supply and Utilization of Hard Red Spring and Durum Wheat by Marketing Year

	<u>Hard Red Spring</u>			<u>Durum</u>		
	1972/73	1973/74	1974/75 projected	1972/73	1973/74	1974/75 projected
-----million bushels-----						
Beginning stocks	275	173	70	69	37	30
Production	276	331	339	73	85	85
Imports	<u>1</u>	<u>2</u>	<u>1</u>	<u> </u>	<u> </u>	<u> </u>
Total supply	552	506	410	142	123	115
Domestic use	181	208	165	40	51	45
Exports	<u>198</u>	<u>228</u>	<u>175</u>	<u>65</u>	<u>42</u>	<u>40</u>
Total use	379	436	340	105	93	85
Ending stocks	173	70	70	37	30	30

B. Demand -

Total 1974/75 wheat use may be down slightly. This would mean a slight replenishment of stocks by the end of the marketing year. They may increase to about the .3 billion bushel level. Due to lower supplies, both hard red spring and durum use will be down. And it is not likely that we will see buildup in stocks of these classes by the end of the year.

Total domestic wheat use in 1974/75 will likely increase moderately. Consumers have been inclined to substitute lower-cost items into their food budget. Wheat products are used in the substitution. Livestock and meat price prospects point to continued interest in "more macaroni in the hot dish" in 1974/75. This development, plus rising population, points toward more domestic food use of wheat in the current marketing year. Durum, in particular, benefits from this situation.

Domestic wheat feeding will likely remain low in 1974/75. Although feedgrain supplies are tight, wheat is still priced high as a feedstuff relative to feedgrains. Quality prob-

blems in parts of the wheat crop could lead to wheat feeding in some areas of the country. Incidentally, wheat feeding is measured as a "residual" category and not as a direct estimate. Thus, year-to-year changes may be more indicative of trends than of precise adjustments.

Exports will again be by far the dominant use category for all wheat. Although they are projected to be down slightly, exports will be nearly double the domestic food use of wheat. Export developments will again dominate the price structure for the year. The world food grain crop for 1974/75 is estimated by the USDA to be slightly above last year. But population is growing rapidly, and consumption will be up if supplies are available. World import demand might be slightly lower, depending on crop developments later in the season. The Russian wheat crop is probably below last year's, but well above the 1972/73 crop. The Chinese crop is judged to be about the same as last year's, and her imports may be higher. India's crop is less than last year. Meanwhile, crops of major export competitors, such as Canada and Australia, are either lower or uncertain at this point. We will likely continue to hear arguments for restricting grain exports. These pressures will mount if wheat prices move higher. Because of the importance of exports to the U.S., they will not likely be restricted--barring a genuine food crisis. However, there may be temporary market affects as a result.

C. Pricing The 1974 Wheat Crop -

Farmers have apparently been reluctant to sell wheat in the current marketing year. In the past two years, there were sharp price increases during the marketing year--so there were good returns for storing. Rather wide daily price fluctuations continue to cause uncertainty and reluctance to make price commitments. In addition, uncertainty about the feedgrain crop persists into harvest.

No price forecasts can be of a long term duration at this point in the market. In particular, it is difficult to gauge export buyer's interests. Reported export commitments have been running below a year ago, indicating that foreign buyers have also been taking a "wait and see" attitude with respect to price.

It appears that wheat price levels equivalent to the \$4.50 - \$5.00 level, Minneapolis, are adequate to ration the lower supply among foreseeable uses. On the basis of information now available, we think it is likely that the 1974/75 seasonal price pattern will show highest prices early in the season. Storage space is available, and many farmers are in a strong position to hold wheat. The market will likely continue quite volatile as long as supplies are relatively tight and users do not have their needs filled.

This means that sellers must continue to be alert to market developments. It makes sense for farmers with wheat in storage to consider these selling guidelines in 1974/75:

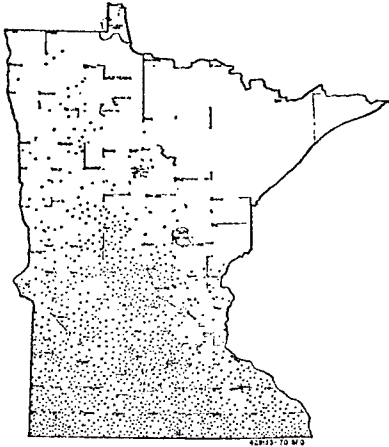
1. Plan a pricing strategy early in the season. This should include:
 - a. calculation of how much storage is costing per bushel - including interest, risk of loss and damage.
 - b. assessment of how much of a grain market speculator you want to be--both financial capacity and psychological propensity.

WHEAT - 5

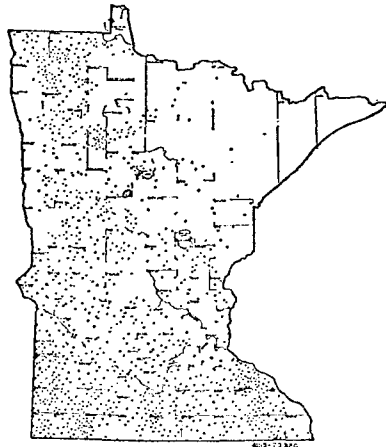
- c. determination of how much of the crop to price at any one time on the market--5, 10, 15, 20, or whatever percentage you choose to sell at a time.
2. Watch the markets closely. You may find it useful to keep price charts as a quick reference to price movements and trends.
3. Watch export developments, as they will likely be the most important fundamental factor in the market.
4. Know the quality and protein of your wheat, and search for outlets that will maximize your net price.
5. Be alert to contract and futures market opportunities for forward pricing.

DISTRIBUTION OF SELECTED LIVESTOCK AND POULTRY

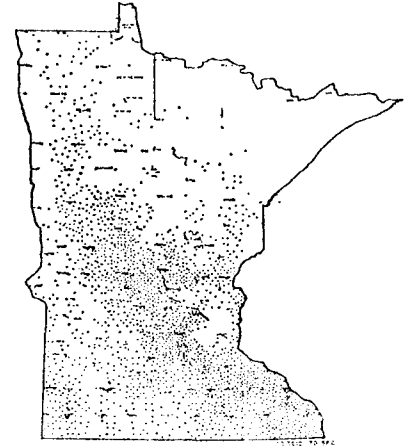
ALL SOWS FARROWED



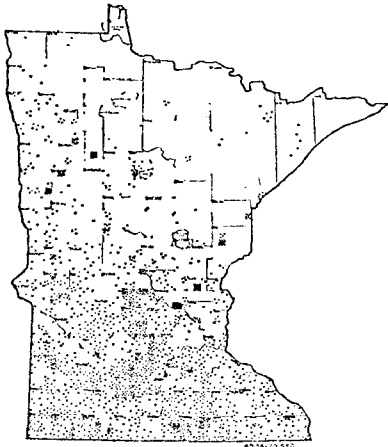
STOCK SHEEP ON FARMS, JANUARY 1



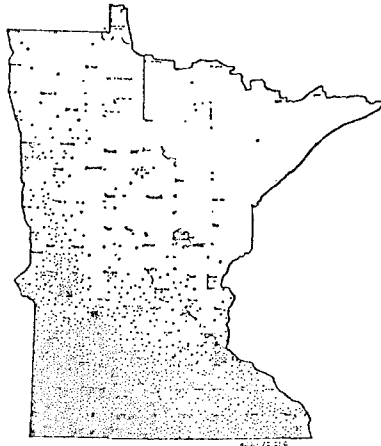
MILK COWS AND HEIFERS ON FARMS, JANUARY 1



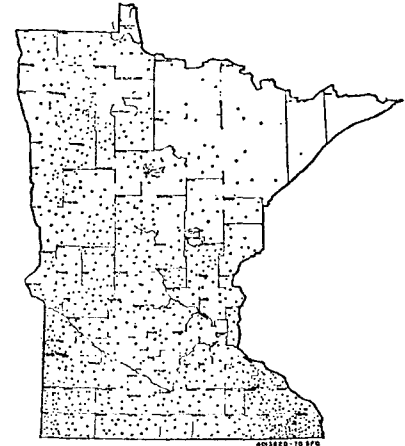
HENS AND PULLETS OF LAYING AGE ON FARMS



CATTLE PLACED ON FEED



BEEF COWS AND HEIFERS ON FARMS, JANUARY 1



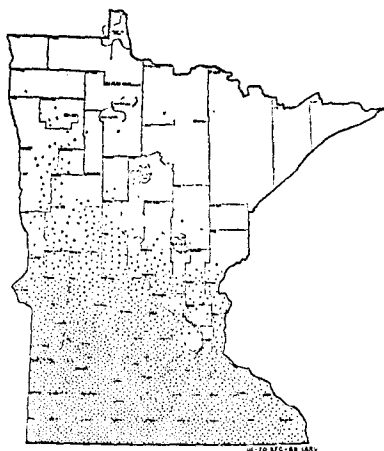
USDA - 1974 CALENDAR OF LIVESTOCK REPORTS¹

(Released 3:00 p.m. unless noted.)	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Livestock and Products												
Cattle		1					26					
Sheep and Goats, Jan. 1, 1974	28											
Meat Animals - Disposition and Income				12								
Livestock Slaughter and Meat Produc- tion	29	27	28	29	30	28	30	29	27	30	27	30
Annual Summary 1973				29								
Cattle and Calves on Feed	18	13	13	18	14	13	18	14	13	18	13	13
All States, Annual Summary	18											
Hogs and Pigs			22			21			20			23
Sheep and Lambs on Feed	16		14								14	
Wool and Mohair Production and Value 1973				12								
Lamb Crop and Wool Production 1974							23					
Special Wheat Pasture in Crop Production										10	6	10
Honey	15								25			
Mink					10							

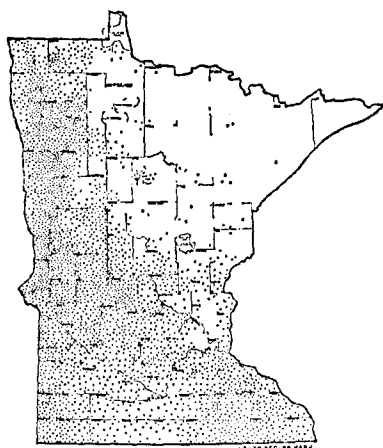
^{1/} 1975 dates will be approximately the same

ACREAGE DISTRIBUTION OF SELECTED CROPS

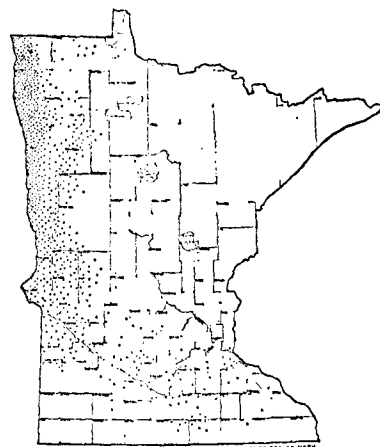
CORN



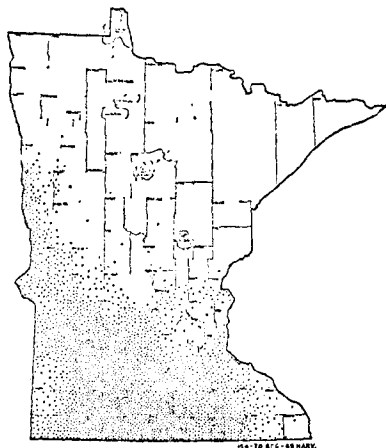
OATS



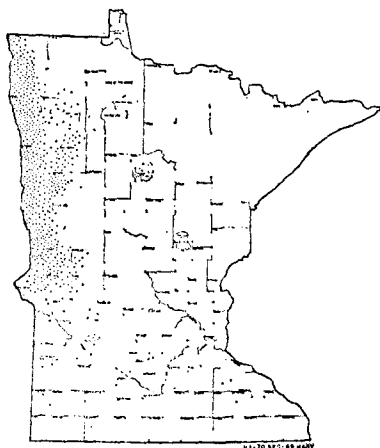
ALL WHEAT



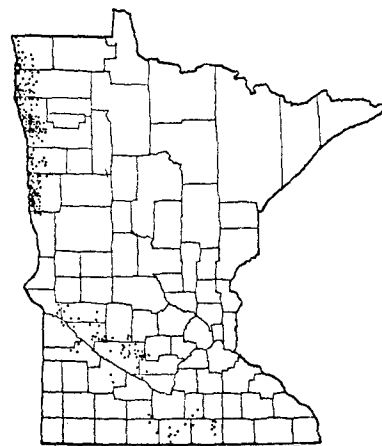
SOYBEANS



BARLEY



SUGAR BEETS



USDA - 1974 CALENDAR OF CROP REPORTS¹

(Released 3:00 p.m. unless noted.)	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Crop Production	9	8	8	10	8	10	11	12	11	10	8	10
Annual Summary 1973	16											
Prospective Plantings, 1974	22		14									
Winter Wheat 1975												23
Crop Values	16											
Exports						Every Friday						
Field and Seed Crops												
Field Crops - Annual Summary 1973					10							
Potatoes and Sweetpotatoes - Annual Summary 1973								23				
Seed Crops	16		18			20	16	2, 5, 15, 22		10, 22		
Annual Summary 1973					30							
Small Grains—Annual Summary in Crop Production												10
Popcorn, Acreage							12					
Popcorn, Production and Value	16											
Grains Stocks	24			24			24			24		
Hop Stocks			19						17			
Naval Stores	21	20	20	19	21	20	19	20	23	21	20	20
Annual Summary 1973					16							
Peanut Stocks and Processing	25	25	25	25	24	25	25	26	26	25	25	23
Seasonal Report									19			
Potato Stocks	9	8	8	10								10
Rice Stocks	24			24				26		24		
Soybean Stocks									20			

^{1/} 1975 dates will be approximately the same