The Agricultural Outlook:
Stable Farm Income in 1979?

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The strength in farm prices during 1978 pleasantly surprised U.S. farmers. This strength resulted largely from circumstances that could not have been accurately predicted in the fall of 1977, when farmers and agricultural economists were looking ahead with apparently justified pessimism. There were three basic reasons why farm prices were stronger than expected. First, free market supplies of grain were markedly reduced by large-scale impoundments of 1976 and 1977 crops under Commodity Credit Corporation (CCC) loans and the three-year farmer-owned reserve program. Second, the export market for U.S. farm products was much stronger than expected, due in part to crop production problems in some parts of the world. Finally, strong consumer demand for meat, along with modest reductions in red meat production, pushed meat animal prices up to levels quite profitable to farmers.

All this meant surprisingly good farm income for 1978. Realized net farm income in 1978 will likely rise about $6 billion above 1977 levels, with higher Government payments accounting for over $1 billion of the increase. Furthermore, the increase in farm income is expected to be broadly spread among different agricultural products.

The events of 1978 provide a basis for the farm outlook for 1979. In the coming year, grain crop supplies are likely to continue to be abundant, while total meat supplies may be little changed from 1978. Strong domestic and export demand for U.S. agricultural products may result in price increases for farm products equal to, or perhaps a little greater than, the increased cost of production. Therefore, realized net farm income in 1979 may be about the same as in 1978.

1978 HIGHLIGHTS
PRICES AND INCOMES

Farm prices improved substantially during 1978 from the generally depressed levels of late 1977. In November 1978, the Index of Prices Received by Farmers was 20 per cent above year-earlier levels. During the same period, the Index of Prices Paid by Farmers for commodities and services, interest, taxes, and farm wage rates increased 11 per cent. Thus, although farm input costs which include feeder livestock purchased from other farmers rose at a rapid rate during the year, prices received by farmers rose even more rapidly.

Prices were higher for a broad range of agricultural products in the fall of 1978, compared with year-earlier levels. Cash corn and most other feed grain prices were moderately above year-earlier levels, while wheat, soybean, and cotton prices were all up sharply. Cattle, hog, and broiler prices all improved substantially. In addition to higher cash receipts from farm marketings, Government transfer payments to agriculture in 1978 are expected to be close to $3 billion, compared with $1.8 billion in 1977.

The amount of wheat and feed grains removed from the market by CCC loans and by the farmer-owned reserve program had a strengthening effect on prices. About 404 million bushels of wheat and 432 million bushels of corn were in the farmer-owned reserve program and an additional 47 million bushels of wheat and 365 million bushels of corn were under CCC loans at the end of October. Additional impoundings under CCC loans can be expected in late 1978 and early 1979. Thus, a substantial part of the carryover stocks of these grains has been removed from the market, at least temporarily.

Gross farm income in current dollars is expected to top $120 billion for 1978—a new record. Fueled by sharply higher livestock prices, cash receipts from livestock sales are expected to increase about 20 per cent. Once again, livestock receipts will exceed crop receipts, as has been the case since 1920—except for the years 1973 through 1977. Cattle and calves are once again the top 1978 income producers for farmers, with dairy products recapturing second place from grains and soybeans. Among crops, soybeans will likely be the top-dollar earner for the first time this year, continuing the tendency for the proportion of farm receipts derived from various crops to change over time.

Realized net farm income rebounded sharply in 1978 from the $20.1 billion level of 1977 to about $26 billion. However, when corrected for inflation, real net farm income in 1978 was about $13.1 billion in 1967 dollars—near the level that existed before the 1972-73 runup in farm income, and about $2.1 billion above 1977 (Chart 1).

SUPPLIES

Two characteristics dominated the supply considerations for agricultural products in 1978: abundant supplies of crops and adequate, but not excessive, supplies of livestock.

Crops

Because 1978 began with large stocks of food and feed grains, Government efforts were aimed at reducing production as well as maintaining income. Although acreage set-asides and smaller plantings were successful in reducing wheat production in 1978, total supplies available for marketing were only about 6 per cent below 1977. This was due to available carryover stocks of almost 1.2 billion bushels.

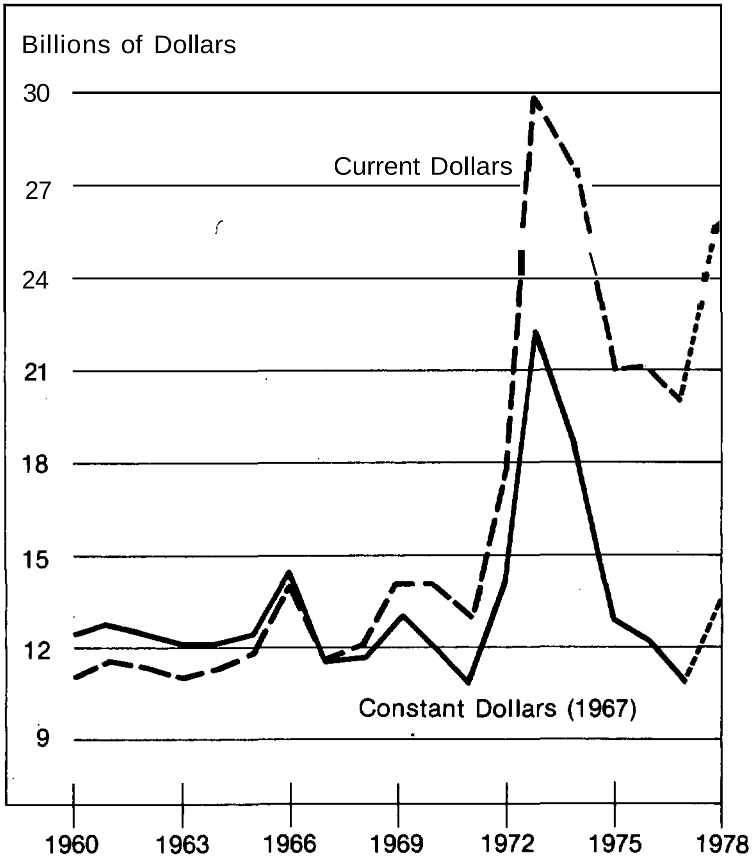
Limited participation by farmers in feed grain acreage set-asides and near-perfect growing weather resulted in record corn production in 1978—estimated at 6.9 billion bushels. When added to carryover stocks, corn supplies for the 1978-79 marketing year will be about 7.9 billion bushels. Furthermore, total feed grain supplies for the 1978-79 marketing year are expected to be the largest ever, up about 8 per cent from 1977-78.

In the oilseed sector, increased plantings and excellent weather boosted 1978 soybean output to a record level, with total available supplies likely to exceed 1.9 billion bushels. Increased production of sugar beets, rice, and tobacco also occurred in 1978. Cotton production may be off by as much as one-fourth in 1978, compared with 1977—due primarily to unfavorable weather.

Livestock

Despite record large placements of cattle in feedlots during much of 1978, reductions in nonfed cattle slaughter held beef and veal production about 5 per cent below the 1977 level. Lamb and mutton production was off substantially—down about 14 per cent. However, increased pork production took up much of the slack and total red meat supplies for 1978 were down about 3 per cent from

Chart 1
REALIZED NET FARM INCOME IMPROVES



'Preliminary.
SOURCE: U.S. Department of Agriculture.

1977. Broiler production increased about 6 per cent over year-earlier levels for the first eight months of **1978.** Egg production in **1978** totaled about 5½ billion dozens—up about **2** per cent over **1977.** Milk output—at **122** billion pounds—was off **1** per cent from the **1977** volume.

DEMAND

The agricultural product market was characterized by strong demand in both domestic and foreign markets. During fiscal **1978,** the volume of U.S. agricultural exports increased about **17** per cent over **1977** to a record value of **$27.3** billion. U.S. exports of soybeans and feed grains benefited from crop shortfalls in Brazil and **the USSR.** The relative weakness of the U.S. dollar against certain foreign currencies may also have increased demand for some commodities such as soybeans or cotton. Despite somewhat lower exports to European Common Market countries, sales to Japan—the largest single U.S. agricultural export market—continued to increase. More importantly, export sales to the centrally planned countries and to the developing countries continued to show substantial growth.

Continued growth in U.S. employment levels and in per capita disposable personal income supported an increasing domestic demand for meat products during 1978. Although part of the strength in livestock prices resulted from reduced supplies, most of it was apparently due to strong consumer demand—a pleasant surprise for livestock producers.

1978 FARM LEGISLATION

During 1978, Congress enacted several laws affecting agriculture. The Emergency Agricultural Act of 1978 increased CCC borrowing authority from $14.5 billion to $25 billion and gave the Secretary of Agriculture discretionary authority to increase target prices for wheat, feed grains, and upland cotton whenever a set-aside is in effect for one or more of these crops. Under provisions of this Act, the Secretary raised wheat target prices to $3.40 per bushel and cotton support prices to 48 cents per pound.

The Agricultural Credit Act of 1978 provides for additional credit to farmers through direct and guaranteed Farmers Home Administration' (FmHA) loans. The Emergency Livestock Credit Act of 1974 was extended to September 30, 1979, and can now provide credit to farmers and ranchers who own livestock being custom fed. The FmHA lending limits for individual operators have been raised as well, with new economic emergency loans of up to $400,000 and a combined debt limit of $650,000 per borrower now available.

The Agricultural Trade Act of 1978 provides for new intermediate-term (3 to 10 years) credit to exporters who must provide such credit to develop, maintain, or expand long-term export markets for agricultural products. Provision is also made for the use of CCC credit to finance deferred payment sales (not to exceed three years) to the People's Republic of China and to other countries eligible for financing of sales under CCC's short-term export credit program. Finally, U.S. Department of Agriculture (USDA) reorganization will upgrade export sales development efforts by placing agricultural counselors in a number of U.S. embassies and by establishing up to 25 U.S. agricultural trade offices in other nations.

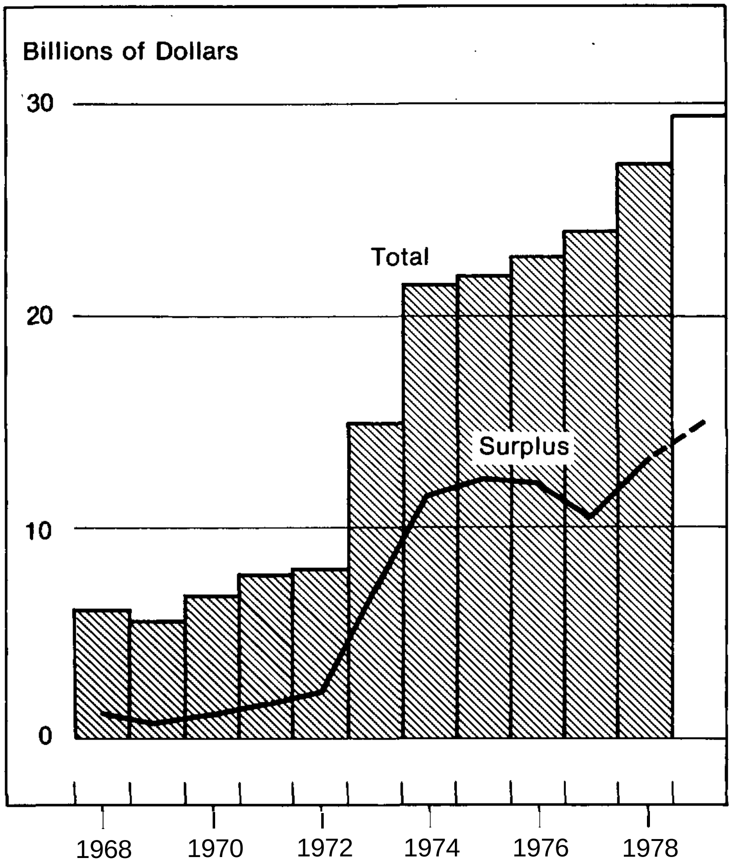
THE OUTLOOK FOR 1979 DEMAND AND SUPPLY OF FARM PRODUCTS

The demand prospects for agricultural output appear favorable in both the domestic and foreign sectors. Although slower real growth in the U.S. economy is anticipated, a larger population and a moderate rise in disposable income should boost the demand for agricultural commodities in 1979. The outlook for agricultural exports remains bright. Foreign sales are expected to hold up well, despite growing food reserves throughout the world and the possibility of a stronger dollar.[1] Chart 2 shows that agricultural exports have run above $20 billion in each of the last five fiscal years, culminating in shipments of $27.3 billion in fiscal 1978. These lofty export figures have made a significant contribution to the economic welfare of American farmers. Export markets now absorb the production from about one of every three harvested acres.

The record level of sales achieved in the last fiscal period may not stand very long, however. With somewhat higher prices and continued strong foreign demand, the value of shipments abroad could increase to about $29.5 billion in fiscal 1979. But even if total sales fall below this

[1] **As the U.S. dollar increases in value—against the currencies of trading partners—agricultural imports from the United States become relatively more expensive to these trading partners.**

Chart 2
U.S. AGRICULTURAL EXPORTS AND THE SURPLUS FROM AGRICULTURAL TRADE



SOURCE: U.S. Department of Agriculture.

objective, the surplus from agricultural trade is expected to continue large. This surplus, ranging from $10 to almost $14 billion annually in recent years, has helped alleviate a serious international balance of payments problem for the United States. Although the special programs recently adopted by the U.S. Government to strengthen the dollar could have a diminishing impact on agricultural exports, the surplus from agricultural trade is still expected to reach a new record of close to $15 billion in fiscal 1979.

The supply picture for 1979 is marked by several imponderables including Government farm programs, the weather, livestock profit margins, and the impact of voluntary wage and price guidelines. Generally, total meat supplies in 1979 are expected to be approximately equal to 1978 levels, with increases in poultry and pork production offsetting a decline in beef output. Milk production will probably hold fairly steady in the year ahead. In the crop sector, production levels will depend largely on weather conditions and the acreage adjustments made by farmers in response to new price developments and to changes in the Government farm programs. Given the continuation of set-aside requirements for wheat and feed grain producers, total crop acreage in 1979 will probably change very little from 1978 levels. However, shifts in acreage for individual commodities can be expected as relative prices change in the coming months. Current relationships suggest that soybean and cotton acreage will expand in 1979, while corn acreage may drop somewhat. Wheat acreage probably will remain about the same in the coming year, since the profit picture appears to be improving. Therefore, with favorable weather, output from the crop sector should hold up quite well in the year ahead.

THE OUTLOOK FOR CROPS

A key factor in the outlook for 1979 crop prices and output will be the new farm program and the extent to which farmers participate in it. The Administration will likely strive to keep crop prices competitive in world markets while attempting to hold feed costs in check so that domestic livestock producers will be encouraged to expand their breeding herds. The Administration also recognizes that farmers will participate in the farm programs only if it is financially advantageous. Thus, some changes have been made to promote a greater degree of participation by farmers in 1979.

On balance, though, the basic features of the 1979 wheat and feed grain programs are very similar to the 1978 programs. To participate, producers must set aside a specified proportion of their planted acreage (20 per cent for wheat and barley, and 10 per cent for corn and grain sorghum) to be eligible for target price protection and Goverment crop loans. The support prices for wheat were left unchanged—the target price is $3.40 per bushel and the loan level is $2.35. However, some adjustments have been made in the feed grain program. The target price for corn was raised to $2.20 per bushel—10 cents above the 1978 level. Moreover, target prices for grain sorghum and barley were increased to $2.30 and $2.40 per bushel, respectively. Loan rates on feed grains will remain the same as in 1978.

Although the special payments made to farmers in 1978 for grazing out their wheat have been discontinued, feed grain producers will still receive diversion payments for idling extra land, but at a reduced rate. The payment for corn will be 10 cents a bushel in 1979—one-half the rate paid in 1978. Grain sorghum producers will also receive diversion payments of 10 cents a bushel—down 2 cents from the 1978 rate. However, an important feature of the farm program is that the Secretary of Agriculture has the authority to amend the benefits that have been introduced for 1979 production if future market conditions warrant it.

Crop supplies for the 1978-79 marketing year are expected to be plentiful due to relatively large harvests in 1978 and, in some cases, bulging carryover stocks (Table 1). In the last marketing year, farmers received prices for wheat, corn, and soybeans which averaged about $2.30, $2.05, and $5.80 per bushel, respectively. For the most part, these prices were significantly below the averages realized in the 1976-77 marketing period, reflecting a burdensome supply situation. Yet the 1977-78 season ended with wheat prices averaging 75 cents to $1 a bushel higher than at the start, even though ending carryover stocks were higher for the fourth consecutive year. Heavy use of the loan and extended reserve programs, coupled with exceptionally strong export demand during the last half of the season, provided strong support to the wheat market. A continuation of these features in the wheat market could push wheat prices higher in the coming months, since the "free" carryover (total reserves less quantities under Government loans) promises to be relatively small by the end of this marketing year. On balance, an estimate of $2.80-$3 per bushel appears reasonable as an average price for the

Table 1
BALANCE SHEET FOR MAJOR CROPS
(Millions of Bushels or Tons)

	Corn (bu) Marketing Year Oct. 1—Sept. 30		All Feed Grains (tons) Marketing Year*		Soybeans (bu) Marketing Year Sept. 1—Aug. 31		Wheat (bu) Marketing Year June 1—May 31	
	1977-78	1978-79†	1977-78	1978-79†	1977-78	1978-79†	1977-78	1978-79†
Supply								
Beginning Carryover	884	1,064	29.9	40.0	103	159	1.112	1,176
Production and Imports	6,374	6,891	201.8	211.1	1,762	1,810	2,028	1,780
Total	7,258	7,955	232.0	251.4	1,865	1,969	3,140	2,956
Demand								
Domestic	4,246	4,520	135.7	144.0	1,006	1,064	840	770
Exports	1,948	1,900	56.3	54.9	700	740	1,124	1,150
Total	6,194	6,420	192.0	198.9	1,706	1,804	1,964	1.920
Ending Carryover	1,064	1,535	40.0	52.5	159	165	1,176	1.036

"Marketing year begins October 1 for corn and grain sorghum, July 1 for barley and oats.
†Preliminary USDA estimates as of November 1978.
SOURCE: U.S. Department of Agriculture.

1978-79 year, which means that deficiency payments—based on the **$3.40** target price—will once again be an important income factor to wheat growers.

Feed grain supplies for the coming period are large enough to meet anticipated demands while still permitting an increase in carryover stocks. Normally this would presage a drop in price, but larger movements of grain into Government loans should permit corn prices to average in the **$2-$2.15** range, a little above the support level of **$2** a bushel. Moreover, deficiency payments, based on a target price of **$2.10** per bushel, will be made to those producers who participated in the **1978** program. Although soybean production was up in **1978,** total use is expected to rise moderately, thus stemming a big buildup in reserves. If demand holds up, prices could soar to rather lofty levels early in **1979,** particularly if crop prospects in the Southern Hemisphere are poor. Therefore, soybean prices—while varying widely—should average significantly above year-earlier levels in **1978-79,** in the **$6 - $7** per bushel range.

The sharp reduction in **1978** cotton output, coupled with continued strong demand, should buoy cotton prices in the period ahead. However, if U.S. acreage expands sharply next year, or if world stocks continue to increase, cotton prices could slip during the second half of **1979.** The outlook for fruits, vegetables, tobacco, and sugar is mixed. Generally, **1978** production levels were somewhat below year-earlier figures, although there were some exceptions. For the most part, prices have averaged higher in **1978.** Looking ahead, demand is expected to remain in reasonably good balance with supplies, so market returns for these crops promise to hold fairly steady in **1979.**

THE OUTLOOK FOR LIVESTOCK

The demand for livestock products in **1979** is expected to remain very strong, although some of the bloom in the domestic market could fade if economic expansion and consumer buying power perform poorly. On the supply side, meat supplies promise to remain relatively large in 1979. Cyclical patterns in the livestock industry now point to more growth in pork and poultry output, and a moderate reduction in beef supplies. If demand holds, prices will probably remain strong through most of 1979, providing additional incentives to producers to expand their breeding stock.

Recent reports on livestock inventories suggest that pork output in 1979 is going to be lower than previously anticipated. Although hog prices have been relatively favorable in 1978, producers appear to be very cautious about expanding production. As of September 1, 1978, the number of hogs and pigs on farms was down 1 per cent from the year-earlier figure, and plans for future farrowings showed only modest increases — averaging 3 per cent for the September 1978-February 1979 period. If producers actually follow through with these intentions, output in 1979 is not likely to be more than 4 to 6 per cent above this year's levels. However, some analysts believe that farrowings will expand at a faster pace next year, and if average litter sizes should also increase because of lower death losses, pork output may increase rather significantly. In any event, prices on barrows and gilts should remain very profitable during the first half of 1979 —probably averaging $50 per hundredweight or more. Although some weakness can be expected during the second half, the average price for 1979 should be near the $48 per hundredweight now estimated for 1978.

Continuing a trend that began in 1975, cattle producers are still liquidating their inventories, which should bolster cattle prices in the future. However, larger feedlot placements — reflecting low feed costs —are expected to support fed-beef supplies at a high level in the coming months, effectively tempering any upward price movements. As of October 1, 1978, the number of cattle on feed was 16 per cent above year-earlier levels owing to a big increase in new placements during the third quarter. Thus, the slaughter of grain-finished cattle is likely to exceed year-earlier levels by a substantial margin during the first three quarters of 1979. However, a sharp reduction in the slaughter of grass-fed animals will more than offset the larger supplies of fed beef. For the year, total beef supplies will probably decline 4 to 6 per cent from 1978 levels, which suggests that higher prices will result. Though some price strength may occur during the winter and spring, most of the rise will probably occur in the second half of the year when beef supplies begin to shrink more rapidly. The average price for choice steers in 1979 may approach $60 per hundredweight, as compared with the $52 estimated for 1978.

Feeder cattle prices are now well above year-ago figures, and further strength is likely. In 1979, choice yearling feeder steers will probably average in the mid- to upper-$60 per hundredweight range. The cattle inventory on January 1, 1979, is expected to be about 111 million head--down from 116 million head a year ago and 132 million head at the beginning of 1975. However, many analysts feel that the liquidation phase of the cattle cycle has nearly run its course, and that numbers will soon start growing. But the buildup in numbers will likely be slow, particularly in view of the many uncertainties that cattle producers presently face. Although the supply of feeder cattle will be smaller in 1979, the reduction may not be as large as anticipated if calving rates improve, death losses decline, and imports of live animals rise in the period ahead. Thus, feeder cattle prices in the second half of 1979 may not average much above fall 1978 prices.

The outlook for the dairy industry is dominated by low commercial stocks, falling production, and brisk demand. As a result, prices —which are supported at 80 per cent of parity —will likely average about 6 to 10 per cent above **1978** levels, with the largest gains during the first half of **1979.** With a better profit picture in store, producers can be expected to expand output enough to perhaps eliminate the year-to-year gap in production that has characterized most of **1978.** But prices will probably remain firm, bolstering dairy incomes in the year ahead. The outlook is also favorable for the poultry industry. Reduced beef supplies and relatively high red meat prices will likely provide strong support for poultry and egg prices in **1979.** Broiler prices should nearly match the high levels of **1978** even if output rises **8** to **10** per cent. Turkey prices, which are sharply above year-earlier levels, may turn down a little next spring if output expands as expected. However, egg prices will probably hold fairly steady, since output is not expected to increase very much in the coming year.

WILL DOMESTIC FOOD PRICE INCREASES MODERATE?

Rapidly rising food prices contributed to the reacceleration of inflation in the economy during the first half of **1978.** A combination of poor weather, lower-than-expected meat supplies, and strong demand caused retail food prices to rise at an annual rate of nearly **20** per cent during that period. Although the head of steam in food prices has eased since midyear, 'the annual gain in retail food prices is still expected to be at least **10** per cent in **1978.**

An analysis of the gains in food prices during **1978** indicates about one-half of the rise was due to higher farm prices, which were up about **15** per cent from **1977.** The remainder was explained by the higher charges for processing and marketing, as well as the increased costs for fish and imported food items.

In **1979,** per capita total food supplies are expected to remain ample, thus helping to dampen upward price pressures. However, shoppers can look for food prices to average higher in **1979,** both because of the inexorable increase in marketing charges and because of a likely gain in some farm prices, particularly in the meat sector. The USDA anticipates that **1979** food prices will probably rise at least 6 per cent on a year-over-year basis, and might push into the double-digit range if poor weather should reduce agricultural output. But, the most likely occurrence is thought to be an increase of **7.5** per cent.

A key factor in the outlook for food prices is the general rate of inflation. Inflation impacts the costs of labor, processing, packaging, and other merchandising activities that are involved with moving food from the farmer to the consumer. Therefore, food prices can be expected to rise as these various costs increase.

What will be the effect of the newly announced wage-price guidelines on the rate of increase in food prices next year? The answer depends on how well both wages and prices adhere to the specified guidelines. Since marketing costs represent about **57** per cent of retail food costs, strict adherence to the program will greatly increase the chances of restraining the rate of increase in food prices next year. But if wages should exceed the **7** per cent limit, or if farm prices—which are not subject to the controls—should show unexpected strength, the increase in **1979** food prices will probably approach, if not exceed, the **10** per cent gain posted in **1978.**

CONCLUSION

The agricultural outlook for **1979** is favorable, since farm prices will be buoyed by relatively strong demand from both the domestic and foreign sectors. However, recent **U.S.** Government actions to slow the economy do mean there is now an increased probability that domestic consumer demand could slacken somewhat before the end of **1979.** The financial picture for livestock producers is especially bright, given the prospects for low feed costs and rising market prices. In the crop sector, prices are not likely to exhibit significant weakness in the year ahead due to heavy exports and the cushioning effects of the Government crop loan program. Also, deficiency payments .will help bolster crop receipts in **1979.**

Total cash receipts from farm marketings should rise moderately in **1979,** with most of the gains coming from the livestock sector. Government payments may decline somewhat next year, but they will still lend support to gross farm income. However, production costs are expected to rise again in the coming year, and these gains may offset most, if not all, of the increase in gross income. Thus, net farm income probably will remain about the same as the $26 billion realized in **1978.**