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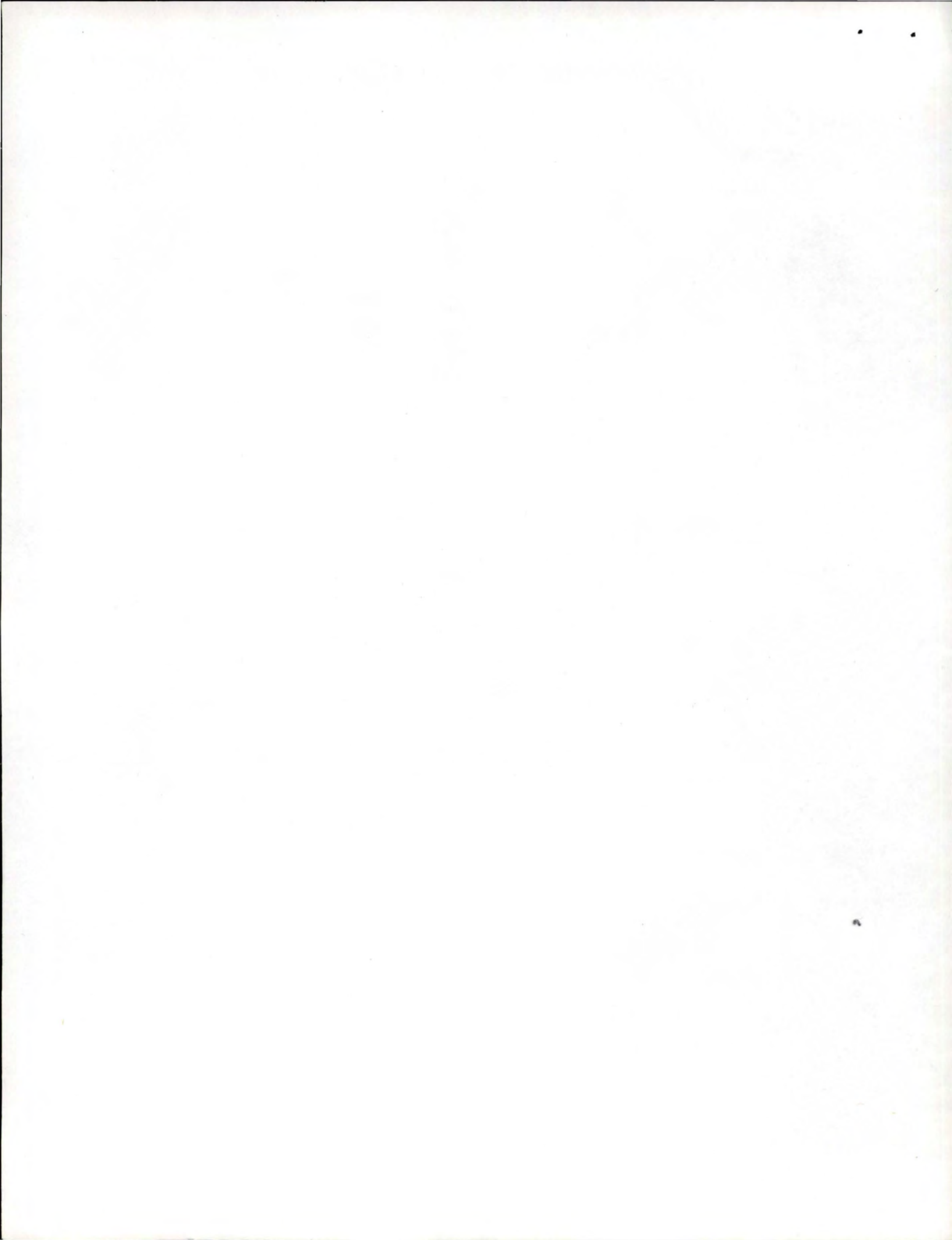
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GENERAL SITUATION AND OUTLOOK
FOR FOOD - FALL 1974

by

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OUTLOOK - GENERAL ECONOMY

The first half of 1974 provided little basis for optimism about the outlook for the remainder of this year or for most of 1975. Real GNP declined at a 0.8% annual rate in the second quarter following the 7.0% rate of decline during the first quarter. Inflation as measured by the GNP deflator increased at a rate of 9.6% in the second quarter after the 12.3% rate of increase in the first quarter. Net exports of goods and services showed only a slight surplus in the second quarter after recording significant surpluses since mid-1973. Fixed business investment remained firm through the first half of 1974 with the increase in non-residential investment offsetting the sharp drop in housing starts.

Revised business inventory data suggest a potentially large inventory build up. However, given the current state of the economy and the rapid rate of price increases it is difficult to fully interpret these inventory levels. Although the inventories will be worked down, a severe liquidation does not seem likely in the second half of 1974.

Personal consumption expenditures, which represent about 2/3 of GNP continue to rise due to price increases, but real expenditures remain near late 1972 levels. Real durable purchases particularly autos were off sharply in late 1973 and have recovered only slightly. Real nondurable purchases have likewise declined and with real purchasing power being eroded by inflation, little gain is in sight.

The outlook for the remainder of 1974 and 1975 is for little or no real growth and continued high rates of inflation. A gradual reduction of inflation rates from the current 2-digit levels will likely occur, but

inflation will remain at high levels compared to historical experience. Prospects point to a 10%+ annual rate for the remainder of 1974 with possible easing to 8 to 9% by mid-1975. These inflationary developments reflect a shift from a demand-pull inflation, fueled by demand in excess of available supplies, to a cost-push situation reflecting sharp rises in unit labor and raw material costs.

Inflation pressures have eroded a large amount of real purchasing power from the consumer. Real per capita disposable income in the first half of 1974 was nearly 2½% below a year earlier. The savings rate had declined from a peak of 9½% in the fourth quarter of 1973 to 7.4% in the second quarter of 1974.

The erosions of consumer buying power will continue well into 1975 as a result of rapid inflations. Correspondingly, consumer sentiment will remain at very low levels although above the extremely depressed levels at the time of the gasoline shortages. With the unemployment rate likely to reach 6% by the end of 1974 and continue upward, real personal consumption expenditures will remain virtually flat and average below 1973 levels.

The housing market continues in a depressed state. Investment in residential structures continues at a low level, with interest rates high and loan funds limited. It is unlikely that any impetus to growth can be expected from the housing market until 1976. This lack of stimulus in housing carries over into durable goods as well since a substantial portion of the household appliance market hinges on new housing.

OUTLOOK - GENERAL AGRICULTURAL PRODUCTS

Rising prices for many important agricultural commodities, induced by unfavorable weather conditions over much of the U.S., appear likely to cause future advances in average retail food prices during the last half

of 1974 and early 1975. Instead of remaining steady during the third quarter and declining slightly in late fall and early winter as expected earlier this year, they are now expected to rise about 3% during the third quarter and possibly 4% during the fourth quarter.

Much of the increase in food prices for the third and fourth quarters will be associated with crop related products. Retail prices for vegetable, oil products, cereal and bakery items, beverages and sugar products are expected to continue higher through the remainder of 1974. Retail prices for canned and frozen fruits and vegetables are also likely to rise further. Fresh fruit and vegetable prices are likely to decline seasonally in the fall and early winter. Average prices for animal related products are expected to increase moderately before stabilizing this fall. Advances in red meat, eggs and fishery products may be only partially offset by a modest decline in dairy products in the third quarter. Red meat prices will decline seasonally later this fall and generally offset increases for most other animal related products.

OUTLOOK - MEATS AND MEAT PRODUCTS

The meat animal picture during 1973-74 has been greatly affected by the feed grain situation. Drought conditions and increased export demand have caused prices of corn, barley, and sorghum grains to advance sharply.

The current feed-livestock price relationship for all classes of grain-fed livestock and poultry has been unfavorable from the feeder's standpoint. Pasture and range conditions in mid-summer caused some early movement of cattle in the Southern Great Plains. Livestock producers are currently attempting to reduce the foundation stock, and thereby reduce losses. Swine producers are selling off some breeding animals, culling the herd of the low producers. Poultry flock operators have cut back on laying hens

which will affect both egg supplies and the broiler numbers in 1975. Beef producers have sold off cows but no reduction in the national herd is anticipated prior to 1976.

Cattle feedlot operators have been in the profit squeeze during late 1973 and 1974. Finances are such that many may be unable to fill lots this fall. With feed grain prices at current levels, little profit opportunity in cattle feeding during the 1974-75 crop year appears likely. Cattle placed on feed for slaughter during the second quarter of 1974 were 29% below the same period in 1973 and the lowest for this quarter since 1967.

Cattle are currently moving off pasture and range to slaughter because of the slow demand as feedlot replacements. Grass-fed beef and baby beef are showing up in the retail counters and at substantial savings over grain-fed beef. Fall and winter beef prices at retail should be materially below those of 1973-74 but a different type of beef will be offered. Grain-fed beef may actually sell at prices equivalent to 1973-74 but an alternative will be available.

Pork supplies increased sharply this spring pushing retail pork prices down substantially. Seasonally, smaller supplies this summer caused retail prices to climb back toward late winter levels. However, a 10% increase in pork supplies this fall should again push retail pork prices downward. Retail prices are expected to remain below last year's level through the second half of 1974 and early 1975.

Poultry prices fell 9% from the first quarter of 1974 as output of both chicken and turkey increased during the summer. Demand for poultry was also reduced by the increased supply of red meats. In recent months broiler producers have sharply cutback hatchings as broiler prices dropped below production and processing costs. Retail prices this summer will show some further seasonal rise and remain relatively strong in the fall and winter.

Retail fish prices during the spring and summer of 1974 averaged 17% above the second quarter of 1973 and 2½% above those of the first quarter of 1974. Demand appears to have eased from a year ago because of the plentiful supplies of other high protein foods, but production costs have increased. Prices appear likely to rise for the rest of the year and into 1975.

OUTLOOK - DAIRY PRODUCTS

Drought has reduced this year's feed grain and soybean crop prospects. Early frosts in the northern corn-belt area further complicated the picture with soft corn and immature soybeans requiring earlier than normal use. Both weather factors will likely mean higher feed prices for dairy farmers in coming months. This will limit grain feeding and reduce milk production during the upcoming barn feeding season. For all of 1974, milk production may total about 1½% below 1973's production of 115.6 billion pounds.

Milk output rose above year earlier levels in July for the first time since September 1972. Output per cow showed more normal gains, increasing almost 2½%. Generally favorable pasture and forage conditions in major dairy producing areas contributed to the increase. Also, the decline in milk cow numbers slackened since the beginning of 1974 probably due to declining slaughter cow prices.

Farm prices of milk have held about steady during the summer months, after showing sharp seasonal declines during the second quarter. Milk prices will likely be increasing seasonally this fall and winter paralleling expected strength in the products market.

Wholesale butter and cheese prices strengthened in late July and August after holding close to CCC support prices from April through June. Nonfat dry milk prices continue at government support levels. Dairy product prices will be showing further seasonal gains later in the year.

Fluid milk sales dropped about 5% from year earlier levels during the first half of 1974 with the decline tapering off to 4% by July. Whole milk sales dropped around 8½% in the first 6 months of the year with gains in low-fat and skim milk sales slowed appreciably.

Commercial stocks of dairy products climbed sharply during the summer of 1974 and were almost 8.0 billion pounds of milk equivalent on August 1, 1974 compared to 5.2 billion pounds a year earlier. Government stocks of butter and cheese continued relatively low but CCC holdings of nonfat dried milk expanded.

Retail dairy prices dropped during the summer, the first month to month declines in almost 2 years. Retail prices for dairy products will rise seasonally later on this year, although the gains are not likely to match those occurring last fall and winter.

OUTLOOK - FRUITS--NON-CITRUS

The total 1974 deciduous fruit crop is forecast at 10.9 million tons about the same as last year's utilized output, but nearly 30% above the small 1972 crop. Production forecasts for apples, grapes, freestone peaches, and strawberries are virtually the same as last season. Apricots, pears, sweet cherries, and dried prunes head the list of smaller crops this year. The reductions are offset by moderately larger supplies of fresh nectarines, tart cherries, plums, and clingstone peaches.

The prospective supply situation for a number of processed non-citrus items, particularly frozen and dried have improved and will be adequate during the coming marketing season. Frozen fruit and berries, particularly strawberries, blueberries, peaches and apples, and dried prunes and raisins should be in adequate supply. Apricot products appear to be in shortest supply. Canned non-citrus fruit, except for clingstone peaches and apple

products, will be in relatively short supply this season primarily because canners' stocks at the beginning of the packing year were at the lowest level in recent times.

Shipping point prices for fresh non-citrus fruits this season have been generally higher. With the progress of the harvest prices of major fresh fruits have declined seasonally and will continue to do so throughout the fall, but are expected to average above last year levels.

Price agreements for most fruit utilized for processing were negotiated moderately to substantially higher than in 1973. These higher prices partly reflect the increased grower production costs.

Prices at all levels for most categories of non-citrus fruit will remain above year earlier levels until the end of the calendar year, reflecting the strong demand and increased marketing costs. Prices for frozen and canned fruit will also remain above a year ago as processors pass sharply higher raw material, processing and marketing costs--tin cans, sugar, packing materials and transportation--through to consumers.

Higher prices could meet with consumer resistance both at home and abroad, resulting in lower levels of domestic use, decreased export demand or both for fresh and processed fruits. Shipments and sales of some high-priced fruit products could lag if consumers substitute a relatively cheaper fruit and even some other food item in their purchasing patterns. With the likelihood of some switching, prices of some individual items may weaken as the season advances.

Prices for bananas from Central and South America will be materially affected by the loss of the Hondurian crop in Hurricane Fifi. The demand-supply situation worldwide will be tight and the U.S. supply will be affected greatly as this is a substantial portion of our supply.

OUTLOOK - FRUITS--CITRUS

Supplies of fresh citrus will be smaller than a year earlier until the new season gets underway in October. The California crop has been below that of 1973. Orange prices at the grower level have been generally above those of last year, while grapefruit have been below the relatively high levels of a year ago. Prices of these two crops will advance seasonally until the new crop moves to market. Lemon prices have been substantially higher than a year ago in response to the smaller crop and will remain high through the fall.

As a result of the smaller citrus crop the total U.S. 1973-74 pack of processed citrus is less than last season. Indicated total production was 13,465,000 tons down 3% from 1972-73, but 6% above that of 1971-72. Oranges and lemons for most of the reduction from the previous year with grapefruit, limes, tangelos, tangerines and temples balancing out about even.

The carry in of frozen concentrated citrus juice at the beginning of the 1973-74 season was about 70% higher than the previous year. Even with a slightly lower pack, total supply of citrus juice for this year was 10% above that of 1972-73. Demand for frozen concentrate has been good, and movement to the trade was up 7% from last year.

The carry-over of most canned and frozen citrus items will be above year earlier levels, while chilled citrus juice is likely to be below a year ago.

Citrus trees this summer have been in generally good to excellent condition with fruit growth developing well. Current prospects are for an abundant supply barring weather problems. Prices at all levels for citrus will remain fairly high until the end of the calendar year. Consumer prices for fresh fruit will remain above year earlier levels reflecting strong demand and increased marketing costs.

OUTLOOK - PROCESSING VEGETABLES

The September 1, 1974 aggregate production forecast of green lima beans, beets, sweet corn, and tomatoes intended for processing in the U.S. totals 10 million tons, 19% above the harvest of 1973 and 23% over 1972. Most of this increase is attributable to a record high tomato production (7.4 million tons compared with 5.9 million tons in 1973 and 5.8 million tons in 1972). The forecast for beets for canning, at 262,000 tons, also represents a new record high, up 30% from 1973. Green lima bean production is down 12% and sweet corn up 5% from 1973.

Earlier forecasts of production for snap beans, green peas and spinach for processing totaled 1.4 million tons about 3% above 1973 and 12% above 1972 production for these crops. Acreage intended for harvest of these 7 processing vegetables in 1974 is estimated to total 1.7 million acres for increases of 7 and 17 percent over that of 1973 and 1972. Increased acreages were anticipated for six of the seven crops in 1974. Only green lima beans acreage was below that of a year ago (down 8%).

Moving into the 1974-75 marketing year, the processing vegetable inventories, especially canned, were thin. Although relief on the supply side is in sight with the 1974 harvest, higher retail prices are to be expected. Canned vegetables product prices will probably advance faster than for frozen items. The quantity of all frozen items (excluding frozen potato products) in cold storage, July 1 was 34% above a year earlier. Supplies were unusually low on July 1, 1973.

Canners and freezers have been facing unusual pressures this season. Not only are raw product costs up from a fourth to nearly double a year earlier, but higher priced and restricted tin-plate supplies have been reported. Other material costs and wages rates are up substantially as well.

OUTLOOK - FRESH VEGETABLES

Potato production estimates for the fall crop are due October 10. The 1974 winter, spring, and summer crops are estimated at 50,756,000 cwt., 11.4% above the 1973 crop and 8% above those of 1972. However, it must be remembered the fall crop constitutes about 85% of the total crop.

Current estimates of the acreage of fall potatoes for harvest in 1974 is 1,142,900 acres, 7% above 1973 harvested acreage and 13% more than in 1972. Of the 76 million additional acres, 42 million are in the higher yielding three northwest states. Using the same average yield as for 1973, the fall potato crop would be 265 million cwt. This appears to be a low estimate with 275 million cwt. being a distinct possibility.

Totaling the early crops with the potential large fall crop could produce a 1974 potato harvest of 325 million cwt., 8.5% above 1973 and 9.8% above 1972. Barring any weather factors to prevent a completed harvest, there will be downward pressures on potato prices in late fall and winter.

The production of spring and summer onions is now placed at 33.7 million cwt., 14% above last year and 19% above that of 1972. The increases reflects a 5% increase in acreage and an 8% increase in yield over that of 1973. The storage type onion production is forecast at 24.5 million cwt. which is 17% above 1973 and 23% more than 1972. Yields are up and quality is good to excellent.

Other fresh vegetable prices are expected to run slightly to materially higher than last year at the farm level during the third and fourth quarters of 1974. Vegetable prices dropped substantially from third quarter to the fourth quarter in 1973, but this is not anticipated in 1974.

The acreage seeded to carrots is down 8% from last summer but yields are projected as producing only a 4% smaller crop. Prices appear about equal to those of 1973.

Cabbage acreage suggests a moderately larger supply with a 3% increase in summer acreage. Prices will be below 1973 fall levels.

The celery acreage is 4% below last year and this could translate into a 6% lower crop if 1974 yields follow historic trends. Prices will trend upward.

A 6% larger acreage seeded to lettuce, an equivalent increase in production over that of 1973. Meaningful price comparisons cannot be made with 1973 due to disrupted shipping activities from California last year. A moderate price level is suggested by the increased crop.

The above price trends are those expected at the farm level. Increased costs of packaging and handling from the farm to the retail counter will be passed on to the consumer. Therefore, most fresh vegetables will have a higher price tag in retail stores.

OUTLOOK - DRY PEAS AND BEANS

The forecast for dry edible peas at 3.5 million cwt. is more than double last year's production and 65% above that of 1972. The acreage for harvest in 1974 is about 60% above that of both 1972 and 1973 with increased yields making up the additional production.

Production of dry edible beans is forecast at a record high of 22 million cwt., up 30% from 1973 and 21% above 1972. Acreage for harvest is up about 15% above the two previous years.

After unprecedented price increases this past winter, the pea and bean market is reflecting the more abundant supplies this fall plus the lower prices of other protein foods. Even with the expanded export demand, the supply should bring prices more in line with the 1970-72 prices in the \$10-\$15 range this fall compared with \$45+ last spring.

OUTLOOK - CEREAL AND BAKERY PRODUCTS;
SUGAR AND SWEETS; FATS AND OILS

Retail prices for cereal and bakery products during the spring and summer of 1974 rose over 6% from the first quarter and averaged almost one-third above a year ago. The quarter to quarter gain was largely due to increases in marketing costs. Farm prices for wheat have held relatively steady and are not a major contributing factor. Retail prices are expected to remain firm to higher for the remainder of the year and into 1975.

Retail sugar and sweets prices advanced sharply during 1974 reflecting the tight world demand-supply situation. Further increases are expected for the remainder of the year as high raw material prices and marketing costs are reflected at retail. The loss of a substantial portion of the U.S. crop by the hurricane will materially affect domestic prices of sugar.

Fats and oil prices have moved up substantially throughout the year. The early frosts in the corn-belt have affected the supply of soybeans for crushing. Prices of vegetable oils and all fats are expected to remain strong and may increase for the remainder of the year and into 1975.

Beverage prices are expected to continue the rise of the past year. Higher coffee and sugar related soft drink prices contribute to this sharp rise and they are expected to continue upward.