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Econonmic Outlook 1975

Richard K. Rudel
South Dakota State University

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ECONOMIC OUTLOOK 1975

Based on the evidence provided at the U.S. Department of Agriculture's annual outlook meeting in Washington, D.C., December 9-12, it's not the season to be jolly even if we look at the U.S. economy through primrose glasses for 1975. Strong arguments and conflicts existed between various economic experts with respect to anti-inflationary and anti-recessionary programs. With these divergent views being openly aired it is likely that the government will arrive at a compromise policy where neither side gets completely what it wants.

The compromise policy may include a combination of energy conservation programs consisting of taxes, tariffs, and/or rationing; while other measures such as federal employment and low interest rate programs, tax cuts, and wage and price controls will be used to prop up sick sectors of the economy. What is finally decided in Washington will be important to South Dakota agricultural producers because, if present trends continue, even the crop producer could find himself in the same situation as the automobile manufacturer--with buyers backing off.

REASONS FOR IT

There are a number of complicated reasons for this line of reasoning: One is that we may have seen the best of the "good times" for feed and food grain exports, for a while at least. The burden of increased oil prices deflated the buying power of foreign countries for U.S. agricultural products. Many of these purchasing countries have stocked up on feed and food grains and have some inventories, so they are not quite in the "wolf-at-the-door" position they were last year. Japan already has announced a cut back on imports of both food and feed grains, due primarily to the high energy prices and inflation. The European Common Market indicates it is going to restrict imports of feed grains and focus mostly on high quality, high protein wheat.

Furthermore, the initial impact of the devaluation of the U.S. dollar has dissipated because of the increased inflation and adjustments in other foreign currencies. This has lessened the attractiveness of purchasing American grain. In addition a movement of investors out of the futures markets and into the stock market is beginning and this may also tend to weaken agricultural prices.

The major long-run factor in grain prices is weather. If grain producing countries of the world, including ourselves, have favorable weather for grain production and we produce a glut this year similar to the 1960's then we will not likely be able to export enough of the production to return prices to 1974 levels.

One factor, however, that may increase demand for grains depends on what the U.S. government decides to do for countries that cannot afford to pay for grain in cash but who need food. If the U.S. government supplies grain either through very low interest loans, deferred contracts, or even gives them the grain, this would increase the demand for grain and help to offset the present price level declines.

WHAT IT MEANS IN THE MARKETPLACE

Based on the above reasoning this

writer doens't think we should be optimistic about crop prices. The continued decline in the overall economic situation projected for at least the first two quarters of 1975 is not encouraging for agricultural producers. The recession is no longer isolated to the housing, cattle or automobile industry, but now has spread far into the entire retail sector, including the sale and purchase of other everyday products such as the kinds and amounts of food we eat. Even though farm prices may decline, retail and wholesale prices in food processing and distribution do not adjust immediately, but rather sometime after farm prices have fallen. This combination of declining domestic and world economic conditions and other factors listed above will continue to place downward pressure on agricultural product prices.

OUTLOOK FOR BEEF

What happens to feed grain stocks and prices will affect livestock producers, especially beef and poultry producers, who have been adversely influenced by high feed grain prices.

It's no surprise to South Dakota producers that the livestock outlook isn't good, nor does it appear that the beef situation will get much better in the near future. Efforts to market lighter-weight beef and government programs to purchase more meat for the school and military programs or the establishment of a meat export program will help some but the solution won't come overnight. It may take about as long to get out of the glutted market situation as it took to get in. Based on present conditions it will be 1976 before we can expect the markets to improve.

The inventory of cattle is up. Producers have been culling grass-fed cows and dairy cattle for slaughter and more or less deluged the market with beef.

Compounding the problem was the summer drought which reduced the feed needed to maintain the beef herds. High feed prices accentuated the glut on the market. If weather is good for crops, feed grain prices will likely weaken in 1975, easing the plight for the livestock producer but perhaps complicating it for the grain producer.

The year 1975 holds a lot of risks and uncertainties, based on world and domestic economic conditions, weather conditions, and what the federal government decides to do about the problems. One of the most encouraging factors is that feed grain and wheat stocks will be at their lowest level in many years. A modest domestic crop or small crop on a world-wide basis could renew the strength of U.S. grain markets. In any case changing economic conditions will make 1975 a year of considerable adjustment for agricultural producers.

Richard K. Rudel, Assistant Professor

COOPERATIVE EXTENSION SERVICE
U. S. DEPARTMENT OF AGRICULTURE
SOUTH DAKOTA STATE UNIVERSITY
Brookings, S. D. 57006

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