Agriculture: expansions highlighted developments

A broad-based expansion in livestock production and another bumper grain harvest highlighted agricultural developments in 1976. Meat production rose 9 percent from the year-earlier level to establish a new record high. Although soybean production fell sharply and weather problems raised concern about the outcome for other crops, increased acreage boosted the 1976 grain harvest 3.5 percent above the year-earlier record. The increased output contributed to a substantial moderation in retail food price pressures. Moreover, farm earnings edged somewhat above the 1975 level, although earnings during the latter part of the year proved unfavorable for many farmers.

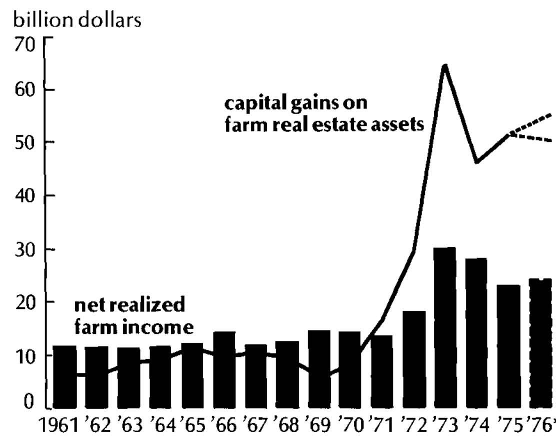
Farm earnings rose slightly last year as a result of the expanded livestock production and the second consecutive year of bumper crop harvests. Although the increased output placed considerable downward pressure on commodity prices during the second half, the composite of prices received by farmers averaged about the same in 1976 as in 1975. Increased marketings, however, boosted farmers' cash receipts by 6 percent in 1976 to an estimated $95 billion. Higher production expenses offset most of the increase in gross receipts and held net realized farm income marginally above the estimated 1975 level of $22.7 billion.

The earnings picture for Seventh District farmers was mixed last year. High prices and increased output rendered 1976 one of the most profitable years for dairy farmers. Hog producers enjoyed excellent returns during the first half but a second-half plunge in prices resulted in losses on hogs marketed late in the year. Cattle prices were below break-even levels for most farmers throughout 1976. Increased marketings from the 1975 corn and soybean harvest offset lower prices and boosted returns to most district crop farmers throughout most of last year. However, low grain prices late in the year and the drought-reduced output of some crop farmers probably limited receipts in the fourth quarter.

Farmland values soar

Continued large increases in asset values—primarily real estate—further heightened the net worths of most individual farmers, particularly in district states. Farmland values in the Seventh Federal Reserve District rose 29 percent in 1976, the largest annual rate of gain since the current boom started in 1973. As a result of the past four years of phenomenal growth—particularly in Illinois, Indiana, and Iowa—farmland prices in the Seventh District now average about 140 percent higher than the ending 1972 level. A number of factors have contributed to the explosion, including fewer farms offered for sale, the strong expansion incentives of existing farmers, and the grow-

Gain in farm real estate values outstrip farm income again in 1976



*Estimate.

ing interest of outside investors—both domestic and foreign—who are seeking security and inflationary hedges in an asset with a historical track record for appreciation.

A record increase of over $10 billion boosted outstanding farm debt past the $100 billion mark by the end of 1976. The large increase reflected farmers' strong demands for new borrowings and an accommodative posture among lending institutions. Larger purchases and higher prices for both production inputs and capital items contributed to the strong farm loan demand. Preliminary evidence suggests capital expenditures by farmers for machinery and equipment and for real estate improvements rose to $13.4 billion in 1976, up from $12.7 billion the previous year and double the level of a decade earlier.

As the year closed, declining commodity prices contributed to some difficulties in the farm loan portfolios of lenders. Among district states the problems were most evident in Iowa and Wisconsin, reflecting losses to cattle feeders and/or drought-reduced crop output. A comparatively large proportion of the rural bankers in those states, for example, were experiencing slower farm loan repayment rates and increases in loan renewals, extensions, and refinancing.

Food prices

Last year's rise in retail food prices slowed to one-fourth the average annual increase of the preceding three years. The slowing reflected record per capita food supplies, which reduced the pressures on raw material prices and offset some of the increased costs of food manufacturing, processing, and distribution. The year-to-year gain in retail food prices narrowed to less than 1 percent in the fourth quarter and averaged only 3.1 percent for all of 1976.

Higher prices for food consumed away from home and for imported foods accounted for most of last year's rise. For example, the index of retail prices for food consumed away from home averaged 6.8 percent above the year-earlier level, while that for grocery store food prices averaged only 2.1 percent higher. Among individual categories of grocery store foods, large increases were evident in coffee and fish prices, symbolic of the pressures exerted by imported foods. Reflecting this, the index of retail prices of domestically produced farm foods sold in grocery stores fell well below year-earlier levels in the latter part of 1976 and for the entire year averaged only 1.1 percent above the 1975 level. A sharp decline that carried meat prices to the lowest levels in about 18 months accounted for most of the reduced pressures on domestically produced foods during the latter part of 1976.

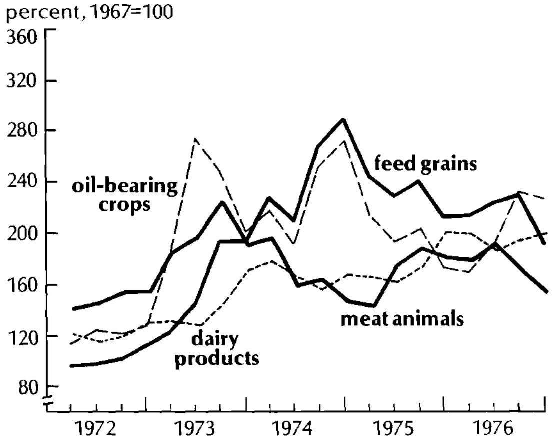
Commodity review

The record U.S. crop harvest in 1975 accommodated a substantial boost in utilization last year as well as a rebuilding of carryover stocks. Both domestic utilization and exports of soybeans rose to record levels. For grains the most striking development was the large volume of exports, reflecting USSR purchases following its disastrous 1975 harvest. U.S. corn exports, for example, surpassed the 1975 peak by over 30 percent.

New crop production prospects were again buffetted by a number of weather scares last year, both domestically and worldwide. Domestically, the most apparent damage occurred in the Plains with considerable impact on winter wheat and feed grain production as well as hay and pasture. In addition, drought and late spring frosts in some areas curtailed fruit and vegetable production. Outside of the United States weather-related crop cutbacks were most apparent in Western Europe where grain production fell to an estimated 123 million metric tons, down 7 million tons from the poor year-earlier harvest and well below the original expectations of around 142 million tons.

Despite these weather problems near-ideal conditions in most other major grain-producing areas of the world were more than offsetting. As a result, world production of wheat and coarse grains for 1976/77 is expected to reach an estimated billion metric

Grain and meat animals pace second-half decline in prices received by farmers



tons, up 5 percent from the 1973/74 record and 11 percent more than a year earlier. Among the United States' major competitive grain-exporting countries—primarily Canada, Argentina, and Australia—grain production rose to 119 million metric tons, up 14 percent from a year earlier despite a weather-related setback in Australia. Among major importing countries the most noteworthy "turnarounds" occurred in the Soviet Union and India. The 1976 wheat and coarse grain harvest in the Soviet Union equaled the 1973 record of 211 million metric tons, substantially above the disastrous 132 million ton output of 1975. Another bumper harvest in India last year resulted in overburdened storage facilities and prompted the government to halt purchases of grains in world markets and to give some consideration to exporting grains, a development that would mark a first for India.

The United States also contributed to the rise in world grain production as last year's expansion in planted acreage offset adverse weather conditions. Planted acreage of both corn and wheat—the two principal grain crops—rose to the highest levels since 1949 and was more than 7 percent above the acreage planted to those two crops in 1975. It now appears the 1976 grain harvest in this country rose to 252 million metric tons, 3.5 percent above the previous 1975 record and 17 percent above the 1970-74 average.

The combination of rising carryover stocks and record new crop production held 1976 average grain prices below year-earlier levels. Chicago prices of corn averaged $2.70 per bushel—down 20 cents from the 1975 average—while wheat prices averaged $3.20 per bushel—down 40 cents. The downward pressures were particularly strong in the latter part of the year when corn and wheat prices bottomed out at around $2.35 and $2.60 per bushel, respectively, the lowest in around three and a half years.

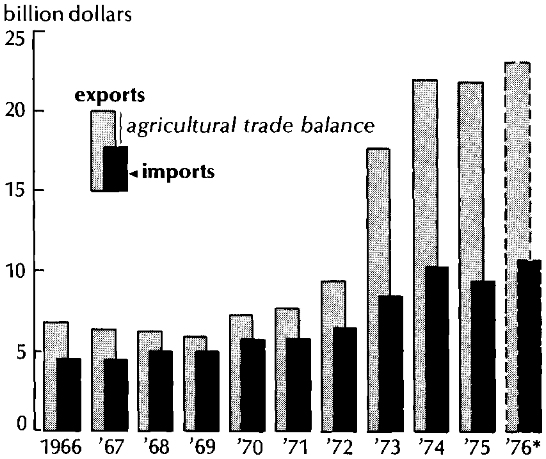
In contrast to grains the soybean market tightened in 1976. Planted soybean acreage fell sharply last spring when weather conditions and price relationships encouraged farmers to plant grains. Reduced acreage and lower yields cut soybean production about one-fifth from the 1975 level. These developments caused soybean prices to rise from a low of around $4.65 per bushel in the early part of 1976 to a high of $6.85 late in the year. For all of 1976 prices averaged $5.80 per bushel, 40 cents above the 1975 average.

Livestock production

Livestock production expanded sharply last year, with new record highs established for several individual commodities. Total red meat production rose more than 8 percent from the year-earlier level and surpassed the previous 1971 high by 5 percent. Poultry production also rose to a record high, surpassing the 1975 output by 13 percent. Following three years of stable output, milk production rose 4 percent to a decade high. Egg production, unchanged from a year earlier, was the only major livestock commodity that did not increase significantly last year.

The record output of red meat represented gains in both pork and beef production. Because of a large movement of cattle into feedlots in the latter part of 1975 and early 1976, fed cattle marketings last year rose nearly one-fifth above the nine-year low recorded in 1975. Cow and nonfed steer and heifer

Agricultural exports edged higher last year



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slaughter, although down somewhat from the abnormally high year-earlier level, remained large in 1976 as the liquidation phase of the cattle cycle continued. During the past two years heavy slaughter rates and declining calf crops reduced the inventory of all cattle from 132 million head to an estimated 121 million at the end of 1976. The decline is the most pronounced turnaround in the cattle inventory since the mid-1930s and reflects the financial losses that have plagued the entire cattle sector most of the time since late 1973.

The upturn in pork production during the second half of last year was almost as remarkable as the downturn that occurred in 1975 when hog slaughter fell to a 35-year low. Hog slaughter continued at a reduced level during the first half of 1976, but then soared more than one-fifth over the low year-earlier levels during the second half. Overall, last year's hog slaughter was up about 8 percent, but still the lowest—with the exception of 1975—since the mid-1950s.

The record-breaking output of red meats resulted in markedly lower prices for livestock. Choice steer prices at Omaha averaged about $39 per hundredweight last year, a four-year low and down from $45 a year earlier. Hog prices at major markets fell to the low $30s during the latter part of 1976, but for the entire year averaged $43.75 per hundredweight, down from the 1975 average of $49.

Dairy farmers boosted milk production 4 percent in 1976, which proved to be their most financially rewarding year in a long time. The increased output reflected a smaller-than-normal decline in dairy cow numbers and a large increase in output per cow as a result of lower feed prices. An unusually strong consumer demand for dairy products boosted milk prices and sharply curtailed the amount of government purchases necessary to support prices at established levels. Although milk prices received by farmers fell below year-earlier levels late last year, the overall average for 1976 was $9.70 per hundredweight, $1 above the 1975 average.

The 1977 outlook

Present conditions support prospects for further increases in livestock production for the early part of 1977. Pork production will likely exceed year-earlier levels throughout 1977, although large first-half increases of around one-fifth will narrow appreciably later in the year. The increased pork output will likely offset the envisioned declines in beef production and hold total red meat supplies slightly above first-half 1976 levels. The prospective decline in beef production reflects anticipations that lower feed prices and higher fed cattle prices will result in a substantial decline in cow and nonfed steer and heifer slaughter. Fed cattle marketings are expected to average close to year-earlier levels during the first half. In addition to red meats, projections for the first half of 1977 suggest further slight year-to-year increases in poultry and milk production.

The precariously tight grain supply/demand balances of recent years eased significantly with last year's large world grain harvest. The easing is particularly evident for wheat, although the feed substitutability of wheat for corn carries implications to all feed grains. Current estimates indicate world grain stocks at the end of 1976/77 might rise to a five-year high of 156 million metric tons, up 42 percent from the lows of the past two years and nearly equal to the average annual level of the sixties. Domestically, ending stocks of grain are likely to exceed 48 million metric tons, up nearly 75 percent from the low two years earlier and the highest in five years. The bulk of the domestic increase reflects an accumulation that will likely carry ending wheat stocks to the highest level since 1963.

Whether the 1977 grain harvest will contribute to further easing in the supply/demand balance for grains hinges heavily on domestic and worldwide weather conditions. Domestic plantings of corn and wheat are expected to decline this year because crop price relationships will likely encourage larger plantings of soybeans and cotton. The decline in harvested acreage, however, might not be too significant if weather conditions permit a recovery in the proportion of the planted acreage that is harvested for grain. And with any improvement of consequence in per acre yields, domestic grain production this year could surpass last year's record. At the same time, however, there is concern about low subsoil moisture reserves presently evident throughout much of the Midwest and the Plains. While such conditions are not yet a clear indication of problems during the growing season, they nevertheless point out the importance of timely and sufficient moisture supplies this spring and summer.

The implications of a third consecutive year of record domestic grain production—should it occur—vary widely depending on the output in other areas of the world. Perhaps closest attention in this respect will be devoted to the Soviet Union. Current estimates indicate that the USSR substantially boosted plantings of winter grains—which account for about one-third of its annual grain harvest—last fall. While the increase in plantings is an early indication of a potentially large Soviet grain harvest, the greater variability in Soviet weather conditions precludes any such foregone conclusions.

The overall measure of agricultural commodity prices in 1977 is not expected to vary much from last year. Among individual commodities, however, cattle prices are expected to average higher, while prices of hogs and milk will likely fall below year-earlier levels. Corn and wheat prices, barring widespread adverse weather conditions for this year's crops, will also trend below 1976 levels, while soybean prices will average higher. Cash receipts from farm marketings will likely be higher this year on the strength of a larger volume of grain marketings and higher soybean prices. Net realized farm income, however, may decline from last year's level.

Retail food price pressures are expected to remain fairly moderate at least during the first half of this year. The sharp declines experienced in meat prices during the latter half of 1976 will likely be checked early this year by rising beef prices. Moreover, continued increases of substantial magnitude are expected for some imported foods, particularly coffee and perhaps fish. Costs of processing and distributing foods are also expected to continue upward at a rate at least comparable to the overall rate of inflation. These developments suggest retail food prices might average 3 to 4 percent above year-earlier levels during the first half of 1977.