

Outlook for Food and Agriculture—1980

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The U.S. Department of Agriculture (USDA) annually appraises the outlook for food and agriculture for the year ahead. These appraisals for 1980, summarized below, have been made on the basis of a number of factors which influence the supply and demand for farm products and food. Such factors include the size of livestock and poultry inventories, the incentive for feeding, feedstocks, stocks of other crops available for food processing, and the prospects for other crops which have not been harvested. The outlook for food and farm product demand reflects both domestic and foreign demand. Domestic demand is based largely on prospects for national income, and foreign demand is based largely on crop supplies, crop conditions, and prospects for income abroad.¹

The U.S. government's embargo of grain shipments to the Soviet Union occurred as this article was being completed for publication. This action obviously can have a large effect on the food and agricultural outlook for 1980 and beyond.

FOOD prices are projected by the USDA to increase by about 8 percent for 1980. This is well below both the 11 percent increase in 1979 and the overall rate of inflation projected by most analysts for 1980.

A larger supply of most food products is in prospect for 1980. Large crops in 1979 provide the base for expanded food processing and livestock feeding. The large feed crops point to increased production of livestock foods, especially pork, poultry, and dairy products. Egg production may also be slightly higher than in 1979. The supply of canned and frozen vegetables is up 6 to 7 percent. The larger oilseed crop points to increased supplies of fats and oils and feed by-products.

Food Prices Since the Mid-1960s

Food prices began to accelerate along with the rate of inflation in the mid-1960s and have increased at a relatively high rate throughout most of the 1970s. From an annual rate of increase of less than 1.5 percent per year during the decade 1955-65, food prices accelerated to a 4.0 percent annual rate of increase

during the period 1965-70, and to an 8.8 percent rate during 1970-75 (table 1). They have continued to increase since 1975 at an average rate of 6.4 percent per year. Most of the increase in the price of food since the mid-1960s can be traced to rising demand. Since the consumer price index (CPI) has accelerated since 1965, it is apparent that the rate of increase in demand for all consumer goods and services has exceeded output growth.

Table 1
Change in Consumer Prices, Food Prices,
and Percent of Farm Products Exported

Years	Rate of Change of Consumer Prices		Percent of Farm Products Exported*
	All Items Less Food	Food	
1950-55	2.3%	1.8%	10.6%
1955-60	2.2	1.5	13.2
1960-65	1.3	1.4	15.2
1965-70	4.3	4.0	14.5
1970-75	6.1	8.8	20.1
1975-78	6.8	6.4	24.8
1950-70	2.5	2.2	13.4
1970-78	6.4	7.9	21.8
1950-78	3.6	3.8	15.8

*Average of 1951-1955, 1956-1960, 1961-1965, etc.

SOURCE: *Economic Reports of the President and Economic Indicators.*

¹Unless otherwise noted, all projections for food and farm products included in this article are based on reports and speeches given at the USDA Agricultural Outlook conference in Washington, D.C., November 5-8, 1979, and other recent USDA publications.

Table 2

Change in Farm Output, Industrial Production, and Relative Food Prices

	1950- 1970	1970- 1975	1975- 1978
Farm Output (Rate of change)	1.57%	2.45%	2.29%
Industrial Production Index (Rate of change)	4.48	1.79	7.19
Food Prices minus Prices of All Items less Food (Rates of change)	-.32	2.08	-.20
Farm Product Prices minus Prices of All Industrial Commodities (Rates of change)	-1.63	.67	-2.44

SOURCE: *Economic Reports of the President.*

It is now generally conceded that excessive demand and inflation in all sectors occur largely as a result of excessive monetary growth. During the 1950s and early 1960s, the stock of money rose at an average rate of 1.5 percent per year. It accelerated to 3.8 percent per year from 1962 until late 1966 and to 5.8 percent per year from late 1966 to early 1970. Since then, monetary growth has averaged about 6.5 percent per year.

In the long run, monetary growth predominantly influences the average rate of inflation since all sectors make about the same fundamental adjustments in response to excessive demand. If resources are fully utilized and production techniques are unchanged, rising demand for goods and services caused by an increase in the stock of money will not lead to major changes in the relative prices of food and other consumer goods. Rather, prices of all goods and all resources will tend to be bid up equally over the long run.

In Most Years Food Prices Rose Less Than Nonfood Prices

Nonmonetary factors can affect the relative prices of food and other consumer goods. Such factors include changing consumer tastes and preferences, uneven rates of technological growth in the various sectors of the economy, population growth, changing weather conditions, and changing foreign demand. Relative prices have changed during most five-year periods since 1950. As indicated in table 1, food prices rose at a slower rate than the average price of other consumer items from 1950 to 1970 and from 1975 to 1978, but at a faster rate from 1970 to 1975.

The rise in food prices relative to other consumer

Table 3

Changes in Food Prices for 1979 and Forecasts for 1980

Component	Relative Importance	Percent Change	
		1978- 1979	1979- 1980
All food	100.0	11.0%	8.0%
Food away from home	30.4	11.3	9.7
Food at home	69.6	10.8	6.8
Cereals and bakery products	8.5	9.8	8.9
Beef and veal	9.3	27.9	8.2
Pork	5.6	1.5	-5.6
Other meats	3.0	14.6	4.5
Poultry	2.5	4.7	-0.6
Fish and seafood	2.3	9.8	9.2
Eggs	1.4	9.4	-1.3
Dairy products	9.3	11.1	9.2
Fresh fruits	2.4	14.1	7.3
Fresh vegetables	2.5	2.9	8.4
Processed fruits and vegetables	4.8	9.0	8.2
Sugar and sweets	2.4	8.1	8.0
Fats and oils	2.0	8.0	7.4
Nonalcoholic beverages	7.8	4.7	7.9
Other prepared foods	5.8	10.2	9.2

SOURCE: U.S. Department of Agriculture.

prices in 1970-75, however, does not necessarily indicate the beginning of a high food-cost era in the United States. Despite a possible slowing, the rate of food production is still expected to exceed the rate of population growth. U.S. population in the 1980s is projected to grow at a modest .70-.75 percent rate, well below the 1.5 percent rate projected for food output. Hence, a rising quantity of food per capita is in prospect for U.S. consumers.

One factor contributing to the more rapid increase in food than nonfood prices during 1970-75 was the sharp increase in export demand for U.S. farm products. Export demand for farm products rose as a result of reductions in tariffs and other trade barriers. Also contributing to rising export demand was the decline in the foreign exchange value of the dollar in the early 1970s when the United States abandoned the gold exchange standard.

As shown in table 1, farm exports rose from an average of 14.5 percent of farm commodity sales during 1966-70 to 20.1 percent of sales during 1971-75, to 24.8 percent during 1976-78. In contrast, the ratio of farm exports to sales was relatively stable in the 1950s and 1960s, rising from 10.6 percent in the first

Table 4

**Percent of Disposable Personal Income
Spent on Selected Groups of Consumer Goods**

	1950	1955	1960	1965	1970	1975	1978	1979*
Total durable goods	15.0%	14.1%	12.3%	13.3%	12.4%	12.2%	13.7%	13.3%
Motor vehicles & parts	6.7	6.5	5.6	6.3	5.1	4.9	6.2	5.9
Furniture & household equipment	6.7	5.9	5.1	5.2	5.3	5.3	5.3	5.2
Total nondurable goods	47.8	44.9	43.2	39.9	38.6	37.6	36.4	36.3
Food	26.2	24.6	23.2	20.9	19.9	19.3	18.6	18.6
Clothing & shoes	9.5	8.4	7.6	7.1	6.8	6.4	6.2	6.1
Gasoline & oil	2.7	3.1	3.4	3.1	3.2	3.6	3.5	3.7
Services	30.7	33.7	37.4	37.8	39.2	40.3	42.5	42.7

*Annual rate for first two quarters.

SOURCE: *Economic Reports of the President and Economic Indicators.*

half of the fifties to 14.5 percent in the last half of the sixties. It has stabilized again in the last three years, with exports totaling 25.2 percent of sales in 1975 and 24.6 percent in 1978.

The acceleration of foreign demand for U.S. food and farm products in the early 1970s resulted in sharply higher farm product prices which in turn led to an increase in farm output growth. Farm output growth rose from 1.6 percent per year during the two decades 1950-70 to 2.5 percent per year in 1970-75 (table 2). While farm output accelerated in response to rising foreign demand for U.S. farm products, industrial production decelerated in response to rising imports of nonfarm products and higher energy costs, declining from a 4.5 percent rate of increase in 1950-70 to a 1.8 percent rate in 1970-75.

The increase in farm exports and nonfood imports was associated with the faster growth in food than nonfood prices in the early 1970s. Rising farm exports led to relatively higher farm commodity prices, and rising imports to relatively lower prices on nonfarm goods. Food prices rose about 2 percentage points faster than nonfood products and service prices during 1970-75 (table 2). Since 1975, however, the growth in farm commodity exports has decelerated, and food prices have increased at a somewhat slower rate than nonfood prices.

Food Price Increases to Moderate in 1980

While food prices and the CPI rose at about the same rate from 1978 to 1979, food prices are expected to rise at a somewhat slower pace than other consumer items in 1980 and to average only about 8 percent higher than in 1979 (table 3). This is well below the 10 percent rate of inflation projected

by the USDA outlook conference participants. The USDA projects moderate increases in food prices for the early months of the year reflecting larger prospective supplies of pork and poultry and a possible slackening in demand growth. More rapid increases, however, are projected for the last half of the year because of a potential decline in meat output and rising overall demand due to economic recovery.

Most of the increase in food prices projected for 1980 stems from the rising marketing costs of domestic farm products and from higher prices for fish and imported food products. Assuming no serious weather-related problems, the farm price of food is expected to average only about 1 percent higher in 1980 than in 1979. Rising marketing costs, reflecting the pace of inflation, are expected to continue throughout the year and to account for about 75 percent of all food price increases.

Major price increases for individual food products, such as the 28 percent increase for beef and veal in 1979, are not anticipated. Commercial beef production is expected to total about the same in 1980 as in 1979. Pork production, however, may be 10 percent greater, thus holding down the increases in overall red meat prices. The greatest price increases are projected for food consumed in restaurants and other eating establishments. The price of such food, which accounts for about 30 percent of the average urban family's food budget, will probably increase by about 10 percent largely reflecting higher service costs. Dairy product prices are expected to rise about 9 percent as a result of higher government support prices for milk. Other prices projected to rise rapidly are those with relatively large processing and marketing costs such as cereals, bakery products, and other prepared foods. Lower prices are expected for pork, poultry, and eggs.

Food Expenditures and Consumption

Expenditures on food as a percent of disposable personal income have trended down for most of the century and, on the basis of current income and food price projections, are likely to continue down through 1980. As shown in table 4, food expenditures declined from 26.2 percent of disposable personal income in 1950 to 18.6 percent in 1978. The outlook for an increase in food production and a moderation in food price increases means that a further decline will likely occur in 1980.

Total food consumption per capita has been relatively stable for more than a decade. In 1979, per capita food consumption was estimated at 104.8 percent of the 1967 level, about the same as in the two previous years but slightly less than in 1976 (table 5). Per capita consumption of poultry and vegetable oils has trended up while consumption of red meat, dairy products, cereal, and bakery products has remained about the same, and eggs and animal fats has declined. With somewhat larger supplies of food and relatively moderate food price increases in prospect for the year, per capita consumption of all foods may rise slightly from the 1979 level.

OUTLOOK FOR AGRICULTURE

Following two generally prosperous years for most farmers, the outlook by USDA analysts for farm income in 1980 is not optimistic. Net income of farm operators may decline from about \$32 billion in 1979 to about \$25 billion in 1980.

USDA analysts did not anticipate the gain in net farm income of about \$4 billion in 1979 at last year's outlook conference. Although they expected some increase in net income due to rising livestock receipts, the large increase in crop receipts came as a surprise. This increase resulted primarily from a rise in export demand, in part due to a crop shortfall in the Soviet Union. When the final tally is made, 1979 crop receipts will be about \$63 billion, up \$11 billion from 1978, while livestock receipts will be about \$67 billion, up \$8 billion. These cash receipt estimates total \$130 billion, 17 percent above the 1978 amount. Gross farm income (which includes cash receipts, inventory value changes, government payments, and nonmoney income) is expected to total \$146 billion, up from \$126 billion in 1978 (table 6).

Production expenses also rose sharply in 1979 totaling about \$114 billion, up about 16 percent from 1978. Most of this increase was due to higher prices for feed, livestock, and fuel, and to higher interest payments. Fuel expenditures, for example, increased about 40 percent over the 1978 level and accounted for about 6 percent of total farm production costs.

Assuming normal weather and crop yields, total farm cash receipts in 1980 are expected to rise only 2 or 3 percent. Most of the increase will be from crop sales where prices are expected to average somewhat higher. Cash receipts will likely be up for most crops except oilseeds. Livestock cash receipts may total about the same as last year. Receipts from dairy products and cattle may rise, but it is likely that this will be offset by declines in hog and poultry sales.

Production expenses in 1980 are expected to rise faster than gross income, resulting in a lower net income. Most of this increase reflects higher prices resulting from inflation. Among those inputs that are expected to show rapid price increases are fuel and fertilizer. Fuel prices may increase 33 percent or more. Feed, pesticides, and other farm chemicals may also rise, but less rapidly than the rate of inflation.

The outlook for farm income in 1980 is subject to considerable uncertainty, particularly in the second half of the year. Crop receipts will depend substantially on domestic and foreign weather developments. Unfavorable weather conditions and lower crop yields would result in a greater increase in cash receipts than currently anticipated. On the other hand, unusually favorable weather could result in no gain or even a small decline in crop receipts. Because of government price support and reserve programs, however, cash receipts will not decline drastically. Returns to livestock producers will depend not only on 1980 crop

Table 5

Change in Per Capita Food Consumption¹
(1967 = 100)

	1976	1977	1978	1979 ²
All food	105.8	104.7	104.6	104.8
Animal products	103.5	103.1	102.1	102.1
Meat	107.9	107.0	103.0	100.5
Poultry	116.0	119.4	125.9	136.7
Eggs	85.5	84.8	86.5	87.7
Dairy	101.6	101.0	101.5	102.0
Crop products	108.4	106.4	107.4	107.8
Fruits	107.1	105.9	106.1	107.1
Vegetables	107.2	107.0	108.6	109.2
Cereal and bakery	104.0	100.8	101.4	101.4
Vegetable oils	146.4	140.2	147.9	142.1

¹Individual items combined, using 1967-69 prices.

²Preliminary.

SOURCE: U.S. Department of Agriculture.

Table 6

	Farm Income (Billions of Dollars)				
	1975	1976	1977	1978	1979
Gross Income	\$100.3	\$101.8	\$108.5	\$126.0	\$146.0
Marketing Receipts	88.2	94.8	95.6	111.1	130.0
Other Income ¹	12.1	7.0	12.9	14.9	16.0
Production Expenses	75.9	83.1	88.8	98.1	114.0
Net Farm Income (current dollars)	24.5	18.7	19.8	27.9	32.0
Net Farm Income (1967 dollars)	15.2	11.0	10.9	14.3	14.7

¹Includes inventory value changes, direct government payments, and nonmoney and other income items.

SOURCE: U.S. Department of Agriculture.

production and prices, but also on how quickly producers of pork and poultry respond to current market signals to moderate production increases. For example, if hog producers cut back plans for farrowing this winter so that pork supplies rise more slowly in the second half of next year, livestock and poultry prices and cash receipts will be higher than now anticipated.

In addition to these supply factors, overall demand for farm products is quite uncertain for 1980. Global demand for food is expected to rise, but at a reduced pace from the past two years. Recent OPEC oil price increases plus more restrictive monetary policies in a number of countries suggest that overall economic growth is likely to slow further in 1980. It is assumed, however, that a recession will not be as severe as in 1974-75. Should a severe recession develop, however, food demand will slow more than currently anticipated, and farm prices and farm income will be lower than currently forecast.

While measures of farm income are useful in judging the general financial position of farmers, they can also be misleading. The concept of farm income measures only the annual income flows to the farm sector from farming operations. This measure does not take into account capital gains or losses, which affect the wealth of farmers.

In the past decade the nominal value of all productive assets used in agriculture has tripled; in 1979 the value of farm assets is estimated to have increased 16 percent over 1978. Real estate holdings comprise about three-fourths of farm assets and have been the leading source of capital gains in farming. Farmland values in 1979 rose about 16 percent. Such capital gains are a source of increased wealth to farmers not measured in the cash flow from farming operations.

Aggregate farm income measures also fail to reflect the sizable differences in income among individual farmers and types of farming operations. The returns on resources from various farming operations over the long run must tend toward equality since resources will be switched from lower return to higher return uses. In the short run, however, aggregate income measures may not reflect the financial status of individual farmers whose income depends on such factors as the particular commodity produced, farm size, and local weather patterns. In 1980, for example, returns to pork and poultry producers are likely to remain

relatively low whereas returns to grain and feeder cattle producers may be relatively high.

Crop Outlook

Major factors that contributed to the rise in crop prices and the income of producers in 1979 were the favorable growing and harvesting conditions in the United States and the shortfall in Soviet Union harvests. The Soviets experienced a 20 percent decline in coarse grain and a 29 percent decline in wheat production. Wheat production was also down in several major exporting nations, including Canada, Australia, and Argentina. This decline increased foreign demand for U.S. food and feed grains, thus placing upward pressure on grain prices. With relatively high yields and record grain crops, U.S. producers benefited from these rising prices (table 7).

Table 7

Yields of Major U.S. Crops (per harvested acre)

	1976	1977	1978	1979
Wheat (bu)	30.3	30.6	31.6	34.0
Rice (lbs)	4,663	4,412	4,493	4,568
Feed Grain (metric tons)	—	1.88	2.08	2.24
Corn (bu)	87.9	90.7	101.2	106.4
Sorghum (bu)	48.9	56.3	55.1	63.7
Oats (bu)	45.7	55.8	52.2	53.1
Barley (bu)	44.9	43.9	48.4	48.9
Soybeans (bu)	26.1	30.6	29.5	31.5
Cotton (lbs)	465	520	421	528

SOURCE: U.S. Department of Agriculture.

The upward price pressure from the reduced crops abroad, however, was moderated by the generally large grain inventories carried over from previous years. For example, world grain stocks at the beginning of the current marketing year totaled 227 million tons, about 16 percent of annual use.² Despite reduced production, world grain consumption in the 1979-80 marketing year is expected to rise slightly. This contrasts with some other years when declines in output had more severe consequences. For example, production in 1974-75 declined less than 4 percent, but due to smaller grain inventories, world consumption declined 2½ percent.

World grain stocks will be reduced during the current marketing year so that carryover inventories are projected at 195 million tons, or 13.7 percent of use. This ratio of stocks to use is below the 15 percent and 14 percent levels held at the end of 1976-77 and 1977-78, respectively, but larger than the 11 percent at the end of 1975-76. Grain stocks in the United States have been replenished in recent years after being drawn down earlier in the 1970s.

Food Grains — Wheat and Rice

U.S. wheat and rice production increased substantially in 1979, while foreign production of these crops declined sharply. U.S. wheat production totaled 57.5 million tons, up 17 percent from 1978. There was an 8 percent increase in acres planted and a favorable growing season, which resulted in higher yields per harvested acre and a larger percent of the acres planted being harvested.

Export demand for wheat has been very strong largely because of the 29 percent reduction in the Soviet Union's wheat crop. Exports for the 1979-80 season are projected at 1.4 billion bushels, up 17 percent from last year. Total usage of U.S.-produced wheat is forecast at about 2.2 billion bushels, up 7 percent from last year and slightly above the 2.1 billion bushels produced. Stocks at the end of the 1979-80 marketing year are estimated to decline about 8 percent to around 850 million bushels.

Strong export demand has led to higher wheat prices over the past several months despite the large U.S. crop. Prices in the 1979-80 marketing year are expected to average about \$3.75 per bushel, up from \$2.94 last year. With higher prices in prospect for 1980 and no set-aside acreage restrictions (for producers to be eligible for target-price protection, loans, and the farmer-owned reserve), wheat acreage is ex-

²A marketing year begins with the beginning of the harvesting season for most crops. Thus, the marketing year varies for different crops.

pected to increase about 10 percent. Production, however, is not likely to rise by 10 percent as yields will likely decline from the unusually high yields of 1978-79.

U.S. rice production was estimated at a record 139.6 million cwt., an increase of 4 percent over 1978. The combined domestic and export use of rice is expected to increase somewhat in 1979-80, though still remaining below production levels. Rice stocks at the end of the 1979-80 marketing year are likely to rise to around 42 million cwt., or a stock-to-use ratio of 32 percent. However, farm prices for rice are expected to average about \$9.75 per cwt., up from \$8 in 1978-79.

World rice production is forecast at 369 million tons in 1979-80 (rough basis), down 4 percent from 1978-79. World utilization of rice is expected to be near 1978-79 levels, and world stocks are expected to be reduced somewhat. The stock-to-use ratio is expected to remain at about 9.5 percent, well above the 5 percent for the 1972-74 period.

Feed Grains — Corn, Sorghum, Oats, Barley, and Rye

U.S. feed grain production increased about 5.5 percent in 1979. With the help of large beginning stocks, the total supply for the 1979-80 marketing year is up 6.4 percent. Corn production was up nearly 7.6 million bushels, or 7 percent, and sorghum production was up 10.3 percent. These increases more than offset the declines in barley, oats, and rye.

Domestic use of feed grains is expected to rise only slightly in 1979-80 since livestock feeding is not expected to increase substantially. Exports of feed grains, however, are expected to increase sharply (about 17 percent), again a reflection of the sharp drop in Soviet production. Under the five-year US/USSR bilateral grains agreement, the Soviet Union can purchase up to 25 million tons of United States wheat and corn in the October 1979 to September 1980 period without further consultation. Consequently, exports to the Soviet Union and elsewhere are expected to increase about 12 percent in 1979-80, and the United States share of world feed grain exports is expected to increase from 64 percent to 70 percent.³

With the increase in export demand and a slight increase in domestic demand, U.S. feed grain stocks will be up only slightly by the end of the 1979-80 marketing year despite the large crops last fall. Prices are expected to average higher than in 1978-79. For

³These export estimates represent the outlook prior to the embargo.

example, corn prices are expected to average about \$2.40 a bushel, compared with \$2.20 a bushel last season.

With the projected decline in world feed grain stocks, the USDA has not established a set-aside program for feed grains in 1980. All producers, however, will be eligible for target price protection, loans, and the farmer-owned reserve program. Current price relationships indicate that acreage planted to corn in 1980 will increase and acreage planted to soybeans will decline.

Oilseeds

In contrast to the expected decline in world food and feed grain crops, oilseed production in 1979-80 is forecast to be up about 13 percent. In the Southern Hemisphere, these crops won't be harvested until spring (their fall), but a sizable increase in this production is expected. U.S. oilseed production in 1979-80 was up 23 percent from a year earlier. Soybean production was up nearly 20 percent accounting for about three-fourths of this gain. Sunflower seed production doubled, and cottonseed production rose about 35 percent.

Growth in world demand for oilseed products in 1979-80 is expected to slow somewhat because of slower economic growth and smaller increases in live-stock production. Consequently, an increase in world stocks of oilseeds is likely by the end of the marketing year. With world oilseed supplies at record levels, prices have been subject to downward pressure. Soybean prices are expected to average about \$6.15 per bushel in the 1979-80 season, below last year's \$6.75 per bushel. Demand for soybeans is expected to expand in 1979-80, but quantities available for consumption are about 66 million tons, up 19 percent from a year ago. Total soybean use is expected to expand about 8 percent, but carryover inventories next September will be up about 11 million tons, double that of September 1979. The prospect of lower soybean prices and relatively high prices of some competing crops will probably lead to a decline in acreage planted to soybeans this spring.

Cotton and Tobacco

World cotton fiber production in 1979-80 is estimated to be 7 percent above 1978-79, with most of the increase occurring in the United States. U.S. cotton production in 1979-80 was estimated to be 14.5 million bales, 34 percent above a year earlier and about the same as in 1977-78.

Demand for U.S. cotton is expected to increase this year largely because of increased foreign demand. Domestic mill use may fall slightly, but exports are likely to total 7.0 million bales, up from 6.2 million a year ago. Since production exceeded expected usage, stocks will rise to about 5.3 million bales at the end of the current marketing year, up from 4.0 million bales last year and about the same as the year before. Prices at the farm level may average below the government target price, making producers eligible for deficiency payments.

Tobacco production was down about 22 percent in 1979. This decline reflects both reduced acreage (down about 11 percent) and reduced yields. Because of a substantial carryover, however, total tobacco supplies are down only about 7 percent. Flue-cured tobacco prices increased only about 4 percent in 1979 whereas burley tobacco prices rose to an all-time high, exceeding the previous record of \$1.31 per pound in 1978.

Production of tobacco is heavily influenced by government price support programs. Under current legislation, price supports for eligible tobaccos must rise about 9 percent in 1980. The national marketing quota for flue-cured tobacco, 1,095 million pounds in 1979, will increase somewhat in 1980. On the other hand, the burley tobacco quota is expected to remain at the 1979 level of about 614 million pounds.

Livestock Outlook

The livestock outlook continues to be influenced by the supply and demand fluctuations of the early 1970s. The sharp increase in export demand for feed grain in the early seventies as well as the U.S. crop failure in 1974 have contributed to a sharp increase in domestic feed prices, low returns to feedlot operations, and the prolonged liquidation of beef herds. Beef cattle production responds to changing supply and demand factors only after a considerable time lag. For example, when livestock feeding became generally profitable following the large grain harvests of 1977 and 1978, sharp increases in pork and poultry production soon occurred. Beef herds, however, were still being reduced, increasing the supply of beef and depressing prices. Since 1975 pork and broiler production have increased 31 and 38 percent, respectively. Meanwhile, beef production continued down, dropping 4 percent in 1978 and 12 percent in 1979 when beef herd liquidation ended. With more young female cattle being added to herds for reproduction, beef production will remain relatively low for another year or two.

Beef Cattle

Prospects in 1980 for cattle producers, especially cow-calf operators, are more favorable than for pork and poultry producers. Cattle herds have been reduced about 16 percent since 1975. In the initial phase of the reduction, beef supplies were increased and prices depressed by the increased slaughter of breeding herds and calves. As herds were reduced and the calf crop fell, beef output declined. As a result, cattle prices have been rising since the beginning of 1978. In 1979 cattle producers began to rebuild herds by holding back part of the calf crop for breeding purposes and reducing the number of animals for slaughter.

In 1980 cattle and calf slaughter is expected to be near the reduced 1979 level. Total meat supplies, however, will increase to record levels because of the expected increases in pork and poultry production in the first half of the year. Choice steer prices may average near \$70 per hundred pounds during the first half of 1980. Prices, however, may increase in the second half of the year if pork and poultry producers slow production in response to unfavorable profit margins.

Hogs

Hog production in 1979 increased 15 percent over the previous year as producers responded to higher profit margins. These gains, however, were offset by a 13 percent decline in beef and veal so that total red meat production increased only a small amount.

The decline in pork prices and the sharp increase in feed costs in the second half of 1979 greatly reduced profitability for hog producers and will affect future production decisions. Production in the first half of 1980, however, will be heavily influenced by decisions already made. For example, hog slaughter in the first half of 1980 will come largely from the September pig inventory and the September-November pig crop. The number of pigs weighing less than 60 lbs. on September 1 was up 16 percent, and farrowing intentions for the September-November period were up 13 percent from a year earlier. Hence, pork production will be up about 17 percent during the first half of 1980.

Production will be increased even more if hog producers reduce their breeding herds. Large supplies are likely to keep hog prices relatively low (at least through mid-1980), with the price of barrows and gilts averaging in the mid \$30s per hundredweight. Many hog producers may experience losses in the

first half, but an improvement could occur by year-end if farrowings in the March-May period are near year-earlier levels. In this case, pork production at the end of 1980 would be only slightly above earlier levels, and hog prices could average in the upper \$30s per hundredweight in the second half of the year.

Poultry

Poultry producers also face less favorable price and income prospects in 1980. Broiler production generally has been profitable over the past four years, but profit margins turned down last fall as a result of rising feed costs and falling broiler prices. Production costs are expected to continue to rise while broiler prices are expected to remain considerably below year-ago levels. Returns to most producers, therefore, may not cover all expenses (including fixed costs). These prospects have already begun to slow production, and a further slowing will occur if current conditions persist or worsen. Thus, output may be near year-ago levels by spring.

Broiler prices were generally favorable until mid-1979 when large increases in pork and broiler production led to depressed prices. Increased pork production early this year is expected to keep broiler prices well below year-ago levels during the first half of the year. Should pork production decline to the year-ago levels after mid-year, broiler prices may rise above the 1979 level, but with substantially higher costs in prospect, profit margins will be well below a year earlier.

Dairying

Producers of dairy products experienced a relatively profitable year in 1979 and the milk-feed price ratio is expected to remain at a generally profitable level this year. Milk prices rose an average of 14 percent in 1979. This increase largely reflected market forces as government purchases of milk under the price support program were relatively small. Beginning in June, milk production began to increase and for the year was about 1¼ percent higher than in 1978.

Farm prices for milk in 1980 are expected to rise about 10 percent with most of the gain occurring in the second half. A year-to-year increase in prices is expected because higher government support prices have already been announced and the adjustment of production support prices is due to occur again in April. Should milk production increase as expected and demand growth subside, government purchases of milk would be much higher in 1980 than the relatively small purchases of 1979. Nonetheless, higher

prices for milk are likely to be offset by rising prices of inputs, particularly higher feed prices. The milk-feed price ratio, however, is expected to remain generally favorable for producers. Consequently, milk production in 1980 will probably be up about 1 percent.

SUMMARY

According to the USDA analysts, food prices are likely to increase only about 8 percent in 1980, less than the expected rate of inflation. Most of the increase will result from rising processing and marketing costs rather than prices at the farm level. Indeed,

farm commodity prices are expected to average only about 1 percent higher than a year ago.

Net farm incomes are expected to decline in 1980 from the 1979 level. Cash farm receipts are expected to increase 2 or 3 percent, but production expenses will likely continue up at about the same rate as general inflation. Consequently, net farm income may be down to about \$25 billion, \$7 billion less than in 1979. Net incomes will be above average for producers of most crops except soybeans and for dairy and cow-calf operators. Net incomes for producers of poultry, eggs, hogs, and fat cattle, however, are likely to be down from year-earlier levels.